The SCOTT & FETZER Company

Report to Shareholders

Third Quarter Ended August 31, 1978

To the Shareholders:

Scott & Fetzer's operating results for the third quarter met our budgeted expectations with sales in four of the five business segments at least moderately ahead of the same quarter of 1977, and, in the Fluid Transmission segment, substantially greater than last year's third quarter. As we have mentioned earlier this year, general economic conditions, particularly in the consumer markets, began to weaken at mid-year. These economic trends were consistent with our earlier planning assumptions and our operating units have reacted decisively.

Results of Operations

Consolidated sales for the third quarter were $105.7 million compared with a restated $88.3 million for the comparable period last year, an increase of 20%. Income before taxes rose 18% to $15.5 million from $13.2 million in the third quarter of 1977. Net income from continuing operations was $7.6 million, 17% above the $6.5 million restated for the comparable quarter last year. After including in 1977 net income the results of discontinued operations, net income this year was 11% higher. Earnings per share from continuing operations for the third quarter were $1.03 compared with 88 cents restated for the similar period last year, an increase of 17%. With the discontinued operations included in the 1977 figure, earnings per share this year were up 11% from the 93 cents earned in 1977.

Sales for the nine months totalled $314.6 million, 18% above the restated $266.5 million for the similar months in 1977. Income before taxes was $47.3 million compared with $42.5 million earned last year, a gain of 11%. Net income from continuing operations rose 14% to $23.6 million from $20.8 million in the nine months of 1977. Total net income, including the results of discontinued operations, was $23.7 million this year, 19% above the $19.9 million earned a year ago. Earnings per share from continuing operations increased 14% to $3.21 compared with $2.81 last year. Including the results of discontinued operations, earnings per share this year were $3.22, an increase of 20% above the $2.69 earned in 1977.

Sales and earnings for the third quarter and nine months do not include the results of World Book-Childcraft International, Inc., which was acquired as of September 1, 1978 in a cash purchase transaction. World Book's sales and earnings will be consolidated with those of Scott & Fetzer for the fiscal fourth quarter ending November 30, 1978.

The third quarter sales growth reflected generally satisfactory business conditions in all of our business segments with the exception of the Cleaning Systems & Household Products markets. The Fluid Transmission segment showed the greatest increase reflecting the addition of the Wayne Home Equipment division, which was acquired in February, 1978, and a strong performance by the Campbell-Hausfeld group. Sales in the Cleaning Systems & Household Products segment have been relatively weak this year due to a slowdown in the Kirby group. This partially reflected the weaker consumer markets as well as some changes in the franchising agreements in the Kirby distributor organization. Kirby's unit sales improved in August and it appears that the fourth quarter will be stronger.

The earnings growth from continuing operations during the third quarter came primarily from the Fluid Transmission segment as a result of a strong operating performance by the Campbell-Hausfeld group and the addition of the Wayne division. The

(Continued on Page 2)

Ralph Schey, left, president and chief executive officer of Scott & Fetzer, receives copies of the World Book encyclopedia and best wishes from Marshall Field, who heads Field Enterprises, Inc., and Charles B. Stauffacher, right, president and chief executive officer of Field Enterprises, following the conclusion of the transaction in which World Book-Childcraft International, Inc., was acquired by Scott & Fetzer. This event took place in Chicago, Illinois on August 31, 1978, and World Book officially became a subsidiary of Scott & Fetzer as of September 1, 1978. World Book and its predecessor companies were founded in 1914 and acquired by Field Enterprises in 1945.

Report to Shareholders *(Continued from Page 1)*

Equipment & Accessories area had a moderate earnings improvement, with the Cleaning Systems & Household Products and Measurement & Control markets slightly lower.

For the nine months, results in all of the business segments have at least approximated our budgeted projections except for Cleaning Systems & Household Products. This segment was substantially affected by the first quarter weather-related problems and the previously mentioned Kirby problems. This segment also has been adversely impacted this year by the operating losses and moving costs of the Canada Lighting division.

Financial Position

Scott & Fetzer's financial position remains very strong. At August 31, 1978, assets totalled $256 million compared with $225.5 million a year ago. Working capital increased to $134.6 million from $122.2 million last year. Inventories have increased moderately, while receivables were substantially higher, which is in line with the sales volume growth compared with the year earlier period.

Acquisition

We consummated the acquisition of World Book-Childcraft International, Inc., a subsidiary of Field Enterprises, Inc., on August 31, 1978. World Book will be operated as a Scott & Fetzer subsidiary and will be consolidated in Scott & Fetzer's financial statements commencing September 1, 1978. As I mentioned in the mid-year report, World Book is an excellent addition to Scott & Fetzer and will be a major factor in implementing our long-term strategy in the direct selling area of our business. In addition, World Book offers us substantial opportunities in direct mail marketing and consumer loan financing. The Business and Financial Review section of this report contains more information about the World Book transaction and the financing arrangements.

Branham

Milne

William T. Branham, who is continuing as chairman and chief executive officer, World Book-Childcraft International, Inc.

Donald G. Milne, who is continuing as president and chief operating officer, World Book-Childcraft International, Inc.

Management Changes

Mr. John Bebbington, 53, and Mr. Walter A. Rajki, 53, who formerly were group vice presidents, have been elected to the newly created position of Senior Vice President. With the addition of World Book-Childcraft and the increasing size of Scott & Fetzer, these two senior operating positions were established to assist me with the monitoring and control of our operating units. Messrs. Bebbington and Rajki are seasoned and successful operating executives. The Kirby group and the World Book subsidiary will continue to report directly to me.

Bebbington

Rajki

Outlook

1978 has proven to be a challenging year with weather-related problems in the first quarter and slowing economic conditions that materialized around mid-year. The increasing rate of inflation and higher interest rates are adversely affecting consumers and will be growing problems for business in general. We believe that the outlook for the balance of Scott & Fetzer's 1978 fiscal year is reasonably good and in line with our planning assumptions for the year. With the weakening in the consumer-related markets and the increasing inflationary pressures related to the ineffective government approaches to solving our economic problems, it appears, at this time, that 1979 will be a year of relatively slower general economic growth. As our operating units commence their detailed planning for 1979, our major emphasis will be on inventory and cost controls and increased emphasis on attaining productivity gains to partially offset unavoidable inflationary cost increases. We are insisting that all facets of our various businesses, whether office or factory, have specific plans to attain greater productivity. This has to be the major challenge for all American business and it is a central goal of our planning for 1979.

Ralph Schey

Ralph Schey
President and
Chief Executive Officer

Lakewood, Ohio October 9, 1978

Quarterly Dividend Declared

On September 13, 1978, directors of The Scott & Fetzer Company voted a quarterly cash dividend of 40 cents per common share payable November 30, 1978 to shareholders of record on November 16, 1978.

This dividend is a continuation of the increased rate that became effective with the quarterly dividend paid August 31, 1978. At that time the dividend was raised from 35 cents to 40 cents per common share.

The November 30 payment will bring the total dividend payments in 1978 to $1.50 per common share, a 15% increase over the $1.30 per common share paid in 1977.

Consolidated Statement of Income

THE SCOTT & FETZER COMPANY and SUBSIDIARY COMPANIES
Amounts in thousands, except per share data
(Unaudited)

	Three Months Ended August 31		Nine Months Ended August 31	
	1978	1977 (Restated)	**1978**	1977 (Restated)
NET SALES	**$105,690**	$88,331	**$314,570**	$266,487
Cost of goods sold	**77,216**	63,746	**228,736**	191,575
Gross profit	**28,474**	24,585	**85,834**	74,912
Selling, general and administrative expense	**13,065**	11,146	**38,553**	31,784
Operating income	**15,409**	13,439	**47,281**	43,128
Other income (deductions)				
Interest expense	**(1,181)**	(787)	**(3,330)**	(2,354)
Interest income	**1,225**	710	**3,176**	1,996
Other income (expense), net	**73**	(181)	**135**	(240)
	117	(258)	**(19)**	(598)
Income from continuing operations before income taxes	**15,526**	13,181	**47,262**	42,530
Provision for income taxes				
State and local	**917**	783	**2,569**	2,261
Federal and Canadian (current and deferred)	**6,994**	5,909	**21,095**	19,493
Total taxes	**7,911**	6,692	**23,664**	21,754
Income from continuing operations	**7,615**	6,489	**23,598**	20,776
Income (loss) from discontinued operations	**—**	350	**71**	(883)
NET INCOME	**$ 7,615**	$ 6,839	**$ 23,669**	$ 19,893
EARNINGS PER SHARE				
From continuing operations	**$ 1.03**	$ .88	**$ 3.21**	$ 2.81
From discontinued operations	**—**	.05	**.01**	(.12)
Total earnings per common and common equivalent share	**$ 1.03**	$ .93	**$ 3.22**	$ 2.69
DIVIDENDS PER SHARE	**$ .40**	$ .35	**$ 1.10**	$ .95
Average number of common and common equivalent shares (000's)			**7,352**	7,384

ACCOUNTANTS' REPORT ON LIMITED INTERIM REVIEW

To the Board of Directors and Stockholders
THE SCOTT & FETZER COMPANY

We have performed a limited review, in accordance with standards established by the American Institute of Certified Public Accountants, of the unaudited consolidated balance sheets of The Scott & Fetzer Company and Subsidiaries as of August 31, 1978, and 1977, the related consolidated statements of income for the three- and nine-month periods then ended, and the related consolidated statements of changes in financial position for the nine-month periods then ended.

Because our limited review did not constitute an audit, we express no opinion on the unaudited consolidated financial statements referred to above.

Cleveland, Ohio
September 25, 1978

Coopers & Lybrand

Consolidated Balance Sheet

THE SCOTT & FETZER COMPANY and SUBSIDIARY COMPANIES
Amounts in thousands
(Unaudited)

	August 31 1978	August 31 1977 (Restated)
ASSETS		
Current assets:		
Cash and short-term investments	**$ 59,057**	$ 53,231
Receivables, net	**61,750**	52,413
Inventories	**66,224**	61,738
Other	**4,521**	4,459
Total current assets	**191,552**	171,841
Property, plant, and equipment, net	**54,719**	51,811
Other assets	**9,711**	1,864
	$255,982	$225,516
LIABILITIES		
Current liabilities:		
Notes payable and current portion of long-term debt	**$ 2,138**	$ 1,228
Accounts payable	**26,045**	23,068
Accrued expenses and other	**28,775**	25,329
Total current liabilities	**56,958**	49,625
9% Notes, due 1985	**30,000**	30,000
Capitalized leases	**9,994**	10,848
Other long-term debt	**4,792**	1,216
Deferred income taxes	**4,867**	4,394
Total liabilities	**106,611**	96,083
SHAREHOLDERS' EQUITY	**149,371**	129,433
	$255,982	$225,516

Note Regarding Inventories:

If current costs had been used for valuation of those inventories valued using the last-in, first-out (LIFO) method, inventories would have been $10,986,000 and $10,588,000 higher at August 31, 1978 and August 31, 1977, respectively.

Business Segments

Fluid Transmission

Air compressors, paint spray equipment; oil and gas power burners; sump and water system pumps; and compressed gas connector fittings and transmission products.

Campbell-Hausfeld Group
Wayne Home Equipment Division
Western Enterprises Division

Cleaning Systems & Household Products

Vacuum cleaners and other commercial and industrial cleaning equipment; replacement parts for vacuum cleaners; shampoos, polishes and cleaners; scissors; plastic food containers; and water system fixtures, cutlery and other products for the home.

American-Lincoln Division
Cardinal Division
Kirby Group
Klevac Division
Powerwinch/Ja-Son Division
Quikut Division
Streamway Division

Equipment & Accessories

Hitching and towing equipment; awnings and accessories for recreational vehicles; mechanical winches and electrical power winches and hoists for boats and trailers; truck bodies and bumpers; tank track links, hydraulic valves and steering column components; and telephone exchange metal mounting frames.

Carefree of Colorado Division
Douglas Division
Powerwinch/Ja-Son Division
Stahl Division
Valley Industries Division

Power & Energy

High voltage electrical cable fittings and couplers; explosion-proof housings; conduit fittings; transformers; and fractional horsepower motors.

Adalet/PLM Division
France Division
Halex Division
Northland Division

Measurement & Control

Precision flow measurement instruments; bellows differential pressure gauges; flow elements, specialized tachometers and pitot probes; and timers for laundry equipment and other appliances.

France Division
Meriam Instruments Division

Statement of Changes in Financial Position

THE SCOTT & FETZER COMPANY and SUBSIDIARY COMPANIES
Amounts in thousands
(Unaudited)

	Nine Months Ended August 31 1978	Nine Months Ended August 31 1977 (Restated)
SOURCE OF FUNDS		
From continuing operations:		
Income after taxes	**$23,598**	$20,776
Depreciation and amortization	**5,617**	3,483
Deferred federal income taxes	**960**	570
	30,175	24,829
From discontinued operations:		
Income (Loss) after taxes	**71**	(883)
Depreciation and amortization	**317**	644
Writedown of intangible assets and provision for future costs	**300**	852
	688	613
Total from operations	**30,863**	25,442
Proceeds from disposition of divisions, less non-current notes receivable of $1,925 received	**9,400**	—
Sales of common stock under stock options	**401**	80
Increase in long-term debt for acquisition	**3,716**	—
Disposal of property plant and equipment, net	**234**	1,198
Other, net	**268**	424
	44,882	27,144
APPLICATION OF FUNDS		
Acquisition of division (net of working capital acquired of $12,822) consisting of property, plant and equipment, intangibles, and non-current liabilities assumed of $244	**10,728**	—
Cash dividends	**8,063**	6,951
Disposals of net current assets of discontinued divisions	**6,667**	—
Additions to property, plant and equipment	**9,005**	6,201
Decrease in long-term debt	**1,012**	318
Acquisition of treasury shares	**—**	6,750
	35,475	20,220
INCREASE IN WORKING CAPITAL	**$ 9,407**	$ 6,924

Net Sales and Income Before Taxes by Business Segments

THE SCOTT & FETZER COMPANY and SUBSIDIARIES
Dollar amounts in thousands

THIRD QUARTER

	Net Sales					Income Before Taxes				
	1978	%	1977	%	% Change	1978	%	1977	%	% Change
Cleaning Systems & Household Products	$ 30,463	29	$ 29,718	34	3	$ 5,316	34	$ 5,433	41	(2)
Fluid Transmission	36,133	34	23,107	26	56	4,574	29	2,329	18	96
Equipment & Accessories	23,839	23	21,045	24	13	3,453	22	3,228	25	7
Power & Energy	14,268	13	12,981	15	10	2,425	16	2,415	18	
Measurement & Control	4,388	4	3,879	4	13	715	5	777	6	(8)
Eliminations	(3,401)	(3)	(2,399)	(3)		—	—	—	—	
Corporate Expenses and Net Interest Expense	—	—	—	—		(957)	(6)	(1,001)	(8)	
Total Continuing Operations	$105,690	100	$ 88,331	100		$15,526	100	$13,181	100	

NINE MONTHS

	Net Sales					Income Before Taxes				
	1978	%	1977	%	% Change	1978	%	1977	%	% Change
Cleaning Systems & Household Products	$ 92,088	29	$ 90,392	34	2	$16,942	36	$18,693	44	(9)
Fluid Transmission	106,788	34	74,865	28	43	12,941	27	9,193	22	41
Equipment & Accessories	71,281	23	61,890	23	15	11,524	24	9,273	22	24
Power & Energy	40,515	13	37,282	14	9	7,264	15	7,014	16	4
Measurement & Control	13,539	4	10,549	4	28	2,227	5	1,841	4	21
Eliminations	(9,641)	(3)	(8,491)	(3)		—	—	—	—	
Corporate Expenses and Net Interest Expense	—	—	—	—		(3,636)	(7)	(3,484)	(8)	
Total Continuing Operations	$314,570	100	$266,487	100		$47,262	100	$42,530	100	

Business and Financial Review

Scott & Fetzer achieved record sales and earnings in the third quarter and first nine months of fiscal 1978 ended August 31, with substantial increases over the comparable periods of 1977. Financial statements showing both years' financial data for the third quarter and first nine months are included on pages 3-5 of this report.

Reasonably good economic conditions, improved performance in several of the operating units, and the acquisition of the Wayne Home Equipment division in February, 1978, contributed to the favorable results this year for both the third quarter and the first nine months. The previously announced acquisition of World Book-Childcraft International, Inc., which became effective on September 1, 1978, had no impact on sales or earnings for the current periods. It will be included in consolidated operations in the fourth quarter of this year.

During the first nine months of this year, 13 of Scott & Fetzer's 20 operating units achieved improved earnings compared with the similar months last year. All business segments showed sales gains over 1977, with the largest increases coming in the Fluid Transmission, Measurement & Control, and Equipment & Accessories segments. The Power & Energy volume was moderately higher and sales in the Cleaning Systems & Household Products markets were only slightly ahead of 1977. Earnings growth followed the same pattern, except that the Cleaning Systems & Household Products segment experienced lower earnings compared with the same period.

CLEANING SYSTEMS & HOUSEHOLD PRODUCTS. Sales for the first nine months were $92.1 million, slightly ahead of the $90.4 million in 1977. Income before taxes was $16.9 million, 9% below 1977. Third quarter volume was 3% ahead of 1977, while income before taxes was 2% less than last year's third quarter. The Kirby group experienced moderately lower sales and earnings in the third quarter

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Business and Financial Review *(Continued from Page 6)*

and nine months compared with 1977. The Canada Lighting division's operating losses continued, due primarily to the costs associated with completing the transfer of the Montreal plant operation to the Toronto facility and the continuing sluggish economic climate in the Canadian construction industry. The lower earnings of these operating units for the first nine months compared with 1977 were partially offset by improved earnings at the Cardinal, Quikut and American-Lincoln divisions.

FLUID TRANSMISSION. In the first nine months, sales increased 43% to $106.8 million from $74.9 million for the same period last year. Income before taxes was $12.9 million, 41% ahead of last year. In the third quarter sales were $36.1 million, 56% greater than 1977's third quarter, and income before taxes rose 96% to $4.6 million. The increase in sales for both the third quarter and nine months was due primarily to the addition of the Wayne Home Equipment division, which was acquired in February, 1978. The Campbell-Hausfeld group, together with the inclusion of Wayne in this year's results, contributed the significant increase in earnings for the third quarter and the favorable performance of this segment for the first nine months. The Western Enterprises division experienced good growth in sales and earnings for the nine-month period.

EQUIPMENT & ACCESSORIES. Volume of these product lines for the first nine months was $71.3 million, 15% above the $61.9 million in the comparable period of 1977. Income before taxes grew 24% to $11.5 million from $9.3 million last year. Sales in the third quarter were $23.8 million, 13% above the $21 million in the similar period last year. Income before taxes of $3.5 million was 7% higher than the $3.2 million earned in the year ago period. The seasonal peak in recreational markets was reached several months earlier in 1978 than in the last several years. These trends particularly affected the Carefree of Colorado division and partially accounted for the lower growth rate of this segment in the third quarter.

POWER & ENERGY. Sales for the first nine months were $40.5 million compared with $37.3 million last year, an increase of 9%. Income before taxes rose 4% to $7.3 million from $7 million in the same months of 1977. For the third quarter, sales grew 10% to $14.3 million, while income before taxes approximated the comparable 1977 earnings of $2.4 million. During the third quarter, all divisions had at least moderate volume growth. Earnings were impacted by substantial material cost increases, some new product start up costs, and part of the moving expenses of the France division, which relocated its division headquarters from Cleveland, Ohio to Tennessee.

MEASUREMENT & CONTROL. Good growth in sales for the first nine months put this segment 28% ahead of last year with volume of $13.5 million. Income before taxes was up 21% to $2.2 million from $1.8 million in the comparable months of 1977. For the third quarter, sales were $4.4 million, 13% above the $3.9 million a year ago. Income before taxes for the quarter was $715,000, down from $777,000 in 1977. Earnings were lower at the France division as a result of rising material costs, over-capacity production inefficiencies at the Smithville plant, and the division's relocation costs. The France division has plans to expand its Fairview, Tennesssee plant and to build a new plant in Tennessee.

Analysis of Earnings

For continuing operations, income before taxes for the first nine months increased 11% to $47.3 million from $42.5 million last year. The third quarter showed a gain of 18% to $15.5 million, exhibiting continuation of the favorable growth pattern established in the second quarter after recovering from the weather-depressed first quarter. For the first nine months of 1978, net interest expense (interest expense less interest income) was $154,000, down from $358,000 last year. The lower net interest cost reflects substantially greater interest income earned due to the larger short-term investments and higher interest rates prevailing this year. This was partially offset by the increased interest expense resulting primarily from the installment notes associated with the purchase of the Wayne Home Equipment acquisition.

Provisions for federal, state, local and Canadian income taxes were $23.7 million for the first nine months compared with $21.8 million last year. The effective tax rate for federal and Canadian income taxes declined to 47.2% this year from 48.4% in the same period of 1977. The lower tax rate was due largely to the absence in 1978 of the goodwill asset write-downs in 1977.

In the first nine months, net income from continuing operations was $23.6 million, 14% above the $20.8 million earned a year ago. After including the results of the discontinued operations, net income in 1978 totalled $23.7 million compared with $19.9 million last year, an increase of 19%. The effects of discontinued operations changed from a loss of $883,000 in 1977 to earnings of $71,000 this year. Earnings per share from continuing operations increased 14% to $3.21 from $2.81 last year. Total earnings per share, including the results of discontinued operations, rose 20% to $3.22 from $2.69 in 1977.

The significant factors impacting earnings per share for the third quarter and first nine months are shown below:

	Third Quarter	Nine Months
Earnings per share — 1977	$ .93	$2.69
Increase (Decrease) in 1978 from:		
Operations	.14	.28
Higher tax credits	—	.02
Effect of intangible write-off in 1977	—	.06
Reduced number of shares	—	.01
Other, net	.01	.03
Net change from continuing operations	.15	.40
Effect of discontinued operations	(.05)	.13
Earnings per share — 1978	$1.03	$3.22

Financial Position

At August 31, 1978, total assets were $256 million compared with $225.5

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Business and Financial Review *(Continued from Page 7)*

million a year ago. Working capital (current assets less current liabilities) increased to $134.6 million from $122.2 million at August 31, 1977. Cash and short-term investments of $59.1 million and inventories of $66.2 million were moderately above the year earlier level. Receivables increased to $61.8 million from $52.4 million last year, reflecting the substantially higher sales volume in 1978.

Net property, plant and equipment of $54.7 million was only slightly above the year earlier level. Other assets rose to $9.7 million from $1.9 million at August 31, 1977, due largely to the intangibles and goodwill associated with the acquisition of the Wayne division and the notes received in the sale of the Virden and Humphreys divisions. Partially offsetting these increases were the intangible writeoffs relating to the discontinued operations that were effected during 1977.

Other long-term debt rose to $4.8 million from $1.2 million at August 31, 1977, attributable to the installment notes due over the next nine years to some of the former shareholders of the Wayne division.

Shareholders' equity at August 31, 1978 was $149.4 million, or $20.36 per share, up from $129.4 million and $17.69 per share a year ago.

Acquisition of World Book-Childcraft

The acquisition of World Book was consummated on August 31, 1978. The initial transaction involved a cash purchase price of approximately $50 million plus the payment to Field Enterprises of $37.5 million for a term loan owed by World Book. The Italian subsidiaries of World Book will not be purchased by Scott & Fetzer. In addition, the initial transaction excluded the Canadian subsidiary and the Insurance Company, which will be purchased at a later date after the requisite governmental approvals have been obtained. These subsequent purchases will involve $11-$12 million.

Historically, as a private company, World Book had financed and administered its own consumer installment sales. As part of the acquisition transaction, Scott & Fetzer formed a new subsidiary — World Book Finance, Inc. This will be a captive finance company which initially will be used to finance the consumer installment sales of World Book. The captive finance company will be an unconsolidated subsidiary which will be able to borrow on its own balance sheet without parent company guarantees. It will be an unrestricted subsidiary under the revised provisions of Scott & Fetzer's existing $30 million note indenture.

On August 31, 1978, World Book Finance, Inc., consummated two financings totalling $75 million. The first was $50 million of 10% twenty-year notes, privately placed with a major institutional lender. The second financing involved an 8-year 8¾% bank term loan. In addition, there subsequently will be a $25 million revolving credit agreement with six banks to handle the finance company's seasonal needs. Sixty-six million dollars of the initial $75 million borrowings were used to purchase installment receivables from World Book, which used the proceeds to repay the $37.5 million term loan from Field Enterprises. The remaining $28.5 million will be used by Scott & Fetzer as part of the purchase price for World Book.

Also, on August 31, 1978, Scott & Fetzer completed a privately placed 9½% twenty-year financing agreement with the same institutional lender for $40 million with delayed delivery arrangements. One-half of the financing will be received by Scott & Fetzer in December, 1978 and the balance in February, 1979. Only the $40 million borrowing will appear on Scott & Fetzer's balance sheet since the other financings were undertaken by World Book Finance, Inc., the balance sheet of which will be unconsolidated with that of Scott & Fetzer under generally accepted accounting practices.

THE SCOTT & FETZER COMPANY
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