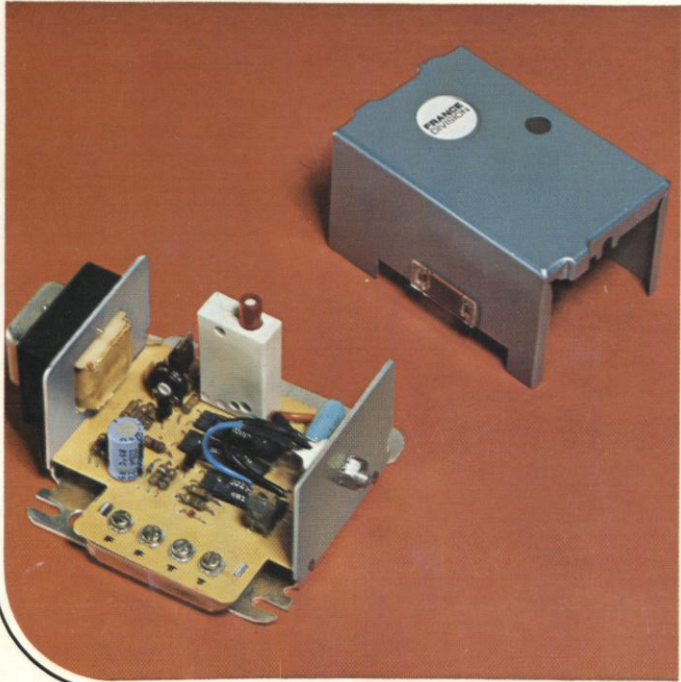


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# The Scott & Fetzer Company 1976 Annual Report



## A Tribute to Niles H. Hammink — Thirty Years of Leadership

On November 30, 1976, Niles Hammink retired as Chief Executive Officer, completing 30 years of service to Scott & Fetzer. In September, 1946, when Niles joined the company as Treasurer, it was a one-product-line company with sales of \$1.7 million. He became President in 1968 and Chief Executive Officer in 1970. Under his leadership, the company achieved its greatest growth, becoming a multi-market company with 31 operating divisions, 50 plants located in 14 states and in Canada, 7,500 employees, and sales of \$343 million.

In 1964, Scott & Fetzer made the decision to expand its single product into a multiple product company and Niles became the architect of the acquisition program, personally identifying and negotiating most of the transactions. His management philosophy emphasizing decentralized operations and division autonomy together with his humanistic approach in dealing with people contributed greatly to the smooth integration and assimilation of the many different organizations that became part of Scott & Fetzer.

Although the diversification program was one of the most successful in American industry, his single greatest contribution was in the growth and development of the Kirby division and its marketing organization. Kirby was always his first love and he was never too busy to spend time helping an independent Kirby distributor or divisional supervisor solve some problem. Among his many talents, Niles was an inventor. Several of the Kirby accessories and many of the engineering improvements on the Kirby vacuum cleaner were the result of his ideas. He is known and highly respected throughout the Kirby marketing organization for his many contributions to the success of this product.

When Niles took time to relax, he usually turned to his lifelong love of



the water and has been for many years a recognized and accomplished sailor and yachtsman. Many trophies attest to his skills, as he approached these pursuits with the same enthusiasm and quest for excellence that marked his business activities.

Executive, business and industry leader, humanitarian, inventor and yachtsman, Niles Hammink is a man of diversified talents. The Scott & Fetzer Company of 1976 is largely his creation. As he begins his retirement period, the company will continue to benefit from his wise counsel in his new role as Director and Chairman of the Executive Committee. Above all, he has our gratitude and greatest admiration for the heritage he has provided.

The Officers and Employees of  
The Scott & Fetzer Company

### Mr. Hammink's Record

- 1946 — *Treasurer*
- 1957 — *Vice President and Treasurer*
- 1964 — *Director*
- 1966 — *Executive Vice President*
- 1968 — *President and Chief Operating Officer*
- 1970 — *Chief Executive Officer*
- 1974 — *Chairman of the Board and Chief Executive Officer*
- 1976 — *On November 30, retired from officer positions; continued as a Director and as Chairman of the Executive Committee of the Board of Directors.*

# The Year at a Glance

(Dollar Amounts in Thousands Except Per Share Data)

	1974	1975	1976	Per Cent Change 1976 vs 1975
Net Sales . . . . .	\$291,258	\$284,020	<b>\$343,043</b>	21%
Income Before Taxes . . . . .	25,931	32,791	<b>45,855</b>	40%
Per cent to Sales . . . . .	8.9%	11.5%	<b>13.4%</b>	
Net Income . . . . .	\$ 13,696	\$ 17,048	<b>\$ 22,861</b>	34%
Per cent to Sales . . . . .	4.7%	6.0%	<b>6.7%</b>	
Per cent to Shareholders' Investment . . . . .	13.7%	15.6%	<b>18.5%</b>	
Per Share:				
Earnings . . . . .	\$ 1.81	\$ 2.26	<b>\$ 3.01</b>	33%
Dividends . . . . .	1.00	1.02	<b>1.17</b>	15%
Book Value . . . . .	13.25	14.49	<b>16.34</b>	13%
Total Assets . . . . .	\$162,729	\$184,177	<b>\$207,223</b>	13%
Shares Outstanding (000's) . . . . .	7,555	7,556	<b>7,577</b>	
Number of Shareholders . . . . .	9,896	10,105	<b>9,377</b>	

## 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 22, 1977, 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.

### On the Cover

Clockwise starting upper left: air compressor, *Campbell-Hausfeld*; the Kirby Classic III vacuum cleaner, *Kirby*; recreational vehicle awning, *Carefree of Colorado*; solid-state control for oil furnace ignition system, *France*.

## To the Shareholders



This is my first letter to you as Scott & Fetzer's Chief Executive Officer. It is my pleasure to report that 1976 was a year of new records for Scott & Fetzer. Sales and earnings were at all-time highs and our balance sheet was the strongest in the company's history.

It is particularly appropriate for 1976 to be a record year in order to help commemorate the retirement in November, 1976, of Niles H. Hammink as Chairman and Chief Executive Officer. Throughout his business career Niles continually set new records and 1976 added one more accomplishment to his 30 years of achievement at Scott & Fetzer.

The consumer sector of the economy was very strong in the early part of 1976 but grew at a much slower rate during the last half of the year. Our consumer product sales, however, continued to grow throughout the year and experienced only a mild slowdown as the result of a 33-day strike at Melben Products, a unit of the Campbell-Hausfeld division. Cost-price pressures increased in severity as the year progressed, and we are now at the point in the historical

business cycle where margins begin to decline unless there is renewed emphasis on productivity and pricing. Our fourth quarter margins demonstrate the attention that the divisional management personnel have given to these problems.

Consolidated sales were \$343 million, 21% higher than 1975 with net income of \$22.9 million compared to \$17 million in the prior year, an increase of 34%. Earnings per share were \$3.01 versus \$2.26 in 1975, up 33%. Our net profit margin increased to 6.7% of sales, up from 6.0% last year, and our return on shareholders' equity was 18.5% compared with 15.6% in 1975. Increased emphasis on cost controls and operating improvements in a number of divisions were important contributions to our improved profitability.

Dividends were increased from a quarterly rate of 27 cents to 30 cents per share in May, 1976. During 1976, we paid total dividends of \$1.17 per share, 15% above the \$1.02 paid in the prior year. This increase was in accord with the long-term policy of your Board of Directors for an increasing payout to the shareholders which would be consistent with increasing earnings and the maintenance of the conservative cash position required of a growth company.

1976 was in most respects the best year in the company's history. We are proud and grateful for the outstanding contribution of our employees in making it an exceptional year.

### Review of 1976 Programs

The financial review highlights the progress in various income statement and balance sheet data, but I would like to review some of the year's activities which favorably influenced those financial results.

A number of improvements and additions were made in various management positions which substantially

strengthened some divisions that had operated at less than satisfactory profit levels. Some of these management appointments are covered in a subsequent section of this letter. Many of the organization changes were essential in order to solve short-term problems, but they have also contributed to the more important goals of accelerated product innovation, creative marketing strategy, and development of more intensive and effective internal control systems. Our continuous emphasis on productivity and aggressive marketing is reflected in the experience and knowledge of the managers we have selected.

At the corporate level, we have spent more time and given greater attention to assist our divisions with organization planning, management training, and incentive programs which will serve to motivate individual performance.

While a great deal of progress was accomplished in 1976 towards achieving long-term objectives, some activities initiated in 1976 will continue to require attention in 1977.

Our labor contract settlements were in many cases larger than projected productivity increases. This places added responsibility on our division management to achieve higher productivity gains while aggressively securing price increases to offset unrecovered costs. 1976 was a major labor contract year for a number of key industries and we believe that most of these companies will of necessity follow a similar course of action to that of Scott & Fetzer.

Our Campbell-Hausfeld division, while showing improvement over 1975, continued to operate at less than satisfactory margins. As part of the long-term improvement in this operation, we decided to sell the chain saw business. This transaction was completed in January, 1977. The

opportunities in existing and proposed product lines will be more advantageous to the company in the long run than trying to develop a market leadership position in chain saws.

Our capital expenditures were approximately \$4.6 million which was significantly lower than the \$8 million forecast for the year. The facilities planned for Campbell-Hausfeld were deferred until we can completely evaluate the effects of disposing of the chain saw business. The new equipment required to service new state driver license contracts awarded the Dek/Electro division has been rescheduled for 1977.

#### **Management Changes**

During 1976, we made a number of important management changes, including several promotions from within the company. Mr. William E. Dotterweich, 40, was promoted to president of the Valley Tow-Rite division. Previously, he had been executive vice president-operations of the division. Mr. Ronald P. Drickhamer, 33, was named president of the Western Enterprises division. He had served as plant manager of the Kingston division's Smithville, Tennessee plant since 1971. Mr. Thomas F. Kiley, 49, who joined Scott & Fetzer in early 1976 as executive vice president of the Powerwinch/Ja-Son division became the division president in August.

New executives joining Scott & Fetzer as division presidents were: Mr. William H. Grabscheid, 43, the Humphreys Leather Goods division; Mr. Clarence D. Fayling, 54, the American-Lincoln division; Mr. James D. Dodson, 40, the Campbell-Hausfeld division; Mr. Lawrence M. Stein, 43, the Atlas Lighting division; and Mr. Kearney K. Kier, 40, the Cardinal Plastics division. These new Scott & Fetzer division presidents have excellent management back-

grounds with substantial experience in the disciplines necessary to manage their respective divisions.

#### **1977 Outlook**

There appears to be a consensus among economists that the first half of 1977 could be weak due to energy and other short-term trends, with renewed strength during the remainder of the year. With the exception of automobile sales and housing, the year has started with general consumer demand at lower than expected levels.

We believe that our consumer business will be aided in the short run by the kind of economic package currently being proposed by the Carter Administration.

Current difficulties with energy may focus our national attention on an energy program which is beneficial to all affected parties — owners and developers of natural resources, producers, distributors, and users, whether industrial, commercial, or residential. As more money is spent to develop our national energy resources, those Scott & Fetzer divisions which are suppliers to such companies will benefit.

In general, we see 1977 providing greater sales opportunities than 1976, but we remain concerned about the effect of inflation, particularly if it should result in any form of wage and price controls.

#### **Scott & Fetzer Corporate Strategy**

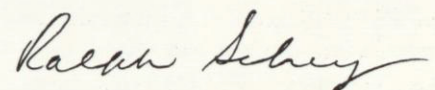
Scott & Fetzer currently derives about two-thirds of its sales from consumer products. Looking ahead we believe that a more desirable ratio between our consumer and commercial/industrial activities would be about 50-50. We believe that the United States must become more capital products oriented if industry is to supply the kinds and quantities of jobs that provide a constantly improv-

ing standard of living for everyone.

This commitment will not in any manner diminish our efforts to expand our present consumer sales because consumer businesses tend to have fewer cyclical fluctuations than commercial/industrial products; however, it is our purpose to commit more corporate resources to the expansion and development of commercial/industrial activities because many of these markets will grow faster and more profitably than some consumer products. The expanded technical and manufacturing competency required for some of these products may be beneficial to our consumer businesses as well.

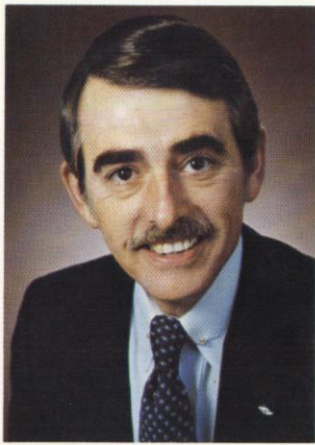
We will continue to review each of the businesses we are already in to determine the future potential profitability in relation to our corporate goals for income growth and return on investment. Those businesses which are not achieving minimum corporate financial goals will be studied in depth to determine a prudent course of action.

As we enter 1977 I am confident that Scott & Fetzer has the market opportunities, management talent, highly-motivated employees, and financial resources to continue our historical growth record. We are dedicated to serving our customers with high quality products, meeting our responsibilities both to the public and our shareholders, and making Scott & Fetzer a desirable and rewarding place for our employees.



**RALPH SCHEY**  
Chairman and  
Chief Executive Officer

Lakewood, Ohio  
February 15, 1977



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

Sales, income before taxes, net income, earnings per share and dividends paid were new records for Scott & Fetzer in the 1976 fiscal year. Twenty-one of the thirty-one divisions achieved improved operating results compared with 1975. During 1976, the domestic economy showed moderate real growth, the inflation and interest rates were lower and consumers generally more confident. All of these factors contributed to improved

business conditions during the year. Collectively, Scott & Fetzer's divisions achieved the 1976 corporate goals in sales, earnings, asset management and profitability.

Net income for the 1976 fiscal year totalled \$22.9 million on consolidated sales of \$343 million compared with \$17 million and \$284 million respectively in the prior year. This was an increase in net income of 34% on a sales gain of 21%. Earnings per share showed a growth of 33% to \$3.01 compared with \$2.26 in 1975. The net profit margin (stated as a percentage of net income to sales) rose to 6.7% from 6.0% last year. The return on shareholders' equity improved to 18.5% compared with 15.6% in 1975.

The growth in sales and earnings came from all market classifications with operations being especially strong in the leisure time and electrical categories. There was a significant earnings recovery in the lighting area reflecting the improved new home construction market.

The financial report on page 8 shows the results for the last five years and for the quarters of 1976 in the five major market classifications. The important trends in each of these areas are discussed in the following sections.

### MARKET CLASSIFICATIONS

**Floor Care.** Sales in 1976 increased 19% to \$85.9 million from \$72 million in the prior year, and accounted for 25% of Scott & Fetzer's total business. Income before taxes was \$20.9 million, 28% above the \$16.3 million earned in 1975. These product lines contributed about 46% of the company's total 1976 earnings. All divisions in this category recorded higher sales; however, most of the growth came from the Kirby division which had a record year. The earnings growth also was broadly based but again the Kirby division's results were the predominant factor. Eight Scott & Fetzer divisions manufacture parts or supplies for the Kirby division and these units also contributed to the overall results.

**Commercial/Industrial.** For 1976, sales totalled \$92.8 million compared with \$82.8 million last year, an increase of 12%. This classification contributed 27% of total sales compared with 29% in 1975. Income before taxes was up 32% to \$8 million from \$6 million in the prior year, accounting for 17% of total earnings, down slightly from 18% last year. The Campbell-Hausfeld, Streamway, Humphreys, Flex-N-Gate and Stahl divisions contributed most of the sales growth, partially offset by lower volume in the Douglas division. Ten divisions in this classification had higher sales while four were lower. The increase in income before taxes principally reflected the substantial improvement in operating results at the Campbell-Hausfeld division. Nine other divisions also achieved earnings growth, particularly the Streamway, Stahl and Humphreys divisions. These results were partially reduced by the substantially lower earnings of the Douglas division. Both sales and earnings were down at Douglas due to sharply lower demand during the year for tank track links.

**Leisure Time.** 1976 sales were \$89.5 million, 31% above the \$68.3 million recorded in the prior year. This classification, now Scott & Fetzer's second largest, accounted for 26% of total sales, up from 24% last year. The growth in earnings was 72% to \$5.8 million from \$3.4 million in 1975. These product line earnings were 13% of the total compared with 10% last year. The Campbell-Hausfeld division was responsible for most of the increased volume although all divisions in this market classification had rec-

ord years. Also, these divisions showed sharply higher earnings with Carefree of Colorado, Valley Tow-Rite and Powerwinch divisions attaining record results. Earnings in 1976, particularly in the fourth quarter, were affected by the operating results and preparation for disposition of the chain saw product line which was sold in January, 1977. It appears likely that the leisure time product lines should experience above-average growth in 1977.

**Electrical.** Sales in 1976 were \$47.5 million, up from \$37.2 million in the prior year, an increase of 28%. The electrical product lines' sales were 14% of Scott & Fetzer's total, compared with 13% in 1975. Income before taxes showed a growth of 43% to \$10.1 million from \$7 million last year, contributing 22% to the company's total earnings or about the same as in 1975. The higher sales volume and earnings came primarily from the Halex and France divisions, with the Kingston and Northland divisions also achieving higher volume. These gains were partially offset by moderately lower sales and earnings in the Adalet and PLM divisions, reflecting a slowdown in the energy-related markets.

**Lighting.** Volume for 1976 increased 16% to \$27.5 million from \$23.7 million in the prior year, accounting for about 8% of Scott & Fetzer's total sales, approximately the same percentage as in 1975. Income before taxes was \$1.1 million compared with about a breakeven in 1975. All lighting divisions showed improved sales with most of the gain coming from the Virden-U.S. division. The Rembrandt division achieved a modest growth in sales volume and a substantial improvement in operating results with a profit for the year. The outlook for the lighting divisions continues to improve and it is expected that the operating results, which have been marginal in the last two years, should show further gains in 1977.

## INCOME TAXES

The provision for federal, Canadian, state and local income taxes for the 1976 fiscal year totalled \$23 million or 50.1% of income before taxes compared with \$15.7 million and an effective tax rate of 48% in the prior year. The investment tax credit was \$390,000 this year, slightly above the \$380,000 in 1975. The "DISC" export tax credit declined to \$183,000 from \$241,000 in 1975. In addition, in 1976 the tax provision was increased to provide for various contingent tax items. The higher 1976 effective tax rate reflected the lower tax credits, relative to the higher 1976 income before taxes, and to the increased provision.

## ANALYSIS OF EARNINGS

Net income and earnings per share in each quarter exceeded the comparable quarters of 1975 and established new records. 1976 was an excellent year with the company's budgeted projections being met or exceeded. Results for 1976 reflected the substantially greater sales volume, higher selling prices, tight cost controls, productivity gains and improved operating conditions in several divisions. The net effect of these factors was a meaningful gain in profitability.

The table below shows, for net income and earnings per share, the principal elements of the 1976 gain versus 1975:

	Net Income (000's)	Earnings Per Share
1975 .....	\$17,048	\$2.26
Increase (Decrease) in 1976 from:		
Operations .....	6,152	.81
Lower net interest costs .....	640	.08
Higher effective income tax rates ....	(979)	(.13)
Higher common and common equivalent shares .....	—	(.01)
Net change .....	<u>5,813</u>	<u>.75</u>
1976 .....	<u>\$22,861</u>	<u>\$3.01</u>

## Financial Review

The growth in net income after taxes was \$5.8 million for 1976 compared to the prior year. Income from operations contributed \$6.2 million, or 81 cents per share — an increase of 32%. Net interest costs (interest expense less interest income, after taxes) declined \$640,000, equivalent to 8 cents per share. Higher state and local income taxes together with lower relative tax credits and increased provision for federal income taxes reduced earnings by \$979,000 or 13 cents per share. The slightly larger number of common and common equivalent shares used in the calculation reduced earnings per share one cent. The net effect of these factors was an increase in earnings per share of 75 cents, a gain of 33%.

### FINANCIAL POSITION

As shown on the balance sheet, pages 10-11, Scott & Fetzer's financial position became even stronger during 1976. Total assets at November 30, 1976 were \$207.2 million compared with \$184.2 million at the prior year end. Working capital (current assets less current liabilities) increased \$15.6 million to \$116.2 million from \$100.6 million at the end of 1975. Cash and securities totalled \$47.4 million compared with \$38.4 million a year earlier. Trade and other receivables were \$48.1 million, up \$8 million. Inventories increased \$5.8 million to \$61.4 million. The total investment in receivables and inventories was up 14% from 1975 on a 21% gain in sales volume.

Total property, plant and equipment declined slightly from the November 30, 1975 level since depreciation during 1976 exceeded expenditures for new facilities and equipment. Long-term debt of \$34.4 million was modestly

below the prior year end due to normal repayments. Shareholders' equity increased \$14.3 million to \$123.8 million, a gain of 13%. Book value per common share was \$16.34 up from \$14.49 at the end of 1975.

In January, 1977, the company purchased a 267,308 share block of its common shares for approximately \$6.7 million. These treasury shares will be used for executive and key employee stock option programs. Also, in January, 1977, the chain saw product line of the Campbell-Hausfeld division was sold for about \$1.5 million which was the realizable book value of these assets. These two transactions, while beneficial from a long-term viewpoint, reduced Scott & Fetzer's cash position by \$5.2 million.

### QUARTERLY DATA FOR 1976

The quarterly sales, costs and earnings figures for 1976 are shown in the table below.

(Dollar Amounts in Thousands Except Per Share Data)

	1976 Fiscal Year by Quarter			
	First	Second	Third	Fourth
Sales .....	\$74,592	\$92,393	\$88,865	\$87,193
Costs and operating expenses .....	65,015	79,633	76,967	75,571
Other (deductions) ..	(107)	(252)	(93)	450
Income before income taxes .....	9,470	12,508	11,805	12,072
Provision for income taxes				
State and local .....	450	571	607	692
Federal and Canadian	4,187	5,590	5,295	5,602
Net income .....	\$ 4,833	\$ 6,347	\$ 5,903	\$ 5,778
Earnings per share .....	\$ .64	\$ .83	\$ .78	\$ .76

## Common Stock Market Price and Dividend Information

Fiscal Quarter	Market Price of Common Shares				Dividends Per Share	
	1976		1975		1976	1975
	High	Low	High	Low		
First .....	\$26 <sup>1</sup> / <sub>4</sub>	\$17 <sup>5</sup> / <sub>8</sub>	\$12 <sup>5</sup> / <sub>8</sub>	\$ 8 <sup>1</sup> / <sub>8</sub>	\$.27	\$.25
Second .....	29 <sup>3</sup> / <sub>8</sub>	23 <sup>3</sup> / <sub>8</sub>	16	11 <sup>3</sup> / <sub>8</sub>	.30	.25
Third .....	26 <sup>5</sup> / <sub>8</sub>	23 <sup>1</sup> / <sub>4</sub>	19 <sup>5</sup> / <sub>8</sub>	14	.30	.25
Fourth .....	25 <sup>3</sup> / <sub>8</sub>	21 <sup>1</sup> / <sub>2</sub>	22	15 <sup>1</sup> / <sub>4</sub>	.30	.27
Closing price at December 31, 1976 .....	\$26					



## Summary of Operations

(Dollar Amounts in Thousands Except Per Share Data)  
Years Ended November 30

	1976	1975	1974	1973	1972
Net sales . . . . .	\$343,043	\$284,020	\$291,258	\$270,714	\$229,361
Cost of goods sold . . . . .	253,404	213,758	226,393	196,589	163,318
Interest expense . . . . .	3,181	2,846	2,593	650	533
Interest income . . . . .	2,872	1,305	132	429	387
Provision for income taxes					
State and local . . . . .	2,320	1,451	1,203	1,671	1,538
Federal and Canadian					
Current . . . . .	19,898	13,286	9,907	17,115	16,867
Deferred . . . . .	776	1,006	1,125	409	128
Total taxes . . . . .	22,994	15,743	12,235	19,195	18,533
Net income . . . . .	\$ 22,861	\$ 17,048	\$ 13,696	\$ 20,869	\$ 18,189
Per Share					
Earnings per common and common equivalent share . .	\$ 3.01	\$ 2.26	\$ 1.81	\$ 2.76	\$ 2.40
Dividends . . . . .	1.17	1.02	1.00	1.00	.83
Average number of common and common equivalent shares (000's) . . . . .	7,594	7,559	7,553	7,571	7,563

## Management's Discussion and Analysis of the Summary of Operations

### 1976 VERSUS 1975

The company's consolidated net sales increased 21% over the prior year level, reflecting unit volume growth and generally higher selling prices.

Cost of goods sold was 19% higher than in 1975 due to growth in unit volume and increased costs of purchased materials. Interest expense was up 12% over the prior year due primarily to the \$30-million 9% ten-year note issue (which replaced bank loans) being outstanding for the full year compared with about six months in 1975. Interest income was substantially higher in 1976 as a result of the interest earned on the company's short-term investments which were well above the 1975 level due to the favorable cash flow from operations.

Total state, local, federal and Canadian income tax provisions were up 46% in 1976 principally reflecting the increased income before taxes, higher state and local tax rates and lower tax credits relative to the level of income before taxes. The effective tax rate for 1976 was 50.1% compared to 48% in the prior year.

Net income for 1976 was up 34% due to the growth in sales volume, improved gross margins and lower net interest costs partially offset by the higher effective income tax rates.

The increase in earnings per share of 33% was slightly less than the rate of increase in net income due to a larger number of common and common equivalent shares in 1976.

### 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 from operations during the year, 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.

## 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
<b>SALES</b>										
1976 . . . . .	\$85,873	25%	\$92,751	27%	\$89,455	26%	\$47,478	14%	\$27,486	8%
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%

### INCOME BEFORE TAXES

1976 . . . . .	\$20,923	46%	\$ 7,960	17%	\$ 5,843	13%	\$10,072	22%	\$ 1,057	2%
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%

### 1976 BY QUARTER

#### SALES

First . . . . .	\$18,707	\$20,235	\$18,220	\$11,007	\$ 6,423
Second . . . . .	21,659	23,433	28,160	12,152	6,989
Third . . . . .	22,490	24,394	23,894	11,281	6,806
Fourth . . . . .	23,017	24,689	19,181	13,038	7,268

#### INCOME BEFORE TAXES

First . . . . .	\$ 4,308	\$ 1,572	\$ 1,368	\$ 2,108	\$ 114
Second . . . . .	5,288	1,428	2,652	2,699	441
Third . . . . .	5,455	2,110	1,685	2,181	374
Fourth . . . . .	5,872	2,850	138	3,084	128

# 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	
	1976	1975
NET SALES . . . . .	\$343,043	\$284,020
Cost of goods sold . . . . .	253,404	213,758
Gross profit . . . . .	89,639	70,262
Selling, general and administrative expenses . . . . .	43,782	35,581
Operating profit . . . . .	45,857	34,681
Other income (deductions)		
Interest expense . . . . .	(3,181)	(2,846)
Interest income . . . . .	2,872	1,305
Other, net . . . . .	307	(349)
	(2)	(1,890)
Income before provision for income taxes . . . . .	45,855	32,791
Provision for income taxes		
State and local . . . . .	2,320	1,451
Federal and Canadian		
Current . . . . .	19,898	13,286
Deferred . . . . .	776	1,006
	22,994	15,743
NET INCOME . . . . .	22,861	17,048
Retained earnings, beginning of year . . . . .	94,344	85,002
	117,205	102,050
Cash dividends . . . . .	8,864	7,706
Retained earnings, end of year . . . . .	\$108,341	\$ 94,344
PER SHARE		
Earnings per common and common equivalent share . . . . .	\$ 3.01	\$ 2.26
Dividends . . . . .	\$ 1.17	\$ 1.02
Average number of common and common equivalent shares outstanding (000's) . . . . .	7,594	7,559

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

# Consolidated Balance Sheet

The Scott & Fetzer Company and Subsidiary Companies

(Dollar Amounts in Thousands)

	November 30	
	1976	1975
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash . . . . .	\$ 298	\$ 530
Certificates of deposit . . . . .	26,689	33,797
Short-term investments . . . . .	20,444	4,050
Trade receivables, less allowance for doubtful accounts		
1976 — \$834 1975 — \$810 . . . . .	47,121	38,714
Other receivables . . . . .	929	1,310
Inventories: (Note 8)		
Raw material and supplies . . . . .	32,169	28,651
Work in process . . . . .	13,999	13,771
Finished goods . . . . .	15,212	13,157
	<u>61,380</u>	<u>55,579</u>
Prepaid expenses . . . . .	3,955	2,874
	<u>160,816</u>	<u>136,854</u>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Land and land improvements . . . . .	1,988	2,069
Buildings . . . . .	14,696	16,334
Machinery and equipment . . . . .	57,517	52,897
	<u>74,201</u>	<u>71,300</u>
Accumulated depreciation . . . . .	30,932	27,149
	<u>43,269</u>	<u>44,151</u>
<b>INTANGIBLE ASSETS ARISING FROM ACQUISITIONS</b> . . . . .	2,120	2,149
<b>OTHER ASSETS</b> . . . . .	1,018	1,023
	<u>\$207,223</u>	<u>\$184,177</u>

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

<b>LIABILITIES</b>	<b>November 30</b>	
	<u>1976</u>	<u>1975</u>
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt (Note 1) . . . . .	\$ 422	\$ 440
Accounts payable, trade . . . . .	20,822	19,308
Accounts payable, other . . . . .	1,730	1,282
Federal and Canadian income taxes . . . . .	7,549	4,332
Accrued taxes, other . . . . .	2,643	1,718
Accrued liabilities for payroll, pension funds, commissions, interest and other . . . . .	<u>11,470</u>	<u>9,172</u>
<b>TOTAL CURRENT LIABILITIES</b> . . . . .	<b>44,636</b>	<b>36,252</b>
LONG-TERM DEBT (Note 1) . . . . .	<b>34,350</b>	<b>34,772</b>
DEFERRED INCOME TAXES . . . . .	<u>4,433</u>	<u>3,657</u>
<b>TOTAL LIABILITIES</b> . . . . .	<b><u>83,419</u></b>	<b><u>74,681</u></b>

**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 & 6)

Stated value of issued shares \$1.25 per share

1976 — 7,576,924

1975 — 7,558,185 less 2,161 in treasury . . . . . **9,471** 9,445

ADDITIONAL CAPITAL (Note 6) . . . . . **5,992** 5,707

RETAINED EARNINGS (Note 1) . . . . . **108,341** 94,344

**TOTAL SHAREHOLDERS' EQUITY** . . . . . **123,804** 109,496

**\$207,223** \$184,177

# Statement of Changes in Financial Position

The Scott & Fetzer Company and Subsidiary Companies

(Dollar Amounts in Thousands)

	Year Ended November 30	
	1976	1975
<b>SOURCE OF FUNDS</b>		
From operations:		
Net income . . . . .	\$ 22,861	\$ 17,048
Depreciation and amortization . . . . .	5,207	4,902
Deferred federal income taxes . . . . .	776	1,006
Total from operations . . . . .	<u>28,844</u>	<u>22,956</u>
Proceeds from issuance of long-term debt, net . . . . .	—	31,639
Sale of common stock under stock options . . . . .	311	17
Disposal of fixed assets . . . . .	419	112
Other, net . . . . .	(74)	204
	<u>29,500</u>	<u>54,928</u>
<b>APPLICATION OF FUNDS</b>		
Cash dividends . . . . .	8,864	7,706
Additions to property, plant and equipment . . . . .	4,636	6,064
Decrease in long-term debt . . . . .	422	25,052
	<u>13,922</u>	<u>38,822</u>
<b>INCREASE IN WORKING CAPITAL . . . . .</b>	<u>\$ 15,578</u>	<u>\$ 16,106</u>
<b>INCREASE (DECREASE) IN COMPONENTS OF WORKING CAPITAL</b>		
Current assets:		
Cash and certificates of deposit . . . . .	\$ (7,340)	\$ 29,190
Short-term investments . . . . .	16,394	4,000
Trade and other receivables . . . . .	8,026	753
Inventories . . . . .	5,801	(14,948)
Prepaid expenses . . . . .	1,081	846
	<u>23,962</u>	<u>19,841</u>
Current liabilities:		
Current portion of long-term debt . . . . .	(18)	(8)
Trade and other payables . . . . .	1,962	(1,108)
Accrued liabilities, including taxes . . . . .	6,440	4,851
	<u>8,384</u>	<u>3,735</u>
<b>INCREASE IN WORKING CAPITAL . . . . .</b>	<u>\$ 15,578</u>	<u>\$ 16,106</u>

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, 1976 are as follows (thousands of dollars):

	<u>Current</u>	<u>Non-current</u>
Notes, 9%, due May 15, 1985 . . . . .	\$ —	\$30,000
Mortgage notes, 5½% to 6½%, maturities to 1981 . . . . .	89	297
Insurance company loan, 6%, maturities to 1980 . . . . .	200	1,100
Obligations under Lease/Purchase Agreements, 4¼% to 8%, maturities to 1988 . . . . .	133	2,953
	<u>\$422</u>	<u>\$34,350</u>

Under the terms of the indenture for the \$30,000,000 of 9% notes, 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 \$38,338,000 at November 30, 1976. 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. The effective interest rate approximates 9.19% after deducting original issue discount.

Mortgage notes require aggregate monthly payments of \$9,235 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, 1977 through 1981 are \$422,000, \$427,000, \$431,000, \$410,000 and \$1,095,000, respectively.

Interest and debt expense on long-term debt was \$3,036,000 and \$2,652,000 for the years ended November 30, 1976 and 1975, 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, 1976, amount to the following (thousands of dollars):

## Notes to Financial Statements

Years ending November 30	All Leases			Total for Financing Leases
	Land and Buildings	Machinery and Equipment	Total	
1977 . . . . .	\$ 2,778	\$133	\$ 2,911	\$ 1,643
1978 . . . . .	2,548	55	2,603	1,550
1979 . . . . .	1,998	21	2,019	1,388
1980 . . . . .	1,821	10	1,831	1,325
1981 . . . . .	1,711	6	1,717	1,251
1982-1986 . . . . .	7,934	14	7,948	6,015
1987-1991 . . . . .	2,923	—	2,923	2,306
1992-1996 . . . . .	610	—	610	542
After 1996 . . . . .	1,662	—	1,662	1,662
Total rental commitments . . .	<u>\$23,985</u>	<u>\$239</u>	<u>\$24,224</u>	<u>\$17,682</u>

The present values of the minimum lease commitments for all non-capitalized financing leases as of November 30, 1976 are as follows (thousands of dollars):

Land and buildings . . . . .	\$10,711
Machinery and equipment . . . . .	164
Total . . . . .	<u>\$10,875</u>

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 5% to 12% and averaged 6.8%. If all financing leases were capitalized and amortized over the terms of the leases and interest at the foregoing rates was 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, 1976 and 1975 amounted to \$3,855,000 and

\$3,711,000, respectively, of which \$1,575,000 and \$1,818,000, respectively, were applicable to financing lease rentals.

### 3. STOCK OPTIONS

The Company adopted common stock option plans in 1967 and 1973 for which 60,650 shares and 105,050 shares, respectively, are reserved for issuance under outstanding options at November 30, 1976. Shares reserved for future grants at November 30, 1976 and 1975 were 239,600 and 224,900, respectively.

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. No options were granted during 1976.

Information at November 30, 1976 relating to options is set forth below:

	Number of Shares	Option Price		Market Price	
		Average Per Share	Total	Average Per Share	Total
Options granted:					
1975 . . . . .	20,500	\$12.29	\$ 251,938	\$12.29	\$ 251,938
Options becoming exercisable:					
1975 . . . . .	54,716	26.22	1,434,861	11.13	609,043
1976 . . . . .	49,182	26.10	1,283,885	22.22	1,092,733
Options exercised:					
1975 . . . . .	1,200	14.75	17,700	19.67	23,604
1976 . . . . .	20,900	14.90	311,500	20.10	420,000
Options outstanding:					
1975 . . . . .	216,900	25.01	5,425,500	25.01	5,425,500
1976 . . . . .	165,700	26.21	4,343,638	26.21	4,343,638



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 1976 and 1975, options for 30,300 shares and 25,725 shares, respectively, were cancelled. The Company makes no charge against income with respect to options.

#### 4. PENSION AND RETIREMENT PLANS

The majority of the Company's employees are covered by various non-contributory trustee pension and profit-sharing plans. Changes in these plans required by the Employee Retirement Income Security Act became effective on the first day of each plan's year beginning in 1976. It is not anticipated that the changes will result in a material increase in annual pension expense.

Contributions under the plans charged to operations were \$2,691,000 and \$2,369,000 for the years ended November 30, 1976 and 1975, 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 \$12,668,000. The Company's policy is to fund pension costs accrued. The aggregate actuarially computed value of vested benefits exceeded the total pension fund assets and balance sheet accruals by approximately \$3,196,000 at November 30, 1976.

#### 5. CONTINGENT LIABILITIES

Any liability that may result from lawsuits and other claims pending against the Company and its subsidiaries as of November 30, 1976 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, 1975 and 1976 were as follows (dollars in thousands):

	Common Stock			Additional Capital
	Treasury Shares	Issued Shares	Stated Value	
Balance, November 30, 1974 . . . . .	(3,361)	7,558,185	\$9,444	\$5,691
Sale of stock under options . . . . .	<u>1,200</u>	<u>—</u>	<u>1</u>	<u>16</u>
Balance, November 30, 1975 . . . . .	(2,161)	7,558,185	9,445	5,707
Sale of stock under options . . . . .	<u>2,161</u>	<u>18,739</u>	<u>26</u>	<u>285</u>
Balance, November 30, 1976 . . . . .	<u>—</u>	<u>7,576,924</u>	<u>\$9,471</u>	<u>\$5,992</u>

#### 7. FEDERAL AND CANADIAN INCOME TAXES

The effective income tax rates were 47.49% for the year ended November 30, 1976 and 45.60% for 1975. The dif-

ference between these rates and the statutory U.S. income tax of 48% resulted from:

	Year ended November 30	
	1976	1975
Investment tax credit . . . . .	.89%	1.21%
Other, net . . . . .	<u>(.38)</u>	<u>1.19</u>
	<u>.51%</u>	<u>2.40%</u>

#### 8. INVENTORIES

If the first-in, first-out cost method of inventory valuation had been used for those inventories presently valued using the last-in, first-out method, inventories would have been \$9,438,000 and \$8,217,000 higher than reported at November 30, 1976 and 1975, respectively.

Inventories used in the computation of cost of goods sold were as follows (thousands of dollars):

November 30, 1974 . . . . .	\$70,527
November 30, 1975 . . . . .	55,579
November 30, 1976 . . . . .	61,380

#### 9. SUBSEQUENT EVENTS

During January, 1977 the Company consummated the sale of an unprofitable product line of one of its divisions to the former President of the Division. The product line assets were sold at a book value of \$1,491,000 which was their estimated realizable value. Also, on January 17, 1977 the Company purchased 267,308 of the Company's common shares held by the former division President for \$25.25 per share, aggregating \$6,749,527.

## Summary of Accounting Policies

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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**—Short-term investments, principally United States Treasury obligations, are carried 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 standard 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. When property is retired or is otherwise disposed of, the cost and accumulated depreciation are removed from the appropriate accounts and any gain or loss included in current income. Maintenance, repair and ordinary renewals are charged to expense as incurred.

**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 Tax Credit**—In the year it arises, investment tax credit is recorded 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 1976.

**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

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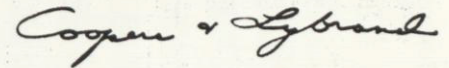
To the Board of Directors and Stockholders  
The Scott & Fetzer Company

We have examined the consolidated balance sheet of The Scott & Fetzer Company and subsidiary companies as at November 30, 1976 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, 1975.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of The Scott & Fetzer Company and subsidiary companies at November 30, 1976 and 1975, 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.

Cleveland, Ohio  
January 25, 1977



## Report of the Board of Directors' Audit Committee

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Last year, the Audit Committee of the Board of Directors issued its first report to you. The Audit Committee is comprised of four outside Directors and held four meetings during 1976.

We consider our primary responsibilities to be to review external and internal audit activities of the corporation, to review earnings releases before publication, to discuss with the chief internal auditor and the independent auditors — Coopers & Lybrand — the adequacy of internal controls and the quality of the corporation's accounting and financial operations, as well as any recommendations made by the outside auditors.

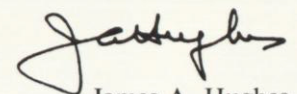
To fulfill this mission, we receive copies of all relevant internal financial statements and audit reports and discuss these and other pertinent subject matters at least quarterly with representatives of Coopers & Lybrand and the management of the corporation, including the head of the internal audit department.

We do not feel that all problems have been solved in the financial administration of Scott & Fetzer. But, we be-

lieve that substantial improvement was made during 1976, not only in reporting disciplines but also in personnel involved. We believe the Committee has been informed fully by the Management in a completely frank atmosphere of any weaknesses they perceive. Nothing of any material adverse nature has come to our attention. We continue to monitor the accounting and financial aspects of the Corporation, with the assistance of the external and internal auditors, to assure that obligations to public regulatory agencies, to the Board of Directors and to you are met.

We thank all those involved for their cooperation and help in our endeavor to accomplish our responsibilities.

For the Audit Committee

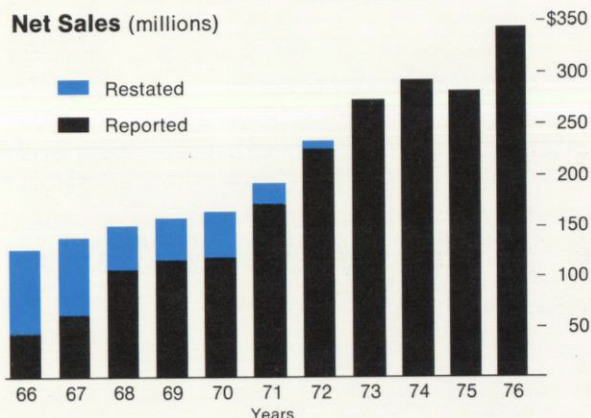


Cleveland, Ohio  
January 25, 1977

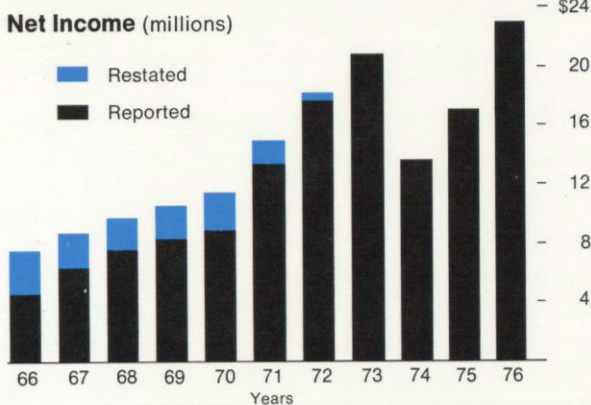
James A. Hughes  
Chairman

# Historical Record, 1966-1976

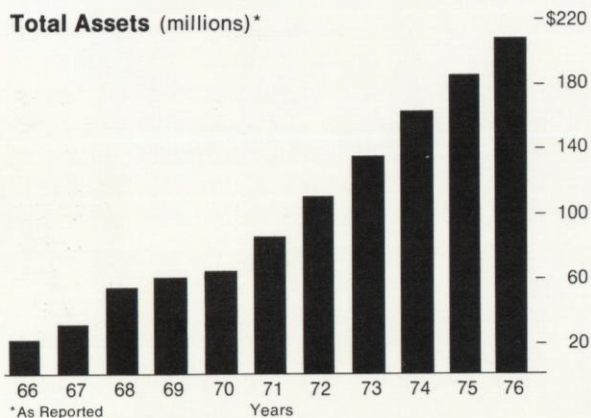
**Net Sales (millions)**



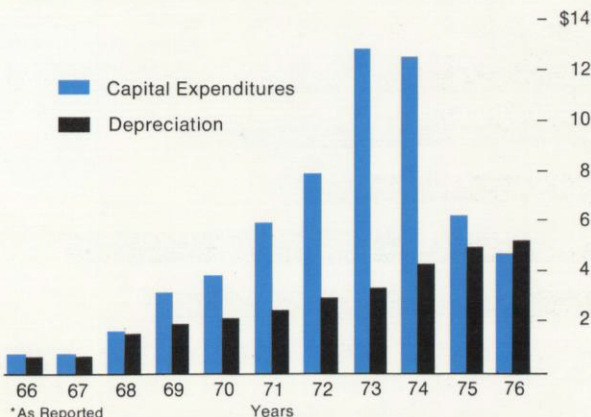
**Net Income (millions)**



**Total Assets (millions)\***



\*As Reported



\*As Reported

(Dollar Amounts in Thousands Except Per Share Data)

<b>AS REPORTED*</b>	<b>1976</b>	<b>1975</b>	<b>1974</b>
Net Sales . . . . .	<b>\$343,043</b>	\$284,020	\$291,258
Income Before Taxes . . . . .	<b>45,855</b>	32,791	25,931
Net Income . . . . .	<b>22,861</b>	17,048	13,696
Cash Dividends . . . . .	<b>8,864</b>	7,706	7,554
Per cent Payout of Net Income . . . . .	<b>38.8</b>	45.2	55.2
Earnings Retained and Reinvested . . . . .	<b>13,997</b>	9,342	6,142
Capital Expenditures . . . . .	<b>4,636</b>	6,064	12,473
Working Capital . . . . .	<b>116,180</b>	100,602	84,496
Long-Term Debt . . . . .	<b>34,350</b>	34,772	27,424
Total Assets . . . . .	<b>207,223</b>	184,177	162,729
Shareholders' Equity . . . . .	<b>123,804</b>	109,496	100,137
Per cent Return on Shareholders' Equity . . . . .	<b>18.5</b>	15.6	13.7
<b>Per Share</b>			
Earnings . . . . .	<b>3.01</b>	2.26	1.81
Dividends . . . . .	<b>1.17</b>	1.02	1.00
Book Value . . . . .	<b>16.34</b>	14.49	13.25
Market Price Range	<b>29<sup>3</sup>/<sub>8</sub>-17<sup>7</sup>/<sub>8</sub></b>	22-8 <sup>1</sup> / <sub>8</sub>	25 <sup>5</sup> / <sub>8</sub> -8 <sup>3</sup> / <sub>8</sub>
Price Earnings Ratio	<b>10-6</b>	10-4	14-4

**Year-End Data**

Shares Outstanding (000's) . . . . .	<b>7,577</b>	7,556	7,555
Number of Shareholders of Record . . . . .	<b>9,377</b>	10,105	9,896
Number of Employees	<b>7,500</b>	7,084	7,481

**RESULTS RESTATED FOR POOLINGS\*\***

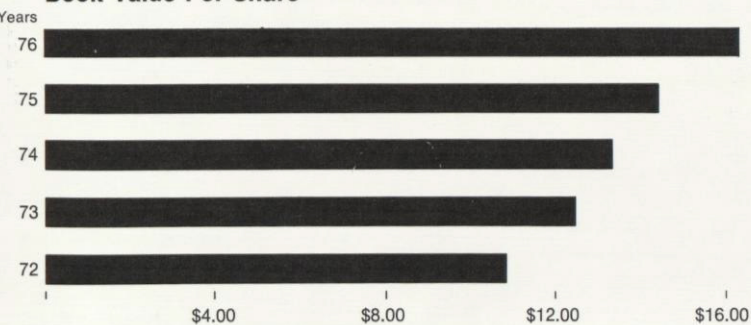
Net Sales . . . . .	<b>\$343,043</b>	\$284,020	\$291,258
Income Before Tax . . . . .	<b>45,855</b>	32,791	25,931
Per cent to Sales . . . . .	<b>13.4</b>	11.5	8.9
Net Income . . . . .	<b>22,861</b>	17,048	13,696
Per cent to Sales . . . . .	<b>6.7</b>	6.0	4.7
Earnings Per Share . . . . .	<b>3.01</b>	2.26	1.81

\* "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.

1973	1972	1971	1970	1969	1968	1967	1966
\$270,714	\$223,610	\$169,036	\$116,368	\$115,489	\$106,295	\$ 60,058	\$ 41,331
40,064	35,760	26,734	17,571	17,076	16,047	11,969	8,734
20,869	17,723	13,368	8,864	8,389	7,697	6,300	4,579
7,456	5,886	4,768	4,532	4,518	3,500	2,426	2,276
35.7	33.2	35.7	51.1	53.9	45.5	38.5	49.7
13,413	11,837	8,600	4,332	3,871	4,197	3,874	2,303
12,753	7,941	5,872	3,784	3,100	1,591	994	610
60,505	54,581	45,142	34,672	33,599	29,769	15,879	9,478
3,334	3,892	4,635	3,712	4,258	4,781	1,441	1,144
136,076	110,540	85,742	64,112	60,131	54,497	30,996	21,041
93,837	78,836	63,199	47,719	44,485	37,298	22,668	14,518
22.2	22.5	21.2	18.6	18.9	20.6	27.8	31.5
2.76	2.41	1.95	1.56	1.47	1.46	1.39	1.20
1.00	.83	.80	.80	.80	.72	.60	.60
12.44	10.76	9.24	8.50	7.83	7.08	5.00	3.81
44 <sup>3</sup> / <sub>4</sub> -24 <sup>1</sup> / <sub>8</sub>	45 <sup>3</sup> / <sub>4</sub> -26 <sup>1</sup> / <sub>8</sub>	29 <sup>1</sup> / <sub>8</sub> -16 <sup>3</sup> / <sub>4</sub>	17 <sup>1</sup> / <sub>4</sub> -10 <sup>1</sup> / <sub>8</sub>	29 <sup>3</sup> / <sub>8</sub> -13	32 <sup>1</sup> / <sub>2</sub> -24	32 <sup>3</sup> / <sub>4</sub> -10 <sup>3</sup> / <sub>8</sub>	14 <sup>1</sup> / <sub>2</sub> -10
16-6	19-11	14-8	11-6	20-9	22-15	23-7	12-8
7,544	7,326	6,843	5,616	5,679	5,271	4,535	3,811
8,498	8,697	10,172	11,445	10,519	9,814	4,750	4,376
8,296	6,917	5,499	4,317	4,057	3,982	1,677	1,131
\$270,714	\$229,361	\$188,730	\$161,112	\$154,530	\$146,721	\$134,426	\$122,531
40,064	36,722	29,722	22,527	21,072	19,764	16,280	14,117
14.8	16.0	15.7	14.0	13.6	13.5	12.1	11.5
20,869	18,189	14,846	11,377	10,434	9,662	8,694	7,454
7.7	7.9	7.9	7.1	6.8	6.6	6.5	6.1
2.76	2.40	1.97	1.53	1.39	1.29	1.16	.99

### Book Value Per Share



### Earnings and Dividends Per Share



## 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 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

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, 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 Cross Road  
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 Cross Road  
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

## **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 and CB antennas.

### **Adalet Division**

4801 W. 150th Street  
Cleveland, Ohio 44135

### **Douglas Division\***

141 Railroad Street  
Bronson, Michigan 49028

### **France 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 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

### **Virден Lighting Division**

6103 Longfellow Avenue  
Cleveland, Ohio 44103

### **Virден Lighting (Canada) Division**

#### **SFZ International Limited**

19 Curity Avenue  
Toronto 16, Ontario, Canada

# Directors/Corporate Management

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## 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

### NILES H. HAMMINK

Formerly Chairman and  
Chief Executive Officer,  
The Scott & Fetzer Company

### JAMES A. HUGHES

Chairman, Finance Committee,  
Diamond Shamrock Corporation,  
*Diversified chemicals and  
oil and gas producer*

### LAWRENCE C. JONES

Chairman and President,  
Van Dorn Company  
*Manufacturer of special purpose  
containers and plastic injection  
molding machinery, and heat  
treating of steel*

### DELMAR W. KARGER

Professor of Management,  
Rensselaer Polytechnic Institute

### QUIGG LOHR

Senior Executive  
Vice President

### RALPH SCHEY

Chairman, President and  
Chief Executive Officer

### THOMAS W. SMITH

Private Investor

## Audit Committee

JAMES A. HUGHES, Chairman  
JOSEPH T. BAILEY  
LAWRENCE C. JONES  
THOMAS W. SMITH

## Executive Committee

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

## Investment Committee

QUIGG LOHR, Chairman  
JAMES A. HUGHES  
THOMAS W. SMITH

## CORPORATE MANAGEMENT

### RALPH SCHEY

Chairman, President and  
Chief Executive 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



## People – The Fundamental Resource

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Scott & Fetzer employees currently number about 7,500 in over 50 different locations. The company and its various predecessor organizations have been built by entrepreneurs and their associates who demonstrated the ability, knowledge, skills and, above all, the attitude to achieve their growth objectives.

As these entrepreneurs and builders have retired, our challenge has been to promote or hire managers who are professionally qualified yet who seek and enjoy an entrepreneurial atmosphere. Growth, both personal and corporate, is essentially the engine for survival. Growth serves people and is important to investors. It is the singular characteristic in a company which makes it attractive to potential new employees and is a motivating influence on present employees.

Growth can be easily measured in financial terms. Real growth, however, begins with the company's human resources – the critical catalyst to the attainment of any of the corporate objectives. To enhance and expand these resources requires a commitment to our investment in people. Scott & Fetzer's decentralized operating structure, wherein each division operates autonomously as a separate profit center, is a well-developed and proven management philosophy. Each division president is encouraged to develop and manage the division in an entrepreneurial mold; to aim at creating new busi-

nesses and markets in addition to improving the established product lines; to create new performance opportunities as well as to improve on past performance.

Planning for and managing growth requires entrepreneurship and innovation from managers. They must create an environment in which subordinates will develop and advance and in which an innovative organization will respond. Their success depends largely on how well they integrate knowledge into work and work into performance. Scott & Fetzer gives the divisions maximum freedom to operate and innovate consistent with the company's financial and public responsibilities.

Each division's annual business plan is an integration of all of the division's objectives and goals and in turn those of each individual manager. Annual performance reviews are important in motivating and compensating the members of the division's management team as well as other employees. An incentive compensation program is tied to the achievement and performance of those managers who are most responsible for the division's results. The overall program helps to attract, retain, and develop managers for future responsibilities.

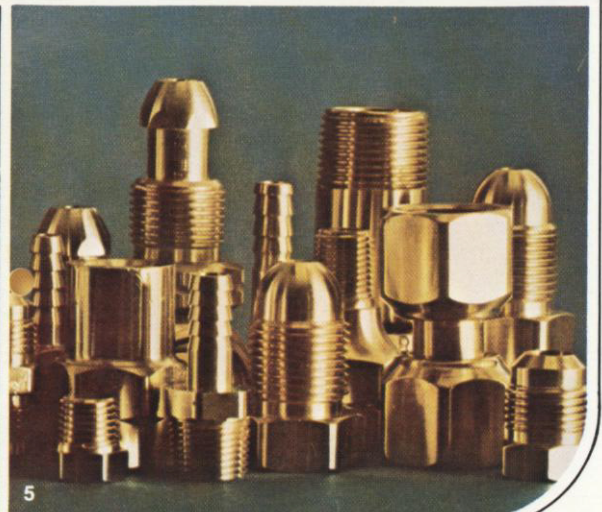
Each division president is expected to respond to the management development needs of the subordinate managers, recommending additional formal training or the acquisition of

new skills which might be helpful in meeting future objectives. Scott & Fetzer also encourages the use of various programs tailored to meet the demand for a more knowledgeable and skilled work force.

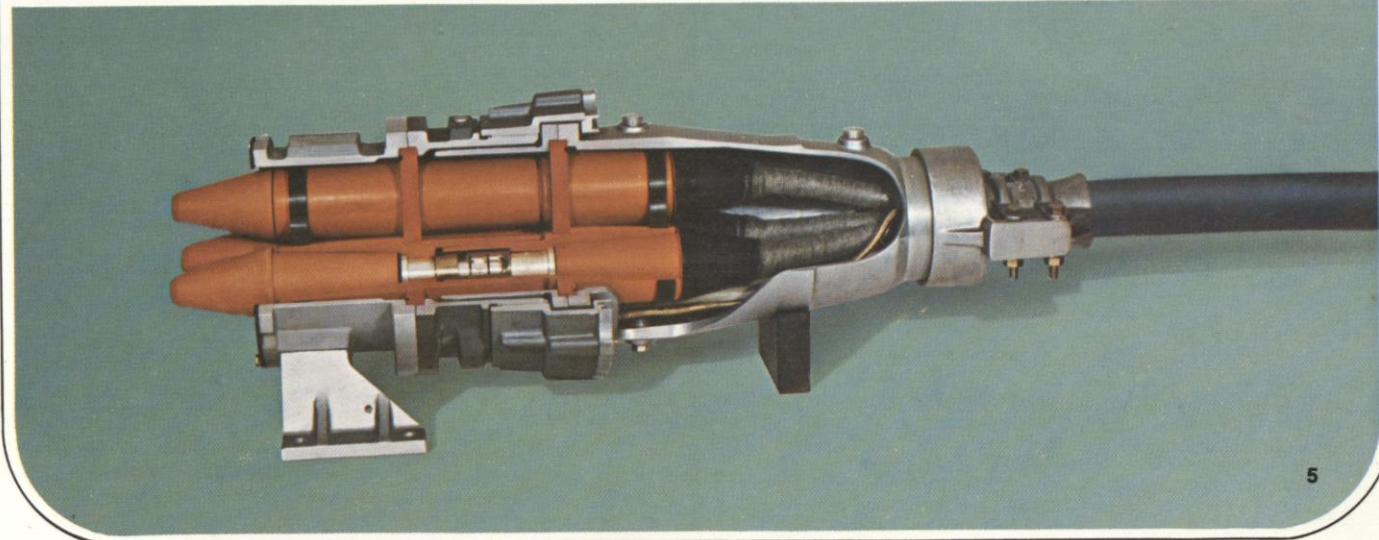
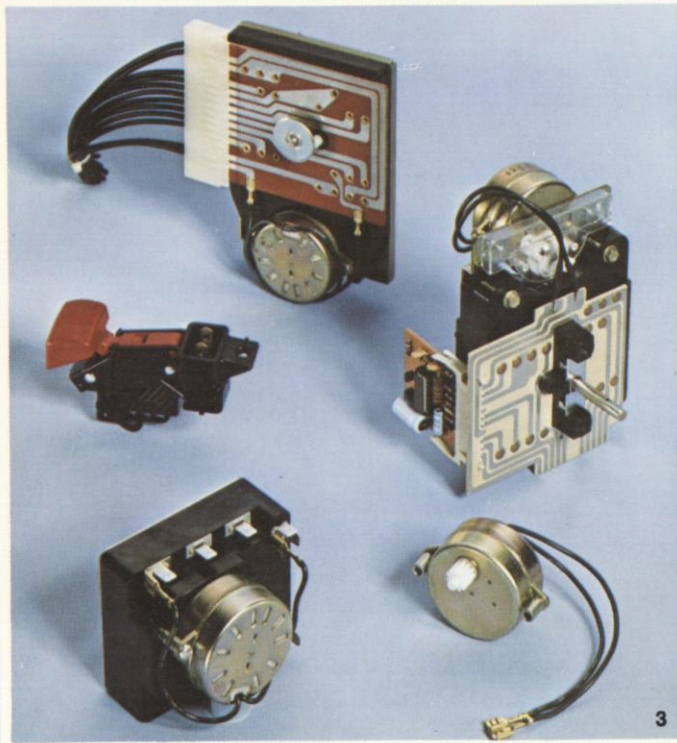
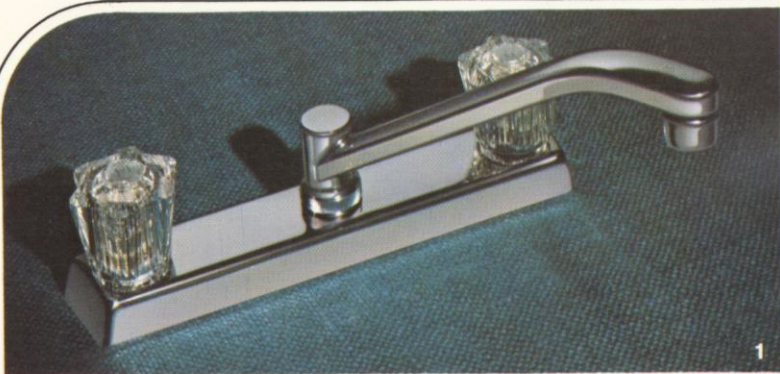
Scott & Fetzer has an equally concerned attitude toward collective bargaining. The company currently has 23 labor contracts with 11 international unions and their affiliated locals. During 1976, thirteen contracts were negotiated and all but one was successfully concluded without a work stoppage. In addition, there were three elections at locations without labor unions and in each case employees voted to remain independent. Scott & Fetzer is proud of its history of successful and harmonious employee relations. The company places great emphasis on the consistent and fair treatment of employees and on creating a positive and rewarding work environment.

The entrepreneurial and flexible environment in which managers and employees work, along with the recognition for outstanding results, has been responsible for the overall high performance levels of the company. The ability of present and future managers to plan for and successfully respond to rapid changes in our business environment is the fundamental resource which will enable us to meet the ambitious goals and objectives of Scott & Fetzer.

1. Airless paint sprayer, *Campbell-Hausfeld*
2. Vacuum motor unit, *Northland*
3. Pickup truck bumpers, *Flex-N-Gate*
4. Decorator lamps, *Rembrandt Lamp*
5. Compressed gas fittings, *Western Enterprises*



- 1. Plumbing fixture, *Streamway Products*
- 2. Trailer hitch and towing parts, *Valley Tow-Rite*
- 3. Electrical controls for automatic laundry equipment, *Kingston*
- 4. "Super Vac" commercial floor sweeper, *American-Lincoln*
- 5. High-voltage electrical coupler, *PLM Products*





**The Scott & Fetzer Company**

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LAKEWOOD, OHIO 44107

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