THE SCOTT & FETZER COMPANY

1973 ANNUAL REPORT

S & F

The Scott & Fetzer Company

Directors/Corporate Management

DIRECTORS

JOSEPH T. BAILEY
Chairman and President,
The Warner & Swasey Co.

J. F. BRADLEY
Executive Vice President-Finance

RAYMOND E. CHANNOCK
Corporate Advisor,
Acme-Cleveland Corporation

NILES H. HAMMINK
President and
Chief Executive Officer

JAMES M. HEYNE
Executive Vice President-
Operations

QUIGG LOHR
Senior Executive Vice President

THOMAS W. SMITH
Private Investments

HONORARY DIRECTORS

GEORGE D. FINNIE
Managing Partner,
Wilson, Finnie & Company

C. B. McDONALD
Limited Partner,
McDonald & Company

AUDIT COMMITTEE

THOMAS W. SMITH, Chairman
JOSEPH T. BAILEY
RAYMOND E. CHANNOCK

CORPORATE MANAGEMENT

NILES H. HAMMINK
President and
Chief Executive Officer

QUIGG LOHR
Senior Executive Vice President

J. F. BRADLEY
Executive Vice President-Finance

JAMES M. HEYNE
Executive Vice-President-
Operations

JOHN BEBBINGTON
Group Vice President

WARREN J. BLANKE
Group Vice President

CARL W. GOLDBECK
Group Vice President

ROBERT W. MINETT, JR.
Group Vice President

WALTER A. RAJKI
Group Vice President

KENNETH D. HUGHES
Treasurer and Controller

ROBERT C. WEBER
Secretary and General Counsel

NEIL W. McDANIEL
Director of Marketing –
Recreational and
Automotive Products

CHRIST M. ROUSSEFF
Director – Dek-Electro Group

EXECUTIVE COMMITTEE

NILES H. HAMMINK, Chairman
J. F. BRADLEY
JAMES M. HEYNE
QUIGG LOHR

JOSEPH T. BAILEY
J. F. BRADLEY
JAMES M. HEYNE

NILES H. HAMMINK

RAYMOND E. CHANNOCK
THOMAS W. SMITH
QUIGG LOHR

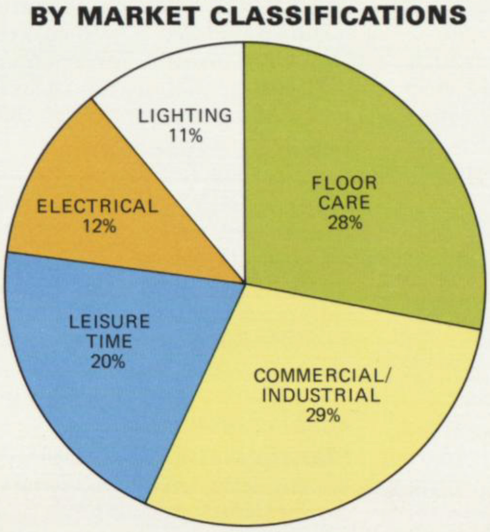
The Scott & Fetzer Company

The Year at a Glance

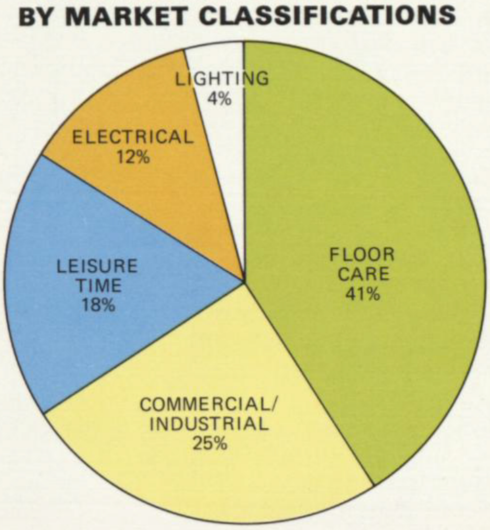
(DOLLAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE DATA)

	1971	1972	1973	Per cent Increase 1973 vs 1972
Net Sales	$188,730	$229,361	**$270,714**	18%
Income Before Taxes	29,722	36,722	**40,064**	9%
Per cent to Sales	15.7%	16.0%	**14.8%**	
Net Income	$ 14,846	$ 18,189	**$ 20,869**	15%
Per cent to Sales	7.9%	7.9%	**7.7%**	
Per cent to Shareholders' Investment	21.2%	22.5%	**22.2%**	
Per Share:				
Earnings	$ 1.97	$ 2.40	**$ 2.76**	15%
Dividends	.80	.83	**1.00**	20%
Book Value	9.24	10.76	**12.44**	16%
Total Assets	$ 95,148	$113,128	**$136,076**	20%
Shares Outstanding (000's)	6,843	7,326	**7,544**	
Number of Shareholders	10,172	8,697	**8,498**	

1973 SALES BY MARKET CLASSIFICATIONS



1973 INCOME BEFORE TAXES BY MARKET CLASSIFICATIONS



Contents

To the Stockholders

NILES H. HAMMINK

1973 marked the twelfth consecutive year of earnings improvement at Scott & Fetzer. Results for 1973 show sales of $270.7 million and earnings per share of $2.76, a compound annual growth in earnings of about 17% over the twelve year period. This growth was accomplished both internally and through an active acquisition/diversification program that began in 1964. During the last ten years, Scott & Fetzer has acquired 33 companies of which three were subsequently sold. Through these acquisitions, we have achieved a diversification of products and markets and have substantially strengthened Scott & Fetzer's growth opportunities. The earnings improvement in 1973 was 94% generated internally, as only two relatively small companies were acquired during the year.

Operating Results

The 1973 sales volume of $270.7 million compares with $229.4 million restated for last year, a growth of 18%. Net income after taxes was $20.9 million, 15% above the $18.2 million restated for 1972. Earnings per share of $2.76 showed a 15% improvement over the restated $2.40 per share last year. The net profit margin, computed on net income as a percentage of sales, was 7.7%, moderately below the 7.9% earned in 1972. Return on shareholders' equity amounted to 22.2% compared with 22.5% in the prior year. Results for 1972 have been restated to include the operations of companies acquired during 1973.

Even though we again achieved a substantial increase in sales volume, we experienced a lower profit margin. As I have pointed out in previous letters, since 1971 Scott & Fetzer has had only minimal price increases despite significantly higher material and labor costs. Under the Phase IV economic controls, we obtained authorization to increase prices in some of our product lines in late November 1973, but these had only a minor impact on our 1973 earnings. Additional price relief granted in December should help our earnings in 1974.

Corporate Diversification

During 1973, we continued to review acquisition candidates that might fit into our diversification program and we acquired two new divisions: Powerwinch/Ja-Son, which manufactures a line of electric winches for boat trailers, windlasses and hoists, and cold forged scissors for home, office, school and shop uses; and Carefree, which manufactures awnings for recreational vehicles. Our acquisition interests are centered on privately-owned companies with sales between $5 and $20 million that meet our profitability criteria and have a proprietry product line which fits into our marketing capabilities in the five major market classifications.

The principal objectives of the acquisition/diversification program that was begun in 1964 have now been largely achieved. In the next few years we plan to place the major emphasis on internal growth in our existing operations and continuing expansion of our international marketing opportunities.

International Developments

Scott & Fetzer's export sales amounted to $7.2 million in 1973 compared with approximately $5.0 million last year. During 1973 we took several steps to increase our participation in the world markets. The Dek-Electro division established a license agreement with a company in Japan to market our photo-identification systems in that country. The Kirby division franchised its first factory distributor in Japan in October 1973 and in November appointed a marketing executive to begin the development of a direct-selling organization for Kirby in Europe. Scott & Fetzer also participated in a new joint venture company in Canada, Clevemont Industries, Ltd., to import and market decorative and novelty bulbs and light fixtures. We expect to see a substantial increase in Scott & Fetzer's international business over the next few years.

Dividends

Our dividend payments amounted to $1.00 per share during 1973 compared with $.83 in the prior year. This was an increase of 20% and the maximum payment allowed under the government's economic controls. Dividend payments for 1973 represented a payout of 36% of our net income after taxes. It is our intention to continue increasing dividend payments to shareholders consistent with the company's earnings growth and the government's economic controls.

Financial Position

At the end of the 1973 fiscal year, Scott & Fetzer had bank loans of $8.1 million compared with $2.1 million at the prior year-end. Our borrowings were higher due to larger inventories required by, and higher receivables arising from, increased sales volume. We also had larger capital expenditures for new facilities and equipment. Our cash flow statement is shown on page 12 and additional facts about Scott & Fetzer's financial position are included in the financial review discussion on pages 6 and 7.

Facilities Expansion

During 1973, we spent $12.8 million for new facilities and equipment. At year-end, we had $8.7 million in authorized projects that will be carried over to 1974. Our current plans call for new project authorizations of $8-$10 million that, together with the 1973 carry-over projects, indicate expenditures in 1974 of possibly $15-$18 million.

Management Promotions

During 1963, we created two new corporate management positions to strengthen our marketing capabilities. Mr. Neil W. McDaniel, previously president of the Valley Tow-Rite division, was named Director of Marketing — Recreational and Automotive Products to coordinate the marketing activities of a number of our divisions in these markets. Mr. Christ M. Rousseff, president and founder of our DEK division, assumed the new position of Director — Dek-Electro Group to coordinate the world-wide marketing programs for our photo-identification systems. Mr. Robert E. Jacobson was promoted to president of the Valley Tow-Rite division succeeding Mr. McDaniel, and Mr. Jack L. Craven, previously president of the Electro-Photo division, was named president of the combined Dek-Electro division.

Other new division presidents named during the year were: Mr. Edward Lenkov, Prestige division, and Mr. James J. Dillon, Rembrandt Lamp division. In January 1974, Mr. Carl W. Goldbeck, formerly president of the Virden Lighting division, was promoted to the position of Group Vice President, and Mr. Albert M. Cherry was named president of Virden succeeding Mr. Goldbeck. Also, Mr. John R. Dorner became president of the Northland Electric Motors division and Mr. Raymond W. Arth was named president of the Streamway Products division. With the exception of Mr. Dillon, these management positions were filled through promotion from within the company.

General

During each year I speak before a number of investment analyst groups around the country and also talk with individual analysts who visit the company. There are several general questions that are usually asked, and I will summarize our responses:

- **What will be the impact of the energy crisis on Scott & Fetzer?**

We have carefully reviewed the possible effects of the energy crisis on our manufacturing operations as far as heat, power and light and materials are concerned and are convinced they will be minimal. At this point in time, it is still difficult to ascertain the effect of the energy crisis on the general economy and on our particular markets. We have excellent product and market diversification and believe that this should have a balancing effect in 1974. Some of our divisions may be somewhat depressed, but many of our product lines are expected to have an excellent year.

- **Will Scott & Fetzer continue to make as many acquisitions as in the past?**

Our major diversification program has been achieved. We do not have any specific corporate objectives regarding the number of acquisitions or a target for a certain sales volume by a particular date. As we look ahead, Scott & Fetzer is only interested in acquisitions that fit our market classifications and supplement our product lines and marketing strategies.

- **What is the future direction of Scott & Fetzer and what kind of a company do you want in the next 5-10 years?**

First, we expect to continue in the foreseeable future along the lines of our past performance. We are working to develop and expand our international businesses and in five years I would hope that these markets would account for 10 to 15% of our total sales.

- **Will Scott & Fetzer require any long-term financing in the next 2-3 years?**

Scott & Fetzer has never had a public financing, either debt or equity. Our growth has been financed by retained earnings, common stock issued for the acquisitions and occasional bank borrowings. We have a substantial cash flow and do not anticipate having to undertake any significant long-term debt. Our current bank borrowings are higher than we like and I hope that we will be able to lower these through reductions during the last half of 1974 in accounts receivable and inventories.

- **Scott & Fetzer is a diversified company with many decentralized divisions. How are you able to control the operating units to prevent unexpected problems?**

As discussed in the 1972 annual report, we rely on frequent and regular personal visits to the divisions by our group vice presidents, as well as by the other corporate officers. We also have, I believe, a good financial control system and are constantly improving it. We have expanded our internal audit group and are strengthening our divisional accounting personnel and control systems. In the final analysis, however, the best way to control operations and prevent adverse surprises is to have superior division presidents. I believe that we have such a group of division leaders and we place major emphasis on helping them and insuring that they have adequate back-up.

- **The growth of the Kirby division has been outstanding in the last three years. Since Kirby is an important part of the company, can they continue this growth rate in the next several years?**

Kirby's sales have about doubled in the last three years for an annual growth rate of around 25%. In the next several years we are not projecting a growth rate that high, although we do expect Kirby to show substantial annual increases. The division has many open market areas in the United States and significant opportunities in Canada in addition to the emerging international markets in Europe, Japan, Australia and Latin America. We expect that the Kirby division will continue to show excellent growth over the foreseeable future.

Outlook

As I mentioned in my letter to shareholders dated December 31, 1973, it is our objective to continue our growth record in 1974. However, I believe it would be imprudent for me to attempt any definitive projection at this time due to the many uncertainties facing the economy. Current indications are that earnings for the first quarter of 1974 will be lower than the 1973 comparable quarter, but I continue to be cautiously optimistic about 1974 overall results. We are planning for growth and are continuing a substantial capital expansion to meet anticipated future customer requirements. I believe that the U. S. economy has great underlying strength and that over the longer term our country can overcome the current energy and economic problems.

We have under preparation a corporate capabilities brochure that will be used for marketing, public information and general corporate purposes. The brochure will include more detailed information about our products and markets. If you would like to receive a copy, please use the enclosed request card. Also, upon written request, we can furnish copies of the Securities and Exchange Commission Form 10-K report which will be available in April 1974.

I would like to express our appreciation for your continuing support during 1973. Also, I want to commend our corporate staff, division presidents and their management teams and employees for their efforts and achievements during the past year.

Niles H. Hammink

Niles H. Hammink
President and Chief Executive Officer

Lakewood, Ohio
February 8, 1974

The Scott & Fetzer Company

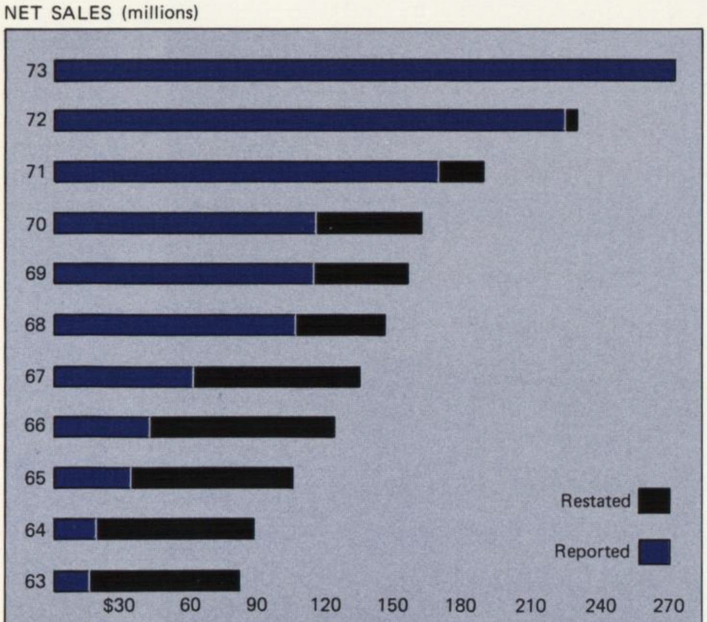
Historical Record, 1963-1973

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE DATA)

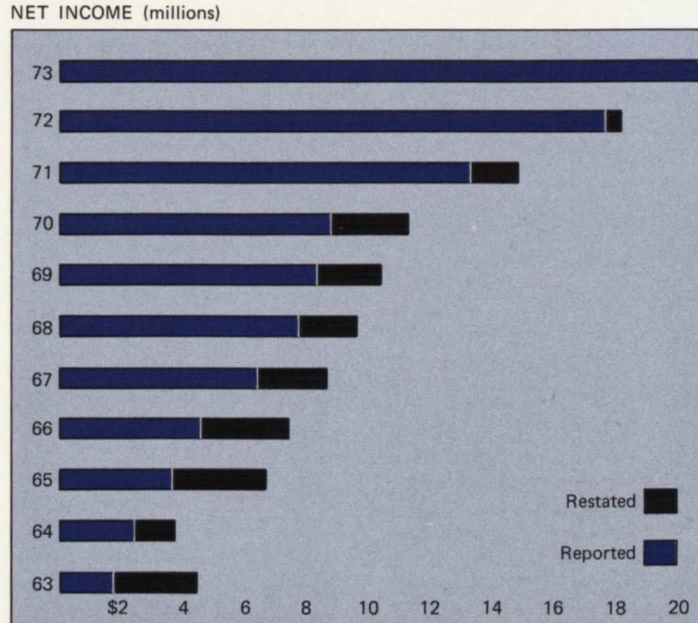
AS REPORTED*	1973	1972	1971	1970
Net Sales	**$270,714**	$223,610	$169,036	$116,368
Income Before Taxes†	**40,064**	35,760	26,734	17,571
Net Income	**20,869**	17,723	13,368	8,864
Cash Dividends	**7,456**	5,886	4,768	4,532
Per cent Payout of Net Income	**35.7**	33.2	35.7	51.1
Earnings Retained and Reinvested	**13,413**	11,837	8,600	4,332
Capital Expenditures	**12,753**	7,941	5,872	3,784
Working Capital	**60,505**	54,581	45,142	34,672
Long Term Debt	**3,334**	3,892	4,635	3,712
Total Assets	**136,076**	110,540	85,742	64,112
Shareholders' Equity	**93,837**	78,836	63,199	47,719
Per cent Return on Shareholders' Equity	**22.2**	22.5	21.2	18.6
Per Share				
Earnings	**2.76**	2.41	1.95	1.56
Dividends	**1.00**	.83	.80	.80
Book Value	**12.44**	10.76	9.24	8.50
Market Price Range††	**44¾-17½**	45¾-26⅛	29⅛-16¾	17¼-10⅛
Price Earnings Ratio††	**11.3**	14.9	11.8	8.8
Year End Data				
Shares Outstanding (000's)	**7,544**	7,326	6,843	5,616
Number Shareholders of Record	**8,498**	8,697	10,172	11,445
Number of Employees	**8,296**	6,917	5,499	4,317
RESULTS RESTATED FOR POOLINGS**				
Net Sales	**$270,714**	$229,361	$188,730	$161,112
Income Before Tax	**40,064**	36,722	29,722	22,527
Per cent to Sales	**14.8**	16.0	15.7	14.0
Net Income	**20,869**	18,189	14,846	11,377
Per cent to Sales	**7.7**	7.9	7.9	7.1
Earnings Per Share	**2.76**	2.40	1.97	1.53

*"As Reported" includes divisions acquired by poolings of interest from year of acquisition.
†Excludes state and local income taxes.
**"Results Restated" includes operations for divisions acquired by poolings of interests for the years prior to the year of acquisition.
††Source: Moody's Investors Service.

NET SALES (millions)

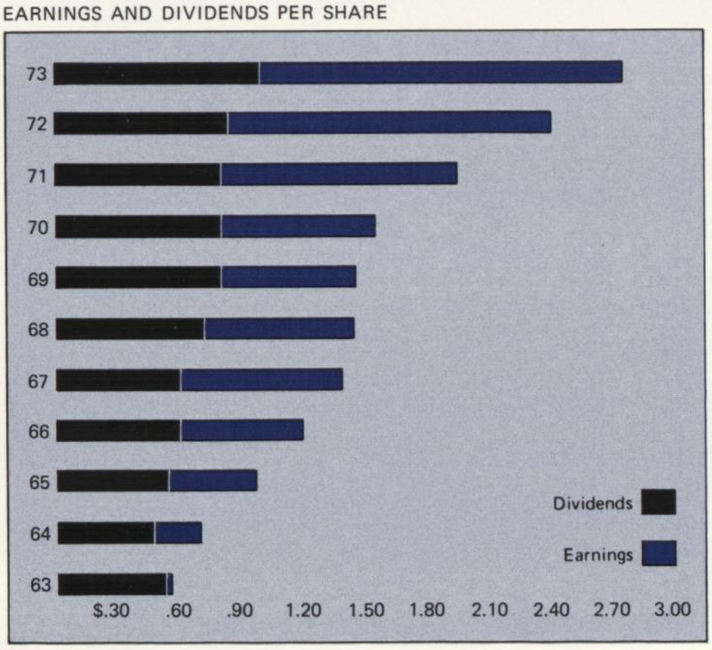


NET INCOME (millions)

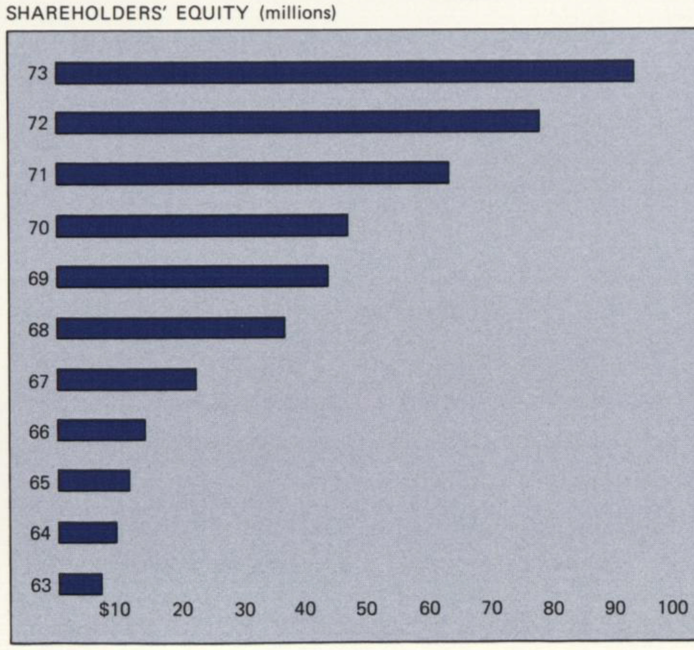


1969	1968	1967	1966	1965	1964	1963
$115,489	$106,295	$ 60,058	$ 41,331	$ 33,350	$ 18,833	$ 15,465
17,076	16,047	11,969	8,734	6,845	4,747	3,604
8,389	7,697	6,300	4,579	3,620	2,435	1,734
4,518	3,500	2,426	2,276	1,919	1,506	1,627
53.9	45.5	38.5	49.7	53.0	61.8	93.8
3,871	4,197	3,874	2,303	1,701	929	107
3,100	1,591	994	610	704	251	80
33,599	29,769	15,879	9,478	8,409	6,745	5,465
4,258	4,781	1,441	1,144	1,050	—	—
60,131	54,497	30,996	21,041	16,282	11,515	8,546
44,485	37,298	22,668	14,518	11,890	9,484	6,965
18.9	20.6	27.8	31.5	30.4	25.7	24.9
1.47	1.46	1.39	1.20	.97	.70	.55
.80	.72	.60	.60	.54	.47	.52
7.83	7.08	5.00	3.81	3.19	2.72	2.20
29⅜-13	32½-24	32¾-10⅜	14½-10	12½-9	10¼-7¾	8⅜-7⅛
14.4	19.3	15.5	10.2	11.1	12.9	14.1
5,679	5,271	4,535	3,811	3,726	3,481	3,159
10,519	9,814	4,750	4,376	4,196	3,753	3,455
4,057	3,982	1,677	1,131	769	410	281
$154,530	$146,721	$134,426	$122,531	$105,069	$ 89,073	$ 83,290
21,072	19,764	16,280	14,117	12,567	6,984	9,104
13.6	13.5	12.1	11.5	12.0	7.8	10.9
10,434	9,662	8,694	7,454	6,688	3,622	4,409
6.8	6.6	6.5	6.1	6.4	4.1	5.3
1.39	1.29	1.16	.99	.89	.48	.59

EARNINGS AND DIVIDENDS PER SHARE



SHAREHOLDERS' EQUITY (millions)



Financial Review

For 1973, consolidated sales were $270.7 million, 18% above last year's restated $229.4 million. Income before taxes amounted to $40.1 million, an increase of 9% over the $36.7 million earned in 1972. These figures are before state and local income taxes which are now included with the provision for federal and Canadian income taxes. This change in the reporting method recognizes the growing amount of these state and local tax liabilities. Net income after all income taxes was $20.9 million, or $2.76 per share, compared with $18.2 million and $2.40 per share for 1972, an improvement of about 15%.

The pre-tax profit margin for 1973 (stated as a percentage of income before taxes to sales) was 14.8% compared with 16.0% in the prior year. The margin decline reflected the substantial cost increases incurred during 1973, particularly in the later months of the year. Since 1971, Scott & Fetzer has had only minimal price increase relief under the government's economic controls. The net profit margin (after income taxes) was 7.7%, moderately below the 7.9% earned last year. Return on shareholders' equity amounted to 22.2% compared with 22.5% in 1972.

Market Classifications

Sales and income before taxes for the five principal market classifications are shown on page 8. Sales were higher in all categories with leisure time and floor care products contributing the greatest increases. The principal earnings growth came in the floor care and commercial/industrial classifications. Earnings in the leisure time markets were only slightly higher in 1973 and the electrical and lighting classifications experienced moderately lower earnings.

Floor care products accounted for 28% of total sales and 41% of earnings. For the year, sales increased 22% and earnings were up 17%. All product lines were ahead of 1972 with the Kirby division contributing most of the growth. The Douglas division's sales of private label vacuum cleaners were up significantly in 1973 and the American-Lincoln division also experienced an excellent increase in demand for its cleaning equipment.

Products in the commercial/industrial classification contributed 29% of sales and 25% of earnings. These product lines had an 11% increase in sales during 1973 and earnings were 13% higher. The most significant contribution to the higher sales and earnings came from the Douglas, Dek-Electro and Campbell-Hausfeld divisions. The Flex-N-Gate, Quikut and Western Enterprises divisions also enjoyed excellent gains. The Humhpreys Leather Goods division had level sales and decreased earnings compared with 1972 due to the noticeable slowdown in consumer buying during the fourth quarter. The Streamway Products division experienced significantly lower results in 1973 as a result of the depressed mobile home industry.

Leisure time markets accounted for 20% of sales and 18% of earnings. For the year, these product lines had an increase in sales of 30% with an earnings improvement of 3%. The most significant sales gain came from the Campbell-Hausfeld division which recorded another record year in demand for its air compressors and paint sprayers. The Valley Tow-Rite, Carefree and Powerwinch/Ja-Son divisions also experienced significant growth in sales of their recreational vehicle and marine products. Results for Lakewood Industries division were below 1972 reflecting soft demand in the high-performance automotive market. The earnings improvement in the leisure time classification was considerably less than the sales growth reflecting substantial cost increases and major new plant start-up expenses at the Campbell-Hausfeld and Valley Tow-Rite divisions.

Sales of electrical products were 12% of total volume and these markets also contributed 12% of earnings. In 1973, sales volume increased 11% while earnings were 5% lower. The higher sales volume reflected substantial gains at the Kingston, France, Halex and Northland Electric Motors divisions. The PLM Products division experienced moderately lower sales as a result of the depressed mining industry.

Lighting products accounted for 11% of sales and 4% of earnings. While sales volume increased 15% over 1972, earnings were down 7%. About one-half of the higher sales volume came from the Atlas Lighting division which was purchased in July 1972 and therefore only five months of its operation were included in 1972. Earnings were affected by significant cost increases and the unprofitable operating results of the Rembrandt Lamp division.

Income Taxes

The 1973 provision for all income taxes, including state and local as shown on page 9, was $19.2 million or 47.9% of income before taxes compared with $18.5 million and 50.5% restated for the prior year. The principal factors causing a lower tax rate in 1973 were increased investment tax credits for the purchase of new machinery and equipment, and higher profits from export operations which were taxed at a lower rate through the use of a "DISC" company. The 1972 provision was increased to provide for deductions taken in prior years that had been disallowed in the tax audit and were being challenged. No such provision was required in 1973.

An analysis of the 1973 provision for income taxes is shown below:

	($000's)
Income before income taxes	$40,064
Less state and local income taxes	1,671
Income before federal and Canadian income taxes	$38,393
Income taxes at 48% statutory rate	$18,429
Deduct tax credits of:	
• Investment tax credit for new machinery and equipment	675
• Export operations through the "DISC" company	125
• Lower tax rate on profits of Canadian operations	42
• Other, net	63
Provision for federal and Canadian taxes	$17,524

The investment tax credit contributed 9 cents to earnings per share compared with 4 cents in 1972. In addition, the tax credit on export profits resulted in a contribution to earnings per share of about 2 cents per share in 1973 versus approximately 1 cent last year.

Financial Position

At year end, total assets were $136.1 million, up from $113.1 million restated for the prior year-end. Working capital (current assets minus current liabilities) increased to $60.5 million from $55.8 million at the end of 1972. The investment required for accounts receivable increased $3.4 million to $33.8 million at year-end. Inventories of $60.3 million were $18 million or 42% above the year earlier level. As shown on page 10, the largest increase was in raw materials as many divisions had to stockpile critical raw materials and purchased parts that were in short supply. These higher working capital requirements were financed primarily by a reduction in cash and securities of $7.3 million and an increase in bank borrowings of $6 million and higher other current liabilities of $3.7 million. Due to the significantly higher requirements for inventories that prevailed during 1973, the company had to use larger bank borrowings than a year ago.

Long term debt at November 30, 1973, amounted to $3.3 million, compared with $4.1 million a year earlier. Shareholders' equity totaled $93.8 million, up $13.5 million or 17% from the year earlier level of $80.3 million, and provided 95% of total long-term capital compared with 94% for 1972. Book value per common share for 1973 was $12.44, up 17% from $10.65 per share last year.

Revised Quarterly Data

The table below shows the results by quarters for 1972 and 1973 restated for acquisitions made subsequent to the periods and accounted for as poolings of interests. In addition, income before taxes has been revised to exclude state and local income taxes which are now included in the provision for income taxes. The provision for taxes now includes, on a quarterly basis, the investment tax credit which had previously been deducted from the tax provision only at year-end. These changes reflect current trends in financial reporting practices.

(dollar amounts in thousands except per share data)

	Quarters			
	First	Second	Third	Fourth
SALES				
1972	$49,967	$60,102	$58,212	$61,080
1973	60,522	73,819	68,682	67,691
INCOME BEFORE TAXES				
1972	7,010	9,056	9,552	11,104
1973	8,294	11,459	10,714	9,597
NET INCOME				
1972	3,519	4,612	4,802	5,256
1973	4,231	5,863	5,637	5,138
EARNINGS PER SHARE				
1972	.46	.61	.63	.70
1973	.56	.77	.75	.68

Sales and Income Before Taxes by Market Classes

	FLOOR CARE PRODUCTS		COMMERCIAL/ INDUSTRIAL PRODUCTS		LEISURE TIME PRODUCTS		ELECTRICAL PRODUCTS		LIGHTING PRODUCTS	
	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent
SALES										
1973	$75,303	28%	$77,032	29%	$54,745	20%	$33,016	12%	$30,618	11%
1972*	61,700	27%	69,221	30%	42,113	18%	29,764	13%	26,563	12%
Percentage Increase (Decrease)	22%		11%		30%		11%		15%	
INCOME BEFORE TAXES†										
1973	$16,620	41%	$10,104	25%	$ 7,043	18%	$ 4,607	12%	$ 1,690	4%
1972*	14,240	39%	8,980	24%	6,833	19%	4,847	13%	1,822	5%
Percentage Increase (Decrease)	17%		13%		3%		(5%)		(7%)	
1973 BY QUARTER*										
SALES										
First	$16,198		$17,274		$11,305		$ 8,335		$ 7,410	
Second	19,606		19,396		17,944		8,834		8,039	
Third	17,686		20,695		14,993		7,856		7,452	
Fourth	21,813		19,667		10,503		7,991		7,717	
INCOME BEFORE TAXES†										
First	$ 3,543		$ 1,847		$ 1,380		$ 1,120		$ 404	
Second	4,311		2,432		3,083		1,225		408	
Third	3,912		2,826		2,412		1,085		479	
Fourth	4,854		2,999		168		1,177		399	

*Restated to include companies acquired subsequent to the period and accounted for as poolings of interests.
†Excludes state and local income taxes.

The Scott & Fetzer Company and Subsidiary Companies

Statement of Income and Retained Earnings

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT PER SHARE DATA)

	Year Ended November 30		
	1973	1972 (Note 1)	1972 (Annual Report)
NET SALES	$270,714	$229,361	$223,610
Cost of goods sold	196,589	163,318	159,837
Gross profit	74,125	66,043	63,773
Selling, general and administrative expenses	34,440	29,955	28,611
Operating profit	39,685	36,088	35,162
Other income (deductions)			
Interest expense	(650)	(533)	(503)
Interest income	429	399	387
Licenses and royalties	359	153	153
Other income (expense) net	241	615	561
	379	634	598
Income before provision for income taxes	40,064	36,722	35,760
Provision for income taxes			
State and local	1,671	1,538	1,477
Federal and Canadian			
Current	17,115	16,867	16,432
Deferred	409	128	128
	19,195	18,533	18,037
NET INCOME	20,869	18,189	$ 17,723
Retained earnings, beginning of year	65,447	53,144	
	86,316	71,333	
Cash dividends per share:			
1973 – $1.00 1972 – $.83	7,456	5,886	
Retained earnings, end of year	$ 78,860	$ 65,447	
PER SHARE			
Earnings per common and common equivalent share	$ 2.76	$ 2.40	$ 2.41
Dividends	$ 1.00	$ .83	$ .83
Average number of common and common equivalent shares (000's)	7,571	7,563	7,353

The accompanying Notes to Financial Statements and Summary of Accounting Policies are an integral part of these financial statements.

The Scott & Fetzer Company and Subsidiary Companies

Consolidated Balance Sheet

(DOLLAR AMOUNTS IN THOUSANDS)

ASSETS

	November 30 1973	November 30 1972 (Note 1)
CURRENT ASSETS:		
Cash and certificates of deposit	$ 1,095	$ 1,801
Marketable investments, at cost, market quotations 1973 – $257 1972 – $6,811	268	6,817
Trade receivables, less allowance for doubtful accounts 1973 – $758 1972 – $1,014	33,824	30,466
Other receivables	562	524
Inventories, at the lower of cost (first-in, first-out) or market:		
Raw material and supplies	27,850	16,816
Work in process	14,310	10,760
Finished goods	18,188	14,818
	60,348	42,394
Prepaid expenses	1,814	1,544
TOTAL CURRENT ASSETS	97,911	83,546
PROPERTY, PLANT AND EQUIPMENT – at cost:		
Land and land improvements	1,575	1,423
Buildings	12,102	11,649
Machinery and equipment	42,514	31,876
	56,191	44,948
Allowance for depreciation	21,016	18,717
TOTAL PROPERTY, PLANT AND EQUIPMENT, net	35,175	26,231
INTANGIBLE ASSETS ARISING FROM ACQUISITIONS	2,235	2,264
OTHER ASSETS	755	1,087
	$136,076	$113,128

The accompanying Notes to Financial Statements and Summary of Accounting Policies are an integral part of these financial statements.

LIABILITIES

	November 30	
	1973	1972 (Note 1)
CURRENT LIABILITIES:		
Notes payable, banks	$ 8,095	$ 2,143
Current portion of long-term debt (Note 2)	601	593
Accounts payable, trade	12,929	9,630
Accounts payable, other	1,674	822
Federal and Canadian income taxes	3,757	5,989
Accrued taxes, other	2,561	2,279
Accrued liabilities for payroll, pension funds, commissions, interest and other	7,789	6,292
TOTAL CURRENT LIABILITIES	37,406	27,748
LONG-TERM DEBT (Note 2)	3,334	4,091
DEFERRED INCOME TAXES	1,499	1,001
TOTAL LIABILITIES	42,239	32,840

SHAREHOLDERS' EQUITY

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 4 and 7)		
Stated value of issued shares $1.25 per share		
1973 – 7,558,185 less 14,436 in treasury		
1972 – 7,558,185 less 22,186 in treasury	9,429	9,420
ADDITIONAL CAPITAL (Note 7)	5,548	5,421
RETAINED EARNINGS (Note 2)	78,860	65,447
TOTAL SHAREHOLDERS' EQUITY	93,837	80,288
	$136,076	$113,128

Statement of Changes in Financial Position

(DOLLAR AMOUNTS IN THOUSANDS)

	November 30 1973	November 30 1972 (Note 1)
SOURCE OF FUNDS		
From operations:		
Net income	$ 20,869	$ 18,189
Depreciation and amortization	3,283	2,921
Deferred federal income taxes	498	231
Total from operations	24,650	21,341
Sale of common stock under stock options	136	440
Disposal of fixed assets	556	1,492
Construction trust funds used to purchase fixed assets	286	320
Other, net increase (decrease)	45	(128)
	25,673	23,465
APPLICATION OF FUNDS		
Cash dividends	7,456	5,886
Additions to property, plant and equipment	12,753	7,996
Decrease in long-term debt	757	1,439
Intangibles acquired from acquisitions	—	1,034
	20,966	16,355
INCREASE IN WORKING CAPITAL	$ 4,707	$ 7,110
INCREASE (DECREASE) IN COMPONENTS OF WORKING CAPITAL		
Current assets:		
Cash and certificates of deposit	$ (706)	$ (1,626)
Marketable investments	(6,549)	1,357
Trade and other receivables	3,396	5,978
Inventories	17,954	7,506
Prepaid expenses	270	166
	14,365	13,381
Current liabilities:		
Notes and current portion of long-term debt	5,960	611
Trade and other payables	4,151	2,662
Accrued liabilities, including taxes	(453)	2,998
	9,658	6,271
INCREASE IN WORKING CAPITAL	$ 4,707	$ 7,110

The accompanying Notes to Financial Statements and Summary of Accounting Policies are an integral part of these financial statements.

Notes to Financial Statements

1. Acquisitions in 1973

Business combinations accounted for as poolings of interests in 1973 included Carefree Corporation and Ninety-Niner Corporation (recreational vehicle awnings) and Powerwinch Corporation and John Ahlbin and Sons, Incorporated (electric power winches and scissors, respectively). Common stock issued in the above mergers aggregated 210,019 shares.

A reconciliation of sales and net income before and after poolings of interests follows (dollars in thousands):

	1973	1972
Sales — Before 1973 Poolings	$261,104	$223,610
1973 Poolings — Before date of combination	5,544	5,751
— After date of combination	4,066	
TOTAL	$270,714	$229,361
Net Income — Before 1973 Poolings	$ 20,113	$ 17,723
1973 Poolings — Before date of combination	342	466
— After date of combination	414	
TOTAL	$ 20,869	$ 18,189

The column in the Statement of Income and Retained Earnings entitled "1972 Annual Report" sets forth the operations of the Company as shown by its 1972 report.

2. Long-Term Liabilities

Long-term debt at November 30, 1973 is as follows (dollars in thousands):

	Current	Non-current
Bank loan 6%, maturity to 1974	$150	$
Mortgage notes, 5½% to 8%, maturities to 1982	93	647
Insurance company loan, 6%, maturities to 1980	200	1,700
Obligations under Lease/Purchase Agreements, 4¼% to 8%, maturities to 1988	132	961
Other	26	26
	$601	$3,334

The 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 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 $33,335,685 at November 30, 1973.

The mortgage notes require aggregate monthly payments of $12,467 including interest.

The insurance company loan is payable in annual installments of $200,000 on December 31, 1973 and 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 1974-1976, $160,000 for 1977-1979, $100,000 for 1980 and 1981 and $10,000 for 1982-1988. Annual rentals during the terms of the leases are in amounts sufficient to meet the interest and debt retirement requirements of the related Industrial Revenue Bond issues.

The Company has the right to acquire the assets (under certain conditions and at times specified) at amounts stipulated in the agreements, which generally are 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.

3. Long-Term Leases

For leased facilities not reflected on the balance sheet, the approximate minimum annual rentals under noncancelable leases with terms of more than one year, as of November 30, 1973, amount to the following (thousands of dollars):

Notes to Financial Statements

Years ending November 30,	All Leases: Land and Buildings	All Leases: Machinery and Equipment	All Leases: Total	Total for Financing Leases
1974	$ 1,977	$ 522	$ 2,499	$ 1,326
1975	1,687	319	2,006	1,212
1976	1,576	138	1,714	1,049
1977	1,479	20	1,499	981
1978	1,270	7	1,277	922
1979-1983	4,899	—	4,899	4,013
1984-1988	3,387	—	3,387	2,874
1989-1993	393	—	393	347
After 1993	—	—	—	—
Total rental commitments	$16,668	$1,006	$17.674	$12,724

The present values of the minimum lease commitments for all non-capitalized financing leases as of November 30, 1973, are as follows:

Land and buildings	$8,432,000
Machinery and equipment	651,000
Total	$9,083,000

The above present values were determined using the effective dates of the leases and the interest rates specified in such leases or in effect on such dates. Interest rates used ranged from 4.25% to 10.0% and averaged 5.7%. If all financing leases were capitalized and amortized over the terms of the leases and interest at the foregoing rates were expensed, the effect on income would be immaterial compared with the rent expense of such leases.

Total rent charged to expense for the years ended November 30, 1973 and 1972 amounted to $2,597,000 and $2,590,000, respectively, of which $1,180,000 and $921,000, respectively, were applicable to financing lease rentals.

4. Stock Options

At November 30, 1973, 138,535 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, 1973

Granted:	Option Price	Balance Nov. 30, 1972	Granted	Exercised	Terminated	Balance Nov. 30, 1973
December 16, 1968	$29.875	18,300	—	1,000	—	17,300
December 17, 1969	13.50	12,500	—	3,250	750	8,500
December 15, 1970	14.75	40,825	—	2,875	1,400	36,550*
January 28, 1972	32.50	23,000	—	625	1,000	21,375
January 26, 1973	41.50	—	67,350	—	500	66,850
		94,625	67,350	7,750	3,650	150,575

*The exercise of 17,300 of the December 15, 1970 options is contingent upon the exercise or lapsing of certain options previously granted.

On March 20, 1973, the stockholders approved the adoption of the 1973 Stock Option Plan which provides for the granting of either qualified or non-qualified options at prices not less than market value at the date of grant. No options were granted during 1973 under this new stock option plan, but 350,000 shares of common stock were reserved for issuance under the plan.

5. 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 $1,907,000, 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 1972 was $1,598,000. 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 $2,178,000 at November 30, 1973.

6. Contingent Liabilities

Any liability that may result from lawsuits and other claims pending against the Company and its subsidiaries as of November 30, 1973 will not be material in the opinion of management of the Company.

7. Capital Stock

Changes in the common stock and additional capital accounts during the two years ended November 30, 1973 (showing balance as of November 30, 1971 restated for 1972 and 1973 poolings) were as follows (dollars in thousands):

	Common Stock			
	Treasury Shares	Issued Shares	Stated Value	Additional Capital
Balance, November 30, 1971, restated	(49,826)	7,558,185	$9,385	$5,016
Sale of stock under options	27,640	—	35	405
Balance, November 30, 1972	(22,186)	7,558,185	9,420	5,421
Sale of stock under options	7,750	—	9	127
Balance, November 30, 1973	(14,436)	7,558,185	$9,429	$5,548

8. Subsequent Events

In December, 1973, and January, 1974, additional short-term borrowings of $5,000,000 were made. The loan agreements (see Note 2) have been amended to permit borrowings from other banks or other lending institutions to a total of $25,000,000.

Summary of Accounting Policies

The following is a summary of certain significant accounting policies followed in the preparation of these financial statements. The policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

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 or market, whichever is lower, cost being determined principally on the first-in, first-out method, market being determined at net realizable value for in process and finished goods and at replacement cost for raw material. 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, and amounts assigned to intangibles after 1970 are being amortized on a straight line basis over a 40-year period.

LEISURE TIME PRODUCTS

Air compressors and paint spray equipment for the home and farm; hitching and towing equipment and awnings for recreational vehicles; safety equipment for the automotive and high performance markets; electric power winches and hoists for boats and trailers.

Campbell-Hausfeld Division*
801 Production Drive
Harrison, Ohio 45030

Carefree Division
2760 Industrial Mall
Broomfield, Colorado 80020

Lakewood Industries Division
4800 Briar Road
Cleveland, Ohio 44135

Powerwinch/Ja-son Division
184 Garden Street
Bridgeport, Connecticut 06605

Valley Tow-Rite Division
27 E. Vine Street
Lodi, California 95240

P. O. Box 444
Shelbyville, Kentucky 40065

129 W. Mt. Hope Avenue
Lansing, Michigan 48910

19 Bertrand Avenue
Scarborough, Ontario, Canada

ELECTRICAL PRODUCTS

Fractional horsepower motors; fittings, transformers, ballasts, furnace ignition systems; timers for automatic laundry equipment; high voltage cable fittings and couplers; explosion-proof housings; conduit fittings; television antennas.

Adalet Division
4801 W. 150th Street
Cleveland, Ohio 44135

Douglas Division*
141 Railroad Street
Bronson, Michigan 49028

France Manufacturing Division
875 Bassett Road
Westlake, Ohio 44145

The Halex Division
23901 Aurora Road
Bedford Heights, Ohio 44146

Kingston Division*
Miller Road
Smithville, Tennessee 37166

Northland Electric Motors Division*
968 Bradley Street
Watertown, New York 13601

PLM Products Division
4799 W. 150th Street
Cleveland, Ohio 44135

S & A Electronics Division
202 W. Florence Street
Toledo, Ohio 43605

LIGHTING PRODUCTS

Ceiling and wall fixtures for residential, commercial and industrial applications; table, floor and swag lamps; crystal chandeliers.

Atlas Lighting Division
20200 S. Normandie Avenue
Torrance, California 90503

Prestige Division
SFZ International Limited
9100 Ray Lawson Boulevard
Ville d'Anjou
Montreal 438, Quebec, Canada

Rembrandt Lamp Division
4500 W. Division Street
Chicago, Illinois 60651

Virden Lighting Division
6103 Longfellow Avenue
Cleveland, Ohio 44103

Virden Lighting (Canada) Division
SFZ International Limited
19 Curity Avenue
Toronto 16, Ontario, Canada

The Scott & Fetzer Company

Divisions by Market Classes

FLOOR CARE PRODUCTS

Vacuum cleaners and other floor maintenance equipment and supplies for residential, industrial and institutional use.

American-Lincoln Division
1100 Haskins Road
Bowling Green, Ohio 43402

Cleveland Wood Products Division
3881 W. 150th Street
Cleveland, Ohio 44111

Douglas Division*
Airport Road
Walnut Ridge, Arkansas 72476

The Kirby Company Division
1920 W. 114th Street
Cleveland, Ohio 44102

N. Main Road
Andrews, Texas 79714

Northland Electric Motors Division*
968 Bradley Street
Watertown, New York 13601

Scot Laboratories Division
16841 Park Circle Drive
Chagrin Falls, Ohio 44022

COMMERCIAL/INDUSTRIAL PRODUCTS

Water system fixtures for mobile homes and other plumbing applications; compressed gas connectors and fittings; utility truck bodies; truck bumpers; hydraulic valves; steering column components for trucks and off-the-road equipment; telephone exchange metal mounting frames; air compressors, spray equipment, and foundry products; household cutlery; plastic food containers; color photo identification systems; manometric measuring instruments; leather belts and accessory products; cold forged scissors for the home, school and office.

Campbell-Hausfeld Division*
801 Production Drive
Harrison, Ohio 45030

Cardinal Plastics Division
815 E. Tallmadge Avenue
Akron, Ohio 44310

Dek-Electro Division
1430 Progress Road
Fort Wayne, Indiana 46808

173 Freedom Avenue
Anaheim, California 92801

Douglas Division*
141 Railroad Street
Bronson, Michigan 49028

Flex-N-Gate Division
1306 E. University Avenue
Urbana, Illinois 61801

Humphreys Leather Goods Division
1301 W. 35th Street
Chicago, Illinois 60609

Kingston Division*
1412 N. Webster Street
Kokomo, Indiana 46901

Meriam Instrument Division
10920 Madison Avenue
Cleveland, Ohio 44102

Metalsmiths Division
3201 W. Lincoln Way
Wooster, Ohio 44691

P. O. Box 318
Highway 177 North
Council Grove, Kansas 66846

Powerwinch/Ja-Son Division*
184 Garden Street
Bridgeport, Connecticut 06605

Quikut Division
1100 Napoleon Street
Fremont, Ohio 43420

Stahl Metal Products Division
4750 W. 160th Street
Cleveland, Ohio 44135

P. O. Box 8
Cardington, Ohio 43315

P. O. Box 70
Eaker Field
Durant, Oklahoma 74701

Streamway Products Division
835 Sharon Drive
Westlake, Ohio 44145

Western Enterprises Division
33672 Pin Oak Parkway
Avon Lake, Ohio 44012

*Under more than one Market Classification

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.

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, 1973 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, 1972.

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, 1973 and 1972, 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.

Coopers & Lybrand

Coopers & Lybrand

Cleveland, Ohio
January 29, 1974

The Scott & Fetzer Company

ANNUAL MEETING

The annual meeting of shareholders will be held on Tuesday, March 19, 1974, at 10:30 a.m., EDT, at the Lakewood City Hall Auditorium, 12650 Detroit Avenue, Lakewood, Ohio.

CORPORATE OFFICE

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

TRANSFER AGENTS

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

The Chase Manhattan Bank, N. A.
1 Chase Manhattan Plaza
New York, New York 10015

REGISTRARS

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

The Chase Manhattan Bank, N. A.
1 Chase Manhattan Plaza
New York, New York 10015

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.

Lakewood Center North, a 15-story office building now being constructed in Lakewood, Ohio. Scott & Fetzer will move its corporate office to the 15th floor of this new building upon its completion this spring. The new address will be 14600 Detroit Avenue, Lakewood, Ohio 44107.

THE SCOTT & FETZER COMPANY
14701 DETROIT AVENUE
LAKEWOOD, OHIO 44107

BULK RATE
U.S. Postage
Paid
Cleveland, Ohio 44103
Permit No. 2413