SEC FILE NO 1- 5629 05--03 SIC 363 S 15 57 00 000

SCOTT & FETZER CO 10-K

NYS

CARD 1 DISCLOSURE INC BETHESDA MARYLAND 20014 FOR 11/30/77

Scott & Fetzer Co. [Ohio] Co: S155700000
14600 Detroit Avenue
Lakewood, Ohio 44107
SEC File No: 1-5629 Exch: NYSE/SFZ
IRS No: 34-0517040 CUSIP: 8093676
Fiscal Year Ends: 11/30 SIC No: 363
Auditor: Coopers & Lybrand

ARS		For:	11/30/76
Proxy		Dated:	02/17/77
Prspct		Eff:	04/20/77
Regst	S08	Filed:	03/17/77
10-K		For:	11/30/76
10-Q		For:	02/28/77
10-Q		For:	05/31/77
10-Q		For:	08/31/77

63

S/155700

33477

SEC. Rec. 2.28.78

PROCESSED BY DISCLOSURE UNIT RECEIVED MAR 08 1978

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended November 30, 1977 Commission File Number 0-231

THE SCOTT & FETZER COMPANY
(Exact name of Registrant as specified in its charter)

Ohio	34-0517040
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
14600 Detroit Avenue, Lakewood, Ohio	44107
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:
(216)228-6200

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares Without Par Value ($1.25 Stated Value)	New York Stock Exchange Midwest Stock Exchange Pacific Stock Exchange
9% Notes Due 1985	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this Report.

Class	Outstanding at November 30, 1977
Common Shares Without Par Value ($1.25 stated value)	7,316,553 Shares

COOPERS & LYBRAND

CERTIFIED PUBLIC ACCOUNTANTS

IN PRINCIPAL AREAS
OF THE WORLD

February 22, 1978

Securities and Exchange Commission
Washington, D. C. 20549

Dear Sirs:

We have reviewed the financial information included in The Scott & Fetzer Company Form 10-K to be filed with the Commission for the year ended November 30, 1977.

The Company reports in the Form 10-K a change in its method of accounting for costs of certain leases. The present value of future lease payments has been capitalized for all leases meeting the criteria set forth in Financial Accounting Standards Board Statement No. 13 and the Commission's Accounting Series Release No. 225. In prior years such lease costs were charged to expense as incurred. Prior year financial information has been restated to reflect the change in accounting retroactively.

Under the provisions of ASR 225 the Company would be required to adopt this method of accounting in its fiscal year 1979 but considers precompliance preferable to the alternative footnote disclosures required. Precompliance regarding the capitalization of leases is encouraged in Financial Accounting Standards Board Statement No. 13 and ASR 225 and is an acceptable method under generally accepted accounting principles and we, therefore, concur with this change.

Very truly yours,

Coopers & Lybrand

JRT/DDM:mas

PART I

Except as otherwise stated, the information contained in this report is as of November 30, 1977, the close of the fiscal year of the Registrant ("Scott & Fetzer" or "Company"), and refers only to the operations of Scott & Fetzer continuing after that date.

Item 1. BUSINESS

Scott & Fetzer is a diversified company which manufactures and sells products in the floor care, commercial/industrial, leisure time, and electrical markets. Prior to November 30, 1977, Scott & Fetzer manufactured and sold products in the domestic lighting market. (See Acquisitions and Dispositions.) One of Scott & Fetzer's principal product lines is vacuum cleaners and related accessories primarily for home use sold under the Kirby and other brand names. Scott & Fetzer has 19 operating units most of which were independent businesses acquired subsequent to 1963.

Founded in 1914, Scott & Fetzer was incorporated under the laws of the State of Ohio on November 30, 1917. Its general offices are located at 14600 Detroit Avenue, Lakewood, Ohio 44107, and its telephone number is (216) 228-6200. All references to Scott & Fetzer relate to Scott & Fetzer and its subsidiaries and their predecessors, unless the context indicates otherwise.

Lines of Business

The approximate amount and percentage of total sales and income before taxes attributable to each line of business for each of the last five fiscal years is set forth in the table on page 12 of the 1977 Annual Report to shareholders of Scott & Fetzer, which table is incorporated herein by reference. Such figures and related information reflect the acquisition of companies accounted for as poolings of interests and as purchases, and the disposition of businesses. Scott & Fetzer's lines of business are based in part on the similarity of certain of its products and in part on the similarity of the markets in which its products are sold. Such data reflect the allocation of certain expenses and other arbitrary determinations.

During the fiscal year ended November 30, 1977, a major national retailing concern purchased products from various divisions of Scott & Fetzer which in the aggregate accounted for approximately 14% of total sales from continuing operations for such fiscal year. This national retailer has been a purchaser of Scott & Fetzer's products (including those of acquired companies) for periods varying between approximately 21 and 41 years depending on the particular type of product. A major portion of the products purchased by this retailing concern was within the Leisure Time line of business. No other customer accounted for a material percentage of total sales. Scott & Fetzer does not believe that the loss of any other single customer would have a material adverse effect on its total business.

Floor Care

Scott & Fetzer manufactures and distributes a wide variety of vacuum cleaners and other floor maintenance equipment and supplies for residential, industrial and institutional use. It also manufactures and sells to other manufacturers certain component parts incorporated in such equipment.

Floor maintenance equipment for consumer use is sold primarily under the Kirby name, and certain other floor maintenance equipment for such use is sold under both the private labels of customers and under certain Company trade names. Scott & Fetzer, which entered the household vacuum cleaner field in 1919, manufactures and sells the Kirby upright vacuum cleaner and related floor care and other accessories. Kirby Division products are sold by the direct sales method in the home through approximately 810 independent distributors located throughout the United States and Canada which have a combined estimated direct sales and support force of approximately 12,100 persons. The Kirby Division's sales to distributors are substantially all for cash. In fiscal 1977, no one distributor accounted for more than 2% of Kirby Division sales. Domestic sales are fairly evenly distributed throughout the country, based upon population densities. The sale of vacuum cleaners and related accessories primarily for home use under the Kirby and other names, as well as private labels, accounted for approximately 28%, 24%, 24%, 24%, and 24% of total sales from continuing operations of Scott & Fetzer for each of the fiscal years 1973 through 1977, respectively.

In addition to the Kirby products, Scott & Fetzer manufactures and sells under the American-Lincoln and Wilshire names an extensive line of power-driven industrial and institutional floor maintenance equipment and related supplies including industrial-type polishers, sanders, wet floor scrubbers, tank-type vacuum cleaners and sweepers ranging in size up to, and including, tractor mounted scrubbers and sweepers. The Company also manufactures motors and roller and flat brushes for vacuum cleaners, polishers and other floor maintenance equipment.

Commercial/Industrial

Scott & Fetzer manufactures a variety of products having commercial and industrial applications, the major items of which are air compressors and components of tracks for military vehicles. Scott & Fetzer also manufactures utility and service truck bodies and related equipment, suspension system components for vehicles, as well as water systems fixtures utilized primarily in mobile homes.

One of Scott & Fetzer's divisions markets color photo-identification systems for drivers' licenses currently in use by motor vehicle departments of numerous states. Similar systems are marketed for credit cards, college and industrial identification cards, and other personal identification applications.

In addition, Scott & Fetzer manufactures and sells cutlery and other household items primarily for promotional use by a variety of businesses engaged in the distribution of consumer products. Scott & Fetzer also makes and sells injection-molded plastic items and assorted plastic containers, as well as scissors, shears and trimmers.

Also within the Commercial/Industrial line Scott & Fetzer manufactures connectors and fittings for compressed gas applications and various precision equipment for use in processing industries for the measurement of pressure, vacuum and flow of liquids.

Scott & Fetzer's commercial/industrial products are sold through a variety of distribution systems including wholesalers, jobbers and direct sales.

Leisure Time

Scott & Fetzer manufactures primarily for home use complete, as well as component parts of, spraying units, including small compressors, for the spraying of paints and other liquids. These products are sold by mass merchandisers under private labels and by various retail stores under the Campbell-Hausfeld brand name. For fiscal years 1973 through 1977 sales to the leisure time market of complete spraying units and components accounted for approximately 14%, 15%, 17%, 18%, and 19%, respectively, of total sales from continuing operations of Scott & Fetzer.

For the leisure time market Scott & Fetzer also manufactures and markets primarily through independent distributors hitching and towing equipment, including trailer hitches, balls, couplers and other related towing items, and recreational vehicle awnings.

In addition, Scott & Fetzer manufactures and markets primarily through independent distributors electrical and mechanical winches for marine and other applications.

Electrical

Scott & Fetzer manufactures and sells numerous electrical components and products, including zinc die cast electrical fittings and transformers and ballasts for indoor and outdoor electrical signs. It also makes and sells timing devices for residential and commercial automatic laundry equipment, fractional horsepower motors for electric appliances and other products, and ignition systems for residential and industrial oil furnaces, including a solid-state control.

Other electrical products manufactured and sold by Scott & Fetzer include couplers, a specialty line of armored cable terminators, and various other items used principally in connection with high voltage electric cables, as well as a variety of fittings for use with low voltage electric cables.

Among its other electrical products are television and citizens band radio antennas and accessory equipment, both for conventional and mobile home use. Scott & Fetzer is also engaged in the manufacture and sale of both weather-proof and explosion-proof fittings, junction boxes, instrument housings and control stations for electrical distribution systems. Scott & Fetzer's electrical products are generally marketed through distributors.

Lighting

Prior to November 30, 1977, Scott & Fetzer produced and sold in the United States and Canada numerous designs and models of ceiling and wall lighting fixtures for residential and commercial applications, and table, floor and swag lamps primarily for residential use. These fixtures and lamps were sold under the Virden, Prestige, Atlas, and Rembrandt brand names primarily through electrical fixture distributors, manufacturers' representatives and division salesmen. On November 30, 1977 Scott & Fetzer sold its domestic lighting operations. (See Acquisitions and Dispositions.)

Acquisitions and Dispositions

During the 5 fiscal years ending November 30, 1977, Scott & Fetzer completed the acquisition of 3 businesses located throughout the United States and Canada of which 2 were accounted for as poolings of interest and 1 was accounted for as a purchase. As a result of these acquisitions the Leisure Time line of business was substantially augmented. The consideration paid by Scott & Fetzer in connection with these acquisitions consisted of approximately $523,800 in cash and approximately 210,000 Common Shares of Scott & Fetzer having an approximate aggregate market value of $7.8 million at the respective times of issuance.

In order to eliminate marginal operating units, Scott & Fetzer duirng 1974 sold the assets of the Lakewood Industries Division and the stock of the Emmons Tool & Die Co. Limited. In January 1977, Scott and Fetzer sold the manufacturng assets and certain inventory of its chain saw operation together with a facility used for storage purposes. The disposition of these units did not materially affect the Company's sales or earnings.

On November 30, 1977, Scott & Fetzer sold the Virden Lighting (U.S.), Rembrandt Lamp and Atlas Lighting divisions, and in February of 1978, Scott & Fetzer sold its Humphrey's Leather Goods division. In addition, it has been engaged in negotiations with respect to the disposition of one of its other divisions. For more information see Note 1 of the Notes to Financial Statements, on page 18 of the 1977 Annual Report to shareholders of Scott & Fetzer, which note is incorporated herein by reference.

On February 15, 1978, Scott & Fetzer acquired all the outstanding shares of Wayne Home Equipment Co., Inc. for cash in the amount of $23,550,610. The payment of a portion of such amount has been deferred. Wayne Home Equipment Co., Inc. assembles and sells power gas and oil burners and water circulating, sump and other pumps. For the year ended December 31, 1977, its net sales were approximately $45,000,000.

Competition

There are a number of companies engaged in manufacturing each class of products made by Scott & Fetzer. Although Scott & Fetzer believes it is among the leading manufacturers in certain of its major product lines, including high quality vacuum cleaners and various types of air compressors, the Company's products are sold in many markets and there is substantial competition in each of the markets it serves.

Backlog

Scott & Fetzer does not believe that the dollar amount of backlog of orders and related information is material for an understanding of its business. A substantial portion of Scott & Fetzer's operations involve the recurring production of standard items that are shipped to the customer relatively shortly after an order is received by Scott & Fetzer.

Raw Materials and Supplies

Raw materials required for Scott & Fetzer's various products are commonly available materials such as steel, zinc, aluminum, brass and copper, which are generally purchased locally from producers and distributors of such items. Suppliers of component parts and castings are located in many areas throughout the country. Scott & Fetzer does not depend on a single source of supply for its raw materials, component parts or supplies and believes that its sources of supply are adequate.

Energy

Scott & Fetzer utilizes oil, gas and electricity as its principal energy sources. There has not been any material disruption of production at any of the Scott & Fetzer's plants because of energy shortages. However, there is no assurance that energy shortages in the future will not have an adverse effect on Scott & Fetzer either directly, or indirectly by reason of their effect on customers or suppliers.

Environmental Controls

Scott & Fetzer believes its facilities are in substantial compliance with existing laws and regulations relating to control of air and water quality and waste disposal. Environmental compliance has not had and is not expected to have a material effect on the Company's capital expenditures, earnings or competitive position.

Product Development, Patents and Trademarks

Scott & Fetzer is continuously engaged in the refinement and development of its various product lines, development of new applications for existing products, and the development of new products. Scott & Fetzer's expenditures during the fiscal years 1977 and 1976 relating to such product development were not material.

Scott & Fetzer uses in its business various trademarks, trade names, patents, trade secrets, and licenses. While a number of these are important to Scott & Fetzer, it does not consider a material part of its business to be dependent on any one or group of them.

Employees

As of January 1, 1978, Scott & Fetzer employed in continuing operations approximately 6,750 persons, of whom approximately 1,300 were salaried and approximately 5,450 were hourly. Approximately 3,600 of the hourly employees in 17 of Scott & Fetzer's 42 plants are represented by labor organizations. Scott & Fetzer has enjoyed generally good relations with its employees. Approximately 374 employees are covered by 3 labor contracts which are scheduled for renegotiation during fiscal 1978.

In addition to an employee benefits program which includes paid vacations, insurance, disability benefits, hospitalization benefits, and medical benefits, Scott & Fetzer has in effect for its divisions and subsidiaries various pension and retirement plans for salaried and hourly personnel, including non-contributory trusteed plans, and profit sharing retirement plans. See Note 6 of the Notes to Financial Statements on page 20 of the 1977 Annual Report to shareholders of the Company (which note is incorporated herein by reference) for information concerning contributions by Scott & Fetzer under such plans, unfunded past service cost, and other data.

Item 2. Summary of Operations:

	(Amounts In Thousands Except Per Share Data)				
	Years Ended November 30,				
	1977	1976	1975	1974	1973
Net sales	$351,187	$301,918	$247,249	$247,539	$222,795
Cost of goods sold	249,521	222,225	185,742	192,185	162,127
Interest expense, capitalized leases	1,056	1,117	1,142	960	497
Interest expense, other	2,094	2,941	2,625	2,532	582
Interest income	2,881	2,859	1,305	132	429
Income taxes	29,306	21,264	14,491	11,126	16,353
Income from continuing operations	26,802	21,103	15,690	12,460	17,779
Income (loss) from discontinued operations	(496)	1,618	1.218	1,099	3,011
Net income	$ 26,306	$ 22,721	$ 16,908	$ 13,559	$ 20,790
Earnings per common and common equivalent share (4):					
From continuing operations	$3.63	$2.78	$2.08	$1.65	$2.35
From discontinued operations	(.07)	.21	.16	.15	.40
Total	$3.56	$2.99	$2.24	$1.80	$2.75
Dividends per share (2)	$1.30	$1.17	$1.02	$1.00	$1.00
Average number of common and common equivalent shares (2)	7,384	7,594	7,559	7,553	7,571

---

(1) Operations for 1973 through 1976 have been restated to reflect the effects of the change in accounting for leases and the discontinuance of certain operations as described in Notes 1 and 4 to Financial Statements included in the 1977 Annual Report to shareholders. The change in accounting for leases decreased net income for 1973, 1974 and 1975 by $79,000, $137,000 and $140,000, respectively. Sales as originally published and the amounts retroactively excluded as a result of the discontinuance of certain operations are as follows:

	(Thousands of Dollars)				
	1977	1976	1975	1974	1973
Originally published	$351,187	$343,043	$284,020	$291,258	$270,714
Discontinued operations		41,125	36,771	43,719	47,919
Continuing operations	$351,187	$301,918	$247,249	$247,539	$222,795

(2) Data as previously reported.

(3) The "Management's Discussion and Analysis of the Summary of Operations" as set forth on page 11 of the 1977 Annual Report to shareholders is incorporated herein by reference. For a discussion of discontinued operations, reference should be made to Note 1 to Financial Statements included on page 18 in the 1977 Annual Report.

(4) Earnings per share data is computed on the basis of average shares outstanding each year including common equivalent shares, after retroactive adjustment for shares issued in connection with mergers and acquisitions accounted for as poolings of interests. Common equivalent shares (resulting from stock options) were 28,842 for 1977, 19,758 for 1976, 4,188 for 1975 and 28,405 for 1973.

ITEM 3. PROPERTIES

Scott & Fetzer's various continuing operations are conducted in 39 manufacturing facilities and 3 warehouses in 38 locations in 13 states and in the Canadian provinces of Ontario and Quebec. Many of Scott & Fetzer's facilities are relatively new and modern, while other facilities have been in operation for a substantial number of years. Management believes that the manufacturing capacity of Scott & Fetzer's facilities is generally adequate at current levels of operation. Various of Scott & Fetzer's facilities, including several of the new facilities, are leased, with options to purchase in some cases. For additional information concerning the lease obligations of Scott & Fetzer see Note 4 of the Notes to Financial Statements on pages 18 and 19 of the 1977 Annual Report to shareholders of Scott & Fetzer, which note is incorporated herein by reference.

ITEM 4. PARENTS AND SUBSIDIARIES

The information required by Item 4 remains unchanged as at November 30, 1977 from the information given in response to this Item in Scott & Fetzer's Annual Report on Form 10-K, dated February 26, 1976, filed for its 1975 fiscal year (Commission File No. 0-231). (See BUSINESS - Acquisitions and Dispositions.)

ITEM 5. PENDING LEGAL PROCEEDINGS

The Federal Trade Commission has notified Scott & Fetzer by letter of a nonpublic investigation of its Kirby division. The nature and scope of the investigation is to determine whether or not the Kirby Division may be engaged in unfair or deceptive acts or practices in violation of Section 5 of the Federal Trade Commission Act in connection with the sale of vacuum cleaners, accessories and attachments, or any other merchandise throughout the United States. Scott & Fetzer believes that it is not in violation of the Act.

On December 9, 1977, a complaint was filed in California Superior Court against Scott & Fetzer, Ralph E. Schey, Robert C. Weber and certain other persons claiming that Scott & Fetzer breached an oral acquisition agreement and that the other defendants induced such alleged breach and otherwise failed to disclose certain information. The complaint seeks actual damages, $20,000,000 exemplary damages and other relief. The lawsuit was filed by Sam L. Beber and Beber & Associates and arises out of the sale by Scott & Fetzer of its Atlas Lighting Division to someone other than Mr. Beber and Beber & Associates.

ITEM 6. INCREASES AND DECREASES IN OUTSTANDING SECURITIES AND INDEBTEDNESS

(a) Increases and decreases in Common Shares without par value (stated value of $1.25 per share).

Transaction	Increases	Decreases	
Outstanding at November 30, 1976			7,576,924
Purchase of outstanding shares for treasury on January 17, 1977		267,308	
Issuance of shares upon exercise of outstanding stock options	6,937		
Outstanding at November 30, 1977			7,316,553

ITEM 7. CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES

Inapplicable.

ITEM 8. DEFAULTS UPON SENIOR SECURITIES

Inapplicable.

ITEM 9. APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS

Set forth below is the approximate number of holders of record of the equity securities of Scott & Fetzer as at November 30, 1977.

Title of Class	Approximate Number of Record Holders
Common Shares without par value (stated value of $1.25 per share)	8,852

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the annual meeting of shareholders held on March 22, 1977, the shareholders of Scott & Fetzer approved the adoption by the Directors of the Modified 1973 Stock Option Plan. Holders of 5,538,654 shares voted in favor of such approval and holders of 315,330 shares voted against such approval.

ITEM 11. EXECUTIVE OFFICERS OF THE REGISTRANT

The following is a schedule of the names, ages and positions of officers as of February 1, 1978 of Scott & Fetzer. There are no family relationships among these officers. All executive officers are elected annually by the Directors.

Name	Age	Title
John Bebbington	52	Group Vice President
John Bebbington has been employed by Scott & Fetzer as Group Vice President for more than five years.		
J. F. Bradley	47	Executive Vice President - Finance
J. F. Bradley has been employed by Scott & Fetzer as Executive Vice President - Finance for more than five years.		
Arthur M. Bylin	41	Group Vice President
Arthur M. Bylin has been employed by Scott & Fetzer since August 22, 1977. For at least five years prior to such date he was employed by Club Aluminum Products Division of Standex International Corporation in such capacities as President and Executive Vice President. Club Aluminum Products Division of Standex International Corporation is in the business of manufacturing consumer housewares and industrial products.		

Carl W. Goldbeck	54	Group Vice President

Carl W. Goldbeck has been employed by Scott & Fetzer for more than five years in such capacities as Division President and Group Vice President.

Kenneth D. Hughes	56	Treasurer, Controller and Assistant Secretary

Kenneth D. Hughes has been employed by Scott & Fetzer for more than five years in such capacities as Treasurer, Controller and Assistant Secretary.

Joseph P. Marsalka	49	Group Vice President

Joseph P. Marsalka has been employed by Scott & Fetzer as Group Vice President since October 1, 1977. For at least five years prior to such date he was President of MI2 Corporation and its predecessor MI2 Incorporated, a manufacturer of data communication equipment.

Walter A. Rajki	52	Group Vice President

Walter A. Rajki has been employed by Scott & Fetzer for more than five years in such capacities as Division President and Group Vice President.

Ralph E. Schey	53	Chairman, President and Chief Executive Officer

Ralph E. Schey was elected President and Chief Operating Officer of Scott & Fetzer as of September 1, 1974 and Chairman as of December 1, 1976. In 1972 and until his election as President and Chief Operating Officer he was a private consultant directing venture capital activities involving several Cleveland companies.

Robert C. Weber	47	Secretary and General Counsel

Robert C. Weber has been employed by Scott & Fetzer for more than five years in such capacities as Secretary and General Counsel and Assistant Secretary.

ITEM 12. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The information required by Item 12 remains unchanged from the information given in response to Item 9 in Scott & Fetzer's Annual Report on Form 10-K, dated February 26, 1976, filed for its 1975 fiscal year (Commission file No. 0-231).

ITEM 13. FINANCIAL STATEMENTS AND EXHIBITS FILED

(a) All financial statements. The Financial Statements and the Notes to Financial Statements of Scott & Fetzer for the fiscal year ended November 30, 1977 together with the Accountants' Report relating thereto are set forth on pages 13 through 22 of the 1977 Annual Report to shareholders, which pages are filed as part of this Annual Report on Form 10-K. Such Financial Statements and the schedules of the Company which are also filed as part of this report are listed on the Index to Financial Statements on page F-1 hereof. With the exception of pages 11 through 22 and only to the extent herein set forth, the 1977 Annual Report to shareholders is not to be deemed filed as part of this Annual Report on Form 10-K.

(b) All exhibits.

F. Modified 1973 Stock Option Plan (Exhibit A to the Notice of 1977 Annual Meeting of Shareholders and Proxy Statement and incorporated herein by reference).

(c) Reports on Form 8-K.

None.

PART II

ITEMS 14-18

Since the close of the fiscal year, the Registrant has filed with the Securities and Exchange Commission a definitive proxy statement pursuant to Regulation 14A, which involved the election of Directors. Therefore, the information called for by Part II of Form 10-K has been omitted.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE SCOTT & FETZER COMPANY

By Robert C. Weber
Robert C. Weber, Secretary

February 28, 1978

THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES

INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

The consolidated financial statements for the years ended November 30, 1977 and 1976 and the report thereon of Independent Certified Public Accountants appear on pages 13 through 22 of the attached 1977 Annual Report to Stockholders which pages are incorporated in this Form 10-K Annual Report. With the exception of the aforementioned pages, the 1977 Annual Report to Stockholders is not to be deemed filed as part of this report.

The individual financial statements of the Registrant are omitted because the Registrant is primarily an operating company and all subsidiaries included in the consolidated financial statements filed are totally-held subsidiaries.

Schedules other than those listed above are omitted as the information required is either not pertinent or not significant, or because the data is given in Notes to Financial Statements.

REPORT AND CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have examined the consolidated balance sheets of The Scott & Fetzer Company and subsidiary companies as of November 30, 1977 and 1976 and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended and the supporting schedules as listed in the accompanying Index to Financial Statements and Schedules. 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.

In our opinion, the aforementioned supporting schedules present fairly the information required to be included therein, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for long-term leases as described in Note 4 to the financial statements.

We consent to the inclusion of our report dated January 24, 1978 accompanying the financial statements of The Scott & Fetzer Company included in the 1977 annual report to stockholders incorporated by reference in the Annual Report, Form 10-K (SEC File No. 0-231) for the year ended November 30, 1977.

COOPERS & LYBRAND

Cleveland, Ohio
January 24, 1978

THE SCOTT & FETZER COMPANY 1977 ANNUAL REPORT

- Individuality
- Innovation
- Enterprise

When Quigg Lohr joined Scott & Fetzer nearly 13 years ago, he already had completed a career as a successful manufacturing business executive spanning 24 years, the last four as president. Earlier, he had been a practicing attorney and also taught evening law courses for 10 years at Cleveland-Marshall Law School, now the College of Law, Cleveland State University. At that time, Scott & Fetzer was just beginning its program to diversify through acquisitions. Quigg became the first executive to join the corporate staff of the "new" Scott & Fetzer, and, in his position as vice president-corporate relations, was immediately and deeply involved with the newly acquired companies.

The mark of his administrative influence remains evident in such early acquisitions as PLM, Adalet, Quikut, Stahl Metal Products, American-Lincoln, and others. Scott & Fetzer's first acquisition in 1964 — PLM Products — was a company that Quigg had co-founded with two business friends many years earlier, in his spare time, to manufacture terminal fittings for armored cable, still a prime product. The company name, PLM, came from the first letters of the founders' names.

QUIGG LOHR
Senior Executive Vice President

As Scott & Fetzer grew rapidly in the Sixties, so did its need for greater expertise in legal matters. With his legal background, Quigg was given full corporate legal responsibilities upon his appointment as vice president and secretary in 1967. During ensuing years, he was elected an executive vice president and became a director. In 1972, he was named senior executive vice president.

Apart from his three careers, Quigg has found time to serve others, through such organizations as Rotary — a 30-year member, president of his local club, and a former district governor — and, currently, as president of the Lakewood Little Theatre-Beck Center for the Cultural Arts, an institution that has attained national prominence.

Quigg Lohr retired on February 1, 1978. Benefits from his contributions, which came during the company's period of greatest growth, will accrue for years to come. For Scott & Fetzer, Quigg Lohr was the right man in the right place at the right time.

The Officers and Employees of
The Scott & Fetzer Company

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 28, 1978, 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 Agent and Registrar

The Cleveland Trust Company
P. O. Box 6477
Cleveland, Ohio 44101

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.

CONTENTS

(Dollar Amounts in Thousands Except Per Share Data)

	1975 (Restated)*	1976 (Restated)*	1977	Per Cent Change 1977 vs. 1976
Net Sales	$247,249	$301,918	$351,187	16%
Income Before Taxes —				
Continuing Operations	30,181	42,367	56,108	32%
Per cent to Sales	12.2%	14.0%	16.0%	
Net Income —				
From Continuing Operations	$ 15,690	$ 21,103	$ 26,802	27%
From Discontinued Operations	1,218	1,618	(496)	
Total	$ 16,908	$ 22,721	$ 26,306	16%
Per cent to Sales —				
Continuing Operations	6.3%	7.0%	7.6%	
Per Share Earnings —				
From Continuing Operations	$ 2.08	$ 2.78	$ 3.63	31%
From Discontinued Operations	.16	.21	(.07)	
Total	$ 2.24	$ 2.99	$ 3.56	19%
Dividends Per Share‡	$ 1.02	$ 1.17	$ 1.30	11%
Book Value Per Share	$ 14.43	$ 16.26	$ 18.23	12%
Total Assets	$192,919	$215,277	$225,411	5%
Shares Outstanding (000's)‡	7,556	7,577	7,317	
Number of Shareholders‡	10,105	9,377	8,852	

‡ *As Reported*

* *The term "restated" as used throughout this report refers to revisions in previously reported data to recognize the effects of two major accounting changes made in 1977 reporting. Details of both changes are in Notes 1 and 4 to the Financial Statements.*

COMMON STOCK MARKET PRICE AND DIVIDEND INFORMATION

	Market Price of Common Shares				Dividends Per Share	
	1977		1976			
Fiscal Quarter	High	Low	High	Low	1977	1976
First	$28	$23⅞	$26¼	$17⅝	$ .30	$ .27
Second	27⅛	22¾	29⅝	23⅜	.30	.30
Third	29	22⅞	26⅝	23¼	.35	.30
Fourth	28	24⅞	25⅜	21½	.35	.30
Closing price at December 30, 1977	$27¼					

1977 was a challenging and rewarding year for Scott & Fetzer. In this letter I would like to review for you some of the important developments, accomplishments, and unrealized expectations for the year. We had a favorable economic climate during 1977 which resulted in good business conditions for most of our operating units. The group and division management teams achieved our overall corporate sales and earnings objectives and improved Scott & Fetzer's fundamental competitive position in most of the markets we serve. Looking back, I would characterize 1977 as a transition year in Scott & Fetzer's history, in which Phase I was the development of the Kirby vacuum cleaner business. Phase II involved expansion through acquisitions in the 1964-1973 period. The years 1974-77 have been Phase III in which we have refined our operating procedures, reorganized the operating units and identified for disposition those businesses that did not fit into our future plans. The next phase will commence in 1978 with plans for acquiring several larger businesses which will expand the overall scope of Scott & Fetzer. Specifically in 1977 we:

- Made the transition to a new chief executive officer;
- Established new records in sales, net income and earnings per share;
- Consolidated a number of divisions to enhance the continuing divisions' operating performance and future marketing opportunities;
- Strengthened the corporate management group with the addition of two new group vice presidents;
- Completed a critical analysis of Scott & Fetzer's strengths, weaknesses, and future market opportunities. Five divisions were

Sales and operating earnings during 1977 were below even our modest expectations. We effected several writedowns during the year of the lighting divisions' assets preparatory to disposing of these operations. Three lighting divisions were sold at year end. The lighting classification will be eliminated in our 1978 reporting and we plan to reclassify our continuing businesses.

Dividends. The Board of Directors increased the dividend rate to 35 cents per share from 30 cents effective with the payment made on August 31, 1977. This was an increase of 17% in the quarterly rate. Dividend payments totalled \$1.30 per share in 1977 compared with \$1.17 per share last year, an increase of 11%. It is our management objective to achieve consistent earnings growth which allows an average annual dividend increase of approximately 10% and a pay-out to shareholders of approximately 35-40% of average earnings.

Management Reorganization. During 1977, we undertook to combine some of our divisions, whose operations or markets were relatively compatible, to form more viable, productive and efficient operating units. The consolidation of these divisions enables us to attract or retain the caliber of management and technical people required to achieve expected growth rates of the businesses. It also permits more efficient utilization of the people and other assets of the company. These combinations were:

- The Metalsmiths and Flex-N-Gate divisions were consolidated into the Stahl division. Mr. Kenneth J. Semelsberger is the division president.
- The Adalet and PLM Products divisions were merged to form the Adalet-PLM division, with Mr. Wayne E. Helfrich as president. Mr. Raymond E. Horrocks, former president of PLM, will serve as Corporate Director of Facilities.
- The Kingston and Douglas divisions were reorganized, with the Kokomo, Indiana, plant of Kingston and the Bronson, Michigan, plant of Douglas forming the new Douglas division. Mr. H. Vincent Kornstien is the division president. The Smithville, Tennessee, plant of Kingston, which manufactures electrical timers, was combined with the France division. Mr. Thomas A. Patterson is division president. The Walnut Ridge, Arkansas, plant of the former Douglas division, which

manufactures vacuum cleaners, was combined with the Cardinal division, with Mr. Kearney K. Kier as president.

- The Cleveland Wood Products and Scot Laboratories divisions were merged to form the Klevac division, with Mr. Leonard C. Soros as president.
- The S & A Electronics division was consolidated into the Valley Industries division, with Mr. William E. Dotterweich as president.
- The Kirby and Campbell-Hausfeld units, because of their size and importance to Scott & Fetzer, were given operating group status. Mr. Adrian E. Budlong, Jr., and Mr. James D. Dodson were designated operating group presidents.

In addition, we reorganized the divisional reporting relationships with the addition of two new group vice presidents. We believe that these changes will enhance our principal corporate objective of growing businesses within Scott & Fetzer. A new consumer products group was formed with Mr. Arthur M. Bylin as group vice president. He joined Scott & Fetzer in August, 1977. Previously, Mr. Bylin was president of Club Aluminum Products, a division of Standex International Corporation.

In October, 1977, Mr. Joseph P. Marsalka joined Scott & Fetzer as a group vice president. He has an extensive background in business management, entrepreneurship and has co-founded several business enterprises. As part of our long-term corporate strategy, we have identified the measuring and control markets as areas of significant future interest to Scott & Fetzer. Mr. Marsalka has the assignment of acquiring and developing a new group of product lines and businesses in these markets.

Discontinued Businesses. Over the last two years, we have undertaken a critical analysis of each of our operating units for competitive position, operating performance, future market potential, fit into Scott & Fetzer's future strategy and divisional management strengths and weaknesses. We have combined and consolidated some divisions, made appropriate management changes in others and identified five divisions as candidates for near-term disposition. As previously discussed, the lighting businesses did not meet our expectations for future growth requirements. The Virden Lighting (U.S.), Rembrandt Lamp and Atlas Lighting divisions were sold effective November 30, 1977. Additionally, two other divisions have been classified as discontinued businesses and are in the process of being sold. Negotiations are underway, at this writing, for the sale of these two divisions. When these dispositions are completed, Scott & Fetzer will have 19 operating units.

Unrealized Expectations. Part of our management style is to require that individuals in corporate management, as well as those in the divisions and operating groups, clearly identify objectives for the forthcoming year and beyond. This enables us to better identify our priorities and to determine generated growth in our continuing operations. We are planning for and expecting to achieve higher sales and earnings in 1978. Conversely, we have placed equal emphasis on our operating units having detailed contingency plans. If inflationary pressures accelerate, our operating cost controls become increasingly critical. We believe that the operating units are adequately prepared to anticipate and react decisively and vigorously in the event that adverse economic trends develop.

As I complete my first year as Scott & Fetzer's chief executive officer, I want to take this opportunity to express my appreciation for the counsel and support of our directors, the dedication and competence of the corporate and operating unit management groups, the positive efforts of our many fine employees, and the contributions of numerous other groups of people outside our company who have helped make 1977 our best year in business.

Ralph Schey

RALPH SCHEY
President and
Chief Executive Officer

Subsequent Event
On February 7, 1978, the Humphreys Leather Goods division, one of two divisions referred to in the foregoing letter for which sale negotiations were in progress, was sold at book value for cash and notes. For accounting purposes, in this report, the Humphreys division is considered a "discontinued business," as explained in Note 1 of the Notes to Financial Statements.

February 8, 1978

OPERATING UNIT PRESIDENTS

- Individuality
- Innovation
- Enterprise

Individuality, Innovation, Enterprise — three important words which characterize the management philosophy of Scott & Fetzer. We are striving to create a business environment which enables individuals to maximize their personal growth through innovation and enterprise. An individual challenged by ambitious personal goals will be similarly challenged by ambitious company goals if he participates in establishing such goals. Individual initiative coupled with a commitment of various corporate resources is a major ingredient in the formula for Scott & Fetzer corporate growth.

All organizations emphasize the importance of people in their statements of corporate philosophy. We believe that corporate goals can be best accomplished by enlarging the opportunity for individuals and groups of individuals to build their own businesses with the assistance of Scott & Fetzer.

We have attempted to clearly define the relationship of our corporate management with the operating unit management in order to assist them to achieve maximum growth. Corporate management has responsibility for the following functions:

- To efficiently and profitably manage the assets of the various groups of businesses we own, somewhat as an investment manager would manage a portfolio of investments over a long term. The review and appraisal of our portfolio has resulted in decisions to dispose of various businesses and to consolidate others in order to meet the market and financial criteria we have established.
- To do the research and planning to determine those areas of business which we feel have the best long-range potential for the corporation. If we are already engaged in a chosen area of business, corporate management will work closely with the operating unit management to expand the base of such selected businesses. A new area of business interest is the responsibility of corporate management to add it to our existing portfolio of businesses and to select the management team who will operate the new business.
- To function as a board of directors for each of our decentralized individual business units with each corporate group vice president serving as chairman of the board. The board's function is to review the strategy and the operational plans of the individual businesses to insure that these plans are compatible with the corporate strategy and to select those individuals who can build their divisional businesses to meet Scott & Fetzer's growth requirements.
- To function as a prudent and knowledgeable banker who appraises the operating units' use of corporate assets and, with perception, insight, experience, and persuasion, allocates on a realistic and objective basis the monetary and other resources of the corporation to best achieve Scott & Fetzer's goals. All major financial decisions are carefully scrutinized to be certain that the risk-reward relationship is consistent with Scott & Fetzer objectives.
- To establish practical and effective early warning internal control systems which regularly monitor division performance and initiate prompt corrective action where necessary.
- To recruit and develop highly motivated individuals with excellent management experience and potential, who share our objective of building substantial businesses within Scott & Fetzer. The individuals' personal opportunities in their operating units and a compensation structure geared to the performance of each unit will be strong inducements for management continuity in a growing business.

OPERATING UNIT PRESIDENTS (From top, left to right, opposite page)

ADRIAN E. BUDLONG, JR. Kirby Group	**JAMES D. DODSON** Campbell-Hausfeld Group	**WAYNE E. HELFRICH** Adalet-PLM Division	**CLARENCE D. FAYLING** American-Lincoln Division	**ROBERT H. WILKINSON** Canada Lighting Division
KEARNEY K. KIER Cardinal Division	**PETER M. QUATROCHI** Carefree of Colorado Division		**LEONARD C. SOROS** Klevac Division	**H. VINCENT KORNSTIEN** Douglas Division
THOMAS A. PATTERSON France Division	**MERLE FROMSON** Halex Division	**WARREN E. McHALE** Meriam Instrument Division	**JOHN R. DORNER** Northland Division	**THOMAS F. KILEY** Powerwinch/Ja-Son Division
JAMES D. LACY Quikut Division	**KENNETH J. SEMELSBERGER** Stahl Division	**JOSEPH DiGIACOMO, JR.** Streamway Division	**WILLIAM DOTTERWEICH** Valley Industries Division	**RONALD P. DRICKHAMER** Western Enterprises Division

Operating unit managers are encouraged to use their own initiative to aggressively seek ways to build their own business. The central theme at all management meetings is, "Grow Your Own Business." We have placed great emphasis on internally generated growth for each operating unit which we believe can be best achieved by product and market development activities at that level. As part of an operating unit growth plan, it is occasionally desirable to acquire a product line rather than develop it internally. We had several such acquisitions in 1977 which were initiated by operating unit management. We believe that this practice will become a more important feature in our operating unit growth plans.

While occasional product line acquisitions play an important role, we stress the need to cultivate and nurture our existing businesses so that they are not ignored in the excitement of becoming deeply involved in something new. Our growth plans must require extensive planning to increase market share for existing products through programs to become the lowest unit cost producer in the industry and to offer engineered products with ever increasing reliability and a minimum of design obsolescence. Our pledge to all customers, whether consumer, commercial, or industrial, is to offer product value which is commensurate to the price paid for the product.

It is our goal to create opportunities for management which provide maximum personal job satisfaction and some of the financial rewards which accrue to managers who also own part of the business they operate. Total management compensation is under constant study and review in order to devise unique systems which will attract and retain management personnel of the caliber who are motivated to, and can, successfully build a business. We have spent a great deal of time to better understand what we believe are the optimum growth rates for each of our businesses and what constitutes superior asset management. Meeting or exceeding such goals over a period of time will permit us to equitably share the benefits of superior performance between successful managers and our shareholders. If our individual operating unit management groups can accomplish these ambitious goals, their compensation and equity interests will be well above average. At the same time, the shareholders benefit through higher dividends and hopefully an enhanced market evaluation of Scott & Fetzer shares.

We have defined a number of ambitious goals for our management — individually and collectively — but we have inspired, enthusiastic people who will respond positively to the opportunities before them. Scott & Fetzer has always been an exciting company, but the future holds even more excitement than the past.

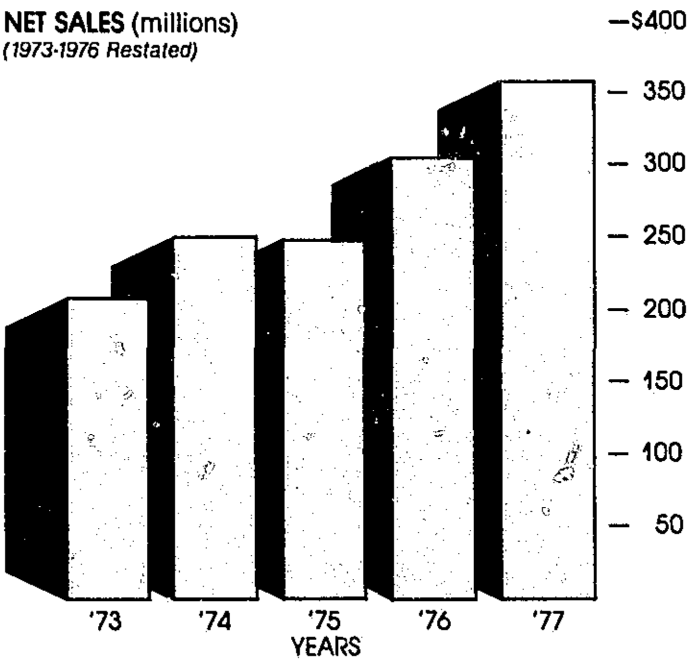
The reported results for 1977 as well as the comparative figures for 1976 and the prior fiscal years shown on the Five-Year Historical Record reflect two accounting changes. First, during 1977 five divisions were identified for disposal and as such are classified as "discontinued businesses." Three of these were sold at year end and negotiations are currently underway for the sale of the other two. Accounting rules require that the sales made by these five "discontinued businesses" be eliminated from total sales and that their earnings or losses be separately stated. Consequently, Scott & Fetzer's 1977 sales and earnings are reported on a "continuing operations" basis with the results of discontinued operations shown separately in determining total reported net income and earnings per share. On the statement of income, page 13, the 1976 figures have been comparably restated.

J. F. BRADLEY
Executive Vice President - Finance

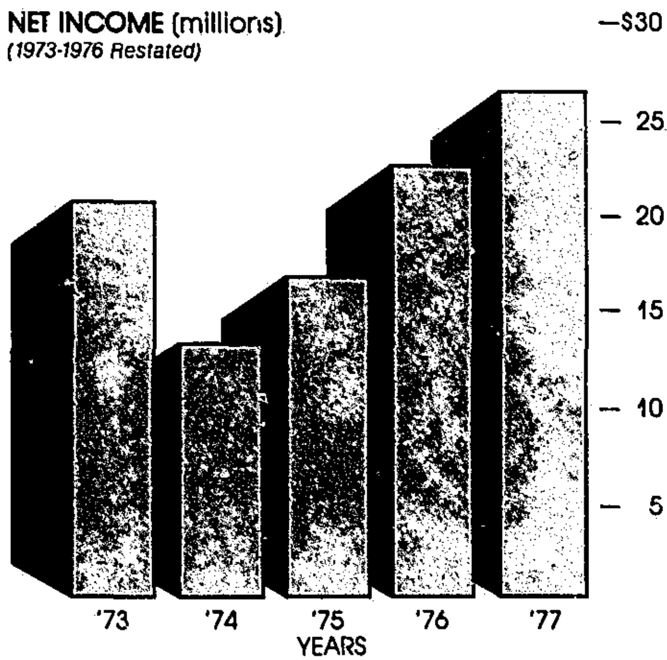
The Financial Accounting Standards Board (FASB) has issued a new accounting rule regarding the treatment of certain leases which caused the second accounting change. The applicable leased facilities and equipment must now be accounted for as though they were owned by the company. As the fictitious owner, it is assumed that the company would incur depreciation charges and interest costs based on the estimated original value of the property. If the depreciation and interest charges exceed the actual lease payments, earnings are reduced by those excess costs. This accounting change reduced 1977 and restated 1976 earnings by approximately two cents per share. The reported previous fiscal years also have been restated.

Sales, income before taxes, net income, earnings per share and dividend payments all were at record levels in 1977. Consolidated sales for continuing operations were $351.2 million, up 16% from restated sales of $301.9 million in 1976. Income before taxes amounted to $56.1 million compared with the restated $42.4 million last year, an increase of 32%. Income after taxes from continuing operations grew 27% to $26.8 million from a restated $21.1 million in the prior year. After inclusion of the income or loss from discontinued operations, net income for 1977 was $26.3 million, 16% above the restated $22.7 million last year. Earnings per share from continuing operations were $3.63 compared with the restated $2.78 per share in 1976. After including the results of discontinued operations, reported earnings per share for 1977 amounted to $3.56, 19% above the restated $2.99 for the prior year.

NET SALES (millions)
(1973-1976 Restated)



NET INCOME (millions)
(1973-1976 Restated)



The net profit margin of the continuing operations improved to 7.6% from 7.0% in 1976. After including the results of discontinued operations, the net profit margin was 7.5%, the same as in 1976. Return on shareholders' equity improved to 19.7% from 18.4% last year.

Sales and income before taxes by market classification are shown on page 12. The 1977 sales for the five classifications include sales made by the discontinued operations for comparability with prior fiscal periods. The sales total $394.7 million compared with $343 million in 1976. After eliminating the sales for the five discontinued businesses, which amounted to $43.5 million in 1977 and $41.1 million for 1976, the sales for continuing operations were as reported above.

Floor Care. The product lines in this classification had an excellent year with sales of $99.5 million, 16% above last year's $85.9 million. Income before taxes increased 23% to $25.6 million from $20.9 million last year. The pre-tax profit margin improved to 25.7%, up from 24.3% in 1976. The Kirby group enjoyed an excellent year with record sales and earnings well above 1976. The American-Lincoln division experienced a good volume increase which coupled with improved operations substantially increased earnings in 1977. These two units accounted for most of the sales and earnings growth.

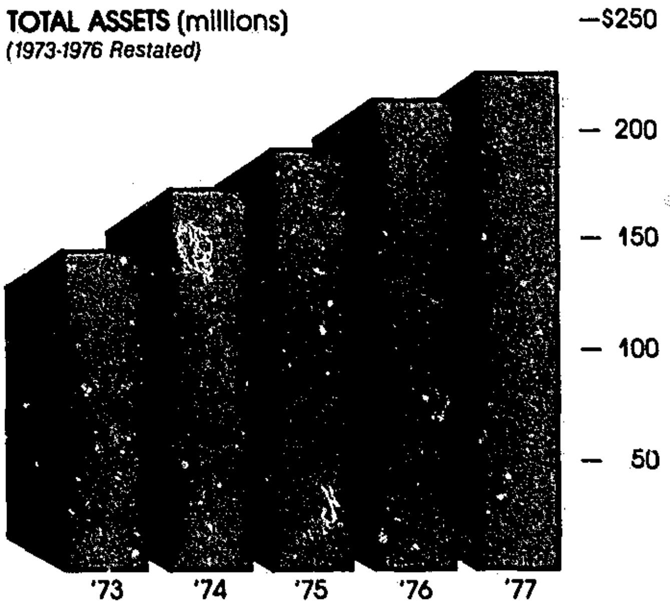
Commercial/Industrial. Sales in this classification increased 17% to $108.1 million from $92.7 million a year ago. Income before taxes amounted to $8.8 million, 12% above the last year's $7.9 million. With the exception of two divisions, which are discontinued operations, all product lines had higher sales and, with one exception, increased earnings. The 1977 results were enhanced by the volume growth and substantial operating improvement achieved by the Campbell-Hausfeld group. Other divisions making significant contributions were Stahl, Douglas, Streamway, Western Enterprises and Quikut. Overall, it was an excellent year for these operating units.

Leisure Time. All operating units in these markets had record volume with sales increasing 18% to $105.7 million from $89.4 million in 1976. Income before taxes amounted to $12.1 million, more than double the prior year's $5.8 million. Sales in the recreational market were very strong and above expectations. Combined with the substantial increase in sales volume of Campbell-Hausfeld's air compressors, this classification contributed the largest sales growth to Scott & Fetzer. The sharply higher earnings growth reflected the sales volume growth in all product lines and the significant operating improvements achieved by both the Campbell-Hausfeld group and Valley Industries division.

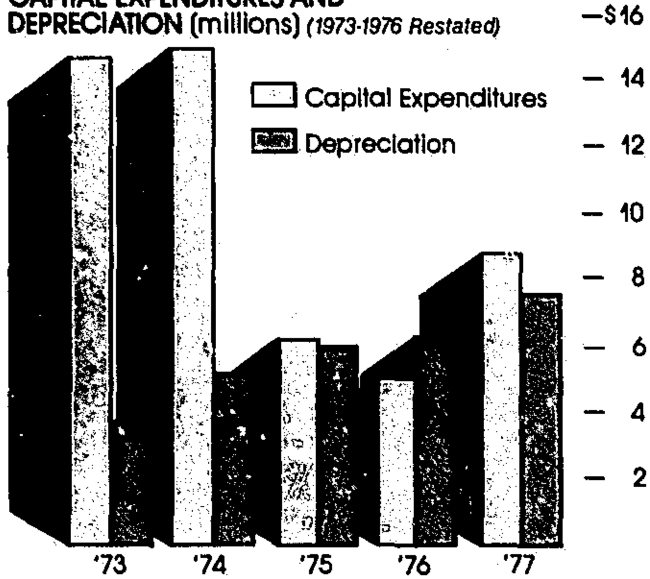
Electrical. Sales of the electrical product lines were $55.2 million compared with $47.5 million in 1976, an increase of 16%. Income before taxes of $10.9 million was 8% above the $10 million earned last year. The higher sales and earnings principally reflected the significant volume increase of the France division, including the Smithville plant's electrical timer business. The Northland division also experienced good volume growth and the Douglas division had improved operating earnings. The other divisions in this category were either modestly below 1976 or approximately at the year earlier level.

Lighting. Sales were $26.2 million, 5% below 1976. While the Virden-U.S. division continued to be profitable, the 1977 loss for this classification was $2.3

TOTAL ASSETS (millions)
(1973-1976 Restated)



CAPITAL EXPENDITURES AND DEPRECIATION (millions) *(1973-1976 Restated)*



million, including asset write-downs effected during or at year end. With the sale of the Virden-U.S., Rembrandt Lamp and Atlas Lighting divisions, this classification will be eliminated commencing with the 1978 first quarter report.

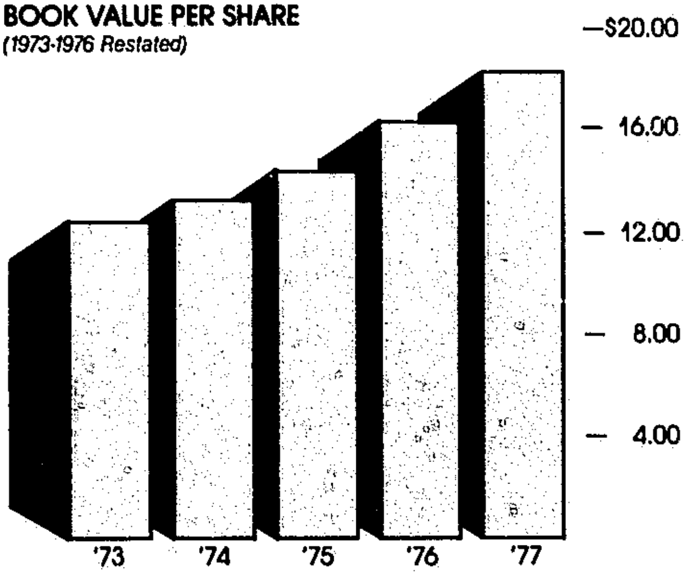
Analysis of Earnings. Income before taxes from continuing operations was $56.1 million, 32% above the restated $42.4 million in 1976. The substantial growth in income before taxes reflected the 16% increase in sales volume and an improved cost of goods sold relationship to sales. In 1977, cost of goods sold was 71.1% of sales, down from 73.6% in the prior year. Selling, general and administrative expenses remained at 12.1% of sales in 1977 and the operating profit improved to 16.8% of sales, well above the 14.3% last year. Other 1977 non-operating expenses totalled $3 million before taxes compared with $0.9 million in the prior year, resulting in a $2.1 million higher deduction from operating profit. Included in these other non-operating expenses were net interest costs (interest expense less interest income) of $1.1 million which compared with $1.2 million for 1976, a decrease of $120,000. The higher non-operating expenses resulted primarily from the loss on disposal of fixed assets and Canadian losses resulting from the sale of an investment in an associated 50%-owned company, the write-off of the goodwill related to the Canadian Lighting division and exchange losses incurred due to the lower value of the Canadian dollar.

Income Taxes. The provision for all income taxes, as shown on the statement of income, page 13, in 1977 was $29.3 million or 52.2% of income before taxes from continuing operations. This compared with $21.3 million in the prior year or 50.2% of restated income before taxes. The factors affecting the tax provision are shown below.

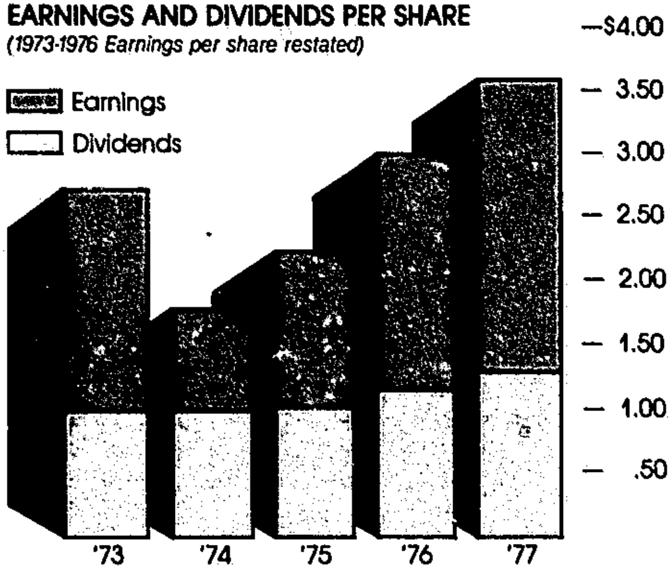
	1977	1976
Income before taxes	$56,108	$42,367
Less state and local	3,164	2,147
Income before Federal and Canadian taxes	$52,944	$40,220
Income taxes at 48% statutory rate	$25,413	$19,306
Adjustments: Add (Deduct)		
Investment tax credit	(300)	(390)
Export "DISC" credit	(286)	(183)
Canadian tax effect	993	(24)
All other, net	322	408
Provision for federal and Canadian income taxes	$26,142	$19,117

The investment tax credit declined to $300,000 this year from $390,000 in 1976 due to lower capital expenditures that qualified for the tax credit. Conversely, the 1977 export "DISC" tax credit increased to $286,000 from $183,000 in the prior year because of higher export sales. The impact on 1977 earnings from the net change in these two tax credits was minimal. The principal cause of the higher effective 1977 tax rate was the change in the provision for Canadian income taxes. In 1976, Scott & Fetzer had a $24,000 tax credit reflecting the lower Canadian corporate income tax rate. However, in 1977 there was no prior years' income against which to offset this year's operating losses. In addition, the goodwill write-off was not deductible for tax purposes. These losses cannot be applied against U. S. income.

BOOK VALUE PER SHARE
(1973-1976 Restated)



EARNINGS AND DIVIDENDS PER SHARE
(1973-1976 Earnings per share restated)



Net Income and Earnings Per Share. The restated quarterly net income and earnings per share for 1977 and 1976 are included in Note 9 to the financial statements on page 20. Each quarter in 1977 was a new record for Scott & Fetzer. Income after taxes for 1977 was $26.8 million from continuing operations, 27% above the comparable $21.1 million in the prior year. After including the results from discontinued operations, net income this year amounted to $26.3 million, 16% higher than the restated $22.7 million a year ago. The discontinued operations had a net loss of $496,000 in 1977 compared with $1.6 million profit in 1976. Note 1 on page 18 shows the composition of the 1977 discontinued operations figure. The principal factors affecting the change in 1977 net income and earnings per share compared with 1976 are as follows:

	Net Income ($000's)	Earnings Per Share
1976 — As reported	$22,861	$3.01
Deduct effect of lease accounting change	140	.02
1976 — Restated	22,721	2.99
Increase (Decrease) in 1977 from:		
Continuing operations	6,636	.87
Lower net interest costs	62	.01
Higher effective income tax rates	(999)	(.13)
Lower number of common and common equivalent shares	—	.10
Change in results of discontinued operations	(2,114)	(.28)
Net change	3,585	.57
1977 — As reported	$26,306	$3.56

The reported net income for 1976 was restated to include the effect of the lease accounting change which amounted to a $140,000 decrease, or two cents per share. The restated figures for 1976 are net income of $22.7 million and earnings per share of $2.99. Earnings from continuing operations in 1977 increased $6.6 million, or 87 cents per share. Net interest costs were reduced $62,000 (after taxes), contributing one cent of earnings per share. The higher effective income tax rate decreased net income $999,000, or 13 cents per share. In early 1977, Scott & Fetzer purchased 267,308 common shares for $6.7 million from the former president of Campbell-Hausfeld. These shares became treasury shares, reducing the number of outstanding common shares. The effect of this transaction was to increase 1977 earnings per share by 10 cents.
The five divisions classified as discontinued businesses had net earnings of $1.6 million in 1976 and a loss of $496,000 in the past year. This was a profit decrease of $2.1 million and reduced earnings per share 28 cents. The combined result of these various factors was an increase in 1977 net income of $3.6 million, or 57 cents per share.

Financial Position. The consolidated balance sheet is shown on pages 14-15. The assets and liabilities for 1976 have been restated to reflect the lease accounting change. The effect of this change was to add to the assets under property, plant and equipment, capitalized leased buildings and equipment of $11.8 million less additional accumulated depreciation of $3.7 million for a net increase of $8.1 million. Correspondingly, various current and non-current liabilities were increased $8.7 million and retained earnings were decreased by $0.6 million for a net change of $8.1 million.

In 1977, total assets increased to $225.4 million, up $10.1 million from 1976's restated $215.3 million. Working capital (current assets less current liabilities) increased $9.8 million to $125.2 million from $115.4 million last year. Cash and securities were $12.9 million higher than the prior year. Trade and other receivables were $45.9 million at the end of 1977, $2.1 million below the November 30, 1976, level. Inventories totalled $61.2 million, slightly below the previous year-end level.

Intangible assets declined to $144,000 from $2.1 million at the end of 1976 as a result of the write-off of goodwill. Other assets increased to $3.6 million at the end of 1977 compared with $1 million a year earlier. This increase was due to inclusion of the notes receivable associated with the sale of the Virden Lighting (U.S.) division.

Total long-term debt amounted to $41.8 million, down from $42.7 million at the end of 1976. Included in long-term debt is $10.7 million of debt-equivalent related to capitalized leases compared with $11.3 million last year. Prior to the 1977 lease accounting change referred to earlier, only obligations under lease/purchase agreements were capitalized and treated as debt. This amounted to $3 million in 1976 and $2.8 million this year. In the 1977 and restated 1976 financial statements, the "capitalized leases" item in the long-term debt section of the balance sheet, page 15, includes certain capital leases for buildings and equipment required to be capitalized under the new FASB accounting statement. These amounted to $7.9 million in 1977 and $8.3 million restated for last year. Total shareholders' equity rose to $133.4 million or $18.23 per share compared with $123.2 million and $16.26 per share at the end of 1976, as restated.

(Dollar Amounts in Thousands Except Per Share Data)

	Years Ended November 30				
	1977	1976	1975	1974	1973
Net sales	$351,187	$301,918	$247,249	$247,539	$222,795
Cost of goods sold	249,521	222,225	185,742	192,186	162,127
Interest expense, capitalized leases	1,056	1,117	1,142	960	497
Interest expense, other	2,904	2,941	2,625	2,532	582
Interest income	2,881	2,859	1,305	132	429
Income taxes	29,306	21,264	14,491	11,126	16,353
Net income	$ 26,306	$ 22,721	$ 16,908	$ 13,559	$ 20,790
Per share					
Earnings per common and common equivalent share	$3.56	$2.99	$2.24	$1.80	$2.75
Dividends*	1.30	1.17	1.02	1.00	1.00
Average number of common and common equivalent shares (000's)*	7,384	7,594	7,559	7,553	7,571

* *As reported*

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

1977 VERSUS 1976

Consolidated net sales for 1977 were up 16% over restated 1976, reflecting price increases and higher unit volume in most product lines.

Cost of goods sold as a per cent of sales declined to 71.1% from the previous year's 73.6%, the result of improved operating performance and cost reductions.

Provision for income taxes increased 38% over last year, reflecting the increased income before taxes of the U. S. operations and a pre-tax loss incurred by a Canadian subsidiary with no offsetting tax relief.

The 16% gain in net income for 1977 is attributable to volume growth and lower operating costs, partially offset by a higher effective income tax rate. The increase in earnings per share of 19% was higher than the percentage increase in net income as a result of the company's purchase of 267,308 shares of its stock in January of 1977.

1976 VERSUS 1975 (RESTATED)

The company's consolidated net sales increased 22% over the prior year level, reflecting unit volume growth and generally higher selling prices.

Cost of goods sold was 20% higher than in 1975 due to growth in unit volume and increased costs of purchased materials. Interest expense, other, 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 47% 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 50.2% 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.

(Dollar Amounts in Thousands)

	Floor Care		Commercial/ Industrial		Leisure Time		Electrical		Lighting	
	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent
SALES										
1977	**$99,520**	**25%**	**$108,059**	**27%**	**$105,756**	**27%**	**$55,178**	**14%**	**$26,224**	**7 %**
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 %
INCOME BEFORE TAXES										
1977	**$25,622**	**46%**	**$ 8,836**	**16%**	**$ 12,058**	**22%**	**$10,868**	**20%**	**$ (2,307)**	**(4)%**
1976......	20,855	46%	7,887	17%	5,773	13%	10,035	22%	1,035	2 %
1975......	16,247	50%	5,935	18%	3,324	10%	7,010	22%	7	—
1974......	11,547	45%	3,220	13%	4,212	16%	5,937	23%	752	3 %
1973......	16,578	42%	10,060	25%	7,013	18%	4,589	11%	1,673	4 %

* *Before restatement for elimination of discontinued operations. Income figures have been restated for the change in accounting for leases.*

A DESCRIPTION OF THE COMPANY

The Scott & Fetzer Company is a diversified marketing-oriented manufacturing company selling products in the floor care, leisure time, commercial/industrial and electrical markets. The company has 19 operating units composed of independent businesses, most of which were acquired subsequent to 1963. The operating units are organized and managed as separate decentralized profit centers within Scott & Fetzer. The company was founded in 1914 and was incorporated under the laws of the State of Ohio on November 30, 1917.

(Dollar Amounts in Thousands Except Per Share Data)

	Year Ended November 30	
	1977	1976 (Restated)
NET SALES	$351,187	$301,918
Cost of goods sold	249,521	222,225
Gross profit	101,666	79,693
Selling, general and administrative expenses	42,534	36,409
Operating profit	59,132	43,284
Other income (deductions)		
Interest expense, capitalized leases (Note 4)	(1,056)	(1,117)
Interest expense, other	(2,904)	(2,941)
Interest income	2,881	2,859
Other, net	(1,945)	282
	(3,024)	(917)
Income from continuing operations before income taxes	56,108	42,367
Provision for income taxes:		
State and local	3,164	2,147
Federal and Canadian		
Current	25,464	18,419
Deferred	678	698
Total taxes	29,306	21,264
Income from continuing operations	26,802	21,103
Income (loss) from discontinued operations (Note 1)	(496)	1,618
NET INCOME	$ 26,306	$ 22,721
EARNINGS PER SHARE		
From continuing operations	$ 3.63	$ 2.78
From discontinued operations	(.07)	.21
Total earnings per common and common equivalent share	$ 3.56	$ 2.99
DIVIDENDS PER SHARE	$ 1.30	$ 1.17
Average number of common and common equivalent shares outstanding (000's)	7,384	7,594

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

(Dollar Amounts in Thousands)

ASSETS	November 30 1977	November 30 1976 (Restated)
CURRENT ASSETS:		
Cash	$ 7,279	$ 298
Certificates of deposit	24,404	26,689
Short-term investments	28,611	20,444
Trade receivables, less allowance for doubtful accounts 1977 — $793 1976 — $834	44,114	47,121
Other receivables	1,826	929
Inventories (Note 3):		
Raw material and supplies	30,684	32,169
Work in process	16,295	13,999
Finished goods	14,221	15,212
	61,200	61,380
Prepaid expenses	4,054	3,955
TOTAL CURRENT ASSETS	171,488	160,816
PROPERTY, PLANT AND EQUIPMENT:		
Land and land improvements	1,526	1,539
Buildings	11,998	12,528
Machinery and equipment	58,042	56,972
Capitalized leases	15,097	14,930
	86,663	85,969
Accumulated depreciation	36,487	34,646
TOTAL PROPERTY, PLANT AND EQUIPMENT (Note 4)	50,176	51,323
INTANGIBLE ASSETS ARISING FROM ACQUISITIONS	144	2,120
OTHER ASSETS	3,603	1,018
	$225,411	$215,277

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

LIABILITIES	November 30 1977	1976 (Restated)
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 2)	$ 1,233	$ 1,113
Accounts payable, trade	20,571	20,822
Accounts payable, other	1,261	1,730
Federal and Canadian income taxes	7,952	7,549
Accrued taxes, other	2,747	2,643
Accrued liabilities	12,537	11,556
TOTAL CURRENT LIABILITIES	46,301	45,413
LONG-TERM DEBT (Notes 2 & 4):		
9% Notes, due 1985	30,000	30,000
Mortgage notes and insurance company loan	1,102	1,397
Capitalized leases	10,736	11,339
TOTAL LONG-TERM DEBT	41,838	42,736
DEFERRED INCOME TAXES	3,907	3,900
TOTAL LIABILITIES	92,046	92,049
SHAREHOLDERS' EQUITY		
SERIAL PREFERENCE STOCK:		
Authorized 1,000,000 shares, without par value; none issued		
COMMON STOCK:		
Authorized 15,000,000 shares, without par value (Notes 5 & 7)		
Stated value of issued shares: $1.25 per share		
1977 — 7,576,924 less 260,371 in treasury		
1976 — 7,576,924	9,146	9,471
ADDITIONAL CAPITAL (Note 7)	5,863	5,992
RETAINED EARNINGS (Note 2)	118,356	107,765
TOTAL SHAREHOLDERS' EQUITY	133,365	123,228
	$225,411	$215,277

(Dollar Amounts in Thousands)

	Year Ended November 30	
	1977	1976 (Restated)
SOURCE OF FUNDS		
From continuing operations:		
Income after taxes	$26,802	$21,103
Depreciation and amortization	5,499	5,366
Writedown of intangible assets	654	—
Deferred federal income taxes	678	698
	33,633	27,167
From discontinued operations:		
Income (loss) after taxes	(496)	1,618
Depreciation and amortization	2,044	881
Writedown of intangible assets and provision for future costs	919	—
Deferred federal income taxes	(671)	(53)
	1,796	2,446
Total from operations	35,429	29,613
Long-term financing arising from capitalized lease obligations	486	423
Proceeds from disposition of divisions, less non-current note receivable of $2,762 received	5,783	—
Sale of common stock under stock options	91	311
Disposal of property, plant and equipment	1,662	490
Other, net	102	(74)
	43,553	30,763
APPLICATION OF FUNDS		
Cash dividends	9,510	8,864
Disposal of net current assets of discontinued divisions	7,309	—
Additions to property, plant and equipment	8,816	5,059
Decrease in long-term debt	1,384	1,296
Acquisition of treasury shares	6,750	—
	33,769	15,219
INCREASE IN WORKING CAPITAL	$ 9,784	$15,544

(Dollar Amounts in Thousands)

	Year Ended November 30 1977	Year Ended November 30 1976 (Restated)
INCREASE (DECREASE) IN COMPONENTS OF WORKING CAPITAL		
Current assets:		
Cash and certificates of deposit	$ 4,696	$ (7,340)
Short-term investments	8,167	16,394
Trade and other receivables	(2,110)	8,026
Inventories	(180)	5,801
Prepaid expenses	99	1,081
	10,672	23,962
Current liabilities:		
Current portion of long-term debt	120	18
Trade and other payables	(720)	1,962
Accrued liabilities, including taxes	1,488	6,438
	888	8,418
INCREASE IN WORKING CAPITAL	$ 9,784	$15,544

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(Dollar Amounts in Thousands)

	Year Ended November 30 1977	Year Ended November 30 1976 (Restated)
Retained earnings, beginning of year, as previously reported	$108,341	$ 94,344
Less cumulative effect on prior years of a change in accounting for leases (Note 4)	(576)	(436)
Retained earnings, beginning of year, as restated	107,765	93,908
Net income	26,306	22,721
	134,071	116,629
Cash dividends	9,510	8,864
Excess of cost of treasury stock over amount allocated to common stock and additional capital — 260,371 shares	6,205	—
	15,715	8,864
Retained earnings, end of year	$118,356	$107,765

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

1. Discontinued Operations

On November 30, 1977 the Company completed the sale of its domestic lighting divisions (Atlas, Virden and Rembrandt) for cash and notes receivable. Also, the Company has actively entered into a program to sell two additional divisions.

Income and expenses related to discontinued divisions have been removed from the appropriate categories in the statement of income for both years and the net income therefrom included in income (loss) from discontinued operations, as follows (thousands of dollars):

	1977	1976
Results of Operations		
Net sales	$43,550	$41,125
Cost and expenses	42,814	37,908
Income taxes	313	1,599
Operating income	423	1,618
Incurred and anticipated loss on disposal of assets and closing costs, net of income tax benefit of $848	(919)	—
Net (loss) income	$ (496)	$ 1,618

Assets of the two additional divisions are expected to be sold or realized during the ensuing year. The accompanying consolidated balance sheet includes the following estimated net assets for these two divisions in 1977 and the five discontinued divisions in 1976, which are not part of continuing operations of the Company (thousands of dollars):

	1977	1976
Accounts receivable	$ 4,594	$ 7,103
Inventories	5,470	9,257
Property, plant and equipment	3,753	3,656
	13,817	20,016
Liabilities	2,734	3,032
Net assets	$11,083	$16,984

2. Long-Term Borrowing

The indenture for the 9% Notes contains provisions regarding increases in debt, minimum asset-to-debt ratios, and the extent to which dividends may be paid. At November 30, 1977 retained earnings unrestricted for the payment of dividends amounted to $55,134,000. 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.

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 1982 are $1,233,100, $1,087,900, $987,200, $1,643,700 and $1,074,100, respectively.

For continuing operations, interest and debt expense on long-term debt was $3,906,000 and $3,913,000 for the years ended November 30, 1977 and 1976, respectively.

3. 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 presented in the balance sheet would have been $10,099,000 and $9,438,000 higher than reported at November 30, 1977 and 1976, respectively.

Inventories used in the computation of costs of goods sold for continuing operations were as follows (thousands of dollars):

November 30, 1975	$45,631
November 30, 1976	52,123
November 30, 1977	55,730

4. Long-Term Leases

The Company leases certain production and warehouse facilities for terms ranging from 8 to 20 years. The majority of facility leases are for 15 years or more and contain renewal options, generally for 15 years. In addition, the Company leases transportation and other equipment, substantially all for three- to five-year terms. A substantial portion of the equipment leases contains purchase options. In accordance with Financial Accounting Standards Board Statement No. 13, the Company has capitalized all leases in effect at November 30, 1977 and 1976 which meet the criteria for classification as capital leases as defined in the Statement. The capitalized leases are accounted for and depreciated as Company-owned property, with lease payments accounted for as interest and debt reduction. Prior to the change in the method of accounting for leases, substantially all lease payments were charged to rent expense. Leases for property, plant and equipment acquired with the proceeds from industrial revenue bonds have been consistently capitalized. Financial statements for prior years have been restated to apply the new method of accounting retroactively. The effect of the change was to decrease net income by $111,000 and $140,000 in 1977 and 1976, respectively. Earnings per share were decreased by $.02 in each year. For federal income tax reporting purposes, lease costs will continue to be charged to current expense.

Capital leases included in property, plant and equipment at November 30 are comprised of the following (thousands of dollars):

	1977	1976
Land and land improvements	$ 449	$ 449
Buildings	12,506	12,506
Machinery and equipment	2,142	1,975
	15,097	14,930
Less accumulated depreciation	4,708	3,870
	$10,389	$11,060

Future minimum lease payments under noncancelable leases at November 30, 1977 are summarized below (thousands of dollars):

Years Ending November 30,	Capitalized Leases	Operating Leases
1978	$ 2,194	$ 2,995
1979	2,003	2,282
1980	1,759	1,849
1981	2,087	1,656
1982	1,943	1,606
Later years	9,207	9,242
Total minimum lease payments	19,193	19,630
Less minimum sublease rents	—	773
Net minimum lease payments	$19,193	$18,857

The present value of net minimum lease payments for capitalized leases was $11,673,000 after deducting estimated taxes, maintenance, insurance and other costs of $87,000 and interest of $7,433,000. Interest is computed at rates implicit in the leases, and the rates range from 4¼% to 15¾%. Included in minimum sublease rents for operating leases are estimates of future rents under leases to be assumed by the purchasers of discontinued operations.

Net rent expense for noncancelable operating leases for the years ended November 30, 1977 and 1976 amounted to $2,992,000 and $2,905,000, respectively, after deducting sublease rents of $95,000 and $42,000, respectively.

5. Stock Options

The Company adopted common stock option plans in 1967 and 1973 for which 40,000 shares and 175,775 shares, respectively, are reserved for issuance under outstanding options at November 30, 1977. Shares reserved for future grants at November 30, 1977 and 1976 were 411,938 and 239,600, respectively.

The 1973 stock option plan provides for the granting of either qualified or nonqualified options to officers and key employees to purchase shares of common stock at a price not less than 100% of the fair market value of the stock on the date options are granted. Options are exercisable one-fourth each year and expire five years after grant for qualified options, and 10 years after grant for nonqualified options.

On March 22, 1977 the shareholders approved modifications to the 1973 stock option plan which increased the number of shares available under the plan by 250,000 common shares and permits the granting of stock appreciation rights to optionees under the plan. As of November 30, 1977, no stock appreciation rights have been granted.

Information relating to options is set forth below:

	Number of Shares	Option Price: Average Per Share	Option Price: Total	Market Price: Average Per Share	Market Price: Total
Options granted:					
1977	94,975	$24.88	$2,363,240	$24.88	$2,363,240
Options becoming exercisable:					
1976	49,182	26.10	1,283,885	22.22	1,092,733
1977	38,834	24.06	934,262	26.01	1,009,987
Options exercised:					
1976	20,900	14.90	311,500	20.10	420,000
1977	6,937	13.06	90,584	25.67	178,041
Options outstanding:					
1976	165,700	26.21	4,343,638	26.21	4,343,638
1977	215,775	25.78	5,562,622	25.78	5,562,622

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 1977 and 1976, options for 37,963 shares and 30,300 shares, respectively, were cancelled. No options were granted during 1976. The Company has made no charges against income with respect to options.

6. Pension and Retirement Plans
The majority of the Company's employees are covered by various non-contributory trusteed pension and profit-sharing plans. Contributions under the plans charged to continuing operations were $2,268,000 and $2,336,000 for the years ended November 30, 1977 and 1976, 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 $11,859,000. 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 $2,670,000 at November 30, 1977.

7. Capital Stock
Changes in the common stock and additional capital accounts during the two years ended November 30, 1977 and 1976 were as follows (dollars in thousands):

	Common Stock			
	Treasury Shares	Issued Shares	Stated Value	Additional Capital
Balance, November 30, 1975	(2,161)	7,558,185	$9,445	$5,707
Sale of stock under options	2,161	18,739	26	285
Balance, November 30, 1976	—	7,576,924	9,471	5,992
Purchase of stock	(267,308)	—	(334)	(211)
Sale of stock under options	6,937	—	9	82
Balance, November 30, 1977	(260,371)	7,576,924	$9,146	$5,863

8. Contingent Liabilities
Any liability that may result from lawsuits and other claims pending against the Company will not be material in the opinion of management of the Company.

9. Quarterly Earnings Data (Unaudited)
The quarterly earnings data presented below has been adjusted for continuing operations and restated for the change in accounting for leases. The data has been subjected to a limited review by the Company's independent accountants in accordance with the standards prescribed by the American Institute of Certified Public Accountants. Their limited review did not constitute an audit and, accordingly, they do not express an opinion on this interim financial information.

(Dollar Amounts in Thousands Except Per Share Data)

	1977 Fiscal Year by Quarter			
	First	Second	Third	Fourth
Net sales	$80,009	$98,147	$88,331	$84,700
Gross profit	22,446	27,881	23,648	27,691
Income from continuing operations	5,530	8,324	6,038	6,910
Income (loss) from discontinued operations	86	(886)	801	(497)
Net income	$ 5,616	$ 7,438	$ 6,839	$ 6,413
Earnings per share				
From continuing operations	$ .74	$1.13	$ .82	$ .94
From discontinued operations	.01	(.12)	.11	(.07)
Total	$ .75	$1.01	$ .93	$ .87

	1976 Fiscal Year by Quarter			
	First	Second	Third	Fourth
Net sales	$66,071	$82,878	$77,656	$75,313
Gross profit	17,664	21,017	19,642	21,370
Income from continuing operations	4,886	5,959	5,204	5,054
Income (loss) from discontinued operations	(53)	388	699	584
Net income	$ 4,833	$ 6,347	$ 5,903	$ 5,638
Earnings per share				
From continuing operations	$ .65	$ .78	$ .68	$ .67
From discontinued operations	(.01)	.05	.10	.07
Total	$ .64	$ .83	$ .78	$ .74

10. Current Replacement Costs (Unaudited)
The Company is required to report to the Securities and Exchange Commission in its Form 10K, beginning for fiscal 1977, certain information relating to current replacement cost of productive capacity (primarily buildings, machinery, and equipment), replacement cost of inventories at year-end, and the effect during the year on Cost of Goods Sold, if costs were used that were in effect at the time of sale. This information basically is intended to show the effects of inflation on current operations and the future effects of replacing productive capacity at current costs and should be looked upon only as an indication of the state of the general economy as it relates to the Company at the present time. It does not purport to show the future operating performance of the Company, since productive capacity would not be replaced at one time and future costs are dependent on ever changing economic conditions and management control of all economic factors affecting the Company.

Management is constantly aware of the effects of inflation on production costs and the ability to maintain and improve productive capacity and is continually taking steps to reduce costs and upgrade its productive assets to take advantage of technological improvements and innovations in order to maintain a modern, efficient manufacturing operation.

The calculation of the current replacement cost data was based on estimates and various assumptions. The value of this analysis is limited to the validity of the estimates and assumptions and is of minimal usefulness to the Company.

A copy of the annual report to the Securities and Exchange Commission on Form 10K, which includes the complete replacement cost analysis for fiscal 1977, may be obtained from the Company upon request.

SUMMARY OF ACCOUNTING POLICIES

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

Principles of Consolidation — Consolidated financial statements include the accounts of all subsidiaries, all of which are wholly owned. Intercompany balances, transactions and stockholdings have been eliminated in consolidation.

Short-Term Investments — 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 remaining inventory is valued principally 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. 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 — Deferred income taxes arise from timing differences between the recognition of income and expense items for financial and tax reporting purposes. The principal timing differences are for depreciation and capitalized lease costs.

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 interest," 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 are amortized on a straight-line basis over a 40-year period. There were no combinations during 1977.

Earnings Per Share — Earnings per common share are determined by dividing net income by the weighted average number of shares of common stock outstanding plus common share equivalents (shares issuable for certain stock options granted).

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, 1977 and 1976 and the related consolidated statements of income, retained earnings and changes in financial position for the years 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.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of The Scott & Fetzer Company and subsidiary companies at November 30, 1977 and 1976, 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 after restatement for the change, with which we concur, in the method of accounting for long-term leases as described in Note 4 to the financial statements.

Coopers & Lybrand

Cleveland, Ohio
January 24, 1978

REPORT OF THE BOARD OF DIRECTORS' AUDIT COMMITTEE

Scott & Fetzer's Audit Committee of the Board of Directors has four members, all outside directors. During the 1977 fiscal year, the committee met four times to review the company's operating results, news releases and shareholder reports. At each meeting, we also monitored and discussed the financial control system with the company's senior management, public auditors — Coopers & Lybrand, and the manager of internal audits.

Each year, we have seen continued improvement and refinement in the company's divisional financial control systems. Most of the weaknesses that we observed in prior years have been corrected with new financial personnel and more sophisticated cost and accounting procedures. While there will be continued improvements in the future, we are satisfied that the company's operations are under adequate control.

The committee has received the full cooperation of the public and internal auditors and the senior financial officers. We believe that the company's management has kept us adequately informed on current problem areas and we have complete access to any information or personnel that may be required for us to discharge our responsibilities. We are not aware of anything of a materially adverse nature that has not been properly reported and discussed. We will continue to monitor Scott & Fetzer's management and financial control systems and general business practices to satisfy the Board of Directors that obligations both to the public and to the shareholders are being adequately met.

On behalf of the committee, I want to thank all of the personnel involved who have helped us meet our obligations.

For the Audit Committee

J. T. Bailey

Joseph T. Bailey
Chairman

Cleveland, Ohio
January 24, 1978

(Dollar Amounts in Thousands Except Per Share Data)

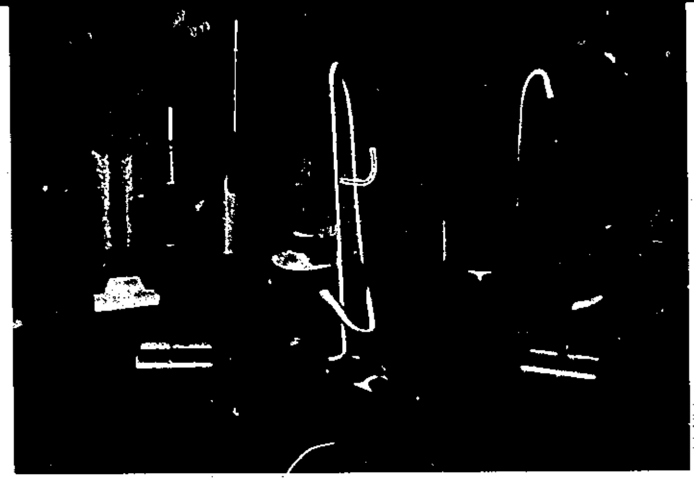
AS REPORTED*	1977	1976	1975	1974	1973
Net Sales	$351,187	$343,043	$284,020	$291,258	$270,714
Income Before Taxes	56,108	45,855	32,791	25,931	40,064
Net Income	26,306	22,861	17,048	13,696	20,869
Cash Dividends	9,510	8,864	7,706	7,554	7,456
Per cent Payout of Net Income	36.2	38.8	45.2	55.2	35.7
Earnings Retained and Reinvested	16,796	13,997	9,342	6,142	13,413
Capital Expenditures	8,816	4,636	6,064	12,473	12,753
Working Capital	125,187	116,180	100,602	84,496	60,505
Long-Term Debt	41,838	34,350	34,772	27,424	3,334
Total Assets	225,411	207,223	184,177	162,729	136,076
Shareholders' Equity	133,365	123,804	109,496	100,137	93,837
Per cent Return on Shareholders' Equity	19.7	18.5	15.6	13.7	22.2
Per Share					
Earnings	3.56	3.01	2.26	1.81	2.76
Dividends	1.30	1.17	1.02	1.00	1.00
Book Value	18.23	16.34	14.49	13.25	12.44
Market Price Range	29-22¾	29⅜-17⅝	22-8⅛	25⅝-8⅜	44¾-24⅛
Price Earnings Ratio	8-6	10-6	10-4	14-5	16-9
Year-End Data					
Shares Outstanding (000's)	7,317	7,577	7,556	7,555	7,544
Number of Shareholders of Record	8,852	9,377	10,105	9,896	8,498
Number of Employees	7,255	7,500	7,084	7,481	8,296
RESULTS RESTATED**					
Net Sales	$351,187	$301,918	$247,249	$247,539	$222,795
Income Before Taxes	56,108	42,367	30,181	23,586	34,132
Per cent to Sales	16.0	14.0	12.2	9.5	15.3
Income from Continuing Operations	26,802	21,103	15,690	12,460	17,779
Per cent to Sales	7.6	7.0	6.3	5.0	8.0
Income (Loss) from Discontinued Operations	(496)	1,618	1,218	1,099	3,011
Net Income	26,306	22,721	16,908	13,559	20,790
Earnings Per Share:					
From Continuing Operations	3.63	2.78	2.08	1.65	2.35
From Discontinued Operations	(.07)	.21	.16	.15	.40
Total	3.56	2.99	2.24	1.80	2.75

* *"As Reported" for 1976 and prior years includes discontinued operations and certain leases not capitalized.*

** *"Results Restated" reflects a change in accounting for leases and the net sales and income before taxes of continuing operations.*

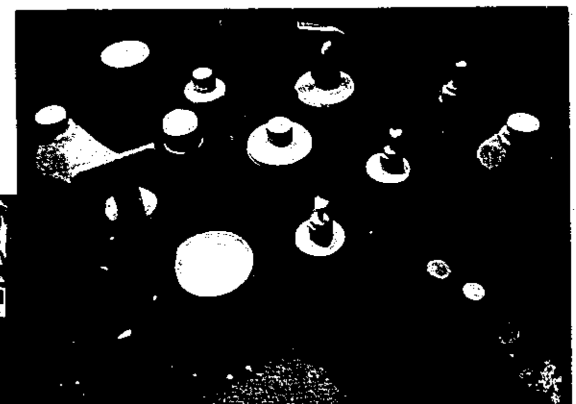
FLOOR CARE

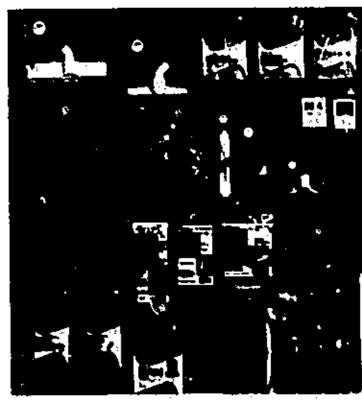
Vacuum cleaners and other floor maintenance equipment and supplies for residential, industrial and institutional use.



Cardinal Division
815 E. Tallmadge Avenue
Akron, Ohio 44310

New line of "Douglas" Family Concept Vacuum Cleaners, introduced in 1978





Klevac Division
3881 W. 150th Street Cleveland, Ohio 44111

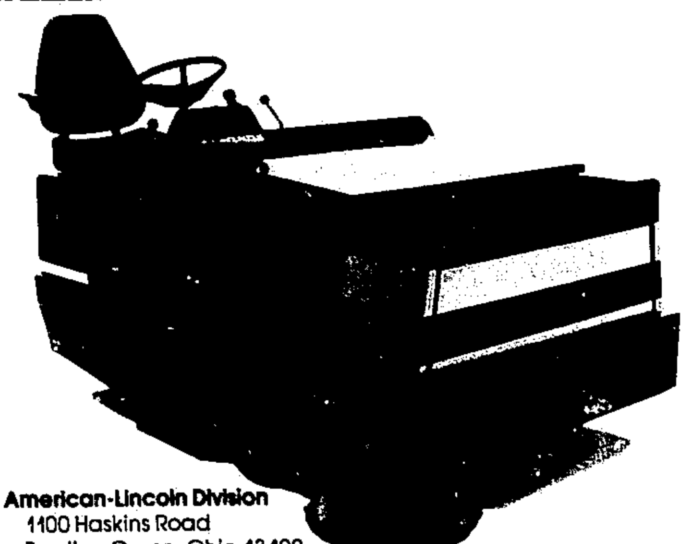
Left: Packaged replacement parts for popular model vacuum cleaners
Above: Floor shampoos, polishes, cleansers and other household products

Kirby Group
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

Top: Kirby Classic III Vacuum Cleaner
Center: Kirby canister with extension wand and cleaning attachments
Bottom: Kirby Deep Cleaning Hand Portable

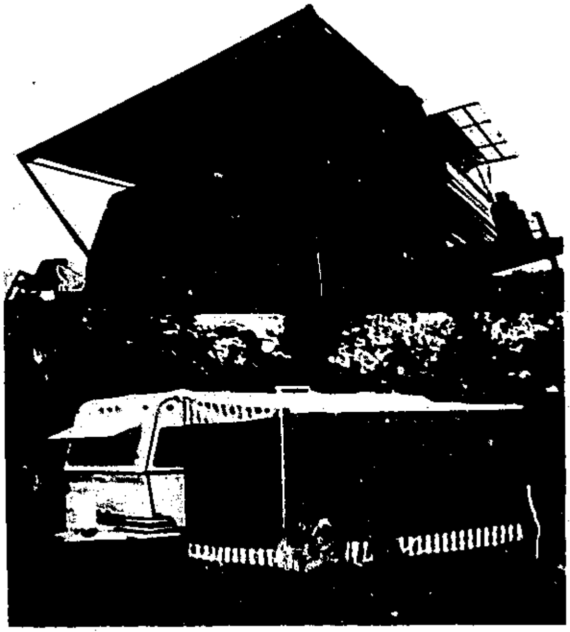


American-Lincoln Division
1100 Haskins Road
Bowling Green, Ohio 43402

The "Sweep Dream" — for large interior and exterior sweeping jobs

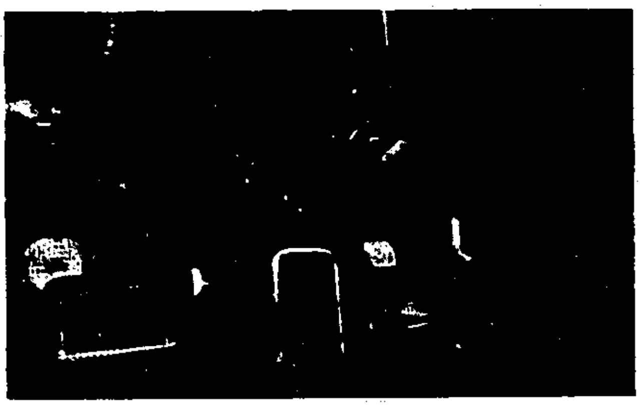
LEISURE TIME

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



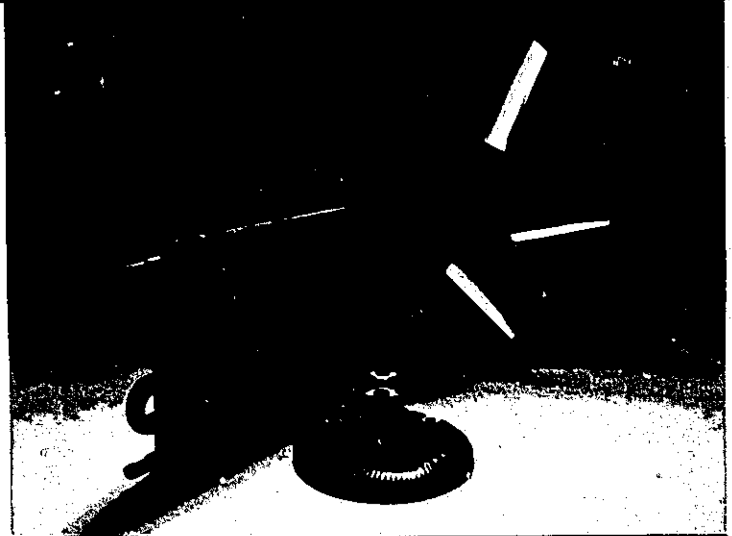
Carefree of Colorado Division
2760 Industrial Lane
Broomfield, Colorado 80020

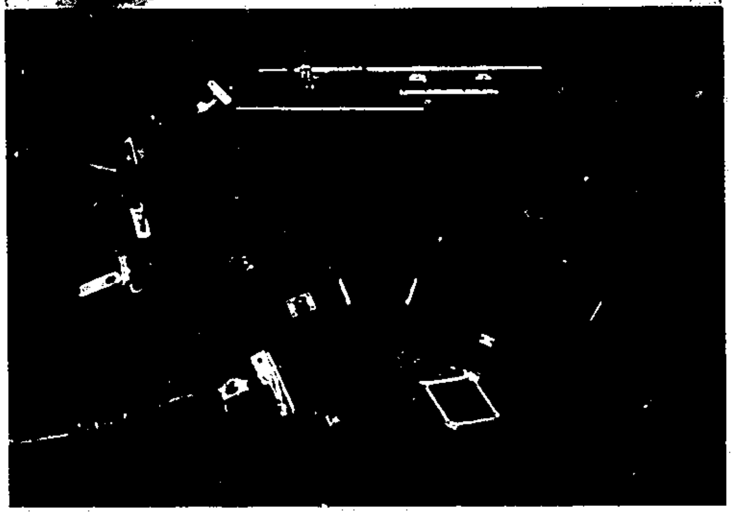
Upper: "Shadow Box" awning
Lower: "Breezeway" screen enclosure



Powerwinch/Ja-Son Division
217 Long Hill Cross Road
Shelton, Connecticut 06484

Powerwinch mounted on Jeep

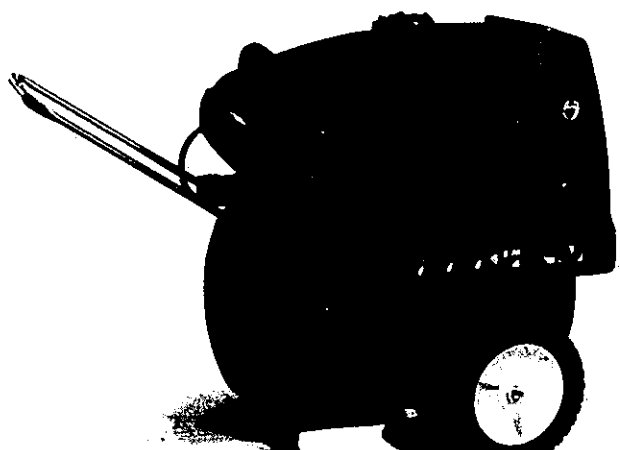




Valley Industries Division
1313 S. Stockton Street
Lodi, California 95240

Valley Industries-East
P. O. Box 444
Shelbyville, Kentucky 40065

Upper: Oil cooler fan and fan clutch products
Lower: Trailer towing products

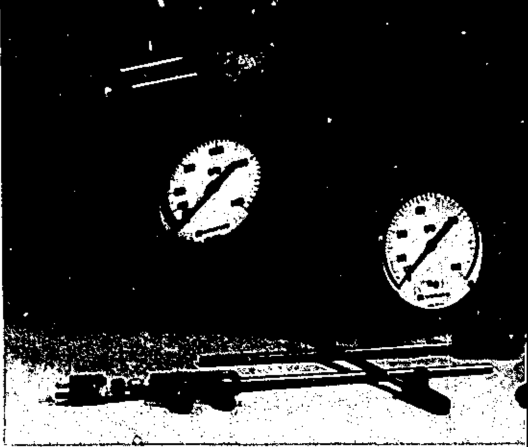


Campbell-Hausfeld Group
801 Production Drive
Harrison, Ohio 45030

Portable air compressor

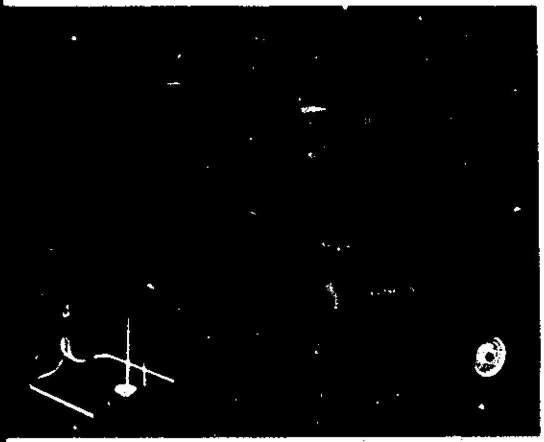
COMMERCIAL/INDUSTRIAL

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; manometric measuring instruments; cold forged scissors for the home, school and office.



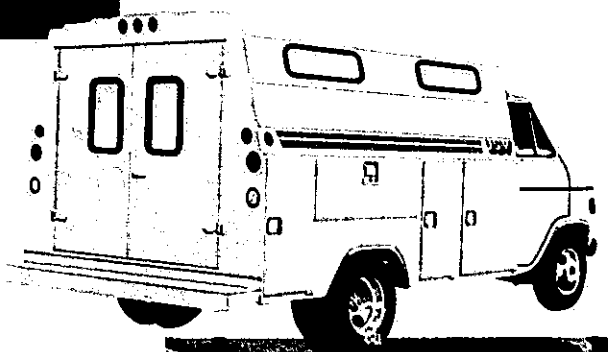
Meriam Instrument Division
10920 Madison Avenue
Cleveland, Ohio 44102

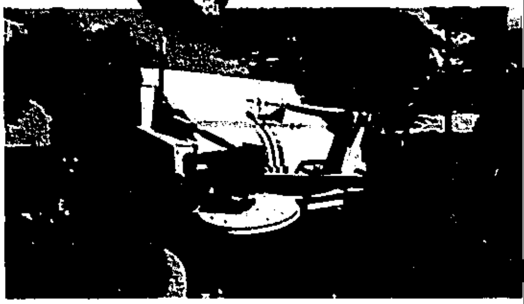
"Accutube" gauge line with indicating switch unit
Inset: flow meter



Campbell-Hausfeld Group
801 Production Drive
Harrison, Ohio 45030

Air compressors and airless paint sprayer



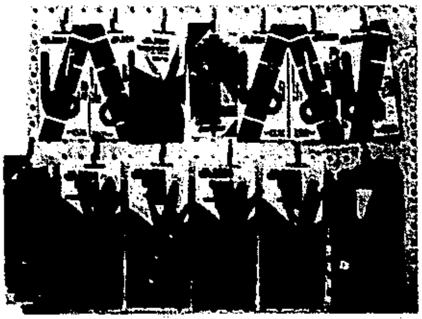


Stahl Division
4750 West 160th Street
Cleveland, Ohio 44135

Top: The "Challenger" utility service body
Center: Utility service van
Bottom: TowSweeper

Cardinal Division
815 E. Tallmadge Avenue
Akron, Ohio 44310

Molded plastic containers for food products



Powerwinch/Ja-Son Division
217 Long Hill Cross Road
Shelton, Connecticut 06484

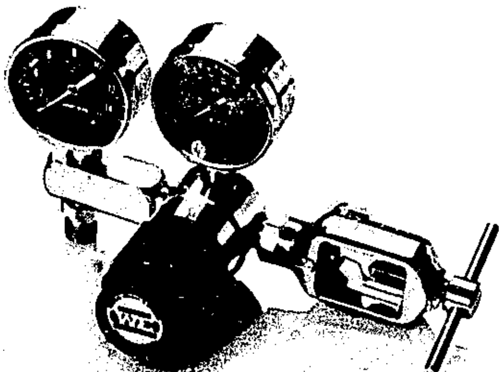
Scissors for school, home and office

Quikut Division
1100 Napoleon Street
Fremont, Ohio 43420

Steak and carving set

Streamway Division
835 Sharon Drive
Westlake, Ohio 44145

Water system fixtures

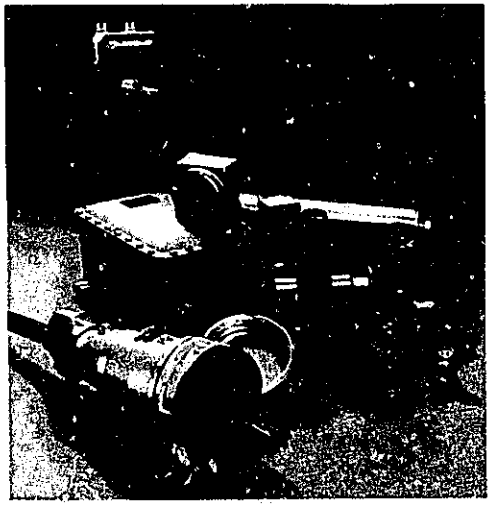


Western Enterprises Division
33672 Pin Oak Parkway
Avon Lake, Ohio 44012

Medical pressure regulator

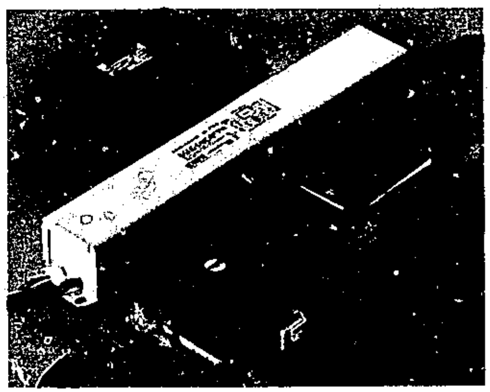
ELECTRICAL

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.



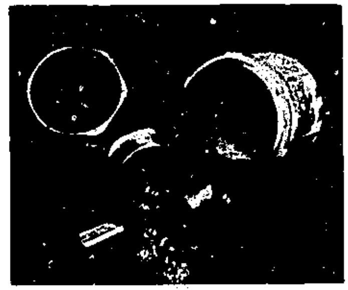
Adalet-PLM Division
4799-4801 W. 150th Street
Cleveland, Ohio 44135

Electrical products for energy related markets



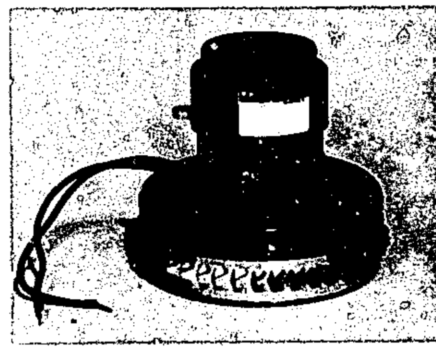
France Division
875 Bassett Road
Westlake, Ohio 44145

Electrical controls



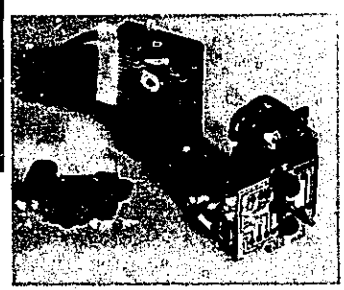
Halex Division
23901 Aurora Road
Bedford Heights, Ohio 44146

Conduit fittings



Northland Division
968 Bradley Street
Watertown, New York 13601

Motor for vacuum cleaner



Kingston Timer Plant
Miller Road
Smithville, Tennessee 37166

Controls for automatic laundry equipment

JOSEPH T. BAILEY
Chairman and Chief Executive Officer, The Warner & Swasey Co.,
Manufacturer of machine tools, construction equipment, and textile machinery
Audit Committee, chairman; Compensation and Organization Committee

J. F. BRADLEY
Executive Vice President - Finance
Investment Committee, chairman; Executive Committee

NILES H. HAMMINK
Formerly Chairman and Chief Executive Officer, The Scott & Fetzer Co.
Executive Committee, chairman; Investment Committee

JAMES A. HUGHES
Director and former Chairman, Diamond Shamrock Corporation,
Producer of chemicals, petroleum and related products
Audit Committee, Compensation and Organization Committee

QUIGG LOHR
Senior Executive Vice President
(Retired February 1, 1978)

LAWRENCE C. JONES
Chairman and President, Van Dorn Company,
Manufacturer of special purpose containers and plastic injection molding machinery, and heat treating of steel
Audit Committee, Investment Committee

DELMAR W. KARGER
Professor of Management, Rensselaer Polytechnic Institute
Compensation and Organization Committee

RALPH SCHEY
Chairman, President and Chief Executive Officer
Executive Committee

THOMAS W. SMITH
Private Investor
Compensation and Organization Committee, chairman; Audit Committee

JOHN BEBBINGTON

ARTHUR M. BYLIN

JOSEPH P. MARSALKA

WALTER A. RAJKI

KENNETH D. HUGHES

ROBERT C. WEBER

CORPORATE MANAGEMENT

RALPH SCHEY
Chairman, President and
Chief Executive Officer

J. F. BRADLEY
Executive Vice President -
Finance

JOHN BEBBINGTON
Group Vice President

ARTHUR M. BYLIN
Group Vice President

JOSEPH P. MARSALKA
Group Vice President

WALTER A. RAJKI
Group Vice President

KENNETH D. HUGHES
Treasurer and Controller

ROBERT C. WEBER
Secretary and
General Counsel

The Scott & Fetzer Company
14600 Detroit Avenue
Lakewood, Ohio 44107

Printed in U.S.A.

SUPPLEMENTARY NOTES TO FINANCIAL STATEMENTS

1. Accrued liabilities at November 30, 1977 and 1976 were as follows:

	Thousands of Dollars	
	1977	1976
Salaries, wages and commissions	$ 4,633	$ 4,465
Interest	256	263
Pension and profit-sharing plans	2,995	3,368
Other	4,653	3,460
	$12,537	$11,556

2. For a number of years the Company has paid discretionary bonuses to officers and selected employees. The amounts charged against income aggregated $1,186,000 and $1,160,000 for the years ended November 30, 1977 and 1976, respectively.

3. Current Replacement Cost Information (Unaudited)

The following replacement cost information for certain of the Company's assets, cost of goods sold, and depreciation expense has been estimated by management and is being provided pursuant to new Rule 3-17, which was added to Regulation S-X through issuance of Accounting Series Release No. 190.

The Company's management cautions readers as to the use and interpretation of this information. This information is basically intended to show the effects of inflation on current operations and the future effects of replacing productive capacity at current inflation rates and should be looked upon only as an indication of the state of the general economy as it relates to the Company at the present time. It does not purport to show the future operating performance of the Company, since productive capacity would not be replaced at one time and future costs are dependent on ever changing economic conditions and management control of all economic factors affecting the Company. Further, no attempt should be made to compute a net income effect based on the data presented. Management is constantly aware of the effects of inflation on production costs and the ability to maintain and improve productive capacity and is continually taking steps to reduce costs and upgrade its productive assets to take advantage of technological improvements and innovations in order to maintain a modern, efficient manufacturing operation. No attempt has been made to measure the reduced operating costs that would result from management's continuing effort in the future to improve operating efficiencies as economic conditions change and technological improvements become reality. Therefore, it is management's view that the replacement cost data below cannot be used alone to evaluate current operating results or an an indication of the future operating performance of the Company.

3. Current Replacement Cost Information (Unaudited), Continued

The replacement cost data presented below represents the best estimates by operating and corporate management of the economic forces affecting the Company at the present time. Accordingly, the information is static in nature and reflects management's knowledge of the Company as an on-going business and cannot be compared with other companies or used as a representation of the market value of the Company's assets or economic value in the future.

	Thousands of Dollars	
BALANCE SHEET ITEMS	Estimated Replacement Cost	Comparable Historical Cost
At November 30, 1977:		
Inventories	$ 65,618	$ 55,730
Plant and equipment (1):		
Buildings	$ 31,275	$ 14,162
Machinery and equipment	94,282	59,416
Gross plant and equipment	125,557	73,578
Less accumulated depreciation	55,728	30,231
Net plant and equipment	$ 69,829	$ 43,347
INCOME STATEMENT ITEMS		
For year ending November 30, 1977 for continuing operations (2):		
Cost of goods sold	$274,403	$249,521
Depreciation expense:		
Included in cost of goods sold	$ 8,021	$ 4,795
Other	1,085	704
Total depreciation	$ 9,106	$ 5,499

(1) Includes leases capitalized under the requirements of Statement of Financial Accounting Standards No. 13 issued by the Financial Accounting Standards Board in November, 1976. These rules were applied retroactively to include all capitalizable leases in effect at November 30, 1977.

(2) Includes current year effect of capitalizing leases under SFAS No. 13, as described above. Cost of goods sold and depreciation expense reflect depreciation on these capitalized leases, net of previously included lease expense.

3. Current Replacement Cost Information (Unaudited), Continued

Inventories were estimated based on latest costs in inventory at year-end using the FIFO (first-in, first-out) method of inventory valuation, adjusted for the lag between the time costs were incurred and fiscal year-end using cost change relationships determined by each operating unit.

The replacement cost of buildings was estimated using construction costs in effect at each facility location and the productive area at each location, including administrative offices and warehouses. Approximately 92% of the replacement cost of buildings was determined using this method. The remainder was based on local construction indices at each facility location.

Machinery and equipment was restated to replacement cost using direct quotes for new machinery and equipment of equivalent capacity. Known technological improvements were included in arriving at these replacement costs. Approximately 73% of the machinery and equipment replacement value was determined using this method. The replacement cost for the remaining machinery and equipment was estimated using published indices representative of the machinery and equipment being restated.

Replacement cost accumulated depreciation on productive capacity was calculated using the straight-line method and using the same estimates of useful life and salvage value utilized in preparing the historical cost financial statements. Average replacement cost of productive capacity at the beginning and end of 1977 was used in determining the basis upon which depreciation expense was computed.

Replacement cost of goods sold was estimated by adjusting historical costs for the lag between the incurring of costs and time of sale. Cost of goods sold calculations were prepared by each operating unit, utilizing cost change relationships and inventory turnover calculations, and their separate results combined to produce the cost of goods sold presented above.

Two operating units are being considered for disposition in early 1978 and have not been included in the replacement costs or the comparable historical data presented above.

3. Current Replacement Cost Information (Unaudited), Continued

The comparable historical cost amounts are reconciled to those shown in the accompanying consolidated balance sheet as follows (in thousands of dollars):

	Inventories	Property, Plant and Equipment
Amounts for which replacement cost data are provided	$55,730	$73,578
Operations to be discontinued	5,470	10,055
Assets that would not be replaced after their economic life		698
Land		1,393
Construction-in-progress		939
Amounts included in consolidated balance sheet	$61,200	$86,663

THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE II - AMOUNT RECEIVABLE FROM UNDERWRITERS, PROMOTERS, DIRECTORS, OFFICERS, EMPLOYEES, AND PRINCIPAL HOLDERS (OTHER THAN AFFILIATES) OF EQUITY SECURITIES OF THE PERSON AND ITS AFFILIATES

for the years ended November 30, 1977 and 1976

Column A	Column B	Column C	Column D	Column E
			Deductions	
Name of Debtor	Balance at Beginning of Period	Additions	(1) Amounts Collected	Balance at End of Period
Year ended November 30, 1977:				
R. E. Schey	-0-	$40,000	$40,000	-0-

Note - Between December 16, 1976 and January 13, 1977, Mr. Schey was indebted to the Company in the amount of $40,000, which amount was advanced to him pending payment to him of a portion of his compensation with respect to 1976. Mr. Schey has paid the Company interest on such amount at the annual rate of 7%.

THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

for the years ended November 30, 1977 and 1976

Column A Classification	Column B Balance at Beginning of Period	Column C Additions at Cost	Column D Retirements	Column F Balance at End of Period
Year ended November 30, 1977:				
Land	$ 1,398,267	$ 107,083	$ 112,692	$ 1,392,658
Land improvements	589,507	11,242	18,440	582,309
Buildings	25,034,341	125,495	655,881	24,503,955
Leasehold improvements	2,350,034	94,406	272,747	2,171,693
Machinery and factory equipment	42,918,210	6,049,676	4,347,469	44,620,417
Tools, patterns, dies, jigs, etc.	8,680,002	977,076	1,952,152	7,704,926
Furniture and fixtures	2,565,924	445,549	425,682	2,585,791
Automobiles and trucks	1,451,012	580,239	336,474	1,694,777
Construction in progress	981,473	424,748		1,406,221
	$85,968,770	$8,815,514	$8,121,537	$86,662,747
(A) Year ended November 30, 1976:				
Land	$ 1,526,420	$ 5,708	$ 133,861	$ 1,398,267
Land improvements	542,389	53,422	6,304	589,507
Buildings	23,912,607	1,584,639	462,905	25,034,341
Leasehold improvements	2,260,217	93,392	3,575	2,350,034
Machinery and factory equipment	40,690,428	2,913,816	686,034	42,918,210
Tools, patterns, dies, jigs, etc.	7,831,165	1,167,556	318,719	8,680,002
Furniture and fixtures	2,084,372	577,793	96,241	2,565,924
Automobiles and trucks	1,397,730	441,076	387,794	1,451,012
Construction in progress	2,759,536	(1,778,063)		981,473
	$83,004,864	$5,059,339	$2,095,433	$85,968,770

(A) These amounts have been restated from those previously reported for the change in the method of accounting for long-term leases as described in Note 4 to the financial statements.

THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE VI - ACCUMULATED DEPRECIATION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

for the years ended November 30, 1977 and 1976

Column A	Column B	Column C	Column C	Column F	
Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements	Balance at End of Period	Estimated Useful Lives
Year ended November 30, 1977:					
Land improvements	$ 303,548	$ 49,620	$ 12,435	$ 340,733	5-20 Yrs.
Buildings	8,203,656	1,123,015	544,359	8,782,312	20-40 Yrs.
Leasehold improvements	1,111,441	211,367	219,976	1,102,832	Lease Term
Machinery and factory equipment	17,871,510	4,070,711	2,607,450	19,334,771	5-32 Yrs.
Tools, patterns, dies, jigs, etc.	5,093,561	1,295,630	1,508,576	4,880,615	3-10 Yrs.
Furniture and fixtures	1,304,910	269,318	332,447	1,241,781	5-10 Yrs.
Automobiles and trucks	757,459	382,348	336,316	803,491	3-4 Yrs.
	$34,646,085	$7,402,009	$5,561,559	$36,486,535	
(A) Year ended November 30, 1976:					
Land improvements	$ 261,217	$ 47,018	$ 4,687	$ 303,548	
Buildings	7,334,676	1,126,169	257,189	8,203,656	
Leasehold improvements	903,524	211,455	3,538	1,111,441	
Machinery and factory equipment	15,620,429	2,873,582	622,501	17,871,510	
Tools, patterns, dies, jigs, etc.	4,068,316	1,330,661	305,416	5,093,561	
Furniture and fixtures	1,187,540	212,500	95,130	1,304,910	
Automobiles and trucks	735,798	338,361	316,700	757,459	
	$30,111,500	$6,139,746	$1,605,161	$34,646,085	

Note: Fully depreciated assets are removed annually from the asset and accumulated depreciation accounts of certain divisions.

(A) These amounts have been restated from those previously reported for the change in the method of accounting for long-term leases as described in Note 4 to the financial statements.

THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE XII - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

for the years ended November 30, 1977 and 1976

Column A Description	Column B Balance at Beginning of Period	Column C Additions Charged to Costs and Expenses	Column D Deductions	Column E Balance End of Period
Year ended November 30, 1977:				
Allowance for doubtful accounts	$833,645	$467,215	$507,463(A)	$793,397
Year ended November 30, 1976:				
Allowance for doubtful accounts	$810,227	$599,566	$576,148(A)	$833,645

(A) Write-off of uncollectible accounts, less recoveries.

THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE XVI - SUPPLEMENTARY INCOME STATEMENT INFORMATION

for the years ended November 30, 1977 and 1976

Column A Item	Column B Charged to Costs and Expenses
Year ended November 30, 1977:	
Maintenance and repairs	$4,660,183
Depreciation and amortization of property, plant and equipment	$5,358,393 (B)
Taxes, other than income taxes:	
Payroll	$5,265,020
Real, personal property and other	2,122,888
Total	$7,387,908
(A) Year ended November 30, 1976:	
Maintenance and repairs	$3,891,000
Depreciation and amortization of property, plant and equipment	$5,258,585 (B)
Taxes, other than income taxes:	
Payroll	$4,465,313
Real, personal property and other	2,318,068
Total	$6,783,381

Note: Amounts for items other than those reported have been excluded because they amount to less than 1% of net sales.

(A) These amounts have been restated from those previously reported for the change in the method of accounting for long-term leases as described in Note 4 to the financial statements and to exclude those operations discontinued during 1977 as described in Note 1 to the financial statements.

(B) Excludes depreciation related to discontinued operations amounting to $2,043,616 and $881,161 for 1977 and 1976, respectively.

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
TO INCORPORATE BY REFERENCE IN FORM S-16 REGISTRATION STATEMENTS

We hereby consent to the incorporation by reference of our report dated January 24, 1978 accompanying the consolidated financial statements of The Scott & Fetzer Company and subsidiaries included in the Annual Report, Form 10-K (SEC File No. 0-231) in the Form S-16 Registration Statements No. 2-40672, No. 2-40893, No. 2-42168, No. 2-43599, No. 2-44105, No. 2-46262, No. 2-48909, No. 2-50140, No. 2-52112, No. 2-51467, No. 2-57539 and No. 2-57957 registering under the Securities Act of 1933 Common Shares of The Scott & Fetzer Company.

Coopers & Lybrand
COOPERS & LYBRAND

Cleveland, Ohio
February 22, 1978

END