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The Scott & Fetzer Company 1974 Annual Report

"It continues to be our principal objective to achieve consistent and profitable annual growth and . . . a more profitable investment for the shareholders."

Miles H. Hammink

"Real growth will be more difficult to achieve in 1975, but we are aggressively pursuing marketing and management policies which should enable us to get a greater share of our present markets."

Ralph Schey

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The Scott & Fetzer Company

CORPORATE OFFICE
14600 Detroit Avenue
Lakewood, Ohio 44107
Telephone: area 216/228-6200

ANNUAL MEETING
The annual meeting of shareholders will be held on Tuesday, March 18, 1975, at 10:30 a.m., EDT, at the Lakewood City Hall Auditorium, 12650 Detroit Avenue, Lakewood, Ohio.

FORM 10-K REPORT
Copies of Scott & Fetzer's Form 10-K report, filed with the Securities and Exchange Commission, are available without charge upon written request to the Secretary of the company.

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
800 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.

The Year at a Glance

(Dollar Amounts in Thousands Except Per Share Data)

	1972	1973	1974	Per cent Change 1974 vs 1973
Net Sales	$229,361	$270,714	$291,258	8%
Income Before Taxes	36,722	40,064	25,931	(35)%
Per cent to Sales	16.0%	14.8%	8.9%	
Net Income	$ 18,189	$ 20,869	$ 13,696	(34)%
Per cent to Sales	7.9%	7.7%	4.7%	
Per cent to Shareholders' Investment	22.7%	22.2%	13.7%	
Per Share:				
Earnings	$ 2.40	$ 2.76	$ 1.81	(34)%
Dividends	.83	1.00	1.00	
Book Value	10.65	12.44	13.25	7%
Total Assets	$113,128	$136,076	$162,729	20%
Shares Outstanding (000's)	7,536	7,544	7,555	
Number of Shareholders	8,697	8,498	9,896	

Common Stock Market Price and Dividend Information

	Market Price of Common Shares †				Dividends Per Share	
	1973		1974			
Fiscal Quarter	High	Low	High	Low	1973	1974
First	$44¾	$36¼	$25⅝	$16¼	$.21	$.25
Second	40¼	27½	21½	15½	.22	.25
Third	35⅞	24⅝	17¾	10	.32*	.25
Fourth	38	24⅛	11	8⅜	.25	.25

*Including special extra dividend of 7 cents per share.

†Source: Moody's Investors Service.

To the Stockholders

"1974 was a year of abnormal economic events which adversely affected many sectors of the economy, particularly in the consumer markets. These trends affected The Scott & Fetzer Company's earnings and unfortunately broke the sequence of our record of twelve consecutive years of improved earnings per share. Although our sales volume was higher than the preceding year, earnings declined as a result of several factors. During the first five months of the year, we were limited in raising our selling prices by the government's economic controls. In June, we experienced labor strikes at two of our divisions which had a significant impact on the results of those divisions. Tight money and high interest rates adversely affected the unit sales of our Kirby division as the independent distributors encountered difficulties in financing the consumer installment loan contracts. The high interest rates also drastically increased Scott & Fetzer's interest costs on outstanding bank loans.

Niles H. Hammink

Ralph Schey

After much deliberation, we decided to change from the first-in, first-out (FIFO) method to the last-in, first-out (LIFO) method of valuing 61% of our inventories. This is a more conservative accounting policy since it more nearly matches current purchasing and manufacturing costs with current selling prices. This method of valuation reduced inventory profits, and increased our cash position by $3.9 million through the deferral of income tax payments. Note 1, page 18, discusses this accounting change and its impact on our results.

Considering the turbulent economy that existed in 1974, we believe that most of our divisions performed exceptionally well. A more detailed analysis of our operating results is included in the financial review on pages 10 and 11.

RESULTS OF OPERATIONS

Consolidated sales volume for 1974 was $291.3 million compared with $270.7 million in 1973, an increase of 8%. Net income after taxes and provisions for LIFO declined to $13.7 million or $1.81 per share from $20.9 million or $2.76 per share in 1973. The change to LIFO accounting reduced earnings by $4.2 million or 56 cents per share. The net profit margin, computed on net income as a percentage of sales, was 4.7% compared with 7.7% in 1973. Our return on shareholders' equity was 13.7%, down from 22.2% last year.

FINANCIAL POSITION

At November 30, 1974, we had bank loans of $24.6 million (under the revolving credit agreement) compared with $8.1 million at the end of 1973. The substantially higher level of borrowings was required primarily to finance the increased inventories and customer receivables. At year end, our cash and securities amounted to $5.1 million as compared with $1.1 million a year ago. The higher cash position reflected a decrease in receivables in November and the bank balances required to be maintained under the revolving credit agreement. Our financial position continues strong and we expect to reduce bank loans during 1975. Scott & Fetzer's flow of funds in greater detail for 1974 is shown on the Statement of Changes in Financial Position, page 17.

CAPITAL EXPENDITURES

The major program of capital expenditures for new property, plant and equipment, begun in 1972, continued during 1974. Including carryover projects from 1973, we invested $12.5 million during the year. For the three years 1972-1974, Scott & Fetzer has invested $33.2 million for new facilities, automation, expansion and cost reduction. As a result, we are in an excellent position and have adequate capacity for projected requirements over the next several years. In 1975, we plan a reduction in expenditures to approximately $6 million with prime emphasis on immediate cost reduction projects. Except in one or two special circumstances, we do not believe that the projected business climate in the immediate future justifies any further expansion in capacity.

EMPLOYEE RELATIONS

In general, over the past years, Scott & Fetzer's relations with employee union organizations have been excellent. During 1973, we negotiated 13 separate labor agreements on satisfactory terms. In 1974, we had five agreements to negotiate and two of these — at our Campbell-Hausfeld and American-Lincoln divisions —

unfortunately involved work stoppages which had a serious adverse impact on earnings. In 1975, we have five contracts due for renegotiation.

ACQUISITION PROGRAM

During 1974, we made only one small acquisition which was the purchase for cash of The Howard Engineering Company. Howard manufactures a mechanical winch for boat trailers and industrial uses which supplements our existing products in the leisure time and allied markets.

We continue to examine companies which meet our criteria of compatible products and marketing that fit into our five market classifications. Stock market conditions during 1974 were not favorable to the consummation of acceptable agreements; however, when economic conditions become more stable, we hope to reactivate our acquisition program.

DIVIDENDS

Dividend payments in 1974 totaled $1.00 per share, the same as in the prior year. It is our objective to pay out a reasonable portion of the company's earnings in dividends. Your directors believe that an acceptable corporate dividend policy must reflect a long-term commitment to a stable and increasing return to the equity holders of the company, provided that sufficient cash flow and earnings are available.

GENERAL

In communications with shareholders as well as members of the financial community, we are regularly asked a number of questions about Scott & Fetzer's management philosophy, operating plans and business trends. On pages 4-7, some of these more general subjects are discussed in an interview mode. If you have specific questions or wish additional information about the company, we would be happy to hear from you. As was the case last year, we are making available, upon written request, a copy of our Form 10-K report to the Securities and Exchange Commission. This detailed annual report to the SEC will be available in April.

OUTLOOK

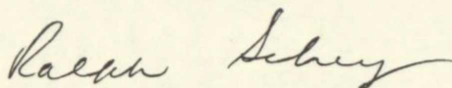
It has been many years since we have entered a year with more external business uncertainties and negative factors than 1975. It continues to be our principal and central objective to achieve consistent and profitable annual growth and, in turn, a more profitable investment for the shareholders.

Real growth will be more difficult to achieve in 1975, but we are aggressively pursuing marketing and management policies which should enable us to get a greater share of our existing markets. In addition, we have initiated, during the past three months, austerity programs throughout the company in order to maintain and improve profit margins.

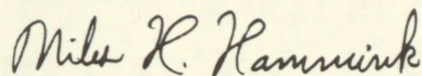
While we are not negative over the longer term, we believe that a good part of 1975 will involve adverse business conditions and that a company must react quickly to these economic trends. It appears that the recession we are going through may moderate by midyear which should have a very positive effect on business conditions and the investment climate.

Since the economy will be depressed during early 1975, Scott & Fetzer will have reduced earnings during the first two quarters when compared with 1974. At this point we cannot project with any degree of certainty our earnings level for the year. As 1975 progresses, we will continue to keep you apprised of our thoughts regarding the year's results.

We wish to express our appreciation for your continuing support during 1974 and to welcome the many new shareholders. We also want to acknowledge the efforts of the division management teams and employees as well as the corporate staff for their contributions.



RALPH SCHEY
President and
Chief Operating Officer



NILES H. HAMMINK
Chairman and
Chief Executive Officer

Lakewood, Ohio
February 12, 1975

Dialog with Management*

QUESTION. Ralph Schey has recently joined Scott & Fetzer as president and chief operating officer. Does this change portend any restructuring in how the company will operate?

Niles H. Hammink

"Mr. Hammink — As the chief operating officer, Mr. Schey will be in charge of day-to-day operations, while I will concentrate on corporate policy matters and long-range planning. We are not contemplating any other changes, since we have always operated with a minimum corporate staff. We might let Mr. Schey comment on how we operate.

Mr. Schey — I believe in the type of decentralized operating management that Scott & Fetzer has always used. Our corporate staff should be small but highly competent to function as business and financial advisors to the operating divisions. At the corporate level, we should have two general roles. First, we must provide advice and counsel to the divisions, much as a banker does to an independent company. Our second role is that of an involved board of directors with intensive knowledge of each division's operations. It is our job to insure that our division management teams perform as good, competent managers."

QUESTION. There has been concern expressed over the last few years regarding Scott & Fetzer's ability to manage its large number of acquisitions. After a year like 1974, with its abnormal outside pressures, do you feel that your management systems and controls have been adequate?

"Mr. Hammink — While our relatively large number of divisions is administratively more difficult to manage, the offshoot of this is that there is far greater corporate management visibility of the operations of these smaller divisions. Also, having more smaller units allows us to maintain and enhance the entrepreneurial spirit and flair of our division presidents. If we combined them into a number of larger units, many would lose their individuality.

Mr. Schey—I would re-emphasize this, because I think it is very critical. The problem is not how many divisions you have, it's the quality of the management in each one that is important. When I was in the venture capital business, spending part of my time in a company, one of the things frequently discussed was "how many companies can you watch?" If you had six companies which were running well, you could watch them without any difficulty. But if there were two in trouble, you wouldn't have enough hours in the week. So it really comes back to the quality of the management in the individual enterprise. This is much more important than the number of divisions."

QUESTION. During 1974, the residential construction market was very depressed. Since some of your divisions are involved with this industry, how were your 1974 results affected?

Ralph Schey

"In the new-housing area, our lighting divisions have suffered along with the industry. In recent years, however, we have emphasized products and marketing strategies that enabled us to increase our penetration in the redecorating market, which has become very substantial. This strength has helped us to lessen the impact of major swings in new-home construction. Recently, probably only 50-60% of our lighting sales go to the new home area."

QUESTION. What is the current situation with your Rembrandt Lamp division?

**Messrs. Niles H. Hammink, chairman of the board and chief executive officer; Ralph Schey, president and chief operating officer; Quigg Lohr, senior executive vice president; J. F. Bradley, executive vice president — finance; James M. Heyne, executive vice president — operations.*

We have installed a new management team which has solved many of our past production problems. With the elimination of price controls, Rembrandt has turned around and was profitable in the last four months of 1974. Currently, its customer demand is relatively weak, and it will take several months for us to determine how Rembrandt will do in 1975.

QUESTION. Kirby is your largest division and it suffered a downturn in 1974. After several years of substantial growth, what were the reasons for this setback, and what are the current problems at Kirby?

The downturn at Kirby in 1974 can be analyzed with practically one answer — the problem of financing consumer installment paper due to tight money and high interest rates. This has created difficulties for our independent Kirby distributors, who discount their installment paper with finance companies and banks. This situation has continued into 1975, although we expect to see some improvement with the general lowering of interest rates.

Niles H. Hammink

QUESTION. Could Kirby show an improvement in 1975 even though the weak general economy could affect other Scott & Fetzer divisions?

There are some favorable factors. We have more Kirby distributors and area distributors than at any time in the past. There is also a greater availability of sales personnel. Based on our historical experience in the direct selling business, all of the factors are there to make 1975 a good year for Kirby — providing the financing becomes more available. However, we are facing an unusually severe economic downturn with a very low level of consumer confidence. It appears likely that our sales will continue to run below the year-ago rate for the first few months.

QUESTION. One more question on Kirby. In 1974, you entered the international market. How has this worked out?

Our distributor in Japan has shown excellent progress because he has sufficient financing available through his personal business associates. In Europe, our progress has been slow, since the financing situation is very similar to the domestic problem. We have found considerable international interest in the Kirby vacuum cleaner and believe that we can attain good sales growth once the financing problems are solved.

Ralph Schey

QUESTION. We've talked about the Kirby involvement in international markets. What are the opportunities for some of your other divisions?

Our photo identification systems division, Dek/Electro, has been very aggressively pursuing some additional international markets, particularly where the foreign governments are considering national identification cards. This creates a large volume of business, because these cards have to be done on a repetitive basis in order to keep the photo up to date. Usually, these are exclusive contracts. We have been exploring new business opportunities in the Orient as well as in Europe, and in the Middle East. We feel this is a very good area of potential growth for the company.

The American-Lincoln division always has been strong as an exporter of floor-care products. We are looking today at exporting some of the products of our Campbell-Hausfeld division, particularly in Europe. We

have a very modern, up-to-date foundry and probably are one of the world's leading producers of cast-iron cylinder blocks for small air compressors.

QUESTION. What about the shortage of materials, and do you see any stabilizing of raw material and purchased parts costs in 1975?

By and large, the material shortages for Scott & Fetzer have pretty much disappeared. However, we are continuing to experience cost increases, although it appears that these may have started to flatten out slightly due to competitive pressures and declining customer demand. A major task now is to preserve our profit margins as much as possible with declining sales volume. There seems to be a feeling in almost every market that the American public is just not spending as much for decisionable purchases.

QUESTION. During 1974, Scott & Fetzer undertook a new approach in the financing arrangements. Would you comment on the reasons for this and what you see as a requirement in 1975?

Historically, Scott & Fetzer has never required public financing. In 1973, we had to utilize loans under informal lines of credit with the banks to finance our increased working capital requirements. With the tight credit conditions that prevailed in 1974 and the significant increase in our inventories and receivables, we decided to formalize our borrowing arrangements with a three-year revolving credit agreement with five banks. At year end, we were borrowing $24.6 million. Looking ahead to 1975, we expect to accomplish some liquidation of inventories and, together with our change to LIFO accounting and the reduced capital expenditure plans, our bank loans should be lower by mid-year, and certainly at year end. If interest rates reach attractive levels in 1975, we might decide to undertake some long-term debt to give us greater financial flexibility.

Quigg Lohr

QUESTION. What level of capital expenditures are you projecting for 1975?

In the last three years, Scott & Fetzer has been involved in a major facilities expansion throughout the company. Based on the current business outlook, we have adequate capacity to meet foreseeable customer requirements. In 1975, we are reducing our expenditures to about $6 million. Other than some carry-over projects from last year, our principal emphasis will be on equipment to reduce costs and improve productivity.

QUESTION. The general economy doesn't look very promising for business in 1975. Are there some favorable factors for Scott & Fetzer this year?

One very important development is the declining interest rates. Since we have substantial bank loans, our interest costs should decline due to the lower rates and our expected decline in loans. More importantly, the greater availability of consumer financing should have a favorable effect on our Kirby division and on the new-home construction market, which affects our lighting divisions. A second factor will be the absence of new-plant startup costs which have adversely impacted our earnings in the last two years.

QUESTION. With all of the uncertainties and projected adverse business trends for 1975, what has been your approach to budgeting and planning this year?

For operational as well as financial planning, we have adopted the variable budgeting approach for 1975. Each of our divisions has prepared its budget at three volume levels. The "A" budget represents the division's goals for this year under normal, or reasonably favorable, economic conditions. At the time the budgets were prepared in October and November of 1974, the "B" level depicted the division's best estimate of 1975 results under adverse business conditions. Each division also prepared a "C" budget, which is the Profit Assurance Plan in the event of severe economic recession. In the "C" budget, the sales volume level is defined as at least 25% below the "B" level, and the division's cost levels must be reduced sufficiently to remain profitable. The associated cost reductions were developed in great detail with identified trigger points which would activate the necessary reduction programs.

J. F. Bradley

QUESTION. It appears that Scott & Fetzer is anticipating a difficult first quarter and a downturn that could extend well into the year. What is your overall view about 1975?

We think the early months of 1975 are going to be difficult and that, overall, it's going to be a down year for the economy. Our planning has assumed these conditions since last fall. It doesn't appear reasonable to expect the first six months to be poor and then see a rapidly improving economy in the last half. By the time business inventories are reduced to reasonable levels, and the reduced level of consumer purchasing due to unemployment is improved, we will be well into the second half of 1975. Our general population is suffering from a real fear psychology. It will take time and some positive and meaningful actions by our national leadership to turn consumer confidence around.

Based on the present outlook, we will have lower earnings in the first quarter and also in the second quarter. It's too early to forecast the whole year, but there is no reason now to be very optimistic.

QUESTION. Do you have any general observations about the economy and status of business conditions?

Obviously, we are not economists, but there are some clear conclusions to be drawn. The three years of price controls were like taking an aspirin for a headache when a new pair of glasses was really needed. Our economy has to readjust from the dislocations and artificial shortages to the basic economic forces of competition. There are problems of inventory imbalances and reallocating workers. The world will no longer have cheap energy. This will force a major readjustment in many aspects of life. The severe inflation that we have experienced, and continue to face, requires that we go through this deep recession, painful though it is, and we are not going to recover quickly.

James M. Heyne

The free enterprise system demands efficiency and productivity. It is intolerant of artificial barriers and inefficiencies. Free-world economics demand a gradual purging process periodically to force productivity. 1975 has got to be a purging year. In the long run, as a nation and as a company, we will emerge more efficient, more productive, and certainly more profitable.

Historical Record, 1964 - 1974

(Dollar Amounts in Thousands Except Per Share Data) **AS REPORTED***	1974	1973	1972	1971
Net Sales	$291,258	$270,714	$223,610	$169,036
Income Before Taxes †	25,931	40,064	35,760	26,734
Net Income	13,696	20,869	17,723	13,368
Cash Dividends	7,554	7,456	5,886	4,768
Per cent Payout of Net Income	55.2	35.7	33.2	35.7
Earnings Retained and Reinvested	6,142	13,413	11,837	8,600
Capital Expenditures	12,473	12,753	7,941	5,872
Working Capital	84,496	60,505	54,581	45,142
Long-Term Debt	27,424	3,334	3,892	4,635
Total Assets	162,729	136,076	110,540	85,742
Shareholders' Equity	100,137	93,837	78,836	63,199
Per cent Return on Shareholders' Equity	13.7	22.2	22.5	21.2
Per Share				
Earnings	1.81	2.76	2.41	1.95
Dividends	1.00	1.00	.83	.80
Book Value	13.25	12.44	10.76	9.24
Market Price Range ††	25⅝-8⅜	44¾-24⅛	45¾-26⅛	29⅛-16¾
Price Earnings Ratio ††	9.4	11.3	14.9	11.8
Year-End Data				
Shares Outstanding (000's)	7,555	7,544	7,326	6,843
Number of Shareholders of Record	9,896	8,498	8,697	10,172
Number of Employees	7,481	8,296	6,917	5,499
RESULTS RESTATED FOR POOLINGS**				
Net Sales	$291,258	$270,714	$229,361	$188,730
Income Before Tax	25,931	40,064	36,722	29,722
Per cent to Sales	8.9	14.8	16.0	15.7
Net Income	13,696	20,869	18,189	14,846
Per cent to Sales	4.7	7.7	7.9	7.9
Earnings Per Share	1.81	2.76	2.40	1.97

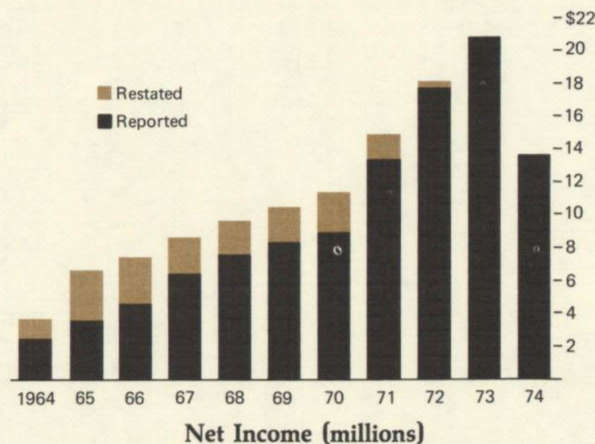
*"As Reported" includes divisions acquired by poolings of interests from year of acquisition.

†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.

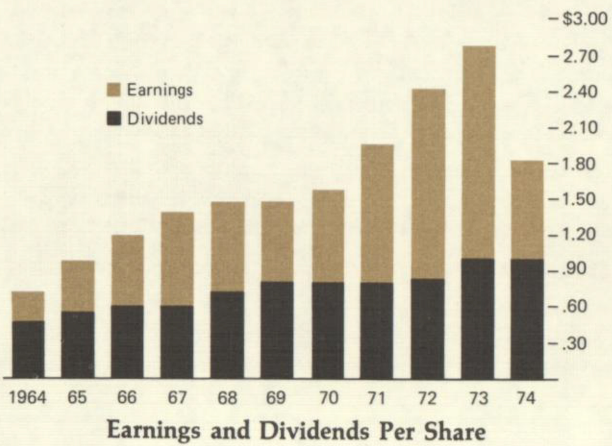
††Source: Moody's Investors Service.

Net Sales (millions)

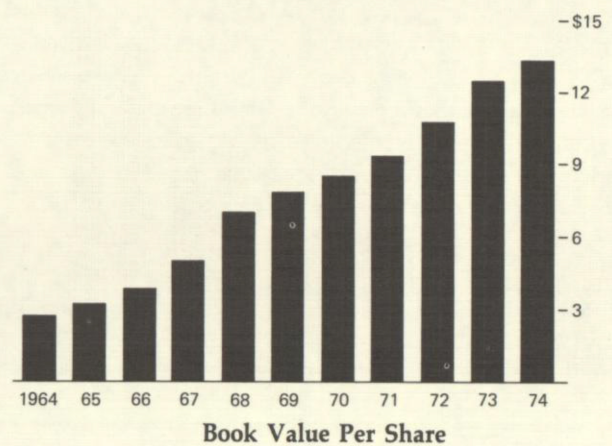


Net Income (millions)

1970	1969	1968	1967	1966	1965	1964
$116,368	$115,489	$106,295	$ 60,058	$ 41,331	$ 33,350	$ 18,833
17,571	17,076	16,047	11,969	8,734	6,845	4,747
8,864	8,389	7,697	6,300	4,579	3,620	2,435
4,532	4,518	3,500	2,426	2,276	1,919	1,506
51.1	53.9	45.5	38.5	49.7	53.0	61.8
4,332	3,871	4,197	3,874	2,303	1,701	929
3,784	3,100	1,591	994	610	704	251
34,672	33,599	29,769	15,879	9,478	8,409	6,745
3,712	4,258	4,781	1,441	1,144	1,050	—
64,112	60,131	54,497	30,996	21,041	16,282	11,515
47,719	44,485	37,298	22,668	14,518	11,890	9,484
18.6	18.9	20.6	27.8	31.5	30.4	25.7
1.56	1.47	1.46	1.39	1.20	.97	.70
.80	.80	.72	.60	.60	.54	.47
8.50	7.83	7.08	5.00	3.81	3.19	2.72
17¼-10⅛	29⅜-13	32½-24	32¾-10⅜	14½-10	12½-9	10¼-7¾
8.8	14.4	19.3	15.5	10.2	11.1	12.9
5,616	5,679	5,271	4,535	3,811	3,726	3,481
11,445	10,519	9,814	4,750	4,376	4,196	3,753
4,317	4,057	3,982	1,677	1,131	769	410
$161,112	$154,530	$146,721	$134,426	$122,531	$105,069	$ 89,073
22,527	21,072	19,764	16,280	14,117	12,567	6,984
14.0	13.6	13.5	12.1	11.5	12.0	7.8
11,377	10,434	9,662	8,694	7,454	6,688	3,622
7.1	6.8	6.6	6.5	6.1	6.4	4.1
1.53	1.39	1.29	1.16	.99	.89	.48



Earnings and Dividends Per Share



Book Value Per Share

Financial Review

Consolidated sales in 1974 were $291.3 million, up 8% from the prior year's $270.7 million. Income before taxes declined to $25.9 million from $40.1 million in 1973. Net income after taxes amounted to $13.7 million or $1.81 per share, about 34% below the $20.9 million and $2.76 per share earned in 1973.

At the end of 1974, Scott & Fetzer made an accounting procedure change which had a significant negative effect on the year's reported earnings. The company adopted the LIFO (last-in, first-out) method for valuing about 61% of inventories from the FIFO (first-in, first-out) basis. The LIFO method is a more conservative accounting procedure in a period of substantial inflation since it more nearly matches current costs with current revenues and tends to eliminate current inventory profits. In addition, the LIFO method allows the deferral of income taxes that would be payable on inventory profits under the FIFO basis, thereby improving the company's cash flow. This accounting change, which reduced earnings by $4.2 million after taxes, or 56 cents per share (and increased cash flow), is discussed in Note 1 on page 18.

The results for 1974 compared with 1973 and the three prior years by the five market classifications are shown on page 13. In general, the higher sales recorded in 1974 reflected increased selling prices. Compared with 1973, the leisure time and electrical classifications recorded the largest gains in sales volume. The commercial/industrial and lighting areas were moderately higher, with the floor care category slightly lower. After reflecting the LIFO change, the electrical classification was the only market group that showed an earnings gain over 1973. Earnings in all classifications were affected by Scott & Fetzer's substantially higher interest costs in 1974.

MARKET CLASSIFICATIONS

Floor Care. Sales in 1974 amounted to $72.9 million, or 25% of the total, compared with last year's $75.3 million and 28%. Income before taxes declined to $11.6 million, or 45% of the total, from $16.6 million and 41% in 1973. The slightly lower sales volume was due to the decreased customer demand at the Douglas division for private label vacuum cleaners in the mass merchandise and direct mail promotion markets. The Kirby division experienced moderately lower unit volume although its dollar sales volume was approximately the same as in 1973 due to increased selling prices. The American-Lincoln division recorded slightly higher results in 1974 even though it experienced a labor strike at mid-year which had a negative effect on the year's operations. In addition to the impact of the change to LIFO accounting and the reduced volume at the Douglas division, earnings were further adversely affected by the lower unit volume at the Kirby division due to the difficulties encountered by the distributors in arranging consumer installment loan financing resulting from the tight money situation.

Commercial/Industrial. 1974 sales increased slightly to $80.6 million, or 28% of the total, from $77.0 million and 29% in the prior year. Income before taxes was $3.3 million, 13% of the total, compared with $10.1 million and 25% in 1973. The Campbell-Hausfeld division experienced good growth in demand for industrial air compressors and in chain saws. The Western Enterprises division had a record year in compressed gas fittings and Meriam Instruments also recorded excellent improvement. Due to substantial market weaknesses, the Humphreys Leather Goods and Streamway Products divisions had lower sales. Commercial/industrial earnings were substantially affected by the LIFO accounting change. Other negative factors were the new plant start-up expenses at the Campbell-Hausfeld division and the lower operating levels of the Humphreys and Streamway divisions. Partially offsetting these declines were improved earnings at the Kingston, Meriam, Quikut, Stahl and Western Enterprises divisions.

Leisure Time. Customer demand for leisure time products was relatively strong throughout most of 1974 with sales volume increasing 17% to $64.2 million or 22% of the total, compared with $54.7 million and 20% last year. The principal growth came in the Campbell-Hausfeld division which had another peak year in shipments of air compressors and paint sprayers. The Powerwinch/Ja-Son division also experienced record demand for electric winches in the marine market. After a slow start due to the gasoline shortages early in the year, the recreational vehicle market strengthened, and the Valley Tow-Rite and Carefree divisions recovered, showing good results for the year. The Lakewood Industries division was sold in June 1974 and only six months of its operations were included in 1974. The lower leisure time earnings were due primarily to the strike at mid-year in the Campbell-Hausfeld division and its reduced operating results in the fourth quarter. The LIFO accounting change also was a negative factor.

Electrical. The electrical markets remained strong all through 1974 with sales increasing 28% to $42.3 million and 14% of the total, from $33.0 million and 12% last year. The most significant growth came in the Halex, Adalet and PLM divisions which had record years in sales and earnings. The Kingston division experienced moderately higher demand for electrical timers while results at the France division were lower, due primarily to the energy crisis impact on the oil furnace ignition transformer market. Income before taxes was $6.0 million and 23% of the total compared with $4.6 million and 12% of the total in 1973. Earnings were favorably affected by freedom from price controls for

most of the year. In 1973, these divisions had been severely impacted by sharply rising material costs and the restriction from raising prices to offset these higher costs. Earnings in the electrical classification were less affected by the LIFO accounting change than in the other market classifications since several of these inventory pools were not converted to LIFO due to the volatile nature of the raw material costs.

Lighting. Sales increased slightly to $31.3 million from $30.6 million in 1973. In both years, this category accounted for 11% of total sales. The higher sales volume came from the Rembrandt Lamp division and from the two Canadian operations, Virden-Canada and Prestige, which had record years. The Virden-U.S. and Atlas Lighting divisions experienced lower sales demand due to the depressed U. S. housing market. Income before taxes in 1974 amounted to $0.8 million, or 3% of the total, down from $1.7 million and 4% last year. In addition to the LIFO accounting change, the lower earnings reflected primarily the decreased operations at the Virden-U. S. division. The Rembrandt Lamp division had a lower loss in 1974 than the prior year. This division operated on a profitable basis for the last four months of the year.

INCOME TAXES

The provisions for income taxes in 1974, including state and local income taxes, was $12.2 million or 47.2% of income before taxes compared with $19.2 million and 47.9% last year. The lower taxes resulting from the investment tax credit and the "DISC" export operations contributed about 13 cents per share to earnings compared with 11 cents in 1973. In addition, the tax credit on Canadian earnings, which are taxed at lower rates than in the U. S., was moderately above the 1973 level due to improved profits from Canadian operations.

ANALYSIS OF EARNINGS

Net income and earnings per share were about 34% below the 1973 levels. The principal factors that affected earnings in 1974 as compared with the prior year are shown below:

	Net Income (000's)	Earnings Per Share
1973	$20,869	$2.76
Increase/(Decrease) in 1974 from:		
Change to LIFO inventory accounting	(4,250)	(.56)
Operations	(2,078)	(.28)
Interest charges due to higher loans and rates	(1,010)	(.13)
Higher income tax credits	165	.02
Net change	(7,173)	(.95)
1974	$13,696	$1.81

Net income after taxes declined $2.1 million, or 28 cents per share from operations as a result of increased costs not fully recovered in selling prices, the effect of the two strikes referred to previously and substantial start-up expenses for new facilities. Interest costs (after tax effect) increased $1.0 million over 1973 and reduced earnings per share 13 cents. This reflected both higher interest rates and substantially higher bank loans required to finance increased working capital requirements. The larger tax credits contributed 2 cents more to earnings in 1974 compared with the prior year.

FINANCIAL POSITION

Total assets at year end were $162.7 million, $26.6 million above the $136.1 million at the end of 1973. Working capital (current assets less current liabilities) was $84.5 million at the end of 1974 compared with $60.5 million a year earlier. The higher working capital this year reflects the negotiation in August 1974 of a three-year revolving credit agreement, and the payment of short-term bank loans, which had been classified as current liabilities. Loans under the revolving credit arrangement, having a maturity exceeding twelve months, are classified as non-current liabilities. Year-end loans, under the revolving credit notes, were $24.6 million versus the $8.1 million borrowed under short-term bank loans a year earlier. The principal contributing factors to the $24 million increase in working capital were funds from operations of $19 million and loans under revolving credit agreement of $24.6 million. From these aggregate funds of $44 million, dividends of $7.6 million were paid and $12.5 million was expended for property, plant, and equipment. Details of the above and changes in the components of working capital are set forth on Page 17 in the Statement of Changes in Financial Position.

QUARTERLY DATA FOR 1974

Due to the change to LIFO accounting for 61% of Scott & Fetzer's inventories made in the fourth quarter of 1974, it is necessary to revise the reported earnings for each of the previous three quarters to reflect this accounting change. The revised quarterly data are shown in the table below:

(dollar amounts in thousands except per share data)

	1974 Fiscal Year by Quarter			
	First	Second	Third	Fourth
Sales	$65,662	$80,355	$74,220	$71,021
Costs and operating expenses	59,778	70,975	68,176	64,215
Other (deductions)	(201)	(593)	(740)	(649)
Income before income taxes	5,683	8,787	5,304	6,157
Provision for income taxes				
State and local	264	408	246	285
Federal and Canadian	2,245	3,710	2,115	2,962
Net income	$ 3,174	$ 4,669	$ 2,943	$ 2,910
Earnings per common and common equivalent share	$ .42	$ .62	$ .39	$ .38

Summary of Operations

	(dollar amounts in thousands except per share data) Years Ended November 30				
	1974	1973	1972	1971	1970
Net sales	$291,258	$270,714	$229,361	$188,730	$161,112
Cost of goods sold	226,393	196,589	163,318	133,159	115,176
Interest expense	2,593	650	516	627	790
Provision for income taxes					
State and local	1,203	1,671	1,538	1,137	320
Federal and Canadian					
Current	9,907	17,115	16,867	13,920	10,822
Deferred	1,125	409	128	(181)	7
Total taxes	12,235	19,195	18,533	14,876	11,149
Net income	$ 13,696	$ 20,869	$ 18,189	$ 14,846	$ 11,377
Per Share					
Earnings per common and common equivalent share	$ 1.81	$ 2.76	$ 2.40	$ 1.97	$ 1.53
Dividends	1.00	1.00	.83	.80	.80
Average number of common and common equivalent shares (000's)	7,553	7,571	7,563	7,537	7,414

Management's Discussion and Analysis of the Summary of Operations

1974 VERSUS 1973

Sales volume in 1974 was 8% above 1973, with the increase accounted for primarily by higher selling prices.

The company has changed its method of accounting for inventories to the last-in, first-out (LIFO) method. This was done because the rapid increase in prices during the year would result in an overstatement of profits if use of the first-in, first-out (FIFO) method were continued since inventories sold were replaced at substantially higher prices. The effect on reported earnings for the year was a decrease of $4,250,000, or $.56 per share. The greater interest costs reflect the higher rates and bank loans required to finance the growth in the company's working capital, principally inventories.

The effective tax rate for 1974 was 47.2% compared with 47.9% in 1973. The decrease in the effective rate was due primarily to higher investment tax credits and increased export activities of the "DISC" subsidiary. The lower taxes also resulted from decreased income before taxes in 1974, partially due to the change noted above in the inventory accounting method. The increase in deferred federal taxes arose from the excess of tax versus book depreciation as a result of the higher level of capital expenditures in 1973 and 1974.

1973 VERSUS 1972

Sales volume increased 18% in 1973 compared with 1972. Since Scott & Fetzer was permitted only minimal selling price increases under the government's economic controls in 1973, the higher sales resulted chiefly from increased physical volume, particularly in the floor care and leisure time markets. Cost of goods sold was 20% higher in 1973 versus 1972, reflecting the gain in sales volume and higher costs which the company was not able to pass on to customers due to the price controls. The increased interest costs were due to higher bank loans in 1973 which were required, primarily, to finance the larger inventories carried during the year.

The decrease in the effective tax rate from 50.5% in 1972 to 47.9% in 1973 related principally to higher investment tax and "DISC" export tax credits and increased earnings by Canadian subsidiaries which have lower tax rates. The change in the amount of taxes also was the result of higher income before taxes in 1973.

Sales and Income Before Taxes by Market Classifications

(Dollar Amounts in Thousands)

	FLOOR CARE		COMMERCIAL/ INDUSTRIAL		LEISURE TIME		ELECTRICAL		LIGHTING	
	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent
SALES										
1974	$72,885	25%	$80,625	28%	$64,206	22%	$42,279	14%	$31,263	11%
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%
1971	51,228	27%	60,298	32%	29,849	16%	25,919	14%	21,436	11%
1970	43,117	27%	52,294	32%	21,991	14%	24,697	15%	19,013	12%
INCOME BEFORE TAXES										
1974	$11,613	45%	$ 3,293	13%	$ 4,270	16%	$ 5,974	23%	$ 781	3%
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%
1971	11,174	38%	8,623	29%	3,981	13%	4,228	14%	1,716	6%
1970	7,839	35%	5,938	26%	2,327	10%	4,574	21%	1,849	8%

1974 BY QUARTER

	FLOOR CARE	COMMERCIAL/ INDUSTRIAL	LEISURE TIME	ELECTRICAL	LIGHTING
SALES					
First	$17,622	$16,708	$14,699	$ 9,312	$ 7,321
Second	19,726	20,897	20,929	10,693	8,110
Third	17,809	21,477	16,609	10,471	7,854
Fourth	17,728	21,543	11,969	11,803	7,978
INCOME BEFORE TAXES*					
First	$ 3,080	$ 487	$ 1,365	$ 909	$ (158)
Second	3,119	1,205	3,025	1,385	53
Third	2,255	637	1,153	1,368	(109)
Fourth	3,159	964	(1,273)	2,312	995

*Restated to reflect accounting change to the LIFO method for valuation of inventories

Consolidated Balance Sheet

The Scott & Fetzer Company and Subsidiary Companies

(Dollar Amounts in Thousands)

ASSETS	November 30 1974	1973
CURRENT ASSETS:		
Cash and certificates of deposit	$ 5,137	$ 1,095
Marketable investment, at cost, market quotations 1974 — $43 1973 — $257	50	268
Trade receivables, less allowance for doubtful accounts 1974 — $996 1973 — $758	38,379	33,824
Other receivables	892	562
Inventories (Note 1):		
Raw material and supplies	35,717	27,850
Work in process	15,366	14,310
Finished goods	19,444	18,188
	70,527	60,348
Prepaid expenses	2,028	1,814
TOTAL CURRENT ASSETS	117,013	97,911
PROPERTY, PLANT AND EQUIPMENT:		
Land and land improvements	2,073	1,575
Buildings	13,441	12,102
Machinery and equipment	51,572	42,514
	67,086	56,191
Allowance for depreciation	24,057	21,016
TOTAL PROPERTY, PLANT AND EQUIPMENT, net	43,029	35,175
INTANGIBLE ASSETS ARISING FROM ACQUISITIONS	2,178	2,235
OTHER ASSETS	509	755
	$162,729	$136,076

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

LIABILITIES	November 30 1974	1973
CURRENT LIABILITIES:		
Notes payable, banks	$ —	$ 8,095
Current portion of long-term debt (Note 2)	448	601
Accounts payable, trade	20,647	12,929
Accounts payable, other	1,051	1,674
Federal and Canadian income taxes	1,787	3,757
Accrued taxes, other	1,982	2,561
Accrued liabilities for payroll, pension funds, commissions, interest and other	6,602	7,789
TOTAL CURRENT LIABILITIES	32,517	37,406
LOANS UNDER REVOLVING CREDIT AGREEMENT (Note 2)	24,600	—
LONG-TERM DEBT (Note 2)	2,824	3,334
DEFERRED INCOME TAXES	2,651	1,499
TOTAL LIABILITIES	62,592	42,239
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		
1974 — 7,558,185 less 3,361 in treasury		
1973 — 7,558,185 less 14,436 in treasury	9,444	9,429
ADDITIONAL CAPITAL (Note 7)	5,691	5,548
RETAINED EARNINGS (Note 2)	85,002	78,860
TOTAL SHAREHOLDERS' EQUITY	100,137	93,837
	$162,729	$136,076

Statement of Income and Retained Earnings

The Scott & Fetzer Company and Subsidiary Companies

(Dollar Amounts in Thousands Except Per Share Data)

	Year Ended November 30	
	1974	1973
NET SALES	$291,258	$270,714
Cost of goods sold	226,393	196,589
Gross profit	64,865	74,125
Selling, general and administrative expenses	36,751	34,440
Operating profit	28,114	39,685
Other income (deductions)		
Interest expense	(2,593)	(650)
Interest income	132	429
Licenses and royalties	136	359
Other income, net	142	241
	(2,183)	379
Income before provision for income taxes	25,931	40,064
Provision for income taxes		
State and local	1,203	1,671
Federal and Canadian		
Current	9,907	17,115
Deferred	1,125	409
	12,235	19,195
NET INCOME	13,696	20,869
Retained earnings, beginning of year	78,860	65,447
	92,556	86,316
Cash dividends per share:		
1974 — $1.00 1973 — $1.00	7,554	7,456
Retained earnings, end of year	$ 85,002	$ 78,860
PER SHARE		
Earnings per common and common equivalent share	$ 1.81	$ 2.76
Dividends	$ 1.00	$ 1.00
Average number of common and common equivalent shares (000's)	7,553	7,571

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

Statement of Changes in Financial Position

(Dollar Amounts in Thousands)

	Year Ended November 30	
	1974	1973
SOURCE OF FUNDS		
From operations:		
Net income	$13,696	$20,869
Depreciation and amortization	4,207	3,283
Deferred federal income taxes	1,152	498
Total from operations	19,055	24,650
Loans under revolving credit agreement	24,600	—
Sale of common stock under stock options	158	136
Disposal of fixed assets	448	556
Collection of non-current notes receivable	222	—
Construction trust funds used to purchase fixed assets	—	286
Other, net increase	98	45
	44,581	25,673
APPLICATION OF FUNDS		
Cash dividends	7,554	7,456
Additions to property, plant and equipment	12,473	12,753
Decrease in long-term debt	510	757
Intangibles acquired from acquisitions	53	—
	20,590	20,966
INCREASE IN WORKING CAPITAL	$23,991	$ 4,707
INCREASE (DECREASE) IN COMPONENTS OF WORKING CAPITAL		
Current assets:		
Cash and certificates of deposit	$ 4,042	$ (706)
Marketable investments	(218)	(6,549)
Trade and other receivables	4,885	3,396
Inventories	10,179	17,954
Prepaid expenses	214	270
	19,102	14,365
Current liabilities:		
Notes and current portion of long-term debt	(8,248)	5,960
Trade and other payables	7,095	4,151
Accrued liabilities, including taxes	(3,736)	(453)
	(4,889)	9,658
INCREASE IN WORKING CAPITAL	$23,991	$ 4,707

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

Notes to Financial Statements

1. CHANGE IN ACCOUNTING POLICY

In the year ended November 30, 1974, the Company changed the method of inventory valuation for certain divisions from the first-in, first-out "FIFO" method to the last-in, first-out "LIFO" method. This change was made to more accurately match current costs with sales and to minimize the effect of inflation on inventories and earnings. The excess of FIFO cost over LIFO cost on divisions adopting LIFO was about $8,100,000 and the effect of the change was to reduce net income by approximately $4,250,000 or $.56 per share. There is no cumulative effect of the change on prior periods since the November 30, 1973 inventory as previously reported is the opening inventory under the last-in, first-out method.

2. LONG-TERM LIABILITIES

Long-term debt at November 30, 1974 is as follows (dollars in thousands):

	Current	Non-current
Borrowings under revolving credit agreement	$ —	$24,600
Mortgage notes, 5½% to 8%, maturities to 1982	104	504
Insurance company loan, 6%, maturities to 1980	200	1,500
Obligations under Lease/Purchase Agreements, 4¼% to 8%, maturities to 1988	137	820
Other	7	—
	$448	$27,424

The Company has a revolving credit agreement with five banks. The agreement provides for maximum borrowings of $30,000,000 pursuant to which revolving loans may be obtained until August 1, 1977. The agreement requires maintenance with each bank of a compensating balance that is not less than 10% of the amounts available plus 5% of the unpaid principal balances. If the average compensating balance maintained by the Company with any bank during any month is less than the required minimum, the bank will be paid a fee on such deficit at 115% of the principal bank's base rate in effect on the first day of the month. Since August, 1974, amounts borrowed averaged $24,513,513, with maximum borrowings of $24,600,000. There is a commitment fee, based upon the average daily difference between each bank's revolving credit and its unpaid principal balance, computed at the rate of ½% per annum. The weighted average interest rate on the borrowings including the effect of the fees and compensating balances was 13%, with a maximum of 14.6%. At year end, total cash balances at two banks were $371,288 below the compensating balances computed under the maintenance provision. At the three other banks compensating balances were substantially in excess of balances required. Average compensating balances maintained for all banks during fiscal 1974 were $3,382,000.

The agreement provides for a pre-payment in whole or in part without penalty and requires, among other covenants, the maintenance of consolidated net current assets (excess of current assets over current liabilities) of not less than $60,000,000 and consolidated net worth (shareholders' equity) of not less than $90,000,000. For this purpose, all principal of the revolving loans shall be excluded from current liabilities until December 1, 1976 and shall be included thereafter. The consolidated net assets and net worth at November 30, 1974 were $84,496,000 and $100,137,000 or $24,496,000 and $10,137,000 respectively in excess of the requirements.

The mortgage notes require aggregate monthly payments of $11,712 including interest.

The insurance company loan is payable in annual installments of $200,000 on December 31, 1974 and annually thereafter, with a balance of $500,000 due in 1980. Under this loan agreement, the Company is not permitted to have borrowings from other banks or other lending institutions in excess of $35,000,000. 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 such purposes under this insurance company loan, amounted to $36,895,000 at November 30, 1974; however under the revolving credit agreement amounts available for such purposes, as explained above, were limited to the excess of net worth at November 30, 1974 over the amount required or $10,137,000.

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 1975-1976, $160,000 for 1977-1979, $100,000 for 1980-1981 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 non-cancelable leases with terms of more than one year, as of November 30, 1974, amount to the following (thousands of dollars):

	All Leases			
Years ending November 30	Land and Buildings	Machinery and Equipment	Total	Total for Financing Leases
1975	$ 2,071	$ 542	$ 2,613	$ 1,381
1976	1,926	388	2,314	1,246
1977	1,809	137	1,946	1,089
1978	1,545	55	1,600	959
1979	1,264	15	1,279	776
1980-1984	5,451	—	5,451	3,430
1985-1989	2,891	—	2,891	1,788
1990-1994	127	—	127	—
After 1994	—	—	—	—
Total Rental Commitments	$17,084	$1,137	$18,221	$10,669

The present values of the minimum lease commitments for all non-capitalized financing leases as of November 30, 1974, are as follows:

Land and buildings	$7,174,896
Machinery and equipment	688,130
Total	$7,863,026

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 4.5% to 12.25% and averaged 6.18%. 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, 1974 and 1973 amounted to $3,487,000 and $2,597,000 respectively, of which $1,322,000 and $1,180,000 respectively, were applicable to financing lease rentals.

4. STOCK OPTIONS

At November 30, 1974, 110,725 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.

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. Qualified options were granted during 1974 under

this new stock option plan, and 350,000 shares of common stock were reserved for issuance under the plan.

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

		Year Ended November 30, 1974				
Granted:	Option Price	Balance Nov. 30, 1973	Granted	Exercised	Terminated	Balance Nov. 30, 1974
December 16, 1968	$29.875	17,300	—	—	17,300	—
December 17, 1969	13.50	8,500	—	5,400	—	3,100
December 15, 1970	14.75	36,550	—	5,675	750	30,125
January 28, 1972	32.50	21,375	—	—	4,375	17,000
January 26, 1973	41.50	66,850	—	—	6,350	60,500
January 28, 1974	19.50	—	115,300	—	2,700	112,600
		150,575	115,300	11,075	31,475	223,325

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 $2,236,000 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 1973 was $1,907,000. 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 $2,502,000 at November 30, 1974.

6. CONTINGENT LIABILITIES

Any liability that may result from lawsuits and other claims pending against the Company and its subsidiaries as of November 30, 1974 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, 1974 (showing balance as of November 30, 1972 restated for 1973 poolings) were as follows (dollars in thousands):

	Common Stock			
	Treasury Shares	Issued Shares	Stated Value	Additional Capital
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
Sale of stock under options	11,075	—	15	143
Balance, November 30, 1974	(3,361)	7,558,185	$9,444	$5,691

8. FEDERAL AND CANADIAN INCOME TAXES

The effective income tax rates were 44.61% for the year ended November 30, 1974 and 45.64% for 1973. The difference between these rates and the statutory U. S. income tax of 48% resulted from:

	Year ended November 30,	
	1974	1973
Investment tax credit	2.85%	1.76%
Export operations through "DISC" company	.97	.33
Foreign income taxes at effective rates of less than 48%	.25	.11
Other, net	(.68)	.16
	3.39%	2.36%

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 except for the change in method of inventory valuation.

Principles of Consolidation — Consolidated financial statements include the accounts of all 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.

Inventory Valuation — Inventories are valued at the lower of cost or market. At November 30, 1973 cost was determined substantially on a first-in, first-out basis. At November 30, 1974, the Company changed the method of inventory valuation for a majority of its domestic inventories from the first-in, first-out "FIFO" method to the last-in, first-out "LIFO" method. 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.

Business Combinations —Where combinations qualify as "poolings of interests" the results of operations include those of acquisitions for the entire year and financial statements of the preceding year are restated therefor. There were no "poolings of interests" during the current year. Acquisitions which constitute "purchases" are included 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.

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, 1974 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, 1973.

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, 1974 and 1973, 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 except for the change, with which we concur, in the method of valuing inventory as described in Note 1 to the financial statements.

Coopers & Lybrand

Cleveland, Ohio
January 29, 1975

Divisions by Market Classifications

The Scott & Fetzer Company is a diversified company engaged in the manufacture and sale of a wide variety of products in the five marketing classifications shown below. The company has 31 operating divisions or subsidiaries, most of which were independent businesses acquired subsequent to 1963. The divisions and subsidiaries are generally operated as separate units within Scott & Fetzer. The company was founded in 1914 and was incorporated under the laws of the State of Ohio on November 30, 1917.

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

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

Kirby West
N. Main Road
Andrews, Texas 79714

Kirby of Canada
1009 Burns Street East
Whitby, Ontario, Canada

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, paint spray equipment, chain saws 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
Dek/Electro — East
1530 Progress Road
Fort Wayne, Indiana 46808

Dek/Electro — West
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

LEISURE TIME PRODUCTS

Air compressors and paint spray equipment for the home and farm; hitching and towing equipment, accessories and awnings for recreational vehicles; mechanical winches, electric power winches and hoists for boats and trailers.

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

Carefree of Colorado Division
2760 Industrial Lane
Broomfield, Colorado 80020

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

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

Valley Tow-Rite — East
P. O. Box 444
Shelbyville, Kentucky 40065

Valley Tow-Rite of Canada
1009 Burns Street East
Whitby, 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

Halex Division
23901 Aurora Road
Bedford Heights, Ohio 44146

Halex of Canada
1009 Burns Street East
Whitby, Ontario, Canada

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

Residential and commercial ceiling and wall fixtures; 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

Directors/Corporate Management

DIRECTORS

JOSEPH T. BAILEY
Chairman, President and
Chief Executive Officer,
The Warner & Swasey Co.,
Manufacturer of machine tools, construction equipment, and textile machinery

J. F. BRADLEY
Executive Vice
President— Finance

RAYMOND E. CHANNOCK
Consultant and formerly President,
Acme-Cleveland Corporation,
Manufacturer of cutting and threading tools, machine tools, and production systems

NILES H. HAMMINK
Chairman and Chief
Executive Officer

QUIGG LOHR
Senior Executive
Vice President

RALPH SCHEY
President and
Chief Operating Officer

THOMAS W. SMITH
General Partner,
Prescott Associates,
Private investments

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

Executive Committee
NILES H. HAMMINK, Chairman
J. F. BRADLEY
QUIGG LOHR
RALPH SCHEY

Investment Committee
QUIGG LOHR, Chairman
THOMAS W. SMITH
RAYMOND E. CHANNOCK

CORPORATE MANAGEMENT

NILES H. HAMMINK
Chairman and Chief
Executive Officer

RALPH SCHEY
President and Chief
Operating 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

CARL W. GOLDBECK
Group Vice President

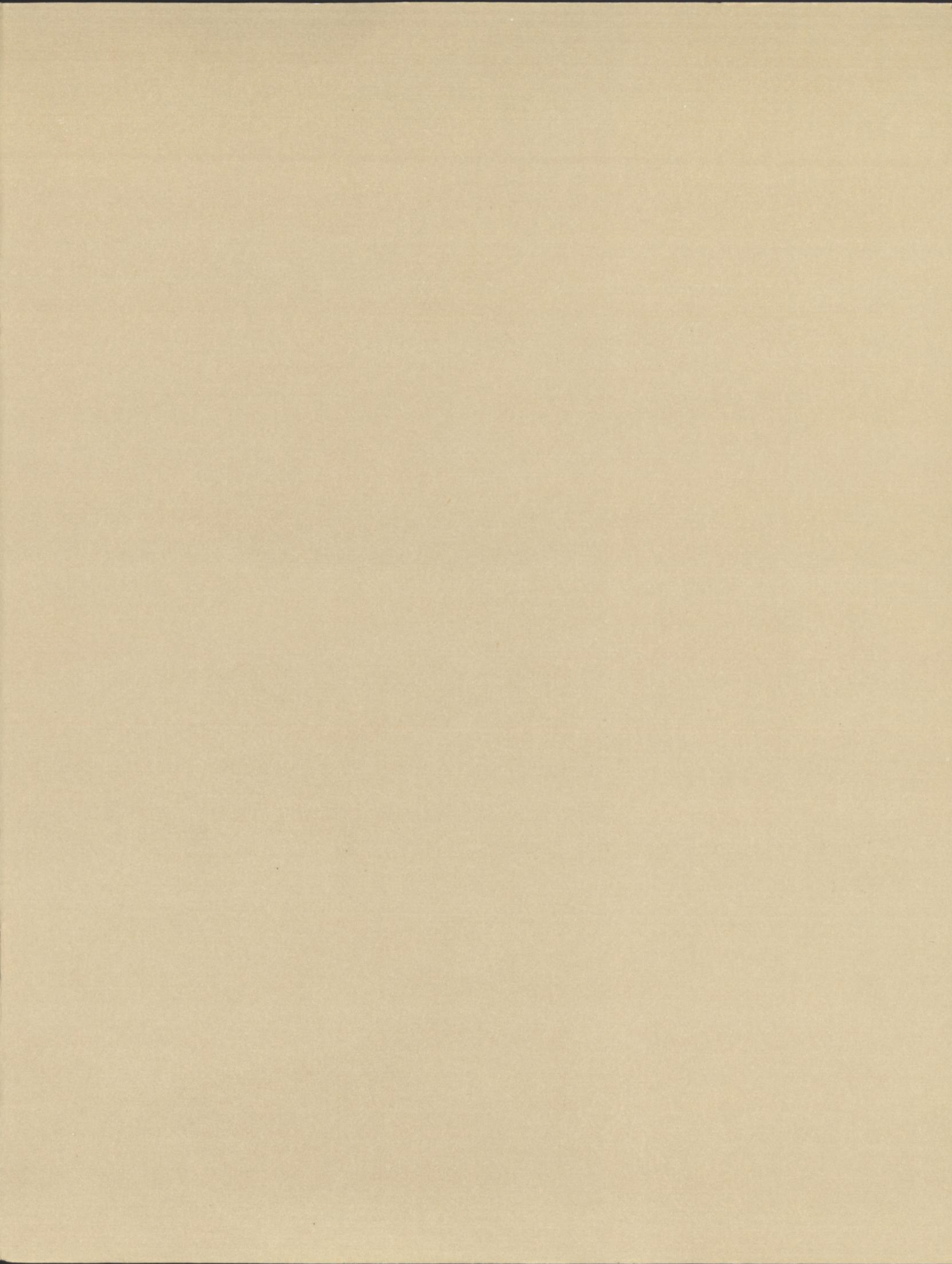
WALTER A. RAJKI
Group Vice President

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



The Scott & Fetzer Company
14600 DETROIT AVENUE
LAKEWOOD, OHIO 44107

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