

# Notes to Consolidated Financial Statements

FOR THE YEARS ENDED JUNE 27, 1999, JUNE 28, 1998 AND JUNE 29, 1997

## (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 1999, 1998 and 1997 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 89% of total inventories at June 27, 1999, 88% at June 28, 1998 and 93% at June 29, 1997. 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 \$43,900,000, \$48,100,000 and \$48,894,000 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.

Marketable Securities: This caption represents stock received in the sale of the Company's POWERCOM software business at the end of the first quarter of fiscal 1999. These securities are being classified as available-for-sale and are being reported at fair market value. The unrealized gain incurred on this stock is recorded as Unrealized Gain on Marketable Securities in the Shareholders' Investment section of the balance sheet.

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 \$5,655,000 as of June 27, 1999, and \$7,137,000 as of June 28, 1998. Included in the 1998 fiscal year ending balance is \$1,891,000 of amortization related to the Company's software business, which was sold in the first quarter of fiscal 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.

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

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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.

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.

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 \$17,920,000 in 1999, \$19,950,000 in 1998 and \$19,525,000 in 1997. Included in the fiscal 1998 and fiscal 1997 amounts were software development costs related to the Company’s software business of \$3,136,000 and \$1,968,000, respectively.

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 \$7,724,000 in 1999, \$7,325,000 in 1998 and \$7,989,000 in 1997.

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 adopted Financial Accounting Standard No. 128 during the second quarter of 1998. 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

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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 Income and Accumulated Other Comprehensive Income which encompasses net income, unrealized gain on marketable securities and foreign currency translation in the Consolidated Statement of Shareholder's Investment.

|                                   | Unrealized<br>Gain on<br>Marketable<br>Securities | Cumulative<br>Translation<br>Adjustments | Accumulated<br>Other<br>Compre-<br>hensive<br>Income |
|-----------------------------------|---|--|--|
| Balance at June 30, 1996 ..       | \$ -  | \$ (348)                                 | \$ (348)   |
| Current year change .....         | -   | (685)                                    | (685)  |
| Balance at June 29, 1997 ..       | -   | (1,033)                                  | (1,033)  |
| Current year change .....         | -   | (1,077)                                  | (1,077)  |
| <b>Balance at June 28, 1998 .</b> | <b>-</b>  | <b>(2,110)</b>                           | <b>(2,110)</b>                                       |
| <b>Current year change ....</b>   | <b>577</b>  | <b>(199)</b>                             | <b>378</b>   |
| <b>Balance at June 27, 1999 .</b> | <b>\$ 577</b>                                     | <b>\$ (2,309)</b>                        | <b>\$ (1,732)</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.

### (3) Income Taxes:

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

|                | 1999             | 1998             | 1997             |
|----------------|------------------|------------------|------------------|
| Current        |                  |                  |                  |
| Federal .....  | \$ 51,344        | \$ 29,295        | \$ 45,474        |
| State .....    | 7,014            | 4,442            | 6,723            |
| Foreign .....  | 1,260            | 1,028            | 1,648            |
|                | <u>59,618</u>    | <u>34,765</u>    | <u>53,845</u>    |
| Deferred ..... | 4,052            | 7,735            | (16,105)         |
| Total .....    | <u>\$ 63,670</u> | <u>\$ 42,500</u> | <u>\$ 37,740</u> |

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

|                           | 1999         | 1998         | 1997         |
|---------------------------|--------------|--------------|--------------|
| U.S. statutory rate ..... | 35.0%        | 35.0%        | 35.0%        |
| State taxes, net of       |              |              |              |
| Federal tax benefit ..... | 2.9%         | 3.1%         | 3.1%         |
| Foreign Sales Corporation |              |              |              |
| tax benefit .....         | (.5%)        | (.8%)        | (.9%)        |
| Other .....               | .1%          | .3%          | .8%          |
| Effective tax rate .....  | <u>37.5%</u> | <u>37.6%</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):

|                                 | 1999             | 1998             |
|---------------------------------|------------------|------------------|
| Future Income Tax Benefits:     |                  |                  |
| Inventory .....                 | \$ 3,402         | \$ 2,212         |
| Payroll related accruals .....  | 4,363            | 3,602            |
| Warranty reserves .....         | 14,421           | 11,531           |
| Other accrued liabilities ..... | 12,026           | 11,542           |
| Miscellaneous .....             | 171              | 2,400            |
|                                 | <u>\$ 34,383</u> | <u>\$ 31,287</u> |

|                               | 1999            | 1998            |
|-------------------------------|-----------------|-----------------|
| Deferred Income Taxes:        |                 |                 |
| Difference between book and   |                 |                 |
| tax methods applied to        |                 |                 |
| maintenance and supply        |                 |                 |
| inventories .....             | \$ 11,463       | \$ 11,198       |
| Pension cost .....            | 3,345           | 7,137           |
| Accumulated depreciation .... | (56,131)        | (53,109)        |
| Accrued employee benefits ... | 9,142           | 8,529           |
| Postretirement                |                 |                 |
| health care obligation .....  | 26,472          | 27,664          |
| Deferred revenue on sale      |                 |                 |
| of plant & equipment .....    | 6,161           | 6,198           |
| Miscellaneous .....           | 1,587           | 1,938           |
|                               | <u>\$ 2,039</u> | <u>\$ 9,555</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 \$8,100,000 at June 27, 1999. 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.

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

The Company reviewed the criteria for determining segments of an operating segment 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):

|                           | <u>1999</u>               | <u>1998</u>        | <u>1997</u>        |
|---------------------------|---------------------------|--------------------|--------------------|
| United States . . . . .   | <b>\$1,422,988</b>        | \$1,258,609        | \$1,252,359        |
| All Other Countries . . . | <b>78,738</b>             | 69,001             | 64,054             |
| Total . . . . .           | <u><b>\$1,501,726</b></u> | <u>\$1,327,610</u> | <u>\$1,316,413</u> |

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

In the fiscal years 1999, 1998 and 1997, 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 | <u>1999</u>             |                   | <u>1998</u>      |            | <u>1997</u>      |            |
|----------|-------------------------|-------------------|------------------|------------|------------------|------------|
|          | Sales                   | %                 | Sales            | %          | Sales            | %          |
| A        | <b>\$250,755</b>        | <b>17%</b>        | \$235,552        | 18%        | \$282,428        | 21%        |
| B        | <b>219,209</b>          | <b>14%</b>        | 203,931          | 15%        | 180,770          | 14%        |
| C        | <b>161,857</b>          | <b>11%</b>        | 165,937          | 13%        | 142,840          | 11%        |
|          | <u><b>\$631,821</b></u> | <u><b>42%</b></u> | <u>\$605,420</u> | <u>46%</u> | <u>\$606,038</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, and there were no borrowings at June 27, 1999 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>1999</u>     | <u>1998</u> |
|---------------------------|-----------------|-------------|
| Balance at                |                 |             |
| Fiscal Year End . . . . . | <b>\$ 4,335</b> | \$ 4,700    |
| Weighted Average          |                 |             |
| Interest Rate at          |                 |             |
| Fiscal Year End . . . . . | <b>5.31%</b>    | 5.94%       |

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 \$9,960,000, expire at various times through April, 2000 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>1999</u>      | <u>1998</u> |
|---------------------------|------------------|-------------|
| Balance at                |                  |             |
| Fiscal Year End . . . . . | <b>\$ 13,824</b> | \$ 14,336   |
| Weighted Average          |                  |             |
| Interest Rate at          |                  |             |
| Fiscal Year End . . . . . | <b>5.30%</b>     | 4.97%       |

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

|                                   | <u>1999</u>             | <u>1998</u>      |
|-----------------------------------|-------------------------|------------------|
| 9.21% Senior Notes Due 2001       |                         |                  |
| at Face Amount . . . . .          | <b>\$ 30,000</b>        | \$ 45,000        |
| 7.25% Notes Due 2007, Net of      |                         |                  |
| Unamortized Discount of           |                         |                  |
| \$1,693 in 1999 and               |                         |                  |
| \$1,898 in 1998 . . . . .         | <b>98,307</b>           | 98,102           |
|                                   | <u><b>\$128,307</b></u> | <u>\$143,102</u> |
| Less Current Maturities . . . . . | <b>15,000</b>           | 15,000           |
| Total Long-Term Debt . . . . .    | <u><b>\$113,307</b></u> | <u>\$128,102</u> |

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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>1999</u>     | <u>1998</u>     | <u>1997</u>     |
|--|-----------------|-----------------|-----------------|
| Interest income . . . . .                                | \$ 1,993        | \$ 2,720        | \$ 3,981        |
| Loss on the disposition of plant and equipment . . . . . | (2,355)         | (1,973)         | (1,608)         |
| Income from joint ventures . . . . .                     | 5,442           | 5,232           | 3,026           |
| Other items . . . . .                                    | 1,579           | 1,830           | 67              |
| Total . . . . .  | <u>\$ 6,659</u> | <u>\$ 7,809</u> | <u>\$ 5,466</u> |

### (7) Commitments and Contingencies:

The Company is a 50% guarantor on bank loans of three unconsolidated joint ventures. They are in Japan for the manufacture of engines, 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 the end of 1999.

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 27, 1999 and June 28, 1998, the reserve for product and general liability claims was \$6.8 million and \$5.8 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 June 27, 1999.

### (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>1999</u> | <u>1998</u> | <u>1997</u> |
|-----------------------------|-------------|-------------|-------------|
| Net Income (in thousands):  |             |             |             |
| As Reported . . . . .       | \$106,101   | \$70,645    | \$61,565    |
| Pro Forma . . . . .         | \$105,283   | \$69,574    | \$60,777    |
| Basic Earnings Per Share:   |             |             |             |
| As Reported . . . . .       | \$4.55      | \$2.86      | \$2.16      |
| Pro Forma . . . . .         | \$4.51      | \$2.82      | \$2.13      |
| Diluted Earnings Per Share: |             |             |             |
| As Reported . . . . .       | \$4.52      | \$2.85      | \$2.15      |
| Pro Forma . . . . .         | \$4.49      | \$2.81      | \$2.12      |

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>Shares</u>           | <u>Wtd. Avg. Ex. Price</u> |
|--|-------------------------|----------------------------|
| Balance, June 30, 1996 . . . . .           | 1,704,531               | \$ 42.98                   |
| Granted during the year . . . . .          | 106,550                 | 53.30                      |
| Exercised during the year . . . . .        | (24,369)                | 17.26                      |
| Balance, June 29, 1997 . . . . .           | <u>1,786,712</u>        | \$ 43.95                   |
| Granted during the year . . . . .          | 241,980                 | 65.69                      |
| Exercised during the year . . . . .        | (236,873)               | 35.65                      |
| <b>Balance, June 28, 1998 . . . . .</b>    | <b>1,791,819</b>        | <b>\$ 47.98</b>            |
| <b>Granted during the year . . . . .</b>   | <b>354,020</b>          | <b>44.98</b>               |
| <b>Exercised during the year . . . . .</b> | <b>(926,000)</b>        | <b>45.30</b>               |
| <b>Expired during the year . . . . .</b>   | <b>(177,828)</b>        | <b>48.37</b>               |
| <b>Balance, June 27, 1999 . . . . .</b>    | <b><u>1,042,011</u></b> | <b>\$ 49.28</b>            |

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### Grant Summary

| Fiscal Year | Grant Date | Exercise Price (a) | Date Exercisable            | Options Outstanding | Expiration Date |
|-------------|------------|--------------------|-----------------------------|---------------------|-----------------|
| 1990        | 2-20-90    | \$13.014           | 50%, 1-1-94;<br>50%, 1-1-95 | 1,076               | 2-19-00         |
| 1991        | 2-19-91    | 14.524             | 50%, 1-1-95;<br>50%, 1-1-96 | 20,345              | 2-18-01         |
| 1992        | 5-18-92    | 21.525             | 50%, 1-1-96;<br>50%, 1-1-97 | 71,514              | 5-17-02         |
| 1995        | 8-12-94    | 45.854             | 8-12-97                     | 31,514              | 8-12-99         |
| 1996        | 8-7-95     | 49.080             | 8-7-98                      | 215,012             | 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             | 8-5-02          |
| 1999        | 8-5-98     | 44.980             | 8-5-01                      | 354,020             | 8-5-03          |

There were no options granted in fiscal 1993. 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          | <u>1999</u>   | <u>1998</u> | <u>1997</u> |
| Grant date fair value . . . . . | <b>\$5.04</b> | \$5.98      | \$5.42      |

Assumptions:

|                                  |              |       |       |
|----------------------------------|--------------|-------|-------|
| Risk-free interest rates . . . . | <b>5.4%</b>  | 6.1%  | 6.3%  |
| Expected volatility . . . . .    | <b>22.3%</b> | 20.4% | 20.6% |
| Expected dividend yield . . . .  | <b>2.5%</b>  | 2.6%  | 2.5%  |
| 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 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 2.4 billion Japanese yen for \$20 million through September, 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 1999 fiscal year. There are no significant gains or losses included in the above amounts.

The Company's foreign subsidiaries have the following forward currency contracts outstanding at the end of fiscal 1999:

| Currency                   | In Millions    |              | Latest Expiration Date |
|----------------------------|----------------|--------------|------------------------|
|                            | Local Currency | U.S. Dollars |                        |
| Australian Dollars . . . . | 10.0           | 6.4          | June, 2000             |
| Canadian Dollars . . . . . | 2.0            | 1.3          | January, 2000          |

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

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### (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 |             |
|---|------------------|-------------|-------------------------------|-------------|
|   | 1999             | 1998        | 1999                          | 1998        |
| <u>Actuarial Assumptions:</u>   |                  |             |                               |             |
| Discounted Rate Used to Determine Present Value of Projected Benefit Obligation . . . . . | 7.0%             | 7.0%        | 7.0%                          | 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 . . . . .             | \$ 649,083       | \$ 610,485  | \$ 96,580                     | \$ 91,202   |
| Service Cost . . . . .  | 10,073           | 9,491       | 1,437                         | 1,206       |
| Interest Cost . . . . .   | 44,911           | 44,531      | 6,466                         | 6,773       |
| Actuarial (Gain) Loss . . . . .   | 27,865           | 24,830      | 15,924                        | 8,390       |
| Benefits Paid . . . . .   | (42,535)         | (40,254)    | (10,922)                      | (10,991)    |
| Actuarial Present Value of Benefit Obligation at End of Year . . . . .                    | \$ 689,397       | \$ 649,083  | \$ 109,485                    | \$ 96,580   |
| <u>Change in Plan Assets:</u>   |                  |             |                               |             |
| Plan Assets at Fair Value at Beginning of Year . . . . .                                  | \$ 845,955       | \$ 767,235  | \$ -                          | \$ -        |
| Actual Return on Plan Assets . . . . .  | 82,474           | 118,445     | -                             | -           |
| Employer Contributions . . . . .  | 528              | 529         | 10,922                        | 10,991      |
| Benefits Paid . . . . .   | (42,535)         | (40,254)    | (10,922)                      | (10,991)    |
| Plan Assets at Fair Value at End of Year . . . . .  | \$ 886,422       | \$ 845,955  | \$ -                          | \$ -        |
| Plan Assets in Excess of (Less Than) Projected Benefit Obligation . . . . .               | \$ 197,025       | \$ 196,872  | \$ (109,485)                  | \$ (96,580) |
| Remaining Unrecognized Net Obligation (Asset) . . . . .                                   | (15,301)         | (20,739)    | 414                           | 460         |
| Unrecognized Net Loss (Gain) . . . . .  | (201,227)        | (202,625)   | 24,989                        | 8,587       |
| Unrecognized Prior Service Cost . . . . .   | 1,475            | (513)       | 165                           | 756         |
| Net Amount Recognized at End of Year . . . . .  | \$ (18,028)      | \$ (27,005) | \$ (83,917)                   | \$ (86,777) |
| <u>Amounts Recognized on the Balance Sheets:</u>  |                  |             |                               |             |
| Accrued Pension . . . . .   | \$ (17,306)      | \$ (26,477) | \$ -                          | \$ -        |
| Accrued Salaries . . . . .  | (722)            | (528)       | -                             | -           |
| Accrued Post Retirement Health Care . . . . .   | -                | -           | (67,877)                      | (70,933)    |
| Other Accruals . . . . .  | -                | -           | (4,800)                       | (4,800)     |
| Accrued Employee Benefits . . . . .   | -                | -           | (11,240)                      | (11,044)    |
| Net Amount Recognized at End of Year . . . . .  | \$ (18,028)      | \$ (27,005) | \$ (83,917)                   | \$ (86,777) |

## Notes . . .

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

|   | Pension Benefits |            |            | Other Postretirement Benefits |          |          |
|---|------------------|------------|------------|-------------------------------|----------|----------|
|   | 1999             | 1998       | 1997       | 1999                          | 1998     | 1997     |
| <u>Components of Net Periodic Benefit Cost:</u>         |                  |            |            |                               |          |          |
| Service Cost-Benefits Earned During the Year . . . . .  | \$ 10,073        | \$ 9,491   | \$ 11,687  | \$ 1,437                      | \$ 1,206 | \$ 1,359 |
| Interest Cost on Projected Benefit Obligation . . . . . | 44,911           | 44,531     | 41,850     | 6,466                         | 6,773    | 6,190    |
| Expected Return on Plan Assets . . . . .                | (58,252)         | (53,881)   | (50,230)   | -                             | -        | -        |
| Amortization of:  |                  |            |            |                               |          |          |
| Transition Obligation (Asset) . . . . .                 | (5,306)          | (5,236)    | (5,118)    | 47                            | 47       | 47       |
| Prior Service Cost . . . . .                            | (106)            | (106)      | (160)      | 71                            | 71       | 71       |
| Actuarial (Gain) Loss . . . . .                         | 291              | 273        | 114        | 41                            | -        | -        |
| Net Periodic Benefit Expense (Income) . . . . .         | \$ (8,389)       | \$ (4,928) | \$ (1,857) | \$ 8,062                      | \$ 8,097 | \$ 7,667 |

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 \$16,555,000, \$13,975,000 and \$0, respectively for the 1999 fiscal year, and \$15,392,000, \$12,763,000 and \$0, respectively for the 1998 fiscal year. The postretirement benefit plans are unfunded.

The Company offered an early retirement window to certain of its Milwaukee union members during the 1997 fiscal year. As a result, \$33,457,000 was added to pension expense and \$3,644,000 was added to postretirement health care expense in the fourth quarter of the 1997 fiscal year.

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.

For measurement purposes a 9% annual rate of increase in the per capita cost of covered health care claims was assumed for the years 1999 through 2000, decreasing gradually to 6% for the 2007. 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 \$6,803,000, and would increase the service and interest cost by \$836,000 for the year. A corresponding decrease of one percentage point, would decrease the accumulated postretirement benefit by \$6,403,000 and decrease the service and interest cost by \$788,000 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 1999, 1998 and 1997, the cost to the Company was \$1,919,000, \$1,641,000 and \$1,352,000, 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 \$4,213,000 in 1999, \$3,918,000 in 1998 and \$3,944,000 in 1997.

### Postemployment Benefits

The balance in this reserve at the end of fiscal 1999 was \$1,946,000 and at the end of fiscal 1998 was \$1,527,000. Both were included in the caption Accrued Employee Benefits in the accompanying balance sheets.

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.

## Notes . . .

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### (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):

|  | 1999                       |                       |
|--|----------------------------|-----------------------|
|  | <u>Carrying<br/>Amount</u> | <u>Fair<br/>Value</u> |
| 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,<br>including current maturities . . | \$ 30,000                  | \$ 30,678             |
| 7.25% Notes due 2007 . . . . .                                   | \$ 98,307                  | \$ 97,545             |

|  | 1998                       |                       |
|--|----------------------------|-----------------------|
|  | <u>Carrying<br/>Amount</u> | <u>Fair<br/>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,<br>including current maturities . . | \$ 45,000                  | \$ 47,012             |
| 7.25% Notes due 2007 . . . . .                                   | \$ 98,102                  | \$ 105,071            |

### (13) Sale of Software Business:

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 shown as such on the balance sheet. This sale did not result in any material gains or losses, but did result in the loss of \$2 million of gross profit and the elimination of \$12 million in selling expenses in fiscal 1999.

### (14) Subsequent Event – Disposition of Foundry Assets:

Effective August 23, 1999, the Company contributed certain assets related to its foundry operations to a third party. In exchange for this contribution, the Company received \$23.6 million of cash and preferred stock with a face value of \$45 million. The provisions of the preferred stock include a 15% cumulative dividend and is convertible into at least 31% of the common stock of the third party. The disposition will result in a gain.