The Scott & Fetzer Company

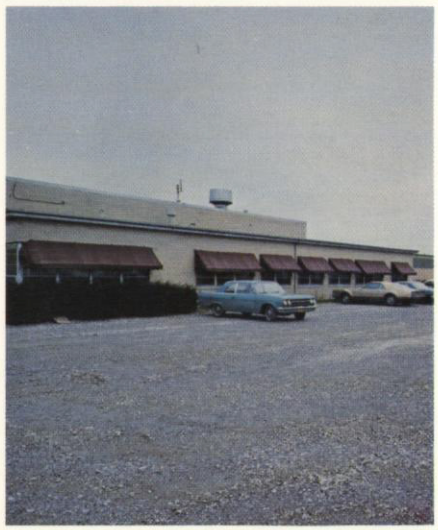
Annual Report 1971

New Kingston Division manufacturing plant in Smithville, Tennessee.

New facility in Atlanta, Georgia, for Kirby Company, Stahl Metal Products and Virden Lighting Divisions.

Douglas Division, Walnut Ridge, Arkansas, new manufacturing plant under construction, to be completed early 1972.

American-Lincoln Division, Bowling Green, Ohio, plant expansion under construction, to be completed early 1972.



Addition to Valley Tow-Rite Division's plant in Lodi, California.

THE YEAR AT A GLANCE

	1971	1970*
Net Sales	**$169,035,882**	$145,970,603
Net Earnings	**$ 13,367,902**	$ 10,709,731
Earnings Per Share	**$ 1.95**	$ 1.57
Dividends Per Share	**$ .80**	$ .80
Shareholders' Equity	**$ 63,199,113**	$ 54,760,295
Shares Outstanding	**6,843,350**	6,766,260
Number of Shareholders	**10,172**	11,445

*See Notes to Financial Statements.

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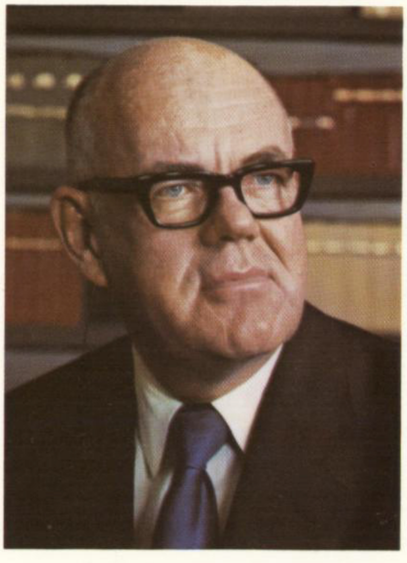
TO THE SHAREHOLDERS:

1971 was the tenth consecutive year in which your company recorded an increase in earnings per share. The combination of internal growth and acquisitions had a dramatic effect on the progress of Scott & Fetzer. For your convenience, the balance of my letter is segmented by subjects.

Niles H. Hammink
President and Chief Executive Officer



Financial

Earnings per share were $1.95, an increase of 25 per cent over 1970 reported and 24 per cent above 1970 restated. Sales increased to $169,035,882, 45 per cent above 1970 reported and 16 per cent above 1970 restated. Earnings were $13,367,902 versus $8,863,901 and $10,709,731 reported and restated respectively for the previous year.

Of the increase in reported sales totaling $52,667,548, 25 per cent was realized from internal growth and 75 per cent from acquisitions. The reported earnings increase of $4,504,001 reflects an improvement through internal growth which accounted for 31 per cent of this increase with acquisitions contributing 69 per cent. These figures are the result of continuing our dual approach to corporate growth through acquisitions and aggressive management in expanding existing divisions.

Capital expenditures were $5,872,196 compared to $4,707,713 in 1970. Return on investment increased to 21 per cent from 20 per cent. Stockholders' equity per share rose from $8.09 to $9.24. Working capital increased 13 per cent to $45,141,656, and net worth rose 15 per cent to $63,199,113.

The new Ohio franchise tax based on income in the fiscal year ended November 30, 1971 has been accrued in the amount of $700,000. The net effect of this new tax reduced 1971 earnings per share from $2.00 to $1.95.

Marketing

The consumer divisions of the company accounted for 74 per cent of the total company sales this past year, up from 64 per cent in 1970. Fifteen per cent of 1971 sales was generated by the electrical divisions which, while down from the previous year's 20 per cent, had a growth in sales dollars of 9 per cent over 1970 reported sales. The commercial/industrial divisions had a very moderate 4 per cent growth in sales volume and represented 11 per cent, down from last year's 16 per cent, of total sales. It is anticipated that projected improvements in the capital goods market will enable these divisions to accelerate their growth in 1972.

Acquisitions

The company continued its acquisition program begun in 1964 with renewed emphasis in 1971. Briefly stated, our policy is to acquire companies which will complement those three general areas encompassing the company's markets and to explore new areas which look attractive. Two 1971 acquisitions, Valley Tow-Rite and Streamway Products, are in a new area of the consumer market—i.e. leisure time. A description of the six acquisitions made in 1971 will be found in another part of this report.

1971 acquisitions increased the number of Scott & Fetzer reporting divisions to 28 operating 41 plants in the United States and Canada.

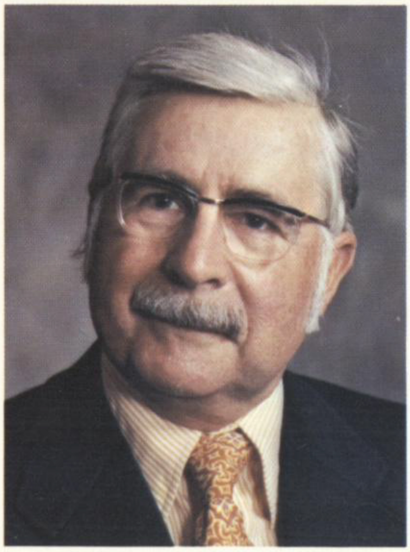
It is the company's intention to continue its acquisition program in 1972, based on proven parameters. Discussions are now being held with several companies that are attractive possibilities.

Corporate Personnel Changes
During the year, Mr. C.B. McDonald retired from his position as a director, after many years of outstanding contribution to the company. Mr. J.F. Bradley, vice president-corporate finance of TRW Inc., was elected by the shareholders to the Board of Directors at the Annual Shareholders' Meeting in March, 1971 to replace Mr. McDonald. Mr. Bradley brings a strong corporate background to the Board and has already proved to be a valuable contributor to corporate management.

In July of 1971, Mr. John Bebbington, Jr. joined the corporate staff as a group vice president. A graduate of Stevens Institute of Technology, Mr. Bebbington brings to Scott & Fetzer excellent experience in manufacturing and administrative techniques.

Mr. Robert C. Weber joined Scott & Fetzer in October of 1971 as general counsel and assistant secretary. He is a graduate of Kent State University and received his law degree from Case Western Reserve University in 1956.

B. R. Pinney
Executive Vice President-Operations



Quigg Lohr
Executive Vice President-Administration and Secretary

Plant Expansions
A major addition was added to the American-Lincoln plant in Bowling Green, Ohio, and all administrative and manufacturing operations were moved from Toledo and centralized in the Bowling Green facility.

The Kingston plant in Smithville, Tennessee, went completely on stream during 1971 and is now an integrated operation producing appliance timers.

The Douglas Division has opened a new 80,000 sq. ft. plant in Walnut Ridge, Arkansas, for the manufacture of home care appliances, and construction has started on an addition to the PLM Products Division plant in Cleveland.

Looking Ahead
Your management is expecting further corporate growth and improved earnings in 1972. The continued resurgence of consumer spending, improvement in our electrical divisions, and projected increases in capital spending should all contribute to the continued upward direction of sales and earnings. The current Phase II price freeze may prove to be a temporary deterrent to earnings in a few divisions, but we believe these problems will be overcome during the year.

My personal thanks to the shareholders for their continued support, and to our division employees and our administrative and executive groups for the fine job they did in 1971.

Very truly yours,

Niles H. Hammink

Niles H. Hammink
President and
Chief Executive
Officer
Lakewood, Ohio
February 14, 1972

The Scott & Fetzer Company
DIRECTORS/OFFICERS

DIRECTORS

J. F. BRADLEY
Vice President — Finance
TRW Inc.

RAYMOND E. CHANNOCK
Retired President, Acme-Cleveland Corporation
Cleveland, Ohio

NILES H. HAMMINK
President and Chief Executive Officer

JAMES M. HEYNE
Group Vice President

QUIGG LOHR
Executive Vice President —
Administration and Secretary

B. R. PINNEY
Executive Vice President — Operations

THOMAS W. SMITH
Managing Partner, Whitcom Investment Company
New York City, New York
Investment Bankers

* * * * * *

Honorary Directors

GEORGE D. FINNIE
Managing Partner, Wilson, Finnie & Company
Cleveland, Ohio
Certified Public Accountants

C. B. McDONALD
Managing Partner, McDonald & Company,
Cleveland, Ohio
Investment Bankers

OFFICERS

NILES H. HAMMINK
President and Chief Executive Officer

QUIGG LOHR
Executive Vice President —
Administration and Secretary

B. R. PINNEY
Executive Vice President — Operations

JOHN BEBBINGTON
Group Vice President

FRANK J. GUBERNOT
Group Vice President

JAMES M. HEYNE
Group Vice President

ROBERT W. MINETT, JR.
Group Vice President

KENNETH D. HUGHES
Treasurer

ROBERT C. WEBER
General Counsel and Assistant Secretary

CORPORATE OFFICE

14701 Detroit Avenue
Lakewood, Ohio 44107
Telephone: area 216/228-6200

LEGAL COUNSEL

Jones, Day, Cockley & Reavis
Union Commerce Building
Cleveland, Ohio 44115

ACCOUNTANTS

Lybrand, Ross Bros. & Montgomery
Union Commerce Building
Cleveland, Ohio 44115

TRANSFER AGENTS

Society National Bank of Cleveland
127 Public Square
Cleveland, Ohio 44114

The Chase Manhattan Bank, N. A.
1 New York Plaza
New York City, New York 10005

REGISTRARS

Central National Bank of Cleveland
East Ninth Street and Superior Avenue
Cleveland, Ohio 44114

Bankers Trust Company
485 Lexington Avenue
New York City, New York 10005

COMMON STOCK

Scott & Fetzer common shares are traded on
the New York Stock Exchange,
the Midwest Stock Exchange and
the Pacific Coast Stock Exchange.
The ticker symbol for the shares is SFZ.

ANNUAL MEETING

The annual meeting of shareholders will be held on
Tuesday, March 21, 1972, at 10:30 a.m., EST,
at the Lake Shore Towers (formerly the Lake Shore
Hotel), 12506 Edgewater Drive, Lakewood, Ohio.

THE EVOLVEMENT OF THE SCOTT & FETZER COMPANY

"The Wireless Vac-u-ette," an early model vacuum sweeper made about 1920 by the Scott & Fetzer Company. Non-electric, as it was moved over a rug, the side wheels turned a horizontal rotor which created an air suction. Dirt swept up by the roller brush in front was caught in the suction and propelled into the collection bag, which could be detached for emptying.

The Scott & Fetzer Company had its beginning fifty-eight years ago when, in 1914, the late Mr. George H. Scott and Mr. Carl S. Fetzer founded a partnership and went into a machine shop business supplying parts to the then infant automobile industry.

In 1917 the Scott & Fetzer partnership was incorporated and after producing defense equipment in World War I the Company started the manufacturing and marketing of vacuum cleaners. A number of models and name brands were produced until 1935 when the first Kirby vacuum cleaner was built and it remained the sole product of the Company until 1964.

In 1964 the management of Scott & Fetzer embarked on the program of diversification and growth that has resulted in the Scott & Fetzer of today.

Two acquisitions were made in that first year of the diversification program and now, eight years later, a total of 27 different companies have joined Scott & Fetzer with only two of these having been divested.

From the one plant, one product base eight years ago, The Scott & Fetzer Company of today has grown to 41 manufacturing plants located in 12 states and Canada, employing over 5,500 people producing a wide range of consumer, electrical and commercial/industrial products. The location and principal products of all Divisions is given on other pages of this report.

Internal growth is a principal expansion thrust of the Company. This growth is accomplished through new products and expanded marketing. Each Division is responsible for its own research and development on new products, as well as its distribution and sales programs.

The acquisition criteria which has worked so well in the past will continue as the benchmarks for that portion of future growth realized through acquisitions. Essentially, the long-range goals of acquisition candidates must be compatible with those of Scott & Fetzer; earnings potential must be demonstrated; depth in management willing to continue after affiliation; financial soundness; a strong position in markets served, and a proprietary position in manufactured product.

ACQUISITIONS

Begun in 1964, the Company's long-range program of diversification through acquisitions accelerated in 1971. In contrast with the previous year when only one acquisition was made, six companies were acquired in 1971. All except one (Cardinal Plastics) were acquired from private owners for an exchange of Scott & Fetzer common shares. Cardinal Plastics was acquired from a publicly held company for cash.

It is our policy in making acquisitions to retain existing management. In keeping with this policy, the managements of all companies acquired during 1971 have continued in their previous positions.

Of the six new Divisions, five became part of our Consumer Products Group — Campbell-Hausfeld, Cardinal Plastics, Scot Laboratories, Streamway Products and Valley Tow-Rite — and one, Ohio Metalsmiths, became part of our Electrical Products Group. The financial statements in this report reflect the addition of these six Divisions. Together, the six new Divisions added approximately $40 million to our 1971 sales volume.

Campbell-Hausfeld Division
Established for more than a century, Campbell-Hausfeld, headquartered in Harrison, Ohio, near Cincinnati, is itself a diversified operation. Principal products are paint spraying equipment — sold both under the C-H name and under private brand names; portable air compressors, gray iron castings,

A Campbell-Hausfeld home spray painting outfit

and metal melting furnaces. The paint spray equipment represents the largest portion of sales and is sold primarily to the home and farm market. C-H also has capability in metalworking, and its foundry serves outside customers as well. This Division has three plants and employs approximately 600 people.

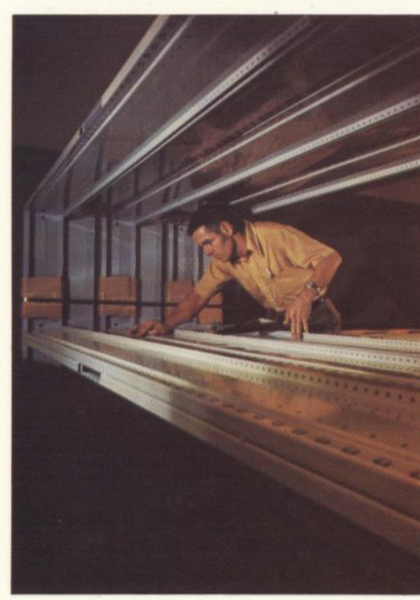
Cardinal Plastics Division

Plastic containers made by the Cardinal Plastics Division for food and other consumer products

Injection molded plastic products are the principal business of this new Division, located in Akron, Ohio. Cardinal Plastics, in business for 22 years, is well established in the markets it serves. Chief among Cardinal customers are food companies which purchase various sizes of molded containers for packing ice cream, pickles, popcorn and a wide variety of other food products.

Cardinal Plastics' other principal market is the premium and advertising novelty industry. Plastic tumblers, tableware and other colorful items are sold to the premium trade; advertising novelties produced include such items as plastic ice scrapers, key chain tags, desk calendar holders and other products.

Ohio Metalsmiths Division
Ohio Metalsmiths is a manufacturer of custom sheet metal components chiefly for the tele-communications and the electronic equipment industries. This Division's main plant is in Wooster, Ohio, with other plants in Mount Vernon, Ohio, and Council Grove, Kansas. The company was started in 1960, has shown steady growth, and is highly regarded by its



Telephone exchange cabinet frame

customers, leaders in their respective industries. This Division also has metalworking capability and does contract work.

Scot Laboratories Division

Scot chemical specialties help keep floors beautiful, improve sanitation, clean and soothe hands

This Division is a producer of chemical specialties. Scot has developed a number of formulas for cleaning, waxing and disinfecting products. Many products are for floor maintenance, such as floor waxes, wax removers, and gloss coatings. Other products include all-purpose cleansers, germicidal detergents, chiefly for hospital use, and hand cleansers for cleaning heavily soiled hands and at the same time, soothing and protecting the skin.

Blending of chemicals is done by Scot according to its own formulas, and products are packaged in a variety of ways—tubes, squeeze bottles, 55-gallon drums, etc.—for sale both under its own brand name and for well-known private brand customers. Scot Laboratories is located in Chagrin Falls, Ohio.

Streamway Products Division

The mobile home industry has experienced strong growth in recent years, due partly to the improved designs and the efficiencies manufacturers have been able to incorporate into their attractive homes. Streamway Products, as the leading supplier of plumbing fixtures to mobile home builders, has contributed to this progress.

Streamway fixtures are found in mobile home kitchens, bathrooms, showers and lavatories, and are designed and built not just to be utilitarian but to enhance the surrounding decor. An early supplier to the mobile home industry, Streamway today has its fixtures in a high percentage of the mobile homes being produced. Approximately 450,000 mobile homes were built in 1971, and the annual rate of production is expected to increase. Streamway is located in Westlake, Ohio, near Cleveland.

Mobile home kitchen sink fixtures by the Streamway Products Division

Valley Tow-Rite Division

Valley Tow-Rite is a manufacturer of recreational vehicle towing equipment, including such products as trailer hitches, balls, couplers and accessories. Products are sold to automotive and recreational vehicle manufacturers and through a nationwide network of distributors and dealers. Valley also supplies towing equipment for the rental trailer market.

Informational type displays help customers choose proper Valley towing equipment

With safety such an important factor, Valley conducts a continuing educational program for dealers and users on the proper selection, installation and use of its towing equipment, covering such factors as load-equalizing and sway prevention.

In 1971 Valley built a large addition to its main plant in Lodi, California, and also has a plant in Lansing, Michigan. This Division employs approximately 225 people.

Tamper-proof driver's license with color photo by the **DEK Processes Division**

Brushes for floor maintenance equipment by the **Cleveland Wood Products Division**

Fixtures in a mobile home lavatory by the **Streamway Products Division**

Chemical specialties for cleaning, waxing and disinfecting applications by the **Scot Laboratories Division**

Fractional horsepower motors for appliances, hand tools and business machines by the **Northland Electric Motors Division**

Lighting fixtures for any room in the home by the **Virden Lighting Division** and the **Virden Lighting (Canada) Division**

Crystal chandeliers for residential and commercial installations by the **Prestige Division**

Kitchen cutlery for the premium and retail markets by the **Quikut Division**

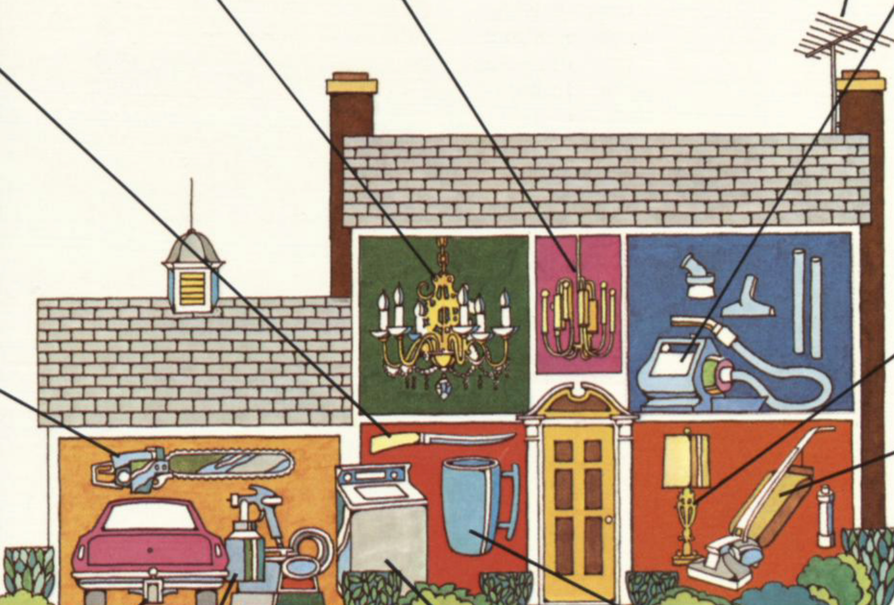
Chain saws by the **Lombard Division** for the professional, home and farm markets

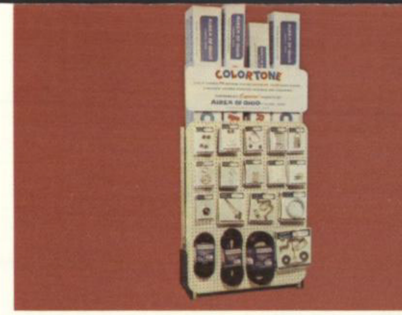
Equipment for towing recreational vehicles and the rental trailer market by the **Valley Tow-Rite Division**

Spray painting outfit by the **Campbell-Hausfeld Division** for use by the home or farm owner

CONSUMER PRODUCTS

Scott & Fetzer consumer products cover a wide range of items, as shown and described here, and a number of them long have been familiar names in millions of American homes. The consumer group was strengthened greatly during 1971 with the addition of five divisions, as described earlier in this report.





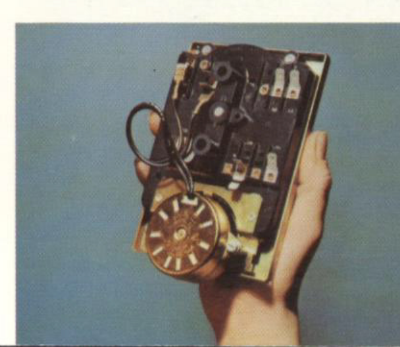
Television and FM receiver antennas by the **S & A Electronics Division**

Vacuum cleaners for residential use by the **Douglas Division**

Decorator lamps for the home by the **Rembrandt Division**

The famous Kirby home maintenance system made by **The Kirby Company Division**

Colorful set of tumblers made by the **Cardinal Plastics Division**

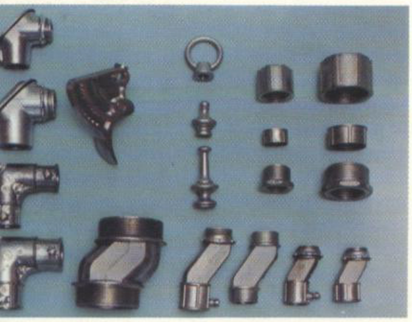


Automatic timers made by the **Kingston Division** for automatic washer manufacturers

ELECTRICAL PRODUCTS

Scott & Fetzer electrical divisions are diversified in the products they make and the markets they serve. Chief among these markets are: housing, public utilities, industry, mining, electrical equipment, communications, sign manufacturing, heating equipment, marine, and others. The Ohio Metalsmiths Division was added to this group during the year.

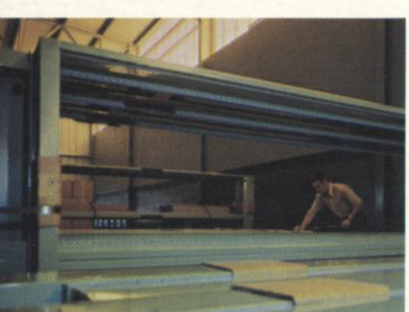
Luminous tube transformer designed and built by the **France Manufacturing Division** for sign manufacturers



Finials for lamps, and typical die cast electrical conduit fittings made by the **Halex Division**

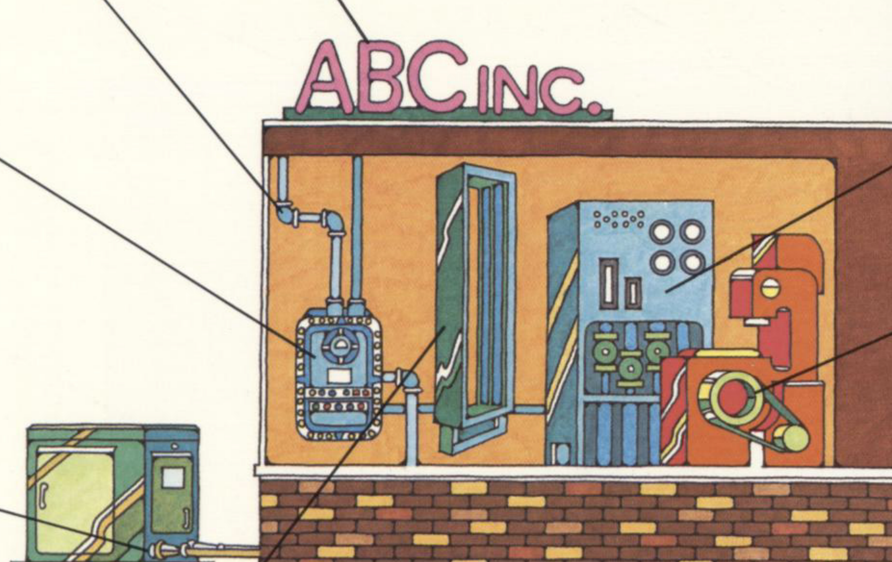
Explosion-proof lighting and control panel made by the **Adalet Division** for use in such applications as petrochemical plants, gas pipeline and off-shore drilling installations

Completely metal-enclosed couplers manufactured by the **PLM Division** for high voltage portable power cable systems



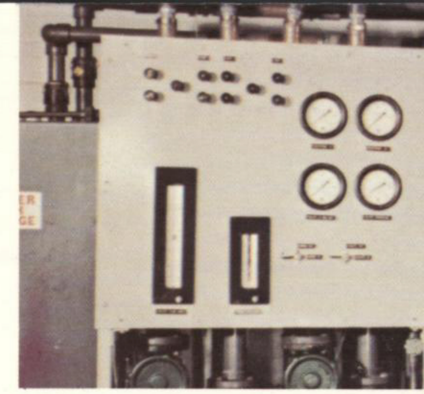
Telephone exchange equipment support frame manufactured by the **Ohio Metalsmiths Division**

Public utility vehicle for which truck body and related equipment are manufactured by the **Stahl Metal Products Division**

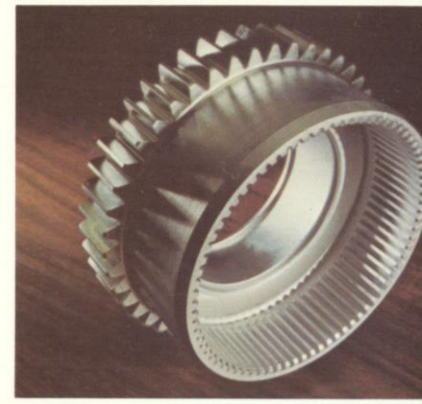


COMMERCIAL/INDUSTRIAL PRODUCTS

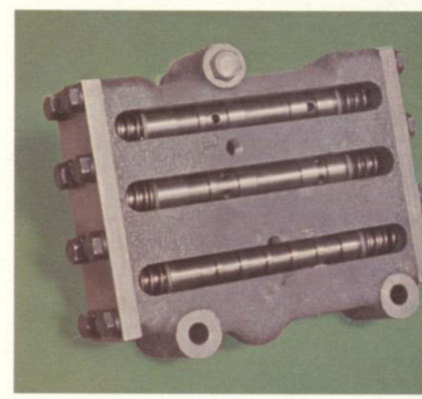
Scott & Fetzer commercial and industrial products are sold to a variety of expanding markets—automotive, machinery, chemical and petrochemical, farm and off-the-road equipment manufacturers, and others. Scott & Fetzer is the leading manufacturer of floor maintenance equipment. As the number of homes, apartments, commercial buildings and factories grows, the market for Scott & Fetzer floor cleaning and care equipment increases.



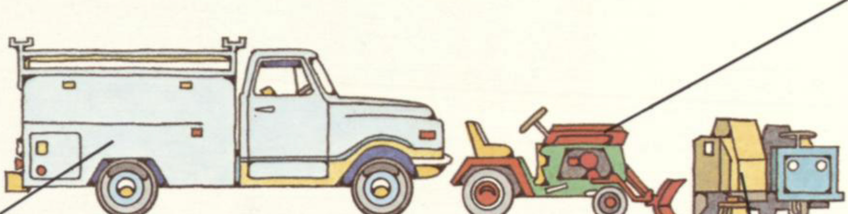
Precision instruments made by **Meriam Instrument Division** are used in brackish water desalting for accurate measurement of liquid flow



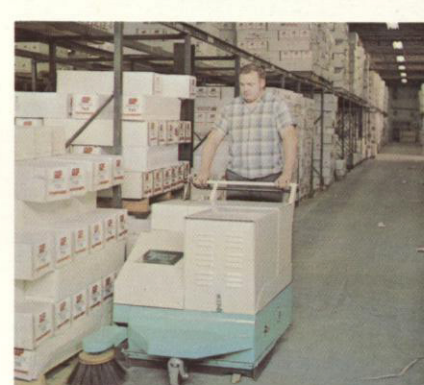
One of many precision gears manufactured by **Bedford Gear Division**



Hydraulic valve made by **Kingston Division** for use in off-the-road equipment



American-Lincoln Division's new "Ecology-Vac" sweeper for industrial, institutional and commercial businesses



New self powered (battery or gas engine) sweeper for industrial and warehouse floor maintenance made by the **American-Lincoln Division**

The Scott & Fetzer Company
10 YEAR RECORD, 1962-1971

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT FOR PER SHARE DATA)

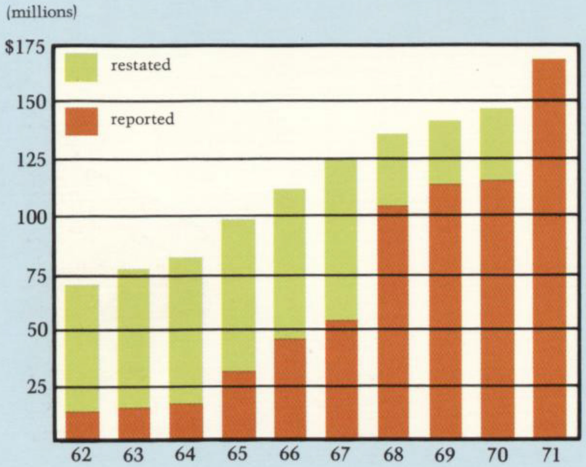
AS REPORTED*	1971	1970	1969
Net Sales	$169,036	$116,368	$115,489
Earnings before Taxes	25,674	17,289	16,999
Net Earnings	13,368	8,864	8,389
Earnings per Share	1.95	1.56	1.47
Cash Flow	15,849	10,926	10,288
Cash Flow per Share	2.31	1.92	1.80
Cash Dividends per Share	.80	.80	.80
Working Capital	45,142	34,672	33,599
Fixed Assets, Net	20,909	15,837	14,110
Shareholders' Equity	63,199	47,719	44,485
Shares Outstanding (000)	6,843	5,616	5,679
Number of Shareholders	10,172	11,445	10,519
Number of Employees	5,499	4,317	4,057

RESULTS RESTATED FOR POOLINGS

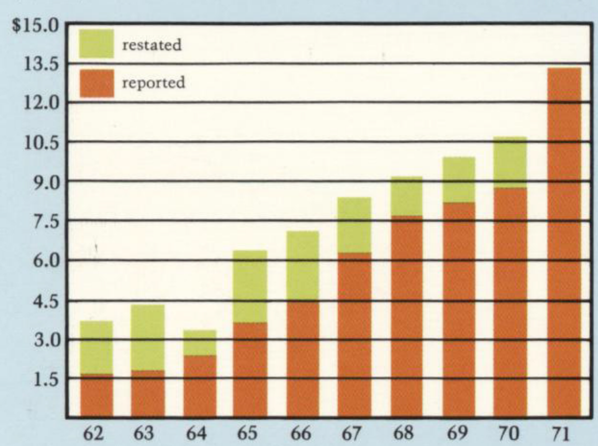
Net Sales	$169,036	$145,971	$142,791
Net Earnings	13,368	10,710	9,936
Earnings per Share	1.95	1.57	1.44

* "As Reported" data includes divisions acquired by poolings of interest from the year of acquisition.

NET SALES



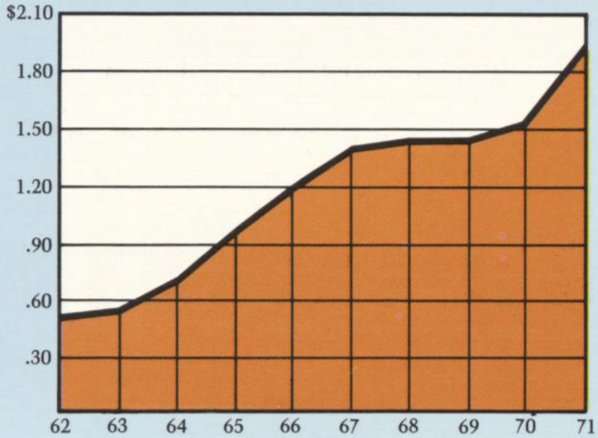
NET INCOME



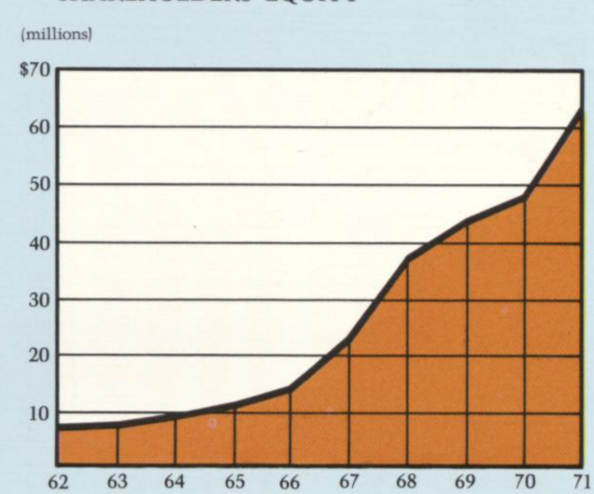
1968	1967	1966	1965	1964	1963	1962
$106,295	$60,058	$41,331	$33,350	$18,833	$15,465	$14,241
16,047	11,969	8,734	6,845	4,747	3,604	3,290
7,697	6,300	4,579	3,620	2,435	1,734	1,590
1.46	1.39	1.20	.97	.70	.55	.50
9,203	7,155	5,149	4,150	2,657	1,912	1,773
1.75	1.58	1.35	1.11	.76	.61	.56
.72	.60	.60	.54	.47	.52	.43
29,769	15,879	9,478	8,409	6,745	5,465	5,261
11,285	7,208	5,177	3,665	2,235	1,321	1,417
37,298	22,668	14,518	11,890	9,484	6,965	6,857
5,271	4,535	3,811	3,726	3,481	3,159	3,159
9,814	4,750	4,376	4,196	3,753	3,455	3,430
3,982	1,677	1,131	769	410	281	282

$136,311	$125,018	$114,246	$98,693	$83,778	$78,938	$71,960
9,281	8,438	7,136	6,464	3,443	4,298	3,671
1.34	1.22	1.03	.93	.49	.62	.53

EARNINGS PER SHARE



SHAREHOLDERS' EQUITY



The Scott & Fetzer Company and Subsidiary Companies
CONSOLIDATED BALANCE SHEET
AS OF NOVEMBER 30, 1971 AND 1970

ASSETS	November 30 1971	November 30 1970 (Note 1)
Current assets:		
Cash	**$ 2,063,184**	$ 3,253,136
Certificates of deposit	**309,563**	319,065
Marketable investments, at cost, market quotations 1971—$5,464,850, 1970—$1,809,540	**5,459,654**	1,879,392
Trade receivables, less allowance for doubtful accounts 1971—$788,580, 1970—$459,250	**21,057,911**	19,050,494
Other receivables	**729,236**	523,409
Inventories, at the lower of cost (first-in, first-out) or market:		
Raw material and supplies	**11,342,574**	11,161,883
Work in process	**8,768,618**	8,377,391
Finished goods	**11,387,562**	10,848,586
	31,498,754	30,387,860
Prepaid expenses	**1,281,431**	749,908
Total current assets	**62,399,733**	56,163,264
Property, plant and equipment, at cost:		
Land and land improvements	**1,586,489**	1,382,955
Buildings	**9,811,155**	8,968,688
Machinery and equipment	**26,706,928**	23,528,333
	38,104,572	33,879,976
Allowance for depreciation	**17,195,335**	15,763,030
	20,909,237	18,116,946
Construction trust funds (Note 2)	**607,034**	—
Intangible assets arising from acquisitions (Note 1)	**1,230,173**	1,104,287
Other assets	**596,239**	436,865
	$85,742,416	$75,821,362

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

LIABILITIES

	November 30 1971	November 30 1970 (Note 1)
Current liabilities:		
Notes payable, banks	$ 180,747	$ 879,052
Current portion of long-term debt (Note 2)	742,279	1,625,220
Accounts payable, trade	5,861,664	5,143,539
Accounts payable, other	454,106	1,092,143
Federal and Canadian income taxes	3,750,523	3,286,194
Accrued taxes, other	1,333,214	600,357
Accrued liabilities for payroll, pension funds, commissions, interest and other	4,935,544	3,633,796
Total current liabilities	17,258,077	16,260,301
Long-term debt (Note 2)	4,634,797	4,317,422
Deferred income taxes (Note 5)	650,429	483,344
Total liabilities	22,543,303	21,061,067

SHAREHOLDERS' EQUITY

	1971	1970
Serial Preference Stock:		
Authorized 1,000,000 shares, without par value, issued shares — none		
Common Stock:		
Authorized 15,000,000 shares, without par value (Notes 3 and 7)		
Stated value of issued shares $1.25 per share		
1971 — 6,979,841, less 136,491 in treasury		
1970 — 6,893,156, less 126,896 in treasury	8,554,188	8,457,825
Additional capital (Note 7)	4,874,323	4,681,429
Retained earnings (Note 2)	49,770,602	41,621,041
	63,199,113	54,760,295
	$85,742,416	$75,821,362

The Scott & Fetzer Company and Subsidiary Companies
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEARS ENDED NOVEMBER 30, 1971 AND 1970

	Year Ended November 30		
	1971	1970 (Note 1)	1970 Annual Report
Net sales	**$169,035,882**	$145,970,603	$116,368,334
Cost of goods sold	**120,259,234**	104,977,926	82,705,771
Gross profit	**48,776,648**	40,992,677	33,662,563
Selling, general and administrative expenses	**23,458,707**	20,132,368	16,567,213
Operating profit	**25,317,941**	20,860,309	17,095,350
Other income, net	**355,961**	56,958	193,551
Income before provision for federal and Canadian income taxes	**25,673,902**	20,917,267	17,288,901
Provision for income taxes	**12,306,000**	10,207,536	8,425,000
Net income	**13,367,902**	10,709,731	$ 8,863,901
Retained earnings, beginning of year	**41,621,041**	36,575,646	
	54,988,943	47,285,377	
Cash dividends—per share 1971—$.80, 1970—$.80	**4,767,741**	4,532,328	
Dividends paid by merged companies prior to acquisition	**—**	14,432	
Excess of cost of treasury stock over amount allocated to additional capital account—1971—27,100 shares 1970—99,100 shares	**450,600**	1,117,576	
	5,218,341	5,664,336	
Retained earnings, end of year	**$ 49,770,602**	$ 41,621,041	
Earnings per common and common equivalent share	**$1.95**	$1.57	$1.56
Average number of common and common equivalent shares	**6,872,021**	6,828,891	5,678,741

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

The Scott & Fetzer Company and Subsidiary Companies
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED NOVEMBER 30, 1971 AND 1970

	Year Ended November 30	
	1971	1970 (Note 1)
SOURCE OF FUNDS		
From operations:		
Net income	$13,367,902	$10,709,731
Depreciation	2,481,326	2,414,745
Deferred federal income taxes, net	167,085	7,052
Total from operations	16,016,313	13,131,528
Sale of common stock under stock options	156,992	—
Disposal of fixed assets	598,579	249,818
Increase in long-term debt	317,375	—
Other, net	33,803	318,042
	17,123,062	13,699,388
APPLICATION OF FUNDS		
Cash dividends	4,767,741	4,546,760
Additions to property, plant and equipment	5,872,196	4,707,713
Construction trust funds	607,034	—
Decrease in long-term debt	—	945,620
Increase (decrease) in intangibles from acquisitions	125,886	(44,220)
Purchase of treasury shares	511,512	1,340,504
	11,884,369	11,496,377
INCREASE IN WORKING CAPITAL	$ 5,238,693	$ 2,203,011
INCREASE (DECREASE) IN COMPONENTS OF WORKING CAPITAL		
Current assets:		
Cash and certificates of deposit	$ (1,199,454)	$ 703,525
Marketable investments	3,580,262	247,210
Trade and other receivables	2,213,244	478,695
Inventories	1,110,894	1,986,004
Prepaid expenses	531,523	186,955
	6,236,469	3,602,389
Current liabilities:		
Notes and current portion of long-term debt	(1,581,246)	(438,948)
Trade and other payables	80,088	771,966
Accrued liabilities, including taxes	2,498,934	1,066,360
	997,776	1,399,378
INCREASE IN WORKING CAPITAL	$ 5,238,693	$ 2,203,011

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

NOTES TO FINANCIAL STATEMENTS

1. Acquisitions in 1971:

Business combinations accounted for as poolings of interests in 1971 included Valley Tow-Rite, Inc. (trailer hitches, couplers, etc.), Ohio Metalsmiths Corporation (crossbar frames for telephone switching equipment), The Campbell-Hausfeld Company (spray paint equipment and compressors), Streamway Products, Inc. (water control faucets, valves, fittings) and Scot Laboratories, Inc. (chemical specialties including floor polishes, germicides and cleaning products). Common stock issued in the above mergers aggregated 1,150,150 shares.

A reconciliation of sales and net income before and after 1971 poolings of interests follows:

	1971	1970
Sales—Before 1971 poolings	$129,615,500	$116,368,334
1971 poolings—Before date of combination	33,609,897	29,602,269
—After date of combination	5,810,485	—
Total	$169,035,882	$145,970,603
Net income—Before 1971 poolings	$ 10,231,223	$ 8,863,901
1971 poolings—Before date of combination	2,598,142	1,845,830
—After date of combination	538,537	—
Total	$ 13,367,902	$ 10,709,731

The Cardinal Plastics Division (plastic containers) was acquired in November 1971 for a cash consideration of $1,352,453. The transaction was accounted for by the purchase method and the amount assigned to intangible assets was approximately $126,000, which amount is being amortized on a straight-line basis over a forty-year period. On a pro forma basis for 1971 and 1970 the acquisition has a negligible effect on results of operations. The column in the Statement of Income and Retained Earnings entitled "1970 Annual Report" sets forth the operations of the Company as shown by its 1970 report.

2. Long-Term Liabilities:

Long-term debt at November 30, 1971 is as follows:

	Current	Non-current
Bank loans, 5-1/2% to 7%, maturities to 1977	$329,689	$ 500,879
Mortgage notes, 5-1/2% to 7-3/4%, maturities to 1985	77,167	789,316
Insurance company loan, 6%, maturities to 1980	200,000	2,100,000
Obligations under Lease/Purchase Agreements, 4-1/4% to 8%, maturities to 1988	135,423	1,244,602
	$742,279	$4,634,797

The 5-1/2% bank loan due 1971-1972 requires annual payments of $150,000 on December 31 of 1971 and 1972. The other principal bank loan is due in quarterly installments of $37,500 plus interest at 1/2% over the prime rate, but not less than 5-1/2% nor more than 6%.

The loan agreements provide for pre-payment in full or part without premium, and include 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 $15,137,032 at November 30, 1971.

The mortgage notes require aggregate monthly payments of $10,707 including interest.

The insurance company loan is payable in annual installments of $200,000 on December 15, 1971 and $200,000 annually thereafter, with a balance of $500,000 due in 1980.

Under the terms of three building Lease/Purchase Agreements (one of which includes equipment), the Company is obligated for rentals annually approximating $200,000 for 1972—1976, $165,000 for 1977—1979, $100,000 for 1980 and 1981 and $10,000 for 1982—1988.

The Company has the right to acquire the assets (under certain conditions and at times specified) at amounts stipulated in the agreements; generally, the balances of the discounted unpaid rentals (and certain premiums) plus amounts of $1 to $500.

The Company has accounted for the transactions as purchases and the obligations have been reflected as liabilities in the balance sheet at the discounted amount of the future lease rental payments.

Construction trust funds consist principally of the unexpended balance of funds (cash and investments held by trustee) resulting from the sale of Walnut Ridge, Arkansas Industrial Development Revenue Bonds for building and equipment under a Lease/Purchase Agreement between the Company and the city. The funds will be utilized for the completion of the building and equipment program, with any remainder becoming available for debt service and retirement.

3. Stock Options:

At November 30, 1971, 173,925 shares of common stock were reserved for issuance under a qualified stock option plan adopted in 1967.

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:

		Year ended November 30, 1971				
Granted:	Option Price	Balance Nov. 30, 1970	Granted	Exercised	Terminated	Balance Nov. 30, 1971
April 24, 1967	$15.50	29,160	—	8,735	1,500	18,925
December 16, 1968 ..	29.875	27,300	—	—	7,500	19,800
December 17, 1969 ..	13.50	18,400	—	1,600	600	16,200
December 15, 1970 ..	14.75	—	46,600*	—	—	46,600
		74,860	46,600	10,335	9,600	101,525

*The exercise of 17,800 of the December 15, 1970 options is contingent upon the exercise or lapsing of certain options previously granted.

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 $1,624,000, 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 1970 was $1,416,000. The Company's policy is to fund pension costs accrued. The aggregate actuarially computed value of vested benefits exceeded the total pension funds and balance sheet accruals by approximately $2,127,000 at November 30, 1971.

5. Depreciation:

Depreciation amounted to $2,481,326 and $2,414,745 respectively for the years ended November 30, 1971 and 1970. Both the straight-line and accelerated methods are used for computing book depreciation expense, the straight-line method being used for the majority of the assets. Accelerated depreciation has been adopted for income tax purposes, where allowable, and provision has been made for the related deferred income taxes.

6. Commitments and Contingent Liabilities:

The Company occupies certain premises under terms of leases which expire at various dates to 1988. Annual rentals under the leases aggregate approximately $995,000 plus certain taxes, assessments and other specified charges.

Any liability that may result from lawsuits and other claims pending against the Company and its subsidiaries as of November 30, 1971 will not be material in the opinion of counsel for the Company.

7. Capital Stock:

Changes in the common stock and additional capital accounts during the two years ended November 30, 1971 (showing balance as of November 30, 1969 restated for 1970 and 1971 poolings) were as follows:

	Common Stock			
	Treasury Shares	Issued Shares	Stated Value	Additional Capital
Balance, November 30, 1969, restated ..	(27,796)	6,893,156	$8,581,700	$4,780,483
Stock acquired	(99,100)	—	(123,875)	(99,054)
Balance, November 30, 1970	(126,896)	6,893,156	8,457,825	4,681,429
Stock acquired	(27,100)	—	(33,875)	(27,038)
Sale of stock under options	10,335	—	12,919	144,073
Stock used in contest	7,170	—	8,963	184,215
Additional shares on prior year acquisition	—	86,685	108,356	(108,356)
Balance, November 30, 1971	(136,491)	6,979,841	$8,554,188	$4,874,323

8. Subsequent Events:

Two business combinations initiated but not consummated as of the date of the financial statements contemplate an exchange of approximately 77,000 shares of the Company's common stock, and upon consummation will be accounted for as poolings of interest. The effect of the proposed combinations on pro forma results of operations for 1971 and 1970 is immaterial.

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, 1971 and the related consolidated statement of income and retained earnings, and the statement of changes in financial position 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, 1970.

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, 1971 and 1970, the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Lybrand, Ross Bros. & Montgomery

Cleveland, Ohio
January 22, 1972

SUMMARY OF ACCOUNTING POLICIES

Scott & Fetzer's significant accounting policies are summarized below to assist the reader in reviewing the Company's financial statements and other data contained in this report.

Principles of Consolidation—Consolidated financial statements include the accounts of its subsidiaries, domestic and Canadian, all of which are wholly owned. Intercompany balances, transactions and stockholdings have been eliminated in consolidation.

Marketable Investments—Marketable investments are valued at cost, which approximates market value.

Inventories—Inventories are valued at the lower of cost (first-in, first-out) or market and interdivisional and intercompany profits are eliminated from inventory valuations.

Property, Plant and Equipment—Items capitalized as part of land, buildings and equipment, including significant betterments to existing facilities, are valued at cost. Fixed assets under lease/purchase agreements are accounted for as purchases and the obligations reflected as liabilities at the discounted amount of future lease rental payments.

Depreciation—Straight-line and accelerated methods are used in the computation of depreciation for report purposes, the straight-line method being used for the majority of the assets.

Deferred Income Taxes—For federal income tax purposes, accelerated methods of depreciation are used, where allowable, and deferred income taxes are provided on the difference between the depreciation expense for financial reporting purposes and that for income tax purposes.

Investment Credit—The investment tax credit is recorded on the "flow-through" method as a reduction of the provision for federal income taxes.

Research and Development—Research and product development costs are charged against income as incurred.

Business Combinations—Where combinations qualify as "poolings of interests" the results of operations include those of acquisitions for the entire current year and financial statements of the preceding year are restated therefor. Acquisitions which constitute "purchases" are included in operations from the date of acquisition.

Translation of Foreign Currencies—The accounts of Canadian subsidiaries have been translated into United States dollars as follows: property, plant and equipment and depreciation at parity, other assets and liabilities at current exchange rates and sales, costs and expenses at the average exchange rates for the period. Unrealized gains or losses are credited to or charged against income.

Earnings per Share—Earnings per common share are determined by dividing the weighted average number of shares of common stock outstanding plus common share equivalents (shares issuable for certain stock options granted) into net income.

SCOTT & FETZER DIVISIONS/PLANTS/PRODUCTS

CONSUMER PRODUCTS

Campbell-Hausfeld Division
Production Drive
Harrison, Ohio 45030
Principal Products: Paint spray equipment, air compressors, sheet metal products, cast iron foundry.

Cardinal Plastics Division
815 East Tallmadge
Akron, Ohio 44310
Principal Products: Injection molded plastic containers for the food and other industries, plastic premium products.

Cleveland Wood Products Division
3881 West 150th Street
Cleveland, Ohio 44111
Principal Products: Roller and flat brushes for vacuum cleaners, polishers and other floor maintenance equipment.

DEK Processes Division
1530 Progress Road
Fort Wayne, Indiana 46808
Principal Products: Color photo identification systems for drivers' licenses, credit cards, and college and university identification cards, and other personal identification applications.

Douglas Division
141 Railroad Street
Bronson, Michigan 49028
Airport Road
Walnut Ridge, Arkansas 72476
Principal Products: Vacuum cleaners, assemblies, subassemblies and electrical components for the automotive industry.

Kingston Division
Miller Road
Smithville, Tennessee 37166
Principal Products: Electrical timers and components for residential and commercial automatic laundry equipment.

The Kirby Company Division
1920 West 114th Street
Cleveland, Ohio 44102
Principal Products: Vacuum cleaners, rug shampooers, and other maintenance equipment for the home.

Lombard Power Equipment Division
4181 Rocky River Drive
Cleveland, Ohio 44135

Lombard Power Equipment Division
SFZ International Limited
10436-38 L'archeveque Blvd.
Montreal-Nord, Quebec, Canada
Principal Products: Chain saws.

Northland Electric Motors Division
968 Bradley Street
Watertown, New York 13601
Principal Products: Fractional horsepower motors for electric appliances, power tools, business machines, and other products.

Prestige Division
SFZ International Limited
9850 Meilleur Street
Montreal, Quebec, Canada
Principal Products: Crystal chandeliers and other residential and commercial lighting fixtures.

Quikut Division
1100 Napoleon Street
Fremont, Ohio 43420
Principal Products: Stainless steel cutlery and molded plastic household items for the premium and retail markets.

Rembrandt Lamp Division
4500 West Division Street
Chicago, Illinois 60651
Principal Products: Floor, table and swag lamps for residential and commercial use.

S & A Electronics Division
202 West Florence Street
Toledo, Ohio 43605
Principal Products: Television and FM receiver antennas and allied equipment for residential installations.

Scot Laboratories Division
16841 Park Circle Drive
Chagrin Falls, Ohio 44022
Principal Products: Private brand chemical specialties for residential and commercial cleaning and maintenance applications.

Streamway Products Division
835 Sharon Drive
Westlake, Ohio 44145
Principal Products: Plumbing fixtures for the mobile home industry.

Valley Tow-Rite Division
27 East Vine Street
Lodi, California 95240
129 West Mt. Hope Avenue
Lansing, Michigan 48910
Principal Products: Trailer hitch equipment for automobiles, trucks and the rental trailer market.

Virden Lighting Division
6103 Longfellow Avenue
Cleveland, Ohio 44103

Virden Lighting (Canada) Division
SFZ International Limited
19 Curity Avenue
Toronto 16, Ontario, Canada
Principal Products: Ceiling and wall lighting fixtures for residential, commercial and industrial applications.

ELECTRICAL PRODUCTS

Adalet Division
4801 West 150th Street
Cleveland, Ohio 44135
Principal Products: Explosion-proof and weather-proof housings for electrical equipment; switch boxes; commercial lighting fixtures, and other electrical system products for all types of installations.

France Manufacturing Division
875 Bassett Road
Westlake, Ohio 44145
Principal Products: Transformers and ballasts for indoor and outdoor electrical signs; ignition systems for residential and industrial oil and gas furnaces.

The Halex Division
23901 Aurora Road
Bedford Heights, Ohio 44146
Principal Products: Die cast electrical conduit fittings and connectors for residential, commercial and industrial applications.

Ohio Metalsmiths Division
3201 West Lincoln Way
Wooster, Ohio 44691
500 West Gambier Street
Mount Vernon, Ohio 43050
P.O. Box 318
Highway 177 North
Council Grove, Kansas 66846
Principal Products: Sheet metal components for the tele-communications industry.

PLM Products Division
4799 West 150th Street
Cleveland, Ohio 44135
Principal Products: High voltage electrical connecting, splicing and terminating devices.

Stahl Metal Products Division
4750 West 160th Street
Cleveland, Ohio 44135
P.O. Box 220
Hampstead, Maryland 21074
P.O. Box 8
Cardington, Ohio 43315
P.O. Box 70
Eaker Field
Durant, Oklahoma 74701
Principal Products: Truck bodies and associated equipment for public utility service trucks and for other commercial applications.

COMMERCIAL/INDUSTRIAL PRODUCTS

American-Lincoln Division
1100 Haskins Road
Bowling Green, Ohio 43402
Principal Products: Self-powered industrial floor sweepers; electric powered floor scrubbers, sanders, polishers, vacuum cleaners; carpet shampooing and other floor maintenance equipment.

Bedford Gear Division
7160 Krick Industrial Park
Cleveland, Ohio 44146
Principal Products: Precision gears, gear assemblies and related products for commercial and industrial machinery equipment manufacturers.

Kingston Division
1412 North Webster Street
Kokomo, Indiana 46901
Principal Products: Hydraulic equipment, automotive parts, plastic products, and suspension equipment for trucks and buses.

Meriam Instrument Division
10920 Madison Avenue
Cleveland, Ohio 44102
Principal Products: Precision equipment for the measurement of pressure, vacuum and flow of liquids and gases in the chemical, petrochemical and processing industries.

The Scott & Fetzer Company

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