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

SCOTT & FETZER CO | **10-K**

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CARD 1 | DISCLOSURE INC WASHINGTON D. C. 20016 | FOR 11/30/80

Quick Reference Chart to Contents of SEC Filings

REPORT CONTENTS	10-K	19-K 20-F	10-Q	8-K	10-C	6-K	Proxy Statement	Prospectus	Registration Statements '34 Act F-10	Registration Statements '34 Act 8-A 8-B	Registration Statements '33 Act "S" Type	ARS	Listing Application	N-1R	N-1Q
Auditor															
☐ Name	A	A	■				■	A	A		A	A	■	A	
☐ Opinion	A	A	■						A			A		A	
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Compensation Plans															
☐ Equity	■		■				F	F	A		F		■	■	
☐ Monetary	■		■					F	A		F		■		
Company Information															
☐ Nature of Business	A	A				F		A	A		A	■	■		
☐ History	F	A						A			A	■	■		
☐ Organization and Change	F	F		A	■	F	■	A		F	A	■			
Debt Structure	A					F	■	A	A		A	A		A	
Depreciation & Other Schedules	A	A				F		A	A		A				
Dilution Factors	A	A		F		F		A	A		A	A			
Directors, Officers, Insiders															
☐ Identification	F	A				F	A	A	A		A	F			
☐ Background	■	A				F	F	A	■		A	■			
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☐ Annual Audited	A	A							A			A		A	
☐ Interim Audited		A					■	■			■				
☐ Interim Unaudited	■		A	■		F		F			F				
Foreign Operations	A						■	A	A		A	■	F		
Labor Contracts		■		■			■		F		F				
Legal Agreements	F	■		■					F		F				
Legal Counsel				■				A			A		■		
Loan Agreements	F		F	■			■		F		F			■	
Plants and Properties	A	F		■				F	A		F	■			
Portfolio Operations															
☐ Content (Listing of Securities)															A
☐ Management														A	
Product-Line Breakout	A							A			A	■			
Securities Structure	A	A			■			A	A		A				
Subsidiaries	A	A					■	A	A		A	■	■		
Underwriting				■				A	A		A				
Unregistered Securities	■			■			■	F			F				
Block Movements	■			F			■		A				■		

Legend **A** – always included - included - if occured or significant **F** – frequently included ■ special circumstances only

TENDER OFFER/ACQUISITION REPORTS	13D	13 G	14D-1	14D-9	13E-3	13E-4
Name of Issuer (Subject Company)	A	A	A	A	A	A
Filing Person (or Company)	A	A	A	A	A	A
Amount of Shares Owned	A	A				
Percent of Class Outstanding	A	A				
Financial Statements of Bidders			F		F	F
Purpose of Tender Offer			A	A	A	A
Source and Amount of Funds	A		A		A	
Identity and Background Information			A	A	A	
Persons Retained Employed or to be Compensated			A	A	A	A
Exhibits	F		F	F	F	F

5161 River Road ☐ Washington, D.C. 20016 ☐ 301/951-1300

S155900

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

75

For the fiscal year ended
November 30, 1980

Commission File Number 1-231

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

Securites 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, 1980
Common Shares Without Par Value ($1.25 stated value)	7,390,053

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

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69 Total Pages

PART I

Except as otherwise stated, the information in this report is as of November 30, 1980, 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 and Accessories, and Energy & Control, segments. 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 net sales and other revenue, income before taxes and identifiable assets attributable to each business segment is set forth in the tables on pages 26 and 27 of the 1980 Annual Report to shareholders of Scott & Fetzer, which tables are incorporated herein by reference. Such figures and related information 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, 1980, 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 10,000 independent dealers worldwide, backed by some 1,000 factory and area distributors. Kirby's sales to distributors are substantially all for cash. During fiscal 1980, the Company began financing consumer installment accounts receivables through United Retail Finance Company, a wholly-owned subsidiary of World Book Finance, Inc. At November 30, 1980, the face amount of these receivables totaled approximately $2 million. In fiscal 1980, 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%, 17%, 12% and 13% of total revenues from continuing operations of Scott & Fetzer for each of the fiscal years 1976 through 1980 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 68,000 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 Caribbean installment accounts receivable are financed by World Book through its wholly-owned subsidiary, World Book Finance, Inc. At November 30, 1980, the face amount of these receivables totaled approximately $112 million.

In 1980, 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, 1979 and 1980, sales of World Book products under the World Book and other names accounted for approximately 13%, 37% and 42%, respectively, of total revenues 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 1976 through 1980 sales of complete spraying units and components accounted for approximately 18%, 19%, 20%, 13% and 12%, 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

There were no material acquisitions or dispositions made by the Company during fiscal 1980.

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 been no 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 1980 and 1979 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, 1981, Scott & Fetzer employed in continuing operations approximately 16,191 persons, of whom approximately 12,103 were salaried and approximately 4,088 were hourly. Approximately 1,860 of the hourly employees in 14 of Scott & Fetzer's 48 facilities are represented by labor organizations. Scott & Fetzer has enjoyed generally good relations with its employees. Approximately 354 employees are covered by 4 labor contracts which are scheduled for renegotiation during fiscal 1981.

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 30 of the 1980 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

The Summary of Operations on page 20 of the 1980 Annual Report to Shareholders is incorporated herein by reference.

ITEM 3. Properties

Scott & Fetzer's various continuing operations are conducted in 48 facilities in 39 locations in 14 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 29 of the 1980 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.	The Kirby Sales Company, Inc.	Ohio	100%
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%
C.	United Retail Finance Company	Delaware	100%

A. Included in the Consolidated Financial Statements contained in the 1980 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-11 through F-17 of this report.

C. Consolidated subsidiary of World Book Finance, Inc.

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, 1979		7,364,153
Issuance of shares upon exercise of outstanding stock options	25,900	
Outstanding at November 30, 1980		7,390,053

(b) Increase in amount of outstanding indebtedness.

Inapplicable.

ITEM 7. Changes 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, 1980.

Title of Class	Number of Record Holders
Common shares without par value (Stated value of $1.25 per share.)	7,937

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, 1981 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	55	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	50	Executive Vice President-Administration & 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 & Finance.		
Kenneth D. Hughes	59	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	44	Group Vice President
Kearney K. Kier has been employed by Scott & Fetzer		

for the past four years in such capacities as Division President and Group Vice President. In 1975 and until his employment with Scott & Fetzer, he was an Executive Vice President with a consumer oriented private corporation.

Walter A. Rajki	55	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	56	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	44	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	50	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, 1980 together with the Accountants' Report relating thereto are set forth on pages 20 through 34 of the 1980 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 20 through 34 and only to the extent herein set forth, the 1980 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

Robert C Weber

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, 1980 and 1979 and the report thereon of Independent Certified Public Accountants, appear on pages 20 through 34 of the attached 1980 Annual Report to Stockholders which pages are incorporated in this Form 10-K Annual Report. With the exception of the aforementioned pages, the 1980 Annual Report to the 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 26, 1981 which is included on page 34 of the annual report to shareholders of The Scott & Fetzer Company for the year ended November 30, 1980. 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 26, 1981

Scott & Fetzer
1980 Annual Report

Contents

About the Cover

Although it has changed over the ages, the family has been one of civilization's few social constants since prehistoric times. Scott & Fetzer, founded in 1914, has been serving families since 1919 with products to help them learn, work, maintain households and protect themselves from nature. During the 80s, the family should become even more important in this everchanging world, and Scott & Fetzer will remain committed to improving family life with quality, dependable products.

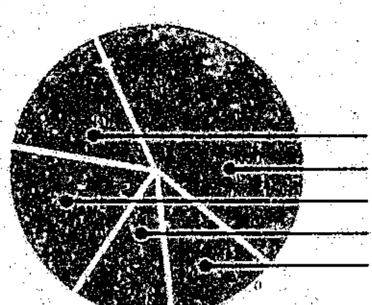
Scott & Fetzer in the 1980s

Scott & Fetzer is a diversified manufacturer and marketer of consumer products for the home and family, and industrial products, which are grouped in five segments: cleaning systems, educational & household products, fluid transmission, energy & control and equipment & accessories. Headquartered in Lakewood, Ohio, the company and its subsidiaries employ more than 16,000 people worldwide.

A decentralized management structure allows each unit to independently operate as a separate business. Marketing is accomplished through direct in-the-home selling, mass merchandiser, distributor, and mail order sales methods.

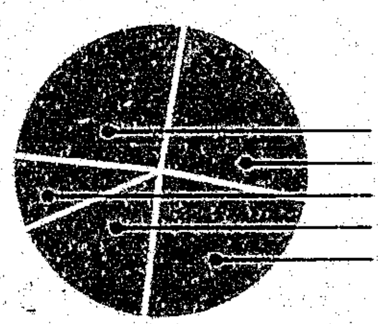
Best known among Scott & Fetzer's product lines are World Book encyclopedias; Kirby cleaning systems; Campbell-Hausfeld air compressors; and Wayne burners and water pumps.

It is significant that of the company's 17 operating units, 16 are businesses that were purchased since 1964. This acquisition program concentrated on the growing family and household markets and selected industrial product lines to insulate Scott & Fetzer's business from the cyclical hazards of any single industry.



Net Sales

14.8% Cleaning Systems
44.1% Educational & Household Products
18.4% Fluid Transmission
11.4% Equipment & Accessories
11.3% Energy & Control



Operating Earnings

27.3% Cleaning Systems
24.4% Educational & Household Products
7.9% Fluid Transmission
17.3% Equipment & Accessories
23.1% Energy & Control

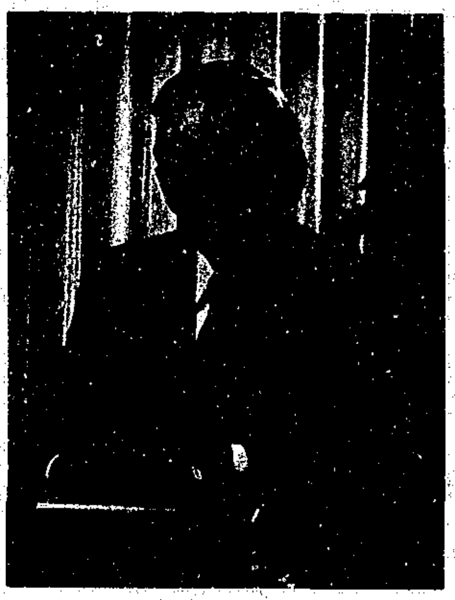
The Year at a Glance

(Dollars in Thousands Except Per Share Data)

Fiscal year ended November 30,	**1980**	1979	1978	Per Cent Change 1980 vs. 1979
Net Sales and Other Revenue	**$632,398**	$697,401	$478,222	(9)
Income Before Taxes	**37,338**	63,060	60,807	(41)
Per cent to Sales	**5.9**	9.0	12.7	
Net Income	**23,069**	34,096	30,247	(32)
Per cent to Sales	**3.6**	4.9	6.3	
Earnings Per Share	**3.12**	4.62	4.11	(32)
Dividends Per Share	**1.80**	1.70	1.50	6
Book Value Per Share	**25.04**	23.76	20.85	5
Total Assets	**394,043**	395,376	337,977	
Common Shares (000's)				
Outstanding — year end	**7,390**	7,364	7,338	
Average	**7,388**	7,373	7,354	
Per cent Return on				
Assets Employed	**10.3**	14.8	15.8	
Shareholders' Equity	**12.5**	19.5	19.8	
Number of Shareholders	**7,937**	8,119	8,439	

Common Stock Market Price and Dividend Information

	Market Price of Common Stock **1980**		1979		Dividends Per Share **1980**	1979
Fiscal Quarter	**High**	**Low**	High	Low		
First	**$24⅞**	**$22**	$27⅛	$22	**$ .45**	$ .40
Second	**23**	**17¼**	27⅝	24¼	**.45**	.40
Third	**24**	**20**	30½	25½	**.45**	.45
Fourth	**24⅞**	**21⅞**	30⅞	22	**.45**	.45
Closing price on December 31, 1980	**$23**					



Fellow Shareholders:

Even with our nervous economy during 1980, there were a significant number of accomplishments at Scott & Fetzer which will better prepare us for the operating challenges of 1981 and the remainder of this decade.

We strengthened our market positions in our largest marketplace — products for the home and family. We restructured and revitalized the pivotal distribution organizations at World Book and Kirby; introduced plans to penetrate the aftermarket for Wayne burners and pumps; and, continued our customer diversification at Campbell-Hausfeld. A summary covering these and other activities undertaken in 1980 to strengthen the operating capability of the company follows:

A. Continued to prune product lines which failed to meet our minimum expectations of earnings growth or rate of return. We sold the home antenna and recreational vehicle bumper product lines and began to position ourselves in other product lines to be able to make dispositions in a future, more favorable economic climate.

B. Continued to consolidate and transfer manufacturing facilities to our most efficient plants. We completed the move of part of the France division to Tennessee including the headquarters staff; we transferred the contract plastic molding operations to Tennessee; we consolidated the Kirby assembly operations in its Texas plant; we established a Kirby Engineering and Development Center; we transferred the Cleveland plant operations of Stahl to Valdosta, Georgia and prepared to move the headquarters staff from Cleveland to Wooster, Ohio; we completed the transfer of a sizeable portion of the Campbell-Hausfeld manufacturing operations at Harrison, Ohio to Kentucky; we transferred part of the manufacturing operations of Valley Industries to its Kentucky plant; we transferred some manufacturing operations within the Douglas division to more efficient plants; and, we acquired a building adjacent to the Adalet division to consolidate its electronics operations.

C. Continued to take a series of actions designed to preserve the Kirby distribution system of direct in-home sales and demonstrations. Although the positive impact of these changes was blunted by the reduced availability of consumer financing, we know that the successful distributors wholeheartedly endorse our actions.

D. Began the first financing of Kirby consumer finance paper through United Retail Finance Company, which is a subsidiary of World Book Finance Company. We believe the development of an in-house financing arm for Kirby is the next most essential step to be taken to improve the Kirby operation. We plan to continue this expansion during 1981 and beyond.

Our success in the consumer marketplace is influenced by several important factors: the attitude of the consumer toward purchasing postponable products; the availability of satisfactory financing; and, how positive the attitude is of the sales force. The maintenance in unit volume at World Book versus the decline in unit volume at Kirby is, in our judgment, primarily attributable to the absence of adequate financing at Kirby.

During 1980, we incurred approximately $250,000 in start-up costs for the United Retail Finance Company. It is estimated that we will expend an additional $2 million for start up costs in 1981 before we have a financially successful consumer finance company for Kirby.

We believe that availability of satisfactory financing will become a more critical variable in consumer product sales and commercial and industrial sales, particularly products sold through distributors or wholesalers. In order to sell to many types of users, manufacturers may be faced increasingly with supplementing or replacing inadequate or unavailable financing sources. We are giving greater attention to this problem and the bearing it may have on future sales trends.

E. Strengthened other distributor organizations in divisions such as American-Lincoln by weeding out those less efficient and replacing them with distributors who have a successful track record.

F. Took dramatic action in the Japanese and Australian operations of World Book to stop the losses. In Japan, these actions included closing 25 of the 30 sales offices, redirecting the sales force, and the addition of an experienced Vice

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President of Pacific Operations, Mr. Nicholas Ingleton. Mr. Ingleton brings to World Book not only proven administrative ability but also a long-standing association with sales activities of other direct selling companies. Our before tax losses in Japan were in excess of $3 million in 1980.

G. Closed the French operations of World Book on which we had before tax losses of approximately $2 million in 1980.

H. Reduced total corporate accounts receivable by $16.4 million and total corporate inventories by $20.4 million during the year. Our balance sheet is in the best condition I have seen in several years.

I. Showed a modest gain over 1979 in domestic unit volume of World Book Encyclopedia sales. In view of the general consumer economy, this was a significant accomplishment.

J. Began our first market test with Bertelsmann AG to determine the feasibility of a direct sale book club in the United States. Bertelsmann successfully operates direct sale book clubs in 23 countries and is our joint venture partner in introducing this concept to the American market. We expended about $300,000 on this project in 1980 and could expend an additional $1.5 million in 1981 if our test programs prove encouraging.

The net effect of most of these actions was to reduce operating earnings for the year 1980. During normal economic cycles, costs of this kind can be offset by other operations. But because of the number of such changes occurring in 1980 and the adverse impact of the declining economy on the balance of our business, total earnings declined for the first time since 1974.

In addition to the lower operating earnings from normal operations, we established special provisions in 1980 to recognize some nonrecurring operating losses. The more important of these items included converting to LIFO (Last-In First-Out) most of our remaining FIFO (First-In First-Out) inventories, recognition of potential bad debt losses at certain international operations, and provision for some closing costs which were initiated in 1980 but which will not physically happen until 1981. These items are covered in more detail in the Financial Review included in this report.

While the primary emphasis of Scott & Fetzer has been directed to products for the home and family, this does not diminish the importance of our commercial and industrial product sales. In fact, some of the best financial results in 1980 were accomplished in our Energy & Control business segment and part of our Equipment & Accessories segment. Our Adalet division was our award winner for the year with record earnings.

The France division suffered a substantial decline in income primarily due to the relocation of its principal manufacturing facilities and headquarters to Tennessee, but these losses are now essentially behind us and the France division is forecasting significant earnings improvement for 1981.

Organization Changes.

There were several key promotions and organizational changes which will have significant future impact on the organizations involved:

George Carriker was appointed President of the Kirby Group. George's principal business experience had been in the appliance business with special emphasis in the sales and marketing functions as well as general management.

William Dotterweich was promoted to President of Wayne Home Equipment division, succeeding Norbert Berghoff, the prior President and founder of the company. Bill was formerly President of the Valley Industries division.

Stanley Hopper was promoted to President of Valley Industries, succeeding William Dotterweich. Stan was formerly Senior Vice President of the division.

Robert King was appointed Chairman of the Board of World Book with responsibility for the entire operation. Bob has had extensive experience in all phases of the direct selling business.

William Melley was appointed President of the France division to succeed Thomas Patterson. Bill's prior experience was in the electrical and electronics industry with a background in manufacturing and marketing.

Richard Ostroski was appointed President of the Klevac division. Dick brings to Klevac a broad background of marketing and technical expertise.

Thomas Patterson was promoted to President of the Campbell-Hausfeld division. Tom was formerly President of the France division.

Director Changes.

Niles Hammink will retire as a director of Scott & Fetzer in March, 1981. Niles has served as a director of Scott & Fetzer since 1964. In addition, he was an employee for over 30 years and retired as Chairman and Chief Executive Officer in 1976.

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I would like to pay a personal tribute to my mentor and my associate. I am deeply indebted to Niles for the assistance and encouragement he has given me during my six years with Scott & Fetzer. Niles was a principal architect of Scott & Fetzer and made countless contributions to the financial success of this company.

All of Niles' friends and associates at Scott & Fetzer wish him success in his new ventures.

Walter Rajki, Senior Vice President of Scott & Fetzer, has been nominated to succeed Niles Hammink at the March, 1981 shareholders' meeting. Walter has spent most of his working career with Scott & Fetzer, beginning with a position at the Adalet division in 1953. He was elected a Group Vice President in 1972 and Senior Vice President in 1978 with primary responsibility for the Energy & Control segment of Scott & Fetzer.

Thomas Smith was the "oldest" outside director of Scott & Fetzer, having served from 1970 to 1980. Tom elected to retire at the end of fiscal 1980 so that he could devote more time to other outside business interests.

Tom was our strongest proponent of direct selling and had a significant knowledge of the industry, both at Scott & Fetzer and through other director associations. His contributions to Scott & Fetzer will be recognized for a long time. I personally will miss Tom because of his availability at any time to offer counsel and suggestions on problems we were discussing within the company.

Tom's friends at Scott & Fetzer extend to him their continuing best wishes for his future success.

Robert Bjork has been appointed by the Board of Directors to fill the unexpired term of Thomas Smith. Mr. Bjork is a partner of Tallasi Management Company, a firm specializing in the investment of pension and other corporate funds. In his prior association, Mr. Bjork was president of Mackay-Shields Economics. He began his career as a lawyer and from 1956 to 1958 was Assistant Prosecuting Attorney for the State of New York.

We welcome Bob as a director of our company.

Dividends.

For the year, dividend payments per share totalled $1.80 compared with $1.70 in 1979. The 1980 payout amounted to almost 58% of Scott & Fetzer's total earnings per share. While this percentage exceeds our established long term policy on dividends paid relative to earnings, we believe the current payout is consistent with the longer range earnings potential of the company, and our policy is valid.

Capital Expenditures.

New facilities and equipment expenditures for 1980 were $14.7 million, well below the record $26.4 million expended the prior year. During 1979, we completed four major new plant projects which accounted for the above-normal level of expenditures. During 1980, most of the capital spending was for equipment additions or replacements. For the current year, we expect that our expenditures will be in the $12-$15 million range.

Outlook For 1981.

1981 is being ushered in with some widely disparate views between economists and businessmen on the likelihood of a sharp recession in early 1981. Various economic indicators predict a sharp downturn, but businessmen in general are responding as though the recession was virtually completed.

From this early vantage point, we view 1981 with more optimism than we did 1980 at this same time one year ago. It is not so much that the economy will be appreciably better, at least in the first half of the year, but our ability to deal with a lethargic economy has improved.

Politically, an eager new administration has taken over Washington, but probably can do little more than inspire confidence that in the long run the people can once again gain some degree of control over an uncontrolled bureaucracy; however, I foresee few tangible economic results in the short run.

The American public has accepted the fact that chronic inflation and the attendant high cost of less available money will be a part of life for a period far into the future. There is mounting evidence that American consumers have also reluctantly accepted the fact that interest rates of 14% or more are a reality of life and have demonstrated flexibility to live with this fact which is quite different from a year ago.

The start of this economic contraction was first felt by Scott & Fetzer during the last half of 1979 with continued erosion in 1980. We are more optimistic not because we believe 1981 will restore the growth rates of the pre-1979 years, but because we are in a better position to operate in the economic climate which has existed for more than 18 months.

Improvements such as new Kirby financing, product line divestitures, and plant relocations that will give us better control over costs should result in improved operating margins. More importantly, we are in a position to move forward in the years ahead with renewed dedication to our principal goal, namely, increasing the real value of our company.

The underlying economic strength of America has been and will continue to be the consumer. We will continue to concentrate our efforts on providing products of value to better serve the home and family and in the process make Scott & Fetzer an asset which will grow in value.

Ralph Schey

RALPH SCHEY
President and
Chief Executive Officer
February 12, 1981

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Our Perception of the 80s

The decade of the 80s will be a challenge for survival for many businesses. Even those whose future seems secure today could find that sudden converging, unanticipated events — wars, shortages, competition, etc. — could force a significant change in planned directions.

In the last 30 years, one of the most important and yet most disconcerting developments has been the emergence of a business economy in which the risk of failure for both the individual and the organization has increased substantially.

In the 1950s and early 1960s business grew rapidly, and in some instances inefficiency and neglect were offset by annual unit volume increases. Simply being bigger was almost automatically better. In many ways, however, business was more efficient during that period. For example, there was more resistance to price increases in all segments of business. It was a general rule that if you gave wage and salary increases, it was your responsibility to recover those increases through improved productivity — not through price increases to the purchaser.

Over the years, our educational systems produced fewer and less qualified people in some areas of technology which has caused us to seriously lag behind our foreign competitors. In the long term, this is the most serious impediment in our country to increased productivity and product innovation. Perhaps we were lulled into a state of complacency by the businessmen of the world who flocked to our doorsteps and humbly asked us to share our technology and our capital. In a period of less than 20 years, the students often became the teachers.

The primary objective of any organization should be survival. We expect to continue to be one of the Fortune 1000 companies in the year 2000, not as a marginal survivor but as a financially healthy organization. We want to continue to provide significant opportunities for all employees and to offer superior, unique products and services for the home and family in a way that demonstrates a human, concerned, personal relationship between the customer and the salesperson.

Scott & Fetzer was built upon a foundation of offering high value products for use in the home and by the family. Over the years, we have been most successful where the association of home and family has been an integral part of both the selling and buying process. Our direct selling organizations are built upon the principle of participation by the family in the business enterprise. Our most successful organizations combine the talents of husband, wife and sometimes children who work together toward a common goal. The selling organization in turn has been dedicated to bring to the family products that:

1. Make family living easier and more enjoyable through work saving equipment and supplies that take the drudgery out of many undesirable but necessary tasks in the home.
2. Improve and enrich the quality of family life by providing education, entertainment, and various kinds of information.
3. Provide family members the tools that permit household and leisure tasks to be performed in the professional manner.
4. Save money for the family and fight inflation with cost saving products.
5. Provide lasting utility and value.

The five principal product lines of Scott & Fetzer do all of these things. These five product lines — Cleaning Systems, Educational Products, Air Compressors, Pumps, Heating Systems — provide almost 65% of the dollar revenue at Scott & Fetzer. Including these major product lines, more than 75% of the total revenues of Scott & Fetzer are derived from products for the home and family.

The 1980s will see some sweeping changes in conventional retailing. Some estimates indicate that more than 50% of the products sold in 1990 will be through nonretail store outlets. Direct mail and other direct selling methods have been emerging as very effective means of reaching the customer. Electronic communications will bring the consumer in the home and the supplier/distributor more directly together. New merchandising methods and distribution systems will evolve rapidly from the present embryonic laboratory systems.

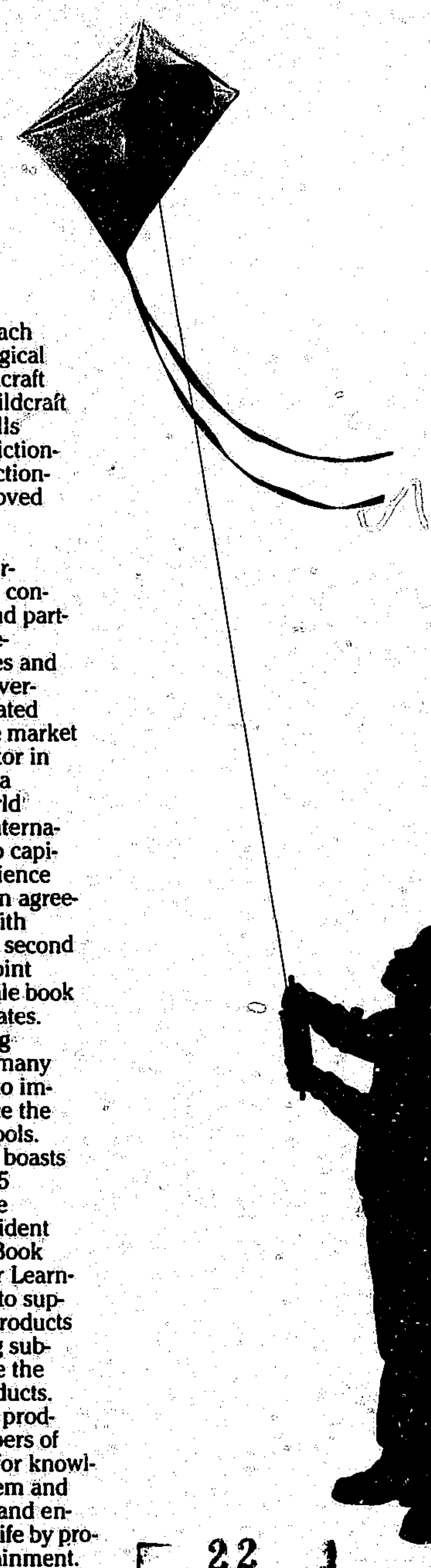
Electronics packages consisting of home computers and home audio/visual systems will be integrated into personalized selling programs that will be presented to consumers in their living room. Various forces will be causing these changes. A few of these are: the cost of gasoline, pilferage at the retail sales level, the inability to obtain retail sales personnel, and more families with all members working.

We will utilize all of our resources to be a highly visible part of these changes. Where we lack the necessary technical or marketing skills, we will supplement our deficiencies through joint venture arrangements, licensing, or outright purchases. In some cases, foreign companies have superior technical or marketing skills, and we are endeavoring to reverse the process of the 50s where technical and marketing knowledge flowed out of America. We are diligently searching for alliances with foreign companies that possess desired know-how so that we can shorten the time span to bring innovative products to existing or new market places for our company.

Because we expect the American economy to be primarily oriented to the consumer through the decade of the 80s, we plan to expend a significant part of our time and resources in cultivating products for the home and family. Never before have we had the challenges, the opportunities or the potential rewards that will be part of the decade of the 80s.

We appreciate your confidence in us to lead the company in this exciting period.

Scott & Fetzer educational products — —
helping family members of all ages satisfy their hunger for knowledge of the world around them.



From the moment an infant opens its wide eyes, it knows the meaning of hunger and thirst. But physical hunger and thirst are not our only instinctive needs. Throughout our lives we are also driven by a deeper, less tangible hunger — the hunger to know more about the world around us.

World Book-Childcraft International, Inc., Scott & Fetzer's largest unit, has been helping to satisfy the thirst for knowledge of millions of people since 1917 with an assortment of educational and learning products for homes, schools and libraries.

The foundation of its product line is the 22-volume World Book Encyclopedia, which accounts for nearly 60 percent of the direct selling encyclopedia market. World Book's 13,000 pages contain the works of over 3,000 contributors on topics as simple as building a kite and as complicated as nuclear physics. Each article is written clearly and simply, so that everyone in the household, whether it's a child of seven or a person 67, can find the answer to almost any question. To ensure that World Book keeps up with the fast-changing world, some 1,650 articles were added or revised in the 1980 edition, as well as many of the set's 29,000 maps and illustrations.

Pre-school and primary school children are offered a 15-volume Childcraft resource library, a unique reference series designed to satisfy the special curiosity of children while introducing them to the fascinating world of reading. Even greater success is expected with the Childcraft series in the future as more and more families assume greater responsibility for the education of their children.

In addition to the reference series, the company publishes the annual World Book Year Book as an update to the World Book encyclopedia, Science Year, which details each year's scientific and technological developments, and the Childcraft Annual, an add-on to the Childcraft library. The company also sells World Book and Childcraft dictionaries, a 4-volume medical dictionary and the 2-volume Best Loved Bible Stories for children.

The key to World Book-Childcraft's success is an international direct sales network consisting of some 68,000 full and part-time independent sales representatives in the United States and 8,500 sales representatives overseas. Not only has this dedicated sales force captured twice the market share of the nearest competitor in the door-to-door encyclopedia market, it has expanded World Book's reputation in many international markets. In an effort to capitalize on World Book's experience and success in direct sales, an agreement was reached in 1980 with Bertelsmann AG, the world's second largest publisher, to form a joint venture to enter the direct sale book club market in the United States.

In addition to its publishing business, World Book offers many other products and services to improve family life and enhance the education of children in schools. The direct mail organization boasts a customer list totaling over 5 million people; the insurance business sells mail order accident and life insurance to World Book customers; the Cyclo-Teacher Learning Aid is a learning system to supplement other World Book products in schools; and the financing subsidiary helps families finance the purchase of World Book products.

Scott & Fetzer educational products — helping family members of all ages satisfy their hunger for knowledge of the world around them and at the same time improving and enriching the quality of family life by providing education and entertainment.

Scott & Fetzer cleaning systems — —
making family life easier with work saving equipment and supplies.

"I'm mighty proud of the Kirby, not because it is named for me so much as for the fact that it does revolutionize home cleaning methods, doing it more thoroughly, completely and easily than has been possible in the past."

James B. Kirby (1885-1971)

When James B. Kirby first set out early in the century to invent a replacement for the straw broom and rug beater, his primary motivation was to eliminate some of the drudgery of home care. And when, in 1919, Scott & Fetzer began marketing Mr. Kirby's first vacuum, the non-electric Vacuette, the prodigous high-school dropout accomplished his goal in good form — the Vacuette found its way into some 2 million American homes.

But by the 1930s, when the first vacuum bearing James B. Kirby's name went on the market, the Midwestern inventor had done far more than revolutionize home floor care. He had improved the quality of life for millions of American families with a complete home cleaning system.

Today the Kirby Company, spearhead of Scott & Fetzer's cleaning systems business, still markets the most complete and versatile home cleaning and maintenance system in the world. A major contributor to corporate earnings, Kirby is one of the company's largest operating units.

With manufacturing operations at plants in Cleveland, Ohio, and Andrews, Texas, the Kirby cleaning system is far more than a vacuum cleaner. It is a complete home sanitation system that can be used as a canister, upright or hand vacuum. Additional attachments convert the Kirby into a carpet shampooer, a sander, a car polisher, a floor waxer, an insecticide sprayer and much more. Scott & Fetzer also backs Kirby products with a consumer satisfaction plan which includes a rebuild commitment and a fire loss replacement plan.

So unique is the Kirby vacuum system that it has fostered a successful direct sales program which features in-home demonstrations. Some 700 independent distributors provide the foundation for the marketing program and are responsible for training and coordinating a network of area distributors and about 10,000 independent sales representatives worldwide. Independent distributors, located throughout the United States, Canada, Europe, Japan and other parts of the world, purchase products from Scott & Fetzer on a cash basis, maintain service capabilities and parts inventories and arrange financing for about 75 percent of Kirby sales.

The quality of Kirby products is evidenced by its marketing success: historically, approximately 25 percent of customer in-home demonstrations result in sales.

The recently opened Kirby Technical Center in Westlake, Ohio, should ensure that Kirby products will maintain their engineering excellence far into the future.

Direct sales of home cleaning systems is only one area of Scott & Fetzer's cleaning systems business. The company further serves the home and family with Douglas vacuum cleaners, sold through retail outlets and direct mail. The Klevac division manufactures vacuum cleaner original equipment and replacement parts plus a wide variety of cleaning compounds used in the home. Industrial and commercial markets are served by the American-Lincoln line of power-driven industrial and floor maintenance equipment.

Scott & Fetzer cleaning systems — improving the quality of life since 1919.

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Scott & Fetzer compressor systems — —
equipment and tools that permit household and leisure tasks to be performed in a professional manner.

The Campbell-Hausfeld operation is a major manufacturer of compressors and component parts and compressor systems which pump, squeeze, release, regulate and control the energy in fluids and air to help people help themselves.

Campbell-Hausfeld is the world's largest producer of compressor systems, manufacturing an estimated 35 percent of the single-stage compressor market requirements. Sold by mass merchandisers under private labels and by retailers under the Campbell-Hausfeld brand name, Scott & Fetzer's primary target for compressor system sales is the multi-billion-dollar, do-it-yourself market, a market which is expanding at about a 15 percent annual rate. Campbell-Hausfeld manufactures the most complete line of compressor systems available to help everyone from the basement tinkerer to the working farmer perform difficult tasks with professional ease and results — and at less than professional costs.

Spray painting is a primary use for compressors by the do-it-yourselfer. To accommodate the needs of every customer, Campbell-Hausfeld provides a variety of compressors and spray painting accessories for painting almost anything — delicate ironwork, cars, fences, lawn furniture and even entire houses.

But painting is only one of countless uses for Campbell-Hausfeld compressor systems. A compressor can also be used to inflate a tire, caulk a window, unstop a clogged drain, sandblast rusted metal, spray a garden with insecticide, lubricate a car, and as many other uses as an owner can imagine.

In addition, a wide array of innovative attachments are manufactured to greatly expand the potential for air power in the home. The modern homeowner can safely achieve professional results with a host of power tools, ranging from chisels to drills, from staple guns to nailers, from impact wrenches to tire chucks. The do-it-yourself person can perform as a professional, not as an amateur, when a Campbell-Hausfeld work center is available.

Campbell-Hausfeld also manufactures a complete line of higher pressure, two-stage compressors, ranging from 3 to 30 horsepower, for commercial and industrial applications. Since entering the two-stage market in the early 1970s, Campbell-Hausfeld has captured about 18 percent of industry sales.

Besides being the world's largest manufacturer of compressor systems, Scott & Fetzer is the most fully integrated. The company manufactures most major components of its compressors, as well as components for other manufacturers. In addition, production of single-stage compressors has been centralized at the Harrison, Ohio, plant. Two-stage compressors are produced at the new Leitchfield, Kentucky, plant. Integrated manufacturing and production facilities help cut production costs and delivery time for orders, as well as dependence on outside vendors.

Scott & Fetzer compressor systems — helping families perform useful and necessary work to save time and money.

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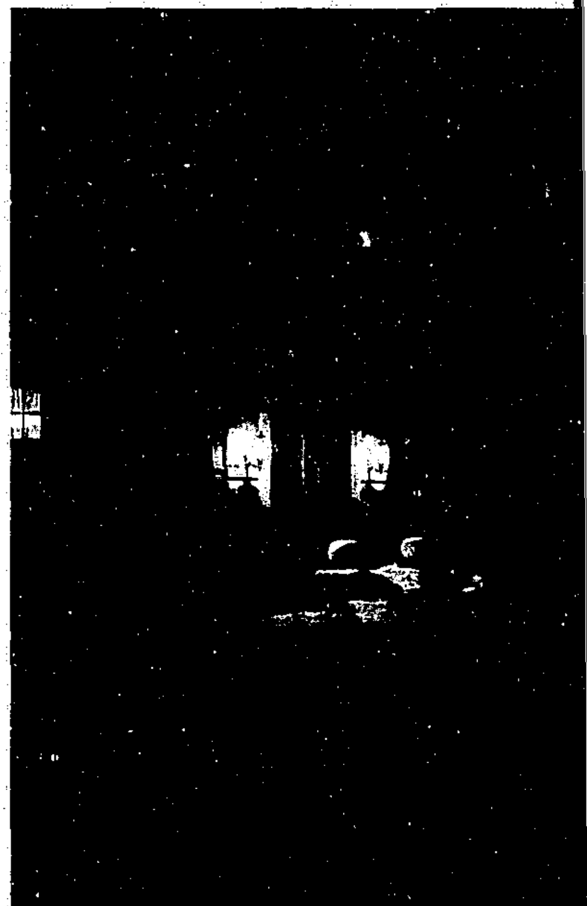
Scott & Fetzer burners and water pumps — — dependable products protecting households from the forces of nature.



Since pioneer families first fought the elements on their way west, Americans have made great strides in controlling their home environments and protecting themselves from the harsh forces of nature.

In fact, we have been so successful adapting to our environment that families often take for granted the systems which heat their homes and supply water for their daily use. One of the elements that makes those systems dependable is Scott & Fetzer's Wayne Home Equipment line of oil and gas burners and water pumps.

Long established as a maker of quality oil burners for the original equipment market, Wayne has recently become a factor in the burner replacement market as well, with new sales efforts aimed at furnace repairmen and installers. In addition, Wayne began producing power gas burners in 1979 and has enjoyed growing success in the gas burner market because of government efforts to push natural gas as a source of home heating and because of Wayne's innovative product developments.

Perhaps the most important development in Wayne burner technology was the recent introduction of the off-cycle heating system damper to replace traditional stack dampers. Designed to improve heating efficiency by preventing heat from escaping up the chimney when the furnace burner is off, the off-cycle damper poses no risk of malfunction and thus filling a house or building with dangerous fumes.

Wayne is also one of the country's major manufacturers of home sump pumps. It makes water pumps for home wells and circulation, as well as for sprinkler and irrigation systems. Wayne also makes a complete line of waste disposal pumps to handle everything from emptying a laundry tub to protecting a basement from flooding.

Wayne pumps are sold through dealers to home builders and installers. In an effort to reach the growing do-it-yourself market, Wayne pioneered the retail sale of water pumps through hardware outlets and mass merchandisers.

This mix of replacement and original equipment sales gives Wayne increased stability with a market that follows the cycle of the weather as much as traditional business cycles.

The primary marketing concern in the near future is to increase sales of pumps for well supply and plumbing installations by professional plumbers. Wayne is already targeting this market with stepped-up engineering efforts and the planned introduction of new, heavier duty pumps to supplement its existing product line.

Scott & Fetzer burners and water pumps — dependable products protecting households from the forces of nature and conserving two of our most valuable natural resources — energy and water.

Operating Units

Segment	Year	Net Sales	Income Before Taxes	Operating Units	Address
Educational & Household Products	1980	$279,180	$12,465	*Western Enterprises Division	33672 Pin Oak Parkway, Avon Lake, Ohio 44012
	1979	279,299	20,762	*Powerwinch/Ja-Son Division	217 Long Hill Cross Road, Shelton, Connecticut 06484
	1978	84,645	2,479	Streamway Division	875 Bassett Road, Westlake, Ohio 44145
	1977	22,442	781	World Book-Childcraft Int'l, Inc. *(a subsidiary)*	Merchandise Mart Plaza, Chicago, Illinois 60654
	1976	20,764	2,136		
Cleaning Systems	1980	$ 94,824	$13,946	American-Lincoln Division	1100 Haskins Road, Bowling Green, Ohio 43402
	1979	105,437	18,346	Kirby Group	1920 West 114th Street, Cleveland, Ohio 44102
	1978	99,944	21,763	Klevac Division	2021 Midway Drive, Twinsburg, Ohio 44087
	1977	100,309	24,150	*Western Enterprises Division	33672 Pin Oak Parkway, Avon Lake, Ohio 44012
	1976	86,269	19,233		
Fluid Transmission	1980	$116,428	$ 4,016	Campbell-Hausfeld Division	Production Drive, Harrison, Ohio 45030
	1979	145,673	11,233	Wayne Home Equipment Division	801 Glasgow Avenue, Fort Wayne, Indiana 46803
	1978	140,949	17,490	*Western Enterprises Division	33672 Pin Oak Parkway, Avon Lake, Ohio 44012
	1977	95,881	12,665		
	1976	82,849	4,569		
Energy & Control	1980	$ 79,390	$11,802	Adalet Division	4801 West 150th Street, Cleveland, Ohio 44135
	1979	85,186	14,046	France Division	726 Fairview Boulevard, West Fairview, Tennessee 37062
	1978	74,718	13,844	Halex Division	23901 Aurora Road, Bedford Heights, Ohio 44146
	1977	65,601	12,890	Northland Division	968 Bradley Street, Watertown, New York 13601
	1976	58,382	12,333		
Equipment & Accessories	1980	$ 73,259	$ 8,836	Carefree of Colorado Division	2760 Industrial Lane, Broomfield, Colorado 80020
	1979	98,295	12,997	Douglas Division	141 Railroad Street, Bronson, Michigan 49028
	1978	91,413	14,186	*Powerwinch/Ja-Son Division	217 Long Hill Cross Road, Shelton, Connecticut 06484
	1977	77,761	11,137	Stahl Division	4750 West 160th Street, Cleveland, Ohio 44135
	1976	64,620	9,330	Valley Industries Division	1313 S. Stockton Street, Lodi, California 95240

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*Under more than one business segment

Telephone	Division President	Products
216/871-2160	R. P. Drickhamer	— Plastic containers for a host of commercial and consumer products such as ice cream, pickles, other food products, and ready-mix cement.
203/929-5371	T. F. Kiley	— A full line of cutlery, hand scissors, shears and trimmers for home, school, office and shop use.
216/871-7870	J. DiGiacomo	— Complete line of water system fixtures including faucets, valves, and shower heads for the do-it-yourself, motor home and recreational markets.
312/245-3456	R. H. King, *Chairman & CEO*	— Encyclopedias, reference texts, educational and other instructional materials for the home, schools and libraries.
419/352-7511	D. Mitchell	— Power-driven sweepers, scrubbers, polishers, and other equipment for cleaning industrial and commercial facilities.
216/228-2400	G. M. Carriker	— Vacuum cleaners and other floor maintenance equipment for residential, industrial and institutional use.
216/425-3371	R. J. Ostroski	— Vacuum cleaners for the home and limited-space applications; vacuum cleaner replacement parts and accessories; cleaning chemicals.
216/871-2160	R. P. Drickhamer	— Injection-molded plastic parts and other items.
513/367-4811	T. A. Patterson	— Complete line of air compressors and accessories and spraying units for paint and other liquids; grey and ductile iron castings; air receivers and compressed gas containers; high pressure sprayers and washers.
219/426-4000	W. E. Dotterweich	— Wide variety of power gas and oil burners; water circulating, sump and other pumps.
216/871-2160	R. P. Drickhamer	— Full line of connectors and compressed gas fittings for the transmission of welding and medical gases; gas manifold systems and pressure regulators.
216/267-9000	W. E. Helfrich	— Explosion-proof fittings; instrument housings; junction boxes; motor control and electrical distribution products; electrical temperature control systems for the petrochemical, oil refining and food industries.
615/799-0551	W. P. Melley	— Transformers and ballasts for indoor-outdoor electrical signs, electrical and electronic switches and controls; controls for home appliances.
216/439-1616	M. L. Fromson	— Die cast zinc electrical fittings; liquid-tight conduit fittings.
315/782-2350	A. J. Asalone	— Fractional horsepower motors for electrical appliances and other products and high performance vacuum motors.
800/525-3421 303/469-3324	P. M. Quatrochi	— Awnings, screen enclosures, storage pods and accessories for recreational vehicles.
517/369-2315	W. J. Smith	— Hydraulic valves and cylinders; steering columns and couplers; track links for military vehicles; parts for air ride suspension; other metal components for the truck and off-road equipment industries.
203/929-5371	T. F. Kiley	— Marine accessories; extensive line of electric and mechanical winches for marine, rural and automotive use.
216/267-0330	R. J. Lytle	— Truck bodies for utility, service, emergency and cable TV vehicles; tool boxes and other accessory products for pickup trucks, rescue vehicles and ambulances; other fabricated metal components.
209/368-8881	S. O. Hopper	— Trailer hitches, balls, and couplers; sway bars; towing accessories; fan clutches; hand winches; oil coolers and antennas for recreational vehicles.

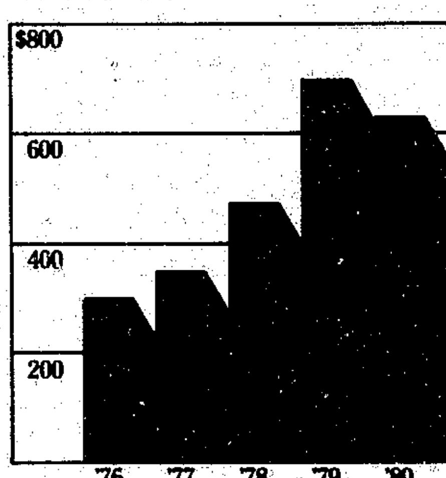
J. F. BRADLEY
Executive Vice President—
Administration and Finance

Reflecting the turbulent conditions in the U.S. economy during 1980, Scott & Fetzer's net sales and other revenue, income before taxes, net income and earnings per share declined from the record levels of the previous year. Only two of the Company's 17 operating units were able to achieve improved results over 1979.

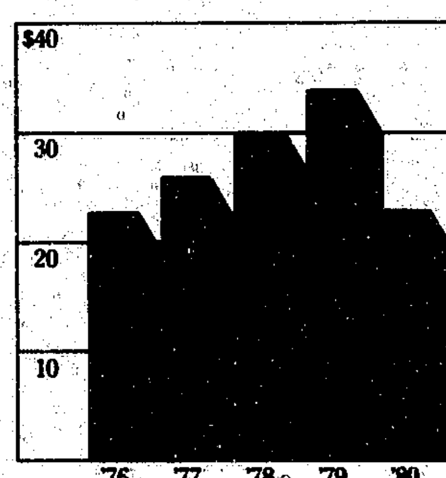
Consolidated net sales and other revenue totalled $632.4 million for the 1980 fiscal year, down 9.3% from the $697.4 million recorded in the prior year. The severe recession affected most of the markets served by Scott & Fetzer, particularly in the Fluid Transmission and Equipment & Accessories segments.

Income before taxes in 1980 decreased 40.9% to $37.3 million from the record $63.1 million earned in 1979. A number of adverse factors contributed to the decline in pre-tax earnings from operations of 22.7%, or $14.5 million. The most significant of these were the 9.3% decrease in sales and losses associated with international operating problems. In addition, during 1980 a number of special factors reduced earnings. There were two special charges to income before taxes relating to World Book's international operations, comprising (1) a provision of $4.5 million for anticipated uncollectable foreign installment receivables, and (2) a provision of $1.5 million for anticipated costs of closing down certain product lines and operations. Also, the "LIFO" method of inventory valuation was adopted for six additional operating units of the Company, resulting in an earnings reduction of $2.7 million; and the effect of exchange and translation of foreign currencies into U.S. dollars reversed from a favorable $436,000 last year to a negative $1.3 million in 1980, causing a year-to-year

Net Sales (millions)



Net Income (millions)



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change of $1.7 million.

The provision for state, local, federal and foreign income taxes during 1980 was at an effective tax rate of 38.2%, substantially below the 45.9% rate for the prior year. The lower 1980 tax rate reflected primarily (1) a special tax credit of $1.9 million for worthless stock deductions associated with the close-down of two World Book foreign operations, (2) an increase of $351,000 over the 1979 investment tax credit, and (3) an increase in the "DISC" export tax credit of $253,000.

Net income for 1980 amounted to $23.1 million, or $3.12 per share, 32.5% below the $34.1 million and $4.62 per share earned in the prior year. The net return on total assets employed declined to 10.3% from 14.8% in 1979 and the return on shareholders' equity was 12.5%, down from 19.5% in the prior year. The significant factors affecting net income and earnings per share are summarized in the table below:

	Net Income ($000's)	Earnings Per Share
1979—as reported	$34,096	$4.62
Increase (Decrease) in 1980 from:		
Operations	(7,414)	(1.01)
Special international provisions:		
Anticipated uncollectable installment receivables	(2,295)	(.31)
Product line and operations close-down costs	(765)	(.10)
Effect of placing additional inventories on "LIFO"	(1,385)	(.19)
Change in valuation of foreign currencies	(1,088)	(.15)
Income tax reductions:		
International operations worthless stock	1,916	.26
Investment tax credits	351	.05
Export "DISC" credit	253	.03
Tax rate differential on profit of installment sales deferred in 1979—not available in 1980	(683)	(.09)
Other, net	83	.01
Net change	(11,027)	(1.50)
1980—as reported	$23,069	$3.12

Business Segments. Four of the five business segments had lower sales in 1980. Volume in the Educational & Household Products segment was approximately level due to the inclusion of World Book's Canadian operations for a full year compared with only five months in 1979. Income before taxes in all segments declined from the prior year's level.

Cleaning Systems. Sales for 1980 totalled $94.8 million, 10.1% below the prior year. Income before taxes declined 24% to $13.9 million from $18.3 million earned in 1979. All operating units in this segment had lower results. The economic recession and the sharp curtailment in the availability of consumer financing were the principal factors in Kirby's reduced unit volume, sales and earnings. The American-Lincoln and Klevac divisions also had lower operating results.

During 1980, Scott & Fetzer formed United Retail Credit Company, as a subsidiary of World Book Finance, Inc., for the purpose of financing Kirby consumer installment receivables. This new financing subsidiary, while still relatively small, will accelerate its buildup in 1981 and 1982 and by 1983 should have the capability of financing a substantial portion of the Kirby distributors' consumer installment loans. The retrenchment in consumer appliance financing by the major consumer finance companies during 1979-80 has been a signifi-

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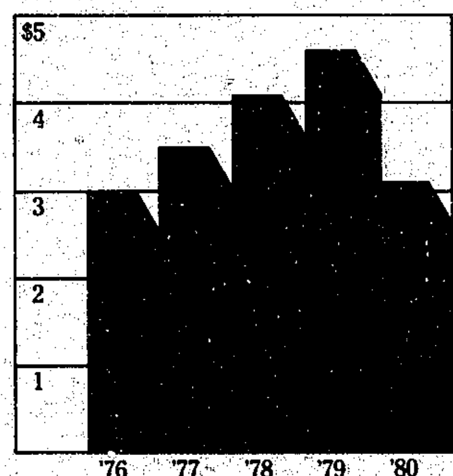
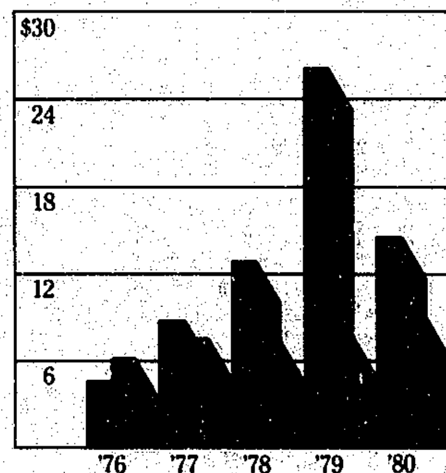
Earnings and Dividends per Share



Capital Expenditures and Depreciation (millions)



cant adverse factor to Kirby and its independent distributors. The new captive finance company will be a major contributor in minimizing these consumer financing problems in the future.

Educational & Household Products. Volume in this segment was $279.2 million, about level with 1979, and accounting for 44.1% of Scott & Fetzer's total net sales. Income before taxes declined to $12.5 million from $20.8 million last year. World Book's sales rose slightly from 1979 due to the inclusion for a full year of its Canadian operations, which were acquired in July, 1979. These additional sales were partially offset by lower volume of other international units. The Powerwinch/Ja-Son division had moderately higher sales in its scissors and cutlery product lines, while other operating units experienced lower volume. The earnings decline was largely due to World Book's international operating problems and the special provisions, noted earlier, against earnings. Domestically, World Book achieved improved sales and earnings during 1980, but encountered substantial operating problems in Australia, Japan and France. By year-end 1980, the Australian subsidiary had shown significant improvement. A major restructuring of the Japanese operations was implemented during 1980, and it is expected that substantial progress will be shown during 1981. The French operation is being phased out.

Fluid Transmission. 1980 was not a good year for the product lines in this segment with sales down 20.1% to $116.4 million from $145.7 million last year. While all operating units remained profitable, income before taxes declined to $4.0 million from $11.2 million in 1979, a decrease of 64.3%. Sales and earnings at the Wayne Home Equipment division were sharply lower, reflecting depressed economic conditions in the new housing market and a major decline in customer requirements for oil-fired furnace burners. Sales for both consumer and commercial air compressors declined, resulting in substantially lower earnings for Campbell-Hausfeld. In addition, this unit revamped production facilities during the year, incurring plant rearrangement and idle equipment and facility costs. Sales and earnings of the Western Enterprises division also were lower due to reduced demand for compressed gas fittings and equipment in the welding markets. Additionally, the inventories of both Campbell-Hausfeld and Wayne Home Equipment were switched to the LIFO inventory valuation method, contributing to the lower earnings in this segment.

Equipment & Accessories. Volume in these product lines decreased 25.4% to $73.3 million from $98.3 million in the prior year. Income before taxes totalled $8.8 million, down 32.3% from the $13 million earned in 1979. All operating units in this segment experienced lower sales and earnings, with the most significant decreases in the Douglas and Stahl divisions, reflecting the severely depressed automotive and truck markets. The Carefree of Colorado division's results were well below the prior year due to the recession and sharply lower customer demand in the recreational vehicle market. The declines experienced by the Valley Industries and Powerwinch/Ja-Son divisions were moderated by their diversification and broad customer base in the automotive aftermarket and recreational vehicle market.

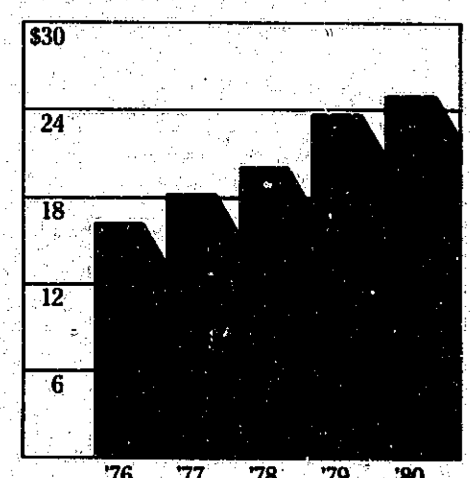
Energy & Control. Sales were $79.4 million, moderately below the $85.2 million in 1979. Income before taxes declined 15.7% to $11.8 million from $14 million last year. The product lines in this segment were the least impaired by the consumer recession. The Adalet division achieved record sales and earnings, reflecting its strength in the various energy markets. The Halex division experienced moderately lower sales and earnings as a result of the reduced level of general construction activity. Although sales were down slightly, the Northland division's earnings approximated the 1979 level, due to improved operations. Results at the France division were well below the 1979 level, reflecting a severe drop in transformer sales, lower appliance timer sales and the nonrecurring costs associated with moving the Westlake, Ohio manufacturing operations to the new Fairview, Tennessee facility.

Financial Position. Total assets at year-end 1980 were $394 million, approximately the same as the prior year. Working capital (current assets minus current liabilities) increased slightly to $145.6 million from $143.2 million at the end of 1979. Cash, certificates of deposit and short-term investments totalled $92.2 million, up from $63.2 million at the prior year-end. The $29 million increase in cash and investments resulted primarily from the substantial reduction of receivables and inventories. These lower levels were due to reduced sales volume and tight management controls. Scott & Fetzer entered 1981 with inventories and receivables in excellent condition.

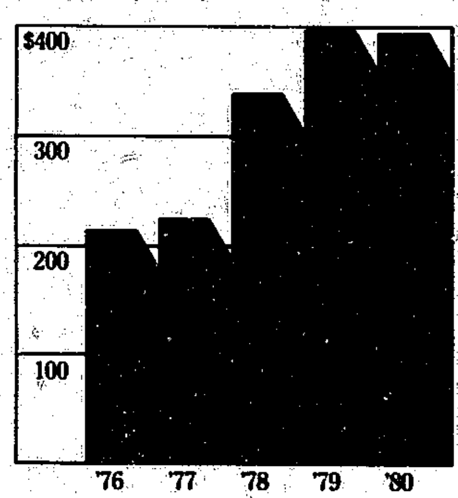
Expenditures for new facilities and equipment in 1980 were $14.7 million. After the provision of $9 million for depreciation and $700,000 in disposal of old assets, the net investment in property, plant and equipment increased $5 million to $83.6 million from $78.6 million at the prior year-end.

Long-term debt declined $2.8 million to $79.6 million at November 30, 1980, from $82.3 million at the end of 1979. The decrease reflected scheduled repayments made during 1980. Total shareholders' equity rose to $185.1 million, $10.1 million above the prior year's level. Book value per common share increased to $25.04 per share, 5.4% above the $23.76 per share at the end of 1979.

Book Value per Share



Total Assets (millions)



Summary of Operations

The Scott & Fetzer Company and Subsidiary Companies

(Dollars in Thousands Except Per Share Data)

	Year Ended November 30				
	1980	1979	1978	1977	1976
Net sales and other revenue	**$632,398**	$697,401	$478,222	$351,187	$301,918
Cost of goods sold	**355,485**	393,208	318,897	249,521	222,225
Interest expense, capitalized leases	**813**	978	1,093	1,056	1,117
Interest expense, other	**9,045**	8,243	4,230	2,904	2,941
Interest income	**8,119**	7,582	5,044	2,881	2,859
Income taxes	**14,269**	28,964	30,631	29,306	21,264
Net income	**23,069**	34,096	30,247	26,306	22,721
Per share:					
Earnings per common and common equivalent share	**3.12**	4.62	4.11	3.56	2.99
Dividends	**1.80**	1.70	1.50	1.30	1.17
Average number of common and common equivalent shares (000's)	**7,388**	7,373	7,354	7,384	7,594

Management's Discussion and Analysis of the Summary of Operations

1980 Versus 1979

Consolidated net sales and other revenue for the year totaled $632.4 million, down 9% from the record level of 1979, primarily reflecting the depressed conditions of the national economy. Net income of $23.1 million was 32% below the previous year's $34.1 million. A number of adverse factors contributed to the decline, the most significant of which were the reduction in revenues and the problems encountered by World Book's international operations, including a pre-tax provision for anticipated uncollectable foreign installment receivables of $4.5 million, plus $1.5 million for product line and operations closedown costs associated with some international operations. Also, the adoption by six of the Company's operating units of the LIFO method of inventory valuation unfavorably impacted pre-tax earnings by $2.7 million.

Cost of goods sold decreased 10% from 1979 as operating units instituted significant cost reduction programs relative to the reduced sales levels.

Other expense, net, increased $822,000 over 1979 primarily due to exchange and translation losses of foreign currencies which are expensed in accordance with generally accepted accounting principles.

The provision for income taxes decreased to an overall rate of 38.2% versus the 45.9% rate in 1979, due primarily to a special tax credit of $1.9 million for worthless stock deductions relating to the closedown of certain foreign operations of World Book; an increase of $351,000 over the previous year's investment tax credit and an increase in "DISC" export tax allowance of $253,000.

1979 Versus 1978

Consolidated net sales and other revenue increased 46% from 1978, primarily due to the inclusion of World Book-Childcraft International 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-Childcraft for three months and Wayne Home Equipment for ten 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 division.

The decrease in total income taxes reflects the lower federal statutory rate of 46% initiated in 1979, higher investment tax credit, 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.

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Consolidated Statement of Income

The Scott & Fetzer Company and Subsidiary Companies

(Dollars in Thousands Except Per Share Data)

	Year Ended November 30 1980	1979
NET SALES AND OTHER REVENUE	**$632,398**	$697,401
Cost of goods sold	**355,485**	393,208
Gross profit	**276,913**	304,193
Selling, general and administrative expenses	**232,321**	233,706
Operating profit	**44,592**	70,487
Other income (deductions):		
Charges for services of finance subsidiary (Note 3)	**(8,275)**	(9,598)
Income from unconsolidated subsidiaries before income taxes	**4,434**	4,662
Interest expense, capitalized leases (Note 6)	**(813)**	(978)
Interest expense, other	**(9,045)**	(8,243)
Interest income	**8,119**	7,582
Other, net	**(1,674)**	(852)
	(7,254)	(7,427)
Income before income taxes	**37,338**	63,060
Provision for income taxes (Note 11):		
State and local	**2,343**	3,051
Federal and foreign:		
Current	**13,402**	30,179
Deferred	**(1,476)**	(4,266)
Total taxes	**14,269**	28,964
NET INCOME	**$ 23,069**	$ 34,096
EARNINGS PER SHARE	**$ 3.12**	$ 4.62
DIVIDENDS PER SHARE	**$ 1.80**	$ 1.70
Average number of common and common equivalent shares outstanding (000's)	**7,388**	7,373

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

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Consolidated Balance Sheet
The Scott & Fetzer Company and Subsidiary Companies

(Dollars in Thousands)

	November 30 1980	1979
ASSETS		
CURRENT ASSETS:		
Cash	**$ 8,917**	$ 9,603
Certificates of deposit	**72,162**	41,724
Short-term investments	**11,118**	11,878
Trade receivables, less allowance for doubtful accounts: 1980 — $6,136 1979 — $5,325	**50,586**	64,079
Installment receivables (including accounts due after one year), less unearned finance charges: 1980 — $687 1979 — $657; and allowances for doubtful accounts: 1980 — $5,988 1979 — $5,400	**22,671**	29,005
Other receivables	**12,015**	8,610
Inventories (Note 1)	**80,195**	100,645
Prepaid expenses	**5,431**	5,724
TOTAL CURRENT ASSETS	**263,095**	271,268
INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES (Note 3)	**37,816**	35,430
PROPERTY, PLANT AND EQUIPMENT (Note 2)	**83,609**	78,651
EXCESS COST OVER FAIR VALUE OF ASSETS ACQUIRED	**2,658**	2,583
OTHER ASSETS	**6,865**	7,444
	$394,043	$395,376

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

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	November 30 1980	1979
LIABILITIES		
CURRENT LIABILITIES:		
Notes payable, banks (Note 4)	**$ 6,885**	$ 8,469
Current portion of long-term debt	**3,158**	2,417
Trade accounts payable	**25,611**	27,669
Other accounts payable	**1,900**	8,888
Accrued liabilities	**47,098**	37,608
Income taxes	**6,195**	12,364
Accrued taxes, other	**3,045**	3,841
Deferred income taxes applicable to current assets (Note 3)	**23,567**	26,811
TOTAL CURRENT LIABILITIES	**117,459**	128,067
LONG-TERM DEBT (Notes 5 & 6)	**79,595**	82,346
DEFERRED INCOME TAXES (Note 11)	**7,316**	5,548
OTHER DEFERRED CREDITS	**4,594**	4,447
TOTAL LIABILITIES	**208,964**	220,408
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		
1980 — 7,576,924 less 186,871 in treasury		
1979 — 7,576,924 less 212,771 in treasury	**9,238**	9,205
ADDITIONAL CAPITAL (Note 10)	**6,884**	6,573
RETAINED EARNINGS (Note 5)	**168,957**	159,190
TOTAL SHAREHOLDERS' EQUITY	**185,079**	174,968
	$394,043	$395,376

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Consolidated Statement of Changes in Financial Position

The Scott & Fetzer Company and Subsidiary Companies

(Dollars in Thousands)

	Year Ended November 30 **1980**	1979
SOURCE OF FUNDS		
From operations:		
Net income	**$ 23,069**	$ 34,096
Depreciation	**9,022**	7,940
Earnings from unconsolidated subsidiaries	**(386)**	(2,664)
Deferred income taxes	**1,768**	1,253
Other	**594**	570
Total from operations	**34,067**	41,195
Net current assets of companies acquired	**—**	6,916
Proceeds from disposition of divisions	**—**	819
Increase in long-term debt	**—**	40,000
Sale of common stock under stock options	**344**	368
Disposal of property, plant and equipment	**671**	1,768
Increase (decrease) in other assets	**(15)**	2,992
Other	**72**	355
	35,139	94,413
APPLICATION OF FUNDS		
Property, plant and equipment and other net assets of companies acquired	**—**	6,650
Cash dividends	**13,302**	12,510
Capital contribution to unconsolidated subsidiary	**2,000**	—
Disposals of net current assets of discontinued divisions	**—**	524
Additions to property, plant and equipment	**14,651**	26,375
Decrease in long-term debt	**2,751**	3,690
	32,704	49,749
INCREASE IN WORKING CAPITAL	**$ 2,435**	$ 44,664

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

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Consolidated Statement of Changes in Financial Position (continued)

(Dollars in Thousands)

	Year Ended November 30 1980	1979
INCREASE (DECREASE) IN COMPONENTS OF WORKING CAPITAL		
Current assets:		
Cash and certificates of deposit	**$ 29,752**	$ 14,799
Short-term investments	**(760)**	(6,498)
Trade, installment and other receivables	**(16,422)**	15,021
Inventories	**(20,450)**	16,740
Prepaid expenses	**(293)**	1,633
	(8,173)	41,695
Current liabilities:		
Notes payable, banks	**(1,584)**	1,354
Current portion of long-term debt	**741**	(42)
Trade and other accounts payable	**(9,046)**	(4,993)
Accrued liabilities, including taxes	**2,525**	6,231
Deferred income taxes	**(3,244)**	(5,519)
	(10,608)	(2,969)
INCREASE IN WORKING CAPITAL	**$ 2,435**	$ 44,664

Consolidated Statement of Retained Earnings

The Scott & Fetzer Company and Subsidiary Companies

(Dollars in Thousands)

	Year Ended November 30 1980	1979
Retained earnings, beginning of year	**$159,190**	$137,604
Net income	**23,069**	34,096
	182,259	171,700
Cash dividends	**13,302**	12,510
Retained earnings, end of year	**$168,957**	$159,190

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Business Segment Information

(Dollars in Thousands)

	Year Ended November 30				
	1980	1979	1978	1977	1976
NET SALES AND OTHER REVENUE					
Cleaning Systems	**$ 94,824**	$105,437	$ 99,944	$100,309	$ 86,269
Educational & Household Products	**279,180**	279,299	84,645	22,442	20,764
Fluid Transmission	**116,428**	145,673	140,949	95,881	82,849
Equipment & Accessories	**73,259**	98,295	91,413	77,761	64,620
Energy & Control	**79,390**	85,186	74,718	65,601	58,382
Intersegment Sales	**(10,683)**	(16,489)	(13,447)	(10,807)	(10,966)
	$632,398	$697,401	$478,222	$351,187	$301,918
INCOME BEFORE TAXES					
Cleaning Systems	**$ 13,946**	$ 18,346	$ 21,763	$ 24,150	$ 19,233
Educational & Household Products	**12,465**	20,762	2,479	781	2,136
Fluid Transmission	**4,016**	11,233	17,490	12,665	4,569
Equipment & Accessories	**8,836**	12,997	14,186	11,137	9,330
Energy & Control	**11,802**	14,046	13,844	12,890	12,333
Operating Earnings	**51,065**	77,384	69,762	61,623	47,601
Corporate Expenses and Net Interest	**(13,727)**	(14,324)	(8,955)	(5,515)	(5,234)
	$ 37,338	$ 63,060	$ 60,807	$ 56,108	$ 42,367

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Business Segment Information (continued)

(Dollars in Thousands)

	IDENTIFIABLE ASSETS November 30				
	1980	1979	1978	1977	1976
Cleaning Systems	**$ 31,079**	$ 46,158	$ 39,916	$ 37,687	$ 25,319
Educational & Household Products	**154,581**	148,741	114,922	11,574	11,726
Fluid Transmission	**67,646**	81,763	66,539	44,737	51,243
Equipment & Accessories	**28,605**	37,199	34,909	29,821	27,756
Energy & Control	**33,345**	37,615	29,836	26,009	23,889
Corporate & Other	**78,787**	43,900	51,855	75,583	75,344
	$394,043	$395,376	$337,977	$225,411	$215,277

	DEPRECIATION Year Ended November 30		CAPITAL EXPENDITURES Year Ended November 30	
	1980	1979	**1980**	1979
Cleaning Systems	**$ 1,385**	$ 1,211	**$ 1,150**	$ 4,277
Educational & Household Products	**2,247**	2,136	**2,856**	3,705
Fluid Transmission	**2,484**	2,163	**3,203**	9,421
Equipment & Accessories	**1,028**	1,013	**1,235**	2,323
Energy & Control	**1,133**	956	**2,379**	4,744
Corporate & Other	**745**	461	**3,828**	1,905
	$ 9,022	$ 7,940	**$14,651**	$26,375

GEOGRAPHIC BUSINESS SEGMENT INFORMATION
Year Ended November 30

	NET SALES		INCOME BEFORE TAXES		IDENTIFIABLE ASSETS	
	1980	1979	**1980**	1979	**1980**	1979
United States	**$579,680**	$645,801	**$ 40,632**	$ 61,704	**$350,989**	$352,065
Foreign Locations	**63,390**	63,217	**(3,294)**	1,356	**43,054**	43,311
Interarea	**(10,672)**	(11,617)				
	$632,398	$697,401	**$ 37,338**	$ 63,060	**$394,043**	$395,376

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Notes to Financial Statements
(Dollars in Thousands Except Per Share Data)

1. Inventories
In the year ended November 30, 1980, the Company changed the method of inventory valuation for certain of its operating units from the first-in, first-out "FIFO" method to the last-in, first-out "LIFO" method. Portions of the Company's inventories have previously been reported under the LIFO valuation method, and with this change substantially all of its operating units are now so valued. This change was made to more accurately match the units' current costs with sales and to minimize the effect of inflation on their inventories and earnings. The excess of FIFO cost over LIFO cost for those operating units adopting LIFO this year was $2,690, and the effect of the change was to reduce net income by approximately $1,385 or 19 cents per share. There is no cumulative effect of the change on prior periods since the November 30, 1979 inventory, as previously reported, is the opening inventory under the LIFO method.

During the year ended November 30, 1980, the Company reduced inventory levels at some of its operating units, resulting in a liquidation of some LIFO inventory quantities priced at lower prior year costs. The effect of this liquidation increased 1980 net income by approximately $2,173 or 29 cents per share; however, the effect on net income has been offset by a decrease of approximately $3,020 or 41 cents per share, as the result of increases to the LIFO reserve for inventory price valuations at other operating units.

If current costs had been used for all inventories presently valued using the LIFO method, inventories in the balance sheet would have been $23,205 and $18,802 higher than reported at November 30, 1980 and 1979, respectively.

Inventories used in the computation of cost of goods sold, including progress payments of $10,707 and $10,103 for printing contracts at November 30, 1980 and 1979, respectively, were $80,195 at November 30, 1980, $100,645 at November 30, 1979 and $83,905 at November 30, 1978.

Inventories at November 30, 1980 and 1979, consisted of the following:

	1980	1979
Raw materials and supplies	$28,514	$ 45,619
Work in process	28,666	30,600
Finished goods	23,015	24,426
	$80,195	$100,645

2. Property, Plant and Equipment
Property, plant and equipment at November 30, 1980 and 1979, consisted of the following: E 43

	1980	1979
Land and land improvements	$ 3,493	$ 2,863
Buildings	24,559	23,582
Machinery and equipment	89,065	78,888
Capitalized leases	14,018	13,915
	131,135	119,248
Accumulated depreciation	47,526	40,597
	$ 83,609	$ 78,651

3. Investments in Unconsolidated Subsidiaries
The investments in wholly-owned unconsolidated subsidiaries are carried on the equity basis and at November 30, 1980 and 1979, are as follows:

	Equity in Net Assets	
	1980	1979
Finance subsidiaries	$28,644	$29,061
World Book Life Insurance	9,172	6,369
	$37,816	$35,430

The consolidated balance sheet includes amounts receivable from (payable to) unconsolidated subsidiaries of $4,454 and ($2,793) at November 30, 1980 and 1979, respectively.

World Book Finance, Inc., (WBFI) provides funds principally to finance the domestic installment receivables of World Book-Childcraft International, Inc. 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 amounts provided were $8,275 in 1980 and $9,598 in 1979. The current liability for deferred income taxes in the consolidated balance sheet includes amounts related to installment receivables financed by WBFI. The condensed balance sheet of WBFI at November 30, 1980 and 1979, was as follows:

	1980	1979
Assets		
Cash and cash equivalents	$ 28,048	$ 26,457
Finance receivables (net of allowance for credit losses)	75,713	76,536
Other receivables	278	—
Receivables from (payables to) affiliated companies	(69)	1,849
Total Assets	$103,970	$104,842
Liabilities and Equity		
Current portion of long-term debt	$ 2,625	$ 2,625
Accounts payable and other liabilities	1,526	1,566
Long-term debt	69,750	72,375
Scott & Fetzer equity	30,069	28,276
Total Liabilities and Equity	$103,970	$104,842

4. Interim Financing Arrangements
The short-term notes payable, banks, represent outstanding loans to foreign affiliates of World Book-Childcraft International, Inc., as of November 30, 1980 and 1979. Information with respect to these loans is as follows:

	1980	1979
Maximum amount outstanding	$8,547	$8,949
Average amount outstanding	7,712	8,387
Weighted average interest rate	14.8%	12.6%
Average interest rate at end of year	13.0%	11.0%

Company-owned capital assets as follows:

	1980	1979
Land and land improvements	$ 333	$ 333
Buildings	9,418	9,403
Machinery and equipment	4,267	4,179
	14,018	13,915
Less accumulated amortization	6,515	5,690
	$ 7,503	$ 8,225

Future minimum lease payments under noncancelable leases at November 30, 1980, are summarized below:

Year Ending November 30	Capitalized Leases	Operating Leases
1981	$ 2,545	$ 6,634
1982	2,414	5,879
1983	2,343	5,015
1984	1,689	4,544
1985	1,534	4,001
Later years	2,215	8,678
Total minimum lease payments	12,740	34,751
Less minimum sublease rents	—	850
Net minimum lease payments	12,740	$ 33,901
Less estimated executory costs	124	
Less amount representing interest	3,262	
Present value of net minimum lease payments under capital leases	9,354	
Less current obligations included in current portion of long-term debt	1,673	
Long-term capital lease obligations	$ 7,681	

Net rent expense for noncancelable operating leases for the years ended November 30, 1980 and 1979 amounted to $6,855 and $4,873, after deducting sublease rents of $207 and $83, respectively.

7. Stock Options

At November 30, 1980, there were 514,213 shares of common stock reserved for issuance under the Company's stock option plan. The 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 plan also permits the granting of stock appreciation rights to optionees. As of November 30, 1980, no stock appreciation rights had been granted.

Substitute contingent options, which became 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 1980 and 1979, options were canceled for 29,000 and 15,000 shares, respectively. There were 242,338 and 319,238 shares available for future grants at November 30, 1980 and 1979, respectively.

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The Company makes no charge against income with respect to options granted. Additional information relating to options is set forth below:

	Number of Shares	Option Price Average Per Share	Option Price Total	Market Price Average Per Share	Market Price Total
Options granted:					
1979	71,075	$23.38	$1,661,734	$23.38	$1,661,734
1980	105,900	23.16	2,453,008	23.16	2,453,008
Options becoming exercisable:					
1979	83,632	18.54	1,550,654	25.64	2,144,034
1980	46,506	24.22	1,126,221	22.99	1,069,364
Options exercised:					
1979	26,563	13.88	368,562	26.07	692,586
1980	25,900	13.25	343,113	23.56	610,117
Options outstanding:					
1979	220,875	23.50	5,191,125	23.50	5,191,125
1980	271,875	24.32	6,612,594	24.32	6,612,594

8. Pension and Retirement Plans

The majority of the Company's employees is covered by various noncontributory 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 $7,363 and $6,576 for the years ended November 30, 1980 and 1979, respectively. The actuarially computed present value of vested pension benefits for certain plans exceeded the total of pension fund assets and balance sheet accruals by approximately $4,085 at November 30, 1980. At the dates of the latest actuarial valuations, unfunded past service costs were approximately $29,650.

9. Contingent Liabilities

The Company is a defendant in several lawsuits and other claims which, in the opinion of management, will not have a material effect on the consolidated financial position and consolidated results of operations.

10. Capital Stock

Changes in the common stock and additional capital accounts during the years ended November 30, 1980 and 1979, were as follows:

	Common Stock Treasury Shares	Common Stock Issued Shares	Common Stock Stated Value	Additional Capital
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
Sale of stock under options	25,900	—	33	311
Balance, November 30, 1980	(186,871)	7,576,924	$9,238	$6,884

11. Income Taxes

The effective tax rate was 38.2% in 1980 and 45.9% in 1979. The difference between these rates and the statutory United States federal income tax rate (46% in 1980; 46.2% in 1979) resulted from the following:

	1980	1979
Income before income taxes	$ 37,338	$ 63,060
Less: State and local income taxes	2,343	3,051
Income before federal and foreign taxes	$ 34,995	$ 60,009
Income taxes at statutory rate		
1980 — 46%	$ 16,098	
1979 — 46.2%		$ 27,724
Adjustments:		
Investment tax credit	(1,268)	(917)
Export "Disc" credit	(607)	(354)
Foreign tax effect	(459)	100
Worthless stock deductions, foreign operations	(1,916)	—
Tax rate differential on World Book profit on installment sales deferred for tax purposes	—	(683)
All other, net	78	43
Provisions for federal and foreign taxes	$ 11,926	$ 25,913

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leferred provision for federal income tax results
ning differences in the recognition of revenues
oenses for tax and financial reporting purposes.
effects on such differences include the following:

	1980	1979
iation in excess of book	$ 1,892	$ 1,253
rred on installment sales	314	(6,465)
tible accrued expenses	(4,403)	1,086
ifferential on installment sales ferred for tax purposes	—	(683)
ference on recognition of state and ome/franchise taxes	338	261
	383	282
	$ (1,476)	$ (4,266)

12. Business Segment Information

Information with respect to the Company's business segments is contained on pages 26 and 27 of this report.

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

arterly Information (Unaudited)

	1980 Fiscal Year by Quarter			
	First	Second	Third	Fourth
nd other revenue	$162,681	$177,745	$139,031	$152,941
it	67,312	79,315	65,026	65,260
e	5,824	7,552	4,428	5,265
oer share	$ .79	$ 1.02	$ .60	$ .71

	1979 Fiscal Year by Quarter			
	First	Second	Third	Fourth
nd other revenue	$155,220	$191,515	$164,443	$186,223
it	63,508	84,749	71,080	84,855
e	7,728	11,303	7,702	7,363
oer share	$ 1.05	$ 1.53	$ 1.05	$ .99

pplemental Information on Inflation and ing Prices (Unaudited)

the past decade, the United States has experi- significant increases in the level of inflation. The of such inflation erodes the purchasing power of lar and consequently affects the business decision , including long and short range planning and te strategy development.

Company is well aware of the effects of inflation problems it presents to the economy in general business in particular. In 1974 and 1980, we l, where appropriate, the last-in, first-out (LIFO) ry method, in order to more accurately match costs with current revenue. Corporate programs een initiated to improve the productivity of all nd to assure that facilities and other resources iently utilized and costs are controlled. We con- monitor pricing strategies to reflect not only the of inflation, but also productivity improvements rket developments. The Company feels that it is g the liquidity and flexibility required to meet ivity and pricing objectives.

entional historical financial statements do not the cumulative effects of increasing costs and in the purchasing power of the dollar during significant and continued inflation. Therefore, the al Accounting Standards Board (FASB) issued nt No. 33 "Financial Reporting and Changing which requires that certain supplemental infor- be provided concerning the effects of changing prices on a company's financial statements. The disclosures are intended to address two different aspects of an inflationary environment: (1) the effect of an increase in the general price level on the purchasing power of the dollar (called general inflation); and (2) the specific price changes in the individual resources used by the company. The statement is acknowledged to be experimental because there is presently no consensus on which aspect of inflation (if any) should be reported. Similarly, the FASB does not require the application of inflation accounting to all accounts but has selected only inventories, property, plant and equipment, cost of sales and depreciation to be adjusted for the effects of both general inflation and specific price changes. Therefore, it is important to note that the results of these adjustments are not comparable to any other numbers found elsewhere in this report and users are cautioned to recognize the limitations of data provided in this footnote.

An important insight available from these supplementary calculations is an approximation of the distribution of the Company's earnings adjusted for changes in specific prices (real earnings). In the table below, the Company's 1980 earnings per share before income taxes on a current cost basis is compared with historical cost earnings per share before income taxes to show amounts distributed for income taxes, dividends and retained for growth of the business. Comparable amounts are also shown in a percentage format.

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	Adjusted for Changes in Specific Prices (Current Cost)		The Primary Financial Statements (Historical Cost)	
	Dollars Per Share	Percentage	Dollars Per Share	Percentage
Earnings before income taxes	$3.54	100%	$5.05	100%
Income taxes	1.93	54	1.93	38
Net earnings	1.61	46	3.12	62
Dividends	1.80	51	1.80	36
Retained for growth	$(.19)	(5)%	$1.32	26%

The Company's per share earnings before income taxes are 30% lower in real terms than in terms of historical cost. However, the effective income tax rate on these earnings is 16% higher in real terms because income tax laws do not allow deduction of inflation adjusted costs for tax reporting purposes. The taxation of reported earnings rather than real earnings means that the earnings retained for growth were 114% lower than they appear in the historical cost financial statements.

Accounting Policies in Regard to Inflation Accounting — The supplementary information on inflation and changing prices is based upon the historical financial statements as reported in the primary financial statements adjusted for (1) general inflationary factors relating to inventories and property, plant and equipment (constant dollars); and (2) the changes in specific prices relating to these items (current cost). Depreciation and amortization expense is calculated using the same methods and rates of depreciation and amortization as used in the historical financial statements. Income taxes have not been modified from amounts reported in the primary financial statements, thus reflecting the nondeductibility of higher costs that result from applying the different methods of preparing supplementary information.

Constant Dollars — The supplementary information on a constant dollar basis is expressed in average for the year dollars and reflects adjustments that have occurred in the purchasing power of the dollar as measured by the Consumer Price Index for all Urban Consumers published by the Bureau of Labor Statistics.

Current Cost — Current cost of goods sold was unchanged for those locations using the LIFO inventory method in their financial statements. For those locations using the FIFO inventory method, current cost of goods sold was determined by adjusting FIFO cost of sales for price changes experienced through the end of the year. The current cost of inventories was determined using a FIFO inventory valuation. The current cost of property, plant and equipment was determined by application of the Engineering News-Record index for buildings and selected Producer Price Indices for historical book values of machinery and equipment.

Consolidated Statement of Income Adjusted for Changing Prices (Unaudited)

For the year ended November 30, 1980
(Dollars in Thousands Except Per Share Data)

	As Reported in Primary Statements	Adjusted For General Inflation (Constant Dollars)	Adjusted For Changes in Specific Prices (Current Cost)
Net sales and other revenue	$632,398	$632,398	$632,398
Cost of goods sold	355,485	367,961	365,919
Gross profit	276,913	264,437	266,479
Selling, general and administrative expenses	232,321	233,511	233,042
Operating profit	44,592	30,926	33,437
Other income (deductions):			
Charges for services of finance subsidiary	(8,275)	(8,275)	(8,275)
Income before income taxes from unconsolidated subsidiaries	4,434	4,434	4,434
Interest expense	(9,858)	(9,858)	(9,858)
Interest and other income, net	6,445	6,445	6,445
Income before income taxes	37,338	23,672	26,183
Income taxes	14,269	14,269	14,269
Net income	$ 23,069	$ 9,403	$ 11,914
Depreciation included above	9,022	12,862	13,184
Earnings per share	3.12	1.27	1.61
Effective income tax rate	38%	60%	54%
Net assets at end of year	$185,079	$236,698	$232,949
Gain from decline in purchasing power of net amounts owed			3,742
Increase in general price level of inventories and property, plant and equipment during the year			26,265
Less effect of increase in current cost			22,087
Excess of increase in the general price level over increase in specific prices			$ 4,178

Selling, general and administrative expenses have been adjusted for depreciation expenses of $1,190 and $721 respectively, due to adjustments for general inflation and changes in specific prices.

At November 30, 1980, the estimated current cost of inventories and property, plant and equipment, net of accumulated depreciation, was $104,547 and $116,275, respectively.

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Five-Year Comparison of Selected Financial Data
Adjusted for the Effects of Changing Prices (Unaudited)
(Dollars in Thousands Except Per Share Data)

	Year Ended November 30				
	1980	1979	1978	1977	1976
Net sales and other revenue:					
As reported	$632,398	$697,401	$478,222	$351,187	$301,918
Average 1980 dollars	632,398	792,030	602,461	475,250	434,563
Dividends per share:					
As reported	$ 1.80	$ 1.70	$ 1.50	$ 1.30	$ 1.17
Average 1980 dollars	1.[illegible]0	1.93	1.89	1.76	1.68
Market price per share at year-end:					
As reported	$ 23.5[illegible]	$ 22.75	$ 25.87	$ 27.25	$ 26.00
Average 1980 dollars	22.4[illegible]	24.44	31.30	35.92	36.56
Average consumer price index	244.[illegible]	215.2	194.0	180.6	169.8

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.

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 and transactions 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 78% and 49% of total inventories in 1980 and 1979, 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 $8,910 and $7,566 at November 30, 1980 and 1979, 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 several 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 is included in income. Maintenance, repair and ordinary renewals are charged to expense as incurred.

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 are applied to reduce the provision for federal income taxes in the year the credits arise.

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 principally 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.

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Report of the Board of Directors' Audit Committee

This is the Annual Report from Scott & Fetzer's Audit Committee, which consists of four outside directors. The Board of Directors has assigned the Audit Committee the responsibility for monitoring the overall adequacy and effectiveness of the Company's management and financial controls. During 1980, we met four times with senior management, the public auditors and the Company's Management Controls and Audit Director. Prior to publication, we also reviewed and approved the Company's external financial reports.

We believe that the responsibility for Scott & Fetzer's management and financial control systems and procedures and the integrity of the published financial statements properly rests with the senior management. We continue, as outside directors, to be comfortable with the overall effectiveness of these control systems and are pleased with the improvements implemented in the last several years.

During 1980, the Company strengthened and broadened the responsibilities of the internal management controls and audit group and also established a corporate loss control and security function. We believe that both of these steps will enhance the control systems. The Company also has taken the proper actions to prevent improper payments and conflicts of interest. We have been assured by both the public and internal audit groups that effective control procedures are a part of the overall system and are being regularly monitored by senior management.

We have received, as in past years, the full cooperation of all appropriate personnel and the Committee continues to be satisfied with the general effectiveness of the Company's controls. Further refinements and improvements are planned, and these are regularly reviewed by the Committee.

In the opinion of the Audit Committee, the Company's 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 has appreciated the response, cooperation and efforts of everyone, both internally and externally, who assisted us in executing our responsibilities during 1980.

For the Audit Committee,

James A. Hughes
Chairman

Cleveland, Ohio
January 26, 1981

Report of Independent Certified Public Accountants

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

We have examined the consolidated balance sheets of The Scott & Fetzer Company and subsidiary companies at November 30, 1980 and 1979, 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, 1980 and 1979, the consolidated results of their operations and 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 1, "Summary of Operations" on page 20, "Financial Review" on pages 16 through 19 and "Historical Record" on page 35 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
Coopers & Lybrand

Cleveland, Ohio
January 26, 1981

Historical Record 1976-1980

(Dollars in Thousands Except Per Share Data)

	1980	1979	1978	1977	1976
Net Sales and Other Revenue	**$632,398**	$697,401	$478,222	$351,187	$301,918
Income Before Taxes	**37,338**	63,060	60,807	56,108	42,367
Net Income	**23,069**	34,096	30,247	26,306	22,721
Cash Dividends	**13,302**	12,510	10,999	9,510	8,864
Per cent Payout of Net Income	**57.7**	36.7	36.4	36.2	39.0
Earnings Retained and Reinvested	**9,767**	21,586	19,248	16,796	13,857
Capital Expenditures	**14,651**	26,375	12,886	8,816	4,636
Working Capital	**145,636**	143,201	98,537	125,187	115,403
Long-Term Debt	**79,595**	82,346	46,036	41,838	42,736
Total Assets	**394,043**	395,376	337,977	225,411	215,277
Shareholders' Equity	**185,079**	174,968	153,014	133,365	123,228
Per cent Return on					
Assets Employed	**10.3**	14.8	15.8	16.0	14.5
Shareholders' Equity	**12.5**	19.5	19.8	19.7	18.4
Per Share					
Earnings	**3.12**	4.62	4.11	3.56	2.99
Dividends	**1.80**	1.70	1.50	1.30	1.17
Book Value	**25.04**	23.76	20.85	18.23	16.26
Market Price Range	**24⅞-17¼**	30⅞-22	36⅛-23	29-22¾	29⅜-17⅝
Price/Earnings Ratio	**8-6**	7-5	9-6	8-6	10-6
Year-end Data					
Shares Outstanding (000's)					
Year-end	**7,390**	7,364	7,338	7,317	7,577
Average	**7,388**	7,373	7,354	7,384	7,594
Number of Shareholders of Record	**7,937**	8,119	8,439	8,852	9,377
Number of Employees	**16,225**	17,934	17,425	7,255	7,500

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Directors
The Scott & Fetzer Company


Joseph T. Bailey


Robert W. Bjork


J. F. Bradley


Niles H. Hammink


James A. Hughes


Lawrence C. Jones


Delmar W. Karger


Walter A. Rajki


Ralph Schey


Robert L. Swiggett

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;
Compensation and Organization Committee

ROBERT W. BJORK
Partner, Tallasi Management Co.
Investment advisory firm

J. F. BRADLEY
Executive Vice President — Administration and Finance
Investment and Pension Committee, chairman;
Executive Committee

NILES H. HAMMINK*
Former Chairman and Chief Executive Officer, The Scott & Fetzer Company
Executive Committee, chairman;
Investment and Pension Committee

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

WALTER A. RAJKI**
Senior Vice President

RALPH SCHEY
Chairman, President and Chief Executive Officer
Executive 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-optical systems
Investment and Pension Committee;
Audit Committee

*Will retire as a director, March 24, 1981.
**Proposed for election as a director at the Annual Shareholders Meeting, March 24, 1981.

Corporate Management

RALPH SCHEY
Age, 56 Chairman, President and Chief Executive Officer
Mr. Schey is also responsible for the administration and coordination of the Kirby and World Book-Childcraft units.

J. F. BRADLEY
Age, 50 Executive Vice President — Administration and Finance
Mr. Bradley is the chief administrative and financial officer of the Company. He supervises the Treasury, Accounting, and Legal functions; and the Management Controls & Audit, Management Information Systems, Loss Control & Security, and Compensation & Benefits departments.

WALTER A. RAJKI
Age, 55 Senior Vice President
Mr. Rajki is responsible for the administration and coordination of the Adalet, Halex, France and Northland divisions.

JOHN BEBBINGTON
Age, 55 Senior Vice President
Mr. Bebbington is responsible for the administration and coordination of the Campbell-Hausfeld, Wayne Home Equipment and Western Enterprises divisions.

KENNETH D. HUGHES
Age, 59 Vice President and Treasurer
Mr. Hughes is the chief accounting officer and is responsible for the administration and coordination of the Treasury, Financial Accounting, Tax and Risk-Management departments.

KEARNEY K. KIER
Age, 44 Group Vice President
Mr. Kier is responsible for the administration and coordination of the American-Lincoln, Klevac, Powerwinch/Ja-Son, and Streamway divisions.

KENNETH J. SEMELSBERGER
Age, 44 Group Vice President
Mr. Semelsberger is responsible for the administration and coordination of the Carefree of Colorado, Douglas, Stahl and Valley Industries divisions and the corporate traffic division.

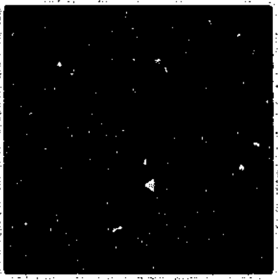
ROBERT C. WEBER
Age, 50 Vice President, General Counsel, and Secretary
Mr. Weber is the chief legal officer and corporate secretary. He also is responsible for the Pension and Profit-sharing department.

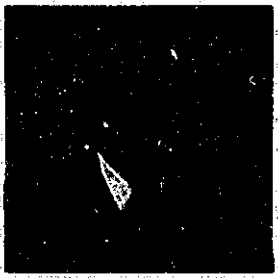
THEODORE C. BLISS
Age, 40 Assistant Treasurer

JOHN E. FRERE
Age, 33 Assistant Controller

RICHARD E. HERTHNECK
Age, 35 Assistant Secretary

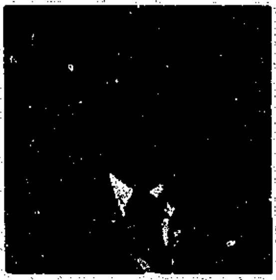
KENNETH A. HOOK
Age, 38 Assistant Secretary


John Bebbington


Kenneth D. Hughes


Kearney K. Kier


Kenneth J. Semelsberger


Robert C. Weber

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 24, 1981, at 10:30 a.m. at the Westlake Holiday Inn, Interstate Rte. 90 & Crocker Road, Westlake, Ohio.

Form 10-K Report
Copies of Scott & Fetzer's Form 10-K report, filed with the Securites 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.

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SUPPLEMENTARY NOTES TO FINANCIAL STATEMENTS

1. Accrued liabilities at November 30, 1980 and 1979 were as follows:

	Thousands of Dollars	
	1980	1979
Salaries, wages and commissions	$ 12,043	$ 12,993
Interest	1,272	1,228
Pension and profit-sharing plans	6,312	5,726
Other	27,471	17,661
	$ 47,098	$ 37,608

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 $1,827,000 and $1,902,000 for the years ended November 30, 1980 and 1979, respectively.

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, 1980 and 1979

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, 1980:					
Robert H. King	$237,500	-0-	$50,000	$50,000	$137,500
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, 1980 and 1979

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. Principal Amount of Bonds and Notes	Amount in dollars.
Year ended-November 30, 1980:						
Unconsolidated subsidiaries:						
World Book Finance, Inc.	261 (100%)	$28,275,831	$ 1,793,257		261 (100%)	$30,069,088
World Book Life Insurance	220,000 (100%)	6,369,000	803,000	$2,000,000	220,000 (100%)	9,172,000
Field Enterprises Int'l., Inc.	1,000 (100%)	785,000	(2,210,310)		1,000 (100%)	(1,425,310)
Total unconsolidated subsidiaries		$35,429,831	$ 385,947	$ 2,000,000		$37,815,778
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

(A) Amount represents additional capital contribution by the parent company.

(B) The equity as described above is presented in the consolidated income statement on a pre-tax basis in the amount of $4,434,000 for 1980. This reflects a 41% federal and state tax rate for World Book Finance, Inc. and World Book Life Insurance. The negative equity of $2,210,310 for Field Enterprises International, Inc. reflects a loss, realized from liquidating a foreign affiliate, which has been eliminated in consolidation. For 1979, the pre-tax equity amount was $4,662,000, reflecting a 43% federal and state tax effect.

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THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

for the years ended November 30, 1980 and 1979

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, 1980:				
Land	$ 2,497,784	$ 188,963	$ 139,446	$ 2,547,301
Land improvements	697,922	589,730	9,062	1,278,590
Buildings	28,098,610	5,948,505	70,293	33,976,822
Leasehold improvements	4,769,090	1,130,444	179,922	5,719,612
Machinery and factory equipment	44,776,520	8,461,121	955,871	52,281,770
Tools, patterns, dies, jigs, etc.	11,355,302	1,816,432	885,139	12,286,595
Furniture and fixtures	12,474,584	3,660,157	141,110	15,993,631
Transportation equipment	2,071,221	2,084,760	383,471	3,772,510
Construction in progress	12,507,372	(9,229,436)	---	3,277,936
	$119,248,405	$14,650,676	$ 2,764,314	$131,134,767
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

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THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES

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

for the years ended November 30, 1980 and 1979

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, 1980:					
Land improvements	$ 408,694	$ 109,032	$ 9,062	$ 508,664	5-20 Yrs.
Buildings	9,553,106	1,275,076	18,879	10,809,303	15-40 Yrs.
Leasehold improvements	1,473,850	1,261,545	142,862	2,592,533	Lease Term
Machinery and factory equipment	17,703,085	3,218,286	901,687	20,019,684	5-32 Yrs.
Tools, patterns, dies, jigs, etc.	6,745,788	1,597,438	765,745	7,577,481	3-10 Yrs.
Furniture and fixtures	4,248,560	1,325,474	97,791	5,476,243	5-10 Yrs.
Transportation equipment	464,340	235,584	157,825	542,099	3-7 Yrs.
	$40,597,423	$9,022,435	$2,093,851	$47,526,007	
Year ended November 30, 1979:					
Land improvements	$ 390,537	$ 53,775	$ 35,618	$ 408,694	
Buildings	9,546,093	1,199,398	1,192,385	9,553,106	
Leasehold improvements	1,167,064	437,418	130,632	1,473,850	
Machinery and factory equipment	16,667,531	2,084,657	1,049,103	17,703,085	
Tools, patterns, dies, jigs, etc.	5,499,393	1,431,590	185,195	6,745,788	
Furniture and fixtures	2,068,377	2,444,352	264,169	4,248,560	
Transportation equipment	513,677	289,032	338,369	464,340	
	$35,852,672	$7,940,222	$3,195,471	$40,597,423	

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

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THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES
SCHEDULE XI GUARANTEES OF SECURITIES OF OTHER COMPANIES
November 30, 1980

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)	12.125-12.625 notes payable	$ 4,846,946	Principal
	11.9375-13.125 notes payable	5,485,023	Principal
	10.00 note payable	1,877,934	Principal
	12.6875-12.75 notes payable	1,877,936	Principal
	12.55-17.50 notes payable	103,853	Principal
		$ 14,191,692	
Field Educational Enterprises of Australasia, Pty. (consolidated subsidiary of The Scott & Fetzer Company)	11.45-14.35% notes payable	$ 2,847,427	Principal

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

At November 30, 1980, The Scott and Fetzer Company and its consolidated subsidiaries maintained a guarantee of $3,980,936 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, 1980 and 1979

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, 1980					
Allowance for doubtful accounts	$10,724,667	$8,586,540		$7,187,164 (B)	$12,124,043
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

(A) Pertains to reserves of a company acquired during 1979.

(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, 1980 and 1979

Column A Item	Column B Charged to Costs and Expenses
Year ended November 30, 1980:	
Maintenance and repairs	$ 6,214,507
Depreciation and amortization of property, plant and equipment	$ 9,022,435
Rents	$ 9,072,948
Advertising	$10,660,431
Taxes, other than income taxes:	
Payroll	$ 9,741,260
Real, personal property and other	3,271,336
	$13,012,596
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

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

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

TO THE BOARD OF DIRECTORS
WORLD BOOK FINANCE, INC.

We have examined the consolidated balance sheets of World Book Finance, Inc. and subsidiary company at November 30, 1980 and 1979, and the related consolidated statements of income and 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 World Book Finance, Inc. at November 30, 1980 and 1979, the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Cleveland, Ohio
January 26, 1981

WORLD BOOK FINANCE, INC.

CONSOLIDATED BALANCE SHEETS

November 30, 1980 and 1979

ASSETS	1980	1979
Cash	$ 4,216,145	$ 4,818,531
Temporary cash investments (Note 1)	369,000	21,639,000
Commercial paper and certificates of deposit (Note 1)	23,462,381	-
Finance receivables, net of the contract reserve of $36,377,856 in 1980 and $32,209,438 in 1979 (Notes 1 and 2)	75,713,196	76,535,527
Accrued interest receivable	278,156	-
Due from (to) World Book-Childcraft International, Inc	(68,720)	1,849,117
Prepaid income taxes (Note 1)	44,731	-
Total assets	$104,014,889	$104,842,175
LIABILITIES		
Current portion of long-term debt (Note 3)	$ 2,625,000	$ 2,625,000
Accrued interest and other expenses	1,278,036	1,452,800
Income taxes currently payable (Note 1)	-	113,544
Dealers' reserves	204,252	-
Unearned acquisition fee	88,513	-
Long-term debt (Note 3)	69,750,000	72,375,000
Total liabilities	73,945,801	76,566,344
Contingent liabilities (Note 4)		
SHAREHOLDERS' EQUITY		
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)	4,068,088	2,274,831
Total shareholders' equity	30,069,088	28,275,831
Total liabilities and shareholders' equity	$104,014,889	$104,842,175

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

WORLD BOOK FINANCE, INC.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
FOR THE YEARS ENDED NOVEMBER 30, 1980 AND 1979

	1980	1979
REVENUE		
Finance revenue	$ 8,274,589	$ 9,597,364
Interest income	3,275,264	1,413,252
	11,549,853	11,010,616
EXPENSES		
Operating expenses	812,354	174,677
Interest expense on long-term debt	7,158,333	7,223,959
	7,970,687	7,398,636
Income before income taxes	3,579,166	3,611,980
Provision for income taxes:		
Federal	1,527,590	1,581,028
State and local	258,319	187,371
	1,785,909	1,768,399
Net income	1,793,257	1,843,581
Beginning retained earnings	2,274,831	431,250
Ending retained earnings	$ 4,068,088	$ 2,274,831

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

WORLD BOOK FINANCE, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED NOVEMBER 30, 1980 AND 1979

SOURCE OF FUNDS

	1980	1979
From Operations:		
Net income	$ 1,793,257	$ 1,843,581
Decrease in finance receivables, net of contract reserves	822,331	19,583,846
Decrease in accounts receivable World Book-Childcraft, Int'l, Inc	1,917,837	584,313
Increase in accrued interest and other liabilities	118,001	102,131
	$ 4,651,426	$ 22,113,871

APPLICATION OF FUNDS

	1980	1979
Increase in cash and short term investments	$ 1,589,995	$ 21,760,227
Increase in accrued interest receivable	278,156	-
Decrease in federal and state income taxes currently payable	158,275	353,644
Reduction in long-term debt	2,625,000	-
	$ 4,651,426	$ 22,113,871

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Accounting Policies:

Principles of Consolidation - The consolidated financial statements include the accounts of World Book Finance, Inc. and its wholly-owned subsidiary, United Retail Finance Company, which was organized April 11, 1980. Intercompany balances and transactions have been eliminated in consolidation.

Relationship with Parent Company - Organization - World Book Finance, Inc. (WBFI) is a wholly-owned subsidiary of World Book-Childcraft International, Inc. (WBCI), which is a wholly-owned subsidiary of the Scott & Fetzer Company, organized 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.

United Retail Finance Company purchases receivables with recourse from the distributors of the Kirby Group of The Scott & Fetzer Company. The reserve is defined by formula in an agreement with the distributor.

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.

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.

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

2 Finance Receivables:

The maturities of finance receivables outstanding at November 30, 1980 and 1979 are as follows:

	1980	1979
Due in one year or less	$ 34,347,816	$40,193,983
Due after one but not more than two years	50,979,599	44,226,992
Due after two years	26,763,637	24,323,990
	$112,091,052	$108,744,965

The following reflects the changes in the contract reserve from November 30, 1978 through November 30, 1980:

Balance, November 30, 1978	$ 34,073,018
Amounts withheld on purchase of customer obligations	12,522,158
Defaulted customer obligations	(13,094,560)
Reserves returned per operating agreement	(1,291,178)
Balance, November 30, 1979	32,209,438
Amounts withheld on purchase of customer obligations	17,902,681
Defaulted customer obligations	(12,634,263)
Reserves returned per operating agreement	(1,100,000)
Balance, November 30, 1980	$36,377,856

3 Long-Term Debt:

Long-term debt at November 30, 1980 and 1979 consisted of the following:

	1980	1979
10% Notes - maturities to 1998	$ 44,750,000	$ 47,375,000
Term loan - maturities to 1986	25,000,000	25,000,000
Total long-term debt	$ 69,750,000	$ 72,375,000

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 105% of total indebtedness (less debt to WBCI or S & F) 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

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$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, 1980 and 1979 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, 1981 through November 30, 1985 are $2,625,000, $2,625,000, $8,875,000, $8,875,000, and $8,875,000, respectively.

4 Contingent Liabilities:

As of November 30, 1980, WBFI has guaranteed $14,191,692 of debt obligations of an unconsolidated foreign finance subsidiary of WBCI and $2,847,427 for debt obligations of a consolidated foreign subsidiary of WBCI.

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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 26, 1981 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 22, 1981

END