The Scott & Fetzer Company

1975 Annual Report

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Scott & Fetzer is a marketing oriented company with special capabilities to respond quickly to changing customer needs. Product innovation, higher productivity, quality improvements for increased consumer values, strong market leadership, and selective acquisitions will play dominant roles in our management planning and future earnings growth.

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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 23, 1976, at 10:30 a.m., 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 Robert C. Weber, 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 Stock Exchange. The ticker symbol for the shares is SFZ.

The Year at a Glance

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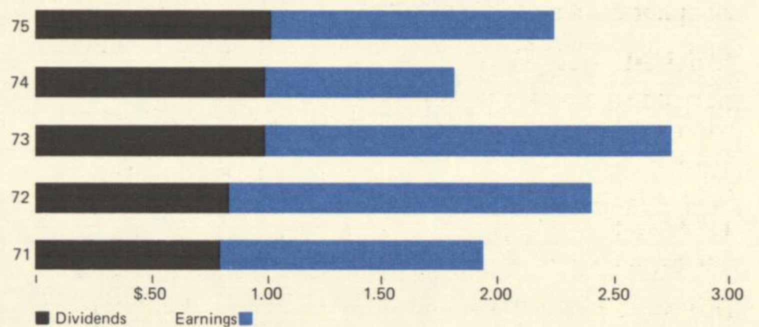
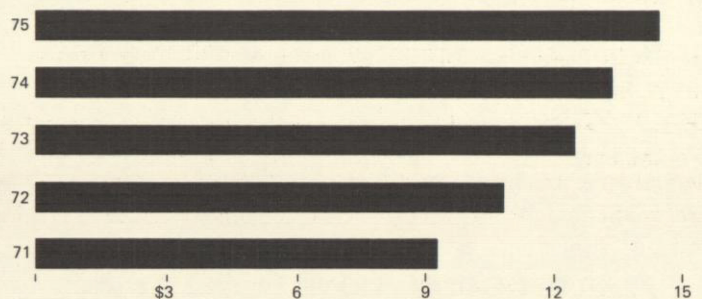
(Dollar Amounts in Thousands Except Per Share Data)

	1973	1974	1975	Per cent Change 1975 vs 1974
Net Sales	$270,714	$291,258	$284,020	(2)%
Income Before Taxes	40,064	25,931	32,791	26%
Per cent to Sales	14.8%	8.9%	11.5%	
Net Income	$ 20,869	$ 13,696	$ 17,048	24%
Per cent to Sales	7.7%	4.7%	6.0%	
Per cent to Shareholders' Investment	22.2%	13.7%	15.6%	
Per Share:				
Earnings	$ 2.76	$ 1.81	$ 2.26	25%
Dividends	1.00	1.00	1.02	2%
Book Value	12.44	13.25	14.49	9%
Total Assets	$136,076	$162,729	$184,177	13%
Shares Outstanding (000's)	7,544	7,555	7,556	
Number of Shareholders	8,498	9,896	10,105	

Earnings and Dividends Per Share



Book Value Per Share



To the Shareholders

Niles H. Hammink

Ralph Schey

Although the 1975 recession was the deepest and longest recession in the United States since World War II, Scott & Fetzer substantially increased earnings on lower sales volume during 1975.

The management actions implemented in late 1974 blunted the negative impact of sharply reduced sales volume in the first quarter of 1975. Austerity programs and tightened financial controls instituted in late 1974 enabled us to increase 1975 earnings by 25%—from $1.81 to $2.26 per share. The decisive and prompt response of the division managements resulted in improved operating income in what was a rapidly deteriorating economic climate. Total corporate employment dropped from a high of 8,300 in 1974 to a low of 5,800 in 1975.

Many of our consumer products divisions had substantial volume declines in the early part of 1975. In some consumer markets, such as sales through mass merchandisers, volume began to increase near the end of the first quarter and continued to improve during the remainder of 1975; however, consumer products associated with the housing market showed little improvement during the year.

We were satisfied with the profit attainment in the Floor Care, Commercial/Industrial, and Electrical products classifications and disappointed in the overall results of the Lighting Group and some sectors of the Leisure Time Group.

Our cash position strengthened considerably during 1975 primarily as a result of a major inventory reduction. Outstanding bank loans were replaced with a 10-year note issue.

The demonstrated ability to operate profitably under adverse business conditions has strengthened the entire management group of Scott & Fetzer and has raised our confidence level for 1976.

RESULTS OF OPERATIONS. For the 1975 fiscal year, sales volume totaled $284 million, about 2% below the $291.3 million recorded in 1974. Income before taxes amounted to $32.8 million compared with $25.9 million last year. Net income for 1975 was $17 million, or $2.26 per share, well above the $13.7 million and $1.81 per share earned in 1974. The net profit margin, computed on net income as a percentage of sales, was 6.0%, up from 4.7% last year. The return on shareholders' equity for 1975 was 15.6%, up from last year's 13.7%. A more detailed discussion of the factors affecting operating results is included in the financial review beginning on page 7.

FINANCIAL POSITION. Scott & Fetzer's total assets at November 30, 1975 amounted to $184.2 million, an increase of $21.5 million above the previous year-end level of $162.7 million. The investment in inventories was $55.6 million at year end compared with $70.5 million at the end of 1974. A significant decrease in the inventory investment was one of our major management objectives for 1975. Receivables totaled $40 million, approximately the same level as a year ago. Cash and securities at year-end 1975 were $38.4 million, up from the $5.2 million at November 30, 1974, reflecting the decreased inventories and the proceeds, after repayment of bank loans, from the $30-million issue of 10-year 9% notes sold in May 1975. With our improved working capital level and cash resources, Scott & Fetzer's financial position has never been stronger. We believe that the company has adequate financial resources to handle our operating requirements during the next several years. With the possibility of future general capital shortages for many companies, Scott & Fetzer is in a fortunate position.

CAPITAL EXPENDITURES. As indicated in last year's annual report, after a major capital expansion program during 1972-1974, a significantly reduced level of approximately $6 million in capital expenditures was planned for 1975. The expenditures for the year were $6.1 million, with most of the emphasis on current cost reduction projects. The new Powerwinch/Ja-Son plant in Shelton, Connecticut is now in the final stage of completion. The projected capital expenditures for 1976 will be in the $8-10-million range, with continued emphasis on cost reduction and productivity improvements.

EMPLOYEE RELATIONS. During 1975, we negotiated five labor agreements without a material work stoppage. We continue to believe that our divisions enjoy good relations with hourly as well as salaried employees. In 1976, we have thirteen labor agreements to be negotiated. We hope to complete these on mutually

satisfactory terms without major disruptions. Nationally, there have been indications of growing concern about the possibility of serious industry strikes by the large international unions which could have a significant negative impact on the economy. This is a cloud on the economic horizon for 1976. We believe that improved economic benefits for employees must be balanced by significant gains in productivity so that these settlements will not add to the inflationary pressures.

FUTURE PLANNING. In the fall of 1975, each of our divisions prepared an Annual Business Plan which included a 1976 operating budget and projections for 1977 and 1978. These plans were individually reviewed in an in-depth discussion session between the corporate officers and each division management team. In addition to the financial projections, these business plans included the division's programs for marketing, manufacturing, product development and organization. As a result of these reviews, we are convinced that our divisions' future opportunities and potential are consistent with our corporate goals for earnings growth. An integral part of these plans is increased emphasis on product quality and reliability, increased productivity, new product development, and expanded marketing. Where product line deficiencies or marketing, manufacturing or organization weaknesses have been identified in a division, we are closely monitoring near-term remedial programs.

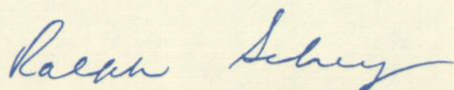
Supplementing the divisions' plans, we are exploring appropriate acquisitions in complementary markets, or where the acquired company's products could be integrated into an existing division to maximize its distribution system. We have established stringent financial criteria which a potential acquisition must meet. Although there are many attractive candidates available, we plan to be very selective in adding new operations to Scott & Fetzer. Also, as a regular part of our corporate operations review and planning, we continuously re-evaluate the existing divisions which may not meet the minimum objectives for growth and return on assets employed. In our opinion, good management dictates a regular pruning of products, product lines or divisions that fail to meet corporate goals.

DIVIDENDS. In 1975, dividends paid to shareholders totaled $7.7 million, or $1.02 per share, up from the $1.00 per share paid in the previous year. The Board of Directors, at its October meeting, raised the regular quarterly dividend rate to 27 cents from 25 cents per share effective with the November 30, 1975 payment. This was an increase in the quarterly rate of 8% and reflected Scott & Fetzer's higher 1975 earnings and improved outlook for 1976. Our Directors believe that a progressive dividend policy dictates a commitment on the part of management to share the growth in earnings with our shareholders. It is our expectation that dividends will continue to increase as Scott & Fetzer's earnings grow.

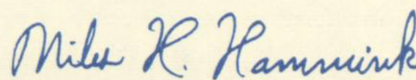
OUTLOOK. We are optimistic about general business conditions in 1976. Incoming orders and customer inquiries are strong and the predictions are that consumer confidence will continue to rise during 1976. Since a majority of Scott & Fetzer business is directly consumer oriented, we are in a position to benefit immediately from increased consumer purchases.

It is the consensus today of business and government leaders that 1976 will be an impressive year economically. However, it is very important to be extremely sensitive to subtle signs which may forecast a change in economic direction. Some of the basic problems contributing to the recent recession — excessive municipal, state and federal government spending, inadequate gains in productivity of employees in the United States and the other countries of the world, the diminishing influence of the United States in world economics and politics — have not been resolved and could cause further problems for the United States economy. We will be alert to possible changes in direction and move swiftly to offset any negative changes.

We would like to recognize publicly the extraordinary contributions made by the division and corporate management group during a very difficult 1975. Their capability and dedication enable us to face the future with confidence and enthusiasm.



RALPH SCHEY
President and
Chief Operating Officer



NILES H. HAMMINK
Chairman and
Chief Executive Officer

Lakewood, Ohio
February 13, 1976

Dialog with the President*

QUESTION: The American economy seems to be undergoing basic changes. In view of this, what will be Scott & Fetzer's main thrust in 1976?

Mr. Schey: In terms of market requirements, the economy *is* changing, and changing rapidly, but Scott & Fetzer is a marketing-oriented company with special capabilities to respond quickly to such changes. For 1976 —which we see as a fairly strong year for the economy— our prime objectives will be to reduce unit costs and achieve additional market penetration.

We will achieve unit cost reduction by continuing to apply some old fashioned techniques such as redesigning products, improving tooling and equipment, increasing employee productivity and modifying distribution practices which would include transportation methods and better evaluation and greater motivation of our distributors and sales personnel.

QUESTION: Looking beyond 1976, what significant developments do you see?

Mr. Schey: Historically, the American consumer has had more discretionary income — that is, money available for purchasing non-essentials after paying for the essentials (food, clothing, shelter, transportation) — than any consumer in the world. This is probably the main reason why we have been able to build such a strong consumer economy in this country.

But this is changing. The American consumer's proportionate share of income available for non-essentials is declining, chiefly because gains in productivity have been insufficient to offset the effects of inflation and the soaring costs of the essentials. This creates problems for consumer-oriented manufacturing companies such as Scott & Fetzer. It means we shall have to struggle harder to get our share of the consumer dollar. One way companies can respond to this is to build better quality products which results in putting less money into service facilities. The consumer can then spend less for service and therefore have more money for new products. This creates new opportunities for us to pursue — the kind we like, because both the consumer and our company benefit as service costs are reduced. This will ultimately give us a more dominant position in our respective markets and provide an opportunity for consistent earnings growth.

**Ralph Schey was elected president, chief operating officer and a director of Scott & Fetzer in September, 1974.*

QUESTION: In the past decade, Scott & Fetzer has had above average growth. Would you discuss your plans for future growth?

Mr. Schey: Scott & Fetzer's growth frequently is looked upon as having come primarily through acquisitions. The fact is that we have achieved considerable growth internally, and we want to increase our emphasis on internal growth in the future.

We define growth in terms of earnings, not just growth in sales. We strongly believe that to attain market leadership we must price aggressively and wisely; nevertheless, a dynamic pricing policy must take into account market size, potential volume, and a continuous program of cost reduction. To increase volume and simply spread overhead over a larger sales base does not provide the

long-term quality earnings that can be achieved by reducing unit material costs or increasing the output per man-hour.

QUESTION: Speaking of acquisitions, this activity has slackened considerably in the past two years. Will this trend continue?

Mr. Schey: We have been looking and will continue to look at acquisitions which meet our corporate objectives. While we are not opposed to entering completely new fields, we feel product lines related, or complementary, to our present categories offer the best opportunity for us to generate the kind of quality earnings growth I referred to previously. An ideal acquisition candidate would either expand our product base in markets we are currently serving, or provide new markets for some existing products, or provide us with advanced technical leadership.

We are frequently asked about divestitures as well as acquisitions. We constantly monitor all of our operations and re-evaluate them in terms of corporate objectives. This is a corporate management responsibility — putting the funds shareholders have invested in the business to the most profitable use. Since our diversification program began in 1964 we have divested only four companies, but we continually re-evaluate the contribution of each division. If we cannot solve a division's problems, in the long-run, we would divest the business and put the funds to better use.

QUESTION: You have talked about quality in earnings growth and the use of shareholders' invested funds. Aren't these embodied in "return on assets"?

Mr. Schey: Yes, a prime corporate management duty is to manage the shareholders' assets efficiently. The measurement of how well management does this is the return on assets. Occasionally, sales growth is overemphasized, but management's principal responsibility to the shareholders is to optimize return on assets.

Maintaining a certain minimum return on assets is important because this is the yardstick management must use in determining where and how to employ the corporate resources. All business decisions involve risk and reward, and the return on assets is a vital part of decision making. A *minimum* 15% net after-tax return on assets is an important consideration in a decision to invest money.

QUESTION: In a year when many companies reduced or omitted their dividends, Scott & Fetzer increased its quarterly dividend rate 8% in 1975. Would you comment on your dividend policy?

Mr. Schey: Too often, the shareholder is the forgotten party. Other members of the corporate group — employees, management, customers, suppliers — share in the prosperity of the company, but frequently the shareholder does not. We feel that an established pattern of dividends is essential to attracting and holding shareholders. Looking at their position in the corporate enterprise, investors must see something better a year or two or three from now than they do today.

Somehow, in our country, the attitude sometimes exists that people who buy stock are speculators and as speculators they are not necessarily entitled to the same rewards out of the enterprise as the other members of the corporate enterprise. Dividends and profits play a most vital role in the creation of jobs and the continuation of a higher standard of living for our country. It is our policy that investors should share in the increasing profits of the company and that dividends are part of the overall cost of doing business.

QUESTION: Your financial statements for 1975 show that the company's financial position was notably improved during the year. Would you enlarge upon this?

Mr. Schey: Scott & Fetzer has always been a well-financed company, attributable in large measure to consistent earnings growth and extraordinary positive cash flow. Two of the company's great strengths are its financial resources and its people, both of which are stronger now than at any time in its 62-year history. Many of the changes we will want to make, such as product additions, methods improvements and acquisitions, will require capital, but we are confident our funds will be ample. We do not contemplate any cash requirements in the foreseeable future which would require additional outside financing.

In most instances our operating facilities are modern and our factory space is sufficient to handle currently projected increases in volume. Our capital expenditure levels will increase as we put greater emphasis on cost reduction, productivity improvement, quality upgrading, and new product activities.

QUESTION: Managing a company with uncommon composition in its product lines must present special problems, but Scott & Fetzer obviously has done well in this area, based on its record. Would you briefly outline your management structure?

Mr. Schey: I work through the Group Vice Presidents, each of whom in turn has a group of divisions reporting to him. A Group Vice President has an operational and planning role in his relationships with divisions. They are seasoned line managers and experienced problem solvers. If one of their divisions requires assistance, they have the necessary knowledge of manufacturing, engineering and finance to take an active part in solving the problem. Our other corporate office personnel are principally in the functions of legal and finance. We do not, for example, have staff marketing groups or staff technical groups.

The primary responsibility for long-range planning rests with Mr. Hammink and me, but we draw heavily from the corporate vice presidents who help formulate strategy and tactics.

QUESTION: As you look ahead, what do you see as the leading challenge for Scott & Fetzer management?

Mr. Schey: To provide the opportunities and challenges that inspire people who want to succeed. Motivation in the future will require different approaches than have been used in the past. If we provide the proper working environment for people, they will find ways to solve a variety of problems which will ultimately result in superior earnings growth. The excellent earnings record of Scott & Fetzer in the past has been due to the effort and industry of many dedicated and talented people. Our challenge is to continue to provide that kind of leadership in the future.

Financial Review

J. F. Bradley, *Executive Vice President — Finance*

For the 1975 fiscal year, consolidated sales totaled $284 million, about 2% below last year's $291.3 million. Income before taxes increased to $32.8 million from $25.9 million in 1974. Net income after taxes was $17 million, or $2.26 per share, approximately 25% above the $13.7 million and $1.81 per share earned last year.

The decline in sales volume reflected generally lower unit volume largely offset by higher selling prices. The commercial/industrial and leisure time classifications in 1975 attained higher dollar sales volume, while floor care was about level. Electrical and lighting sales were lower.

The higher earnings came from improved results in the floor care, commercial/industrial and electrical classifications. The leisure time and lighting categories experienced decreased earnings.

The sales and income before taxes for the five market classifications for 1975 compared with 1974 and the previous three years, as well as the 1975 results by quarters, are shown on page 13. The following sections contain a discussion of the specific trends in each of the market classifications.

MARKET CLASSIFICATIONS

Floor Care. 1975 sales were $72 million, about 1% below the $72.9 million recorded last year. This was 25% of Scott & Fetzer's total sales, the same as in 1974. Income before taxes increased 40% to $16.3 million, or 50% of the total earnings, from $11.6 million and 45% last year. The slightly lower dollar sales reflected reduced volume at the American-Lincoln division partially offset by higher dollar sales in the Kirby division. Although the total year's unit volume for the Kirby division was moderately below the 1974 level, dollar sales volume in the third and fourth quarters was ahead of the 1974 periods reflecting higher unit volume and selling prices. This resulted in a slight overall increase in dollar volume for Kirby in 1975 compared with the prior year. Income before taxes for the floor care product lines was substantially above the 1974 level due to improved operating results in all of the product lines, particularly in the Kirby and Douglas divisions. The American-Lincoln division's earnings also improved despite lower sales volume.

Commercial/Industrial. Dollar sales volume for 1975 was $82.8 million, or 29% of total sales, compared with $80.6 million and 28% in the prior year. Income before taxes rose to $6 million from $3.3 million in 1974. The higher sales reflected primarily the increase in volume experienced by the Douglas division in demand for its tank track links. The Campbell-Hausfeld, Meriam Instrument and Cardinal Plastics divisions also achieved increased sales volume. Partially offsetting these increases were lower sales in most of the other divisions in this classification, particularly the Streamway Products, Flex-N-Gate, Metalsmiths and Stahl Metal Products divisions whose businesses were adversely affected by the recession. The higher earnings came from the Douglas, Humphreys Leather Goods, Cardinal Plastics, Meriam Instrument and Kingston divisions. Results for the other divisions were below the 1974 levels, particularly the Campbell-Hausfeld division which experienced losses in the chain saw product line and excess capacity costs due to lower than anticipated production volume in the new two-stage compressor plant.

Leisure Time. Sales for 1975 increased to $68.3 million from $64.2 million last year and accounted for 24% of total sales, up from 22% in 1974. Income before taxes, however, declined to $3.4 million compared with $4.3 million in the prior year. The Campbell-Hausfeld and Carefree of Colorado divisions enjoyed record demand for their products. The Valley Tow-Rite division had modestly higher dollar sales but lower unit volume, and the Powerwinch/Ja-Son division experienced slightly lower dollar sales and reduced unit volume. Sales for this classification in 1975 compared with 1974 also were affected by the absence of volume for the Lakewood Industries division which was sold in mid-1974. Income before taxes for the leisure time product lines was substantially below the 1974 level due to the major decrease in operating profits for products in this classification at the Campbell-Hausfeld division. This division experienced lower sales volume and production levels earlier in the year, particularly during the first quarter, resulting in an operating loss during that period and lower results than 1974 due to underutilized capacity during the bal-

Financial Review

ance of the year. The Valley Tow-Rite and Powerwinch/Ja-Son divisions also had lower earnings for 1975 compared with the previous year. Conversely, the Carefree of Colorado division achieved a record earnings level well above any prior year, reflecting the demand for its recreational vehicle awnings.

Electrical. 1975 sales of $37.2 million were 12% below the $42.3 million level of 1974. The 1975 volume accounted for 13% of Scott & Fetzer's total sales, down from 14% last year. Conversely, income before taxes rose 18% to $7 million from $6 million in the prior year. The decrease in sales for 1975 was due largely to the lower volume at the Halex division, reflecting reduced demand for electrical conduit fittings due to the decline in construction activities. The Kingston and Northland Electric Motors divisions also had moderately lower sales. These reductions were partially offset by record sales volumes at the Adalet and PLM Products divisions resulting from peak demand for their products in the energy-related markets. The improved earnings reflected the substantial increases achieved by the Adalet and PLM Products divisions and the improved operating results in the Douglas and Northland Electric Motors divisions. These gains were reduced by lower results at the Halex, Kingston and France Manufacturing divisions.

Lighting. For 1975, sales volume was $23.7 million, or 9% of the total, compared with $31.3 million and 11% last year, a decline of 24%. Income before taxes amounted to $31,000, substantially below the $781,000 earned in 1975. All five lighting divisions experienced reduced sales as a result of the economic recession and the depressed housing industry. The earnings decline reflected the sharp drop in dollar sales and the even greater decrease in unit production. Based on current trends, the rate of new home construction should be materially higher in 1976 than in 1975 and the level of lighting business correspondingly higher. Most of this improvement, however, probably will occur in the latter part of 1976.

INCOME TAXES

The 1975 provision for federal, Canadian, state and local income taxes amounted to $15.7 million compared with $12.2 million last year. This equates to an effective rate of 48% of income before taxes, up from 47.2% in 1974. The table below shows the calculation of the tax provision for 1975 and last year:

	($000's)	
	1975	1974
Income before taxes	$32,791	$25,931
Less state and local	1,451	1,203
Income before federal and Canadian taxes	$31,340	$24,728
Income taxes at 48% statutory rate	15,043	11,870
Deduct tax credits for:		
Investment tax credit	380	705
"DISC" export operations	241	239
Lower Canadian tax rate	—	63
Other adjustments, net	130	(169)
Federal and Canadian provision	14,292	11,032
Net income	$17,048	$13,696

The increased tax rate for 1975 was due primarily to the lower investment tax credit for new machinery and equipment reflecting the major reduction in capital expenditures in 1975. The "DISC" export tax credit was about the same as in 1974, while the credit for lower Canadian income tax rates was eliminated in 1975 due to decreased Canadian earnings. These various tax credits contributed 8 cents per share to 1975 earnings compared with 13 cents last year.

ANALYSIS OF EARNINGS

Net income and earnings per share ran below the 1974 levels in the first and second quarters; however, business trends and Scott & Fetzer's results improved substantially in the last six months compared with the year earlier periods, resulting in a significant gain in net

income and earnings per share for the year versus the 1974 levels. The table below summarizes the principal reasons for the earnings increase in 1975 compared with the prior year:

	Net Income ($000's)	Earnings Per Share
1974	$13,696	$1.81
Increase (Decrease) in 1975 from:		
Effect of labor strikes in 1974	720	.10
Improved operating results	2,540	.34
Lower net interest costs	478	.06
Reduced tax credits	(386)	(.05)
Net change	3,352	.45
1975	$17,048	$2.26

The increase in net income after taxes for 1975 was $3.4 million of which $2.5 million came from the improved operating results of the divisions and approximately $0.7 million from the absence of the labor strikes that affected 1974. The significant cost reduction and austerity programs instituted in late 1974 played a major role in the improved operating results of the divisions. The net interest costs (interest expense less interest income, on an after-tax basis) were reduced by $478,000, equivalent to 6 cents per share. As discussed earlier, the reduced tax credits increased taxes by $386,000 and decreased earnings per share 5 cents.

FINANCIAL POSITION

During 1975 there was a significant change in Scott & Fetzer's financial position as a result of two major factors. First, the company achieved a large reduction in the inventory investment. Secondly, in May 1975 the company sold its first public long-term debt issue in the form of a 9% ten-year note issue. As a result, working capital (current assets less current liabilities) increased to $100.6 million at November 30, 1975 from $84.5 million at the prior year end. The higher working capital of $16.1 million principally reflects a substantial increase in cash and securities resulting from the lower inventory level and the proceeds remaining from the note issue not used to repay bank loans.

At year end, total long-term debt was $34.8 million, up $7.4 million from the $27.4 million at November 30, 1974. The higher long-term debt resulted from the sale of the $30-million 9% ten-year note issue offset by the reduction in $24.6 million of bank loans outstanding at November 30, 1974. The balance of the increase reflects the industrial development bonds issued in February to finance the new plant for the Powerwinch/Ja-Son division in Connecticut.

At the end of 1975, shareholders' equity totaled $109.5 million, $9.4 million above the prior year-end level. This was equivalent to $14.49 per share compared with $13.25 at the end of 1974.

QUARTERLY DATA FOR 1975

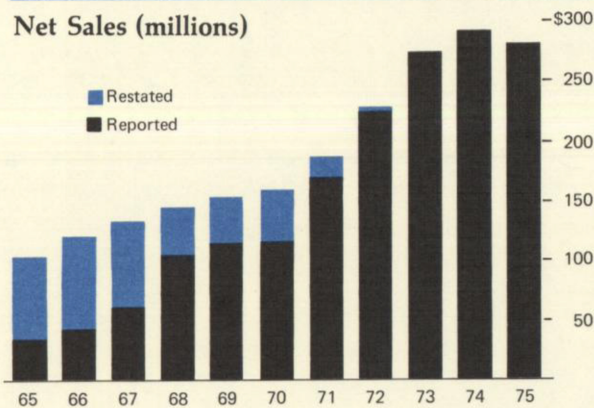
The table below contains the quarterly operations figures for 1975:

(dollar amounts in thousands except per share data)

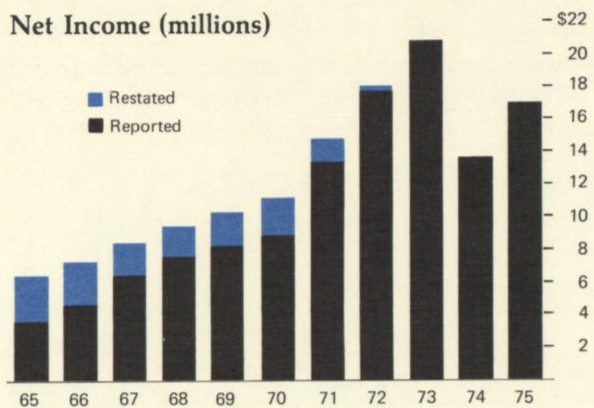
	1975 Fiscal Year by Quarter			
	First	Second	Third	Fourth
Sales	$57,566	$74,712	$75,477	$76,265
Costs and operating expenses	51,791	65,314	65,243	66,991
Other (deductions)	(670)	(673)	(430)	(117)
Income before income taxes	5,105	8,725	9,804	9,157
Provision for income taxes				
State and local	250	412	436	353
Federal and Canadian	2,227	3,751	4,484	3,830
Net income	$ 2,628	$ 4,562	$ 4,884	$ 4,974
Earnings per share	$ .35	$ .60	$ .65	$ .66

Historical Record, 1965-1975

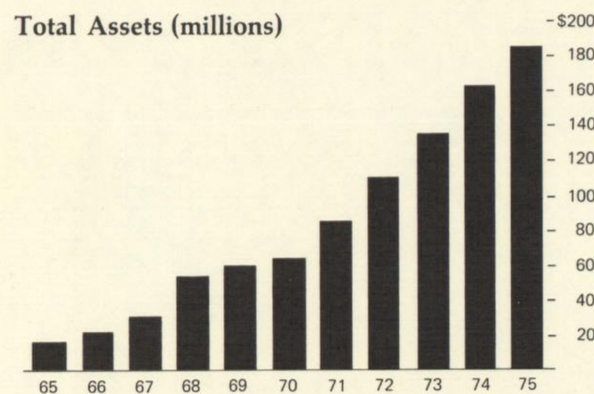
Net Sales (millions)



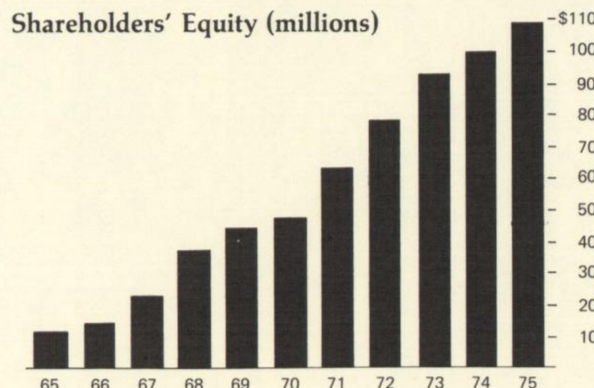
Net Income (millions)



Total Assets (millions)



Shareholders' Equity (millions)



(Dollar Amounts in Thousands Except Per Share Data)

AS REPORTED*	1975	1974	1973
Net Sales	$284,020	$291,258	$270,714
Income Before Taxes	32,791	25,931	40,064
Net Income	17,048	13,696	20,869
Cash Dividends	7,706	7,554	7,456
Per cent Payout of Net Income	45.2	55.2	35.7
Earnings Retained and Reinvested	9,342	6,142	13,413
Capital Expenditures	6,064	12,473	12,753
Working Capital	100,602	84,496	60,505
Long-Term Debt	34,772	27,424	3,334
Total Assets	184,177	162,729	136,076
Shareholders' Equity	109,496	100,137	93,837
Per cent Return on Shareholders' Equity	15.6	13.7	22.2
Per Share			
Earnings	2.26	1.81	2.76
Dividends	1.02	1.00	1.00
Book Value	14.49	13.25	12.44
Market Price Range†	22-8⅛	25⅝-8⅜	44¾-24⅛
Price Earnings Ratio†	10	9.4	11.3
Year-End Data			
Shares Outstanding (000's)	7,556	7,555	7,544
Number of Shareholders of Record	10,105	9,896	8,498
Number of Employees	7,084	7,481	8,296
RESULTS RESTATED FOR POOLINGS**			
Net Sales	$284,020	$291,258	$270,714
Income Before Tax	32,791	25,931	40,064
Per cent to Sales	11.5	8.9	14.8
Net Income	17,048	13,696	20,869
Per cent to Sales	6.0	4.7	7.7
Earnings Per Share	2.26	1.81	2.76

1972	1971	1970	1969	1968	1967	1966	1965
$223,610	$169,036	$116,368	$115,489	$106,295	$ 60,058	$ 41,331	$ 33,350
35,760	26,734	17,571	17,076	16,047	11,969	8,734	6,845
17,723	13,368	8,864	8,389	7,697	6,300	4,579	3,620
5,886	4,768	4,532	4,518	3,500	2,426	2,276	1,919
33.2	35.7	51.1	53.9	45.5	38.5	49.7	53.0
11,837	8,600	4,332	3,871	4,197	3,874	2,303	1,701
7,941	5,872	3,784	3,100	1,591	994	610	704
54,581	45,142	34,672	33,599	29,769	15,879	9,478	8,409
3,892	4,635	3,712	4,258	4,781	1,441	1,144	1,050
110,540	85,742	64,112	60,131	54,497	30,996	21,041	16,282
78,836	63,199	47,719	44,485	37,298	22,668	14,518	11,890
22.5	21.2	18.6	18.9	20.6	27.8	31.5	30.4
2.41	1.95	1.56	1.47	1.46	1.39	1.20	.97
.83	.80	.80	.80	.72	.60	.60	.54
10.76	9.24	8.50	7.83	7.08	5.00	3.81	3.19
45¾-26⅛	29⅛-16¾	17¼-10⅛	29⅜-13	32½-24	32¾-10⅜	14½-10	12½-9
14.9	11.8	8.8	14.4	19.3	15.5	10.2	11.1
7,326	6,843	5,616	5,679	5,271	4,535	3,811	3,726
8,697	10,172	11,445	10,519	9,814	4,750	4,376	4,196
6,917	5,499	4,317	4,057	3,982	1,677	1,131	769
$229,361	$188,730	$161,112	$154,530	$146,721	$134,426	$122,531	$105,069
36,722	29,722	22,527	21,072	19,764	16,280	14,117	12,567
16.0	15.7	14.0	13.6	13.5	12.1	11.5	12.0
18,189	14,846	11,377	10,434	9,662	8,694	7,454	6,688
7.9	7.9	7.1	6.8	6.6	6.5	6.1	6.4
2.40	1.97	1.53	1.39	1.29	1.16	.99	.89

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

** "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.

Summary of Operations

	(dollar amounts in thousands except per share data) Years Ended November 30				
	1975	1974	1973	1972	1971
Net sales	$284,020	$291,258	$270,714	$229,361	$188,730
Cost of goods sold	213,758	226,393	196,589	163,318	133,159
Interest expense	2,846	2,593	650	533	627
Interest income	1,305	132	429	387	273
Provision for income taxes					
State and local	1,451	1,203	1,671	1,538	1,137
Federal and Canadian					
Current	13,286	9,907	17,115	16,867	13,920
Deferred	1,006	1,125	409	128	(181)
Total taxes	15,743	12,235	19,195	18,533	14,876
Net income	$ 17,048	$ 13,696	$ 20,869	$ 18,189	$ 14,846
Per Share					
Earnings per common and common equivalent share	$ 2.26	$ 1.81	$ 2.76	$ 2.40	$ 1.97
Dividends	1.02	1.00	1.00	.83	.80
Average number of common and common equivalent shares (000's)	7,559	7,553	7,571	7,563	7,537

Management's Discussion and Analysis of the Summary of Operations

1975 VERSUS 1974

Sales volume for 1975 was 2% below 1974, with the decrease reflecting generally lower unit volume in most product areas partially offset by increased selling prices.

Cost of goods sold decreased 6% with higher material and labor costs being offset by lower unit volume and improved operating efficiencies. The greater interest costs resulted from a $30-million 9% ten-year note issue which replaced bank loans used in 1974 and the first half of 1975. Higher interest income was realized in 1975 from short-term investments made of those note proceeds in excess of the amount needed to pay the outstanding bank loans together with the cash generated during the year from operations, largely inventory reduction.

The effective tax rate for 1975 was 48% compared with 47.2% in 1974. The higher effective tax rate primarily resulted from reduced investment tax credits as a result of lower expenditures in 1975 for new machinery and equipment. The total provision for income taxes increased in 1975 due to higher income before taxes.

1974 VERSUS 1973

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

The company 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 have resulted 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.

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										
1975	**$71,955**	**25%**	**$82,839**	**29%**	**$68,255**	**24%**	**$37,226**	**13%**	**$23,745**	**9%**
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%
INCOME BEFORE TAXES										
1975	**$16,314**	**50%**	**$ 6,013**	**18%**	**$ 3,388**	**10%**	**$ 7,045**	**22%**	**$ 31**	**—**
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%
1975 BY QUARTER										
SALES										
First	$15,039		$17,859		$11,125		$ 8,087		$ 5,456	
Second	18,588		20,561		20,386		9,110		6,067	
Third	18,359		21,320		20,668		9,329		5,801	
Fourth	19,969		23,099		16,076		10,700		6,421	
INCOME BEFORE TAXES										
First	$ 2,875		$ 736		$ 134		$ 1,283		$ 77	
Second	4,109		1,260		1,915		1,653		(212)	
Third	3,985		2,530		1,563		1,648		78	
Fourth	5,345		1,487		(224)		2,461		88	

Common Stock Market Price and Dividend Information

	Market Price of Common Shares				Dividends Per Share	
	1975		1974			
Fiscal Quarter	High	Low	High	Low	1975	1974
First	$12⅝	$ 8⅛	$25⅝	$16¼	$.25	$.25
Second	16	11⅜	21½	15½	.25	.25
Third	19⅝	14	17¾	10	.25	.25
Fourth	22	15¼	11	8⅜	.27	.25

Consolidated Balance Sheet

The Scott & Fetzer Company and Subsidiary Companies

(Dollar Amounts in Thousands)

	November 30	
ASSETS	**1975**	1974
CURRENT ASSETS:		
Cash	**$ 530**	$ 4,854
Certificates of deposit	**33,797**	283
Short-term investments	**4,050**	50
Trade receivables, less allowance for doubtful accounts 1975 — $810 1974 — $996	**38,714**	38,379
Other receivables	**1,310**	892
Inventories:		
Raw material and supplies	**28,651**	35,717
Work in process	**13,771**	15,366
Finished goods	**13,157**	19,444
	55,579	70,527
Prepaid expenses	**2,874**	2,028
TOTAL CURRENT ASSETS	**136,854**	117,013
PROPERTY, PLANT AND EQUIPMENT:		
Land and land improvements	**2,069**	2,073
Buildings	**16,334**	13,441
Machinery and equipment	**52,897**	51,572
	71,300	67,086
Accumulated depreciation	**27,149**	24,057
TOTAL PROPERTY, PLANT AND EQUIPMENT	**44,151**	43,029
INTANGIBLE ASSETS ARISING FROM ACQUISITIONS	**2,149**	2,178
OTHER ASSETS	**1,023**	509
	$184,177	$162,729

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

LIABILITIES	November 30 1975	1974
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 1)	$ 440	$ 448
Accounts payable, trade	19,308	20,647
Accounts payable, other	1,282	1,051
Federal and Canadian income taxes	4,332	1,787
Accrued taxes, other	1,718	1,982
Accrued liabilities for payroll, pension funds, commissions, interest and other	9,172	6,602
TOTAL CURRENT LIABILITIES	36,252	32,517
LONG-TERM DEBT (Note 1)	34,772	27,424
DEFERRED INCOME TAXES	3,657	2,651
TOTAL LIABILITIES	74,681	62,592
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 3 and 6)		
Stated value of issued shares $1.25 per share		
1975 — 7,558,185 less 2,161 in treasury		
1974 — 7,558,185 less 3,361 in treasury	9,445	9,444
ADDITIONAL CAPITAL (Note 6)	5,707	5,691
RETAINED EARNINGS (Note 1)	94,344	85,002
TOTAL SHAREHOLDERS' EQUITY	109,496	100,137
	$184,177	$162,729

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 1975	1974
NET SALES	$284,020	$291,258
Cost of goods sold	213,758	226,393
Gross profit	70,262	64,865
Selling, general and administrative expenses	35,581	36,751
Operating profit	34,681	28,114
Other income (deductions)		
Interest expense	(2,846)	(2,593)
Interest income	1,305	132
Licenses and royalties	17	136
Other, net	(366)	142
	(1,890)	(2,183)
Income before provision for income taxes	32,791	25,931
Provision for income taxes		
State and local	1,451	1,203
Federal and Canadian		
Current	13,286	9,907
Deferred	1,006	1,125
	15,743	12,235
NET INCOME	17,048	13,696
Retained earnings, beginning of year	85,002	78,860
	102,050	92,556
Cash dividends	7,706	7,554
Retained earnings, end of year	$ 94,344	$ 85,002
PER SHARE		
Earnings per common and common equivalent share	$ 2.26	$ 1.81
Dividends	$ 1.02	$ 1.00
Average number of common and common equivalent shares outstanding (000's)	7,559	7,553

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

The Scott & Fetzer Company and Subsidiary Companies

(Dollar Amounts in Thousands)

	Year Ended November 30	
	1975	1974
SOURCE OF FUNDS		
From operations:		
Net income	$ 17,048	$ 13,696
Depreciation and amortization	4,902	4,207
Deferred federal income taxes	1,006	1,152
Total from operations	22,956	19,055
Proceeds from issuance of long-term debt, net	31,639	24,600
Sale of common stock under stock options	17	158
Disposal of fixed assets	112	448
Other, net increase	204	320
	54,928	44,581
APPLICATION OF FUNDS		
Cash dividends	7,706	7,554
Additions to property, plant and equipment	6,064	12,473
Decrease in long-term debt	25,052	510
Intangibles acquired from acquisitions	—	53
	38,822	20,590
INCREASE IN WORKING CAPITAL	$ 16,106	$ 23,991
INCREASE (DECREASE) IN COMPONENTS OF WORKING CAPITAL		
Current assets:		
Cash and certificates of deposit	$ 29,190	$ 4,042
Short-term investments	4,000	(218)
Trade and other receivables	753	4,885
Inventories	(14,948)	10,179
Prepaid expenses	846	214
	19,841	19,102
Current liabilities:		
Notes and current portion of long-term debt	(8)	(8,248)
Trade and other payables	(1,108)	7,095
Accrued liabilities, including taxes	4,851	(3,736)
	3,735	(4,889)
INCREASE IN WORKING CAPITAL	$ 16,106	$ 23,991

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

Notes to Financial Statements

1. LONG-TERM BORROWINGS

Long-term borrowings at November 30, 1975 are as follows (dollars in thousands):

	Current	Non-current
Notes, 9%, due May 15, 1985	$ —	$30,000
Mortgage notes, 5½% to 6½%, maturities to 1982	104	385
Insurance company loan, 6%, maturities to 1980	200	1,300
Obligations under Lease/Purchase Agreements, 4¼% to 8%, maturities to 1988	136	3,087
	$440	$34,772

In May 1975, the Company sold $30,000,000 of 9% notes, due May 15, 1985. The net proceeds were used in part to repay the then outstanding borrowings under a revolving credit agreement with five banks, which was cancelled. The effective interest rate approximates 9.19% after deducting original issue discount.

Under the terms of the note indenture, the Company's cumulative dividends after December 1, 1974 cannot exceed the sum of, net income after that date, the amount of $15,000,000, and net proceeds from the sale of stock to the extent such proceeds do not exceed amounts expended for acquisition of capital stock or other capital distributions or redemptions other than dividends on capital stock. Under these provisions, retained earnings unrestricted for the payment of dividends amounted to $24,341,000 at November 30, 1975. In addition, the indenture limits the issuance or guarantee of new debt to an amount not to exceed 5% of consolidated shareholders' equity and prohibits additional encumbrances of any principal property of the Company or its domestic subsidiaries. The notes may be redeemed by the Company at face value plus accrued interest beginning May 15, 1982. Original issue discount and costs of issuance amounting to $640,000 are being amortized over the life of the notes on a straight-line basis.

Mortgage notes require aggregate monthly payments of $10,900 including interest.

The insurance company loan is payable in annual installments of $200,000 on December 31 of each year, with a balance of $500,000 due in 1980.

Under the terms of five Lease/Purchase Agreements (one of which includes equipment) the Company is obligated for annual rentals during the terms of the leases in amounts sufficient to meet the interest and debt retirement requirements of the related Industrial Development 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.

The Company has unused lines of credit with seven banks amounting to $16,000,000. Although withdrawal is not legally restricted, the Company is expected to and does maintain compensating balances equal to 10% of the lines of credit.

Aggregate maturities of long-term debt during the five-year period November 30, 1976 through 1980 are $440,000, $421,000, $424,000, $429,000 and $383,000 respectively.

2. LONG-TERM LEASES

For leased facilities not capitalized and therefore 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, 1975, amount to the following (thousands of dollars):

Years ending November 30	All Leases: Land and Buildings	Machinery and Equipment	Total	Total for Financing Leases
1976	$ 2,332	$ 425	$ 2,757	$ 1,743
1977	2,218	216	2,434	1,599
1978	2,058	107	2,165	1,431
1979	1,778	48	1,826	1,229
1980	1,694	24	1,718	1,168
1981-1985	7,799	20	7,819	5,484
1986-1990	3,958	—	3,958	2,658
1991-1995	455	—	455	116
After 1995	51	—	51	—
Total rental commitments	$22,343	$ 840	$23,183	$15,428

The present values of the minimum lease commitments for all non-capitalized financing leases as of November 30, 1975, are as follows:

Land and buildings	$10,145,000
Machinery and equipment	608,000
Total	$10,753,000

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 4.5% to 12.0% and averaged 6.91%. 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, 1975 and 1974 amounted to $3,711,000 and $3,487,000 respectively, of which $1,818,000 and $1,322,000 respectively, were applicable to financing lease rentals.

3. STOCK OPTIONS

The Company adopted common stock option plans in 1967 and 1973 for which 91,800 shares and 125,100 shares, respectively, are reserved for issuance under outstanding options at November 30, 1975. Under the 1973 plan, 224,900 shares are reserved for future grant.

Only qualified options have been granted under the plans. Non-qualified options may be granted under the 1973 plan. Under both plans, the option price may not be less than the market value at the date of grant. Granted options are exercisable one-fourth each year and expire five years after grant. The options granted in 1975 were under the 1973 plan.

Information at November 30, 1975 relating to options is set forth below:

	Number of Shares	Option Price: Average Per Share	Option Price: Total	Market Price: Average per Share	Market Price: Total
Options granted:					
1974	115,300	$19.50	$2,248,350	$19.50	$2,248,350
1975	20,500	12.29	251,938	12.29	251,938
Options becoming exercisable:					
1974	36,485	29.36	1,071,505	19.95	727,712
1975	54,716	26.22	1,434,861	11.13	609,043
Options exercised:					
1974	11,075	14.14	156,606	21.41	237,144
1975	1,200	14.75	17,700	19.67	23,604
Options outstanding:					
1974	223,325	25.73	5,745,144	25.73	5,745,144
1975	216,900	25.01	5,425,500	25.01	5,425,500

Certain options granted under the plans have corresponding contingent options under the 1973 plan which may be exercised only upon the lapsing of existing options.

During 1975 and 1974, options for 25,725 shares and 31,475 shares, respectively, were cancelled. The Company makes no charge against income with respect to options.

4. PENSION AND RETIREMENT PLANS

The Company and its subsidiaries have in effect various non-contributory trusteed pension and profit-sharing plans for salaried and hourly personnel at different divisions. Contributions under the plans charged to operations were $2,369,000 and $2,236,000 for the years ended November 30, 1975 and 1974, respectively. These include, as to certain of the plans, amortization of past service costs over periods ranging from 24 to 40 years. The amount required to fund past service costs is estimated at $12,898,000. 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 $2,809,000 at November 30, 1975.

5. CONTINGENT LIABILITIES

Any liability that may result from lawsuits and other claims pending against the Company and its subsidiaries as of November 30, 1975 will not be material in the opinion of management of the Company.

6. CAPITAL STOCK

Changes in the common stock and additional capital accounts during the two years ended November 30, 1974 and 1975 were as follows (dollars in thousands):

	Common Stock			
	Treasury Shares	Issued Shares	Stated Value	Additional Capital
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
Sale of stock under options	1,200	—	1	16
Balance, November 30, 1975	(2,161)	7,558,185	$9,445	$5,707

7. FEDERAL AND CANADIAN INCOME TAXES

The effective income tax rates were 45.60% for the year ended November 30, 1975 and 44.61% for 1974. The difference between these rates and the statutory U. S. income tax of 48% resulted from:

	Year ended November 30,	
	1975	1974
Investment tax credit	1.21%	2.85%
Other, net	1.19	.54
	2.40%	3.39%

Summary of Accounting Policies

The following is a summary of 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 all subsidiaries, all of which are wholly owned. Intercompany balances, transactions and stockholdings have been eliminated in consolidation.

Short-Term Investments— Marketable and short-term investments are valued at cost, which approximates market value.

Inventory Valuation—The last-in, first-out method of inventory valuation is used for a majority of domestic inventories. The majority of the remaining inventory is valued at average cost. Inventory valuations are at the lower of cost or market.

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. Maintenance, repair and ordinary renewals are charged to costs.

Depreciation—Straight-line and accelerated methods are used in the computation of depreciation for financial reporting 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 current results of operations include those of acquisitions for the entire year and financial statements of the preceding year are restated. Acquisitions which constitute "purchases" are included from the date of acquisition, and amounts assigned to intangibles after 1970 are amortized on a straight-line basis over a 40-year period. Amortization is not taken on intangibles from prior to 1971 because, in the opinion of the Company, there has been no diminution in value. There were no combinations during 1975.

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, which are insignificant, are included in 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, 1975 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 previously examined and reported on the consolidated financial statements of the Company and subsidiaries for the year ended November 30, 1974.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of The Scott & Fetzer Company and subsidiary companies at November 30, 1975 and 1974, 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

Cleveland, Ohio
January 21, 1976

Report of the Board of Directors' Audit Committee

This is the first annual report to you by the Audit Committee of the Board of Directors.

The outside directors comprise the Audit Committee which meets at least four times annually with the Company's public auditors — Coopers & Lybrand — the manager of internal audit and the corporate financial and executive officers to review and monitor Scott & Fetzer's financial control policies and procedures. We receive all internal monthly divisional and corporate financial statements as well as copies of internal audit reports and special management operating and financial analyses.

The committee is generally satisfied with the Company's financial control system and believes a substantial improvement has been made during the last two years in the cost and accounting systems, although we recognize, as does the Management, that there is still room for improvement in this area. We believe there has been a measurable upgrading of divisional financial personnel. Where weaknesses have shown up in divisional financial control systems, we have been fully and timely informed by the corporate management and are monitoring, with the assistance of the external and internal audit managers, the strengthening of these systems.

We wish to commend the Company's management and financial personnel as well as the Coopers & Lybrand auditors for the cooperation and support we have received in carrying out our Audit Committee responsibilities.

For the Audit Committee

James A. Hughes
Chairman

Cleveland, Ohio
January 22, 1976

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

JAMES A. HUGHES
Chairman, Finance Committee,
Diamond Shamrock Corporation,
Diversified chemicals and oil and gas producer

QUIGG LOHR
Senior Executive
Vice President

RALPH SCHEY
President and
Chief Operating Officer

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

Audit Committee
JAMES A. HUGHES, Chairman
THOMAS W. SMITH
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

JOHN BEBBINGTON
Group Vice President

CARL W. GOLDBECK
Group Vice President

WALTER A. RAJKI
Group Vice President

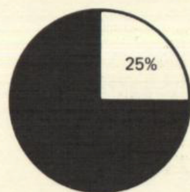
KENNETH D. HUGHES
Treasurer and Controller

ROBERT C. WEBER
Secretary and
General Counsel

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



SALES

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

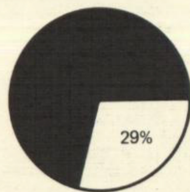
Kirby of Canada
1009 Burns Street East
Whitby, Ontario, Canada

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

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

*Under more than one Market Classification

COMMERCIAL/INDUSTRIAL PRODUCTS



SALES

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*
217 Long Hill Crossroad
Shelton, Connecticut 06484

Quikut Division
1100 Napoleon Street
Fremont, Ohio 43420

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

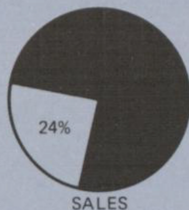
P. O. Box 8
Cardington, Ohio 43315

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

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

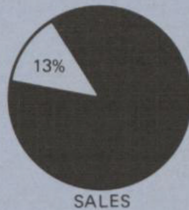
Powerwinch/Ja-Son Division*
217 Long Hill Crossroad
Shelton, Connecticut 06484

Valley Tow-Rite Division
1313 S. Stockton 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

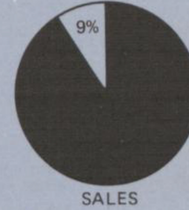
Kingston Division*
Miller Road
Smithville, Tennessee 37166

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

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

Business Information Dept.
Cleveland Public Library
325 Superior Avenue
Cleveland, Ohio 44114

THIRD CLASS

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