Douglas

Kirby

Kingston

aquaneering

france former

Stahl

Adalet

annual report 1968

PLM

bedford gear

Halex

Rembrandt Lamps Masterpieces

American Lincoln

Virden Lighting

Rusgreen

Q

S&F

THE SCOTT & FETZER COMPANY

TO THE SHAREHOLDERS:

Your company's continued emphasis on growth produced the eighth consecutive year of record sales and earnings.

Net sales were $106,295,403, a 77% increase over 1967 published sales and 4% over 1967 sales restated to include 1968 acquisitions made on a "pooling of interest" basis. Net income would have been $8,383,379 except for the tax surcharge put into effect on January 1, 1968, would have shown an increase of 33% over 1967 published figures and 11% over the restated 1967 earnings and would have brought earnings per common share to $1.59. However, the tax surcharge did amount to $686,000 and reduced net income to $7,697,379 and earnings per share to $1.46.

Financial Highlights (Pages 4 & 5)

The graphs on page 4 demonstrate the continued progress of your company in net sales, earnings per share and net worth. The table presented on page 5 provides additional comparative information regarding net income, cash dividends, working capital, fixed assets (net), shares of common stock outstanding and number of shareholders. In every instance you will note substantial increases.

Results of this kind are obtained through the joint efforts of many people. I am confident you shareholders join us in complimenting our fellow officers, directors and employees on this record.

Developments Affecting Shareholders

There were several developments during 1968 which directly affected you as shareholders. On June 13th there was a secondary offering of 411,093 Scott & Fetzer shares which had the effect of reducing some of the larger holdings and broadening ownership in your company. The offering met with an excellent reception in the over-the-counter market, and combined with our acquisition program to increase the number of listed shareholders to 9,814 at November 30, 1968 compared with 4,750 a year prior. We

Left to right: J. A. Kemper, Chairman of the Board and Chief Executive Officer; Niles H. Hammink, President estimate that there are approximately 2,000 additional holders in "street name".

On July 26th your stock was listed simultaneously on the New York, Midwest, and Pacific Coast Stock Exchanges and was assigned the tape symbol, "SFZ".

Your Board of Directors, at its December 6, 1968 meeting, changed the monthly dividend policy, in force since July 1, 1959, to a quarterly payment policy. At the same meeting the board declared a dividend of 20¢ per share payable February 28, 1969, to shareholders of record February 7, 1969. This action results in an increase in dividends of slightly in excess of 11% from the previous 6¢ per share per month (or 18¢ per quarter) to 20¢ per quarter.

Acquisitions

In January, 1968 American-Lincoln Corporation and its two Canadian subsidiaries became part of your company. The new division has plants in Toledo and Bowling Green, Ohio, Watertown, New York, and Montreal, Canada. Its products include a wide range of commercial, industrial and institutional floor care equipment, fractional horsepower electric motors, and chain saws for both commercial and leisure time use.

Kingston Products Corporation was merged into your company in April, 1968. At its plants in Kokomo, Indiana, and Bronson, Michigan, Kingston manufactures a broad range of products which include steering columns and other items for the automotive industry, electrical timers for the home appliance industry, light weight vacuum cleaners for a major retailer, and other products.

In November, 1968, we were joined by Bedford Gear and Machine Products, a leading maker of custom gears and gear assemblies, whose plant and offices are located in Walton Hills, Ohio.

Your company is dedicated to growth through both internal and external means. These three fine companies that joined Scott & Fetzer during fiscal 1968 have already and will continue to make valuable contributions to your company's growth.

Personnel

At the annual meeting of February 20, 1968 you elected two new directors. Mr. Raymond E. Channock, President of Acme-Cleveland Corporation replaced Mr. D. H. Gearheart, who retired after having been a valued director of your Company since 1964 and Mr. Quigg Lohr, Executive Vice President and Secretary of your Company, replaced Mr. Carl S. Fetzer. Mr. Fetzer, one of the Founders of the Company, was elected an Honorary Director.

Effective November 1, 1968, your Board of Directors elected two new corporate vice presidents: C. J. Stahl, who formerly was President of Stahl Metal Products Division, and W. C. Whorley, who was President of Kingston Products Division and its corporate predecessor.

During fiscal 1968 the following were promoted to the position of president of their respective divisions: Carl W. Goldbeck of Virden Lighting, Walter A. Rajki of Adalet-Rusgreen, James M. Heyne of Stahl Metal Products, A. J. Panehal of France Manufacturing, H. V. Kornstien of Douglas (formerly part of Kingston Products) and James A. Nesbit of Kingston (also formerly part of Kingston Products). All of the new division presidents have been active in the top management of their respective divisions for many years.

We also welcomed to our management team during the year E. G. Blaser as President of American-Lincoln and Wright Bronson, Jr. as President of Bedford Gear divisions.

Prospects

During 1969 we expect to continue the pattern of growth established in past years, both internally and through further acquisitions.

Niles H. Hammink

Niles H. Hammink
President

J. A. Kemper
Chairman of the Board
and Chief Executive Officer

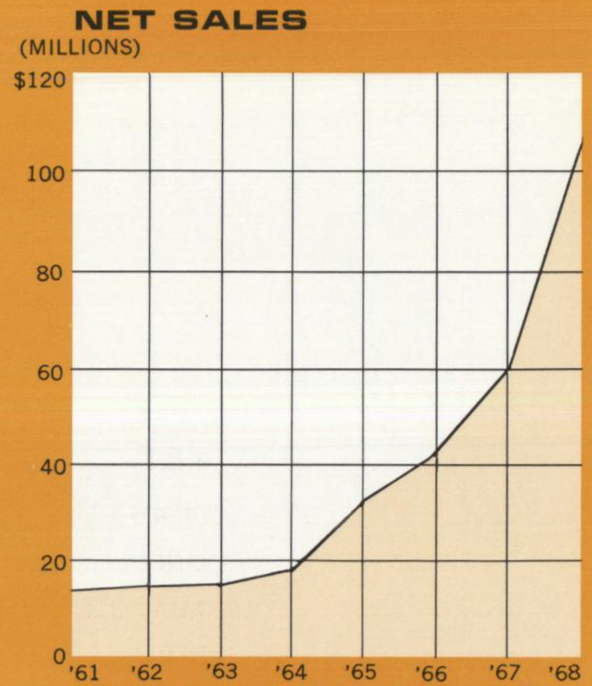
January 20, 1969

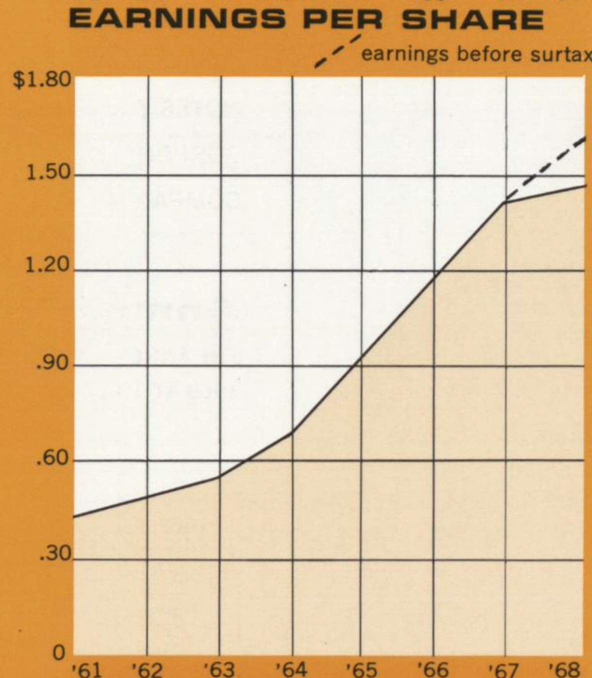
The Scott & Fetzer Company

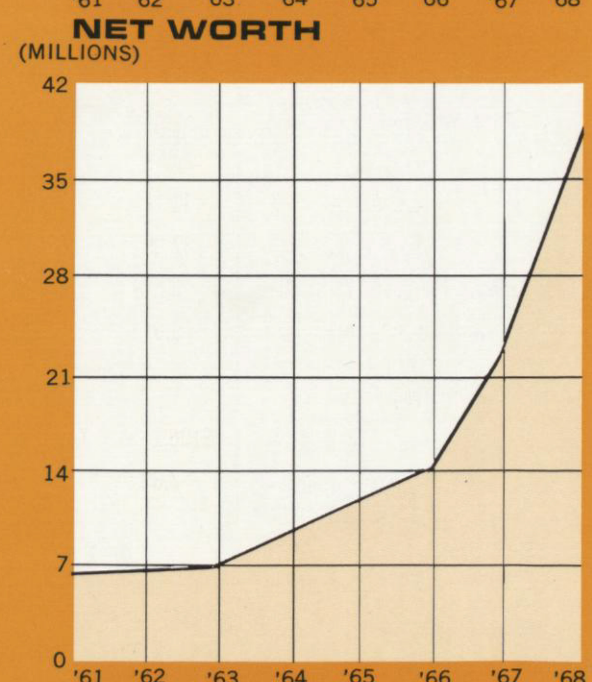
financial highlights

divisions acquired by poolings of interest are included from the year of acquisition.

1961
1968







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Annual Meeting

THE ANNUAL MEETING OF THE CORPORATION WILL BE HELD AT 11:00 A. M. ON FEBRUARY 18, 1969 AT THE CORPORATE OFFICES AT 14701 DETROIT AVENUE, LAKEWOOD, OHIO.

COMPARATIVE HIGHLIGHTS (Dollar amounts in thousands except for per share data) AS REPORTED	1968	1967	1966	1965	1964	1963	1962	1961
Net Sales	$106,295	$ 60,058	$41,331	$33,350	$18,833	$15,465	$14,241	$13,398
Net Income Before Surtax	8,383	6,300	4,579	3,620	2,435	1,734	1,590	1,403
Net Income After Surtax	7,697							
Earnings per Share Before Surtax	1.59	1.39	1.20	.97	.70	.55	.50	.44
Earnings per Share After Surtax	1.46							
Cash Dividends per Share	.72	.60	.60	.54	.47	.52	.43	.55
Working Capital	29,769	15,879	9,478	8,409	6,745	5,465	5,261	4,884
Fixed Assets, Net	11,285	7,208	5,177	3,665	2,235	1,321	1,417	1,558
Net Worth	37,298	22,668	14,518	11,890	9,484	6,965	6,857	6,610
Shares Outstanding (000)	5,271	4,535	3,811	3,726	3,481	3,159	3,159	3,159
Number of Shareholders	9,814	4,750	4,376	4,196	3,753	3,455	3,430	3,190
RESULTS RESTATED FOR POOLINGS								
Net Sales	$106,295	$102,212	$92,868	$81,289	$69,246	$67,086	$61,203	$55,799
Net Income	7,697	7,580	6,181	5,564	2,771	3,786	3,340	1,477
Earnings per Share	1.46	1.44	1.18	1.06	.52	.71	.62	.28

The Scott & Fetzer Company and Subsidiary Companies

Consolidated Balance Sheet — as at November 30, 1968 and 1967

Assets

	November 30 1968	1967 (Note 1)
Current assets:		
Cash	$ 2,851,701	$ 5,220,684
Certificates of deposit	873,210	973,155
Marketable investments (market quotation $2,341,126 — 1968, $1,256,675 — 1967)	2,385,043	1,313,917
Trade receivables, less allowance for doubtful accounts $505,785 — 1968, $368,922 — 1967	14,557,962	14,433,420
Other receivables	356,612	111,060
Inventories, at the lower of cost (first-in, first-out) or market:		
Raw material and supplies	9,804,842	8,922,521
Work in process	5,278,352	5,369,705
Finished goods	5,301,905	5,006,907
	20,385,099	19,299,133
Prepaid expenses	492,077	639,073
Total current assets	41,901,704	41,990,442
Property, plant and equipment, at cost:		
Land and land improvements	1,101,563	1,071,407
Buildings	7,200,771	7,108,637
Machinery and equipment	12,676,818	12,182,906
	20,979,152	20,362,950
Allowance for depreciation	9,694,323	9,124,924
	11,284,829	11,238,026
Cash surrender value of life insurance	679,952	732,914
Intangible assets arising from acquisitions	456,258	456,258
Other assets	174,406	177,672
	$54,497,149	$54,595,312

The accompanying notes are an integral part of these financial statements.

Liabilities

	November 30 1968	November 30 1967 (Note 1)
Current liabilities:		
Notes payable, banks	$ 2,251,312	$ 3,407,780
Current portion of long-term debt (Note 2)	524,408	375,510
Accounts payable, trade	3,008,006	4,756,087
Accounts payable, other	333,278	276,725
Dividend payable	316,274	—
Income taxes	2,792,129	3,817,643
Accrued taxes, other than income taxes	514,534	647,197
Accrued liabilities for payroll, pension funds, commissions, interest and other	2,392,538	2,537,124
Total current liabilities	12,132,479	15,818,066
Long-term debt (Note 2)	4,780,754	5,392,275
Deferred income taxes	285,836	208,950
Total liabilities	17,199,069	21,419,291

Shareholders' Equity

	1968	1967
Common stock:		
Authorized 8,000,000 shares, no par value, stated value $1.25 per share, issued shares 5,276,429 — 1968, 5,273,289 — 1967 (Note 3)	6,595,536	6,591,611
Additional capital	4,777,997	4,733,252
Retained earnings	25,980,447	21,998,308
	37,353,980	33,323,171
Less Treasury shares, at cost, 5,200 — 1968, 9,200 — 1967	55,900	147,150
	37,298,080	33,176,021
	$54,497,149	$54,595,312

Statement of Income

retained earnings and additional capital

	Year Ended November 30		
	1968	1967 (Note 1)	1967 Annual Report
Net sales	$106,295,403	$102,211,636	$60,058,148
Cost of goods sold	75,309,980	73,349,776	40,019,220
Gross profit	30,985,423	28,861,860	20,038,928
Selling, general and administrative expenses	14,671,775	14,229,630	8,165,579
Operating profit	16,313,648	14,632,230	11,873,349
Other expenses (income), principally interest	266,269	252,251	(96,129)
Income before provision for income taxes	16,047,379	14,379,979	11,969,478
Provision for income taxes	8,350,000	6,800,000	5,669,000
Net income (per share $1.46 — 1968, $1.44 — 1967 restated, $1.39 — 1967 as reported)	7,697,379	7,579,979	6,300,478
Retained earnings, beginning of year	21,998,308	12,896,103	12,896,103
	29,695,687	20,476,082	19,196,581
Retained earnings of companies acquired in "poolings of interests", net of merger expenses	—	4,370,402	—
	29,695,687	24,846,484	19,196,581
Cash dividends (per share $.72 — 1968, $.60 — 1967)	3,500,237	2,425,809	2,425,809
Dividends paid by merged companies prior to acquisition	215,003	392,467	168,116
Cost of 5,200 treasury shares in excess of option price at which reissued	—	29,900	29,900
	3,715,240	2,848,176	2,623,825
Retained earnings, end of year	$ 25,980,447	$ 21,998,308	$16,572,756
Additional capital, beginning of year	$ 4,733,252	$ 544,957	$ 544,957
Excess of option price over stated value of 4,394 shares sold under options granted by acquired companies prior to acquisition	—	17,121	17,121
Excess of capital stock and additional capital of acquired companies over stated value of Scott & Fetzer common stock issued	—	4,171,174	—
Excess of option price over stated value of 3,140 shares sold under stock option plan (Note 3)	44,745	—	—
Additional capital, end of year	$ 4,777,997	$ 4,733,252	$ 562,078

The accompanying notes are an integral part of these financial statements.

The Scott & Fetzer Company and Subsidiary Companies

Source and Application of Funds Statement . . . for the year ended November 30, 1968

Source of funds:

From operations:	
Net income	$7,697,379
Depreciation	1,505,953
Deferred federal income taxes	76,886
Total from operations	9,280,218
Sale of common stock under stock options	48,670
Reduction in cash surrender value of life insurance	52,962
	$9,381,850

Application of funds:

Cash dividends	$3,500,237
Additions to property, plant and equipment, net	1,590,862
Payments on long-term bank loans	397,067
Reduction of mortgage notes payable	23,587
Reduction of other notes payable	175,000
Reduction of lease/purchase agreement	15,867
Other, net	82,381
Increase in working capital	3,596,849
	$9,381,850

Notes to Financial Statements

1. Acquisitions in 1968:
During 1968, in transactions accounted for as poolings of interests, the Company, in exchange for 729,075 shares acquired in statutory mergers all of the net assets of American-Lincoln Corporation, Kingston Products Corporation and Bedford Gear & Machine Products, Inc. The financial statements give effect to the mergers as though completed December 1, 1966, and the financial position at November 30, 1968 and 1967 and the results of operations for the years then ended include the data of the acquired companies. The column in the Statement of Income, Retained Earnings and Additional Capital entitled "1967 Annual Report" sets forth the operations of the Company as shown by its 1967 report.

2. Long-Term Liabilities:
Long-term debt at November 30, 1968 consists of the following:

	Current	Noncurrent
Bank loans:		
5½%, due 1968-1972	$150,000	$ 600,000
6%, due 1969-1974	150,000	750,000
Mortgage notes:		
5¾%, due 1968-1979	15,585	213,714
5½%, due 1968-1981	16,310	445,094
Chattel mortgage, equipment	3,801	8,308
Insurance company loan, 6%, due 1969-1980	175,000	2,650,000
Obligation under Lease/Purchase Agreement	13,712	113,638
	$524,408	$4,780,754

The 5½% bank loan due 1968-1972 requires annual payments of $150,000 on December 31 of 1968 to 1972, inclusive. The other bank loan is due in quarterly installments of $37,500 plus interest at ½% over the prime rate, but not less than 5½% nor more than 6%.

The agreement related to the bank loans provide for pre-payment in full or part without premium, and includes negative covenants that the Company will not permit its consolidated net working capital to fall below $5,000,000 or have borrowings from other banks or other lending institutions in excess of $10,000,000. The Company, further, has agreed not to pay cash dividends or purchase or retire any of its own shares, if the aggregate so expended for such purposes subsequent to December 1, 1967 shall exceed $5,000,000 plus 80% of the consolidated net earnings after December 1, 1967. Retained earnings, unrestricted for the payment of cash dividends or purchase or retirement of shares, amounted to $7,442,663 at November 30, 1968.

The mortgage notes require aggregate monthly payments of $5,820 including interest.

The insurance company loan is payable in annual installments of $175,000 through 1970 and $200,000 thereafter until paid.

The building Lease/Purchase Agreement provides that the Company will pay a monthly rental of $1,664 to 1976. The Company has the right to purchase the building at any time during the lease period for an amount equal to the present value of total unpaid rentals, discounted at 4%, or for $1 at the expiration of the agreement. The Company has accounted for the transaction as a purchase and the discounted amount of this obligation has been reflected as a liability in the balance sheet.

3. Stock Options:
At November 30, 1968, 186,860 shares of common stock were reserved for issuance under a qualified stock option plan adopted in 1967. In addition, 5,200 shares were reserved for issuance at $5 per share under options granted pursuant to a prior agreement and excercisable until 1973.

Under the 1967 plan, the option price may not be less than market value at the date of grant. The options are exercisable one-fourth each year and expire five years after grant.

A summary of the status of options granted is as follows:

Granted:	Option Price	Options Granted for Shares	1968 Exercised	1968 Terminated	Balance
Apr. 24, 1967	$15.50	39,400	3,140	300	35,960
Feb. 20, 1968	25.75	1,000			1,000
Dec. 16, 1968	29.875	27,300			27,300
		67,700	3,140	300	64,260

4. Retirement Pension Plans:
The Company and its subsidiaries have in effect various pension and retirement plans (trusteed, unfunded and profit-sharing) for salaried and hourly personnel at different divisions. The total pension and retirement plan expense for the year was $1,170,000, which includes, as to certain of the plans, amortization of prior service cost over periods ranging from 25 to 40 years. The comparable expense for 1967 was $1,040,000. The Company's policy is to fund pension costs accrued. The aggregate actuarially computed value of vested benefits exceeded the total pension fund and balance sheet accruals by approximately $2,715,000 at November 30, 1968.

5. Depreciation:
Depreciation amounted to $1,505,953 and $1,362,486, respectively for the years ended November 30, 1968 and 1967. Both the straight line and accelerated methods are used for computing depreciation expense, the straight line method being used for the majority of the assets.

6. Commitments and Contingent Liabilities:
The Company occupies certain premises under terms of leases which expire at various dates to 1987. Annual rentals under the leases aggregate approximately $410,000 plus certain taxes, assessments and other specified charges.

Under terms of agreements with financial institutions, the Company is contingently liable in the amount of $550,000 at November 30, 1968 with respect to receivables sold with recourse. It is not expected that losses, if any, which might be sustained as a result of these agreements will have a material effect on the financial statements.

7. Proposed Mergers:
Subsequent to November 30, 1968, the Company entered into agreements, subject to various contingencies, leading toward the acquisition of three unrelated companies. If the transactions are consummated, 363,990 shares of common stock will be issued initially with a maximum 86,674 additional shares issuable based upon future earnings of one of the companies. If the transactions are consummated, they will be treated as poolings of interests.

Accountants' Report

To the Board of Directors and Stockholders
The Scott & Fetzer Company

We have examined the consolidated balance sheet of THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES as at November 30, 1968 and the related consolidated statement of income, retained earnings and additional capital, and the statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination of the consolidated financial statements for the year ended November 30, 1967.

In our opinion, the above referred to financial statements present fairly the consolidated financial position of The Scott & Fetzer Company and subsidiary companies at November 30, 1968 and 1967 and the consolidated results of operations for the years then ended and the source and application of funds for the year ended November 30, 1968 in conformity with generally accepted accounting principles applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

Cleveland, Ohio
January 17, 1969

Board of Directors

Raymond E. Channock
President of Acme-Cleveland Corporation, Cleveland, Ohio

George D. Finnie
Managing partner of Wilson & Finnie Co., Cleveland, Ohio Certified Public Accountants

Niles H. Hammink
President

John A. Kemper
Chairman and Chief Executive Officer

Quigg Lohr
Executive Vice President & Secretary

C. B. McDonald
Partner in the underwriting firm of McDonald and Company, Cleveland, Ohio

B. R. Pinney
Vice President

Carl S. Fetzer
Honorary Director

Officers

J. A. KEMPER	*Chairman of the Board and Chief Executive Officer*
N. H. HAMMINK	*President*
QUIGG LOHR	*Executive Vice President and Secretary*
G. J. HALES	*Vice President*
B. R. PINNEY	*Vice President*
C. J. STAHL	*Vice President*
W. C. WHORLEY	*Vice President*
F. J. GUBERNOT	*Treasurer*
J. W. KEMPER	*Assistant Secretary and Assistant Treasurer*

CORPORATE OFFICE 14701 Detroit Avenue, Lakewood, Ohio 44107
LEGAL COUNSEL Jones, Day, Cockley & Reavis — Cleveland, Ohio
ACCOUNTANTS Lybrand, Ross Bros. & Montgomery — Cleveland, Ohio
TRANSFER AGENTS National City Bank of Cleveland — Cleveland, Ohio
The Chase Manhattan Bank, N.A. — New York, N.Y.
REGISTRARS Central National Bank — Cleveland, Ohio
Bankers Trust Company — New York, N.Y.

Operating Units

ADALET-RUSGREEN DIVISION — Cleveland, Ohio

AMERICAN-LINCOLN DIVISION — Toledo, Ohio
Branch plants: Bowling Green, Ohio and Watertown, N.Y.
Branch sales offices in major U.S. cities
Subsidiary companies:
AMERICAN-LINCOLN PRODUCTS, INC. — Toledo, Ohio

AMERICAN-LINCOLN OF CANADA, LTD. — Toronto, Ontario, Canada

LOMBARD POWER EQUIPMENT, LTD. — Montreal, Quebec, Canada

AQUANEERING DIVISION — Cleveland, Ohio

BEDFORD GEAR DIVISION — Cleveland, Ohio

DOUGLAS DIVISION — Bronson, Michigan
Sales office — Detroit, Michigan

FRANCE MANUFACTURING DIVISION — Cleveland, Ohio

HALEX DIVISION — Cleveland, Ohio

KINGSTON DIVISION — Kokomo, Indiana

THE KIRBY COMPANY DIVISION — Cleveland, Ohio

PLM PRODUCTS DIVISION — Cleveland, Ohio

QUIKUT DIVISION — Fremont, Ohio

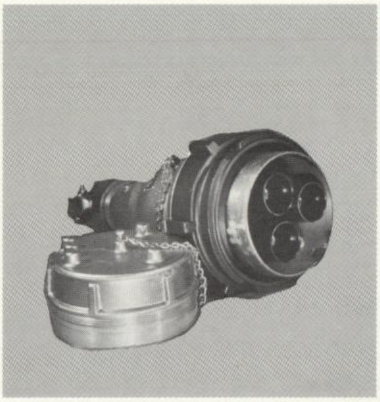
REMBRANDT LAMP DIVISION — Chicago, Illinois

STAHL METAL PRODUCTS DIVISION — Cleveland, Ohio
Branch plants: Cardington, Ohio and Durant, Oklahoma

VIRDEN LIGHTING DIVISION — Cleveland, Ohio
Warehouses: Santa Clara, California and Durant, Oklahoma

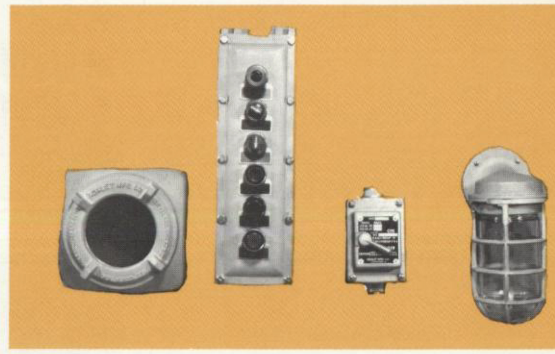
VIRDEN LIGHTING (CANADA) LTD. (a subsidiary)
Toronto, Ontario, Canada

Products of

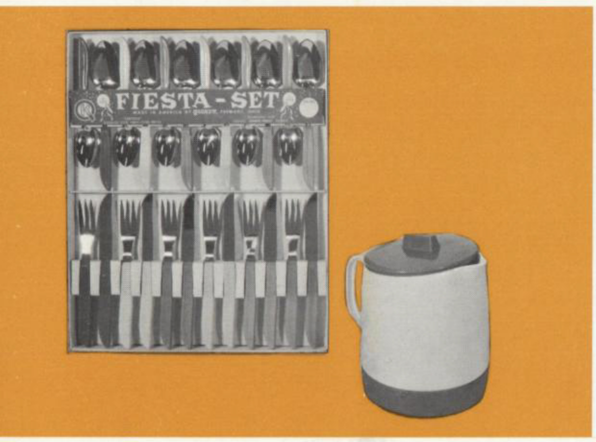


PLM
High voltage cable connectors

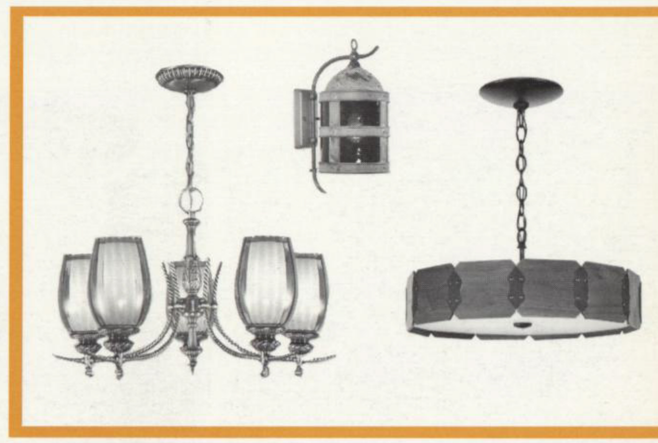
KIRBY
Kirby Dual Sanitronic '80' home cleaning system, Janitronic commercial vacuum cleaners



ADALET
Explosion-proof junction boxes, conduit fittings, vapor-tight lighting fixtures, material for control and distribution of electricity.

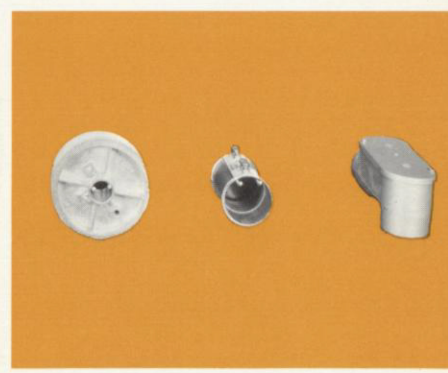


QUIKUT
Cutlery and plastic products, primarily for the premium industry



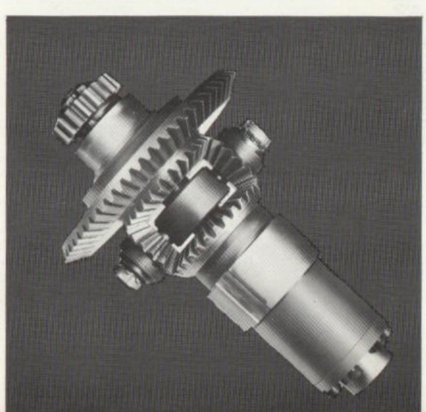
VIRDEN
Residential, commercial and industrial lighting fixtures

REMBRANDT
High quality table, floor and swag lamps



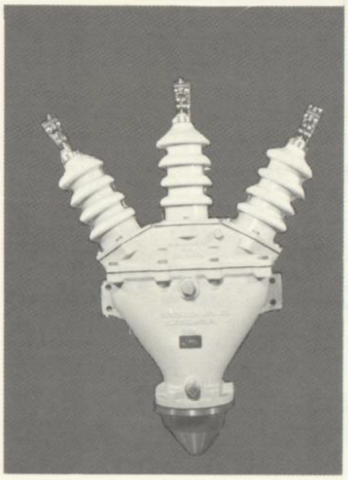
HALEX
Custom die-casting and fittings for electrical conduit, conductors and cables

AQUANEERING
Design, construction and sale of water treatment equipment and systems for industrial, commercial, institutional and municipal applications

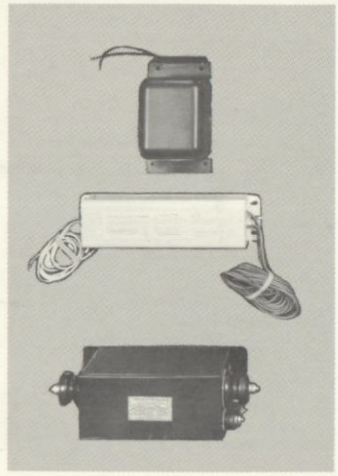


BEDFORD GEAR
Custom gears and gear assemblies, hydrostatic transmissions

the Scott & Fetzer Company

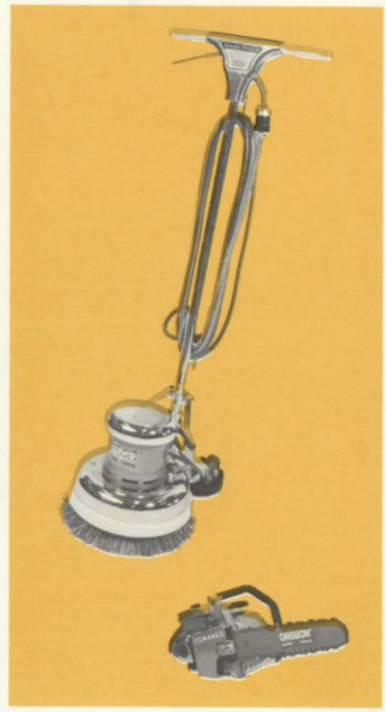


RUSGREEN
Electrical potheads and other high voltage cable accessories



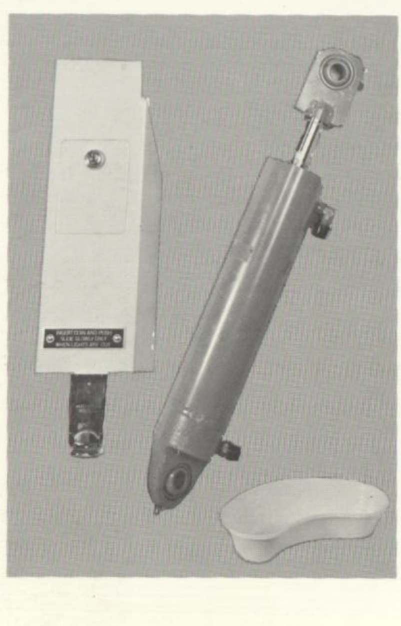
FRANCE
Transformers and ballasts for electric sign industry, ignition starting systems

STAHL
Service truck bodies and public utility truck bodies equipped with extension towers, augers, and booms



AMERICAN-LINCOLN
Industrial and institutional floor maintenance equipment and related supplies, chain saws, and fractional horsepower motors

DOUGLAS
Steering columns, electrical switches and connectors for automobile manufacturers, light-weight vacuum cleaners, tank tread links and other ordnance items



KINGSTON
Hydraulic devices for farm equipment, timer devices for home appliances, and miscellaneous machined products

The Scott & Fetzer Company