SEC FILE NO 1-5629 05--03

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SCOTT & FETZER CO

10-K

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DISCLOSURE INC WASHINGTON D. C. 20016

FOR 11/30/79

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NAME: SCOTT & FETZER CO PUBLIC

SEC FILE NO: 1-5629 PAGE COUNT: 0999 BATCH NO.: 4373 DATE: 02/29/80

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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

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10-Q	FOR	05/31/78
10-Q	FOR	08/31/78
10-Q	FOR	02/28/79
10-Q	FOR	05/31/79
8-K	FOR:	08/31/78

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

ORIGINAL

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, 1979

Commission File Number 1-231

MAR 4 1980

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

Ohio
(State or other jurisdiction of incorporation or organization)

34-0517040
(I.R.S. Employer Identification No.)

14600 Detroit Avenue, Lakewood, Ohio
(Address of principal executive offices)

44107
(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
9-1/4% 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, 1979
Common Shares Without Par Value ($1.25 stated value)	7,364,153

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, 1979

Commission File Number 1-231

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

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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, 1979
Common Shares Without Par Value ($1.25 stated value)	7,364,153

PART I

Except as otherwise stated, the information in this report is as of November 30, 1979, the close of the fiscal year of the Registrant ("Scott & Fetzer" or "Company"), and unless specifically stated, 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 Cleaning Systems, Educational & Household Products, Fluid Transmission, Equipment & Accessories, and Energy & Control segments. Prior to November 30, 1979, Scott & Fetzer manufactured and sold products in the overhead lighting market. (See Acquisitions and Dispositions.) Two of Scott & Fetzer's principal product lines are vacuum cleaners and related accessories primarily for home use sold under the Kirby and other brand names and encyclopedias and related educational products sold under the World Book name. Scott & Fetzer has 17 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.

Business Segments

The amount of total sales, income before tax and identifiable assets attributable to each business segment is set forth in the tables on pages 19 and 20 of the 1979 Annual Report to shareholders of Scott & Fetzer, which tables are incorporated herein by reference. Such figures and related information reflect the acquisition of companies accounted for as purchases and exclude discontinued operations. Scott & Fetzer's business segments 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, 1979, no single customer purchased products from the operating units of Scott & Fetzer which in the aggregate accounted for more than 10% of total sales from continuing operations for such fiscal year. Scott & Fetzer does not believe that the loss of any single customer would have a material adverse effect on its total business.

Cleaning Systems

Scott & Fetzer manufactures and distributes a wide variety of vacuum cleaners and other floor maintenance equipment and supplies for residential, industrial and institutional use. Scott & Fetzer 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 products are sold by the direct sales method in the home through approximately 11,000 independent dealers worldwide, backed by some 1,300 factory and area distributors. Kirby's sales to distributors are substantially all for cash. In fiscal 1979, no one distributor accounted for more than 2% of Kirby 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 24%, 24%, 24%, 17% and 12% of total sales from continuing operations of Scott & Fetzer for each of the fiscal years 1975 through 1979 respectively.

In addition to the Kirby products, Scott & Fetzer manufactures and sells under the American-Lincoln name 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 roller and flat brushes for vacuum cleaners, polishers and other floor maintenance equipment, replacement vacuum cleaner parts, chemical cleaning products, vacuum cleaner bags and replacement parts for home vacuum cleaners and injection molded plastic items.

Educational & Household Products

Scott & Fetzer, through its wholly owned subsidiary, World Book-Childcraft International, Inc. publishes and sells The World Book Encyclopedia, other reference works and education and instruction material primarily under the World Book and Childcraft names. Domestic encyclopedia sales are principally by the direct sales method in the home and to schools and libraries through approximately 60,000 full and part-time independent commissioned sales representatives. World Book, through subsidiaries and branches having approximately 8,500 independent commissioned sales representatives, conducts direct selling operations in Canada, Japan, Australia, the British Isles, France and the Caribbean. World Book also markets, primarily by direct mail, its annual encyclopedia supplements, other publications, insurance and other merchandise through subsidiaries.

A large proportion of encyclopedia sales are made on a deferred consumer credit installment basis. The domestic and Puerto Rican installment accounts receivable are financed by World Book through its wholly-owned subsidiary World Book Finance, Inc. At November 30, 1979, the face amount of these receivables totaled approximately $109 million.

In 1979, no one representative accounted for more than 2% of World Book domestic sales. Domestic sales are fairly evenly distributed throughout the country based upon population densities. For fiscal years 1978 and 1979, sales of World Book products under the World Book and other names accounted for approximately 13% and 37%, respectively, of total sales from continuing operations of Scott & Fetzer.

Also within the Educational & Household Products segment, 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 assorted plastic containers as well as scissors, shears, trimmers and water systems fixtures utilized primarily in mobile homes.

Fluid Transmission

Scott & Fetzer manufactures a variety of products involving the transmission of fluids, the major items of which are complete, as well as component parts of, air compressors and 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 1975 through 1979 sales of complete spraying units and components accounted for approximately 17%, 18%, 19%, 20% and 13%, respectively, of total sales from continuing operations of Scott & Fetzer.

In addition, Scott & Fetzer assembles and sells under the Wayne Home Equipment name, power gas and oil burners and water circulating, sump and other pumps. These units are marketed through distributors and original equipment manufacturers.

Also within the Fluid Transmission segment, Scott & Fetzer manufactures connectors and fittings for compressed gas applications.

Equipment & Accessories

Scott & Fetzer manufactures and sells primarily through independent distributors utility service truck bodies and related equipment and suspension system components for vehicles. In addition, Scott & Fetzer manufactures and markets primarily through independent distributors electrical and mechanical winches for marine and other applications, and towing equipment, including trailer hitches, balls, couplers and other related towing items, fan clutches, oil coolers, antennas for the recreational vehicle market as well as recreational vehicle awnings, hydraulic cylinders, valves and steering column components for trucks and heavy equipment and military tank track links.

Energy & Control

Scott & Fetzer is engaged in the manufacture and sale of both weather-proof and explosion-proof fittings, junction boxes, motor efficiency control devices, instrument housings and control stations for electrical distribution systems; a specialty line of armored cable connectors, and various other items used principally in connection with high and low voltage electric cables, fittings and couplers; various precision equipment for use in processing industries for the measurement of pressure, vacuum and flow of liquids; zinc and aluminum die cast electrical fittings; transformers and ballasts for indoor and outdoor electrical signs; ignition systems for residential and industrial oil furnaces, including a solid-state control; fractional horsepower motors for electrical appliances and other products; and timing devices for residential and commercial automatic laundry equipment. These products are principally sold by direct factory sales people and independent manufacturer's representatives and distributed to and through original equipment manufacturers and wholesale distributors.

Acquisition and Dispositions

On June 30, 1979, the Company completed its acquisition of World Book-Childcraft of Canada, Ltd. for a cash purchase price of $6,650,000. Effective July 31, 1979, World Book-Childcraft of Canada, Ltd. was amalgamated with SFZ International Limited, a wholly-owned subsidiary of Scott & Fetzer.

As of April 30, 1979, Scott & Fetzer sold the Prestige-Virden Division.

For more information as to acquisitions see Note 1 of the Notes to Financial Statements on page 26 of the 1979 Annual Report to shareholders of Scott & Fetzer which note is incorporated herein by reference.

Competition

There are a large number of companies engaged in manufacturing each class of product made by Scott & Fetzer. Although Scott & Fetzer believes it is among the leaders in the manufacture and sale of certain of its major product lines, including high quality vacuum cleaners, encyclopedias 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 paper, steel, zinc, aluminum, iron, 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 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 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 fiscal years 1979 and 1978 relating to such product development were not material.

Scott & Fetzer uses in its business various trademarks, trade names, patents, trade secrets and licenses. Scott & Fetzer does not consider that a material part of its business is dependent on any one group of them, although the Kirby and World Book names are widely known and recognized.

Scott & Fetzer does not believe that any segment of its business varies significantly based on seasonal demand or availability of materials or supplies.

Employees

As of January 12, 1980, Scott & Fetzer employed in continuing operations approximately 17,536 persons, of whom approximately 12,164 were salaried and approximately 5,367 were hourly. Approximately 3,295 of the hourly employees in 17 of Scott & Fetzer's 47 facilities are represented by labor organizations. Scott & Fetzer has enjoyed generally good relations with its employees. Approximately 1,721 employees are covered by 5 labor contracts which are scheduled for renegotiation during fiscal 1980.

In addition to employee benefit programs which include 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 8 of the Notes to Financial Statements on page 28 of the 1979 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 costs, and other data.

Item 2. Summary of Operations:

	(Amounts in Thousands Except Per Share Data)				
	Years Ended November 30				
	1979	1978	1977	1976	1975
Net sales and other revenue	$697,401	$478,222	$351,187	$301,918	$247,249
Cost of goods sold	393,208	318,897	249,521	222,225	185,742
Interest expense, capitalized leases	978	1,093	1,056	1,117	1,142
Interest expense, other	8,243	4,230	2,904	2,941	2,625
Interest income	7,582	5,044	2,881	2,859	1,305
Income taxes	28,964	30,631	29,306	21,264	14,491
Income from continuing operations	34,096	30,176	26,802	21,103	15,690
Income (loss) from discontinued operations	---	71	(496)	1,618	1,218
Net income	$ 34,096	$ 30,247	$ 26,306	$ 22,721	$ 16,908
Earnings per common and common equivalent share (2):					
From continuing operations	$4.62	$4.10	$3.63	$2.78	$2.08
From discontinued operations	---	.01	(.07)	.21	.16
Total	$4.62	$4.11	$3.56	$2.99	$2.24
Dividends per share	$1.70	$1.50	$1.30	$1.17	$1.02
Average number of common and common equivalent shares	7,373	7,354	7,384	7,594	7,559

(1) The "Management's Discussion and Analysis of the Summary of Operations" as set forth on page 14 of the 1979 Annual Report to shareholders is incorporated herein by reference.

(2) Earnings per share data is computed on the basis of average shares outstanding each year including common equivalent shares. Common equivalent shares (resulting from outstanding stock options) were 18,735 for 1979, 25,513 for 1978, 28,842 for 1977, 19,758 for 1976, and 4,188 for 1975.

ITEM 3. Properties

Scott & Fetzer's various continuing operations are conducted in 47 facilities in 39 locations in 13 states and in the Canadian Province of Ontario. 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 are leased, with options to purchase in some cases. For additional information concerning the lease obligations of Scott & Fetzer see Note 6 of the Notes to Financial Statements on Page 27 of the 1979 Annual Report to shareholders of Scott & Fetzer, which note is incorporated herein by reference.

ITEM 4. Parents and Subsidiaries

There are no parents of the Company. Its principal subsidiaries are as follows:

	Subsidiaries of Scott & Fetzer	State of Incorporation	% of Stock Owned
A.	Melben Products Co., Inc.	Ohio	100%
A.	SFZ International Limited	Canada	100%
A.	Scott & Fetzer (Canada) Ltd.	Ontario	100%
A.	The Scott & Fetzer International Company	Ohio	100%
A.	World Book-Childcraft International, Inc.	Delaware	100%
B.	World Book Finance, Inc.	Delaware	100%

A. Included in the Consolidated Financial Statements contained in the 1979 Annual Report to shareholders of Scott & Fetzer.

B. Unconsolidated subsidiary of World Book-Childcraft International, Inc. for which separate financial information is filed on pages F-14 through 19 of this report.

ITEM 5. Legal Proceedings

There are no pending legal proceedings that, if decided adversely against Registrant or any of its subsidiaries, would materially adversely effect the financial condition or results of operations of the Registrant and its subsidiaries considered in the aggregate.

ITEM 6. Increases and Decreases in Outstanding Securities and Indebtedness

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

Transaction	Increases	
Outstanding at November 30, 1978		7,337,590
Issuance of shares upon exercise of outstanding stock options	26,563	
Outstanding at November 30, 1979		7,364,153

(b) Increase in amount of outstanding indebtedness.

The amount of outstanding indebtedness of Scott & Fetzer at November 30, 1979 has been increased through the delivery to the Prudential Insurance Company of America in a private placement, $40,000,000 of 9.50% Notes Due August 31, 1998. Sale and delivery took place; $20,000,000 on December 28, 1978 and, $20,000,000 on February 28, 1979. This transaction was previously reported by Scott & Fetzer on Form 10-Q for the quarter ended February 28, 1979. There being no public offering, the securities were not registered under the Securities Act of 1933.

ITEM 7. Chages in Securities and Changes in Security for Registered Securities

Inapplicable.

ITEM 8. Defaults of Senior Securities

Inapplicable.

ITEM 9. Equity Security Shareholders

Set forth below is the number of holders of record of the equity securities of Scott & Fetzer as at November 30, 1979.

Title of Class	Number of Record Holders
Common shares without par value (Stated value of $1.25 per share.)	8,119

ITEM 10. Submission of Matters to a Vote of Security Holders

Inapplicable.

Executive Officers

The following is a schedule of names, ages and positions of officers as of February 1, 1980 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	54	Senior Vice President
John Bebbington has been employed by Scott & Fetzer for more than five years in such capacities as Group Vice President and Senior Vice President.		
J. F. Bradley	49	Executive Vice President-Administration and Finance
J. F. Bradley has been employed by Scott & Fetzer for more than five years in such capacities as Executive Vice President-Finance and Executive Vice President-Administration and Finance.		
Kenneth D. Hughes	58	Vice President, 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 and Vice President.		

Kearney K. Kier	43	Group Vice President
Kearney K. Kier has been employed by Scott & Fetzer for the past three years in such capacities as Division President and Group Vice President. In 1974 and until his employment with Scott & Fetzer, he was an Executive Vice President with a consumer oriented private corporation.		
Walter A. Rajki	54	Senior Vice President
Walter A. Rajki has been employed by Scott & Fetzer for more than five years in such capacities as Division President, Group Vice President and Senior Vice President.		
Ralph E. Schey	55	Chairman, President and Chief Executive Officer.
Ralph E. Schey has been employed by Scott & Fetzer for more than five years in such capacities as President and Chief Operating Officer		
Kenneth J. Semelsberger	43	Group Vice President
Kenneth J. Semelsberger has been employed by Scott & Fetzer for more than five years in such capacities as Operations Manager, Division President and Group Vice President.		

Robert C. Weber	49	Vice President, General Counsel and Secretary.

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

ITEM 11. Indemnification of Directors and Officers

The information required by Item 11 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. 1-231).

ITEM 12. Financial Statements, Exhibits Filed, and Report on Form 8-K

(a) All Financial Statements. The Financial Statements and the Notes to Financial Statements of Scott & Fetzer for the fiscal year ended November 30, 1979 together with the Accountants' Report relating thereto are set forth on pages 14 and 19 through 31 of the 1979 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 14 and 19 through 31 and only to the extent herein set forth, the 1979 Annual Report to shareholders is not to be deemed filed as part of this Annual Report on Form 10-K.

(b) All Exhibits.

None

(c) Reports on Form 8-K.

None.

PART II

ITEMS 13 - 15.

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 and 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 26, 1980

THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES
INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

The consolidated financial statements, for the years ended November 30, 1979 and 1978 and the report thereon of Independent Certified Public Accountants, appear on pages 14 and 19 through 31 of the attached 1979 Annual Report to Stockholders which pages are incorporated in this Form 10-K Annual Report. With the exception of the aforementioned pages, the 1979 Annual Report to Stockholders is not deemed filed as part of this report.

The individual financial statements of the Registrant are omitted because the Registrant is primarily an operating company. All subsidiaries included in the consolidated financial statements filed are wholly-owned 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

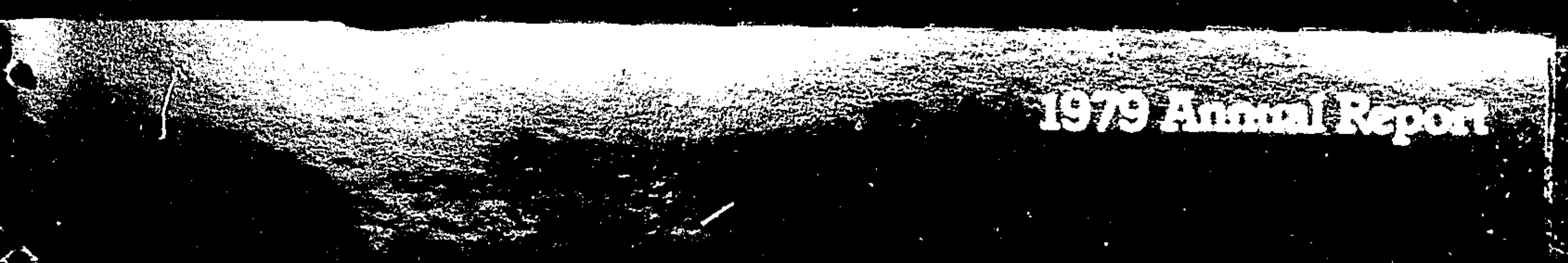
To the Stockholders and Board of Directors
The Scott & Fetzer Company

We consent to the incorporation by reference of our report dated January 17, 1980 which is included on page 31 of the annual report to shareholders of The Scott & Fetzer Company for the year ended November 30, 1979. Our examination of the financial statements included an examination of the supplementary notes to consolidated financial statements and supporting schedules listed in the index on page F-1 of this Form 10-K.

In our opinion the supplementary notes and supporting schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly the information required to be included therein in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand
COOPERS & LYBRAND

Cleveland, Ohio
January 17, 1980



1979 Annual Report

Scott & Fetzer

Fluid Transmission

CAMPBELL-HAUSFELD GROUP
Production Drive
Harrison, Ohio 45030

WAYNE HOME EQUIPMENT DIVISION
801 Glasgow Avenue
Fort Wayne, Indiana 46803

WESTERN ENTERPRISES DIVISION*
33672 Pin Oak Parkway
Avon Lake, Ohio 44012

Products

Air Compressors
Paint Spray Equipment
Oil/Gas Power Burners
Sump and Water System Pumps
Compressed Gas Connector Fittings and Transmission Products

Equipment & Accessories

CAREFREE OF COLORADO DIVISION
2760 Industrial Lane
Broomfield, Colorado 80020

DOUGLAS DIVISION
141 Railroad Street
Bronson, Michigan 49028

POWERWINCH/JA-SON DIVISION*
217 Long Hill Cross Road
Shelton, Connecticut 06484

STAHL DIVISION
4750 West 160th Street
Cleveland, Ohio 44135

VALLEY INDUSTRIES DIVISION
1313 S. Stockton Street
Lodi, California 95240

Products

Awnings
Screened Enclosures
Hitching and Towing Equipment and Accessories For Recreational Vehicles
Hydraulic Cylinders
Valves and Steering Column Components For Trucks and Heavy Equipment
Military Tank Track Links
Customized Truck Bodies and Bumpers For Service Industries
Electrical and Mechanical Winches For Boats and Trailers

Energy & Control

ADALET DIVISION
4799-4801 W. 150th Street
Cleveland, Ohio 44135

FRANCE DIVISION
Two Maryland Farms
Brentwood, Tennessee 37027

HALEX DIVISION
23901 Aurora Road
Bedford Heights, Ohio 44146

NORTHLAND DIVISION
968 Bradley Street
Watertown, New York 13601

Products

High Voltage Electrical Cable Fittings and Couplers
Explosion-Proof Housings
Electrical Conduit Fittings
Transformers
Fractional Horsepower Motors
Precision Flow Measurement Instruments
Bellows Differential Pressure Gauges
Flow Elements
Motor Efficiency Control Devices
Pitot Probes
Appliance Switches
Timers For Laundry Equipment and Other Appliances

*Under more than one market segment

TABLE OF CONTENTS

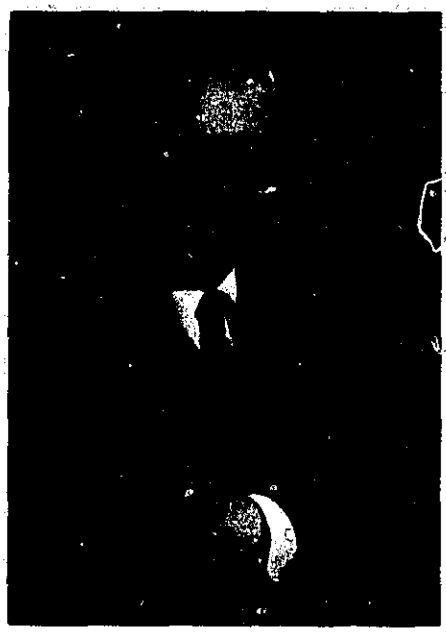
TODAY'S SCOTT & FETZER

The Scott & Fetzer Company, founded in 1914, produces and markets a wide range of consumer and industrial products for the cleaning systems, educational and household, equipment and accessory, fluid transmission, and energy and control markets. Functioning as independent operating units, 16 of the company's 17 operating units were acquired after 1963 to balance long-term growth and insulate against the cyclical trends of any single industry.

Utilizing innovative production and management techniques and an intricate marketing structure which combines mass merchandiser, distributor, mail order and direct sales methods, Scott & Fetzer reaches markets in every state and some 90 foreign countries. The company is based in Lakewood, Ohio and employs more than 17,900 people worldwide.

Scott & Fetzer product lines include a variety of well-known brand names, ranging from Kirby and American-Lincoln cleaning systems to World Book Encyclopedias; from Campbell-Hausfeld air compressors to Wayne Home Equipment oil burners and water system pumps; from Stahl specialized truck bodies to Valley and Carefree of Colorado recreational products; and from France electrical and electronic controls to Meriam instruments and Adalet and PLM electrical fittings.

TO OUR SHAREHOLDERS AND EMPLOYEES:



1979 was a record year in sales, earnings, and earnings per share. The earnings contribution of World Book and Wayne Home Equipment more than offset the earnings decline caused by operational problems in two of our larger operating units.

Net sales in fiscal 1979 rose to $697.4 million compared with last year's sales of $478.2 million. Net income increased to $34.1 million from 1978 earnings of $30.2 million with per share earnings rising to $4.62 from $4.11.

Major Tasks. Corporate and division management concentrated on three major tasks during the year:

1. Consolidation of World Book and Wayne Home Equipment into Scott & Fetzer from an operational and financial standpoint. These two acquisitions had combined sales of about $260 million at the time of acquisition compared with Scott & Fetzer's sales of $350 million.
2. Solving some major problems at two of our principal operating units.
3. Continuing to develop plans for the long-term growth of Scott & Fetzer.

World Book. World Book was a complex company which, before our acquisition, was organized as an independent corporate entity including complete staff services such as finance, legal, auditing, taxes, and other functions normally reserved for a corporate staff. The World Book headquarters consisted of 1100 salaried people at the time of our acquisition with an additional 10,000 salaried sales people who directed the activities of 70,000 commissioned sales people. The acquisition of World Book included not only the domestic person-to-person selling company, but also included an international complex with major operations in Australia, Japan, British Isles and Canada. These person-to-person selling activities were supplemented with a major consumer finance company, a large mail order business, a captive insurance company, and the facilities and personnel to support these functions.

Through a tremendous amount of effort and cooperation, Scott & Fetzer and World Book have made huge strides in bringing the two organizations closer together. We are completely satisfied that in the long run World Book and Wayne will justify our decision to diversify the resources of Scott & Fetzer so that more income would be derived from Scott & Fetzer businesses which were independent of Kirby.

Wayne Home Equipment. By historical standards, Wayne was a large acquisition for Scott & Fetzer and, in fact, the largest made up to that time. Wayne's products are involved with two critical resources of mankind — energy and water. We continue to be a major source of power oil burners and water pumps. 1979 saw a sharp turn to the use of gas burners rather than oil burners and Wayne had to quickly shift its production facilities to accommodate this need. In the process of converting, Wayne lost some sales and income, but we are now a significant supplier of both oil and gas burners. In addition, we have expanded our marketing efforts to include the replacement market for both types of burners rather than fully concentrating on sales to the original equipment manufacturers only. We believe that Wayne will be a substantial contributor to the profits of Scott & Fetzer in future years.

Problem Areas. Kirby continued to be affected by a malaise which includes declining emphasis by many independent distributors on in-home selling and the failure by them to continue to develop a field sales force to achieve increased in-home sales. We have undertaken a thorough study and analysis of the Kirby business in order to isolate the causes for the decline and the proper steps to take in order to promptly reverse the present trend.

In addition to the expected decline we would have experienced from the change in direction of the Kirby distributor organization, we also encountered reduced sales because of the growing difficulty of securing adequate consumer installment financing due to the current high interest rates.

In 1978, we began to implement a long range plan which was intended to decentralize Campbell-Hausfeld's operations and make it independent of various economic forces which were a stigma to the long-term growth of that business. A number of moves were made which were intended to achieve competitive cost advantages and to allow us to provide better service to our customers, which in turn would give us opportunities to diversify our total customer list.

Part of this strategy included the installation and development of a technically advanced production system for accumulator storage tanks used on most Campbell-

Hausfeld air compressors. It was our intent to complete the development of this system in the existing factory and move an operational turnkey system into the new plant at Leitchfield, Kentucky. Unfortunately, we encountered serious disruptions in production for many months before the system would operate without down time and at an acceptable quality level. We are now satisfied that the problems have been largely solved and the system will provide the long-term benefits we originally anticipated.

Our Equipment & Accessories operations with the exception of the Douglas division suffered from the severe downturn in recreational vehicle, marine, and automobile accessory products starting about April of 1979. Profits were depressed and only some strong concerted action on the part of management in those divisions kept earnings from declining even further.

Consolidation. We have consolidated the Power & Energy and Measurement & Control businesses into one segment for external reporting purposes. It became increasingly clear in 1979 that both segments depended upon some common technology in electronics in order to convert electrical and electro-mechanical products into product systems. A great deal has been accomplished in this segment in 1979. We are serving growth industries and I feel confident that our profits will continue to grow as they have in the past.

Accomplishments. I would like to specifically comment about two accomplishments that I have observed at Scott & Fetzer during 1979. For the past five years, we have been endeavoring to define and operate within a framework that retained maximum autonomy in the operating units and did not abdicate corporate surveillance in the process. For a number of reasons, I believe that we achieved the correct balance between division and corporate responsibility in 1979 and each group better understands the others' needs and requirements.

Secondly, because of the impact of World Book and Wayne on our total corporate structure, we began to more clearly define the company we expected Scott & Fetzer to be. We have made some important decisions about the sources of growth and have concluded that most of our future growth should be internally generated rather than through acquisitions. We will concentrate on fewer business segments and will look to the Educational & Household Products segment headed by World Book to spearhead an accelerated growth in sales and earnings in future years.

World Book will provide certain complementary assistance to other existing segments such as Cleaning Systems and Fluid Transmission through such functions as its finance, direct mail, and insurance companies, and its international operations.

Dividends. In August, 1979, we increased the quarterly dividend to 45 cents per common share from 40 cents. For the year, dividend payments totalled $1.70 compared with $1.50 in 1978. The 1979 payout amounted to 37% of Scott & Fetzer's total earnings per share. The Board of Directors intends to increase dividend payments consistent with our earnings growth and corporate needs, and to keep dividend payments within a range of 35-40% of average earnings over a three-year period.

Capital Expenditures. This year capital expenditures amounted to $26.4 million, more than double the $12.9 million expended in 1978. New facilities accounted for the major portion of these expenditures, principally the new Campbell-Hausfeld plant in Leitchfield, Kentucky.

Outlook for 1980. While the present economic forecast for 1980 does not present an exciting view for the year, there are some potentially positive influences for our company. Reductions in other appliance sales, availability of more workers, consumer debt reduction, the possibility of lower interest rates, and superior products should help us capture a larger share of the available consumer market. These effects will not be felt immediately and it is our present prognosis that the recession will continue to deepen for three to four months with no upturn in sight until the middle of the year, with 1980 as a whole reflecting a downward trend in earnings. A number of important adjustments have already taken place in order to match production with lower unit sales so that the longer term prospects for the company continue to be excellent.

Ralph Schey

RALPH SCHEY
President and
Chief Executive Officer

February 11, 1980

PERSPECTIVE

Advisory note:
Ralph Schey was elected president and chief operating officer of The Scott & Fetzer Company in 1974 and became chief executive officer in 1976. Since then, the company has undergone a major restructuring which has seen certain divisions sold and a number of them combined into more efficient operating units. During the same period, several important acquisitions were completed. On these pages, Mr. Schey discusses the activities of the past three years which have led us to where we are today. Of greater significance, he provides a narrative schematic of where he believes Scott & Fetzer will grow in the 1980's.

A Perspective for the 1980's. In order to properly appreciate the scope and nature of the major changes that have occurred in Scott & Fetzer over the past three years, it is necessary to review some history. In 1974, the company consisted of 31 operating units organized into five groups. Over a 10-year period — from 1964 to 1973 — the company had grown from a single-product, one-market enterprise (Kirby vacuum cleaners) into a highly diversified company with businesses ranging from leather goods to home lighting to air compressors to television antennas. Scott & Fetzer found itself in more than 60 identifiable product lines but with market leadership restricted to relatively few products or products with very small total markets.

Throughout this period, it was management's intent to build a decentralized company, giving operating and financial responsibility to each operating unit and maintaining a compact corporate staff to provide certain service and monitoring functions. It was a good concept and one which we still follow today. However, decentralization assumed that each operating unit's management was capable of fulfilling their particular responsibilities, which was not the case in numerous instances.

We became uncomfortable with 31 operating divisions many of which were inadequately staffed to provide necessary controls or lacked the assets to achieve necessary growth. We never felt that we were able to give firm direction to the company because in many instances the selling owners who remained active after the acquisition had significantly different objectives than Scott & Fetzer. Those selling-managers who were retained sometimes had difficulty adapting to the changing requirements of the new corporate owner. In addition, the company's rapid growth taxed corporate management's expertise in handling it.

Action Plan. In 1977, we developed an action plan which was the outgrowth of a critical, objective view of the company as it was then. We identified those divisions and businesses which did not meet longer range corporate objectives. We disposed of seven whose growth potential fell short of corporate expectations for the future. Several divisions which appeared to have good positions in growth markets but were still too small to stand alone were consolidated with other businesses to enable us to build a management structure which would not limit future growth.

There have been important changes made in Scott & Fetzer over the past three years — in products, markets, facilities and most important of all, people.

Now that the changes have been implemented, a familiar, yet different company has emerged. Many of our traditional product lines and time-honored names remain. New products and highly reputable names have been added. We have brought new people into the company and promoted a number of our own managers into new and more responsible positions. We believe that most of our manufacturing plants and equipment are in good order at present. We are entering this decade with our physical and financial resources in good order and with our management positioned for new challenges.

New Focus. One must conclude that the focus of the company has changed dramatically. The reduced number of operating divisions are grouped into better defined businesses and it is our plan to build upon those principal segments during the next five years without adding any major new businesses to the already existing ones.

The oldest and a very important business segment is Cleaning Systems, with Kirby as the lead unit followed by the American-Lincoln and Klevac divisions. We may add some new types of cleaning equipment to this group via the product acquisition route. Our replacement parts business is quite small today, but by 1985 we expect it to have grown substantially, especially at Kirby. Lastly, we expect the mail order aspects of the business to increase in importance, particularly in such products as cleaning materials. Cleaning Systems will show considerable growth during the 1980's.

Without implying priorities by numerically ranking our various businesses, the second principal area is Educational & Household Products. At present, World Book-Childcraft International comprises the bulk of this segment. One of the characteristics of World Book that interested us as an acquisition candidate was the fact that its product lines could be expanded rather easily and with minimum investments in fixed assets. For the past several months we have been discussing a joint venture marketing agreement with a large European publisher and distributor of materials which would allow us to build upon the existing expertise of World Book. With numerous product expansion possibilities, we believe that the Educational & Household Products business segment could well become the fastest growing business of Scott & Fetzer during the next 10 years.

Our third business segment is Fluid Transmission which includes air compressors, airless spray systems, various kinds of water system pumps, power oil and gas burners for furnaces and several types of regulation valves. The two principal operating units in this segment are Campbell-Hausfeld and Wayne with an additional contribution from our Western Enterprises division. Many of these products today are marketed through retail channels which include mass merchandisers, plumbing, hardware, heating-ventilating specialists, and oil dealers. The principal market for heating systems products has been the replacement market. Our focus, however, has been directed primarily to original equipment manufacturers. Our new programs include a more aggressive retail marketing program in the replacement marketplace for heating systems.

Many of our products fit into the do-it-yourself market and are either an absolute necessity for the consumer (such as replacing a worn out water pump) or save consumers money by enabling them to handle their own repair and maintenance rather than hiring someone to do it for them. We believe that the fluid transmission business segment offers substantial challenge and opportunity for Scott & Fetzer in the 1980's.

The fourth major business segment is Energy & Control. While this is a rather broad market definition, we have established Scott & Fetzer in several specific niches — pressure and flow instrumentation, motor controls and specialized electrical products. During the 1980's we will be applying electronic systems technology to this existing capability. Expansion will come through internally-generated volume and possibly by acquiring compatible product lines and technology. This business could become a growth star of Scott & Fetzer in the 1980's.

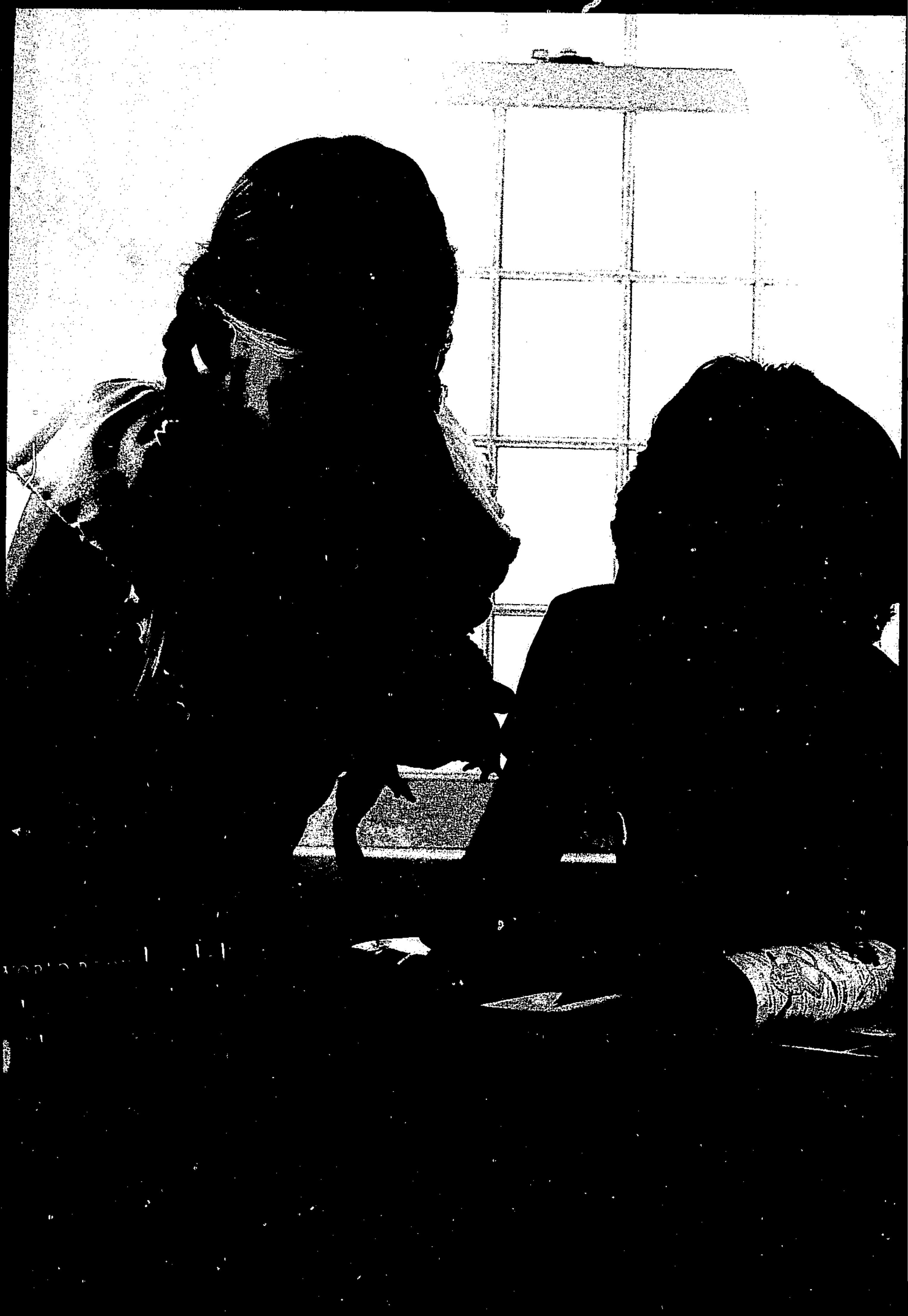
The fifth business segment is Equipment & Accessories. While a large portion of this business has been hurt by the declining recreational vehicle and marine markets, good progress has been made to increase the product base in heavy duty truck components and the automotive aftermarket. We have excellent management teams in this group who are dedicated to enhancing the contributions of their divisions in the 1980's.

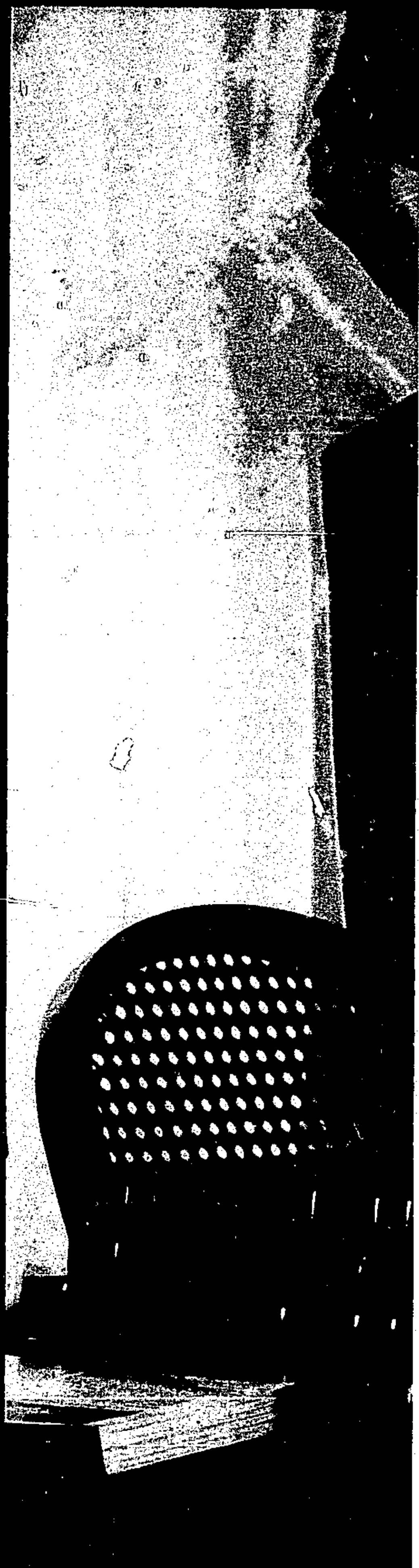
New Perception. When asked how I perceive Scott & Fetzer today, I reply that we are a company whose marketing and engineering efforts have been primarily aimed at consumer markets served by the entire range of distribution channels . . . . . . direct selling, dealers/distributors, direct mail and factory sales. Our emphasis is on products that accomplish two purposes:

1. That the market prices of our products are consistent with the value the purchaser expects when he makes the purchase.
2. The products have lasting value because of the high reliability of the product itself and its resistance to obsolescence because of design or styling changes.

Without changing our full support for consumer products, we continue to seek those opportunities which will create a better balance between consumer markets and commercial/industrial markets.

Conclusion. In summary, during the past three years we have intentionally reduced the number of products and businesses we operate and have increased the sales and earnings of the company. Our concentration of management efforts and financial resources on fewer but larger businesses will enable us to maximize Scott & Fetzer's profit opportunities. These businesses will provide growing profits at greater than average rates throughout the 1980's. On the following pages, we review four major market areas and single out those operating units which will play important roles over the next 10 years.





KNOWLEDGE

More than 100 years ago, Longfellow wrote of "the love of learning, the sequestered nooks, and all the sweet serenity of books." Since 1917, World Book-Childcraft International has been nurturing the love of learning and supporting the search for knowledge. Science and technology, arts and the humanities, sports and recreation, history and social studies, and thousands of general interest topics as treated by World Book have "taught" millions of adults and children throughout the world. World Book has sold more than ten million encyclopedia sets since 1917.

The year 1979 was a good year for World Book. The 22-volume World Book encyclopedia and the 15-volume Childcraft resource library were up-dated as were the adult and children's dictionaries. A new two-volume Student Handbook was introduced to help students improve their study habits and writing abilities and to help them improve their classwork generally. World Book estimates that during 1979 its representatives in the U. S. made personal presentations of its products to nearly five percent of the more than 32 million homes with children.

An intensive representative recruitment program in 1979 brought World Book's sales force to nearly 60,000 domestically and about 8,500 in other lands. Recruitment of top quality sales people will continue to be a major effort in 1980.

New products will be a major factor in World Book's 1980 plans, with the offering of the World Book Illustrated Medical Encyclopedia. Developed in concert with a London publisher, it will be sold initially through mail order facilities. The medical encyclopedia is aimed at the general public and stresses health, fitness, and preventive medicine. As a premium to be used in selling the medical encyclopedia, World Book has prepared a booklet describing the 150 Commonly Prescribed Drugs.

Also new in 1980 will be a two-volume Best Loved Bible Stories set, attractively illustrated and written for children of elementary school and junior high ages.

Of course, the 1980 editions of World Book encyclopedia and Childcraft were meticulously revised. In the World Book alone, more than 1,600 articles are new, or completely or partially revised, resulting in changes on more than 4,500 pages.

World Book believes that it will not be seriously affected by recession or inflation in 1980. Past experience has shown that inflation-conscious parents will "buy now" that which they know they will eventually need in any event. Recessionary periods also enhance recruitment of sales representatives as more and more families seek opportunities for additional income.

With 60 percent of the direct selling encyclopedia market, World Book is fully aware of its responsibility not only to preserve this living heritage but to build upon it in the years ahead.

CONVENIENCE

Cleaning — everything from socks to skyscrapers — is a huge business throughout the world. Sooner or later just about everything needs to be cleaned and hundreds of companies bring to bear their considerable resources on making the cleaning task less costly, faster and more convenient.

Scott & Fetzer's special niche in this vast and profitable market is focused primarily on floor care — home floors and carpeting; industrial floors and outdoor areas. The Kirby Group, marketers of the most complete and versatile home cleaning system in the world, is a perennial leader in the direct sale of vacuum cleaners and related products to the home. It is entirely appropriate that in the 60th year of Kirby tradition that the finest Kirby system to date was introduced: The Kirby Tradition model featuring unmatched reliability, quality and performance.

Kirby, with some 11,000 independent dealers worldwide, backed by some 1,300 factory and area distributors, is still one of Scott & Fetzer's largest operating units and a major contributor to total corporate earnings.

Home floor care is also the major market of the Douglas product line of vacuum cleaners which are sold in regular retail outlets and via direct mail. Private branding continues to be a profitable portion of Douglas' business. The most exciting new product introduction in Douglas' history was made early in 1980 — a self-contained Home Cleaning Center featuring two patent pending systems. In one fully portable unit, the homemaker has a wet/dry carpet cleaner, a conventional vacuum cleaner and a vacuum for the workshop. Unlike other wet/dry extractors, the Douglas unit will recover as much as 90 percent of the water from the carpet and provide drying times as short as 10 minutes. The Douglas Home Cleaning Center, which will be sold through department stores and major catalog showrooms, is attractively priced and is meeting with immediate customer acceptance.

The American-Lincoln division, a major producer of industrial-size sweeping and scrubbing equipment, is planning a series of new product introductions in 1980. Historically, a manufacturer primarily of power-driven, single disc, walk-behind scrubbing and polishing machines, the division enlarged its participation in the riding machine market two years ago with a new driver operated sweeper. Following on the success of that new model, American-Lincoln in 1980 will market four more machines with productivity gains that will make them highly competitive in industrial markets where time and labor are critical cost factors. A well-qualified distributor network is in place to receive these new models, giving further credence to the division's optimism for 1980.

Cleaning systems and products, the backbone of Scott & Fetzer since 1919, will continue to provide unparalleled convenience and economies to ever-growing consumer and industrial markets for years to come.

ENERGY

Without question, energy, its efficient use and conservation, will be of major national concern for years to come. The opportunities thus presented will be particularly beneficial to Scott & Fetzer's Energy & Control segment whose products range from high voltage cable fittings and couplers to sophisticated electronic controllers.

The thrust of Scott & Fetzer's current product research and development programs is guided by a basic principle: in order to conserve energy, whether gas, oil or electricity, it must first be measured; then, and only then, can it be controlled. Measurement and control expertise gained over more than 20 years is the basis for Scott & Fetzer's rapid progress into the newer technologies which hold promise for energy savings in the near future. The company's goal over the next five years is to more than double the present energy-related volume.

A strong case in point is the new and unique Motor Energy Controller (MEC) series, which electronically senses and controls input for induction motors and is adaptable to both home and industrial use . . . either as original equipment or retrofitted. Aimed initially at the burgeoning electric motor market, MEC promises users that it will pay for itself within one to three years depending on application. Major beneficiaries of MEC are commercial and industrial users of electric motors. Other MEC products under development will have consumer major appliance applications. Independent studies show that even a four percent reduction in electric motor power usage would result in a savings equivalent of 240,000 barrels of oil daily. MEC can deliver savings of nearly 40 percent on electric induction motors.

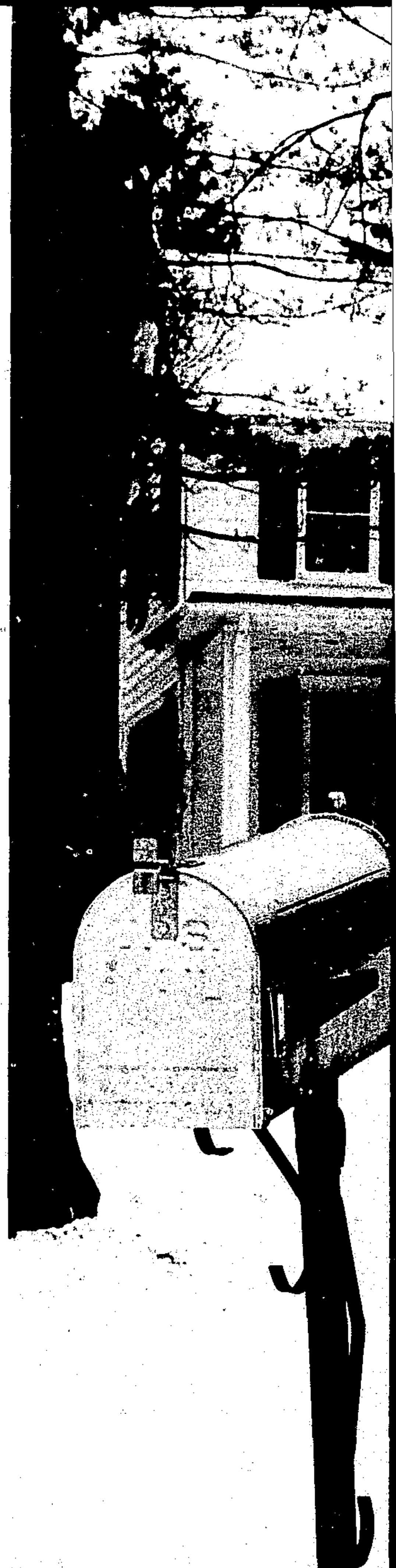
The Adalet division, a leader in fluid and gas mechanical measurement devices, will leapfrog into a new family of solid state electronic instruments in 1980. The Wayne division, already the leading supplier of oil burners to furnace manufacturers, is rapidly expanding its production of power gas burners. Wayne also has entered the oil and gas burner replacement market for the first time with a line of fuel-saving units.

Closely tied to energy markets are the electrical products of the Adalet division. Their heavy duty couplers and explosion-proof, hazardous location devices are widely used in the coal mining and oil refining industries.

The company is continuing to fund intensive product research and development programs with 1980 expenditures to increase some 30 percent over 1979. Scott & Fetzer is building on a solid core of in-house engineers and technicians who have specific electronic design capabilities in measurement and control of fluids, gases and volatile materials.

In order to capitalize on the strong positions in selected portions of the energy market, Scott & Fetzer is actively seeking joint venture partners with specific technologies that can be melded with its product, marketing and manufacturing know-how. The company is also interested in outright acquisitions involving energy-related products or lines of products.

From positions of strength and leadership in the marketplace, Scott & Fetzer expects to develop energy into a major segment of its business during the '80's.



MAINTENANCE

Americans spend millions of dollars each year maintaining and repairing the largest investment they'll ever make — their homes. With the demise of the "handyman" and the rising costs of home services, more and more homeowners each year opt to do it themselves.

The "do-it-yourself" market, already of a multi-billion dollar magnitude, continues to grow at an annual rate of 15 percent and appears to be exempt from traditional economic pressures and, in fact, gains impetus during business downturns.

Scott & Fetzer reaches the heart of this market — painting. Housepainting, whether interior or exterior, is the special province of Campbell-Hausfeld with its single-stage air compressors, accessories and airless spray equipment. Sold largely through major mass merchandisers and home centers, air compressors are rapidly becoming as utilitarian to homeowners as their ¼-inch drill.

An air compressor equipped with a caulking gun can give pre-painting chores a degree of professionalism never before known. Equipped with a finely calibrated paint spray gun, they give the same satisfaction in the application of paint to outdoor furniture and exterior walls. Campbell-Hausfeld's line of airless sprayers are uniquely suited to the painting of interior surfaces.

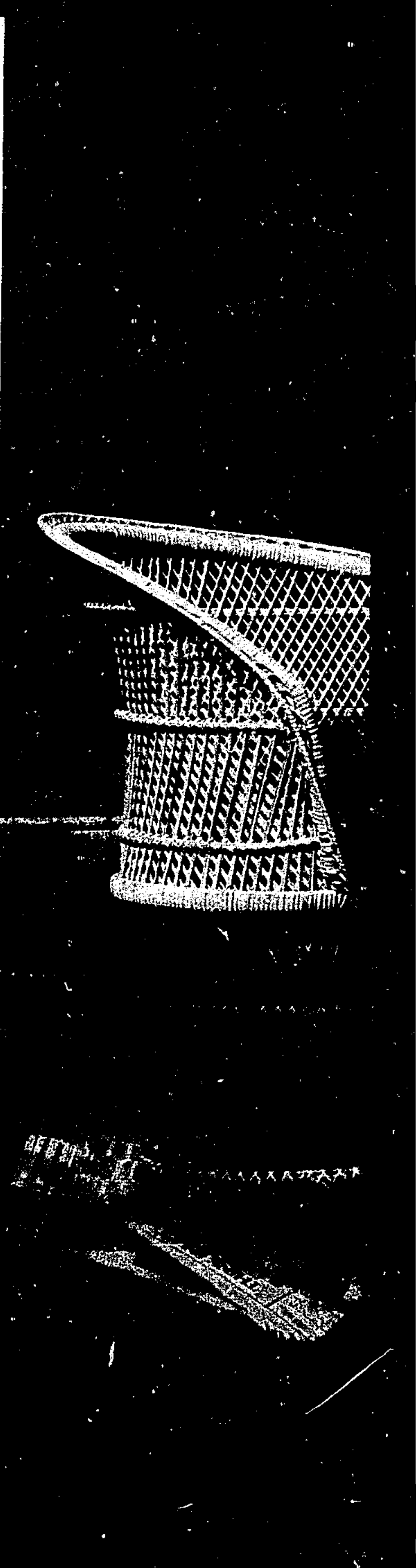
Thanks to product development innovations, Campbell-Hausfeld offers sand blasting capability on a do-it-yourself scale. Metal surfaces, autos, campers, trailers, gates and fences come clean quickly and easily with a sand gun. A switch to the paint spray gun and once difficult jobs become easy and pleasurable. Moreover, the same air compressor is used by the do-it-yourselfer to operate a wide assortment of air tools including sanders, grinders and impact tools.

Maintenance is also an ongoing necessity in industry where Scott & Fetzer's market share of up through 30 horsepower compressors is growing substantially. As the nation's most fully integrated producer, the company is able to achieve economies of manufacture that give a decidedly competitive advantage in the marketplace. Add to that the evolution in product features made by continuing product development programs along with the shortest delivery times in the business and it is clear that Campbell-Hausfeld's industrial distributor network has a highly salable family of air compressor products.

Maintenance of another kind — maintaining water-free basements — is a major sales source for Wayne Home Equipment whose sump pumps and submersible pumps enjoy popularity in both new construction and the replacement markets. Water system pumps, particularly the so-called cottage water systems which bring water from well to home, are another outstanding Wayne product with excellent sales opportunities especially among the growing numbers of do-it-yourselfers who, living close to a water source, are installing their own pump and pipe systems to maintain a water supply to the kitchen, the garden and the lawn.

Other divisions are making ever-widening inroads into the do-it-yourself plumbing fixture market and the auto aftermarket.

Maintenance, then, is one of the principal markets for Scott & Fetzer, a market that is keenly receptive to do-it-yourself convenience and money-saving innovations. Right now, it's an attractive opportunity for Scott & Fetzer.




CAMPBELL HAUSFELD

OPERATING UNITS

Cleaning Systems

AMERICAN-LINCOLN DIVISION
1100 Haskins Road
Bowling Green, Ohio 43402

KIRBY GROUP
1920 W. 114th Street
Cleveland, Ohio 44102

KLEVAC DIVISION*
3881 West 150th Street
Cleveland, Ohio 44111

WESTERN ENTERPRISES
DIVISION*
33672 Pin Oak Parkway
Avon Lake, Ohio 44012

Products

Home Vacuum Cleaners
Industrial and Commercial Sweepers
Replacement Parts For Home Vacuum Cleaners
Floor Maintenance Products and Supplies For Residential, Industrial and Institutional Use

Educational & Household Products

KLEVAC DIVISION*
815 E. Tallmadge Avenue
Akron, Ohio 44310

POWERWINCH/JA-SON
DIVISION*
217 Long Hill Cross Road
Shelton, Connecticut 06484

STREAMWAY DIVISION
835 Sharon Drive
Westlake, Ohio 44145

WORLD BOOK-CHILDCRAFT
INTERNATIONAL, INC.
Merchandise Mart Plaza
Chicago, Illinois 60654

Products

Encyclopedias
Children's Reference Books
Learning Aids
Water System Fixtures
Scissors and Shears
Plastic Containers For Food Packagers
Cutlery and Other Products For the Home

The Year at a Glance

(Dollars in Thousands Except Per Share Data)

	1977	1978	**1979**	Per Cent Change 1979 vs. 1978
Net Sales and Other Revenue	$351,187	$478,222	**$697,401**	46%
Income Before Taxes —				
Continuing Operations	56,108	60,807	**63,060**	4%
Per cent to Sales	16.0%	12.7%	**9.0%**	
Net Income —				
From Continuing Operations	$ 26,802	$ 30,176	**$ 34,096**	13%
From Discontinued Operations	(496)	71	**—**	
Total	$ 26,306	$ 30,247	**$ 34,096**	13%
Per cent to Sales —				
Continuing Operations	7.6%	6.3%	**4.9%**	
Per Share Earnings —				
From Continuing Operations	$ 3.63	$ 4.10	**$ 4.62**	13%
From Discontinued Operations	(.07)	.01	**—**	
Total	$ 3.56	$ 4.11	**$ 4.62**	12%
Dividends Per Share	$ 1.30	$ 1.50	**$ 1.70**	13%
Book Value Per Share	$ 18.23	$ 20.85	**$ 23.76**	14%
Total Assets	$225,411	$337,977	**$395,376**	17%
Shares Outstanding (000's)	7,317	7,338	**7,364**	
Number of Shareholders	8,852	8,439	**8,119**	

Common Stock Market Price and Dividend Information

	Market Price of Common Stock				Dividends Per Share	
	1979		1978		**1979**	1978
Fiscal Quarter	**High**	**Low**	High	Low		
First	**$27⅛**	**$22**	$27¾	$23	**$ .40**	$ .35
Second	**27⅞**	**24¼**	32½	23¼	**.40**	.35
Third	**30½**	**25½**	36⅛	30⅜	**.45**	.40
Fourth	**30⅞**	**22**	35⅝	25⅝	**.45**	.40
Closing price on December 31, 1979	**$22¾**					

Summary of Operations

The Scott & Fetzer Company and Subsidiary Companies

(Dollars in Thousands Except Per Share Data)

	Years Ended November 30				
	1979	1978	1977	1976	1975
Net sales and other revenue	**$697,401**	$478,222	$351,187	$301,918	$247,249
Cost of goods sold	**393,208**	318,897	249,521	222,225	185,742
Interest expense, capitalized leases	**978**	1,093	1,056	1,117	1,142
Interest expense, other	**8,243**	4,230	2,904	2,941	2,625
Interest income	**7,582**	5,044	2,881	2,859	1,305
Income taxes	**28,964**	30,631	29,306	21,264	14,491
Net income	**$ 34,096**	$ 30,247	$ 26,306	$ 22,721	$ 16,908
Per share:					
Earnings per common and common equivalent share	**$ 4.62**	$ 4.11	$ 3.56	$ 2.99	$ 2.24
Dividends	**1.70**	1.50	1.30	1.17	1.02
Average number of common equivalent shares (000's)	**7,373**	7,354	7,384	7,594	7,559

Management's Discussion and Analysis of the Summary of Operations

1979 VERSUS 1978

Consolidated net sales and other revenue increased 46% from 1978, primarily due to the inclusion of World Book-Childcraft International, Inc. and Wayne Home Equipment for a full year in 1979. Both companies were purchased in 1978 and included in last year's results from date of acquisition: World Book for three months and Wayne Home Equipment for 10 months.

Cost of goods sold increased only 23% from 1978 and decreased as a percentage of sales to 56% from 67% in 1978, which reflects the difference in cost structure of World Book from that of other Scott & Fetzer operations. Manufacturing costs relating to the products sold by World Book constitute a significantly lower percentage of its sales dollar than that of the normal manufacturing operations of the company. Conversely, World Book's administrative, selling and distribution costs are proportionately higher in their channels of distribution.

Net interest costs for the year were up to $1,639,000 from $279,000 the previous year. Additional long-term financing of $40 million during the early part of the year increased interest expense significantly, while short-term investments did not increase proportionately due to a substantial increase in capital expenditure programs for new facilities during 1979.

Other expense, net, increased over 1978 by $821,000, which was associated with incremental start-up costs at a new facility operated by the Campbell-Hausfeld operation.

The decrease in total income taxes reflects the lower federal statutory rate of 46% initiated in 1979, higher investment tax credits, and operating losses of certain foreign locations in 1978 for which no comparable tax reduction was recognizable. The effective rate of federal and foreign taxes on income dropped to 43.2% from 47.4% the previous year. State and local income taxes declined to 4.8% of income before taxes in 1979 from 5.6% in 1978.

1978 VERSUS 1977

Consolidated net sales and other revenues were up 36% from 1977. Of this percentage increase, 29% was contributed by the combined sales and revenues of World Book (three months) and Wayne Home Equipment (10 months) which were acquired in 1978 and accounted for as purchases.

Lower cost of goods sold, when expressed as a percent of sales, reflects the difference in cost structure of World Book from that of other Scott & Fetzer operations.

Net interest costs for the year were down to $279,000 from $1,079,000 the previous year. Higher interest rates on short-term investments plus interest earned by World Book effected this reduction.

Other expense, net, was below the 1977 level which had large one-time, non-recurring expenses relating primarily to goodwill write-offs and the sale of discontinued businesses.

State and local income taxes remained at a rate of 5.6% of income before taxes. The effective rate of federal and foreign taxes on income dropped to 47.4% from 49.4% the previous year. The principal factor contributing to this lower rate was a reduction in the provision for federal income taxes for 1978 associated with the purchase of Wayne Home Equipment.

J. F. BRADLEY
Executive Vice President — Administration and Finance

Scott & Fetzer's sales and other revenue, net income and earnings per share were at record levels for fiscal 1979. The inclusion of World Book-Childcraft International, Inc., acquired as of September 1, 1978, for the full 12 months of the current reporting year, compared to three months last year, was the single largest contributing factor to the growth in sales and earnings experienced in 1979.

Consolidated sales for the year totaled $697.4 million, 46% above the $478.2 million reported a year ago with World Book contributing approximately 90% of this dollar volume increase. Twelve of the remaining 16 operating units also achieved year-to-year gains.

Income before taxes increased moderately to $63.1 million from $60.8 million earned in 1978. A decrease in the effective rate of income taxes from 50.4% of income before taxes last year to 45.9% for 1979 contributed $2.8 million to the net income growth of $3.8 million (or 13%) to $34.1 million, from $30.2 million last year. The principal contributing factors to the change in the effective income tax rate were the reduction in the statutory rate from 48% to 46.2%, and the higher investment tax credit available to the Company as the result of the substantially larger capital expenditures in 1979. The sharp decline in net income reported by the Campbell-Hausfeld group was more than offset by the significantly higher income contributions of World Book in the year-to-year comparisons. The $4.62 earnings per share were up 12% from $4.11, while return on shareholders' equity was 19.5% compared with 19.8% a year ago.

For 1979, and prior years, the reporting of business segment information has been restated from the previous six segments to five with the consolidation of Power & Energy and Measurement & Control into a new segment — Energy & Control. This realignment was done in recognition of the common technology in the electrical and electro-mechanical products and to present a more meaningful category for public segment reporting. All segments had increased sales and other revenue in 1979 with Educational & Household Products showing the largest increase due to the inclusion of World Book for the full year. The Educational & Household Products segment also had significantly greater income before taxes of $20.8 million compared to $2.5 million in 1978 and the Energy & Control segment was just slightly higher than last year. The other three segments were below last year's income levels with the most significant reduction being incurred by the Fluid Transmission segment which decreased 36% to $11.2 million.

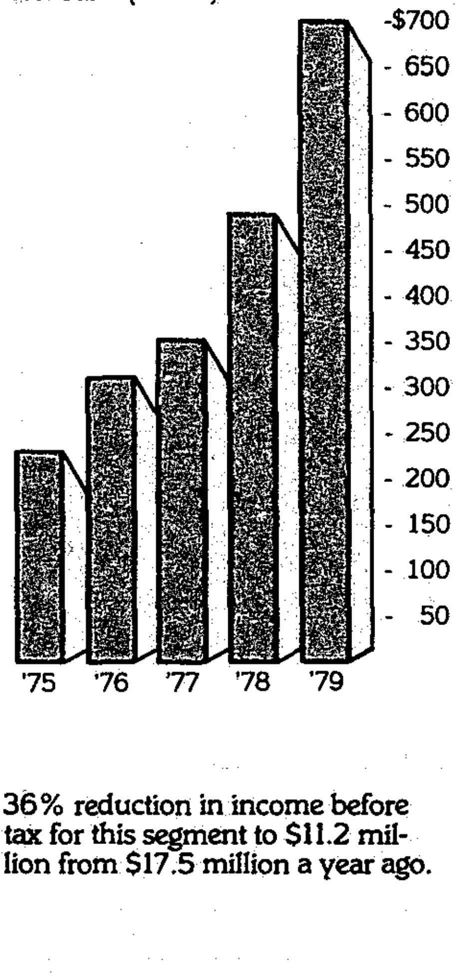
Cleaning Systems. Sales for 1979 totalled $105.4 million, 5% over last year with each of this segment's four operating units reporting volume increases. Income before taxes decreased to $18.3 million from $21.8 million in 1978. The Kirby group experienced slightly lower unit volume and incurred significant purchased material cost increases during the first half of 1979 which were not recouped by selling price increases during this period. With the introduction of a new model in July, higher selling prices were implemented that offset the cost increases for the last half of the year. In addition, during the fourth quarter, Kirby volume was substantially affected by the decreasing availability of consumer installment loan financing due to high interest rates. American-Lincoln also had lower earnings for the year primarily the result of the abnormal costs incurred in introducing new models into the market and phasing-out a large portion of the division's "small-machine" line.

Educational & Household Products. This segment, now Scott & Fetzer's largest, accounted for 40% of total sales and other revenue in 1979 with a volume of $279.3 million compared with $84.6 million last year. Income before taxes rose to $20.8 million from $2.5 million in 1978. The inclusion of World Book for the full fiscal year as opposed to only three months in 1978 largely accounted for the very significant year-to-year increases. Sales volume for the other five operating units in this segment was mixed with their combined total being slightly below the prior year. The Canadian lighting operation was sold as of April 30, 1979, and the absence of its substantial loss before tax in 1978 was a favorable factor this year.

While World Book had lower unit volume in 1979 than anticipated, domestic operating results approximated the budgeted projections due to more aggressive pricing and substantial cost reductions. World Book's international operations were below expectations as a result of operating problems in Japan and Australia. These two international subsidiaries received major management attention during 1979 and significant improvement is projected for 1980.

Fluid Transmission. A moderate 3% increase in sales to $145.7 million from last year's $140.9 million was realized in this segment. Wayne Home Equipment accounted for all the net volume gain as it was included for a full year in 1979 operating results compared with only the 10 month period following its acquisition in February, 1978. The Western Enterprises division achieved a substantial volume increase while Campbell-Hausfeld's sales were moderately lower. Both Wayne and Western Enterprises had higher earnings; however, Campbell-Hausfeld's severe decline in earnings resulted in a

Net Sales (millions)



36% reduction in income before tax for this segment to $11.2 million from $17.5 million a year ago.

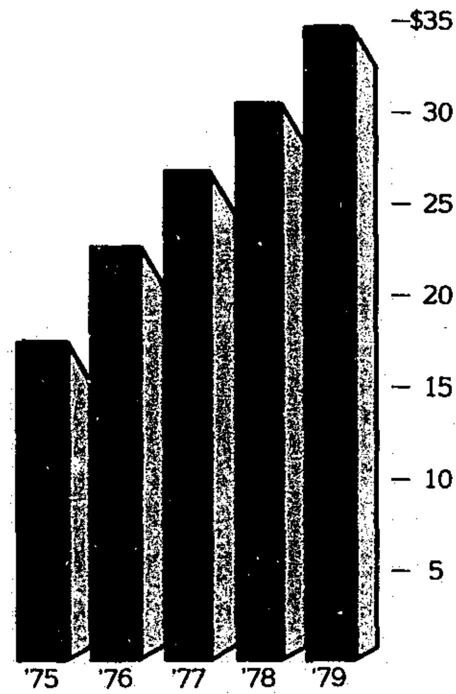
Major production and quality problems for most of 1979 at the Harrison, Ohio, plant of Campbell-Hausfeld were caused by the failure of a new automated production system for accumulator storage tanks. This resulted in substantially higher operating costs to overcome the production disruptions and meet customer requirements. These equipment, manufacturing and quality problems have been largely solved and Campbell-Hausfeld should achieve the improved results originally anticipated from automation. In addition, Campbell-Hausfeld's earnings also were impacted by the significant start-up costs associated with the new facility in Leitchfield, Kentucky.

Equipment & Accessories. Sales of $98.3 million were 8% above the $91.4 million last year while income before taxes declined to $13 million from $14.2 million in 1978. The Douglas division had a record year with strong gains in both sales and earnings. The Carefree of Colorado division, however, experienced a sharp decline in earnings offsetting the Douglas increase. The recreational vehicle market served by Carefree collapsed as the result of the second quarter gasoline shortages and, being a seasonally cyclical market place, never recovered over the remainder of the year. The Valley Industries division's sales were moderately above 1978 while earnings approximated the prior year's level. The operating earnings for Stahl and Powerwinch/Ja-Son, the other divisions in this segment, were below the prior year's results reflecting decreased volume and cost pressures.

Energy & Control. All divisions of this segment, except France, achieved increased sales and income before taxes. Sales were up 14% over the prior year to $85.2 million from $74.7 million. Income before taxes amounted to $14 million, slightly above the $13.8 million earned in 1978.

Earnings in 1979 were impacted by the France division's lower results due to the loss of a major customer caused by change in its ownership. Also, the France division constructed two new manufacturing facilities during 1979 and the associated costs relating to

Net Income (millions)



these projects contributed to its reduced earnings. The other three divisions in this segment — Adalet, Halex, and Northland — achieved new records in sales and income before taxes reflecting good market growth and improved operating results.

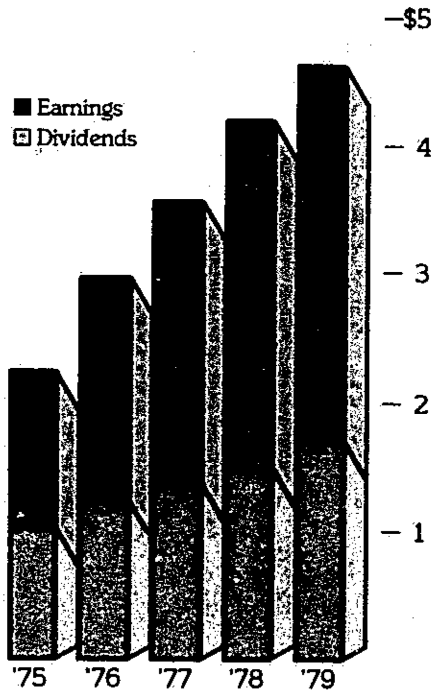
Analysis of Earnings. Income before taxes of $63.1 million was up 3.7% from 1978's $60.8 million. As a percentage of sales, pretax earnings for 1979 were 9% compared to 12.7% a year earlier. Factors contributing to the lower profit margin were: (a) the inclusion of World Book for the full year, which has an inherently lower margin on sales than other Scott & Fetzer operating units, (b) the reduced earnings at Campbell-Hausfeld as discussed under comments on the Fluid Transmission segment, and (c) higher net interest costs (interest expense less interest income) which resulted primarily from the increased long-term debt in 1979 reflecting the new $40 million, 9½% notes due in 1998.

Income Taxes. As shown in the Consolidated Statement of Income on page 21, the provisions for state, local, federal, and foreign income taxes were $29.0 million or 45.9% of income before taxes for 1979 compared with $30.6 million or 50.4% of income before taxes last year. The table below shows the principal factors affecting the tax provisions ($000's):

	1979	1978
Income before taxes	$63,060	$60,807
Less state and local taxes	3,051	3,433
Income before federal and foreign taxes	$60,009	$57,374
Income taxes at statutory rate 1979—46.2%	$27,723	
1978—48%		$27,540
Adjustments: Add (Deduct)		
Foreign tax effect	100	770
Acquisition transaction	—	(690)
Investment tax credits	(917)	(383)
Export "DISC" credit	(354)	(330)
Tax rate differential on World Book profit on installment sales deferred for tax purposes	(683)	—
All other, net	44	291
Provisions for federal and foreign income taxes	$25,913	$27,198

The additional provision for foreign income taxes in 1978 was due primarily to the operating losses incurred by the Canadian lighting operations which were included in pre-tax income without comparable tax benefit. The reduction in 1978 of $690,000 in U. S. income taxes was associated with the acquisition of Wayne Home Equipment. The 1979 investment tax credits were higher than the prior year due to the substantially larger capital expenditures in 1979. Federal income taxes were accrued on World Book's earnings from installment sales in prior years at the former 48% federal rate. The taxes to be paid on the collection of the installment sales will be at the current lower rate.

Earnings and Dividends per Share



Net Income and Earnings Per Share. Net income after taxes for 1979 was $34.1 million, a 13% increase over the $30.2 million earned in the prior year. Earnings per share rose 12% to $4.62 from $4.11 last year. The table below shows the significant factors affecting net income and earnings per share for 1979 compared with 1978:

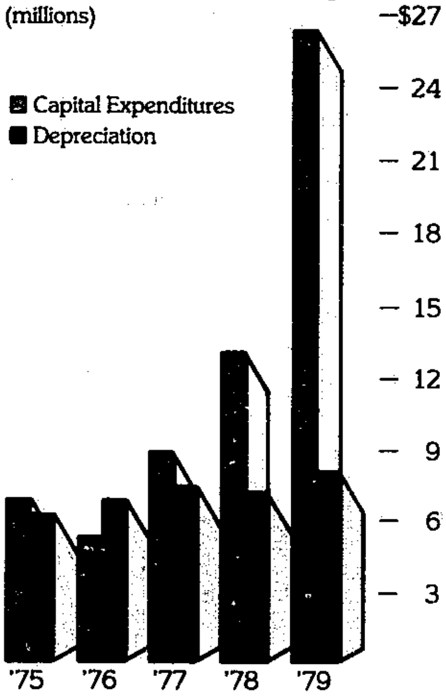
	Net Income ($000's)	Earnings Per Share
1978—as reported	$30,247	$4.11
Increase (Decrease) in 1979 from:		
Acquisitions, net	6,930	.94
Operations	(5,881)	(.80)
Lower effective tax rate	2,800	.38
Increased number of common shares	—	(.01)
Net Change	3,849	.51
1979—as reported	$34,096	$4.62

1979 includes a full year of earnings for World Book and Wayne Home Equipment, resulting in an earnings increment of $6.9 million or 94 cents per share. As these were purchase transactions, the net contributions to earnings were offset by the interest income (after taxes) that Scott & Fetzer would have earned had the cash used in the purchase been invested in short-term securities. Continuing operations experienced a reduction in earnings of $5.9 million, or 80 cents per share, primarily as a result of the Campbell-Hausfeld operating problems discussed in other sections of this report.

Net income and earnings per share were favorably affected by the lower effective tax rate during 1979 and the significantly higher tax credits, adding $2.8 million or 38 cents per share. The total of these various factors is $3.8 million or an increase of 51 cents per share from the 1978 earnings level.

Financial Position. Total assets at year-end 1979 were $395.4 million, $57.4 million above the November 30, 1978 level. The principal factors contributing to the higher asset base were the $40 million proceeds received from the long-term financing that was effected in early 1979 and the $21.6 million increase in retained earnings.

Capital Expenditures and Depreciation (millions)

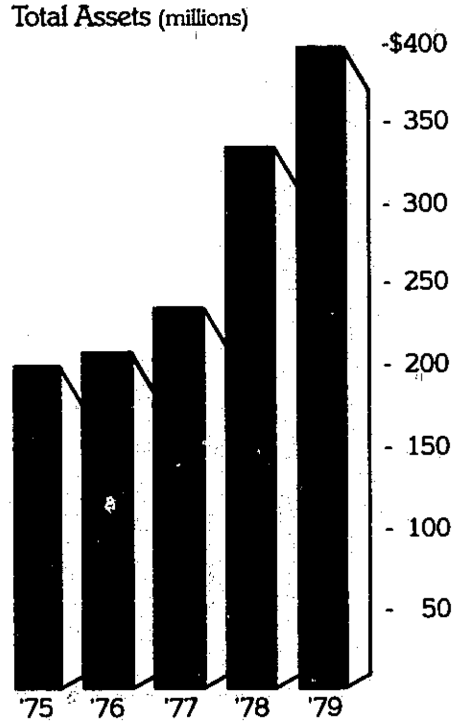


Working capital (current assets less current liabilities) was up $44.7 million during the year to $143.2 million, reflecting primarily an increase in receivables and inventories of $31.8 million and $8.3 million higher cash and securities.

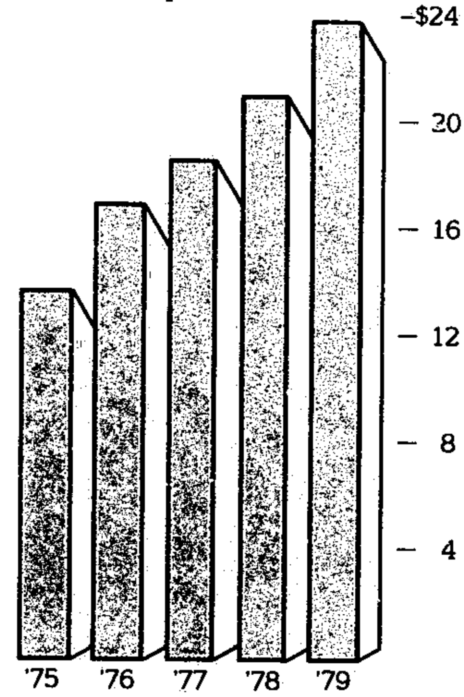
Included in current assets, in accordance with industry practice, are installment receivables, largely reflecting customer balances due on installment sales of World Book's international operations. Most of World Book's domestic installment receivables are carried by World Book Finance, Inc., a wholly owned finance company reported on the equity method.

Expenditures in 1979 for new facilities and equipment totalled $26.4 million, a new record level for the Company. The large increase over prior years included expenditures for land and plant facilities by the Campbell-Hausfeld group in Leitchfield, Kentucky and Harrison, Ohio; the France division in Fairview and Livingston, Tennessee; the Stahl division in Merced, California; the Western division in Portland, Tennessee and Avon Lake, Ohio; and the Adalet division in Cleveland, Ohio.

Total Assets (millions)



Book Value per Share



Long-term debt increased by $36.3 million to $82.3 million at year-end. The receipt during the year of the proceeds of $40 million, 9½% notes due in 1998 accounted for this increase partially offset by some debt repayments. This private financing was arranged in 1978 in connection with the acquisition of World Book. Debt associated with long-term capitalized leases was reduced $2.3 million, primarily as the result of the cash purchase of certain foundry facilities previously occupied under a capitalized lease.

Total shareholders' equity rose to $175 million, $22 million above a year ago. Book value per share increased by 14% to $23.76 at November 30, 1979, compared to $20.85 per share the prior year.

Business Segment Information

(Dollars in Thousands)

	Year Ended November 30				
	1979	1978	1977	1976	1975
NET SALES AND OTHER REVENUE					
Cleaning Systems	**$105,437**	$ 99,944	$100,309	$ 86,269	$ 72,328
Educational & Household Products	**279,299**	84,645	22,442	20,764	16,123
Fluid Transmission	**145,673**	140,949	95,881	82,849	60,817
Equipment & Accessories	**98,295**	91,413	77,761	64,620	60,318
Energy & Control	**85,186**	74,718	65,601	58,382	46,164
Eliminations	**(16,489)**	(13,447)	(10,807)	(10,966)	(8,501)
	$697,401	$478,222	$351,187	$301,918	$247,249
INCOME BEFORE TAX					
Cleaning Systems	**$ 18,346**	$ 21,763	$ 24,150	$ 19,233	$ 15,501
Educational & Household Products	**20,762**	2,479	781	2,136	1,523
Fluid Transmission	**11,233**	17,490	12,665	4,569	1,707
Equipment & Accessories	**12,997**	14,186	11,137	9,330	8,046
Energy & Control	**14,046**	13,844	12,890	12,333	8,500
Operating Earnings	**77,384**	69,762	61,623	47,601	35,277
Corporate Expenses and Net Interest	**(14,324)**	(8,955)	(5,515)	(5,234)	(5,096)
	$ 63,060	$ 60,807	$ 56,108	$ 42,367	$ 30,181

NOTE: Segment data for 1978 and prior years has been restated to reflect the realignment of operating units initiated in 1979.

Business Segment Information (continued)

(Dollars in Thousands)

	IDENTIFIABLE ASSETS BY SEGMENT November 30				
	1979	1978	1977	1976	1975
Cleaning Systems	**$ 46,158**	$ 39,916	$ 37,687	$ 25,319	$ 25,095
Educational & Household Products	**148,741**	114,922	11,574	11,726	8,669
Fluid Transmission	**81,763**	66,539	44,737	51,243	42,335
Equipment & Accessories	**37,199**	34,909	29,821	27,756	23,850
Energy & Control	**37,615**	29,836	26,009	23,889	21,626
Corporate & Other	**43,900**	51,855	75,583	75,344	71,344
Total Assets	**$395,376**	$337,977	$225,411	$215,277	$192,919

	DEPRECIATION Year Ended November 30		CAPITAL EXPENDITURES Year Ended November 30	
	1979	1978	**1979**	1978
Cleaning Systems	**$ 1,211**	$ 1,115	**$ 4,277**	$ 1,348
Educational & Household Products	**2,136**	1,255	**3,705**	1,245
Fluid Transmission	**2,163**	2,438	**9,421**	4,747
Equipment & Accessories	**1,013**	929	**2,323**	1,730
Energy & Control	**956**	874	**4,744**	1,574
Corporate & Other	**461**	830	**1,905**	2,242
	$ 7,940	$ 7,441	**$26,375**	$12,886

FOREIGN BUSINESS SEGMENT INFORMATION
Year Ended November 30, 1979

	Net Sales	Operating Income
United States	$645,801	$ 61,704
Foreign Locations	63,217	1,356
Interarea	(11,617)	—
Total	$697,401	$ 63,060

	Identifiable Assets	Capital Expenditures	Depreciation
United States	$352,065	$ 25,569	$ 7,659
Foreign Locations	43,311	806	281
Total	$395,376	$ 26,375	$ 7,940

Consolidated Statement of Income

The Scott & Fetzer Company and Subsidiary Companies

(Dollars in Thousands Except Per Share Data)

	Year Ended November 30 1979	1978
NET SALES AND OTHER REVENUE	**$697,401**	$478,222
Cost of goods sold	**393,208**	318,897
Gross profit	**304,193**	159,325
Selling, general and administrative expenses	**233,706**	96,303
Operating profit	**70,487**	63,022
Other income (deductions):		
Charges for services of finance subsidiary (Note 3)	**(9,598)**	(2,803)
Income from unconsolidated subsidiaries before income taxes	**4,662**	898
Interest expense, capitalized leases (Note 6)	**(978)**	(1,093)
Interest expense, other	**(8,243)**	(4,230)
Interest income	**7,582**	5,044
Other, net	**(852)**	(31)
	(7,427)	(2,215)
Income from continuing operations before income taxes	**63,060**	60,807
Provision for income taxes:		
State and local	**3,051**	3,433
Federal and foreign:		
Current	**30,179**	26,810
Deferred (1979 includes $5,519 credit from current deferred)	**(4,266)**	388
Total taxes	**28,964**	30,631
Income from continuing operations	**34,096**	30,176
Income from discontinued operations	**—**	71
NET INCOME	**$ 34,096**	$ 30,247
EARNINGS PER SHARE		
From continuing operations	**$ 4.62**	$ 4.10
From discontinued operations	**—**	.01
Total earnings per common and common equivalent share	**$ 4.62**	$ 4.11
DIVIDENDS PER SHARE	**$ 1.70**	$ 1.50
Average number of common and common equivalent shares outstanding (000's)	**7,373**	7,354

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

Consolidated Balance Sheet

The Scott & Fetzer Company and Subsidiary Companies

(Dollars in Thousands)

	November 30 1979	November 30 1978
ASSETS		
CURRENT ASSETS:		
Cash	**$ 9,603**	$ 2,158
Certificates of deposit	**41,724**	34,370
Short-term investments	**11,878**	18,376
Trade receivables, less allowance for doubtful accounts: 1979 — $5,325 1978 — $1,984	**64,079**	60,286
Installment receivables (including accounts due after one year), less unearned finance charges: 1979 — $657 1978 — $683; and allowances for doubtful accounts: 1979 — $5,400 1978 — $4,088	**29,005**	20,290
Other receivables	**8,610**	6,097
Inventories (Note 2):		
Raw materials and supplies	**45,619**	37,830
Work in process	**30,600**	26,504
Finished goods	**24,426**	19,571
	100,645	83,905
Prepaid expenses	**5,724**	4,091
TOTAL CURRENT ASSETS	**271,268**	229,573
INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES (Note 3)	**35,430**	32,766
PROPERTY, PLANT AND EQUIPMENT (Note 6):		
Land and land improvements	**2,863**	2,597
Buildings	**23,582**	14,860
Machinery and equipment	**78,888**	63,909
Capitalized leases	**13,915**	16,723
	119,248	98,089
Accumulated depreciation	**40,597**	35,853
TOTAL PROPERTY, PLANT AND EQUIPMENT	**78,651**	62,236
EXCESS COST OVER FAIR VALUE OF ASSETS ACQUIRED	**2,583**	2,966
OTHER ASSETS	**7,444**	10,436
	$395,376	$337,977

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

	November 30 1979	1978
LIABILITIES		
CURRENT LIABILITIES:		
Notes payable, banks (Note 4)	**$ 8,469**	$ 7,115
Current portion of long-term debt	**2,417**	2,459
Accounts payable, trade	**27,669**	31,730
Accounts payable, other	**8,888**	9,820
Accrued taxes, other	**3,841**	3,471
Accrued liabilities	**37,608**	34,080
Income taxes	**12,364**	10,031
Deferred income taxes (Note 3)	**26,811**	32,330
TOTAL CURRENT LIABILITIES	**128,067**	131,036
LONG-TERM DEBT (Notes 5 & 6):		
9½% Notes due 1998	**40,000**	—
9¼% Notes due 1985	**30,000**	30,000
Other long-term debt	**3,365**	4,765
Capitalized leases	**8,981**	11,271
TOTAL LONG-TERM DEBT	**82,346**	46,036
DEFERRED INCOME TAXES	**5,548**	4,295
OTHER DEFERRED CREDITS	**4,447**	3,596
TOTAL LIABILITIES	**220,408**	184,963
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 7 & 10)		
Stated value of issued shares: $1.25 per share		
1979 — 7,576,924 less 212,771 in treasury		
1978 — 7,576,924 less 239,334 in treasury	**9,205**	9,172
ADDITIONAL CAPITAL (Note 10)	**6,573**	6,238
RETAINED EARNINGS (Note 5)	**159,190**	137,604
TOTAL SHAREHOLDERS' EQUITY	**174,968**	153,014
	$395,376	$337,977

Consolidated Statement of Changes in Financial Position

The Scott & Fetzer Company and Subsidiary Companies

(Dollars in Thousands)

	Year Ended November 30 1979	1978
SOURCE OF FUNDS		
From continuing operations:		
Income after taxes	$ 34,096	$ 30,176
Depreciation and amortization	7,940	7,124
Earnings from unconsolidated subsidiaries	(2,664)	(431)
Deferred federal income taxes — non-current	1,253	388
	40,625	37,257
From discontinued operations (includes net income of $71, depreciation of $317 and other costs of $300)	—	688
Total from operations	40,625	37,945
Net current assets of companies acquired	6,916	29,565
Proceeds from disposition of divisions, less non-current notes receivable of $1,925 in 1978	819	9,400
Increase in long-term debt	40,000	5,187
Sale of common stock under stock options	368	401
Disposal of property, plant and equipment	1,768	362
Decrease in other assets	2,992	—
Other	925	324
	94,413	83,184
APPLICATION OF FUNDS		
Property, plant and equipment and other net assets of companies acquired	6,650	78,049
Cash dividends	12,510	10,999
Disposals of net current assets of discontinued divisions	524	6,667
Additions to property, plant and equipment	26,375	12,886
Decrease in long-term debt	3,690	1,233
	49,749	109,834
INCREASE (DECREASE) IN WORKING CAPITAL	$ 44,664	$ (26,650)

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

Consolidated Statement of Changes in Financial Position (continued)

(Dollars in Thousands)

	Year Ended November 30 1979	1978
INCREASE (DECREASE) IN COMPONENTS OF WORKING CAPITAL		
Current assets:		
Cash and certificates of deposit	**$ 14,799**	$ 4,845
Short-term investments	**(6,498)**	(10,235)
Trade and other receivables	**15,021**	40,733
Inventories	**16,740**	22,705
Prepaid expenses	**1,633**	37
	41,695	58,085
Current liabilities:		
Notes payable, banks	**1,354**	7,115
Current portion of long-term debt	**(42)**	1,226
Trade and other payables	**(4,993)**	20,442
Accrued liabilities, including taxes	**6,231**	23,622
Deferred income taxes	**(5,519)**	32,330
	(2,969)	84,735
INCREASE (DECREASE) IN WORKING CAPITAL	**$ 44,664**	$ (26,650)

Consolidated Statement of Retained Earnings

The Scott & Fetzer Company and Subsidiary Companies

(Dollars in Thousands)

	Year Ended November 30 1979	1978
Retained earnings, beginning of year	**$137,604**	$118,356
Net income	**34,096**	30,247
	171,700	148,603
Cash dividends	**12,510**	10,999
Retained earnings, end of year	**$159,190**	$137,604

Notes to Financial Statements

(Dollar amounts in thousands except per share data)

1. Acquisitions

On July 1, 1979, the Company, following receipt of approval from the Canadian government, purchased for a cash consideration of $6,650 World Book Childcraft of Canada, Ltd. The operations of this subsidiary are not significant and have been included in the consolidated results of operations since the date of acquisition.

During the year ended November 30, 1978, the Company acquired in purchase transactions for a total consideration of $78,049 all of the outstanding stock of Wayne Home Equipment Co., Inc., World Book-Childcraft International, Inc., and World Book Life Insurance. Consolidated results of operations for the year ended November 30, 1978 includes the operations of these acquired companies since their respective dates of acquisition.

If the operations of the acquired companies had been included for the entire fiscal year ended November 30, 1978, net sales, net income and earnings per common share of the Company, on an unaudited pro forma basis, would have been $652,781, $35,940 and $4.89, respectively.

2. Inventories

If current costs had been used for those inventories presently valued using the last-in, first-out method, inventories presently in the balance sheet would have been $18,822 and $14,491 higher than reported at November 30, 1979 and 1978, respectively.

Inventories for continuing operations used in the computation of cost of goods sold, which include progress payments of $10,103 and $7,500 for printing contracts at November 30, 1979 and 1978, respectively, were as follows:

November 30, 1977	$ 55,730
November 30, 1978	83,905
November 30, 1979	100,645

3. Investments in Unconsolidated Subsidiaries

The investments in unconsolidated subsidiaries, which are wholly-owned, are carried on the equity basis and at November 30, 1979 and 1978, were as follows:

	Equity in Net Assets	
	1979	1978
World Book Finance, Inc.	$28,276	$26,432
World Book Life Insurance	6,369	5,733
Foreign finance subsidiary	785	601
	$35,430	$32,766

Accounts payable in the accompanying balance sheets include amounts due to unconsolidated subsidiaries of $2,793 and $2,740 at November 30, 1979 and 1978, respectively.

World Book Finance, Inc., (WBFI) provides funds principally to finance the domestic installment receivables of World Book. The Company is obligated under an operating agreement to make available to WBFI amounts sufficient so that earnings, as defined, are at least 150% of fixed charges (primarily interest). The amount provided in 1979 was $9,598 and $2,803 in 1978. The current liability for deferred income taxes in the consolidated balance sheets includes amounts related to installment receivables financed by WBFI. The condensed balance sheets of WBFI at November 30, 1979 and 1978 were as follows:

	1979	1978
Assets		
Cash and cash equivalents	$ 26,457	$ 4,697
Finance receivables (net of allowance for credit losses)	76,536	96,119
Receivables from affiliated companies	1,849	2,434
Total Assets	$104,842	$103,250
Liabilities and Equity		
Current portion of long-term debt	$ 2,625	$ —
Accounts payable and other liabilities	1,566	1,818
Long-term debt	72,375	75,000
Equity of Scott & Fetzer	28,276	26,432
Total Liabilities and Equity	$104,842	$103,250

4. Interim Financing Arrangements

The short-term notes payable, banks, represent outstanding loans to the foreign affiliates of World Book-Childcraft International, Inc. Information with respect to these loans is as follows:

	1979	1978
Maximum amount outstanding	$ 8,949	$ 7,115
Average amount outstanding	8,387	7,115
Weighted average interest rate	12.6%	11.9%
Weighted average interest rate at end of year	11.0%	11.9%

The weighted average interest rate reflects actual short-term borrowing interest expense as a percentage of the average month-end balances of short-term borrowings outstanding during the year.

At November 30, 1979 and 1978, the Company had available under contractual arrangements in the United States and foreign countries unused credit lines with banks of $20,804 and $21,590, respectively.

Although withdrawal is not legally restricted, the Company is expected to, and does, maintain compensating balances equal to 10% of the $16,000 of unused domestic lines of credit.

5. Long-Term Debt

A summary of other long-term debt, excluding current maturities, is as follows:

	1979	1978
Mortgage notes — 5½ to 8% — maturities to 1982	$ 25	$ 105
Insurance company loan — 6% — due 1980	500	700
Former shareholders of Wayne Home Equipment — 8% — maturities to 1987	2,768	3,716
Unsecured debentures — 7% — due 1981	72	244
	$ 3,365	$ 4,765

The indenture for the 9¼% notes contains provisions regarding increases in debt, minimum asset-to-debt ratios, and the extent to which dividends may be paid.

On August 31, 1978, the Company completed a privately-placed 9½%, twenty-year financing agreement with a major institutional lender for $40,000. The entire proceeds from the agreement were received during the fiscal year ended November 30, 1979.

Under the most limiting of the debt covenants, retained earnings unrestricted for the payment of dividends amounted to $44,748 at November 30, 1979.

Aggregate maturities of long-term debt during the five-year period November 30, 1980, through November 30, 1984 are $2,417, $3,186, $2,602, $1,357, and $1,388, respectively. Interest and debt expense on long-term debt were $7,536 and $4,397 for the years ended November 30, 1979 and 1978, respectively.

6. Long-Term Leases

The Company leases certain production and warehouse facilities for terms ranging from 8 to 40 years. The majority of facility leases are for 15 years or more and contain certain 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 contain purchase options.

Capital leases are accounted for and depreciated as Company-owned capital assets and are included in property, plant and equipment as follows:

	1979	1978
Land and land improvements	$ 333	$ 333
Buildings	9,403	11,593
Machinery and equipment	4,179	4,797
	13,915	16,723
Less accumulated depreciation	5,690	5,913
	$ 8,225	$10,810

Future minimum lease payments under noncancelable leases at November 30, 1979, are summarized below:

Years Ending November 30	Capitalized Leases	Operating Leases
1980	$ 2,003	$ 5,105
1981	2,415	4,419
1982	2,281	3,708
1983	2,215	3,510
1984	1,605	3,348
Later years	3,708	17,153
Total minimum lease payments	14,227	37,243
Less minimum sublease rents	—	96
Net minimum lease payments	14,227	$37,147
Less estimated executory costs	27	
Less amount representing interest	4,132	
Present value of net minimum lease payments under capital leases	10,068	
Less current obligations included in current portion of long-term debt	1,087	
Long-term capital lease obligations	$ 8,981	

Net rent expense for noncancelable operating leases for the years ended November 30, 1979 and 1978 amounted to $4,873 and $3,264, after deducting sublease rents of $83 and $101, respectively.

7. Stock Options

At November 30, 1979, there were 540,113 shares of common stock reserved for issuance under the Company's 1973 stock option plan which was modified in 1977. The modified plan provides for the granting of nonqualified options to officers and key employees to purchase common stock at its fair market value on the date the option is granted. Options are exercisable one-fourth each year commencing one year after date of grant and expire 10 years after the date of grant. The modified plan also permits the granting of stock appreciation rights to optionees. As of November 30, 1979, no stock appreciation rights had been granted.

Substitute contingent options, which become exercisable only upon expiration of the original option, were granted in 1975 to certain optionees who had outstanding qualified options. The option price and corresponding market price of the substitute contingent options at the date of grant was $13.875. During 1979, substitute options for 45,650 shares became exercisable upon expiration of the original options.

During 1979 and 1978, options were cancelled for 15,000 and 59,875 shares, respectively. There were 319,238 and 375,313 shares available for future grants at November 30, 1979 and 1978, respectively. The Company makes no charge against income with respect to options.

Information relating to options is set forth below:

		Option Price		Market Price	
	Number of Shares	Average Per Share	Total	Average Per Share	Total
Options granted:					
1978	56,500	$25.75	$1,454,875	$25.75	$1,454,875
1979	71,075	23.38	1,661,734	23.38	1,661,734
Options becoming exercisable:					
1978	47,248	21.54	1,017,864	24.53	1,159,026
1979	83,632	18.54	1,550,654	25.64	2,144,034
Options exercised:					
1978	21,037	19.07	401,102	27.98	588,662
1979	26,563	13.88	368,562	26.07	692,586
Options outstanding:					
1978	191,363	23.59	4,514,027	23.59	4,514,027
1979	220,875	23.50	5,191,125	23.50	5,191,125

8. Pension and Retirement Plans

The majority of the Company's employees are covered by various non-contributory trusteed pension and profit-sharing plans. The Company also has accrued deferred compensation, none of which has been funded, pursuant to agreements with certain of its officers and other senior management employees. Contributions under the plans charged to operations were $6,576 and $3,581 for the years ended November 30, 1979 and 1978, respectively. The increase in the cost of the plans resulted primarily from the acquisition of World Book-Childcraft International, Inc.

The actuarially computed value of vested benefits and prior service costs for all plans as of November 30, 1979 exceeded the total pension fund assets and balance sheet accruals by approximately $3,391 and $20,500, respectively.

9. 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.

10. Capital Stock

Changes in the common stock and additional capital accounts during the two years ended November 30, 1979 and 1978 were as follows:

	Common Stock			
	Treasury Shares	Issued Shares	Stated Value	Additional Capital
Balance, November 30, 1977	(260,371)	7,576,924	$ 9,146	$ 5,863
Sale of stock under options	21,037	—	26	375
Balance, November 30, 1978	(239,334)	7,576,924	9,172	6,238
Sale of stock under options	26,563	—	33	335
Balance, November 30, 1979	(212,771)	7,576,924	$ 9,205	$ 6,573

11. Quarterly Earnings Data (Unaudited)

	1979 Fiscal Year by Quarter			
	First	Second	Third	Fourth
Net sales and other revenue	$155,220	$191,515	$164,443	$186,223
Gross profit	63,508	84,749	71,080	84,856
Net Income	$ 7,728	$ 11,303	$ 7,702	$ 7,363
Earnings per share	$ 1.05	$ 1.53	$ 1.05	$ .99

	1978 Fiscal Year by Quarter			
	First	Second	Third	Fourth
Net sales and other revenue	$ 87,021	$121,859	$105,690	$163,652
Gross profit	23,038	34,322	28,474	73,491
Income from continuing operations	5,851	10,132	7,615	6,578
Income from discontinued operations	71	—	—	—
Net Income	$ 5,922	$ 10,132	$ 7,615	$ 6,578
Earnings per share:				
From continuing operations	$ .80	$ 1.38	$ 1.03	$ .89
From discontinued operations	.01	—	—	—
Total	$ .81	$ 1.38	$ 1.03	$ .89

12. Business Segment Information

Information with respect to the Company's business segments is contained on pages 19 and 20 of this report.

Intersegment sales are accounted for at prices which generally approximate market. Operating profit is total revenue less operating expenses, excluding interest, general corporate expenses, income taxes and earnings of unconsolidated subsidiaries.

13. Current Replacement Costs (Unaudited)

The Company is required to report to the Securities and Exchange Commission in its Form 10K certain information relating to current replacement cost of productive capacity (primarily buildings, machinery and equipment), replacement cost of inventories at year end, and the related effect during the year on cost of goods sold. 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 modern, efficient manufacturing operations. 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 1979, 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 — The consolidated financial statements include the accounts of the Company and its domestic and foreign subsidiaries, except for the finance and insurance subsidiaries which are included on an equity basis. Intercompany balances, transactions and stockholdings have been eliminated in consolidation.

Short-Term Investments — Short-term investments are carried at cost, which approximates market value.

Inventory Valuations — The last-in, first-out method of inventory valuation is used for approximately 40% and 42% of domestic inventories in 1979 and 1978, respectively. The remaining inventory is valued principally at average cost. Inventory valuations are at the lower of cost or market.

Installment Accounts Receivable — In accordance with industry practice, total installment receivables are included in current assets. The portions of such accounts due after one year from the balance sheet date amounted to $7,566 and $10,680 at November 30, 1979 and 1978, respectively.

Profits on installment sales are credited to income at the time of sale. Monthly finance charges levied on substantially all domestic accounts are credited to income over the lives of the installment contracts, after deducting a provision for estimated uncollectible charges. Finance charges for installment sales of foreign subsidiaries are included in the sale price and amortized to income over the life of the installment contract.

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.

Capital Leases — Property or equipment acquired under lease arrangements which meet the criteria for classification as capital leases have been capitalized and the related lease obligations included in long-term debt.

Excess Cost Over Fair Value of Assets Acquired — The excess of cost of investments over assets acquired is being amortized on a straight-line basis over a 40-year period.

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.

Pension Plans — The Company's policy is to accrue and fund the actuarially determined pension cost which includes current service cost and amortization of prior service cost over periods ranging from 15 to 40 years.

Income Taxes — Deferred taxes on income are provided for timing differences between financial and tax reporting, principally for income recognized from installment accounts receivable (classified as current), depreciation and capital lease costs.

Investment Tax Credits — These credits (1979 — $917, 1978 — $383) are applied to reduce the provision for federal income taxes in the year the credits arise.

Foreign Currencies — Foreign currency amounts are translated into United States dollars, generally at remittance exchange rates, as follows: inventories, prepaid and deferred items, property, plant and equipment and related cost of goods sold, amortization and depreciation — at historical rates; all other assets and liabilities — at rates in effect at the end of the year; income and all other expenses — at average exchange rates during the year. Foreign currency exchange gains and losses, which are not material, are included in the determination of net income.

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).

Report of the Board of Directors' Audit Committee

Scott & Fetzer's Audit Committee consists of four members, all outside directors. We believe that the responsibility for the Company's management and financial control system and the integrity of the published financial statements properly rests with the senior management.

It is the responsibility of the Audit Committee, acting for the board of directors, to monitor the adequacy and effectiveness of the management and financial control system, to meet regularly with senior management, the public auditors and the internal audit group and to review, prior to publication, the Company's financial statements. During 1979, the Audit Committee had five formal meetings to fulfill these responsibilities.

We believe that Scott & Fetzer's management and financial control system continued to improve during 1979. As in past years, we have received the full cooperation of all personnel and the Committee has become increasingly satisfied with the effectiveness of the Company's controls. Where we have had concerns or believed that improvements in the management and financial control system were needed, the corporate senior management has responded to our requests.

In addition to ensuring that Scott & Fetzer has an effective control system to properly run the business, the Audit Committee also monitors the Company's management controls established to prevent improper payments and conflicts of interest. Both the internal and public audit groups have assured us that these control procedures are a part of the overall system and are being used and regularly reviewed by management. As outside directors, the Audit Committee believes that the proper management attitudes and control programs are in place.

It is the opinion of the Audit Committee that the Company's published financial statements are based on conservative accounting policies which are consistent with prior years, and factually present the current results of operations and financial position.

The Audit Committee is fully cognizant of its responsibilities to the board of directors and shareholders. We appreciate the response, cooperation and efforts of everyone, within the Company and externally, who assisted us during 1979.

For the Audit Committee

J. T. Bailey

Joseph T. Bailey,
Chairman

Cleveland, Ohio
January 22, 1980

Report of Independent Certified Public Accountants

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

We have examined the consolidated balance sheet of The Scott & Fetzer Company and subsidiary companies as at November 30, 1979 and 1978, and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examinations were 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 financial statements referred to above present fairly the consolidated financial position of The Scott & Fetzer Company and subsidiary companies at November 30, 1979 and 1978, 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.

In addition, we have read the financial information included in "The Year at a Glance" on page 13, "Financial Review" on pages 15 through 18, the "Summary of Operations" on page 14 and "Historical Review" on page 32 of this annual report, have compared it to data taken from the audited financial statements, subjected it to audit procedures, and verified its mathematical accuracy. In our opinion, such data is fairly stated in relation to the audited financial statements taken as a whole.

Coopers & Lybrand

Cleveland, Ohio
January 17, 1980

Historical Review

(Dollars in Thousands Except Per Share Data)

	1979	1978	1977	1976	1975
AS REPORTED					
Net Sales and Other Revenue	**$697,401**	$478,222	$351,187	$343,043	$284,020
Income Before Taxes	**63,060**	60,807	56,108	45,855	32,791
Net Income	**34,096**	30,247	26,306	22,861	17,048
Cash Dividends	**12,510**	10,999	9,510	8,864	7,706
Per cent Payout of Net Income	**36.7**	36.4	36.2	38.8	45.2
Earnings Retained and Reinvested	**21,586**	19,248	16,796	13,997	9,342
Capital Expenditures	**26,375**	12,886	8,816	4,636	6,064
Working Capital	**143,201**	98,537	125,187	116,180	100,602
Long-Term Debt	**82,346**	46,036	41,838	34,350	34,772
Total Assets	**395,376**	337,977	225,411	207,223	184,177
Shareholders' Equity	**174,968**	153,014	133,365	123,804	109,496
Per cent Return on Shareholders' Equity	**19.5**	19.8	19.7	18.5	15.6
Per Share					
Earnings	**4.62**	4.11	3.56	3.01	2.26
Dividends	**1.70**	1.50	1.30	1.17	1.02
Book Value	**23.76**	20.85	18.23	16.34	14.49
Market Price Range	**30⅞-22**	36⅛-23	29-22¾	29⅜-17⅝	22-8⅛
Price Earnings Ratio	**7-5**	9-6	8-6	10-6	10-4
Year-end Data					
Shares Outstanding (000's)	**7,364**	7,338	7,317	7,577	7,556
Number of Shareholders of Record	**8,119**	8,439	8,852	9,377	10,105
Number of Employees	**17,934**	17,425	7,255	7,500	7,084
RESULTS RESTATED*					
Net Sales and Other Revenue	**$697,401**	$478,222	$351,187	$301,918	$247,249
Income Before Taxes	**63,060**	60,807	56,108	42,367	30,181
Per cent to Sales	**9.0**	12.7	16.0	14.0	12.2
Income from Continuing Operations	**34,096**	30,176	26,802	21,103	15,690
Per cent to Sales	**4.9**	6.3	7.6	7.0	6.3
Income (Loss) from Discontinued Operations	**—**	71	(496)	1,618	1,218
Net Income	**$ 34,096**	$ 30,247	$ 26,306	$ 22,721	$ 16,908
Earnings Per Share:					
From Continuing Operations	**$ 4.62**	$ 4.10	$ 3.63	$ 2.78	$ 2.08
From Discontinued Operations	**—**	.01	(.07)	.21	.16
Total	**$ 4.62**	$ 4.11	$ 3.56	$ 2.99	$ 2.24

*"Results Restated" for 1976 and 1975 reflects a change in accounting for leases and the net sales and income before taxes of continuing operations.

THE SCOTT & FETZER COMPANY

DIRECTORS

JOSEPH T. BAILEY
Retired; Former 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 — Administration and Finance
Investment and Pension Committee, chairman; Executive Committee

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

JAMES A. HUGHES
Chairman, First Union Realty Investments
Real estate investment trust
Nominating Committee, chairman; Audit Committee; Compensation and Organization Committee

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 and Pension Committee

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

RALPH SCHEY
Chairman, President and Chief Executive Officer
Executive Committee; Nominating Committee

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

ROBERT L. SWIGGETT
President, Kollmorgen Corporation, Manufacturer of printed circuits, direct current motors and control systems, color and photometry instruments, and electro-optional systems
Investment and Pension Committee

CORPORATE MANAGEMENT

RALPH SCHEY
Chairman, President and Chief Executive Officer

J. F. BRADLEY
Executive Vice President — Administration and Finance

JOHN BEBBINGTON
Senior Vice President

WALTER A. RAJKI
Senior Vice President

KEARNEY K. KIER
Group Vice President

KENNETH J. SEMELSBERGER
Group Vice President

KENNETH D. HUGHES
Vice President, Treasurer and Controller

ROBERT C. WEBER
Vice President, General Counsel and Secretary

THEODORE C. BLISS
Assistant Treasurer

JOHN E. FRERE
Assistant Controller

RICHARD E. HERTHNECK
Assistant Secretary

KENNETH A. HOOK
Assistant Secretary

Corporate Office
14600 Detroit Avenue
Lakewood, Ohio 44107
Telephone: 216/228-6200

Annual Meeting
The annual meeting of shareholders will be held on Tuesday, March 25, 1980, 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
AmeriTrust 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.

Scott & Fetzer

The Scott & Fetzer Company
14600 Detroit Avenue
Lakewood, Ohio 44107
(216) 228-6200

Printed in U S A

SUPPLEMENTARY NOTES TO FINANCIAL STATEMENTS

1. Accrued liabilities at November 30, 1979 and 1978 were as follows:

	Thousands of Dollars	
	1979	1978
Salaries, wages and commissions	$ 12,993	$ 11,181
Interest	1,228	306
Pension and profit-sharing plans	5,726	7,252
Other	17,661	15,341
	$ 37,608	$ 34,080

2. The Company provides an incentive compensation program which includes directors, officers and key employees. The program is based primarily on actual earnings in relation to budgeted objectives. The amounts charged against income aggregated $1,902,000 and $1,950,000 for the years ended November 30, 1979 and 1978, respectively.

3. Included in selling, general and administrative expense for the year ending November 30, 1979 and the 3 months ending November 30, 1978, are $12,522,000 and $6,149,000, respectively, which represent discounts on installment receivables sold to World Book Finance, Inc. World Book Finance, Inc., records the purchased receivables at face value and the purchase discount in the contract reserve. Also included in selling, general and administative expense is $69,843,000 in 1979 and $18,317,000 in 1978 which represent commissions paid by World Book-Childcraft International, Inc. to consumer direct selling personnel.

4. 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 Rule 3-17 of Regulation S-X.

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 as an indication of the future operating performance of the Company.

4. 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	
	1979	1978	1979	1978
At November 30:				
Inventories	$121,767	$ 98,609	$100,645	$ 83,905
Plant and equipment:				
Buildings	56,862	52,298	28,099	26,453
Machinery and equipment	124,483	105,808	76,145	64,076
	181,345	158,106	104,244	90,529
Less accumulated depreciation	94,828	75,079	40,597	34,121
Net plant and equipment	$ 86,517	$ 83,027	$ 63,647	$ 56,408

INCOME STATEMENT ITEMS

	Estimated Replacement Cost 1979	Estimated Replacement Cost 1978	Comparable Historical Cost 1979	Comparable Historical Cost 1978
For year ending November 30 (For continuing operations)				
Cost of goods sold	$405,920	$336,312	$393,208	$318,897
Depreciation expense:				
Included in cost of goods sold	$ 8,030	$ 8,292	$ 5,611	$ 5,949
Other	3,332	1,405	2,329	1,175
Total depreciation	$ 11,362	$ 9,697	$ 7,940	$ 7,124

1978 Replacement Cost and Historical Cost amounts for Buildings and Machinery and Equipment have been restated to reflect reclassification of various Building leases.

4. Current Replacement Cost Information (Unaudited), Continued

Inventories were estimated based on latest costs in inventory at year-end using the average cost method of inventory valuation, adjusted for the lag between the time costs were incurred at fiscal year-end.

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. For 1979, the 1978 costs were indexed using representative construction indices for fiscal 1979. Additions for the year were recorded at current cost and disposals were removed at their replacement cost previously included.

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 of the remaining machinery and equipment was estimated using published indices representative of the machinery and equipment being restated. For 1979, the 1978 costs were indexed using published indices for 1979 representative of the machinery and equipment being restated. Additions for the year were recorded at current cost and disposals were removed at their replacement cost previously included.

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 1979 and 1978 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.

2

4. 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	
	1979	1978	1979	1978
Amounts for which replacement cost data are provided	$100,645	$ 83,905	$104,244	$ 90,529
Assets that would not be replaced after their economic life	—	—	—	1,311
Land	—	—	2,497	2,261
Construction-in-progress	—	—	12,507	3,988
Amounts included in consolidated balance sheet	$100,645	$ 83,905	$119,248	$ 98,089

5. Income Taxes

The changes in the components of deferred income taxes were as follows (dollars in thousands):

	1979
Change in installment receivables	$(6,465)
Provisions for losses which are currently deductible	946
Excess tax depreciation	1,253
	$(4,266)

The principal factors affecting the tax provisions for 1979 were (dollars in thousands):

	1979
Income before taxes	$63,060
Less state and local taxes	3,051
	$60,009
Income taxes at statutory rate (46.2%)	$27,723
Adjustments - add (deduct):	
Foreign tax effect	100
Investment tax credits	(917)
Export "DISC" credit	(354)
Tax rate differential on World Book profit on installment sales deferred for tax purposes	(683)
All other, net	44
Provisions for federal and foreign income tax	$25,913

The effective income tax rate in 1978 was 47.4%.

THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE II - AMOUNTS 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, 1979 and 1978

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	
Name of Debtor Note (1)	Balance at Beginning of Period	Additions	Deductions (1) Amounts Collected	Balance at End of Period Current	Not Current
Year ended November 30, 1979:					
Robert H. King	-0-	$250,000	$12,500	$50,000	$187,500

NOTE (1): In September, 1979, the Company loaned $250,000 to Robert H. King - Chairman and Chief Executive Officer of World Book-Childcraft International, Inc. The money is to be repaid in one of three ways; (a) in 60 installments of $4,166.66 per month, (b) in full 90 days from date of termination, either voluntary or for cause or (c) 180 days from date of any other termination of employment. The loan is non-interest bearing. It is collateralized by a certificate of deposit in the name of Robert H. King and is held in a bank used by the Company.

THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES
SCHEDULE III INVESTMENTS IN, EQUITY IN EARNINGS OF, AND DIVIDENDS
RECEIVED FROM AFFILIATES AND OTHER PERSONS
for the years ended November 30, 1979 and 1978

Column A	Column B		Column C		Column E	
	Balance at Beginning of Period		Additions		Balance at End of Period	
	(1)	(2)	(1)	(2)	(1)	(2)
Name of Issuer and Description of Investment	Number of Shares or Units. Principal Amount of Bonds and Notes	Amount in dollars	Equity taken up in earnings of affiliates and other persons for the period (B)	Other (A)	Number of Shares or Units. Princcipal Amount of Bonds and Notes	Amount in dollars.
Year ended- November 30, 1979:						
Unconsolidated subsidiaries:						
World Book Finance, Inc.	261 (100%)	$26,432,250	$ 1,843,581		261 (100%)	$28,275,831
World Book Life Insurance	220,000 (100%)	5,733,000	636,000		220,000 (100%)	6,369,000
Field Enterprises Int'l., Inc.	1,000 (100%)	601,000	184,000		1,000 (100%)	785,000
Total unconsolidated subsidiaries		$32,766,250	$ 2,663,581			$35,429,831
Year ended- November 30, 1978:						
Unconsolidated subsidiaries:						
World Book Finance, Inc.			$431,250	$26,001,000	261 (100%)	$26,432,250
World Book Life Insurance			—	5,733,000	220,000 (100%)	5,733,000
Field Enterprises Int'l., Inc.			—	601,000	1,000 (100%)	601,000
Total unconsolidated subsidiaries			$431,250	$32,335,000		$32,766,250

(A) Balance represents companies acquired during 1978.
(B) The equity as described above is presented in the consolidated income statement on a pre-tax basis in the amount of $4,662,000 and $898,000 for 1979 and 1978, respectively. This reflects a 43% and 52% federal and state tax affect for 1979 and 1978, respectively.

NOTE: Columns D and F are not presented as the information is not applicable.

THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

for the years ended November 30, 1979 and 1978

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, 1979:				
Land	$ 2,261,231	$ 244,280	$ 7,727	$ 2,497,784
Land improvements	668,145	65,395	35,618	697,922
Buildings	26,452,598	4,225,698	2,579,686	28,098,610
Leasehold improvements	3,748,490	1,186,727	166,127	4,769,090
Machinery and factory equipment	41,026,057	5,159,953	1,409,490	44,776,520
Tools, patterns, dies, jigs, etc.	8,660,696	2,886,027	191,421	11,355,302
Furniture and fixtures	10,285,668	2,597,817	408,901	12,474,584
Transportation equipment	997,172	1,490,246	416,197	2,071,221
Construction in progress	3,988,232	8,519,140	—	12,507,372
	$98,088,289	$26,375,283	$ 5,215,167	$119,248,405
Year ended November 30, 1978:				
Land	$ 1,392,658	$ 869,733	$ 1,160	$ 2,261,231
Land improvements	582,309	88,850	3,014	668,145
Buildings	24,503,955	2,861,293	912,650	26,452,598
Leasehold improvements	2,171,693	1,842,408	265,611	3,748,490
Machinery and factory equipment	44,620,417	5,949,717	9,544,077	41,026,057
Tools, patterns, dies, jigs, etc.	7,704,926	1,874,221	918,451	8,660,696
Furniture and fixtures	2,585,791	7,948,278	248,401	10,285,668
Transportation equipment	1,694,777	192,684	890,289	997,172
Construction in progress	1,406,221	2,582,011	—	3,988,232
	$86,662,747	$24,209,195 (A)	$12,783,653	$ 98,088,289

(A) Includes $11,323,000 of assets of companies acquired during 1978.

THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES

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

for the years ended November 30, 1979 and 1978

COLUMN A Classification	COLUMN B Balance at Beginning of Period	COLUMN C Additions Charged to Costs and Expenses	COLUMN D Retirements	COLUMN F Balance at End of Period	Estimated Useful Lives
Year ended November 30, 1979:					
Land improvements	$ 390,537	$ 53,775	$ 35,618	$ 408,694	5-20 Yrs.
Buildings	9,546,093	1,199,398	1,192,385	9,553,106	15-40 Yrs.
Leasehold improvements	1,167,064	437,418	130,632	1,473,850	Lease Term
Machinery and factory equipment	16,667,531	2,084,657	1,049,103	17,703,085	5-32 Yrs.
Tools, patterns, dies, jigs, etc.	5,499,393	1,431,590	185,195	6,745,788	3-10 Yrs.
Furniture and fixtures	2,068,377	2,444,352	264,169	4,248,560	5-10 Yrs.
Transportation equipment	513,677	289,032	338,369	464,340	3-7 Yrs.
	$35,852,672	$7,940,222	$3,195,471	$40,597,423	
Year ended November 30, 1978:					
Land improvements	$ 340,733	$ 52,563	$ 2,759	$ 390,537	
Buildings	8,782,312	1,190,737	426,956	9,546,093	
Leasehold improvements	1,102,832	277,974	213,742	1,167,064	
Machinery and factory equipment	19,334,771	2,853,014	5,520,254	16,667,531	
Tools, patterns, dies, jigs, etc.	4,880,615	1,309,124	690,346	5,499,393	
Furniture and fixtures	1,241,781	995,721	169,125	2,068,377	
Transportation equipment	803,491	220,405	510,219	513,677	
	$36,486,535	$6,899,538	$7,533,401	$35,852,672	

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

THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES
SCHEDULE XI GUARANTEES OF SECURITIES OF OTHER COMPANIES
November 30, 1979

Column A Name of Issuer of Securities Guaranteed By Person For Which Statement is Filed	Column B Title of Issue of Each Class of Securities Guaranteed	Column C Total Amount Guaranteed and Outstanding	Column F Nature of Guarantee
World Book Finance, Inc.			
Short term notes:			
Field Enterprises International, Inc. (unconsolidated subsidiary of The Scott & Fetzer Company)	11.50-12.25% note payable	$ 187,427	Principal
	7.875% note payable	2,821,197	Principal
	7.75% note payable	2,103,560	Principal
	8.57-8.9375% note payable	3,236,246	Principal
	7.00% notes payable	3,033,980	Principal
		$ 11,382,410	
Field Educational Enterprises of Australasia, Pty. (consolidated subsidiary of The Scott & Fetzer Company)	10.15% note payable	$ 1,095,500	Principal

NOTE: Columns D, E, and G are not presented as the information is not applicable.

At November 30, 1979, The Scott and Fetzer Company and its consolidated subsidiaries maintained a guarantee of $3,834,000 for a consolidated foreign subsidiary.

THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES
SCHEDULE XII - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
for the years ended November 30, 1979 and 1978

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to costs and expenses	Charged to Other Accounts	Deductions	Balance End of Period
Year ended - November 30, 1979					
Allowance for doubtful accounts	$6,071,797	$7,257,177	$1,861,000 (A)	$4,465,307 (B)	$10,724,667
Year ended - November 30, 1978					
Allowance for doubtful accounts	$ 793,397	$1,176,141	$4,835,458 (A)	$ 733,199 (B)	$ 6,071,797

(A) Pertains to reserves of companies acquired during 1979 and 1978.

(B) 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, 1979 and 1978

Column A Item	Column B Charged to Costs and Expenses
Year ended November 30, 1979:	
Maintenance and repairs	$ 7,019,707
Depreciation and amortization of property, plant and equipment	$ 7,940,222
Rents	$ 7,707,332
Advertising	$10,731,195
Taxes, other than income taxes:	
Payroll	$10,550,524
Real, personal property and other	3,319,444
	$13,869,968
Year ended November 30, 1978:	
Maintenance and repairs	$ 5,523,432
Depreciation and amortization of property plant and equipment	$ 6,582,373 (A)
Taxes, other than income taxes:	
Payroll	$ 6,562,558
Real, personal property and other	2,436,897
	$ 8,999,455

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

(A) Excludes depreciation related to discontinued operations amounting to $317,165.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

TO THE BOARD OF DIRECTORS
WORLD BOOK FINANCE, INC.

We have examined the balance sheet of World Book Finance, Inc., a wholly-owned subsidiary of The Scott & Fetzer Company, as of November 30, 1979 and 1978, and the related statements of income and retained earnings, and changes in financial position for the year ending November 30, 1979 and the three month period from September 1, 1978 (date of inception) through November 30, 1978. Our examinations were 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 financial position of World Book Finance, Inc. as of November 30, 1979 and 1978, and the results of its operations and the changes in its financial position for the year ending November 30, 1979 and the three month period from September 1, 1978 (date of inception) through November 30, 1978, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand
Coopers & Lybrand

Cleveland, Ohio
January 17, 1980

WORLD BOOK FINANCE, INC.

BALANCE SHEET

November 30, 1979 and 1978

ASSETS	1979	1978
Cash (Note 3)	$ 2,451,531	$ 4,697,304
Temporary cash investments	24,006,000	
Finance receivables (net of the contract reserve of $32,209,438 in 1979 and $34,073,018 in 1978) (Notes 1 and 2)	76,535,527	96,119,373
Due from World Book - Childcraft International, Inc.	1,849,117	2,433,430
Total assets	$104,842,175	$103,250,107

LIABILITIES	1979	1978
Current portion of long-term debt (Note 3)	$ 2,625,000	$ —
Accrued interest and other expenses	1,452,800	1,350,669
Income taxes currently payable (Note 1)	113,544	467,188
Long-term debt (Note 3)	72,375,000	75,000,000
Total liabilities	76,566,344	76,817,857

Contingent liabilities (Note 4)

SHAREHOLDER'S EQUITY	1979	1978
Common Stock - Authorized 1,000 shares, without par value, 261 shares issued and outstanding	1,000	1,000
Additional capital	26,000,000	26,000,000
Retained earnings (Note 3)	2,274,831	431,250
Total shareholder's equity	28,275,831	26,432,250
Total liabilities and shareholder's equity	$104,842,175	$103,250,107

The accompanying notes are an integral part of these financial statements.

WORLD BOOK FINANCE, INC.

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED NOVEMBER 30, 1979 AND THREE MONTH PERIOD
SEPTEMBER 1, 1978 (DATE OF INCEPTION) THROUGH
NOVEMBER 30, 1978 (NOTE 1)

	1979	1978
REVENUE		
Finance revenue	$ 9,597,364	$ 2,803,475
Interest income	1,413,252	34,832
	11,010,616	2,838,307
EXPENSES		
Operating expenses	174,677	142,994
Interest expense on long-term debt	7,223,959	1,796,875
	7,398,636	1,939,869
Income before income taxes	3,611,980	898,438
Provision for income taxes:		
Federal	1,581,028	414,000
State and local	187,371	53,188
	1,768,399	467,188
Net income	1,843,581	431,250
Beginning retained earnings	431,250	---
Ending retained earnings	$ 2,274,831	$ 431,250

The accompanying notes are an integral part of these financial statements.

WORLD BOOK FINANCE, INC.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED NOVEMBER 30, 1979 AND THREE MONTH PERIOD
SEPTEMBER 1, 1978 (DATE OF INCEPTION) THROUGH
NOVEMBER 30, 1978

SOURCE OF FUNDS:	1979	1978
Operations		
Net income	$ 1,843,581	$ 431,250
Total from operations	1,843,581	431,250
Decrease in finance receivables, net of contract reserve	19,583,846	
Decrease in accounts receivable with World-Book Childcraft, Int'l., Inc.	584,313	
Increase in accrued interest and other liabilities	102,131	1,350,669
Increase in income taxes		467,188
Proceeds from issuance of long-term debt		75,000,000
Proceeds from initial capitalization		26,001,000
	$ 22,113,871	$103,250,107

APPLICATION OF FUNDS:	1979	1978
Increase in cash and temporary cash investments	$ 21,760,227	$ 4,697,304
Increase in finance receivables, net of contract reserve		96,119,373
Decrease in federal and state income taxes currently payable	353,644	
Increase in accounts with World Book - Childcraft International, Inc.		2,433,430
	$ 22,113,871	$103,250,107

The accompanying notes are an integral part of these financial statements.

1. Accounting Policies

Relationship with Parent Company - Organization - As of September 1, 1978, The Scott & Fetzer Company acquired World Book-Childcraft International, Inc. (WBCI) and simultaneously organized World Book Finance, Inc. (WBFI) as a wholly-owned subsidiary of WBCI to finance domestic installment receivables. WBFI purchases receivables from WBCI on a non-recourse basis under the provisions of an operating agreement dated August 31, 1978. The agreement calls for WBCI to make facilitating fee payments to WBFI as may be required to cause WBFI's "net earnings available for fixed charges" for each accounting period of three months or for each fiscal year to be 1-1/2 times the "fixed charges" for such period.

Income Taxes - The Company's taxable income is included in the consolidated tax return of the parent, The Scott & Fetzer Company. The Federal tax provision recorded by the Company is calculated as though it filed a separate return, and the amount determined to be currently payable is remitted to Scott & Fetzer.

Contract Reserve - Upon the purchase of receivables, WBFI withholds from the purchase price an amount equal to not less than 11% of the receivable balance, which is credited to a contract reserve. Accounts that are determined to be uncollectible are charged to the reserve. Any amount in the contract reserve at the end of the fiscal year in excess of the sum of 5% of the aggregate amount of all receivables plus certain defined past due accounts is to be remitted to WBCI.

2. Finance Receivables

The maturities of finance receivables outstanding as of November 30, 1979 and 1978 are as follows:

	1979	1978
Due in one year or less	$ 40,193,983	$ 49,731,200
Due after one but not more than two years	44,226,992	47,450,191
Due after two years	24,323,990	33,011,000
	$108,744,965	$130,192,391

The following reflects the changes in the contract reserve from inception September 1, 1978 through November 30, 1979:

Initial purchase of finance receivables September 1, 1978	$ 28,388,402
Additions - amounts withheld on purchase of customer obligations	6,148,564
Deductions - defaulted customer obligations	(463,948)
Balance, November 30, 1978	$ 34,073,018
Additions - amounts withheld on purchase of customer obligations	12,522,158
Deductions - defaulted customer obligations	(13,094,560)
Deductions - reserves returned per operating agreement	(1,291,178)
Balance - November 30, 1979	$ 32,209,438

3. Long-Term Debt

Long-term debt at November 30, 1979 and 1978 consisted of the following:

	1979	1978
10% Notes - maturities to 1998	$47,375,000	$50,000,000
Term loan - maturities to 1986	25,000,000	25,000,000
Total long-term debt	$72,375,000	$75,000,000

Under the provisions of the 10% notes and the term loan agreement, the Company is required to meet certain covenants, the major restrictions of which are: 1) net eligible assets as defined will not be less than 100% of total indebtedness (less debt to WBCI or S & F) prior to August 31, 1979; 105% through 1989; and 110% thereafter; 2) net earnings available for fixed charges will not be less than 150% of fixed charges for any quarter; 3) the aggregate outstanding debt shall not exceed 400% of shareholders' equity; 4) shareholders' equity will not be less than $25,000,000 and 5) the company will not pay or declare any dividend, redeem, purchase or otherwise acquire any shares of its stock unless the cumulative amount of all such payments does not exceed net earnings subsequent to September 1, 1978. At November 30, 1979 and 1978 there were no restricted retained earnings for such purposes.

The 10% notes are payable in annual installments of $2,625,000 beginning August 31, 1980 to 1997, inclusive, with a final payment of $2,750,000 on August 31, 1998.

The term loan of $25,000,000 bears interest at 8-3/4% through August 31, 1982, at which time, the rate will be adjusted to equal the bank's corporate base rate multiplied by 1.12. The loan is payable in four equal annual principal installments of $6,250,000, commencing August 31, 1983 through August 31, 1986. The Company has agreed to maintain a compensating balance on deposit of not less than 4% of the total loan amount outstanding.

Under a revolving credit agreement, WBFI may borrow, through August 31, 1981, a maximum of $25,000,000. The unsecured notes shall bear interest on the unpaid balance equal to the corporate base rate of interest of a Chicago bank until maturity, at which time an additional rate of 2% shall be charged. The Company has agreed to maintain compensating balances of 10% of the unused commitment and an additional 5% on amounts borrowed under the agreement. WBFI is also required to pay a fee of 1/2 of 1% on the unused commitment.

Aggregate maturities of long-term debt during the five-year period November 30, 1980, through November 30, 1984 are $2,625,000, $2,625,000, $2,625,000, $8,875,000, and $8,875,000, respectively.

4. Contingent Liabilities

As at November 30, 1979, WBFI has guaranteed $11,382,000 of debt obligations of an unconsolidated foreign finance subsidiary of WBCI and $1,096,000 for debt obligations of a consolidated subsidiary of WBCI.

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 17, 1980 accompanying the consolidated financial statements of The Scott & Fetzer Company and subsidiaries included in the Annual Report, Form 10-K (SEC File No. 1-231) 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 25, 1980

END