

SEC FILE NO 1-213 05 --03

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SCOTT & FETZER CO

10-K

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DISCLOSURE INC WASHINGTON D. C. 20016

FOR 11/30/81

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			ARS	Listing Application	N-1R	N-1Q
									'34 Act		'33 Act "S" Type				
									F-10	8-A 8-B					
Auditor															
<input type="checkbox"/> Name	A	A						A	A		A	A		A	
<input type="checkbox"/> Opinion	A	A						A			A			A	
<input type="checkbox"/> Changes				A											
Compensation Plans															
<input type="checkbox"/> Equity							F	F	A		F				
<input type="checkbox"/> Monetary								F	A		F				
Company Information															
<input type="checkbox"/> Nature of Business	A	A				F		A	A		A				
<input type="checkbox"/> History	F	A						A			A				
<input type="checkbox"/> 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															
<input type="checkbox"/> Identification	F	A				F	A	A	A		A	F			
<input type="checkbox"/> Background		A				F	F	A			A				
<input type="checkbox"/> Holdings		A					A	A	A		A				
<input type="checkbox"/> Compensation		A					A	A	A		A				
Earnings Per Share	A	A	A			F			A			A		A	
Financial Information															
<input type="checkbox"/> Annual Audited	A	A							A			A		A	
<input type="checkbox"/> Interim Audited		A													
<input type="checkbox"/> 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															
<input type="checkbox"/> Content (Listing of Securities)														A	
<input type="checkbox"/> 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 occurred or significant F - frequently included ■ special circumstances only

TENDER OFFER/ACQUISITION REPORTS	13D	13G	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

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ORIGINAL

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

ORIGINAL
G 07-249

FORM 10-K

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

For the fiscal year ended
November 30, 1981

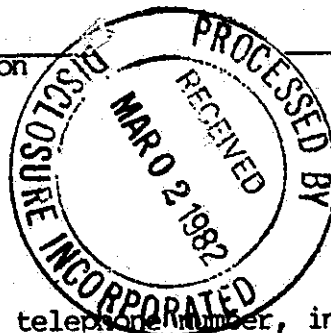
Commission File Number 1-231

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

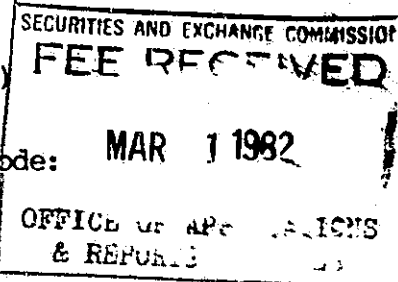
Ohio
(State or other jurisdiction
of incorporation or
organization)

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:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Shares Without Par Value (\$1.25 Stated Value)	New York Stock Exchange Midwest Stock Exchange Pacific Stock Exchange
9-1/4% Notes Due 1985	New York Stock Exchange

Securities registered pursuant to Section 12(q) 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 No.

The aggregate market value of the voting stock held by non-affiliates of the registrant as of January 29, 1982, excluding, for purposes of this computation, only stock holdings of the registrant's Directors and Officers. \$188,647,527

The number of Common Shares outstanding on January 29, 1982 was 6,777,028.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the annual shareholders' report for the year ended November 30, 1981, are incorporated by reference into Parts I and II.

Portions of the annual proxy statement for the year ended November 30, 1981, are incorporated by reference into Part I and Part III.

PART IITEM 1. Business

The Scott & Fetzer Company ("Scott Fetzer" or "Company") is a diversified company which manufactures and sells products in the Cleaning Systems & Household Products, Education & Information Systems, Fluid Transmission, Vehicular Products 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 16 operating units located in 14 states, 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, for the past three years, attributable to each business segment is set forth in the tables on pages 26 and 27 and additional information is noted in footnote 12 on pages 31 and 32 of the 1981 Annual Report to shareholders of Scott Fetzer, which tables and footnote are incorporated herein by reference. Segment data for 1980 and 1979 has been restated to reflect the realignment of operating units initiated in 1981. 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, 1981, 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 & Household Products

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 700 factory and area distributors. Kirby's sales to distributors are substantially all for cash. In September, 1981, a significantly improved Kirby Home Care System, called the Kirby Heritage System, was introduced to the Kirby marketing organization. In fiscal 1981, 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 12%, 13% and 14% of total revenues from continuing operations of Scott Fetzer for each of the fiscal years 1979 through 1981, respectively.

As of November 30, 1981, United Retail Finance Company, a wholly-owned subsidiary of World Book Finance, Inc., which finances consumer installment accounts for Kirby distributors, had trade receivables with a face amount totalling approximately \$12 million.

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, sweepers, wet floor scrubbers, tank-type vacuum cleaners and sweepers ranging in size from limited space vacuum cleaners 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, injection molded plastic items, including containers and a household line of cutlery and scissors.

The Cleaning Systems & Household Products segment primarily serves consumer, institutional, commercial and industrial markets.

Education & Information Systems

Scott Fetzer, through its wholly-owned subsidiary, World Book, 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 9,035 full and part-time independent commissioned sales representatives. World Book, through subsidiaries and branches having approximately 849 independent commissioned sales representatives, conducts direct selling operations in Canada, Japan, Australia, the British Isles and the Caribbean. Substantially all of World Book's Japanese operations were sold in December, 1981. 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, 1981, the face amount of these receivables totaled approximately \$130 million.

In 1981, 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 1979, 1980 and 1981, sales of World Book products under the World Book and other names accounted for approximately 37%, 42% and 40%, respectively, of total revenues from continuing operations of Scott Fetzer.

The Education & Household Systems segment primarily serves the consumer, educational and mass merchandiser markets.

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; grey and ductile iron castings, air receivers; compressed gas containers; and high pressure sprayers and washers. These products are sold by mass merchandisers under private labels by various retail stores under the Campbell Hausfeld brand name and through independent distributors and sales representatives. During fiscal 1981, Campbell Hausfeld introduced a new, light-weight air power service called Power Pal™ into the consumer market. For fiscal years 1979 through 1981, sales of complete spraying units and components accounted for approximately 13%, 12% and 13%, respectively, of total sales from continuing operations of Scott Fetzer.

In addition, Scott Fetzer assembles and sells under the Wayne Home Equipment name, power gas and oil burners and water circulating, sump and other pumps. During fiscal 1981, Wayne Home Equipment introduced a new cost and energy efficient burner called the Blue Angel™.

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

The Fluid Transmission segment serves primarily do-it-yourself hardware, home center and mass merchandiser markets, but original equipment and industrial markets represent growing areas of activity.

Vehicular Products

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.

The Vehicular Products segment primarily serves the recreational vehicle, heavy duty truck, construction, agricultural equipment and military vehicular equipment markets.

Energy & Control

Scott Fetzer is engaged in the manufacture and sale of explosion-proof fittings and 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, couplers and liquid-tight conduit fittings; 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 solid-state control; fractional horsepower motors for electrical appliances and other products; and timing devices for residential and commercial appliances. 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.

Markets for the Energy & Control segment include construction, electrical sign, appliance and oil and gas industries.

Acquisitions and Dispositions

During the first quarter, 1981, Scott Fetzer sold its Streamway Division for cash and a note. Effective December 1, 1981, substantially all of World Book's operations in Japan were sold in a cash transaction.

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 purchased domestically 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 on company-sponsored research and development and on customer-sponsored research activities relating to the development of new products, services or techniques or the improvement of existing products, services or techniques during fiscal years 1981 and 1980 were not material.

During fiscal 1981, Scott Fetzer formed a new Advanced Product Technology Center to develop new applications for its various business segments.

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, 1982, Scott Fetzer employed in continuing operations 15,679 persons, of whom 11,758 were salaried and 3,921 were hourly. A total of 1,814 hourly employees in 13 of Scott Fetzer's 49 facilities are represented by labor organizations. Scott Fetzer has enjoyed generally good relations with its employees. A total of 672 employees are covered by 5 labor contracts which are scheduled for renegotiation during fiscal 1982.

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 trustee pension plans and profit-sharing retirement plans. See Note 9 of the Notes to Financial Statements on page 31 of the 1981 Annual Report to shareholders of the Company, which note is incorporated herein by reference, for information concerning contributions by Scott Fetzer under such plans and other data.

ITEM 2. Properties

The following table sets forth the principal domestic plants and other materially important domestic properties of the Company and its subsidiaries. The leased properties are indicated with an asterisk. The number in parenthesis indicates number of facility locations in each city.

<u>UNITED STATES</u>		
<u>State</u>	<u>City</u>	<u>Business Segment</u>
Arkansas	Walnut Ridge* (1)	A
California	Lodi (2)	E
	Merced (1)	E
Colorado	Broomfield* (2)	E
Connecticut	Shelton* (1)	A/E
Georgia	Valdosta* (1)	E
Illinois	Chicago* (2)	B
Indiana	Ft. Wayne (2)	D
	Kokomo (1)	E
	Elkhart* (1)	E

Kentucky	Leitchfield (1)	D
	Shelbyville* (1)	E
Michigan	Bronson (2)	E
New York	Watertown (1)	C
	Watertown* (1)	C
Ohio	Akron (1)	A
	Avon Lake (1)	D
	Bedford Hts.* (1)	C
	Bowling Green* (1)	A
	Brookpark* (1)	A
	Cardington (1)	E
	Chagrin Falls* (1)	A
	Cleveland (5)	A/C
	Cleveland* (2)	A
	Fremont (1)	A
	Harrison* (2)	D
	Harrison (1)	D
	Lakewood* (1)	F
	Twinsburg* (1)	A
	Westlake (1)	A
	Wooster (1)	E
Oklahoma	Durant* (1)	E
Tennessee	Fairview (2)	C
	Livingston (1)	C
	Portland (1)	A
	Smithville (1)	C
Texas	Andrews (1)	A

(A) Cleaning Systems & Household Products; (B) Education & Information Systems; (C) Energy & Control; (D) Fluid Transmission; (E) Vehicular Products; (F) Corporate Office.

Scott Fetzer believes that its properties have been adequately maintained, are in good condition generally, and are suitable and adequate for its business as presently conducted. The extent of utilization of Scott Fetzer's properties varies among its plants from time to time.

Scott Fetzer's various continuing operations are conducted in 49 facilities in 34 locations in 14 states. Scott Fetzer maintains sales offices and warehouse facilities in various foreign countries and conducts certain manufacturing operations in Whitby, 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 7 of the Notes to Financial Statements on Page 30 of the 1981 Annual Report to shareholders of Scott Fetzer, which note is incorporated herein by reference.

ITEM 3. Legal Proceedings

In October, 1980, and January and August, 1981, respectively, the Attorneys General of Texas, New Mexico and Iowa, commenced civil lawsuits in the Federal District Courts located in those states against the Company, an independent distributor and certain independent divisional supervisors, under state antitrust statutes and under federal antitrust statutes as parens patriae for citizens of their states. These suits allege that the Company, through its Kirby Group operations, has in connection with the sale of Kirby vacuum cleaners and associated products, attempted to restrain trade, fix and maintain prices, boycott unauthorized purchasers, and restrict and allocate customers and territories. Each state has requested that the alleged violations be enjoined, that civil penalties be imposed and that monetary damages, certain of which would be trebled, be assessed. The Company believes that it has not violated the antitrust laws and has meritorious defenses which it will vigorously assert. The ultimate cost to the Company of an unfavorable disposition of these cases is not now determinable. In the opinion of management, the Company does not anticipate that the ultimate disposition of these lawsuits will have a material effect on the consolidated financial position and consolidated results of operations.

ITEM 4. Security Ownership of Certain Beneficial Owners and Management

The information concerning "Stock Ownership" on pages 8 and 9 of Scott Fetzer's definitive Proxy Statement ("Proxy Statement") dated February 16, 1982, are incorporated herein by reference.

Executive Officers of Scott Fetzer

The following is a schedule of names, ages and positions of officers as of February 1, 1982, of Scott Fetzer. There are no family relationships among these officers. All executive officers are elected annually by the Directors.

<u>Name</u>	<u>Age</u>	<u>Title</u>
John Bebbington	56	Senior Vice President
John Bebbington has been employed by Scott Fetzer for more than five years in such capacities as Group Vice President (7/19/71 to 9/1/78) and Senior Vice President (9/1/78 to present).		
J. F. Bradley	51	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 (3/1/72 to 3/1/77) and Executive Vice President-Administration and Finance (3/1/77 to present).

Kenneth D. Hughes

60

Vice President and Treasurer

Kenneth D. Hughes has been employed by Scott Fetzer for more than five years in such capacities as Treasurer, Controller, Assistant Secretary (1/1/70 to 11/1/78) and Vice President and Treasurer (11/1/78 to present).

Kearney K. Kier

45

Group Vice President

Kearney K. Kier has been employed by Scott Fetzer for the past five years in such capacities as Division President (11/1/76 to 2/1/79) and Group Vice President (2/1/79 to present).

Walter A. Rajki

56

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 (6/1/72 to 9/1/78) and Senior Vice President (9/1/78 to present).

Ralph E. Schey

57

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 Executive Officer (12/1/76 to present).

Kenneth J. Semelsberger 45 Group Vice President

Kenneth J. Semelsberger has been employed by Scott Fetzer for more than five years in such capacities as Division President (2/1/76 to 9/1/78) and Group Vice President (9/1/78 to present).

Robert C. Weber 51 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, General Counsel (12/20/72 to 12/2/80) and Vice President (12/2/80 to present).

PART II

ITEM 5. Market for the Registrant's Common Stock and Related Security Holder Matters

Common Stock Market Price and Dividend Information on page 1 of the Annual Report to shareholders for the year ended November 30, 1981, is incorporated herein by reference. The number of holders of common shares of Scott Fetzer as of January 29, 1982, was 7,001.

ITEM 6. Selected Financial Data

Selected Financial Data on page 1 of the Annual Report to shareholders for the year ended November 30, 1981, is incorporated herein by reference.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management Review of Operations and Financial Position on pages 16 through 19 of the Annual Report to shareholders for the year ended November 30, 1981, is incorporated herein by reference.

ITEM 8. Financial Statements and Supplementary Data

The following consolidated financial statements of the registrant and its subsidiaries, included on pages 20 through 33 in the Annual Report to

shareholders for the fiscal year ended November 30, 1981, are incorporated herein by reference.

Consolidated Balance Sheet as of November 30, 1981 and 1980.

Consolidated Statement of Shareholders' Equity for the fiscal years ended November 30, 1981, 1980 and 1979.

Consolidated Statement of Income for the fiscal years ended November 30, 1981, 1980 and 1979.

Consolidated Statement of Changes in Financial Position for the fiscal years ended November 30, 1981, 1980 and 1979.

Notes to Consolidated Financial Statements.

PART III

ITEM 9. Directors and Executive Officers of the Registrant

Information as to the Directors of Scott Fetzer is contained on pages 2 through 4 of Scott Fetzer's definitive Proxy Statement, which information is incorporated herein by reference.

ITEM 10. Management Remuneration and Transactions

Information under the captions "Remuneration," "Pension Plans," and "Stock Options" on pages 6 through 10 of the Proxy Statement is incorporated herein by reference.

PART IV

ITEM 11. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1-2. The response to this portion of Item 11 is submitted as a separate section of this report.

3. Exhibits

(3)(i) Articles of Incorporation (as Amended)

- (ii) Regulations
- (4)(i) Indenture between The Scott & Fetzer Company and National City Bank dated May 15, 1975, for 30 million dollars of 9-1/4% Notes due May 15, 1985.
- (ii) Note Agreement between The Scott & Fetzer Company and The Prudential Insurance Company of America for 40 million dollars of 9-1/2% Notes due in equal installments of 2.5 million dollars 1983 through August, 1998.
 - (iii) Note Agreement between World Book Finance, Inc., and The Prudential Insurance Company of America for 50 million dollars of 10% Notes due in installments 1980 through August, 1998.
 - (iv) Note Agreement between World Book Finance, Inc., and The Prudential Insurance Company of America for a 25 million dollar 14-3/4% Note due in equal installments June, 1985, through June, 1989.
 - (v) Term Loan Agreement between World Book Finance, Inc., and the First National Bank of Chicago for 25 million dollars at 8-3/4% through August 31, 1982, thereafter adjusted to equal the Bank's corporate base rate multiplied by a factor of 1.12 and payable in annual installments commencing August, 1983, through August, 1986.
- (10)(i) Three-Party Agreement dated June 15, 1981, involving the purchase of land in Westlake, Ohio, for the building of the Corporate offices of The Scott & Fetzer Company.
- (ii) The Scott & Fetzer Company Stock Option Plan adopted in 1973, as amended.
 - (iii) The Scott & Fetzer Company 1981 Stock Option Plan adopted November 24, 1981, which is subject to shareholder approval at the March 23, 1982, Annual Shareholders' Meeting.
 - (iv) The Scott & Fetzer Company's Incentive Compensation Program.
 - (v) Deferred Compensation Agreement between The Scott & Fetzer Company and Mr. Ralph E. Schey.

- (vi) Contingent Compensation Agreements between The Scott & Fetzer Company and Messrs. Schey, Bebbington, Bradley, Kier, Rajki and Semelsberger.
 - (vii) Insurance contracts between certain officers and employees of The Scott & Fetzer Company for long-term disability and death benefits.
 - (13) The Scott & Fetzer Company's 1981 Annual Report to shareholders.
 - (22) Subsidiaries of The Scott & Fetzer Company.
- (b) No reports on Form 8-K have been filed by the Company during the last quarter for the fiscal year ended November 30, 1981.

SIGNATURES

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


The Scott & Fetzer Company

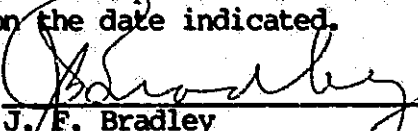
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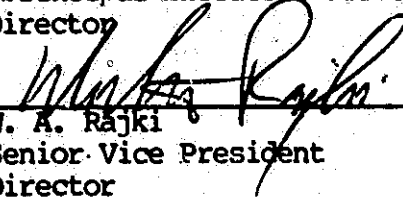
J. F. Bradley
Executive Vice President-
Finance and Administration;
(Principal Financial Officer)
Director

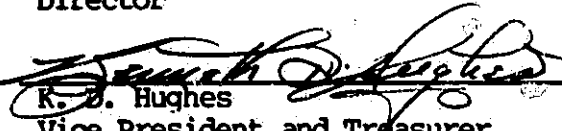
Date February 25, 1982

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.


R. E. Schey
Chairman, President and
Chief Executive Officer;
(Principal Executive Officer)
Director


J. F. Bradley
Executive Vice President-
Finance and Administration
(Principal Financial Officer)
Director


W. A. Rajki
Senior Vice President
Director


R. D. Hughes
Vice President and Treasurer
(Principal Accounting Officer)

J. T. Bailey
Director

R. W. Bjork
Director

J. A. Hughes
Director

L. C. Jones
Director

D. W. Karger
Director

R. L. Swiggett
Director

SIGNATURES

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

The Scott & Fetzer Company

By _____

J. F. Bradley
Executive Vice President-
Finance and Administration;
(Principal Financial Officer)
Director

Date _____

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

R. E. Schey
Chairman, President and
Chief Executive Officer;
(Principal Executive Officer)
Director

J. F. Bradley
Executive Vice President-
Finance and Administration
(Principal Financial Officer)
Director

W. A. Rajki
Senior Vice President
Director

K. D. Hughes
Vice President and Treasurer
(Principal Accounting Officer)

J. T. Bailey

J. T. Bailey
Director

R. W. Bjork
Director

J. A. Hughes
Director

L. C. Jones
Director

D. W. Karger
Director

R. L. Swiggett
Director

SIGNATURES

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

The Scott & Fetzer Company

By _____

J. F. Bradley
Executive Vice President
Finance and Administration;
(Principal Financial Officer)
Director

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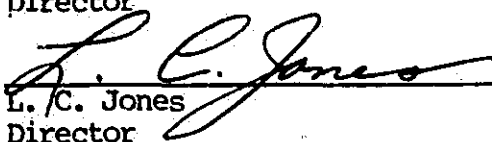
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Director

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

The consolidated financial statements and the report thereon of Independent Certified Public Accountants appear on pages 20 through 34 of the attached 1981 Annual Report to shareholders, which pages are incorporated by reference in this Form 10-K Annual Report. With the exception of the aforementioned pages, the 1981 Annual Report to shareholders is not deemed filed as part of this report.

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	Form 10-K
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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 is not required, is either not pertinent or not significant, or because the data is given in the consolidated financial statements or the notes thereto.

REPORT AND CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Our report on the consolidated financial statements of The Scott & Fetzer Company has been incorporated by reference in this Form 10-K from the 1981 annual report to shareholders of The Scott & Fetzer Company and appears on page 34 therein. In connection with our examinations of such financial statements, we have also examined the related financial statement schedules listed in the index on page F-1 of this Form 10-K.

In our opinion, the financial statement 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.

We also consent to the incorporation by reference in the registration statement of The Scott & Fetzer Company on Form S-8 (File No. 2-58431) of our report dated January 26, 1982 on our examinations of the consolidated financial statements and financial statement schedules of The Scott & Fetzer Company as of November 30, 1981, and 1980, and for the years ended November 30, 1981, 1980 and 1979, which report is included in this Annual Report on Form 10-K.

Coopers & Lybrand
Coopers & Lybrand

Cleveland, Ohio
January 26, 1982

THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE II - AMOUNTS RECEIVABLE FROM RELATED PARTIES AND UNDERWRITERS, PROMOTERS, AND EMPLOYEES OTHER THAN RELATED PARTIES

for the years ended November 30, 1981, 1980, and 1979

<u>Year Ended November 30,</u>	<u>COLUMN A Name of Debtor</u>	<u>COLUMN B Balance at Beginning of Period</u>	<u>COLUMN C Additions</u>	<u>COLUMN D Deductions</u>		<u>COLUMN E</u>	
				<u>Amounts Collected</u>	<u>Amounts Written Off</u>	<u>Balance at End of Period Current</u>	<u>Not Current</u>
1981	Robert H. King	\$187,500	—	\$50,000	—	\$50,000	\$ 87,500
1980	Robert H. King	\$237,500	—	\$50,000	—	\$50,000	\$137,500
1979	Robert H. King	—	\$250,000	\$12,500	—	\$50,000	\$187,500

In September, 1979, the Company loaned \$250,000 to Robert H. King - Chairman and Chief Executive Officer of World Book, 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 noninterest 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 RELATED PARTIES

Column A Name of Issuer and Description of Investment	Column B Balance at Beginning of Period		Column C Additions		Column E Balance at End of Period	
	Percentage Ownership	Amount	Equity in Earnings	Other	Percentage Ownership	Amount
Year ended November 30, 1981						
Unconsolidated subsidiaries						
World Book Finance, Inc.	100%	\$30,069,088	\$ 2,064,269		100%	\$32,133,357
World Book Life Insurance	100%	9,172,000	1,061,212		100%	10,233,212
Field Enterprises Int'l., Inc.	100%	(1,425,310)	(93,876)		100%	(1,519,186)
Joint Ventures			(1,581,030)	\$ 1,435,700 (A)	49-50%	(145,330)
		<u>\$37,815,778</u>	<u>\$ 1,450,575</u>	<u>\$ 1,435,700</u>		<u>\$40,702,053</u>
Year ended November 30, 1980						
Unconsolidated subsidiaries						
World Book Finance, Inc.	100%	\$28,275,831	\$ 1,793,257		100%	\$30,069,088
World Book Life Insurance	100%	6,369,000	803,000	\$ 2,000,000 (B)	100%	9,172,000
Field Enterprises Int'l., Inc.	100%	785,000	(2,210,310)		100%	(1,425,310)
		<u>\$35,429,831</u>	<u>\$ 385,947</u>	<u>\$ 2,000,000</u>		<u>\$37,815,778</u>
Year ended November 30, 1979						
Unconsolidated Subsidiaries						
World Book Finance, Inc.	100%	\$26,432,250	\$ 1,843,581		100%	\$28,275,831
World Book Life Insurance	100%	5,733,000	636,000		100%	6,369,000
Field Enterprises Int'l., Inc.	100%	601,000	184,000		100%	785,000
		<u>\$32,766,250</u>	<u>\$ 2,663,581</u>			<u>\$35,429,831</u>

(A) Amount represents advances from parent company.

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

Column D is not presented as the information is not applicable.

THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES
SCHEDULE VII - GUARANTEES OF SECURITIES OF OTHER ISSUERS
November 30, 1981 and 1980

Column A	Column B	Column C	Column F
Name of Issuer of Securities Guaranteed by Person for Which Statement is Filed	Title of Issue of Each Class of Securities Guaranteed	Total Amount Guaranteed and Outstanding	Nature of Guarantee
November 30, 1981 <u>World Book Finance, Inc.</u>			
Short-term notes Field Enterprises International, Inc. (unconsolidated subsidiary of World Book, Inc.)	8.00-8.5625% notes payable	<u>\$ 10,322,552</u>	Principal
November 30, 1980 <u>World Book Finance, Inc.</u>			
Short-term notes Field Enterprises International Inc. (unconsolidated subsidiary of World Book, Inc.)	12.125-12.625% notes payable 11.9375-13.125% notes payable 10.00% note payable 12.6875-12.75% notes payable 12.55-17.50% notes payable	\$ 4,846,946 5,485,023 1,877,934 1,877,936 103,853 <u>\$ 14,191,692</u>	Principal Principal Principal Principal Principal
Field Educational Enterprises of Australasia, Pty. (consolidated subsidiary of The Scott & Fetzer Company)	11.45-14.35% notes payable	<u>\$ 2,847,427</u>	Principal

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

At November 30, 1981 and 1980, The Scott & Fetzer Company and its consolidated subsidiaries maintained guarantees of \$3,490,211 and \$3,980,936 for a consolidated foreign subsidiary.

THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES
 SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS
 for the years ended November 30, 1981, 1980, and 1979

<u>Column A</u> <u>Description</u>	<u>Column B</u> <u>Balance at Beginning of Period</u>	<u>Column C</u> <u>Additions</u>		<u>Column D</u> <u>Deductions</u>	<u>Column E</u> <u>Balance End of Period</u>
		<u>Charged to costs and expenses</u>	<u>Company Acquired</u>		
Year Ended November 30, 1981 Allowance for Doubtful Accounts	\$12,124,043	\$ 7,840,030	—	\$ 7,942,022 (A)	\$12,022,051
Year Ended November 30, 1980 Allowance for Doubtful Accounts	\$10,724,667	\$ 8,586,540	—	\$ 7,187,164 (A)	\$12,124,043
Year Ended November 30, 1979 Allowance for Doubtful Accounts	\$ 6,071,797	\$ 7,257,177	\$ 1,861,000	\$ 4,465,307 (A)	\$10,724,667

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

THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES

SCHEDULE IX - SHORT-TERM BORROWINGS

for the years ended November 30, 1981, 1980, and 1979

<u>COLUMN A</u>	<u>COLUMN B</u>	<u>COLUMN C</u>	<u>COLUMN D</u>	<u>COLUMN E</u>	<u>COLUMN F</u>
<u>Category of Aggregate Short-Term Borrowings</u>	<u>Balance at End of Period</u>	<u>Weighted Average Interest Rate</u>	<u>Maximum Outstanding During the Period</u>	<u>Average Amount Outstanding During the Period (A)</u>	<u>Weighted Average Interest Rate During the Period Based on Monthly Average Balances Outstanding</u>
Year Ended November 30, 1981 Amounts Payable to Banks for Borrowings	\$4,505,626	16.5%	\$7,849,418	\$6,162,908	16.5%
Year Ended November 30, 1980 Amounts Payable to Banks for Borrowings	\$6,884,823	13.0%	\$8,547,320	\$7,712,148	14.8%
Year Ended November 30, 1979 Amounts Payable to Banks for Borrowings	\$8,468,777	11.0%	\$8,948,936	\$8,386,652	12.6%

At November 30, 1981, 1980 and 1979, the Company maintained short-term debt balances due only to foreign banks.

(A) The average amount outstanding during the period was computed by dividing the total of month-end outstanding principal balances by 12.

THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES
SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION
for the years ended November 30, 1981, 1980, and 1979

<u>Column A</u>	<u>Column B</u>
<u>Item</u>	<u>Charged to</u> <u>Costs and Expenses</u>
Year Ended November 30, 1981	
Maintenance and Repairs	\$ 8,104,136
Advertising	\$12,554,566
Year Ended November 30, 1980	
Maintenance and Repairs	\$ 6,214,507
Advertising	\$10,660,431
Year Ended November 30, 1979	
Maintenance and Repairs	\$ 7,019,707
Advertising	\$10,731,195

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

COOPERS & LYBRAND

CERTIFIED PUBLIC ACCOUNTANTS

A MEMBER FIRM OF
COOPERS & LYBRAND (INTERNATIONAL)

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, 1981 and 1980, and the related consolidated statements of income and retained earnings, and changes in financial position for the years ended November 30, 1981, 1980 and 1979. 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, 1981 and 1980, and the consolidated results of their operations and changes in their financial position for the years ended November 30, 1981, 1980 and 1979, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Chicago, Illinois
February 19, 1982

WORLD BOOK FINANCE, INC.
 CONSOLIDATED BALANCE SHEETS
 November 30, 1981 and 1980

ASSETS	<u>1981</u>	<u>1980</u>
Cash (Note 3)	\$ 1,384,760	\$ 4,216,145
Commercial paper and certificates of deposit	40,954,907	23,831,381
Finance receivables, net of contract reserve and unearned finance charges of \$40,319,717 in 1981 and contract reserve of \$36,377,856 in 1980 (Notes 1 and 2)	89,517,763	75,713,196
Accrued interest receivable	1,576,173	278,156
Furniture and fixtures, net of accumulated depreciation of \$6,276	63,820	
Prepaid income taxes		44,731
Total assets	<u>\$133,497,423</u>	<u>\$104,083,609</u>
LIABILITIES		
Current portion of long-term debt (Note 3)	\$ 2,625,000	\$ 2,625,000
Accrued interest and other expenses	3,188,847	1,278,036
Distributors' reserves	1,446,040	204,252
Unearned acquisition fees	281,709	88,513
Due to World Book, Inc.	1,697,470	68,720
Long-term debt (Note 3)	<u>92,125,000</u>	<u>69,750,000</u>
Total liabilities	<u>101,364,066</u>	<u>74,014,521</u>
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)	<u>6,132,357</u>	<u>4,068,088</u>
Total shareholders' equity	<u>32,133,357</u>	<u>30,069,088</u>
Total liabilities and shareholders' equity	<u>\$133,497,423</u>	<u>\$104,083,609</u>

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, 1981, 1980 and 1979

	<u>1981</u>	<u>1980</u>	<u>1979</u>
Revenue			
Facilitating fee	\$ 7,649,669	\$ 8,274,589	\$ 9,597,364
Interest income	<u>7,489,780</u>	<u>3,275,264</u>	<u>1,413,252</u>
	<u>15,139,449</u>	<u>11,549,853</u>	<u>11,010,616</u>
Expenses			
Operating expenses	2,500,127	812,354	174,677
Interest expense	<u>8,426,215</u>	<u>7,158,333</u>	<u>7,223,959</u>
	<u>10,926,342</u>	<u>7,970,687</u>	<u>7,398,636</u>
Income before income taxes	<u>4,213,107</u>	<u>3,579,166</u>	<u>3,611,980</u>
Provision for income taxes			
Federal	1,758,450	1,527,590	1,581,028
State and local	<u>390,388</u>	<u>258,319</u>	<u>187,371</u>
	<u>2,148,838</u>	<u>1,785,909</u>	<u>1,768,399</u>
Net income	2,064,269	1,793,257	1,843,581
Beginning retained earnings	<u>4,068,088</u>	<u>2,274,831</u>	<u>431,250</u>
Ending retained earnings	<u>\$ 6,132,357</u>	<u>\$ 4,068,088</u>	<u>\$ 2,274,831</u>

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, 1981, 1980 and 1979

	<u>1981</u>	<u>1980</u>	<u>1979</u>
Sources of funds			
From operations			
Net income	\$ 2,064,269	\$ 1,793,257	\$ 1,843,581
Depreciation	6,276		
Increase (decrease) in accrued interest and other expenses	1,910,811	(174,764)	102,131
Increase (decrease) in income taxes currently payable	44,731	(158,275)	(353,644)
Increase in distributors' reserves	1,241,788	204,252	
Increase in unearned acquisition fees	193,196	88,513	
Increase in due to World Book, Inc.	1,628,750	1,917,837	584,313
Increase (decrease) in long-term debt	<u>22,375,000</u>	<u>(2,625,000)</u>	
	<u>\$29,464,821</u>	<u>\$ 1,045,820</u>	<u>\$ 2,176,381</u>
Application of funds			
Increase in cash and short-term investments	\$14,292,141	\$ 1,589,995	\$ 21,760,227
Increase (decrease) in finance receivables, net of contract reserve and unearned finance charges	13,804,567	(822,331)	(19,583,846)
Increase in accrued interest receivable	1,298,017	278,156	
Purchase of furniture and fixtures	<u>70,096</u>		
	<u>\$29,464,821</u>	<u>\$ 1,045,820</u>	<u>\$ 2,176,381</u>

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

WORLD BOOK FINANCE, INC.

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, Inc. (WBI), which is a wholly-owned subsidiary of The Scott & Fetzer Company (Scott Fetzer), organized to finance domestic installment receivables. WBFI purchases receivables from WBI on a nonrecourse basis under the provisions of an operating agreement, as amended, dated August 31, 1978. The agreement calls for WBI 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 (URFC) purchases receivables with recourse, under the provisions of an operating agreement dated June 30, 1981, from the independent-contractor-distributors of the Kirby Group of Scott Fetzer. The gross amount of these receivables includes unearned finance charges, which are recognized over the financing term of the receivables.

Short-Term Investments - Commercial paper and certificates of deposit are carried at cost, which approximates market value. Interest income is recognized as earned.

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 WBI.

Distributors' Reserves - Upon the purchase of receivables, URFC withholds from the purchase price an amount equal to 10% of the gross receivable balance. Defaulted accounts are only charged against this reserve if they are not repurchased by the distributors.

WORLD BOOK FINANCE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

1. Accounting Policies, continuedDistributors' Reserves, continued

Any amount in the contract reserve at the end of each quarter in excess of 15% of a distributor's total receivables, but not less than \$5,000, is remitted to that distributor. Under certain circumstances, URFC may not purchase the entire receivable amount. Any such amount not purchased is established as an additional deferred payable and is included as a part of distributor reserves. Such deferred payables are eligible for release to the distributor if the receivable is current at the mid-point in the financing term.

Income Taxes - The Company's taxable income is included in the consolidated tax return of Scott Fetzer. 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.

Furniture and Fixtures - Furniture and fixtures are stated at cost. Depreciation is charged to operations based on the straight-line method over the useful lives of the assets.

2. Finance Receivables

The maturities of finance receivables outstanding at November 30, 1981 and 1980 were as follows:

	<u>1981</u>	<u>1980</u>
Due in one year or less	\$ 40,884,000	\$ 34,348,000
Due after one but not more than two years	58,880,000	50,979,000
Due after two years	<u>30,073,000</u>	<u>26,764,000</u>
	<u>\$129,837,000</u>	<u>\$112,091,000</u>

The following reflects the changes in the contract reserve from November 30, 1978 through November 30, 1981:

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	<u>(1,100,000)</u>
Balance, November 30, 1980	36,377,856
Amounts withheld on purchase of customer obligations	17,223,000
Defaulted customer obligations	(14,618,078)
Reserves returned per operating agreement	<u>(650,000)</u>
Balance, November 30, 1981	<u>\$ 38,332,778</u>

WORLD BOOK FINANCE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

3. Long-Term Debt

Long-term debt at November 30, 1981 and 1980 consisted of the following:

	<u>1981</u>	<u>1980</u>
10% notes - maturities to 1998	\$42,125,000	\$44,750,000
Term loan - maturities from 1983 thru 1986	25,000,000	25,000,000
14.75% note - maturities from 1985 thru 1989	<u>25,000,000</u>	
Total long-term debt	<u>\$92,125,000</u>	<u>\$69,750,000</u>

Under the provisions of the 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 110% of total indebtedness (less the aggregate of senior and junior subordinated indebtedness held by WBI or Scott Fetzer); 2) net earnings available for fixed charges will not be less than 150% of fixed charges for any quarter; 3) the senior indebtedness of the Company shall not exceed 400% of shareholders' equity; 4) shareholders' equity will not be less than \$25,000,000; 5) the aggregate indebtedness of the Company plus deferred tax obligations shall not exceed 600% of shareholders' equity and 6) 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 November 30, 1979. At November 30, 1981 retained earnings in the amount of \$3,857,526 were available for the payment of dividends.

The 10% notes are payable in annual installments of \$2,625,000 to 1997, 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.

The 14.75% note represents financing completed June 30, 1981, to be used for the purchase of receivables from qualifying distributors of the Kirby Group of Scott Fetzer. The note is payable in five annual installments of \$5,000,000, commencing June 30, 1985.

Aggregate maturities of long-term debt during the five-year period November 30, 1982 through November 30, 1986 are \$2,625,000, \$8,875,000, \$8,875,000, \$13,875,000 and \$13,875,000, respectively.

WORLD BOOK FINANCE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

4. Contingent Liabilities

As of November 30, 1981, WBFI has guaranteed \$10,322,552 of debt obligations of an unconsolidated foreign finance subsidiary of WBI.

5. Reclassifications

Certain amounts reflected in the prior year financial statements have been reclassified to conform to the 1981 presentation.

EXHIBIT INDEX
TO FORM 10-K
THE SCOTT & FETZER COMPANY
For The Fiscal Year Ended
November 30, 1981

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AMENDED ARTICLES OF INCORPORATION**OF****THE SCOTT & FETZER COMPANY**

FIRST: The name of the Corporation is **THE SCOTT & FETZER COMPANY**.

SECOND: The place in Ohio where its principal office is to be located is **Lakewood, Cuyahoga, County, Ohio**.

THIRD: The purpose or purposes for which the Corporation is formed and existing are:

(a) To develop, manufacture, produce, repair, treat, finish, buy, sell and generally deal in, in every manner, in materials, articles and products of every kind and description, and to do all things necessary or incidental thereto, including owning, holding and dealing in, in every manner, in all real and personal property whether necessary or incidental to the foregoing purposes or otherwise.

(b) In general to carry on any other lawful business whatsoever, whether similar or dissimilar to the foregoing and whether or not related to the foregoing, and to engage in any other business or activities in connection with the business of the Corporation or which is calculated, directly or indirectly, to promote the interests of the Corporation or to enhance the value of its properties; and to have and exercise all rights, powers and privileges which are now or may hereafter be conferred upon corporations by the laws of Ohio; provided, however, that nothing contained in this Article 3 shall be construed as authorizing the Corporation to carry on the business of a public utility or railroad as defined by the public utility laws of the State of Ohio.

FOURTH: The maximum number of shares which the Corporation is authorized to have outstanding is 16,000,000, consisting of 1,000,000 shares of Serial Preference Stock without par value (hereinafter called "Serial Preference Stock") and 15,000,000 Common Shares without par value (hereinafter called "Common Shares").

The express terms of the shares of each class are as follows:

DIVISION A**Express Terms of the Serial Preference Stock**

Section 1. The Serial Preference Stock may be issued from time to time in one or more series. All shares of Serial Preference Stock shall be of equal rank and shall be identical, except in respect of the matters that may be fixed by the Board of Directors as hereinafter provided, and each share of each series shall be identical with all other shares of such series, except as to the date from which dividends are cumulative. Subject to the provisions of this Division, which shall apply to all Serial Preference Stock, the Board of Directors hereby is authorized to cause shares of Serial Preference Stock to be issued in one or more series and with respect to each such series to fix:

- (a) The designation of the series, which may be by distinguishing number, letter and/or title.
- (b) The number of shares of the series, which number the Board of Directors may (except where otherwise provided in the creation of the series) increase or decrease (but not below the number of shares thereof then outstanding).
- (c) The annual dividend rate of the series.
- (d) The dates at which dividends, if declared, shall be payable, and the dates from which dividends shall be cumulative.
- (e) The redemption rights and price or prices, if any, for shares of the series.
- (f) The terms and amount of any sinking fund provided for the purchase or redemption of shares of the series.
- (g) The amounts payable on shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation.
- (h) Whether the shares of the series shall be convertible into shares of any other class or series of the Corporation, and, if so, the specification of such other class or series, the conversion price or prices or rate or rates, any adjustments thereof, the date or dates as of which such shares shall be convertible and all other terms and conditions upon which such conversion may be made.
- (i) Restrictions (in addition to those set forth in Sections 6(b) and 6(c) of this Division) on the issuance of shares of the same series or of any other class or series.

The Board of Directors is authorized to adopt from time to time amendments to the Amended Articles of Incorporation fixing, with respect to each such series, the matters described in clauses (a) to (i), inclusive, of this Section 1.

Section 2. The holders of Serial Preference Stock of each series, in preference to the holders of Common Shares and of any other class of shares ranking junior to the Serial Preference Stock, shall be entitled to receive out of any funds legally available and when and as declared by the Board of Directors dividends in cash at the rate for such series fixed in accordance with the provisions of Section 1 of this Division and no more, payable on the dividend payment dates fixed for such series. Such dividends shall be cumulative, in the case of shares of each particular series, from and after the date or dates fixed with respect to such series. No dividend may be paid upon or set apart for any of the Serial Preference Stock at any time unless (i) all dividends payable upon and then outstanding Serial Preference Stock on any dividend payment date occurring prior to such time shall have been paid or funds therefor set apart, and (ii) at the same time a like dividend, ratably in proportion to the respective annual dividend rates, shall be paid upon all shares of Serial Preference Stock then outstanding and entitled to receive such dividend, or funds therefor set apart.

Section 3. In no event so long as any Serial Preference Stock shall be outstanding shall any dividends, except a dividend payable in Common Shares or other shares ranking junior to the Serial Preference Stock, be paid or declared or any distribution be made except as aforesaid on the Common Shares or any other shares ranking junior to the Serial Preference Stock, nor shall any Common Shares or any other shares ranking junior to the Serial Preference Stock be purchased, retired or otherwise acquired by the Corporation (except out of the proceeds of the sale of Common Shares or other shares ranking junior to the Serial Preference Stock received by the Corporation on or subsequent to the date on which shares of Serial Preference Stock are first issued), unless (i) all accrued dividends upon all Serial Preference Stock then outstanding payable on all dividend payment dates occurring on or prior to the date of such action shall have been paid or funds therefor set apart, and (ii) at the date of such action there shall be no arrearages with respect to the redemption of Serial Preference Stock of any series from any sinking fund provided for shares of such series in accordance with Section 1 of this Division.

Section 4. (a) Subject to the express terms of each series and to the provisions of Section 6(c) (iv) of this Division, the Corporation may from time to time redeem all or any part of the Serial Preference Stock of any series at the time outstanding (i) at the option of the Board of Directors at the applicable redemption price for such series fixed in accordance with the provisions of Section 1 of this Division, or (ii) in fulfillment of the requirements of any sinking fund provided for shares of such series at the applicable sinking fund redemption price fixed in accordance with the provisions of Section 1 of this Division, together in each case with (i) all then unpaid dividends upon such shares payable on all dividend payment dates for such series occurring on or prior to the redemption date plus (ii) if the redemption date is not a dividend payment date for such series, a proportionate dividend, based on the number of elapsed days, for the period from the day following the most recent such dividend payment date through the redemption date.

(b) Notice of every such redemption shall be mailed, postage prepaid, to the holders of record of the Serial Preference Stock to be redeemed at their respective addresses then appearing on the books of the Corporation, not less than 30 days nor more than 60 days prior to the date fixed for such redemption. At any time before or after notice has been given as above provided, the Corporation may deposit the aggregate redemption price of the shares of Serial Preference Stock to be redeemed, together with an amount equal to the aggregate amount of dividends payable upon such redemption, with any bank or trust company in Cleveland, Ohio, or New York, New York, having capital and surplus of more than \$5,000,000, named in such notice, and direct that such deposited amount be paid to the respective holders of the shares of Serial Preference Stock so to be redeemed upon surrender of the stock certificate or certificates held by such holders. Upon the giving of such notice and the making of such deposit such holders shall cease to be shareholders with respect to such shares and shall have no interest in or claim against the Corporation with respect to such shares except only the right to receive such money from such bank or trust company without interest or to exercise, before the redemption date, any unexpired privileges of conversion.

(c) In case less than all of the outstanding shares of any series of Serial Preference Stock are to be redeemed, the Corporation shall select pro rata or by lot the shares so to be redeemed in such manner as shall be prescribed by its Board of Directors.

(d) If the holders of shares of Serial Preference Stock which shall have been called for redemption shall not, within six years after such deposit, claim the amount deposited for the redemption thereof, any such bank or trust company shall, upon demand, pay over to the Corporation such unclaimed amounts and thereupon such bank or trust company and the Corporation shall be relieved of all responsibility in respect thereof and to such holders.

(e) Any shares of Serial Preference Stock which are (i) redeemed by the Corporation pursuant to the provisions of this Section 4, (ii) purchased and delivered in satisfaction of any sinking fund requirements provided for shares of any series of Serial Preference Stock, (iii) converted in accordance with the express terms of any such series, or (iv) otherwise acquired, shall resume the status of authorized and unissued shares of Serial Preference Stock without serial designation; provided, however, that any such shares which are so converted shall not be reissued as convertible shares.

Section 5. (a) The holders of Serial Preference Stock of any series shall, in case of liquidation, dissolution or winding up of the affairs of the Corporation, be entitled to receive in full out of the assets of the Corporation, including its capital, before any amount shall be paid or distributed among the holders of the Common Shares or any other shares ranking junior to the Serial Preference Stock, the amount fixed with respect to shares of such series in accordance with Section 1 of this Division, plus an amount equal to (i) all then unpaid dividends upon such shares payable on all dividend payment dates for such series occurring on or prior to the date of payment of the amount due pursuant to such liquidation, dissolution or winding up, plus (ii) if such date is not

a dividend payment date for such series, a proportionate dividend, based on the number of elapsed days, for the period from the day following the most recent such dividend payment date through such date of payment of the amount due pursuant to such liquidation, dissolution or winding up. In case the net assets of the Corporation legally available therefor are insufficient to permit the payment upon all outstanding shares of Serial Preference Stock of the full preferential amount to which they are respectively entitled, then such net assets shall be distributed ratably upon outstanding shares of Serial Preference Stock in proportion to the full preferential amount to which each such share is entitled.

After payment to holders of Serial Preference Stock of the full preferential amounts as aforesaid, holders of Serial Preference Stock as such shall have no right or claim to any of the remaining assets of the Corporation.

(b) The merger or consolidation of the Corporation into or with any other corporation, or the merger of any other corporation into it, or the sale, lease or conveyance of all or substantially all the property or business of the Corporation, shall not be deemed to be a dissolution, liquidation or winding up for the purposes of this Division.

Section 6. (a) The holders of outstanding Serial Preference Stock shall be entitled to one vote for each share of such stock upon all matters presented to the shareholders, irrespective of (i) the number of, or the voting power exercisable by the holders of Common Shares or any other class of shares of the Corporation issued or outstanding at any time and (ii) any changes in such number or voting power. Except as otherwise provided herein or required by law, the holders of Serial Preference Stock and the holders of Common Shares shall vote together as one class on all matters.

If, and so often as, the Corporation shall be in default in the payment of dividends on any series of Serial Preference Stock at the time outstanding in an amount equivalent to six quarterly dividends on such series of Serial Preference Stock, whether or not earned or declared, the holders of Serial Preference Stock of all series, voting separately as a class and in addition to all other rights to vote for Directors, shall thereafter be entitled to elect, as hereinbelow provided, two Directors of the Corporation who shall serve, except as hereinbelow provided, until the next annual meeting of the shareholders and until their successors have been elected and qualified. When the special class voting rights provided for herein shall have become vested they shall remain so vested until all accrued and unpaid dividends on the Serial Preference Stock of all series then outstanding shall have been paid or funds therefor set apart, whereupon the terms of Directors elected by the holders of Serial Preference Stock shall automatically terminate and the holders of Serial Preference Stock shall be divested of their special class voting rights in respect to subsequent elections of Directors, subject to the re-vesting of such special class voting rights in the event hereinabove specified in this paragraph.

In the event of default entitling the holders of Serial Preference Stock to elect two Directors as above specified, a special meeting of the holders of Serial Preference Stock for the purpose of electing such Directors shall be called by the Secretary of the Corporation upon written request of, or upon prior written notice to the Secretary of the Corporation may be called by, the holders of record of at least 10% of the shares

of Serial Preference Stock of all series at the time outstanding, and notice thereof shall be given in the same manner as that required for the annual meeting of shareholders; provided, however, that the Corporation shall not be required, and the holders of Serial Preference Stock shall not be entitled, to call such special meeting if the annual meeting of shareholders shall be held within 90 days after the date of receipt by the Secretary of the Corporation of the foregoing written request or notice from the holders of Serial Preference Stock. At any annual meeting of shareholders or special meeting called for such purpose at which the holders of Serial Preference Stock shall be entitled to elect Directors, the holders of 35% of the then outstanding shares of Serial Preference Stock of all series, present in person or by proxy, shall be sufficient to constitute a quorum for such purpose, and the vote of the holders of a majority of such shares so present at any such meeting at which there shall be such a quorum shall be necessary and sufficient to elect the members of the Board of Directors which the holders of Serial Preference Stock are entitled to elect as hereinabove provided. If at any such meeting there shall be less than a quorum for such purpose present, the holders of a majority of the shares of Serial Preference Stock so present may adjourn the meeting for such purpose only from time to time without notice other than announcement at the meeting until a quorum shall attend.

The two Directors who may be elected by the holders of Serial Preference Stock pursuant to the foregoing provisions shall be in addition to the whole authorized number of Directors of the Corporation fixed in the Regulations or by action of the shareholders, and nothing in such provisions shall prevent any change otherwise permitted in such whole authorized number of Directors of the Corporation or require the resignation of any Director elected otherwise than pursuant to such provisions.

(b) Except as hereinbelow provided, the affirmative vote of the holders of at least two-thirds of the shares of Serial Preference Stock at the time outstanding, given in person or by proxy at a meeting called for the purpose at which the holders of Serial Preference Stock shall vote separately as a class, shall be necessary to adopt any amendment to the Amended Articles of Incorporation (but so far as the holders of Serial Preference Stock are concerned, such amendment may be adopted with such vote) which:

(i) changes issued shares of all series of Serial Preference Stock then outstanding into a lesser number of shares of the Corporation of the same class or into the same or a different number of shares of the Corporation of any other class or series; or

(ii) changes the express terms of the Serial Preference Stock in any manner substantially prejudicial to the holders of all series thereof then outstanding; or

(iii) authorizes shares of any class, or any security convertible into shares of any class, or the conversion of any security into shares of any class, or an increase in the authorized amount of shares of any class or of any security convertible into shares of any class, ranking prior to the Serial Preference Stock; or

(iv) changes the express terms of issued shares of any class ranking prior to the Serial Preference Stock in any manner substantially prejudicial to the holders of all series of Serial Preference Stock then outstanding;

and, except as hereinbelow provided, the affirmative vote of the holders of at least two-thirds of the shares of the one or more series of Serial Preference Stock at the time outstanding affected by any amendment hereinafter referred to in this subsection (b), given in person or by proxy at a meeting called for the purpose at which the holders of shares of such one or more affected series of Serial Preference Stock shall vote separately as though any such one series alone or all such affected series collectively constituted a separate class, shall be necessary to adopt any amendment to the Amended Articles of Incorporation (but so far as the holders of Serial Preference Stock and of each such series of Serial Preference Stock are concerned, such amendment may be adopted with such vote) which:

(v) changes issued shares of Serial Preference Stock of one or more but less than all series then outstanding into a lesser number of shares of the Corporation of the same class and series or into the same or a different number of shares of the Corporation of any other class or series; or

(vi) changes the express terms of the Serial Preference Stock or any series thereof in any manner substantially prejudicial to the holders of one or more but less than all series thereof then outstanding; or

(vii) changes the express terms of issued shares of any class ranking prior to the Serial Preference Stock in any manner substantially prejudicial to the holders of one or more but less than all series of Serial Preference Stock then outstanding;

provided, however, that this subsection (b) shall not apply to, and the votes herein specified shall not be required for the approval of, any action of the types described in the preceding clauses (i) through (vii) which is a part of or effected in connection with the consolidation of the Corporation with or the merger of the Corporation into any other corporation.

(c) Except as hereinbelow provided, the affirmative vote of the holders of at least a majority of the shares of Serial Preference Stock at the time outstanding, given in person or by proxy at a meeting called for the purpose at which the holders of Serial Preference Stock shall vote separately as a class, shall be necessary to effect any one or more of the following (but so far as the holders of Serial Preference Stock are concerned, such action may be effected with such vote):

(i) The sale, lease or conveyance by the Corporation of all or substantially all of its property or business; provided, however, that this clause shall not apply to a mortgage of or creation of any security interest in assets of the Corporation; or

(ii) The consolidation of the Corporation with or the merger of the Corporation into any other corporation; provided, however, that no

such vote shall be necessary if the corporation resulting from such consolidation or merger will have after such consolidation or merger no class of shares either authorized or outstanding ranking prior to or on a parity with the Serial Preference Stock except the same number of shares ranking prior to or on a parity with the Serial Preference Stock and having substantially the same rights and preferences as the shares of the Corporation authorized and outstanding immediately preceding such consolidation or merger, and each holder of Serial Preference Stock immediately preceding such consolidation or merger shall receive the same number of shares, with substantially the same rights and preferences, of the resulting corporation; or

(iii) Any amendment to the Amended Articles of Incorporation which authorizes an increase in the authorized number of shares of Serial Preference Stock, or authorizes any class of shares or increase in the authorized number of shares of any class ranking on a parity with the Serial Preference Stock, or shares of any class which are convertible into, or the conversion of shares of any class into, Serial Preference Stock or shares ranking on a parity with the Serial Preference Stock; or

(iv) The purchase or redemption (for sinking fund purposes or otherwise) of less than all of the Serial Preference Stock then outstanding except in accordance with a stock purchase offer made to all holders of record of Serial Preference Stock, unless (A) all accrued dividends upon all Serial Preference Stock then outstanding payable on all dividend payment dates occurring on or prior to the date of such purchase or redemption shall have been paid or funds therefor set apart, and (B) all accrued sinking fund obligations applicable to any series of Serial Preference Stock shall have been complied with.

Section 7. The holders of Serial Preference Stock shall have no pre-emptive right to purchase, or have offered to them for purchase, any shares or other securities of the Corporation, whether now or hereafter authorized.

Section 8. If and to the extent that there are created series of Serial Preference Stock which are convertible (hereinafter called "convertible series") into Common Shares or into shares of any other class or series of the Corporation (hereinafter collectively called "conversion shares"), the following terms and provisions shall be applicable to all convertible series, except as may be otherwise expressly provided in the terms of any such series.

(a) The holder of each share of a convertible series may exercise the conversion privilege in respect thereof by delivering to any transfer agent for the respective series the certificate for the share to be converted and written notice that the holder elects to convert such share. Conversion shall be deemed to have been effected immediately prior to the close of business on the date when such delivery is made, and such date is referred to in this Section as the "conversion date". On the conversion date or as promptly thereafter as practicable the Corporation shall deliver to the holder of the stock surrendered for conversion, or as otherwise directed by him in writing, a certificate for

the number of full conversion shares deliverable upon the conversion of such stock and a check or cash in respect of any fraction of a share as provided in subsection (b) of this Section. The person in whose name the stock certificate is to be registered shall be deemed to have become a holder of the conversion shares of record on the conversion date. No adjustment shall be made for any dividends on shares of stock surrendered for conversion or for dividends on the conversion shares delivered on conversion.

(b) The Corporation shall not be required to deliver fractional shares upon conversion of shares of a convertible series. If more than one share shall be surrendered for conversion at one time by the same holder, the number of full conversion shares deliverable upon conversion thereof shall be computed on the basis of the aggregate number of shares so surrendered. If any fractional interest in a conversion share would otherwise be deliverable upon the conversion, the Corporation shall in lieu of delivering a fractional share therefor make an adjustment therefor in cash at the current market value thereof, computed (to the nearest cent) on the basis of the closing price of the conversion share on the last business day before the conversion date.

For the purpose of this Section, the "closing price of the conversion share" on any business day shall be the last reported sales price regular way per share on such day, or, in case no such reported sale takes place on such day, the average of the reported closing bid and asked prices regular way, in either case on the New York Stock Exchange, or, if the conversion shares are not listed or admitted to trading on such Exchange, on the principal national securities exchange on which the conversion shares are listed or admitted to trading as determined by the Board of Directors, which determination shall be conclusive, or, if not listed or admitted to trading on any national securities exchange, the mean between the average bid and asked prices per conversion share in the over-the-counter market as furnished by any member of the National Association of Securities Dealers selected from time to time by the Board of Directors for that purpose; and "business day" shall be each day on which the New York Stock Exchange or other national securities exchange or over-the-counter market used for purposes of the above calculation is open for trading.

(c) Upon conversion of shares of any convertible series the stated capital of the conversion shares delivered upon such conversion shall be the aggregate par value of the shares so delivered having par value, or, in the case of shares without par value, shall be an amount equal to the stated capital represented by each such share outstanding at the time of such conversion multiplied by the number of such shares delivered upon such conversion. The stated capital of the Corporation shall be correspondingly increased or reduced to reflect the difference between the stated capital of the shares of the convertible series so converted and the stated capital of the shares delivered upon such conversion.

(d) In case of any reclassification or change of outstanding conversion shares (except a split or combination, or a change in par value, or a change from par value to no par value, or a change from no par value to par value), provision shall be made as part of the terms of such reclassification or change that the holder of each share of each convertible series then outstanding shall have the right to receive upon the conversion of such share, at the conversion rate or price which otherwise would be in effect at the

time of conversion, with substantially the same protection against dilution as is provided in the terms of such convertible series, the same kind and amount of stock and other securities and property as he would have owned or have been entitled to receive upon the happening of any of the events described above had such share been converted immediately prior to the happening of the event.

(e) In case the Corporation shall be consolidated with or shall merge into any other corporation, provision shall be made as a part of the terms of such consolidation or merger whereby the holder of each share of each convertible series outstanding immediately prior to such event shall thereafter be entitled to such conversion rights with respect to securities of the corporation resulting from such consolidation or merger as shall be substantially equivalent to the conversion rights specified in the terms of such convertible series; provided, however, that the provisions of this subsection (e) shall be deemed to be satisfied if such consolidation or merger shall be approved by the holders of Serial Preference Stock in accordance with the provisions of Section 6(c) of this Division.

(f) The issue of stock certificates on conversions of shares of each convertible series shall be without charge to the converting shareholder for any tax in respect of the issue thereof. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the registration of shares in any name other than that of the holder of the shares converted, and the Corporation shall not be required to deliver any such stock certificate unless and until the person or persons requesting the delivery thereof shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid.

(g) The Corporation hereby reserves and shall at all times reserve and keep available free from pre-emptive rights, out of its authorized but unissued shares or treasury shares, for the purpose of delivery upon conversion of shares of each convertible series, such number of conversion shares as shall from time to time be sufficient to permit the conversion of all outstanding shares of all convertible series of Serial Preference Stock.

Section 9. For the purpose of this Division:

Whenever reference is made to shares "ranking prior to the Serial Preference Stock", such reference shall mean and include all shares of the Corporation in respect of which the rights of the holders thereof either as to the payment of dividends or as to distributions in the event of a voluntary or involuntary liquidation, dissolution or winding up of the Corporation are given preference over the rights of the holders of Serial Preference Stock; whenever reference is made to shares "on a parity with the Serial Preference Stock", such reference shall mean and include all shares of the Corporation in respect of which the rights of the holders thereof (i) are not given preference over the rights of the holders of Serial Preference Stock either as to the payment of dividends or as to distributions in the event of a voluntary or involuntary liquidation, dissolution or winding up of the Corporation and (ii) either as to the payment of dividends or as to distributions in the event of a voluntary or involuntary liquidation, dissolution or winding up of the Corporation, or as to both, rank on an equality (except as to the

amounts fixed therefor) with the rights of the holders of Serial Preference Stock; and whenever reference is made to shares "ranking junior to the Serial Preference Stock" such reference shall mean and include all shares of the Corporation in respect of which the rights of the holders thereof both as to the payment of dividends and as to distributions in the event of a voluntary or involuntary liquidation, dissolution or winding up of the Corporation are junior and subordinate to the rights of the holders of the Serial Preference Stock.

DIVISION B

Express Terms of the Common Shares

The Common Shares shall be subject to the express terms of the Serial Preference Stock and any series thereof. Each Common Share shall be equal to each other Common Share. The holders of Common Shares shall be entitled to one vote for each such share upon all questions presented to the shareholders.

500,000 of the authorized but unissued Common Shares, without par value, of the Corporation hereby are released from pre-emptive rights, and no shareholder of the Corporation shall be entitled to pre-emptive rights, as now or hereafter provided by the laws of Ohio, to purchase, or to have offered for purchase, such number of Common Shares, without par value, of the Corporation.

In addition to the Common Shares not subject to pre-emptive rights pursuant to the foregoing paragraph, the holders of Common Shares now or hereafter outstanding shall have no pre-emptive right to purchase or have offered to them for purchase any Common Shares which at any time shall be required for issuance or to be issued in fulfillment of the provisions of (a) any series of the Corporation's Serial Preference Stock, or (b) any option or options or other rights to purchase or receive Common Shares granted to any officer or employee of the Corporation or any of its subsidiaries pursuant to any stock option or stock purchase plan adopted or approved by the holders of a majority of the outstanding shares of the Corporation entitled to vote thereon, or (c) any employees' stock purchase or stock savings or thrift plan or stock option plan or agreement hereafter assumed by the Corporation in connection with the purchase or other acquisition by the Corporation of any other company or business, including in the case of any plan or agreement covered by this clause (c) Common Shares issued upon the conversion of convertible securities so issued.

FIFTH: Any and every statute of the State of Ohio hereafter enacted, whereby the rights, powers or privileges of corporations or of the shareholders of corporations organized under the laws of the State of Ohio are increased or diminished or in any way affected, or whereby effect is given to the action taken by any number, less than all, of the shareholders of any such corporation, shall apply to the Corporation and shall be binding not only upon the Corporation but upon every shareholder of the Corporation to the same extent as if such statute had been in force at the time these Amended Articles of Incorporation became effective.

SIXTH: The Corporation may from time to time, pursuant to authorization by the Board of Directors and without action by the shareholders, purchase or otherwise acquire shares of the Corporation of any class or series in such manner, upon such terms and in such amounts as the Directors shall determine, subject, however, to such provisions, limitations and restrictions, if any, relating to the purchase or acquisition of shares of the Corporation as shall be contained in the express terms of the class or series of shares of the Corporation being purchased or acquired or in the express terms of any other class or series of shares or other securities of the Corporation outstanding at the time of such purchase or acquisition.

SEVENTH: These Amended Articles of Incorporation shall supersede and take the place of the heretofore existing Articles of Incorporation and all amendments thereto.

1

AMENDED CODE OF REGULATIONS
OF
THE SCOTT & FETZER COMPANY

ARTICLE I
SHAREHOLDERS

Section 1. Annual Meeting. The Annual Meeting of Shareholders of the corporation shall be held at the principal office of the corporation in Lakewood, Ohio, or at such other place either within or without the State of Ohio as may be designated by the Board of Directors and specified in the notice of such meeting, at eleven o'clock, A. M., or at such other time as may be designated by the Board of Directors and specified in the notice of the meeting, on the fourth Tuesday in March, if not a legal holiday, and, if a legal holiday, then on the next succeeding business day, for the purpose of electing a Board of Directors, considering reports laid before the meeting, and transacting such other business as may be specified in the notice of the meeting or as may properly be brought before the meeting.

Section 2. Special Meetings. Special meetings of the shareholders of the corporation may be held on any business day, when called by the President, or by a Vice President, or by a majority of the members of the Board of Directors acting with or without a meeting, or by the persons who hold twenty-five per cent of all the shares outstanding and entitled to vote thereat. Such meetings shall be held at the principal office of the corporation, unless the same is called by the Board of Directors, in which case such meetings may be held at any place, either within or outside the State of Ohio, designated by the Board and specified in the notice of such meeting.

Section 3. Notice of Meetings. Not less than ten days nor more than sixty days before the date fixed for a meeting of shareholders, written notice of the time, place and purposes of such meeting shall be given by the Secretary, or by the Assistant Secretary, or by any other person or persons required or permitted by law to give such notice. The notice shall be served upon or mailed to each shareholder entitled to notice of the meeting; if mailed, the notice shall be directed to the shareholders at their respective addresses as they appear upon the records of the corporation. Notice of

the time, place, and purpose of any meeting of shareholders may be waived in writing, either before or after the holding of such meeting, by any shareholder entitled to notice, which writing shall be filed with or entered upon the records of the meeting. The attendance of any shareholder at any such meeting without protesting the lack of proper notice shall be deemed to be a waiver of notice of such meeting.

Section 4. Quorum. Except as may be otherwise provided by law or by the Articles of Incorporation, at any meeting of the shareholders, the holders of shares entitling them to exercise a majority of the voting power of the corporation and present in person or by proxy shall constitute a quorum for such meeting; provided, however, that no action required by law or by the Articles of Incorporation or this Code of Regulations to be taken by a specified proportion of the voting power of the corporation or of any class of shares may be taken by a lesser proportion; and provided, further, that the holders of a majority of the voting shares represented thereat, whether or not a quorum is present, may adjourn such meeting from time to time.

Section 5. Proxies. The instrument appointing a proxy shall be in writing and subscribed by the person making the appointment. The person so appointed need not be a shareholder. Unless the writing appointing the proxy otherwise provides, the presence of a shareholder at a meeting shall not operate to revoke the writing appointing the proxy unless and until notice of such revocation is given to the corporation in writing or in open meeting.

ARTICLE II

BOARD OF DIRECTORS

Section 1. Election, Number and Term of Office. Directors shall be elected at the Annual Meeting of Shareholders, or if not so elected, at a special meeting of shareholders called for that purpose. At any meeting of shareholders at which directors are to be elected, only persons nominated as candidates shall be eligible for election.

The directors shall be divided into three classes, each class to consist of such number of directors, not less than three, as the shareholders may determine. A separate election shall be held for each class of directors as hereinafter in this paragraph provided. Directors elected at the Annual Meeting of Shareholders in 1975 for the first class shall hold office for the term of one year from the date of their election and until the election of their successors, directors elected at the Annual Meeting of Shareholders in 1975 for the second class shall hold office for the term of two years from the date of their election and until the election of their successors, and directors elected at the Annual Meeting of Shareholders in 1975 for the third class shall hold office for the term of three years from the date of their election and until the election of their successors. At each annual election after the Annual Meeting of Shareholders in 1975 the successors to the directors of each class

whose term shall expire in that year shall be elected to hold office for the term of three years from the date of their election and until the election of their successors. In case of any increase in the number of directors of any class, any additional directors elected to such class shall hold office for a term which shall coincide with the term of such class. All directors, for whatever terms elected, shall hold office subject to provisions of statute as to the creation of vacancies and removal.

Section 2. Organization Meeting. Immediately after each annual meeting of the shareholders, the newly elected Board of Directors shall hold an organization meeting at the same place for the purpose of electing officers and transacting any other business. Notice of such meeting need not be given.

Section 3. Meetings. Meetings of the Board of Directors may be held at any time within or without the State of Ohio upon call by the President or Vice President or by not less than one-third of the directors. Notice of the time and place of such meeting shall be served upon or telephoned to each director at least twenty-four hours, or mailed, radioed or telegraphed to each director at his address as shown by the books of the corporation at least forty-eight hours prior to the time of the meeting, provided, however, that attendance of any director at any such meeting without protesting the lack of proper notice shall be deemed to be a waiver of notice of such meeting and such notice may be waived in writing, either before or after the holding of such meeting, by any director, which writing shall be filed with or entered upon the records of the meeting. Unless otherwise indicated in the notice thereof, any business may be transacted at any organization, regular, or special meeting.

Section 4. Quorum. A quorum of the Board of Directors shall consist of a majority of the members of the Board of Directors then in office; provided that any organization meeting, or other meeting duly held, whether a quorum is present or otherwise, may, by vote of a majority of the directors present at the meeting, adjourn from time to time and place to place without notice other than by announcement at the meeting. At each meeting of the Board at which a quorum is present, all questions and business shall be determined by a majority vote of those present except as in this Code of Regulations otherwise expressly provided.

Section 5. By-Laws. The Board of Directors may adopt By-Laws for its own government, not inconsistent with the Articles of Incorporation or this Amended Code of Regulations.

Section 6. Action Without A Meeting. Any action which may be authorized or taken at a meeting of the directors may be authorized or taken without a meeting, in a writing or writings signed by all the directors, which writing or writings shall be filed with or entered upon the records of the corporation.

Section 7. Committees. The directors may from time to time create an executive committee or any other committee or committees of directors to act in the intervals between meetings of the directors and may delegate to such committee or committees any of the authority of the directors other than that of filling vacancies among the directors or in any committee of the directors. No committee shall consist of less than three directors. The directors may appoint one or more directors as alternate members of any such committee, who may take the place of any absent member or members at any meeting of committee.

Unless otherwise ordered by the directors, a majority of the members of any committee appointed by the directors pursuant to this section shall constitute a quorum at any meeting thereof, and the act of a majority of the members present at a meeting at which a quorum is present shall be the act of such committee. Action may be taken by any such committee without a meeting by a writing or writings signed by all of its members. Any such committee shall prescribe its own rules for calling and holding meetings and its method of procedure, subject to any rules prescribed by the directors, and shall keep a written record of all action taken by it.

ARTICLE III

OFFICERS

Section 1. Election and Designation of Officers. The Board of Directors, at its organization meeting, shall elect a President, one or more Vice Presidents, a Secretary, a Treasurer, and, in its discretion, may elect a Chairman of the Board, an Assistant Secretary or Secretaries, an Assistant Treasurer or Treasurers, and such other officers as the Board may deem necessary. The President and Chairman of the Board shall be directors, but no one of the other officers need be a director; provided, however, that a Vice President who is not a director shall not succeed to the office of President.

Any two or more of such offices, except those of President and Vice President, Secretary and Assistant Secretary, or Treasurer and Assistant Treasurer, may be held by the same person, but no officer shall execute, acknowledge, or verify any instrument in more than one capacity, if such instrument is required to be executed, acknowledged, or verified by two or more officers.

Section 2. Term of Office. Vacancies. The officers of the corporation shall hold office at the pleasure of the Board of Directors until their successors are elected, except in case of resignation, death, or removal. The Board of Directors may remove any officer at any time with or without cause by a majority vote of the whole Board. A vacancy in any office, however created, may be filled by election by the Board of Directors.

Section 3. Authorities and Duties of Officers. The officers of the corporation shall have such authority and shall perform such duties as are customarily incident to their respective offices, or as may be specified from time to time by the directors regardless of whether such authority and duties are customarily incident to such office.

ARTICLE IV
COMPENSATION

Members of the Board of Directors and members of any committee of the Board shall, as such, receive such compensation, which may be either a fixed sum for attendance at each meeting of the Board, or at each meeting of the committee, or stated compensation payable at intervals, or shall otherwise be compensated as may be determined by the Board of Directors. No member of the Board of Directors and no member of any committee of the Board shall be disqualified from being counted in the determination of a quorum at any meeting of either the Board or a committee of the Board by reason of the fact that matters affecting his own compensation as a director, member of a committee of the Board, an officer, or employee are to be determined, or shall be disqualified from acting other than on matters directly relating to such member's own compensation.

ARTICLE V
VOTING UPON SHARES OF OTHER CORPORATIONS

Subject to the control and direction of the Board of Directors, the President, or such other person or persons as may be designated for the purpose by the Board of Directors, shall (a) on behalf of the corporation, either in person or by proxy, attend, act, and vote at any meeting of shareholders of any other corporation in which the corporation may hold shares, and at any such meeting shall possess and may exercise any and all of the rights and powers incident to the ownership of such shares and which, as the owner thereof, the corporation might have possessed and exercised if present, and (b) on behalf of the corporation, execute and deliver written consents with respect to the shares of any other corporation in which the corporation may hold shares.

ARTICLE VI
INDEMNIFICATION AND INSURANCE

Section 1. Indemnification.

The corporation shall indemnify, to the full extent then permitted

by law, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, trustee, officer, employee or agent of another corporation, domestic or foreign, nonprofit or for profit, partnership, joint venture, trust or other enterprise; provided, however, that the Corporation shall indemnify any such agent (as opposed to any director, officer or employee) of the corporation to an extent greater than that required by law only if and to the extent that the directors may, in their discretion, so determine. The indemnification provided hereby shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any law, the Articles of Incorporation or any agreement, vote of shareholders or of disinterested directors or otherwise, both as to action in official capacities and as to action in another capacity while he is a director, officer, employee or agent, and shall continue as to a person who has ceased to be a director, trustee, officer, employee or agent and shall inure to the benefit of heirs, executors and administrators of such a person.

Section 2. Insurance. The corporation may, to the full extent then permitted by law and authorized by the directors, purchase and maintain insurance on behalf of any persons described in Section 1 of this Article VI against any liability asserted against and incurred by any such person in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify such person against such liability.

ARTICLE VII

RECORD DATES

The Board of Directors may fix a date, which shall not be a past date and which shall be not more than sixty days preceding the date of any meeting of shareholders, or the date fixed for the payment of any dividend or distribution, or the date for the allotment of rights, or (subject to contract rights with respect thereto) the date when any change or conversion or exchange of shares shall be made or go into effect, or the date as of which written consents, waivers, or releases are to be obtained from shareholders, as a record date for the determination of the shareholders entitled to notice of and to vote at any such meeting, or any adjournments thereof, or entitled to receive payment of any such dividend, distribution

or allotment of rights, or to exercise the rights in respect to any such change, conversion, or exchange of shares, or to execute consents, waivers, or releases, and, in such case, only shareholders of record on the date so fixed shall be entitled to notice of and to vote at such meeting, or any adjournments thereof, or to receive payment of such dividend, distribution, or allotment of rights, or to exercise such rights, or to execute such consents, waivers, or releases, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after any record date fixed as aforesaid. The Board of Directors may close the books of the corporation against transfers of shares during the whole or any part of such period, including the time of such meeting of the shareholders or any adjournments thereof.

ARTICLE VIII

CERTIFICATES FOR SHARES

Section 1. Certificates. Each shareholder of the corporation shall be entitled to a certificate or certificates signed by the Chairman of the Board, the President or a Vice President and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer and sealed with the corporate seal, certifying the number and class of paid-up shares of the corporation held by him, provided, however, that when any such certificate is countersigned by a transfer agent, who is not an employee of the corporation or by a transfer agent and by a registrar, the signatures of any such Chairman of the Board, President, Vice President, Secretary, Assistant Secretary, Treasurer, or Assistant Treasurer and the seal of the corporation upon such certificate may be facsimiles, engraved, stamped or printed.

In case any officer or officers, who shall have signed, or whose facsimile signature shall have been used, printed or stamped on any certificate or certificates for shares, shall cease to be such officer or officers of the corporation because of death, resignation or otherwise, before such certificate or certificates shall have been delivered by the corporation, such certificate or certificates, if authenticated by the endorsement thereon of the signature of a transfer agent or registrar, shall nevertheless be conclusively deemed to have been adopted by the corporation by the use and delivery thereof, and shall be as effective in all respects as though signed by a duly elected, qualified and authorized officer or officers, and as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures shall have been used thereon had not ceased to be such officer or officers of the corporation.

Such certificates shall be in such form, consistent with law, as shall be approved by the Board of Directors.

Section 2. Transfer of Shares. Shares of the corporation shall be transferable upon the books of the corporation by the holders thereof, in person, or by a duly authorized attorney, upon surrender and cancellation of certificates for a like number of shares of the same class or series, with duly executed assignment and power of transfer endorsed thereon or attached thereto, and with such proof of the authenticity of the signatures to such assignment and power of transfer as the corporation or its agents may reasonably require.

Section 3. Transfer Agent and Registrar. The Board of Directors may appoint, or revoke the appointment of, transfer agents and registrars and may require all certificates for shares to bear the signatures of such transfer agents and registrars, or either of them.

ARTICLE IX

CORPORATE SEAL

The corporate seal of this corporation shall be circular in form and shall contain the name of the corporation. Failure to affix the seal of the corporation to any instrument executed on behalf of the corporation shall not affect the validity of any such instrument.

ARTICLE X

FISCAL YEAR

The fiscal year of the corporation may be fixed, from time to time, by the Board of Directors, Until changed by the Board of Directors, the fiscal year shall end on November 30.

ARTICLE XI

AMENDMENTS

The Code of Regulations of the corporation may be amended or added to by affirmative vote or the written consent of the holders of shares entitling them to exercise a majority of the voting power on such proposal.

THE SCOTT & FETZER COMPANY

AND

NATIONAL CITY BANK,

Trustee

Indenture

Dated as of May 15, 1975

\$30,000,000

9% Notes Due May 15, 1985

TIE-SHEET

of provisions of Trust Indenture Act of 1939 with Indenture dated as of March 15, 1975 between The Scott & Fetzer Company and National City Bank, Trustee:

<u>Section of Act</u>	<u>Section of Indenture</u>
§10(a) (1) and (2)	7.09
§10(a) (3) and (4)	Not applicable
§10(b)	7.08 and 7.10 (b)
§10(c)	Not applicable
§11(a) and (b)	7.13
§11(c)	Not applicable
§12(a)	5.01 and 5.02 (a)
§12(b) and (c)	5.02 (b) and (c)
§13(a)	5.04 (a)
§13(b) (1)	Not applicable
§13(b) (2)	5.04 (b)
§13(c)	5.04 (c)
§13(d)	5.04 (d)
§14(a)	5.03
§14(b)	Not applicable
§14(c) (1) and (2)	14.06
§14(c) (3)	Not applicable
§14(d)	Not applicable
§14(e)	14.06
§14(f)	Not applicable
§15(a) (c) and (d)	7.01
§15(b)	6.08
§15(e)	6.09
§16(a) (1)	6.01 and 6.07
§16(a) (2)	Omitted
§16(a) last sentence	8.04
§16(b)	6.04
§17(a)	6.02
§17(b)	4.09(a), (b) and (c)
§18(a)	14.08

This tie-sheet is not part of the Indenture as executed.

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THIS INDENTURE, dated as of May 15, 1975, between THE SCOTT & FETZER COMPANY, a corporation duly organized and existing under the laws of the State of Ohio (hereinafter sometimes called the "Company"), and NATIONAL CITY BANK, a national banking association duly organized and existing under the laws of the United States of America (hereinafter sometimes called the "Trustee"),

WITNESSETH :

WHEREAS, the Company has duly authorized the issue of its 9% Notes Due May 15, 1985 (hereinafter sometimes called the "Notes"), in the aggregate principal amount of \$30,000,000 and, to provide the terms and conditions upon which the Notes are to be authenticated, issued and delivered, the Company has duly authorized the execution and delivery of this Indenture; and

WHEREAS, the Notes and the certificate of authentication to be borne by the Notes are to be substantially in the following forms, respectively:

[FORM OF FACE OF NOTE]

§

§

No.

**THE SCOTT & FETZER COMPANY
9% NOTE DUE MAY 15, 1985**

**THE SCOTT & FETZER COMPANY, a corporation duly organized and existing under the laws of the State of Ohio (herein referred to as the "Company"), for value received, hereby promises to pay to.....
..... or registered assigns, the principal sum of Dollars on May 15, 1985, at the office or agency of the Company in the City of Cleveland, County of Cuyahoga, State of Ohio, or, at the option of the holder, at the office or agency of the Company in the Borough of Manhattan, the City of New York, State of New York, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and to pay interest, semi-annually on May 15 and November 15 of each year, commencing November 15, 1975, on said principal sum at said offices or agencies, in like coin or currency, at the rate per annum specified in the title of this Note, from the May 15 or the November 15, as the case may be, next preceding the date**

of this Note to which interest has been paid, unless the date hereof is a date to which interest has been paid, in which case from the date of this Note, or unless no interest has been paid on the Notes, in which case from May 15, 1975, until payment of said principal sum has been made or duly provided for; *provided, however*, that payment of interest may be made at the option of the Company by check mailed to the address of the person entitled thereto as such address shall appear on the Note register. Notwithstanding the foregoing, if the date hereof is after the first day of May or November, as the case may be, and before the following May 15 or November 15, this Note shall bear interest from such May 15 or November 15; *provided, however*, that if the Company shall default in the payment of interest due on such May 15 or November 15, then this Note shall bear interest from the next preceding May 15 or November 15 to which interest has been paid or, if no interest has been paid on the Notes, from May 15, 1975. The interest so payable on any May 15 or November 15 will, subject to certain exceptions provided in the Indenture referred to on the reverse hereof, be paid to the person in whose name this Note is registered at the close of business on the May 1 or November 1, as the case may be, next preceding such May 15 or November 15.

Reference is made to the further provisions of this Note set forth on the reverse hereof. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Note shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been signed by or on behalf of the Trustee under the Indenture referred to on the reverse hereof.

IN WITNESS WHEREOF, THE SCOTT & FEIZER COMPANY has caused this instrument to be signed by facsimile by its Chairman and by its Secretary, and has caused a facsimile of its corporate seal to be affixed hereunto or imprinted hereon.

Dated:

THE SCOTT & FEIZER COMPANY

By
Chairman

By
Secretary

[FORM OF CERTIFICATE OF AUTHENTICATION]

This is one of the Notes described in the within-mentioned Indenture.

NATIONAL CITY BANK,
as Trustee

By
Authorized Officer

[FORM OF REVERSE OF NOTE]

THE SCOTT & FETZER COMPANY

9% NOTE DUE MAY 15, 1985

This Note is one of a duly authorized issue of Notes of the Company, designated as its 9% Notes Due May 15, 1985 (herein called the "Notes"), limited (except as otherwise provided in the Indenture mentioned below) to the aggregate principal amount of \$30,000,000, all issued or to be issued under and pursuant to an indenture dated as of May 15, 1975 (herein called the "Indenture"), duly executed and delivered by the Company to National City Bank, Trustee (herein called the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the holders of the Notes.

In case an Event of Default, as defined in the Indenture, shall have occurred and be continuing, the principal hereof may be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture contains provisions permitting the Company and the Trustee, with the consent of the holders of not less than 66 2/3% in aggregate principal amount of the Notes at the time outstanding, evidenced as in the Indenture provided, to execute supplemental indentures adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture or modifying in any manner the rights of the holders of the Notes; provided, however, that no such supplemental indenture shall (i) extend the fixed maturity

of any Note, or reduce the rate or extend the time of payment of interest thereon, or reduce the principal amount thereof, or make the principal thereof or interest thereon payable in any coin or currency other than that hereinbefore provided, without the consent of the holder of each Note so affected, or (ii) reduce the aforesaid percentage of Notes, the holders of which are required to consent to any such supplemental indenture, without the consent of the holders of all Notes then outstanding. It is also provided in the Indenture that, prior to any declaration accelerating the maturity of the Notes, the holders of a majority in aggregate principal amount of the Notes at the time outstanding may on behalf of the holders of all of the Notes waive any past default or Event of Default under the Indenture and its consequences except a default in the payment of interest on or the principal of any of the Notes. Any such consent or waiver by the holder of this Note (unless revoked as provided in the Indenture) shall be conclusive and binding upon such holder and upon all future holders and owners of this Note and any Notes which may be issued in exchange or substitution herefor, irrespective of whether or not any notation thereof is made upon this Note or such other Notes.

No reference to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest on this Note at the places, at the respective times, at the rate and in the coin or currency herein prescribed.

The Notes are issuable in registered form without coupons in denominations of \$1,000 and any multiple of \$1,000. At the office or agency of the Company referred to on the face hereof, and in the manner and subject to the limitations provided in the Indenture, but without the payment of any service charge, Notes may be exchanged for a like aggregate principal amount of Notes of other authorized denominations.

The Notes may be redeemed at the option of the Company as a whole, or from time to time in part, on any date prior to maturity, but not before May 15, 1982, upon mailing a notice of such redemption not less than 30 nor more than 60 days prior to the date fixed for redemption to the holders of Notes at their last registered addresses, all as provided in the Indenture, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, with accrued interest to the date fixed for redemption.

Upon due presentment for registration of transfer of this Note at either of the above-mentioned offices or agencies of the Company, a new Note or Notes of authorized denominations for an equal aggregate principal amount will be issued to the transferee in exchange therefor, subject to the limitations provided in the Indenture, without charge except for any tax or other governmental charge imposed in connection therewith.

The Company, the Trustee, any authenticating agent, any paying agent and any Note registrar may deem and treat the registered holder hereof as the absolute owner of this Note (whether or not this Note shall be overdue and notwithstanding any notation of ownership or other writing hereon), for the purpose of receiving payment hereof, or on account hereof, and for all other purposes, and neither the Company nor the Trustee nor any authenticating agent nor any paying agent nor any Note registrar shall be affected by any notice to the contrary. All payments made to or upon the order of such registered holder shall, to the extent of the sum or sums paid, effectually satisfy and discharge liability for moneys payable on this Note.

No recourse for the payment of the principal of or interest on this Note, or for any claim based hereon or otherwise in respect hereof, and no recourse under or upon any obligation, covenant or agreement of the Company in the Indenture or any indenture supplemental thereto or in any Note, or because of the creation of any indebtedness represented thereby, shall be had against any incorporator, stockholder, officer or director, as such, past, present or future, of the Company or of any successor corporation, either directly or through the Company or any successor corporation, whether by virtue of any constitution, statute or rule of law or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released.

AND WHEREAS, all acts and things necessary to make the Notes, when executed by the Company and authenticated and delivered by or on behalf of the Trustee, as in this Indenture provided, and issued, the valid, binding and legal obligations of the Company, and to constitute these presents a valid agreement according to its terms, have been done and performed, and the execution of this Indenture and the issue hereunder of the Notes have in all respects been duly authorized;

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That in order to declare the terms and conditions upon which the Notes are, and are to be, authenticated, issued and delivered, and in consideration of the premises, of the purchase and acceptance of the Notes by the holders thereof and of the sum of one dollar duly paid to it by the Trustee at the execution of these presents, the receipt whereof is hereby acknowledged, the Company covenants and agrees with the Trustee for the equal and proportionate benefit of the respective holders from time to time of the Notes, as follows:

ARTICLE ONE.

DEFINITIONS.

SECTION 1.01. Definitions. The terms defined in this Section 1.01 (except as herein otherwise expressly provided or unless the context otherwise requires) for all purposes of this Indenture and of any indenture supplemental hereto shall have the respective meanings specified in this Section 1.01. All other terms in this Indenture which are defined in the Trust Indenture Act of 1939 or which are by reference therein defined in the Securities Act of 1933, as amended (except as herein otherwise expressly provided or unless the context otherwise requires), shall have the meanings assigned to such terms in said Trust Indenture Act and in said Securities Act as in force at the date of the execution of this Indenture.

Attributable Debt:

The term "Attributable Debt", as applied to any Sale and Lease-Back Transaction at any date, shall mean the sum of the discounted present values of the net amount of all rental payments required to be paid during the then remaining term of the lease (including any period for which such lease has been extended or may, at the option of the lessee, be extended) by the Company or any Restricted Subsidiary (whether as lessee or guarantor or other surety), determined as to each such payment (i) by discounting the amount thereof to such date at the per annum interest rate specified or reflected in such lease, compounded semiannually, or (ii) where such interest factor is not determinable from the lease for the purpose of determining Attributable Debt, by discounting the amount thereof to such date at the rate borne by the Notes compounded semiannually. The net amount of rental payments shall not include amounts payable by the lessee for maintenance and repairs, insurance, taxes, assessments and similar charges. In case of any lease which is terminable by the lessee upon the

payment of a penalty, such remaining payments shall also include such penalty, but no rent shall be considered as required to be paid under such lease subsequent to the first date upon which it may be so terminated.

Authenticating Agent:

The term "authenticating agent" shall mean the agent of the Trustee which at the time shall be appointed and acting pursuant to Section 7.14.

Board of Directors:

The term "Board of Directors" shall mean the Board of Directors of the Company or any other Committee of such Board duly authorized to act hereunder.

Canadian Subsidiary:

The term "Canadian Subsidiary" shall mean any Subsidiary organized and existing under the laws of Canada or any province thereof.

Company:

The term "Company" shall mean THE SCOTT & FETZER COMPANY, an Ohio corporation, and subject to the provisions of Article Eleven shall include its successors and assigns.

Consolidated Funded Debt:

The term "Consolidated Funded Debt" shall mean the aggregate of Funded Debt of the Company and its Subsidiaries, less any Funded Debt of the Company to any Subsidiary or of any Subsidiary to the Company or any other Subsidiary.

Consolidated Net Income:

The term "Consolidated Net Income" for any period shall mean the amount of consolidated net income (loss) of the Company and its Restricted Subsidiaries and Canadian Subsidiaries properly applicable to the conduct of the business for such period, excluding the portion thereof allocable to minority interests, if any, in such Restricted Subsidiaries and Canadian Subsidiaries, all determined in accordance with generally accepted accounting principles. Net income of a Restricted Subsidiary or of a Canadian Subsidiary, or of any business or assets acquired by the Company or any Restricted Subsidiary or any Canadian Subsidiary, shall not be included in Consolidated Net Income for any period prior to (i) the end of the

fiscal year of the Company next preceding the date on which such Restricted Subsidiary becomes a Restricted Subsidiary or next preceding the date on which such Canadian Subsidiary becomes a Subsidiary, or the date of such acquisition, as the case may be, if the acquisition of such Restricted Subsidiary, Canadian Subsidiary, business or assets is accounted for as a pooling of interests for financial reporting purposes, or (ii) the date on which such Restricted Subsidiary becomes a Restricted Subsidiary, or the date on which such Canadian Subsidiary becomes a Subsidiary, or the date of such acquisition, as the case may be, if the acquisition of such Restricted Subsidiary, Canadian Subsidiary, business or assets is accounted for as a purchase for financial reporting purposes.

Consolidated Net Tangible Assets:

The term "Consolidated Net Tangible Assets" shall mean the total of all assets (less depreciation and amortization reserves and other valuation reserves and loss reserves and items deductible from assets in determining tangible assets in accordance with generally accepted accounting principles) which, under generally accepted accounting principles, would appear on the asset side of a consolidated balance sheet of the Company and its Subsidiaries, less the aggregate of all liabilities, deferred credits, minority shareholders' interests in Subsidiaries, reserves and other items which, under such principles, would appear on the liability side of such consolidated balance sheet except Funded Debt and shareholders' equity, all as determined in accordance with such principles; *provided, however*, that in determining Consolidated Net Tangible Assets, there shall not be included as assets, (i) all assets which would be classified as intangible assets under generally accepted accounting principles, including, without limitation, goodwill, patents, trademarks, copyrights and unamortized debt discount and expense, (ii) any treasury stock carried as an asset, (iii) any write-ups of capital assets (other than write-ups resulting from the acquisition of stock or assets of another corporation or business) or (iv) deferred federal and foreign income taxes and deferred investment tax credits.

Event of Default:

The term "Event of Default" shall mean any event specified in Section 6.01, continued for the period of time, if any, and after the giving of the notice, if any, therein designated.

Funded Debt:

The term "Funded Debt" of any corporation shall mean all indebtedness for borrowed money created, incurred, assumed or guaranteed in any manner by such corporation (or in effect guaranteed by such corporation through an agreement to purchase), or outstanding indebtedness, incurred in connection with the acquisition of property, which matures more than one year after, or which by its terms is renewable or extendible or payable out of the proceeds of similar indebtedness incurred pursuant to the terms of any revolving credit agreement or any similar agreement at the option of such corporation for a period ending more than one year after, the date as of which Funded Debt is being determined (excluding any amount thereof which is included in current liabilities); *provided, however*, that Funded Debt shall not include any indebtedness for the payment, redemption or satisfaction of which money (or evidences of indebtedness, if permitted under the instrument creating or evidencing such indebtedness) in the necessary amount shall have been deposited in trust with a trustee or proper depository either at or before the maturity or redemption date thereof.

Indenture:

The term "Indenture" shall mean this instrument as originally executed or, if amended or supplemented as herein provided, as so amended or supplemented.

Notes or Notes; Outstanding:

The terms "Notes" or "Notes" shall mean any Note or Notes, as the case may be, authenticated and delivered under this Indenture.

The term "outstanding", when used with reference to Notes, shall, subject to the provisions of Section 8.04, mean, as of any particular time, all Notes authenticated and delivered under this Indenture, except

(a) Notes theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(b) Notes, or portions thereof, for the payment or redemption of which moneys in the necessary amount shall have been deposited in trust with the Trustee or with any paying agent (other than the Company) or shall have been set aside and segregated in trust by the Company (if the Company shall act as its own paying agent).

provided that if such Notes are to be redeemed prior to the maturity thereof, notice of such redemption shall have been mailed as in Article Three provided, or provision satisfactory to the Trustee shall have been made for mailing such notices; and

(c) Notes in lieu of or in substitution for which other Notes shall have been authenticated and delivered pursuant to the terms of Section 2.06.

Noteholder:

The terms "Noteholder", "holder of Notes", or other similar terms, shall mean any person in whose name at the time a particular Note is registered on the books of the Company kept for that purpose in accordance with the terms hereof.

Officers' Certificate:

The term "Officers' Certificate", when used with respect to the Company, shall mean a certificate signed by the Chairman of the Board, the President or any Vice President and by the Treasurer or any Assistant Treasurer of the Company. Each such certificate shall include the statements provided for in Section 14.06 if and to the extent required by the provisions of such Section.

Opinion of Counsel:

The term "Opinion of Counsel" shall mean an opinion in writing signed by legal counsel, who may be an employee of or of counsel to the Company, or may be other counsel satisfactory to the Trustee. Each such opinion shall include the statements provided for in Section 14.06 if and to the extent required by the provisions of such Section.

Principal Office of the Trustee:

The term "principal office of the Trustee" or other similar term, shall mean the principal office of the Trustee in the City of Cleveland, County of Cuyahoga, State of Ohio, at which at any particular time its corporate trust business shall be administered, which office at the date hereof is 623 Euclid Ave., Cleveland, Ohio 44114.

Principal Property:

The term "Principal Property" shall mean (a) any manufacturing plant or facility owned or leased by the Company or any Subsidiary located

within the United States of America, other than any such plant or facility or portion thereof which, in the opinion of the Board of Directors, is not of material importance to the total business conducted by the Company and its Restricted Subsidiaries as an entirety, and (b) any shares of capital stock or indebtedness of any Restricted Subsidiary.

Responsible Officer:

The term "Responsible Officer", when used with respect to the Trustee, shall mean the chairman and any vice chairman of the board of directors, the chairman and any vice chairman of the executive committee of the board of directors, the president, any executive vice president, any senior vice president, any vice president, the cashier, any assistant cashier, any trust officer, any assistant trust officer or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of his knowledge of and familiarity with the particular subject.

Restricted Subsidiary:

The term "Restricted Subsidiary" shall mean any Subsidiary substantially all of the property of which is located, or substantially all of the business of which is carried on, within the United States of America.

Senior Funded Debt:

The term "Senior Funded Debt" shall mean and include all Consolidated Funded Debt, whether now outstanding or hereafter incurred, less Subordinated Indebtedness, if any, of the Company.

Subordinated Indebtedness:

The term "Subordinated Indebtedness" shall mean any unsecured Funded Debt of the Company incurred after the date of this Indenture which is expressly made subordinate and junior in right of payment to the Notes and to such other Funded Debt of the Company as may be specified in the instruments evidencing the Subordinated Indebtedness or under which it is issued (the Notes and such other Funded Debt of the Company to which the Subordinated Indebtedness is expressed to be subordinate and junior being hereinafter called "Senior Debt"), by

provisions not more favorable to the holders of Subordinated Indebtedness than the following:

(1) in the event of any insolvency or bankruptcy proceedings, and any receivership, liquidation, reorganization or other similar proceedings in connection therewith, relative to the Company or to its creditors, as such, or to its property, and in the event of any proceedings for voluntary liquidation, dissolution or other winding up of the Company, whether or not involving insolvency or bankruptcy, then the holders of Senior Debt shall be entitled to receive payment in full of all principal (and premium, if any) and interest on all Senior Debt before the holders of the Subordinated Indebtedness are entitled to receive any payment on account of principal (or premium, if any) or interest upon the Subordinated Indebtedness, and any payment or distribution of any kind or character which may be payable or deliverable in any such proceedings in respect of the Subordinated Indebtedness, except securities which are subordinate and junior in right of payment to the payment of all Senior Debt then outstanding, shall be paid by the person making such payment or distribution direct to the holders of Senior Debt to the extent necessary to make payment in full of all Senior Debt, after giving effect to any payment or distribution to the holders of Senior Debt;

(2) in the event that any Subordinated Indebtedness is declared due and payable before its expressed maturity because of the occurrence of an event of default (under circumstances when the provisions of the foregoing clause (1) shall not be applicable), the holders of the Senior Debt outstanding at the time such Subordinated Indebtedness so becomes due and payable because of such occurrence of such an event of default shall be entitled to receive payment in full of all principal (and premium, if any) and interest on all Senior Debt before the holders of the Subordinated Indebtedness are entitled to receive any payment on account of the principal (or premium, if any) or interest upon the Subordinated Indebtedness; and

(3) upon the happening of an event of default with respect to any Senior Debt and the lapse of any period of time during which the holders of such Senior Debt are not permitted to accelerate the maturity thereof on the basis of such event, then, unless such event of default shall have ceased to exist or been waived, no payment shall

be made with respect to the principal of (or premium, if any) or interest on Subordinated Indebtedness or to acquire Subordinated Indebtedness or as a sinking fund for Subordinated Indebtedness, except sinking fund payments made on Subordinated Indebtedness acquired before such event of default and sinking fund payments made pursuant to a notice of redemption first published before such event of default;

provided, however, that the Subordinated Indebtedness may provide that the foregoing provisions are solely for the purpose of defining the relative rights of the holders of Senior Debt on the one hand, and the holders of the Subordinated Indebtedness on the other hand, and nothing therein shall impair, as between the Company and the holders of the Subordinated Indebtedness, the obligation of the Company, which may be stated to be unconditional and absolute, to pay to the holders thereof the principal (and premium, if any) and interest thereon in accordance with its terms, nor shall anything therein prevent the holders of the Subordinated Indebtedness from exercising all remedies otherwise permitted by applicable law or thereunder upon default thereunder, subject to the rights of holders of Senior Debt under the provisions outlined above to receive cash, property or securities otherwise payable or deliverable to the holders of the Subordinated Indebtedness.

Subsidiary:

The term "Subsidiary" shall mean any corporation of which at least a majority of the outstanding stock having by its terms ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether or not at the time stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by the Company or by any one or more Subsidiaries or by the Company and one or more Subsidiaries.

Trustee:

The term "Trustee" shall mean National City Bank, a national banking association, and, subject to the provisions of Article Seven hereof, shall also include its successors and assigns as Trustee hereunder.

Trust Indenture Act of 1939:

The term "Trust Indenture Act of 1939" shall mean the Trust Indenture Act of 1939 as it was in force at the date of execution of this Indenture, except as provided in Section 10.03.

ARTICLE TWO.

ISSUE, DESCRIPTION, EXECUTION, REGISTRATION AND EXCHANGE OF NOTES.

SECTION 2.01. Designation, Amount and Issue of Notes. The Notes shall be designated as "9% Notes Due May 15, 1985". Notes in the aggregate principal amount of \$30,000,000, upon the execution of this Indenture, or from time to time thereafter, may be executed by the Company and delivered to the Trustee for authentication, and the Trustee shall thereupon authenticate and deliver said Notes to or upon the written order of the Company, signed by its Chairman of the Board, President or any Vice President and by its Secretary, Treasurer or any Assistant Treasurer, without any further action by the Company hereunder.

SECTION 2.02. Form of Notes. The Notes and the certificate of authentication to be borne by the Notes shall be substantially in the form as in this Indenture above recited. Any of the Notes may have imprinted thereon such legends or endorsements as the officers executing the same may approve (execution thereof to be conclusive evidence of such approval) and as are not inconsistent with the provisions of this Indenture, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange on which the Notes may be listed, or to conform to usage.

SECTION 2.03. Date and Denomination of Notes. The Notes shall be issuable as registered Notes without coupons in the denominations of \$1,000 and any multiple of \$1,000, and shall be numbered, lettered, or otherwise distinguished in such manner or in accordance with such plan as the officers of the Company executing the same may determine with the approval of the Trustee.

Every Note shall be dated the date of its authentication and, except as provided in this Section 2.03, shall bear interest, payable semi-annually on May 15 and November 15 of each year, commencing November 15,

1975, from the May 15 or November 15 as the case may be, next preceding the date of such Note to which interest has been paid, unless the date of such Note is a date to which interest has been paid, in which case from the date of such Note, or unless no interest has been paid on the Notes, in which case from May 15, 1975. Notwithstanding the foregoing, when there is no existing default in the payment of interest on the Notes, all Notes authenticated by the Trustee after the close of business on the record date (as hereinafter in this Section 2.03 defined) for any interest payment date (May 15 or November 15 as the case may be) and prior to such interest payment date shall be dated the date of authentication but shall bear interest from such interest payment date; *provided, however*, that if and to the extent that the Company shall default in the interest due on such interest payment date then any such Note shall bear interest from the May 15 or November 15, as the case may be, next preceding the date of such Note to which interest has been paid, unless no interest has been paid on the Notes, in which case from May 15, 1975.

The person in whose name any Note is registered at the close of business on any record date (as hereinafter defined) with respect to any interest payment date shall be entitled to receive the interest payable on such interest payment date notwithstanding the cancellation of such Note upon any transfer or exchange subsequent to the record date and prior to such interest payment date; *provided, however*, that if and to the extent the Company shall default in the payment of the interest due on such interest payment date, such defaulted interest shall be paid to the persons in whose names outstanding Notes are registered on a subsequent record date established by notice given by mail by or on behalf of the Company to the holders of Notes not less than 15 days preceding such subsequent record date, such record date to be not less than ten days preceding the date of payment of such defaulted interest. The term "record date" as used in this Section with respect to any semi-annual interest payment date shall mean the May 1 or November 1, as the case may be, next preceding such interest payment date, or if such day shall be a day on which banking institutions in the City of Cleveland or the City of New York are authorized by law to close, the next preceding day which shall not be a day on which such institutions are so authorized to close.

SECTION 2.04. Execution of Notes. The Notes shall be signed in the name and on behalf of the Company by the manual or facsimile signatures of its Chairman of the Board or President and its Treasurer or its Secretary, under its corporate seal (which may be printed, engraved or otherwise reproduced thereon, by facsimile or otherwise). Only such Notes as shall bear thereon a certificate of authentication substantially in the form hereinbefore recited, executed by the Trustee or any authenticating agent on its behalf, shall be entitled to the benefits of this Indenture or be valid or obligatory for any purpose. Such certificate by the Trustee or any authenticating agent upon any Note executed by the Company shall be conclusive evidence that the Note so authenticated has been duly authenticated and delivered hereunder and that the holder is entitled to the benefits of this Indenture.

In case any officer of the Company who shall have signed any of the Notes shall cease to be such officer before the Notes so signed shall have been authenticated and delivered by the Trustee or by any authenticating agent on its behalf, or disposed of by the Company, such Notes nevertheless may be authenticated and delivered or disposed of as though the person who signed such Notes had not ceased to be such officer of the Company; and any Note may be signed on behalf of the Company by such persons as, at the actual date of the execution of such Note, shall be the proper officers of the Company, although at the date of the execution of this Indenture any such person was not such an officer.

SECTION 2.05. Exchange and Registration of Transfer of Notes. Notes may be exchanged for a like aggregate principal amount of Notes of other authorized denominations. Notes to be exchanged shall be surrendered at the office or agency to be maintained by the Company as provided in Section 4.02, and the Company shall execute and register and the Trustee shall authenticate and deliver in exchange therefor the Note or Notes which the Noteholder making the exchange shall be entitled to receive.

The Company shall keep, at said office or agency, a register (hereinafter sometimes referred to as "registry books") in which, subject to such reasonable regulations as it may prescribe, the Company shall register Notes and shall register the transfer of Notes as in this Article Two provided. Such register shall be in written form or in any other form

capable of being converted into written form within a reasonable time. At all reasonable times such register shall be open for inspection by the Trustee. Upon due presentment for registration of transfer of any Note at one of said offices or agencies, the Company shall execute and register and the Trustee or the authenticating agent on its behalf shall authenticate and deliver in the name of the transferee or transferees a new Note or Notes for an equal aggregate principal amount.

All Notes presented for registration of transfer or for exchange, redemption or payment shall (if so required by the Company or the Trustee or the authenticating agent) be duly endorsed by, or be accompanied by a written instrument or instruments of transfer in form satisfactory to the Company and the Trustee duly executed by, the registered holder or his attorney duly authorized in writing.

No service charge shall be made for any exchange or registration of transfer of Notes, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith.

The Company shall not be required to exchange or register the transfer of (a) any Notes for a period of 15 days next preceding any selection of Notes to be redeemed, or (b) any Notes selected, called or being called for redemption except, in the case of any Notes to be redeemed in part, the portion thereof not so to be redeemed.

SECTION 2.06. Mutilated, Destroyed, Lost or Stolen Notes. In case any temporary or definitive Note shall become mutilated or be destroyed, lost or stolen, the Company in the case of a mutilated Note shall, and in the case of a lost, stolen or destroyed Note may in its discretion, execute, and upon its request the Trustee or the authenticating agent on its behalf shall authenticate and deliver, a new Note, bearing a number, letter or other distinguishing symbol not contemporaneously outstanding, in exchange and substitution for the mutilated Note, or in lieu of and in substitution for the Note so destroyed, lost or stolen, or if any such Note shall have matured or shall be about to mature, instead of issuing a substituted Note, the Company may pay or authorize the payment of the same without surrender thereof (except in the case of a mutilated Note). In every case the applicant for a substituted Note shall furnish to the

Company, the Trustee and the authenticating agent such security or indemnity as may be required by them to save each of them harmless, and, in every case of destruction, loss or theft, the applicant shall also furnish to the Company and to the Trustee evidence to their satisfaction of the destruction, loss or theft of such Note and of the ownership thereof.

The Trustee or the authenticating agent on its behalf may authenticate any such substituted Note and deliver the same upon the written request or authorization of any officer of the Company. Upon the issuance of any substituted Note, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses connected therewith and in addition a further sum not exceeding two dollars for each Note so issued in substitution. In case any Note which has matured or is about to mature shall become mutilated or be destroyed, lost or stolen, the Company may, instead of issuing a substituted Note, pay or authorize the payment of the same (without surrender thereof except in the case of a mutilated Note) if the applicant for such payment shall furnish to the Company, the Trustee and the authenticating agent such security or indemnity as may be required by them to save each of them harmless and, in case of destruction, loss or theft, evidence satisfactory to the Company and the Trustee of the destruction, loss or theft of such Note and the ownership thereof.

Every substituted Note issued pursuant to the provisions of this Section 2.06 by virtue of the fact that any Note is destroyed, lost or stolen shall constitute an additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Note shall be found at any time, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Notes duly issued hereunder. All Notes shall be held and owned upon the express condition that the foregoing provisions are exclusive with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes and shall preclude (to the extent lawful) any and all other rights or remedies with respect to the replacement or payment of negotiable instruments or other securities without their surrender.

SECTION 2.07. Temporary Notes. Pending the preparation of definitive Notes the Company may execute and the Trustee or the authenticating agent on its behalf shall authenticate and deliver temporary Notes

(printed or lithographed). Temporary Notes shall be issuable in any authorized denomination and substantially in the form of the definitive Notes but with such omissions, insertions and variations as may be appropriate for temporary Notes, all as may be determined by the Company. Every such temporary Note shall be executed by the Company and shall be authenticated by the Trustee or the authenticating agent on its behalf upon the same conditions and in substantially the same manner, and with the same effect, as the definitive Notes. Without unreasonable delay the Company will execute and deliver to the Trustee definitive Notes and thereupon any or all temporary Notes may be surrendered in exchange therefor, at the office or agency to be maintained by the Company as provided in Section 4.02, and the Trustee shall authenticate and deliver in exchange for such temporary Notes an equal aggregate principal amount of definitive Notes. Such exchange shall be made by the Company at its own expense and without any charge therefor except that in case of any such exchange involving any registration of transfer the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto. Until so exchanged, the temporary Notes shall in all respects be entitled to the same benefits under this Indenture as definitive Notes authenticated and delivered hereunder.

SECTION 2.08. Cancellation of Notes Paid, etc. All Notes surrendered for the purpose of payment, redemption, exchange or registration of transfer shall, if surrendered to the Company, the authenticating agent or any paying agent or any Note registrar, be surrendered to the Trustee and promptly cancelled by it, or, if surrendered to the Trustee, shall be promptly cancelled by it, and no Notes shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Indenture. The Trustee shall destroy cancelled Notes and deliver a certificate of such destruction to the Company. If the Company shall acquire any of the Notes, however, such acquisition shall not operate as a redemption or satisfaction of the indebtedness represented by such Notes unless and until the same are surrendered to the Trustee for cancellation.

ARTICLE THREE.

REDEMPTION OF NOTES.

SECTION 3.01. Redemption Price. The Company may, at its option, redeem all or from time to time any part of the Notes on any date prior

to maturity, but not before May 15, 1982, upon notice as set forth in Section 3.02, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, together with accrued interest to the date fixed for redemption.

SECTION 3.02. Notice of Redemption; Selection of Notes. In case the Company shall desire to exercise the right to redeem all, or, as the case may be, any part of the Notes pursuant to Section 3.01, it shall fix a date for redemption and shall mail a notice of such redemption at least 30 and not more than 60 days prior to the date fixed for redemption to the holders of Notes so to be redeemed as a whole or in part at their last addresses as the same appear on the registry books. Such mailing shall be by first class mail. The notice if mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the holder receives such notice. In any case, failure to give such notice by mail or any defect in the notice to the holder of any Note designated for redemption as a whole or in part shall not affect the validity of the proceedings for the redemption of any other Note.

Each such notice of redemption shall specify the date fixed for redemption, the redemption price at which Notes are to be redeemed, the place or places of payment, that payment will be made upon presentation and surrender of such Notes, that interest accrued to the date fixed for redemption will be paid as specified in said notice, and that on and after said date interest thereon or on the portions thereof to be redeemed will cease to accrue. If less than all the Notes are to be redeemed the notice of redemption shall specify the numbers of the Notes to be redeemed. In case any Note is to be redeemed in part only, the notice of redemption shall state the portion of the principal amount thereof to be redeemed and shall state that on and after the date fixed for redemption, upon surrender of such Note, a new Note or Notes in principal amount equal to the unredeemed portion thereof will be issued.

Prior to the redemption date specified in the notice of redemption given as provided in this Section 3.02, the Company will deposit with the Trustee or with one or more paying agents an amount of money sufficient to redeem on the redemption date all the Notes or portions thereof so called for redemption at the appropriate redemption price, together with accrued interest to the date fixed for redemption.

If less than all the Notes are to be redeemed the Company will give the Trustee notice not less than 60 days prior to the redemption date as to the aggregate principal amount of Notes to be redeemed and the Trustee shall select, in such manner as in its sole discretion it shall deem appropriate and fair, the Notes or portions thereof (in multiples of \$1,000) to be redeemed.

SECTION 3.03. *Payment of Notes Called for Redemption.* If notice of redemption has been given as provided in Section 3.02, the Notes or portions of Notes with respect to which such notice has been given shall become due and payable on the date and at the place or places stated in such notice at the redemption price, together with interest accrued to the date fixed for redemption, and on and after said date (unless the Company shall default in the payment of such Notes at the redemption price, together with interest accrued to said date) interest on the Notes or portions of Notes so called for redemption shall cease to accrue. On presentation and surrender of such Notes at a place of payment specified in said notice, the said Notes or the specified portions thereof shall be paid and redeemed by the Company at the redemption price, together with interest accrued thereon to the date fixed for redemption.

Upon presentation of any Note redeemed in part only, the Company shall execute and the Trustee or the authenticating agent on its behalf shall authenticate and deliver to the holder thereof, at the expense of the Company, a new Note or Notes, of authorized denominations, in principal amount equal to the unredeemed portion of the Note so presented.



ARTICLE FOUR.

PARTICULAR COVENANTS OF THE COMPANY.

SECTION 4.01. *Payment of Principal and Interest.* The Company covenants and agrees that it will duly and punctually pay or cause to be paid the principal of and interest on each of the Notes at the places, at the respective times and in the manner provided in the Notes and in this Indenture.

SECTION 4.02. *Offices for Notices and Payments, etc.* So long as any of the Notes remain outstanding, the Company will maintain in the City of Cleveland, County of Cuyahoga, State of Ohio, and in the Borough

of Manhattan, the City of New York, State of New York, an office or agency where the Notes may be presented for payment, an office or agency where the Notes may be presented for registration of transfer and for exchange as in this Indenture provided and an office or agency where notices and demands to or upon the Company in respect of the Notes or of this Indenture may be served. Until otherwise designated by the Company in a written notice to the Trustee, such office or agency in the City of Cleveland, County of Cuyahoga, State of Ohio, for all the above purposes shall be the principal office of the Trustee, and such office or agency in the Borough of Manhattan, the City of New York, State of New York, shall be the New York transfer window of the Trustee. In case the Company shall fail to maintain such office or agency or shall fail to give notice of any change in the location thereof, presentations and demands may be made and notices may be served at the principal office of the Trustee.

SECTION 4.03. *Limitation on Funded Debt.* The Company will not create, issue, guarantee, assume or otherwise incur, or permit any Subsidiary to create, issue, guarantee, assume or otherwise incur, any Funded Debt unless immediately thereafter and after giving effect to the existence of such Funded Debt, to the receipt of the net proceeds thereof and to the retirement of any indebtedness which is then being retired out of the proceeds of such Funded Debt, Consolidated Net Tangible Assets shall be at least equal to 225% of Senior Funded Debt and at least equal to 200% of Consolidated Funded Debt; *provided, however,* that this covenant shall not apply to Funded Debt to the extent that it is created, issued, guaranteed, assumed or otherwise incurred for the purpose of extending, renewing or refunding Funded Debt of the Company or any Subsidiary, whether outstanding at the date hereof or hereafter created, and successive extensions, renewals or refundings thereof.

SECTION 4.04. *Limitation on Liens.* The Company will not, nor will it permit any Restricted Subsidiary to, issue, assume or guarantee any notes, bonds, debentures or other similar evidence of indebtedness for money borrowed (hereinafter in this Article Four referred to as "Debt"), secured by a mortgage, security interest, pledge, lien or other encumbrance (mortgages, security interests, pledges, liens and other encumbrances being hereinafter called "Mortgage" or "Mortgages") upon any Principal Property of the Company or any Restricted Subsidiary or upon

any shares of stock or indebtedness of any Restricted Subsidiary (whether such Principal Property, shares of stock or indebtedness are now owned or hereafter acquired) without in any such case effectively providing concurrently with the issuance, assumption or guaranty of any such Debt that the Notes (together with, if the Company shall so determine, any other indebtedness of or guaranteed by the Company or such Restricted Subsidiary ranking equally with the Notes and then existing or thereafter created) shall be secured equally and ratably with such Debt; *provided, however*, that the foregoing restrictions shall not apply to Debt secured by

(a) Mortgages on any property acquired, constructed or improved by the Company or any Restricted Subsidiary after the date of the Indenture which are created, incurred or assumed contemporaneously with or within 120 days after such acquisition, construction or improvement to secure or provide for the payment of all or any part of the purchase price of such property or the cost of such construction or improvement; *provided that* any such Mortgage shall not apply to any other property except, in the case of any construction or improvement, theretofore substantially unimproved real property on which the property so constructed, or the improvement, is located;

(b) Mortgages on any property acquired from a corporation which is merged with or into the Company or a Restricted Subsidiary or Mortgages outstanding on property at the time it is acquired by the Company or a Restricted Subsidiary or Mortgages outstanding on property of a corporation at the time it becomes a Restricted Subsidiary;

(c) Mortgages to secure Debt of a Restricted Subsidiary to the Company or to another Restricted Subsidiary;

(d) Mortgages required by any contract, statute or ordinance in order to permit the Company or a Restricted Subsidiary to perform any contract or subcontract made by it with or at the request of the United States of America or any State or any political subdivision of either or any department, agency or instrumentality of any of them;

(e) Mortgages in favor of the United States or any State or any political subdivision of either or any department, agency or instrumentality of any of them for the purpose of securing any advance or

payment for the acquisition, construction or improvement of pollution control or abatement facilities, provided, that any such Mortgage shall not apply, and shall not include transfer of, or title to, any other property theretofore owned by the Company or any Subsidiary, other than the granting by the Company or any Subsidiary to such transferee or mortgagee of such easements of ingress and egress over the property theretofore owned by the Company or such Subsidiary as is necessary to permit the attachment or removal of any equipment or other property designed primarily for the purposes of pollution control or abatement;

(f) Mortgages existing at the date of this Indenture;

(g) Any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of Debt secured by any Mortgage referred to in the foregoing clauses (a) to (f), inclusive, *provided however* that the principal amount of the Debt secured thereby shall not exceed the principal amount of Debt so secured at the time of such extension, renewal or replacement, and that such extension, renewal or replacement Mortgage shall be limited to all or part of the property so secured at the time of extension, renewal or replacement; and

(h) Judgment, tax and similar liens incurred in the ordinary course of business which are being contested in good faith by appropriate proceedings.

The covenant contained in this Section 4.04 is subject to the provision for exempted indebtedness in Section 4.07.

SECTION 4.05. *Limitation on Sale and Lease-Back.* The Company will not, nor will it permit any Restricted Subsidiary to, enter into any arrangement with any person providing for the leasing by the Company or any Restricted Subsidiary of any Principal Property of the Company or any Restricted Subsidiary (whether such Principal Property is now owned or hereafter acquired) (except for temporary leases for a term of not more than three years including renewals and except for leases between the Company and a Restricted Subsidiary or between Restricted Subsidiaries), which property has been or is to be sold or transferred by the Company or such Restricted Subsidiary to such person (hereinafter referred to as a "Sale and Lease-Back Transaction"), unless (a) the Company or such Restricted Subsidiary would be entitled, pursuant to the provisions of

Section 4.03, to issue, assume or guarantee Debt, in the amount of Attributable Debt with respect to the Sale and Lease-Back Transaction, secured by a Mortgage upon such property without equally and ratably securing the Notes, or (b) the Company shall, and in any such case the Company covenants that it will, apply an amount equal to the greater of (i) the proceeds of such sale or transfer or (ii) the fair value (as determined by the Board of Directors) of the property so leased to the retirement (other than any mandatory retirement and other than any retirement prohibited by Section 3.01), within 120 days of the effective date of any such arrangement, of the Notes or other Funded Debt of the Company other than Debt of the Company which is subordinated to the Notes; *provided, however*, that the amount to be so applied to the retirement of such Debt may, at the Company's election, be reduced by an amount (not previously used to reduce the amount of such a retirement) equal to the lesser of (x) the amount expended by the Company since the date of this Indenture and within 12 months prior to the effective date of any such arrangement or within 120 days thereafter for the acquisition, construction or improvement by it of unencumbered Principal Property or (y) the fair value (as determined by the Board of Directors) of unencumbered Principal Property so acquired, constructed or improved by the Company during such 12-month and 120-day period.

The covenant contained in this Section 4.05 is subject to the provision for exempted indebtedness in Section 4.07.

SECTION 4.06. *Limitation on Sale of Capital Stock of a Restricted Subsidiary.* The Company will not, nor will it permit any Restricted Subsidiary to, sell or transfer to, or allow to be held by, persons other than the Company or a Restricted Subsidiary any shares of capital stock of any Restricted Subsidiary (unless simultaneously with any such sale or transfer all of the shares of capital stock of such Restricted Subsidiary, at the time owned by the Company or any other Subsidiary, shall be sold or transferred as an entirety for a consideration and upon terms deemed by the Board of Directors to be adequate and satisfactory), except

(a) Shares of capital stock held on the date hereof by persons other than the Company or a Subsidiary, or so held at the time of a corporation's becoming a Restricted Subsidiary, or obtained after the date hereof or the date of the corporation's becoming a Restricted Subsidiary, as the case may be, through the exercise of preemptive

rights to purchase shares of stock or similar rights granted to enable any such person to retain his proportionate interest in such Restricted Subsidiary; or

(b) Shares of capital stock issued or sold for the purpose of qualifying directors or paying stock dividends on common stock.

The covenant contained in this Section 4.06 is subject to provision for exempted indebtedness in Section 4.07.

SECTION 4.07. Exempted Indebtedness. Notwithstanding the provisions contained in Sections 4.04, 4.05 and 4.06, but subject to the provisions of Section 4.03, the Company and its Restricted Subsidiaries (a) may issue, assume or guarantee Debt which would otherwise be subject to the limitation of Section 4.04, without securing the Notes, or (b) may enter into Sale and Lease-Back Transactions which would otherwise be subject to the limitation of Section 4.05, without retiring Funded Debt, or (c) may sell or transfer, or allow to be held, shares of capital stock of a Restricted Subsidiary which would otherwise be subject to the limitation of Section 4.06, or (d) may enter into a combination of such transactions, if, at the time thereof and after giving effect thereto, the sum of the principal amount of all such Debt, the Attributable Debt in respect of Sale and Lease-Back Transactions existing at such time, and the aggregate sales price if sold, or book value if otherwise transferred or held, of all such then outstanding capital stock of any Restricted Subsidiary does not at any time exceed 5% of the shareholders' equity in the Company and its consolidated subsidiary companies, as shown on the audited consolidated balance sheet contained in the latest annual report to shareholders of the Company.

SECTION 4.08. Limitation on Dividends and Distributions with Respect to Stock. The Company covenants and agrees, so long as any of the Notes remain outstanding, that it will not declare or pay any dividend on, or authorize or make any distribution in respect of, shares of any class of its stock (except dividends or distributions payable in shares of its capital stock), or authorize or make any purchase, redemption or acquisition for value of, or permit any Subsidiary to purchase or otherwise acquire for value, any shares of any class of its capital stock, unless, after giving effect thereto, the aggregate of all amounts expended for such purposes after December 31, 1974 will not exceed the sum of:

(a) Consolidated Net Income from December 1, 1974 to the date of such payment, distribution, purchase, redemption or acquisition, plus

(b) \$15,000,000 plus

(c) the net proceeds to the Company from the issuance or sale after December 31, 1974 of any shares of any class of its stock for cash or property (including shares issued on conversion of indebtedness issued or guaranteed by the Company after December 31, 1974, valued at the principal amount of indebtedness so converted), but only insofar as such net proceeds do not exceed the aggregate amount of such acquisitions and redemptions of, and distributions (other than cash dividends) on capital stock after December 31, 1974.

Notwithstanding the foregoing restrictions of this Section 4.08, the Company may (i) pay any dividend within sixty days after the date of declaration thereof, if at said date such declaration complied with the provisions of this Section 4.08, and (ii) acquire any shares of its stock by exchange for, or conversion into, other shares of its stock to the extent that such exchange or conversion does not involve any expenditure of funds (except reasonable expenses relating thereto, including necessary adjustment of fractional shares) by, or any distribution of assets of, the Company or any Subsidiaries, but all dividends paid pursuant to clause (i) above shall be included in all computations made pursuant to this Section 4.08.

SECTION 4.09. *Appointments to Fill Vacancies in Trustee's Office.* The Company, whenever necessary to avoid or fill a vacancy in the office of Trustee, will appoint, in the manner provided in Section 7.10, a Trustee, so that there shall at all times be a Trustee hereunder.

SECTION 4.10. *Provisions as to Paying Agent.* (a) If the Company shall appoint a paying agent other than the Trustee, it will cause such paying agent to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provisions of this Section 4.09,

(1) that it will hold all sums held by it as such agent for the payment of the principal of or interest on the Notes (whether such

sums have been paid to it by the Company or by any other obligor on the Notes) in trust for the benefit of the holders of the Notes; and

(2) that it will give the Trustee notice of any failure by the Company (or by any other obligor on the Notes) to make any payment of the principal of or interest on the Notes when the same shall be due and payable.

(b) If the Company shall act as its own paying agent, it will, on or before each due date of the principal of or interest on the Notes, set aside, segregate and hold in trust for the benefit of the holders of the Notes a sum sufficient to pay such principal or interest so becoming due and will notify the Trustee of any failure to take such action and of any failure by the Company (or by any other obligor under the Notes) to make any payment of the principal of or interest on the Notes when the same shall become due and payable.

(c) If the Company shall have appointed one or more paying agents, it will, prior to each due date of the principal of, or interest on, any Notes, deposit with a paying agent a sum sufficient to pay the principal or interest so becoming due, such sum to be held in trust for the benefit of the holders of such Notes, and (unless such paying agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

(d) Anything in this Section 4.10 to the contrary notwithstanding, the Company may, at any time, for the purpose of obtaining a satisfaction and discharge of this Indenture, or for any other reason, pay or cause to be paid to the Trustee all sums held in trust by it, or any paying agent hereunder, as required by this Section 4.10, such sums to be held by the Trustee upon the trusts herein contained.

(e) Anything in this Section 4.10 to the contrary notwithstanding, the agreement to hold sums in trust as provided in this Section 4.10 is subject to Sections 12.03 and 12.04.

SECTION 4.11. Certificate to Trustee. The Company will deliver to the Trustee on or before April 1 in each year (beginning with 1976) an Officers' Certificate (which need not comply with Section 14.06) stating that in the course of the performance by the signers of their duties as officers of the Company they would normally have knowledge of any

default by the Company in the performance of any covenants contained in Section 4.03, 4.04, 4.05, 4.06, 4.07, 4.08, or 11.02, stating whether or not they have knowledge of any such default and, if so, specifying each such default of which the signers have knowledge and the nature thereof.

ARTICLE FIVE.

NOTEHOLDERS' LISTS AND REPORTS BY THE COMPANY AND THE TRUSTEE.

SECTION 5.01. *Noteholders' Lists.* The Company covenants and agrees that it will furnish or cause to be furnished to the Trustee (i) semi-annually, not more than fifteen days after each record date for the semi-annual payment of interest, a list, in such form as the Trustee may reasonably require, of the names and addresses of the holders of the Notes as of such record date, and (ii) at such other times as the Trustee may request in writing, within thirty days after the receipt by the Company of such request, a list of similar form and content as of a date not more than fifteen days prior to the time such list is furnished; *provided, however,* that no such list need be furnished so long as the Trustee shall be the Note registrar.

SECTION 5.02. *Preservation and Disclosure of Lists.* (a) The Trustee shall preserve, in as current a form as is reasonably practicable, all information as to the names and addresses of the holders of Notes contained in the most recent list furnished to it as provided in Section 5.01 or received by the Trustee in its capacity as Note registrar. The Trustee may destroy any list furnished to it as provided in Section 5.01 upon receipt of a new list so furnished.

(b) In case three or more holders of Notes (hereinafter referred to as "applicants") apply in writing to the Trustee and furnish to the Trustee reasonable proof that each such applicant has owned a Note for a period of at least six months preceding the date of such application, and such application states that the applicants desire to communicate with other holders of Notes with respect to their rights under this Indenture or under the Notes and is accompanied by a copy of the form of proxy or other communication which such applicants propose to transmit, then the Trustee shall, within five business days after the receipt of such application, at its election, either

(1) afford such applicants access to the information preserved at the time by the Trustee in accordance with the provisions of subsection (a) of this Section 5.02, or

(2) inform such applicants as to the approximate number of holders of Notes whose names and addresses appear in the information preserved at the time by the Trustee in accordance with the provisions of subsection (a) of this Section 5.02, and as to the approximate cost of mailing to such Noteholders the form of proxy or other communication, if any, specified in such application.

If the Trustee shall elect not to afford such applicants access to such information, the Trustee shall, upon the written request of such applicants, mail to each Noteholder whose name and address appear in the information preserved at the time by the Trustee in accordance with the provisions of subsection (a) of this Section 5.02 a copy of the form of proxy or other communication which is specified in such request, with reasonable promptness after a tender to the Trustee of the material to be mailed and of payment, or provision for the payment, of the reasonable expenses of mailing, unless within five days after such tender, the Trustee shall mail to such applicants and file with the Securities and Exchange Commission, together with a copy of the material to be mailed, a written statement to the effect that, in the opinion of the Trustee, such mailing would be contrary to the best interests of the holders of Notes or would be in violation of applicable law. Such written statement shall specify the basis of such opinion. If said Commission, after opportunity for a hearing upon the objections specified in the written statement so filed, shall enter an order refusing to sustain any of such objections or if, after the entry of an order sustaining one or more of such objections, said Commission shall find, after notice and opportunity for hearing, that all the objections so sustained have been met and shall enter an order so declaring, the Trustee shall mail copies of such material to all such Noteholders with reasonable promptness after the entry of such order and the renewal of such tender; otherwise the Trustee shall be relieved of any obligation or duty to such applicants respecting their application.

(c) Each and every holder of the Notes, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any paying agent shall be held accountable by reason of the disclosure of any such information as to the names and

addresses of the holders of Notes in accordance with the provisions of subsection (b) of this Section 5.02, regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under said subsection (b), or having delayed such mailing pending determination by the Commission.

SECTION 5.03. Reports by the Company. (a) The Company covenants and agrees to file with the Trustee, within fifteen days after the Company is required to file the same with the Securities and Exchange Commission, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as said Commission may from time to time by rules and regulations prescribe) which the Company may be required to file with said Commission pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934; or, if the Company is not required to file information, documents or reports pursuant to either of such sections, then to file with the Trustee and said Commission, in accordance with rules and regulations prescribed from time to time by said Commission, such of the supplementary and periodic information, documents and reports which may be required pursuant to section 13 of the Securities Exchange Act of 1934 in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations.

(b) The Company covenants and agrees to file with the Trustee and the Securities and Exchange Commission, in accordance with the rules and regulations prescribed from time to time by said Commission, such additional information, documents and reports with respect to compliance by the Company with the conditions and covenants provided for in this Indenture as may be required from time to time by such rules and regulations.

(c) The Company covenants and agrees to transmit by mail to all holders of Notes, as the names and addresses of such holders appear upon the registry books of the Company, within thirty days after the filing thereof with the Trustee, such summaries of any information, documents and reports required to be filed by the Company pursuant to subsections (a) and (b) of this Section 5.03 as may be required by rules and regulations prescribed from time to time by the Securities and Exchange Commission.

SECTION 5.04. Reports by the Trustee. (a) On or before July 31, 1975, and on or before July 31 in every year thereafter, so long as any Notes are outstanding hereunder, the Trustee shall transmit to the Noteholders, as hereinafter in this Section 5.04 provided, a brief report dated as of the preceding May 15 with respect to:

(1) its eligibility under Section 7.09, and its qualification under Section 7.08, or in lieu thereof, if to the best of its knowledge it has continued to be eligible and qualified under such Sections, a written statement to such effect;

(2) the character and amount of any advances (and if the Trustee elects so to state, the circumstances surrounding the making thereof) made by the Trustee (as such) which remain unpaid on the date of such report, and for the reimbursement of which it claims or may claim a lien or charge, prior to that of the Notes, on any property or funds held or collected by it as Trustee, except that the Trustee shall not be required (but may elect) to state such advances if such advances so remaining unpaid aggregate not more than one-half of one percent of the principal amount of the Notes outstanding on the date of such report;

(3) the amount, interest rate, and maturity date of all other indebtedness owing by the Company (or by any other obligor on the Notes) to the Trustee in its individual capacity, on the date of such report, with a brief description of any property held as collateral security therefor, except an indebtedness based upon a creditor relationship arising in any manner described in paragraph (2), (3), (4) or (6) of subsection (b) of Section 7.13;

(4) the property and funds, if any, physically in the possession of the Trustee, as such, on the date of such report; and

(5) any action taken by the Trustee in the performance of its duties under this Indenture which it has not previously reported and which in its opinion materially affects the Notes, except action in respect of a default, notice of which has been or is to be withheld by it in accordance with the provisions of Section 6.08.

(b) The Trustee shall transmit to the Noteholders, as hereinafter provided, a brief report with respect to the character and amount of any advances (and if the Trustee elects so to state, the circumstances sur-

rounding the making thereof) made by the Trustee (as such), since the date of the last report transmitted pursuant to the provisions of subsection (a) of this Section 5.04 (or, if no such report has yet been so transmitted, since the date of execution of this Indenture), for the reimbursement of which it claims or may claim a lien or charge prior to that of the Notes on property or funds held or collected by it as Trustee, and which it has not previously reported pursuant to this subsection, except that the Trustee shall not be required (but may elect) to report such advances if such advances remaining unpaid at any time aggregate ten percent or less of the principal amount of Notes outstanding at such time, such report to be transmitted within ninety days after such time.

(c) Reports pursuant to this Section 5.04 shall be transmitted by mail to all holders of Notes as the names and addresses of such holders appear upon the registry books of the Company.

(d) A copy of each such report shall, at the time of such transmission to Notsholders, be filed by the Trustee with each stock exchange upon which the Notes are listed and also with the Securities and Exchange Commission. The Company will notify the Trustee when and as the Notes become listed on any stock exchange.

ARTICLE SIX.

REMEDIES OF THE TRUSTEE AND NOTEHOLDERS ON EVENT OF DEFAULT.

SECTION 6.01. *Events of Default.* In case one or more of the following Events of Default shall have occurred and be continuing:

(a) default in the payment of any instalment of interest upon any of the Notes as and when the same shall become due and payable, and continuance of such default for a period of 30 days; or

(b) default in the payment of the principal of any of the Notes as and when the same shall become due and payable either at maturity, upon redemption, by declaration or otherwise; or

(c) failure on the part of the Company duly to observe or perform any other of the covenants or agreements on the part of the Company in the Notes or in this Indenture contained for a period of 60 days after the date on which written notice of such failure,

requiring the Company to remedy the same, shall have been given to the Company by the Trustee, or to the Company and the Trustee by the holders of at least 25 percent in aggregate principal amount of the Notes at the time outstanding; or

(d) a decree or order by a court having jurisdiction in the premises shall have been entered adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization of the Company under the National Bankruptcy Act or any other similar applicable Federal or State law, and such decree or order shall have continued undischarged and unstayed for a period of 60 days; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of the Company or of all or substantially all of its property, or for the winding-up or liquidation of its affairs, shall have been entered, and such decree or order shall have continued undischarged and unstayed for a period of 60 days; or

(e) the Company shall institute proceedings to be adjudicated a voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization under the National Bankruptcy Act or any other similar applicable Federal or State law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of its property, or shall make an assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due; or

(f) an event of default, as defined in any indenture or instrument under which the Company has at the time of this Indenture or shall hereafter have outstanding any indebtedness for borrowed money, shall happen and be continuing and such indebtedness shall have been accelerated so that the same shall be or become due and payable prior to the date on which the same would otherwise have become due and payable, and such acceleration shall not be rescinded or annulled within 30 days after written notice thereof shall have been given to the Company by the Trustee or to the Company and the Trustee by the holders of at least 25 percent in aggregate principal amount of the Notes at the time outstanding; *provided, however, that*

if, prior to a declaration of acceleration of the maturity of the Notes or the entry of judgment in favor of the Trustee in a suit pursuant to Section 6.02, such event of default under such indenture or instrument shall be remedied or cured by the Company or waived by the holders of such indebtedness, then the Event of Default hereunder by reason thereof shall be deemed likewise to have been thereupon remedied, cured or waived without further action upon the part of either the Trustee or any of the Noteholders;

then and in each and every such case, unless the principal of all of the Notes shall have already become due and payable, either the Trustee or the holders of not less than 25 percent in aggregate principal amount of the Notes then outstanding hereunder, by notice in writing to the Company (and to the Trustee if given by Noteholders), may declare the principal of all the Notes to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Notes contained to the contrary notwithstanding. This provision, however, is subject to the condition that if, at any time after the principal of the Notes shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, the Company shall pay or shall deposit with the Trustee a sum sufficient to pay all matured instalments of interest upon all of the Notes and the principal of any and all Notes which shall have become due otherwise than by acceleration (with interest on overdue instalments of interest, to the extent that payment of such interest is enforceable under applicable law, and on such principal at the rate borne by the Notes, to the date of such payment or deposit) and the reasonable expenses of the Trustee, and any and all defaults under this Indenture, other than the nonpayment of principal and accrued interest on Notes which shall have become due by acceleration, shall have been remedied — then and in every such case the holders of a majority in aggregate principal amount of the Notes then outstanding, by written notice to the Company and to the Trustee, may waive all defaults and rescind and annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default, or shall impair any right consequent thereon.

In case the Trustee shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or

abandoned because of such rescission or annulment or for any other reason or shall have been determined adversely to the Trustee, then and in every such case the Company and the Trustee shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Company and the Trustee shall continue as though no such proceeding had been taken.

SECTION 6.02. *Payment of Notes on Default; Suit Therefor.* The Company covenants that (a) in case default shall be made in the payment of any instalment of interest upon any of the Notes as and when the same shall become due and payable, and such default shall have continued for a period of 30 days, or (b) in case default shall be made in the payment of the principal of any of the Notes as and when the same shall have become due and payable, whether at maturity of the Notes or upon redemption or by declaration or otherwise—then, upon demand of the Trustee, the Company will pay to the Trustee, for the benefit of the holders of the Notes, the whole amount that then shall have become due and payable on all such Notes for principal or interest, or both, as the case may be, with interest upon the overdue principal and (to the extent that payment of such interest is enforceable under applicable law) upon the overdue installments of interest at the rate borne by the Notes; and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including reasonable compensation to the Trustee, its agents, attorneys and counsel, and any expenses or liabilities incurred by the Trustee hereunder other than through its negligence or bad faith.

In case the Company shall fail forthwith to pay such amounts upon such demand, the Trustee, in its own name and as trustee of an express trust, shall be entitled and empowered to institute any actions or proceedings at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Company or any other obligor on the Notes and collect in the manner provided by law out of the property of the Company or any other obligor on the Notes wherever situated the moneys adjudged or decreed to be payable.

In case there shall be pending proceedings for the bankruptcy or for the reorganization of the Company or any other obligor on the Notes

under the National Bankruptcy Act or any other applicable law, or in case a receiver or trustee shall have been appointed for the property of the Company or such other obligor, or in the case of any other similar judicial proceedings relative to the Company or other obligor upon the Notes, or to the creditors or property of the Company or such other obligor, the Trustee, irrespective of whether the principal of the Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand pursuant to the provisions of this Section 6.02, shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount of principal and interest owing and unpaid in respect of the Notes, and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and of the Noteholders allowed in such judicial proceedings relative to the Company or any other obligor on the Notes, its or their creditors, or its or their property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute the same after the deduction of its charges and expenses; and any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized by each of the Noteholders to make such payments to the Trustee, and, in the event that the Trustee shall consent to the making of such payments directly to the Noteholders, to pay to the Trustee any amount due it for compensation and expenses, including counsel fees incurred by it up to the date of such distribution. To the extent that such payment of reasonable compensation, expenses and counsel fees out of the estate in any such proceedings shall be denied for any reason, payment of the same shall be secured by a lien on, and shall be paid out of, any and all distributions, dividends, moneys, securities and other property which the holders of the Notes may be entitled to receive in such proceedings, whether in liquidation or under any plan of reorganization or arrangement or otherwise.

All rights of action and of asserting claims under this Indenture, or under any of the Notes, may be enforced by the Trustee without the possession of any of the Notes, or the production thereof on any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its own name as trustee of an

express trust, and any recovery of judgment shall be for the ratable benefit of the holders of the Notes.

SECTION 6.03. Application of Moneys Collected by Trustee. Any moneys collected by the Trustee under this Article Six shall be applied in the order following, at the date or dates fixed by the Trustee for the distribution of such moneys, upon presentation of the several Notes, and stamping thereon the payment, if only partially paid, and upon surrender thereof if fully paid:

FIRST: To the payment of costs and expenses of collection and reasonable compensation to the Trustee, its agents, attorneys and counsel, and of all other expenses and liabilities incurred, and all advances made, by the Trustee except as a result of its negligence or bad faith;

SECOND: In case the principal of the outstanding Notes shall not have become due and be unpaid, to the payment of interest on the Notes, in the order of the maturity of the instalments of such interest, with interest (to the extent that such interest has been collected by the Trustee) upon the overdue instalments of interest at the rate borne by the Notes, such payments to be made ratably to the persons entitled thereto;

THIRD: In case the principal of the outstanding Notes shall have become due, by declaration or otherwise, to the payment of the whole amount then owing and unpaid upon the Notes for principal and interest, with interest on the overdue principal and (to the extent that such interest has been collected by the Trustee) upon overdue instalments of interest at the rate borne by the Notes; and in case such moneys shall be insufficient to pay in full the whole amounts so due and unpaid upon the Notes, then to the payment of such principal and interest without preference or priority of principal over interest, or of interest over principal or of any instalment of interest over any other instalment of interest, or of any Note over any other Note, ratably to the aggregate of such principal and accrued and unpaid interest.

Any surplus then remaining shall be paid to the Company or to such other person as shall be entitled to receive it.

SECTION 6.04. Proceedings by Notsholders. No holder of any Note shall have any right by virtue of or by availing of any provision of this Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Indenture or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless such holder previously shall have given to the Trustee written notice of default and of the continuance thereof, as hereinbefore provided, and unless also the holders of not less than 25 percent in aggregate principal amount of the Notes then outstanding shall have made written request upon the Trustee to institute such action, suit or proceeding in its own name as Trustee hereunder and shall have offered to the Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee for 60 days after its receipt of such notice, request and offer of indemnity, shall have neglected or refused to institute any such action, suit or proceeding, it being understood and intended, and being expressly covenanted by the taker and holder of every Note with every other taker and holder and the Trustee, that no one or more holders of Notes shall have any right in any manner whatever by virtue of or by availing of any provision of this Indenture to affect, disturb or prejudice the rights of any other holder of Notes, or to obtain or seek to obtain priority over or preference to any other such holder, or to enforce any right under this Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all holders of Notes.

Notwithstanding any other provisions in this Indenture, however, the right of any holder of any Note to receive payment of the principal of and interest on such Note, on or after the respective due dates expressed in such Note, or to institute suit for the enforcement of any such payment on or after such respective dates shall not be impaired or affected without the consent of such holder.

SECTION 6.05. Proceedings by Trustee. In case of an Event of Default hereunder the Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any of such rights, either by suit in equity or by action at law or by proceeding in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Indenture

or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Trustee by this Indenture or by law.

SECTION 6.06. Remedies Cumulative and Continuing. All powers and remedies given by this Article Six to the Trustee or to the Noteholders shall, to the extent permitted by law, be deemed cumulative and not exclusive of any thereof or of any other powers and remedies available to the Trustee or the holders of the Notes, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Indenture, and no delay or omission of the Trustee or of any holder of any of the Notes to exercise any right or power accruing upon any default occurring and continuing as aforesaid shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence therein; and, subject to the provisions of Section 6.04, every power and remedy given by this Article Six or by law to the Trustee or to the Noteholders may be exercised from time to time, and as often as shall be deemed expedient, by the Trustee or by the Noteholders.

SECTION 6.07. Direction of Proceedings and Waiver of Defaults by Majority of Noteholders. The holders of a majority in aggregate principal amount of the Notes at the time outstanding determined in accordance with Section 8.04 shall have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee; provided, however, that (subject to the provisions of Section 7.01) the Trustee shall have the right to decline to follow any such direction if the Trustee, being advised by counsel, determines that the action or proceeding so directed may not lawfully be taken or if the Trustee in good faith by its board of directors or trustees, executive committee, or a trust committee of directors or trustees and/or Responsible Officers shall determine that the action or proceedings so directed would involve the Trustee in personal liability. Prior to any declaration accelerating the maturity of the Notes, the holders of a majority in aggregate principal amount of the Notes at the time outstanding may on behalf of the holders of all of the Notes waive any past default or Event of Default hereunder and its consequences except a default in the payment of interest on, or the

principal of, the Notes. Upon any such waiver the Company, the Trustee and the holders of the Notes shall be restored to their former positions and rights hereunder, respectively; but no such waiver shall extend to any subsequent or other default or Event of Default or impair any right consequent thereon. Whenever any default or Event of Default hereunder shall have been waived as permitted by this Section 6.07, said default or Event of Default shall for all purposes of the Notes and this Indenture be deemed to have been cured and to be not continuing.

SECTION 6.08. *Notice of Defaults.* The Trustee shall, within 90 days after the occurrence of a default, mail to all Noteholders, as the names and addresses of such holders appear upon the registry books of the Company, notice of all defaults known to the Trustee, unless such defaults shall have been cured before the giving of such notice (the term "defaults" for the purpose of this Section 6.08 being hereby defined to be the events specified in clauses (a), (b), (c), (d) and (e) of Section 6.01, not including periods of grace, if any, provided for therein and irrespective of the giving of the notice specified in clause (c) of Section 6.01); and *provided that*, except in the case of default in the payment of the principal or interest on any of the Notes, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors and/or Responsible Officers of the Trustee in good faith determines that the withholding of such notice is in the interests of the Noteholders.

SECTION 6.09. *Undertaking to Pay Costs.* All parties to this Indenture agree, and each holder of any Note by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section 6.09 shall not apply to any suit instituted by the Trustee, to any suit instituted by any Noteholder, or group of Noteholders, holding in the aggregate more than ten percent in principal

amount of the Notes outstanding, or to any suit instituted by any Noteholder for the enforcement of the payment of the principal of or interest on any Note against the Company on or after the due date expressed in such Note.

ARTICLE SEVEN.

CONCERNING THE TRUSTEE.

SECTION 7.01. Duties and Responsibilities of Trustee. The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default has occurred (which has not been cured or waived) the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own wilful misconduct, except that

(a) prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred:

(1) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed, upon any certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture;

(b) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or Officers of the Trustee, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts; and

(c) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of not less than a majority in principal amount of the Notes at the time outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture.

None of the provisions of this Indenture shall be construed as requiring the Trustee to expend or risk its own funds or otherwise to incur any personal financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if there shall be reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

SECTION 7.02. *Reliance on Documents, Opinions, etc.* Subject to the provisions of Section 7.01:

(a) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request, direction, order or demand of the Company mentioned herein shall be sufficiently evidenced by an instrument signed in the name of the Company by its Chairman of the Board, President or any Vice President and its Treasurer or any Assistant Treasurer (unless other evidence in respect thereof be herein specifically prescribed); and any resolution of the Board of Directors may be evidenced to the Trustee by a copy thereof certified by the Secretary or an Assistant Secretary of the Company;

(c) the Trustee may consult with counsel and any Opinion of Counsel shall be full and complete authorization and protection in

respect of any action taken or suffered by it hereunder in good faith and in accordance with such Opinion of Counsel;

(d) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Noteholders, pursuant to the provisions of this Indenture, unless such Noteholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred therein or thereby;

(e) the Trustee shall not be liable for any action taken by it in good faith and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture;

(f) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys, and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder; and

(g) prior to the occurrence of an Event of Default hereunder and after the curing or waiving of all Events of Default, the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, appraisal, bond, debenture or other paper or document unless requested in writing so to do by the holders of not less than a majority in aggregate principal amount of the Notes then outstanding; *provided*, that, if the payment within a reasonable time to the Trustee of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of the Trustee, not reasonably assured to the Trustee by the security afforded to it by the terms of this Indenture, the Trustee may require reasonable indemnity against such expenses or liabilities as a condition to so proceeding.

SECTION 7.03. *No Responsibility for Recitals, etc.* The recitals contained herein and in the Notes, other than the Trustee's certificates of authentication, shall be taken as the statements of the Company and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representations as to the validity or sufficiency of this Indenture or the Notes, provided that the Trustee shall not be relieved of

its duty to authenticate Notes only as authorized by this Indenture. The Trustee shall not be accountable for the use or application by the Company of any of the Notes or of the proceeds thereof.

SECTION 7.04. Ownership of Notes. The Trustee or the authenticating agent or any paying agent or any Note registrar, in its individual or any other capacity, may become the owner or pledgee of Notes with the same rights it would have if it were not Trustee, authenticating agent, paying agent or Note registrar.

SECTION 7.05. Moneys to be Held in Trust. Subject to the provisions of Section 12.04 hereof, all moneys received by the Trustee or any paying agent shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law. Neither the Trustee nor any paying agent shall be under any liability for interest on any moneys received by it hereunder except such as it may agree with the Company to pay thereon. So long as no Event of Default shall have occurred and be continuing, all interest allowed on any such moneys shall be paid from time to time upon the written order of the Company, signed by its Chairman of the Board, President, any Vice President, Treasurer or any Assistant Treasurer.

SECTION 7.06. Compensation and Expenses of Trustee. The Company covenants and agrees to pay to the Trustee from time to time, and the Trustee shall be entitled to, reasonable compensation (which shall not be limited by any provision of law in regard to the compensation of the trustee of an express trust); and, except as otherwise expressly provided, the Company will pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence or bad faith. If any property other than cash shall at any time be subject to the lien of this Indenture, the Trustee, if and to the extent authorized by a receivership or bankruptcy court of competent jurisdiction or by the supplemental instrument subjecting such property to such lien,

shall be entitled to make advances for the purpose of preserving such property or of discharging tax liens or other prior liens or encumbrances thereon. The Company also covenants to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on the part of the Trustee, arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim of liability in the premises. The obligations of the Company under this Section 7.06 to compensate the Trustee and to pay or reimburse the Trustee for expenses, disbursements and advances shall constitute additional indebtedness hereunder and shall survive the satisfaction and discharge of this Indenture. Such additional indebtedness shall be secured by a lien prior to that of the Notes upon all property and funds held or collected by the Trustee as such, except funds held in trust for the benefit of the holders of particular Notes.

SECTION 7.07. Officers' Certificate as Evidence. Subject to the provisions of Section 7.01, whenever in the administration of the provisions of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action to be taken hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by an Officers' Certificate delivered to the Trustee, and such Certificate, in the absence of negligence or bad faith on the part of the Trustee, shall be full warrant to the Trustee for any action taken, suffered or omitted by it under the provisions of this Indenture upon the faith thereof.

SECTION 7.08. Conflicting Interest of Trustee. (a) If the Trustee has or shall acquire any conflicting interest, as defined in this Section 7.08, it shall, within 90 days after ascertaining that it has such conflicting interest, either eliminate such conflicting interest or resign in the manner and with the effect specified in Section 7.10.

(b) In the event that the Trustee shall fail to comply with the provisions of subsection (a) of this Section 7.08, the Trustee shall, within ten days after the expiration of such 90-day period, transmit notice of

such failure to the Noteholders, as the names and addresses of such holders appear upon the registry books of the Company.

(c) For the purposes of this Section 7.08, the Trustee shall be deemed to have a conflicting interest if

(1) the Trustee is trustee under another indenture under which any other securities, or certificates of interest or participation in any other securities, of the Company are outstanding, unless such other indenture is a collateral trust indenture under which the only collateral consists of Notes issued under this Indenture, *provided* that there shall be excluded from the operation of this paragraph any indenture or indentures under which other securities, or certificates of interest or participation in other securities, of the Company are outstanding if (A) this Indenture and such other indenture or indentures are wholly unsecured, and such other indenture or indentures are hereafter qualified under the Trust Indenture Act of 1939, unless the Securities and Exchange Commission shall have found and declared by order pursuant to subsection (b) of Section 305 or subsection (c) of Section 307 of the Trust Indenture Act of 1939 that differences exist between the provisions of this Indenture and the provisions of such other indenture or indentures which are so likely to involve a material conflict of interests as to make it necessary in the public interest or for the protection of investors to disqualify the Trustee from acting as such under this Indenture or such other indenture or indentures, or (B) the Company shall have sustained the burden of proving, on application to the Securities and Exchange Commission and after opportunity for hearing thereon, that trusteeship under this Indenture and such other indenture or indentures is not so likely to involve a material conflict of interest as to make it necessary in the public interest or for the protection of investors to disqualify the Trustee from acting as such under this Indenture or such other indenture or indentures;

(2) the Trustee or any of its directors or executive officers is an obligor upon the Notes issued under this Indenture or an underwriter for the Company;

(3) the Trustee directly or indirectly controls or is directly or indirectly controlled by or is under direct or indirect common control with the Company or an underwriter for the Company;

(4) the Trustee or any of its directors or executive officers is a director, officer, partner, employee, appointee, or representative of the Company, or of an underwriter (other than the Trustee itself) for the Company who is currently engaged in the business of underwriting, except that (A) one individual may be a director or an executive officer or both of the Trustee and a director or an executive officer or both of the Company, but may not be at the same time an executive officer of both the Trustee and the Company; (B) if and so long as the number of directors of the Trustee in office is more than nine, one additional individual may be a director or executive officer or both of the Trustee and a director of the Company; and (C) the Trustee may be designated by the Company or by any underwriter for the Company to act in the capacity of transfer agent, registrar, custodian, paying agent, sinking fund agent, fiscal agent, escrow agent, or depository, or in any other similar capacity, or, subject to the provisions of paragraph (1) of this subsection (c), to act as trustee, whether under an indenture or otherwise;

(5) ten percent or more of the voting securities of the Trustee is beneficially owned either by the Company or by any director, partner, or executive officer thereof, or twenty percent or more of such voting securities is beneficially owned, collectively, by any two or more of such persons; or ten percent or more of the voting securities of the Trustee is beneficially owned either by an underwriter for the Company or by any director, partner, or executive officer thereof, or is beneficially owned, collectively, by any two or more such persons;

(6) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default, (A) five percent or more of the voting securities, or ten percent or more of any other class of security, of the Company, not including the Notes issued under this Indenture and securities issued under any other indenture under which the Trustee is also trustee, or (B) ten percent or more of any class of security of an underwriter for the Company;

(7) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default, five percent or more of the voting securities of any person who, to the knowledge of the Trustee, owns ten percent or more of the voting securities of, or

controls directly or indirectly or is under direct or indirect common control with, the Company;

(8) the Trustee is the beneficial owner of, or holds as collateral security for an obligation which is in default, ten percent or more of any class of security of any person who, to the knowledge of the Trustee, owns 50 percent or more of the voting securities of the Company; or

(9) the Trustee owns on May 15 in any calendar year, in the capacity of executor, administrator, testamentary or inter vivos trustee, guardian, committee or conservator, or in any other similar capacity, an aggregate of 25 percent or more of the voting securities, or of any class of security, of any person, the beneficial ownership of a specified percentage of which would have constituted a conflicting interest under paragraph (6), (7), or (8) of this subsection (c). As to any such securities of which the Trustee acquired ownership through becoming executor, administrator, or testamentary trustee of an estate which included them, the provisions of the preceding sentence shall not apply, for a period of two years from the date of such acquisition, to the extent that such securities included in such estate do not exceed 25 percent of such voting securities or 25 percent of any such class of security. Promptly after May 15 in each calendar year, the Trustee shall make a check of its holdings of such securities in any of the above-mentioned capacities as of such May 15. If the Company fails to make payment in full of principal of or interest on any of the Notes when and as the same becomes due and payable, and such failure continues for 80 days thereafter, the Trustee shall make a prompt check of its holdings of such securities in any of the above-mentioned capacities as of the date of the expiration of such 80-day period, and after such date, notwithstanding the foregoing provisions of this paragraph (9), all such securities so held by the Trustee, with sole or joint control over such securities vested in it, shall, but only so long as such failure shall continue, be considered as though beneficially owned by the Trustee for the purposes of paragraphs (6), (7) and (8) of this subsection (c).

The specifications of percentages in paragraphs (5) to (9), inclusive, of this subsection (c) shall not be construed as indicating that the ownership of such percentages of the securities of a person is or is not necessary

or sufficient to constitute direct or indirect control for the purposes of paragraph (8) or (7) of this subsection (c).

For the purposes of paragraphs (6), (7), (8) and (9) of this subsection (c) only, (A) the terms "security" and "securities" shall include only such securities as are generally known as corporate securities, but shall not include any note or other evidence of indebtedness issued to evidence an obligation to repay moneys lent to a person by one or more banks, trust companies or banking firms, or any certificate of interest or participation in any such note or evidence of indebtedness; (B) an obligation shall be deemed to be in default when a default in payment of principal shall have continued for thirty days or more and shall not have been cured; and (C) the Trustee shall not be deemed to be the owner or holder of (i) any security which it holds as collateral security (as trustee or otherwise) for an obligation which is not in default as defined in clause (B) above, or (ii) any security which it holds as collateral security under this Indenture, irrespective of any default hereunder, or (iii) any security which it holds as agent for collection, or as custodian, escrow agent, or depository, or in any similar representative capacity.

Except as provided above, the word "security" or "securities" as used in this Indenture shall mean any note, stock, treasury stock, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas or other mineral rights, or, in general, any interest or instrument commonly known as a "security", or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.

(d) For the purposes of this Section 7.08:

(1) The term "underwriter" when used with reference to the Company shall mean every person who, within three years prior to the time as of which the determination is made, has purchased from the Company with a view to, or has offered or has sold for the Company in connection with, the distribution of any security of the Company outstanding at such time, or has participated or has had a direct or indirect participation in any such undertaking, or has

participated or has had a participation in the direct or indirect underwriting of any such undertaking, but such terms shall not include a person whose interest was limited to a commission from an underwriter or dealer not in excess of the usual and customary distributors' or sellers' commission.

(2) The term "director" shall mean any director of a corporation or any individual performing similar functions with respect to any organization whether incorporated or unincorporated.

(3) The term "person" shall mean an individual, a corporation, a partnership, an association, a joint-stock company, a trust, an unincorporated organization, or a government or political subdivision thereof. As used in this paragraph, the term "trust" shall include only a trust where the interest or interests of the beneficiary or beneficiaries are evidenced by a security.

(4) The term "voting security" shall mean any security presently entitling the owner or holder thereof to vote in the direction or management of the affairs of a person, or any security issued under or pursuant to any trust, agreement or arrangement whereby a trustee or trustees or agent or agents for the owner or holder of such security are presently entitled to vote in the direction or management of the affairs of a person.

(5) The term "Company" shall mean any obligor upon the Notes.

(6) The term "executive officer" shall mean the president, every vice president, every trust officer, the cashier, the secretary, and the treasurer of a corporation, and any individual customarily performing similar functions with respect to any organization whether incorporated or unincorporated but shall not include the chairman of the board of directors.

The percentages of voting securities and other securities specified in this Section 7.08 shall be calculated in accordance with the following provisions:

(A) A specified percentage of the voting securities of the Trustee, the Company or any other person referred to in this Section 7.08 (each of whom is referred to as a "person" in this paragraph)

means such amount of the outstanding voting securities of such person as entitles the holder or holders thereof to cast such specified percentage of the aggregate votes which the holders of all the outstanding voting securities of such person are entitled to cast in the direction or management of the affairs of such person.

(B) A specified percentage of a class of securities of a person means such percentage of the aggregate amount of securities of the class outstanding.

(C) The term "amount", when used in regard to securities, means the principal amount if relating to evidences of indebtedness, the number of shares if relating to capital shares, and the number of units if relating to any other kind of security.

(D) The term "outstanding" means issued and not held by or for the account of the issuer. The following securities shall not be deemed outstanding within the meaning of this definition:

(i) securities of an issuer held in a sinking fund relating to securities of the issuer of the same class;

(ii) securities of an issuer held in a sinking fund relating to another class of securities of the issuer, if the obligation evidenced by such other class of securities is not in default as to principal or interest or otherwise;

(iii) securities pledged by the issuer thereof as security for an obligation of the issuer not in default as to principal or interest or otherwise; or

(iv) securities held in escrow if placed in escrow by the issuer thereof;

provided, however, that any voting securities of an issuer shall be deemed outstanding if any person other than the issuer is entitled to exercise the voting rights thereof.

(E) A security shall be deemed to be of the same class as another security if both securities confer upon the holder or holders thereof substantially the same rights and privileges, *provided, however,* that in the case of secured evidences of indebtedness, all of which are issued under a single indenture, differences in the interest

rates or maturity dates of various series thereof shall not be deemed sufficient to constitute such series different classes and *provided, further,* that, in the case of unsecured evidences of indebtedness, differences in the interest rates or maturity dates thereof shall not be deemed sufficient to constitute them securities of different classes, whether or not they are issued under a single indenture.

SECTION 7.09. Eligibility of Trustee. The Trustee hereunder shall at all times be a corporation organized and doing business under the laws of the United States of America or of any State or Territory or of the District of Columbia, which (a) is authorized under such laws to exercise corporate trust powers, and (b) is subject to supervision or examination by Federal or State authority and (c) shall have at all times a combined capital and surplus of not less than ten million dollars. If such corporation publishes reports of condition at least annually, pursuant to law, or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section 7.09, the combined capital and surplus of such corporation at any time shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 7.09, the Trustee shall resign immediately in the manner and with the effect specified in Section 7.10.

SECTION 7.10. Resignation or Removal of Trustee. (a) The Trustee, or any trustee or trustees hereafter appointed, may at any time resign by giving written notice of resignation to the Company and by mailing notice thereof to the holders of Notes at their addresses as they shall appear on the registry books of the Company. Upon receiving such notice of resignation, the Company shall promptly appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors of the Company, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor trustee shall have been so appointed and have accepted appointment within 60 days after the mailing of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor trustee, or any Noteholder who has been a bona fide holder of a Note or Notes for at least six months may, subject to the provisions of Section 6.09, on behalf of himself and all others

similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(b) In case at any time any of the following shall occur —

(1) the Trustee shall fail to comply with the provisions of subsection (a) of Section 7.08 after written request therefor by the Company or by any Noteholder who has been a bona fide holder of a Note or Notes for at least six months, or

(2) the Trustee shall cease to be eligible in accordance with the provisions of Section 7.09 and shall fail to resign after written request therefor by the Company or by any such Noteholder, or

(3) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the Company may remove the Trustee and appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors of the Company, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee, or, subject to the provisions of Section 6.09, any Noteholder who has been a bona fide holder of a Note or Notes for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee.

(c) The holders of a majority in aggregate principal amount of the Notes at the time outstanding may at any time remove the Trustee and nominate a successor trustee by written notice of such action to the Company, the Trustee and the successor trustee which shall be deemed appointed as successor trustee unless within ten days after such nomination the Company objects thereto, in which case the Trustee so removed or any Noteholder, upon the terms and conditions and otherwise as in subsection (a) of this Section 7.10 provided, may petition any court of competent jurisdiction for the appointment of a successor trustee.

(d) Any resignation or removal of the Trustee and any appointment of a successor trustee pursuant to any of the provisions of this Section 7.10 shall become effective upon acceptance of appointment by the successor trustee as provided in Section 7.11.

SECTION 7.11. *Acceptance by Successor Trustee.* Any successor trustee appointed as provided in Section 7.10 shall execute, acknowledge and deliver to the Company and to its predecessor trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations of its predecessor hereunder, with like effect as if originally named as trustee herein; but, nevertheless, on the written request of the Company or of the successor trustee, the trustee ceasing to act shall, upon payment of any amounts then due it pursuant to the provisions of Section 7.06, execute and deliver an instrument transferring to such successor trustee all the rights and powers of the trustee so ceasing to act. Upon request of any such successor trustee, the Company shall execute any and all instruments in writing in order more fully and certainly to vest in and confirm to such successor trustee all such rights and powers. Any trustee ceasing to act shall, nevertheless, retain a lien upon all property or funds held or collected by such trustee to secure any amounts then due it pursuant to the provisions of Section 7.06.

No successor trustee shall accept appointment as provided in this Section 7.11 unless at the time of such acceptance such successor trustee shall be qualified under the provisions of Section 7.08 and eligible under the provisions of Section 7.09.

Upon acceptance of appointment by a successor trustee as provided in this Section 7.11, the Company shall mail notice of the succession of such trustee hereunder to the holders of Notes at their addresses as they shall appear on the registry books of the Company. If the Company fails to mail such notice within ten days after the acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be mailed at the expense of the Company.

SECTION 7.12. *Succession by Merger, etc.* Any corporation into which the Trustee may be merged or converted or with which it may be consoli-

dated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be qualified under the provisions of Section 7.08 and eligible under the provisions of Section 7.09, without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

SECTION 7.18. *Limitation on Rights of Trustee as Creditor.* (a) Subject to the provisions of subsection (b) of this Section 7.18, if the Trustee shall be or shall become a creditor, directly or indirectly, secured or unsecured, of the Company or of any other obligor on the Notes within four months prior to a default, as defined in subsection (c) of this Section 7.18, or subsequent to such default, then, unless and until such default shall be cured, the Trustee shall set apart and hold in a special account for the benefit of the Trustee individually, the holders of the Notes and the holders of other indenture securities (as defined in subsection (c) of this Section 7.18),

(1) an amount equal to any and all reductions in the amount due and owing upon any claim as such creditor in respect of principal or interest, effected after the beginning of such four month period and valid as against the Company and its other creditors, except any such reduction resulting from the receipt or disposition of any property described in paragraph (2) of this subsection (a), or from the exercise of any right of set-off which the Trustee could have exercised if a petition in bankruptcy had been filed by or against the Company upon the date of such default; and

(2) all property received by the Trustee in respect of any claim as such creditor, either as security therefor, or in satisfaction or composition thereof, or otherwise, after the beginning of such four month period, or an amount equal to the proceeds of any such property, if disposed of, subject, however, to the rights, if any, of the Company and its other creditors in such property or such proceeds.

Nothing herein contained, however, shall affect the right of the Trustee

(A) to retain for its own account (i) payments made on account of any such claim by any person (other than the Company) who is liable thereon, and (ii) the proceeds of the bona fide sale of any such claim by the Trustee to a third person, and (iii) distributions made in cash, securities, or other property in respect of claims filed against the Company in bankruptcy or receivership or in proceedings for reorganization pursuant to the National Bankruptcy Act or applicable State law;

(B) to realize, for its own account, upon any property held by it as security for any such claim, if such property was so held prior to the beginning of such four month period;

(C) to realize, for its own account, but only to the extent of the claim hereinafter mentioned, upon any property held by it as security for any such claim, if such claim was created after the beginning of such four month period and such property was received as security therefor simultaneously with the creation thereof, and if the Trustee shall sustain the burden of proving that at the time such property was so received the Trustee had no reasonable cause to believe that a default as defined in subsection (c) of this Section 7.13 would occur within four months; or

(D) to receive payment on any claim referred to in paragraph (B) or (C), against the release of any property held as security for such claim as provided in such paragraph (B) or (C), as the case may be, to the extent of the fair value of such property.

For the purposes of paragraphs (B), (C) and (D), property substituted after the beginning of such four month period for property held as security at the time of such substitution shall, to the extent of the fair value of the property released, have the same status as the property released, and, to the extent that any claim referred to in any of such paragraphs is created in renewal of or in substitution for or for the purpose of repaying or refunding any preexisting claim of the Trustee as such creditor, such claim shall have the same status as such preexisting claim.

If the Trustee shall be required to account, the funds and property held in such special account and the proceeds thereof shall be apportioned between the Trustee, the Noteholders and the holders of other indenture

securities in such manner that the Trustee, the Noteholders and the holders of other indenture securities realize, as a result of payments from such special account and payments of dividends on claims filed against the Company in bankruptcy or receivership or in proceedings for reorganization pursuant to applicable law, the same percentage of their respective claims, figured before crediting to the claim of the Trustee anything on account of the receipt by it from the Company of the funds and property in such special account and before crediting to the respective claims of the Trustee, the Noteholders and the holders of other indenture securities dividends on claims filed against the Company in bankruptcy or receivership or in proceedings for reorganization pursuant to applicable law, but after crediting thereon receipts on account of the indebtedness represented by the respective claims from all sources other than from such dividends and from the funds and property so held in such special account. As used in this paragraph, with respect to any claim, the term "dividends" shall include any distribution with respect to such claim, in bankruptcy or receivership or in proceedings for reorganization pursuant to applicable law, whether such distribution is made in cash, securities, or other property, but shall not include any such distribution with respect to the secured portion, if any, of such claim. The court in which such bankruptcy, receivership, or proceeding for reorganization is pending shall have jurisdiction (i) to apportion between the Trustee, the Noteholders and the holders of other indenture securities, in accordance with the provisions of this paragraph, the funds and property held in such special account and the proceeds thereof, or (ii) in lieu of such apportionment, in whole or in part, to give to the provisions of this paragraph due consideration in determining the fairness of the distributions to be made to the Trustee, the Noteholders and the holders of other indenture securities with respect to their respective claims, in which event it shall not be necessary to liquidate or to appraise the value of any securities or other property held in such special account or as security for any such claim, or to make a specific allocation of such distributions as between the secured and unsecured portions of such claims, or otherwise to apply the provisions of this paragraph as a mathematical formula.

Any Trustee who has resigned or been removed after the beginning of such four month period shall be subject to the provisions of this subsection (a) as though such resignation or removal had not occurred. If

any Trustee has resigned or been removed prior to the beginning of such four month period, it shall be subject to the provisions of this subsection

(a) if and only if the following conditions exist:

(i) the receipt of property or reduction of claim which would have given rise to the obligation to account, if such Trustee had continued as trustee, occurred after the beginning of such four month period; and

(ii) such receipt of property or reduction of claim occurred within four months after such resignation or removal.

(b) There shall be excluded from the operation of subsection (a) of this Section 7.18 a creditor relationship arising from

(1) the ownership or acquisition of securities issued under any indenture, or any security or securities having a maturity of one year or more at the time of acquisition by the Trustee;

(2) advances authorized by a receivership or bankruptcy court of competent jurisdiction, or by this Indenture, for the purpose of preserving any property which shall at any time be subject to the lien of this Indenture or of discharging tax liens or other prior liens or encumbrances thereon, if notice of such advance and of the circumstances surrounding the making thereof is given to the Noteholders at the time and in the manner provided in this Indenture;

(3) disbursements made in the ordinary course of business in the capacity of trustee under an indenture, transfer agent, registrar, custodian, paying agent, fiscal agent or depository, or other similar capacity;

(4) an indebtedness created as a result of services rendered or premises rented; or an indebtedness created as a result of goods or securities sold in a cash transaction as defined in subsection (c) of this Section 7.18;

(5) the ownership of stock or of other securities of a corporation organized under the provisions of Section 25(a) of the Federal Reserve Act, as amended, which is directly or indirectly a creditor of the Company; or

(6) the acquisition, ownership, acceptance or negotiation of any drafts, bills of exchange, acceptances, or obligations which fall within

the classification of self-liquidating paper as defined in subsection (c) of this Section 7.13.

(c) As used in this Section 7.13:

(1) The term "default" shall mean any failure to make payment in full of the principal of or interest upon any of the Notes or upon the other indenture securities when and as such principal or interest becomes due and payable.

(2) The term "other indenture securities" shall mean securities upon which the Company is an obligor (as defined in the Trust Indenture Act of 1939) outstanding under any other indenture (A) under which the Trustee is also trustee, (B) which contains provisions substantially similar to the provisions of subsection (a) of this Section 7.13, and (C) under which a default exists at the time of the apportionment of the funds and property held in said special account.

(3) The term "cash transaction" shall mean any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand.

(4) The term "self-liquidating paper" shall mean any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred by the Company for the purpose of financing the purchase, processing, manufacture, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or a lien upon, the goods, wares or merchandise or the receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Trustee simultaneously with the creation of the creditor relationship with the Company arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation.

(5) The term "Company" shall mean any obligor upon the Notes.

SECTION 7.14. Authenticating Agent. So long as any of the Notes remain outstanding, there may be an authenticating agent appointed by the Trustee to act on its behalf and subject to its direction in connection



with the authentication of the Notes as set forth in Articles Two and Three. Such authenticating agent shall at all times be a corporation organized and doing business under the laws of the United States or of any State or Territory or of the District of Columbia, authorized under such laws to act as authenticating agent, having a combined capital and surplus of at least ten million dollars, and being subject to supervision or examination by Federal, State, Territorial, or District of Columbia authority and, if there be such a corporation willing and able to act as authenticating agent on reasonable and customary terms, having its principal office and place of business in the City of New York. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section 7.14 the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Any corporation into which any authenticating agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which any authenticating agent shall be a party, or any corporation succeeding to the corporate agency business of any authenticating agent, shall continue to be the authenticating agent without the execution or filing of any paper or any further act on the part of the Trustee or the authenticating agent.

Any authenticating agent may at any time resign by giving written notice of resignation to the Trustee and to the Company. The Trustee may at any time terminate the agency of any authenticating agent by giving written notice of termination to such authenticating agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any authenticating agent shall cease to be eligible in accordance with the provisions of this Section 7.14, the Trustee promptly shall appoint a successor authenticating agent, shall give written notice of such appointment to the Company and shall mail notice of such appointment to all holders of Notes as the names and addresses of such holders appear upon the register. Any successor authenticating agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers, duties and responsibilities of its predecessor

hereunder, with like effect as if originally named as authenticating agent herein. No successor authenticating agent shall be appointed unless eligible under the provisions of this Section 7.14.

The Trustee agrees to pay any authenticating agent from time to time reasonable compensation for its services, and the Trustee shall be entitled to be reimbursed for such payments subject to the provisions of Section 7.06. The authenticating agent shall have no responsibility or liability for any action taken by it as such at the direction of the Trustee.

ARTICLE EIGHT.

CONCERNING THE NOTEHOLDERS.

SECTION 8.01. Action by Noteholders. Whenever in this Indenture it is provided that the holders of a specified percentage in aggregate principal amount of the Notes may take any action (including the making of any demand or request, the giving of any notice, consent or waiver or the taking of any other action) the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced (a) by any instrument or any number of instruments of similar tenor executed by Noteholders in person or by agent or proxy appointed in writing, or (b) by the record of the holders of Notes voting in favor thereof at any meeting of Noteholders duly called and held in accordance with the provisions of Article Nine, or (c) by a combination of such instrument or instruments and any such record of such a meeting of Noteholders.

SECTION 8.02. Proof of Execution by Noteholders. Subject to the provisions of Sections 7.01, 7.02 and 9.05, proof of the execution of any instrument by a Noteholder or his agent or proxy shall be sufficient if made in accordance with such reasonable rules and regulations as may be prescribed by the Trustee or in such manner as shall be satisfactory to the Trustee. The ownership of Notes shall be proved by the registry books of the Company or by a certificate of the Note registrar.

The record of any Noteholders' meeting shall be proved in the manner provided in Section 9.06.

SECTION 8.03. *Who Are Deemed Absolute Owners.* The Company, the Trustee, any authenticating agent, any paying agent and any Note registrar may deem the person in whose name such Note shall be registered upon the books of the Company to be, and may treat him as, the absolute owner of such Note (whether or not such Note shall be overdue and notwithstanding any notation of ownership or other writing thereon) for the purpose of receiving payment of or on account of the principal of and, subject to Section 2.03, interest on such Note and for all other purposes; and neither the Company nor the Trustee nor any authenticating agent nor any paying agent nor any Note registrar shall be affected by any notice to the contrary. All such payments so made to any holder for the time being, or upon his order shall be valid, and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for moneys payable upon any such Note.

SECTION 8.04. *Company-Owned Notes Disregarded.* In determining whether the holders of the requisite aggregate principal amount of Notes have concurred in any direction, consent or waiver under this Indenture, Notes which are owned by the Company or any other obligor on the Notes or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or any other obligor on the Notes shall be disregarded and deemed not to be outstanding for the purpose of any such determination; *provided* that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, consent or waiver only Notes which the Trustee knows are so owned shall be so disregarded. Notes so owned which have been pledged in good faith may be regarded as outstanding for the purposes of this Section 8.04 if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Notes and that the pledgee is not a person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or any such other obligor. In the case of a dispute as to such right, reliance upon the advice of counsel in connection with any decision shall be full protection to the Trustee.

SECTION 8.05. *Revocation of Consents; Future Holders Bound.* At any time prior to (but not after) the evidencing to the Trustee, as provided in Section 8.01, of the taking of any action by the holders of the percentage in aggregate principal amount of the Notes specified in this Indenture in connection with such action, any holder of a Note the num-

ber, letter or other distinguishing symbol of which is shown by the evidence to be included in the Notes the holders of which have consented to such action may, by filing written notice with the Trustee at its principal office and upon proof of holding as provided in Section 8.02, revoke such action so far as concerns such Note. Except as aforesaid any such action taken by the holder of any Note shall be conclusive and binding upon such holder and upon all future holders and owners of such Note and any Notes which may be issued in exchange or substitution therefor, irrespective of whether or not any notation in regard thereto is made upon such Note or such other Note.

ARTICLE NINE.

NOTEHOLDERS' MEETINGS.

SECTION 9.01. *Purposes of Meetings.* A meeting of Noteholders may be called at any time and from time to time pursuant to the provisions of this Article Nine for any of the following purposes:

(1) to give any notice to the Company or to the Trustee, or to give any directions to the Trustee, or to consent to the waiving of any default hereunder and its consequences, or to take any other action authorized to be taken by Noteholders pursuant to any of the provisions of Article Six;

(2) to remove the Trustee and nominate a successor trustee pursuant to the provisions of Article Seven;

(3) to consent to the execution of an indenture or indentures supplemental hereto pursuant to the provisions of Section 10.02; or

(4) to take any other action authorized to be taken by or on behalf of the holders of any specified aggregate principal amount of the Notes under any other provision of this Indenture or under applicable law.

SECTION 9.02. *Call of Meetings by Trustee.* The Trustee may at any time call a meeting of Noteholders to take any action specified in Section 9.01, to be held at such time and at such place in the City of Cleveland, County of Cuyahoga, State of Ohio, as the Trustee shall determine. Notice of every meeting of the Noteholders, setting forth the time and the place of such meeting and in general terms the action proposed

to be taken at such meeting, shall be mailed to holders of Notes at their addresses as they shall appear on the registry books of the Company. Such notice shall be mailed not less than 20 nor more than 90 days prior to the date fixed for the meeting.

SECTION 9.03. *Call of Meetings by Company or Noteholders.* In case at any time the Company, pursuant to a resolution of its Board of Directors, or the holders of at least ten percent in aggregate principal amount of the Notes then outstanding, shall have requested the Trustee to call a meeting of Noteholders, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have mailed the notice of such meeting within 20 days after receipt of such request, then the Company or such Noteholders, in the amount specified, may determine the time and the place in said City of Cleveland for such meeting and may call such meeting to take any action authorized in Section 9.01, by mailing notice thereof as provided in Section 9.02.

SECTION 9.04. *Qualifications for Voting.* To be entitled to vote at any meeting of Noteholders a person shall be (a) a holder of one or more Notes or (b) a person appointed by an instrument in writing as proxy by a holder of one or more Notes. The only persons who shall be entitled to be present or to speak at any meeting of Noteholders shall be the persons entitled to vote at such meeting and their counsel and any representatives of the Trustee and its counsel and any representatives of the Company and its counsel.

SECTION 9.05. *Regulations.* Notwithstanding any other provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Noteholders, in regard to proof of the holding of Notes and of the appointment of proxies, and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall think fit.

The Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or by Noteholders as provided in Section 9.03, in which

case the Company or the Noteholders calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by majority vote of the meeting.

Subject to the provisions of Section 8.04, at any meeting each Noteholder or proxy shall be entitled to one vote for each \$1,000 principal amount of Notes held or represented by him; *provided, however*, that no vote shall be cast or counted at any meeting in respect of any Note challenged as not outstanding and ruled by the chairman of the meeting to be not outstanding. The chairman of the meeting shall have no right to vote other than by virtue of Notes held by him or instruments in writing as aforesaid duly designating him as the person to vote on behalf of other Noteholders. At any meeting of Noteholders, the presence of persons holding or representing Notes in an aggregate principal amount sufficient to take action on the business for the transaction of which such meeting was called shall constitute a quorum, but, if less than a quorum is present, the persons holding or representing a majority in aggregate principal amount of the Notes represented at the meeting may adjourn such meeting with the same effect, for all intents and purposes, as though a quorum had been present. Any meeting of Noteholders duly called pursuant to the provisions of Section 9.02 or 9.03 may be adjourned from time to time by a majority of those present, whether or not constituting a quorum, and the meeting may be held as so adjourned without further notice.

SECTION 9.06. Voting. The vote upon any resolution submitted to any meeting of Noteholders shall be by written ballots on which shall be subscribed the signatures of the holders of Notes or of their representatives by proxy and the principal amount of the Notes held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in duplicate of all votes cast at the meeting. A record in duplicate of the proceedings of each meeting of Noteholders shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more persons having knowledge of the facts setting forth a copy of the notice

of the meeting and showing that said notice was mailed as provided in Section 9.02. The record shall show the principal amounts and names of holders of the Notes voting in favor of or against any resolution. The record shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one of the duplicates shall be delivered to the Company and the other to the Trustee to be preserved by the Trustee.

Any record so signed and verified shall be conclusive evidence of the matters therein stated.

SECTION 9.07. *No Delay of Rights by Meeting.* Nothing in this Article Nine contained shall be deemed or construed to authorize or permit, by reason of any call of a meeting of Noteholders or any rights expressly or impliedly conferred hereunder to make such call, any hindrance or delay in the exercise of any right or rights conferred upon or reserved to the Trustee or to the Noteholders under any of the provisions of this Indenture or of the Notes.

ARTICLE TEN.

SUPPLEMENTAL INDENTURES.

SECTION 10.01. *Supplemental Indentures without Consent of Noteholders.* The Company, when authorized by resolutions of the Board of Directors, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto for one or more of the following purposes:

(a) to evidence the succession of another corporation to the Company, or successive successions, and the assumption by the successor corporation of the covenants, agreements and obligations of the Company pursuant to Article Eleven hereof;

(b) to convey, transfer, assign, mortgage or pledge to the Trustee as security for the Notes any property or assets which the Company may desire or may be required to convey, transfer, assign, mortgage or pledge in accordance with the provisions of Section 4.08 or Section 11.02;

(c) to add to the covenants of the Company such further covenants, restrictions or conditions for the protection of the holders

of the Notes as the Board of Directors of the Company and the Trustee shall consider to be for the protection of the holders of Notes, and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants, restrictions or conditions a default or an Event of Default permitting the enforcement of all or any of the several remedies provided in this Indenture as herein set forth; *provided, however*, that in respect of any such additional covenant, restriction or condition such supplemental indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Trustee upon such default;

(d) to provide for the issuance under this Indenture of Notes in coupon form (including Notes registrable as to principal only) and to provide for exchangeability of such Notes with the Notes issued hereunder in fully registered form and to make all appropriate changes for such purpose; and

(e) to cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indenture which may be defective or inconsistent with any other provision contained herein or in any supplemental indenture, or to make such other provisions in regard to matter or questions arising under this Indenture which shall not adversely affect the interests of the holders of the Notes.

The Trustee is hereby authorized to join with the Company in the execution of any such supplemental indenture, to make any further appropriate agreements and stipulations which may be therein contained and to accept the conveyance, transfer, assignment, mortgage or pledge of any property thereunder, but the Trustee shall not be obligated to, but may in its discretion, enter into any such supplemental indenture which adversely affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Any supplemental indenture authorized by the provisions of this Section 10.01 may be executed by the Company and the Trustee without the consent of the holders of any of the Notes at the time outstanding, notwithstanding any of the provisions of Section 10.02.

SECTION 10.02. *Supplemental Indentures with Consent of Noteholders.* With the consent (evidenced as provided in Section 8.01) of the holders of not less than 66% in aggregate principal amount of the Notes at the time outstanding, the Company, when authorized by resolutions of the Board of Directors, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of any supplemental indenture or of modifying in any manner the rights of the holders of the Notes; *provided, however,* that no such supplemental indenture shall (i) extend the fixed maturity of any Notes, or reduce the rate or extend the time of payment of interest thereon, or reduce the principal amount thereof, or make the principal thereof or interest thereon payable in any coin or currency other than that provided in the Notes, without the consent of the holder of each Note so affected, or (ii) reduce the aforesaid percentage of Notes, the holders of which are required to consent to any such supplemental indenture, without the consent of the holders of all Notes then outstanding.

Upon the request of the Company, accompanied by a copy of the resolutions of the Board of Directors certified by its Secretary or any Assistant Secretary authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of Noteholders as aforesaid, the Trustee shall join with the Company in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture.

It shall not be necessary for the consent of the Noteholders under this Section 10.02 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

SECTION 10.03. *Compliance with Trust Indenture Act; Effect of Supplemental Indentures.* Any supplemental indenture executed pursuant to the provisions of this Article Ten shall comply with the Trust Indenture Act of 1939, as then in effect. Upon the execution of any supplemental

indenture pursuant to the provisions of this Article Ten, this Indenture shall be deemed to be modified and amended in accordance therewith and the respective rights, limitations of rights, obligations, duties and immunities under this Indenture of the Trustee, the Company and the holders of Notes shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 10.04. *Notation on Notes.* Notes authenticated and delivered after the execution of any supplemental indenture pursuant to the provisions of this Article Ten may bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company or the Trustee shall so determine, new Notes so modified as to conform, in the opinion of the Trustee and the Board of Directors, to any modification of this Indenture contained in any such supplemental indenture may be prepared and executed by the Company, authenticated by the Trustee and delivered in exchange for the Notes then outstanding.

SECTION 10.05. *Evidence of Compliance of Supplemental Indenture to be Furnished Trustee.* The Trustee, subject to the provisions of Sections 7.01 and 7.02, may receive an Officers' Certificate and an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant hereto complies with the requirements of this Article Ten.

ARTICLE ELEVEN.

CONSOLIDATION, MERGER, SALE, CONVEYANCE AND LEASE.

SECTION 11.01. *Company May Consolidate, etc., on Certain Terms.* Subject to the provisions of Section 11.02, nothing contained in this Indenture or in any of the Notes shall prevent any consolidation or merger of the Company with or into any other corporation or corporations (whether or not affiliated with the Company), or successive consolidations or mergers in which the Company or its successor or successors shall be a party or parties, or shall prevent any sale, conveyance or lease of all or substantially all the property of the Company, to any other corporation (whether or not affiliated with the Company) authorized to acquire and operate the same; *provided, however,* and the Company hereby covenants

and agrees, that upon any such consolidation, merger, sale, conveyance or lease, the due and punctual payment of the principal of and interest on all of the Notes, according to their tenor, and the due and punctual performance and observance of all of the covenants and conditions of this Indenture to be performed by the Company, shall be expressly assumed, by supplemental indenture satisfactory in form to the Trustee, executed and delivered to the Trustee by the corporation (if other than the Company) formed by such consolidation, or into which the Company shall have been merged, or by the corporation which shall have acquired or leased such property.

SECTION 11.02. Notes to be Secured in Certain Events. If, upon any such consolidation or merger, or upon any such sale, conveyance or lease, or upon any consolidation or merger of any Restricted Subsidiary, or upon any sale, conveyance or lease of all or substantially all the property of any Restricted Subsidiary to any other corporation, any Principal Property of the Company or of any Restricted Subsidiary or any shares of stock or indebtedness of any Restricted Subsidiary owned immediately prior thereto would thereupon become subject to any mortgage, pledge, lien or encumbrance not permitted by Section 4.04, the Company, prior to such consolidation, merger, sale, conveyance or lease, will by indenture supplemental hereto secure the due and punctual payment of the principal of and interest on the Notes (equally and ratably with any other indebtedness of the Company then entitled thereto) by a direct lien on such Principal Property, shares of stock or indebtedness, prior to all liens other than any theretofore existing thereon.

SECTION 11.03. Successor Corporation to be Substituted. In case of any such consolidation, merger, sale, conveyance or lease and upon the assumption by the successor corporation, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the due and punctual payment of the principal of and interest on all of the Notes and the due and punctual performance of all of the covenants and conditions of this Indenture to be performed by the Company, such successor corporation shall succeed to and be substituted for the Company, with the same effect as if it had been named herein as the party of the first part. Such successor corporation thereupon may cause to be signed, and may issue either in its own name or in the name of THE SCOTT & FETZER COMPANY any or all of the Notes issuable hereunder which

theretofore shall not have been signed by the Company and delivered to the Trustee; and, upon the order of such successor corporation instead of the Company and subject to all the terms, conditions and limitations in this Indenture prescribed, the Trustee or the authenticating agent on its behalf shall authenticate and shall deliver any Notes which previously shall have been signed and delivered by the officers of the Company to the Trustee for authentication, and any Notes which such successor corporation thereafter shall cause to be signed and delivered to the Trustee for that purpose. All the Notes so issued shall in all respects have the same legal rank and benefit under this Indenture as the Notes theretofore or thereafter issued in accordance with the terms of this Indenture as though all of such Notes had been issued at the date of the execution hereof. In the event of any such sale or conveyance, but not any such lease, the Company or any successor corporation which shall theretofore have become such in the manner described in this Article Eleven shall be discharged from all obligations and covenants under this Indenture and the Notes and may be dissolved and liquidated.

In case of any such consolidation, merger, sale, conveyance or lease such changes in phraseology and form (but not in substance) may be made in the Notes thereafter to be issued as may be appropriate.

SECTION 11.04. *Opinion of Counsel to be Given Trustee.* The Trustee, subject to Sections 7.01 and 7.02, may receive an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale, conveyance or lease and any such assumption complies with the provisions of this Article Eleven.

ARTICLE TWELVE.

SATISFACTION AND DISCHARGE OF INDENTURE.

SECTION 12.01. *Discharge of Indenture.* When (a) the Company shall deliver to the Trustee for cancellation all Notes theretofore authenticated (other than any Notes which shall have been destroyed, lost or stolen or in lieu of or in substitution for which other Notes shall have been authenticated and delivered, or which shall have been paid, pursuant to the terms of Section 2.06) and not theretofore cancelled, or (b) all the Notes not theretofore cancelled or delivered to the Trustee for cancellation shall have become due and payable, or are by their terms to become due and payable

within one year or are to be called for redemption under arrangements satisfactory to the Trustee for the giving of notice of redemption, and the Company shall deposit with the Trustee, in trust, funds (other than funds repaid by the Trustee to the Company in accordance with Section 12.04) sufficient to pay at maturity or upon redemption all of the Notes (other than any Notes which shall have been mutilated, destroyed, lost or stolen and in lieu of or in substitution for which other Notes shall have been authenticated and delivered, or which shall have been paid, pursuant to the terms of Section 2.06) not theretofore cancelled or delivered to the Trustee for cancellation, including principal and interest due or to become due to such date of maturity or redemption date, as the case may be, and if in either case the Company shall also pay or cause to be paid all other sums payable hereunder by the Company, then this Indenture shall cease to be of further effect, and the Trustee, on demand of the Company accompanied by an Officers' Certificate and an Opinion of Counsel as required by Section 14.06 and at the cost and expense of the Company, shall execute proper instruments acknowledging satisfaction of and discharging this Indenture, the Company, however, hereby agreeing to reimburse the Trustee for any costs or expenses thereafter reasonably and properly incurred and to compensate the Trustee for any services thereafter reasonably and properly rendered by the Trustee in connection with this Indenture or the Notes.

SECTION 12.02. *Deposited Moneys to be Held in Trust by Trustee.* All moneys deposited with the Trustee pursuant to Section 12.01 shall be held in trust and applied by it to the payment, either directly or through any paying agent (including the Company if acting as its own paying agent), to the holders of the particular Notes for the payment or redemption of which such moneys have been deposited with the Trustee, of all sums due and to become due thereon for principal and interest.

SECTION 12.03. *Paying Agent to Repay Moneys Held.* Upon the satisfaction and discharge of this Indenture all moneys then held by any paying agent of the Notes shall, upon demand of the Company, be repaid to it or paid to the Trustee, and thereupon such paying agent shall be released from all further liability with respect to such moneys.

SECTION 12.04. *Return of Unclaimed Moneys.* Any moneys deposited with or paid to the Trustee for payment of the principal of or interest

on Notes and not applied but remaining unclaimed by the holders of Notes for six years after the date upon which the principal of or interest on such Notes, as the case may be, shall have become due and payable, shall be repaid to the Company by the Trustee on demand; and the holder of any of the Notes shall thereafter look only to the Company for any payment which such holder may be entitled to collect.

ARTICLE THIRTEEN.

IMMUNITY OF INCORPORATORS, STOCKHOLDERS, OFFICERS AND DIRECTORS.

SECTION 13.01. *Indenture and Notes Solely Corporate Obligations.* No recourse for the payment of the principal of or interest on any Note, or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company in this Indenture or in any supplemental indenture, or in any Note, or because of the creation of any indebtedness represented thereby, shall be had against any incorporator, stockholder, officer or director, as such, past, present or future, of the Company or of any successor corporation, either directly or through the Company or any successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that all such liability is hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issue of the Notes.

ARTICLE FOURTEEN.

MISCELLANEOUS PROVISIONS.

SECTION 14.01. *Provisions Binding on Company's Successors.* All the covenants, stipulations, promises and agreements in this Indenture contained by the Company shall bind its successors and assigns whether so expressed or not.

SECTION 14.02. *Benefits of Indenture Restricted to Parties and Noteholders.* Nothing in this Indenture or in the Notes, expressed or implied, shall give or be construed to give to any person, firm or corporation, other than the parties hereto and their successors and assigns and the Noteholders, any legal or equitable right, remedy or claim under or in

respect of this Indenture, or under any covenant, condition or provision herein contained; and, subject to the provisions of Articles Eleven and Thirteen, all of such covenants, conditions and provisions shall be for the sole benefit of the parties hereto and the Noteholders.

SECTION 14.03. *Official Acts by Successor Corporation.* Any act or proceeding by any provision of this Indenture authorized or required to be done or performed by any board, committee or officer of the Company shall and may be done and performed with like force and effect by the like board, committee or officer of any corporation that shall at the time be the lawful sole successor of the Company.

SECTION 14.04. *Addresses for Notices, etc.* Any notice or demand which by any provision of this Indenture is required or permitted to be given or served by the Trustee or by the holders of Notes to or upon the Company may be given or served by being deposited postage prepaid by first class mail in a post office letter box addressed (until another address is filed by the Company with the Trustee) to THE SCOTT & FETZER COMPANY, Attention: Secretary, 14600 Detroit Avenue, Lakewood, Ohio 44107. Any notice, direction, request or demand by any Noteholder to or upon the Trustee shall be deemed to have been sufficiently given or made, for all purposes, if given or made in writing at the principal office of the Trustee, addressed to the attention of its Corporate Trust Division.

SECTION 14.05. *Ohio Contract.* This Indenture and each Note shall be deemed to be a contract made under the law of the State of Ohio, and for all purposes shall be construed in accordance with the law of said State.

SECTION 14.06. *Evidence of Compliance with Conditions Precedent.* Upon any application or demand by the Company to the Trustee to take any action under any of the provisions of this Indenture, the Company shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

Each certificate or opinion provided for in this Indenture and delivered to the Trustee with respect to compliance with a condition or covenant provided for in this Indenture shall include (1) a statement that the

person making such certificate or opinion has read such covenant or condition; (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinion contained in such certificate or opinion are based; (3) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and (4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with.

SECTION 14.07. *Legal Holidays.* In any case where the date of maturity of interest on or principal of the Notes or the date fixed for redemption of any Note will be in The City of Cleveland, Ohio or The City of New York, New York a legal holiday or a day on which banking institutions are authorized or required by law to close, then payment of such interest on or principal of the Notes need not be made on such date but may be made on the next succeeding day not in such city a legal holiday or a day on which banking institutions are authorized or required by law to close, with the same force and effect as if made on the date of maturity or the date fixed for redemption, and no interest shall accrue for the period from and after such date.

SECTION 14.08. *Trust Indenture Act to Control.* If and to the extent that any provision of this Indenture limits, qualifies or conflicts with another provision included in this Indenture which is required to be included in this Indenture by any of Sections 310 to 317, inclusive, of the Trust Indenture Act of 1939, such required provision shall control.

SECTION 14.09. *No Security Interest Created.* Nothing in this Indenture or in the Notes, expressed or implied, shall be construed to constitute a security interest under the Uniform Commercial Code or similar legislation, as now or hereafter enacted and in effect, in any jurisdiction where property of the Company or its Subsidiaries is located.

SECTION 14.10. *Table of Contents, Headings, etc.* The table of contents and the titles and headings of the articles and sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.

SECTION 14.11. Execution in Counterparts. This Indenture may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

NATIONAL CITY BANK hereby accepts the trusts in this Indenture declared and provided, upon the terms and conditions hereinabove set forth.

IN WITNESS WHEREOF, **THE SCOTT & FETZER COMPANY** has caused this Indenture to be signed and acknowledged by its Chairman of the Board, President, any Vice President or its Treasurer and its corporate seal to be affixed hereunto, and the same to be attested by its Secretary or an Assistant Secretary, and **NATIONAL CITY BANK** has caused this Indenture to be signed and acknowledged by one of its Vice Presidents, has caused its corporate seal to be affixed hereunto, and the same to be attested by one of its Assistant Trust Officers, as of the day and year first written above.

THE SCOTT & FETZER COMPANY

By *Quincy Kohn*
Vice President

Attest: *Robert C. Miller*
Secretary

[SEAL]

NATIONAL CITY BANK

By *D. Blum*
Vice President

Attest: *A. P. [Signature]*
Assistant Trust Officer

[SEAL]

STATE OF OHIO }
COUNTY OF CUYAHOGA } ss.:

On the 19th day of May, 1975, before me personally came *Onig*
Zohr, to me known, who, being by me duly sworn, did depose and
say that he resides at 14600 Detroit Ave., Lakewood, Ohio 44107; that
he is a Vice President of THE SCOTT & FETZER COMPANY, the
corporation described in and which executed the above instrument; that
he knows the corporate seal of said corporation; that the seal affixed to
said instrument is such corporate seal; that it was so affixed by the
authority of the Board of Directors of said corporation; and that he
signed his name thereto by like authority.

Wallace J. Meyer
Notary Public
WALLACE J. MEYER, Esq. Attorney At Law
Notary Public - State of Ohio
My commission has no expiration date.
Section 147.03 R. C.

STATE OF OHIO }
COUNTY OF CUYAHOGA } ss.:

On the 19th day of May, 1975, before me personally came *Davis*
Davis, to me known, who, being by me duly sworn, did depose and
say that he is a Vice President of NATIONAL CITY BANK, a national
banking association which executed the above instrument as trustee;
that he knows the seal of said association, that the seal affixed to the said
instrument is such association seal; that it was so affixed by authority
of the Board of Directors of said association, and that he signed his name
thereto by like authority.

Susan L. Fischer
Notary Public
SUSAN L. FISCHER, Notary Public
For Cuyahoga County, Ohio
My commission expires Jan. 21, 1980

THE SCOTT & FETZER COMPANY

AND

**NATIONAL CITY BANK,
Trustee**

FIRST SUPPLEMENTAL INDENTURE

Dated as of August 31, 1978

Supplemental to

Indenture dated as of May 15, 1975

THIS FIRST SUPPLEMENTAL INDENTURE, dated as of August 31, 1978 between **THE SCOTT & FETZER COMPANY**, a corporation duly organized and existing under the laws of the State of Ohio (hereinafter sometimes called the "Company"), and **NATIONAL CITY BANK**, a national banking association duly organized and existing under the laws of the United States of America (hereinafter sometimes called the "Trustee"),

WITNESSETH:

WHEREAS, the Company and the Trustee have heretofore executed and delivered a certain Indenture dated as of May 15, 1975 (hereinafter called the "Original Indenture") providing, among other things, for the creation, execution, authentication and delivery of \$30,000,000 aggregate principal amount of 9% Notes due May 15, 1985 of the Company (hereinafter called the "Notes");

WHEREAS, the Company desires to make certain changes in the interest payable on the Notes and in various covenants, definitions and other terms of the Original Indenture; and

WHEREAS, the provisions of Section 10.02 of the Original Indenture have been complied with, the consents of the holders of not less than 66 2/3% in aggregate principal amount of the Notes outstanding (evidenced as provided in Section 8.01 of the Original Indenture) have been obtained, all acts and things necessary to constitute this First Supplemental Indenture and the Original Indenture, as hereby modified, valid and binding instruments have been done and the execution and delivery of this First Supplemental Indenture have been duly authorized;

NOW, THEREFORE, THIS FIRST SUPPLEMENTAL INDENTURE WITNESSETH that for and in consideration of the premises, and the sum of \$10.00 to it duly paid by the Trustee at or before the delivery hereof, the receipt whereof is hereby acknowledged, the Company covenants and agrees with the Trustee, for the equal and proportionate benefit of the respective holders from time to time of the Notes, as follows:

ARTICLE ONE

SUPPLEMENTAL INTEREST

Section 1.01. The Company will duly and punctually pay, or cause to be paid, to the holders of the Notes outstanding from time to time, at the times and places and in the manner provided in the Notes and in the Original Indenture, supplemental interest on the unpaid principal amount of such Notes, at the annual rate of 1/4 of 1% per annum, such supplemental

interest to accrue from and after August 31, 1978 and to be payable semiannually on each November 15 and May 15 thereafter.

ARTICLE TWO

MODIFICATIONS TO THE ORIGINAL INDENTURE

Section 2.01. Section 1.01 of the Original Indenture is hereby changed as follows:

(a) The definition of "Consolidated Funded Debt" is hereby changed to read in its entirety as follows:

"The term 'Consolidated Funded Debt' shall mean the aggregate of Funded Debt of the Company and its Restricted Subsidiaries, less any Funded Debt of the Company to any Restricted Subsidiary or of any Restricted Subsidiary to the Company or any other Restricted Subsidiary."

(b) The definition of "Consolidated Net Tangible Assets" is hereby changed by inserting the word "Restricted" before the word "Subsidiaries" in each of the seventh and eighth lines thereof, by replacing the word "or" at the end of the eighteenth line with a comma, and by replacing the final period with the following clause:

"or (v) investments (including loans and advances) in any Unrestricted Subsidiaries in excess of 20% of shareholders equity of the Company and its consolidated subsidiaries, as shown in the Company's most recent quarterly or annual statement."

(c) The definition of "Funded Debt" is hereby changed by inserting in the twelfth line after the words "Funded Debt" the following:

"(i) shall include amounts payable as rentals by such corporation over the term of the lease under a lease of a manufacturing plant or facility which is a Principal Property where such lease, in effect, constitutes a guarantee of the payment of indebtedness of another incurred in connection with the purchase or construction of such plant or facility and where such corporation has agreed to, or has an option to, purchase such plant or facility at a future date for a nominal amount or an amount materially less than a reasonable estimate of the fair value of such plant or facility at the date of such purchase, but only to the extent that such rentals payable under such lease represent, in effect, payments on account of the principal amount of such indebtedness of another (ii) shall not include obligations under capital leases as defined in Statement of

Financial Accounting Standards Board No. 13 issued in November, 1976 except those covered by subpart (i) of this provision and (iii)"

(d) The definition of "Restricted Subsidiary" is hereby changed to read in its entirety as follows:

"The term 'Restricted Subsidiary' shall mean any Subsidiary which is so designated by the Board of Directors as to this Indenture and which designation shall not thereafter have been cancelled by the Board of Directors; provided that no Subsidiary shall be designated a Restricted Subsidiary and no such designation shall be cancelled unless, after giving effect to such designation or cancellation, Consolidated Net Tangible Assets shall be at least 225% of Senior Funded Indebtedness and at least 200% of Consolidated Funded Debt, on a pro forma basis, as of the end of the last full fiscal quarter of the Company; and, provided further, that no Subsidiary shall be designated or redesignated a Restricted Subsidiary if (i) such Subsidiary has outstanding any Funded Debt not permitted under Section 4.04A or (ii) such Subsidiary, during any period of time in which it was an Unrestricted Subsidiary, participated in any Sale and Lease-Back Transaction which would have been prohibited by Section 4.05 if the Subsidiary had been a Restricted Subsidiary at the time of the transaction unless the property involved in such transaction shall no longer be leased by the Subsidiary or shall be owned by the Company or a Subsidiary. Any such designation or cancellation of such a designation may be made more than once with respect to any Subsidiary."

(e) A new definition of "Unrestricted Subsidiary" is hereby added, reading in its entirety as follows:

"The term 'Unrestricted Subsidiary' shall mean any Subsidiary which has not been designated a 'Restricted Subsidiary'."

Section 2.02. Section 4.03 of the Original Indenture is hereby changed by inserting the word "Restricted" before the word "Subsidiary" in each of the second and twelfth lines thereof.

Section 2.03. The Original Indenture is hereby changed by adding thereto a new Section 4.03A to read in its entirety as follows:

"Section 4.03A. Limitation on Investment in Unrestricted Subsidiaries. The Company will not transfer any asset (including by way of any loan or advance) to any Unrestricted

Subsidiary unless, after giving effect to such transfer, Consolidated Net Tangible Assets shall be at least equal to 225% of Senior Funded Indebtedness and at least 200% of Consolidated Funded Debt, on a pro forma basis, as of the end of the last full fiscal quarter of the Company."

Section 2.04. The Original Indenture is hereby changed by adding thereto a new Section 4.04A to read in its entirety as follows:

"Section 4.04A. **Limitation on Restricted Subsidiary Debt.** The Company will not permit any Restricted Subsidiary to create, issue, guarantee, assume or otherwise incur any Funded Debt other than Funded Debt which is:

- (a) owed to the Company or a Restricted Subsidiary,
- (b) secured by Mortgages or liens permitted by subparts (a) through (h), inclusive, of Section 4.04,
- (c) subject to the provisions of Section 4.03, outstanding at the time such Restricted Subsidiary becomes a Subsidiary,
- (d) created, issued, guaranteed, assumed or otherwise incurred for the purpose of extending, renewing or replacing not more than an equal principal amount of Funded Debt then outstanding of such Restricted Subsidiary, or
- (e) permitted by the terms of Section 4.07."

ARTICLE THREE

STAMPING AND CHANGE OF FORM OF NOTES

Section 3.01. All Notes authenticated and delivered after the execution and delivery of this First Supplemental Indenture in exchange for or in lieu of any Notes theretofore issued shall either (a) have imprinted thereon a legend in substantially the following form:

"The Indenture referred to in this Note has been modified by a First Supplemental Indenture which, among other things, includes provisions requiring the Company to pay supplemental interest on the Notes at the annual rate of 1/4 of 1%, such supplemental interest to accrue from and after August 31, 1978 and to be payable semi-annually on each November 15 and May 15 thereafter."

or (b) if the Company so elects, be textually revised in form approved by the Company and the Trustee to make reference to this First Supplemental Indenture and the modifications in the Original Indenture which are being effected hereby.

ARTICLE FOUR
CONCERNING THE TRUSTEE

Section 4.01. The Trustee accepts the modifications of the trust effected by this First Supplemental Indenture as of the date of execution and delivery of this First Supplemental Indenture, but only upon the terms and conditions set forth in the Original Indenture.

Section 4.02. The recitals herein contained are made by the Company and not by the Trustee.

ARTICLE FIVE
MISCELLANEOUS

Section 5.01. The Original Indenture, except as amended hereby, is in all respects ratified and confirmed and this First Supplemental Indenture and all its provisions and recitals shall be deemed a part thereof in the manner and to the extent therein and herein provided.

Section 5.02. If any provision of this First Supplemental Indenture limits, qualifies or conflicts with another provision of this First Supplemental Indenture, or any provision of the Original Indenture, which is required to be included in this First Supplemental Indenture, or the Original Indenture, by any of the provisions of Sections 310 to 317, inclusive of the Trust Indenture Act of 1939, such required provisions shall control.

Section 5.03. This First Supplemental Indenture may be executed in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, THE SCOTT & FETZER COMPANY has caused this First Supplemental Indenture to be signed and acknowledged by its Chairman of the Board, President, any Vice President or its Treasurer and its corporate seal to be affixed hereunto, and the same to be attested by its Secretary or an Assistant Secretary, and **NATIONAL CITY BANK** has caused this First Supplemental Indenture to be signed and acknowledged by one of

its Vice Presidents and has caused its corporate seal to be affixed hereunto, and the same to be attested by one of its Assistant Trust Officers, as of the day and year first above written.

THE SCOTT & FETZER COMPANY

By *J. Crowley*
Vice President

(Seal)

Attest:

Robert C. Niles
Secretary

NATIONAL CITY BANK

By *J. Thomas E. May*
Vice President

(Seal)

Attest:

R. B. Shan
~~Trust Officer~~

VICE PRESIDENT

STATE OF OHIO)
) SS:
COUNTY OF CUYAHOGA)

On the 31st day of August, 1978, before me personally came J.F. Bradley to me known, who, being by me duly sworn, did depose and say that he resides at 11900 Edgewater Drive Lakewood, Ohio; that he is Executive Vice President - Finance of THE SCOTT & FETZER COMPANY, the corporation described in and which executed the above instrument; that he knows the corporate seal of said corporation; that one of the seals affixed to the said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation; and that he signed his name thereto by like authority.

William H Steinbrink
Notary Public

(Notarial Seal)

WILLIAM H. STEINBRINK, Attorney
NOTARY PUBLIC - STATE OF OHIO
My commission has no expiration date.
Section 147.03 R.C.

STATE OF OHIO)
) SS:
COUNTY OF CUYAHOGA)

On the 30th day of August, 1978, before me personally came THOMAS F. HARVEY to me known, who, being by me duly sworn, did depose and say that he resides at [redacted] Ohio; that he is a Vice President of NATIONAL CITY BANK, a national banking association which executed the above instrument as Trustee; that he knows the seal of said association; that one of the seals affixed to the said instrument is such association seal; that it was so affixed by authority of the Board of Directors of said association; and that he signed his name thereto by like authority.

Gloria A. Fiquit

Notary Public

(Notarial Seal)

GLORIA A. FIQUIT, NOTARY PUBLIC
STATE OF OHIO - CUYAHOGA COUNTY
COMMISSION EXPIRES DEC. 12, 1982

PROSPECTUS

\$30,000,000



The Scott & Fetzer Company

9% Notes Due 1985

Interest Payable May 15 and November 15

The Notes will mature on May 15, 1985 and may not be redeemed before May 15, 1982. On and after that date the Notes may be redeemed at the option of the Company in whole or in part at their principal amount, plus accrued interest. See "Description of Notes" herein.

Application will be made to list the Notes on the New York Stock Exchange.

	Price to Public (1)	Underwriting Discounts and Commissions (2)	Proceeds to Company (1)(3)
Per Unit	99.0%	.7%	98.3%
Total	\$29,700,000	\$210,000	\$29,490,000

- (1) Plus accrued interest from May 15, 1975 to the date of delivery.
- (2) See "Underwriting" for information concerning indemnification of the Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933.
- (3) Before expenses payable by the Company estimated at \$134,600.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Notes are offered by the Underwriters named herein subject to prior sale, and when, as and if issued and accepted by the Underwriters, and subject to approval of certain legal matters by Squire, Sanders & Dempsey, counsel for the Underwriters. The Notes will be available for delivery on or about May 22, 1975 at the office of Smith, Barney & Co. Incorporated, 20 Broad Street, New York, New York 10005, against payment therefor in New York funds.

Smith, Barney & Co.
Incorporated

McDonald & Company

Prescott, Ball & Turben

May 15, 1975

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

AVAILABLE INFORMATION

The Scott & Fetzer Company is subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith files reports and other information with the Securities and Exchange Commission. Information, as of particular dates, concerning directors and officers, their remuneration, options granted to them, the principal holders of securities of the Company and any material interest of such persons in transactions with the Company is disclosed in proxy statements distributed to shareholders of the Company and filed with the Commission. Such reports, proxy statements and other information can be inspected at the office of the Securities and Exchange Commission at Room 6101, 1100 L Street, N.W., Washington, D.C., where copies of such material can be obtained at prescribed rates. Such material can also be inspected at the offices of the New York Stock Exchange, Inc., the Midwest Stock Exchange and the Pacific Stock Exchange, Inc.

THE COMPANY

The Scott & Fetzer Company is a diversified company which manufactures and sells products in the floor care, commercial/industrial, leisure time, electrical and lighting markets. The majority of the Company's sales are directed to consumer markets. One of the Company's principal product lines is vacuum cleaners and related accessories primarily for home use sold under the *Kirby* and other brand names.

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

USE OF PROCEEDS

The net proceeds from the sale of the Notes offered hereby will be used in part to repay borrowings which aggregated approximately \$14,400,000 as of April 30, 1975 under a revolving credit agreement. The balance of the proceeds will be added to the general corporate funds and will be available for additional working capital, capital expenditures and for use in future acquisitions (although no such acquisitions are currently in negotiation). The proceeds from borrowings under the revolving credit agreement were used principally to repay short-term debt which had been incurred primarily to finance higher levels of raw material and purchased parts inventory and accounts receivable. See "Capitalization".

The Company believes that funds sufficient for presently projected cash needs for the next several years will be supplied by internally generated cash flow. However, if additional funds are required for any purpose, the Company may provide them from borrowings under the revolving credit agreement, the proceeds of the sale of additional securities or other sources. See "Description of Notes — Limitation on Funded Debt" and Notes 6 and 14 of Notes to Financial Statements for descriptions of restrictions on additional borrowings by Scott & Fetzer.

CAPITALIZATION

The capitalization of Scott & Fetzer at March 31, 1975, and as adjusted to give effect to the sale of the Notes and the reduction of indebtedness referred to under "Use of Proceeds", is as follows:

	(Dollars in Thousands)	
	March 31, 1975	
	<u>Actual</u>	<u>As Adjusted</u>
Short-term debt (a):		
Current portion of long-term debt	\$ 437	\$ 437
Long-term debt (a):		
9% Notes due 1985	—	30,000
Loans under revolving credit agreement (b)	23,400	—
Other long-term debt (c)	4,987	4,987
Total long-term debt	<u>\$ 28,387</u>	<u>\$ 34,987</u>
Shareholders' equity (d):		
Serial preference stock:		
Authorized 1,000,000 shares, without par value; issued shares — none	—	—
Common stock:		
Authorized 15,000,000 shares, without par value; issued shares — 7,558,185 (less 3,361 shares in treasury); stated value \$1.25 per share	9,444	9,444
Additional capital	5,691	5,691
Retained earnings	86,739	86,739
Total shareholders' equity	<u>101,874</u>	<u>101,874</u>
Total long-term debt and shareholders' equity	<u>\$130,261</u>	<u>\$136,861</u>

- (a) See Notes 6 and 14 of Notes to Financial Statements for additional information concerning long-term debt and interest rates.
- (b) The outstanding balance under the revolving credit agreement was reduced in April of 1975 by approximately \$9,000,000.
- (c) Includes \$2,400,000 of 7.65% Industrial Development Bonds guaranteed by the Company and issued on February 25, 1975. See Notes 6, 9, 13 and 14 of Notes to Financial Statements for information with respect to lease and related obligations.
- (d) See Note 10 of Notes to Financial Statements for information concerning stock options.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

The following consolidated statement of income and retained earnings of The Scott & Fetzer Company and subsidiary companies for the five years ended November 30, 1974 has been examined by Coopers & Lybrand, independent certified public accountants, whose report thereon is included elsewhere in this Prospectus. This statement should be read in conjunction with the related consolidated financial statements and notes thereto included in this Prospectus.

(Dollars in Thousands)

Year Ended November 30,

	1970	1971	1972	1973	1974
Net sales (1)	\$ 161,112	\$ 188,730	\$ 229,361	\$ 270,714	\$ 291,258
Cost of goods sold (3)	115,176	133,159	163,318	196,589	226,393
Gross profit	45,936	55,571	66,043	74,125	64,865
Selling, general and administrative expenses ..	23,498	26,180	29,955	34,440	36,751
	22,438	29,391	36,088	39,685	28,114
Other income (deductions) net:					
Interest expense:					
Long-term debt	(540)	(460)	(337)	(219)	(1,070)
Other interest	(250)	(167)	(196)	(431)	(1,523)
	(790)	(627)	(533)	(650)	(2,593)
Other income, net	879	958	1,167	1,029	410
	89	331	634	379	(2,183)
Income before income taxes	22,527	29,722	36,722	40,064	25,931
Provision for income taxes: (2)					
State and local	321	1,137	1,538	1,670	1,203
Federal and Canadian:					
Current	10,822	13,919	16,867	17,115	9,907
Deferred	7	(180)	128	410	1,125
	11,150	14,876	18,533	19,195	12,235
Net income (1)(3)	\$ 11,377	\$ 14,846	\$ 18,189	\$ 20,869	\$ 13,696
Retained earnings at beginning of year	\$ 37,870	\$ 43,545	\$ 53,144	\$ 65,447	\$ 78,860
	49,247	58,391	71,333	86,316	92,556
Less:					
Cash dividends paid on common stock	4,532	4,768	5,886	7,456	7,554
Dividends paid by merged companies before acquisition	53	27	—	—	—
Excess of cost of treasury shares over amount allocated to additional capital	1,117	452	—	—	—
	5,702	5,247	5,886	7,456	7,554
Retained earnings at end of year	\$ 43,545	\$ 53,144	\$ 65,447	\$ 78,860	\$ 85,002
Per share of common stock:					
Earnings (4)	\$ 1.53	\$ 1.97	\$ 2.40	\$ 2.76	\$ 1.81
Dividends	\$.80	\$.80	\$.83	\$ 1.00	\$ 1.00
Average number of common and common equivalent shares (4)	7,413,920	7,537,050	7,563,354	7,571,100	7,552,720
Ratio of earnings to fixed charges (5)	18.2	25.5	27.6	27.4	7.9

- (1) Included in the Statement of Income from the respective dates of acquisition are the results of 4 businesses acquired in transactions accounted for as purchases and the results to the dates of disposition of 5 businesses disposed of since 1969. Also, the statement reflects results of operations for the five year period of businesses acquired in transactions accounted for as poolings of interests. Sales and net income as originally reported and the amounts retroactively included as a result of poolings of interests subsequent to the original publication are as follows:

	(Dollars in Thousands)				
	1970	1971	1972	1973	1974
Net sales:					
Originally published	\$ 116,368	\$ 169,036	\$ 223,610	\$ 270,714	\$ 291,258
As a result of subsequent poolings	44,744	19,694	5,751	—	—
As restated to reflect poolings	<u>\$ 161,112</u>	<u>\$ 188,730</u>	<u>\$ 229,361</u>	<u>\$ 270,714</u>	<u>\$ 291,258</u>
Net income:					
Originally published	\$ 8,864	\$ 13,368	\$ 17,722	\$ 20,869	\$ 13,696
As a result of subsequent poolings	2,513	1,478	467	—	—
As restated to reflect poolings	<u>\$ 11,377</u>	<u>\$ 14,846</u>	<u>\$ 18,189</u>	<u>\$ 20,869</u>	<u>\$ 13,696</u>

See Note 1 of Notes to Financial Statements.

- (2) Provision for income taxes combines the historical tax expense of individual companies. Investment tax credits were not material in amount and have been applied as reductions of income taxes currently payable. See Note 1 of Notes to Financial Statements.
- (3) In the year ended November 30, 1974, the Company changed the method of valuation for a substantial portion of its domestic inventories from the first-in, first-out "FIFO" method to the last-in, first-out, "LIFO" method. The effect of this change was to reduce net income for 1974 by approximately \$4,250,000 or \$.56 per share. See Note 2 of Notes to Financial Statements.
- (4) Earnings per share data is computed on the basis of the average shares outstanding each year including common equivalent shares, after retroactive adjustment for shares issued in connection with mergers and acquisitions accounted for as poolings of interests. Common equivalent shares were 28,405 for 1973, 32,954 for 1972 and 32,700 for 1971. See Note 1 of Notes to Financial Statements.
- (5) For purposes of this calculation, earnings consist of income before provision for taxes on income and fixed charges. Fixed charges consist of interest and a portion of rents shown in Note 13 of Notes to Financial Statements deemed to be representative of interest. The pro forma ratio of earnings to fixed charges for the year ended November 30, 1974 would have been 6.7 after giving effect to the issuance of the Notes offered hereby, interest on a 1975 lease/purchase agreement (See Note 14 of Notes to Financial Statements) and to reduction of the Company's long-term debt outstanding. The ratio for fiscal 1974 of earnings to fixed charges and the pro forma ratio would have been 10.1 and 8.5, respectively, if the Company had not adopted the LIFO method of inventory valuation.

For the fiscal quarters ended February 28, 1974 and February 28, 1975, Scott & Fetzer's net sales, net income, and earnings per share of Common Stock were as follows:

	(Dollars in Thousands)	
	Fiscal Quarters Ended February 28,	
	1974	1975
Net sales	65,662	57,566
Net income	3,174	2,628
Earnings per share of Common Stock	\$.42	\$.35

The data in the above table are unaudited; however, in the opinion of the management of Scott & Fetzer all adjustments (which consist only of normal recurring accruals) necessary for a fair presentation of the results of operations for these periods have been included. Net income and earnings per share for the fiscal quarter ended February 28, 1974 have been restated to reflect the change to the "LIFO" method of inventory valuation described in Note 2 of Notes to Financial Statements. The earnings per share data have been computed on the basis set forth in Note (4) to the foregoing Consolidated Statement of Income and Retained Earnings. Results of operations for the fiscal quarter ended February 28, 1975 are not necessarily indicative of the results for the year ending November 30, 1975.

Although preliminary results for March of this year are below the results for March 1974, the sales and earnings levels are comparable to the average monthly results in the first quarter of this fiscal year. The Company expects sales and earnings for the full quarter ending May 31, 1975 to be lower than results for the comparable quarter of 1974.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENT OF INCOME

First Quarter Fiscal 1975 Compared to First Quarter Fiscal 1974

In the first quarter of fiscal 1975 Scott & Fetzer's sales decreased by 12% to \$57,566,000 from \$65,662,000 for the comparable period for fiscal 1974 in part due to the reduction in the demand for consumer products caused by the general recession in the U.S. economy, and in part due to inventory liquidations by mass merchandisers and retailers. The Company experienced lower sales in all of its market classifications except Commercial/Industrial which increased approximately 7%. Net income dropped 18% from \$3,174,000 in the first quarter of 1974 to \$2,628,000 for fiscal 1975's first quarter principally because of the drop in sales, reduced tax credits and increased operating and interest costs. Substantially all of the decline in net income was sustained in the Leisure Time line of Scott & Fetzer's business which more than offset increases in the profitability of the Commercial/Industrial, Electrical and Lighting lines of business.

Fiscal 1974 Compared to Fiscal 1973

In 1974 the Company's sales increased \$20,544,000 or 8% above 1973 sales primarily due to an increase in selling prices. However, net income dropped 34% from \$20,869,000 in 1973 to \$13,696,000 in 1974 principally because of increased cost of goods sold (as a result of the shift to the LIFO method of inventory valuation and increased costs not fully recovered by increased selling prices), substantially increased interest expense and the effect of two work stoppages.

In 1974 the cost of goods sold increased approximately 15% reflecting higher costs of labor, raw materials and purchased parts. The Company's change in method of accounting for a substantial portion of its inventory from the FIFO to the LIFO method was made to more accurately match current costs with sales and to minimize the effect of inflation on inventories and earnings. The effect of this change was to decrease net income by approximately \$4,250,000 or \$.56 per share.

Scott & Fetzer incurred increased interest expense in 1974 over 1973 of approximately \$1,900,000 due to higher bank borrowings required to finance the higher levels of inventories and receivables.

The decrease in the provision for income taxes resulted from the decrease in the amount of pretax income. However, the effective tax rate (Federal, state, local and Canadian) in 1974 was 47.2% as compared with 47.9% in 1973. This decrease in the effective rate was due to higher investment tax credits and increased export activities of the Company's DISC subsidiary. The increase in deferred Federal taxes was due largely to the excess of depreciation for tax purposes over depreciation for financial reporting purposes resulting from a substantially increased asset base in 1974.

Fiscal 1973 Compared to Fiscal 1972

Sales volume increased \$41,353,000 or 18% in 1973 as compared to 1972. This increase principally resulted from increased unit sales, particularly in the floor care and leisure time markets. Only a small portion of the increase resulted from higher selling prices because Federal controls on prices were in effect during 1973. Net income for 1973 was \$20,869,000 or 15% higher in 1973 than in 1972. This increase primarily resulted from the increased sales, although the full effect of the increased sales was partially offset by the increased cost of goods sold.

Cost of goods sold was approximately \$33,271,000 or 20% higher in 1973 than in 1972 reflecting the increase of sales volume, higher labor costs and increased prices which the Company had to pay to its suppliers.

The Company's effective tax rate (Federal, state, local and Canadian) decreased from 50.5% in 1972 to 47.9% in 1973 due principally to greater investment tax credits. Despite this decrease in the effective rate, the provision for income taxes increased approximately \$663,000 or 4% because of greater pretax income.

BUSINESS

Lines of Business

Scott & Fetzer is a diversified company engaged in the manufacture and sale of a variety of products in five lines of business, Floor Care, Commercial/Industrial, Leisure Time, Electrical and Lighting, which are carried on in 31 separate operating units. The following table sets forth the approximate amount and percentage of total sales and income before Federal, state, local and Canadian income taxes attributable to each line of business for each of the indicated fiscal years and periods.

(Dollars in Thousands)

	SALES (1)(2)											
	Floor Care		Commercial/ Industrial		Leisure Time		Electrical		Lighting		Total	
	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent
Quarter ended												
February 28,												
1975	\$15,039	26%	\$17,859	31%	\$11,125	19%	\$ 8,087	14%	\$ 5,456	10%	\$ 57,566	100%
1974	17,622	27%	16,708	26%	14,699	22%	9,312	14%	7,321	11%	65,662	100%
Year ended												
November 30,												
1974	\$72,885	25%	\$80,625	28%	\$64,206	22%	\$42,279	14%	\$31,263	11%	\$291,258	100%
1973	75,303	28%	77,032	29%	54,745	20%	33,016	12%	30,618	11%	270,714	100%
1972	61,700	27%	69,221	30%	42,113	18%	29,764	13%	26,563	12%	229,361	100%
1971	51,228	27%	60,298	32%	29,849	16%	25,919	14%	21,436	11%	188,730	100%
1970	43,117	27%	52,294	32%	21,991	14%	24,697	15%	19,013	12%	161,112	100%
INCOME BEFORE TAXES(1)												
Quarter ended												
February 28,												
1975 (3)	\$ 2,875	56%	\$ 736	14%	\$ 134	3%	\$ 1,283	25%	\$ 77	2%	\$ 5,105	100%
1974 (3)	3,080	54%	487	9%	1,365	24%	909	16%	(158)	(3%)	5,683	100%
Year ended												
November 30,												
1974 (3)	\$11,613	45%	\$ 3,293	13%	\$ 4,270	16%	\$ 5,974	23%	\$ 781	3%	\$ 25,931	100%
1973	16,620	41%	10,104	25%	7,043	18%	4,607	12%	1,690	4%	40,064	100%
1972	14,240	39%	8,980	24%	6,833	19%	4,847	13%	1,822	5%	36,722	100%
1971	11,174	38%	8,623	29%	3,981	13%	4,228	14%	1,716	6%	29,722	100%
1970	7,839	35%	5,938	26%	2,327	10%	4,574	21%	1,849	8%	22,527	100%

- (1) The Company's lines of business are based in part on the similarity of certain of its products and in part on the similarity of the markets in which its products are sold. The table reflects the allocation of certain expenses and other arbitrary determinations, the acquisition of companies accounted for as poolings of interests and purchases, and the disposition of businesses. See "Acquisitions and Dispositions".
- (2) Certain of the Company's divisions and subsidiaries manufacture products which are sold to other divisions and subsidiaries for use in their manufacturing and sales operations. Such sales have been eliminated from the lines of business tabulation and aggregated approximately \$3,692,000, \$9,506,000, \$13,884,000, \$18,714,000 and \$23,109,000 for fiscal years 1970 through 1974, respectively. See Note 1 of Notes to Financial Statements.
- (3) During 1974 the Company instituted a change in its method of accounting from FIFO to LIFO for a substantial portion of its inventory. See Note 2 of Notes to Financial Statements and "Management's Discussion and Analysis of the Consolidated Statement of Income".

During the fiscal year ended November 30, 1974, a major national retailing concern (Sears Roebuck & Co.) purchased products from various divisions of the Company which in the aggregate accounted for approximately 12% of net sales for such fiscal year. During the first quarter of fiscal 1975 sales to this national retailer accounted for approximately 11% of the Company's net sales. This national retailer has been a purchaser of Scott & Fetzer's products (including those of acquired companies) for periods varying between approximately 18 and 38 years depending on the particular type of product. A major portion of the products purchased by this retailing concern was within the Leisure Time line of business. No other customer accounted for a material percentage of total sales. The Company does not believe that the loss of any other single customer would have a material adverse effect on its total business.

Sales of products for U. S. governmental use in fiscal 1974 pursuant to contracts which may be subject to renegotiation amounted to approximately \$5,000,000.

Floor Care

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

Floor maintenance equipment for consumer use is sold primarily under the *Kirby* name, and certain other floor maintenance equipment for such use is sold under the private labels of customers. Scott & Fetzer, which entered the household vacuum cleaner field in 1919, manufactures and sells the *Kirby* upright vacuum cleaner and related floor care and other accessories. Kirby Division products are sold exclusively by the direct sales method in the home through approximately 700 independent distributors with a combined estimated direct sales and support force of over 11,500 persons located throughout the United States and Canada, although sales in Canada do not constitute a material portion of total *Kirby* sales. The Kirby Division's sales to distributors are substantially all for cash. In fiscal 1974, no one distributor accounted for more than 2% of Kirby Division sales. Domestic sales are fairly evenly distributed throughout the country, based upon population densities. The sale of vacuum cleaners and related accessories primarily for home use under the *Kirby* and other names as well as private labels accounted for approximately 20%, 22%, 22%, 23% and 20% of total sales of Scott & Fetzer for each of the fiscal years 1970 through 1974, respectively. See "Pending Legal Proceedings".

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

Commercial/Industrial

The Company manufactures a variety of products having commercial and industrial applications, the major items of which are air compressors, components of tracks for military

vehicles, and leather goods which are sold to the mass merchandise market. Scott & Fetzer also manufactures utility and service truck bodies and related equipment, suspension system components for vehicles, as well as plumbing fixtures utilized primarily in mobile homes.

One of the Company's divisions markets color photo-identification systems for drivers' licenses currently in use by motor vehicle departments of 20 states. Similar systems are marketed for credit cards, college and industrial identification cards, and other personal identification applications.

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

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

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

Leisure Time

The Company manufactures primarily for home use complete as well as component parts of spraying units including small compressors for the application of paints and other liquids. These products are sold by mass merchandisers under private labels and by hardware stores under the *Campbell-Hausfeld* brand name. For the fiscal years 1970 through 1974, the sale to the leisure time market of complete spraying units and components accounted for approximately 7%, 9%, 11%, 12% and 13%, respectively, of total sales of the Company.

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

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

Electrical

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

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

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

Lighting

Scott & Fetzer produces and sells in the United States and Canada numerous designs and models of ceiling and wall lighting fixtures for residential and commercial applications. These fixtures are sold under the *Virden*, *Prestige* and *Atlas* brand names primarily through electrical fixture distributors.

Through its Rembrandt Lamp Division, the Company manufactures and sells table, floor and swag lamps primarily for residential use. Such products are sold principally by manufacturers' representatives and division salesmen to furniture dealers, department stores and interior decorators.

Consumer Protection

Numerous states and municipalities have enacted laws, and the Federal Trade Commission has promulgated a regulation effective June 7, 1974, which, generally, afford the consumer a brief period of time in which to disaffirm without cause a direct sale made in the home. In addition, other statutes and ordinances require the licensing or registering of in-the-home salesmen and generally provide other consumer safeguards. In the opinion of the Company's management, such laws and regulations have not had a material adverse effect on the sales or profitability of any of the Company's divisions.

In November 1974 the Consumer Product Safety Commission notified the Campbell-Hausfeld Division and other manufacturers that high pressure "airless" paint spray products may be hazardous to the consumer and would be studied for possible Commission action, which could include the imposition of mandatory safety rules and the recall of such products already sold. In the opinion of the management of Scott & Fetzer, sales and profits of high pressure "airless" paint spray products are not material to the Company's overall operations.

Acquisitions and Dispositions

During the 5 fiscal years ending November 30, 1974 the Company completed the acquisition of 17 businesses located throughout the United States and Canada of which 13 were accounted for as poolings of interests and 4 were accounted for as purchases. As a result of these acquisitions the Leisure Time line of business was created and the Commercial/Industrial line of business was substantially expanded. The consideration paid by the Company in connection with these acquisitions consisted of approximately \$3,777,000 in cash and approximately 1,852,000 Common Shares of the Company having an approximate aggregate market value of \$56,600,000 at the respective dates of issuance.

In order to eliminate marginal operating units, the Company during 1972 sold the assets of the Bedford Gear Division and the assets of the Snyder Body product line of Stahl Metal

Products Division and during 1974 sold the assets of the Lakewood Industries Division and the stock of the Emmons Tool & Die Co. Limited. The disposition of these units did not materially affect the Company's sales or earnings.

Competition

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

Raw Materials and Supplies

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

Energy

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

Environmental Controls

Scott & Fetzer believes its facilities are in substantial compliance with existing laws and regulations relating to control of air and water quality and waste disposal. Environmental compliance has not had and is not expected to have a material effect on the Company's capital expenditures, earnings or competitive position. In April 1974, the Air Pollution Control Board of the State of Indiana ruled that the Company's foundry located in West Harrison, Indiana was in violation of the Indiana Air Pollution Control Board Regulations and ordered the submission of plans for the installation of certain corrective pollution control facilities, estimated to cost approximately \$400,000. However, the Company recently established a new automated casting operation utilizing electric furnaces, and consequently, due to age and the cost of the proposed corrective pollution control facilities, the West Harrison foundry operation was shut down, and its re-opening is dependent upon the level of future demand for castings.

Patents and Trademarks

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

Employees

As of March 1, 1975, the Company employed approximately 5,800 persons, of whom approximately 1,400 were salaried and approximately 4,400 were hourly. Approximately 2,600 of the hourly employees in 25 of the Company's 55 plants are represented by labor organizations. The Company has enjoyed generally good relations with its employees. Strikes at two of the Company's divisions during 1974 of three and five weeks duration, respectively, were satisfactorily settled but resulted in lost production which reduced earnings in the third quarter of fiscal 1974. Labor contracts involving approximately 260 employees are scheduled for negotiation during fiscal 1975.

In addition to employee benefit programs which include paid vacations, insurance and disability, hospitalization and medical benefits, the Company 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 Notes to Financial Statements for information concerning contributions by the Company under such plans, unfunded past service cost, and other data.

Pending Legal Proceedings

The Federal Trade Commission has notified the Company by letter of a nonpublic investigation of its Kirby Division. The nature and scope of the investigation, which has been continuing for over 2 years, is to determine whether or not the Kirby Division may be engaged in unfair or deceptive acts or practices in violation of Section 5 of the Federal Trade Commission Act in connection with the sale throughout the United States of vacuum cleaners, accessories and attachments, or any other merchandise. Scott & Fetzer believes that it is not in violation of the Act.

For a discussion of certain proceedings before the Air Pollution Control Board of the State of Indiana, see "Environmental Controls".

Property

The Company's various operations are conducted in 50 manufacturing facilities and 5 warehouses in 48 locations in 14 states and in the Canadian provinces of Ontario and Quebec. Many of the Company'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 the Company's facilities is generally adequate at current levels of operations.

For the three fiscal years 1972 through 1974, Scott & Fetzer has invested approximately \$33,200,000 for new facilities, expansion of existing facilities, automation and cost reduction equipment. During the 1974 fiscal year Scott & Fetzer began operations in, or commenced construction of, 5 new manufacturing plants and 6 additions to existing plants. Various of the Company's facilities, including several of the new facilities, are leased, with options to purchase in some cases. For additional information concerning the lease obligations of the Company see Notes 6, 9, 13 and 14 of Notes to Financial Statements.

MANAGEMENT

The directors and principal officers of the Company are:

<u>Name</u>	<u>Title</u>
Niles H. Hammink	Director, Chairman and Chief Executive Officer
Ralph E. Schey	Director, President and Chief Operating Officer
Quigg Lohr	Director and Senior Executive Vice President
J. F. Bradley	Director and Executive Vice President — Finance
James M. Heyne	Director, Executive Vice President — Operations
Joseph T. Bailey	Director
Raymond E. Channock	Director
James A. Hughes	Director
Thomas W. Smith	Director
John Bebbington	Group Vice President
Carl W. Goldbeck	Group Vice President
Walter A. Rajki	Group Vice President
Kenneth D. Hughes	Treasurer, Controller and Assistant Secretary
Robert C. Weber	Secretary and General Counsel

DESCRIPTION OF NOTES

The Notes will be issued under an Indenture to be dated as of May 15, 1975, between The Scott & Fetzer Company and National City Bank, Trustee, a copy of which has been filed as an exhibit to the Registration Statement. The following is a summary of certain provisions of the Indenture but does not purport to be complete and is qualified in its entirety by reference to the Indenture. References in italics are to the Indenture.

The Notes will be limited to \$30,000,000 aggregate principal amount and will be unsecured obligations of the Company maturing May 15, 1985 and bearing interest at the rate per annum stated on the cover page of this Prospectus, payable semi-annually on May 15 and November 15 of each year (commencing November 15, 1975) to holders of record at the close of business on the preceding May 1 and November 1, respectively, subject to certain exceptions.

Principal is to be payable, and Notes may be transferred or exchanged without any service charges, either at the office of the Trustee, 623 Euclid Avenue, Cleveland, Ohio or at the New York transfer window of the Trustee, 2 Broadway, 7th Floor, New York, New York; provided that, unless other arrangements are made by the Company, payment of interest will be made by the Company by check mailed to the address of the registered holder.

The Notes will be issued only in fully registered form in denominations of \$1,000 or any multiple thereof. The Notes will be transferable, or exchangeable for Notes of other denominations, without charge, except that the Company may require payment of a sum sufficient to cover any tax or other governmental charge in connection therewith.

Redemption

The Notes may be redeemed beginning on May 15, 1982, at the option of the Company, as a whole or in part on at least 30 days' notice by mail at a redemption price of 100% of the principal amount thereof, together with interest accrued to the date fixed for redemption. (Section 3.01) The Notes will not be entitled to any sinking fund.

Limitation on Funded Debt

The Company will covenant that it will not create, issue, guarantee, assume or otherwise incur, nor will it permit any Subsidiary to create, issue, guarantee, assume or otherwise incur, any Funded Debt unless immediately thereafter and after giving effect to the existence of such Funded Debt, to the receipt of the net proceeds thereof and to the retirement of any indebtedness which is then being retired out of the proceeds of such Funded Debt, Consolidated Net Tangible Assets shall be at least equal to 225% of Senior Funded Debt and at least equal to 200% of Consolidated Funded Debt. This restriction provides an exception for extensions, renewals and refundings of Funded Debt. (Section 4.05)

The term "Consolidated Net Tangible Assets" will be defined to mean the total of all assets (less depreciation and amortization reserves, other valuation reserves, loss reserves, items deductible from assets in determining tangible assets in accordance with generally accepted accounting principles and certain other items specifically excluded by the Indenture) which, under generally accepted accounting principles, would appear on the asset side of a consolidated balance sheet of the Company and its Subsidiaries, less the aggregate of all liabilities, deferred credits, minority shareholders' interests in Subsidiaries, reserves and other items which, under such principles, would appear on the liability side of such consolidated balance sheet except Funded Debt and shareholders' equity, all as determined in accordance with such principles.

The term "Funded Debt" of any corporation will be defined to mean all indebtedness for borrowed money created, incurred, assumed or guaranteed in any manner by such corporation (or in effect guaranteed by such corporation through an agreement to purchase), or outstanding indebtedness incurred in connection with the acquisition of property, which matures more than one year after, or which by its terms is renewable or extendible or payable out of the proceeds of similar indebtedness incurred pursuant to the terms of any revolving credit agreement or any similar agreement at the option of such corporation for a period ending more than one year after, the date as of which Funded Debt is being determined (excluding any amount thereof which is included in current liabilities); provided, however, that Funded Debt shall not include any indebtedness for the payment, redemption or satisfaction of which money (or evidences of indebtedness, if permitted under the instrument creating or

evidencing such indebtedness) in the necessary amount shall have been deposited in trust with a trustee or proper depository either at or before the maturity or redemption date thereof.

The term "Consolidated Funded Debt" will be defined to mean the aggregate of Funded Debt of the Company and its Subsidiaries, less any Funded Debt of the Company to any Subsidiary or of any Subsidiary to the Company or any other Subsidiary. The term "Senior Funded Debt" will be defined to mean and include all Consolidated Funded Debt, less Subordinated Indebtedness (defined as Funded Debt of the Company which is expressly made subordinate and junior in right of payment to all Senior Debt, including the Notes, in the event of insolvency or similar proceedings or upon the occurrence of any event of default with respect to any Senior Debt), if any, of the Company.

Limitation on Liens

The Company covenants that it will not, nor will it permit any Restricted Subsidiary (as defined) to, issue, assume or guarantee any debt for money borrowed ("Debt") if such Debt is secured by a Mortgage (as defined) upon any Principal Property (Principal Property being defined as any manufacturing plant or facility located within the United States of America owned or leased by the Company or any Subsidiary, unless, in the opinion of the Board of Directors, such plant or facility or portion thereof is not of material importance to the total business conducted by the Company and its Restricted Subsidiaries, and any shares of capital stock or indebtedness of any Restricted Subsidiary) without in any such case effectively providing that the Notes shall be secured equally and ratably with such Debt, except that the foregoing restrictions shall not apply to Debt secured by:

(i) Mortgages on any property acquired, constructed or improved after the date of the Indenture which are created, incurred or assumed within 120 days after such acquisition, or construction or improvement to secure or provide for the payment of all or any part of the purchase price of such property or the cost of such construction or improvement; provided that any such Mortgage shall not apply to any other property except, in the case of any construction or improvement, theretofore substantially unimproved real property on which the property so constructed, or the improvement, is located;

(ii) Mortgages on any property acquired from a corporation which is merged with or into the Company or a Restricted Subsidiary or Mortgages outstanding on property at the time it is acquired by the Company or a Restricted Subsidiary or Mortgages outstanding on property of a corporation at the time it becomes a Restricted Subsidiary;

(iii) Mortgages to secure Debt of a Restricted Subsidiary to the Company or to another Restricted Subsidiary;

(iv) Mortgages required by any contract, statute or ordinance in order to permit the Company or a Restricted Subsidiary to perform any contract or subcontract made by it with or at the request of the United States of America or any State or any political subdivision of either or any department, agency or instrumentality of any of them;

(v) Mortgages in favor of certain governmental bodies for the purpose of securing any advance or payment for the acquisition, construction or improvement of pollution control or abatement facilities, provided, that any such Mortgage shall not apply, and shall not include transfer of or title to, any other property theretofore owned, other than the granting to such transferee or mortgagee of such easements of ingress and egress over the property theretofore owned as is necessary to permit the attachment or removal of any equipment or other property designed primarily for the purposes of pollution control or abatement;

(vi) Mortgages existing at the date of the Indenture;

(vii) Any extension, renewal or replacement, in whole or in part, of Debt secured by any Mortgage referred to in the foregoing clauses (i) to (vi), inclusive, provided however that the principal amount of the Debt secured thereby shall not exceed the principal amount of Debt so secured at the time, and that such extension, renewal or replacement Mortgage shall be limited to all or part of the property so secured at the time; and

(viii) Judgment, tax and similar liens incurred in the ordinary course of business which are being contested in good faith by appropriate proceedings. (Section 4.04)

This covenant will also be subject to the exceptions described below under "Exempted Indebtedness".

Limitation on Sale and Lease-Back

Neither the Company nor any Restricted Subsidiary may enter into any Sale and Lease-Back Transaction with any person providing for the leasing by the Company or any Restricted Subsidiary of any Principal Property (except for temporary leases of not more than three years, including renewals, and except for leases between the Company and a Restricted Subsidiary or between Restricted Subsidiaries), which property has been or is to be sold or transferred by the Company or such Restricted Subsidiary to such person, unless (i) the Company or such Restricted Subsidiary would be entitled pursuant to "Limitation on Liens" to incur Debt, in the amount of Attributable Debt with respect to the Sale and Lease-Back Transaction, secured by a Mortgage on such property without equally and ratably securing the Notes; or (ii) the Company elects to reimburse itself in an amount equal to the fair value of such property or all or part of the net proceeds of such sale, whichever is greater, by reason of expenditures made for the acquisition, construction or improvement of unencumbered Principal Property since January 1, 1975 and within twelve (12) months prior to, or within 120 days after, the consummation of such sale; or (iii) if the exception described in (i) above is not available, the Company will apply an amount equal to such net proceeds or such fair value, whichever is greater, to the extent that it has not been applied to reimbursement pursuant to (ii) above, to retirement of non-subordinated Funded Debt of the Company. (Section 4.05)

The term "Attributable Debt" will be defined to mean, as of any particular time, the present value, discounted at a rate per annum equal to the interest rate specified in the lease

(or if such interest rate is not determinable from the lease, the interest rate specified on the Notes), compounded semi-annually, of the rental payments due during the remaining term of any lease (including any period for which such lease has been extended or may, at the option of the lessee, be extended) included in any Sale and Lease-Back Transaction. Such rental payments shall not include amounts payable by the lessee for maintenance and repairs, insurance, taxes, assessments and similar charges.

This covenant will also be subject to the exceptions described below under "Exempted Indebtedness".

Limitation on Sale of Capital Stock of a Restricted Subsidiary

The Company will agree that neither it nor any Restricted Subsidiary will sell or transfer to, or allow to be held by, persons other than the Company or a Restricted Subsidiary any shares of capital stock of any Restricted Subsidiary, unless simultaneously with any such sale or transfer all of the shares of capital stock of such Restricted Subsidiary, at the time owned by the Company or any other Subsidiary, shall be sold or transferred as an entirety for a consideration and upon terms deemed by the Board of Directors to be adequate and satisfactory, except (i) shares of capital stock held on the date of the Indenture by persons other than the Company or a Subsidiary, or so held at the time of a corporation's becoming a Restricted Subsidiary, or subsequently obtained through the exercise of pre-emptive rights; and (ii) shares of capital stock sold for the purpose of qualifying directors or paying stock dividends on common stock. (Section 4.06)

This covenant will also be subject to the exceptions described below under "Exempted Indebtedness".

Exempted Indebtedness

Notwithstanding the foregoing provisions, but subject to the restrictions set forth above under "Limitation on Funded Debt", the Company and its Restricted Subsidiaries (a) may issue, or guarantee Debt, which would otherwise be subject to the restrictions set forth above under "Limitation on Liens", without securing the Notes, or (b) may enter into Sale and Lease-Back Transactions which would otherwise be subject to the "Limitation on Sale and Lease-Back" described above, without retiring Funded Debt, or (c) may sell or transfer, or allow to be held, shares of capital stock of a Restricted Subsidiary which would otherwise be subject to the restrictions set forth above under "Limitation on Sale of Capital Stock of a Restricted Subsidiary", or (d) may enter into a combination of such transactions, if, at the time thereof and after giving effect thereto, the sum of the principal amount of all such Debt, the Attributable Debt in respect of Sale and Lease-Back Transactions existing at such time, and the aggregate sales price if sold or book value if otherwise transferred or held of all such then outstanding capital stock of any Restricted Subsidiary does not at any such time exceed 5% of the shareholders' equity in the Company and its consolidated subsidiary companies, as shown on the audited consolidated balance sheet contained in the latest annual report to shareholders of the Company. (Section 4.07)

Limitation on Dividends and Distributions with Respect to Stock

The Company will not be permitted to declare or pay any dividend or make any distribution on any class of its capital stock (except in capital stock) or acquire, or permit any Subsidiary to acquire, any shares of any class of capital stock of the Company if, upon giving effect thereto, the aggregate amount expended for all such purposes after December 31, 1974 would exceed the sum of (i) Consolidated Net Income (as defined) of the Company and its Restricted Subsidiaries and Canadian Subsidiary since December 1, 1974, (ii) the net proceeds received by the Company subsequent to December 31, 1974 with respect to the issue or sale of any capital stock of the Company (including capital stock issued on conversion of indebtedness, which indebtedness is issued after December 31, 1974, valued at the principal amount of the indebtedness so converted) but only insofar as such net proceeds do not exceed the aggregate amount of such acquisitions and redemptions of, and distributions (other than cash dividends) on, capital stock since December 31, 1974, and (iii) \$15,000,000. Notwithstanding the foregoing restrictions, the Company may (a) pay any dividend within sixty days after the date of declaration thereof, if at that date such declaration complied with the provisions of this limitation, and (b) acquire any shares of any class of its stock by exchange for, or conversion into, other shares of its stock to the extent that such exchange or conversion does not involve any expenditure of funds (except reasonable expenses relating thereto, including necessary adjustment of fractional shares) by, or any distribution of assets of, the Company or any Subsidiaries; but all dividends paid pursuant to clause (a) above shall be included in all computations made pursuant to this limitation. (Section 4.08)

Consolidation, Merger or Sale of Assets

If upon any consolidation or merger of the Company or any Restricted Subsidiary with or into any other corporation, or upon any sale, conveyance or lease of substantially all its properties, any Principal Property would thereupon become subject to any Mortgage, the Company prior to such event, will secure the Notes by a direct lien on such Principal Property prior to all liens other than any theretofore existing thereon. (Section 11.02)

Certain Definitions

The term "Subsidiary" is defined to mean any corporation of which at least a majority of the outstanding stock having ordinary voting power to elect a majority of the board of directors of such corporation shall at the time be directly or indirectly owned or controlled by the Company. The term "Restricted Subsidiary" is defined to mean any Subsidiary substantially all the property of which is located, or substantially all of the business of which is carried on, within the United States of America.

Modification of the Indenture

The Indenture contains provisions permitting the Company and the Trustee, with the consent of the holders of not less than 66 $\frac{2}{3}$ % in principal amount of the Notes at the time

outstanding, to execute supplemental indentures adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or any supplemental indenture or modifying in any manner the rights of the holders of the Notes; provided that no such supplemental indenture shall (i) extend the fixed maturity, reduce the principal amount, reduce the rate or extend the time of payment of interest on any of the Notes, without the consent of the holder of each Note so affected, or (ii) reduce the percentage of the Notes, the consent of the holders of which is required for any such supplemental indenture, without the consent of the holders of all such Notes then outstanding. (Section 10.02)

Events of Default

An Event of Default is defined in the Indenture as being: default for 30 days in payment of any interest; default in payment of principal; acceleration of any indebtedness for borrowed money pursuant to the terms under which such indebtedness is outstanding if such acceleration is not annulled within 30 days after written notice unless cured or waived under such other instrument prior to acceleration under the Indenture or the entry of a judgment; default for 60 days after notice in performance of any other covenant in the Indenture; or certain events in bankruptcy, insolvency, or reorganization. (Section 6.01) The Company is required to file with the Trustee annually an Officers' Certificate as to the absence of certain defaults in the terms of the Indenture. (Section 4.11) The Indenture provides that the Trustee may withhold notice to the Noteholders of any default (except in payment of principal of, or interest on, the Notes) if the Trustee considers it in the interest of the Noteholders to do so. (Section 6.08) The Indenture provides that, if an Event of Default defined therein shall have happened and be continuing, either the Trustee or the holders of 25% principal amount of the Notes then outstanding may declare the principal of all Notes to be due and payable. (Section 6.01)

Subject to the provisions of the Indenture relating to the duties of the Trustee, the Trustee shall be under no obligation to exercise any of its rights or powers under the Indenture at the request, order or direction of any of the Noteholders, unless such Noteholders shall have offered to the Trustee reasonable indemnity. (Section 6.04) Subject to such provision for indemnification, the holders of a majority in principal amount of the Notes at the time outstanding shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, provided that the Trustee shall have the right to decline to follow any such direction if the Trustee is advised by counsel that the action so directed may not lawfully be taken or if the Trustee determines that such action would involve the Trustee in personal liability. (Section 6.07)

Concerning the Trustee

National City Bank acts as depository for funds of, makes loans to (including being the leading lender under the revolving credit agreement), and performs other services for, the Company in the normal course of business.

UNDERWRITING

The Underwriters named below have severally agreed, pursuant to the Underwriting Agreement with the Company and subject to certain conditions contained in that Agreement, to purchase the following respective principal amounts of Notes.

<u>Name</u>	<u>Principal Amount</u>	<u>Name</u>	<u>Principal Amount</u>
Smith, Barney & Co. Incorporated	\$ 5,000,000	Kuhn, Loeb & Co.	\$ 700,000
McDonald & Company	2,500,000	Legg Mason/Wood Walker, Div. of First Regional Securities, Inc.	250,000
Prescott, Ball & Turben	2,500,000	Lehman Brothers Incorporated	700,000
Advest Co.	250,000	Loeb, Rhoades & Co.	700,000
Bacon, Whipple & Co.	250,000	Loewi & Co. Incorporated	250,000
Bateman Eichler, Hill Richards Incorporated	250,000	The Milwaukee Company	150,000
Bear, Stearns & Co.	500,000	Murch & Co., Inc.	150,000
William Blair & Company	250,000	The Ohio Company	250,000
Blyth Eastman Dillon & Co. Incorporated	700,000	Paine, Webber, Jackson & Curtis Incorporated	700,000
Bosworth, Sullivan & Company, Inc.	150,000	Piper, Jaffray & Hopwood Incorporated	250,000
The Chicago Corporation	150,000	Rand & Co., Inc.	150,000
Colin, Hochstin Co.	150,000	Reinholdt & Gardner	150,000
Dain, Kalman & Quail, Incorporated	250,000	Reynolds Securities Inc.	700,000
Dillon, Read & Co. Inc.	700,000	The Robinson-Humphrey Company, Inc.	250,000
A. G. Edwards & Sons, Inc.	250,000	Roose, Wade & Company	150,000
The First Boston Corporation ..	700,000	Rotan Mosle Inc.	250,000
First of Michigan Corporation ..	250,000	L. F. Rothschild & Co.	500,000
First Mid America Inc.	250,000	Salomon Brothers	700,000
Fulton, Reid & Staples, Inc.	250,000	Shearson Hayden Stone Inc.	500,000
Goldman, Sachs & Co.	700,000	Shields Model Roland Securities Incorporated	500,000
Halsey, Stuart & Co. Inc.	700,000	Shuman, Agnew & Co., Inc.	250,000
Hornblower & Weeks-Hemphill, Noyes Incorporated	700,000	Stuart Brothers	150,000
E. F. Hutton & Company Inc. ..	700,000	Sutro & Co. Incorporated	150,000
The Illinois Company Incorporated	150,000	Weeden & Co. Incorporated	500,000
Joseph, Mellen & Miller, Inc.	150,000	Wheat, First Securities, Inc.	250,000
Kidder, Peabody & Co. Incorporated	700,000	White, Weld & Co. Incorporated	700,000
Kirkpatrick, Pettis, Smith, Polian Inc.	250,000	Dean Witter & Co. Incorporated	700,000
		Total	<u>\$30,000,000</u>

The Company has been advised by Smith, Barney & Co. Incorporated, McDonald & Company and Prescott, Ball & Turben, as Representatives of the several Underwriters, that the Underwriters propose to offer the Notes on the terms set forth on the cover of this Prospectus, and in connection therewith may allow a concession of not more than .40% of the principal amount on sales to certain dealers (including Underwriters). The Underwriters may allow, and such dealers may reallow, not more than .25% of the principal amount to other dealers.

The Underwriters are committed to purchase and pay for all Notes if any such Notes are purchased.

The Company has agreed to indemnify the Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933.

LEGAL OPINIONS

The legality of the Notes offered hereby will be passed upon for the Company by Jones, Day, Reavis & Pogue, 1700 Union Commerce Building, Cleveland, Ohio 44115, and for the Underwriters by Squire, Sanders & Dempsey, 1800 Union Commerce Building, Cleveland, Ohio 44115.

EXPERTS

The consolidated financial statements of the Company have been included herein in reliance upon the reports of Coopers & Lybrand, independent certified public accountants, and upon the authority of such firm as experts in auditing and accounting.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have examined the consolidated balance sheet of The Scott & Fetzer Company and subsidiary companies as of November 30, 1974, and the related consolidated statements of income and retained earnings and changes in financial position for the five years ended November 30, 1974. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of The Scott & Fetzer Company and subsidiary companies at November 30, 1974, the consolidated results of their operations and the changes in their consolidated financial position for the five years ended November 30, 1974, in conformity with generally accepted accounting principles applied on a consistent basis except for the change, with which we concur, in the method of valuing inventory as described in Note 2 to the financial statements.

COOPERS & LYBRAND

Cleveland, Ohio
January 29, 1975
(except as to Note 14
which is dated
March 6, 1975)

THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET

November 30, 1974

(Dollars in Thousands)

ASSETS	
Current assets:	
Cash	\$ 4,854
Certificates of deposit	283
Marketable investments, at cost (market quotations, \$43)	50
Accounts receivable, trade (less allowance for doubtful accounts of \$996)	38,379
Accounts receivable, other	892
Inventories (Note 2):	
Raw materials and supplies	35,717
Work in process	15,366
Finished goods	19,444
	70,527
Prepaid expenses	2,028
Total current assets	117,013
Property, plant and equipment, at cost:	
Land and land improvements	2,073
Buildings	13,441
Machinery and equipment	51,572
	67,086
Less accumulated depreciation (Note 4)	24,057
Total property, plant and equipment, net	43,029
Intangible assets arising from acquisitions (Note 5)	2,178
Other assets	509
	\$162,729

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

**THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET**

November 30, 1974

(Dollars in Thousands)

LIABILITIES

Current liabilities:

Current portion of long-term debt (Note 6)	\$ 448
Accounts payable, trade	20,647
Accounts payable, other	1,051
Federal and Canadian income taxes	1,787
Accrued liabilities:	
Taxes, other than income	1,982
Salaries, wages and commissions	2,953
Interest	267
Pension and profit-sharing plans (Note 8)	2,103
Other	1,279
Total current liabilities	<u>32,517</u>

Long-term debt (Note 6):

Loans under revolving credit agreement	24,600
Other long-term debt	2,824

Deferred income taxes	2,651
Total liabilities	<u>62,592</u>

Commitments and contingent liabilities (Notes 7, 8, 9 and 14)

SHAREHOLDERS' EQUITY

Serial preference stock:

Authorized 1,000,000 shares, without par value; issued shares — none

Common stock:

Authorized 15,000,000 shares, without par value; issued shares —
7,558,185 (less 3,361 shares in treasury); stated value \$1.25 per share
(Notes 10 and 11)

9,444

Additional capital (Note 11)

5,691

Retained earnings (Note 6)

85,002

Total shareholders' equity

100,137

\$162,729

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

THE SCOTT & FETZER COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	(Dollars in Thousands)				
	Years Ended November 30				
	1970	1971	1972	1973	1974
Source of funds:					
From operations:					
Net income	\$11,377	\$14,846	\$18,189	\$20,869	\$13,696
Depreciation and amortization	2,587	2,696	2,922	3,283	4,207
Deferred federal income taxes	127	167	230	498	1,152
Total from operations	14,091	17,709	21,341	24,650	19,055
Loans under revolving credit agreement	—	—	—	—	24,600
Increase in long-term debt	—	211	—	—	—
Sale of common stock under stock options	—	157	440	136	158
Disposal of fixed assets	461	650	1,492	556	448
Collection of noncurrent notes receivable	—	—	—	—	222
Construction trust funds used to purchase fixed assets	—	—	320	286	—
Other, net increase (decrease)	287	230	(128)	45	98
	14,839	18,957	23,465	25,673	44,581
Application of funds:					
Cash dividends	4,585	4,796	5,886	7,456	7,554
Additions to property, plant and equipment	5,550	6,365	7,996	12,753	12,473
Decrease in long-term debt	656	—	1,440	757	510
Intangibles from acquisitions (dispositions)	(44)	127	1,033	—	53
Construction trust funds	—	606	—	—	—
Purchase of treasury shares	1,341	512	—	—	—
	12,088	12,406	16,355	20,966	20,590
Increase in working capital	\$ 2,751	\$ 6,551	\$ 7,110	\$ 4,707	\$23,991
Increase (decrease) in components of working capital:					
Current assets:					
Cash and certificates of deposit	\$ 635	\$ (618)	\$ (1,627)	\$ (706)	\$ 4,042
Marketable investments	247	3,580	1,357	(6,549)	(218)
Trade and other receivables	662	3,590	5,978	3,396	4,885
Inventories	2,965	1,973	7,507	17,954	10,179
Prepaid expenses	256	487	166	270	214
	4,765	9,012	13,381	14,365	19,102
Current liabilities:					
Notes and current portion of long-term debt	(117)	(840)	611	5,960	(8,248)
Trade and other payables	858	346	2,662	4,151	7,095
Accrued liabilities, including taxes	1,273	2,955	2,998	(453)	(3,736)
	2,014	2,461	6,271	9,658	(4,889)
Increase in working capital	\$ 2,751	\$ 6,551	\$ 7,110	\$ 4,707	\$23,991

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

NOTES TO FINANCIAL STATEMENTS

1. Accounting Policies:

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

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

Marketable Investments — Marketable investments are valued at cost, which approximates market value.

Inventories — Inventories are valued at the lower of cost or market. At November 30, 1973 and prior fiscal years, cost was determined substantially on a first-in, first-out basis. At November 30, 1974, the Company changed the method of inventory valuation for a substantial portion of its domestic inventories from the first-in, first-out "FIFO" method to the last-in, first-out "LIFO" method. Divisional and intercompany profits are eliminated from inventory valuations.

Property, Plant and Equipment — Items capitalized as part of land, buildings, and equipment, including significant betterments to existing facilities, are valued at cost. Fixed assets under lease/purchase agreements are accounted for as purchases and the obligations reflected as liabilities at the discounted amount of future lease rental payments. Maintenance, repairs and ordinary renewals are charged to costs.

Depreciation — Straight-line and accelerated methods are used in the computation of depreciation for financial reporting purposes, the straight-line method being used for the majority of the assets.

Deferred Income Taxes — For federal income tax purposes, accelerated methods of depreciation are used, where allowable, and deferred income taxes are provided on the difference between the depreciation expense for financial reporting purposes and that for income tax purposes.

Investment Credit — The investment tax credit is recorded on the "flow-through" method as a reduction of the provision for federal income taxes.

Business Combinations — Where combinations qualify as "poolings of interests" the results of operations include those of acquisitions for the entire current year and financial statements of the preceding years are restated therefor. There were no poolings in 1974. Acquisitions which constitute "purchases" are included in operations from the date of acquisition, and amounts assigned to intangibles after 1970 are being amortized on a straight-line basis over a 40-year period.

NOTES TO FINANCIAL STATEMENTS, Continued

Translation of Foreign Currencies — The accounts of Canadian subsidiaries, which in the aggregate are not significant, have been translated into United States dollars as follows: property, plant and equipment and depreciation at parity; other assets and liabilities at current exchange rates; and sales, costs and expenses at the average exchange rates for the period. Unrealized gains or losses are not material and are included in income.

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

2. Change in Accounting Policy:

In the year ended November 30, 1974, the Company changed the method of valuation for a substantial portion of its domestic inventories from the first-in, first-out "FIFO" method to the last-in, first-out "LIFO" method. This change was made to more accurately match current costs with sales and to minimize the effect of inflation on inventories and earnings. The excess of FIFO cost over LIFO cost on divisions adopting LIFO was about \$8,100,000 and the effect of the change was to reduce net income by approximately \$4,250,000 or \$.56 per share. There is no cumulative effect of the change on prior periods since the November 30, 1973 inventory as previously reported is the opening inventory under the last-in, first-out method. Inventories used in the computation of cost of goods sold were as follows:

	<u>Dollars in Thousands</u>
November 30, 1969	\$29,669
November 30, 1970	32,914
November 30, 1971	34,887
November 30, 1972	42,394
November 30, 1973	60,348
November 30, 1974	70,527

3. Equity in Foreign Subsidiaries:

The Company's equity in net assets of Canadian subsidiaries consolidated, including amounts payable to the Company, as shown by their books (after translating foreign currency assets and liabilities into U.S. dollars) is \$5,073,338 at November 30, 1974. Net income of Canadian subsidiaries is not material. The unremitted retained earnings of \$1,975,776 of the Canadian subsidiaries has been reinvested in their operations.

4. Property, Plant and Equipment — Depreciation Policy:

The estimated useful lives for the major portion of the fixed assets are:

Land improvements	5-20 years
Buildings	20-40 years
Leasehold improvements	Lease Period
Machinery and equipment	5-32 years
Tools, patterns, dies, jigs	3-10 years
Furniture and fixtures	5-10 years
Automobiles and trucks	3- 4 years

NOTES TO FINANCIAL STATEMENTS, Continued

Fully depreciated assets are removed annually from the asset and accumulated depreciation accounts of some divisions. When property is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the asset and accumulated depreciation accounts. Gain or loss from retirement or disposition of fixed assets is credited or charged to current income.

5. Intangible Assets Arising from Acquisitions:

Intangible assets arising from acquisitions represent the excess of cost over the net tangible assets of purchased companies at dates of acquisition. Intangible assets arising from acquisitions after November 30, 1970 are being amortized over forty years. Amortization has not been taken in prior years because, in the opinion of the Company, there has been no diminution in value.

6. Long-Term Liabilities:

Long-term debt at November 30, 1974 is as follows:

	(Dollars in Thousands)	
	<u>Current</u>	<u>Noncurrent</u>
Borrowings under revolving credit agreement	—	\$24,600
Mortgage notes, 5½% to 8%, maturities to 1982	\$111	504
Insurance company loan, 6%, maturities to 1980	200	1,500
Obligations under lease/purchase agreements, 4¼% to 8%, maturities to 1988	137	820
	<u>\$448</u>	<u>\$27,424</u>

In August 1974, the Company entered into a revolving credit agreement with five banks, which provides for maximum borrowings of \$30,000,000 and which expires on August 1, 1977. The agreement requires maintenance with each bank of a compensating balance that is not less than 10% of the amounts available from such bank plus 5% of the unpaid principal balances. If the average compensating balance maintained by the Company with any bank during any month is less than the required minimum, the bank will be paid a fee on such deficit at 115% of the principal bank's base lending rate in effect on the first day of the month. Since August, 1974, amounts borrowed averaged \$24,513,513, with maximum borrowings of \$24,600,000. The agreement provides for a commitment fee, based upon the average daily difference between each bank's revolving credit and its unpaid principal balance, computed at the rate of ½% per annum. The weighted average interest rate on the borrowings during fiscal 1974 including the effect of the fees and compensating balances was 13%, with a high during the year of 14.6%. Average compensating balances maintained for all banks during fiscal 1974 were \$3,382,000. At year end, total cash balances at two banks were \$371,288 below the compensating balances computed under the maintenance provision. At the three other banks compensating balances were substantially in excess of balances required.

NOTES TO FINANCIAL STATEMENTS, Continued

The agreement provides for prepayment in whole or in part without penalty and requires, among other covenants, the maintenance of consolidated net current assets (excess of current assets over current liabilities) of not less than \$60,000,000 and consolidated net worth (shareholders' equity) of not less than \$90,000,000. For this purpose, all principal of the revolving loans shall be excluded from current liabilities until December 1, 1976 and shall be included thereafter. The consolidated net current assets and net worth at November 30, 1974 were \$84,496,000 and \$100,137,000 or \$24,496,000 and \$10,137,000, respectively, in excess of the requirements.

The mortgage loans require aggregate monthly payments of \$11,712 including interest.

The insurance company loan is payable in equal annual installments of \$200,000 on each December 31, with a balance of \$500,000 due on December 31, 1980. Under this loan agreement the Company is not permitted to have borrowings in excess of \$35,000,000 (See Note 14 of Notes to Financial Statements). The Company, further, has agreed not to pay cash dividends or purchase or retire any of its own shares, if the aggregate so expended for such purposes subsequent to December 1, 1967 shall exceed \$5,000,000 plus 80% of the consolidated net earnings after December 1, 1967. Retained earnings, unrestricted for such purposes under this insurance company loan, amounted to \$36,895,000 at November 30, 1974; however, under the revolving credit agreement amounts available for such purposes, as explained above, were limited to the excess of consolidated net worth at November 30, 1974 over \$90,000,000, or \$10,137,000.

Under the terms of three building lease/purchase agreements (one of which includes equipment) annual rentals during the terms of the leases are in amounts sufficient to meet the interest and debt retirement requirements of the related Industrial Revenue Bond issues. The Company is obligated under these agreements for rentals annually approximating \$200,000 for 1975-1976, \$160,000 for 1977-1979, \$100,000 for 1980-1981 and \$10,000 for 1982-1988. In addition, the Company has the right to acquire the assets (under certain conditions and at times specified) at amounts stipulated in the agreements, which generally are the balances of the discounted unpaid rentals (and certain premiums) plus amounts of \$1 to \$500. The Company has accounted for the transactions as purchases and the obligations have been reflected as liabilities in the balance sheet at the discounted amount of the future lease rental payments.

Aggregate maturities of long-term debt during the five year period ending November 30, 1979 are as follows:

Year ending November 30,	
1975	\$ 448,000
1976	446,000
1977	25,021,000
1978	423,000
1979	428,000

7. Contingent Liabilities:

Any liability that may result from lawsuits and other claims pending against the Company and its subsidiaries as of November 30, 1974 will not be material in the opinion of management of the Company.

NOTES TO FINANCIAL STATEMENTS, Continued

8. Pension and Retirement Plans:

The Company and its subsidiaries have in effect various pension and retirement plans for salaried and hourly personnel including noncontributory trustee plans, noncontributory unfunded plans and profit-sharing retirement plans. Contributions by the Company and its subsidiaries under the plans charged to operations were \$1,477,000, \$1,658,000, \$1,598,000, \$1,907,000 and \$2,236,000, respectively, for the years ended November 30, 1970 to 1974. These include, as to certain of the plans, amortization of past service costs over periods ranging from 25 to 40 years. The amount required as of November 30, 1974 to fund the past service costs is estimated at \$8,284,000.

The Company's policy is to fund pension costs accrued. The aggregate actuarially computed value of vested benefits exceeded the total pension funds and balance sheet accruals by approximately \$2,502,000 at November 30, 1974.

For a number of years the Company has paid discretionary bonuses to officers and selected employees. The amounts charged against income aggregated \$140,635, \$231,342, \$467,890, \$552,800 and \$578,910 for the years ended November 30, 1970 to 1974, respectively.

9. Long-Term Leases:

For leased facilities not capitalized and therefore not reflected on the balance sheet, the approximate minimum annual rentals under noncancelable leases with terms of more than one year, as of November 30, 1974, amounted to the following (dollars in thousands):

Years ending November 30.	All Leases			Total for Financing Leases
	Land and Buildings	Machinery and Equipment	Total	
1975	\$ 2,071	\$ 542	\$ 2,613	\$ 1,381
1976	1,926	388	2,314	1,246
1977	1,809	137	1,946	1,089
1978	1,545	55	1,600	959
1979	1,264	15	1,279	776
1980-1984	5,451	—	5,451	3,430
1985-1989	2,891	—	2,891	1,788
1990-1994	127	—	127	—
After 1994	—	—	—	—
Total rental commitments	\$17,084	\$1,137	\$18,221	\$10,669

The present values of the minimum lease commitments for all non-capitalized financing leases as of November 30, 1974, are as follows:

Land and buildings	\$7,174,896
Machinery and equipment	688,130
Total	\$7,863,026

The above present values were determined by discounting future lease payments from the effective dates of such leases at the interest rates specified in such leases or in effect on

NOTES TO FINANCIAL STATEMENTS, Continued

such dates. Interest rates used ranged from 4.5% to 12.25% and averaged 6.18%. If all financing leases were capitalized and amortized over the terms of the leases and interest at the foregoing rates were expensed, the effect on income would be immaterial compared with the rent expense of such leases.

Total rent charged to expense for the five years ended November 30, 1974 is set forth in Note 13 of which \$1,322,000 and \$1,180,000, respectively, were applicable to financing lease rentals for 1974 and 1973.

10. Stock Options:

At November 30, 1974, 110,725 shares of common stock were reserved for issuance under outstanding options from a qualified stock option plan adopted in 1967. Under the 1967 plan, the option price may not be less than market value at the date of grant. The options become exercisable one-fourth each year, excluding the first year, are cumulative and expire five years after the date of grant.

On March 20, 1973, the stockholders approved the adoption of the 1973 Stock Option Plan which provides for the granting of either qualified or nonqualified options at prices not less than market value at the date of grant. Qualified options were granted during 1974 under this new stock option plan, and 350,000 shares of common stock were reserved for issuance under the plan of which 112,600 were reserved for options outstanding and 237,400 were reserved for future grant.

Information relating to options is set forth below:

	Number of Shares	Option Price		Corresponding Quoted Market Price	
		Average Per Share	Total	Average Per Share	Total
Options granted:					
Year ended November 30,					
1970	23,400	\$13.50	\$ 315,900	\$13.50	\$ 315,900
1971	46,600	14.75	687,350	14.75	687,350
1972	25,000	32.50	812,500	32.50	812,500
1973	67,350	41.50	2,795,025	41.50	2,795,025
1974	115,300	19.50	2,248,350	19.50	2,248,350
Options becoming exercisable:					
Year ended November 30,					
1970	16,925	21.45	363,009	13.125	222,141
1971	22,775	19.41	441,984	23.75	540,906
1972	16,035	19.07	305,822	27.28	437,362
1973	23,406	21.69	507,644	40.06	937,615
1974	36,485	29.36	1,071,505	19.95	727,712
Options exercised:					
Year ended November 30,					
1970	—	—	—	—	—
1971	10,335	15.19	156,992	25.17	260,132
1972	27,640	15.92	439,946	32.23	890,826
1973	7,750	17.61	136,469	40.14	311,047
1974	11,075	14.14	156,606	21.41	237,144
Options outstanding:					
November 30, 1974	223,325	25.73	5,745,144	19.77	4,418,800

NOTES TO FINANCIAL STATEMENTS, Continued

Options were cancelled during the five years ended November 30, 1974 as follows:

<u>Year ended November 30,</u>	<u>Shares</u>
1970	7,700
1971	9,600
1972	4,260
1973	3,650
1974	31,475

The Company makes no charge against income with respect to options.

11. Changes in Common Shares and Additional Capital:

The changes in common shares and additional capital for the five years ended November 30, 1974 reflect retroactively all poolings of interests as though they had occurred on or before November 30, 1969.

	<u>(Dollars in Thousands)</u>			
	<u>Treasury Shares</u>	<u>Issued Shares</u>	<u>Stated Value</u>	<u>Additional Capital</u>
Balances, November 30, 1969 and 1970	(40,231)	7,558,185	\$9,398	\$4,715
Purchase of treasury stock	(27,100)	—	(34)	(27)
Sale of shares under option plan	10,335	—	13	144
Stock used in contest	7,170	—	9	184
Balances, November 30, 1971	(49,826)	7,558,185	9,386	5,016
Sale of shares under option plan	27,640	—	34	405
Balances, November 30, 1972	(22,186)	7,558,185	9,420	5,421
Sale of shares under option plan	7,750	—	9	127
Balances, November 30, 1973	(14,436)	7,558,185	9,429	5,548
Sale of shares under option plan	11,075	—	15	143
Balances, November 30, 1974	(3,361)	7,558,185	\$9,444	\$5,691

12. Federal and Canadian Income Taxes:

The effective combined Federal and Canadian income tax rates were 44.61% for the year ended November 30, 1974 and 45.64% for 1973. The difference between these rates and the statutory U. S. income tax of 48% resulted from:

	<u>Year ended November 30,</u>	
	<u>1974</u>	<u>1973</u>
Investment tax credit	2.85%	1.76%
Export operations through "DISC" company97	.33
Foreign income taxes at effective rates of less than 48%25	.11
Other, net	(.68)	.16
	<u>3.39%</u>	<u>2.36%</u>

NOTES TO FINANCIAL STATEMENTS, Continued

The difference between the effective income tax rate and statutory U. S. income tax rate was less than 5% in all five years ended November 30, 1974. The provisions for deferred income taxes arise principally from the use of accelerated depreciation methods for income tax purposes in the United States and Canada. Except for the foregoing, deferred income taxes which relate to other timing differences are individually less than 15% of the provisions for deferred income taxes in each of the five years ended November 30, 1974.

13. Supplementary Income Statement Information:

Certain supplementary income statement information is set forth below. All amounts set forth have been charged to income.

	(Dollars in Thousands)				
	Year ended November 30,				
	1970	1971	1972	1973	1974
Maintenance and repairs	\$1,402	\$1,610	\$2,142	\$3,034	\$3,128
Depreciation and amortization of property, plant and equipment	2,576	2,686	2,884	3,253	4,171
Taxes, other than income taxes:					
Payroll	1,877	2,331	2,925	4,216	4,581
Real, personal property and other	1,053	1,313	1,432	1,630	2,099
Total taxes	2,930	3,644	4,357	5,846	6,680
Rents	1,555	1,759	2,590	2,597	3,487

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

14. Subsequent Events:

On February 25, 1975 the Company entered into a lease/purchase agreement for a new manufacturing plant. The building is being financed by \$2,400,000 of 7.65% Industrial Development Bonds which mature on October 1, 1985 and which are guaranteed by the Company.

On March 6, 1975 the limit of \$35,000,000 on borrowings permitted in the insurance company loan agreement (described in Note 6 of Notes to Financial Statements) was increased to \$65,000,000.

No dealer, salesman or any other person has been authorized to give any information or to make any representations other than those contained in this Prospectus in connection with the offer contained herein, and, if given or made, such information or representations must not be relied upon as having been authorized by the Company or by any of the Underwriters. This Prospectus does not constitute an offer of any securities other than those to which it relates, or an offer to sell or a solicitation of an offer to buy, those to which it relates in any jurisdiction to any person to whom it is not lawful to make such offer in such jurisdiction. The delivery of this Prospectus at any time does not imply that the information herein is correct as of any time subsequent to its date.

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\$30,000,000

**The Scott & Fetzer
Company**

9% Notes Due 1985



PROSPECTUS

May 15, 1975

**Smith, Barney & Co.
Incorporated**

McDonald & Company

Prescott, Ball & Turben

Exhibit 4(ii)

THE SCOTT & FETZER COMPANY

\$40,000,000

9.50% NOTES DUE AUGUST 31, 1998

Note Agreement

WITH

THE PRUDENTIAL INSURANCE COMPANY
OF AMERICA

Dated: August 31, 1978

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(Not Part of Agreement)

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THE SCOTT & FETZER COMPANY
14600 Detroit Avenue
Lakewood, Ohio 44107

August 31, 1978

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA
Prudential Plaza
Newark, New Jersey 07101

Attention: Vice President in Charge of the Corporate Finance Department

Gentlemen:

The undersigned, The Scott & Fetzer Company, an Ohio corporation (herein called the "Company"), hereby agrees with you as follows:

SECTION 1. ISSUE OF NOTES

1. **Authorization of Issue of Notes.** The Company will authorize the issue of its promissory notes (herein, together with any notes issued hereunder in substitution therefor, called the "Notes") in the aggregate principal amount of \$40,000,000, to be dated the respective dates of issue thereof, to mature August 31, 1998, to bear interest on the unpaid balances thereof from the respective dates thereof until the principal thereof shall become due and payable at the rate of 9.50% per annum, and to be substantially in the form of Exhibit A hereto attached. The term "Note" shall mean one of the Notes.

SECTION 2. PURCHASE AND SALE OF NOTES

2. **Purchase and Sale of Notes.** Subject to the terms and conditions herein set forth, the Company hereby agrees to sell to you and you agree to purchase from the Company three Notes, each registered in your name, in the principal amounts of \$4,500,000, \$15,500,000, and \$20,000,000, respectively, at 100% of such principal amounts. The Company will deliver each Note to you at your offices at Prudential Plaza, Chicago, Illinois, against payment of the purchase price thereof by credit to the Company's account at The First National Bank of Chicago (account #59-13551) or such other account in the United States as the Company may designate to you in writing, on the date of closing with respect to each such Note, which shall be December 28, 1978 in the case of the first and second Notes and February 28, 1979 in the case of the third Note, or such earlier date in the case of the first and second Notes as the Company shall designate to you by not less than 15 days' notice in writing, and in the case of the third Note, such earlier date as you shall designate to the Company by not less than 15 days' notice in writing, but not earlier than December 1, 1978.

SECTION 3. CONDITIONS

3. **Conditions of Closing.** Your obligation to purchase and pay for each Note is subject to the satisfaction, on or before the date of closing with respect to such Note or Notes, of the following conditions:

3A. **Opinion of Purchaser's Special Counsel.** You shall have received from Schiff Hardin & Waite, who are acting as special counsel for you in connection with this transaction, a favorable opinion satisfactory to you as to: (i) the due organization, existence and good standing of the Company; (ii) the due authorization (including any consent of shareholders required by law or by the charter or by-laws of the Company), execution and delivery by the Company and the validity of this

Agreement, the Notes and the Operating Agreement; (iii) the absence of any requirement to register the Notes under the Federal Securities Act of 1933, as amended; and (iv) such other matters incident to the matters herein contemplated as you may reasonably request, including the form of all papers and the validity of all proceedings.

3B. Opinion of Company's Counsel. You shall have received from Jones, Day, Reavis & Pogue, counsel for the Company, a favorable opinion satisfactory to you and your special counsel as to the matters specified in clauses (i), (ii), (iii) and (iv) of paragraph 3A and as to: (i) the due organization, existence and good standing of each Subsidiary; (ii) the corporate power of the Company and each Subsidiary to carry on their respective businesses as then being conducted; (iii) the due qualification of the Company and each Subsidiary as a foreign corporation to transact business and the good standing of each in each jurisdiction where the ownership of property or the nature of the business transacted by it makes such qualification necessary and where failure to so qualify might have a material adverse effect upon the Company and its Subsidiaries taken as a whole; and (iv) the execution and delivery of this Agreement, the Notes and the Operating Agreement, the offering, issuance and sale of the Notes and fulfillment of and compliance with the respective provisions hereof and thereof not conflicting with, or resulting in a breach of the terms, conditions or provisions of, or constituting a default under, or resulting in any violation of, or resulting in the creation of any Lien upon any of the properties or assets of the Company or any Subsidiary pursuant to, or requiring any authorization, consent, approval, exemption or other action by or any notice to or filing with any court or administrative or governmental body (other than routine filings after the date of such opinion with the Securities and Exchange Commission or State Blue Sky authorities) pursuant to, the charter or regulations of the Company or any of its Subsidiaries, any applicable law (including any securities or Blue Sky law), statute, rule or regulation or (insofar as is known to such counsel after having made due inquiry with respect thereto) any agreement, instrument, order, judgment or decree to which the Company or any of its Subsidiaries is subject.

3C. Representations and Warranties; No Default. The representations and warranties contained in Section 8 shall be true on and as of the date of closing, except to the extent of changes caused by the transactions herein contemplated; there shall exist on the date of closing no Event of Default or Default; and the Company shall have delivered to you an Officer's Certificate, dated the date of closing, to both such effects.

3D. Accountants' Letter. The Company shall have delivered to you a letter from Coopers & Lybrand, addressed to you, stating that such firm has reviewed the provision for Federal and State income taxes of the Company and its Subsidiaries contained in the financial statements furnished to you pursuant to clause (i) of paragraph 8B, and that, in the opinion of such firm, the consolidated balance sheet included in such financial statements includes reasonably adequate provision for all unpaid Federal and State income taxes for the fiscal year then most recently ended and for all fiscal years ended prior thereto which have not been examined and reported on by the taxing authorities or closed by applicable statute.

3E. Purchase Permitted by Applicable Laws. The purchase of and payment for the Notes to be purchased by you on the date of closing on the terms and conditions herein provided (including the use of the proceeds of the Notes by the Company) shall not be prohibited by any applicable law or governmental regulation (including, without limitation, Regulations G, T and X of the Board of Governors of the Federal Reserve System) and shall not subject you to any tax, penalty, liability or other onerous condition under or pursuant to any applicable law or governmental regulation relating to the extension of credit, and you shall have received such certificates or other evidence as you may request to establish compliance with this condition.

3F. Proceedings. All corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incident thereto shall be satisfactory in substance and form to you and your special counsel, and you and your special counsel shall have received

all such counterpart originals or certified or other copies of such documents as you or they may reasonably request.

3G. Operating Agreement with World Book Finance, Inc. The Company and World Book-Childcraft International, Inc., World Book Encyclopedia, Inc., Wholly-Owned Subsidiaries, shall have entered into an operating agreement ("Operating Agreement"), substantially in the form of Exhibit B attached hereto, with World Book Finance, Inc., an Unrestricted Subsidiary.

SECTION 4. PREPAYMENTS

4. Prepayments. The Notes shall be subject to prepayment with respect to the required prepayments specified in paragraph 4A and also under any one or more of the circumstances set forth in paragraphs 4B to 4D, inclusive.

4A. Required Prepayments. On August 31, 1983 and on August 31 in each year thereafter until the Notes shall be paid in full, the Company shall apply to the prepayment of the Notes, pro rata without premium, the sum of \$2,500,000, and such principal amounts of the Notes, together with interest thereon to the prepayment dates, shall become due on such prepayment dates.

4B. Annual Optional Prepayment Without Premium. The Notes shall be subject to prepayment pro rata, at the option of the Company, without premium, on any date on which a prepayment is required to be made by the provisions of paragraph 4A, in amounts (even multiples of \$100,000) not exceeding the amount required to be prepaid on such date pursuant to the provisions of paragraph 4A, such option to be non-cumulative; provided, however, that the Company may not make prepayment of the Notes pursuant to this paragraph 4B unless (i) in the case of any such prepayment of the Notes prior to September 1, 1988, such prepayment is not being made as a part of a refunding or anticipated refunding operation, by the application, directly or indirectly, of borrowed funds, and the Company shall have delivered to you an Officer's Certificate to such effect, and (ii) the aggregate principal amount of all prepayments theretofore and then being made pursuant to this paragraph 4B shall not exceed \$10,000,000. Any prepayment made pursuant to this paragraph 4B shall be applied in anticipation of and satisfaction of the prepayments required to be made by the provisions of paragraph 4A in the inverse order of their maturities.

4C. Optional Prepayment in Whole or in Part With Premium. The Notes shall be subject to prepayment, pro rata, in whole or from time to time in part (in multiples of \$100,000), at the option of the Company, at any time on not less than 30 days' notice at the following applicable percentage of the principal amount so prepaid:

If prepaid during the 12 months' period ending on August 31,

<u>Year</u>	<u>Percentage</u>	<u>Year</u>	<u>Percentage</u>
1979	109.50%	1989	105.70%
1980	109.50	1990	105.07
1981	109.50	1991	104.44
1982	109.50	1992	103.80
1983	109.50	1993	103.17
1984	108.87	1994	102.54
1985	108.24	1995	101.90
1986	107.60	1996	101.27
1987	106.97	1997	100.64
1988	106.34	1998	100.00

provided, however, that the Company may not make prepayment of the Notes pursuant to this paragraph 4C prior to September 1, 1988, unless (i) such prepayment is not being made as a part of a refunding or anticipated refunding operation by the application, directly or indirectly, of borrowed funds either (a) having an interest cost to the Company (computed in accordance with accepted financial practice) of less than 9.50% per annum; or (b) having a weighted average life to final maturity that is

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shorter than the weighted average life to final maturity of the Notes and (ii) the Company shall have delivered to you an Officer's Certificate to all such effects and, in the case of any such prepayment of the Note in part, to the effect that such prepayment will not reduce Consolidated Working Capital below an amount which is considered adequate by the Board of Directors of the Company for the safe conduct of the business of the Company and its Subsidiaries. Any prepayment made pursuant to this paragraph 4C shall be applied in anticipation of and satisfaction of the prepayments required to be made by the provisions of paragraph 4A in the inverse order of their maturities.

4D. Prepayment in Specified Transactions. The Notes shall be subject to prepayment, pro rata in the amounts, at the times, under the circumstances and on the terms provided in clauses (iv) and (vi) of paragraph 6C(5) and clause (ii) of paragraph 6C(7).

4E. Notice of Prepayment. The Company shall give you written notice of each prepayment, other than prepayments pursuant to paragraph 4A, not less than 30 days prior to the prepayment date, specifying such prepayment date, the principal amount of the Notes to be prepaid on such date and the paragraph pursuant to which such prepayment is to be made, whereupon the principal amount of the Notes specified in such notice, together with interest thereon to the prepayment date and together with the premium, if any, herein provided, shall become due and payable on such prepayment date.

SECTION 5. AFFIRMATIVE COVENANTS

5A. Financial Statements. The Company covenants that, so long as you shall hold or be obligated to purchase any Note, it will deliver to you in duplicate

(i) as soon as practicable and in any event within 45 days after the end of each quarterly period (other than the last quarterly period) in each fiscal year, a consolidated and consolidating statement of income and statement of changes in financial position of the Company and its Subsidiaries for the period from the beginning of the current fiscal year to the end of such quarterly period, and a consolidated and consolidating balance sheet of the Company and its Subsidiaries as at the end of such quarterly period, setting forth in each case in comparative form figures for the corresponding period in the preceding fiscal year, all in reasonable detail and certified by an authorized financial officer of the Company, subject to changes resulting from year-end adjustments;

(ii) as soon as practicable and in any event within 90 days after the end of each fiscal year, a consolidating and consolidated statement of income and consolidated statement of changes in financial position of the Company and its Subsidiaries for such year, and a consolidating and consolidated balance sheet of the Company and its Subsidiaries as at the end of such year, setting forth in each case in comparative form corresponding consolidated figures from the preceding annual audit, all in reasonable detail and satisfactory in scope to you and, as to the consolidated statements, certified to the Company by independent public accountants of recognized standing selected by the Company whose certificate shall be in scope and substance satisfactory to you;

(iii) promptly upon transmission thereof, copies of all such financial statements, proxy statements, notices and reports as it shall send to its stockholders and copies of all registration statements (without exhibits) and all reports which it or any Subsidiary files with the Securities and Exchange Commission (or any governmental body or agency succeeding to the functions of the Securities and Exchange Commission); and

(iv) with reasonable promptness, such other financial data as you may reasonably request.

Together with each delivery of financial statements required by clauses (i) and (ii) above, the Company will deliver to you an Officer's Certificate setting forth (except to the extent specifically set forth in such financial statements) the aggregate amount of interest accrued on Funded and Current Debt (stated separately) of the Company and Subsidiaries (if any) during the fiscal period covered by such financial statements, the aggregate amount of rental payments made during such fiscal period by the Company and Subsidiaries (if any) which were of the kinds subject to the restrictions of paragraph 6C(6), and the aggregate amount of all rental payments made during such period by the Company and Subsidiaries (if

any), the dates of the beginning and end of the most recent period of at least 60 consecutive days during which the aggregate Current Debt of the Company shall not have been in excess of the amount permitted by clause (x) of paragraph 6C(2), the amounts at the end of such fiscal period of Consolidated Net Tangible Assets, consolidated Senior Funded Debt of the Company and its Subsidiaries, and Consolidated Working Capital, (all computed in accordance with the provisions hereof and showing the method of computation), and the aggregate amounts of depreciation on physical property charged on the books of the Company and Subsidiaries (if any) during such fiscal period, and stating that there exists no Event of Default or Default, or, if any such Event of Default or Default exists, specifying the nature thereof, the period of existence thereof and what action the Company proposes to take with respect thereto. Together with each delivery of financial statements required by clause (ii) above, the Company will deliver to you a certificate of said accountants stating that, in making the audit necessary to the certification of such financial statements, they have obtained no knowledge of any Event of Default or Default, or, if any such Event of Default or Default exists, specifying the nature and period of existence thereof. The Company also covenants that forthwith upon the President or chief financial officer of the Company obtaining knowledge of an Event of Default or Default under this Agreement, it will deliver to you an Officer's Certificate specifying the nature thereof, the period of existence thereof, and what action the Company proposes to take with respect thereto. You are hereby authorized to deliver a copy of any financial statement delivered to you pursuant to this paragraph 5A to any regulatory body having jurisdiction over you.

5B. **Inspection of Property.** The Company covenants that, so long as you shall hold or be obligated to purchase any Note, it will permit any Person designated by you in writing, at your expense, to visit and inspect any of the properties of the Company and its Subsidiaries, to examine the corporate books and financial records of the Company and its Subsidiaries and make copies thereof or extracts therefrom and to discuss the affairs, finances and accounts of any of such corporations with the principal officers of the Company, all at such reasonable times and as often as you may reasonably request.

5C. **Covenant to Secure Notes Equally.** The Company covenants that, if it or any Subsidiary shall create or assume any Lien upon any of its property or assets, whether now owned or hereafter acquired, other than Liens excepted by the provisions of paragraph 6C(1) (unless prior written consent to the creation or assumption thereof shall have been obtained pursuant to paragraph 11C), it will make or cause to be made effective provision whereby the Notes will be secured by such Lien equally and ratably with any and all other Debt thereby secured as long as any such other Debt shall be so secured.

SECTION 6. NEGATIVE COVENANTS

6A. **Working Capital Requirement.** The Company covenants that it will not (i) permit Consolidated Working Capital as at the end of any fiscal quarter to be less than the greater of (a) \$65,000,000 at any time prior to the closing with respect to the third Note or \$85,000,000 at any time after the closing with respect to the third Note or (b) the aggregate amount of Consolidated Senior Funded Debt of the Company and its Subsidiaries at the end of such fiscal quarter.

6B. **Dividend Limitation.** The Company covenants that, subject to the exclusions set forth below, it will not pay or declare any dividend on any class of its stock at any time after the date hereof, or make any other distribution on account of any class of its stock, or redeem, purchase or otherwise acquire, directly or indirectly, any shares of its stock, or permit any Subsidiary so to do, (all of the foregoing being herein called "Restricted Payments") (i) except out of Consolidated Net Earnings Available For Restricted Payments, nor (ii) unless, after giving effect to any such Restricted Payment, Consolidated Working Capital would exceed the amount required under the provisions of paragraph 6A to be maintained as Consolidated Working Capital at the end of the preceding fiscal quarter. "Consolidated Net Earnings" shall mean consolidated gross revenues of the Company and its Subsidiaries less all operating and non-operating expenses of the Company and its Subsidiaries including all charges of a proper character (including current and deferred taxes on income, provision for taxes on unremitted foreign earnings which are included in gross revenues, and current additions to reserves), but not

including in gross revenues any gains (net of expenses and taxes applicable thereto) in excess of losses resulting from the sale, conversion or other disposition of capital assets (i.e., assets other than current assets), any gains resulting from the write-up of assets, any equity of the Company or any Subsidiary in the unremitted earnings of any corporation which is not a Subsidiary, any earnings of any Person acquired by the Company or any Subsidiary through purchase, merger or consolidation or otherwise for any year prior to the year of acquisition, or any deferred credit representing the excess of equity in any Subsidiary at the date of acquisition over the cost of the investment in such Subsidiary; all determined in accordance with generally accepted accounting principles. "Consolidated Net Earnings Available For Restricted Payments" shall mean an amount equal to (1) the sum of (a) \$20,000,000 plus (b) 75% (or minus 100% in case of a deficit) of Consolidated Net Earnings for the period (taken as one accounting period) commencing on December 1, 1977, and terminating at the end of the last fiscal quarter preceding the date of any proposed Restricted Payment, less (2) the sum of (a) the aggregate amount of all dividends and other distributions paid or declared by the Company on any class of its stock after November 30, 1977, and (b) the excess of the aggregate amount expended, directly or indirectly, after November 30, 1977, for the redemption, purchase or other acquisition of any shares of its stock, over the aggregate amount received as the net cash proceeds of the sale of any shares of its stock after November 30, 1977. There shall not be included in Restricted Payments or in any computation of Consolidated Net Earnings Available For Restricted Payments: (x) dividends paid, or distributions made, in stock of the Company; or (y) exchanges of stock of one or more classes of the Company for common stock of the Company or for stock of the Company of the same class, except to the extent that cash or other value is involved in such exchange; or (z) purchases of stock of the Company to the extent made out of the net cash proceeds received by the Company or any Subsidiary on life insurance owned by the Company and maintained for the purpose of repurchasing any shares of its stock. The term "stock" as used in this paragraph 6B shall include warrants or options to purchase stock or debt securities to the extent that the right to convert the same into stock has been exercised. Notwithstanding the foregoing limitations, the Company may pay dividends on its Preferred Stock in accordance with the provisions thereof, provided, that the amount of any such dividends paid or declared, shall be included in any computation pursuant to this paragraph 6B.

6C. Lien, Debt and Other Restrictions. The Company covenants that it will not and will not permit any Subsidiary to:

6C(1) Liens—Create, assume or suffer to exist any Lien upon any of its property or assets, whether now owned or hereafter acquired (whether or not provision is made for the equal and ratable securing on the Notes in accordance with the provisions of paragraph 5C), except

(i) mechanics' lien claims and Liens for taxes, in each case payment for which is not yet due or which is being actively contested in good faith by appropriate proceedings;

(ii) other Liens incidental to the conduct of its business or the ownership of its property and assets which were not incurred in connection with the borrowing of money or the obtaining of advances or credit, and which do not in the aggregate materially detract from the value of its property or assets or materially impair the use thereof in the operation of its business, including any Liens for payment of judgments that are being actively contested in good faith by appropriate proceeding, and execution on which is stayed;

(iii) Liens on property or assets of a Subsidiary to secure obligations of such Subsidiary to the Company or to a Wholly-Owned Subsidiary;

(iv) any Lien existing on any property of any corporation at the time it becomes a Subsidiary, or existing prior to the time of acquisition upon any property acquired by the Company or any Subsidiary through purchase, merger or consolidation or otherwise, whether or not assumed by the Company or such Subsidiary, or placed upon property within one year after the

date of acquisition thereof by the Company or any Subsidiary, to secure all or a portion of (or to secure Debt incurred to pay all or a portion of) the purchase price thereof, provided that (a) such property is not or shall not thereby become encumbered in an amount in excess of the lesser of cost thereof or fair value thereof (as determined in good faith by the Board of Directors of the Company), (b) any such Lien shall not encumber any other property of the Company or such Subsidiary, (c) the aggregate amount secured by all such Liens and any Liens permitted by clause (v) of this paragraph 6C(1) shall not, at the time of acquisition of such property or at the time when such corporation becomes a Subsidiary, when added to all other Debt of the Company and its Subsidiaries at such time, cause a violation of the provisions of paragraph 6C(2), and (d) the aggregate amount secured by all such Liens and any Liens permitted under clause (v) of this paragraph 6C(1) shall be included as Debt of the Company or a Subsidiary in all subsequent calculations under the provisions of paragraph 6C(2);

(v) other Liens not otherwise permitted under the foregoing provisions of this paragraph 6C(1) securing Funded Debt, provided that the aggregate amount secured by all such Liens will not, when added to Debt of the Subsidiaries and Attributable Debt arising out of sale-and-leaseback transactions permitted under the provisions of paragraph 6C(7), exceed an amount equal to 10% of Consolidated Net Tangible Assets; and

(vi) any Lien renewing, extending or refunding any Lien permitted by clauses (iv) or (v) above, provided that the principal amount secured is not increased, and the Lien is not extended to other property.

6C(2) Debt—Create, incur, assume or suffer to exist any Funded or Current Debt, except

(i) Funded Debt represented by the Notes;

(ii) Debt secured by Liens permitted by the provisions of clauses (iv), (v) and (vi) of paragraph 6C(1);

(iii) Debt of any Subsidiary to the Company or to any Subsidiary;

(iv) Debt of the Company of any 80%-Owned Subsidiary;

(v) Funded Debt of any Subsidiary, provided that either (a) the aggregate amount at any time outstanding of all unsecured Debt of all Subsidiaries, Debt secured by Liens permitted under the provisions of clauses (v) and (vi) of paragraph 6C(1) and Attributable Debt with respect to sale-and-leaseback transactions permitted under the provisions of paragraph 6C(7) shall not exceed an amount equal to 10% of Consolidated Net Tangible Assets, or (b) such Funded Debt of such Subsidiary was outstanding at the time it became a Subsidiary and, after giving effect thereto, the Company would be permitted to incur additional Senior Funded Debt under the provisions of clause (vi) of paragraph 6C(2);

(vi) other Senior Funded Debt if, after giving effect thereto and to the concurrent repayment of any Funded Debt to be retired out of the proceeds thereof and after adjustments for elimination of all Debt between the Company and its Subsidiaries and between Subsidiaries, Consolidated Net Tangible Assets will equal or exceed an amount equal to (a) 225% of consolidated Senior Funded Debt of the Company and its Subsidiaries and (b) 200% of consolidated Funded Debt of the Company and its Subsidiaries;

(vii) Subordinated Funded Debt of the Company if, after giving effect thereto and to the concurrent repayment of any Funded Debt to be retired out of the proceeds thereof and after adjustment for elimination of all Debt between the Company and its Subsidiaries and between Subsidiaries, Consolidated Net Tangible Assets will equal or exceed an amount equal to 200% of consolidated Funded Debt of the Company and its Subsidiaries;

(viii) Funded Debt renewing, extending or refunding any Funded Debt incurred under and pursuant to the provisions of clauses (ii), (v), (vi) or (vii) of this paragraph 6C(2), provided that the principal amount thereof is not increased; and

(ix) other Current Debt of the Company or any Subsidiary, provided that the Company shall not create, incur, assume or suffer to exist any Current Debt of the Company or any Subsidiary permitted by this clause (ix) on any day after November 30, 1978 unless there shall be a period of at least 60 consecutive days during the fiscal year in which such Current Debt is created, incurred, assumed or suffered, during which either (a) the Company and its Subsidiaries shall have been free from all Current Debt permitted by this clause (ix) or (b) all Current Debt permitted by this clause (ix) could have been outstanding as Senior Funded Debt without violation of the provisions of this paragraph 6C(2).

6C(3) Loans, Advances, Investments and Contingent Liabilities—Make or permit to remain outstanding any loan or advance to, or guarantee, endorse or otherwise be or become contingently liable, directly or indirectly, in connection with the obligations, stock or dividends of, or own, purchase or acquire any stock, obligations or securities of, or any other interest in, or make any capital contribution to, any Person, except that:

(i) the Company or any Subsidiary may make or permit to remain outstanding loans or advances to any Subsidiary;

(ii) any 80%-Owned Subsidiary may make or permit to remain outstanding loans or advances to the Company;

(iii) the Company or any Wholly-Owned Subsidiary may own, purchase or acquire stock, obligations or securities of or any other interest in or make a capital contribution to a Subsidiary or of a corporation which immediately after such purchase or acquisition will be a Subsidiary;

(iv) the Company or any Subsidiary may acquire and own stock, obligations, securities or other interests received in settlement of debts (created in the ordinary course of business) owing to the Company or any Subsidiary;

(v) the Company or any Subsidiary may own, purchase or acquire prime commercial paper and certificates of deposit in United States commercial banks or foreign banks licensed to do business in the State of New York (having capital resources in excess of \$50,000,000), in each case due within one year from the date of purchase, obligations of the United States Government or any agency thereof, and obligations guaranteed by the United States Government;

(vi) the Company or any Subsidiary may endorse negotiable instruments for collection in the ordinary course of business;

(vii) the Company or any Wholly-Owned Subsidiary may guarantee, endorse or otherwise be or become contingently liable, directly or indirectly, in connection with obligations of Subsidiaries that are not prohibited by paragraph 6C(2);

(viii) the Company or any Subsidiary may own, purchase or acquire stock, obligations or securities of or any other interest in or make a capital contribution to any Unrestricted Subsidiary if, after giving effect thereto, the Company would be permitted to incur additional Senior Funded Debt under the provisions of clause (vi) of paragraph 6C(2);

(ix) the Company or any Subsidiary may make or permit to remain outstanding loans or advances to, or guarantee, endorse or otherwise be or become contingently liable in connection with the obligations, stock or dividends of, or own, purchase or acquire stock, obligations or

securities of, or any other interest in, or make any capital contributions to, any other Person, provided that the aggregate principal amount of such loans and advances, plus the aggregate amount of such contingent liabilities, plus the aggregate amount of the investment (at original cost) in such stock, obligations, securities, interests and capital contributions shall not, for the Company and all Subsidiaries, exceed an amount equal to 10% of Consolidated Net Tangible Assets; and

(x) the Company, World Book Finance, Inc., World Book Encyclopedia, Inc. and World Book-Childcraft International, Inc. may enter into and perform their respective obligations under the Operating Agreement.

6C(4) Sale of Stock and Debt of Subsidiaries—Sell or otherwise dispose of, or part with control of, any shares of stock or Funded or Current Debt of any Subsidiary, except to the Company or a Wholly-Owned Subsidiary, and except that all shares of stock and Debt of any Subsidiary at the time owned by or owed to the Company and all Subsidiaries may be sold as an entirety for a cash consideration which represents the fair value (as determined in good faith by the Board of Directors of the Company) at the time of sale of the shares of stock and Debt so sold, provided that the assets of such Subsidiary do not constitute a Substantial Part of the consolidated assets of the Company and all Subsidiaries and that such Subsidiary shall not have contributed a Substantial Part of Consolidated Net Earnings for the three fiscal years (taken as a single period) then most recently ended, and further provided that, at the time of such sale, such Subsidiary shall not own, directly or indirectly, any shares of stock or Debt of any other Subsidiary (unless all of the shares of stock and Debt of such other Subsidiary owned, directly or indirectly, by the Company and all Subsidiaries are simultaneously being sold as permitted by this paragraph 6C(4)) or any Debt of the Company

6C(5) Merger and Sale of Assets—Merge or consolidate with any other corporation or sell, lease or transfer or otherwise dispose of all or a Substantial Part of its assets, or assets which shall have contributed a Substantial Part of Consolidated Net Earnings for the three fiscal years then most recently ended (taken as a single period), to any Person, except that:

(i) any 80%-Owned Subsidiary may merge with the Company (provided that the Company shall be the continuing or surviving corporation) or with any one or more other 80%-Owned Subsidiaries (provided that the continuing or surviving corporation shall be an 80%-Owned Subsidiary);

(ii) any Subsidiary may sell, lease, transfer or otherwise dispose of any of its assets to the Company or another Subsidiary;

(iii) Any Subsidiary may sell, lease, transfer or otherwise dispose of all or substantially all of its assets subject to the conditions specified in paragraph 6C(4) with respect to a sale of the stock of such Subsidiary;

(iv) the Company may merge or consolidate with any other corporation (including any Subsidiary), provided that (a) the Company shall be the continuing or surviving corporation, (b) the Company as the continuing or surviving corporation shall not, immediately after such merger, be in default under this Agreement or on the Notes, including all covenants herein and therein contained, and (c) the Company as the continuing or surviving corporation would, immediately after such merger, be permitted to incur additional Senior Funded Debt under the provisions of clause (vi) of paragraph 6C(2); provided further, that if the Company shall request consent from the holders of the Notes to a merger or consolidation in which the Company would not be the continuing or surviving corporation and such consent is not granted pursuant to paragraph 11C within 30 days after the date of such request, then the Company will have the option, in accordance with the provisions of paragraph 4D, to prepay that portion of the principal amount of the Notes held by holders who have so failed to grant such consent,

such prepayment to be made on a date (to be specified in the notice given pursuant to paragraph 4E) not more than 120 days after the date of such Company request, and accompanied by payment of a premium in an amount equal to one-half of the percentage in excess of 100% that would otherwise be payable if such prepayment were being made under the provisions of paragraph 4C;

(v) any Subsidiary may merge or consolidate with any other corporation, if the sale of the stock of such Subsidiary would be permitted under paragraph 6C(4) or if immediately after giving effect to such merger or consolidation (a) the continuing or surviving corporation of such merger or consolidation shall constitute a Subsidiary, (b) no Event of Default or Default shall exist, and (c) the Company would then be permitted to incur additional Senior Funded Debt under the provisions of clause (vi) of paragraph 6C(2); and

(vi) the Company or any Subsidiary may sell or dispose of all or any portion of its assets in a transaction not otherwise permitted under any of the provisions of clauses (i) through (v), inclusive, of this paragraph 6C(5) if (a) such sale or disposition is for a cash consideration which represents the fair value of such assets (as determined in good faith by the Board of Directors of the Company), (b) the Company requests consent from the holders of the Notes to such sale or disposition and such consent is not granted pursuant to paragraph 11C within 30 days after the date of such request, and (c) the net proceeds of such sale or disposition are applied to prepayment of the Notes (without premium) within 30 days after the effective date of such sale or disposition.

6C(6) Lease Rentals—Enter into, or permit to remain in effect, any agreements to rent or lease (as lessee) any real property for terms (including options of the lessee to renew or extend any term, whether or not exercised) of more than three years (remaining as of the date as of which any calculation is made under this paragraph) providing for payments (exclusive of such payments that constitute Funded Debt under and to the extent permitted by paragraph 6C(2)) during any period of 12 consecutive calendar months, by the Company and all Subsidiaries on a consolidated basis, in excess of an amount equal to 5% of consolidated Net Worth of the Company and its Subsidiaries as of such date.

6C(7) Sale and Leaseback—Enter into any arrangement with any lender or investor or to which such lender or investor is a party providing for the leasing by the Company or any Subsidiary of real property owned by the Company or any Subsidiary which has been or is to be sold or transferred by the Company or any Subsidiary to such lender or investor or to any Person to whom funds have been or are to be advanced by such lender or investor on the security of such property or rental obligations of the Company or any Subsidiary unless, after giving effect thereto, either (i) the amount of Funded Debt or Attributable Debt, or both, arising out of such transaction would be permitted under the provisions of paragraph 6C(2), or (ii) the Company shall prepay the Notes, pro rata and without premium in an amount (rounded to the nearest \$10,000) equal to the greater of the net proceeds of such sale-and-leaseback transaction or the fair market value of the property that is the subject thereof; provided, that in the case of any transaction entered into prior to September 1, 1988, prepayment of the Notes under the provisions of this clause (ii) shall not be permitted, and neither the Company nor any Subsidiary may enter an arrangement prohibited under the provisions of this paragraph 6C(7) other than clause (i) hereof if the obligation of the Company or any Subsidiary in such transaction would have a weighted average life to final maturity that is shorter than the weighted average life to final maturity of the Notes or an interest cost to the Company (computed in accordance with accepted financial practice) that is less than 9.50% per annum; and provided further, that, in addition to compliance with the foregoing, no such sale-and-leaseback transaction shall be permitted with respect to assets acquired by the Company or any Subsidiary subsequent to November 30, 1977 unless the sale of such assets would have been permitted under the provisions of paragraph 6C(5), and the rental thereof would have been permitted under the provisions of paragraph 6C(6).

6C(8) Sale or Discount of Receivables—Sell with recourse, or discount or otherwise sell for less than the face value thereof, any of its notes or accounts receivable, except that World Book-Childcraft International, Inc., a Subsidiary, or any wholly-owned subsidiary thereof, may sell or discount accounts receivable or notes receivable in accordance with the provisions of the Operating Agreement.

6C(9) Certain Contracts—Enter into or be a party to

(i) any contract providing for the making of loans, advances or capital contributions to any Person other than a Wholly-Owned Subsidiary (except where the obligation is limited to a fixed maximum amount which, if added to Senior Funded Debt of the Company, would be within the limitations of clause (vi) of paragraph 6C(2)), or for the purchase of any property from any Person, in each case in order to enable such Person to maintain working capital, net worth or any other balance sheet condition or to pay debts, dividends or expenses, except that the Company and World Book-Childcraft, Inc., may enter into and perform its obligations under the Operating Agreement;

(ii) any contract for the purchase of materials, supplies or other property or services if such contract (or any related document) requires that payment for such materials, supplies or other property or services shall be made regardless of whether or not delivery of such materials, supplies or other property or services is ever made or tendered;

(iii) any contract to rent or lease (as lessee) any real or personal property if such contract (or any related document) provides that the obligation to make payments thereunder is absolute and unconditional under conditions not customarily found in commercial leases then in general use or requires that the lessee purchase or otherwise acquire securities or obligations of the lessor;

(iv) any contract for the sale or use of materials, supplies or other property, or the rendering of services, if such contract (or any related document) requires that payment for such materials, supplies or other property, or the use thereof, or payment for such services, shall be subordinated to any indebtedness (of the purchaser or user of such materials, supplies or other property or the Person entitled to the benefit of such services) owed or to be owed to any Person;

(v) any other contract which, in economic effect, is substantially equivalent to a guarantee, except as permitted by clause (vi) or clause (vii) of paragraph 6C(3) and except where the obligation is limited to a fixed maximum amount which, if added to Senior Funded Debt of the Company, would be within the limitations of clause (vi) of paragraph 6C(2).

6D. Issuance of Stock by Subsidiaries. The Company covenants that it will not permit any Subsidiary (either directly, or indirectly by the issuance of rights or options for, or securities convertible into, such shares) to issue, sell or otherwise dispose of any shares of any class of its stock (other than directors' qualifying shares) except that (i) such stock may be issued or sold to the Company or to a Wholly-Owned Subsidiary, (ii) the Company may, or may permit a Subsidiary to, issue, sell or otherwise dispose of shares of common stock in a corporation that is a Subsidiary if, after giving effect thereto, such corporation shall continue to be a Subsidiary, and (iii) the holders of minority interests in any Subsidiary that is not a Wholly-Owned Subsidiary may be entitled to purchase stock by reason of pre-emptive rights.

6E. Payment of Subordinated Debt. The Company covenants that until payment in full of the Notes, it will not make any payment of principal of or interest on any Subordinated Funded Debt, except to the extent permitted under the provisions set forth in Exhibit E hereto, and that all Subordinated Funded Debt will be evidenced by a note or other obligation in writing which shall expressly incorporate or state in full the terms under which such obligation is subordinated to the Senior Funded Debt.

SECTION 7. DEFAULT

7. Events of Default. If any of the following events shall occur and be continuing for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or otherwise): (i) the Company defaults in the payment of any principal of any Note when the same shall become due, either by the terms thereof or otherwise as herein provided; or (ii) the Company defaults in the payment of any interest on any Note for more than 10 days after the date due; or (iii) the Company or any Subsidiary defaults in any payment of principal of or interest on any other obligation for money borrowed (or any obligation under conditional sale or other title retention agreement, or any obligation issued or assumed as full or partial payment for property whether or not secured by purchase money mortgage, or any obligation for an amount in excess of \$250,000 under notes payable or drafts accepted representing extensions of credit), or any obligation under leases or other contracts that constitute Funded Debt of the Company or any Subsidiary beyond any period of grace provided with respect thereto, or defaults in the performance of any other agreement, term or condition contained in any agreement under which any such obligation is created (or if any other default under any such agreement shall occur and be continuing) if the effect of such default is to cause, or to permit the holder or holders of such obligation (or a trustee on behalf of such holder or holders) to cause, such obligation to become due prior to its stated maturity; or (iv) any representation or warranty made by the Company herein or in any writing furnished in connection with or pursuant to this Agreement shall be false in any material respect on the date as of which made; or (v) the Company defaults in the performance or observance of any agreement contained in Section 6; or (vi) the Company defaults in the performance or observance of any other agreement, term or condition contained herein and such default shall not have been remedied within 30 days after written notice thereof shall have been received by the Company from you; or (vii) the Company or any Subsidiary makes an assignment for the benefit of creditors or admits in writing its inability to pay its debts generally as they become due; or (viii) any order, judgment or decree is entered adjudicating the Company or any material Subsidiary bankrupt or insolvent; or (ix) the Company or any material Subsidiary petitions or applies to any tribunal for the appointment of a trustee, receiver or liquidator of the Company or any material Subsidiary, or of any substantial part of the assets of the Company or any material Subsidiary, or commences any proceedings (other than proceedings for the voluntary liquidation and dissolution of a material Subsidiary) relating to the Company or any material Subsidiary under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect; or (x) any such petition or application is filed, or any such proceedings are commenced, against the Company or any material Subsidiary and the Company or such Subsidiary by any act indicates its approval thereof, consent thereto or acquiescence therein, or an order, judgment or decree is entered appointing any such trustee, receiver or liquidator, or approving the petition in any such proceedings, and such order, judgment or decree remains unstayed and in effect for more than 60 days; or (xi) any order, judgment or decree is entered in any proceedings against the Company decreeing the dissolution of the Company and such order, judgment or decree remains unstayed and in effect for more than 60 days; or (xii) any order, judgment or decree is entered in any proceedings against the Company or any Subsidiary decreeing a split-up of the Company or such Subsidiary which requires the divestiture of a substantial part, or the divestiture of the stock of a Subsidiary whose assets constitute a substantial part, of the consolidated assets of the Company and its Subsidiaries or which requires the divestiture of assets, or stock of a Subsidiary, which shall have contributed a Substantial Part of Consolidated Net Earnings (as defined in paragraph 6B) for the three fiscal years then most recently ended (taken as a single period), and such order, judgment or decree remains unstayed and in effect for more than 60 days; then the holder or holders of at least two-thirds of the principal amount of the Notes at the time outstanding may, at its or their option and in addition to any right, power or remedy permitted by law or equity, by notice in writing to the Company, declare all of the Notes to be, and all of the Notes shall thereupon be and become, forthwith due and payable together with interest accrued thereon. For purposes of this paragraph, a material Subsidiary is any Subsidiary which shall have contributed a Substantial Part of Consolidated Net Earnings (as defined in paragraph 6B) for the fiscal year then most recently ended or

the assets of which constitute a substantial part of the consolidated assets of the Company and its Subsidiaries. This Section is subject to the condition that if at any time after the Notes shall have been declared and shall have become due and payable and before any judgment or decree for the payment of the moneys so due, or any thereof, shall have been entered, all arrears of interest upon all the Notes and all other sums payable on the Notes (except the principal and interest on the Notes which by such declaration shall have become payable) shall have been duly paid, and every other Default and Event of Default shall have been made good or cured, then and in every such case the holders of 66 2/3% in aggregate principal amount of the Notes then outstanding may, by written instrument delivered to the Company, rescind and annul such declaration and its consequences; but no such rescission or annulment shall extend to or affect any subsequent Default or Event of Default or impair any right consequent thereon.

SECTION 8. REPRESENTATIONS AND WARRANTIES

8. Representations, Covenants and Warranties. The Company represents, covenants and warrants:

8A. Organisation and Qualification. The Company is a corporation duly organized and existing in good standing under the laws of the State of Ohio, each Subsidiary is duly organized and existing in good standing under the laws of the jurisdiction in which incorporated, and the Company has and each Subsidiary has the corporate power to own its respective property and to carry on its respective business as now being conducted, and the Company is and each Subsidiary is duly qualified as a foreign corporation to do business and in good standing in every jurisdiction in which the nature of the respective business conducted by it makes such qualification necessary and in which failure to so qualify might have a material adverse effect upon the Company and its Subsidiaries taken as a whole, as set forth in the schedule attached as Exhibit C hereto.

8B. Financial Statements. The Company has furnished you with the following financial statements, identified by a principal financial officer of the Company: (i) consolidated balance sheets of the Company and its Subsidiaries as at November 30, 1977, 1976, 1975, 1974 and 1973 and consolidated statements of income of the Company and its Subsidiaries for the years ended on such dates, respectively, all certified by Coopers & Lybrand; and (ii) consolidated balance sheets of the Company and its Subsidiaries as at May 31, 1978 and 1977, and Consolidated Statements of income of the Company and its Subsidiaries for the 6 months' periods ended on such dates, prepared by the Company. The Company has also furnished you with the following financial statements, identified by a financial officer of World Book-Childcraft International, Inc.: (x) consolidated balance sheets of World Book-Childcraft International, Inc. and its subsidiaries as at September 30 in each of the years 1973 through 1977, inclusive, and consolidated profit and loss and surplus statements for World Book-Childcraft, Inc. for the years then ended, respectively, all certified by Arthur Andersen & Co.; and (y) a consolidated balance sheet of World Book-Childcraft International, Inc. and its subsidiaries as at May 31, 1978, and consolidated profit and loss and surplus statements of World Book-Childcraft International, Inc. and its subsidiaries for the eight months' period then ended, prepared by World Book-Childcraft International, Inc. Such financial statements (including any related schedules and/or notes) (to the best of the knowledge of the Company in the case of the financial statements of World Book-Childcraft International, Inc.) are true and correct in all material respects (subject, as to interim statements, to changes resulting from audits and year-end adjustments) and have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods involved except as noted therein and show all liabilities, direct and contingent, of the Company and its Subsidiaries, and of World Book-Childcraft International, Inc. and its subsidiaries, respectively, required to be shown in accordance with such principles. The balance sheets (to the best of the knowledge of the Company in the case of the balance sheets of World Book-Childcraft, Inc.) fairly present the condition of the Company and its Subsidiaries and of World Book-Childcraft International, Inc. and its subsidiaries as at the dates thereof, and the profit and loss and surplus statements fairly present the results of the operations of the Company and

its Subsidiaries, and of World Book-Childcraft International, Inc. and its subsidiaries, respectively, for the periods indicated. There has been no material adverse change in the business, condition or operations (financial or otherwise) of the Company and its Subsidiaries, or of World Book-Childcraft International, Inc. and its subsidiaries, taken as a whole since May 31, 1978.

8C. Actions Pending. There is no action, suit, investigation or proceeding pending or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries, or any properties or rights of the Company or any of its Subsidiaries, before any court, arbitrator or administrative or governmental body which is likely, in the opinion of the Company, to result in any material adverse change in the business, condition or operations of the Company and its Subsidiaries taken as a whole.

8D. Outstanding Debt. Neither the Company nor any of its Subsidiaries has outstanding any Funded or Current Debt, on a consolidated basis, except as disclosed on Exhibit D attached hereto. There exists no default under the provisions of any instrument evidencing such Debt or of any agreement relating thereto.

8E. Title to Properties. The Company has and each of its Subsidiaries has good and marketable title to its respective real properties and good title to all of its other respective properties and assets, including the properties and assets reflected in the balance sheet as at May 31, 1978 hereinabove described (other than properties and assets disposed of in the ordinary course of business and other than properties and assets which are not owned by the Company or its Subsidiaries but which are properly reflected on such balance sheet in accordance with generally accepted accounting principles), subject to no Lien of any kind except Liens permitted by paragraph 6C(1). The Company and its Subsidiaries enjoy peaceful and undisturbed possession of all leases necessary in any material respect for the operation of their respective properties and assets, none of which contains any unusual or burdensome provisions which might materially affect or impair the operation of such properties and assets. All such leases are valid and subsisting and are in full force and effect.

8F. Taxes. The Company has and each of its Subsidiaries has filed all Federal, State and Provincial income and other tax returns which, to the best knowledge of the officers of the Company, are required to be filed (except with respect to State franchise or other similar taxes applied by any State in which a Subsidiary may be required to be, but is not, qualified to do business), and each has paid all taxes as shown on said returns and on all assessments received by it to the extent that such taxes have become due. Federal income tax returns of the Company and its Subsidiaries have been examined and reported on by the taxing authorities or closed by applicable statutes and satisfied for all fiscal years prior to and including the fiscal years prior to and including the fiscal year ended on November 30, 1973. State and Provincial income tax returns of the Company and its Subsidiaries have been closed to the extent provided under applicable statutes; neither the Company nor any Subsidiary has granted any extension or waiver of the limitations period under such applicable statutes.

8G. Conflicting Agreements and Other Matters. Neither the Company nor any of its Subsidiaries is a party to any contract or agreement or subject to any charter or other corporate restriction which materially and adversely affects its business, property or assets, or financial condition. Neither the execution nor delivery of this Agreement, the Notes nor the Operating Agreement, nor the offering, issuance and sale of the Notes, nor fulfillment of nor compliance with the terms and provisions hereof and of the Note will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien upon any of the properties or assets of the Company or any Subsidiary pursuant to, the charter or regulations of the Company or any of its Subsidiaries, any award of any arbitrator or any agreement (including any agreement with stockholders), instrument, order, judgment, decree, statute, law, rule or regulation to which the Company or any of its Subsidiaries is subject. Neither the Company nor any Subsidiary is a party to, or otherwise subject to any provision contained in, any instrument evidencing indebtedness of the Company or such Subsidiary, any agreement relating thereto or any other contract or agreement

(including its charter) which restricts or otherwise limits the incurring of the Funded Debt to be evidenced by the Notes.

8H. Offering of Notes. Neither the Company nor any agent acting on its behalf has offered the Notes or any similar security of the Company for sale to, or solicited any offers to buy the Notes or any similar security of the Company for sale to, or solicited any offers to buy the Notes or any similar security of the Company from, or otherwise approached or negotiated with respect thereto with, any Person or Persons other than yourself, and neither the Company nor any agent acting on its behalf has taken or will take any action which would subject the issuance or sale of the Notes to the provisions of Section 5 of the Securities Act of 1933, as amended, or to the provisions of any securities or Blue Sky law of any applicable jurisdiction.

8I. Regulation G, etc. Neither the Company nor any Subsidiary owns or has any present intention of acquiring any "margin security" as defined in Regulation G (12 CFR Part 207) of the Board of Governors of the Federal Reserve System (herein called a "margin security"). The proceeds of sale of the Notes to you will be used, together with other funds of the Company, to refinance the purchase price of the outstanding capital stock of World Book-Childcraft International, Inc., a subsidiary of Field Enterprises, Inc., a Delaware Corporation. None of such proceeds will be used, directly or indirectly, for the purpose of purchasing or carrying any margin security or for the purpose of reducing or retiring any indebtedness which was originally incurred to purchase or carry a margin security or for any other purpose which might constitute this transaction a "purpose credit" within the meaning of said Regulation G. Neither the Company nor any agent acting on its behalf has taken or will take any action which might cause this Agreement or the Notes to violate Regulation G, Regulation T, Regulation X or any other regulation of the Board of Governors of the Federal Reserve System or to violate the Securities Exchange Act of 1934, in each case as in effect now or as the same may hereafter be in effect. The Company will not enter into any commitment for the purchase or acquisition of any "margin security" or "publicly-held" security (as said terms are defined and used in said Regulations) directly or indirectly (including replenishment of funds theretofore available as working capital) out of the proceeds of the sale of the Notes, unless prior thereto the Company shall have obtained a favorable ruling from an appropriate official of the Federal Reserve System, or a favorable opinion from counsel referred to in paragraph 3A (or other counsel of recognized standing satisfactory to you) to the effect that the extension of credit hereunder and the other circumstances surrounding such purchase or acquisition will not constitute a violation of any such Regulation or of the Securities Exchange Act of 1934 as then in effect.

8J. Pollution Regulations. The Company and each of its Subsidiaries is exercising its best efforts to comply with all laws and regulations relating to pollution control in all jurisdictions where the Company and each of its Subsidiaries is presently doing business, and the Company will use its best efforts to comply and to cause each of its Subsidiaries to comply with all such laws and regulations which may be legally imposed in the future in jurisdictions in which the Company or any Subsidiary may then be doing business.

8K. Employee Retirement Income Security Act. No employee benefit plan established or maintained by the Company or any Subsidiary, which is subject to Part 3 of Subtitle B of Title I of the Employee Retirement Income Security Act of 1974, as amended and in effect, had an accumulated funding deficiency (as such is defined in Section 302 of that Act) as of the last day of the most recent fiscal year of such plan ended prior to the date hereof, or would have had an accumulated funding deficiency (as so defined) on such day if such year were the first year of such plan to which Part 3 of Subtitle B of Title I of that Act applied, and no material liability to the Pension Benefit Guaranty Corporation, has been, or is expected by the Company or any Subsidiary to be, incurred with respect to any such plan by the Company or any Subsidiary. The execution and delivery by the Company of this Agreement and the Notes will not involve any prohibited transaction within the meaning of ERISA or Section 4975 of the Internal Revenue Code. This representation by the Company is made in reliance upon and subject to the accuracy of your representation in paragraph 9 as to the source of the

funds to be used by you to pay the purchase price of the Notes. Attached hereto as Exhibit F is a list of all funded employee benefit plans established or maintained by the Company or any Subsidiary or as to which the Company is a "Party in interest" (as defined in Section 3 of ERISA) or a "disqualified person" (as defined in Section 4975 of the Internal Revenue Code).

8L. Absence of Foreign or Enemy Status. Neither the Company nor any Subsidiary is a "national" of a foreign country designated in Executive Order No. 8389, as amended, or of any "designated enemy country" as defined in Executive Order No. 9193, as amended, of the President of the United States of America within the meaning of said Executive Orders, as amended, or of any regulation issued thereunder, or a "national" of any "designated foreign country" within the meaning of the Foreign Assets Control Regulations or of the Cuban Assets Control Regulations of the United States of America, 31 CFR, sub-title B, Chapter V, as amended, or a "person" in Southern Rhodesia or is acting on behalf of or for the benefit of a "person" in Southern Rhodesia within the meaning of the Rhodesian Sanctions Regulations, 31 CFR, sub-title B, Chapter V, as amended.

8M. Governmental Consent. Neither the nature of the Company or of any Subsidiary, nor any of their respective businesses or properties, nor any relationship between the Company or any Subsidiary and any other Person, nor any circumstance in connection with the offer, issue, sale or delivery of the Notes is such as to require any consent, approval or other action by or any notice to or filing with any court or administrative or governmental body (other than routine filings after any date of closing with the Securities and Exchange Commission and/or State Blue Sky authorities) in connection with the execution and delivery of this Agreement, the offer, issue, sale or delivery of the Notes or fulfillment of or compliance with the terms and provisions hereof or of the Notes.

8N. Possession of Franchises, Licenses, etc. The Company and its Subsidiaries possess all franchises, certificates, licenses, permits and other authorizations from governmental political subdivisions or regulatory authorities, all patents, trade-marks, service marks, trade names, copyrights, licenses and other rights, free from burdensome restrictions, that are necessary in any material respect for the ownership, maintenance and operation of their respective properties and assets, and neither the Company nor any Subsidiary is in violation of any thereof in any material respect.

SECTION 9. REPRESENTATIONS OF PURCHASER

9. Representations of the Purchaser. You represent and in making this sale to you it is specifically understood and agreed that you are acquiring the Notes for the purpose of investment and not with a view to or for sale in connection with any distribution thereof, provided that the disposition of your property shall at all times be and remain within your control. You further represent that no part of the funds being used by you to pay the purchase price of the Notes hereunder constitutes assets allocated to any separate account maintained by you in which any employee benefit plan identified in the list referred to in paragraph 8K participates. As used in this paragraph 9, the terms "separate account" and "employee benefit plan" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

SECTION 10. DEFINITIONS

10. Definitions. For the purpose of this Agreement, the following terms shall have the following meanings:

10A. "Person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof.

10B(1). "Subsidiary" shall mean any corporation more than 50% of the total combined voting power of all classes of Voting Stock of which shall, at the time as of which any determination is being made, be owned by the Company either directly or through Wholly-Owned Subsidiaries; provided, that any corporation that is an Unrestricted Subsidiary shall not be deemed to be a Subsidiary for any purpose

of this Agreement, but shall be subject only to those provisions that expressly refer to Unrestricted Subsidiaries.

10B(2). "Wholly-Owned Subsidiary" shall mean any Subsidiary, all of the stock of every class of which, except directors' qualifying shares, shall, at the time as of which any determination is being made, be owned by the Company either directly or through Wholly-Owned Subsidiaries.

10B(3). "80%-Owned Subsidiary" shall mean any Subsidiary more than 80% of the total combined voting power of all classes of Voting Stock of which shall, at the time as of which any determination is being made, be owned by the Company either directly or through Wholly-Owned Subsidiaries.

10C. "Unrestricted Subsidiary" shall mean any corporation more than 50% of the total combined voting power of all classes of voting stock of which shall, at the time as of which any determination is being made, be owned by the Company either directly or through Wholly-Owned Subsidiaries, and (iii) is designated as an Unrestricted Subsidiary by express action of the Board of Directors of the Company and by written notice to you accompanied by an Officer's Certificate certifying such action by the Board of Directors of the Company, identifying such Unrestricted Subsidiary; provided, that no designation or rescission of a designation of a corporation as an Unrestricted Subsidiary shall be effective for any purpose of this Agreement if, after giving effect thereto, (x) any Default or Event of Default would occur, or (y) the Company would thereby be prevented from incurring additional Senior Funded Debt permitted under the provisions of clause (vi) of paragraph 6C(2), or if prior to such designation sale of all of the capital stock of such corporation would not have been permitted under the provisions of paragraph 6C(4). For all purposes of this Agreement, an Unrestricted Subsidiary shall be valued at the book value thereof as of the time when any determination is being made hereunder, which, if such determination occurs concurrently with the acquisition of such Unrestricted Subsidiary by the Company, shall be the actual cost of acquisition thereof.

10D(1). "Funded Debt" shall mean and include without duplication, (and in each case including the current portion thereof).

(i) any obligation payable more than one year from the date of creation thereof, which under generally accepted accounting principles is shown on the balance sheet as a liability (excluding reserves for deferred income taxes and other reserves to the extent that such reserves do not constitute an obligation),

(ii) amounts equal to the aggregate net rentals (after making allowance for any interest, taxes or other expenses included therein) payable more than one year from the date of the creation thereof under any lease (whether or not such rentals accrue and become payable only on an annual or other periodic basis) which lease is capitalized in accordance with generally accepted accounting principles on a basis consistent with those applied in the preparation of the financial statements referred to in clause (i) of paragraph 8B,

(iii) indebtedness secured by any Lien existing on property owned subject to such Lien, whether or not the indebtedness secured thereby shall have been assumed, except with respect to Liens permitted by clauses (i), (ii) and (iii) of paragraph 6C(1),

(iv) guarantees, endorsements (other than endorsements of negotiable instruments for collection in the ordinary course of business) and other contingent liabilities (whether direct or indirect) in connection with the obligations, stock or dividends of any Person,

(v) obligations under any contract providing for the making of loans, advances or capital contributions to any Person, or for the purchase of any property from any Person, in each case in order to enable such Person primarily to maintain working capital, net worth or any other balance sheet condition or to pay debts, dividends or expenses, except that obligations of the Company and World Book-Childcraft, Inc. under the Operating Agreement shall be excluded in any calculation of Funded Debt,

(vi) obligations under any contract for the purchase of materials, supplies or other property if such contract (or any related document) requires that payment for such materials, supplies or other property shall be made regardless of whether or not delivery of such materials, supplies or other property is ever made or tendered,

(vii) obligations under any contract to rent or lease (as lessee) any real or personal property if such contract (or any related document) provides that the obligation to make payments thereunder is absolute and unconditional under conditions not customarily found in commercial leases then in general use or requires that the lessee purchase or otherwise acquire securities or obligations of the lessor,

(viii) obligations under any contract for the sale or use of materials, supplies or other property if such contract (or any related document) requires that payment for such materials, supplies or other property, or the use thereof, shall be subordinated to any indebtedness (of the purchaser or user of such materials, supplies or other property) owed or to be owed to any Person, and

(ix) obligations under any other contract which, in economic effect, is substantially equivalent to a guarantee,

all as determined in accordance with generally accepted accounting principles.

10D(2). "Subordinated Funded Debt" shall mean any Funded Debt payment of principal or interest, or both, of which shall be subordinated and junior to the indebtedness evidenced by the Notes and to other Senior Funded Debt of the Company and its Subsidiaries in the manner and to the extent set forth in Exhibit E hereto.

10D(3). "Senior Funded Debt" shall mean any Funded Debt that is not Subordinated Funded Debt.

10D(4). "Current Debt" shall mean any obligation for borrowed money (and any notes payable and drafts accepted representing extensions of credit whether or not representing obligations for borrowed money) payable on demand or within a period of one year from the date of the creation thereof; provided that any such obligation shall be treated as Funded Debt regardless of its term, if such obligation is renewable pursuant to the terms thereof or of a revolving credit or similar agreement effective for more than one year after the date of the creation of such obligation, or may be payable out of the proceeds of a similar obligation pursuant to the terms of such obligation or of any such agreement.

10D(5). "Debt" shall mean Funded Debt or Current Debt, or both, as the case may be.

10E. "Consolidated Working Capital" shall mean the excess of consolidated current assets over consolidated current liabilities of the Company and its Subsidiaries, both determined in accordance with generally accepted accounting principles consistent with those followed in the preparation of the financial statements referred to in clause (i) of paragraph 8B, provided that there shall not be included in current assets (i) any loans or advances made by the Company or any Subsidiary except travel and other like advances to officers and employees in the ordinary course of business, nor (ii) any assets located outside (including any amounts payable by Persons located outside) the United States of America and Canada.

10F. "Consolidated Net Tangible Assets" shall mean the gross book value of the assets of the Company and its Subsidiaries (exclusive of good will, patents, trademarks, trade names, organization expense, treasury stock, unamortized debt discount and expense and other like intangibles), less reserves applicable thereto, minority interests and all liabilities (including deferred income taxes but excluding deferred investment tax credits) other than Funded Debt, capital stock and surplus, all determined on a consolidated basis in accordance with generally accepted accounting principles; provided, that there shall not be included in assets any investment in or direct or indirect loan, advance or extension of credit to, any Unrestricted Subsidiary in excess of an amount equal to 20% of the consolidated Net Worth of the Company and all Subsidiaries.

10G. "Event of Default" shall mean any of the events specified in Section 7, provided that there has been satisfied any requirement in connection with such event for the giving of notice, or the lapse

of time, or the happening of any further condition, event or act, and "Default" shall mean any of such events, whether or not any such requirement has been satisfied.

10H. "Officer's Certificate" shall mean a certificate signed in the name of the Company by its President, one of its Vice Presidents or its Treasurer.

10I. "Lien" shall mean any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, any lease in the nature thereof, and the filing of or agreement to give any financing statement under the Uniform Commercial Code of any jurisdiction).

10J. "Net Worth" of a corporation shall mean the sum of (i) the par value (or value stated on the books of the corporation) of the capital stock of all classes (exclusive of treasury stock) plus (or minus in the case of a surplus deficit) (ii) the amount of the surplus, whether capital or earned, of such corporation.

10K. "Voting Stock" when used with respect to any Subsidiary shall mean any shares of stock of such Subsidiary having general voting power under ordinary circumstances to elect the Board of Directors of such Subsidiary (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

10L. "Substantial Part" shall mean, when used with respect to assets, more than 10% of the consolidated assets of the Company and all Subsidiaries, and when used with respect to Consolidated Net Earnings for any period, more than 10% of Consolidated Net Earnings for such period.

10M. "Attributable Debt" shall mean, when used with respect to leases that are not capitalized, an amount equal to the aggregate net rentals (after making allowance for taxes or other bona fide expenses included therein) payable under such leases during the remaining term thereof, discounted to a present value at the rate of 9.75% per annum, compounded semi-annually, and calculated in accordance with accepted financial practice.

SECTION 11. MISCELLANEOUS

11A. **Home Office Payment.** The Company agrees that, as long as you shall hold any Note, it will make payments of principal thereof and interest and premium, if any, thereon, which comply with the terms of this Agreement, by credit to your account or accounts in Morgan Guaranty Trust Company of New York, 15 Broad Street, New York, N.Y. (account # 050-53-360 for payments with respect to the first Note, and account # 826-00-027 for payments with respect to Notes other than the first Note), or such other account or accounts in the United States as you may designate in writing, notwithstanding any contrary provision herein or in any Note with respect to the place of payment. You agree that, before disposing of any Note, you will make a notation thereon of all principal payments previously made thereon and of the date to which interest thereon has been paid, and will notify the Company of the name and address of the transferee of such Note. The Company agrees to afford the benefits of this paragraph 11A to any institutional investor of recognized standing which is the direct or indirect transferee of any Note purchased by you hereunder and which has made the same agreements relating to such Note as you have made in this paragraph 11A.

11B. **Expenses.** The Company agrees, whether or not the transactions hereby contemplated shall be consummated, to pay, and save you harmless against liability for the payment of, all out-of-pocket expenses arising in connection with this transaction, including all stamp and other taxes (including any intangible personal property tax, together in each case with interest and penalties, if any, and any income tax payable by you in respect of any reimbursement therefor) which may be payable in respect of the execution and delivery of this Agreement or the execution, delivery or acquisition of any Note issued under or pursuant to this Agreement, all printing costs and the reasonable fees and expenses of your special counsel in connection with this Agreement and any modification thereof. The obligations of the Company under this paragraph 11B shall survive transfer by you and payment of any Note.

11C. Consent to Amendments. This Agreement may be amended, and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, if the Company shall obtain the written consent to such amendment, action or omission to act given by the holder or holders of at least 66⅔% of the principal amount of the Notes at the time outstanding, except that, without the written consent of the holder or holders of all of the Notes affected thereby at the time outstanding, no amendment to this Agreement shall change the maturity of any Note, or change the principal of, or the rate or time of payment of interest or any premium payable with respect to, any Note, or affect the time or amount of any required prepayments, or reduce the proportion of the principal amount of the Notes required with respect to any consent. Any consideration given to any Noteholder to obtain his consent shall be given *pro rata* to all Noteholders who will continue to be Noteholders after consummation of the transaction consented to whether or not they give consent. Each holder of any Note at the time or thereafter outstanding shall be bound by any consent authorized by this paragraph 11C, whether or not such Note shall have been marked to indicate such consent, but any Note issued thereafter may bear a notation referring to any such consent. No course of dealing between the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein and in the Notes, the term "this Agreement" and references thereto or to any other agreement or instrument shall mean this Agreement or such other agreement or instrument as it or they may, from time to time, be amended or supplemented.

11D. Form, Registration, Transfer and Exchange of Notes. The Notes are issuable only as registered Notes without coupons in the denominations of \$10,000 and any integral multiple of \$10,000. The Company shall keep at its principal office a register in which the Company shall provide for the registration of Notes and of transfer of Notes. Upon surrender for registration of transfer of any Note at the office of the Company, the Company shall, at its expense, execute and deliver one or more new Notes of like tenor and of a like aggregate principal amount registered in the name of the designated transferee or transferees. At the option of the holder of any Note, such Note may be exchanged for other Notes of like tenor and of any authorized denominations, of a like aggregate principal amount, upon surrender of the Note to be exchanged at the office of the Company. Whenever any Notes are so surrendered for exchange, the Company shall, at its expense, execute and deliver the Notes which the Noteholder making the exchange is entitled to receive. Every Note surrendered for registration of transfer shall be duly endorsed, or be accompanied by a written instrument of transfer duly executed, by the holder of such Note or his attorney duly authorized in writing. Any Note or Notes issued in exchange for any Note or upon transfer thereof shall carry the rights to unpaid interest and interest to accrue which were carried by the Note so exchanged or transferred, so that neither gain nor loss of interest shall result from any such transfer or exchange.

11E. Notices to Subsequent Holder. If any Note shall have been transferred to another holder pursuant to paragraph 11D and such holder shall have designated in writing the address to which communications with respect to such Note shall be mailed, all notices, certificates, requests, statements and other documents required or permitted to be delivered to you by any provision hereof shall also be delivered to each such holder, except that financial statements and other documents provided for in paragraph 5A need not be delivered to any such holder holding less than 10% of the aggregate principal amount of Notes from time to time outstanding.

11F. Persons Deemed Owners. Prior to due presentment for registration of transfer, the Company may treat the Person in whose name any Note is registered as the owner and holder of such Note for the purpose of receiving payment of principal of and interest and premium (if any) on such Note and for all other purposes whatsoever, whether or not such Note shall be overdue, and the Company shall not be affected by notice to the contrary.

11G. Survival of Representations and Warranties. All representations and warranties contained herein or made in writing by the Company in connection herewith shall survive the execution and delivery of this Agreement and of the Notes, regardless of any investigation made by you or on your behalf.

11H. **Successors and Assigns.** All covenants and agreements in this Agreement contained by or on behalf of either of the parties hereto shall bind and inure to the benefit of the respective successors and assigns of the parties hereto whether so expressed or not.

11I. **Notices.** All communications provided for hereunder shall be sent by first class mail and, if to you, addressed to you in the manner (except as otherwise provided in paragraph 11A with respect to payments of principal of and interest and premium, if any, on the Note) in which this letter is addressed, and if to the Company, at its offices at 14600 Detroit Avenue, Lakewood, Ohio 44107, or to such other address with respect to either party as such party shall notify the other in writing; provided, however, that any such communication to the Company may also, at your option, be either delivered to the Company at its address set forth above or to any officer of the Company.

11J. **Descriptive Headings.** The descriptive headings of the several paragraphs of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

11K. **Satisfaction Requirement.** If any agreement, certificate or other writing, or any action taken or to be taken, is by the terms of this Agreement required to be satisfactory to you, the determination of such satisfaction shall be made by you in your sole and exclusive judgment exercised in good faith.

11L. **Governing Law.** This Agreement is being delivered and is intended to be performed in the State of Illinois, and shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of such State.

11M. **Counterparts.** This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

11N. **Amendment of Existing Agreement.** The covenants set forth in paragraphs 5A and 6 of the note agreement dated October 11, 1965, as heretofore amended, between American-Lincoln Corporation (which corporation has heretofore merged into the Company) and you pursuant to which the 6% note of said corporation was issued and sold to you, are hereby amended in their entirety so as to read as set forth in paragraph 5A and Section 6 of this Agreement, respectively, and defined terms and cross references used in paragraphs 5A and 6 of such note agreement, as hereby amended, shall be deemed, respectively, to have the meanings ascribed thereto in, and to refer to paragraphs in, this Agreement. Except as amended or modified by the foregoing provisions, all other provisions of the note agreement of October 11, 1965, as heretofore amended, shall remain in full force and effect.

If you are in agreement with the foregoing, please sign the form of acceptance on the enclosed counterpart of this letter and return the same to the undersigned, whereupon this letter shall become a binding agreement between you and the undersigned.

Very truly yours,

THE SCOTT & FITZER COMPANY

By *Ralph L. Steiner*
President

The foregoing Agreement is hereby accepted as of the date first above written.

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By *John W. Reynolds*
Vice President

EXHIBIT A
THE SCOTT & FETZER COMPANY
PROMISSORY NOTE

Chicago, Illinois
, 197

§
FOR VALUE RECEIVED, the undersigned, **THE SCOTT & FETZER COMPANY** (herein called the "Company"), a corporation organized and existing under the laws of the State of Ohio, hereby promises to pay to

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

or registered assigns, the principal sum of

(\$) DOLLARS

on August , 1998, with interest (computed on the basis of a 360-day year—30-day month) on the unpaid balance thereof at the rate of 9.5% per annum from the date hereof, payable semi-annually on the last day of February and August in each year, commencing , 197 , until the principal hereof shall have become due and payable, and thereafter at the rate of 10.5% per annum until paid.

Payments of both principal and interest are to be made at the office of The Prudential Insurance Company of America at Prudential Plaza, Newark, New Jersey, or such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is issued pursuant to an Agreement dated August , 1978, between the Company and The Prudential Insurance Company of America and is entitled to the benefits thereof. As provided in said Agreement, this Note is subject to prepayment, in whole or in part, in certain cases without premium and in other cases with a premium as specified in said Agreement.

As provided in said Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or his attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

The Company agrees to make prepayments of principal on the dates and in the amounts specified in said Agreement.

The Company agrees to pay, or reimburse the holder hereof for, and save the holder hereof harmless against, any loss, liability, cost and expense incurred in connection with the enforcement by the holder hereof of its rights under this Note or the Agreement to the extent permitted by applicable law.

In case an Event of Default, as defined in said Agreement, shall occur and be continuing, the principal of this Note may be declared due and payable in the manner and with the effect provided in said Agreement.

THE SCOTT & FETZER COMPANY

By
President

By
Executive Vice President

EXHIBIT B
OPERATING AGREEMENT

OPERATING AGREEMENT dated as of August 31, 1978 among World Book-Childcraft International, Inc. ("World Book"), World Book Finance, Inc. ("Finance"), World Book Encyclopedia, Inc. ("Encyclopedia") and The Scott & Fetzer Company ("Scott & Fetzer").

In consideration of the mutual promises herein contained, World Book, Finance, Encyclopedia and Scott & Fetzer agree as follows:

1. Sale of Receivables.

1A. World Book and Encyclopedia shall offer to sell to Finance during the term of this Agreement, on a nonrecourse basis, all Receivables now or hereafter owned by World Book or Encyclopedia. Finance shall give full, careful and prompt consideration to all Receivables offered to Finance by World Book and Encyclopedia and shall be deemed to have accepted for purchase all Receivables offered without any further or express act of acceptance; provided however, that (i) the purchase of Receivables shall be within the sole discretion of Finance, and Finance shall be under no obligation to purchase any Receivables and may, by express notice to World Book or Encyclopedia within 2 business days, refuse to accept for purchase any specific Receivables, and, (ii) Finance shall be under no obligation to purchase any such Receivables, whether or not it has given such notice, to the extent that Finance shall not then have available to it sufficient sources of funds to consummate such purchase in accordance with the provisions hereof. All documentation relating to the purchase of Receivables shall be satisfactory in form and substance to Finance. Notwithstanding the foregoing, World Book and Encyclopedia shall sell to Finance and Finance shall buy from World Book and Encyclopedia all Receivables owned by World Book or Encyclopedia as at August 31, 1978. All conveyances of Receivables to Finance after the purchase described in the preceding sentence shall be made by World Book and Encyclopedia daily as of the close of business as to all Receivables arising during the course of such day. Such conveyance shall be effected by virtue of the provisions of this paragraph 1, without further instrument of conveyance upon notation of the conveyance on the books and records of World Book, Encyclopedia and Finance.

1B. The purchase price of receivables sold and conveyed pursuant to paragraph 1A shall be paid by Finance by direct cash payment or by the application of proceeds of collection of Receivables as provided in paragraph 9B. The daily application by Finance of the proceeds of Receivables as provided in paragraph 9B shall, as at the time of such application, constitute full payment for Receivables purchased by Finance pursuant to paragraph 1.

1C. Finance shall not purchase Receivables from World Book and Encyclopedia hereunder after they cease, respectively, to be wholly-owned subsidiaries (directly or through other wholly-owned subsidiaries) of Scott & Fetzer.

2. Purchase Price of Receivables; Contract Reserve Account.

2A. The price to be paid by Finance for Receivables shall be equal to 100% of the principal amount thereof or such other percentage not exceeding 100% as may be agreed by World Book or Encyclopedia, as the case may be, and Finance from time to time.

2B. Within 30 days of the end of each Accounting Period, World Book and Encyclopedia shall pay to Finance a facilitating fee in respect of the average aggregate outstanding balance of all Receivables owned by Finance during such Accounting Period. The amount of such fee for each such Accounting Period shall be determined jointly by World Book, Encyclopedia and Finance and shall be sufficient to compensate Finance fairly in accordance with customary industry practices for the risk undertaken by it in purchasing and holding the Receivables.

2C. On each purchase of Receivables, Finance shall withhold from the purchase price of such Receivables an amount equal to not less than 11% of the unpaid balance of such Receivables. Finance

will credit all sums so withheld to a reserve (the "Contract Reserve Account") on the books of Finance. The amount of any Receivable determined by Finance to be uncollectible shall be charged to the Contract Reserve Account regardless of whether any deficit results in such Contract Reserve Account. If, at the close of business on the last day of the Accounting Period, the Contract Reserve Account has a balance in excess of the sum of (i) the aggregate amount of Receivables on which one full installment payment has not been received within the 180 days immediately preceding any calculation under this paragraph, (ii) without duplication, the aggregate amount of Receivables that have been placed with attorneys or collection agencies for collection, and (iii) 5% of the aggregate amount of all Receivables, Finance shall pay such excess to World Book Encyclopedia.

3. Investment Covenant.

3A. If at the end of any Accounting Period the Earnings Available for Fixed Charges for such Accounting Period and previous Accounting Periods, if any, occurring in the same fiscal year were less than one and one-half times Finance's Fixed Charges for such Accounting Period and previous Accounting Periods, if any, occurring in the same fiscal year, World Book and Encyclopedia or Scott & Fetzer or all of them (intending to be jointly and severally obligated) shall promptly pay and transfer to Finance cash in the amount by which such Earnings Available for Fixed Charges for such Accounting Period and previous Accounting Periods, if any, occurring in the same fiscal year were less than one and one-half times such Fixed Charges for such Accounting Period and previous Accounting Periods, if any, occurring in the same fiscal year. Such payment shall be made as a purchase of additional shares of common stock of Finance for such number of shares as may be determined by Finance at the time. World Book, Encyclopedia, Finance and Scott & Fetzer shall take such action (including amendments to Finance's certificate of incorporation, or by-laws, or both) as may be necessary to accomplish the authorization and issuance of such additional shares of common stock of Finance and the payment therefor. The purchase price for such additional shares of common stock of Finance shall be \$10,000 per share, payable concurrently with the issuance and delivery of such stock to the purchaser thereof.

3B. Within 40 days after the close of each of its quarters, Finance shall deliver to Scott & Fetzer copies of quarterly financial statements of Finance in such detail as may be reasonably required by Scott & Fetzer, together with a certificate by an authorized financial officer of Finance, setting forth in detail the computations under paragraph 3A and the number of shares of Finance's common stock, if any, to be purchased at such time pursuant thereto. Within 5 days after the date of delivery of such certificate, at the principal office of Finance in Chicago, Illinois (or such other place and time, not later than 5 days after the date of delivery of said officer's certificate, as may be mutually agreed upon between Finance and Scott & Fetzer). Scott & Fetzer, World Book, or Encyclopedia or any combination thereof, shall consummate the purchase of the number of shares of stock of Finance set forth in said certificate at the price per share hereinabove provided (unless a different price shall have been mutually determined). Concurrently with the payment of such purchase price, Finance shall issue and deliver to Scott & Fetzer, World Book or Encyclopedia (as the case may be) the number of fully paid and non-assessable shares of Finance's common stock so purchased.

4. Settlement of Inter-Company Accounts.

Finance shall pay promptly all of its accounts payable to World Book and Encyclopedia, and World Book and Encyclopedia shall pay promptly all of their accounts payable to Finance (including amounts payable pursuant to paragraph 10 hereof), in each case within 30 days after the end of the Accounting Period in which any such account payable was incurred.

5. Form of Receivables.

All Receivables purchased by Finance pursuant to this Agreement shall be in a form acceptable to Finance.

6. Documents Required to be Delivered upon Sale of Receivables.

World Book and Encyclopedia shall present to Finance the following documents and data upon request of Finance.

- (a) a schedule or statement specifying the amount of the Receivables sold to Finance within any specified period of time; and
- (b) the best documentation or evidence available as to the existence of such Receivables (which, if requested, shall be endorsed, assigned or otherwise transferred to Finance without recourse), together with any supporting records and any security or collateral therefor which is readily susceptible of delivery and any evidence of filing or recording of such Receivables (or other appropriate document relating thereto).

7. Representations and Warranties in Connection with the Sale of Receivables.

As to each Receivable purchased by Finance pursuant to this Agreement, World Book or Encyclopedia, as the case may be, by such sale, hereby makes each of the following representations and warranties:

- (a) such Receivable is in compliance with all of the terms of this Agreement;
- (b) such Receivable is a valid obligation to which World Book or Encyclopedia, as the case may be, has good title, free and clear of all liens and encumbrances whatsoever and such Receivable is not subject to any offset, counterclaim or other defense;
- (c) the conveyance of such Receivable effected by the provisions of paragraph 1 vests in Finance the entire right, title and interest of World Book or Encyclopedia, as the case may be, in and to such Receivable and the proceeds of the collection thereof, in each case free and clear from claims of any third parties;
- (d) all obligations to be performed by World Book, Encyclopedia or any other person to or in connection with such Receivable, including obligations with respect to the merchandise the sale of which gave rise to such Receivable, have been or will be fulfilled; and
- (e) the laws of each jurisdiction applicable to the transaction out of which such Receivable originated have been complied with.

As to each Receivable purchased by Finance pursuant to this Agreement arising out of a sale by World Book or Encyclopedia subsequent to August 31, 1978, World Book or Encyclopedia, as the case may be, by such sale, hereby makes the further representation and warranty that such Receivable at the time of such sale is current and not in default and, in the good faith judgment of World Book or Encyclopedia, as the case may be, is not of a quality inferior in any respect to the average quality of all Receivables.

8. Indemnity for Breach of Warranty.

World Book, Encyclopedia or Scott & Fetzer or all of them (intending to be jointly and severally obligated) shall indemnify, defend and save harmless Finance against any and all liability, claims, losses and damages arising out of or based on any breach of warranty made by World Book or Encyclopedia with respect to merchandise the sale of which gave rise to a Receivable purchased by Finance pursuant to this Agreement.

9. Collection and Other Services to be Performed on Behalf of Finance; Daily Purchase of Receivables; etc.

9A. World Book and Encyclopedia at their sole expense shall take, or cause to be taken, with due diligence, all necessary steps to perform all of the following services on behalf of Finance solely in the capacity of agent or agents of Finance:

- (a) to collect, when due, sums owing and payable on the respective Receivables purchased by Finance pursuant to this Agreement, and promptly to report and account to Finance for all such

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collections; all such payments or collections received by World Book or Encyclopedia shall be applied as provided in paragraph 9B and, to the extent not so applied, shall be promptly remitted and paid over to Finance;

(b) if it becomes necessary or desirable to repossess or to foreclose the lien upon or the security interest in any merchandise which is subject to any Receivable purchased by Finance pursuant to this Agreement, to proceed with due diligence to take lawful steps to repossess such merchandise or to carry out such foreclosure and to take such other lawful steps as may be necessary or appropriate (i) to enforce the lien upon or the security interest in such merchandise for and on behalf of Finance; (ii) to resell such merchandise for the account and benefit of Finance and to act in good faith to the end of obtaining the best possible prices for such merchandise for the benefit of Finance, and (iii) to remit to Finance the proceeds of such sales (any repossession, reconditioning, foreclosure or resale expenses in connection with such sales to be borne by World Book or Encyclopedia);

(c) to make credit investigations of and reports on the obligors on Receivables offered to Finance pursuant to this Agreement, and to provide credit and collection assistance and other similar services to Finance;

(d) to render accounting and internal auditing services, including the safe-keeping of records and the preparation and furnishing of reports;

(e) to prepare and file in the name and on behalf of Finance any local, state and Federal tax returns and other reports and returns required by local, state or Federal laws or regulations;

(f) if requested by Finance, to notify the obligors on Receivables purchased by Finance to make payments thereon directly to Finance and to maintain all such records as are necessary or appropriate to enable Finance directly to notify such obligors and to collect and enforce such Receivables and such other obligations; and

(g) to do such other acts and provide such other services as Finance may from time to time reasonably require and request in writing.

Finance shall be entitled, upon timely notice in writing to World Book or Encyclopedia, as the case may be, to perform any of the foregoing services on its own behalf and at its own expense with respect to any or all Receivables, in which event Finance shall be entitled to give direct notice to the obligors of such Receivables and to collect and receive from such obligors, and World Book and Encyclopedia shall take such action as may be necessary to permit Finance to make direct collections of such Receivables, and to receive and retain for Finance's own account the interest accruing thereon, or the finance charge in respect thereof, or such portion of such interest or finance charge as fairly compensates Finance for the actual costs of such services.

9B. World Book, as agent for Finance, shall cause all proceeds of collection of Receivables conveyed to Finance to be deposited in bank accounts designated "World Book collection accounts" and held in such bank accounts for and on behalf of Finance, as the owner of such proceeds, subject only to withdrawal by or at the direction of Finance or as otherwise provided in this paragraph 9B. Such proceeds shall be applied daily to the purchase of Receivables as provided in paragraph 1, to the extent such proceeds are not remitted to Finance in cash as provided in subparagraph (a) of paragraph 9A, and such application of proceeds shall be deemed to have been made simultaneously with the transfer of funds from the World Book collection accounts to a general corporate bank account of World Book. World Book shall furnish to Finance at the end of each Accounting Period a written accounting with respect to all proceeds of collection of Receivables during such Accounting Period, showing the application of such proceeds and the total amount of Receivables purchased during such Accounting Period.

9C. World Book and Encyclopedia shall, at their expense, file, and maintain the filing of, such financing statements or other documents, if any, as may be necessary or appropriate, under the Uniform Commercial Code and any other applicable laws, to perfect and preserve the rights of Finance, hereunder,

and, if requested by Finance, shall furnish to Finance from time to time opinions of its counsel that such filings, if any, have been made and operate to establish, preserve and protect Finance's rights hereunder and in all Receivables sold pursuant hereto and to create and preserve Finance's interests in such Receivables, pursuant to the Uniform Commercial Code, if applicable.

9D. So long as Finance shall own any Receivables of World Book or Encyclopedia, World Book and Encyclopedia shall mark their master control accounts to the effect that such Receivables have been sold to Finance. World Book and Encyclopedia shall provide to Finance full access at all reasonable times to rooms in which account records are maintained and to such account records themselves, including, without limitation, access to computers or other data processing equipment and the programs and data contained therein by means of which account records are maintained.

10. Adjustments; Charges.

If (a) World Book or Encyclopedia shall make any rebates in favor of obligors on Receivables sold to Finance or shall repossess or accept returns or rejections of merchandise the sale of which gave rise to Receivables sold to Finance and (b) such rebate, return, rejection or repossession shall have the effect of reducing the unpaid balance of any Receivable, World Book or Encyclopedia as the case may be, shall pay to Finance an amount equal to the amount by which the unpaid principal amount of such Receivable shall have been reduced.

11. Indemnity for Acts Performed Pursuant to this Agreement.

World Book, Encyclopedia or Scott & Fetzer or all of them (intending to be jointly and severally obligated) will indemnify, defend and save harmless Finance from any and all claims asserted against Finance by any third party arising out of any wrongful or negligent act or omission to act of World Book or Encyclopedia in performing or furnishing any of the services which World Book and Encyclopedia are required to perform or furnish for Finance pursuant to this Agreement.

12. Option to Repurchase.

World Book and Encyclopedia may purchase at any time from Finance, but without recourse or warranty by Finance, any Receivable which is, in the opinion of World Book, Encyclopedia or Finance, uncollectible. The purchase price of such Receivable shall be the remaining unpaid balance of such Receivable. If World Book or Encyclopedia does not purchase Receivables deemed uncollectible by Finance, the remaining unpaid balance of such Receivable shall be charged against the Contract Reserve Account on the last day of the calendar month during which the Receivable is declared uncollectible by Finance.

13. Term.

This Agreement shall remain in full force and effect for an initial term ending December 31, 1999, and shall be automatically renewed for successive terms of one year each unless, at least 90 days prior to the expiration of the then current term, any party hereto shall give to the other parties written notice of termination hereof, which termination shall be effective as of the end of the then current term.

14. Definitions.

As used in this Agreement, the following terms have the following respective meanings:

"Accounting Period": any three-month period used by Finance as an accounting period within its fiscal year.

"Fixed Charges": all charges for interest on funded and unfunded debt, amortization of debt discount, and rentals for leased properties, all determined in accordance with generally accepted accounting principles.

"Earnings Available for Fixed Charges": Net income of Finance as determined by generally accepted accounting principles, with the following adjustments (to the extent such items have not already been taken into account in the manner set forth below in calculating net income):

- (i) all operating and maintenance expenses, taxes other than taxes on or measured by income and depreciation shall be deducted in determining net income;
- (ii) all extraordinary, nonrecurring items of income shall be excluded in determining net income;
- (iii) all extraordinary, nonrecurring items of expense shall be deducted in determining net income;
- (iv) Fixed Charges shall not be deducted in determining net income; and
- (v) any cash payment for any Accounting Period during the same fiscal year actually made pursuant to paragraph 3 by Scott & Fetzer, World Book or Encyclopedia, or any combination thereof, shall be added to net income for such Accounting Period.

"Receivables": any right to receive payment in United States or Canadian currency arising out of the retail sale in the ordinary course of business of encyclopedias, other reference and topical works, other publications and other consumer items sold by World Book or Encyclopedia, including all interests in or arising under, any conditional sales agreement, chattel mortgage, promissory note, lease, chattel paper, security agreement, security interest or lien evidencing or securing such right to receive payment, including the right to receive or retain any interest on or finance charge in respect of the principal amount of such payment, but only to the extent that Finance shall be entitled to such interest or finance charge, or part thereof, pursuant to the provisions of the last sentence of paragraph 9A.

15. Notices.

All communications contemplated by this Agreement shall be sent by first class mail addressed as follows:

- | | |
|---------------------------|--|
| If to World Book, to: | World Book-Childcraft
International, Inc.
Merchandise Mart Plaza
Chicago, Illinois 60606
Attn: President |
| If to Finance, to: | World Book Finance, Inc.
Merchandise Mart Plaza
Chicago, Illinois 60606
Attn: President |
| If to Encyclopedia, to: | World Book Encyclopedia, Inc.
Merchandise Mart
Chicago, Illinois 60606
Attn: President |
| If to Scott & Fetzer, to: | The Scott & Fetzer Company
14600 Detroit Avenue
Lakewood, Ohio 44107
Attn: President |

or to such other address with respect to any party as such party shall notify the other in writing.

16. Miscellaneous.

16A. Subject to the provisions of paragraph 2C, this Agreement is not intended to be, and is not, and nothing herein contained, and nothing done by World Book, Encyclopedia or Scott & Fetzer pursuant hereto, shall be construed or deemed to constitute a direct or indirect guaranty by World Book, Encyclopedia or Scott & Fetzer of the payment of the Receivables sold to Finance or the payment of any other indebtedness owing to Finance or of the payment of the interest on or principal of any indebtedness, liability or obligation of any kind or character of Finance to any person or persons whomsoever. The parties recognize that the existence and performance of their respective obligations under this Agreement are essential to the continuing business and operations of Finance, and, accordingly, agree that (i) no default by Finance in the performance of its obligations hereunder shall be deemed sufficiently material to the overall subject matter of this Agreement to constitute a basis for rescission, revocation or other cancellation of this Agreement prior to the end of the initial term hereof, and (ii) the parties shall be limited to remedies seeking the enforcement of the specific provisions hereof or a suit for damages; but this Agreement is intended to obligate the parties hereto as herein set forth. The parties further acknowledge that the remedies at law for breach or nonperformance of the investment covenants set forth in paragraphs 3A and 3B hereof are inadequate, and, accordingly, agree that any party shall be entitled to equitable relief for the breach of any such provisions, including preliminary and permanent mandatory injunctions and specific performance.

16B. All agreements herein shall bind and inure to the benefit of the respective successors and permitted assigns of the parties hereto whether so expressed or not. This Agreement shall be governed by the laws of the State of Illinois. The headings herein are for the purpose of reference only and shall not limit or otherwise affect the meaning hereof. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart. This Agreement may not be assigned by any party hereto without the written consent of each other party hereto.

17. Receivables of Other Entities.

The parties hereto contemplate that Finance may, at some time after the date hereof, purchase or otherwise acquire instruments in the nature of Receivables arising from the sale of products of Scott & Fetzer; however, the parties hereby acknowledge that no such instruments shall be deemed so purchased or acquired pursuant to this Agreement until this Agreement shall have been amended to provide explicitly for the treatment of Receivables of entities other than World Book and Encyclopedia.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered by their duly authorized officers as of the day and year first above written.

THE SCOTT & FETZER COMPANY

By
President

ATTEST:

.....
Secretary

WORLD BOOK-CHILDRAFT INTERNATIONAL, INC.

By
President

ATTEST:

.....
Secretary

WORLD BOOK FINANCE, INC.

By
President

ATTEST:

.....
Secretary

WORLD BOOK ENCYCLOPEDIA, INC.

By
President

ATTEST:

.....
Secretary

EXHIBIT C

The Scott & Fetzer Company—States in which Qualified as a Foreign Corporation:

- | | |
|-------------|----------------|
| Arizona | Minnesota |
| Arkansas | Missouri |
| California | Montana |
| Colorado | New York |
| Connecticut | Oklahoma |
| Florida | Rhode Island |
| Georgia | South Carolina |
| Hawaii | South Dakota |
| Idaho | Tennessee |
| Illinois | Texas |
| Indiana | Utah |
| Kansas | Washington |
| Kentucky | Wyoming |
| Michigan | |

Subsidiaries of The Scott & Fetzer Company:

<u>Company</u>	<u>State or Province of Incorporation</u>
Melben Products Co., Inc.	Ohio
SFZ International Limited	Ontario
Scott & Fetzer (Canada) Ltd.	Ontario
The Scott & Fetzer International Company	Ohio

World Book-Childcraft International, Inc.—States in which qualified as a Foreign Corporation:

- | | |
|----------|----------------|
| Delaware | New Jersey |
| Illinois | North Carolina |
| Indiana | Tennessee |

Domestic Subsidiaries of World Book-Childcraft International, Inc.

- Field CableMart, Inc.
Delaware*, Illinois
- Field Enterprises International, Inc.
Delaware*
- Canada, Ltd.
Canada
- World Book-Childcraft International Sales Corporation
Delaware*, Illinois
- World Book Encyclopedia, Inc.
Delaware*, Illinois, Indiana

* State or jurisdiction of incorporation

Foreign Subsidiaries of World Book-Childcraft International, Inc.

Jurisdictions where incorporated and/or qualified:

Field Educational Enterprises of Australasia, Pty, Ltd.
 Australian Capital Territory, New South Wales, Victoria,
 Queensland, South Australia, Tasmania, Western Australia;
 Northern Territory, New Zealand and Papua, New Guinea.

Lampula Pty, Ltd.—(Dormant Company)
 New South Wales

Field Discovery Pty, Limited
 New South Wales, South Australia, Tasmania

Field Educational Enterprises of Australasia (Finances)
 Limited (Public Co.)
 New South Wales

Kiliba Pty. Ltd.
 New South Wales, Australian Capital Territory, Tasmania;
 Northern Territory, South Australia

The World Book Company Limited—(Dormant Company)
 England

Le Livre du Monde S.A.
 France

**Deutsche Field Enterprises Educational Corporation (no
 shares authorized or issued)**
 Germany

Nihon Childcraft, K. K.
 Japan

EXHIBIT D
THE SCOTT & FETZER COMPANY
ANALYSIS OF OUTSTANDING DEBT
 (Excluding Intercompany)
 August 31, 1978

Division and Type of Loan	Payable	Interest Rate	Payment Schedule	Long-Term Debt	
				Current Portion	After One Year
Adult Mortgage note 1979	Cleveland Trust Bank	5½%	\$2,360/mo.*	\$ 25,900	\$ 6,100(2)
American-Lincoln Insurance Company Loan—1980	Prudential	6%	\$200,000/Dec. 31	200,000	700,000(3)
Corporate Office 9% notes due 1985	National City Bank Trustee	9%			30,000,000*(6)
Lease/Purchase Agmt.—1981	1st Nat'l. Bank of Memphis	4¼-5¼%	Annual (November)	80,000	240,000(4)
Lease/Purchase Agmt.—1988	Mercantile Bank	4¼%	Annual (June)	9,000	95,000(4)
Leases under FASB 13				806,400	7,267,547(5)
Purchase Notes—1987	Wayne Home Equipment Shareholders	8%	Annual (February 1)	948,400	3,715,800(8)
France Mortgage note—1981	Cleveland Trust Bank	5½%	\$4,500/mo.*	46,200	82,500(2)
Powerwinch/Ja-Son Lease/Purchase Agmt.—1985	Conn. Bank & Trust Co.	7.65%			2,400,000(4)
Wayne Home Equipment Debentures	Various Individuals	7%	\$172,000 7/1/80 72,000 11/1/81		244,000(7)
Western Mortgage note—11/1/81	Lorain National Bank	6½%	\$2,375/mo.*	22,700	42,900(2)
				<u>\$2,138,600</u>	<u>\$44,793,847</u>

* Includes Interest

SUMMARY

	Current	Capitalized Leases	Other	Total Non-Current
(2) Mortgage notes—5½ to 8% maturities to 1982	\$ 94,800	\$ —	\$ 131,500	
(3) Insurance Company Loan 6% maturities to 1980	200,000	—	700,000	
(4) Obligation is under Lease/Purchases; 4¼% to 8%; maturi- ties to 1988	89,000	2,735,000	—	
(5) Leases under FASB 13	806,400	7,267,547	—	
(6) 9% notes due 1985	—	—	30,000,000	
(7) Wayne	—	—	244,000	
(8) Shareholders of Wayne	948,400	—	3,715,800	
	<u>\$2,138,600</u>	<u>\$10,002,547</u>	<u>\$34,791,300</u>	<u>\$44,793,847</u>
Deferred Compensation	\$ 16,450			

WORLD BOOK-CHILDCRAFT INTERNATIONAL, INC.
 Guaranties as of July 31, 1978

Debtor	Contingent Liability Under Guaranties
Il Libro del Mondo, S.p.A., Fincrital, S.p.A., and Field Educational Italia, S.p.A.	\$ 5,526,392
Field Educational Enterprises of Australasia, Pty.	4,049,500
Field Enterprises International, Inc.	10,367,944
Deutsche Field Enterprises Educational Corporation, GmbH.	291,387
Pan Korea Book Corporation	10,500
	<u>\$20,245,723</u>
Deferred Compensation	\$ 8,127,000

EXHIBIT E

[Minimum Terms for Subordinated Funded Debt]

Subordinated Funded Debt* of the Company or any Subsidiary shall be evidenced by a note or other written obligation which shall contain substantially the following provisions:

1. The payment of any and all Subordinated Debt is expressly subordinated to the extent and in the manner set forth in paragraphs 2 to 4, inclusive, hereof to Senior Debt. The term "Subordinated Debt" shall mean and include the principal of and interest on all liabilities of the Company or any Subsidiary, or any combination thereof, to the holder ("Holder") of such Subordinated Debt, direct or contingent, joint, several or independent, now or hereafter existing, due or to become due to, or held or to be held by, the Holder, whether created directly or acquired by assignment or otherwise, including, without limiting the generality of the foregoing,

The term "Senior Debt" shall mean and include the principal of and premium, if any, and interest on all Funded Debt of the Company or any Subsidiary that is not subordinated in accordance with the provisions hereof, direct or contingent, joint, several or independent, now or hereafter existing, due or to become due, whether created directly or acquired by assignment or otherwise including, without limiting the generality of the foregoing, all indebtedness of the Company or any Subsidiary for principal of and interest on the Notes issued under and pursuant to the provisions of the Note Agreement (the "Agreement") dated August , 1978, between the Company and The Prudential Insurance Company of America (including extensions, renewals and refundings thereof, whether or not the principal amount is increased).

2. If there shall occur an Event of Default or Default, as defined in paragraph 10 of the Agreement, then, unless and until such Event of Default or Default shall have been cured, or unless and until Senior Debt shall be paid in full, the Holder will not receive or accept any payment from the Company in respect of Subordinated Debt.

3. In the event that the Holder shall receive any payment on Subordinated Debt which the Holder is not entitled to receive under the provisions of the foregoing paragraph 2, the Holder will hold any amount so received in trust for the benefit of the owner or owners of the Senior Debt and will forthwith turn over such payment to the owner or owners of the Senior Debt in the form received to be applied on Senior Debt.

4. In the event of any liquidation, dissolution or other winding up of the Company or any Subsidiary, or in the event of any receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization or arrangement with creditors, whether or not pursuant to bankruptcy laws, sale of all or substantially all of the assets or any other marshalling of the assets and liabilities of the Company or any Subsidiary, (i) Senior Debt shall first be paid in full before the Holder shall be entitled to receive any moneys, dividends or other assets in any such proceeding, and (ii) the Holder will at the request of the owner or owners of a majority of the principal amount of the Senior Debt file any claim, proof of claim or other instrument of similar character necessary to enforce the obligations of the Company or any Subsidiary in respect of Subordinated Debt and will hold in trust for the owner or owners of the Senior Debt and pay over to the owner or owners of the Senior Debt, in the form received, to be applied on Senior Debt, any and all moneys, dividends or other assets received in any such proceeding on account of Subordinated Debt, unless and until Senior Debt shall be paid in full. In the event that the Holder shall fail to take such action so requested, a representative designated for such purpose by the owner or owners of a majority of the outstanding principal

* All terms used herein that are defined in the Note Agreement between The Scott & Fetzer Company and The Prudential Insurance Company of America dated August 31, 1978 shall have the meanings as set forth in said Agreement.

amount of the Senior Debt may, as attorney-in-fact for the Holder, take such action on behalf of the Holder, and the Holder hereby appoints such representative as attorney-in-fact for the Holder to demand, sue for, collect and receive any and all such moneys, dividends or other assets and give acquittance therefor and to file any claim, proof of claim or other instrument of similar character and to take such other action (including acceptance or rejection of any plan of reorganization or arrangement) in the name of the owner or owners of the Senior Debt or in the name of the Holder, as such representative may deem necessary or advisable for the enforcement of these subordination provisions; and the Holder will, upon request, execute and deliver to such representative such other and further powers of attorney or other instruments as such representative may request in order to accomplish the foregoing.

5. The owner or owners of the Senior Debt may, at any time and from time to time, without the consent of or notice to the Holder, without incurring responsibility to the Holder, and without impairing or releasing any rights of such owner or owners, or any of the obligations of the Holder under these subordination provisions:

(a) Change the amount, manner, place or terms of payment or change or extend the time of payment of or renew or alter Senior Debt or amend the Agreement or any other agreement relating to the issuance of any Senior Debt in any manner or enter into or amend in any manner any other agreement relating to Senior Debt;

(b) Sell, exchange, release or otherwise deal with any property by whomsoever at any time pledged or mortgaged to secure, or howsoever securing, Senior Debt;

(c) Release anyone liable in any manner for the payment or collection of Senior Debt;

(d) Exercise or refrain from exercising any rights against the Company, any Subsidiary, or any other Person (including the Holder); and

(e) Apply any sums by whomsoever paid or however realized to Senior Debt.

6. Notice of acceptance of the agreement contained in this letter is hereby waived.

7. The Holder will cause all Subordinated Debt to be evidenced by a note or other instrument which shall bear upon its face a statement or legend to the effect that such note or other instrument is subordinated to Senior Debt in the manner and to the extent set forth herein, and will mark its books to show that the Subordinated Debt is so subordinated to Senior Debt.

8. The Holder represents and warrants that (i) neither the execution nor delivery of the instrument containing these subordination provisions, nor fulfillment nor compliance with the terms and provisions hereof will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, any agreement or instrument to which the Holder is now subject.

9. That portion of the Senior Debt evidenced by the Notes is intended to be construed and enforced in accordance with the laws of the State of Illinois, and the Holder accordingly agrees that the instrument containing these subordination provisions shall be construed and enforced in accordance with, and the rights of the parties thereto shall be governed by, the law of the State of Illinois.

EXHIBIT F
FUNDED EMPLOYEE BENEFIT PLANS
Pension Plans

THE SCOTT & FETZER COMPANY

The Scott & Fetzer Company General Pension Plan

Adalet-PLM

The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Adalet Division
 Adalet Division of The Scott & Fetzer Company Profit Sharing Trust Agreement

The Scott & Fetzer Company Pension Plan for Hourly Employees of Its PLM Products
 Division

American Lincoln

American Lincoln Division of The Scott & Fetzer Company Union Employees Pension Plan

Campbell-Hausfeld

Campbell Hausfeld Division of The Scott & Fetzer Company Profit Sharing Trust Plan
 Melben Products Company Profit Sharing Trust Plan

Cardinal

The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Cardinal Plastics
 Division

Carefree

The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Carefree Division

Douglas

Douglas Division of The Scott & Fetzer Company Employees' Pension Plan
 Pension Agreement Between Kingston Division of The Scott & Fetzer Company and Metal
 Polishers, Buffers, Platers & Helpers International Union
 Pension Agreement Between Kingston Division of The Scott & Fetzer Company and Local
 Union #1312—United Steelworkers of America

France

France Division of The Scott & Fetzer Company and I.B.E.W. Local 1377, AFL-CIO
 Employees Retirement Plan (*insured plan by Occidental Life Insurance Company of California*)
 France Division of The Scott & Fetzer Company Employees' Profit Sharing Trust
 The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Kingston Division
 (Smithville, Tennessee Plant)

Halex

Halex Division of The Scott & Fetzer Company Employees' Profit Sharing Retirement Plan

Kirby

The George H. Scott Pension Plan of The Scott & Fetzer Company
 The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Kirby Company
 Division Andrews, Texas, Plant

Meriam

Meriam Instrument Division of The Scott & Fetzer Company Profit Sharing Trust Agreement
 Meriam Instrument Division of The Scott & Fetzer Company Pension Trust (Plan B)
 The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Meriam Instrument
 Division

Powerwinch/Ja-Son

Powerwinch/Ja-Son Division of The Scott & Fetzer Company Profit Sharing Plan
The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Powerwinch/Ja-Son Division

Quiltrut

Quiltrut Division of The Scott & Fetzer Company Employees' Profit Sharing Trust

Stahl

The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Stahl Metal Products Division (Cleveland Plant)

The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Stahl Metal Products Division (Cardington Plant)

The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Stahl Metal Products Division (Durant, Okla. Plant)

The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Metalsmiths Division
Ohio Metalsmiths Division of The Scott & Fetzer Company Profit Sharing Trust Agreement

Streamway

The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Streamway Products Division

Wayne Home Equipment

Wayne Home Equipment Hourly Pension Plan

Wayne Home Equipment Salary Pension Plan

Western Enterprises

Pension Plan for Hourly Employees of Its Western Enterprises Division

Valley Industries

Valley Tow Rite Division of The Scott & Fetzer Company Group Retirement Plan (*insured plan by The Equitable Life Assurance Society of the United States*)

Trust Agreement Creating S & A Electronics Division of The Scott & Fetzer Company Administrative Employees Benefit Plan

Canada Lighting Division

SFZ International Ltd. General Pension Plan

WORLD BOOK-CHILDCRAFT INTERNATIONAL, INC., WORLD BOOK ENCYCLOPEDIA, INC. AND WORLD BOOK LIFE INSURANCE COMPANY

Retirement Plan

Employee Thrift Plan

Supplemental Retirement Plan

Profit Sharing Plan

British Isles Branch

Pension Plan

WORLD BOOK-CHILDCRAFT OF CANADA, LTD.

Deferred Profit Sharing Plan

FIELD EDUCATIONAL ENTERPRISES OF AUSTRALASIA, PTY.

Superannuation Plan

Joe Weber

221

The Prudential Insurance Company of America
Corporate Office
Prudential Plaza, Newark, New Jersey 07101

December 21, 1978


Mr. J. F. Bradley
Executive Vice President-Finance
The Scott & Fetzer Company
14600 Detroit Avenue
Lakewood, OH 44107

Dear Jeff:

Enclosed is a modification covering the Merchandise Mart lease.

I hope everything goes well at next week's closing.

Sincerely,


John T. Uecker
Vice President, Direct Placement

JTU:ap

Enclosure



The Prudential Insurance Company of America
Corporate Home Office
Prudential Plaza, Newark, New Jersey 07101

August 31, 1978

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

Attention: J. F. Bradley
Executive Vice President - Finance

Gentlemen:

Reference is made to the agreement between The Scott & Fetzer Company ("Scott & Fetzer") and The Prudential Insurance Company of America ("Prudential") dated August 31, 1978 (the "Agreement") with respect to \$40,000,000 aggregate principal amount of 9.50% Notes to be issued by the Company to Prudential to be due August 31, 1998.

Prudential hereby agrees with the Company as follows:

1. Notwithstanding the provisions of paragraph 6C(9) of the Agreement, Scott & Fetzer may enter into the letter agreement dated August 31, 1978 between Scott & Fetzer and Field Enterprises, Inc., relating to the sublease between Field Enterprises, Inc. and World Book-Childcraft International, Inc. with respect to certain property located at The Merchandise Mart.
2. Notwithstanding the provisions of paragraph 10D(1) of the Agreement, the obligations of Scott & Fetzer under the letter agreement referred to in paragraph (1) hereinabove shall not be deemed to constitute Funded Debt.

Very truly yours,

THE PRUDENTIAL INSURANCE COMPANY
OF AMERICA

By David G. Koester
Vice President

August 31, 1978

Field Enterprises, Inc.
World Book-Childcraft International, Inc.
c/o Field Enterprises, Inc.
401 North Wabash Avenue
Chicago, Illinois 60611

Gentlemen:

Reference is made to the lease (the "lease") dated January 1, 1976 between the undersigned and World Book-Childcraft International, Inc., formerly Field Enterprises Educational Corporation ("World Book") with respect to premises on the 4th and 5th floors of The Merchandise Mart, Chicago, Illinois.

You have informed us that: (i) World Book wishes to assign all of its interest in the lease to Field Enterprises, Inc. ("Field"), which shall assume all of World Book's obligations under the lease; (ii) that upon such assignment, Field wishes to sublease the premises to World Book for a term expiring on December 29, 1985; and (iii) that upon the termination of such sublease, Field wishes to assign all of its interest in the lease to World Book.

We hereby consent to the assignments and sublease referred to in the previous paragraph, copies of which documents are attached hereto. We further agree that: (i) World Book is

Field Enterprises, Inc.
August 31, 1978
Page two.....

hereby released from its obligations to us under the lease during the period between its assignment of the lease to Field and the assignment of the lease by Field to World Book; and (ii) effective upon its assignment of the lease to World Book, in a form substantially identical to the Assignment attached hereto, Field shall be released from its obligations to us under the lease.

Very truly yours,

MERCHANDISE MART OWNERS

By T. V. King

Consented to by Prudential Insurance Company of America

By [Signature]
Asst. Sec.



THE SCOTT & FETZER COMPANY

J.F. Bradley
Executive Vice President-Finance

February 13, 1980

Prudential Insurance Company of America
Prudential Plaza
Newark, New Jersey 07101

Gentlemen:

Reference is made to the negative covenants, particularly Sections 6C(2), 6C(3) and 6C(9), of the Note Agreement dated August 31, 1978 ("Note Agreement") between The Prudential Insurance Company of America ("Prudential") and The Scott & Fetzer Company ("Scott & Fetzer").

World Book Leisure Incorporated, a newly created Delaware corporation ("World Book") which is wholly-owned by World Book-Childcraft International, Inc., a wholly-owned Delaware subsidiary of Scott & Fetzer ("WBCI"), proposes to enter into a Joint Venture Agreement dated as of February 28, 1980 ("Joint Venture Agreement") with UTA-Trocknungsanlagen GmbH ("UTA"), a wholly-owned subsidiary of Bertelsmann A.G. of the Federal Republic of Germany. The Joint Venture Agreement provides inter alia, for (i) the creation of a joint venture in form of a partnership ("Venture") between World Book and UTA, in which World Book and UTA will have a 49% and 51% ownership interest, respectively, (ii) the sale and marketing of books, records and other educational and leisure activities related products or services in the United States and Canada, (iii) the sharing between World Book and UTA, in proportion of their ownership interests, of project costs to be incurred by the Venture in fixed amounts until June of 1981 and thereafter in accordance with budgets to be approved by mutual agreement between World Book and UTA, (iv) the right in UTA, in very limited circumstances, to override a World Book veto in respect of any budget, in which event World Book has the option, in lieu of additional project cost contributions, to take a reduction in its ownership interest in the Venture, (v) the option, at various stages of the Venture until June 1985, for either World Book or UTA to withdraw from the Venture, and thereafter for the participant in the Venture holding less than a 51% ownership interest to withdraw by means of the exercise of a put option requiring the majority participant to purchase all of its ownership interest at an agreed upon formula price and (vi) the execution and delivery by WBCI of a guaranty ("Guaranty") pursuant to which WBCI will guarantee the full and punctual performance in good faith of all of World Book's obligations under the Joint Venture Agreement.

February 13, 1980

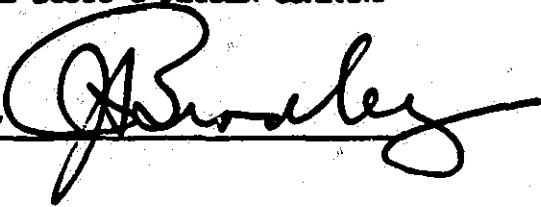
The monies for World Book's proportionate share of the Venture's project costs are presently contemplated to be made available by Scott & Fetzer.

Scott & Fetzer hereby requests your consent pursuant to Section 11C of the Note Agreement for World Book to enter into the Joint Venture Agreement and for NBCI to give its Guaranty, it being understood that Scott & Fetzer will, if required under Section 6C, obtain Prudential's additional consent if any one of the budgets contemplated to be approved by World Book under the Joint Venture Agreement would, if so approved, cause Scott & Fetzer to violate any of the provisions of Section 6C by failing to meet available financial tests under the various exceptions to negative covenants set forth therein.

Please indicate Prudential's consent and agreement to the foregoing by executing and returning to the undersigned an executed counterpart of this letter enclosed herewith.

Very truly yours,

THE SCOTT & FETZER COMPANY

By 

Accepted and agreed to this
___ day of February, 1980

THE PRUDENTIAL INSURANCE
COMPANY OF AMERICA

By David J. Rooster
Vice President

The Prudential Insurance Company of America
Corporate Office
Prudential Plaza, Newark, New Jersey 07101

September 15, 1978

Mr. J. F. Bradley
Executive Vice President-Finance
The Scott & Fetzer Company
14600 Detroit Avenue
Lakewood, Ohio 44107

Dear Jeff:

Please find enclosed a signed consent letter modifying the advances and certain contracts provisions and funded debt definition of our Note Agreement. In order not to include World Book's payments to printers within the restrictions on advances, we redrafted the letter to include this provision as well as the one dealing with certain contracts. If you have any questions, please feel free to get in touch with me.

Best regards.

Sincerely,



Barry A. Solomon
Senior Investment Analyst
Corporate Finance Department

ljb
Enclosure

The Prudential Insurance Company of America
Corporate Office
Prudential Plaza, Newark, New Jersey 07101

August 31, 1978

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

Gentlemen: Attention: J. F. Bradley, Executive Vice President - Finance

Reference is made to the agreement between The Scott & Fetzer Company ("Scott & Fetzer") and The Prudential Insurance Company of America ("Prudential") dated August 31, 1978 (the "Agreement") with respect to \$40,000,000 aggregate principal amount of 9.50% Notes to be issued by the Company to Prudential to be due August 31, 1998.

Prudential hereby agrees with the Company as follows:

- (1) Notwithstanding the provisions of paragraph 6C(3) and 6C(9) of the Agreement, and in addition to the permission granted therein, World Book-Childcraft International, Inc. may make advances to printers of its publications, as is customary in the normal course of its business.
- (2) Notwithstanding the provisions of paragraph 6C(9) of the Agreement, the Company's disposal of certain assets in exchange for subordinated debt in an outstanding amount of approximately \$4,400,000 at July 31, 1978 shall not be deemed to constitute contracts of the type prohibited by said paragraph 6C(9).
- (3) Notwithstanding the provisions of paragraph 10D(1) of the Agreement, the advances referred to in paragraph (1) hereinabove and the type of transaction referred to in paragraph (2) hereinabove shall not be deemed to constitute Funded Debt.

Very truly yours,

THE PRUDENTIAL INSURANCE COMPANY
OF AMERICA

By David G Koester
Vice President

The Prudential Insurance Company of America
Corporate Office
Prudential Plaza, Newark, New Jersey 07101

September 15, 1978

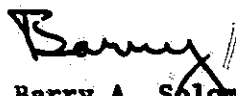
Mr. J. F. Bradley
Executive Vice President-Finance
The Scott & Fetzer Company
14600 Detroit Avenue
Lakewood, Ohio 44107

Dear Jeff:

Please find enclosed a signed consent letter modifying the advances and certain contracts provisions and funded debt definition of our Note Agreement. In order not to include World Book's payments to printers within the restrictions on advances, we redrafted the letter to include this provision as well as the one dealing with certain contracts. If you have any questions, please feel free to get in touch with me.

Best regards.

Sincerely,



Barry A. Solomon
Senior Investment Analyst
Corporate Finance Department

ljb
Enclosure



THE SCOTT & FETZER COMPANY

Robert C. Weber
Secretary & General Counsel

September 21, 1978

William H. Steinbrink, Esq.
Jones, Day, Reavis & Pogue
1700 Union Commerce Bldg.
Cleveland, Ohio

Re: Prudential Insurance Company of America

Dear Bill:

For your information, enclosed is a copy of Barry Solomon's September 15, 1978 letter plus attachment which is self-explanatory.

Very truly yours,

Robert C. Weber

RCW:g

Enc. (s)

WORLD BOOK FINANCE, INC.

\$50,000,000

10.00% NOTES DUE AUGUST 31, 1998

Note Agreement

WITH

THE PRUDENTIAL INSURANCE COMPANY
OF AMERICA

Dated: August 31, 1978

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(Not Part of Agreement)

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WORLD BOOK FINANCE, INC.
Merchandise Mart Plaza
Chicago, Illinois 60606

August 31, 1978

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA
Prudential Plaza
Newark, New Jersey 07101

Attention: Vice President in Charge of the Corporate Finance Department

Gentlemen:

The undersigned, World Book Finance, Inc., a Delaware corporation (herein called the "Company"), hereby agrees with you as follows:

SECTION 1. ISSUE OF NOTES

1. **Authorization of Issue of Notes.** The Company will authorize the issue of its promissory notes (herein, together with any notes issued hereunder in substitution therefor, called the "Notes") in the aggregate principal amount of \$50,000,000, to be dated the respective dates of issue thereof, to mature August 31, 1998, to bear interest on the unpaid balances thereof from the respective dates thereof until the principal thereof shall become due and payable at the rate of 10.00% per annum, and to be substantially in the form of Exhibit A hereto attached. The term "Note" shall mean one of the Notes. Concurrently with the execution and delivery of this Agreement, the Company is entering into an agreement with The First National Bank of Chicago (the "Bank Loan Agreement"), under which said Bank is agreeing to lend to the Company and the Company is agreeing to borrow from said Bank the principal amount of \$25,000,000, to be evidenced by a promissory note (the "Bank Note") in said principal amount, bearing interest at the rate of 8.75% per annum during the first four years from the date of issue thereof and thereafter at the rate of 112% of the rate of interest charged by said Bank from time to time with respect to prime commercial borrowers, and maturing August 31, 1986.

SECTION 2. PURCHASE AND SALE OF NOTES

2. **Purchase and Sale of Notes.** Subject to terms and conditions herein set forth, the Company hereby agrees to sell to you and you agree to purchase from the Company two Notes, each registered in your name, in the principal amounts of \$5,500,000 and \$44,500,000 respectively, at 100% of such aggregate principal amount. The Company will deliver each Note to you at your offices at Prudential Plaza, Chicago, Illinois, against payment of the purchase price thereof by delivery of your check in Chicago Clearing House funds, or at your option, by credit to the Company's account at The First National Bank of Chicago (Account #59-15155) or such other account in the United States as the Company may designate to you in writing, on the date of closing, which shall be August 31, 1978, or such earlier date as the Company shall designate to you by not less than 5 days' notice in writing.

SECTION 3. CONDITIONS

3. **Conditions of Closing.** Your obligation to purchase and pay for the Notes is subject to the satisfaction, on or before the date of closing, of the following conditions:

3A. **Opinion of Purchaser's Special Counsel.** You shall have received from Schiff Hardin & Waite, who are acting as special counsel for you in connection with this transaction, a favorable

opinion satisfactory to you as to: (i) the due organization, existence and good standing of the Company; (ii) the due authorization (including any consent of shareholders required by law or by the charter or by-laws of the Company), execution and delivery by the Company and the validity of this Agreement, the Notes and the Operating Agreement (hereinafter defined); (iii) the absence of any requirement to register the Notes under the Federal Securities Act of 1933, as amended; and (iv) such other matters incident to the matters herein contemplated as you may reasonably request, including the form of all papers and the validity of all proceedings.

3B. Opinion of Company's Counsel. You shall have received from Jones, Day, Reavis & Pogue, counsel for the Company, a favorable opinion satisfactory to you and your special counsel as to the matters specified in clauses (i) (ii), (iii) and (iv) of paragraph 3A and as to: (i) the corporate power of the Company to carry on its business as then being conducted; (ii) the due qualification of the Company as a foreign corporation to transact business and its existence in good standing in Illinois, which is the only jurisdiction in which the ownership of property or the nature of the business transacted by it makes such qualification necessary; and (iii) the execution and delivery of the Operating Agreement, this Agreement and the Notes, the offering, issuance and sale of the Notes and fulfillment of and compliance with the respective provisions hereof and thereof not conflicting with, or resulting in a breach of the terms, conditions or provisions of, or constituting a default under, or resulting in any violation of, or resulting in the creation of any Lien upon any of the properties or assets of S & F, WBCI, or the Company pursuant to, or requiring any authorization, consent, approval, exemption or other action by or any notice to or filing with any court or administrative or governmental body (other than routine filings after the date of such opinion with the Securities and Exchange Commission or State Blue Sky authorities) pursuant to, the charter or by-laws of S & F, WBCI, or the Company, any applicable law (including any securities or Blue Sky law), statute, rule or regulation or (insofar as is known to such counsel after having made due inquiry with respect thereto) any agreement, instrument, order, judgment or decree to which S & F, WBCI, or the Company is subject.

3C. Representations and Warranties; No Default. The representations and warranties contained in Section 8 shall be true on and as of the date of closing, except to the extent of changes caused by the transactions herein contemplated; there shall exist on the date of closing no Event of Default or Default; and the Company shall have delivered to you an Officer's Certificate, dated the date of closing, to both such effects.

3D. Accountants' Letters. The Company shall have delivered to you letters from the respective independent public accountants named in paragraph 8B, addressed to you, stating that such certifying firms have reviewed the provision for Federal and State income taxes of S & F and WBCI contained in the respective financial statements furnished to you pursuant to paragraph 8B, and that, in the opinion of such respective firms, the consolidated balance sheet included in such financial statements includes reasonably adequate provision for all unpaid Federal and State income taxes for the fiscal year then most recently ended and for all fiscal years ended prior thereto which have not been examined and reported on by the taxing authorities or closed by applicable statute.

3E. Purchase Permitted by Applicable Laws. The purchase of and payment for the Notes to be purchased by you on the date of closing on the terms and conditions herein provided (including the use of the proceeds of the Notes by the Company) shall not be prohibited by any applicable law or governmental regulation (including, without limitation, Regulations G, T and X of the Board of Governors of the Federal Reserve System) and shall not subject you to any tax, penalty, liability or other onerous condition under or pursuant to any applicable law or governmental regulation relating to the extension of credit, and you shall have received such certificates or other evidence as you may request to establish compliance with this condition.

3F. Proceedings. All corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incident thereto shall be satisfactory in

substance and form to you and your special counsel, and you and your special counsel shall have received all such counterpart originals or certified or other copies of such documents as you or they may reasonably request.

3G. Operating Agreement. The Company shall have entered into an operating agreement (the "Operating Agreement"), substantially in the form of Exhibit B attached hereto with WBCI, Encyclopedia, and S & F.

3H. Bank Loan Agreement. Concurrently with the closing the Company shall borrow \$25,000,000 pursuant to the Bank Loan Agreement.

3I. S & F Note Agreement; Acquisition. S & F shall have (i) entered into an agreement with you (the "S & F Note Agreement") under which you shall have agreed to lend to S & F and S & F shall have agreed to borrow from you the principal amount of \$40,000,000, to be evidenced by one or more promissory notes, bearing interest at the rate of 9.50% per annum, due August 31, 1998, and (ii) acquired all of the issued and outstanding shares of stock of any class of WBCI.

3J. Purchase of Receivables. The Company shall have purchased from WBCI and Encyclopedia not less than \$90,000,000 of Net Eligible Receivables.

3K. Capitalization. The aggregate amount of the common equity of the Company shall be not less than \$26,000,000.

3L. Letter Agreement. The Company shall have delivered to you a letter agreement from S & F, Encyclopedia and WBCI, addressed and in form and substance satisfactory to you, to the effect that said companies (i) will perform their obligations under the Operating Agreement, (ii) will deliver to you interim and year-end financial statements, and (iii) will not transfer or dispose of, any of the shares of capital stock of the Company, or permit any encumbrance thereon.

SECTION 4. PREPAYMENTS

4. Prepayments. The Notes shall be subject to prepayment with respect to the required prepayments specified in paragraph 4A and also under any one or more of the circumstances set forth in paragraphs 4B to 4D, inclusive.

4A. Required Prepayments. Until the Notes shall be paid in full, the Company shall apply pro rata to the prepayment of the Notes, without premium, the sum of \$2,625,000 on August 31 in each of the years 1980 to 1997, inclusive, and shall pay the then remaining outstanding balance thereof (being \$2,750,000) on August 31, 1998, and such principal amounts of the Notes, together with interest thereon to the prepayment dates, shall become due on such prepayment dates.

4B. Annual Optional Prepayment Without Premium. The Notes shall be subject to prepayment pro rata, at the option of the Company, without premium, on any date on which a prepayment is required to be made by the provisions of paragraph 4A, in amounts (even multiples of \$100,000) not exceeding the amount required to be prepaid on such date pursuant to the provisions of paragraph 4A, such option to be non-cumulative; provided, however, that the Company may not make prepayment of the Notes pursuant to this paragraph 4B unless (i) in the case of any such prepayment of the Notes prior to September 1, 1988, such prepayment is not being made as a part of a refunding or anticipated refunding operation, by the application, directly or indirectly, of borrowed funds, either (a) having an interest cost to the Company (computed in accordance with accepted financial practice) of less than 10.00% per annum, or (b) having a weighted average life to final maturity that is shorter than the weighted average life to final maturity of the Notes, (ii) the aggregate principal amount of all prepayments theretofore and then being made pursuant to this paragraph 4B shall not exceed \$12,500,000, and (iii) the Company

shall have delivered to you an Officer's Certificate to all such effects. Any prepayment made pursuant to this paragraph 4B shall be applied in anticipation of and satisfaction of the prepayments required to be made by the provisions of paragraph 4A in the inverse order of their maturities.

4C. **Optional Prepayment in Whole or in Part With Premium.** The Notes shall be subject to prepayment, pro rata, in whole or from time to time in part (in multiples of \$100,000), at the option of the Company, at any time on not less than 30 days' notice at the following applicable percentage of the principal amount so prepaid:

If prepaid during the 12 months' period ending on August 31,

<u>Year</u>	<u>Percentage</u>	<u>Year</u>	<u>Percentage</u>
1979	110.00%	1989	105.00%
1980	110.00	1990	104.44
1981	109.44	1991	103.89
1982	108.89	1992	103.33
1983	108.33	1993	102.78
1984	107.78	1994	102.22
1985	107.22	1995	101.67
1986	106.67	1996	101.11
1987	106.11	1997	100.56
1988	105.56	1998	100.00

provided, however, that the Company may not make prepayment of the Notes pursuant to this paragraph 4C unless, in the case of any such prepayment of the Notes prior to September 1, 1988, such prepayment is not being made either (a) as a part of a refunding or anticipated refunding operation by the application, directly or indirectly, of borrowed funds either (i) having an interest cost to the Company (computed in accordance with accepted financial practice) of less than 10.00% per annum, or (ii) having a weighted average life to final maturity that is shorter than the weighted average life to final maturity of the Notes, or (b) with funds derived or to be derived from loans, advances, or capital contributions to the Company or a Subsidiary by S & F or an Affiliate or from the sale of capital stock of the Company or a Subsidiary to S & F or WBCI unless (1) such funds were not derived as a part of a refunding or anticipated refunding operation by the application, directly or indirectly, of borrowed funds either (y) having an interest cost to the borrower (computed in accordance with accepted financial practice) of less than 10.00% per annum, or (z) having a weighted average life to final maturity that is shorter than the weighted average life to final maturity of the Notes, and (2) substantially simultaneously with the prepayment of the Notes a prepayment is made on all other Indebtedness of the Company, S & F and any Affiliate that is payable more than one year from the date of creation thereof and that is subject to prepayment (with or without premium or penalty), in the principal amount which bears the same ratio to the unpaid principal amount of all Indebtedness so payable (whether or not subject to prepayment) as the principal amount of the prepayment then being made under this paragraph 4C bears to the aggregate unpaid principal amount of the Notes, and (iii) the Company shall have delivered to you an Officer's Certificate to all such effects. Any prepayment made pursuant to this paragraph 4C shall be applied in anticipation of and satisfaction of the prepayments required to be made by the provisions of paragraph 4A in the inverse order of their maturities.

4D. **Optional Prepayment; Declining Receivables.** In the event that, at the end of three successive calendar months, the aggregate amount of Net Eligible Receivables owned by the Company and its Subsidiaries shall have averaged for said three-month period 66 2/3% or less of the highest average

amount thereof outstanding at the end of any three successive calendar months after August 31, 1978, the Company may prepay the principal amount of the Notes then outstanding, in whole or pro rata in part (in multiples of \$100,000), by payment of the principal amount so prepaid together with interest accrued thereon to the date of prepayment, plus a premium equal to one-half of the then applicable premium provided in paragraph 4C; provided, however, that the Company may not make prepayment of the Notes pursuant to this paragraph 4D unless (i) such declining receivables are the result of transactions in the normal course of business, occur for reasons beyond the control of the Company, S & F and its Affiliates, and are not undertaken by the Company with the primary intention of facilitating prepayment pursuant to this paragraph 4D, (ii) such prepayment is not being made as a part of a refunding or anticipated refunding by the application, directly or indirectly, of borrowed funds, (iii) the Company shall have given notice pursuant to paragraph 4E within 30 days after the end of such three successive calendar months of its intention to prepay the Notes, (iv) substantially simultaneously with the prepayment of the Notes the Company shall have made a prepayment of all other Indebtedness subject to prepayment (with or without premium or penalty) in the principal amount which bears the same ratio to the unpaid principal amount of such other Indebtedness as the principal amount of the prepayment then being made under this paragraph 4D bears to the aggregate unpaid principal amount of the Notes, and (v) the Company shall have delivered to you an Officer's Certificate to all such effects and setting forth in reasonable detail the computations evidencing compliance with the foregoing provisions of this paragraph 4D. Any prepayment made pursuant to this paragraph 4D shall be applied in anticipation of and satisfaction of the prepayments required to be made by the provisions of paragraph 4A in the inverse order of their maturities.

4E. Notice of Prepayment. The Company shall give you written notice of each prepayment, other than prepayments pursuant to paragraph 4A, not less than 30 days prior to the prepayment date, specifying such prepayment date, the principal amount of the Notes to be prepaid on such date and the paragraph pursuant to which such prepayment is to be made, whereupon the principal amount of the Notes specified in such notice, together with interest thereon to the prepayment date and together with the premium, if any, herein provided, shall become due and payable on such prepayment date.

SECTION 5. AFFIRMATIVE COVENANTS

5A. Financial Statements. The Company covenants that, so long as you shall hold or be obligated to purchase any Note, it will deliver to you in duplicate

(i) as soon as practicable and in any event within 45 days after the end of each quarterly period (other than the last quarterly period) in each fiscal year, a consolidated and consolidating statement of income and statement of changes in financial position of the Company and its Subsidiaries for the period from the beginning of the current fiscal year to the end of such quarterly period, and a consolidated and consolidating balance sheet of the Company and its Subsidiaries as at the end of such quarterly period, setting forth in each case in comparative form figures for the corresponding period in the preceding fiscal year, all in reasonable detail and certified by an authorized financial officer of the Company, subject to changes resulting from year-end adjustments;

(ii) as soon as practicable and in any event within 90 days after the end of each fiscal year, a consolidating and consolidated statement of income and consolidated statement of changes in financial position of the Company and its Subsidiaries for such year, and a consolidating and consolidated balance sheet of the Company and its Subsidiaries as at the end of such year, setting forth in each case in comparative form corresponding consolidated figures from the preceding annual audit, all in reasonable detail and satisfactory in scope to you and, as to the consolidated statements, certified to the Company by independent public accountants of recognized standing selected by the Company whose certificate shall be in scope and substance satisfactory to you;

(iii) as soon as practicable and in any event within 45 days after the end of each quarterly period (other than the last quarterly period) in each fiscal year, a consolidated and consolidating

statement of income and statement of changes in financial position of S & F and its subsidiaries for the period from the beginning of the current fiscal year to the end of such quarterly period, and a consolidated and consolidating balance sheet of S & F and its subsidiaries as at the end of such quarterly period, setting forth in each case in comparative form figures for the corresponding period in the preceding fiscal year, all in reasonable detail, consistent with the practices and procedures applied in preparation of the interim financial statements of S & F referred to in paragraph 8A, and certified by an authorized financial officer of S & F, subject to changes resulting from year-end adjustments;

(iv) as soon as practicable and in any event within 90 days after the end of each fiscal year, a consolidating and consolidated statement of income and consolidated statement of changes in financial position of S & F and its subsidiaries for such year, and a consolidating and consolidated balance sheet of S & F and its subsidiaries as at the end of such year, setting forth in each case in comparative form corresponding consolidated figures from the preceding annual audit, all in reasonable detail, consistent with the practices and procedures applied in preparation of the annual financial statements of S & F referred to in paragraph 8A, and, as to the consolidated statements, certified to S & F by independent public accountants of recognized standing selected by S & F, which certificate shall be based upon an examination made in accordance with generally accepted auditing standards;

(v) promptly upon transmission thereof, copies of all registration statements (without exhibits) and all reports which it or any Subsidiary files with the Securities and Exchange Commission (or any governmental body or agency succeeding to the functions of the Securities and Exchange Commission); and

(vi) with reasonable promptness and to the best of its ability, such other financial data (including financial data with respect to S & F and its Affiliates) as you may reasonably request.

Together with each delivery of financial statements required by clause (i) above, the Company will deliver to you an Officer's Certificate stating that the Company's methods of determining unearned finance charges, if any, and establishing the adequacy of the reserve for uncollectible accounts conforms to generally accepted accounting principles, and that, on the basis of past experience of the Company, the reserve for uncollectible accounts contained in the balance sheet as at the end of such fiscal period is adequate. Together with each delivery of financial statements required by clauses (i) and (ii) above, the Company will deliver to you an Officer's Certificate setting forth (except to the extent specifically set forth in such financial statements) the aggregate amount of interest accrued on Indebtedness of the Company and Subsidiaries (if any) during the fiscal period covered by such financial statements, the aggregate amounts of depreciation on physical property charged on the books of the Company and Subsidiaries (if any) during such fiscal period, the amount of Receivables, Net Eligible Receivables, Adjusted Net Worth, Senior Indebtedness, Senior Subordinated Indebtedness, and Junior Subordinated Indebtedness of the Company and its Subsidiaries as of the end of such fiscal period, the aggregate amount which banks shall have agreed to lend the Company and its Subsidiaries under established lines of credit or revolving credits, and the amounts borrowed thereunder, as of the end of such fiscal period, and the aggregate amount of Fixed Charges of the Company and its Subsidiaries for such fiscal period, and stating that there exists no Event of Default or Default, or, if any such Event of Default or Default exists, specifying the nature thereof, the period of existence thereof and what action the Company proposes to take with respect thereto. Together with each delivery of financial statements required by clause (ii) above, the Company will deliver to you a certificate of said accountants stating that they have examined the Company's methods for establishing the adequacy of the reserve for uncollectible accounts and dealer reserves and in their opinion such methods conform to generally accepted accounting principles and, on the basis of past experience of the Company, the dealer reserve and reserve for uncollectible accounts contained in the balance sheet as at the end of such fiscal year is reasonable, and that in making the audit necessary to the certification of such financial statements, they have obtained no knowledge of any Event

of Default or Default, or, if any such Event of Default or Default exists, specifying the nature and period of existence thereof. The Company also covenants that forthwith upon the President or chief financial officer of the Company obtaining knowledge of an Event of Default or Default under this Agreement, it will deliver to you an Officer's Certificate specifying the nature thereof, the period of existence thereof, and what action the Company proposes to take with respect thereto. You are hereby authorized to deliver a copy of any financial statement delivered to you pursuant to this paragraph 5A to any regulatory body having jurisdiction over you.

5B. Inspection of Property. The Company covenants that, so long as you shall hold or be obligated to purchase any Note, it will permit any Person designated by you in writing, at your expense, to visit and inspect any of the properties of the Company and its Subsidiaries, to examine the corporate books and financial records of the Company and its Subsidiaries and make copies thereof or extracts therefrom and to discuss the affairs, finances and accounts of any such corporations with the principal officers of the Company, all at such reasonable times and as often as you may reasonably request.

5C. Covenant to Secure Notes Equally. The Company covenants that, if it or any Subsidiary shall create or assume any Lien upon any of its property or assets, whether now owned or hereafter acquired, other than Liens excepted by the provisions of paragraph 6C(1) (unless prior written consent to the creation or assumption thereof shall have been obtained pursuant to paragraph 11C), it will make or cause to be made effective provision whereby the Notes will be secured by such Lien equally and ratably with any and all other Indebtedness thereby secured as long as any such other Indebtedness shall be so secured.

5D. Enforcement of Operating Agreement, etc. The Company covenants that it will (i) perform all its obligations under the Operating Agreement, (ii) enforce the Operating Agreement against WBCI, Encyclopedia and S & F in accordance with its terms, (iii) not assign any of its rights thereunder, and (iv) not agree to terminate the Operating Agreement or to amend or modify any of the terms or provisions thereof or waive any breach of any warranty or covenant contained therein, or consent to the assignment by any other party thereto of any of such other party's rights thereunder.

5E. Possession and Perfection of Rights in Finance Receivables. The Company covenants that, at your request, it will (i) exercise its right under the Operating Agreement to obtain from WBCI and Encyclopedia delivery of all documents relating to Receivables purchased by the Company under the Operating Agreement, (ii) cause the registration, filing and recording of all Receivables purchased by the Company under the Operating Agreement and the assignment thereof as necessary to perfect and preserve the Company's rights and interests therein and in any security therefor, and (iii) take such action as is necessary to collect directly the Receivables.

SECTION 6. NEGATIVE COVENANTS

6A. Dividend Limitation. The Company covenants that it will not pay or declare any dividend on any class of its stock at any time after the date hereof, or make any other distribution on account of any class of its stock, or redeem, purchase or otherwise acquire, directly or indirectly, any shares of its stock, or permit any Subsidiary so to do, (all of the foregoing being herein called "Restricted Payments") unless the aggregate amount of all Restricted Payments theretofore and then being made does not exceed Consolidated Net Earnings subsequent to August 31, 1978. "Consolidated Net Earnings" shall mean consolidated gross revenues of the Company and its Subsidiaries less all operating and non-operating expenses of the Company and its Subsidiaries including all charges of a proper character (including current and deferred taxes on income, provision for taxes on unremitted foreign earnings which are included in gross revenues, and current additions to reserves), but not including in gross revenues any gains (net of expenses and taxes applicable thereto) in excess of losses resulting from the sale, conversion or other disposition of capital assets (i.e., assets other than current assets), any gains resulting from the write-up of assets, any equity of the Company or any Subsidiary in the unremitted earnings of any corporation which is not a Subsidiary, any earnings of any Person acquired by the

Company or any Subsidiary through purchase, merger or consolidation or otherwise for any year prior to the year of acquisition, or any deferred credit representing the excess of equity in any Subsidiary at the date of acquisition over the cost of the investment in such Subsidiary; all determined in accordance with generally accepted accounting principles. There shall not be included in Restricted Payments: (i) dividends paid, or distributions made, in stock of the Company, or (ii) exchanges of stock of one or more classes of the Company for common stock of the Company or for stock of the Company of the same class, except to the extent that cash or other value is involved in such exchange. The term "stock" as used in this paragraph 6A shall include warrants or options to purchase stock.

6B. Certain Restrictions. The Company covenants that it will not permit:

6B(1) Net Eligible Assets—Net Eligible Assets to be less than the following percentage of total Indebtedness less the aggregate of Senior Subordinated Indebtedness and Junior Subordinated Indebtedness held by WBCI and S & F: prior to August 31, 1979, 100%; from August 31, 1979 through August 30, 1980, 105%; and thereafter, 110%;

6B(2) Adjusted Net Worth—Adjusted Net Worth to be less than \$25,000,000;

6B(3) Coverage of Fixed Charges—Consolidated Net Earnings Available for Fixed Charges to be less than 150% of Fixed Charges for any fiscal quarter;

6B(4) Reduction of Senior Indebtedness—Total Senior Indebtedness of the Company and its Subsidiaries to be reduced below the greater of (i) 60% of the highest amount thereof outstanding at the end of any calendar month after August 31, 1978, or (ii) 70% of the highest amount thereof outstanding during the twelve consecutive months immediately preceding such reduction, unless substantially simultaneously with any such or further reduction thereof the Company shall make a prepayment on the Notes, pro rata and without premium, in the amount which bears the same ratio to the aggregate principal amount of the Notes outstanding immediately prior to such prepayment as such reduction or such further reduction of Senior Indebtedness bears to the total amount thereof prior to such prepayment and such reduction or such further reduction.

6C. Lien, Debt and Other Restrictions. The Company covenants that it will not and will not permit any Subsidiary to:

6C(1) Liens—Create, assume or suffer to exist any Lien upon any of its property or assets, whether now owned or hereafter acquired (whether or not provision is made for the equal and ratable securing of the Notes in accordance with the provisions of paragraph 5C), except

(i) Liens for taxes not yet due or which are being actively contested in good faith by appropriate proceedings;

(ii) other Liens incidental to the conduct of its business or the ownership of its property and assets which were not incurred in connection with the borrowing of money or the obtaining of advances or credit, and which do not in the aggregate materially detract from the value of its property or assets or materially impair the use thereof in the operation of its business, including any Liens for payment of judgments that are being actively contested in good faith by appropriate proceedings and execution on which is stayed; and

(iii) Liens on property or assets of a Subsidiary to secure obligations of such Subsidiary to the Company.

6C(2) Indebtedness—Create, incur, assume or suffer to exist any Indebtedness, except

(i) Senior Indebtedness of the Company, including Senior Indebtedness represented by the Notes and the Bank Note, provided that at all times the aggregate outstanding principal amount of Senior Indebtedness shall not exceed 400% of Capital Base;

(ii) Senior Subordinated Indebtedness of the Company, provided that at all times the aggregate outstanding principal amount thereof shall not exceed 50% of the sum of Junior Subordinated Indebtedness and Adjusted Net Worth;

(iii) Junior Subordinated Indebtedness of the Company, provided that at all times the aggregate outstanding principal amount thereof shall not exceed 50% of Adjusted Net Worth;

(iv) unsecured accounts payable and other unsecured liabilities and obligations incidental to the regular operation of business which were not incurred in connection with the borrowing of money or the obtaining of advances or credit and which do not in the aggregate materially detract from the value of its property or assets or materially impair the use thereof in the operation of its business, provided that at all times such accounts payable and other obligations shall not more than 30 days overdue; and

(v) Indebtedness of any Subsidiary to the Company.

6C(3) Loans, Advances, Investments and Contingent Liabilities—Make or permit to remain outstanding any loan or advance to, or guarantee, endorse or otherwise be or become contingently liable, directly or indirectly, in connection with the obligations, stock or dividends of, or own, purchase or acquire any stock, obligations or securities of, or any other interest in, or make any capital contribution to, any Person, except that the Company or any Subsidiary may

(i) make or permit to remain outstanding loans or advances to any Subsidiary;

(ii) own, purchase or acquire prime commercial paper and certificates of deposit in United States commercial banks (having capital resources in excess of \$50,000,000), in each case due within one year from the date of purchase, obligations of the United States Government or any agency thereof, and obligations guaranteed by the United States Government;

(iii) endorse negotiable instruments for collection in the ordinary course of business;

(iv) guarantee short-term bank Indebtedness of any corporation all of the stock of every class of which (except directors' qualifying shares) shall then be owned by the Company, S & F or WBCI, or any combination thereof, and which engages primarily in the business of financing receivables of Foreign Subsidiaries, provided that the amount of such Indebtedness so guaranteed shall constitute Senior Indebtedness;

(v) make or permit to remain outstanding loans or advances to any other Person, provided that the aggregate principal amount of such loans and advances which is in excess of 5% of Consolidated Stockholders' Equity will be deemed not to be Net Eligible Receivables and will be excluded from Adjusted Net Worth.

6C(4) Sale of Stock and Indebtedness of Subsidiaries—Sell or otherwise dispose of, or part with control of, any shares of stock or Indebtedness of any Subsidiary, except, in the case of shares of stock, to the Company or a Subsidiary, and except that all shares of stock and Indebtedness of any Subsidiary at the time owned by or owed to the Company and all Subsidiaries may be sold as an entirety for a cash consideration which represents the fair value (as determined in good faith by the Board of Directors of the Company) at the time of sale of the shares of stock and Indebtedness so sold, provided that the assets of such Subsidiary do not constitute a Substantial Part of the consolidated assets of the Company and all Subsidiaries and that such Subsidiary shall not have contributed a Substantial Part of Consolidated Net Earnings for the three fiscal years (taken as a single period) then most recently ended, and further provided that, at the time of such sale, such Subsidiary shall not own, directly or indirectly, any shares of stock or Indebtedness of any other Subsidiary (unless all of the shares of stock and Indebtedness of such other Subsidiary owned, directly or indirectly, by the Company and all Subsidiaries are simultaneously being sold as permitted by this paragraph 6C(4)) or any Indebtedness of the Company.

6C(5) Merger and Sale of Assets—Merge or consolidate with any other corporation or sell, lease or transfer or otherwise dispose of all or a Substantial Part of its assets, or assets which shall have contributed a Substantial Part of Consolidated Net Earnings for the three fiscal years (taken as a single period) then most recently ended, to any Person, except that

- (i) any Subsidiary may merge with the Company (provided that the Company shall be the continuing or surviving corporation) or with any one or more other Subsidiaries;
- (ii) any Subsidiary may sell, lease, transfer or otherwise dispose of any of its assets to the Company or another Subsidiary; and
- (iii) any Subsidiary may sell or otherwise dispose of all or substantially all of its assets subject to the conditions specified in paragraph 6C(4) with respect to a sale of the stock of such Subsidiary.

6C(6) Lease Rentals—Enter into, or permit to remain in effect, any agreements to rent or lease (as lessee) any real or personal property except for property leased by it for its own use in the ordinary course of the business permitted by paragraph 6C(11).

6C(7) Sale and Lease-Back—Enter into any arrangement with any lender or investor or to which such lender or investor is a party providing for the leasing by the Company or any Subsidiary of real property owned by the Company or any Subsidiary which has been or is to be sold or transferred by the Company or any Subsidiary to such lender or investor or to any Person to whom funds have been or are to be advanced by such lender or investor on the security of such property or rental obligations of the Company or any Subsidiary.

6C(8) Sale or Discount of Receivables—Sell with recourse, or discount or otherwise sell for less than the face value thereof, any of its notes or accounts receivable, except that notes or accounts receivable that were originally acquired by the Company at less than the face value thereof may be sold (without recourse) or discounted at a net cash price to the Company not less than the original net cost thereof to the Company.

6C(9) Certain Contracts—Enter into or be a party to

- (i) any contract providing for the making of loans, advances or capital contributions to any Person other than a Subsidiary, or for the purchase of any property from any Person, in each case in order to enable such Person to maintain working capital, net worth or any other balance sheet condition or to pay debts, dividends or expenses, except that the Company may enter into and perform its obligations under the Operating Agreement;
- (ii) any contract for the purchase of materials, supplies or other property or services if such contract (or any related document) requires that payment for such materials, supplies or other property or services shall be made regardless of whether or not delivery of such materials, supplies or other property or services is ever made or tendered;
- (iii) any contract to rent or lease (as lessee) any real or personal property if such contract (or any related document) provides that the obligation to make payments thereunder is absolute and unconditional under conditions not customarily found in commercial leases then in general use or requires that the lessee purchase or otherwise acquire securities or obligations of the lessor;
- (iv) any contract for the sale or use of materials, supplies or other property, or the rendering of services, if such contract (or any related document) requires that payment for such materials, supplies or other property, or the use thereof, or payment for such services, shall be subordinated to any indebtedness (of the purchaser or user of such materials, supplies or other property or the Person entitled to the benefit of such services) owed or to be owed to any Person; or

(v) any other contract which, in economic effect, is substantially equivalent to a guarantee, except as permitted by clause (iii) of paragraph 6C(3).

6C(10) Commercial Paper—Have outstanding commercial paper (other than to WBCI or S & F) in excess of the aggregate unused commitments under established lines of credit or revolving credits available to the Company.

6C(11) Business Activities—Engage in any type of business other than the purchase of Receivables pursuant to the Operating Agreement.

6D. Issuance of Stock. The Company covenants that it will not (either directly, or indirectly by the issuance of rights or options for, or securities convertible into, such shares) (i) permit any Subsidiary to issue, sell or otherwise dispose of any shares of any class of stock of such Subsidiary (other than directors' qualifying shares) except to the Company or to a Subsidiary, or (ii) issue, sell, otherwise dispose of, or permit the transfer or registration of transfer of any shares of any class of stock of the Company to, any Person other than S & F, WBCI, or, pursuant to the Operating Agreement, Encyclopedia.

6E. Payment of Subordinated Indebtedness. The Company covenants that until payment in full of the Notes, it will not make any payment of principal or of interest on any Senior Subordinated Indebtedness or Junior Subordinated Indebtedness except to the extent permitted under the provisions set forth in Exhibits C and D hereto, and that all Senior Subordinated Indebtedness and Junior Subordinated Indebtedness will be evidenced by a note or other obligation in writing which shall expressly incorporate or state in full the terms under which such obligation is subordinated to the Senior Indebtedness.

SECTION 7. EVENTS OF DEFAULT

7. Events of Default. If any of the following events shall occur and be continuing for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or otherwise): (i) the Company defaults in the payment of any principal of any Note when the same shall become due, either by the terms thereof or otherwise as herein provided; or (ii) the Company defaults in the payment of any interest on any Note for more than 10 days after the date due; or (iii) the Company or any Subsidiary defaults in any payment of principal of or interest on any other obligation for money borrowed (or any obligation under conditional sale or other title retention agreement, or any obligation issued or assumed as full or partial payment for property whether or not secured by purchase money mortgage, or any obligation for an amount in excess of \$250,000 under notes payable or drafts accepted representing extensions of credit, or any obligation under leases or other contracts that constitute Senior Indebtedness of the Company or any Subsidiary) beyond any period of grace provided with respect thereto, or defaults in the performance of any other agreement, term or condition contained in any agreement under which any such obligation is created (or if any other default under any such agreement shall occur and be continuing) if the effect of such default is to cause, or to permit the holder or holders of such obligation (or a trustee on behalf of such holder or holders) to cause, such obligation to become due prior to its stated maturity; or (iv) any representation or warranty made by the Company herein or in any writing furnished in connection with or pursuant to this Agreement shall be false in any material respect on the date as of which made; or (v) the Company defaults in the performance or observance of any agreement contained in Section 6; or (vi) the Company defaults in the performance or observance of any other agreement, term or condition contained herein and such default shall not have been remedied within 30 days after written notice thereof shall have been received by the Company from you; or (vii) the Company or any Subsidiary makes an assignment for the benefit of creditors or admits in writing its inability to pay its debts generally as they become due; or (viii) any order, judgment or decree is entered adjudicating the Company or any Subsidiary bankrupt or insolvent; or (ix) the Company or any Subsidiary petitions or applies to any tribunal for the appointment of a trustee, receiver or liquidator of the Company or any Subsidiary, or of any Substantial Part of the assets of the Company or any Subsidiary, or commences any proceedings (other

then proceedings for the voluntary liquidation and dissolution of a Subsidiary) relating to the Company or any Subsidiary under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect; or (x) any such petition or application is filed, or any such proceedings are commenced, against the Company or any Subsidiary and the Company or such Subsidiary by any act indicates its approval thereof, consent thereto or acquiescence therein, or an order, judgment or decree is entered appointing any such trustee, receiver or liquidator, or approving the petition in any such proceedings, and such order, judgment or decree remains unstayed and in effect for more than 60 days; or (xi) any order, judgment or decree is entered in any proceedings against the Company decreeing the dissolution of the Company and such order, judgment or decree remains unstayed and in effect for more than 60 days; or (xii) any order, judgment or decree is entered in any proceedings against the Company, S & F, WBCI, Encyclopedia or any Subsidiary decreeing a split-up of the Company or such Subsidiary which requires the divestiture of the business and assets of the Company, or the divestiture of a Substantial Part, or the stock of a Subsidiary whose assets constitute a Substantial Part, of the consolidated assets of the Company and its Subsidiaries or which requires the divestiture of assets, or stock of a Subsidiary, which shall have contributed a Substantial Part of Consolidated Net Earnings (as defined in paragraph 6A) for any of the three fiscal years then most recently ended, and such order, judgment or decree remains unstayed and in effect for more than 60 days; or (xiii) a "Default" exists under the S & F Note Agreement (as such term is defined therein); or (xiv) any Person defaults in the performance of any material obligation under the Operating Agreement; or (xv) WBCI shall cease to be an Affiliate of S & F or S & F shall enter into an agreement or any order, judgment or decree is entered in any proceedings against S & F or WBCI, whereby WBCI would cease to be an Affiliate of S & F; then the holder or holders of at least two-thirds of the principal amount of the Notes at the time outstanding may, at its or their option and in addition to any right, power or remedy permitted by law or equity, by notice in writing to the Company, declare all of the Notes to be, and all of the Notes shall thereupon be and become, forthwith due and payable together with interest accrued thereon. This Section is subject to the condition that if at any time after the Notes shall have been declared and shall have become due and payable and before any judgment or decree for the payment of the moneys so due, or any thereof, shall have been entered, all arrears of interest upon all the Notes and all other sums payable on the Notes (except the principal and interest on the Notes which by such declaration shall have become payable) shall have been duly paid, and every other Default and Event of Default shall have been made good or cured, then and in every such case the holders of 66 2/3% in aggregate principal amount of the Notes then outstanding may, by written instrument delivered to the Company, rescind and annul such declaration and its consequences; but no such rescission or annulment shall extend to or affect any subsequent Default or Event of Default or impair any right consequent thereon.

SECTION 8. REPRESENTATIONS AND WARRANTIES

8. Representations, Covenants and Warranties. The Company represents, covenants and warrants:

8A. Organization and Qualification. The Company is a corporation duly organized and existing in good standing under the laws of the State of Delaware, has the corporate power to own its property and to carry on its business as now being conducted, is duly qualified as a foreign corporation to do business and is in good standing in Illinois, which is the only jurisdiction in which the nature of the business conducted by it makes such qualification necessary, and is a wholly-owned subsidiary of WBCI. The Company was incorporated on August 24, 1978.

8B. Financial Statements. The Company has furnished or caused to be furnished to you the following financial statements, identified by a financial officer of WBCI: (x) consolidated balance sheets of WBCI and its subsidiaries as at September 30 in each of the years 1973 through 1977, inclusive, and consolidated profit and loss and surplus statements for WBCI for the years then ended, respectively, all

certified by Arthur Andersen & Co.; and (y) a consolidated balance sheet of WBCI and its subsidiaries as at May 31, 1978, and consolidated profit and loss and surplus statements of WBCI and its subsidiaries for the eight months' period then ended, prepared by WBCI. The Company has also furnished or caused to be furnished to you the following financial statements, identified by a principal financial officer of S & F: (1) consolidated balance sheets of S & F and its subsidiaries as at November 30, in each of the years 1973 through 1977, and consolidated statements of income of S & F and its subsidiaries for the years ended on such dates, respectively, all certified by Coopers & Lybrand; and (2) consolidated balance sheets of S & F and its subsidiaries as at May 31, 1978 and 1977, and consolidated statements of income of S & F and its subsidiaries for the six months' periods ended on such dates, prepared by S & F. Such financial statements (including any related schedules and/or notes) are true and correct in all material respects (subject, as to interim statements, to changes resulting from audits and year-end adjustments) and have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods involved except as noted therein and show all liabilities, direct and contingent, of the Company, of WBCI and its subsidiaries, and of S & F and its subsidiaries, respectively, required to be shown in accordance with such principles. The balance sheets fairly present the condition of WBCI and its subsidiaries, and of S & F and its subsidiaries, respectively, as at the dates thereof, and the profit and loss and surplus statements fairly present the results of the operations of WBCI and its subsidiaries, and of S & F and its subsidiaries, respectively, for the periods indicated. There has been no material adverse change in the business, condition or operations (financial or otherwise) of WBCI and its subsidiaries, or of S & F and its subsidiaries, taken as a whole since May 31, 1978.

8C. Actions Pending. There is no action, suit, investigation or proceeding pending or, to the knowledge of the Company, threatened against or involving S & F or any of its subsidiaries (including the Company and WBCI), or any properties or rights of S & F or any of its subsidiaries, before any court, arbitrator or administrative or governmental body which in the opinion of the Company is likely to result in any material adverse change in the business, condition or operations of S & F and its subsidiaries taken as a whole or of WBCI and its subsidiaries taken as a whole, or of the Company and its Subsidiaries taken as a whole.

8D. Outstanding Indebtedness. The Company does not have any outstanding Indebtedness, except the Notes and the Bank Note. There exists no default under the provisions of any instrument evidencing such Indebtedness or of any agreement relating thereto.

8E. Conflicting Agreements and Other Matters. Neither the Company, any of its Subsidiaries, nor S & F or any Affiliate is a party to any contract or agreement or subject to any charter or other corporate restriction which materially and adversely affects its respective business, property or assets, or financial condition. Neither the execution nor delivery of this Agreement, the Notes, or the Operating Agreement, nor the offering, issuance and sale of the Notes, nor fulfillment of nor compliance with the terms and provisions hereof and of the Notes will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien upon any of the properties or assets of the Company or any Subsidiary pursuant to, the charter or by-laws of the Company or any of its Subsidiaries or of S & F or any Affiliate, any award of any arbitrator or any agreement (including any agreement with stockholders), instrument, order, judgment, decree, statute, law, rule or regulation to which the Company, any of its Subsidiaries, or S & F or any Affiliate is subject. Neither the Company or any Subsidiary, nor S & F or any Affiliate, is a party to, or otherwise subject to any provision contained in, any instrument evidencing Indebtedness of the Company or such Subsidiary, or Indebtedness of S & F or any Affiliate, any agreement relating thereto, or any other contract or agreement (including its charter) which prohibits the incurring of the Indebtedness to be evidenced by the Notes.

8F. Offering of Notes. Neither the Company nor any agent acting on its behalf has offered the Notes or any similar security of the Company for sale to, or solicited any offers to buy the Notes or any similar security of the Company from, or otherwise approached or negotiated with respect thereto

with, any Person or Persons other than yourself, and neither the Company nor any agent acting on its behalf has taken or will take any action which would subject the issuance or sale of the Notes to the provisions of Section 5 of the Securities Act of 1933, as amended, or to the provisions of any securities or Blue Sky law of any applicable jurisdiction.

8G. Regulation G, etc. Neither the Company nor any Subsidiary owns or has any present intention of acquiring any "margin security" as defined in Regulation G (12 CFR Part 207) of the Board of Governors of the Federal Reserve System (herein called a "margin security"). The proceeds of sale of the Notes to you will be used, together with other funds of the Company, to acquire from WBCI not less than \$90,000,000 of Net Eligible Receivables. None of such proceeds will be used, directly or indirectly, for the purpose of purchasing or carrying any margin security or for the purpose of reducing or retiring any indebtedness which was originally incurred to purchase or carry a margin security or for any other purpose which might constitute this transaction a "purpose credit" within the meaning of said Regulation G. Neither the Company nor any agent acting on its behalf has taken or will take any action which might cause this Agreement or the Notes to violate Regulation G, Regulation T, Regulation X or any other regulation of the Board of Governors of the Federal Reserve System or to violate the Securities Exchange Act of 1934, in each case as in effect now or as the same may hereafter be in effect. The Company will not enter into any commitment for the purchase or acquisition of any "margin security" or "publicly-held" security (as said terms are defined and used in said Regulations) directly or indirectly (including replenishment of funds theretofore available as working capital) out of the proceeds of the sale of the Notes, unless prior thereto the Company shall have obtained a favorable ruling from an appropriate official of the Federal Reserve System, or a favorable opinion from counsel referred to in paragraph 3A (or other counsel of recognized standing satisfactory to you) to the effect that the extension of credit hereunder and the other circumstances surrounding such purchase or acquisition will not constitute a violation of any such Regulation or of the Securities Exchange Act of 1934 as then in effect.

8H. Employee Retirement Income Security Act. The Company has or maintains no employee benefit plan.

8I. Governmental Consent. Neither the nature of the Company or of any Subsidiary, nor any of their respective businesses or properties, nor any relationship between the Company or any Subsidiary and any other Person, nor any circumstance in connection with the offer, issue, sale or delivery of the Notes is such as to require any consent, approval or other action by or any notice to or filing with any court or administrative or governmental body (other than routine filings after the date of closing with the Securities and Exchange Commission and/or State Blue Sky authorities) in connection with the execution and delivery of this Agreement, the offer, issue, sale or delivery of the Notes or fulfillment of or compliance with the terms and provisions hereof or of the Notes.

8I. Possession of Franchises, Licenses, etc. The Company and its Subsidiaries possess all franchises, certificates, licenses, permits and other authorizations from governmental political subdivisions or regulatory authorities, all patents, trade-marks, service marks, trade names, copyrights, licenses and other rights, free from burdensome restrictions, that are necessary in any material respect for the ownership, maintenance and operation of their respective properties and assets, and neither the Company nor any Subsidiary is in violation of any thereof in any material respect.

SECTION 9. REPRESENTATION OF THE PURCHASER

9. Representation of the Purchaser. You represent and in making this sale to you it is specifically understood and agreed that you are acquiring the Notes for the purpose of investment and not with a view to or for sale in connection with any distribution thereof, provided that the disposition of your property shall at all times be and remain within your control.

SECTION 10. DEFINITIONS

10. Definitions. For the purpose of this Agreement, the following terms shall have the following meanings:

10A. "Person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof.

10B. "Subsidiary" shall mean any corporation organized under the laws of any State of the United States of America, Canada, or any Province of Canada, which conducts the major portion of its business in the United States of America or Canada, and all of the stock of every class of which, except directors' qualifying shares, shall, at the time as of which any determination is being made, be owned by the Company either directly or through Subsidiaries. "Foreign Subsidiary" shall mean any corporation organized under the laws of any country except the United States of America and Canada, or which conducts the major portion of its business outside the United States of America and Canada, all of the stock of every class of which, except directors' qualifying shares, shall, at the time as of which any determination is being made, be owned by WBCI.

10C. "Affiliate" shall mean any Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, S & F, except the Company and any Subsidiary. A Person shall be deemed to control a corporation if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such corporation, whether through the ownership of voting securities, by contract or otherwise.

10D. "Indebtedness" shall mean and include without duplication,

(i) any obligation which under generally accepted accounting principles is shown on the balance sheet as a liability (excluding reserves for deferred income taxes and other reserves to the extent that such reserves do not constitute an obligation),

(ii) amounts equal to the aggregate net rentals (after making allowance for any interest, taxes or other expenses included therein) payable under any lease (whether or not such rentals accrue and become payable only on an annual or other periodic basis) which lease is capitalized in accordance with generally accepted accounting principles on a basis consistent with those applied in the preparation of the financial statements referred to in clause (i) of paragraph 8B,

(iii) indebtedness secured by any Lien existing on property owned subject to such Lien, whether or not the indebtedness secured thereby shall have been assumed, except with respect to Liens permitted by paragraph 6C(1).

(iv) guarantees, endorsements (other than endorsements of negotiable instruments for collection in the ordinary course of business) and other contingent liabilities (whether direct or indirect) in connection with the obligations, stock or dividends of any Person,

(v) obligations under any contract providing for the making of loans, advances or capital contributions to any Person, or for the purchase of any property from any Person, in each case in order to enable such Person primarily to maintain working capital, net worth or any other balance sheet condition or to pay debts, dividends or expenses,

(vi) obligations under any contract for the purchase of materials, supplies or other property if such contract (or any related document) requires that payment for such materials, supplies or other property shall be made regardless of whether or not delivery of such materials, supplies or other property is ever made or tendered,

(vii) obligations under any contract to rent or lease (as lessee) any real or personal property if such contract (or any related document) provides that the obligation to make payments thereunder is

absolute and unconditional under conditions not customarily found in commercial leases then in general use or requires that the lessee purchase or otherwise acquire securities or obligations of the lessor,

(viii) obligations under any contract for the sale or use of materials, supplies or other property if such contract (or any related document) requires that payment for such materials, supplies or other property, or the use thereof, shall be subordinated to any indebtedness (of the purchaser or user of such materials, supplies or other property) owed or to be owed to any Person, and

(ix) obligations under any other contract which, in economic effect, is substantially equivalent to a guarantee;

all as determined in accordance with generally accepted accounting principles.

10E. "Senior Subordinated Indebtedness" shall mean any Indebtedness, the payment of principal and interest of which shall be subordinated and junior to the Indebtedness evidenced by the Notes and to other Senior Indebtedness of the Company and its Subsidiaries in the manner and to the extent set forth in Exhibit C hereto, but senior to Junior Subordinated Indebtedness.

10F. "Junior Subordinated Indebtedness" shall mean any Indebtedness, the payment of principal and interest of which shall be subordinated and junior to the Indebtedness evidenced by the Notes and to other Senior Indebtedness and to Senior Subordinated Indebtedness in the manner and to the extent set forth in Exhibit D hereto.

10G. "Senior Indebtedness" shall mean any Indebtedness that is not Junior Subordinated Indebtedness or Senior Subordinated Indebtedness.

10H. "Event of Default" shall mean any of the events specified in section 7, provided that there has been satisfied any requirement in connection with such event for the giving of notice, or the lapse of time, or the happening of any further condition, event or act, and "Default" shall mean any of such events, whether or not any such requirement has been satisfied.

10I. "Officer's Certificate" shall mean a certificate signed in the name of the Company by its President, one of its Vice Presidents, or its Treasurer.

10J. "Lien" shall mean any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, any lease in the nature thereof, and the filing of or agreement to give any financing statement under the Uniform Commercial Code of any jurisdiction).

10K. "Substantial Part" shall mean, when used with respect to assets, more than 10% of the consolidated assets of the Company and all Subsidiaries, and when used with respect to Consolidated Net Earnings for any period, more than 10% of Consolidated Net Earnings for such period.

10L. "Receivables" of any Person shall mean any right to receive payment in United States or Canadian currency arising out of the retail sale in the ordinary course of business of encyclopedias, other reference and topical works, other publications and other consumer items sold by WBCI or Encyclopedia, including all interests in or arising under, any conditional sales agreement, chattel mortgage, promissory note, lease, chattel paper, security agreement, security interest or lien evidencing or securing such right to receive payment, including the right to receive or retain any interest on or finance charge in respect of the principal amount of such payment, but only to the extent that the Company shall be entitled to such interest or finance charge, or part thereof, pursuant to the provisions of the last sentence of paragraph 9A of the Operating Agreement.

10M. "Net Eligible Receivables" shall mean the gross amount of Receivables owned by the Company and its Subsidiaries, less (i) unearned finance charges; (ii) the greater of (a) reserves for uncollectible accounts, including the Contract Reserve Account referred to in the Operating Agreement, or (b) the sum of Receivables owned by the Company and its Subsidiaries, on which one full installment

payment has not been received within the 180 days immediately preceding any calculation under this paragraph and, without duplication, the aggregate amount of Receivables owned by the Company and its Subsidiaries that have been placed with attorneys or collection agencies for collection, all determined in accordance with good accounting practice; and (iii) the excess of the aggregate principal amount of loans and advances outstanding pursuant to paragraph 6C(3)(v) over 5% of Consolidated Stockholders' Equity.

10N. "Net Eligible Assets" shall mean cash plus short-term investments permitted by paragraph 6C(3)(ii) plus Net Eligible Receivables.

10O. "Adjusted Net Worth" shall mean the sum of all capital stock, capital surplus, and retained earnings, less (i) treasury stock, (ii) intangibles (including goodwill, deferred charges, prepaid expenses, and unamortized debt expense); (iii) the excess of Receivables of the Company originating outside the United States, United States possessions, and Canada over 10% of the gross amount of Receivables of the Company; (iv) the excess of Receivables maturing in more than 36 months over 25% of the gross amount of Receivables of the Company; (v) any Receivable maturing in more than 60 months unless the Company has full recourse against WBCI with respect to the payment thereof; and (vi) the excess of the aggregate principal amount of loans and advances outstanding pursuant to paragraph 6C(3)(v) over 5% of Consolidated Stockholders' Equity.

10P. "Capital Base" shall mean the sum of Adjusted Net Worth plus Senior Subordinated Indebtedness plus Junior Subordinated Indebtedness.

10Q. "S & F" shall mean The Scott & Fetzer Company, an Ohio corporation.

10R. "WBCI" shall mean World Book-Childcraft International, Inc., a Delaware corporation and a wholly-owned subsidiary of S & F.

10S. "Encyclopedia" shall mean World Book Encyclopedia, Inc., a Delaware corporation and a wholly-owned subsidiary of WBCI.

10T. "Fixed Charges" shall mean all charges which, in accordance with generally accepted accounting principles, would be considered fixed charges, including, without limitation, interest on Indebtedness, amortization of debt discount, and rentals for leased properties.

10U. "Consolidated Net Earnings Available for Fixed Charges" shall mean net income of the Company as determined by generally accepted accounting principles, with the following adjustments (to the extent such items have not already been taken into account in calculating net income):

- (i) all operating and maintenance expenses, taxes other than taxes on or measured by income, and depreciation shall be deducted in determining net income;
- (ii) all extraordinary, nonrecurring items of income shall be excluded in determining net income;
- (iii) all extraordinary, nonrecurring items of expense shall be deducted in determining net income;
- (iv) Fixed Charges shall not be deducted in determining net income; and
- (v) any cash payment required to be made for any fiscal quarter during the same fiscal year pursuant to paragraph 3 of the Operating Agreement, provided that such payment is made within the time period provided therein, shall be added to net income for such fiscal quarter.

10V. "Consolidated Stockholders' Equity" of a corporation shall mean the sum of (i) the par value (or stated value on the books of the corporation) of the capital stock of all classes (exclusive of treasury stock) plus (or minus in the case of a surplus deficit) (ii) the amount of the surplus, whether capital or earned, of such corporation.

SECTION 11. MISCELLANEOUS

11. Miscellaneous.

11A. Home Office Payment. The Company agrees that, as long as you shall hold any Note, it will make payments of principal thereof and interest and premium, if any, thereon, which comply with the terms of this Agreement, by credit to your account or accounts in Morgan Guaranty Trust Company of New York, 15 Broad Street, New York, N. Y., (account #050-53-360 for payments with respect to the first Note, and account #826-00-027 for payments with respect to Notes other than the first Note) or such other account or accounts in the United States as you may designate in writing, notwithstanding any contrary provision herein or in any Note with respect to the place of payment. You agree that, before disposing of any Note, you will make a notation thereon of all principal payments previously made thereon and of the date to which interest thereon has been paid, and will notify the Company of the name and address of the transferee of such Note. The Company agrees to afford the benefits of this paragraph 11A to any institutional investor of recognized standing which is the direct or indirect transferee of any Note purchased by you hereunder and which has made the same agreements relating to such Note as you have made in this paragraph 11A.

11B. Expenses. The Company agrees, whether or not the transactions hereby contemplated shall be consummated, to pay, and save you harmless against liability for the payment of, all out-of-pocket expenses arising in connection with this transaction, including all stamp and other taxes (including any intangible personal property tax, together in each case with interest and penalties, if any, and any income tax payable by you in respect of any reimbursement therefor) which may be payable in respect of the execution and delivery of this Agreement or the execution, delivery or acquisition of any Note issued under or pursuant to this Agreement, all printing costs and the reasonable fees and expenses of your special counsel in connection with this Agreement (including the opinion described in paragraph 8I) and any modification thereof. The obligations of the Company under this paragraph 11B shall survive transfer by you and payment of any Note.

11C. Consent to Amendments. This Agreement may be amended, and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, if the Company shall obtain your written consent to such amendment, action or omission. Each holder of any Note at the time or thereafter outstanding shall be bound by any consent authorized by this paragraph 11C, whether or not such Note shall have been marked to indicate such consent, but any Note issued thereafter may bear a notation referring to any such consent. No course of dealing between the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein and in the Notes, the term "this Agreement" or "the Agreements" and references thereto shall mean this Agreement or the Agreements as it or they may, from time to time, be amended or supplemented.

11D. Form, Registration, Transfer and Exchange of Notes. The Notes are issuable only as registered Notes without coupons in the denominations of \$10,000 and any integral multiple of \$10,000. The Company shall keep at its principal office a register in which the Company shall provide for the registration of Notes and of transfer of Notes. Upon surrender for registration of transfer of any Note at the office of the Company, the Company shall, at its expense, execute and deliver one or more new Notes of like tenor and of a like aggregate principal amount registered in the name of the designated transferee or transferees. At the option of the holder of any Note, such Note may be exchanged for other Notes of like tenor and of any authorized denominations, of a like aggregate principal amount, upon surrender of the Note to be exchanged at the office of the Company. Whenever any Notes are so surrendered for exchange, the Company shall, at its expense, execute and deliver the Notes which the Noteholder making the exchange is entitled to receive. Every Note surrendered for registration of transfer shall be duly endorsed, or be accompanied by a written instrument of transfer duly executed,

by the holder of such Note or his attorney duly authorized in writing. Any Note or Notes issued in exchange for any Note or upon transfer thereof shall carry the rights to unpaid interest and interest to accrue which were carried by the Note so exchanged or transferred, so that neither gain nor loss of interest shall result from any such transfer or exchange.

11E. Notices to Subsequent Holder. If any Note shall have been transferred to another holder pursuant to paragraph 11D and such holder shall have designated in writing the address to which communications with respect to such Note shall be mailed, all notices, certificates, requests, statements and other documents required or permitted to be delivered to you by any provision hereof shall also be delivered to each such holder, except that financial statements and other documents provided for in paragraph 5A need not be delivered to any such holder holding less than 10% of the aggregate principal amount of Notes from time to time outstanding.

11F. Persons Deemed Owners. Prior to due presentment for registration of transfer, the Company may treat the Person in whose name any Note is registered as the owner and holder of such Note for the purpose of receiving payment of principal of and interest and premium (if any) on such Note and for all other purposes whatsoever, whether or not such Note shall be overdue, and the Company shall not be affected by notice to the contrary.

11G. Survival of Representations and Warranties. All representations and warranties contained herein or made in writing by the Company in connection herewith shall survive the execution and delivery of this Agreement and of the Notes, regardless of any investigation made by you or on your behalf.

11H. Successors and Assigns. All covenants and agreements in this Agreement contained by or on behalf of either of the parties hereto shall bind and inure to the benefit of the respective successors and assigns of the parties hereto whether so expressed or not.

11I. Notices. All communications provided for hereunder shall be sent by first class mail and, if to you, addressed to you in the manner (except as otherwise provided in paragraph 11A with respect to payments of principal of and interest and premium, if any, on the Notes) in which this letter is addressed, and if to the Company, at its offices at Merchandise Mart, Chicago, Illinois 60654, or to such other address with respect to either party as such party shall notify the other in writing; provided, however, that any such communication to the Company may also, at your option, be either delivered to the Company at its address set forth above or to any officer of the Company.

11J. Descriptive Headings. The descriptive headings of the several sections and paragraphs of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

11K. Satisfaction Requirement. If any agreement, certificate or other writing, or any action taken or to be taken, is by the terms of this Agreement required to be satisfactory to you, the determination of such satisfaction shall be made by you in your sole and exclusive judgment exercised in good faith.

11L. Governing Law. This Agreement is being delivered and is intended to be performed in the State of Illinois, and shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of such State.

11M. Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

If you are in agreement with the foregoing, please sign the form of acceptance on the enclosed counterpart of this letter and return the same to the undersigned, whereupon this letter shall become a binding agreement between you and the undersigned.

Very truly yours,

WORLD BOOK FINANCE, INC.

By *Raymond A. Davis*
.....
President

The foregoing Agreement is hereby accepted as of the date first above written.

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By *Henry W. Hyman*
.....
Vice President

EXHIBIT A

WORLD BOOK FINANCE, INC.

PROMISSORY NOTE

Chicago, Illinois
August 31, 1978

FOR VALUE RECEIVED, the undersigned, **WORLD BOOK FINANCE, INC.** (herein called the "Company"), a corporation organized and existing under the laws of the State of Delaware, hereby promises to pay to

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA
or registered assigns, the principal sum of
(\$) **DOLLARS**

on August 31, 1998, with interest (computed on the basis of a 360-day year—30-day month) on the unpaid balance thereof at the rate of 10.00% per annum from the date hereof, payable semi-annually on the last day of February and August in each year, commencing February 28, 1979, until the principal hereof shall have become due and payable, and thereafter at the rate of 11.00% per annum until paid.

Payments of both principal and interest are to be made at the office of The Prudential Insurance Company of America at Prudential Plaza, Newark, New Jersey, or such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is issued pursuant to an Agreement dated August 31, 1978, between the Company and The Prudential Insurance Company of America and is entitled to the benefits thereof. As provided in said Agreement, this Note is subject to prepayment, in whole or in part, in certain cases without premium and in other cases with a premium as specified in said Agreement.

As provided in said Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or his attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

The Company agrees to make prepayments of principal on the dates and in the amounts specified in said Agreement.

The Company agrees to pay, or reimburse the holder hereof for, and save the holder hereof harmless against, any loss, liability, cost and expense incurred in connection with the enforcement by the holder hereof of its rights under this Note or the Agreement to the extent permitted by applicable law.

In case an Event of Default, as defined in said Agreement, shall occur and be continuing, the principal of this Note may be declared due and payable in the manner and with the effect provided in said Agreement.

WORLD BOOK FINANCE, INC.

By
President

By
Treasurer

**EXHIBIT B
OPERATING AGREEMENT**

OPERATING AGREEMENT dated as of August 31, 1978 among World Book-Childcraft International, Inc. ("World Book"), World Book Finance, Inc. ("Finance"), World Book Encyclopedia, Inc. ("Encyclopedia") and The Scott & Fetzer Company ("Scott & Fetzer").

In consideration of the mutual promises herein contained, World Book, Finance, Encyclopedia and Scott & Fetzer agree as follows:

1. Sale of Receivables.

1A. World Book and Encyclopedia shall offer to sell to Finance during the term of this Agreement, on a nonrecourse basis, all Receivables now or hereafter owned by World Book or Encyclopedia. Finance shall give full, careful and prompt consideration to all Receivables offered to Finance by World Book and Encyclopedia and shall be deemed to have accepted for purchase all Receivables offered without any further or express act of acceptance; provided however, that (i) the purchase of Receivables shall be within the sole discretion of Finance, and Finance shall be under no obligation to purchase any Receivables and may, by express notice to World Book or Encyclopedia within 2 business days, refuse to accept for purchase any specific Receivables, and, (ii) Finance shall be under no obligation to purchase any such Receivables, whether or not it has given such notice, to the extent that Finance shall not then have available to it sufficient sources of funds to consummate such purchase in accordance with the provisions hereof. All documentation relating to the purchase of Receivables shall be satisfactory in form and substance to Finance. Notwithstanding the foregoing, World Book and Encyclopedia shall sell to Finance and Finance shall buy from World Book and Encyclopedia all Receivables owned by World Book or Encyclopedia as at August 31, 1978. All conveyances of Receivables to Finance after the purchase described in the preceding sentence shall be made by World Book and Encyclopedia daily as of the close of business as to all Receivables arising during the course of such day. Such conveyance shall be effected by virtue of the provisions of this paragraph 1, without further instrument of conveyance upon notation of the conveyance on the books and records of World Book, Encyclopedia and Finance.

1B. The purchase price of receivables sold and conveyed pursuant to paragraph 1A shall be paid by Finance by direct cash payment or by the application of proceeds of collection of Receivables as provided in paragraph 9B. The daily application by Finance of the proceeds of Receivables as provided in paragraph 9B shall, as at the time of such application, constitute full payment for Receivables purchased by Finance pursuant to paragraph 1.

1C. Finance shall not purchase Receivables from World Book and Encyclopedia hereunder after they cease, respectively, to be wholly-owned subsidiaries (directly or through other wholly-owned subsidiaries) of Scott & Fetzer.

2. Purchase Price of Receivables; Contract Reserve Account.

2A. The price to be paid by Finance for Receivables shall be equal to 100% of the principal amount thereof or such other percentage not exceeding 100% as may be agreed by World Book or Encyclopedia, as the case may be, and Finance from time to time.

2B. Within 30 days of the end of each Accounting Period, World Book and Encyclopedia shall pay to Finance a facilitating fee in respect of the average aggregate outstanding balance of all Receivables owned by Finance during such Accounting Period. The amount of such fee for each such Accounting Period shall be determined jointly by World Book, Encyclopedia and Finance and shall be sufficient to compensate Finance fairly in accordance with customary industry practices for the risk undertaken by it in purchasing and holding the Receivables.

2C. On each purchase of Receivables, Finance shall withhold from the purchase price of such Receivables an amount equal to not less than 11% of the unpaid balance of such Receivables. Finance

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will credit all sums so withheld to a reserve (the "Contract Reserve Account") on the books of Finance. The amount of any Receivable determined by Finance to be uncollectible shall be charged to the Contract Reserve Account regardless of whether any deficit results in such Contract Reserve Account. If, at the close of business on the last day of the Accounting Period, the Contract Reserve Account has a balance in excess of the sum of (i) the aggregate amount of Receivables that have been delinquent for more than 180 days (ii) without duplication, the aggregate amount of Receivables that have been placed with attorneys or collection agencies for collection, and (iii) 5% of the aggregate amount of all Receivables, Finance shall pay such excess to World Book and Encyclopedia.

3A. Investment Covenant.

If at the end of any Accounting Period the Net Earnings Available for Fixed Charges for such Accounting Period and previous Accounting Periods, if any, occurring in the same fiscal year were less than one and one-half times Finance's Fixed Charges for such Accounting Period and previous Accounting Periods, if any, occurring in the same fiscal year, World Book and Encyclopedia or Scott & Fetzer or all of them (intending to be jointly and severally obligated) shall promptly (and in any event within 30 days after the end of such Accounting Period) pay and transfer to Finance cash in the amount by which such Funds Available for Fixed Charges for such Accounting Period and previous Accounting Periods, if any, occurring in the same fiscal year were less than one and one-half times such Fixed Charges for such Accounting Period and previous Accounting Periods, if any, occurring in the same fiscal year. Such payment shall be made as a purchase of additional shares of common stock of Finance for such number of shares as may be determined by Finance at the time. World Book, Encyclopedia, Finance and Scott & Fetzer shall take such action (including amendments to Finance's certificate of incorporation, or by-laws, or both) as may be necessary to accomplish the authorization and issuance of such additional shares of common stock of Finance and the payment therefor. The purchase price for such additional shares of common stock of Finance shall be \$10,000 per share, payable concurrently with the issuance and delivery of such stock to the purchaser thereof.

3B. Within 40 days after the close of each of its quarters, Finance shall deliver to Scott & Fetzer copies of quarterly financial statements of Finance in such detail as may be reasonably required by Scott & Fetzer, together with a certificate by an authorized financial officer of Finance, setting forth in detail the computations under paragraph 3A and the number of shares of Finance's common stock, if any, to be purchased at such time pursuant thereto. Within 5 days after the date of delivery of such certificate, at the principal office of Finance in Chicago, Illinois (or such other place and time, not later than 5 days after the date of said officer's certificate, as may be mutually agreed upon between Finance and Scott & Fetzer), Scott & Fetzer, World Book, or Encyclopedia or any combination thereof, shall consummate purchase of the number of shares of stock of Finance set forth in said certificate at the price per share hereinabove provided (unless a different price shall have been mutually determined). Concurrently with the payment of such purchase price, Finance shall issue and deliver to Scott & Fetzer, World Book or Encyclopedia (as the case may be) the number of fully paid and non-assessable shares of Finance's common stock so purchased.

4. Settlement of Inter-Company Accounts.

Finance shall pay promptly all of its accounts payable to World Book and Encyclopedia, and World Book and Encyclopedia shall pay promptly all of their accounts payable to Finance (including amounts payable pursuant to paragraph 10 hereof), in each case within 30 days after the end of the Accounting Period in which any such account payable was incurred.

5. Form of Receivables.

All Receivables purchased by Finance pursuant to this Agreement shall be in a form acceptable to Finance.

6. Documents Required to be Delivered upon Sale of Receivables.

World Book and Encyclopedia shall present to Finance the following documents and data upon request of Finance.

- (a) a schedule or statement specifying the amount of the Receivables sold to Finance within any specified period of time; and
- (b) the best documentation or evidence available as to the existence of such Receivables (which, if requested, shall be endorsed, assigned or otherwise transferred to Finance without recourse), together with any supporting records and any security or collateral therefor which is readily susceptible of delivery and any evidence of filing or recording of such Receivables (or other appropriate document relating thereto).

7. Representations and Warranties in Connection with the Sale of Receivables.

As to each Receivable purchased by Finance pursuant to this Agreement, World Book or Encyclopedia, as the case may be, by such sale, hereby makes each of the following representations and warranties:

- (a) such Receivable is in compliance with all of the terms of this Agreement;
- (b) such Receivable is a valid obligation to which World Book or Encyclopedia, as the case may be, has good title, free and clear of all liens and encumbrances whatsoever and such Receivable is not subject to any offset, counterclaim or other defense;
- (c) the conveyance of such Receivable effected by the provisions of paragraph 1 vests in Finance the entire right, title and interest of World Book or Encyclopedia, as the case may be, in and to such Receivable and the proceeds of the collection thereof, in each case free and clear from claims of any third parties;
- (d) all obligations to be performed by World Book, Encyclopedia or any other person to or in connection with such Receivable, including obligations with respect to the merchandise the sale of which gave rise to such Receivable, have been or will be fulfilled; and
- (e) the laws of each jurisdiction applicable to the transaction out of which such Receivable originated have been complied with.

As to each Receivable purchased by Finance pursuant to this Agreement arising out of a sale by World Book or Encyclopedia subsequent to August 31, 1978, World Book or Encyclopedia, as the case may be, by such sale, hereby makes the further representation and warranty that such Receivable at the time of such sale is current and not in default and, in the good faith judgment of World Book or Encyclopedia, as the case may be, is not of a quality inferior in any respect to the average quality of all Receivables.

8. Indemnity for Breach of Warranty.

World Book, Encyclopedia or Scott & Fetzer or all of them (intending to be jointly and severally obligated) shall indemnify, defend and save harmless Finance against any and all liability, claims, losses and damages arising out of or based on any breach of warranty made by World Book or Encyclopedia with respect to merchandise the sale of which gave rise to a Receivable purchased by Finance pursuant to this Agreement.

9. Collection and Other Services to be Performed on Behalf of Finance; Daily Purchase of Receivables; etc.

9A. World Book and Encyclopedia at their sole expense shall take, or cause to be taken, with due diligence, all necessary steps to perform all of the following services on behalf of Finance solely in the capacity of agent or agents of Finance:

- (a) to collect, when due, sums owing and payable on the respective Receivables purchased by Finance pursuant to this Agreement, and promptly to report and account to Finance for all such

collections; all such payments or collections received by World Book or Encyclopedia shall be applied as provided in paragraph 9B and, to the extent not so applied, shall be promptly remitted and paid over to Finance;

(b) if it becomes necessary or desirable to repossess or to foreclose the lien upon or the security interest in any merchandise which is subject to any Receivable purchased by Finance pursuant to this Agreement, to proceed with due diligence to take lawful steps to repossess such merchandise or to carry out such foreclosure and to take such other lawful steps as may be necessary or appropriate (i) to enforce the lien upon or the security interest in such merchandise for and on behalf of Finance; (ii) to resell such merchandise for the account and benefit of Finance and to act in good faith to the end of obtaining the best possible prices for such merchandise for the benefit of Finance; and (iii) to remit to Finance the proceeds of such sales (any repossession, reconditioning, foreclosure or resale expenses in connection with such sales to be borne by World Book or Encyclopedia);

(c) to make credit investigations of and reports on the obligors on Receivables offered to Finance pursuant to this Agreement, and to provide credit and collection assistance and other similar services to Finance;

(d) to render accounting and internal auditing services, including the safe-keeping of records and the preparation and furnishing of reports;

(e) to prepare and file in the name and on behalf of Finance any local, state and Federal tax returns and other reports and returns required by local, state or Federal laws or regulations;

(f) if requested by Finance, to notify the obligors on Receivables purchased by Finance to make payments thereon directly to Finance and to maintain all such records as are necessary or appropriate to enable Finance directly to notify such obligors and to collect and enforce such Receivables and such other obligations; and

(g) to do such other acts and provide such other services as Finance may from time to time reasonably require and request in writing.

Finance shall be entitled, upon timely notice in writing to World Book or Encyclopedia, as the case may be, to perform any of the foregoing services on its own behalf and at its own expense with respect to any or all Receivables, in which event Finance shall be entitled to give direct notice to the obligors of such Receivables and to collect and receive from such obligors, and World Book and Encyclopedia shall take such action as may be necessary to permit Finance to make direct collections of such Receivables, and to receive and retain for Finance's own account the interest accruing thereon, or the finance charge in respect thereof, or such portion of such interest or finance charge as fairly compensates Finance for the actual costs of such services.

9B. World Book, as agent for Finance, shall cause all proceeds of collection of Receivables conveyed to Finance to be deposited in bank accounts designated "World Book collection accounts" and held in such bank accounts for and on behalf of Finance, as the owner of such proceeds, subject only to withdrawal by or at the direction of Finance or as otherwise provided in this paragraph 9B. Such proceeds shall be applied daily to the purchase of Receivables as provided in paragraph 1, to the extent such proceeds are not remitted to Finance in cash as provided in subparagraph (a) of paragraph 9A, and such application of proceeds shall be deemed to have been made simultaneously with the transfer of funds from the World Book collection accounts to a general corporate bank account of World Book. World Book shall furnish to Finance at the end of each Accounting Period a written accounting with respect to all proceeds of collection of Receivables during such Accounting Period, showing the application of such proceeds and the total amount of Receivables purchased during such Accounting Period.

9C. World Book and Encyclopedia shall, at their expense, file, and maintain the filing of, such financing statements or other documents, if any, as may be necessary or appropriate, under the Uniform Commercial Code and any other applicable laws, to perfect and preserve the rights of Finance, hereunder,

and, if requested by Finance, shall furnish to Finance from time to time opinions of its counsel that such filings, if any, have been made and operate to establish, preserve and protect Finance's rights hereunder and in all Receivables sold pursuant hereto and to create and preserve Finance's interests in such Receivables, pursuant to the Uniform Commercial Code, if applicable.

9D. So long as Finance shall own any Receivables of World Book or Encyclopedia, World Book and Encyclopedia shall mark their master control accounts to the effect that such Receivables have been sold to Finance. World Book and Encyclopedia shall provide to Finance full access at all reasonable times to rooms in which account records are maintained and to such account records themselves, including, without limitation, access to computers or other data processing equipment and the programs and data contained therein by means of which account records are maintained.

10. Adjustments: Charges.

If (a) World Book or Encyclopedia shall make any rebates in favor of obligors on Receivables sold to Finance or shall repossess or accept returns or rejections of merchandise the sale of which gave rise to Receivables sold to Finance and (b) such rebate, return, rejection or repossession shall have the effect of reducing the unpaid balance of any Receivable, World Book or Encyclopedia as the case may be, shall pay to Finance an amount equal to the amount by which the unpaid principal amount of such Receivable shall have been reduced.

11. Indemnity for Acts Performed Pursuant to this Agreement.

World Book, Encyclopedia or Scott & Fetzer or all of them (intending to be jointly and severally obligated) will indemnify, defend and save harmless Finance from any and all claims asserted against Finance by any third party arising out of any wrongful or negligent act or omission to act of World Book or Encyclopedia in performing or furnishing any of the services which World Book and Encyclopedia are required to perform or furnish for Finance pursuant to this Agreement.

12. Option to Repurchase.

World Book and Encyclopedia may purchase at any time from Finance, but without recourse or warranty by Finance, any Receivable which is, in the opinion of World Book, Encyclopedia or Finance, uncollectible. The purchase price of such Receivable shall be the remaining unpaid balance of such Receivable. If World Book or Encyclopedia does not purchase Receivables deemed uncollectible by Finance, the remaining unpaid balance of such Receivable shall be charged against the Contract Reserve Account on the last day of the calendar month during which the Receivable is declared uncollectible by Finance.

13. Term.

This Agreement shall remain in full force and effect for an initial term ending December 31, 1999, and shall be automatically renewed for successive terms of one year each unless, at least 90 days prior to the expiration of the then current term, any party hereto shall give to the other parties written notice of termination hereof, which termination shall be effective as of the end of the then current term.

14. Definitions.

As used in this Agreement, the following terms have the following respective meanings:

"Accounting Period": any three-month period used by Finance as an accounting period within its fiscal year.

"Fixed Charges": all charges for interest on funded and unfunded debt, amortization of debt discount, and rentals for leased properties, all determined in accordance with generally accepted accounting principles.

"Earnings Available for Fixed Charges": Net income of Finance as determined by generally accepted accounting principles, with the following adjustments (to the extent such items have not already been taken into account in calculating net income) :

- (i) all operating and maintenance expenses, taxes other than taxes on or measured by income and depreciation shall be deducted in determining net income;
- (ii) all extraordinary, nonrecurring items of income shall be excluded in determining net income;
- (iii) all extraordinary, nonrecurring items of expense shall be deducted in determining net income;
- (iv) Fixed charges shall not be deducted in determining net income; and
- (v) any cash payment for any Accounting Period during the same fiscal year actually made pursuant to paragraph 3 by Scott & Fetzer, World Book or Encyclopedia, or any combination thereof, shall be added to net income for such Accounting Period.

"Receivables": any right to receive payment in United States or Canadian currency arising out of the retail sale in the ordinary course of business of encyclopediae, other reference and topical works, other publications and other consumer items sold by World Book or Encyclopedia, including all interests in or arising under, any conditional sales agreement, chattel mortgage, promissory note, lease, chattel paper, security agreement, security interest or lien evidencing or securing such right to receive payment, including the right to receive or retain any interest on or finance charge in respect of the principal amount of such payment, but only to the extent that Finance shall be entitled to such interest or finance charge, or part thereof, pursuant to the provisions of the last sentence of paragraph 9A.

15. Notices.

All communications contemplated by this Agreement shall be sent by first class mail addressed as follows:

- If to World Book, to: World Book-Childcraft International, Inc. Merchandise Mart Plaza Chicago, Illinois 60606 Attn: President
- If to Finance, to: World Book Finance, Inc. Merchandise Mart Plaza Chicago, Illinois 60606 Attn: President
- If to Encyclopedia, to: World Book Encyclopedia, Inc. Merchandise Mart Chicago, Illinois 60606 Attn: President
- If to Scott & Fetzer, to: The Scott & Fetzer Company 14600 Detroit Avenue Lakewood, Ohio 44107 Attn: President

or to such other address with respect to any party as such party shall notify the other in writing.

16. Miscellaneous.

16A. Subject to the provisions of paragraph 2C, this Agreement is not intended to be, and is not, and nothing herein contained, and nothing done by World Book, Encyclopedia or Scott & Fetzer pursuant hereto, shall be construed or deemed to constitute a direct or indirect guaranty by World Book, Encyclopedia or Scott & Fetzer of the payment of the Receivables sold to Finance or the payment of any other indebtedness owing to Finance or of the payment of the interest on or principal of any indebtedness, liability or obligation of any kind or character of Finance to any person or persons whomsoever. The parties recognize that the existence and performance of their respective obligations under this Agreement are essential to the continuing business and operations of Finance, and, accordingly, agree that (i) no default by Finance in the performance of its obligations hereunder shall be deemed sufficiently material to the overall subject matter of this Agreement to constitute a basis for rescission, revocation or other cancellation of this Agreement prior to the end of the initial term hereof, and (ii) the parties shall be limited to remedies seeking the enforcement of the specific provisions hereof. The parties further acknowledge that the remedies at law for breach or nonperformance of the investment covenants set forth in paragraphs 3A and 3B hereof are inadequate, and, accordingly, agree that any party shall be entitled to equitable relief for the breach of any such provisions, including preliminary and permanent mandatory injunctions and specific performance.

16B. All agreements herein shall bind and inure to the benefit of the respective successors and permitted assigns of the parties hereto whether so expressed or not. This Agreement shall be governed by the laws of the State of Illinois. The headings herein are for the purpose of reference only and shall not limit or otherwise affect the meaning hereof. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart. This Agreement may not be assigned by any party hereto without the written consent of each other party hereto.

17. Receivables of Other Entities.

The parties hereto contemplate that Finance may, at some time after the date hereof, purchase or otherwise acquire instruments in the nature of Receivables arising from the sale of products of Scott & Fetzer; however, the parties hereby acknowledge that no such instruments shall be deemed so purchased or acquired pursuant to this Agreement until this Agreement shall have been amended to provide explicitly for the treatment of Receivables of entities other than World Book and Encyclopedia.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered by their duly authorized officers as of the day and year first above written.

THE SCOTT & FETZER COMPANY

By
President

ATTEST:

.....
Secretary

WORLD BOOK-CHILDCRAFT INTERNATIONAL, INC.

By
President

ATTEST:

.....
Secretary

WORLD BOOK FINANCE, INC.

By
President

ATTEST:

.....
Secretary

WORLD BOOK ENCYCLOPEDIA, INC.

By
President

ATTEST:

.....
Secretary

EXHIBIT C

Senior Subordinated Indebtedness* of the Company shall be evidenced by a note or other written obligation which shall contain substantially the following provisions:

1. The payment of any and all Senior Subordinated Indebtedness is expressly subordinated to the extent and in the manner set forth in paragraphs 2 to 4, inclusive, hereof to Senior Indebtedness. The term "Senior Subordinated Indebtedness" shall mean and include the principal of and interest on all liabilities of the Company or any Subsidiary, or any combination thereof, to the holder ("Holder") of such Senior Subordinated Indebtedness, direct or contingent, joint, several or independent, now or hereafter existing, due or to become due to, or held or to be held by, the Holder, whether created directly or acquired by assignment or otherwise, including, without limiting the generality of the foregoing

The term "Senior Indebtedness" shall mean and include the principal of and premium, if any, and interest on all Indebtedness of the Company or any Subsidiary that is not subordinated in accordance with the provisions hereof, direct or contingent, joint, several or independent, now or hereafter existing, due or to become due, whether created directly or acquired by assignment or otherwise including, without limiting the generality of the foregoing, all Indebtedness of the Company or any Subsidiary for principal of and interest on the Notes issued under and pursuant to the provisions of the Note Agreement (the "Agreement") dated August 31, 1978, between the Company and The Prudential Insurance Company of America (including extensions, renewals and refundings thereof, whether or not the principal amount is increased).

2. If there shall occur an Event of Default or Default, as defined in Section 10 of the Agreement, then, unless and until such Event of Default or Default shall have been cured, or unless and until Senior Indebtedness shall be paid in full, the Holder will not receive or accept any payment from the Company in respect of Senior Subordinated Indebtedness.

3. In the event that the Holder shall receive any payment on Senior Subordinated Indebtedness which the Holder is not entitled to receive under the provisions of the foregoing paragraph 2, he will hold any amount so received in trust for the benefit of the owner or owners of the Senior Indebtedness and will forthwith turn over such payment to the owner or owners of the Senior Indebtedness in the form received to be applied on Senior Indebtedness.

4. In the event of any liquidation, dissolution or other winding up of the Company or any Subsidiary, or in the event of any receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization or arrangement with creditors, whether or not pursuant to bankruptcy laws, sale of all or substantially all of the assets or any other marshalling of the assets and liabilities of the Company or any Subsidiary, (i) Senior Indebtedness shall first be paid in full before the Holder shall be entitled to receive any moneys, dividends or other assets in any proceeding, and (ii) the Holder will at the request of the owner or owners of a majority of the principal amount of the Senior Indebtedness file any claim, proof of claim or other instrument of similar character necessary to enforce the obligations of the Company or any Subsidiary in respect of Senior Subordinated Indebtedness and will hold in trust for the owner or owners of the Senior Indebtedness and pay over to the owner or owners of the Senior Indebtedness, in the form received, to be applied on Senior Indebtedness, any and all moneys, dividends or other assets received in any such proceeding on account of Senior Subordinated Indebtedness, unless and until Senior Indebtedness shall be paid in full. In the event that the Holder shall fail to take such action so requested, a representative designated for such purpose by the owner or owners of a majority of the outstanding principal amount of the Senior Indebtedness may, as attorney-in-fact for the Holder, take such action on

*All terms used herein that are defined in the Note Agreement between World Book Finance, Inc. and The Prudential Insurance Company of America dated August 31, 1978 shall have meanings as set forth in said Agreement.

behalf of the Holder, and the Holder hereby appoints such representative as attorney-in-fact for the Holder to demand, sue for, collect and receive any and all such moneys, dividends or other assets and give acquittance therefor and to file any claim, proof of claim or other instrument of similar character and to take such other action (including acceptance or rejection of any plan of reorganization or arrangement) in the name of the owner or owners of the Senior Indebtedness or in the name of the Holder, as such representative may deem necessary or advisable for the enforcement of these subordination provisions; and the Holder will, upon request, execute and deliver to such representative such other and further powers of attorney or other instruments as such representative may request in order to accomplish the foregoing.

5. The owner or owners of the Senior Indebtedness may, at any time and from time to time, without the consent of or notice to the Holder, without incurring responsibility to the Holder, and without impairing or releasing any rights of such owner or owners, or any of the obligations of the Holder under these subordination provisions:

(a) Change the amount, manner, place or terms of payment or change or extend the time of payment of or renew or alter Senior Indebtedness or amend the Agreement or any other agreement relating to the issuance of any Senior Indebtedness in any manner or enter into or amend in any manner any other agreement relating to Senior Indebtedness;

(b) Sell, exchange, release or otherwise deal with any property by whomsoever at any time pledged or mortgaged to secure, or howsoever securing, Senior Indebtedness;

(c) Release anyone liable in any manner for the payment or collection of Senior Indebtedness;

(d) Exercise or refrain from exercising any rights against the Company, any Subsidiary, or any other Person (including the Holder); and

(e) Apply any sums by whomsoever paid or however realized to Senior Indebtedness.

6. Notice of acceptance contained herein is hereby waived.

7. The Holder will cause all Subordinated Indebtedness to be evidenced by a note or other instrument which shall bear upon its face a statement or legend to the effect that such note or other instrument is subordinated to Senior Indebtedness in the manner and to the extent set forth herein, and will mark its books to show that the Senior Subordinated Indebtedness is so subordinated to Senior Indebtedness.

8. The Holder represents and warrants that neither the execution nor delivery of the instrument containing these subordination provisions, nor fulfillment nor compliance with the terms and provisions hereof will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, any agreement or instrument to which the Holder is now subject.

9. That portion of the Senior Indebtedness evidenced by the Notes is intended to be construed and enforced in accordance with the laws of the State of Illinois, and the Holder accordingly agrees that the instrument containing these subordination provisions shall be construed and enforced in accordance with, and the rights of the parties thereto shall be governed by, the law of the State of Illinois.

EXHIBIT D

Junior Subordinated Indebtedness* of the Company or any Subsidiary shall be evidenced by a note or other written obligation which shall contain substantially the following provisions:

1. The payment of any and all Junior Subordinated Indebtedness is expressly subordinated to the extent and in the manner set forth in paragraphs 2 to 4, inclusive, hereof to Senior Indebtedness and Senior Subordinated Indebtedness. The term "Junior Subordinated Indebtedness" shall mean and include the principal of and interest on all liabilities of the Company or any Subsidiary, or any combination thereof, to the holder ("Holder") of such Junior Subordinated Indebtedness, direct or contingent, joint, several or independent, now or hereafter existing, due or to become due to, or held or to be held by, the Holder, whether created directly or acquired by assignment or otherwise. The term "Senior Subordinated Indebtedness" shall mean and include the principal of and interest on all Indebtedness of the Company, or any Subsidiary, or any combination thereof, that is subordinated to Senior Indebtedness but that is not subordinated to Junior Subordinated Indebtedness in accordance with the provisions hereof, direct or contingent, joint, several or independent, now or hereafter existing, due or to become due, whether created directly or acquired by assignment or otherwise. The term "Senior Indebtedness" shall mean and include the principal of and premium, if any, and interest on all Indebtedness of the Company or any Subsidiary, other than Senior Subordinated Indebtedness, that is not subordinated in accordance with the provisions hereof, direct or contingent joint, several or independent, now or hereafter existing, due or to become due, whether created directly or acquired by assignment or otherwise including, without limiting the generality of the foregoing, all Indebtedness of the Company or any Subsidiary for principal of and interest on the Notes issued under and pursuant to the provisions of the Note Agreement (the "Agreement") dated August 31, 1978, between the Company and The Prudential Insurance Company of America (including extensions, renewals and refundings thereof, whether or not the principal amount is increased).

2. If there shall occur an Event of Default or Default, as defined in Section 10 of the Agreement, then, unless and until such Event of Default or Default shall have been cured, or unless and until Senior Indebtedness and Senior Subordinated Indebtedness shall be paid in full, the Holder will not receive or accept any payment from the Company in respect of Junior Subordinated Indebtedness.

3. In the event that the Holder shall receive any payment on Junior Subordinated Indebtedness which the Holder is not entitled to receive under the provisions of the foregoing paragraph 2, he will hold any amount so received in trust for the benefit of the owner or owners of the Senior Indebtedness and will forthwith turn over such payment to the owner or owners thereof in the form received, to be applied first on Senior Indebtedness and thereafter on Senior Subordinated Indebtedness.

4. In the event of any liquidation, dissolution or other winding up of the Company or any Subsidiary, or in the event of any receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization or arrangement with creditors, whether or not pursuant to bankruptcy laws, sale of all or substantially all of the assets or any other marshalling of the assets and liabilities of the Company or any Subsidiary, (i) Senior Indebtedness and Senior Subordinated Indebtedness shall first be paid in full before the Holder shall be entitled to receive any moneys, dividends or other assets in any proceeding, and (ii) the Holder will at the request of the owner or owners of a majority of the principal amount of the Senior Indebtedness file any claim, proof of claim or other instrument of similar character necessary to enforce the obligations of the Company or any Subsidiary in respect of Junior Subordinated Indebtedness and will hold in trust for the owner or owners of the Senior Indebtedness and pay over to the owner or owners thereof, in the form received, to be applied first on Senior Indebtedness, any and all moneys, dividends or other assets received in any such proceeding

*All terms used herein that are defined in the Note Agreement between World Book Finance, Inc. and The Prudential Insurance Company of America dated August 31, 1978 shall have meanings as set forth in said Agreement.

on account of Junior Subordinated Indebtedness, unless and until Senior Indebtedness shall be paid in full. In the event that the Holder shall fail to take such action so requested, a representative designated for such purpose by the owner or owners of a majority of the outstanding principal amount of the Senior Indebtedness may, as attorney-in-fact for the Holder, take such action on behalf of the Holder, and the Holder hereby appoints such representative as attorney-in-fact for the Holder to demand, sue for, collect and receive any and all such moneys, dividends or other assets and give acquittance therefor and to file any claim, proof of claim or other instrument of similar character and to take such other action (including acceptance or rejection of any plan of reorganization or arrangement) in the name of the owner or owners of the Senior Indebtedness or in the name of the Holder, as such representative may deem necessary or advisable for the enforcement of these subordination provisions; and the Holder will, upon request, execute and deliver to such representative such other and further powers of attorney or other instruments as such representative may request in order to accomplish the foregoing.

5. The owner or owners of the Senior Indebtedness and Senior Subordinated Indebtedness may, respectively, at any time and from time to time, without the consent of or notice to the Holder, without incurring responsibility to the Holder, and without impairing or releasing any rights of such owner or owners, or any of the obligations of the Holder under these subordination provisions:

(a) Change the amount, manner, place or terms of payment or change or extend the time of payment of or renew or alter Senior Indebtedness and Senior Subordinated Indebtedness or amend the Agreement or any other agreement relating to the issuance of any Senior Indebtedness and Senior Subordinated Indebtedness in any manner or enter into or amend in any manner any other agreement relating to Senior Indebtedness and Senior Subordinated Indebtedness;

(b) Sell, exchange, release or otherwise deal with any property by whomsoever at any time pledged or mortgaged to secure, or howsoever securing, Senior Indebtedness and Senior Subordinated Indebtedness;

(c) Release anyone liable in any manner for the payment or collection of Senior Indebtedness and Senior Subordinated Indebtedness;

(d) Exercise or refrain from exercising any rights against the Company, any Subsidiary, or any other Person (including the Holder); and

(e) Apply any sums by whomsoever paid or however realized to Senior Indebtedness and Senior Subordinated Indebtedness.

6. Notice of acceptance of the agreement contained herein is hereby waived.

7. The Holder will cause all Junior Subordinated Indebtedness to be evidenced by a note or other instrument which shall bear upon its face a statement or legend to the effect that such note or other instrument is subordinated to Senior Indebtedness and Senior Subordinated Indebtedness in the manner and to the extent set forth herein, and will mark its books to show that the Junior Subordinated Indebtedness is so subordinated to Senior Indebtedness and Senior Subordinated Indebtedness.

8. The Holder represents and warrants that neither the execution nor delivery of the instrument containing these subordination provisions, nor fulfillment nor compliance with the terms and provisions hereof will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, any agreement or instrument to which the Holder is now subject.

9. That portion of the Senior Indebtedness evidenced by the Notes is intended to be construed and enforced in accordance with the laws of the State of Illinois, and the Holder accordingly agrees that the instrument containing these subordination provisions shall be construed and enforced in accordance with, and the rights of the parties thereto shall be governed by, the law of the State of Illinois.

WORLD BOOK FINANCE, INC.
Merchandise Plaza
Chicago, Illinois 60654

Dated: June 30, 1981

The Prudential Insurance Company
of America
Prudential Plaza
Newark, New Jersey 07101

Attention: Vice President in Charge of
the Corporate Finance Department

Gentlemen:

In connection with the execution of a Note Agreement between you and the undersigned, World Book Finance, Inc., a Delaware corporation (the "Company"), of even date herewith, we hereby request that the Note Agreement between you and the Company, dated August 31, 1978 (the "1978 Note Agreement") be amended in the manner set forth below.

All capitalized terms used herein and not otherwise defined shall have the meanings assigned in the 1978 Note Agreement.

The amendments to the 1978 Note Agreement are as follows:

(a) Delete paragraph 4 in its entirety and insert in lieu thereof the following:

4. Prepayments. The Note shall be subject to prepayment with respect to the required prepayments specified in paragraph 4A and also under the circumstances set forth in paragraphs 4B to 4D, inclusive, and 6B(4).

(b) Delete clause (i) of paragraph 4D in its entirety and insert in lieu thereof the following:

(i) such declining receivables are the result of transactions in the normal course of business,

occur for reasons beyond the control of the Company, any Subsidiary, S & F and its Affiliates, and are not undertaken by the Company or any Subsidiary with the primary intention of facilitating prepayment pursuant to this paragraph 4D,

(c) Delete paragraphs 5A(i), (iii) and (iv) in their entirety and insert in lieu thereof the following:

(i) as soon as practicable and in any event within 45 days after the end of each quarterly period (other than the last quarterly period) in each fiscal year, a consolidated and consolidating statement of income and consolidated statement of changes in financial position of the Company and its Subsidiaries for the period from the beginning of the current fiscal year to the end of such quarterly period, and a consolidated and consolidating balance sheet of the Company and its Subsidiaries as at the end of such quarterly period, setting forth in each case in comparative form figures for the corresponding period in the preceding fiscal year, all in reasonable detail and certified by an authorized financial officer of the Company, subject to changes resulting from year-end adjustments;

(iii) as soon as practicable and in any event within 45 days after the end of each quarterly period (other than the last quarterly period) in each fiscal year, a consolidated and consolidating statement of income and consolidated statement of changes in financial position of S & F and its subsidiaries for the period from the beginning of the current fiscal year to the end of such quarterly period, and a consolidated and consolidating balance sheet of S & F and its subsidiaries as at the end of such quarterly period, setting forth in each case in comparative form figures for the corresponding period in the preceding fiscal year, all in reasonable detail, consistent with the practices and procedures applied in preparation of the interim financial statements of S & F referred to in paragraph 8B, and certified by an authorized financial officer of S & F, subject to changes resulting from year-end adjustments;

(iv) as soon as practicable and in any event within 90 days after the end of each fiscal year, a consolidating and consolidated statement of income and consolidated statement of changes in financial position of S & F and its subsidiaries for such year, and a consolidating and consolidated balance sheet

of S & F and its subsidiaries as at the end of such year, setting forth in each case in comparative form corresponding consolidated figures from the preceding annual audit, all in reasonable detail, consistent with the practices and procedures applied in preparation of the annual financial statements of S & F referred to in paragraph 8B, and, as to the consolidated statements, certified to S & F by independent public accountants of recognized standing selected by S & F, which certificate shall be based upon an examination made in accordance with generally accepted auditing standards;

(d) Delete the portion of paragraph 5A which begins with the words "Together with each delivery ..." in its entirety and insert in lieu thereof the following:

Together with each delivery of financial statements required by clause (i) above, the Company will deliver to you an Officer's Certificate stating that the methods applied by the Company and its Subsidiaries for determining unearned finance charges, if any, and establishing the adequacy of reserves for bad debts and contract reserves conform to generally accepted accounting principles, and that, on the basis of past experience of the Company and its Subsidiaries, the reserves for bad debts and contract reserves contained in the balance sheet as at the end of such fiscal period are adequate. Together with each delivery of financial statements required by clauses (i) and (ii) above, the Company will deliver to you an Officer's Certificate setting forth (except to the extent specifically set forth in such financial statements) the aggregate amount of interest accrued on Indebtedness of the Company and Subsidiaries (if any) during the fiscal period covered by such financial statements, the aggregate amounts of depreciation on physical property charged on the books of the Company and Subsidiaries (if any) during such fiscal period, the amount of Receivables, Net Eligible Receivables, Adjusted Net Worth, Senior Indebtedness, Senior Subordinated Indebtedness, and Junior Subordinated Indebtedness of the Company and its Subsidiaries as of the end of such fiscal period, the aggregate amount which banks shall have agreed to lend the Company and its Subsidiaries under established lines of credit or revolving credits, and the amounts borrowed thereunder, as of the end of such fiscal period, and the aggregate amount of Fixed Charges of the Company and its Subsidiaries for such fiscal period, and stating that there exists

no Event of Default or Default, or, if any such Event of Default or Default exists, specifying the nature thereof, the period of existence thereof and what action the Company proposes to take with respect thereto. Together with each delivery of financial statements required by clause (ii) above, the Company will deliver to you a certificate of said accountants stating that they have examined the methods applied by the Company and its Subsidiaries for establishing the adequacy of the reserves for bad debts, contract reserves and distributor reserves and in their opinion such methods conform to generally accepted accounting principles and, on the basis of past experience of the Company and its Subsidiaries the distributor reserve and reserve for bad debts and contract reserves contained in the balance sheet as at the end of such fiscal year are reasonable, and that in making the audit necessary to the certification of such financial statements, they have obtained no knowledge of any Event of Default or Default, or, if any such Event of Default or Default exists, specifying the nature and period of existence thereof. The Company also covenants that forthwith upon the President or chief financial officer of the Company obtaining knowledge of an Event of Default or Default under this Agreement, it will deliver to you an Officer's Certificate specifying the nature thereof, the period of existence thereof, and what action the Company proposes to take with respect thereto. You are hereby authorized to deliver a copy of any financial statement delivered to you pursuant to this paragraph 5A to any regulatory body having jurisdiction over you.

(e) Delete paragraph 6B(1) in its entirety and insert in lieu thereof the following:

6B(1) Net Eligible Assets -- Net Eligible Assets to be less than 110% of total Indebtedness of the Company and its Subsidiaries on a consolidated basis less the aggregate of Senior Subordinated Indebtedness and Junior Subordinated Indebtedness held by WBCI and S & F.

(f) Delete paragraph 6C(2)(i) in its entirety and insert in lieu thereof the following:

(i) Senior Indebtedness of the Company, including Senior Indebtedness represented by the Notes, the Kirby Note, the Revolving Notes, and the Bank Note, provided that at all times the aggregate outstanding

principal amount of Senior Indebtedness shall not exceed 400% of Capital Base;

(g) The last line of paragraph 6C(2)(iv) shall be amended to read "... shall be not more than 30 days overdue; and"

(h) Delete paragraph 6C(3)(i) in its entirety and insert in lieu thereof the following:

(i) make or permit to remain outstanding loans or advances to any Subsidiary, or own, purchase or acquire stock of a Subsidiary;

(i) Delete paragraph 6C(8) in its entirety and insert in lieu thereof the following:

6C(8) Sale or Discount of Receivables -- Sell with recourse, or discount or otherwise sell for less than the face value thereof, any notes or accounts receivable of the Company or any Subsidiary, except that notes or accounts receivable that were originally acquired by the Company or any of its Subsidiaries at less than the face value thereof may be sold (without recourse) or discounted at a net cash price to the Company or its Subsidiary not less than the original net cost thereof to the Company or its Subsidiary.

(j) Delete paragraph 6C(9)(i) in its entirety and insert in lieu thereof the following:

(i) any contract providing for the making of loans, advances or capital contributions to any Person other than a Subsidiary, or for the purchase of any property from any Person, in each case in order to enable such Person to maintain working capital, net worth or any other balance sheet condition or to pay debts, dividends or expenses, except that the Company may perform its obligations under the Operating Agreement and the Company and United may enter into and perform their respective obligations under, and United may engage in the business contemplated by, the Kirby Operating Agreement;

(k) Delete paragraph 6C(9)(v) in its entirety and substitute in lieu thereof the following:

(v) any other contract which, in economic effect, is substantially equivalent to a guarantee, except as permitted by clause (iii) or (iv) of Paragraph 6C(3).

(l) Delete paragraph 6C(11) in its entirety and insert in lieu thereof the following:

6C(11) Business Activities -- Engage in any type of business other than (i) the purchase of Receivables by the Company pursuant to the Operating Agreement, and (ii) the purchase and collection of Receivables by United as contemplated by the Kirby Operating Agreement.

(m) Delete paragraph 6D in its entirety and insert in lieu thereof the following:

6D. Issuance of Stock. The Company covenants that it will not (either directly, or indirectly by the issuance of rights or options for, or securities convertible into, such shares) (i) permit any Subsidiary to issue, sell or otherwise dispose of any shares of any class of stock of such Subsidiary (other than directors' qualifying shares) except to the Company or to a Subsidiary, or (ii) issue, sell, otherwise dispose of, or permit the transfer or registration of transfer of any shares of any class of stock of the Company to, any Person other than S & F, WBCI, or, pursuant to the Operating Agreement or the Kirby Operating Agreement, Encyclopedia.

(n) Delete in its entirety clause (i) of paragraph 7 and insert in lieu thereof the following:

(i) the Company defaults in the payment of any principal of any Notes or of any Kirby Note when the same shall become due, either by the terms thereof or otherwise as herein provided,

(o) Delete "(iv)" in line 19 of paragraph 7 and insert in lieu thereof "(vi)".

(p) Delete in its entirety clause (viii) of paragraph 7 and insert in lieu thereof the following:

(viii) any order for relief, judgment or decree is entered against the Company or any Subsidiary under bankruptcy or insolvency laws;

(q) Delete "1878". in line 6 of paragraph 8B and insert in lieu thereof "1978,".

(r) Delete paragraph 10L in its entirety and insert in lieu thereof the following:

10L. "Receivables" of any Person shall mean any right to receive payment in United States or Canadian currency arising out of the retail sale in the ordinary course of business of encyclopedias, other reference and topical works, other publications and other consumer items sold by WBCI or Encyclopedia, or arising out of the retail sale by distributors or dealers in the ordinary course of business of consumer floor care and related products manufactured and/or distributed at wholesale by the Kirby Division of S & F, including all interests in or arising under, any conditional sales agreement, chattel mortgage, promissory note, lease, chattel paper, retail installment contract, credit sale contract, lien contract, security agreement, security interest or lien evidencing or securing such right to receive payment, including the right to receive or retain any interest on or finance charge in respect of the principal amount of such payment, but only to the extent that (i) the Company shall be entitled to such interest or finance charge, or part thereof, pursuant to the provisions of the last sentence of paragraph 9A of the Operating Agreement, or (ii) United shall be entitled to such interest or finance charge as the holder of a Receivable.

(s) Delete paragraph 10M in its entirety and insert in lieu thereof the following:

10M. "Net Eligible Receivables" shall mean the gross amount of Receivables owned by the Company and its Subsidiaries, less: (i) unearned finance charges; (ii) the greater of (a) reserves for uncollectible accounts of the Company, including the Contract Reserve Account referred to in the Operating Agreement, or (b) the sum of Receivables owned by the Company, on which one full installment payment has not been received within the 180 days immediately preceding any calculation under this paragraph and, without duplication, the aggregate amount of Receivables owned by the Company that have been placed with attorneys or collection agencies for collection, all determined in accordance with good accounting practice; (iii) the excess of the aggregate principal amount of loans and advances outstanding pursuant to paragraph 6C(3)(v) over 5% of Consolidated Stockholders' Equity; and (iv) reserves for uncollectible accounts of Subsidiaries, including the Bad Debt Reserve Account referred to in the Kirby Operating Agreement.

(t) Delete paragraph 100 in its entirety and insert in lieu thereof the following:

100. "Adjusted Net Worth" shall mean the sum of all capital stock, capital surplus, and retained earnings, less (i) treasury stock; (ii) intangibles (including goodwill, deferred charges, prepaid expenses, and unamortized debt expense); (iii) the excess of Receivables of the Company and Subsidiaries originating outside the United States, United States possessions, and Canada over 10% of the gross amount of Receivables of the Company and Subsidiaries; (iv) the excess of Receivables maturing in more than 36 months over 25% of the gross amount of Receivables of the Company and Subsidiaries; (v) any Receivable maturing in more than 60 months unless the Company or a Subsidiary has full recourse against the seller with respect to the payment thereof; and (vi) the excess of the aggregate principal amount of loans and advances outstanding pursuant to paragraph 6C(3)(v) over 5% of Consolidated Stockholders' Equity.

(u) Delete paragraph 10P in its entirety and insert in lieu thereof the following:

10P. "Capital Base" shall mean the sum of Adjusted Net Worth plus Senior Subordinated Indebtedness plus Junior Subordinated Indebtedness of the Company.

(v) Delete paragraph 10S in its entirety and insert in lieu thereof the following:

10S. "Enterprises" or "Encyclopedia" shall mean World Book Enterprises, Inc. (formerly World Book Encyclopedia, Inc.), a Delaware corporation and a wholly-owned subsidiary of WBCI.

(w) Delete paragraph 10U and insert in lieu thereof the following:

10U. "Consolidated Net Earnings Available for Fixed Charges" shall mean consolidated net income of the Company and its subsidiaries as determined by generally accepted accounting principles, with the following adjustments (to the extent such items have not already been taken into account in calculating net income):

(i) all operating and maintenance expenses, taxes other than taxes on or measured by income, and depreciation shall be deducted in determining net income;

(ii) all extraordinary, nonrecurring items of income shall be excluded in determining net income;

(iii) all extraordinary nonrecurring items of expense shall be deducted in determining net income;

(iv) Fixed Charges shall not be deducted in determining net income; and

(v) any cash payment required to be made for any fiscal quarter during the same fiscal year pursuant to paragraph 3 of the Operating Agreement or paragraph 5 of the Kirby Operating Agreement, provided that such payment is made within the time period provided therein, shall be added to net income for such fiscal quarter.

(x) Section 10 shall be amended by addition of the following:

10W. "United" shall mean United Retail Finance Company, a Delaware corporation and a wholly-owned Subsidiary of the Company.

10X. "Revolving Loan Agreement" shall mean the revolving loan agreement between the Company and The First National Bank of Chicago, individually and as agent, dated as of November 29, 1978 and "Revolving Notes" shall mean the notes issued thereunder.

10Y. "Operating Agreement" shall mean the Operating Agreement among the Company, WBCI, Encyclopedia and S & F, dated as of August 31, 1978.

10Z. "Kirby Note" shall mean the note issued pursuant to the Note Agreement between the Company and you dated June 30, 1981.

10AA. "Kirby Operating Agreement" shall mean the operating agreement among the Company, WBCI, Enterprises, S & F and United, dated as of June 30, 1981.

(y) The reference to "paragraph 8I" contained in paragraph 11B shall be deleted and "paragraph 8G" shall be inserted in lieu thereof.

If you are in agreement with the foregoing amendments, please sign the form of acceptance on the enclosed

counterpart of this letter and return the same to the under-
signed, whereupon such amendments shall become effective.

Very truly yours,
WORLD BOOK FINANCE, INC.

By /s/ GRANT C. MALCHOW
President

The foregoing Agreement
is hereby accepted as of
June 30, 1981.

THE PRUDENTIAL INSURANCE COMPANY
OF AMERICA

By /s/ RAYMOND A. CHARLES
Vice President

[CONFORMED]

WORLD BOOK FINANCE, INC.

\$25,000,000

14.75% NOTE DUE JUNE 30, 1989

Note Agreement

WITH

**THE PRUDENTIAL INSURANCE COMPANY
OF AMERICA**

Dated: June 30, 1981

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WORLD BOOK FINANCE, INC.
Merchandise Mart Plaza
Chicago, Illinois 60634

June 30, 1981

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA
Prudential Plaza
Newark, New Jersey 07101

Attention: Vice President in Charge of the Corporate Finance Department

Gentlemen:

The undersigned, World Book Finance, Inc., a Delaware corporation (herein called the "Company"), hereby agrees with you as follows:

SECTION 1. ISSUE OF NOTE

1. Authorization of Issue of Note. The Company will authorize the issue of its promissory note (herein, together with any notes issued hereunder in substitution therefor, called the "Note" or "Notes") in the principal amount of \$25,000,000, to be dated the date of issue thereof, to mature June 30, 1989, to bear interest on the unpaid balance thereof from the date thereof until the principal thereof shall become due and payable at the rate of 14.75% per annum, and to be substantially in the form of Exhibit A hereto attached.

SECTION 2. PURCHASE AND SALE OF NOTE

2. Purchase and Sale of Note. Subject to the terms and conditions herein set forth, the Company hereby agrees to sell to you and you agree to purchase from the Company a Note, registered in your name, in the principal amount of \$25,000,000, at 100% of such principal amount. The Company will deliver the Note to you at the offices of Schiff Hardin & Waite, Chicago, Illinois, against payment of the purchase price thereof by delivery of your check in Chicago Clearing House funds, or at your option, by credit to the Company's account at The First National Bank of Chicago (Account #59-15155) or such other account in the United States as the Company may designate to you in writing, on the date of closing, which shall be June 30, 1981, or such earlier date as the Company shall designate to you by not less than 5 days' notice in writing.

SECTION 3. CONDITIONS

3. Conditions of Closing. Your obligation to purchase and pay for the Note is subject to the satisfaction, on or before the date of closing, of the following conditions:

3A. Opinion of Purchaser's Special Counsel. You shall have received from Schiff Hardin & Waite, who are acting as special counsel for you in connection with this transaction, a favorable opinion satisfactory to you as to: (i) the due organization, existence and good standing of the Company; (ii) the due authorization (including any consent of shareholders required by law or by the charter or by-laws of the Company), execution and delivery by the Company and the validity of this Agreement, the Note and the Kirby Operating Agreement (hereinafter defined); (iii) the absence of any requirement to register the Note under the Federal Securities Act of 1933, as amended; and (iv) such other matters incident to the matters herein contemplated as you may reasonably request, including the form of all papers and the validity of all proceedings.

3B. Opinion of Company's Counsel. You shall have received from Jones, Day, Reavis & Pogue, counsel for the Company, a favorable opinion satisfactory to you and your special counsel as to the matters specified in clauses (i), (ii), (iii) and (iv) of paragraph 3A and as to: (i) the due organization, existence and good standing of each Subsidiary; (ii) the corporate power of the Company and each Subsidiary to carry on their respective businesses as then being conducted; (iii) the due qualification of the Company and each Subsidiary as a foreign corporation to transact business and its existence in good standing in Illinois, which is the only jurisdiction in which the ownership of property or the nature of the business transacted by it makes such qualification necessary; and (iv) the execution and delivery of the Kirby Operating Agreement, this Agreement and the Note, the offering, issuance and sale of the Note and fulfillment of and compliance with the respective provisions hereof and thereof not conflicting with, or resulting in a breach of the terms, conditions or provisions of, or constituting a default under, or resulting in any violation of, or resulting in the creation of any Lien upon any of the properties or assets of S & F, WBCI, the Company or any Subsidiary pursuant to, or requiring any authorization, consent, approval, exemption or other action by or any notice to or filing with any court or administrative or governmental body (other than routine filings after the date of such opinion with the Securities and Exchange Commission or state Blue Sky authorities) pursuant to, the charter or by-laws of S & F, WBCI, the Company or any Subsidiary, any applicable law (including any securities or Blue Sky law), statute, rule or regulation or (insofar as is known to such counsel after having made due inquiry with respect thereto) any agreement, instrument, order, judgment or decree to which S & F, WBCI, the Company or any Subsidiary is subject.

3C. Representations and Warranties; No Default. The representations and warranties contained in Section 8 shall be true on and as of the date of closing, except to the extent of changes caused by the transactions herein contemplated; there shall exist on the date of closing no Event of Default or Default; and the Company shall have delivered to you an Officer's Certificate, dated the date of closing, to both such effects.

3D. Accountants' Letters. The Company shall have delivered to you letters from the independent public accountants named in paragraph 8B, addressed to you, stating that such certifying firm has reviewed the provision for Federal and State income taxes of S & F and the Company contained in the respective financial statements furnished to you pursuant to paragraph 8B, and that, in the opinion of such firm, the consolidated balance sheet included in such financial statements includes reasonably adequate provision for all unpaid Federal and State income taxes for the fiscal year then most recently ended and for all fiscal years ended prior thereto which have not been examined and reported on by the taxing authorities or closed by applicable statute.

3E. Purchase Permitted by Applicable Laws. The purchase of and payment for the Note to be purchased by you on the date of closing on the terms and conditions herein provided (including the use of the proceeds of the Note by the Company) shall not be prohibited by any applicable law or governmental regulation (including, without limitation, Regulations G, T and X of the Board of Governors of the Federal Reserve System) and shall not subject you to any tax, penalty, liability or other onerous condition under or pursuant to any applicable law or governmental regulation relating to the extension of credit, and you shall have received such certificates or other evidence as you may request to establish compliance with this condition.

3F. Proceedings. All corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incident thereto shall be satisfactory in substance and form to you and your special counsel, and you and your special counsel shall have received all such counterpart originals or certified or other copies of such documents as you or they may reasonably request.

3G. Operating Agreements. (a) The Company shall have entered into an operating agreement (the "Kirby Operating Agreement"), substantially in the form of Exhibit B attached hereto, with

WBCI, Enterprises, United and S & F, and (b) the Company and the other parties thereto shall have entered into an amendment to the First Operating Agreement, substantially in the form previously furnished to you.

3H. Bank Loan Agreements. The Company shall have entered into modifications of the Bank Loan Agreement and Revolving Loan Agreement, substantially in the form previously furnished to you.

3I. Letter Agreement. The Company shall have delivered to you a letter agreement from S & F, Enterprises and WBCI substantially in the form previously furnished to you.

3J. Company Note Agreement. The Company shall have entered into a modification of the Note Agreement between the Company and you, dated as of August 31, 1978, which modification shall be in form and substance satisfactory to you.

3K. S & F Note Agreement. S & F shall have entered into a modification of the Note Agreement between S & F and you, dated as of August 31, 1978, in form and substance satisfactory to you.

3L. Capitalization. The aggregate amount of the common equity of the Company shall be not less than \$26,000,000.

SECTION 4. PREPAYMENTS

4. Prepayments. The Note shall be subject to prepayment with respect to the required prepayments specified in paragraph 4A and also under the circumstances set forth in paragraphs 4B and 6B(4).

4A. Required Prepayments. On June 30, 1985 and on June 30 in each year thereafter until the Note shall be paid in full, the Company shall apply to the prepayment of the Note, without premium, the sum of \$5,000,000, and such principal amounts of the Note, together with interest thereon to the prepayment dates, shall become due on such prepayment dates.

4B. Optional Prepayment; Declining Receivables. In the event that, at the end of three successive calendar months, the aggregate amount of Net Eligible Receivables owned by the Company and its Subsidiaries shall have averaged for said three-month period 66 2/3% or less of the highest average amount thereof outstanding at the end of any three successive calendar months after November 30, 1980, the Company may prepay the principal amount of the Note then outstanding, in whole or from time to time in part (in multiples of \$100,000), by payment of the following applicable percentage of the principal amount so prepaid together with interest thereon accrued to the date of prepayment:

If prepaid during the 12 months' period ending June 30,

<u>Year</u>	<u>Percentage of Principal</u>	<u>Year</u>	<u>Percentage of Principal</u>
1982.....	109.44	1986.....	107.22
1983.....	108.83	1987.....	106.67
1984.....	108.33	1988.....	106.11
1985.....	107.78	1989.....	105.56;

provided, however, that the Company may not make prepayment of the Note pursuant to this paragraph 4B unless (i) such declining receivables are the result of transactions in the normal course

of business, occur for reasons beyond the control of the Company, any Subsidiary, S & F and its Affiliates, and are not undertaken by the Company or any Subsidiary with the primary intention of facilitating prepayment pursuant to this paragraph 4B, (ii) such prepayment is not being made as a part of a refunding or anticipated refunding by the application, directly or indirectly, of borrowed funds, (iii) the Company shall have given notice pursuant to paragraph 4C within 30 days after the end of such three successive calendar months of its intention to prepay the Note, (iv) substantially simultaneously with the prepayment of the Note the Company shall have made a prepayment of all other Indebtedness subject to prepayment (with or without premium or penalty), in the principal amount which bears the same ratio to the unpaid principal amount of such other Indebtedness as the principal amount of the prepayment then being made under this paragraph 4B bears to the aggregate unpaid principal amount of the Note, and (v) the Company shall have delivered to you an Officer's Certificate to all such effects and setting forth in reasonable detail the computations evidencing compliance with the foregoing provisions of this paragraph 4B. Any prepayment made pursuant to this paragraph 4B shall be applied in anticipation of and satisfaction of the prepayments required to be made by the provisions of paragraph 4A in the inverse order of their maturities.

4C. Notice of Prepayment. The Company shall give you written notice of each prepayment, other than prepayments pursuant to paragraph 4A, not less than 30 days prior to the prepayment date, specifying such prepayment date and the principal amount of the Note to be prepaid on such date, whereupon the principal amount of the Note specified in such notice, together with interest thereon to the prepayment date and together with the premium, herein provided, shall become due and payable on such prepayment date.

SECTION 5. AFFIRMATIVE COVENANTS

5A. Financial Statements. The Company covenants that, so long as you shall hold or be obligated to purchase any Note, it will deliver to you in duplicate

(i) as soon as practicable and in any event within 45 days after the end of each quarterly period (other than the last quarterly period) in each fiscal year, a consolidated and consolidating statement of income and consolidated statement of changes in financial position of the Company and its Subsidiaries for the period from the beginning of the current fiscal year to the end of such quarterly period, and a consolidated and consolidating balance sheet of the Company and its Subsidiaries as at the end of such quarterly period, setting forth in each case in comparative form figures for the corresponding period in the preceding fiscal year, all in reasonable detail and certified by an authorized financial officer of the Company, subject to changes resulting from year-end adjustments;

(ii) as soon as practicable and in any event within 90 days after the end of each fiscal year, a consolidating and consolidated statement of income and consolidated statement of changes in financial position of the Company and its Subsidiaries for such year, and a consolidating and consolidated balance sheet of the Company and its Subsidiaries as at the end of such year, setting forth in each case in comparative form corresponding consolidated figures from the preceding annual audit, all in reasonable detail and satisfactory in scope to you and, as to the consolidated statements, certified to the Company by independent public accountants of recognized standing selected by the Company whose certificate shall be in scope and substance satisfactory to you;

(iii) as soon as practicable and in any event within 45 days after the end of each quarterly period (other than the last quarterly period) in each fiscal year, a consolidated and consolidating statement of income and consolidated statement of changes in financial position of S & F and its subsidiaries for the period from the beginning of the current fiscal year to the end of such quarterly period, and a consolidated and consolidating balance sheet of S & F and its subsidiaries

as at the end of such quarterly period, setting forth in each case in comparative form figures for the corresponding period in the preceding fiscal year, all in reasonable detail, consistent with the practices and procedures applied in preparation of the interim financial statements of S & F referred to in paragraph 8B, and certified by an authorized financial officer of S & F, subject to changes resulting from year-end adjustments;

(iv) as soon as practicable and in any event within 90 days after the end of each fiscal year, a consolidating and consolidated statement of income and consolidated statement of changes in financial position of S & F and its subsidiaries for such year, and a consolidating and consolidated balance sheet of S & F and its subsidiaries as at the end of such year, setting forth in each case in comparative form corresponding consolidated figures from the preceding annual audit, all in reasonable detail, consistent with the practices and procedures applied in preparation of the annual financial statements of S & F referred to in paragraph 8B, and, as to the consolidated statements, certified to S & F by independent public accountants of recognized standing selected by S & F, which certificate shall be based upon an examination made in accordance with generally accepted auditing standards;

(v) promptly upon transmission thereof, copies of all registration statements (without exhibits) and all reports which it or any Subsidiary files with the Securities and Exchange Commission (or any governmental body or agency succeeding to the functions of the Securities and Exchange Commission); and

(vi) with reasonable promptness and to the best of its ability, such other financial data (including financial data with respect to S & F and its Affiliates) as you may reasonably request.

Together with each delivery of financial statements required by clause (i) above, the Company will deliver to you an Officer's Certificate stating that the methods applied by the Company and its Subsidiaries for determining unearned finance charges, if any, and establishing the adequacy of reserves for bad debts and contract reserves conform to generally accepted accounting principles, and that, on the basis of past experience of the Company and its Subsidiaries, the reserves for bad debts and contract reserves contained in the balance sheet as at the end of such fiscal period are adequate. Together with each delivery of financial statements required by clauses (i) and (ii) above, the Company will deliver to you an Officer's Certificate setting forth (except to the extent specifically set forth in such financial statements) the aggregate amount of interest accrued on Indebtedness of the Company and Subsidiaries (if any) during the fiscal period covered by such financial statements, the aggregate amounts of depreciation on physical property charged on the books of the Company and Subsidiaries (if any) during such fiscal period, the amount of Receivables, Net Eligible Receivables, Adjusted Net Worth, Senior Indebtedness, Senior Subordinated Indebtedness, and Junior Subordinated Indebtedness of the Company and its Subsidiaries as of the end of such fiscal period, the aggregate amount which banks shall have agreed to lend the Company and its Subsidiaries under established lines of credit or revolving credits, and the amounts borrowed thereunder, as of the end of such fiscal period, and the aggregate amount of Fixed Charges of the Company and its Subsidiaries for such fiscal period, and stating that there exists no Event of Default or Default, or, if any such Event of Default or Default exists, specifying the nature thereof, the period of existence thereof and what action the Company proposes to take with respect thereto. Together with each delivery of financial statements required by clause (ii) above, the Company will deliver to you a certificate of said accountants stating that they have examined the methods applied by the Company and its Subsidiaries for establishing the adequacy of the reserves for bad debts, contract reserves and distributor reserves and in their opinion such methods conform to generally accepted accounting principles and, on the basis of past experience of the Company and its Subsidiaries the distributor reserve and reserve for bad debts and contract reserves contained in the balance sheet as at the end of such fiscal year are reasonable, and that in making the audit necessary to the certification of such financial statements, they have obtained no knowledge of any Event of Default or Default, or, if any such Event of Default or Default exists, specifying the nature and period of existence thereof. The

Company also covenants that forthwith upon the President or chief financial officer of the Company obtaining knowledge of an Event of Default or Default under this Agreement, it will deliver to you an Officer's Certificate specifying the nature thereof, the period of existence thereof, and what action the Company proposes to take with respect thereto. You are hereby authorized to deliver a copy of any financial statement delivered to you pursuant to this paragraph 5A to any regulatory body having jurisdiction over you.

5B. Inspection of Property. The Company covenants that, so long as you shall hold or be obligated to purchase any Note, it will permit any Person designated by you in writing, at your expense, to visit and inspect any of the properties of the Company and its Subsidiaries, to examine the corporate books and financial records of the Company and its Subsidiaries and make copies thereof or extracts therefrom and to discuss the affairs, finances and accounts of any such corporations with the principal officers of the Company, all at such reasonable times and as often as you may reasonably request.

5C. Covenant to Secure Note Equally. The Company covenants that, if it or any Subsidiary shall create or assume any Lien upon any of its property or assets, whether now owned or hereafter acquired, other than Liens excepted by the provisions of paragraph 6C(1) (unless prior written consent to the creation or assumption thereof shall have been obtained pursuant to paragraph 11C), it will make or cause to be made effective provision whereby the Note will be secured by such Lien equally and ratably with any and all other Indebtedness thereby secured as long as any such other Indebtedness shall be so secured.

5D. Enforcement of Kirby Operating Agreement, etc. The Company covenants that it will and will cause United to (i) perform all of their respective obligations under the Kirby Operating Agreement, (ii) enforce the Kirby Operating Agreement against WBCI, Enterprises and S & F in accordance with its terms, (iii) not assign any of their respective rights thereunder, and (iv) not agree to terminate the Kirby Operating Agreement or to amend or modify any of the terms or provisions thereof or waive any breach of any warranty or covenant contained therein, or consent to the assignment by any other party thereto of any of such other party's rights thereunder.

5E. Perfection of Rights in Receivables. The Company covenants that it will cause United to (i) undertake such registration, filing and recording of Receivables purchased by United as may be necessary in order to perfect and preserve United's rights and interests therein and in any security therefor, and (ii) take such action as is appropriate in order to collect promptly such Receivables as they become due.

SECTION 6. NEGATIVE COVENANTS

6A. Dividend Limitation. The Company covenants that it will not pay or declare any dividend on any class of its stock at any time after the date hereof, or make any other distribution on account of any class of its stock, or redeem, purchase or otherwise acquire, directly or indirectly, any shares of its stock, or permit any Subsidiary so to do, (all of the foregoing being herein called "Restricted Payments") unless the aggregate amount of all Restricted Payments theretofore and then being made does not exceed Consolidated Net Earnings subsequent to November 30, 1979. "Consolidated Net Earnings" shall mean consolidated gross revenues of the Company and its Subsidiaries less all operating and non-operating expenses of the Company and its Subsidiaries including all charges of a proper character (including current and deferred taxes on income, provision for taxes on unremitted foreign earnings which are included in gross revenues, and current additions to reserves), but not including in gross revenues any gains (net of expenses and taxes applicable thereto) in excess of losses resulting from the sale, conversion or other disposition of capital assets (i.e., assets other than current assets), any gains resulting from the write-up of assets, any equity of the Company or any Subsidiary in the unremitted earnings of any corporation which is not a Subsidiary, any earnings of any Person acquired by the Company or any Subsidiary through purchase, merger or consolidation or otherwise for any year prior to the year of acquisition, or any deferred credit representing the excess of equity in

any Subsidiary at the date of acquisition over the cost of the investment in such Subsidiary; all determined in accordance with generally accepted accounting principles. There shall not be included in Restricted Payments: (i) dividends paid, or distributions made, in stock of the Company, or (ii) exchanges of stock of one or more classes of the Company for common stock of the Company or for stock of the Company of the same class, except to the extent that cash or other value is involved in such exchange. The term "stock" as used in this paragraph 6A shall include warrants or options to purchase stock.

6B. Certain Restrictions. The Company covenants that it will not permit:

6B(1) Net Eligible Assets—Net Eligible Assets to be less than 110% of total Indebtedness of the Company and its Subsidiaries on a consolidated basis less the aggregate of Senior Subordinated Indebtedness and Junior Subordinated Indebtedness held by WBCI and S & F.

6B(2) Adjusted Net Worth—Adjusted Net Worth to be less than \$25,000,000;

6B(3) Coverage of Fixed Charges—Consolidated Net Earnings Available for Fixed Charges to be less than 150% of Fixed Charges for any fiscal quarter;

6B(4) Reduction of Senior Indebtedness—Total Senior Indebtedness of the Company and its Subsidiaries to be reduced below the greater of (i) 60% of the highest amount thereof outstanding at the end of any calendar month after April 1, 1981, or (ii) 70% of the highest amount thereof outstanding during the twelve consecutive months immediately preceding such reduction, unless substantially simultaneously with any such or further reduction thereof the Company shall make a prepayment on the Note, without premium, in the amount which bears the same ratio to the aggregate principal amount of the Note outstanding immediately prior to such prepayment as such reduction or such further reduction of Senior Indebtedness bears to the total amount thereof prior to such prepayment and such reduction or such further reduction.

6C. Liens, Debt and Other Restrictions. The Company covenants that it will not and will not permit any Subsidiary to:

6C(1) Liens—Create, assume or suffer to exist any Lien upon any of its property or assets, whether now owned or hereafter acquired (whether or not provision is made for the equal and ratable securing of the Note in accordance with the provisions of paragraph 5C), except

(i) Liens for taxes not yet due or which are being actively contested in good faith by appropriate proceedings;

(ii) other Liens incidental to the conduct of its business or the ownership of its property and assets which were not incurred in connection with the borrowing of money or the obtaining of advances or credit, and which do not in the aggregate materially detract from the value of its property or assets or materially impair the use thereof in the operation of its business, including any Liens for payment of judgments that are being actively contested in good faith by appropriate proceedings and execution on which is stayed; and

(iii) Liens on property or assets of a Subsidiary to secure obligations of such Subsidiary to the Company.

6C(2) Indebtedness—Create, incur, assume or suffer to exist any Indebtedness, except

(i) Senior Indebtedness of the Company, including Senior Indebtedness represented by the Note, the First Notes, the Revolving Notes, and the Bank Note, provided that at all times the aggregate outstanding principal amount of Senior Indebtedness shall not exceed 400% of Capital Base;

(ii) Senior Subordinated Indebtedness of the Company, provided that at all times the aggregate outstanding principal amount thereof shall not exceed 50% of the sum of Junior Subordinated Indebtedness and Adjusted Net Worth;

(iii) Junior Subordinated Indebtedness of the Company, provided that at all times the aggregate outstanding principal amount thereof shall not exceed 50% of Adjusted Net Worth;

(iv) unsecured accounts payable and other unsecured liabilities and obligations incidental to the regular operation of business which were not incurred in connection with the borrowing of money or the obtaining of advances or credit and which do not in the aggregate materially detract from the value of its property or assets or materially impair the use thereof in the operation of its business, provided that at all times such accounts payable and other obligations shall be not more than 30 days overdue; and

(v) Indebtedness of any Subsidiary to the Company.

6C(3) Loans, Advances, Investments and Contingent Liabilities—Make or permit to remain outstanding any loan or advance to, or guarantee, endorse or otherwise be or become contingently liable, directly or indirectly, in connection with the obligations, stock or dividends of, or own, purchase or acquire any stock, obligations or securities of, or any other interest in, or make any capital contribution to, any Person, except that the Company or any Subsidiary may

(i) make or permit to remain outstanding loans or advances to any Subsidiary, or own, purchase or acquire stock of a Subsidiary;

(ii) own, purchase or acquire prime commercial paper and certificates of deposit in United States commercial banks (having capital resources in excess of \$50,000,000), in each case due within one year from the date of purchase, obligations of the United States Government or any agency thereof, and obligations guaranteed by the United States Government;

(iii) endorse negotiable instruments for collection in the ordinary course of business;

(iv) guarantee short-term bank Indebtedness of any corporation all of the stock of every class of which (except directors' qualifying shares) shall then be owned by the Company, S & F or WBCI, or any combination thereof, and which engages primarily in the business of financing receivables of Foreign Subsidiaries, provided that the amount of such Indebtedness so guaranteed shall constitute Senior Indebtedness;

(v) make or permit to remain outstanding loans or advances to any other Person, provided that the aggregate principal amount of such loans and advances which is in excess of 5% of Consolidated Stockholders' Equity will be deemed not to be Net Eligible Receivables and will be excluded from Adjusted Net Worth.

6C(4) Sale of Stock and Indebtedness of Subsidiaries—Sell or otherwise dispose of, or part with control of, any shares of stock or Indebtedness of any Subsidiary, except, in the case of shares of stock, to the Company or a Subsidiary, and except that all shares of stock and Indebtedness of any Subsidiary at the time owned by or owed to the Company and all Subsidiaries may be sold as an entirety for a cash consideration which represents the fair value (as determined in good faith by the Board of Directors of the Company) at the time of sale of the shares of stock and Indebtedness so sold, provided that the assets of such Subsidiary do not constitute a Substantial Part of the consolidated assets of the Company and all Subsidiaries and that such Subsidiary shall not have contributed a Substantial Part of Consolidated Net Earnings for the three fiscal years (taken as a single period) then most recently ended, and further provided that, at the time of such sale, such Subsidiary shall not own, directly or indirectly, any shares of stock or Indebtedness of any other Subsidiary (unless all of the shares of stock and Indebtedness of such other Subsidiary owned, directly or indirectly, by the Company and all Subsidiaries are simultaneously being sold as permitted by this paragraph 6C(4)) or any Indebtedness of the Company.

6C(5) Merger and Sale of Assets—Merge or consolidate with any other corporation or sell, lease or transfer or otherwise dispose of all or a Substantial Part of its assets, or assets which

shall have contributed a Substantial Part of Consolidated Net Earnings for the three fiscal years (taken as a single period) then most recently ended, to any Person, except that

(i) any Subsidiary may merge with the Company (provided that the Company shall be the continuing or surviving corporation) or with any one or more other Subsidiaries;

(ii) any Subsidiary may sell, lease, transfer or otherwise dispose of any of its assets to the Company or another Subsidiary; and

(iii) any Subsidiary may sell or otherwise dispose of all or substantially all of its assets subject to the conditions specified in paragraph 6C(4) with respect to a sale of the stock of such Subsidiary.

6C(6) Lease Rentals—Enter into, or permit to remain in effect, any agreements to rent or lease (as lessee) any real or personal property except for property leased by it for its own use in the ordinary course of the business permitted by paragraph 6C(11).

6C(7) Sale and Lease-Back—Enter into any arrangement with any lender or investor or to which such lender or investor is a party providing for the leasing by the Company or any Subsidiary of real property owned by the Company or any Subsidiary which has been or is to be sold or transferred by the Company or any Subsidiary to such lender or investor or to any Person to whom funds have been or are to be advanced by such lender or investor on the security of such property or rental obligations of the Company or any Subsidiary.

6C(8) Sale or Discount of Receivables—Sell with recourse, or discount or otherwise sell for less than the face value thereof, any notes or accounts receivable of the Company or any Subsidiary, except that notes or accounts receivable that were originally acquired by the Company or any of its Subsidiaries at less than the face value thereof may be sold (without recourse) or discounted at a net cash price to the Company or its Subsidiary not less than the original net cost thereof to the Company or its Subsidiary.

6C(9) Certain Contracts—Enter into or be a party to

(i) any contract providing for the making of loans, advances or capital contributions to any Person other than a Subsidiary, or for the purchase of any property from any Person, in each case in order to enable such Person to maintain working capital, net worth or any other balance sheet condition or to pay debts, dividends or expenses, except that the Company may perform its obligations under the First Operating Agreement and the Company and United may enter into and perform their respective obligations under, and United may engage in the business contemplated by, the Kirby Operating Agreement;

(ii) any contract for the purchase of materials, supplies or other property or services if such contract (or any related document) requires that payment for such materials, supplies or other property or services shall be made regardless of whether or not delivery of such materials, supplies or other property or services is ever made or tendered;

(iii) any contract to rent or lease (as lessee) any real or personal property if such contract (or any related document) provides that the obligation to make payments thereunder is absolute and unconditional under conditions not customarily found in commercial leases then in general use or requires that the lessee purchase or otherwise acquire securities or obligations of the lessor;

(iv) any contract for the sale or use of materials, supplies or other property, or the rendering of services, if such contract (or any related document) requires that payment for such materials, supplies or other property, or the use thereof, or payment for such services,

shall be subordinated to any indebtedness (of the purchaser or user of such materials, supplies or other property or the Person entitled to the benefit of such services) owed or to be owed to any Person; or

(v) any other contract which, in economic effect, is substantially equivalent to a guarantee, except as permitted by clause (iii) or (iv) of paragraph 6C(3).

6C(10) Commercial Paper—Have outstanding commercial paper (other than to WBCI or S & F) in excess of the aggregate unused commitments under established lines of credit or revolving credits available to the Company.

6C(11) Business Activities—Engage in any type of business other than (i) the purchase of Receivables by the Company pursuant to the First Operating Agreement, and (ii) the purchase and collection of Receivables by United as contemplated by the Kirby Operating Agreement.

6D. Issuance of Stock. The Company covenants that it will not (either directly, or indirectly by the issuance of rights or options for, or securities convertible into, such shares) (i) permit any Subsidiary to issue, sell or otherwise dispose of any shares of any class of stock of such Subsidiary (other than directors' qualifying shares) except to the Company or to a Subsidiary, or (ii) issue, sell, otherwise dispose of, or permit the transfer or registration of transfer of any shares of any class of stock of the Company to, any Person other than S & F, WBCI, or, pursuant to the First Operating Agreement or the Kirby Operating Agreement, Enterprises.

6E. Payment of Subordinated Indebtedness. The Company covenants that until payment in full of the Note, it will not make any payment of principal of or interest on any Senior Subordinated Indebtedness or Junior Subordinated Indebtedness except to the extent permitted under the provisions set forth in Exhibits C and D hereto, and that all Senior Subordinated Indebtedness and Junior Subordinated Indebtedness will be evidenced by a note or other obligation in writing which shall expressly incorporate or state in full the terms under which such obligation is subordinated to the Senior Indebtedness.

SECTION 7. EVENTS OF DEFAULT

7. Events of Default. If any of the following events shall occur and be continuing for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or otherwise): (i) the Company defaults in the payment of any principal of any Note or of any First Note when the same shall become due, either by the terms thereof or otherwise as herein provided; or (ii) the Company defaults in the payment of any interest on any Note or First Note for more than 10 days after the date due; or (iii) the Company or any Subsidiary defaults in any payment of principal of or interest on any other obligation for money borrowed (or any obligation under conditional sale or other title retention agreement, or any obligation issued or assumed as full or partial payment for property whether or not secured by purchase money mortgage, or any obligation for an amount in excess of \$250,000 under notes payable or drafts accepted representing extensions of credit, or any obligation under leases or other contracts that constitute Senior Indebtedness of the Company or any Subsidiary) beyond any period of grace provided with respect thereto, or defaults in the performance of any other agreement, term or condition contained in any agreement under which any such obligation is created (or if any other default under any such agreement shall occur and be continuing) if the effect of such default is to cause, or to permit the holder or holders of such obligation (or a trustee on behalf of such holder or holders) to cause, such obligation to become due prior to its stated maturity; or (iv) any representation or warranty made by the Company herein or in any writing furnished in connection with or pursuant to this Agreement shall be false in any material respect on the date as of which made; or (v) the Company defaults in the performance or observance of any agreement contained in Section 6; or (vi) the Company defaults in the performance or observance of any other agreement, term or condition contained herein and such default shall not have been remedied within 30 days after written notice thereof shall have been

received by the Company from you; or (vii) the Company or any Subsidiary makes an assignment for the benefit of creditors or admits in writing its inability to pay its debts generally as they become due; or (viii) any order for relief, judgment or decree is entered against the Company or any Subsidiary under bankruptcy or insolvency laws; or (ix) the Company or any Subsidiary petitions or applies to any tribunal for the appointment of a trustee, receiver or liquidator of the Company or any Subsidiary, or of any Substantial Part of the assets of the Company or any Subsidiary, or commences any proceedings (other than proceedings for the voluntary liquidation and dissolution of a Subsidiary) relating to the Company or any Subsidiary under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect; or (x) any such petition or application is filed, or any such proceedings are commenced, against the Company or any Subsidiary and the Company or such Subsidiary by any act indicates its approval thereof, consent thereto or acquiescence therein, or an order, judgment or decree is entered appointing any such trustee, receiver or liquidator, or approving the petition in any such proceedings, and such order, judgment or decree remains unstayed and in effect for more than 60 days; or (xi) any order, judgment or decree is entered in any proceedings against the Company decreeing the dissolution of the Company and such order, judgment or decree remains unstayed and in effect for more than 60 days; or (xii) any order, judgment or decree is entered in any proceedings against the Company, S & F, WBCI, Enterprises or any Subsidiary decreeing a split-up of the Company or such Subsidiary which requires the divestiture of the business and assets of the Company, or the divestiture of a Substantial Part, or the stock of a Subsidiary whose assets constitute a Substantial Part, of the consolidated assets of the Company and its Subsidiaries or which requires the divestiture of assets, or stock of a Subsidiary, which shall have contributed a Substantial Part of Consolidated Net Earnings (as defined in paragraph 6A) for any of the three fiscal years then most recently ended, and such order, judgment or decree remains unstayed and in effect for more than 60 days; or (xiii) a "Default" exists under the S & F Note Agreement (as such term is defined therein); or (xiv) any Person defaults in the performance of any material obligation under the Kirby Operating Agreement; or (xv) WBCI shall cease to be an Affiliate of S & F or S & F shall enter into an agreement or any order, judgment or decree is entered in any proceedings against S & F or WBCI, whereby WBCI would cease to be an Affiliate of S & F; then the holder or holders of at least two-thirds of the principal amount of the Notes at the time outstanding may, at its or their option and in addition to any right, power or remedy permitted by law or equity, by notice in writing to the Company, declare all of the Notes to be, and all of the Notes shall thereupon be and become, forthwith due and payable together with interest accrued thereon. This Section is subject to the condition that if at any time after the Notes shall have been declared and shall have become due and payable and before any judgment or decree for the payment of the moneys so due, or any thereof, shall have been entered, all arrears of interest upon all the Notes and all other sums payable on the Notes (except the principal and interest on the Notes which by such declaration shall have become payable) shall have been duly paid, and every other Default and Event of Default shall have been made good or cured, then and in every such case the holders of 66 $\frac{2}{3}$ % in aggregate principal amount of the Notes then outstanding may, by written instrument delivered to the Company, rescind and annul such declaration and its consequences; but no such rescission or annulment shall extend to or affect any subsequent Default or Event of Default or impair any right consequent thereon.

SECTION 8. REPRESENTATIONS AND WARRANTIES

8. Representations and Warranties. The Company represents, covenants and warrants:

8A. Organization and Qualification. The Company and United are corporations duly organized and existing in good standing under the laws of the State of Delaware, each has the corporate power to own its respective property and to carry on its respective business as now being conducted, and is duly qualified as a foreign corporation to do business and is in good standing in Illinois, which is the only jurisdiction in which the nature of the business conducted by it makes such qualification

necessary. The Company is a wholly-owned subsidiary of WBCI, United is a wholly-owned Subsidiary of the Company, and at the date hereof United is the only Subsidiary of the Company.

8B. Financial Statements. The Company has furnished or caused to be furnished to you the following financial statements, identified by a financial officer of the Company: (x) consolidated and consolidating balance sheets of the Company and its Subsidiary as at November 30, in each of the years 1978 through 1980, inclusive, and consolidated and consolidating profit and loss and surplus statements for the Company and its Subsidiary for the period ended November 30, 1978 and the years ended November 30, 1979 and 1980, respectively, all certified by Coopers & Lybrand; and (y) consolidated and consolidating balance sheets of the Company and its Subsidiary as at February 29, 1980 and February 28, 1981, and consolidated and consolidating profit and loss and surplus statements of the Company and its Subsidiary for the three months' periods then ended, respectively, prepared by the Company. The Company has also furnished or caused to be furnished to you the following financial statements, identified by a principal financial officer of S & F: (1) consolidated and consolidating balance sheets of S & F and its subsidiaries as at November 30, in each of the years 1977 through 1980, and consolidated and consolidating statements of income of S & F and its subsidiaries for the years ended on such dates, respectively, all certified by Coopers & Lybrand; and (2) consolidated and consolidating balance sheets of S & F and its subsidiaries as at February 29, 1980 and February 28, 1981, and consolidated and consolidating statements of income of S & F and its subsidiaries for the three months' periods ended on such dates, respectively, prepared by S & F. Such financial statements (including any related schedules and/or notes) are true and correct in all material respects (subject to interim statements, to changes resulting from audits and year-end adjustments) and have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods involved except as noted therein and show all liabilities, direct and contingent, of the Company and its Subsidiary, and of S & F and its subsidiaries, respectively, required to be shown in accordance with such principles. The balance sheets fairly present the condition of the Company and its Subsidiary, and of S & F and its subsidiaries, respectively, as at the dates thereof, and the profit and loss and surplus statements fairly present the results of the operations of the Company and its Subsidiary, and of S & F and its subsidiaries, respectively, for the periods indicated. There has been no material adverse change in the business, condition or operations (financial or otherwise) of the Company and its Subsidiary, taken as a whole, or of S & F and its subsidiaries, taken as a whole, since February 28, 1981.

8C. Actions Pending. There is no action, suit, investigation or proceeding pending or, to the knowledge of the Company, threatened against or involving S & F or any of its subsidiaries (including the Company, its Subsidiary and WBCI), or any properties or rights of S & F or any of its subsidiaries, before any court, arbitrator or administrative or governmental body which in the opinion of the Company is likely to result in any material adverse change in the business, condition or operations of S & F and its subsidiaries taken as a whole or of WBCI and its subsidiaries taken as a whole, or of the Company and its Subsidiary taken as a whole.

8D. Outstanding Indebtedness. The Company does not have any outstanding Senior Indebtedness, except as set forth on Exhibit E attached hereto. There exists no default under the provisions of any instrument evidencing such Senior Indebtedness or of any agreement relating thereto. United has no outstanding Senior Indebtedness for money borrowed other than to the Company, which Senior Indebtedness does not exceed \$5,000,000.

8E. Conflicting Agreements and Other Matters. Neither the Company, its Subsidiary, nor S & F or any Affiliate is a party to any contract or agreement or subject to any charter or other corporate restriction which materially and adversely affects its respective business, property or assets, or financial condition. Neither the execution nor delivery of this Agreement, the Note, or the Kirby Operating Agreement, nor the offering, issuance and sale of the Note, nor fulfillment of nor compliance with the terms and provisions hereof and of the Note will conflict with, or result in a

breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien upon any of the properties or assets of the Company or its Subsidiary pursuant to, the charter or by-laws of the Company or its Subsidiary or of S & F or any Affiliate, any award of any arbitrator or any agreement (including any agreement with stockholders), instrument, order, judgment, decree, statute, law, rule or regulation to which the Company, its Subsidiary, or S & F or any Affiliate is subject. Neither the Company or its Subsidiary, nor S & F or any Affiliate, is a party to, or otherwise subject to any provision contained in, any instrument evidencing Indebtedness of the Company or such Subsidiary, or Indebtedness of S & F or any Affiliate, any agreement relating thereto, or any other contract or agreement (including its charter) which prohibits the incurring of the Indebtedness to be evidenced by the Note.

SF. Offering of Note. Neither the Company nor any agent acting on its behalf has offered the Note or any similar security of the Company for sale to, or solicited any offers to buy the Note or any similar security of the Company from, or otherwise approached or negotiated with respect thereto with, any Person or Persons other than yourself, and neither the Company nor any agent acting on its behalf has taken or will take any action which would subject the issuance or sale of the Note to the provisions of Section 5 of the Securities Act of 1933, as amended, or to the provisions of any securities or Blue Sky law of any applicable jurisdiction.

SG. Regulation G, etc. Neither the Company nor its Subsidiary owns or has any present intention of acquiring any "margin security" as defined in Regulation G (12 CFR Part 207) of the Board of Governors of the Federal Reserve System (herein called a "margin security"). The proceeds of sale of the Note to you will be used, together with other funds of the Company and its Subsidiary to acquire Receivables. None of such proceeds will be used, directly or indirectly, for the purpose of purchasing or carrying any margin security or for the purpose of reducing or retiring any indebtedness which was originally incurred to purchase or carry a margin security or for any other purpose which might constitute this transaction a "purpose credit" within the meaning of said Regulation G. Neither the Company nor any Subsidiary or agent acting on their behalf has taken or will take any action which might cause this Agreement or the Note to violate Regulation G, Regulation T, Regulation X or any other regulation of the Board of Governors of the Federal Reserve System or to violate the Securities Exchange Act of 1934, in each case as in effect now or as the same may hereafter be in effect. Neither the Company nor any subsidiary will enter into any commitment for the purchase or acquisition of any "margin security" or "publicly-held" security (as said terms are defined and used in said Regulations) directly or indirectly (including replenishment of funds theretofore available as working capital) out of the proceeds of the sale of the Note, unless prior thereto the Company shall have obtained a favorable ruling from an appropriate official of the Federal Reserve System, or a favorable opinion from counsel referred to in paragraph 3A (or other counsel of recognized standing satisfactory to you) to the effect that the extension of credit hereunder and the other circumstances surrounding such purchase or acquisition will not constitute a violation of any such Regulation or of the Securities Exchange Act of 1934 as then in effect.

SH. Employee Retirement Income Security Act. No Reportable Event, as defined in Section 4043 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or the regulations thereunder, exists or has occurred with respect to any employee benefit plan established or maintained by the Company, its Subsidiary, S & F or any Affiliate (including any multiemployer plan to which the Company, its Subsidiary, S & F or any Affiliate contributes) which is subject to Title I of ERISA. No liability to the Pension Benefit Guaranty Corporation has been, or is expected by the Company to be, incurred with respect to any such plan by the Company, its Subsidiary, S & F or any Affiliate. Neither the Company, its Subsidiary, S & F or any Affiliate has completely or partially withdrawn or expects to withdraw from any employee benefit plan (including any multiemployer plan as defined in Section 207(a) of the Multiemployer Pension Plan Amendments Act of 1980). The execution and delivery by the Company of this Agreement and the Note will not involve any prohibited transaction within the meaning of Section 406 of ERISA or Section 4975 of the Internal

Revenue Code. The representation by the Company in the preceding sentence is made in reliance upon and subject to the accuracy of your representation in paragraph 9 as to the source of funds to be used by you to pay the purchase price of the Note. Attached hereto as Exhibit F is a list of all funded employee benefit plans established or maintained by the Company, its Subsidiary, S & F or any Affiliate, or as to which the Company is a "party in interest" (as defined in Section 3 of ERISA) or a "disqualified person" (as defined in Section 4975 of the Internal Revenue Code).

8I. Governmental Consent. Neither the nature of the Company or of its Subsidiary, nor any of their respective businesses or properties, nor any relationship between the Company or its Subsidiary and any other Person, nor any circumstance in connection with the offer, issue, sale or delivery of the Note is such as to require any consent, approval or other action by or any notice to or filing with any court or administrative or governmental body (other than routine filings after the date of closing with the Securities and Exchange Commission and/or state Blue Sky authorities) in connection with the execution and delivery of this Agreement, the offer, issue, sale or delivery of the Note or fulfillment of or compliance with the terms and provisions hereof or of the Note.

8J. Possession of Franchises, Licenses, etc. The Company and its Subsidiary each possess all franchises, certificates, licenses, permits and other authorizations from governmental political subdivisions or regulatory authorities, all patents, trade-marks, service marks, trade names, copyrights, licenses and other rights, free from burdensome restrictions, that are necessary in any material respect for the ownership, maintenance and operation of their respective properties and assets, and neither the Company nor its Subsidiary is in violation of any thereof in any material respect.

8K. Title to Properties. The Company has and its Subsidiary has good and marketable title to their respective real properties and good title to all of their other respective properties and assets, including the properties and assets reflected in the balance sheet as at February 28, 1981 hereinabove described (other than properties and assets disposed of in the ordinary course of business), subject to no Lien of any kind except Liens permitted by paragraph 6C(1). The Company and its Subsidiary enjoy peaceful and undisturbed possession of all leases necessary in any material respect for the operation of their respective properties and assets, none of which contains any unusual or burdensome provisions which might materially affect or impair the operation of such properties and assets. All such leases are valid and subsisting and are in full force and effect.

8L. Taxes. The Company has and its Subsidiary has filed all Federal, State and Provincial income and other tax returns which, to the best knowledge of the officers of the Company, are required to be filed, and each has paid all taxes as shown on said returns and on all assessments received by it to the extent that such taxes have become due. Neither the Company nor its Subsidiary has granted any extension or waiver of the limitations period under such applicable statutes.

SECTION 9. REPRESENTATION OF THE PURCHASER

9. Representation of the Purchaser. You represent and in making this sale to you it is specifically understood and agreed that you are acquiring the Note for the purpose of investment and not with a view to or for sale in connection with any distribution thereof, provided that the disposition of your property shall at all times be and remain within your control. You further represent that no part of the funds being used by you to pay the purchase price of the Note hereunder constitutes assets allocated to any separate account maintained by you in which any employee benefit plan identified in the list referred to in paragraph 8H participates to the extent of five percent or more. As used in this paragraph 9, the terms "separate account" and "employee benefit plan" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

SECTION 10. DEFINITIONS

10. Definitions. For the purpose of this Agreement, the following terms shall have the following meanings:

10A. "Person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof.

10B. "Subsidiary" shall mean any corporation organized under the laws of any State of the United States of America, Canada, or any Province of Canada, which conducts the major portion of its business in the United States of America or Canada, and all of the stock of every class of which, except directors' qualifying shares, shall, at the time as of which any determination is being made, be owned by the Company either directly or through Subsidiaries. **"Foreign Subsidiary"** shall mean any corporation organized under the laws of any country except the United States of America and Canada, or which conducts the major portion of its business outside the United States of America and Canada, all of the stock of every class of which, except directors' qualifying shares, shall, at the time as of which any determination is being made, be owned by WBCI.

10C. "Affiliate" shall mean any Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, S & F, except the Company and any Subsidiary. A Person shall be deemed to control a corporation if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such corporation, whether through the ownership of voting securities, by contract or otherwise.

10D. "Indebtedness" shall mean and include without duplication,

(i) any obligation which under generally accepted accounting principles is shown on the balance sheet as a liability (excluding reserves for deferred income taxes and other reserves to the extent that such reserves do not constitute an obligation),

(ii) amounts equal to the aggregate net rentals (after making allowance for any interest, taxes or other expenses included therein) payable under any lease (whether or not such rentals accrue and become payable only on an annual or other periodic basis) which lease is capitalized in accordance with generally accepted accounting principles on a basis consistently applied,

(iii) indebtedness secured by any Lien existing on property owned subject to such Lien, whether or not the indebtedness secured thereby shall have been assumed, except with respect to Liens permitted by paragraph 6C(1),

(iv) guarantees, endorsements (other than endorsements of negotiable instruments for collection in the ordinary course of business) and other contingent liabilities (whether direct or indirect) in connection with the obligations, stock or dividends of any Person,

(v) obligations under any contract providing for the making of loans, advances or capital contributions to any Person, or for the purchase of any property from any Person, in each case in order to enable such Person primarily to maintain working capital, net worth or any other balance sheet condition or to pay debts, dividends or expenses,

(vi) obligations under any contract for the purchase of materials, supplies or other property if such contract (or any related document) requires that payment for such materials, supplies or other property shall be made regardless of whether or not delivery of such materials, supplies or other property is ever made or tendered,

(vii) obligations under any contract to rent or lease (as lessee) any real or personal property if such contract (or any related document) provides that the obligation to make payments thereunder is absolute and unconditional under conditions not customarily found in commercial leases then in general use or requires that the lessee purchase or otherwise acquire securities or obligations of the lessor,

(viii) obligations under any contract for the sale or use of materials, supplies or other property if such contract (or any related document) requires that payment for such materials supplies or other property, or the use thereof, shall be subordinated to any indebtedness (of the purchaser or user of such materials, supplies or other property) owed or to be owed to any Person, and

(ix) obligations under any other contract which, in economic effect, is substantially equivalent to a guarantee;

all as determined in accordance with generally accepted accounting principles.

10E. "Senior Subordinated Indebtedness" shall mean any Indebtedness, the payment of principal and interest of which shall be subordinated and junior to the Indebtedness evidenced by the Note and to other Senior Indebtedness of the Company and its Subsidiaries in the manner and to the extent set forth in Exhibit C hereto, but senior to Junior Subordinated Indebtedness.

10F. "Junior Subordinated Indebtedness" shall mean any Indebtedness, the payment of principal and interest of which shall be subordinated and junior to the Indebtedness evidenced by the Note and to other Senior Indebtedness and to Senior Subordinated Indebtedness in the manner and to the extent set forth in Exhibit D hereto.

10G. "Senior Indebtedness" shall mean any Indebtedness that is not Junior Subordinated Indebtedness or Senior Subordinated Indebtedness.

10H. "Event of Default" shall mean any of the events specified in Section 7, provided that there has been satisfied any requirement in connection with such event for the giving of notice, or the lapse of time, or the happening of any further condition, event or act, and "Default" shall mean any of such events, whether or not any such requirement has been satisfied.

10I. "Officer's Certificate" shall mean a certificate signed in the name of the Company by its President, one of its Vice Presidents, or its Treasurer.

10J. "Lien" shall mean any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, any lease in the nature thereof, and the filing of or agreement to give any financing statement under the Uniform Commercial Code of any jurisdiction).

10K. "Substantial Part" shall mean, when used with respect to assets, more than 10% of the consolidated assets of the Company and all Subsidiaries, and when used with respect to Consolidated Net Earnings for any period, more than 10% of Consolidated Net Earnings for such period.

10L. "Receivables" of any Person shall mean any right to receive payment in United States or Canadian currency arising out of the retail sale in the ordinary course of business of encyclopaediae, other reference and topical works, other publications and other consumer items sold by WBCI or Enterprises, or arising out of the retail sale by distributors or dealers in the ordinary course of business of consumer floor care and related products manufactured and/or distributed at wholesale by the Kirby Division of S & F, including all interests in or arising under, any conditional sales agreement, chattel mortgage, promissory note, lease, chattel paper, retail installment contract, credit sale contract, lien contract, security agreement, security interest or lien evidencing or securing such right to receive payment, including the right to receive or retain any interest on or finance charge in respect of the principal amount of such payment, but only to the extent that (i) the Company shall be entitled to such interest or finance charge, or part thereof, pursuant to the provisions of the last sentence of paragraph 9A of the First Operating Agreement, or (ii) United shall be entitled to such interest or finance charge as the holder of a Receivable.

10M. "Net Eligible Receivables" shall mean the gross amount of Receivables owned by the Company and its Subsidiaries, less: (i) unearned finance charges; (ii) the greater of (a) reserves for uncollectible accounts of the Company, including the Contract Reserve Account referred to in the First Operating Agreement, or (b) the sum of Receivables owned by the Company, on which one full installment payment has not been received within the 180 days immediately preceding any calculation under this paragraph and, without duplication, the aggregate amount of Receivables owned by the Company that have been placed with attorneys or collection agencies for collection, all determined in accordance with good accounting practice; (iii) the excess of the aggregate principal amount of loans and advances outstanding pursuant to paragraph 6C(3)(v) over 5% of Consolidated Stockholders' Equity; and (iv) reserves for uncollectible accounts of Subsidiaries, including the Bad Debt Reserve Account referred to in the Kirby Operating Agreement.

10N. "Net Eligible Assets" shall mean cash plus short-term investments permitted by paragraph 6C(3)(ii) plus Net Eligible Receivables.

10O. "Adjusted Net Worth" shall mean the sum of all capital stock, capital surplus, and retained earnings, less (i) treasury stock; (ii) intangibles (including goodwill, deferred charges, prepaid expenses, and unamortized debt expense); (iii) the excess of Receivables of the Company and Subsidiaries originating outside the United States, United States possessions, and Canada over 10% of the gross amount of Receivables of the Company and Subsidiaries; (iv) the excess of Receivables maturing in more than 36 months over 25% of the gross amount of Receivables of the Company and Subsidiaries; (v) any Receivable maturing in more than 60 months unless the Company or a Subsidiary has full recourse against the seller with respect to the payment thereof; and (vi) the excess of the aggregate principal amount of loans and advances outstanding pursuant to paragraph 6C(3)(v) over 5% of Consolidated Stockholders' Equity.

10P. "Capital Base" shall mean the sum of Adjusted Net Worth plus Senior Subordinated Indebtedness plus Junior Subordinated Indebtedness of the Company.

10Q. "S & F" shall mean The Scott & Fetzer Company, an Ohio corporation.

10R. "WBCI" shall mean World Book-Childcraft International, Inc., a Delaware corporation and a wholly-owned subsidiary of S & F.

10S. "Enterprises" shall mean World Book Enterprises, Inc. (formerly World Book Encyclopedia, Inc.), a Delaware corporation and a wholly-owned subsidiary of WBCI.

10T. "United" shall mean United Retail Finance Company, a Delaware corporation and a wholly-owned Subsidiary of the Company.

10U. "Fixed Charges" shall mean all charges which, in accordance with generally accepted accounting principles, would be considered fixed charges, including, without limitation, interest on Indebtedness, amortization of debt discount, and rentals for leased properties.

10V. "Consolidated Net Earnings Available for Fixed Charges" shall mean consolidated net income of the Company and its Subsidiaries as determined by generally accepted accounting principles, with the following adjustments (to the extent such items have not already been taken into account in calculating net income):

- (i) all operating and maintenance expenses, taxes other than taxes on or measured by income, and depreciation shall be deducted in determining net income;
- (ii) all extraordinary, nonrecurring items of income shall be excluded in determining net income;
- (iii) all extraordinary, nonrecurring items of expense shall be deducted in determining net income;

(iv) Fixed Charges shall not be deducted in determining net income; and

(v) any cash payment required to be made for any fiscal quarter during the same fiscal year pursuant to paragraph 3 of the First Operating Agreement or paragraph 5 of the Kirby Operating Agreement, provided that such payment is made within the time period provided therein, shall be added to net income for such fiscal quarter.

10W. "Consolidated Stockholders' Equity" of a corporation shall mean the sum of (i) the par value (or stated value on the books of the corporation) of the capital stock of all classes (exclusive of treasury stock), plus (or minus in the case of a deficit surplus) (ii) the amount of the surplus, whether capital or earned, of such corporation.

10X. "Bank Loan Agreement" shall mean the term loan agreement between the Company and the First National Bank of Chicago dated as of August 31, 1978 and "Bank Note" shall mean the note issued thereunder.

10Y. "Revolving Loan Agreement" shall mean the revolving loan agreement between the Company and The First National Bank of Chicago, individually and as agent, dated as of November 29, 1978 and "Revolving Notes" shall mean the notes issued thereunder.

10Z. "First Notes" shall mean the notes issued pursuant to the Note Agreement between the Company and you dated as of August 31, 1978.

10AA. "First Operating Agreement" shall mean the Operating Agreement among the Company, WBCI, Enterprises and S & F, dated as of August 31, 1978, as modified by the Modification to the Operating Agreement among the parties, dated as of June 30, 1981.

SECTION 11. MISCELLANEOUS

11. Miscellaneous.

11A. Home Office Payment. The Company agrees that, as long as you shall hold any Note, it will make payments of principal thereof and interest and premium, if any, thereon, which comply with the terms of this Agreement, by credit to your account or accounts in Morgan Guaranty Trust Company of New York, 15 Broad Street, New York, N. Y., (Account #050-52-557) or such other account or accounts in the United States as you may designate in writing, notwithstanding any contrary provision herein or in any Note with respect to the place of payment. You agree that, before disposing of any Note, you will make a notation thereon of all principal payments previously made thereon and of the date to which interest thereon has been paid, and will notify the Company of the name and address of the transferee of such Note. The Company agrees to afford the benefits of this paragraph 11A to any institutional investor of recognized standing which is the direct or indirect transferee of any Note purchased by you hereunder and which has made the same agreements relating to such Note as you have made in this paragraph 11A.

11B. Expenses. The Company agrees, whether or not the transactions hereby contemplated shall be consummated, to pay, and save you harmless against liability for the payment of, all out-of-pocket expenses arising in connection with this transaction, including all stamp and other taxes (including any intangible personal property tax, together in each case with interest and penalties, if any, and any income tax payable by you in respect of any reimbursement therefor) which may be payable in respect of the execution and delivery of this Agreement or the execution, delivery or acquisition of any Note issued under or pursuant to this Agreement, all printing costs and the reasonable fees and expenses of your special counsel in connection with this Agreement (including the opinion described in paragraph 8G) and any modification thereof. The obligations of the Company under this paragraph 11B shall survive transfer by you and payment of any Note.

11C. Consent to Amendments. This Agreement may be amended, and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, if the

Company shall obtain your written consent to such amendment, action or omission. Each holder of any Note at the time or thereafter outstanding shall be bound by any consent authorized by this paragraph 11C, whether or not such Note shall have been marked to indicate such consent, but any Note issued thereafter may bear a notation referring to any such consent. No course of dealing between the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein and in the Notes, the term "this Agreement" or "the Agreements" and references thereto shall mean this Agreement or the Agreements as it or they may, from time to time, be amended or supplemented.

11D. Form, Registration, Transfer and Exchange of Note. The Note is issuable only as a registered Note without coupons in the denomination of \$10,000 and any integral multiple of \$10,000. The Company shall keep at its principal office a register in which the Company shall provide for the registration of Notes and of transfer of Notes. Upon surrender for registration of transfer of any Note at the office of the Company, the Company shall, at its expense, execute and deliver one or more new Notes of like tenor and of a like aggregate principal amount registered in the name of the designated transferee or transferees. At the option of the holder of any Note, such Note may be exchanged for other Notes of like tenor and of any authorized denominations, of a like aggregate principal amount, upon surrender of the Note to be exchanged at the office of the Company. Whenever any Notes are so surrendered for exchange, the Company shall, at its expense, execute and deliver the Notes which the Noteholder making the exchange is entitled to receive. Every Note surrendered for registration of transfer shall be duly endorsed, or be accompanied by a written instrument of transfer duly executed, by the holder of such Note or his attorney duly authorized in writing. Any Note or Notes issued in exchange for any Note or upon transfer thereof shall carry the rights to unpaid interest and interest to accrue which were carried by the Note so exchanged or transferred, so that neither gain nor loss of interest shall result from any such transfer or exchange.

11E. Notices to Subsequent Holder. If any Note shall have been transferred to another holder pursuant to paragraph 11D and such holder shall have designated in writing the address to which communications with respect to such Note shall be mailed, all notices, certificates, requests, statements and other documents required or permitted to be delivered to you by any provision hereof shall also be delivered to each such holder, except that financial statements and other documents provided for in paragraph 5A need not be delivered to any such holder holding less than 10% of the aggregate principal amount of Notes from time to time outstanding.

11F. Persons Deemed Owners. Prior to due presentment for registration of transfer, the Company may treat the Person in whose name any Note is registered as the owner and holder of such Note for the purpose of receiving payment of principal of and interest and premium (if any) on such Note and for all other purposes whatsoever, whether or not such Note shall be overdue, and the Company shall not be affected by notice to the contrary.

11G. Survival of Representations and Warranties. All representations and warranties contained herein or made in writing by the Company in connection herewith shall survive the execution and delivery of this Agreement and of the Note, regardless of any investigation made by you or on your behalf.

11H. Successors and Assigns. All covenants and agreements in this Agreement contained by or on behalf of either of the parties hereto shall bind and inure to the benefit of the respective successors and assigns of the parties hereto whether so expressed or not.

11I. Notices. All communications provided for hereunder shall be sent by first class mail and, if to you, addressed to you in the manner (except as otherwise provided in paragraph 11A with respect to payments of principal of and interest and premium, if any, on the Note) in which this letter is addressed, and if to the Company, at its offices at Merchandise Mart Plaza, Chicago, Illinois 60654,

or to such other address with respect to either party as such party shall notify the other in writing; provided, however, that any such communication to the Company may also, at your option, be either delivered to the Company at its address set forth above or to any officer of the Company.

11J. Descriptive Headings. The descriptive headings of the several sections and paragraphs of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

11K. Satisfaction Requirement. If any agreement, certificate or other writing, or any action taken or to be taken, is by the terms of this Agreement required to be satisfactory to you, the determination of such satisfaction shall be made by you in your sole and exclusive judgment exercised in good faith.

11L. Governing Law. This Agreement is being delivered and is intended to be performed in the State of Illinois, and shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of such State.

11M. Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

If you are in agreement with the foregoing, please sign the form of acceptance on the enclosed counterpart of this letter and return the same to the undersigned, whereupon this letter shall become a binding agreement between you and the undersigned.

Very truly yours,

WORLD BOOK FINANCE, INC.

By /s/ GRANT C. MALCHOW
President

The foregoing Agreement is hereby accepted as of the date first above written.

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By /s/ RAYMOND A. CHARLES
Vice President

EXHIBIT A

WORLD BOOK FINANCE, INC.
PROMISSORY NOTE

\$25,000,000

Chicago, Illinois
June 30, 1981

FOR VALUE RECEIVED, the undersigned, WORLD BOOK FINANCE, INC. (herein called the "Company"), a corporation organized and existing under the laws of the State of Delaware, hereby promises to pay to

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA
or registered assigns, the principal sum of
TWENTY-FIVE MILLION (\$25,000,000) DOLLARS

on June 30, 1989, with interest (computed on the basis of a 360-day year—30-day month) on the unpaid balance thereof at the rate of 14.75% per annum from the date hereof, payable semi-annually on the last day of June and December in each year, commencing December 31, 1981, until the principal hereof shall have become due and payable, and thereafter at the rate of 15.75% per annum until paid.

Payments of both principal and interest are to be made at the office of The Prudential Insurance Company of America at Prudential Plaza, Newark, New Jersey, or such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is issued pursuant to an Agreement dated June 30, 1981, between the Company and The Prudential Insurance Company of America and is entitled to the benefits thereof. As provided in said Agreement, this Note is subject to prepayment, in whole or in part, in certain cases without premium and in other cases with a premium as specified in said Agreement.

As provided in said Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or his attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

The Company agrees to make prepayments of principal on the dates and in the amounts specified in said Agreement.

The Company agrees to pay, or reimburse the holder hereof for, and save the holder hereof harmless against, any loss, liability, cost and expense incurred in connection with the enforcement by the holder hereof of its rights under this Note or the Agreement to the extent permitted by applicable law.

In case an Event of Default, as defined in said Agreement, shall occur and be continuing, the principal of this Note may be declared due and payable in the manner and with the effect provided in said Agreement.

WORLD BOOK FINANCE, INC.

By _____
President

By _____
Treasurer

EXHIBIT B**KIRBY OPERATING AGREEMENT**

KIRBY OPERATING AGREEMENT dated as of June 30, 1981 among World Book-Childcraft International, Inc. ("World Book"), World Book Finance, Inc. ("Finance"), World Book Enterprises, Inc., formerly World Book Encyclopedia, Inc. ("Enterprises"), The Scott & Fetzer Company ("Scott & Fetzer"), and United Retail Finance Company ("United").

In consideration of the mutual promises herein contained, World Book, Finance, Enterprises, Scott & Fetzer, and United agree as follows:

1. Purchase of Kirby Receivables.

United may from time to time within its sole discretion enter into agreements with distributors ("Distributor Agreements") of products manufactured and/or distributed at wholesale by the Kirby Division of Scott & Fetzer, whereby such distributors will offer to sell and United will purchase such Kirby Receivables as meet United's credit and financing standards. The Distributor Agreements shall be in substantially the form of the distributor agreement attached as Annex 1 hereto, but may vary from the form of Annex 1 as deemed necessary by United and as approved in writing by Finance in order to (i) comply with local business practices or applicable Federal, state or local laws or regulations, or (ii) accomplish such variations or revisions in the arrangements with distributors as are not detrimental to the interests of United.

2. Advance of Funds.

So long as United is a Subsidiary of Finance, Finance shall advance funds to United for the conduct of the business of purchasing and collecting Kirby Receivables, at such times and on such terms and conditions as Finance and United may agree. Such advances may be in the form of inter-company loans, capital contributions, the purchases of additional capital stock, advances under revolving lines of credit, or as otherwise may be convenient.

3. Operation of Business.

During the term of this Agreement United shall engage solely in the business of purchasing and collecting Kirby Receivables pursuant to the terms of the Distributor Agreements. During the term of this Agreement United shall:

- (a) maintain all books and records necessary or advisable for the conduct of its business and to permit the calculations contemplated by this Agreement and the Distributor Agreements;
- (b) establish written credit and financing standards designed to comply with all applicable consumer credit laws and administrative regulations and designed to reasonably ensure the creditworthiness of all obligors on the respective Kirby Receivables;
- (c) cause the protection and perfection of all security interests of United relating to the Kirby Receivables; and
- (d) ensure that reserve accounts are maintained and applied pursuant to each Distributor Agreement.

4. Bad Debt Reserve.

During the term of this Agreement United shall establish and maintain on its books a Bad Debt Reserve Account equal to the aggregate of (i) two percent (2%) of the gross unpaid balances of all Kirby Receivables purchased by United with recourse against the distributors, (ii) ten percent (10%) of the gross unpaid balances of all Kirby Receivables purchased by United without recourse against the distributors, and (iii) without duplication of amounts under (i) and (ii), the full amount of

the gross unpaid balances of all Kirby Receivables in default in an amount equal to four or more monthly payments.

5. Investment Covenant.

(a) If at the end of any Accounting Period the Consolidated Net Earnings Available for Fixed Charges for such Accounting Period and previous Accounting Periods, if any, occurring in the same fiscal year were less than one and one-half times Fixed Charges for such Accounting Period and previous Accounting Periods, if any, occurring in the same fiscal year, World Book, Enterprises or Scott & Fetzer or all of them (intending to be jointly and severally obligated) shall promptly pay and transfer to Finance cash in the amount by which such Consolidated Net Earnings Available for Fixed Charges for such Accounting Period and previous Accounting Periods, if any, occurring in the same fiscal year were less than one and one-half times such Fixed Charges for such Accounting Period and previous Accounting Periods, if any, occurring in the same fiscal year. Such payment shall be made as a purchase of additional shares of common stock of Finance for such number of shares as may be determined by Finance at the time. World Book, Enterprises, Finance and Scott & Fetzer shall take such action (including amendments to Finance's certificate of incorporation, or by-laws, or both) as may be necessary to accomplish the authorization and issuance of such additional shares of common stock of Finance and the payment therefor. The purchase price for such additional shares of common stock of Finance shall be \$10,000 per share, payable concurrently with the issuance and delivery of such stock to the purchaser thereof.

(b) Within 40 days after the close of each of its quarters, Finance shall deliver to Scott & Fetzer copies of quarterly financial statements of Finance in such detail as may be reasonably required by Scott & Fetzer, together with a certificate by an authorized financial officer of Finance, setting forth in detail the computations under paragraph 5(a) and the number of shares of Finance's common stock, if any, to be purchased at such time pursuant thereto. Within 5 days after the date of delivery of such certificate, at the principal office of Finance in Chicago, Illinois (or such other place and time, not later than 5 days after the date of delivery of said officer's certificate, as may be mutually agreed upon between Finance and Scott & Fetzer), Scott & Fetzer, World Book, or Enterprises or any combination thereof, shall consummate the purchase of the number of shares of stock of Finance set forth in said certificate at the price per share hereinabove provided (unless a different price shall have been mutually determined). Concurrently with the payment of such purchase price, Finance shall issue and deliver to Scott & Fetzer, World Book or Enterprises (as the case may be) the number of fully paid and non-assessable shares of Finance's common stock so purchased.

6. Negative Covenants.

During the term of this Agreement, United, without the written consent of Finance, will not and will not permit any Subsidiary of United to:

(a) Create, assume or suffer to exist any lien upon any of its property or assets, whether now owned or hereafter acquired, except:

(i) Liens for taxes not yet due or which are being actively contested in good faith by appropriate proceedings;

(ii) other Liens incidental to the conduct of its business or the ownership of its property and assets which were not incurred in connection with the borrowing of money or the obtaining of advances or credit and which do not in the aggregate materially detract from the value of its property or assets or materially impair the use thereof in the operation of its business, including any Liens for payment of judgments that are being actively contested in good faith by appropriate proceedings and execution on which is stayed; and

(iii) Liens on property or assets of a Subsidiary of United to secure obligations of such Subsidiary to United.

(b) Create, incur, assume or suffer to exist any indebtedness or obligation which under generally accepted accounting principles is shown on the balance sheet as a liability (excluding reserves for deferred income taxes and other reserves to the extent that such reserves do not constitute a debt or obligation) or any guarantees, endorsements or other contingent liabilities, except:

(i) indebtedness and liabilities to Finance; and

(ii) unsecured accounts payable and other unsecured liabilities and obligations incidental to the regular conduct of its business which were not incurred in connection with the borrowing of money or the obtaining of advances of credit and which do not in the aggregate materially detract from the value of its property or assets or materially impair the use thereof in the operation of its business, provided that at all times such accounts payable and other obligations shall not be more than thirty (30) days overdue.

7. Indemnity.

United will indemnify, defend and save harmless Finance, World Book, Enterprises, and Scott & Fetzer from any and all claims asserted against all, any one, or any combination of them by any third party arising out of any act or failure to act by United in the conduct of its business of purchasing and collecting Kirby Receivables, including, but not limited to, failure to comply with the terms of any Distributor Agreement and failure to comply with any applicable law or administrative regulation.

8. Term.

This Agreement shall remain in full force and effect for an initial term ending December 31, 1990, and shall be automatically renewed for successive terms of one year each unless, at least 90 days prior to the expiration of the then current term, any party hereto shall give to the other parties written notice of termination hereof, which termination shall be effective as of the end of the then current term.

9. Definitions.

As used in this Agreement, the following terms have the following respective meanings:

"Accounting Period": any three-month period used by Finance as an accounting period within its fiscal year.

"Fixed Charges": all charges of Finance and its consolidated subsidiaries for interest on funded and unfunded debt, amortization of debt discount, and rentals for leased properties, all determined in accordance with generally accepted accounting principles.

"Consolidated Net Earnings Available for Fixed Charges": Consolidated net income of Finance and its subsidiaries as determined by generally accepted accounting principles, with the following adjustments (to the extent such items have not already been taken into account in the manner set forth below in calculating net income):

(i) all operating and maintenance expenses, taxes other than taxes on or measured by income and depreciation shall be deducted in determining net income;

(ii) all extraordinary, nonrecurring items of income shall be excluded in determining net income;

(iii) all extraordinary, nonrecurring items of expense shall be deducted in determining net income;

(iv) Fixed Charges shall not be deducted in determining net income; and

(v) any cash payment for any Accounting Period during the same fiscal year actually made pursuant to paragraph 5 by Scott & Fetzer, World Book or Enterprises, or any combinations thereof, shall be added to net income for such Accounting Period.

"Kirby Receivables" shall mean any right to receive payment in United States or Canadian currency arising out of the retail sale by distributors or dealers in the ordinary course of business of consumer floor care and related products manufactured and/or distributed at wholesale by the Kirby Division of Scott & Fetzer, including all interests in or arising under, any conditional sales agreement, chattel mortgage, promissory note, lease, chattel paper, retail installment contract, credit sale contract, lien contract, security agreement, security interest or lien evidencing or securing such right to receive payment, including the right to receive or retain any interest on or finance charge in respect of the principal amount of such payment, but only to the extent United shall be entitled to such interest or finance charge as the holder of the right to receive such principal amount.

"Lien" shall mean any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, any lease in the nature thereof, and the filing of or agreement to give any financing statement under the Uniform Commercial Code of any jurisdiction).

"Subsidiary" shall mean any corporation all of the stock of every class of which, at the time as of which any determination is being made, is owned either directly or through Subsidiaries.

10. Notices.

All communications contemplated by this Agreement shall be sent by first class mail addressed as follows:

If to World Book, to:	World Book-Childcraft International, Inc. Merchandise Mart Plaza Chicago, Illinois 60654 Attn: President
If to Finance, to:	World Book Finance, Inc. Merchandise Mart Plaza Chicago, Illinois 60654 Attn: President
If to Enterprises, to:	World Book Enterprises, Inc. Merchandise Mart Plaza Chicago, Illinois 60654 Attn: President
If to Scott & Fetzer, to:	The Scott & Fetzer Company 14600 Detroit Avenue Lakewood, Ohio 44107 Attn: President
If to United, to:	United Retail Finance Company Merchandise Mart Plaza Chicago, Illinois 60654 Attn: President

11. Miscellaneous.

(a) This Agreement is not intended to be, and is not, and nothing herein contained, and nothing done by World Book, Enterprises or Scott & Fetzer pursuant hereto, shall be construed or deemed to constitute a direct or indirect guaranty by World Book, Enterprises or Scott & Fetzer of the payment of the interest on or principal of any indebtedness, liability or obligation of any kind or character of

Finance to any person or persons whomsoever, but this Agreement is intended to obligate the parties hereto as herein set forth. The parties recognize that the existence and performance of their respective obligations under this Agreement are essential to the continuing business and operations of Finance, and, accordingly, agree that (i) no default by Finance or United in the performance of their obligations hereunder shall be deemed sufficiently material to the overall subject matter of this Agreement to constitute a basis for rescission, revocation or other cancellation of this Agreement prior to the end of the initial term hereof, and (ii) the parties shall be limited to remedies seeking the enforcement of the specific provisions hereof or a suit for damages. The parties further acknowledge that the remedies at law for breach or nonperformance of the investment covenants set forth in paragraphs 5(a) and 5(b) hereof are inadequate, and, accordingly, agree that any party shall be entitled to equitable relief for the breach of any such provisions, including preliminary and permanent mandatory injunctions and specific performance.

(b) All agreements herein shall bind and inure to the benefit of the respective successors and permitted assigns of the parties hereto whether so expressed or not. This Agreement shall be governed by the laws of the State of Illinois. The headings herein are for the purpose of reference only and shall not limit or otherwise affect the meaning hereof. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart. This Agreement may not be assigned by any party hereto without the written consent of each other party hereto.

IN WITNESS WHEREOF, the parties have caused this Kirby Operating Agreement to be executed and delivered by their duly authorized officers as of the day and year first above written.

THE SCOTT & FETZER COMPANY

By _____
President

ATTEST:

By _____
Secretary

WORLD BOOK-CHILDCRAFT INTERNATIONAL, INC.

By _____
President

ATTEST:

By _____
Secretary

WORLD BOOK FINANCE, INC.

By _____
President

ATTEST:

By _____
Secretary

WORLD BOOK ENTERPRISES, INC.

By _____
President

ATTEST:

By _____
Secretary

UNITED RETAIL FINANCE COMPANY

By _____
President

ATTEST:

By _____
Secretary

DISTRIBUTOR AGREEMENT

This Agreement is made this _____ day of _____, 19____, by and between _____ having an office at _____, hereinafter referred to as the Distributor, and United Retail Finance Company, having an office at Merchandise Mart Plaza, Chicago, Illinois 60654, hereinafter referred to as the Company.

The Distributor engages in the business of selling at retail certain consumer products manufactured and/or distributed at wholesale by Kirby Division of The Scott & Fetzer Company, and in connection with such sales the Distributor enters into retail installment contracts, security agreements, conditional sales contracts, credit sale contracts, lien contracts, or other written evidences of obligations to pay, hereinafter referred to as Contracts, with individual purchasers. The Distributor desires to acquire the right to offer to sell any or all of these Contracts to the Company, and the Company desires to purchase such of the Contracts as meet with the Company's credit and financing standards.

In consideration of the above and for other good and valuable consideration, the parties hereto agree as follows:

1. Offer to Sell. The Distributor shall have the right but not the obligation to offer to sell to the Company any or all Contracts which it enters into in the ordinary course of its business during the term of this Agreement. The Distributor shall make an offer to sell by delivering to the Company copies of the Contract and the credit application signed by the individual purchaser or purchasers. If the Company has not notified the Distributor of its acceptance of a particular Contract within seven days of the date of the offer to sell, the Distributor may offer the Contract to other parties.

2. Credit and Financing Standards. The Company agrees to examine and consider each Contract offered to it, to conduct such investigation of the credit of the purchasers as it deems appropriate, and to notify the Distributor of its decision to accept or reject the Contract. The Company's decision to accept or reject each Contract shall be at its sole discretion. The Company agrees to provide to the Distributor from time to time general guidelines regarding the credit standards and the financing standards which the Company will use to make its decisions.

3. Purchase of Contracts. When the Company notifies the Distributor of its decision to purchase a Contract, the Distributor shall promptly deliver to the Company (a) the executed Contract containing the original signatures of the purchasers and of the Distributor's salesperson and further containing the assignment executed by the Distributor to the Company, (b) the credit application containing the original signatures of the purchasers, and (c) a delivery receipt signed by the purchaser acknowledging that the products have been received. The Company agrees to pay to the Distributor the purchase price, as defined in paragraph 4 below, less any deductions permitted by this Agreement, for each Contract it purchases. At the end of the first working day of each week the Company shall calculate the amount due to the Distributor for Contracts purchased but not yet paid and shall pay such amount due to the Distributor within two working days. Payments of amounts due to the Distributor shall not be made more frequently than once each week.

4. Purchase Price. The purchase price for each Contract will be equal to the Amount Financed on the Contract less an acquisition fee of _____ % of the Amount Financed. In the event that a purchaser shall have completed payment of the Amount Financed on the Contract within 90 days from the date of Contract, an additional acquisition fee of _____ % of the Amount Financed will be charged to the Distributor. In the event that an error or omission has been made in the amount of the Finance Charge on a Contract which results in a reduction of ten dollars or less in the amount of interest to be earned on the Contract, the Company will purchase such Contract subject to an additional acquisition fee equal to the amount of the reduced interest. If the

Distributor does not agree to such additional acquisition fee, or if the reduction of interest to be earned exceeds ten dollars, the Company will reject the Contract.

5. Deferred Payable Account. When the Distributor offers to sell to the Company a Contract with an Amount Financed which exceeds the Company's financing standards, the parties may agree that the Company will purchase the Contract subject to the Company retaining that amount of the Amount Financed which exceeds its financing standards and placing it in a deferred payable account. If the Contract is not in default at the end of the first half of that Contract's original term, the amount held in the deferred payable account for that Contract shall be paid to the Distributor at that time. If the Contract is in default at such time, the amount held in the deferred payable account shall be paid to the Distributor only when that Contract is paid in full or is repurchased by the Distributor.

6. Reserve Account. The Distributor agrees that the Company may retain % of the Amount Financed on each Contract purchased and place such amount in a reserve account. The reserve account shall be subject to the following terms and conditions:

(a) Funds in the reserve account may be used in the Company's sole discretion to pay in full the net balance due on any Contracts which Distributor fails to repurchase as required in paragraph 7 below. If a Contract is paid in full by funds from the reserve account, the Company agrees to reassign without recourse the Contract to the Distributor if so requested in writing.

(b) Funds in the reserve account may be used in the Company's sole discretion to pay or satisfy any loss, cost, damage, or expense which the Company may suffer or incur by reason of any breach by the Distributor of any provision of this Agreement or of any provision contained in the assignment of any Contract.

(c) If this Agreement is terminated, the Company may hold and use the funds in the reserve account in accordance with the terms and conditions of this paragraph 6 until all Contracts purchased by the Company are paid in full.

(d) Provided that the Distributor has complied with all of the terms and conditions of this Agreement and provided that this Agreement has not been terminated, on the first day of March, June, September, and December each year the Company shall reconcile the balance in the reserve account and, within ten days thereafter, pay to the Distributor out of the reserve account such amount as exceeds percent of the aggregate then unpaid gross balances on all Contracts purchased.

(e) No payment to the Distributor shall be made under paragraph 6(d) to the extent such payment reduces the reserve account below five thousand dollars.

7. Repurchase Obligation. The Distributor agrees to repurchase from the Company any Contract upon written notice by the Company that any of the following conditions exists:

(a) That a representation, warranty, or covenant contained in this Agreement has been breached as to such Contract;

(b) That a representation or warranty contained in the individual assignment of such Contract has been breached;

(c) That no payment has been received from the purchaser under such Contract for a period of 90 days;

(d) That such Contract is in default in an amount equal to 3 monthly payments under the Contracts; or

(e) That the Company has made reasonable efforts to collect the amounts due under such Contract and considers further collection efforts futile.

The repurchase price shall be equal to the sum of: (a) the net balance due on such Contract on (i) the date on which the last installment was paid or (ii) the first installment due date if no installment has been paid, and (b) the Finance Charge thereafter accrued to the date of repurchase, such Finance Charge accrual period not to exceed 90 days. The Distributor agrees to pay the repurchase price to the Company within three working days after receiving the above-described notice and further agrees that the Company may at its option deduct such repurchase price from any amounts payable to the Distributor by the Company. The Company shall not be required to repossess or arrange for delivery to Distributor, or be liable for any costs thereof, of any products which are security for a Contract which is repurchased. Upon repurchase by the Distributor, the Company agrees to reassign without recourse the Contract to the Distributor if so requested in writing.

8. Representations and Warranties. As to each of the Contracts offered or sold to the Company, the Distributor represents and warrants all of the following:

- (a) That it has full and perfect title to and right to convey the Contract free of any encumbrance, lien, or any interest of third parties, of any nature whatsoever;
- (b) That the Contract is result of the sale of its own products;
- (c) That the products listed and described in the Contract have been unconditionally accepted by the purchasers;
- (d) That the Contract represents a purchase money security interest in the products sold;
- (e) That the Contract has been offered to the Company within 15 days after the Contract was executed by the purchasers;
- (f) That the down payment is correctly stated in the Contract and has been received by the Distributor in cash or its proper equivalent;
- (g) That all dates, dollar amounts, percentages and descriptions were completed on the Contract before it was executed by the purchasers;
- (h) That the Contract accurately and correctly reflects a genuine, bona fide sale and the price and terms thereof;
- (i) That all parties to the Contract were competent at the time it was executed;
- (j) That all signatures on the Contract are genuine;
- (k) That the Contract is the entire and sole contract between the purchasers and the Distributor as to the sale evidenced thereby, excepting any warranty or service contract the Distributor may have entered into in writing;
- (l) That there is no undisclosed agreement, concession or litigation of any nature affecting the Contract;
- (m) That the amount due from the purchasers under the Contract is not disputed or subject to any claim, set-off, deduction, credit, counterclaim, or defense in law or equity;
- (n) That the Contract is valid and enforceable according to its terms against all parties thereto; and
- (o) That the Contract complies with any applicable installment sales law or other applicable state or federal law or administrative regulation.

The representations and warranties contained in this Agreement shall apply to each Contract in addition to any representations and warranties made by the Distributor in the assignment of each Contract.

9. Covenants of Distributor. As to each of the Contracts sold to the Company, the Distributor covenants and agrees that it will not:

- (a) Make any agreement with the purchasers affecting the Company without the knowledge and written consent of the Company;
- (b) Alter or attempt to alter the terms of any Contract which has been sold to the Company and which the Company still owns; nor
- (c) Exchange or substitute other products for those described in or relating to the Contract without the Company's consent.

10. Collection of Contracts. The Company shall have the sole right to make collections on all Contracts purchased and to notify each purchaser of the Company's purchase of such Contract. The Distributor agrees not to solicit or make any collections with respect to any Contract purchased except pursuant to written instructions of the Company. The Distributor shall forward to the Company promptly all communications, inquiries, and remittances which it may receive with reference to the Contracts purchased. The Distributor hereby authorizes the Company to endorse the name of the Distributor upon any check or other form of payment which comes into the possession of the Company in connection with such Contract. The obligations of the Distributor under this Agreement shall not be affected by any collection action taken or attempted on such Contracts by the Company, nor by any settlement, extension, forbearance, or variation in terms of a Contract, nor by the discharge or release of obligations of a purchaser under a Contract by operation of law or otherwise.

11. Indemnification. The Distributor hereby agrees to indemnify and save harmless the Company against any and all loss, liability, damage, cost, penalties, and expenses, including reasonable attorneys' fees, resulting from or relating to the Company's purchase of Contracts under this Agreement, including but not limited to, products liability claims, warranty claims, taxes and assessments of any nature and kind levied on or based on the value, use, operation, transfer or sale of products which are the subject of the Contracts, and claims that the Distributor, or its agents or representatives, have violated applicable state or federal laws or regulations which regulate the consumer credit business.

12. Reassignment. When a Contract is reassigned by the Company to the Distributor under the terms of this Agreement or otherwise, the parties agree that such reassignment shall be without recourse and without any warranty or representation of any nature whatsoever. It is the intention of the parties that the legal effect of a reassignment is to return the parties to the same position as if there had never been an assignment of such Contract to the Company.

13. Termination. Either party may terminate this Agreement at any time upon thirty days' notice in writing to the other party. Termination of this Agreement shall not affect any right, obligation, or interest of either party relating to any Contract purchased pursuant to this Agreement by the Company prior to the termination.

14. Miscellaneous Provisions.

(a) It is understood and agreed, any law, custom or usage to the contrary notwithstanding, that Company shall have the right at all times to enforce the covenants and provisions of this Agreement in strict accordance with the terms hereof, notwithstanding any conduct or custom on the part of the Company in refraining from so doing at any time or times; and further that the failure of the Company at any time or times to enforce its rights under said covenants and provisions strictly in accordance with the same, shall not be construed as having in any way or manner modified, altered or waived the same.

(b) The rights and remedies given to Company herein shall be cumulative and in addition to the other rights and remedies it may have by contract, statute or rule of law, and

the exercise of any such right or remedy shall not exhaust the same or be deemed a waiver of any other right or remedy.

(c) This Agreement shall be binding upon and inure to the benefits of the heirs, executors, administrators, successors and assigns of the parties hereto.

(d) This Agreement may not be modified, altered or amended in any manner whatsoever, except by a further agreement in writing signed by all of the parties hereto.

(e) This Agreement contains all of the understandings, promises and undertakings of the parties hereto. All prior understandings and agreements oral or written heretofore entered into between the parties hereto are merged herein.

(f) Any provisions of this Agreement found upon judicial interpretation or construction to be prohibited by law shall be ineffective to the extent of such prohibition, without invalidating the remaining provisions hereof. All words used shall be understood and construed to be of such gender or number as the circumstances may require.

(g) Paragraph headings are for convenience reference only and are not to be interpreted as a complete summary of each paragraph.

(h) This Agreement and all rights and obligations hereunder, including matters of construction, validity and performance, shall be governed by and construed and interpreted in accordance with the laws of the state of Illinois.

IN WITNESS WHEREOF, the parties have hereunto set their hands the day and year first above written.

Distributor

By _____ (Seal)

UNITED RETAIL FINANCE COMPANY

By _____ (Seal)

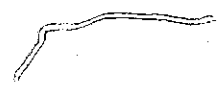


EXHIBIT C

Senior Subordinated Indebtedness* of the Company shall be evidenced by a note or other written obligation which shall contain substantially the following provisions:

1. The payment of any and all Senior Subordinated Indebtedness is expressly subordinated to the extent and in the manner set forth in paragraphs 2 to 4, inclusive, hereof to Senior Indebtedness. The term "Senior Subordinated Indebtedness" shall mean and include the principal of and interest on all liabilities of the Company or any Subsidiary, or any combination thereof, to the holder ("Holder") of such Senior Subordinated Indebtedness, direct or contingent, joint, several or independent, now or hereafter existing, due or to become due to, or held or to be held by, the Holder, whether created directly or acquired by assignment or otherwise, including, without limiting the generality of the foregoing

The term "Senior Indebtedness" shall mean and include the principal of and premium, if any, and interest on all Indebtedness of the Company or any Subsidiary that is not subordinated in accordance with the provisions hereof, direct or contingent, joint, several or independent, now or hereafter existing, due or to become due, whether created directly or acquired by assignment or otherwise including, without limiting the generality of the foregoing, all Indebtedness of the Company or any Subsidiary for principal of and interest on the Note issued under and pursuant to the provisions of the Note Agreement (the "Agreement") dated June 30, 1981, between the Company and The Prudential Insurance Company of America (including extensions, renewals and refundings thereof, whether or not the principal amount is increased).

2. If there shall occur an Event of Default or Default, as defined in Section 10 of the Agreement, then, unless and until such Event of Default or Default shall have been cured, or unless and until Senior Indebtedness shall be paid in full, the Holder will not receive or accept any payment from the Company in respect of Senior Subordinated Indebtedness.

3. In the event that the Holder shall receive any payment on Senior Subordinated Indebtedness which the Holder is not entitled to receive under the provisions of the foregoing paragraph 2, he will hold any amount so received in trust for the benefit of the owner or owners of the Senior Indebtedness and will forthwith turn over such payment to the owner or owners of the Senior Indebtedness in the form received to be applied on Senior Indebtedness.

4. In the event of any liquidation, dissolution or other winding up of the Company or any Subsidiary, or in the event of any receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization or arrangement with creditors, whether or not pursuant to bankruptcy laws, sale of all or substantially all of the assets or any other marshalling of the assets and liabilities of the Company or any Subsidiary, (i) Senior Indebtedness shall first be paid in full before the Holder shall be entitled to receive any moneys, dividends or other assets in any proceeding, and (ii) the Holder will at the request of the owner or owners of a majority of the principal amount of the Senior Indebtedness file any claim, proof of claim or other instrument of similar character necessary to enforce the obligations of the Company or any Subsidiary in respect of Senior Subordinated Indebtedness and will hold in trust for the owner or owners of the Senior Indebtedness and pay over to the owner or owners of the Senior Indebtedness, in the form received, to be applied on Senior Indebtedness, any and all moneys, dividends or other assets received in any such proceeding on account of Senior Subordinated Indebtedness, unless and until Senior Indebtedness shall be paid in full. In the event that the Holder shall fail to take such action so requested, a representative designated for such purpose by the owner or owners of a majority of the outstanding principal amount of the Senior Indebtedness may, as attorney-in-fact for the Holder, take such action on behalf of the Holder, and the Holder hereby appoints such representative as attorney-in-fact for the Holder to demand, sue for, collect and receive any and all such moneys, dividends or other assets and give acquittance therefor and to file any claim,

*All terms used herein that are defined in the Note Agreement between World Book Finance, Inc. and The Prudential Insurance Company of America dated June 30, 1981 shall have meanings as set forth in said Agreement.

proof of claim or other instrument of similar character and to take such other action (including acceptance or rejection of any plan of reorganization or arrangement) in the name of the owner or owners of the Senior Indebtedness or in the name of the Holder, as such representative may deem necessary or advisable for the enforcement of these subordination provisions; and the Holder will, upon request, execute and deliver to such representative such other and further powers of attorney or other instruments as such representative may request in order to accomplish the foregoing.

5. The owner or owners of the Senior Indebtedness may, at any time and from time to time, without the consent of or notice to the Holder, without incurring responsibility to the Holder, and without impairing or releasing any rights of such owner or owners, or any of the obligations of the Holder under these subordination provisions:

(a) Change the amount, manner, place or terms of payment or change or extend the time of payment of or renew or alter Senior Indebtedness or amend the Agreement or any other agreement relating to the issuance of any Senior Indebtedness in any manner or enter into or amend in any manner any other agreement relating to Senior Indebtedness;

(b) Sell, exchange, release or otherwise deal with any property by whomsoever at any time pledged or mortgaged to secure, or howsoever securing, Senior Indebtedness;

(c) Release anyone liable in any manner for the payment or collection of Senior Indebtedness;

(d) Exercise or refrain from exercising any rights against the Company, any Subsidiary, or any other Person (including the Holder); and

(e) Apply any sums by whomsoever paid or however realized to Senior Indebtedness.

6. Notice of acceptance contained herein is hereby waived.

7. The Holder will cause all Subordinated Indebtedness to be evidenced by a note or other instrument which shall bear upon its face a statement or legend to the effect that such note or other instrument is subordinated to Senior Indebtedness in the manner and to the extent set forth herein, and will mark its books to show that the Senior Subordinated Indebtedness is so subordinated to Senior Indebtedness.

8. The Holder represents and warrants that neither the execution nor delivery of the instrument containing these subordination provisions, nor fulfillment nor compliance with the terms and provisions hereof will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, any agreement or instrument to which the Holder is now subject.

9. That portion of the Senior Indebtedness evidenced by the Note is intended to be construed and enforced in accordance with the laws of the State of Illinois, and the Holder accordingly agrees that the instrument containing these subordination provisions shall be construed and enforced in accordance with, and the rights of the parties thereto shall be governed by, the law of the State of Illinois.

EXHIBIT D

Junior Subordinated Indebtedness* of the Company or any Subsidiary shall be evidenced by a note or other written obligation which shall contain substantially the following provisions:

1. The payment of any and all Junior Subordinated Indebtedness is expressly subordinated to the extent and in the manner set forth in paragraphs 2 to 4, inclusive, hereof to Senior Indebtedness and Senior Subordinated Indebtedness. The term "Junior Subordinated Indebtedness" shall mean and include the principal of and interest on all liabilities of the Company or any Subsidiary, or any combination thereof, to the holder ("Holder") of such Junior Subordinated Indebtedness, direct or contingent, joint, several or independent, now or hereafter existing, due or to become due to, or held or to be held by, the Holder, whether created directly or acquired by assignment or otherwise. The term "Senior Subordinated Indebtedness" shall mean and include the principal of and interest on all Indebtedness of the Company, or any Subsidiary, or any combination thereof, that is subordinated to Senior Indebtedness but that is not subordinated to Junior Subordinated Indebtedness in accordance with the provisions hereof, direct or contingent, joint, several or independent, now or hereafter existing, due or to become due, whether created directly or acquired by assignment or otherwise. The term "Senior Indebtedness" shall mean and include the principal of and premium, if any, and interest on all Indebtedness of the Company or any Subsidiary, other than Senior Subordinated Indebtedness, that is not subordinated in accordance with the provisions hereof, direct or contingent joint, several or independent, now or hereafter existing, due or to become due, whether created directly or acquired by assignment or otherwise including, without limiting the generality of the foregoing, all Indebtedness of the Company or any Subsidiary for principal of and interest on the Note issued under and pursuant to the provisions of the Note Agreement (the "Agreement") dated June 30, 1981, between the Company and The Prudential Insurance Company of America (including extensions, renewals and refundings thereof, whether or not the principal amount is increased).

2. If there shall occur an Event of Default or Default, as defined in Section 10 of the Agreement, then, unless and until such Event of Default or Default shall have been cured, or unless and until Senior Indebtedness and Senior Subordinated Indebtedness shall be paid in full, the Holder will not receive or accept any payment from the Company in respect of Junior Subordinated Indebtedness.

3. In the event that the Holder shall receive any payment on Junior Subordinated Indebtedness which the Holder is not entitled to receive under the provisions of the foregoing paragraph 2, he will hold any amount so received in trust for the benefit of the owner or owners of the Senior Indebtedness and will forthwith turn over such payment to the owner or owners thereof in the form received, to be applied first on Senior Indebtedness and thereafter on Senior Subordinated Indebtedness.

4. In the event of any liquidation, dissolution or other winding up of the Company or any Subsidiary, or in the event of any receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization or arrangement with creditors, whether or not pursuant to bankruptcy laws, sale of all or substantially all of the assets or any other marshalling of the assets and liabilities of the Company or any Subsidiary, (i) Senior Indebtedness and Senior Subordinated Indebtedness shall first be paid in full before the Holder shall be entitled to receive any moneys, dividends or other assets in any proceeding, and (ii) the Holder will at the request of the owner or owners of a majority of the principal amount of the Senior Indebtedness file any claim, proof of claim or other instrument of similar character necessary to enforce the obligations of the Company or any Subsidiary in respect of Junior Subordinated Indebtedness and will hold in trust for the owner or owners of the Senior Indebtedness and pay over to the owner or owners thereof, in the form received, to be applied first on Senior Indebtedness, any and all moneys, dividends or other assets received in any such proceeding on account of Junior Subordinated

*All terms used herein that are defined in the Note Agreement between World Book Finance, Inc. and The Prudential Insurance Company of America dated June 30, 1981 shall have meanings as set forth in said Agreement.

Indebtedness, unless and until Senior Indebtedness shall be paid in full. In the event that the Holder shall fail to take such action so requested, a representative designated for such purpose by the owner or owners of a majority of the outstanding principal amount of the Senior Indebtedness may, as attorney-in-fact for the Holder, take such action on behalf of the Holder, and the Holder hereby appoints such representative as attorney-in-fact for the Holder to demand, sue for, collect and receive any and all such moneys, dividends or other assets and give acquittance therefor and to file any claim, proof of claim or other instrument of similar character and to take such other action (including acceptance or rejection of any plan of reorganization or arrangement) in the name of the owner or owners of the Senior Indebtedness or in the name of the Holder, as such representative may deem necessary or advisable for the enforcement of these subordination provisions; and the Holder will, upon request, execute and deliver to such representative such other and further powers of attorney or other instruments as such representative may request in order to accomplish the foregoing.

5. The owner or owners of the Senior Indebtedness and Senior Subordinated Indebtedness may, respectively, at any time and from time to time, without the consent of or notice to the Holder, without incurring responsibility to the Holder, and without impairing or releasing any rights of such owner or owners, or any of the obligations of the Holder under these subordination provisions:

(a) Change the amount, manner, place or terms of payment or change or extend the time of payment of or renew or alter Senior Indebtedness and Senior Subordinated Indebtedness or amend the Agreement or any other agreement relating to the issuance of any Senior Indebtedness and Senior Subordinated Indebtedness in any manner or enter into or amend in any manner any other agreement relating to Senior Indebtedness and Senior Subordinated Indebtedness;

(b) Sell, exchange, release or otherwise deal with any property by whomsoever at any time pledged or mortgaged to secure, or howsoever securing, Senior Indebtedness and Senior Subordinated Indebtedness;

(c) Release anyone liable in any manner for the payment or collection of Senior Indebtedness and Senior Subordinated Indebtedness;

(d) Exercise or refrain from exercising any rights against the Company, any Subsidiary, or any other Person (including the Holder); and

(e) Apply any sums by whomsoever paid or however realized to Senior Indebtedness and Senior Subordinated Indebtedness.

6. Notice of acceptance of the agreement contained herein is hereby waived.

7. The Holder will cause all Junior Subordinated Indebtedness to be evidenced by a note or other instrument which shall bear upon its face a statement or legend to the effect that such note or other instrument is subordinated to Senior Indebtedness and Senior Subordinated Indebtedness in the manner and to the extent set forth herein, and will mark its books to show that the Junior Subordinated Indebtedness is so subordinated to Senior Indebtedness and Senior Subordinated Indebtedness.

8. The Holder represents and warrants that neither the execution nor delivery of the instrument containing these subordination provisions, nor fulfillment nor compliance with the terms and provisions hereof will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, any agreement or instrument to which the Holder is now subject.

9. That portion of the Senior Indebtedness evidenced by the Note is intended to be construed and enforced in accordance with the laws of the State of Illinois, and the Holder accordingly agrees that the instrument containing these subordination provisions shall be construed and enforced in accordance with, and the rights of the parties thereto shall be governed by, the law of the State of Illinois.

SCHEDULE OF SENIOR INDEBTEDNESS

WORLD BOOK FINANCE, INC.

The Prudential Insurance Company of America		\$47,375,000
The First National Bank of Chicago.....		25,000,000
Citibank, N.A.—Tokyo Branch*	¥ 1,032,400,000	4,571,175
The First National Bank of Chicago—Tokyo Branch*	¥ 1,168,310,000	5,172,947
Chemical Bank—Tokyo Branch*	¥ 400,000,000	1,771,087
The Dai-Ichi Kangyo Bank*	¥ 400,000,000	1,771,087
Total		<u>\$85,661,296</u>

*Converted at an exchange rate on June 25, 1981 of \$1.00=¥225.85.

SCHEDULE OF FUNDED EMPLOYEE BENEFIT PLANS

Pension Plans

THE SCOTT & FETZER COMPANY

Salaried

The Scott & Fetzer Company General Pension Plan

Collective

The Scott & Fetzer Company Collective Investment Trust for Its Retirement Trusts
(Society National Bank)

Adalet-PLM

Adalet Division of The Scott & Fetzer Company Profit-Sharing Trust Agreement
The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Adalet-PLM
Division (International Brotherhood of Electrical Workers)

American-Lincoln

American-Lincoln Division of The Scott & Fetzer Company Union Employees Pension Plan

Campbell-Hausfeld

Campbell-Hausfeld Division of The Scott & Fetzer Company Profit Sharing Trust Plan
Melben Products Company Profit Sharing Trust Plan
The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Campbell-Hausfeld
Division (Leitchfield, Kentucky Plant)

Carefree

The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Carefree Division

Douglas

Douglas Division of The Scott & Fetzer Company Employees' Pension Plan
Pension Agreement Between Douglas Division of The Scott & Fetzer Company and Metal
Polishers, Buffers, Platers & Helpers International Union
Pension Agreement Between Douglas Division of The Scott & Fetzer Company and United
Steelworkers of America

France

The Scott & Fetzer Company Pension Plan for Union Employees of Its France Division
(Westlake, Ohio Plant)
The Scott & Fetzer Company Pension Plan for Hourly Employees of Its France Division
(Fairview, Tennessee Plant)
The Scott & Fetzer Company Pension Plan for Hourly Employees of Its France Division
(Smithville, Tennessee Plant)

Halex

Halex Division of The Scott & Fetzer Company Employees' Profit-Sharing Retirement Plan

Kirby

The George H. Scott Pension Plan of The Scott & Fetzer Company
The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Kirby Company
Division Andrews, Texas Plant

Kievac

The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Cardinal Division
(Walnut Ridge, Arkansas Plant)

Meriam

Meriam Instrument Division of The Scott & Fetzer Company Profit-Sharing Trust Agreement

Meriam Instrument Division of The Scott & Fetzer Company Pension Trust (Plan B)
The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Meriam Instrument Division

Northland

The Scott & Fetzer Company Pension Plan for Union Employees of Its Northland Division (Watertown, NY Plant)

Powerwinch/Ja-Son

Powerwinch/Ja-Son Division of The Scott & Fetzer Company Profit-Sharing Plan
The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Powerwinch/Ja-Son Division

Quikut

Quikut Division of The Scott & Fetzer Company Employees' Profit-Sharing Trust

Stahl

The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Stahl Division (Cleveland, Ohio Plant)

The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Stahl Division (Cardington, Ohio Plant)

The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Stahl Division (Durant, Oklahoma Plant)

The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Stahl Division (Wooster, Ohio Plant)

Streamway

The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Streamway Division

Valley Industries

Valley Industries Division of The Scott & Fetzer Company Group Retirement Plan

Wayne Home Equipment

Wayne Home Equipment Division of The Scott & Fetzer Company Salaried Employees Pension Plan

Wayne Home Equipment Division of The Scott & Fetzer Company Hourly Employees Pension Plan

Western Enterprises

The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Cardinal Division (Akron, Ohio Plant)

The Scott & Fetzer Company Pension Plan for Hourly Employees of Its Western Enterprises Division

World Book-Childcraft International

World Book-Childcraft Intl., Inc. Profit-Sharing Plan

World Book-Childcraft Intl., Inc. Employee Thrift Plan

World Book-Childcraft Intl., Inc. Supplemental Retirement Plan for Sales Employees

World Book-Childcraft Intl., Inc. Retirement Plan

The Scott & Fetzer Company
World Book-Childcraft International, Inc.
World Book Enterprises, Inc.
World Book Finance Company
United Retail Finance Company

June 30, 1981

The Prudential Insurance Company
of America
Prudential Plaza
Newark, New Jersey 07101

Attn: Vice President in Charge of the
Corporate Finance Department

Gentlemen:

Reference is made to (i) a certain Note Agreement (the "Agreement"), dated June 30, 1981 between The Prudential Insurance Company of America ("Prudential") and the undersigned, World Book Finance, Inc., a Delaware corporation ("Finance"), under which Finance has authorized the sale of its 14.75% note in the principal amount of \$25,000,000 (the "Note") and Prudential has agreed to purchase the Note on the terms and conditions set forth in the Agreement. All capitalized terms used herein shall have the same meaning as set forth in the Agreement. This is the letter agreement referred to in paragraph 3I of the Agreement.

In connection with the execution and delivery of the Agreement, Finance is entering into a certain Kirby Operating Agreement dated June 30, 1981 (the "Kirby Operating Agreement") with the undersigned, The Scott & Fetzer Company, an Ohio corporation ("Scott & Fetzer"), World Book-Childcraft International, Inc., a Delaware corporation ("World Book"), World Book Enterprises, Inc., a Delaware corporation ("Enterprises"), and United Retail Finance Company ("United").

This letter agreement is being furnished to you in order to induce you to purchase the Note. It is understood by each of the undersigned that in making the loan evidenced by the Note, Prudential is acting in reliance upon the agreements of each of the undersigned under the Kirby Operating Agreement and this letter agreement. Accordingly, in order to induce you to consummate the transactions contemplated by the Agreement, the undersigned hereby agree with you as follows:

1. So long as any indebtedness under the Agreement remains outstanding, Scott & Fetzer, World Book and Enterprises will not sell, pledge, hypothecate, transfer or otherwise dispose of any legal or equitable interest in any class of capital stock of Finance now or hereafter owned or held by any of them, except to each other, or create, suffer or permit to exist any lien or security interest therein, or authorize or consent to the issuance by Finance of any warrants, options or securities convertible into any class of capital stock of Finance, and Scott & Fetzer, World Book and Enterprises will at all times remain the legal and equitable owners of all issued and outstanding capital stock of Finance, except for directors' qualifying shares.

2. So long as any indebtedness under the Agreement remains outstanding, Finance, Scott & Fetzer, World Book and Enterprises will not sell, pledge, hypothecate, transfer or otherwise dispose of any legal or equitable interest in any class of capital stock of United now or hereafter owned or held by any of them, except to each other, or create, suffer or permit to exist any lien or security interest therein, or authorize or consent to the issuance by United of any warrants, options or securities convertible into any class of capital stock of United, and Scott & Fetzer, World Book, Enterprises and Finance will at all times remain the legal and equitable owners of all issued and outstanding capital stock of United, except for directors' qualifying shares.

3. So long as any indebtedness under the Agreement remains outstanding, Scott & Fetzer, World Book and Enterprises will each pay, satisfy, discharge and fully perform each of the respective duties, liabilities and obligations required to be paid, satisfied, discharged and performed by them under the Kirby Operating Agreement, and will not assign their rights under or agree to terminate the Kirby Operating Agreement or to amend or modify any of the terms or provisions thereof.

4. Scott & Fetzer, World Book and Enterprises acknowledge that in the event of any breach or failure of performance by any of them under the provisions of or of their obligations under the Kirby Operating Agreement, the remedies at law available to Finance under the Kirby Operating

Agreement, and to Prudential under this letter agreement, will be inadequate. Accordingly, Finance, United, Scott & Fetzer, World Book and Enterprises agree that in any such event or failure under the Kirby Operating Agreement, Finance, and under this letter agreement, Prudential, shall be entitled to equitable relief, which may include preliminary and permanent mandatory injunctions and specific performance.

5. So long as any indebtedness under the Agreement shall remain outstanding:

(a) Scott & Fetzer, World Book and Enterprises shall cause Finance to deliver promptly to the holder or holders of indebtedness under the Agreement copies of any officer's certificates delivered pursuant to paragraph 5(b) of the Kirby Operating Agreement; and

(b) Scott & Fetzer will deliver to each of you in duplicate such financial statements of Scott & Fetzer as you may reasonably request.

6. All notices and other communications under or in connection with this letter agreement or the Kirby Operating Agreement ("Notice") shall be made in writing and shall be deemed delivered 24 hours after the deposit thereof at any United States main or branch post office, certified or registered mail, postage prepaid, addressed as follows:

For Notices to Prudential:

The Prudential Insurance Company
of America
Prudential Plaza
Newark, New Jersey 07101

Attn: Vice President in Charge of the
Corporate Finance Department

For Notices to Scott & Fetzer, World Book
or Enterprises:

The Scott & Fetzer Company
[and/or World Book-Childcraft
International, Inc., and/or World

Book Enterprises, Inc., as the
case may be]
c/o The Scott & Fetzer Company
14600 Detroit Avenue
Lakewood, Ohio 44107

Attn: President

For Notices to Finance or United:

World Book Finance, Inc.
[and/or United Retail Finance Company]
Suite 500
Merchandise Mart
Chicago, Illinois 60654

7. Nothing contained in this letter agreement is intended in any way, directly or indirectly, to amend or modify any provision of the Agreement, but the rights granted hereunder are intended to be cumulative and in addition to all other rights that you or any successor holder of any Note, may have thereunder or under any other instrument executed in connection therewith.

By approving and accepting this letter agreement, Prudential agrees that Scott & Fetzer, World Book, Enterprises and Finance may amend and modify the First Operating Agreement as set forth in the Modification of the Operating Agreement of even date herewith. The undersigned acknowledge that notwithstanding any amendment or modification of the First Operating Agreement or any of the other agreements referred to in the letter dated August 31, 1978 from the undersigned (other than United) to Prudential and The First National Bank of Chicago, the agreements contained in said letter remain in full force and effect.

Very truly yours,

THE SCOTT & FETZER COMPANY

By /s/ RALPH E. SCHEY

Attest:

/s/ R. C. WEBER
(CORPORATE SEAL)

WORLD BOOK-CHILDCRAFT
INTERNATIONAL, INC.

Attest:

By /s/ GRANT C. MALCHOW

/s/ HAROLD M. ROSS
(CORPORATE SEAL)

WORLD BOOK FINANCE, INC.

Attest:

By /s/ GRANT C. MALCHOW

/s/ HAROLD M. ROSS
(CORPORATE SEAL)

UNITED RETAIL FINANCE COMPANY

Attest:

By /s/ GRANT C. MALCHOW

/s/ HAROLD M. ROSS
(CORPORATE SEAL)

WORLD BOOK ENTERPRISES, INC.

Attest:

By /s/ GRANT C. MALCHOW

/s/ HAROLD M. ROSS
(CORPORATE SEAL)

Approved and Accepted:

The Prudential Insurance Company of America

By /s/ RAYMOND A. CHARLES
VICE PRESIDENT

The Scott & Fetzer Company
World Book-Childcraft International, Inc.
World Book Enterprises, Inc.
World Book Finance Company
United Retail Finance Company

June 30, 1981

The Prudential Insurance Company
of America
Prudential Plaza
Newark, New Jersey 07101

Attn: Vice President in Charge of the
Corporate Finance Department

Gentlemen:

Reference is made to (i) a certain Note Agreement (the "Agreement"), dated June 30, 1981 between The Prudential Insurance Company of America ("Prudential") and the undersigned, World Book Finance, Inc., a Delaware corporation ("Finance"), under which Finance has authorized the sale of its 14.75% note in the principal amount of \$25,000,000 (the "Note") and Prudential has agreed to purchase the Note on the terms and conditions set forth in the Agreement. All capitalized terms used herein shall have the same meaning as set forth in the Agreement. This is the letter agreement referred to in paragraph 3I of the Agreement.

In connection with the execution and delivery of the Agreement, Finance is entering into a certain Kirby Operating Agreement dated June 30, 1981 (the "Kirby Operating Agreement") with the undersigned, The Scott & Fetzer Company, an Ohio corporation ("Scott & Fetzer"), World Book-Childcraft International, Inc., a Delaware corporation ("World Book"), World Book Enterprises, Inc., a Delaware corporation ("Enterprises"), and United Retail Finance Company ("United").

This letter agreement is being furnished to you in order to induce you to purchase the Note. It is understood by each of the undersigned that in making the loan evidenced by the Note, Prudential is acting in reliance upon the agreements of each of the undersigned under the Kirby Operating Agreement and this letter agreement. Accordingly, in order to induce you to consummate the transactions contemplated by the Agreement, the undersigned hereby agree with you as follows:

1. So long as any indebtedness under the Agreement remains outstanding, Scott & Fetzer, World Book and Enterprises will not sell, pledge, hypothecate, transfer or otherwise dispose of any legal or equitable interest in any class of capital stock of Finance now or hereafter owned or held by any of them, except to each other, or create, suffer or permit to exist any lien or security interest therein, or authorize or consent to the issuance by Finance of any warrants, options or securities convertible into any class of capital stock of Finance, and Scott & Fetzer, World Book and Enterprises will at all times remain the legal and equitable owners of all issued and outstanding capital stock of Finance, except for directors' qualifying shares.

2. So long as any indebtedness under the Agreement remains outstanding, Finance, Scott & Fetzer, World Book and Enterprises will not sell, pledge, hypothecate, transfer or otherwise dispose of any legal or equitable interest in any class of capital stock of United now or hereafter owned or held by any of them, except to each other, or create, suffer or permit to exist any lien or security interest therein, or authorize or consent to the issuance by United of any warrants, options or securities convertible into any class of capital stock of United, and Scott & Fetzer, World Book, Enterprises and Finance will at all times remain the legal and equitable owners of all issued and outstanding capital stock of United, except for directors' qualifying shares.

3. So long as any indebtedness under the Agreement remains outstanding, Scott & Fetzer, World Book and Enterprises will each pay, satisfy, discharge and fully perform each of the respective duties, liabilities and obligations required to be paid, satisfied, discharged and performed by them under the Kirby Operating Agreement, and will not assign their rights under or agree to terminate the Kirby Operating Agreement or to amend or modify any of the terms or provisions thereof.

4. Scott & Fetzer, World Book and Enterprises acknowledge that in the event of any breach or failure of performance by any of them under the provisions of or of their obligations under the Kirby Operating Agreement, the remedies at law available to Finance under the Kirby Operating

Agreement, and to Prudential under this letter agreement, will be inadequate. Accordingly, Finance, United, Scott & Fetzer, World Book and Enterprises agree that in any such event or failure under the Kirby Operating Agreement, Finance, and under this letter agreement, Prudential, shall be entitled to equitable relief, which may include preliminary and permanent mandatory injunctions and specific performance.

5. So long as any indebtedness under the Agreement shall remain outstanding:

(a) Scott & Fetzer, World Book and Enterprises shall cause Finance to deliver promptly to the holder or holders of indebtedness under the Agreement copies of any officer's certificates delivered pursuant to paragraph 5(b) of the Kirby Operating Agreement; and

(b) Scott & Fetzer will deliver to each of you in duplicate such financial statements of Scott & Fetzer as you may reasonably request.

6. All notices and other communications under or in connection with this letter agreement or the Kirby Operating Agreement ("Notice") shall be made in writing and shall be deemed delivered 24 hours after the deposit thereof at any United States main or branch post office, certified or registered mail, postage prepaid, addressed as follows:

For Notices to Prudential:

The Prudential Insurance Company
of America
Prudential Plaza
Newark, New Jersey 07101

Attn: Vice President in Charge of the
Corporate Finance Department

For Notices to Scott & Fetzer, World Book or Enterprises:

The Scott & Fetzer Company
[and/or World Book-Childcraft
International, Inc., and/or World

Book Enterprises, Inc., as the
case may be]
c/o The Scott & Fetzer Company
14600 Detroit Avenue
Lakewood, Ohio 44107

Attn: President

For Notices to Finance or United:

World Book Finance, Inc.
[and/or United Retail Finance Company]
Suite 500
Merchandise Mart
Chicago, Illinois 60654

7. Nothing contained in this letter agreement is intended in any way, directly or indirectly, to amend or modify any provision of the Agreement, but the rights granted hereunder are intended to be cumulative and in addition to all other rights that you or any successor holder of any Note, may have thereunder or under any other instrument executed in connection therewith.

By approving and accepting this letter agreement, Prudential agrees that Scott & Fetzer, World Book, Enterprises and Finance may amend and modify the First Operating Agreement as set forth in the Modification of the Operating Agreement of even date herewith. The undersigned acknowledge that notwithstanding any amendment or modification of the First Operating Agreement or any of the other agreements referred to in the letter dated August 31, 1978 from the undersigned (other than United) to Prudential and The First National Bank of Chicago, the agreements contained in said letter remain in full force and effect.

Very truly yours,

THE SCOTT & FETZER COMPANY

Attest:

By /s/ RALPH E. SCHEY

/s/ R. C. WEBER
(CORPORATE SEAL)

WORLD BOOK-CHILDCRAFT
INTERNATIONAL, INC.

Attest:

By /s/ GRANT C. MALCHOW

/s/ HAROLD M. ROSS
(CORPORATE SEAL)

WORLD BOOK FINANCE, INC.

Attest:

By /s/ GRANT C. MALCHOW

/s/ HAROLD M. ROSS
(CORPORATE SEAL)

UNITED RETAIL FINANCE COMPANY

Attest:

By /s/ GRANT C. MALCHOW

/s/ HAROLD M. ROSS
(CORPORATE SEAL)

WORLD BOOK ENTERPRISES, INC.

Attest:

By /s/ GRANT C. MALCHOW

/s/ HAROLD M. ROSS
(CORPORATE SEAL)

Approved and Accepted:

The Prudential Insurance Company of America

By /s/ RAYMOND A. CHARLES
VICE PRESIDENT

[CONFORMED]

TERM LOAN AGREEMENT

August 31, 1978
Chicago, Illinois

The First National Bank of Chicago
One First National Plaza
Chicago, Illinois 60670

Attention: Group D

Gentlemen:

1. **Terms.** The undersigned, WORLD BOOK FINANCE, INC., a Delaware corporation (the "Borrower"), hereby applies to The First National Bank of Chicago (the "Bank") for a term loan in the principal amount of Twenty-Five Million Dollars (\$25,000,000). The term loan shall be available to the Borrower on the terms and conditions set forth herein.

1.1 **The Loan.** The Bank agrees, subject to the terms and conditions hereof, that the Borrower may, on or before August 31, 1978 borrow the principal amount of \$25,000,000 to be evidenced by a promissory note (herein sometimes called the "Note") in substantially the form of Exhibit "A" attached hereto. The Note shall be dated as of the date of borrowing and shall be payable to the order of the Bank, in full, at the office of the Bank in lawful money of the United States, in three (3) equal annual principal installments of \$6,250,000 each payable on the 31st day of each August in each year, commencing August 31, 1983 to and including August 31, 1985, together with a final principal installment of \$6,250,000 payable on August 31, 1986.

1.2 **Interest.** The Note shall bear interest from the date thereof on the principal amount thereof remaining from time to time unpaid at a rate per annum (i) equal to eight and three-quarters percent (8-3/4%) from the date thereof to and including August 31, 1982, (ii) from and including September 1, 1982 until maturity equal to the corporate base rate of interest announced by the Bank from time to time multiplied by 1.12, which rate shall change when and as said corporate base rate shall change, and (iii) after the expressed or any accelerated maturity until paid at a rate per annum equal to the sum of the corporate base rate of interest announced by the Bank from time to time plus two per cent (2%), which rate shall change when and as said corporate base rate shall change. Interest on the Note shall be payable quarterly on the 15th day of each November, February, May and August in each year hereafter, commencing November 15, 1978 and at maturity, whether by acceleration or otherwise. All interest hereunder shall be calculated for actual days elapsed based on a 360-day year.

1.3 **Prepayment.** The Borrower shall have the right from time to time upon ten (10) days' notice in writing to the Bank to prepay all or any integral multiple of \$100,000 of the Note prior to the expressed maturity thereof by paying, in addition to the principal amount of such prepayment, the interest accrued thereon to the date of such prepayment. From the date hereof to and including August 30, 1983, the Borrower shall also pay, in addition to the principal amount of such prepayment and the interest accrued thereon to the date of such prepayment, a premium in an amount equal to the product of the principal prepaid times one twelfth of one percent (1/12%) for each month or fraction thereof by which the prepayment date precedes August 30, 1983. All prepayments of the Note shall be applied to the installments thereof in the inverse order of their maturity.

1.4 **Optional Prepayment: Declining Receivables.** In the event that, at the end of three successive calendar months, the aggregate amount of Net Eligible Receivables owned by the Borrower shall have averaged for said three-month period 66-2/3% or less of the highest average amount thereof outstanding at the end of any three successive calendar months after August 31, 1978, the Borrower may prepay the principal amount of the Note then outstanding, in whole or pro rata in part (in multiples of \$100,000), by payment of the principal amount so prepaid together with interest accrued thereon to the date of prepayment, plus a premium equal to one-half of the then applicable premium provided in Paragraph 1.3, provided, however, that the Borrower may not make prepayment of the Note pursuant to this Paragraph 1.4 unless (i) such declining receivables are the result of transactions in the normal course of business, occur for reasons beyond the control of the Borrower, WBCI, WBE, and S & F, and are not undertaken by the Borrower with the primary intention of facilitating prepayment pursuant to this Paragraph 1.4, (ii) such prepayment is not being made as a part of a refunding or anticipated refunding by the application, directly or indirectly, of borrowed funds, (iii) the Borrower shall have given notice within 30 days after the end of such three successive calendar months of its intention to prepay the Note, (iv) substantially simultaneously with the prepayment of the Note the Borrower shall have made a prepayment of all other Indebtedness subject to prepayment (with or without premium or penalty) in the principal amount which bears the same ratio to the unpaid principal amount of such other Indebtedness as the principal amount of the prepayment then being made under this Paragraph 1.4 bears to the aggregate unpaid principal amount of the Note, and (v) the Borrower shall have delivered to the Bank a statement, certified by its President or chief financial officer, to all such effects and setting forth in reasonable detail the computations evidencing compliance with the foregoing provisions of this Paragraph 1.4.

1.5 Compensating Balances. In consideration of the Bank's making the term loan herein requested by the Borrower, the Borrower hereby agrees to maintain average collected demand deposit balances, net of balances required to support account activity, on deposit with the Bank at a level of not less than 4% of the total amount outstanding on the Note from time to time, calculated on a monthly basis. If the average collected demand deposit balances are not maintained by the Borrower as required herein, the Bank will charge the Borrower's account maintained with the Bank, on the twenty-fifth day of each month for the preceding month, an amount equal to one-twelfth of the product of the (i) deficient balances for the preceding month times (ii) Borrower's effective borrowing rate. As used herein, "effective borrowing rate" shall mean a fraction, the numerator of which is the corporate base rate of interest announced by the Bank from time to time multiplied by 1.12 and the denominator of which is .96. For purposes of determining average collected demand deposit balances hereunder, all such deposits made by WBCI and its wholly-owned subsidiaries shall be included therein.

2. Warranties. The Borrower represents and warrants to the Bank that as of the date hereof:

2.1 Financial Statements. The Borrower has heretofore delivered to the Bank the consolidated balance sheet of WBCI as at September 30, 1977 and the related consolidated statement of income and surplus for the one-year period then ended, with the opinion thereon of Arthur Andersen & Co., independent public accountants. Such financial statements are complete and correct and fairly present the consolidated financial condition of WBCI at the date of such balance sheet and the results of its operations for the fiscal period ending on said date. WBCI has no material liabilities or obligations, contingent or otherwise, or unusual forward or long-term commitments not disclosed by said balance sheet as at September 30, 1977 and related footnotes, or for which a provision has not been made. Said financial statements have been prepared in accordance with generally accepted principles of accounting consistently applied by WBCI throughout the period involved. Since September 30, 1977 there has been no material adverse change in the consolidated financial condition of WBCI from that shown by said consolidated balance sheet and related footnotes as at said date.

2.2 Liens. The Borrower has no outstanding mortgages, security interests, pledges, liens, or encumbrances other than those permitted by Paragraph 3.2.1 hereof.

2.3 Compliance with Laws. The Borrower is in full compliance in all material respects with all laws and administrative rules and regulations applicable to it and the execution and performance of the Agreement and Note pursuant to their terms will in no way violate such laws, rules and regulations, except that the Borrower may not be licensed in Alabama, Illinois, Maryland, Massachusetts, Montana, New York, Vermont, and Puerto Rico which failure to be licensed will not materially adversely affect the Borrower's business and operations, or its ability to enforce collection of the Receivables in accordance with their respective terms.

2.4 Taxes. The Borrower has filed all tax returns which are required to be filed and has paid, or made adequate provision for the payment of, all taxes, including interest and penalties which have or may become due pursuant to such returns or to assessments received by it.

2.5 Investments. The Borrower has no investment in or loan to any entity other than those permitted by Paragraph 3.2.5 hereof.

2.6 Pension Plan. The Borrower has no private pension plan as defined in the Employee Retirement Income Security Act of 1974 for the benefit of any of its employees.

2.7 Litigation. There is no action or proceeding pending or, to the knowledge of its officers, threatened against the Borrower before any court or administrative agency which might materially adversely affect the financial condition or operations of the Borrower or its ability to perform its obligations under this Agreement or the Note.

2.8 Material Agreements. The Operating Agreement is in full force and effect and binding against the parties thereto in accordance with its terms.

2.9 The Note and Agreement. The Borrower is a duly organized and validly existing Delaware corporation in good standing, the execution and delivery of the Agreement and the Note are within the Borrower's corporate authority, that this Agreement has been validly executed by the Borrower and the agreements herein contained are binding and enforceable upon it in accordance with its terms; that the Note to be issued hereunder will upon execution and delivery be a valid obligation of the Borrower enforceable in accordance with its terms, except as such may be limited by bankruptcy, insolvency or other similar laws relating to the enforcement of creditors' rights generally; that neither the agreements on the part of the Borrower herein contained, nor the issuance by the Borrower of the Note hereunder nor performance by the Borrower of any of its obligations hereunder or under the Note, does or will violate any provision of law, the Articles of Incorporation of the Borrower as amended or its By-Laws or any agreement, indenture, note or other instrument which is binding upon the Borrower; and the indebtedness of the Borrower to the Bank evidenced by the Note is not and will not be subordinated in time or manner of payment to any other indebtedness for borrowed money of the Borrower.

loan hereunder is in compliance with Regulation U of the Board of

de herein shall survive the delivery of the Note and the making of

al amount and interest due thereon as evidenced by the Note shall
the Borrower agrees as follows:

ritten consent of the Bank, the Borrower will:
nish to the Bank:

45) days after the close of each quarterly period
cal years, the unaudited balance sheets, related
statements, as at the close of each such period,
chief financial officer each such statement being
with generally accepted accounting principles
to normal audit and year-end adjustments,
ary schedule or schedules, each such schedule
orrower by its President or chief financial officer
Borrower's compliance with Paragraphs 3.2.7,
f;

o days after the close of each of its fiscal years, an
ified opinion certified by independent certified
ble to the Bank, prepared in accordance with
ng principles consistently applied, including a
such period, related profit and loss and surplus
of such accountants stating that in the course of
untants obtained no knowledge of any Event of
n which, with the lapse of time or giving of notice
vent of Default hereunder, or if, in the opinion of
vent of Default or event or condition exists, they
atus thereof;

th the delivery of each set of financial statements
1.1(a) above, a written certification by the
f financial officer, that such officer has obtained
of Default or event or condition which, with the
me or both, would become an Event of Default
ult or event or condition exists, such certificate
eof, the period of existence thereof and what
es to take with respect thereto;

days after the close of each of its fiscal years and
cond quarterly accounting periods, a copy of the
eted Robert Morris Associates Direct Cash
in effect;

e sending or filing thereof, copies of all proxy
nts and reports which the Borrower sends to its
all regular, periodic and special reports and all
th the Borrower files with the Securities and
any governmental authority which may be
any national securities exchange;

ation regarding the financial condition, results
f the Borrower as the Bank may reasonably

officers, employees, agents and representatives of the
nd inspect any of the properties of the Borrower, inspect
atters reasonably pertinent to an evaluation of the credit
nce with this Agreement with the principal officers of the
ble reports or statements relevant thereto, all at such
Bank may reasonably request.

3.1.3 Corporate Existence, Taxes and Maintenance of Properties.

(a) Do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and rights to carry on its business and comply in all material respects with all valid and applicable statutes, rules and regulations;

(b) promptly pay and discharge, or cause to be paid and discharged, before the same shall become in default (i) all taxes, assessments and governmental charges lawfully levied or imposed upon its property or any part thereof, as well as (ii) all lawful claims for labor, materials and supplies, which, if unpaid, might become a lien upon such property or any part thereof; provided that the Borrower shall be entitled to withhold or cause to be withheld the payment or discharge of any thereof so long as the validity thereof shall be contested in good faith; and

(c) engage solely in the business of purchasing Receivables pursuant to the Operating Agreement.

3.1.4 Insurance. The Borrower will keep insured with good and responsible insurance companies (mutual or stock) against loss or damage in such amounts, if any, and on such terms, as are customarily insured by companies engaged in the same business, all of its physical assets of every kind and character including the protection by such insurance of all buildings and equipment against loss or damage from or on account of fire, however caused, lightning, and other usual or supplemental risks; provided however, that nothing contained herein shall be construed to prevent the Borrower from ceasing or omitting to protect by such insurance any buildings or equipment which in the judgment of the Board of Directors are no longer necessary for use in the operations of the Borrower or are no longer of sufficient value to warrant their protection by such insurance.

3.1.5 Other Agreements. Furnish to the Bank within ten (10) business days of the execution thereof, copies of all agreements, notes, indentures or other instruments evidencing indebtedness for borrowed money entered into from the date hereof.

3.1.6 Compliance with Other Agreements. Comply with the terms and provisions of all existing or future agreements, indentures and/or instruments for borrowed money which are binding upon it.

3.1.7 Use of Proceeds. Use the proceeds of the loan hereunder solely to purchase accounts receivable of WBCI and WBE which shall thereupon constitute Receivables and not to purchase or carry "margin stock" in violation of Regulation U of the Board of Governors of the Federal Reserve System.

3.2 Unless it has obtained the prior written consent of the Bank, the Borrower will not:

3.2.1 Liens. Create, incur, or permit to exist, any pledge, mortgage, assignment or other encumbrance of or upon any of its assets or property now or hereafter owned, or of or upon the income or profits thereof; provided, however, that the Borrower may permit and allow to exist liens for taxes, assessments and other governmental charges, the payment of which is not then required by Paragraph 3.1.3(b) hereof.

3.2.2 Merger, Consolidation and Sale of Assets. Merge or consolidate with or into any other corporation or entity, or lease or sell or sell and lease back any substantial portion of its property, assets or business to any other corporation or entity.

3.2.3 Sale of Receivables. Sell any of its Receivables except without recourse, for cash and at the full face value thereof, except that Receivables that were originally acquired by the Borrower at less than the face value thereof may be sold (without recourse) or discounted at a net cash price to the Borrower of not less than the original net cost thereof, and provided that the Borrower shall not sell, in any one fiscal year, Receivables in an aggregate amount in excess of an amount equal to 25% of aggregate outstanding Receivables as of the end of the immediately preceding fiscal year.

3.2.4 Stock Redemption. Purchase, redeem, retire or otherwise acquire the Borrower's stock of any class.

3.2.5 Loans, Advances, Investments and Contingent Liabilities. Make or permit to exist any loan or advance to, or guarantee, endorse or otherwise be or become contingently liable, directly or indirectly, in connection with the obligations, stock or dividends of, or own, purchase or acquire any stock, obligations or securities of, or any other interest in, or make any capital contribution to, or make any investment in, any Person, except that the Borrower may (i) invest in Receivables, (ii) own, purchase or acquire prime commercial paper rated A-1 by Moody's Investor Service or P-1 by Standard and Poor Corporation and certificates of deposit in United States commercial banks (having a capital and surplus in excess of \$50,000,000), in each case due within one year from the date of purchase, obligations of the United States Government or any agency thereof, and obligations guaranteed by the United States Government, (iii) endorse negotiable instruments for collection in the ordinary course of business, (iv) guarantee bank indebtedness of any corporation all of the stock of every class of which (except directors' qualifying shares) shall then be owned by the Borrower, S & F or WBCI, or any combination thereof, and which engages primarily in the business of financing receivables of Foreign Subsidiaries, provided that the amount of such indebtedness so guaranteed shall constitute Senior Indebtedness, (v) make or permit to remain outstanding loans or advances to, or guarantee, endorse or otherwise be or become contingently liable in connection with the obligations, stock or dividends of, or own, purchase or acquire stock, obligations or securities of any other Person, provided that the aggregate principal amount of such loans and advances which is in excess of 5% of Consolidated Stockholders' Equity will be deemed not to be Net Eligible Receivables and will be excluded from Adjusted Net Worth.

3.2.6 Pension Plan. Institute or permit to exist any private pension plan as defined by the Employee Retirement Income Security Act of 1974 for the benefit of any of its employees.

3.2.7 Fixed Charges Ratio. Allow or permit to exist, at the end of each of the Borrower's fiscal quarters, the ratio of Earnings Available for Fixed Charges for such fiscal quarter to total Fixed Charges of the Borrower for such fiscal quarter to be less than 1.5 to 1.0.

3.2.8 Debt Ratios. Allow or permit to exist:

(a) the ratio of the sum of Indebtedness and Deferred Tax Obligations to the Capital Base of the Borrower to exceed 6.0 to 1.0; or

(b) the ratio of Senior Indebtedness of the Borrower to Capital Base to exceed 4.0 to 1.0; or

(c) the ratio of Senior Subordinated Indebtedness of the Borrower to the sum of Junior Subordinated Indebtedness plus Adjusted Net Worth to exceed .50 to 1.0; or

(d) the ratio of Junior Subordinated Indebtedness of the Borrower to Adjusted Net Worth to exceed .50 to 1.0.

3.2.9 Eligible Assets. Allow or permit Eligible Assets to be less than the following percentage of (a) Indebtedness less (b) the sum of the aggregate of Senior Subordinated Indebtedness plus Junior Subordinated Indebtedness held by WBCI or S & F for the following periods: 100% prior to August 31, 1979; 105% from and including August 31, 1979 through and including August 30, 1980; and 110% thereafter.

3.2.10 Adjusted Net Worth. Allow or permit Adjusted Net Worth to be less than \$25,000,000.

3.2.11 Operating Agreement. Allow or permit the Operating Agreement to be altered, amended, rescinded or terminated.

3.2.12 Fiscal Year. Change its fiscal year.

3.2.13 Licensing. Become licensed, within 60 days of the date hereof, in each state and jurisdiction in which it is required to be licensed to conduct its business.

3.2.14 Notice of Default. Fail to notify the Bank in writing, as promptly as possible after but in no event later than three (3) business days after discovery thereof, of the occurrence of each Event of Default or each event or condition which, with the giving of notice or lapse of time or both, would become an Event of Default, such statement on behalf of the Borrower by its President or chief financial officer setting forth the details of such Event of Default or event or condition and the action which the Borrower proposes to take with respect thereto.

4. Defaults.

4.1 If any of the following events shall occur:

4.1.1 Any representation or warranty of the Borrower to the Bank in connection with this Agreement shall be materially false;

4.1.2 The breach by the Borrower of any of the provisions of Paragraphs 3.2.1 through 3.2.14 hereof;

4.1.3 The breach by the Borrower of any of the other provisions hereof which is not remedied within thirty (30) days after receipt of written notice from the Bank;

4.1.4 Nonpayment of any principal amount upon the Note when the same becomes due, whether by acceleration or otherwise; or nonpayment of any interest upon the Note within five (5) days after the same becomes due;

4.1.5 Nonpayment of any other obligation for borrowed money of the Borrower beyond any period of grace provided with respect thereto or the breach of any other agreement the effect of which is to permit acceleration of the maturity of any of the Borrower's indebtedness;

4.1.6 The Borrower, WBCI, WBE or S & F, or any one of them, shall default or otherwise fail to comply with any term or condition, of the Operating Agreement or the Operating Agreement shall cease to be in full force and effect or shall be altered, amended, rescinded or terminated;

4.1.7 The Borrower, WBCI, WBE or S & F shall be adjudicated a bankrupt or an insolvent, or admit in writing its inability to pay its debts as they mature, or make an assignment for the benefit of its creditors; or the Borrower, WBCI, WBE or S & F shall apply for or consent to the appointment of any receiver, trustee, or similar officer for it or for all or any substantial part of its property; or such receiver, trustee or similar officer shall be appointed without the application or consent of the Borrower, WBCI, WBE or S & F as the case may be, and such appointment shall continue undischarged for a period of 30 days; or the Borrower, WBCI, WBE or S & F shall institute (by petition, application, answer, consent or otherwise) any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, dissolution, liquidation or similar proceedings relating to it under the laws of any jurisdiction; or any such proceeding shall be instituted (by petition, application or otherwise) against the Borrower, WBCI, WBE or S & F and shall remain undismissed for a period of 30 days; or the Borrower, WBCI, WBE or S & F shall fail to pay or otherwise discharge any one or more judgments or attachments against any one or more of them in excess of \$100,000 in the aggregate at any time outstanding;

then and in any such event (an "Event of Default") the Note shall, at the option of the Bank, immediately mature and become due and payable without presentment, demand, protest or other notice of any kind; all of which are hereby expressly waived.

5. Waivers. No delay or omission of the Bank to exercise any right or power hereunder or under the Note shall impair such right or power or be construed to be a waiver of any Event of Default or an acquiescence therein, and any single or partial exercise of any such right or power shall not preclude other or further exercise thereof or the exercise of any other right, and no waiver whatsoever shall be valid unless in writing, and then only to the extent in such writing specifically set forth. All remedies herein or by law afforded shall be cumulative and all shall be available to the Bank until it has been paid in full in lawful money.

6. Closing Requirements. The Bank shall not be required to make the loan contemplated by this Agreement unless the Borrower shall have fulfilled the following conditions:

6.1 On the closing date and as a condition precedent to the Bank's obligation to make the loan hereunder, the Borrower shall have furnished to the Bank:

6.1.1 A copy certified by the Secretary of the Borrower, of the Borrower's Articles of Incorporation, By-Laws, Board of Directors' Resolutions and resolutions of other bodies, if any are deemed necessary by counsel for the Bank, authorizing the execution of the Note and this Agreement.

6.1.2 A copy certified by the Secretary of S & F, of S & F's By-Laws and Board of Directors' Resolutions authorizing the execution of the Operating Agreement.

6.1.3 A copy certified by the Secretary of WBCI, of WBCI's By-Laws and Directors' Resolutions authorizing the execution of the Operating Agreement.

6.1.4 A copy certified by the Secretary of WBE, of WBE's By-Laws and Directors' Resolutions authorizing the execution of the Operating Agreement.

6.1.5 A copy certified by the Secretary of State of Ohio of the Articles of Incorporation of S & F.

6.1.6 A copy certified by the Secretary of State of Delaware of the Borrower's Articles of Incorporation, the Articles of Incorporation of WBCI and the Articles of Incorporation of WBE.

6.1.7 An unqualified written opinion satisfactory to counsel for the Bank of legal counsel for the Borrower, dated as of the date of closing addressed to the Bank stating that the Borrower is a validly organized and existing Delaware corporation in good standing and that the execution and delivery of the Agreement and the Note are within the Borrower's corporate authority, that this Agreement has been validly executed by the Borrower and the agreements herein contained are binding and enforceable upon it in accordance with its terms; that the Note to be issued hereunder will upon execution and delivery be a valid obligation of the Borrower enforceable in accordance with its terms, except as such may be limited by bankruptcy, insolvency or other similar laws relating to the enforcement of creditor's rights generally; that neither the agreements on the part of the Borrower herein contained, nor the issuance by the Borrower of the Note hereunder nor performance by the Borrower of any of its obligations hereunder or under the Note, does or will violate any provision of law, the Articles of Incorporation of the Borrower as amended or its By-Laws or any agreement, indenture, note or other instrument which is binding upon the Borrower of which counsel, after having made prudent inquiries, has knowledge; that no action or nonaction by any governmental commission, bureau or agency is required in connection with the execution of this Agreement or of the Note, or to the extent that the same may be required, that it has been validly procured, the Operating Agreement is a valid and binding obligation of the Borrower, S & F, WBCI and WBE in accordance with its terms and the Operating Agreement is enforceable by the Bank and by each of the parties thereto against each of the parties thereto, and that the Borrower will have a first perfected security interest in the Receivables immediately upon its purchase thereof.

6.1.8 A commitment fee on the original principal amount of the Note at the rate of three-fourths of one percent (3/4%) per annum, calculated for actual days elapsed based on a 360-day year, for the period from and including July 1, 1978 to and including August 31, 1978.

6.1.9 Duly executed copies of the Operating Agreement, the Agreement and the Note.

6.1.10 An executed letter agreement from S & F, WBCI, WBE and the Borrower, in form and substance warrants to the Bank, to the effect that said parties (i) will perform their obligations under the Operating Agreement, (ii) will deliver to you interim and year-end financial statements, (iii) will not transfer or deposit or, any of the shares of capital stock of the Borrower or permit any encumbrance thereon.

6.2 The Borrower will have a first perfected security interest in the Receivables immediately upon its purchase thereof.

7. Transfer of Note. The terms and provisions of this Agreement shall inure to the benefit of any assignee or transferee of the Note, and in the event of such transfer or assignment, the rights and privileges herein conferred upon the Bank shall automatically extend to and be vested in the transferee or assignee of the Bank, all subject to the terms and conditions hereof.

8. Notices. Any notice herein required or permitted to be given may be given in writing by depositing the same in the United States mail, postage prepaid, or by telegraph, charges prepaid, addressed

To the Borrower as follows:

World Book Finance, Inc.
Merchandise Mart Plaza
Chicago, Illinois 60654
Attention: Raymond A. Davis

To the Bank as set forth in its address above, but in the case of the Borrower as well as the Bank and any transferee or assignee of the Bank to such other address as the entity to be addressed may hereafter designate in a notice in writing given to all other parties. Each notice shall clearly and conspicuously state that it relates to this \$25,000,000 Term Loan Agreement dated August 31, 1978.

9. Definitions. For all purposes of this Agreement and the Note, unless the context otherwise requires, the following terms shall have the following meanings:

9.1 "Adjusted Net Worth" shall mean the sum of all capital stock, capital surplus, and retained earnings, less (i) treasury stock; (ii) intangibles (including goodwill, deferred charges, prepaid expenses, and unamortized debt expense); (iii) the excess of Receivables of the Borrower originating outside the United States, United States possessions, and Canada over 10% of the gross amount of Receivables of the Borrower; (iv) the excess of Receivables maturing in more than 36 months over 25% of the gross amount of Receivables of the Borrower; (v) any Receivable maturing in more than 60 months unless the Borrower has full recourse against WBCI or WBE with respect to payment thereof; and (vi) the excess of the aggregate principal amount of loans and advances outstanding pursuant to Subparagraph 3.2.5(v) over 5% of Consolidated Stockholders' Equity.

9.2 "Agreement" shall mean this Agreement dated as of August 31, 1978, between the Borrower and the Bank.

9.3 "Bank" shall mean The First National Bank of Chicago, a national banking association.

9.4 "Borrower" shall mean World Book Finance, Inc., a Delaware corporation.

9.5 "Capital Base" shall mean the sum of Adjusted Net Worth plus Senior Subordinated Indebtedness plus Junior Subordinated Indebtedness.

9.6 "Consolidated Stockholders' Equity" of a corporation shall mean the sum of (i) the par value (or stated value on the books of the corporation) of the capital stock of all classes (exclusive of treasury stock) plus (or minus in the case of a surplus deficit) (ii) the amount of the surplus, whether capital or earned, of such corporation, all as determined by generally accepted accounting principles consistently applied.

9.7 "Deferred Tax Obligations" shall mean that portion of the deferred tax liabilities on the balance sheet of WBCI, WBE or any other wholly-owned subsidiary of S & F which relate to the Receivables sold to the Borrower.

9.8 "Earnings Available for Fixed Charges" shall mean net income of the Borrower as determined by generally accepted accounting principles with the following adjustments (to the extent such items have not already been taken into account in the manner set forth below in calculating net income): (i) all operating and maintenance expenses, taxes other than taxes on or measured by income, and depreciation shall be deducted in determining net income; (ii) all extraordinary, nonrecurring items of income shall be excluded in determining net income; (iii) all extraordinary, nonrecurring items of expense shall be deducted in determining net income; (iv) Fixed Charges shall not be deducted in determining net income; and (v) any cash payment required to be made for any quarterly period of any fiscal year pursuant to Paragraph 3A of the Operating Agreement shall be added to net income for the quarterly period of the fiscal year in which such cash payment is required to be made, provided, however, that such amount shall be deducted in determining net income for such quarterly period unless such cash payment is actually made within the time period specified in Paragraph 3B of the Operating Agreement.

9.9 "Eligible Assets" shall mean, at any time of determination, the sum of (a) cash, (b) aggregate investments permitted by Subparagraph 3.2.5(i) hereof, and (c) Net Eligible Receivables.

9.10 "Event of Default" shall mean the occurrence of any of the events set forth in Paragraph 4 hereof, which is not cured or waived within the time period, if any, provided in said Paragraph 4.

9.11 "Fixed Charges" shall mean all charges for interest on funded and unfunded debt, amortization of debt discount, and rentals for leased properties, all determined in accordance with generally accepted accounting principles.

9.12 "Foreign Subsidiary" shall mean any corporation organized under the laws of any country except the United States of America and Canada, or which conducts the major portion of its business outside the United States of America and Canada, all of the stock of every class of which, except directors' qualifying shares, shall, at the time as of which any determination is being made, be owned by WBCI.

9.13 "Indebtedness" shall mean and include without duplication:

(i) any obligation which under generally accepted accounting principles is shown on the balance sheet as a liability (excluding reserves for deferred income taxes and other reserves to the extent that such reserves do not constitute an obligation);

(ii) amounts equal to the aggregate net rentals (after making allowance for any interest, taxes or other expenses included therein) payable under any lease (whether or not such rentals accrue and become payable only on an annual or other periodic basis) which lease is capitalized in accordance with generally accepted accounting principles consistently applied;

(iii) indebtedness secured by any mortgage, pledge, security interest, encumbrance, lien or charge of any kind existing on property owned subject to such mortgage, pledge, security interest, encumbrance, lien or charge of any kind, whether or not the indebtedness secured thereby shall have been assumed;

(iv) guarantees, endorsements (other than endorsements of negotiable instruments for collection in the ordinary course of business) and other contingent liabilities (whether direct or indirect) in connection with the obligations, stock or dividends of any Person;

(v) obligations under any contract providing for the making of loans, advances or capital contributions to any Person, or for the purchase of any property from any Person, in each case in order to enable such Person primarily to maintain working capital, net worth or any other balance sheet condition or to pay debts, dividends or expenses;

(vi) obligations under any contract for the purchase of materials, supplies or other property if such contract (or any related document) requires that payment for such materials, supplies or other property shall be made regardless of whether or not delivery of such materials, supplies or other property is ever made or tendered;

(vii) obligations under any contract to rent or lease (as lessee) any real or personal property if such contract (or any related document) provides that the obligation to make payments thereunder is absolute and unconditional under conditions not customarily found in commercial leases then in general use or requires that the lessee purchase or otherwise acquire securities or obligations of the lessor;

(viii) obligations under any contract for the sale or use of materials, supplies or other property if such contract (or any related document) requires that payment for such materials, supplies or other property, or the use thereof, shall be subordinated to any indebtedness (of the purchaser or user of such materials, supplies or other property) owned or to be owed to any Person; and

(ix) obligations under any other contract which, in economic effect, is substantially equivalent to a guarantee;

all as determined in accordance with generally accepted accounting principles.

9.14 "Junior Subordinated Indebtedness" shall mean any Indebtedness, the payment of principal and interest of which shall be subordinated and junior to the Indebtedness evidenced by the Notes and to other Senior Indebtedness and to Senior Subordinated Indebtedness in the manner and to the extent set forth in Exhibit "C" hereto.

9.15 "Net Eligible Receivables" shall mean the gross amount of Receivables, less (i) unearned finance charges; (ii) the greater of (a) reserves for uncollectible accounts, including the Contract Reserve Account referred to and defined in the Operating Agreement, and dealer reserves, or (b) Receivables which have been placed with a collection agency or an attorney for collection plus, without duplication, Receivables on which one full installment payment has not been received within the 180 days immediately preceding any calculation under this Paragraph 9.15, all determined in accordance with generally accepted accounting principles consistently applied; and (iii) the excess of the aggregate principal amount of loans and advances outstanding pursuant to Subparagraph 3.2.5(iv) hereof over 5% of Consolidated Stockholders' Equity, and (iv) the excess of the aggregate principal amount of loans and advances outstanding pursuant to Subparagraph 3.2.5(iv) over 5% of Consolidated Stockholders' Equity.

9.16 "Note" shall mean the Note in the form of Exhibit "A" attached hereto evidencing the indebtedness of the Borrower to the Bank hereunder.

9.17 "Operating Agreement" shall mean that certain Operating Agreement in the form of Exhibit "B" attached hereto executed by and among the Borrower, WBCI, WBE and S & F dated August 31, 1978.

9.18 "Person" shall mean and include an individual, a partnership, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof.

9.19 "Receivables" shall mean all of the Borrower's accounts receivable purchased from WBCI or WBE pursuant to the Operating Agreement, or from Scott & Fetzer or any of its subsidiaries pursuant to an operating agreement acceptable in form and substance to the Bank.

9.20 "S & F" shall mean The Scott & Fetzer Company, an Ohio corporation.

9.21 "Senior Indebtedness" shall mean any Indebtedness that is not Junior Subordinated Indebtedness or Senior Subordinated Indebtedness.

9.22 "Senior Subordinated Indebtedness" shall mean any Indebtedness, the payment of principal and interest of which shall be subordinated and junior to the Indebtedness evidenced by the Notes and to other Senior Indebtedness of the Borrower and its Subsidiaries in the manner and to the extent set forth in Exhibit "D" hereto, but senior to Junior Subordinated Indebtedness.

9.23 "WBCI" shall mean World Book-Childcraft International, Inc., a Delaware corporation and wholly-owned subsidiary of S & F.

9.24 "WBE" shall mean World Book Encyclopedia, Inc., a wholly-owned subsidiary of WBCI.

10. **Applicable Law.** This Agreement and the Note shall be governed by, and construed in accordance with the internal laws, and not the law of conflicts, of the State of Illinois, except as to matters governed by applicable federal law or regulation.

11. **Severability.** The invalidity of any one or more covenants, phrases, clauses, sentences or paragraphs of this Agreement shall not affect the remaining portions of this Agreement, or any part thereof, and in case of any such invalidity, this Agreement shall be construed as if such invalid covenants, phrases, clauses, sentences or paragraphs had not been inserted.

12. **Accounting Computation.** All financial statements and reports furnished to the Bank pursuant to this Agreement shall be prepared, and all computations and determinations required to be made hereunder shall be made, in accordance with generally accepted accounting principles and practices, applied on a basis not materially inconsistent with those applied in the preparation of the financial statements referred to in Paragraph 2.1 hereof.

13. **Costs and Expenses.** The Borrower agrees to pay all costs and expenses incurred by the Bank in connection with the preparation, execution and delivery of this Agreement and the Note, including without limitation, printing and typing costs, including legal drafting and attorneys' fees of counsel for the Bank, as well as any and all stamp taxes and will save the Bank harmless from any and all liabilities with respect to, or resulting from, any delay or omission to pay such taxes. The Borrower further agrees to pay all costs and expenses incurred by the Bank in connection with the enforcement of this Agreement and the Note, including without limitation, reasonable attorneys' fees for counsel for the Bank and costs of collection (including reasonable fees for the Bank's attorneys) if an Event of Default occurs.

14. **Paragraph Headings.** Paragraph headings hereunder are for the convenience of the parties hereunder and shall not affect the construction and interpretation of this Agreement.

Yours very truly,

WORLD BOOK FINANCE, INC.

By Raymond A. Davis

Title President

The foregoing application is hereby accepted as of the date first above written by the undersigned Bank, which agrees to make the loan therein applied for on the terms and conditions therein set forth.

THE FIRST NATIONAL BANK OF CHICAGO

By John R. Swift

Title Vice President

**EXHIBIT "A"
NOTE**

\$25,000,000

**Chicago, Illinois
August 31, 1978**

FOR VALUE RECEIVED, the undersigned, World Book Finance, Inc. (the "Borrower"), a Delaware corporation, hereby promises to pay to the order of The First National Bank of Chicago, a national banking association (the "Bank"), at its principal office in Chicago, Illinois, in lawful money of the United States of America, the principal sum of Twenty-Five Million Dollars (\$25,000,000) in three (3) equal consecutive annual principal installments of \$6,250,000 payable on the 31st day of each August in each year, commencing August 31, 1983 to and including August 31, 1985, together with a final principal installment of \$6,250,000 payable on August 31, 1986.

This Note shall bear interest from the date hereof on the principal amount hereof remaining from time to time unpaid at a rate per annum (i) equal to eight and three-quarters percent (8-3/4%) from the date hereof to and including August 31, 1982, (ii) from and including September 1, 1982 until maturity equal to the corporate base rate of interest announced by the Bank from time to time multiplied by 1.12, which rate shall change when and as said corporate base rate shall change, and (iii) with interest after the expressed or any accelerated maturity until paid in full at a rate per annum equal to the sum of the corporate base rate of interest announced by the Bank from time to time plus two percent (2%), which rate shall change when and as said corporate base rate shall change. Interest hereunder shall be payable quarterly on the 15th day of each November, February, May and August in each year hereafter, commencing November 15, 1978 and at maturity. All interest shall be calculated for actual days elapsed on the basis of a 360-day year. Whenever any payment to be made hereunder shall be due on a Saturday, Sunday or legal holiday in the State of Illinois, such payment shall be made on the next succeeding business day in Illinois and any extension of time of the payment of principal shall be included in computing interest in connection with such payment of principal.

This Note is the Note issued pursuant to the provisions of the Term Loan Agreement, dated August 31, 1978, between the Borrower and the Bank, to which Term Loan Agreement reference is hereby made for a statement of the terms and conditions under which the loan evidenced hereby was made and is to be repaid and under which this Note may be paid prior to its due date or its due date accelerated.

WORLD BOOK FINANCE, INC:

**By _____
Title _____**

EXHIBIT B

[CONFORMED]

OPERATING AGREEMENT

OPERATING AGREEMENT dated as of August 31, 1978 among World Book-Childcraft International, Inc. ("World Book"), World Book Finance, Inc. ("Finance"), World Book Encyclopedia, Inc., ("Encyclopedia") and The Scott & Fetzer Company ("Scott & Fetzer").

In consideration of the mutual promises herein contained, World Book, Finance, Encyclopedia and Scott & Fetzer agree as follows:

1. Sale of Receivables.

1A. World Book and Encyclopedia shall offer to sell to Finance during the term of this Agreement, on a nonrecourse basis, all Receivables now or hereafter owned by World Book or Encyclopedia. Finance shall give full, careful and prompt consideration to all Receivables offered to Finance by World Book and Encyclopedia and shall be deemed to have accepted for purchase all Receivables offered without any further or express act of acceptance; provided however, that (i) the purchase of Receivables shall be within the sole discretion of Finance, and Finance shall be under no obligation to purchase any Receivables and may, by express notice to World Book or Encyclopedia within 2 business days, refuse to accept for purchase any specific Receivables, and, (ii) Finance shall be under no obligation to purchase any such Receivables, whether or not it has given such notice, to the extent that Finance shall not then have available to it sufficient sources of funds to consummate such purchase in accordance with the provisions hereof. All documentation relating to the purchase of Receivables shall be satisfactory in form and substance to Finance. Notwithstanding the foregoing, World Book and Encyclopedia shall sell to Finance and Finance shall buy from World Book and Encyclopedia all Receivables owned by World Book or Encyclopedia as at August 31, 1978. All conveyances of Receivables to Finance after the purchase described in the preceding sentence shall be made by World Book and Encyclopedia daily as of the close of business as to all Receivables arising during the course of such day. Such conveyance shall be effected by virtue of the provisions of this paragraph 1, without further instrument of conveyance upon notation of the conveyance on the books and records of World Book, Encyclopedia and Finance.

1B. The purchase price of receivables sold and conveyed pursuant to paragraph 1A shall be paid by Finance by direct cash payment or by the application of proceeds of collection of Receivables as provided in paragraph 9B. The daily application by Finance of the proceeds of Receivables as provided in paragraph 9B shall, as at the time of such application, constitute full payment for Receivables purchased by Finance pursuant to paragraph 1.

1C. Finance shall not purchase Receivables from World Book and Encyclopedia hereunder after they cease, respectively, to be wholly-owned subsidiaries (directly or through other wholly-owned subsidiaries) of Scott & Fetzer.

2. Purchase Price of Receivables; Contract Reserve Account.

2A. The price to be paid by Finance for Receivables shall be equal to 100% of the principal amount thereof or such other percentage not exceeding 100% as may be agreed by World Book or Encyclopedia, as the case may be, and Finance from time to time.

2B. Within 30 days of the end of each Accounting Period, World Book and Encyclopedia shall pay to Finance a facilitating fee in respect of the average aggregate outstanding balance of all Receivables owned by Finance during such Accounting Period. The amount of such fee for each such Accounting Period shall be determined jointly by World Book, Encyclopedia and Finance and shall be sufficient to compensate Finance fairly in accordance with customary industry practices for the risk undertaken by it in purchasing and holding the Receivables.

2C. On each purchase of Receivables, Finance shall withhold from the purchase price of such Receivables an amount equal to not less than 11% of the unpaid balance of such Receivables. Finance

will credit all sums so withheld to a reserve (the "Contract Reserve Account") on the books of Finance. The amount of any Receivable determined by Finance to be uncollectible shall be charged to the Contract Reserve Account regardless of whether any deficit results in such Contract Reserve Account. If, at the close of business on the last day of the Accounting Period, the Contract Reserve Account has a balance in excess of the sum of (i) the aggregate amount of Receivables on which one full installment payment has not been received within the 180 days immediately preceding any calculation under this paragraph, (ii) without duplication, the aggregate amount of Receivables that have been placed with attorneys or collection agencies for collection, and (iii) 5% of the aggregate amount of all Receivables, Finance shall pay such excess to World Book Encyclopedia.

3. Investment Covenant.

3A. If at the end of any Accounting Period the Earnings Available for Fixed Charges for such Accounting Period and previous Accounting Periods, if any, occurring in the same fiscal year were less than one and one-half times Finance's Fixed Charges for such Accounting Period and previous Accounting Periods, if any, occurring in the same fiscal year, World Book and Encyclopedia or Scott & Fetzer or all of them (intending to be jointly and severally obligated) shall promptly pay and transfer to Finance cash in the amount by which such Earnings Available for Fixed Charges for such Accounting Period and previous Accounting Periods, if any, occurring in the same fiscal year were less than one and one-half times such Fixed Charges for such Accounting Period and previous Accounting Periods, if any, occurring in the same fiscal year. Such payment shall be made as a purchase of additional shares of common stock of Finance for such number of shares as may be determined by Finance at the time. World Book, Encyclopedia, Finance and Scott & Fetzer shall take such action (including amendments to Finance's certificate of incorporation, or by-laws, or both) as may be necessary to accomplish the authorization and issuance of such additional shares of common stock of Finance and the payment therefor. The purchase price for such additional shares of common stock of Finance shall be \$10,000 per share, payable concurrently with the issuance and delivery of such stock to the purchaser thereof.

3B. Within 40 days after the close of each of its quarters, Finance shall deliver to Scott & Fetzer copies of quarterly financial statements of Finance in such detail as may be reasonably required by Scott & Fetzer, together with a certificate by an authorized financial officer of Finance, setting forth in detail the computations under paragraph 3A and the number of shares of Finance's common stock, if any, to be purchased at such time pursuant thereto. Within 5 days after the date of delivery of such certificate, at the principal office of Finance in Chicago, Illinois (or such other place and time, not later than 5 days after the date of delivery of said officer's certificate, as may be mutually agreed upon between Finance and Scott & Fetzer), Scott & Fetzer, World Book, or Encyclopedia or any combination thereof, shall consummate the purchase of the number of shares of stock of Finance set forth in said certificate at the price per share hereinabove provided (unless a different price shall have been mutually determined). Concurrently with the payment of such purchase price, Finance shall issue and deliver to Scott & Fetzer, World Book or Encyclopedia (as the case may be) the number of fully paid and non-assessable shares of Finance's common stock so purchased.

4. Settlement of Inter-Company Accounts.

Finance shall pay promptly all of its accounts payable to World Book and Encyclopedia, and World Book and Encyclopedia shall pay promptly all of their accounts payable to Finance (including amounts payable pursuant to paragraph 10 hereof), in each case within 30 days after the end of the Accounting Period in which any such account payable was incurred.

5. Form of Receivables.

All Receivables purchased by Finance pursuant to this Agreement shall be in a form acceptable to Finance.

6. Documents Required to be Delivered upon Sale of Receivables.

World Book and Encyclopedia shall present to Finance the following documents and data upon request of Finance.

- (a) a schedule or statement specifying the amount of the Receivables sold to Finance within any specified period of time; and
- (b) the best documentation or evidence available as to the existence of such Receivables (which, if requested, shall be endorsed, assigned or otherwise transferred to Finance without recourse), together with any supporting records and any security or collateral therefor which is readily susceptible of delivery and any evidence of filing or recording of such Receivables (or other appropriate document relating thereto).

7. Representations and Warranties in Connection with the Sale of Receivables.

As to each Receivable purchased by Finance pursuant to this Agreement, World Book or Encyclopedia, as the case may be, by such sale, hereby makes each of the following representations and warranties:

- (a) such Receivable is in compliance with all of the terms of this Agreement;
- (b) such Receivable is a valid obligation to which World Book or Encyclopedia, as the case may be, has good title, free and clear of all liens and encumbrances whatsoever and such Receivable is not subject to any offset, counterclaim or other defense;
- (c) the conveyance of such Receivable effected by the provisions of paragraph 1 vests in Finance the entire right, title and interest of World Book or Encyclopedia, as the case may be, in and to such Receivable and the proceeds of the collection thereof, in each case free and clear from claims of any third parties;
- (d) all obligations to be performed by World Book, Encyclopedia or any other person to or in connection with such Receivable, including obligations with respect to the merchandise the sale of which gave rise to such Receivable, have been or will be fulfilled; and
- (e) the laws of each jurisdiction applicable to the transaction out of which such Receivable originated have been complied with.

As to each Receivable purchased by Finance pursuant to this Agreement arising out of a sale by World Book or Encyclopedia subsequent to August 31, 1978, World Book or Encyclopedia, as the case may be, by such sale, hereby makes the further representation and warranty that such Receivable at the time of such sale is current and not in default and, in the good faith judgment of World Book or Encyclopedia, as the case may be, is not of a quality inferior in any respect to the average quality of all Receivables.

8. Indemnity for Breach of Warranty.

World Book, Encyclopedia or Scott & Fetzer or all of them (intending to be jointly and severally obligated) shall indemnify, defend and save harmless Finance against any and all liability, claims, losses and damages arising out of or based on any breach of warranty made by World Book or Encyclopedia with respect to merchandise the sale of which gave rise to a Receivable purchased by Finance pursuant to this Agreement.

9. Collection and Other Services to be Performed on Behalf of Finance; Daily Purchase of Receivables; etc.

9A. World Book and Encyclopedia at their sole expense shall take, or cause to be taken, with due diligence, all necessary steps to perform all of the following services on behalf of Finance solely in the capacity of agent or agents of Finance:

- (a) to collect, when due, sums owing and payable on the respective Receivables purchased by Finance pursuant to this Agreement, and promptly to report and account to Finance for all such

collections; all such payments or collections received by World Book or Encyclopedia shall be applied as provided in paragraph 9B and, to the extent not so applied, shall be promptly remitted and paid over to Finance;

(b) if it becomes necessary or desirable to repossess or to foreclose the lien upon or the security interest in any merchandise which is subject to any Receivable purchased by Finance pursuant to this Agreement, to proceed with due diligence to take lawful steps to repossess such merchandise or to carry out such foreclosure and to take such other lawful steps as may be necessary or appropriate (i) to enforce the lien upon or the security interest in such merchandise for and on behalf of Finance; (ii) to resell such merchandise for the account and benefit of Finance and to act in good faith to the end of obtaining the best possible prices for such merchandise for the benefit of Finance, and (iii) to remit to Finance the proceeds of such sales (any repossession, reconditioning, foreclosure or resale expenses in connection with such sales to be borne by World Book or Encyclopedia);

(c) to make credit investigations of and reports on the obligors on Receivables offered to Finance pursuant to this Agreement, and to provide credit and collection assistance and other similar services to Finance;

(d) to render accounting and internal auditing services, including the safe-keeping of records and the preparation and furnishing of reports;

(e) to prepare and file in the name and on behalf of Finance any local, state and Federal tax returns and other reports and returns required by local, state or Federal laws or regulations;

(f) if requested by Finance, to notify the obligors on Receivables purchased by Finance to make payments thereon directly to Finance and to maintain all such records as are necessary or appropriate to enable Finance directly to notify such obligors and to collect and enforce such Receivables and such other obligations; and

(g) to do such other acts and provide such other services as Finance may from time to time reasonably require and request in writing.

Finance shall be entitled, upon timely notice in writing to World Book or Encyclopedia, as the case may be, to perform any of the foregoing services on its own behalf and at its own expense with respect to any or all Receivables, in which event Finance shall be entitled to give direct notice to the obligors of such Receivables and to collect and receive from such obligors, and World Book and Encyclopedia shall take such action as may be necessary to permit Finance to make direct collections of such Receivables, and to receive and retain for Finance's own account the interest accruing thereon, or the finance charge in respect thereof, or such portion of such interest or finance charge as fairly compensates Finance for the actual costs of such services.

9B. World Book, as agent for Finance, shall cause all proceeds of collection of Receivables conveyed to Finance to be deposited in bank accounts designated "World Book collection accounts" and held in such bank accounts for and on behalf of Finance, as the owner of such proceeds, subject only to withdrawal by or at the direction of Finance or as otherwise provided in this paragraph 9B. Such proceeds shall be applied daily to the purchase of Receivables as provided in paragraph 1, to the extent such proceeds are not remitted to Finance in cash as provided in subparagraph (a) of paragraph 9A, and such application of proceeds shall be deemed to have been made simultaneously with the transfer of funds from the World Book collection accounts to a general corporate bank account of World Book. World Book shall furnish to Finance at the end of each Accounting Period a written accounting with respect to all proceeds of collection of Receivables during such Accounting Period, showing the application of such proceeds and the total amount of Receivables purchased during such Accounting Period.

9C. World Book and Encyclopedia shall, at their expense, file, and maintain the filing of, such financing statements or other documents, if any, as may be necessary or appropriate, under the Uniform Commercial Code and any other applicable laws, to perfect and preserve the rights of Finance, hereunder,

and, if requested by Finance, shall furnish to Finance from time to time opinions of its counsel that such filings, if any, have been made and operate to establish, preserve and protect Finance's rights hereunder and in all Receivables sold pursuant hereto and to create and preserve Finance's interests in such Receivables, pursuant to the Uniform Commercial Code, if applicable.

9D. So long as Finance shall own any Receivables of World Book or Encyclopedia, World Book and Encyclopedia shall mark their master control accounts to the effect that such Receivables have been sold to Finance. World Book and Encyclopedia shall provide to Finance full access at all reasonable times to rooms in which account records are maintained and to such account records themselves, including, without limitation, access to computers or other data processing equipment and the programs and data contained therein by means of which account records are maintained.

10. Adjustments; Charges.

If (a) World Book or Encyclopedia shall make any rebates in favor of obligors on Receivables sold to Finance or shall repossess or accept returns or rejections of merchandise the sale of which gave rise to Receivables sold to Finance and (b) such rebate, return, rejection or repossession shall have the effect of reducing the unpaid balance of any Receivable, World Book or Encyclopedia as the case may be, shall pay to Finance an amount equal to the amount by which the unpaid principal amount of such Receivable shall have been reduced.

11. Indemnity for Acts Performed Pursuant to this Agreement.

World Book, Encyclopedia or Scott & Fetzer or all of them (intending to be jointly and severally obligated) will indemnify, defend and save harmless Finance from any and all claims asserted against Finance by any third party arising out of any wrongful or negligent act or omission to act of World Book or Encyclopedia in performing or furnishing any of the services which World Book and Encyclopedia are required to perform or furnish for Finance pursuant to this Agreement.

12. Option to Repurchase.

World Book and Encyclopedia may purchase at any time from Finance, but without recourse or warranty by Finance, any Receivable which is, in the opinion of World Book, Encyclopedia or Finance, uncollectible. The purchase price of such Receivable shall be the remaining unpaid balance of such Receivable. If World Book or Encyclopedia does not purchase Receivables deemed uncollectible by Finance, the remaining unpaid balance of such Receivable shall be charged against the Contract Reserve Account on the last day of the calendar month during which the Receivable is declared uncollectible by Finance.

13. Term.

This Agreement shall remain in full force and effect for an initial term ending December 31, 1999, and shall be automatically renewed for successive terms of one year each unless, at least 90 days prior to the expiration of the then current term, any party hereto shall give to the other parties written notice of termination hereof, which termination shall be effective as of the end of the then current term.

14. Definitions.

As used in this Agreement, the following terms have the following respective meanings:

"Accounting Period": any three-month period used by Finance as an accounting period within its fiscal year.

"Fixed Charges": all charges for interest on funded and unfunded debt, amortization of debt discount, and rentals for leased properties, all determined in accordance with generally accepted accounting principles.

"Earnings Available for Fixed Charges": Net income of Finance as determined by generally accepted accounting principles, with the following adjustments (to the extent such items have not already been taken into account in the manner set forth below in calculating net income):

- (i) all operating and maintenance expenses, taxes other than taxes on or measured by income and depreciation shall be deducted in determining net income;
- (ii) all extraordinary, nonrecurring items of income shall be excluded in determining net income;
- (iii) all extraordinary, nonrecurring items of expense shall be deducted in determining net income;
- (iv) Fixed Charges shall not be deducted in determining net income; and
- (v) any cash payment for any Accounting Period during the same fiscal year actually made pursuant to paragraph 3 by Scott & Fetzer, World Book or Encyclopedia, or any combination thereof, shall be added to net income for such Accounting Period.

"Receivables": any right to receive payment in United States or Canadian currency arising out of the retail sale in the ordinary course of business of encyclopediae, other reference and topical works, other publications and other consumer items sold by World Book or Encyclopedia, including all interests in or arising under, any conditional sales agreement, chattel mortgage, promissory note, lease, chattel paper, security agreement, security interest or lien evidencing or securing such right to receive payment, including the right to receive or retain any interest on or finance charge in respect of the principal amount of such payment, but only to the extent that Finance shall be entitled to such interest or finance charge, or part thereof, pursuant to the provisions of the last sentence of paragraph 9A.

15. Notices.

All communications contemplated by this Agreement shall be sent by first class mail addressed as follows:

If to World Book, to:	World Book-Childcraft International, Inc. Merchandise Mart Plaza Chicago, Illinois 60606 Attn: President
If to Finance, to:	World Book Finance, Inc. Merchandise Mart Plaza Chicago, Illinois 60606 Attn: President
If to Encyclopedia, to:	World Book Encyclopedia, Inc. Merchandise Mart Chicago, Illinois 60606 Attn: President
If to Scott & Fetzer, to:	The Scott & Fetzer Company 14600 Detroit Avenue Lakewood, Ohio 44107 Attn: President

or to such other address with respect to any party as such party shall notify the other in writing.

16. Miscellaneous.

16A. Subject to the provisions of paragraph 2C, this Agreement is not intended to be, and is not, and nothing herein contained, and nothing done by World Book, Encyclopedia or Scott & Fetzer pursuant hereto, shall be construed or deemed to constitute a direct or indirect guaranty by World Book, Encyclopedia or Scott & Fetzer of the payment of the Receivables sold to Finance or the payment of any other indebtedness owing to Finance or of the payment of the interest on or principal of any indebtedness, liability or obligation of any kind or character of Finance to any person or persons whomsoever, but this Agreement is intended to obligate the parties hereto as herein set forth. The parties recognize that the existence and performance of their respective obligations under this Agreement are essential to the continuing business and operations of Finance, and, accordingly, agree that (i) no default by Finance in the performance of its obligations hereunder shall be deemed sufficiently material to the overall subject matter of this Agreement to constitute a basis for rescission, revocation or other cancellation of this Agreement prior to the end of the initial term hereof, and (ii) the parties shall be limited to remedies seeking the enforcement of the specific provisions hereof or a suit for damages. The parties further acknowledge that the remedies at law for breach or nonperformance of the investment covenants set forth in paragraphs 3A and 3B hereof are inadequate, and, accordingly, agree that any party shall be entitled to equitable relief for the breach of any such provisions, including preliminary and permanent mandatory injunctions and specific performance.

16B. All agreements herein shall bind and inure to the benefit of the respective successors and permitted assigns of the parties hereto whether so expressed or not. This Agreement shall be governed by the laws of the State of Illinois. The headings herein are for the purpose of reference only and shall not limit or otherwise affect the meaning hereof. This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart. This Agreement may not be assigned by any party hereto without the written consent of each other party hereto.

17. Receivables of Other Entities.

The parties hereto contemplate that Finance may, at some time after the date hereof, purchase or otherwise acquire instruments in the nature of Receivables arising from the sale of products of Scott & Fetzer; however, the parties hereby acknowledge that no such instruments shall be deemed so purchased or acquired pursuant to this Agreement until this Agreement shall have been amended to provide explicitly for the treatment of Receivables of entities other than World Book and Encyclopedia.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered by their duly authorized officers as of the day and year first above written.

THE SCOTT & FETZER COMPANY

[SEAL]

Lakewood, Ohio

THE SCOTT & FETZER COMPANY

By RALPH E. SCHEY

President

ATTEST:

ROBERT C. WEBER

Secretary

WORLD BOOK-CHILDCRAFT INTERNATIONAL, INC.
CORPORATE
SEAL
1957
DELAWARE

WORLD BOOK-CHILDCRAFT INTERNATIONAL, INC.
By DONALD G. MILNE
President

ATTEST:
HAROLD M. ROSS
Secretary

WORLD BOOK FINANCE, INC.
By RAYMOND A. DAVIS
President

ATTEST:
HAROLD M. ROSS
Secretary

WORLD BOOK ENCYCLOPEDIA, INC.
CORPORATE
SEAL
1966
DELAWARE

WORLD BOOK ENCYCLOPEDIA, INC.
By DONALD A. MILNE
President

ATTEST:
HAROLD M. ROSS
Secretary

4

EXHIBIT C

Senior Subordinated Indebtedness* of the Borrower shall be evidenced by a note or other written obligation which shall contain substantially the following provisions:

1. The payment of any and all Senior Subordinated Indebtedness is expressly subordinated to the extent and in the manner set forth in paragraphs 2 to 4, inclusive, hereof to Senior Indebtedness. The term "Senior Subordinated Indebtedness" shall mean and include the principal of and interest on all liabilities of the Borrower or any Subsidiary, or any combination thereof, to the holder ("Holder") of such Senior Subordinated Indebtedness, direct or contingent, joint, several or independent, now or hereafter existing, due or to become due to, or held or to be held by, the Holder, whether created directly or acquired by assignment or otherwise including, without limiting the generality of the foregoing.

The term "Senior Indebtedness" shall mean and include the principal of and premium, if any, and interest on all Indebtedness of the Borrower or any Subsidiary that is not subordinated in accordance with the provisions hereof, direct or contingent, joint, several or independent, now or hereafter existing, due or to become due, whether created directly or acquired by assignment or otherwise including, without limiting the generality of the foregoing, all Indebtedness of the Borrower or any Subsidiary for principal of and interest on the Notes issued under and pursuant to the provisions of the Term Loan Agreement (the "Agreement") dated August 31, 1978, between the Borrower and The First National Bank of Chicago (including extensions, renewals and refundings thereof, whether or not the principal amount is increased).

2. If there shall occur an Event of Default or each event or condition which, with the giving of notice or lapse of time or both, would become an Event of Default, as defined in Section 4 of the Agreement, then, unless and until such Event of Default or each event or condition which, with the giving of notice or lapse of time or both, would become an Event of Default shall have been cured, or unless and until Senior Indebtedness shall be paid in full, the Holder will not receive or accept any payment from the Borrower in respect of Senior Subordinated Indebtedness.

3. In the event that the Holder shall receive any payment on Senior Subordinated Indebtedness which the Holder is not entitled to receive under the provisions of the foregoing paragraph 2, he will hold any amount so received in trust for the benefit of the owner or owners of the Senior Indebtedness and will forthwith turn over such payment to the owner or owners of the Senior Indebtedness in the form received to be applied on Senior Indebtedness.

4. In the event of any liquidation, dissolution or other winding up of the Borrower or any Subsidiary, or in the event of any receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization or arrangement with creditors, whether or not pursuant to bankruptcy laws, sale of all or substantially all of the assets or any other marshalling of the assets and liabilities of the Borrower or any Subsidiary, (i) Senior Indebtedness shall first be paid in full before the Holder shall be entitled to receive any moneys, dividends or other assets in any proceeding, and (ii) the Holder will at the request of the owner or owners of a majority of the principal amount of the Senior Indebtedness file any claim, proof of claim or other instrument of similar character necessary to enforce the obligations of the Borrower or any Subsidiary in respect of Senior Subordinated Indebtedness and will hold in trust for the owner or owners of the Senior Indebtedness and pay over to the owner or owners of the Senior Indebtedness, in the form received, to be applied on Senior Indebtedness, any and all moneys, dividends or other assets received in any such proceeding on account of Senior Subordinated Indebtedness, unless and until Senior Indebtedness shall be paid in full. In the event that the Holder shall fail to take such action so requested, a representative designated for such purpose by the owner or owners of a majority of the outstanding principal amount of the Senior Indebtedness may, as attorney-in-fact for the Holder, take such action on behalf of the Holder, and the Holder hereby appoints such representative as attorney-in-fact for the Holder to demand, sue for, collect and receive any and all such moneys, dividends or other assets and give acquittance therefor and to file any claim, proof of claim or other instrument of similar character and to take such other action (including acceptance or rejection of any plan of reorganization or arrangement) in the name of the owner or owners of the Senior Indebtedness or in the name of the Holder, as such representative may deem necessary or advisable for the enforcement of these subordination provisions; and the Holder will, upon request, execute and deliver to such representative such other and further powers of attorney or other instruments as such representative may request in order to accomplish the foregoing.

5. The owner or owners of the Senior Indebtedness may, at any time and from time to time, without the consent of or notice to the Holder, without incurring responsibility to the Holder, and without impairing or releasing any rights of such owner or owners, or any of the obligations of the Holder under these subordination provisions:

* All terms used herein that are defined in the Term Loan Agreement between World Book Finance, Inc. and The First National Bank of Chicago dated August 31, 1978, shall have meanings as set forth in said Agreement.

(a) Change the amount, manner, place or terms of payment or change or extend the time of payment of or renew or alter Senior Indebtedness or amend the Agreement or any other agreement relating to the issuance of any Senior Indebtedness in any manner or enter into or amend in any manner any other agreement relating to Senior Indebtedness;

(b) Sell, exchange, release or otherwise deal with any property by whomsoever at any time pledged or mortgaged to secure, or howsoever securing, Senior Indebtedness;

(c) Release anyone liable in any manner for the payment or collection of Senior Indebtedness;

(d) Exercise or refrain from exercising any rights against the Borrower, any Subsidiary, or any other Person (including the Holder); and

(e) Apply any sums by whomsoever paid or however realized to Senior Indebtedness.

6. Notice of acceptance contained herein is hereby waived.

7. The Holder will cause all Subordinated Indebtedness to be evidenced by a note or other instrument which shall bear upon its face a statement or legend to the effect that such note or other instrument is subordinated to Senior Indebtedness in the manner and to the extent set forth herein, and will mark its books to show that the Senior Subordinated Indebtedness is so subordinated to Senior Indebtedness.

8. The Holder represents and warrants that neither the execution nor delivery of the instrument containing these subordination provisions, nor fulfillment nor compliance with the terms and provisions hereof will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, any agreement or instrument to which the Holder is now subject.

9. That portion of the Senior Indebtedness evidenced by the Notes is intended to be construed and enforced in accordance with the laws of the State of Illinois, and the Holder accordingly agrees that the instrument containing these subordination provisions shall be construed and enforced in accordance with, and the rights of the parties thereto shall be governed by, the law of the State of Illinois.

EXHIBIT D

Junior Subordinated Indebtedness* of the Borrower or any Subsidiary shall be evidenced by a note or other written obligation which shall contain substantially the following provisions:

1. The payment of any and all Junior Subordinated Indebtedness is expressly subordinated to the extent and in the manner set forth in paragraphs 2 to 4, inclusive, hereof to Senior Indebtedness and Senior Subordinated Indebtedness. The term "Junior Subordinated Indebtedness" shall mean and include the principal of and interest on all liabilities of the Borrower or any Subsidiary, or any combination thereof, to the holder ("Holder") of such Junior Subordinated Indebtedness, direct or contingent, joint, several or independent, now or hereafter existing, due or to become due to, or held or to be held by, the Holder, whether created directly or acquired by assignment or otherwise. The term "Senior Subordinated Indebtedness" shall mean and include the principal of and interest on all Indebtedness of the Borrower, or any Subsidiary, or any combination thereof, that is subordinated to Senior Indebtedness but that it is not subordinated to Junior Subordinated Indebtedness in accordance with the provisions hereof, direct or contingent, joint, several or independent, now or hereafter existing, due or to become due, whether created directly or acquired by assignment or otherwise. The term "Senior Indebtedness" shall mean and include the principal of and premium, if any, and interest on all Indebtedness of the Borrower or any Subsidiary, other than Senior Subordinated Indebtedness, that is not subordinated in accordance with the provisions hereof, direct or contingent, joint, several or independent, now or hereafter existing, due or to become due, whether created directly or acquired by assignment or otherwise including, without limiting the generality of the foregoing, all Indebtedness of the Borrower or any Subsidiary for principal of and interest on the Notes issued under and pursuant to the provisions of the Term Loan Agreement (the "Agreement") dated August 31, 1978, between the Company and The First National Bank of Chicago (including extensions, renewals and refundings thereof, whether or not the principal amount is increased).

2. If there shall occur an Event of Default or each event or condition which, with the giving of notice or lapse of time or both, would become an Event of Default, as defined in Section 4 of the Agreement, then, unless and until such Event of Default or each event or condition which, with the giving of notice or lapse of time or both, would become an Event of Default shall have been cured, or unless and until Senior Indebtedness and Senior Subordinated Indebtedness shall be paid in full, the Holder will not receive or accept any payment from the Borrower in respect of Junior Subordinated Indebtedness.

3. In the event that the Holder shall receive any payment on Junior Subordinated Indebtedness which the Holder is not entitled to receive under the provisions of the foregoing paragraph 2, he will hold any amount so received in trust for the benefit of the owner or owners of the Senior Indebtedness and will forthwith turn over such payment to the owner or owners thereof in the form received, to be applied first on Senior Indebtedness and thereafter on Senior Subordinated Indebtedness.

4. In the event of any liquidation, dissolution or other winding up of the Borrower or any Subsidiary, or in the event of any receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization or arrangement with creditors, whether or not pursuant to bankruptcy laws, sale of all or substantially all of the assets or any other marshalling of the assets and liabilities of the Borrower or any Subsidiary, (i) Senior Indebtedness and Senior Subordinated Indebtedness shall first be paid in full before the holder shall be entitled to receive any moneys, dividends or other assets in any proceeding, and (ii) the Holder will at the request of the owner or owners of a majority of the principal amount of the Senior Indebtedness file any claim, proof of claim or other instrument of similar character necessary to enforce the obligations of the Borrower or any Subsidiary in respect of Junior Subordinated Indebtedness and will hold in trust for the owner or owners of the Senior Indebtedness and pay over to the owner or owners thereof, in the form received, to be applied first on Senior Indebtedness, any and all moneys, dividends or other assets received in any such proceeding on account of Junior Subordinated Indebtedness, unless and until Senior Indebtedness shall be paid in full. In the event that the Holder shall fail to take such action so requested, a

* All terms used herein that are defined in the Term Loan Agreement between World Book Finance, Inc. and The First National Bank of Chicago dated August 31, 1978 shall have meanings as set forth in said Agreement.

representative designated for such purpose by the owner or owners of a majority of the outstanding principal amount of the Senior Indebtedness may, as attorney-in-fact for the Holder, take such action on behalf of the Holder, and the Holder hereby appoints such representative as attorney-in-fact for the Holder to demand, sue for, collect and receive any and all such moneys, dividends or other assets and give acquittance therefor and to file any claim, proof of claim or other instrument of similar character and to take such other action (including acceptance or rejection of any plan of reorganization or arrangement) in the name of the owner or owners of the Senior Indebtedness or in the name of the Holder, as such representative may deem necessary or advisable for the enforcement of these subordinated provisions; and the Holder will, upon request, execute and deliver to such representative such other and further powers of attorney or other instruments as such representative may request in order to accomplish the foregoing.

5. The owner or owners of the Senior Indebtedness and Senior Subordinated Indebtedness may, respectively, at any time and from time to time, without the consent of or notice to the Holder, without incurring responsibility to the Holder, and without impairing or releasing any rights of such owner or owners, or any of the obligations of the Holder under these subordination provisions:

(a) Change the amount, manner, place or terms of payment or change or extend the time of payment of or renew or alter Senior Indebtedness and Senior Subordinated Indebtedness or amend the Agreement or any other agreement relating to the issuance of any Senior Indebtedness and Senior Subordinated Indebtedness in any manner or enter into or amend in any manner any other agreement relating to Senior Indebtedness and Senior Subordinated Indebtedness;

(b) Sell, exchange, release or otherwise deal with any property by whomsoever at any time pledged or mortgaged to secure, or howsoever securing, Senior Indebtedness and Senior Subordinated Indebtedness;

(c) Release anyone liable in any manner for the payment or collection of Senior Indebtedness and Senior Subordinated Indebtedness;

(d) Exercise or refrain from exercising any rights against the Borrower, any Subsidiary, or any other Person (including the Holder); and

(e) Apply any sums by whomsoever paid or however realized to Senior Indebtedness and Senior Subordinated Indebtedness.

6. Notice of acceptance of the agreement contained herein is hereby waived.

7. The Holder will cause all Junior Subordinated Indebtedness to be evidenced by a note or other instrument which shall bear upon its face a statement or legend to the effect that such note or other instrument is subordinated to Senior Indebtedness and Senior Subordinated Indebtedness in the manner and to the extent set forth herein, and will mark its books to show that the Junior Subordinated Indebtedness is so subordinated to Senior Indebtedness and Senior Subordinated Indebtedness.

8. The Holder represents and warrants that neither the execution nor delivery of the instrument containing these subordination provisions, nor fulfillment nor compliance with the terms and provisions hereof will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, any agreement or instrument to which the Holder is now subject.

9. That portion of the Senior Indebtedness evidenced by the Notes is intended to be construed and enforced in accordance with the laws of the State of Illinois, and the Holder accordingly agrees that the instrument containing these subordination provisions shall be construed and enforced in accordance with, and the rights of the parties thereto shall be governed by, the law of the State of Illinois.

Exhibit 10(i)

THREE-PARTY AGREEMENT
REGARDING THE CREATION OF
WESTLAKE PARK

AGREEMENT, dated as of June 15, 1981, by and among WESTLAKE INDUSTRIAL PARK COMPANY, an Ohio partnership ("WIP"), NORDSON CORPORATION, an Ohio corporation ("NORDSON"), and THE SCOTT & FETZER COMPANY, an Ohio corporation ("S&F").

W I T N E S S E T H:

ARTICLE I

1.1 The Acquisition Agreements.

(a) The Site Plan: EXHIBIT A:

Attached to this Agreement as EXHIBIT A is a drawing showing certain lands located generally north of Interstate 90, east of Bassett Road, west of Cahoon Road, and south of Ranney/Westchester Parkway, all being in the City of Westlake, County of Cuyahoga, and State of Ohio. A part, but not all, of these lands are the subject of this Agreement. The EXHIBIT A drawing is hereafter called the "SITE PLAN."

(b) WIP-NORDSON AGREEMENT:

WIP and Nordson have entered into an Agreement, dated as of June 15, 1981 (the "WIP-NORDSON AGREEMENT"), providing for the sale by WIP to Nordson of the real property ("NORDSON'S WIP PROPERTY"), which is HATCHED in RED and identified on the Site Plan (EXHIBIT A). A copy of the WIP-NORDSON AGREEMENT is attached hereto as EXHIBIT B.

(c) NORDSON-OPTIONS:

Nordson has five options (the "NORDSON OPTIONS") to purchase the real property ("NORDSON'S OPTION PROPERTY"), which is outlined in RED and identified on the Site Plan (EXHIBIT A). A copy of each of the Nordson Options is attached hereto as EXHIBITS C-1, C-2, C-3, C-4, and C-5.

(d) WIP-S&F AGREEMENTS:

WIP and S&F have entered into an Agreement, dated as of June 15, 1981 (the "WIP-S&F AGREEMENT"), a copy of which is

attached hereto as EXHIBIT D. The WIP-S&F AGREEMENT requires WIP to convey to S&F the two parcels of land ("S&F'S WIP PROPERTY") which are HATCHED in BLUE and identified as S&F's WIP-N PARCEL and S&F's WIP-S PARCEL on the Site Plan (Exhibit A). The WIP-S&F AGREEMENT requires, also, S&F to convey to WIP the parcel of land ("WIP's S&F PROPERTY") which is HATCHED in GREEN and identified on the Site Plan (Exhibit A).

(e) S&F OPTION:

S&F has an option (the "S&F OPTION") to purchase the real property ("S&F's OPTION PROPERTY" or "ODDO PROPERTY"), which is OUTLINED in BLUE and identified on the Site Plan (Exhibit A). A copy of the S&F Option is attached hereto as EXHIBIT E.

1.2 Covenants of Compliance.

(a) WIP's Covenants:

WIP covenants unto Nordson and S&F that it will carry out its obligations under the WIP-Nordson Agreement, under the WIP-S&F Agreement, and under this Agreement strictly in accordance with the terms of each agreement, TIME BEING OF THE ESSENCE, unless the applicable agreement is properly terminated pursuant to the provisions of the agreement.

(b) Nordson's Covenants:

Nordson covenants unto WIP and S&F as follows:

(i) Subject to ARTICLE VI, below, Nordson will exercise the Nordson Options and acquire fee simple title to Nordson's Option Property prior to the Joint Closing Date, defined in Paragraph 6.2, below, unless Nordson terminates the WIP-Nordson Agreement pursuant to the provisions of the WIP-Nordson Agreement; and

(ii) Nordson will carry out its obligations under the WIP-Nordson Agreement and under this Agreement strictly in accordance with the terms of each Agreement, TIME BEING OF THE ESSENCE, unless the applicable agreement is properly terminated pursuant to the provisions of the agreement.

(c) S&F's Covenants:

S&F covenants unto WIP and Nordson as follows:

(i) Subject to ARTICLE VI, below, S&F will exercise the S&F Option and acquire fee simple title to S&F's Option Property prior to the Joint Closing Date, as defined in Paragraph 6.2, below, unless S&F terminates the WIP-S&F Agreement pursuant to the provisions of the WIP-S&F Agreement; and

(ii) S&F will carry out its obligations under the WIP-S&F Agreement and under this Agreement strictly in accordance with the terms of each agreement, TIME BEING OF THE ESSENCE, unless the applicable agreement is properly terminated pursuant to the provisions of the agreement.

(d) Joint Covenant:

WIP, Nordson, and S&F each covenants unto each other that it will not change the WIP-S&F and WIP-Nordson Agreements without the prior consent in writing of all parties hereto.

ARTICLE II

Declaration of Restrictions

2.1 Approval of Declaration.

WIP, Nordson, and S&F each approve the Declaration of Restrictions, Easements, Covenants and Conditions ("DECLARATION") in the form attached hereto as EXHIBIT F. The parties have signed the original of the Declaration and have delivered it to Chicago Title Insurance Company ("CHICAGO TITLE") to hold in escrow until the Joint Closing Date, defined in ARTICLE VI, below.

2.2 Recording the Declaration.

If the lands described as the EXHIBIT C LANDS in both the WIP-Nordson and WIP-S&F Agreements are rezoned to Westlake's Office-Laboratory Use District and if both the WIP-Nordson and WIP-S&F Agreements are consummated in accordance with their terms on the Joint Closing Date defined below, Chicago Title is to file the Declaration for record with the Cuyahoga County Recorder immediately after the deeds described in such agreements are filed for record. WIP, Nordson and S&F will each pay one-third of the recorder's fee for filing the Declaration and of Chicago Title's escrow fee, if any. This Agreement, and the WIP-S&F and WIP-Nordson Agreements will constitute the escrow instructions for the filing of the Declaration, as those Agreements are modified or supplemented by this 3-Party Agreement. A copy of this 3-Party Agreement will be furnished to Chicago Title.

2.3 Covenant by WIP to Protect Declaration.

WIP covenants unto S&F and Nordson that it will make timely payments of its present mortgages on the Development Lands and that it will not permit these mortgages to be foreclosed. WIP will not place any additional mortgages on the Development Lands owned by it or transfer record title of such lands until the Declaration is placed of record or this Agreement is terminated.

ARTICLE III

Zoning

3.1 Rezoning.

So long as both the WIP-Nordson Agreement and the WIP-S&F Agreement are in effect, WIP, Nordson and S&F agree to support the legislation now pending before the Council of the City of Westlake to change the zoning use classification of the real property outlined in YELLOW on the Site Plan attached hereto as EXHIBIT A (being the same as the EXHIBIT C LANDS in the WIP-Nordson and WIP-S&F Agreements and being sometimes herein called the "DEVELOPMENT LANDS") to Office-Laboratory District (K), as that District is now defined in Chapter 1218 of the Codified Ordinances of the City of Westlake.

3.2 When Deemed Rezoned.

The Development Lands shall, conclusively, be deemed to be rezoned on the thirtieth (30th) day after the Mayor of the City of Westlake signs an ordinance duly enacted by the Council of the City of Westlake changing the use classification of such lands to Office-Laboratory District (K), as that District is now defined in Chapter 1218 of the Codified Ordinances of the City of Westlake; PROVIDED that no proceedings have been commenced within such thirty-day period in the Cuyahoga County Common Pleas Court to contest or set aside the rezoning.

ARTICLE IV

Improvements to Development Lands

4.1 Plans and Specifications; Designated Representatives.

Following the Joint Closing Date, Nordson will hire Carl S. Andreano and Associates ("ANDREANO"), Ohio registered engineers, to prepare such drawings and specifications ("PLANS") as are necessary to construct an extension of Clemans Road to the easterly line of Nordson's WIP Property, to extend water, storm, and sanitary sewer lines to that point, to provide for the relocation and cleaning of the drainage ditch from the extension of Clemans Road northerly to its terminus at the northeasterly corner of S&F's WIP-N PARCEL, and to replace and install street lighting along Clemans Road from Bassett Road to the northeastern corner of NORDSON'S WIP PROPERTY ("IMPROVEMENTS") in accordance with the requirements of the City of Westlake. Nordson, S&F and WIP will each designate one person ("DESIGNATED REPRESENTATIVE(S)") to represent it in all proceedings and acts required by the parties under this ARTICLE IV.

4.2 Project Manager.

The Designated Representatives ~~shall~~^{may}, by majority vote, select a project manager ("PROJECT MANAGER") to advise the Designated Representatives and to supervise and implement the construction of the Improvements in accordance with the Plans at the lowest and best price and with efficiency, diligence, and due expedition. The Project Manager may, but need not be, an officer, employee, shareholder, or partner of one of the parties to this Agreement. The Designated Representatives shall by majority vote, agree upon the compensation to be paid to the Project Manager and what will be his obligations and the terms of his employment.

4.3 Nordson's Agency and Duty.

Nordson will act as the agent of S&F, WIP and itself to effectuate the Improvements. As such it will follow the directions of the majority the Designated Representatives, and will contract with Andreano, the Project Manager, the contractors, suppliers and tradesmen, and such other persons as may be necessary. Nordson may, at its discretion, either disclose its agency or not disclose its agency. Nordson will pay the Improvement Costs as they come due and will collect from S&F and WIP such shares thereof as S&F and WIP may be obligated to pay to Nordson under this or any other Agreement.

4.4 Construction Contracts.

The Plans will be submitted for bid and the Designated Representatives shall by majority vote, after advice from the Project Manager, award a contract or contracts to the lowest and best bondable bidder(s). It is the intent of the parties that the Improvements will be completed no later than six (6) months, weather permitting, after the Joint Closing Date.

4.5 Improvement Costs.

The cost of the Improvements ("IMPROVEMENT COSTS") will be the costs of the lands on which they are constructed and all costs and expenses to complete and dedicate the Improvements. The land costs for the lands Nordson donates for the Improvements will be computed at the rate of \$35,000 per acre. The other costs will include, without limitation, Andreano's fees, reproduction costs of the Plans, fees of any attorneys used, by the decision of the majority of the Designated Representatives, fees of the Project Manager, all insurance obtained, the contract sums paid, surveying fees, inspection fees, bonds paid or provided to the City, payment and performance bonds, interest at the rate of 18% per annum or AmeriTrust prime (whichever is lower) on any funds of Nordson advanced to pay Improvement Costs if S&F fails to make a payment due by it within ten (10) days after being billed, and other expenses incurred and authorized by a majority of the Designated Representatives.

4.6 S&F's Payment of Improvement Costs.

S&F will pay to Nordson 45.70% of such Improvement Costs promptly as billed by Nordson, provided the payment is actually then due or immediately to become due by Nordson.

4.7 Dedication of Improvements.

Promptly upon completion of the Improvements Nordson will dedicate the Improvements* and lands* on which they are located to the City of Westlake and will request the City to accept the same for their intended purposes.

4.8 Subsequent Extensions of Clemans Road; Sewers; Water.

WIP agrees that if it develops or sells any of the remaining Development Lands owned by it or if it undertakes any extension of Clemans Road beyond the northeastern corner of Nordson's WIP Property, it will cause Clemans Road to be extended as a public road to Ranney Parkway with appropriate water lines, sewer lines, and lights and that such Road, as so extended, will not be closer than two hundred (200) feet from the easterly boundary line of S&F's WIP Property and the extension of such lines through S&F's Option Property. WIP agrees, further, to indemnify and hold harmless Nordson and S&F, their respective successors and assigns, from and against any and all claims, expenses, and assessments arising out of the further extension of Clemans Road beyond the eastern line of Nordson's WIP Property and the costs of street lights, water lines and sewer lines constructed in connection with such extension.

ARTICLE V

Miscellaneous

5.1 Notices.

All notices and other communications permitted or required pursuant to this Agreement shall be in writing and shall be deemed given or received when delivered in person, or when deposited in the United States mail, postage prepaid, as certified mail, return receipt requested, properly addressed to the party for whom intended, as follows:

If to Westlake: Westlake Industrial Park Company
21330 Center Ridge Road
Cleveland, Ohio 44116
c/o Mr. Richard P. Needles

If to Nordson: Nordson Corporation
555 Jackson Street
Amherst, Ohio 44001
c/o Mr. Henry J. Libicki,
Executive Vice President

* of Nordson

If to S&F: The Scott & Fetzer Company
 14600 Detroit Avenue
 Cleveland, Ohio 44107
 Attention: Robert C. Weber

If to Andreano: Carl C. Andreano & Associates
 24700 Center Ridge Road
 Westlake, Ohio 44145

or to such other address as any party may designate for itself by notice to the other.

5.2 Agreements are in Writing.

All agreements among the parties are in writing. There are no oral agreements or understandings among the parties. No subsequent alteration, amendment, change or addition to this Agreement shall be binding upon any party hereto unless reduced to writing and signed by all of the parties.

5.3 Relationship of Parties.

Nothing contained herein shall be deemed or construed by the parties hereto, nor by any third party, as creating the relationship of principal and agent or of partnership or of a joint venture among the parties hereto, EXCEPT as provided in ARTICLE IV, above.

5.4 No Waiver.

No failure by any party hereto to insist upon the strict performance of any covenant, agreement, term or condition of this Agreement shall constitute a waiver of such covenant, agreement, term or condition of this Agreement. No waiver on any single occasion shall constitute a waiver with respect to any other occasion.

5.5 Recording.

The parties hereto agree not to record this Agreement.

5.6 Survival.

All representations, warranties, covenants and agreements of the parties hereto contained in this Agreement shall survive the closings of the land purchases described herein and shall not be merged in any conveyance.

5.7 Termination.

Notwithstanding anything herein to the contrary, this Agreement shall be and become null and void upon the occurrence of any one of the following events:

(a) S&F advises WIP or Nordson, in writing, by notice, on or before June 26, 1981, that S&F has elected to terminate the WIP-Nordson Agreement or that it elects not to be bound under this Agreement;

(b) The Development Lands are not rezoned to Office-Laboratory District (K), as such rezoning is defined in Paragraph 3.2 of ARTICLE III, above, by March 31, 1982.

Each party shall give written notice to each other party promptly upon its learning that this Agreement is void by reason of the occurrence of one of the foregoing events or circumstances.

5.8 Successors and Assigns.

This Agreement and the covenants and conditions herein contained shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, administrators, executors, successors and assigns.

ARTICLE VI

Special Provisions for Extension of Closing Dates in WIP-Nordson and WIP-S&F Agreements

6.1 Modification of Agreements; Priority of Provisions.

If the Development Property is deemed conclusively rezoned to Office-Laboratory Use under the Westlake Zoning Code by March 31, 1982, this ARTICLE VI will modify and supplement the WIP-Nordson Agreement and the WIP-S&F Agreement as herein provided. In the event of any conflict between the provisions of the WIP-Nordson and WIP-S&F Agreements and the provisions of this ARTICLE VI, the provisions of this ARTICLE VI shall control.

If the Development Property is not so rezoned by March 31, 1982, the PROVISIO clause of Paragraph 3(f) in the WIP-Nordson Agreement and the PROVISIO clause of Paragraph 7 in the WIP-S&F Agreement will be applicable, those Agreements will not be modified by this ARTICLE, and this ARTICLE VI will be disregarded.

6.2 Joint Closing Date.

(a) It is the intent of the parties that if the Development Property is deemed conclusively rezoned to Westlake's Office-Laboratory Use District by March 31, 1982, the Closing Date of the WIP-S&F Agreement and the Closing Date of the WIP-Nordson Agreement will occur at the same time. As soon as the Conditions Precedent, described below, have occurred and are capable of occurring,

the WIP-S&F Agreement and the WIP-Nordson Agreement shall be consummated simultaneously by the parties through Chicago Title, as their respective escrow agent ("JOINT CLOSING DATE").

(b) Subject to the occurrence of the Conditions Precedent, described below, the JOINT CLOSING DATE will be on whichever of the following dates is last to occur, unless this Agreement, the WIP-Nordson Agreement or the WIP-S&F Agreement is sooner terminated, or unless S&F or Nordson take title from WIP on May 14, 1982, pursuant to an express provision therefor in its agreement with WIP:

- (i) September 15, 1981;
- (ii) the twentieth (20th) day after the Development Lands are, under the definition of Paragraph 3.2, above, deemed to be conclusively rezoned to Office-Laboratory Use District as defined in Chapter 1218 of the Codified Ordinances of the City of Westlake; and
- (iii) satisfaction of both items (a) and (b) in Paragraph 6.3, below.

6.3 Conditions Precedent.

In order to carry out the intent described above and effectuate the Joint Closing Date it is necessary that all of the four following things ("CONDITIONS PRECEDENT") occur:

- (a) Nordson acquire fee simple title to Nordson's Option Property;
- (b) S&F acquire fee simple title to the S&F's Option Property;
- (c) S&F and WIP consummate the WIP-S&F Agreement; and
- (d) Nordson and WIP consummate the WIP-Nordson Agreement.

6.4 Special Covenants of Parties.

If the Development Property is deemed conclusively rezoned to Westlake's Office-Laboratory Use District by March 31, 1982,

- (a) Nordson covenants unto S&F and WIP that it will take all actions reasonably necessary, including, in particular, actions for specific performance which it will diligently and aggressively pursue, to acquire fee simple title to Nordson's Option Property in accordance with the terms of the Nordson Options no later than December 31, 1982;

- (b) S&F covenants unto Nordson and WIP that it will take all actions reasonably necessary, including, in particular, an action for specific performance which it will diligently and aggressively pursue, to acquire fee simple title to S&F's Option Property in accordance with the terms of the S&F Option no later than December 31, 1982; and
- (c) Each party covenants unto each other party that it will take all actions reasonably necessary, including, in particular, an action for specific performance which it will diligently and aggressively pursue, to cause any party owing it a contractual duty under either the WIP-S&F Agreement or the WIP-Nordson Agreement to carry out such Agreement.

6.5 Automatic Termination of all Agreements.

If any one of the Conditions Precedent listed in Paragraph 6.3 above is not satisfied by December 31, 1982, then the WIP-S&F Agreement, the WIP-Nordson Agreement, and this 3-Party Agreement shall automatically terminate at midnight on December 31, 1982 ("AUTOMATIC TERMINATION DATE"), and upon such termination all parties shall be released from all liability to the others.

6.6 Liability of Parties.

If this Agreement and the WIP-S&F and WIP-Nordson Agreements terminate because one of the Conditions Precedent does not occur by the Automatic Termination Date, and if the non-occurrence of the Condition Precedent is due to the failure or refusal of a party to fully and faithfully perform its obligations hereunder, the defaulting party will be liable for all losses and damages suffered by the non-defaulting party or parties as a result of the termination of these Agreements.

6.7 Non-Liability of Parties.

If this Agreement and the WIP-S&F and WIP-Nordson Agreements terminate because of one of the Conditions Precedent does not occur by the Automatic Termination Date, if the reason for the non-occurrence is due (a) to the failure of the optionor of the S&F Option to comply with his obligations under the S&F Option by the Automatic Termination Date, S&F being ready, willing and able to carry out its obligations under such Option and having complied with its covenants under this Agreement, or (b) to the failure of any optionor of the Nordson Options to comply with his, her or its obligations under any one of the Nordson Options by the Automatic Termination Date, Nordson being ready, willing and able to carry out its obligations under each Nordson Option and having complied with its covenants under this Agreement, then no party hereto shall have any liability to any other

party hereto and no party hereto will have any claim for damages or losses against any other party under this Agreement, under the WIP-Nordson Agreement, or under the WIP-S&F Agreement.

WITNESS the due execution by the parties hereto as of the 15th day of June, 1981.

WESTLAKE INDUSTRIAL PARK COMPANY

Actual Date of Signing:
June 25, 1981.

By Richard P. Needles
Richard P. Needles, Partner
By Anthony C. Rego
Anthony C. Rego, Partner

NORDSON CORPORATION

Actual Date of Signing:
June 25, 1981.

By Eric T Nord
its Chairman
By _____
its _____

THE SCOTT & FETZER COMPANY

Actual Date of Signing:
June 25, 1981.

By W.A. [Signature]
its [Signature]
By R.E. [Signature]
its Asst. Sec.

Modified 1973 Stock Option Plan

(Proposed additions are indicated
by underlined.)

1. The total number of shares which may be issued and sold under options granted pursuant to this Stock Option Plan shall not exceed 600,000 shares of the Company's Common Stock without par value, except to the extent of adjustments authorized by the last sentence of Paragraph 5 of this Stock Option Plan. Such shares may be treasury shares or shares of original issue or a combination of the foregoing.

2. The Board of Directors of the Company may, from time to time and upon such terms and conditions as it may determine, authorize the granting to officers (including officers who are members of the Board of Directors) and to other key employees of the Company or any of its subsidiaries of options to buy from the Company shares of Common Stock and may fix the number of shares to be covered by each such option. Successive options may be granted to the same person whether or not the option or options first granted to such person remain unexercised. The Directors may, with the concurrence of the affected optionees, cancel any option granted under this Stock Option Plan and may authorize the granting of a new option or options, to buy from the Company Common Shares in the same number or a different number as provided by the cancelled option.

3. Options granted under this Stock Option Plan may be (i) options which are intended to qualify under particular provisions of the Internal Revenue Code, as in effect from time to time, (ii) options which are not intended so to qualify under the Internal Revenue Code, or (iii) combinations of

granted. No option shall be transferable by the optionee otherwise than by will or the laws of descent and distribution.

4. The option price shall not be less than the fair market value of the shares covered by the option at the time the option is granted. The option price shall be payable in cash or, in whole or in part in shares of the Company's common stock valued at fair market value. The Directors may authorize, upon such conditions and limitations as they deem advisable, the surrender of an option, or any portion thereof, granted under this Stock Option Plan, whether before or after the modification of this Stock Option Plan in 1977, and the delivery in exchange therefor of: (a) Common Shares having the fair market value on the date of surrender equal to the excess of the fair market value at the date of surrender of the shares covered by the option, or portion thereof, surrendered over the aggregate option price of such shares, (b) cash in an amount equivalent to that determined under clause (a), or (c) partly in cash and partly in Common Shares having a fair market value on the date of surrender, in the aggregate, equal to the fair market value on the date of surrender of the shares covered by the option, or portion thereof, surrendered as the Directors may determine in their discretion. The Common Shares covered by any option, or portion thereof, surrendered as herein provided shall not be deemed to have been issued and sold under this Stock Option Plan, except, and to the extent of, Common Shares issued or delivered in respect of such surrender.

5. The Board of Directors may make or provide for such adjustments in the option price and in the number or kind of shares of the Company's Common Stock or other securities covered by outstanding options as such Board in its sole discretion, exercised in good faith, may determine is equitably required to prevent dilution or enlargement of the rights of optionees that would otherwise result from (a) any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, or (b) any merger, consolidation, separation, reorganization or partial or complete

liquidation, or (c) any other corporate transaction or event having an effect similar to any of the foregoing. The Board of Directors may also make or provide for such adjustments in the number or kind of shares of the Company's Common Stock or other securities which may be sold under this Stock Option Plan as such Board in its sole discretion, exercised in good faith, may determine is appropriate to reflect any event of the type described in clause (a) of the preceding sentence.

6. Each Stock Option Agreement shall contain such other terms and conditions not inconsistent herewith as shall be approved by the Board of Directors or by the committee thereof referred to in Paragraph 7 of this Stock Option Plan.

7. This Stock Option Plan shall be administered by the Board of Directors which may from time to time delegate all or any part of its authority under this Stock Option Plan to a committee of not less than three Directors appointed by the Board of Directors. The majority of the committee shall constitute a quorum, and the action of the members of the committee present at any meeting at which a quorum is present, or acts unanimously approved in writing, shall be the acts of the committee. No option shall be granted by the committee to any member of the committee except to the extent specifically authorized by the Board of Directors.

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THE SCOTT & FETZER COMPANY

Stock Option Agreement under the
Modified 1973 Stock Option Plan

WHEREAS, _____ (hereinafter called the "Optionee") is a key employee of The Scott & Fetzer Company (hereinafter called the "Company"); and

WHEREAS, the execution of a Stock Option Agreement in the form hereof has been duly authorized by a resolution of the Board of Directors of the Company or its Compensation and Organization Committee duly adopted on _____ and incorporated herein by reference;

NOW, THEREFORE, the Company hereby grants to the Optionee an option to purchase _____ Common Shares without par value of the Company ("Common Shares") at the price of _____ (\$ _____) per share, and agrees to cause certificates for any shares acquired in respect of this option to be delivered to the Optionee upon receipt of the purchase price in cash, or in whole or in part in Common Shares, or surrender of this option or any portion hereof in accordance with and subject to all conditions and limitations contained in any authorization to the Optionee by the Board of Directors or its Compensation and Organization Committee to surrender this option, all subject, however, to the terms and conditions hereinafter set forth:

1. (a) This option (until terminated as hereinafter provided) shall be exercisable only to the extent of one-fourth of the Common Shares hereinabove specified after the Optionee shall have been in the continuous employ of the Company and a subsidiary or either of them for one full year from _____ and to the extent of an additional one-fourth of such Common Shares after each of the next three successive years thereafter during which the Optionee shall have been in the continuous employ of the Company and a subsidiary or either of them. For the purposes of this paragraph, leaves of absence approved by the Board of Directors of the Company for illness, military or governmental service, or other cause, shall be considered as employment if such leave does not exceed 90 days, or, if longer, if the Optionee's right of re-employment by the Company or a subsidiary is guaranteed either by statute or by contract. To the extent exercisable, this option may be exercised in whole or in part from time to time.

(b) In the event that the Optionee shall have retired under a retirement plan of the Company or a subsidiary, either at normal retirement age or at an earlier age in accordance with such retirement plan, or in the event that the Optionee otherwise ceases to be an employee of the Company or a subsidiary under circumstances which are determined by the Board of Directors to be for the convenience of the Company, in either event prior to this option becoming exercisable to its full extent, this option shall be exercisable to

such additional extent as the Board of Directors authorizes prior to the time at which this Option terminates.

2. This option shall terminate as follows:

(A) On the date upon which the Optionee ceases to be an employee of the Company or a subsidiary, unless otherwise provided in this paragraph 2;

(B) Three months after the Optionee ceases to be an employee of the Company or a subsidiary by reason of retirement under a retirement plan of the Company or a subsidiary at or after normal retirement age provided for in such retirement plan or retirement at an earlier age with the consent of the Board of Directors;

(C) At such time after the Optionee ceases to be an employee of Company or a subsidiary as the Board of Directors shall establish but in any event no later than the time prescribed by (E) below;

(D) Nine months after the death of the Optionee if the Optionee dies while an employee of the Company or a subsidiary or within the periods referred to in (B) or (C) above; or

(E) Ten (10) years from the date on which this option was granted.

In the event the Optionee shall intentionally commit an act materially inimical to the interest of the Company or a subsidiary, and the Board of Directors shall so find, this option shall terminate at the time of such act, notwithstanding any other provision of this Agreement. Nothing contained in this option shall limit whatever right the Company or subsidiary might otherwise have to terminate the employment of the Optionee.

3. Upon a filing pursuant to any federal or state law in connection with any tender offer for Common Shares (other than a tender offer by the Company) or upon the signing of any agreement for the merger or consolidation of the Company with another corporation or for sale of substantially all of the assets of the Company to another corporation, which tender offer, merger, consolidation or sale if consummated would, in the opinion of the Board of Directors, be likely to result in a change in control of the Company, the Optionee may, during the period beginning on the third and ending on the twelfth business day after a quarterly or annual summary statement of sales and earnings of the Company has been released for publication following such filing or signing, surrender this option and receive cash in an amount equal to the excess of the aggregate fair market value at the date of surrender of the full number of Common Shares covered by this option at such time, without regard to any limited extent to which this option otherwise would be exercisable, over the aggregate option price of such Common Shares; provided, however, that in the event that any such tender offer, merger, consolidation or

sale shall be abandoned, the Board of Directors or its Compensation and Organization Committee may by notice to the Optionee nullify such surrender and reinstate this option, but without prejudice to any payment on such surrender that may have occurred prior to such nullification. For purposes hereof, "fair market value" means the closing price of a Common Share on the New York Stock Exchange on the date of surrender or, if not a trading day, on the next succeeding trading day.

4. This option is not transferable by the Optionee otherwise than by will or the laws of descent and distribution, and is exercisable during the lifetime of the Optionee only by him or by his guardian or legal representative.

5. This option shall not be exercisable if such exercise would involve a violation of any applicable securities law, and the Company hereby agrees to make reasonable efforts to comply with any applicable securities law.

6. The Board of Directors may make or provide for such adjustments in the option price and in the number or kind of Common Shares or other securities covered by outstanding options as such Board in its sole discretion, exercised in good faith, may determine are equitably required to prevent dilution or enlargement of the rights of the optionee that would otherwise result from (a) any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, or (b) any merger, consolidation, separation, reorganization or partial or complete liquidation, or (c) any other corporate transaction or event having an effect similar to any of the foregoing. No adjustment provided for in this paragraph 6 shall require the Company to sell any fractional share.

EXECUTED at Cleveland, Ohio this ____ day of _____, 1980.

THE SCOTT & FETZER COMPANY

By _____

The undersigned Optionee hereby acknowledges receipt of an executed original of this Stock Option Agreement.

Optionee

THE SCOTT & FETZER COMPANY

Stock Option Agreement under the
Modified 1973 Stock Option Plan

WHEREAS, _____ (hereinafter called the "Optionee") is a key employee of The Scott & Fetzer Company (hereinafter called the "Company"); and

WHEREAS, the execution of a Stock Option Agreement in the form hereof has been duly authorized by a resolution of the Board of Directors of the Company or its Compensation and Organization Committee duly adopted on _____ and incorporated herein by reference;

NOW, THEREFORE, the Company hereby grants to the Optionee an option to purchase _____ Common Shares without par value of the Company ("Common Shares") at the price of _____ (\$ _____) per share, and agrees to cause certificates for any shares acquired in respect of this option to be delivered to the Optionee upon receipt of the purchase price in cash, or in whole or in part in Common Shares, or surrender of this option or any portion hereof in accordance with and subject to all conditions and limitations contained in any authorization to the Optionee by the Board of Directors or its Compensation and Organization Committee to surrender this option, all subject, however, to the terms and conditions hereinafter set forth:

1. (a) This option (until terminated as hereinafter provided) shall be exercisable only to the extent of one-fourth of the Common Shares hereinabove specified after the Optionee shall have been in the continuous employ of the Company and a subsidiary or either of them for one full year from _____ and to the extent of an additional one-fourth of such Common Shares after each of the next three successive years thereafter during which the Optionee shall have been in the continuous employ of the Company and a subsidiary or either of them. For the purposes of this paragraph, leaves of absence approved by the Board of Directors of the Company for illness, military or governmental service, or other cause, shall be considered as employment if such leave does not exceed 90 days, or, if longer, if the Optionee's right of re-employment by the Company or a subsidiary is guaranteed either by statute or by contract. To the extent exercisable, this option may be exercised in whole or in part from time to time.

(b) In the event that the Optionee shall have retired under a retirement plan of the Company or a subsidiary, either at normal retirement age or at an earlier age in accordance with such retirement plan, or in the event that the Optionee otherwise ceases to be an employee of the Company or a subsidiary under circumstances which are determined by the Board of Directors to be for the convenience of the Company, in either event prior to this option becoming exercisable to its full extent, this option shall be exercisable to

such additional extent as the Board of Directors authorizes prior to the time at which this Option terminates.

2. This option shall terminate as follows:

(A) On the date upon which the Optionee ceases to be an employee of the Company or a subsidiary, unless otherwise provided in this paragraph 2;

(B) Three months after the Optionee ceases to be an employee of the Company or a subsidiary by reason of retirement under a retirement plan of the Company or a subsidiary at or after normal retirement age provided for in such retirement plan or retirement at an earlier age with the consent of the Board of Directors;

(C) At such time after the Optionee ceases to be an employee of Company or a subsidiary as the Board of Directors shall establish but in any event no later than the time prescribed by (E) below;

(D) Nine months after the death of the Optionee if the Optionee dies while an employee of the Company or a subsidiary or within the periods referred to in (B) or (C) above; or

(E) Ten (10) years from the date on which this option was granted.

In the event the Optionee shall intentionally commit an act materially inimical to the interest of the Company or a subsidiary, and the Board of Directors shall so find, this option shall terminate at the time of such act, notwithstanding any other provision of this Agreement. Nothing contained in this option shall limit whatever right the Company or subsidiary might otherwise have to terminate the employment of the Optionee.

3. Upon a filing pursuant to any federal or state law in connection with any tender offer for Common Shares (other than a tender offer by the Company) or upon the signing of any agreement for the merger or consolidation of the Company with another corporation or for sale of substantially all of the assets of the Company to another corporation, which tender offer, merger, consolidation or sale if consummated would, in the opinion of the Board of Directors, be likely to result in a change in control of the Company, the Optionee may, during the period beginning on the third and ending on the twelfth business day after a quarterly or annual summary statement of sales and earnings of the Company has been released for publication following such filing or signing, surrender this option and receive cash in an amount equal to the excess of the aggregate fair market value at the date of surrender of the full number of Common Shares covered by this option at such time, without regard to any limited extent to which this option otherwise would be exercisable, over the aggregate option price of such Common Shares; provided, however, that in the event that any such tender offer, merger, consolidation or

sale shall be abandoned, the Board of Directors or its Compensation and Organization Committee may by notice to the Optionee nullify such surrender and reinstate this option, but without prejudice to any payment on such surrender that may have occurred prior to such nullification. For purposes hereof, "fair market value" means the closing price of a Common Share on the New York Stock Exchange on the date of surrender or, if not a trading day, on the next succeeding trading day.

4. This option is not transferable by the Optionee otherwise than by will or the laws of descent and distribution, and is exercisable during the lifetime of the Optionee only by him or by his guardian or legal representative.

5. This option shall not be exercisable if such exercise would involve a violation of any applicable securities law, and the Company hereby agrees to make reasonable efforts to comply with any applicable securities law.

6. The Board of Directors may make or provide for such adjustments in the option price and in the number or kind of Common Shares or other securities covered by outstanding options as such Board in its sole discretion, exercised in good faith, may determine are equitably required to prevent dilution or enlargement of the rights of the optionee that would otherwise result from (a) any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, or (b) any merger, consolidation, separation, reorganization or partial or complete liquidation, or (c) any other corporate transaction or event having an effect similar to any of the foregoing. No adjustment provided for in this paragraph shall require the Company to sell any fractional share.

EXECUTED at Cleveland, Ohio this ____ day of _____, 1980.

THE SCOTT & FETZER COMPANY

By _____

The undersigned Optionee hereby acknowledges receipt of an executed original of this Stock Option Agreement.

Optionee

Revised - November 25, 1980

Exhibit 10 (iii)

EXHIBIT A**THE SCOTT & FETZER COMPANY
1981 Stock Option Plan**

1. The total number of shares which may be issued and sold under options granted pursuant to this Stock Option Plan shall not exceed 500,000 shares of the Company's Common Stock without par value, except to the extent of adjustments authorized by the last sentence of Paragraph 5 of this Stock Option Plan. Such shares may be treasury shares or shares of original issue or a combination of the foregoing.

2. The Board of Directors of the Company may, from time to time and upon such terms and conditions as it may determine, authorize the granting to officers (including officers who are members of the Board of Directors) and to other key employees of the Company or any of its subsidiaries of options to buy from the Company shares of Common Stock and may fix the number of shares to be covered by each such option, provided, however, that the aggregate fair market value (determined as of the time the option is granted) of the stock for which any employee may be granted options in any calendar year which are intended to qualify as "Incentive Stock Options" under Section 422(A) of the Internal Revenue Code (under all plans of the Company and its parent and subsidiary corporations, if any) shall not exceed \$100,000.00 plus any unused limit carryover to such year (such unused limit carryover to be determined as provide in such Section 422(A)). Successive options may be granted to the same person whether or not the option or options first

granted to such person remain unexercised. The Directors may, with the concurrence of the affected optionees, cancel any option granted under this Stock Option Plan and may authorize the granting of a new option or options, to buy from the Company shares of the Company's Common Stock in the same number or a different number as provided by the cancelled option.

3. Options granted under this Stock Option Plan may be (i) options which are intended to qualify under particular provisions of the Internal Revenue Code, as in effect from time to time, (ii) options which are not intended so to qualify under the Internal Revenue Code, or (iii) combinations of the foregoing. No option shall run for more than ten years from the date granted. No option shall be transferable by the optionee otherwise than by will or the laws of descent and distribution.

4. The option price shall not be less than the fair market value of the shares covered by the option at the time the option is granted. The option price shall be payable in cash or, in whole or in part, in shares of the Company's Common Stock valued at fair market value. The Directors may authorize, upon such conditions and limitations as they deem advisable, the surrender of an option, or any portion thereof, granted under this Stock Option Plan and the delivery in exchange therefor of: (a) shares of the Company's Common Stock having the fair market value on the date of surrender equal to the excess of the fair market value at the date of surrender of the shares covered by the option, or portion thereof, surrendered over the aggregate option price of such shares, (b) cash in an amount equivalent to that determined under

clause (a), or (c) partly in cash and partly in shares of the Company's Common Stock as the Directors may determine in their discretion. The Common Shares covered by any option, or portion thereof, surrendered as herein provided shall not be deemed to have been issued and sold under this Stock Option Plan, except, and to the extent of, shares of the Company's Common Stock issued or delivered in respect of such surrender.

5. The Board of Directors may make or provide for such adjustments in the option price and in the number or kind of shares of the Company's Common Stock or other securities covered by outstanding options as such Board in its sole discretion, exercised in good faith, may determine is equitably required to prevent dilution or enlargement of the rights of optionees that would otherwise result from (a) any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, or (b) any merger, consolidation, separation, reorganization or partial or complete liquidation, or (c) any other corporate transaction or event having an effect similar to any of the foregoing. The Board of Directors may also make or provide for such adjustments in the number or kind of shares of the Company's Common Stock or other securities which may be sold under this Stock Option Plan as such Board in its sole discretion, exercised in good faith, may determine is appropriate to reflect any event of the type described in clause (a) of the preceding sentence.

6. Each Stock Option Agreement shall contain such other terms and conditions not incon-

sistent herewith as shall be approved by the Board of Directors or by the committee thereof referred to in Paragraph 7 of this Stock Option Plan.

7. This Stock Option Plan shall be administered by the Board of Directors which may from time to time delegate all or any part of its authority under this Stock Option Plan to a committee of not less than three Directors appointed by the Board of Directors. The majority of the committee shall constitute a quorum, and the action of the members of the committee present at any meeting at which a quorum is present, or acts unanimously approved in writing, shall be the acts of the committee. No option shall be granted by the committee to any member of the committee except to the extent specifically authorized by the Board of Directors.

8. This Stock Option Plan may be amended from time to time by the Board of Directors, but without further approval by the shareholders of the Company this Stock Option Plan may not be amended to increase the aggregate number of shares of the Company's Common Stock without par value that may be issued and sold under this Stock Option Plan (except that adjustments authorized by the last sentence of Paragraph 5 shall not be so limited) or change the designation in Paragraph 2 of the class of employees eligible to be granted options.

**Exhibit (10)(iv)
The Scott & Fetzer Company's
Incentive Compensation Program**

The Scott & Fetzer Company makes incentive compensation payments to certain of its employees based on established work performance and actual earnings per share results in relation to budgeted objectives. The amounts of such compensation payments are discretionary and subject to approval by the Compensation and Organization Committee and the Board of Directors.

AGREEMENT

The Scott & Fetzer Company, an Ohio corporation ("Scott & Fetzer"), and Ralph Schey ("Schey") hereby agree as of August 10, 1979, as follows:

1. To induce Schey to continue to serve as chief executive officer of Scott & Fetzer upon expiration of the Employment Agreement dated as of September 1, 1974 between Scott & Fetzer and Schey, Scott & Fetzer shall, in the event that Schey's employment as chief executive officer of Scott & Fetzer is terminated by Scott & Fetzer at any time, (a) continue to compensate Schey at his rate of salary then in effect for the balance of the calendar year in which his employment is terminated and (b) pay to Schey \$100,000 per year in periodic installments for each of the five calendar years following such year.

2. Schey's employment shall not be deemed to have been terminated by Scott & Fetzer if he resigns voluntarily, retires, becomes incapacitated voluntarily takes another position requiring a substantial portion of his time, or dies.

3. Schey's employment as chief executive officer of Scott & Fetzer shall be deemed to have been terminated by Scott & Fetzer for purposes of paragraph 1 in the event that each of the following occurs: (a) any of the various events enumerated in paragraph 4; (b) Schey is the chief executive officer of Scott & Fetzer immediately prior to the public disclosure of any such

event but is not the chief executive officer of the combined entities or controlling person promptly after the change in control following any such event; and (c) Schey leaves the employment of Scott & Fetzer or the combined entities within three months after any such event under any circumstance other than termination of his employment by Scott & Fetzer or the combined entities as a result of his personal and intentional action which is contrary to the best interests of Scott & Fetzer in a material respect.

4. In the event of the change in control of Scott & Fetzer or upon the filing pursuant to any federal or state law in connection with the signing of any agreement for the merger or consolidation of Scott & Fetzer into or with another corporation or for the sale of substantially all the assets of Scott & Fetzer to another corporation, or an agreement which provides that Scott & Fetzer will become a subsidiary of another corporation, any of which agreements that is consummated would result in a change of control of Scott & Fetzer, any option held by Schey to purchase common stock of Scott & Fetzer shall become immediately exercisable notwithstanding any other provisions of any such stock option agreement, and, at the election of Schey, any deferred compensation or other benefit payable to him, other than from a qualified pension plan, in the future shall become immediately payable.

5. Any payment or delivery required under this agreement shall be subject to all requirements of the law with regard to withholding, filing, making of reports and the like, and Scott & Fetzer shall use its best efforts to satisfy promptly all such requirements.

6. This agreement shall be binding upon Scott & Fetzer and its successors, by operation of law or otherwise, and shall inure to the benefit of Schey, his personal representatives and heirs.

Executed at Cleveland, Ohio, this 10th day of August, 1979.

THE SCOTT & FETZER COMPANY

By: /s/ J. B. Bradley
Executive Vice President

By: /s/ Ralph Schey
Ralph Schey

DEFERRED COMPENSATION AGREEMENT

THIS AGREEMENT made this 23rd day of OCTOBER, 1979, by and between THE SCOTT & FETZER COMPANY, an Ohio corporation with its principal offices located in Lakewood, Ohio (the "Company"), and RALPH SCHEY ("Schey").

WITNESSETH

WHEREAS, the Company is contemporaneously entering into an Agreement ("Agreement") with Schey relating to his employment with the Company, and

WHEREAS, the Company is also willing to pay Schey deferred compensation on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, and in the aforesaid Agreement, the parties hereto agree as follows:

1. (a) During the five (5) year period commencing September 1, 1979 ("Term") the Company shall credit to an account on its books on September 1, 1979 and each September 1 thereafter the amount of Sixty Five Thousand Dollars (\$65,000) so long as Schey serves the Company as chief executive officer.

(b) In the event that the employment of Schey by the Company is terminated in any year during the Term for any reason

other than death, a voluntary termination of such employment by Schey, or termination for cause as provided in the Agreement, the Company shall continue to credit to such account on its books the amount of Sixty Five Thousand Dollars (\$65,000) per year during the balance of the term.

(c) However, in the event that in any year during the Term the employment of Schey by the Company is voluntarily terminated by Schey, or is terminated because of the death of Schey, or is terminated for cause as provided in the Agreement, the Company, after any such event, shall make no further credit to such account.

(d) Any amounts of deferred compensation to be credited to such account pursuant to this Agreement shall be credited by the chief financial officer of the Company to such account to reflect the Company's obligation for deferred compensation to Schey. Solely for convenience in referring to such account, such account may sometimes be referred to in this Agreement as Schey's account.

2. The obligation of the Company to make payment to Schey of the amounts determined pursuant to this Agreement shall be unconditional, and Schey's right to receive payments of the amount determined pursuant to this Agreement shall be unconditional.

3. (a) An investment advisor to the Company shall be selected by mutual agreement between the Board of Directors or the Compensation and Organization Committee and Schey ("Investment Advisor") who may be changed by similar mutual agreement at any time and from time to time. The chief financial officer of the Company shall treat Schey's account as having been invested in such manner and in such securities (including, without limiting the generality of the foregoing, any securities of the Company) as shall be designated from time to time by the Investment Advisor. The Company may but shall not be obligated to purchase the securities so designated for its own account.

(b) Upon any such designation, the chief financial officer shall credit the securities so designated to such account and shall make the corresponding charge against cash in such account. Except as hereinafter provided, such securities so designated shall not be treated as having been eliminated from such account without the approval of such Investment Advisor.

Whenever the Investment Advisor shall decide that all or any part of such securities shall be eliminated from the account and the net proceeds kept in cash or in other designated securities, such Investment Advisor shall so recommend in writing to the chief financial officer of the Company and the chief financial officer of the Company, on behalf of the Company shall follow such recommendations of such Investment Advisor. Upon any such elimination of such securities, appropriate adjustment shall be made by the chief financial officer in the account to reflect the gain or loss from such elimination.

4. (a) The Company shall credit such account with an amount equal to the dividends, interest, income, securities, obligations, or other property, if any, received by the Company in respect of the cash or securities credited to such account or which would have been received by the Company if the designated securities had actually been purchased.

(b) As of the end of each year the chief financial officer shall credit such account with interest at the rate per annum described herein, on the net amount remaining uninvested, if any, credited at any time during such year to such account, for the appropriate period during such year in which such net amount remained so credited. Such rate of interest per annum for any time

shall be equal to prime rate of interest per annum charged by The National City Bank of Cleveland (of Cleveland, Ohio), or its successors, for new loans made at such time.

5. The chief financial officer shall keep a detailed record of such account and promptly after the end of each year shall deliver to Schey a written statement showing the cash and securities credited to such account at the end of the year and the changes in such account during such year.

6. The chief financial officer shall from time to time eliminate from the account a sufficient amount of securities credited to the account so that there remains cash credit in the account sufficient to equal payments of deferred compensation to be made under this Agreement. The chief financial officer of the Company shall follow the recommendations of the Investment Advisor as to the securities to be eliminated unless the Investment Advisor after being notified at least 5 days prior to the proposed elimination has made no recommendations.

7. Payments shall be made to Schey pursuant to this Agreement at the times and in the manner described in this Paragraph 7. Such payments shall be made in annual installments, over a period of not fewer than five (5) years and not more than twenty (20) years, as may be determined by and in the sole discretion of the Board or the Compensation and Organization Committee. Each such annual payment shall be approximately that amount which bears the same ratio to the fair market value (at the time of distribution) of

the cash and securities remaining credited to such account as (i) one bears to (ii) the number of annual installments remaining to be made, including the installment then to be made. Each such annual installment to be made subsequent to the first such installment shall be made approximately one year after the payment of the prior installment. From time to time the Board or Compensation and Organization Committee may, at its sole discretion, change the period for payments previously selected pursuant to this Paragraph 7 to any other period of not fewer than five (5) years and not more than twenty (20) years beginning with (a) the date on which Schey shall have ceased to be an employee of the Company and/or subsidiary of the Company, or if later, (b) the sixty-fifth (65th) birthday of Schey.

8. (a) All payments of deferred compensation to be made under this Agreement shall be made in cash.

(b) The chief financial officer shall make the first payment at such time as the Board or Compensation and Organization Committee, as the case may be in its sole discretion, may select, (i) within a period of one year after the day on which Schey shall have ceased to be an employee of the Company and/or a subsidiary of the Company, or, if later, (ii) the sixty-fifth (65th) birthday of Schey.

(c) Appropriate adjustments shall be made to such account by the chief financial officer to reflect all changes in such account, including, without limitation, the payments made under

Paragraph 7 and charges pursuant to Paragraphs 3 and 4 of this Agreement.

(d) All payments under this Agreement shall be subject to a Pension Adjustment determined as follows:

(i) upon the commencement of payments to Schey or his designee the Schey account shall be reduced by the amount previously paid to or for the benefit of Schey under The Scott & Petzer Pension Plan and thereafter at the time of each payment to Schey under this Agreement, such payment shall be reduced by any additional Pension Plan payment which has not already been used to reduce Schey's account or previous payments under this Agreement;

(ii) at the time of each payment, the chief financial officer shall reduce Schey's account by the amount of the Pension Adjustment as well as the actual payments made to Schey or his designee;

(iii) each year after a payment has been made to Schey or his designee, the chief financial officer of the Company shall compute the actuarial value of Schey's pension benefits. Such actuarial value shall be computed on the basis of the life expectancy, interest assumptions and other factors currently being used by the Pension Trust. If at any time such actuarial value exceeds the amount credited to Schey's account (including investments at current fair market value) then no further payments shall be made to Schey or his designee and the account shall be closed.

9. (a) In the event of Schey's death before the commencement or completion of the payments of deferred compensation

to be made pursuant to this Agreement, subject to the Pension Adjustment, the unpaid amounts shall be paid in installments and in the manner as above indicated (or, in the discretion of the Board or Compensation and Organization Committee, on an accelerated basis), to the person or persons designated in a written beneficiary designation signed by Schey, and in the share or shares therein designated, and filed with the chief financial officer of the Company prior to the death of Schey.

(b) Any such beneficiary designation may be revoked or modified by Schey at any time and from time to time by a new beneficiary designation signed by Schey (or by a written and signed revocation signed by Schey) and filed with the chief financial officer of the Company.

(c) In the event and to the extent there is no such beneficiary designation in effect at Schey's death, such amounts shall be so paid to Schey's estate for distribution as a part thereof, or to the person or persons to whom the right to receive such amounts is distributed by the estate.

(d) Any determination made in good faith by the Board of Directors of the Compensation and Organization Committee of the person or persons to whom any such payments are to be made under this Agreement, and the share of each such person, shall be final and conclusive upon all persons.

10. Solely for the convenience of description in this Agreement, and in describing the cash and securities attributable to the investment or reinvestment of the amounts credited to Schey's account, the amount of such cash, and the amount and kind of such securities shall be reflected in such account and may be respectively referred to in this Agreement as cash and securities "credited" to such account, or as assets "credited" to such account. However, the purpose of this Agreement is simply to measure the amount of deferred compensation to be paid to Schey and to describe an unsecured contractual promise by the Company to make the payments set forth in this Agreement and not to create any obligation to purchase the designated securities nor create any trust for the benefit of Schey, including, without limitation, any person described in Paragraph 9 of this Agreement, and neither Schey nor any other person, including, without limitation, any person referred to in Paragraph 9, shall have any right, title or interest of any kind in any such cash, stock or other securities of the Company or any other securities.

11. For purposes of this Agreement:

(a) "Board" shall mean the Board of Directors of the Company;

(b) "Compensation and Organization Committee" shall mean the Compensation and Organization Committee of the Board of Directors;

(c) "Subsidiary" shall mean any corporation, part or all of the stock of which is owned by the Company and which is treated by the Board or the Compensation and Organization Committee as a subsidiary for purposes of this Agreement. The term "subsidiary" shall also include a subsidiary of a subsidiary; and

(d) "Chief financial officer" shall mean the chief financial officer of the Company.

12. In the event of the liquidation of the Company or the sale of substantially all its assets or its merger or consolidation, the Board or the Compensation and Organization Committee may make any alterations in these provisions for holding, handling and distributing the amounts credited to such account which are appropriate and equitable under all the circumstances and which are consistent with the spirit and purposes of these provisions.

13. (a) The chief financial officer shall determine the amount of the various adjustments, changes, credits or charges to be made under this Agreement to such account, including, without limiting the generality of the foregoing, the following:

(i) The amount of the interest to be credited to such account under Paragraph 4(c) of this Agreement;

(ii) the amount of the proceeds and the net gain or loss resulting from any sale of securities

credited to such account;

(iii) the amount of any Pension Adjustment.

14. Neither Schey nor any other person, including any death beneficiary, described in Paragraph 9 hereof, shall have any right to make any assignment of any rights under this Agreement. Any attempt to make such assignment shall be null, void and of no effect.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement at Lakewood, Ohio, on the day and year first above written, but to be effective as of September 1, 1979.

THE SCOTT & FETZER COMPANY,

Ralph Schey
Ralph Schey

("Schey")

By [Signature]

("Company")

CONTINGENT COMPENSATION AGREEMENT

IN RECOGNITION OF:

- a) The valued contribution that John Bebbington (hereinafter called the "Executive Employee") has made during the eight (8) years of his employment with The Scott & Fetzer Company (hereinafter called the "Company");
- b) The significant role that the Executive Employee plays in developing and implementing strategic plans for the Company;
- c) The considerable benefit to the Company of the continuation of the Executive Employee's employment with the Company;
- d) The potential conflict between corporate interests and the Executive Employee's personal interests and the possible desire by the Executive Employee to obtain other employment in the event that an acquisition or merger of the company resulting in a changed role of the Executive Employee within the Company should appear likely; and
- e) The likelihood that in an acquisition or merger a higher valuation would be placed upon the Company as compared to its stock market price and that such higher valuation would be an acknowledgement of the contributions and benefits that the Executive Employee has provided to the Company through his effective management,

the Company and the Executive Employee have entered into this agreement

- 1) To induce the Executive Employee to continue his employment with the Company notwithstanding the possibility of an acquisition or merger of the Company;
- 2) To induce the Executive Employee to exercise his best judgment on behalf of the Company in the event of a potential acquisition or merger; and
- 3) To compensate the Executive Employee for his contribution to the added value shareholders would receive as a result of the increased valuation placed upon the Company in an acquisition or merger.

NOW, THEREFORE, the Executive Employee shall have the right to receive from the Company, and the Company shall have the obligation to pay to the Executive Employee, subject to the terms and conditions contained in this agreement, the increase in value, if any, of 50,000 Common Shares of the

Company as measured on a per share basis by the difference between the price per share of \$23.375 and the value per share received by or accruing to the benefit of shareholders of the Company pursuant to any tender offer for Common Shares of the Company (other than a tender offer by the Company) or the merger or consolidation of the Company with another corporation or the sale of substantially all of the assets of the Company to another corporation, which tender offer, merger, consolidation or sale, in the opinion of the Board of Directors, as evidenced by a resolution at a meeting thereof, results in a change of control of the Company. For purposes of this agreement, "acquisition or merger" of the Company shall include the acquisition of ownership of more than 50% of the issued and outstanding Common Shares of the Company, whether by tender offer, merger, consolidation, sale or otherwise. Unless otherwise agreed by the Company and the Executive Employee in writing, the Executive Employee shall be paid in cash in the amount he is entitled to receive under this agreement immediately upon the consummation of the acquisition or merger of the Company.

This agreement and the rights and obligations established hereunder shall terminate upon the first occurrence of any of the following:

- (a) Thirty days after the employment of the Executive Employee with the Company terminates upon the voluntary resignation of the Executive Employee;
- (b) One year after the employment of the Executive Employee with the Company terminates at the request or direction of the Company;
- (c) One year after the Executive Employee reaches the age of 65;
- (d) One year after the death of the Executive Employee; or
- (e) November 27, 1989, at 9:00 a.m., Eastern Standard Time.

In the event that the Executive Employee shall intentionally commit an act materially inimical to the interest of the Company or a subsidiary, and the Board of Directors prior to any acquisition or merger of the company to which this agreement relates shall so find, this agreement and the rights and obligations established hereunder shall terminate at the time of such act, notwithstanding any other provision of this agreement.

Nothing in this agreement shall be construed to:

- (a) Give the Executive Employee any rights whatsoever with respect to Common Shares of the Company;
- (b) Limit in any way the right of the Company to terminate the Executive Employee's employment with the Company at any time; or

(c) Be evidence of any agreement or understanding, express or implied, that the Company will employ the Executive Employee in any particular position or at any particular rate of remuneration.

In the event of any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, appropriate adjustment shall be made in the number of Common Shares referred to above in order to prevent dilution or enlargement of the rights of the Executive Employee and obligations of the Company under this agreement.

EXECUTED at Cleveland, Ohio January 18, 1980 as of November 27, 1979.

THE SCOTT & FETZER COMPANY



Executive Employee

By 

Ralph E. Schrey

cc sent to line 592
to J. F. Bradley
5-1-50

CONTINGENT COMPENSATION AGREEMENT

IN RECOGNITION OF:

a) The valued contribution that J. F. Bradley (hereinafter called the "Executive Employee") has made during the seven (7) years of his employment with The Scott & Fetzer Company (hereinafter called the "Company");

b) The significant role that the Executive Employee plays in developing and implementing strategic plans for the Company;

c) The considerable benefit to the Company of the continuation of the Executive Employee's employment with the Company;

d) The potential conflict between corporate interests and the Executive Employee's personal interests and the possible desire by the Executive Employee to obtain other employment in the event that an acquisition or merger of the company resulting in a changed role of the Executive Employee within the Company should appear likely; and

e) The likelihood that in an acquisition or merger a higher valuation would be placed upon the Company as compared to its stock market price and that such higher valuation would be an acknowledgement of the contributions and benefits that the Executive Employee has provided to the Company through his effective management,

the Company and the Executive Employee have entered into this agreement

1) To induce the Executive Employee to continue his employment with the Company notwithstanding the possibility of an acquisition or merger of the Company;

2) To induce the Executive Employee to exercise his best judgment on behalf of the Company in the event of a potential acquisition or merger; and

3) To compensate the Executive Employee for his contribution to the added value shareholders would receive as a result of the increased valuation placed upon the Company in an acquisition or merger.

NOW, THEREFORE, the Executive Employee shall have the right to receive from the Company, and the Company shall have the obligation to pay to the Executive Employee, subject to the terms and conditions contained in this agreement, the increase in value, if any, of 50,000 Common Shares of the

Company as measured on a per share basis by the difference between the price per share of \$23.375 and the value per share received by or accruing to the benefit of shareholders of the Company pursuant to any tender offer for Common Shares of the Company (other than a tender offer by the Company) or the merger or consolidation of the Company with another corporation or the sale of substantially all of the assets of the Company to another corporation, which tender offer, merger, consolidation or sale, in the opinion of the Board of Directors, as evidenced by a resolution at a meeting thereof, results in a change of control of the Company. For purposes of this agreement, "acquisition or merger" of the Company shall include the acquisition of ownership of more than 50% of the issued and outstanding Common Shares of the Company, whether by tender offer, merger, consolidation, sale or otherwise. Unless otherwise agreed by the Company and the Executive Employee in writing, the Executive Employee shall be paid in cash in the amount he is entitled to receive under this agreement immediately upon the consummation of the acquisition or merger of the Company.

This agreement and the rights and obligations established hereunder shall terminate upon the first occurrence of any of the following:

(a) Thirty days after the employment of the Executive Employee with the Company terminates upon the voluntary resignation of the Executive Employee;

(b) One year after the employment of the Executive Employee with the Company terminates at the request or direction of the Company;

(c) One year after the Executive Employee reaches the age of 65;

(d) One year after the death of the Executive Employee; or

(e) November 27, 1989, at 9:00 a.m., Eastern Standard Time.

In the event that the Executive Employee shall intentionally commit an act materially inimical to the interest of the Company or a subsidiary, and the Board of Directors prior to any acquisition or merger of the company to which this agreement relates shall so find, this agreement and the rights and obligations established hereunder shall terminate at the time of such act, notwithstanding any other provision of this agreement.

Nothing in this agreement shall be construed to:

(a) Give the Executive Employee any rights whatsoever with respect to Common Shares of the Company;

(b) Limit in any way the right of the Company to terminate the Executive Employee's employment with the Company at any time; or

(c) Be evidence of any agreement or understanding, express or implied, that the Company will employ the Executive Employee in any particular position or at any particular rate of remuneration.

In the event of any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, appropriate adjustment shall be made in the number of Common Shares referred to above in order to prevent dilution or enlargement of the rights of the Executive Employee and obligations of the Company under this agreement.

EXECUTED at Cleveland, Ohio January 18, 1980 as of November 27, 1979.

THE SCOTT & FETZER COMPANY


Executive Employee

By 

CONTINGENT COMPENSATION AGREEMENT

IN RECOGNITION OF:

a) The valued contribution that J. F. Bradley (hereinafter called the "Executive Employee") has made during the 9 years of his employment with The Scott & Fetzer Company (hereinafter called the "Company");

b) The significant role that the Executive Employee plays in developing and implementing strategic plans for the Company;

c) The considerable benefit to the Company of the continuation of the Executive Employee's employment with the Company;

d) The potential conflict between corporate interests and the Executive Employee's personal interests and the possible desire by the Executive Employee to obtain other employment in the event that an acquisition or merger of the Company resulting in a changed role of the Executive Employee within the Company should appear likely; and

e) The likelihood that in an acquisition or merger a higher valuation would be placed upon the Company as compared to its stock market price and that such higher valuation would be an acknowledgment of the contributions and benefits that the Executive Employee has provided to the Company through his effective management,

the Company and the Executive Employee have entered into this agreement

1) To induce the Executive Employee to continue his employment with the Company notwithstanding the possibility of an acquisition or merger of the Company;

2) To induce the Executive Employee to exercise his best judgment on behalf of the Company in the event of a potential acquisition or merger; and

3) To compensate the Executive Employee for his contribution to the added value shareholders would receive as a result of the increased valuation placed upon the Company in an acquisition or merger.

NOW, THEREFORE, the Executive Employee shall have the right to receive from the Company, and the Company shall have the obligation to pay to the Executive Employee, subject to the terms and conditions contained in this agreement, the increase in value, if any, of 25,000 Common Shares of the Company as measured on a per share basis by the difference between the price per share of \$27.00 and the value per share received by or accruing to the benefit of shareholders of the Company pursuant to any tender offer for Common Shares of the Company (other than a tender offer by the Company) or the merger or consolidation of the Company with another corporation or the sale of substantially all of the assets of the Company to another corporation, which tender offer, merger, consolidation or sale, in the opinion of the Board of Directors, as evidenced by a resolution at a meeting thereof, results in a change of control of the Company. For purposes of this agreement, "acquisition or merger" of the Company shall include the acquisition of ownership of more than 50% of the issued and outstanding Common Shares of the Company, whether by tender offer, merger, consolidation, sale or otherwise. Unless otherwise agreed by the Company and the Executive Employee in writing, the Executive Employee shall be paid in cash in the amount he is entitled to receive under this agreement immediately upon the consummation of the acquisition or merger of the Company.

This agreement and the rights and obligations established hereunder shall terminate upon the first occurrence of any of the following:

- (a) Thirty days after the employment of the Executive Employee with the Company terminates upon the voluntary resignation of the Executive Employee;**
- (b) One year after the employment of the Executive Employee with the Company terminates at the request or direction of the Company;**
- (c) One year after the Executive Employee reaches the age of 65;**
- (d) One year after the death of the Executive Employee; or**
- (e) March 24, 1991, at 9:00 A.M., Eastern Standard Time.**

In the event that the Executive Employee shall intentionally commit an act materially inimical to the interest of the Company or a subsidiary, and the Board of Directors prior to any acquisition or merger of the Company to which this agreement relates shall so find, this agreement and the rights and obligations established hereunder shall terminate at the time of such act, notwithstanding any other provision of this agreement.

Nothing in this agreement shall be construed to:

(a) Give the Executive Employee any rights whatsoever with respect to Common Shares of the Company;

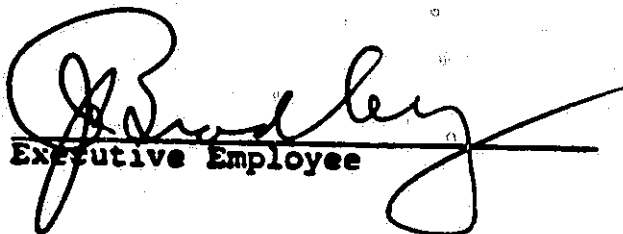
(b) Limit in any way the right of the Company to terminate the Executive Employee's employment with the Company at any time; or

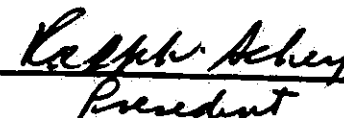
(c) Be evidence of any agreement or understanding, express or implied, that the Company will employ the Executive Employee in any particular position or at any particular rate of remuneration.

In the event of any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, appropriate adjustment shall be made in the number of Common Shares referred to above in order to prevent dilution or enlargement of the rights of the Executive Employee and obligations of the Company under this agreement.

EXECUTED at Cleveland, Ohio May 27, 1981 as of
March 24, 1981.

THE SCOTT & FETZER COMPANY


Executive Employee

By 
President

CONTINGENT COMPENSATION AGREEMENT

IN RECOGNITION OF:

a) The valued contribution that K. K. Kier (hereinafter called the "Executive Employee") has made during the 4 years of his employment with The Scott & Fetzer Company (hereinafter called the "Company");

b) The significant role that the Executive Employee plays in developing and implementing strategic plans for the Company;

c) The considerable benefit to the Company of the continuation of the Executive Employee's employment with the Company;

d) The potential conflict between corporate interests and the Executive Employee's personal interests and the possible desire by the Executive Employee to obtain other employment in the event that an acquisition or merger of the Company resulting in a changed role of the Executive Employee within the Company should appear likely; and

e) The likelihood that in an acquisition or merger a higher valuation would be placed upon the Company as compared to its stock market price and that such higher valuation would be an acknowledgment of the contributions and benefits that the Executive Employee has provided to the Company through his effective management,

the Company and the Executive Employee have entered into this agreement

1) To induce the Executive Employee to continue his employment with the Company notwithstanding the possibility of an acquisition or merger of the Company;

2) To induce the Executive Employee to exercise his best judgment on behalf of the Company in the event of a potential acquisition or merger; and

3) To compensate the Executive Employee for his contribution to the added value shareholders would receive as a result of the increased valuation placed upon the Company in an acquisition or merger.

NOW, THEREFORE, the Executive Employee shall have the right to receive from the Company, and the Company shall have the obligation to pay to the Executive Employee, subject to the terms and conditions contained in this agreement, the increase in value, if any, of 25,000 Common Shares of the Company as measured on a per share basis by the difference between the price per share of \$27.00 and the value per share received by or accruing to the benefit of shareholders of the Company pursuant to any tender offer for Common Shares of the Company (other than a tender offer by the Company) or the merger or consolidation of the Company with another corporation or the sale of substantially all of the assets of the Company to another corporation, which tender offer, merger, consolidation or sale, in the opinion of the Board of Directors, as evidenced by a resolution at a meeting thereof, results in a change of control of the Company. For purposes of this agreement, "acquisition or merger" of the Company shall include the acquisition of ownership of more than 50% of the issued and outstanding Common Shares of the Company, whether by tender offer, merger, consolidation, sale or otherwise. Unless otherwise agreed by the Company and the Executive Employee in writing, the Executive Employee shall be paid in cash in the amount he is entitled to receive under this agreement immediately upon the consummation of the acquisition or merger of the Company.

This agreement and the rights and obligations established hereunder shall terminate upon the first occurrence of any of the following:

- (a) Thirty days after the employment of the Executive Employee with the Company terminates upon the voluntary resignation of the Executive Employee;
- (b) One year after the employment of the Executive Employee with the Company terminates at the request or direction of the Company;
- (c) One year after the Executive Employee reaches the age of 65;
- (d) One year after the death of the Executive Employee; or
- (e) March 24, 1991, at 9:00 A.M., Eastern Standard Time.

In the event that the Executive Employee shall intentionally commit an act materially inimical to the interest of the Company or a subsidiary, and the Board of Directors prior to any acquisition or merger of the Company to which this agreement relates shall so find, this agreement and the rights and obligations established hereunder shall terminate at the time of such act, notwithstanding any other provision of this agreement.

Nothing in this agreement shall be construed to:

(a) Give the Executive Employee any rights whatsoever with respect to Common Shares of the Company;

(b) Limit in any way the right of the Company to terminate the Executive Employee's employment with the Company at any time; or

(c) Be evidence of any agreement or understanding, express or implied, that the Company will employ the Executive Employee in any particular position or at any particular rate of remuneration.

In the event of any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, appropriate adjustment shall be made in the number of Common Shares referred to above in order to prevent dilution or enlargement of the rights of the Executive Employee and obligations of the Company under this agreement.

EXECUTED at Cleveland, Ohio May 27, 1981 as of
March 24, 1981.

THE SCOTT & FETZER COMPANY

Kearney K. Kier
Executive Employee

By Ralph Schey
President

CONTINGENT COMPENSATION AGREEMENT

IN RECOGNITION OF:

a) The valued contribution that W. A. Rajki (hereinafter called the "Executive Employee") has made during the 28 years of his employment with The Scott & Fetzer Company (hereinafter called the "Company");

b) The significant role that the Executive Employee plays in developing and implementing strategic plans for the Company;

c) The considerable benefit to the Company of the continuation of the Executive Employee's employment with the Company;

d) The potential conflict between corporate interests and the Executive Employee's personal interests and the possible desire by the Executive Employee to obtain other employment in the event that an acquisition or merger of the Company resulting in a changed role of the Executive Employee within the Company should appear likely; and

e) The likelihood that in an acquisition or merger a higher valuation would be placed upon the Company as compared to its stock market price and that such higher valuation would be an acknowledgment of the contributions and benefits that the Executive Employee has provided to the Company through his effective management,

the Company and the Executive Employee have entered into this agreement

1) To induce the Executive Employee to continue his employment with the Company notwithstanding the possibility of an acquisition or merger of the Company;

2) To induce the Executive Employee to exercise his best judgment on behalf of the Company in the event of a potential acquisition or merger; and

3) To compensate the Executive Employee for his contribution to the added value shareholders would receive as a result of the increased valuation placed upon the Company in an acquisition or merger.

NOW, THEREFORE, the Executive Employee shall have the right to receive from the Company, and the Company shall have the obligation to pay to the Executive Employee, subject to the terms and conditions contained in this agreement, the increase in value, if any, of 50,000 Common Shares of the Company as measured on a per share basis by the difference between the price per share of \$27.00 and the value per share received by or accruing to the benefit of shareholders of the Company pursuant to any tender offer for Common Shares of the Company (other than a tender offer by the Company) or the merger or consolidation of the Company with another corporation or the sale of substantially all of the assets of the Company to another corporation. which tender offer, merger, consolidation or sale, in the opinion of the Board of Directors, as evidenced by a resolution at a meeting thereof, results in a change of control of the Company. For purposes of this agreement, "acquisition or merger" of the Company shall include the acquisition of ownership of more than 50% of the issued and outstanding Common Shares of the Company, whether by tender offer, merger, consolidation, sale or otherwise. Unless otherwise agreed by the Company and the Executive Employee in writing, the Executive Employee shall be paid in cash in the amount he is entitled to receive under this agreement immediately upon the consummation of the acquisition or merger of the Company.

This agreement and the rights and obligations established hereunder shall terminate upon the first occurrence of any of the following:

(a) Thirty days after the employment of the Executive Employee with the Company terminates upon the voluntary resignation of the Executive Employee;

(b) One year after the employment of the Executive Employee with the Company terminates at the request or direction of the Company;

(c) One year after the Executive Employee reaches the age of 65;

(d) One year after the death of the Executive Employee; or

(e) March 24, 1991, at 9:00 A.M., Eastern Standard Time.

In the event that the Executive Employee shall intentionally commit an act materially inimical to the interest of the Company or a subsidiary, and the Board of Directors prior to any acquisition or merger of the Company to which this agreement relates shall so find, this agreement and the rights and obligations established hereunder shall terminate at the time of such act, notwithstanding any other provision of this agreement.

Nothing in this agreement shall be construed to:

(a) Give the Executive Employee any rights whatsoever with respect to Common Shares of the Company;

(b) Limit in any way the right of the Company to terminate the Executive Employee's employment with the Company at any time; or

(c) Be evidence of any agreement or understanding, express or implied, that the Company will employ the Executive Employee in any particular position or at any particular rate of remuneration.

In the event of any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, appropriate adjustment shall be made in the number of Common Shares referred to above in order to prevent dilution or enlargement of the rights of the Executive Employee and obligations of the Company under this agreement.

EXECUTED at Cleveland, Ohio May 27, 1981 as of March 24, 1981.

THE SCOTT & FETZER COMPANY

Walter Raylin
Executive Employee

By Ralph Schuy
President

3- MAIL (w) 2010
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CONTINGENT COMPENSATION AGREEMENT

IN RECOGNITION OF:

- a) The valued contribution that Walter A. Rajki (hereinafter called the "Executive Employee") has made during the twenty-six (26) years of his employment with The Scott & Fetzer Company (hereinafter called the "Company");
- b) The significant role that the Executive Employee plays in developing and implementing strategic plans for the Company;
- c) The considerable benefit to the Company of the continuation of the Executive Employee's employment with the Company;
- d) The potential conflict between corporate interests and the Executive Employee's personal interests and the possible desire by the Executive Employee to obtain other employment in the event that an acquisition or merger of the company resulting in a changed role of the Executive Employee within the Company should appear likely; and
- e) The likelihood that in an acquisition or merger a higher valuation would be placed upon the Company as compared to its stock market price and that such higher valuation would be an acknowledgement of the contributions and benefits that the Executive Employee has provided to the Company through his effective management,

the Company and the Executive Employee have entered into this agreement

- 1) To induce the Executive Employee to continue his employment with the Company notwithstanding the possibility of an acquisition or merger of the Company;
- 2) To induce the Executive Employee to exercise his best judgment on behalf of the Company in the event of a potential acquisition or merger; and
- 3) To compensate the Executive Employee for his contribution to the added value shareholders would receive as a result of the increased valuation placed upon the Company in an acquisition or merger.

NOW, THEREFORE, the Executive Employee shall have the right to receive from the Company, and the Company shall have the obligation to pay to the Executive Employee, subject to the terms and conditions contained in this agreement, the increase in value, if any, of 50,000 Common Shares of the

Company as measured on a per share basis by the difference between the price per share of \$23.375 and the value per share received by or accruing to the benefit of shareholders of the Company pursuant to any tender offer for Common Shares of the Company (other than a tender offer by the Company) or the merger or consolidation of the Company with another corporation or the sale of substantially all of the assets of the Company to another corporation, which tender offer, merger, consolidation or sale, in the opinion of the Board of Directors, as evidenced by a resolution at a meeting thereof, results in a change of control of the Company. For purposes of this agreement, "acquisition or merger" of the Company shall include the acquisition of ownership of more than 50% of the issued and outstanding Common Shares of the Company, whether by tender offer, merger, consolidation, sale or otherwise. Unless otherwise agreed by the Company and the Executive Employee in writing, the Executive Employee shall be paid in cash in the amount he is entitled to receive under this agreement immediately upon the consummation of the acquisition or merger of the Company.

This agreement and the rights and obligations established hereunder shall terminate upon the first occurrence of any of the following:

- (a) Thirty days after the employment of the Executive Employee with the Company terminates upon the voluntary resignation of the Executive Employee;
- (b) One year after the employment of the Executive Employee with the Company terminates at the request or direction of the Company;
- (c) One year after the Executive Employee reaches the age of 65;
- (d) One year after the death of the Executive Employee; or
- (e) November 27, 1989, at 9:00 a.m., Eastern Standard Time.

In the event that the Executive Employee shall intentionally commit an act materially inimical to the interest of the Company or a subsidiary, and the Board of Directors prior to any acquisition or merger of the company to which this agreement relates shall so find, this agreement and the rights and obligations established hereunder shall terminate at the time of such act, notwithstanding any other provision of this agreement.

Nothing in this agreement shall be construed to:


- (a) Give the Executive Employee any rights whatsoever with respect to Common Shares of the Company;
- (b) Limit in any way the right of the Company to terminate the Executive Employee's employment with the Company at any time; or

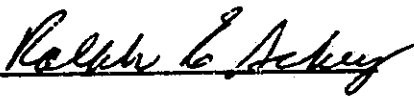
(c) Be evidence of any agreement or understanding, express or implied, that the Company will employ the Executive Employee in any particular position or at any particular rate of remuneration.

In the event of any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, appropriate adjustment shall be made in the number of Common Shares referred to above in order to prevent dilution or enlargement of the rights of the Executive Employee and obligations of the Company under this agreement.

EXECUTED at Cleveland, Ohio January 18, 1980 as of November 27, 1979.

THE SCOTT & FETZER COMPANY


Executive Employee

By 

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CONTINGENT COMPENSATION AGREEMENT

IN RECOGNITION OF:

a) The valued contribution that R. E. Schey (hereinafter called the "Executive Employee") has made during the 6 years of his employment with The Scott & Fetzer Company (hereinafter called the "Company");

b) The significant role that the Executive Employee plays in developing and implementing strategic plans for the Company;

c) The considerable benefit to the Company of the continuation of the Executive Employee's employment with the Company;

d) The potential conflict between corporate interests and the Executive Employee's personal interests and the possible desire by the Executive Employee to obtain other employment in the event that an acquisition or merger of the Company resulting in a changed role of the Executive Employee within the Company should appear likely; and

e) The likelihood that in an acquisition or merger a higher valuation would be placed upon the Company as compared to its stock market price and that such higher valuation would be an acknowledgment of the contributions and benefits that the Executive Employee has provided to the Company through his effective management,

the Company and the Executive Employee have entered into this agreement

1) To induce the Executive Employee to continue his employment with the Company notwithstanding the possibility of an acquisition or merger of the Company;

2) To induce the Executive Employee to exercise his best judgment on behalf of the Company in the event of a potential acquisition or merger; and

3) To compensate the Executive Employee for his contribution to the added value shareholders would receive as a result of the increased valuation placed upon the Company in an acquisition or merger.

NOW, THEREFORE, the Executive Employee shall have the right to receive from the Company, and the Company shall have the obligation to pay to the Executive Employee, subject to the terms and conditions contained in this agreement, the increase in value, if any, of 100,000 Common Shares of the Company as measured on a per share basis by the difference between the price per share of \$27.00 and the value per share received by or accruing to the benefit of shareholders of the Company pursuant to any tender offer for Common Shares of the Company (other than a tender offer by the Company) or the merger or consolidation of the Company with another corporation or the sale of substantially all of the assets of the Company to another corporation, which tender offer, merger, consolidation or sale, in the opinion of the Board of Directors, as evidenced by a resolution at a meeting thereof, results in a change of control of the Company. For purposes of this agreement, "acquisition or merger" of the Company shall include the acquisition of ownership of more than 50% of the issued and outstanding Common Shares of the Company, whether by tender offer, merger, consolidation, sale or otherwise. Unless otherwise agreed by the Company and the Executive Employee in writing, the Executive Employee shall be paid in cash in the amount he is entitled to receive under this agreement immediately upon the consummation of the acquisition or merger of the Company.

This agreement and the rights and obligations established hereunder shall terminate upon the first occurrence of any of the following:

- (a) Thirty days after the employment of the Executive Employee with the Company terminates upon the voluntary resignation of the Executive Employee;
- (b) One year after the employment of the Executive Employee with the Company terminates at the request or direction of the Company;
- (c) One year after the Executive Employee reaches the age of 65;
- (d) One year after the death of the Executive Employee; or
- (e) March 24, 1991, at 9:00 A.M., Eastern Standard Time.

In the event that the Executive Employee shall intentionally commit an act materially inimical to the interest of the Company or a subsidiary, and the Board of Directors prior to any acquisition or merger of the Company to which this agreement relates shall so find, this agreement and the rights and obligations established hereunder shall terminate at the time of such act, notwithstanding any other provision of this agreement.

Nothing in this agreement shall be construed to:

(a) Give the Executive Employee any rights whatsoever with respect to Common Shares of the Company;

(b) Limit in any way the right of the Company to terminate the Executive Employee's employment with the Company at any time; or

(c) Be evidence of any agreement or understanding, express or implied, that the Company will employ the Executive Employee in any particular position or at any particular rate of remuneration.

In the event of any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, appropriate adjustment shall be made in the number of Common Shares referred to above in order to prevent dilution or enlargement of the rights of the Executive Employee and obligations of the Company under this agreement.

EXECUTED at Cleveland, Ohio May 27, 1981 as of March 24, 1981.

THE SCOTT & FETZER COMPANY

Ralph S. Schrey
Executive Employee

By J. Bradley

*cc hand delivered
to Russ Mason 400*

CONTINGENT COMPENSATION AGREEMENT

IN RECOGNITION OF:

- a) The valued contribution that Ralph E. Schey (hereinafter called the "Executive Employee") has made during the five (5) years of his employment with The Scott & Fetzer Company (hereinafter called the "Company");
- b) The significant role that the Executive Employee plays in developing and implementing strategic plans for the Company;
- c) The considerable benefit to the Company of the continuation of the Executive Employee's employment with the Company;
- d) The potential conflict between corporate interests and the Executive Employee's personal interests and the possible desire by the Executive Employee to obtain other employment in the event that an acquisition or merger of the company resulting in a changed role of the Executive Employee within the Company should appear likely; and
- e) The likelihood that in an acquisition or merger a higher valuation would be placed upon the Company as compared to its stock market price and that such higher valuation would be an acknowledgement of the contributions and benefits that the Executive Employee has provided to the Company through his effective management,

the Company and the Executive Employee have entered into this agreement

- 1) To induce the Executive Employee to continue his employment with the Company notwithstanding the possibility of an acquisition or merger of the Company;
- 2) To induce the Executive Employee to exercise his best judgment on behalf of the Company in the event of a potential acquisition or merger; and
- 3) To compensate the Executive Employee for his contribution to the added value shareholders would receive as a result of the increased valuation placed upon the Company in an acquisition or merger.

NOW, THEREFORE, the Executive Employee shall have the right to receive from the Company, and the Company shall have the obligation to pay to the Executive Employee, subject to the terms and conditions contained in this agreement, the increase in value, if any, of 100,000 Common Shares of the

Company as measured on a per share basis by the difference between the price per share of \$23.375 and the value per share received by or accruing to the benefit of shareholders of the Company pursuant to any tender offer for Common Shares of the Company (other than a tender offer by the Company) or the merger or consolidation of the Company with another corporation or the sale of substantially all of the assets of the Company to another corporation, which tender offer, merger, consolidation or sale, in the opinion of the Board of Directors, as evidenced by a resolution at a meeting thereof, results in a change of control of the Company. For purposes of this agreement, "acquisition or merger" of the Company shall include the acquisition of ownership of more than 50% of the issued and outstanding Common Shares of the Company, whether by tender offer, merger, consolidation, sale or otherwise. Unless otherwise agreed by the Company and the Executive Employee in writing, the Executive Employee shall be paid in cash in the amount he is entitled to receive under this agreement immediately upon the consummation of the acquisition or merger of the Company.

This agreement and the rights and obligations established hereunder shall terminate upon the first occurrence of any of the following:

- (a) Thirty days after the employment of the Executive Employee with the Company terminates upon the voluntary resignation of the Executive Employee;
- (b) One year after the employment of the Executive Employee with the Company terminates at the request or direction of the Company;
- (c) One year after the Executive Employee reaches the age of 65;
- (d) One year after the death of the Executive Employee; or
- (e) November 27, 1989, at 9:00 a.m., Eastern Standard Time.

In the event that the Executive Employee shall intentionally commit an act materially inimical to the interest of the Company or a subsidiary, and the Board of Directors prior to any acquisition or merger of the company to which this agreement relates shall so find, this agreement and the rights and obligations established hereunder shall terminate at the time of such act, notwithstanding any other provision of this agreement.

Nothing in this agreement shall be construed to:

- (a) Give the Executive Employee any rights whatsoever with respect to Common Shares of the Company;
- (b) Limit in any way the right of the Company to terminate the Executive Employee's employment with the Company at any time; or

(c) Be evidence of any agreement or understanding, express or implied, that the Company will employ the Executive Employee in any particular position or at any particular rate of remuneration.

In the event of any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, appropriate adjustment shall be made in the number of Common Shares referred to above in order to prevent dilution or enlargement of the rights of the Executive Employee and obligations of the Company under this agreement.

EXECUTED at Cleveland, Ohio January 18, 1980 as of November 27, 1979.

THE SCOTT & FETZER COMPANY

Ralph E. Schrey
Executive Employee

By J. Bradley

CONTINGENT COMPENSATION AGREEMENT

IN RECOGNITION OF:

a) The valued contribution that K. J. Semelsberger (hereinafter called the "Executive Employee") has made during the 8 years of his employment with The Scott & Fetzer Company (hereinafter called the "Company");

b) The significant role that the Executive Employee plays in developing and implementing strategic plans for the Company;

c) The considerable benefit to the Company of the continuation of the Executive Employee's employment with the Company;

d) The potential conflict between corporate interests and the Executive Employee's personal interests and the possible desire by the Executive Employee to obtain other employment in the event that an acquisition or merger of the Company resulting in a changed role of the Executive Employee within the Company should appear likely; and

e) The likelihood that in an acquisition or merger a higher valuation would be placed upon the Company as compared to its stock market price and that such higher valuation would be an acknowledgment of the contributions and benefits that the Executive Employee has provided to the Company through his effective management,

the Company and the Executive Employee have entered into this agreement

1) To induce the Executive Employee to continue his employment with the Company notwithstanding the possibility of an acquisition or merger of the Company;

2) To induce the Executive Employee to exercise his best judgment on behalf of the Company in the event of a potential acquisition or merger; and

3) To compensate the Executive Employee for his contribution to the added value shareholders would receive as a result of the increased valuation placed upon the Company in an acquisition or merger.

NOW, THEREFORE, the Executive Employee shall have the right to receive from the Company, and the Company shall have the obligation to pay to the Executive Employee, subject to the terms and conditions contained in this agreement, the increase in value, if any, of 25,000 Common Shares of the Company as measured on a per share basis by the difference between the price per share of \$27.00 and the value per share received by or accruing to the benefit of shareholders of the Company pursuant to any tender offer for Common Shares of the Company (other than a tender offer by the Company) or the merger or consolidation of the Company with another corporation or the sale of substantially all of the assets of the Company to another corporation, which tender offer, merger, consolidation or sale, in the opinion of the Board of Directors, as evidenced by a resolution at a meeting thereof, results in a change of control of the Company. For purposes of this agreement, "acquisition or merger" of the Company shall include the acquisition of ownership of more than 50% of the issued and outstanding Common Shares of the Company, whether by tender offer, merger, consolidation, sale or otherwise. Unless otherwise agreed by the Company and the Executive Employee in writing, the Executive Employee shall be paid in cash in the amount he is entitled to receive under this agreement immediately upon the consummation of the acquisition or merger of the Company.

This agreement and the rights and obligations established hereunder shall terminate upon the first occurrence of any of the following:

(a) Thirty days after the employment of the Executive Employee with the Company terminates upon the voluntary resignation of the Executive Employee;

(b) One year after the employment of the Executive Employee with the Company terminates at the request or direction of the Company;

(c) One year after the Executive Employee reaches the age of 65;

(d) One year after the death of the Executive Employee; or

(e) March 24, 1991, at 9:00 A.M., Eastern Standard Time.

In the event that the Executive Employee shall intentionally commit an act materially inimical to the interest of the Company or a subsidiary, and the Board of Directors prior to any acquisition or merger of the Company to which this agreement relates shall so find, this agreement and the rights and obligations established hereunder shall terminate at the time of such act, notwithstanding any other provision of this agreement.

Nothing in this agreement shall be construed to:

(a) Give the Executive Employee any rights whatsoever with respect to Common Shares of the Company;

(b) Limit in any way the right of the Company to terminate the Executive Employee's employment with the Company at any time; or

(c) Be evidence of any agreement or understanding, express or implied, that the Company will employ the Executive Employee in any particular position or at any particular rate of remuneration.

In the event of any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, appropriate adjustment shall be made in the number of Common Shares referred to above in order to prevent dilution or enlargement of the rights of the Executive Employee and obligations of the Company under this agreement.

EXECUTED at Cleveland, Ohio May 27, 1981 as of March 24, 1981.

THE SCOTT & FETZER COMPANY

[Signature]
Executive Employee

By [Signature]
President

Exhibit 10 (vii)

**DISABILITY BENEFIT AGREEMENT
BETWEEN THE SCOTT & FETZER COMPANY
AND KEY EXECUTIVES**

THIS AGREEMENT made as of _____, by and between the SCOTT & FETZER COMPANY, an Ohio Corporation in behalf of itself and its wholly owned subsidiaries (the "Company"), with executive offices at 14600 Detroit Avenue, Lakewood, Ohio, and _____ (the "Executive") residing at _____.

WHEREAS, it is to the beneficial interest of the stockholders of the Company to retain the services of its key and highly compensated executives; and

WHEREAS, it is to the beneficial interest of these same key and highly compensated executives to secure certain disability benefits.

NOW, THEREFORE, the Company and the Executive have agreed to enter into this Agreement.

1. Definitions. As used in this Agreement, the following words and phrases shall have the meanings indicated:

(a) "Committee" - The Committee appointed by the Chief Executive Officer of the Company to administer this Agreement.

(b) "Total Disability" - Total Disability shall mean the definition of total disability as defined in the disability income insurance policies purchased by the Company on the Executive.

Executive's Initials _____

2. Obligations of the Committee.

(a) The Committee shall be the final arbiter of any question that may arise under this Agreement. The Executive should communicate with the Committee in writing as to any question or petition said Executive should have arising out of this Agreement.

(b) The Committee shall purchase disability income insurance policies on the Executive to fund the obligations of the Company under this Agreement.

(c) Upon reasonable request by the Executive, the Committee shall notify the Executive of the amount of benefits payable under this Agreement. Any disability income insurance policy owned by the Company on the Executive shall be made available to the Executive for review upon reasonable request by the Executive.

3. Benefits Under This Agreement.

(a) Amount of Benefit. In the event that the Executive suffers a Total Disability such that benefits are payable to the Company under any disability income policies owned by the Company on the Executive, the Executive will be entitled to receive a benefit equal to twice the amount payable to the Company under the policies owned by the Company on the Executive except as limited by Paragraph 3(c).

(b) Benefit Payment Frequency. The benefits payable to the Executive by the Company shall be payable when the income is received by the Company from the disability income policies on the Executive owned by the Company.

Executive's Initials _____

(c) Duration of Benefits. Benefits will continue for as long as the Company receives benefits under any disability income policies owned by the Company on the Executive except that no benefit will be payable to the Executive if the Executive is employed by other than the Company even though the Company may still be receiving benefits under the disability income policies owned by the Company on the Executive.

4. Payments Not Transferable. The Executive shall have no right to commute, sell, assign, transfer or otherwise convey or encumber the rights to receive any payments hereunder, which payments and all the rights thereto are expressly declared to be non-assignable.

5. Not a Contract for Continued Employment. This Agreement does not constitute a contract for the continued employment of Executive by the Company. The Company reserves the right to modify Executive's compensation at any time and from time to time as it considers appropriate and to terminate his employment for any reason at any time notwithstanding this Agreement.

6. Termination. The Company, in its sole discretion, may terminate this Agreement at any time by giving written notice to Executive, subject however, to the provision that the Company may not terminate this Agreement for any Executive currently receiving or in the process of applying for benefits under this Agreement.

7. Notice. Any notice given in connection with this Agreement shall be in writing and delivered in person or by depositing it in the United States mail, postage prepaid, addressed to the last-known address.

8. Waiver. Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof shall not be deemed a waiver of such term, covenant, or condition, nor shall any

Executive's Initials _____

waiver or relinquishment of any right or power hereunder at any one or more times be deemed a waiver or relinquishment of such right or power at any other time or times.

9. Effect of Invalidity of Any Part of the Agreement Upon the Whole Agreement. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision.

10. Consolidation or Merger. Except as otherwise herein provided, this Agreement shall inure to the benefit of and be binding upon the Company, its successors and assigns, including but not limited to any corporation which may acquire all or substantially all of the Company's assets and business or with or into which the Company may be consolidated or merged.

11. State Laws Governing This Agreement. This Agreement shall be governed by the laws of the State of Ohio.

12. Agreement Supersedes Prior Agreement. This Agreement supersedes all prior agreements, which provide for disability benefits, between the Executive and the Company. Any prior agreements providing disability benefits to the Executive are null and void as of February 1, 1979.

13. Counterparts of This Agreement and Executive Acknowledgment That He Has Read and Understands All Parts of This Agreement. This Agreement has been executed in several counterparts, each of which shall be an original, but such counterparts shall together constitute but one instrument. Executive acknowledges that he has read all parts of this Agreement and has sought and obtained satisfactory answer(s) to any question(s) he had as to his rights, obligations and potential liabilities under this Agreement prior to affixing his signature and initials to any part of this Agreement.

Executive's Initials _____

Signatures of the Parties to This Agreement

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the day and year first above written.

(SEAL)

THE SCOTT & FETZER COMPANY

By _____

WITNESS

Executive

Executive's Initials _____

DEATH BENEFIT AGREEMENT
BETWEEN THE SCOTT & FETZER COMPANY
AND KEY EXECUTIVES

THIS AGREEMENT made as of _____ by and between THE SCOTT & FETZER COMPANY, an Ohio corporation (the "Company") with executive offices at 14600 Detroit Avenue, Lakewood, Ohio, and (the "Executive") residing at

WHEREAS, it is to the beneficial interest of the stockholders of the Company to retain the services of its key and highly compensated executives; and

WHEREAS, it is to the beneficial interest of these same key and highly compensated executives to secure certain death benefits,

NOW, THEREFORE, the Company and the Executive have agreed to enter into this Agreement.

1. Definitions. As used in this Agreement, the following words and phrases shall have the meanings indicated:

(a) "Base Salary" -- Base Salary shall mean the Executive's annualized base salary as defined in the most recently effective Schedule A, which is attached hereto and is specifically incorporated into this Agreement and which may, from time to time, be amended by the Company.

(b) "Beneficiary" -- The person or persons designated by Executive on Schedule B, which is attached hereto and is specifically incorporated into this Agreement, to receive any benefits payable by the Company under this Agreement on account of Executive's death. If Executive has failed to designate a Beneficiary, or if Executive's designation fails by virtue of the designated Beneficiary predeceasing Executive, then the Committee shall have the right to designate the Beneficiary of all benefits payable under this Agreement. Solely at the discretion of the Executive,

Schedule B may be amended from time to time. Two copies of the amended Schedule B shall be executed by the Executive. One copy shall be retained by the Executive, and the second copy shall be forwarded to the Company and shall be attached hereto and specifically incorporated into this Agreement.

(c) "Committee" -- The Committee appointed by the Chief Executive Officer of the Company to administer this Agreement.

(d) "Death Benefit" -- Death Benefit shall mean the amount defined in Paragraph 2 or 3.

(e) "Gross Compensation" -- Gross Compensation shall mean the sum of the Executive's annualized base salary as of the Executive's date of death, disability or Retirement plus the amount of the last annual bonus awarded to the Executive.

(f) "Retirement" -- Retirement shall mean an Executive retiring from the employment of the Company under conditions whereby he is entitled to receive pension benefits under the Company's General Pension Plan in the form of an Early Retirement Pension, a Normal Retirement Pension, or a Disability Pension as defined in the Company's General Pension Plan. Retirement shall not mean an Executive retiring under the Company's General Pension Plan who is eligible for and elects a Deferred Vested Pension as defined in the Company's General Pension Plan.

(g) "Accidental Death Benefit" -- Accidental Death Benefit shall mean the amount indicated in the most recently effective Schedule C, which is attached hereto and specifically incorporated into this Agreement.

(h) "Basic Death Benefit" -- Basic Death Benefit shall mean the amount indicated in the most recently effective

Schedule C, which is attached hereto and specifically incorporated into this Agreement.

2. Pre-Retirement Death Benefit.

(a) If death should occur to the Executive due to natural or accidental causes while actively employed by the Company, or while the Executive is disabled and eligible to receive disability benefits under any of the Company's group long-term disability plans, the Company shall pay an annual Death Benefit to the Executive's Beneficiary equal to the Executive's Base Salary, which shall equal the amount of the Base Salary as indicated on the most recently effective Schedule A, which is attached hereto and is specifically incorporated into this Agreement. The Base Salary amount shall be paid to the Beneficiary for a period of years equal to the greater of ten years or the number of years from the date of the Executive's death to the Executive's sixty-fifth birthday.

(b) The payment of the Death Benefit defined in Paragraph 2(a) is subject to the limitations as defined in Paragraph 5.

(c) Solely at the discretion of the Company, the Base Salary amount may be increased from time to time. Any such increase shall be accomplished by completing an amended Schedule A having the effective date and amount of the new Base Salary. Two copies of the amended Schedule A shall be executed by the Company. One copy shall be attached hereto and specifically incorporated into this Agreement. The second copy shall be forwarded to the Executive as notification of the new amount of the Executive's Base Salary for the purpose of computing the Executive's pre-retirement Death Benefit.

3. Post-Retirement Death Benefit.

(a) If at any point in time the Executive enters into the employ of or in any way renders either direct or indirect service to any competitor of the Company or any of the Company's subsidiaries or affiliates without the prior written approval of the Committee, the Executive shall not be eligible for and the Company shall not be liable for any Death Benefit subsequent to his Retirement.

(b) If the Executive enters Retirement prior to his sixty-second birthday, the Company shall not be liable for and the Executive shall not be eligible for the Death Benefit defined in Paragraphs 3(c), 3(d), and 3(e). However, if the Executive retires prior to age sixty-two (62), the Executive may request of the Committee that he be eligible for the Death Benefit as defined in Paragraphs 3(c), 3(d) and 3(e). If the Executive receives written approval from the Committee designating the Executive to be eligible for post-retirement Death Benefits, the Company shall be liable for and the Executive shall be eligible for the Death Benefits as defined in Paragraphs 3(c), 3(d) and 3(e).

(c) In the event of the Executive's death due to natural causes subsequent to his Retirement but prior to the Executive attaining age seventy (70), the Company shall pay a Death Benefit to the Executive's Beneficiary equal to the lesser of two and one-half (2.5) times the Executive's Gross Compensation less fifty thousand (\$50,000.00) dollars or the Basic Death Benefit.

(d) In the event of the Executive's death due to accidental causes subsequent to his Retirement but prior to the Executive attaining age seventy (70), the Company shall pay a Death Benefit to the Executive's Beneficiary equal to the lesser

of five (5) times the Executive's Gross Compensation less one hundred thousand (\$100,000.00) dollars or the Accidental Death Benefit.

(e) In the event of the Executive's death due to natural or accidental causes subsequent to his Retirement and the attainment of age seventy (70) but prior to his attaining age eighty (80), the Company shall pay a Death Benefit to the Executive's Beneficiary equal to one half (1/2) of the Death Benefit defined in Paragraph 3(c).

(f) In the event of the Executive's death subsequent to his Retirement and his attaining age eighty (80), the Company shall not be liable for the payment of any Death Benefit under this Agreement.

(g) The payment of the Death Benefit defined in Paragraphs 3(c), 3(d), and 3(e), is subject to the limitations as defined in Paragraphs 3(a), 3(b), and 5.

(h) Solely at the discretion of the Company, the Basic Death Benefit and Accidental Death Benefit may be increased from time to time. Any such increase shall be accomplished by completing an amended Schedule C showing the effective date and amounts of the new Basic Death Benefit and Accidental Death Benefit. Two copies of the amended Schedule C shall be executed by the Company. One copy shall be attached hereto and specifically incorporated into this Agreement. The second copy shall be forwarded to the Executive as notification of the new amount of the Executive's Basic Death Benefit and Accidental Death Benefit for the purpose of computing the Executive's post-retirement Death Benefit.

4. Payment of Death Benefit.

(a) The pre-retirement Death Benefit, as defined in Paragraph 2, shall be payable to the Executive's Beneficiary in quarterly installments commencing not later than six (6) months subsequent to the Executive's date of death.

(b) The applicable post-retirement Death Benefit, as defined in Paragraph 3, shall be payable to the Executive's Beneficiary in forty (40) quarterly installments beginning no later than six (6) months subsequent to the Executive's date of death. Each installment shall equal two and one-half percent (2.5%) of the gross Death Benefit, as defined in Paragraph 3, plus interest. Interest shall be credited to each payment based on the unpaid balance of the gross Death Benefit and shall equal the average quarterly prime rate during the preceding quarter as determined by the Citibank of New York, but shall not be less than one and three-quarters (1.75%) percent.

(c) Executive's Beneficiary may request a change in the timing and/or dollar amount and/or number of benefit payments under this Agreement. Such request shall be in writing and shall be directed to the Committee. The Committee, in its sole discretion, may grant such requests. In the event that the Committee shall grant a request which would accelerate the timing of the payment of the Death Benefit to the Beneficiary, a penalty, in the form of a reduced Death Benefit, may be imposed by the Committee.

5. Limitation on Death Benefits.

(a) The payment of any Death Benefit as defined in Paragraphs 2 and 3 shall be contingent upon evidence of the Executive's death as required by the Committee.

(b) In the event that Executive's death is the result of suicide while the Executive is either sane or insane, the Company shall not be liable for any Death Benefit as defined in Paragraphs 2 and 3. Even though the Company has no contractual obligation to pay any Death Benefit under this Agreement in the event that the Executive's death is due to suicide, the Executive's Beneficiary may petition the Company for the payment of a Death Benefit. Any such petition by Executive's Beneficiary shall be directed to the Committee. The Committee, in its sole discretion, shall determine whether or not the Company will pay any such Death Benefit.

(c) If the Company should terminate this Agreement pursuant to Paragraph 9 hereinbelow, the Company's obligation to pay any benefits under this Agreement shall likewise terminate, provided however, that the Company may not terminate this Agreement subsequent to the Executive's death or in the event that the Executive is disabled and is eligible to receive disability benefits under any of the Company's group long-term disability plans.

6. Obligations of Company. In the performance and administration of this Agreement, the Company shall be under no obligation to purchase any insurance policies or to segregate any assets for Executive's account or benefit. Should the Company purchase any insurance policies, any insurance proceeds, together with any and all assets resulting from any investment (if any) of such amounts or earnings thereon, shall be the property and assets of the Company, and neither Executive nor the Beneficiary shall have any interest therein. The interest of Executive or the Beneficiary is limited to that of a general creditor of the Company and is limited to the rights to receive payments pursuant to the terms of this Agreement.

7. Payments Not Transferable. Neither Executive nor the Beneficiary shall have any right to commute, sell, assign, transfer or otherwise convey or encumber the rights to receive any payments hereunder, which payments and all the rights thereto are expressly declared to be nonassignable.

8. Not a Contract for Continued Employment. This Agreement does not constitute a contract for the continued employment of Executive by the Company. The Company reserves the right to modify Executive's compensation at any time and from time to time as it considers appropriate and to terminate his employment for any reason at any time notwithstanding this Agreement.

9. Termination of Agreement at Company's Discretion. The Company, in its sole discretion, may terminate this Agreement at any time by giving written notice to Executive, subject however, to the provision of Paragraph 5(c) herein.

10. Waiver of Group Life Insurance Benefits. In consideration of the benefits payable under this Agreement, Executive waives participation in and entitlement to any benefits under the Company's group life insurance plans in excess of fifty thousand dollars (\$50,000.00) in the event of a natural death and one hundred thousand dollars (\$100,000.00) in the event of an accidental death.

11. Function of the Committee. The Committee shall be final arbiter of any question that may arise under this Agreement. Executive or his Beneficiary should communicate with the Committee in writing as to any question or petition said Executive or Beneficiary should have arising out of this Agreement.

12. Notice. Any notice given in connection with this Agreement shall be in writing and delivered in person or by depositing it in the United States mail, postage prepaid, addressed to the last-known address.

13. Waiver. Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof shall not be deemed a waiver of such term, covenant, or condition, nor shall any waiver or relinquishment of any right or power hereunder at any one or more times be deemed a waiver or relinquishment of such right or power at any other time or times.

14. Effect of Invalidity of Any Part of The Agreement Upon The Whole Agreement. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision.

15. Ability to Amend The Agreement. This Agreement may be changed, modified, or amended only in writing by both parties except for amendments to Schedules A, B, and C. Schedules A and C may be amended solely by the Company as indicated in Paragraphs 2(c) and 3(h). Schedule B may be amended solely by the Executive as indicated in Paragraph 1(b).

16. Consolidation or Merger. Except as otherwise herein provided, this Agreement shall inure to the benefit of and be binding upon the Company, its successors and assigns, including but not limited to any corporation which may acquire all or substantially all of the Company's assets and business or with or into which the Company may be consolidated or merged.

17. State Laws Governing This Agreement. This Agreement shall be governed by the laws of the State of Ohio.

18. Counterparts of This Agreement And Executive Acknowledgment That He Has Read and Understands All Parts of This Agreement. This Agreement has been executed in several counterparts, each of which shall be an original, but such counterparts shall together constitute but one instrument. Executive acknowledges that he has read all parts of this Agreement and has sought and obtained satisfactory answer(s) to any questions(s) he had as

to his rights, obligations and potential liabilities under this Agreement prior to affixing his signature and initials to any part of this Agreement.

19. Agreement Supersedes Prior Agreements. Executive acknowledges that this Agreement supersedes any and all prior Estate or Death Benefit Agreement(s) between the Company and the Executive and that any and all prior Estate or Death Benefit Agreements shall become null and void upon the execution of this Agreement.

Signatures of The Parties to This Agreement.

IN WITNESS WHEREOF the parties hereto have executed this Agreement as of the day and year first above written.

(SEAL)

THE SCOTT & FETZER COMPANY

By _____

WITNESS:

Executive

SCHEDULE A

BASE SALARY

Under the Death Benefit Agreement dated _____ between THE SCOTT & FETZER COMPANY and the Executive named below, the Executive's Base Salary for the purpose of computing the Pre-Retirement Death Benefit as defined in Paragraph 2 of the Death Benefit Agreement shall be the amount defined below and shall be effective as of the effective date stated below.

Executive:
Base Salary:
Effective Date:

The Base Salary and Effective Date indicated above shall supersede any Base Salary amount previously awarded to the Executive named above under the Death Benefit Agreement dated _____, between THE SCOTT & FETZER COMPANY and the Executive named above.

THE SCOTT & FETZER COMPANY

By _____

_____ Date

SCHEDULE B

DESIGNATION OF BENEFICIARY(IES)

In the event of my death, I hereby designate the following individuals, in their own right or in their representative capacity, in the proportions and in the priority of interest designated, to be the beneficiaries of any benefits owing to me, under the Agreement between myself and THE SCOTT & FETZER COMPANY dated _____.

PRIMARY BENEFICIARIES - (The following individual or individuals shall receive all benefits payable under this Agreement in the proportions designated hereunder. If any one of the primary beneficiaries designated hereunder shall predecease me, then his or her share shall be divided equally among the then living primary beneficiaries.)

<u>NAME AND PRESENT ADDRESS OF PRIMARY BENEFICIARIES</u>	<u>PROPORTIONATE INTEREST OF PRIMARY BENEFICIARY(IES)</u>	<u>RELATIONSHIP TO EMPLOYEE</u>
_____	____%	_____
_____	____%	_____
_____	____%	_____
_____	____%	_____
_____	____%	_____



Executive's Initials: _____

SECONDARY BENEFICIARIES - (The following individual or individuals shall receive all benefits payable under this Agreement in the proportions designated hereunder only if all of my primary beneficiaries have predeceased me. If the primary beneficiary or beneficiaries have predeceased me and if any one of the secondary beneficiaries designated hereunder shall predecease me, then his or her share shall be divided equally among the then living secondary beneficiaries.)

<u>NAME AND PRESENT ADDRESS OF SECONDARY BENEFICIARIES</u>	<u>PROPORTIONATE INTEREST OF SECONDARY BENEFICIARY(IES)</u>	<u>RELATIONSHIP TO EMPLOYEE</u>
_____	____%	_____
_____	____%	_____
_____	____%	_____
_____	____%	_____

ESTATE - I hereby acknowledge that if I have declined to designate a beneficiary hereunder or if all of the beneficiaries that I have designated predecease me, then all benefits payable under this Agreement will be payable to my estate.

Date: _____

WITNESS

EXECUTIVE'S SIGNATURE

SCHEDULE C

POST-RETIREMENT DEATH BENEFITS

Under the Death Benefit Agreement dated _____, between THE SCOTT & FETZER COMPANY and the Executive named below, the Executive's Basic Death Benefit and Accidental Death Benefit for the purpose of computing the Executive's Post-Retirement Death Benefit as defined in Paragraph 3 of the Death Benefit Agreement, shall be the amounts stated below and shall be effective as of the effective date stated below.

Executive:
Basic Death Benefit:
Accidental Death Benefit:
Effective Date:

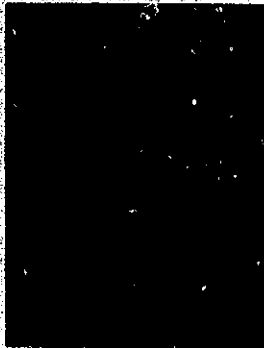
The Basic Death Benefit and Accidental Death Benefit amounts stated above shall supersede any Basic Death Benefit and Accidental Death Benefit previously awarded to the Executive named above under the Death Benefit Agreement dated _____, between THE SCOTT & FETZER COMPANY and the Executive named above.

THE SCOTT & FETZER COMPANY

By _____

Date





About the Cover

Throughout history, few institutions have withstood the test of time as well as the family unit. It is today, as it has been for centuries, the foundation upon which our society is built. Scott Fetzer has been serving the family for over 60 years with quality products that help people learn, work, maintain their households, protect themselves from nature and improve their quality of life. We are convinced that just as the family will continue to flourish in the coming years, so too will the companies that provide high quality products and services that will meet its needs.

Scott Fetzer

About Our New Corporate Identity

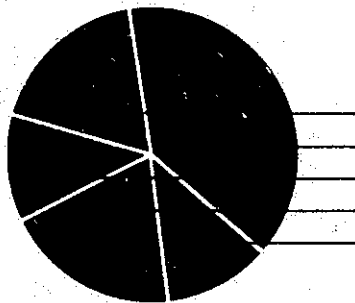
During the past year, the Company has adopted a new corporate logo which includes the shortened name — Scott Fetzer. We removed the ampersand to make our name easier to say, easier to read and easier to remember. This new corporate identity will provide greater visibility for the Company with its employees, shareholders, customers, suppliers, the media, government officials, the financial community and the general public.

About the Company

Scott Fetzer, founded in 1914, is a diversified manufacturer and marketer of high quality products for the home, family and industry. The Company's businesses are divided into five major operating segments: Cleaning Systems & Household Products, Education & Information Systems, Energy & Control, Fluid Transmission, and Vehicular Products.

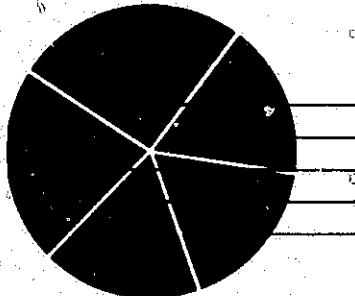
Headquartered in Lakewood, Ohio, the Company and its subsidiaries employ more than 16,000 persons worldwide. Its decentralized management structure allows each operating unit to operate as a separate business. Marketing is accomplished through direct in-the-home, mass merchandising, distributor and mail order sales.

The largest and best known among Scott Fetzer's product lines are Kirby home care systems, World Book encyclopedias, Campbell Hausfeld air compressors and Wayne burners and water pumps.



Net Sales and Other Revenue

- 17% Cleaning Systems & Household Products
- 39% Education & Information Systems
- 13% Energy & Control
- 19% Fluid Transmission
- 12% Vehicular Products



Operating Earnings

- 26% Cleaning Systems & Household Products
- 17% Education & Information Systems
- 22% Energy & Control
- 18% Fluid Transmission
- 17% Vehicular Products

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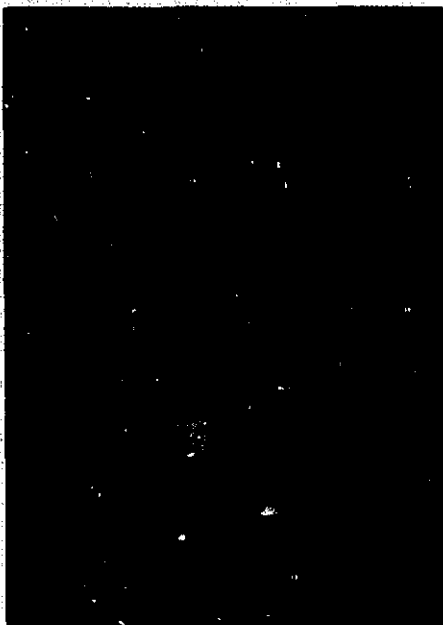
Selected Financial Data

(Dollars in thousands except per share data)

Fiscal Year Ended November 30	1981	1980	1979	1978	1977
OPERATIONS					
Net sales and other revenue	\$656,386	\$632,398	\$697,401	\$478,222	\$351,187
Income before income taxes	56,927	37,338	63,060	60,807	56,108
Net income	29,067	23,069	34,096	30,247	26,306
Return on net sales and other revenue	4.4%	3.6%	4.9%	6.3%	7.5%
PER SHARE DATA					
Earnings	4.01	3.12	4.62	4.11	3.56
Dividends paid	1.80	1.80	1.70	1.50	1.30
Book value	27.13	25.04	23.76	20.85	18.23
Dividends as a percent of net income	44.9%	57.7%	36.8%	36.5%	36.5%
Market price range	30%-21%	25%-17%	30%-22	36%-23	29-22%
Price/earnings ratio	8-5	8-6	7-5	9-6	8-6
BALANCE SHEET DATA					
Current assets	273,153	263,095	271,268	229,573	171,488
Current liabilities	133,104	117,459	128,067	131,036	46,301
Working capital	140,049	145,636	143,201	98,537	125,187
Current ratio	2.1	2.2	2.1	1.8	3.7
Property, plant and equipment, net	82,827	83,609	78,651	62,236	50,176
Total assets	405,794	394,043	395,376	337,977	225,411
Long-term debt	76,901	79,595	82,346	46,036	41,838
Shareholders' equity	184,000	185,079	174,968	153,014	133,365
Return on shareholders' equity	15.8%	12.5%	19.5%	19.8%	19.7%
YEAR-END DATA					
Shares outstanding (000's)	6,781	7,390	7,364	7,338	7,317
Average shares outstanding (000's)	7,252	7,388	7,373	7,354	7,384
Number of shareholders of record	7,105	7,937	8,119	8,439	8,852
Number of employees	16,618	16,225	17,934	17,425	7,255

Common Stock Market Price and Dividend Information

Fiscal Quarter	Market Price of Common Stock				Dividends Per Share	
	1981		1980		1981	1980
	High	Low	High	Low		
First	\$25½	\$21½	\$25½	\$22	\$.45	\$.45
Second	30%	23%	23	17½	.45	.45
Third	30%	27%	24	20	.45	.45
Fourth	30	24½	24½	21½	.45	.45
Closing price on December 31	\$28½		\$23			



Dear Shareholders:

A year ago, economic forecasters were predicting that the first half of 1981 would be depressed with business improving during the second half. It is now evident that for the United States as a whole, real growth occurred by early to mid-1981 but slowed down later in the year.

Scott Fetzer's activities in the first quarter showed modest improvement. Our second and third quarters were quite strong and although that strength abated somewhat, it continued into the fourth quarter.

In our **CLEANING SYSTEMS & HOUSEHOLD PRODUCTS** segment, the Kirby Group had improved sales and earnings which resulted from substantial expansion of international operations, the availability of consumer financing through United Retail Finance Company, a Scott Fetzer finance subsidiary, and the introduction in September, 1981, of the newest and finest Kirby Home Care System ever produced.

Product lines other than Kirby in this segment had mixed results for the year, but in total had improved sales and earnings.

In the **EDUCATION & INFORMATION SYSTEMS** segment, World Book direct mail operations had a record sales year. New product additions, improved promotions and increased mailings all contributed to this success. World Book direct selling operations, on the other hand, were below expectations. We have instituted a number of changes internally to reverse this present trend. There has also been a revamping of the sales force, including the appointment of one of our most successful sales managers to the position of President of the World Book-Childcraft division. The field sales force has also been restructured, putting profit control of field operations into the hands of the branch managers.

In the **FLUID TRANSMISSION** segment, Campbell Hausfeld experienced its best financial results since 1977. The management team which we began to rebuild in early 1980 has the most positive, optimistic attitude about the division's business that we have seen in the past eight years. A significant new product introduction was the Power Pal™ which allowed us to enter a promising new consumer market area not previously tapped.

Our Wayne Division brought to market a truly new oil burner called the Blue Angel™ that is the best product available in the market place today. The Blue Angel™ will give us a stronger position in the replacement market which has been a long-term goal for Wayne.

Our **ENERGY & CONTROL** segment had improved sales and earnings for the year. The relocation and new facility start up expenses incurred by the France Division in 1979 and 1980 are now largely behind us. The success of this segment is directly attributable to aggressive new product development and marketing activities. Since 1978, expenditures for product and process engineering have increased significantly every year, with 1981 being approximately 40% greater than 1980.

The **VEHICULAR PRODUCTS** segment realized sales gains of approximately 9% for 1981. Some products posted record earnings, while others declined due to the inability to respond effectively to depressed markets. New product introductions contributed importantly to the gains achieved.

We achieved our overall financial objectives for 1981 including a 17% improvement in operating earnings. This is an important accomplishment because years like 1980 and 1981 may well portend a changing level of economic activity for our country. Being able to respond positively to a "sluggish" economy has positioned us to deal effectively with a changing definition of growth in the 80s.

We congratulate our operating management for their accomplishments and the way they have accepted their present challenges.

Director Changes

Delmar W. Karger will retire as a director of Scott Fetzer in March, 1982. We are indebted to Del for his many contributions during his past six years of service.

Stephen H. Fuller has been proposed by the Nominating Committee as Del's successor. Steve is Vice President, Personnel Administration and Development Staff at General Motors with particular expertise in the area of human relations.

Dividends

Payments to shareholders for 1981 were unchanged at \$1.80 per share. We believe that our established dividend policy is sound and consistent with Scott Fetzer's earnings potential.

Capital Expenditures

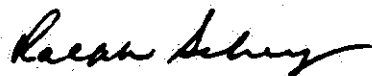
During 1981, we spent \$11.5 million for new facilities and equipment. This was below our approved capital budget for 1981 and reflected the elimination of some programs and the deferment of other expenditures to assure optimum use of funds.

Outlook for 1982

Although 1981 did not establish new records for economic activity, there were some positive developments, such as a reduction in the rate of inflation which normally leads to longer-term economic growth. What seems clear today is that business and economists generally agree that significant economic growth in early 1982 may not occur. Whether this will be the result of genuine economic weakness or merely a self-fulfilling prophecy perpetrated by negative news reports remains unclear. The public has been conditioned by the media to expect "instant" results from programs which began on October 1, 1981. Such impatience may force a return to destructive fiscal policies and lack-luster economic growth.

This does not suggest that we at Scott Fetzer are pessimistic about our future results — although it would be easy to blame poor results on a depressed economy. We plan to aggressively take advantage of opportunities in the current economy, to accelerate programs already underway to increase market share in existing product lines, and to open new markets with innovative new products.

Even with a sluggish economy in 1981 and an increasingly competitive business environment, a number of Scott Fetzer's operating units established record earnings in 1981 and provided the basis for our overall earnings improvement for the year. I am confident that our operating managers will respond with equal vigor in 1982.



RALPH SCHEY
President and
Chief Executive Officer

February 16, 1982



Cleaning Systems & Household Products

Quality and value never go out of style and that's why sales of Kirby home care cleaning systems increased in 1981.

Today, the Kirby Group markets the most complete and versatile home care system in the world. As a result, Kirby is a major contributor to corporate earnings as one of the Company's largest operating units and the spearhead of Scott Fetzer's cleaning systems' business. It has major manufacturing operations in Cleveland, Ohio, and Andrews, Texas, and a technical center in Westlake, Ohio.

The Kirby Home Care System is a unique combination of components and accessories that can save the homemaker time and money. It's actually four cleaning systems in one: a canister-type, an upright, a hand-portable and a straight suction cleaner. Additional attachments convert the Kirby into a carpet shampooer, a sander, a car polisher, a floor waxer, a sprayer gun and much, much more. Scott Fetzer also backs Kirby products with a consumer satisfaction plan which includes a long-term rebuild and fire loss commitment.

In September, 1981, new products and major improvements in existing products were introduced to the Kirby marketing organization at an international convention held in Chicago. The significantly improved Kirby Home Care System, called the Kirby Heritage System, along with new programs in dealer recruitment and training were announced to Kirby's sales organization consisting of more than 700 independent distributors and 10,000

independent sales representatives worldwide. Over 30 different improvements were incorporated into the new Kirby Heritage System, making it the finest home care system ever developed. The quality and reliability of the 1982 Kirby has established a new standard of excellence for the industry. Following the Chicago convention, a similar conference was held in London, England, for 2,000 of Kirby's European distributors and dealers.

With the new Heritage System, Kirby also introduced a totally new accessory group developed especially for the Kirby Heritage — Kirby's Home Turbo Group — which features turbo-powered tools that operate on air power supplied by the Kirby. It includes an efficient orbital sander which vacuums its dust better than any other sander on the market, a new Turbo Groom for grooming people or pets and a Turbo Brush to clean difficult areas such as stairs and auto upholstery. No one else in the industry offers these new turbo tools, and this should enhance Kirby's selling position even more in the coming year.

The Kirby opportunity has never been brighter for the growing sales organization. The increased availability of reliable installment financing through United Retail Finance Company, a Scott Fetzer consumer finance subsidiary, provides Kirby independent business persons with the necessary support to build a stable sales organization. The combination of new products and availability of financing makes the Kirby opportunity more attractive than ever before for an increasing number of independent Kirby sales people.

Klevac division's vacuum cleaner component parts and chemical product lines experienced solid

growth in both sales and earnings during 1981. New product introductions and deeper market penetration were key factors in this growth. The division's specialty vacuum cleaner product line had a modest increase in sales but a decline in earnings.

In 1981, the American Lincoln division introduced a new line of industrial sweepers featuring the Direct Compactor Accumulator (DCA) and a large sweeper scrubber. These new products were well received by customers and have placed the division in a strong position in these new markets. Sales of industrial cleaning products increased domestically but declined internationally due primarily to fluctuations in the value of the U.S. dollar. The startup and introduction costs of these new product lines adversely affected earnings for the year, but American Lincoln enters 1982 with a stronger competitive product line.

The household product lines of Jason scissors and Quikut cutlery were combined during the past year for marketing and management efficiencies, and the combined units had a modest increase in sales and earnings. Quikut alone had a record year and will introduce a new line of kitchen cutlery early in 1982.

Western Enterprises division's plastic unit had improved results in 1981, and the Cardinal product line of proprietary containers achieved record sales and earnings. Western Enterprises is well positioned for continued growth in the coming year.

The Kirby Heritage System, with its new turbo-powered accessory group that operates on air power, was introduced in September, 1981. It is the finest Kirby Home Care System ever produced.



LETTER
PEOPLE

Increased revenues in direct mail activities in 1981 were offset by declines in encyclopedia unit volume and substantial income losses from the World Book Japanese operations. The sale of these Japanese operations in December, 1981, coupled with extensive changes in the domestic direct sales organization and an acceleration in the introduction of new products, all combined to make 1981 an important year for World Book.

Two new products were introduced in response to the increasing need for improving the general reading skills of America's children. The Letter People Program is a pre-school program which assists parents in developing their young children's reading readiness. The World Book-Childcraft Reading Development Program helps parents provide their children with an opportunity to improve vital reading skills at the elementary and middle school levels.

The Talking World Book, developed in cooperation with the American Printing House for the Blind, was made available in 1981 to meet the educational and informational needs of the blind and visually handicapped. The Talking World Book includes 19 volumes of index material in both braille and large type and 219 six-hour cassettes which are played on a special quick-access tape player. This remarkable project is a not-for-profit activity supported by World Book, the American Printing House for the Blind, the federal government, and the Scott Fetzer Foundation.

World Book introduced two new programs in 1981 to improve the general reading skills of America's children. The Letter People program helps pre-school children develop reading readiness, and the World Book-Childcraft Reading Development Program helps elementary and middle-school students improve their reading skills.

Many members of the World Book sales organization made personal contributions toward the purchase of the Talking World Book for institutions in their own communities. The Company will continue to take steps to ensure that the blind and visually handicapped have the widest possible access to this unique encyclopedia and learning aid.

Operationally, World Book's overhead costs were reduced substantially in 1981, and its North American sales division was reorganized and given new leadership. In the coming year, the sales division will implement a series of new training programs aimed at providing World Book sales representatives with effective sales training aids, as well as techniques for locating prospects and improving the ability of the World Book sales person to make more sales per demonstration. These programs will help ensure that the typical World Book presentation is a "quality demonstration to a qualified prospect."

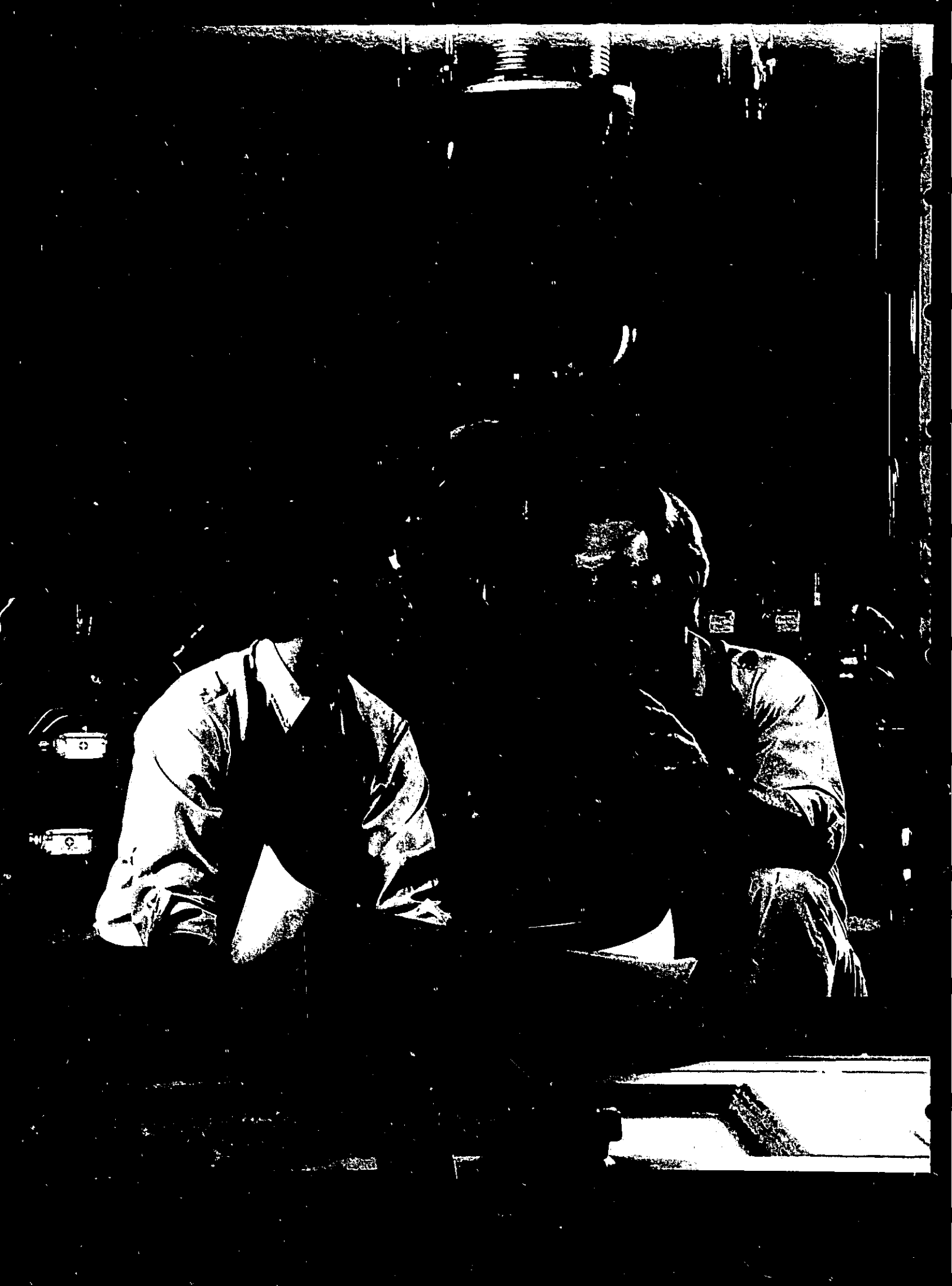
With 5,250,000 domestic and international product shipments, the Direct Mail division had a record year both in terms of sales and earnings. A number of new products were introduced, the most significant of which was a new medical annual that will be distributed to both outside and in-house mailing lists.

The Australian operation went through a major reorganization in 1981 and emerged at year-end with a small operating profit. In the British Isles, sales declined because of the political situation in Ireland and a depressed economy throughout the area. In addition, the lower operating profits were further reduced by foreign currency translations. Losses at a reduced

level continued in Japan in 1981; however, effective December 1, 1981, effectively all of World Book's Japanese businesses were sold. During the first quarter of 1982, the process of disengagement from the Japanese market should be substantially completed.

In 1982, World Book will continue to vigorously explore potential opportunities in the rapidly emerging electronic publishing sphere. In 1981, contracts were completed for the World Book encyclopedia to go "on-line" in the Compuserve videotex system and in one other major U.S. system. A contract also was signed with Bell Canada to participate in the Vista test of the Telidon system. In 1982, World Book's participation in those three informational systems, and several others, will become operative. Moreover, in 1982, initial experiments in cable-related video will be conducted with some possibility of extended involvement in the latter part of the year.

With encyclopedia unit sales up during the latter part of fiscal 1981, overhead costs reduced, new products available, the North American sales division restructured, effective new training programs, and a reorganized management structure, World Book enters 1982 with optimism that the downward trend for encyclopedia sales for the past five years will be reversed and 1982 will become the turnaround year for the direct selling World Book business.



Energy & Control

Sales and earnings in the Energy & Control business segment showed considerable improvement over 1980. Although there were weaknesses in the building construction, electrical appliance and electrical sign markets, operating earnings of all of the divisions in this segment improved over 1980 with Adalet, Halex and Northland divisions posting record earnings for the year.

The growth of these divisions can be traced to their ability to successfully introduce new products and to increase penetration of existing products in their major markets. Investment in product and process engineering by the Energy & Control segment has increased significantly every year since 1978, and engineering expenditures in 1981 were approximately 40 percent more than 1980.

Each division introduced new products during the year which will provide market leadership and growth in coming years. A new microprocessor-based electronic oil and gas flow measurement device was awarded recognition for technical excellence by the industry. New and unique solid-state major appliance controls and sensors have been designed to provide operating features of high reliability at low cost. Responding to the needs of the electrical construction

industry, a new line of patented liquid-tight conduit fittings was developed to reduce the cost and increase the quality of many electrical power installations such as heat pumps, motors and manufacturing process systems.

During the coming years, national priorities will continue to focus on energy, productivity and quality. Such emphasis will provide this segment of the company with some unique market and new product opportunities. To ensure that Scott Fetzer is well positioned to take advantage of these growth opportunities, the Company plans to increase engineering and product development expenditures in 1982 by 25 percent, and substantial additions to the capital equipment base are also contemplated. The Company also will increase the number of robots and automated systems now in use. While productivity gains are the immediate objective, these additions are also expected to further enhance the quality and reliability of Scott Fetzer products.

The world's accelerating need for energy, coupled with the soaring cost of energy-related products, has stimulated the efficient use of energy and conservation of our resources as a whole. Each division in the Energy & Control segment has substantially augmented its engineering organization with electronic and microprocessor technology and development capability since 1979. This change in the

character of Scott Fetzer's engineering groups results from the market demand for products that measure more accurately, perform more reliably and efficiently and provide increased value to the customer at a lower cost.

The Company's commitment to these development and engineering activities has also enabled it to attract superior people. It is management's belief that these new technologies not only will be the basis of many of Scott Fetzer's future products, but will also substantially increase the performance and value of the Company's existing products.

In the Energy & Control segment, the Company manufactures a wide variety of electrical and energy-related products for industrial and commercial applications in the construction, electrical appliance, electrical sign and oil and gas industries.



Fluid Transmission

The Fluid Transmission segment's sales and earnings in 1981 were significantly above the prior year and the second best ever. The better results in 1981 stemmed from improved operating efficiencies at both the Campbell Hausfeld and Western Enterprises divisions. Wayne Home Equipment division results were about even with last year but plans formulated over the past two years will stimulate greater growth for Wayne.

The Fluid Transmission segment serves primarily the multi-billion dollar, do-it-yourself hardware, home center and mass merchandiser markets, but original equipment and industrial markets represent growing areas of activity.

During the last two years, there have been progressive changes in this segment. Projects that did not meet the Company's requirements have been discontinued, while efforts to initiate new product and external licensing projects have been intensified. Although the home market is of primary concern, Scott Fetzer has capitalized on product and process developments which provide overlaps of technology in the commercial and industrial markets.

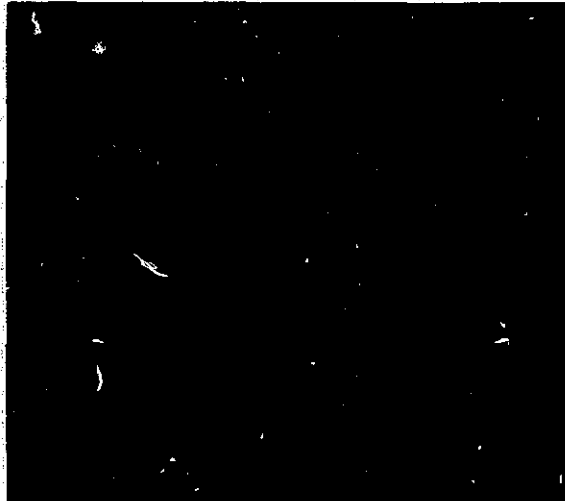
One outstanding 1981 project was Campbell Hausfeld's program to expand consumer awareness in the use of air as a source of power. Market studies indicated that, while Campbell Hausfeld was a major producer in the manufacture of single-stage air compressors, only a small number of its compressors were being used in private homes. Further studies showed that few homeowners were aware of the advantages of having an air power source in the home, but that those who were knowledgeable about air

compressors through their work outside the home were enthusiastic about the idea of domestic air power.

To reach this large segment of the population, Campbell Hausfeld developed a new, lightweight, air power source called the Power Pal™. The small, easy-to-use Power Pal™, with its surprisingly high pressure and flow capacity, performs many household functions such as spraying, cleaning, inflating and material dispensing. It accomplishes these functions at a high level of performance, and at a retail price low enough to attract the infrequent user. Campbell Hausfeld is employing new marketing techniques and using additional distribution channels to capitalize on this huge market potential. Development efforts continue to be focused on providing even more accessories that will further expand the popularity of this new home convenience.

The Wayne division intensified its development and marketing programs to capture a larger percentage of the replacement oil burner market with the introduction of a truly new product distributed under the name, Blue Angel™. The advanced burner technology used in the Blue Angel™ not only offers the homeowner the highest level of fuel oil burning efficiency possible in today's conventional heating systems, but also provides distributors, installers and service agents with a product that is versatile, easy to maintain, extremely reliable and safe.

The Blue Angel™ burner is equipped with a unique damper, or shut-off device, that seals heat in the home by blocking the escape of heated air through the furnace or boiler and up the chimney while the burner is not operating. With this patent-applied-for feature, the Blue Angel™ provides, in one simple installation, not only one of the



The new Blue Angel™ oil burner has significantly strengthened our Wayne Division's position in the replacement market.

most efficient fuel burners possible in an existing installation, but also eliminates the need for possibly hazardous chimney dampers in preventing the escape of precious heat while the burner is idle.

Wayne has long been the country's largest supplier of oil burners to the original equipment furnace and boiler manufacturing market for products used in the home. The Blue Angel™ is Wayne's first major effort to penetrate the replacement burner market.

As Scott Fetzer moves into the 1980s, programs will be introduced involving expanded use of unique air power products for the home and industry. Environmental systems for the home involving still higher heating efficiencies, improved water quality and waste disposal products for better family health and convenience will be important goals for the Fluid Transmission segment.

Industrial products, particularly Western Enterprises' compressed gas equipment and fittings, should continue to experience strong growth. These product lines also have excellent opportunities in the rapidly expanding medical market.

Campbell Hausfeld's new Power Pal™ was introduced in 1981. It enables consumers to paint, caulk, clean, dispense liquids, inflate bicycle and auto tires and perform hundreds of other household tasks with professional ease.



Vehicular Products

Sales and earnings of the Vehicular Products segment showed considerable improvement over 1980. High interest rates in 1981 reduced potential growth, especially the heavy duty truck, construction and agricultural equipment markets, but military vehicular equipment remained relatively stable throughout the year.

In the recreational vehicle industry, the availability of gasoline along with stabilized prices halted the erosion of business that began in 1979. Even though levels of activity in these businesses were considerably below the early 1970's, there was significant improvement over 1980.

In total, Vehicular Products achieved approximately a 9 percent sales increase in these sluggish markets by concentrating and specializing on specific segments. For example, Scott Fetzer has entered the manufactured housing industry with accessory products that not only exceeded sales expectations in 1981, but show very promising potential for 1982 and beyond. Other areas were also strengthened by building specialized products for public utilities, fleets and heavy duty trucks and by gaining market shares in established distributor channels for vehicular products.

Looking ahead to 1982, further increases in these businesses should occur even though the economy is not expected to grow significantly. This will be accomplished through various strategies, for example:

- The Carefree of Colorado division will continue to grow with increased market shares in its core recreational vehicle accessory business, as well as with new products for this market and the mobile home

Carefree of Colorado's new Ever-Lock™ skirting for mobile homes has helped the division establish a strong foothold in the manufactured housing market.



Stahl Division provides truck bodies for the utility, specialized equipment and fleet operator markets.

industry. In particular, manufactured housing products show significant growth potential for 1982.

- The Stahl division has been able to keep its truck equipment businesses from following the traditional small contractor market by concentrating on specialized equipment and major fleet operators. In 1982, Stahl will introduce a consumer-oriented mini-truck body that will provide growth until the construction and contractor markets improve.

- The Douglas division in 1981 successfully developed products in the heavy truck and military vehicle markets, and because these products have a long gestation period, the benefits will begin accruing in 1982.

- While the total trailer hitch accessory market was static in 1981, the Valley division strengthened its position through a broadened customer base and introduction of a new line of hitches that will give it competitive strength in all market segments. This, coupled with the expansion of the "Cool Care Product Line", which is an automobile

crankcase and transmission oil cooling system, will further poise Valley for improved results in 1982.

- The Powerwinch product line experienced deteriorating market conditions in 1981 but, with aggressive sales and cost control programs, it maintained sales levels and improved profitability. During the year, a new line of heavy duty "big boat" anchor windlasses was introduced which will provide new growth opportunities in 1982.

Overall, the Vehicular Products segment has expanded its base of both products and markets to halt the erosion of its businesses which was the result of the general economic decline that began in 1979.

However, the continuation of high interest rates, high inflation, a low level of housing starts and non-residential construction programs, along with depressed farm income, necessitates more innovative business approaches in 1982. Scott Fetzer's primary objective is to provide superior products and services in order to obtain higher market shares and expanded market bases.



George M. Carriker, Kirby Group
Chairman & Chief Executive Officer



Kearney K. Kier
Corporate Group Vice President



Robert H. King, World Book, Inc.
Chairman & Chief Executive Officer

Operating Units

Cleaning Systems & Household Products

<u>YEAR</u>	<u>NET SALES</u>	<u>INCOME BEFORE INCOME TAXES</u>
1981	\$118,020	\$15,465
1980	110,583	15,202
1979	124,126	20,286

Kirby Group
1920 West 114 Street
Cleveland, OH 44102 • 216/228-2400
G. M. Carriker, Chairman, President & CEO
Household cleaning systems and other floor
maintenance equipment for residential, industrial and
institutional use.

American Lincoln Division
1100 Haskins Road
Bowling Green, OH 43402 • 419/352-7511
B. Iwarsson, President
Power-driven sweepers, scrubbers, polishers and other
equipment for cleaning industrial and commercial
facilities.

*Western Enterprises Division
33672 Pin Oak Parkway
Avon Lake, OH 44012 • 216/871-2160
R. P. Drickhamer, President
Injection molded plastic components and plastic con-
tainers for commercial and consumer products.

Klevac Division
2021 Midway Drive
Twinsburg, OH 44087 • 216/425-3371
R. J. Ostroski, President
Vacuum cleaners for the home and limited-space applica-
tions, vacuum cleaner replacement parts and acces-
sories, cleaning chemicals.

*Powerwinch/Jason/Quikut Division
217 Long Hill Cross Road
Shelton, CT 06484 • 203/929-5371
T. F. Kiley, President
A full line of cutlery, hand scissors, shears and trimmers
for home, school, office and shop use.

*Under more than one business segment.

Education & Information Systems

<u>YEAR</u>	<u>NET SALES</u>	<u>INCOME BEFORE INCOME TAXES</u>
1981	\$259,801	\$10,268
1980	262,965	6,565
1979	260,071	13,250

World Book, Inc. (a subsidiary)
Merchandise Mart Plaza
Chicago, IL 60654 • 312/245-3456
R. H. King, Chairman & CEO
Encyclopedias, reference texts,
educational and other instructional
materials for the home, school and
library and various direct-mail
products.

Walker A. Rapp
Corporate Senior Vice President

John Bebbington
Corporate Senior Vice President

Kenneth J. Semelsberger
Corporate Group Vice President

Energy & Control

YEAR	NET SALES	INCOME BEFORE INCOME TAXES
1981	\$90,324	\$13,156
1980	79,390	11,802
1979	85,186	14,046

Adalet Division
4801 West 150 Street
Cleveland, OH 44135 • 216/267-9000
W. E. Helfrich, President
Explosion-proof fittings and junction boxes, instrument housings, motor control and electrical distribution products, electrical temperature control systems for the petrochemical, oil refining and food industries, flow meters and manometers.

France Division
726 Fairview Boulevard, West
Fairview, TN 37062 • 615/799-0551
W. P. Melley, President
Transformers and ballasts for indoor-outdoor electrical signs, electrical and electronic switches and controls, controls for home appliances.

Halex Division
23901 Aurora Road
Bedford Hts., OH 44146 • 216/439-1616
M. L. Fromson, President
Die cast zinc and aluminum electrical fittings, liquid-tight conduit fittings.

Northland Division
968 Bradley Street
Watertown, NY 13601 • 315/782-2350
A. J. Asalone, President
Fractional horsepower motors for electrical appliances and other products and high performance vacuum motors.

Fluid Transmission

YEAR	NET SALES	INCOME BEFORE INCOME TAXES
1981	\$124,646	\$10,557
1980	116,428	4,016
1979	145,673	11,233

Campbell Hausfeld Division
100 Production Drive
Harrison, OH 45030 • 513/367-4811
T. A. Patterson, President
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.

Wayne Home Equipment Division
801 Glasgow Avenue
Fort Wayne, IN 46803 • 219/426-4000
Wide variety of power gas and oil burners, water circulating, sump and other pumps.

Western Enterprises Division
33672 Pin Oak Parkway
Avon Lake, OH 44012 • 216/871-2160
R. P. Drickhamer, President
Full line of connectors and compressed gas fittings for the transmission of welding and medical gases, gas manifold systems and pressure regulators.

Vehicular Products

YEAR	NET SALES	INCOME BEFORE INCOME TAXES
1981	\$80,024	\$10,446
1980	73,259	8,836
1979	98,295	12,997

Carefree of Colorado Division
2760 Industrial Lane
Broomfield, CO 80020 • 303/469-3324
P. M. Quatrochi, President
Recreational vehicle awnings, screen enclosures and accessories, storage pods and mobile home skirting.

Stahl Division
3201 West Lincoln Way
Wooster, OH 44691 • 216/264-7441
B. A. Crampton, President
Truck bodies for utility, service and cable TV vehicles, tool boxes and other accessory products for pickup trucks, rescue vehicles and ambulances, other fabricated metal components.

Douglas Division
141 Railroad Street
Bronson, MI 49028 • 517/369-2315
W. J. Smith, President
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.

Powerwinch/Jason/Quikut Division
217 Long Hill Cross Road
Shelton, CT 06484 • 203/929-5371
T. F. Kiley, President
Marine accessories, extensive line of electric and electromechanical winches for marine, farm and automotive use.

Valley Industries Division
1313 South Stockton Street
Lodi, CA 95240 • 209/368-8881
S. O. Hopper, President
Trailer hitches, balls, couplers and other towing accessories, fan clutches and oil coolers, hand winches and antennas for recreational vehicles.

Management Review of Operations and Financial Position

1981 VERSUS 1980

Operations

Scott Fetzer's consolidated sales and other revenue for 1981 totalled \$656.4 million, 4% above the prior year. Sales volume for 1981 was impacted by the recession in the U.S. economy, the sale of the Streamway division in February, 1981, the shutdown of World Book's French subsidiary and the curtailment of operations in Japan.

Net income amounted to \$29.1 million, 26% above the \$23.1 million earned in 1980. Earnings per share increased 29% to \$4.01 per share from last year's \$3.12 per share. Earnings in both 1981 and 1980 were affected by special provisions for anticipated uncollectible receivables and closedown costs associated with World Book's international businesses, especially

Japan. These charges to earnings totalled \$4 million in 1981 and \$6 million for 1980. Essentially all of World Book's operations in Japan were disposed of, effective December 1, 1981.

The net income increase for 1981 reflected a 17% improvement in earnings from operations, substantially higher net interest income and a decrease in the special international provisions referred to above. The effective income tax rate for 1981 was 48.9% compared to 38.2% for the prior year. The lower tax rate in 1980 resulted primarily from substantial tax credits for worthless stock deductions and other foreign tax credits relating to World Book's international operations. The principal factors that affected net income and earnings per share for 1981 are shown below:

	Net Income (\$000's)	Earnings Per Share
1980 — as reported	\$23,069	\$3.12
Increase (Decrease) in 1981 from:		
Operations	3,990	.54
Interest income, net	4,729	.64
Lower special provision for international operations	1,004	.14
Income tax changes:		
International operations worthless stock	(1,916)	(.26)
International losses not deductible	(1,607)	(.22)
Lower investment tax credit	(414)	(.06)
Higher "DISC" export credit	353	.05
All other	(141)	(.02)
Net change	5,998	.81
Decrease in average number of shares outstanding	—	.08
1981 — as reported	\$29,067	\$4.01

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

For the fourth quarter of 1981, sales were \$163.5 million, an increase of 7% over the \$152.9 million reported in the year-earlier quarter. Net income rose 22% to \$6.4 million from \$5.3 million earned in the comparable period of 1980. Earnings per share were 94 cents compared with 71 cents last year, an increase of 32%. The large percentage increase in earnings per share reflected, in part, the reduction in average shares outstanding as a result of the Company's stock repurchase program, most of which was accomplished in the fourth quarter of 1981.

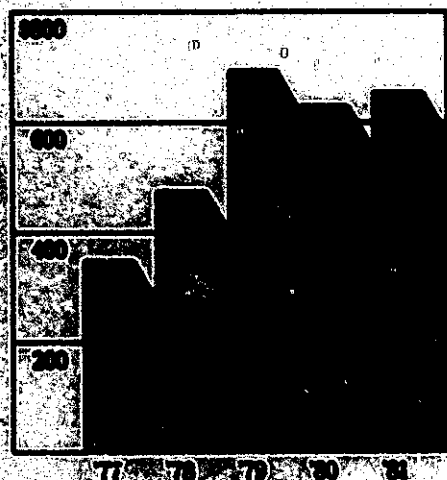
Liquidity

The Company continues in a very favorable liquid position and anticipates it will continue to have the ability to internally generate sufficient funds to maintain and expand its operating capacity and meet working capital requirements. Cash and cash equivalents increased by \$10.2 million and \$29 million in the years 1981 and 1980, respectively. Attention should be focused on Note 15 to the financial statements concerning the impact of inflation on the Company.

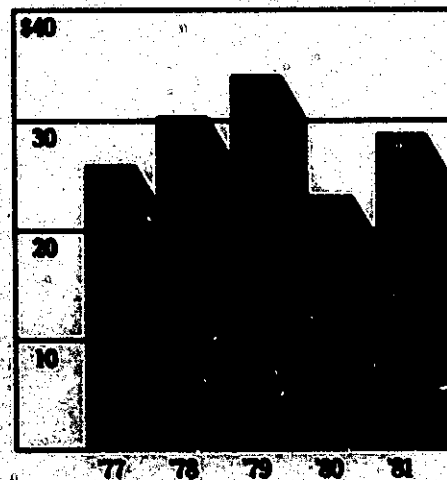
Stock Purchases

During 1981, Scott Fetzer, on an unsolicited basis, purchased in block transactions, 609,525 shares of its common stock for a total of \$17.1 million cash, and this same amount was charged to shareholders' equity. These purchases were accomplished over a seven-month period, including 507,000 shares during the fourth quarter, reducing the average

Net Sales (millions)



Net Income (millions)



number of shares and share equivalents outstanding by 136,000 for the year. The lower number of average shares outstanding resulted in an increase in earnings per share of 8 cents.

Unconsolidated Subsidiary Debt

The Company's primary unconsolidated finance subsidiary, World Book Finance, Inc. (WBF), increased its long-term debt in 1981 by \$25 million through privately-placed financing maturing in equal installments, 1985 to 1989. These funds were obtained for United Retail Finance Company, a subsidiary of WBF, to meet its financing needs for the retail customers of Kirby division distributors. Condensed financial statements of WBF are contained in Note 3 to the financial statements.

Facility Dispositions

During the first quarter of 1981, the Company sold its Streamway division for cash and a note. Based

upon a strategic analysis, it was concluded that the division's water system fixtures were not an integral part of Scott Fetzer's long-range objectives. As noted previously, effective December 1, 1981, substantially all of World Book's operations in Japan were sold in a cash transaction.

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 uncollectible foreign installment receivables of \$4.5 million and \$1.5 million for product line and operations shutdown costs associated with some international operations. In addition, the adoption by six additional operating units of the LIFO method of inventory valuation reduced income before taxes 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 expenses, net, increased \$322,000 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 shutdown 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.

BUSINESS SEGMENTS 1981 VERSUS 1980

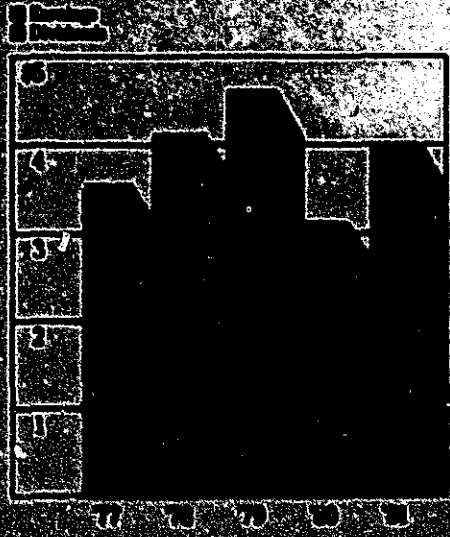
Results by business segment for 1981 and the two prior years are shown on pages 26 and 27 of the financial statements. Two of the segments were revised to improve the meaningfulness of the data. The former Cleaning Systems segment has been expanded to include other household products that were pre-

viously classified with Educational Products. The Educational segment was redesignated Education & Information Systems to recognize the expanded scope of World Book's current and future data base businesses. The name of the Equipment & Accessories segment was changed to Vehicular Products. In addition, income before taxes and identifiable assets for the Education & Information Systems and Cleaning Systems & Household Products segments were restated to include the results of the unconsolidated finance subsidiary, World Book Finance, Inc., and its subsidiary, United Retail Finance Company, respectively. Previously, these finance companies had been included in the corporate classification for segment reporting of income before income taxes and identifiable assets.

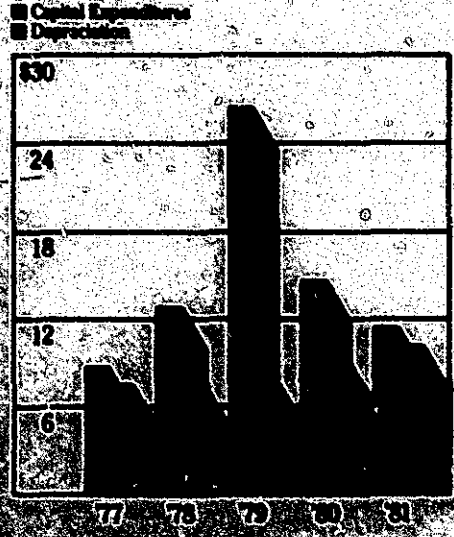
Sales and other revenue for 1981 increased in four of the five business segments, with the largest gain coming in the Energy & Control product lines. The Education & Information Systems volume was slightly below the 1980 level. Income before taxes improved in all segments, with the Fluid Transmission segment achieving a substantial increase.

Cleaning Systems & Household Products Sales increased 7% to \$118 million in 1981 and income before taxes amounted to \$15.5 million, slightly above the 1980 level.

Earnings and Dividends per Share



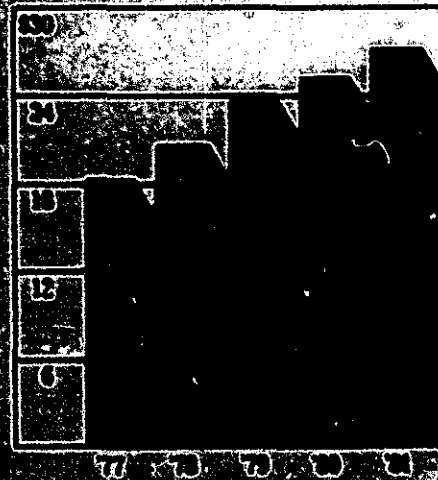
Capital Expenditures and Depreciation (millions)



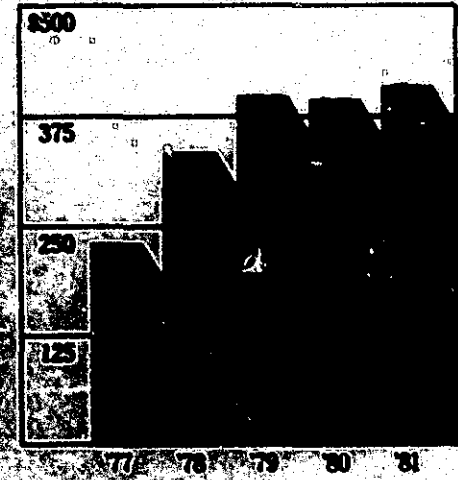
Results in this category were affected by the substantial start-up costs of United Retail Finance Company and its sale in February, 1981, of the Veterinary division. Streamlined sales and earnings were included for 12 months in 1980 and only 3 months in 1981. The Kirby group achieved increases in sales and earnings due largely to major growth in the volume of its European sales division. The Western Enterprises division also reported excellent volume growth and operating earnings improvement in its plant products.

Education & Information Systems Sales and other revenues totaled \$206.5 million, slightly below the prior year's level. Income before taxes in 1981 amounted to \$10.3 million, 54% above last year. Earnings in both 1981 and 1980 were adversely affected by the special provisions charged to earnings to cover the anticipated uncollectible receivables and closdown costs associated with World Book's international operations, particularly in Japan. These provisions totaled \$4 million in 1981 and \$6 million for 1980. Excluding these non-recurring special charges to earnings, operating results in this segment for 1981 showed a 14% improvement over the prior year. The direct mail and international distributor businesses of World Book in 1981 were significantly higher than the prior year. These results were offset by

Book Value per Share



Total Assets (millions)



lower North American direct selling volume and reduced international sales and increased losses.

Energy & Control Sales for 1981 increased 14% to a record \$90.3 million for these product lines. Income before taxes was \$13.2 million, up 11% from the prior year. The Adalec, Halex and Northland divisions had record sales, and volume at the France division was moderately above the 1980 level.

Earnings for Adalec and Northland also established new records with France showing good improvement over the depressed prior year and Halex slightly higher.

Field Transmission Sales volume was \$124.6 million, 7% above the prior year's level. Income before taxes showed a substantial recovery from the depressed 1980 level, increasing 163% to \$10.6 million. The sales growth was due largely to

higher volume at the Campbell Hausfeld and Western Enterprises divisions. Sales for the Wayne division were slightly below the 1980 level. The earnings improvement reflected significant operating improvement and higher volume at Campbell Hausfeld. The Western Enterprises and Wayne divisions also achieved substantial increases in earnings.

Vehicular Products These product lines' volume for 1981 rose 9% to \$80 million. Income before taxes increased 18% to \$10.4 million. The improvement in sales and earnings for this segment resulted primarily from the record year achieved by the Carefree of Colorado division. The Douglas division had slightly higher sales and earnings, while results for the Stahl, Powerwinch and Valley divisions were below 1980.

Consolidated Balance Sheet
The Scott & Fetzer Company and Subsidiary Companies

(Dollar in thousands except per share data)

November 30
1981 **1980**

ASSETS

CURRENT ASSETS

Cash	\$ 8,924	\$ 8,917
Interest bearing deposits	72,246	82,993
Short-term investments	21,179	287
Trade receivables, less allowance for doubtful accounts (1981 - \$6,551; 1980 - \$6,136)	57,292	50,586
Installment receivables, less allowance for doubtful accounts (1981 - \$4,095; 1980 - \$5,965)	16,961	22,671
Other receivables, net	11,964	12,015
Inventory (Note 2)	79,611	80,195
Prepaid expenses	5,076	5,431
TOTAL CURRENT ASSETS	273,153	263,095

**INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED
SUBSIDIARIES AND JOINT VENTURES (Note 3)**

40,702 **37,816**

PROPERTY, PLANT AND EQUIPMENT (Note 4)

82,827 **83,609**

EXCESS COST OVER FAIR VALUE OF ASSETS ACQUIRED

2,642 **2,658**

OTHER ASSETS

6,470 **6,865**

TOTAL ASSETS

\$405,794 **\$394,043**

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

November 30
1981 1980

LIABILITIES

CURRENT LIABILITIES

Notes payable (Note 5)	\$ 4,503	\$ 6,885
Accounts payable	34,504	27,511
Accrued employment costs	24,810	19,635
Accrued liabilities	25,979	29,097
Income taxes	12,344	7,606
Deferred income taxes (Notes 3 & 10)	28,280	23,567
Current portion of long-term debt	2,002	3,158

TOTAL CURRENT LIABILITIES

	133,104	117,459
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DEFERRED INCOME TAXES (Note 10)	7,480	7,316
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OTHER DEFERRED CREDITS	4,300	4,594
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LONG-TERM DEBT (Notes 6 & 7)	76,901	79,595
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TOTAL LIABILITIES

	221,784	208,964
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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; stated value

of issued shares: \$1.25 per share (Note 8)	8,476	9,238
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ADDITIONAL CAPITAL	6,316	6,884
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RETAINED EARNINGS (Note 6)	100,208	168,957
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TOTAL SHAREHOLDERS' EQUITY

	184,000	185,079
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

	\$405,784	\$394,043
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Consolidated Statement of Shareholders' Equity

The Scott & Fetzer Company and Subsidiary Companies

(Dollars in thousands except per share data)

	Common Shares		Treasury Shares*		Additional Capital	Retained Earnings	Total
	Number	Dollars	Number	Dollars			
Balances at November 30, 1978	7,576,924	\$9,471	239,334	\$(299)	\$6,238	\$137,604	\$153,014
Net income						34,096	34,096
Shares issued under stock option plan (Note 8)			(26,563)	33	335		368
Cash dividends — \$1.70 per share						(12,510)	(12,510)
Balances at November 30, 1979	7,576,924	9,471	212,771	(266)	6,573	159,190	174,968
Net income						23,069	23,069
Shares issued under stock option plan (Note 8)			(25,900)	33	311		344
Cash dividends — \$1.80 per share						(13,302)	(13,302)
Balances at November 30, 1980	7,576,924	9,471	186,871	(233)	6,884	168,957	185,079
Net income						29,067	29,067
Purchases of treasury shares			609,525	(762)	(568)	(15,813)	(17,143)
Cash dividends — \$1.80 per share						(13,003)	(13,003)
Balances at November 30, 1981	7,576,924	\$9,471	796,396	\$(995)	\$6,316	\$169,208	\$184,000

*Treasury shares are carried at stated value.

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

Consolidated Statement of Income
The Scott & Fetzer Company and Subsidiary Companies

(Dollars in thousands except per share data)

	Year Ended November 30		
	1981	1980	1979
NET SALES AND OTHER REVENUE	\$656,386	\$632,398	\$697,401
Cost of goods sold	366,691	355,485	393,208
Gross profit	289,695	276,913	304,193
Selling, general and administrative expenses	235,592	232,321	233,706
Operating income	54,103	44,592	70,487
Other income (deductions)			
Interest income	16,808	8,119	7,582
Interest expense	(9,126)	(9,858)	(9,221)
Charges for services of finance subsidiary (Note 3)	(7,650)	(8,275)	(9,598)
Income from unconsolidated subsidiaries and joint ventures	4,244	4,434	4,662
Other, net	(1,452)	(1,674)	(852)
	2,824	(7,254)	(7,427)
Income before income taxes	56,927	37,338	63,060
Income taxes (Note 10)	27,860	14,269	28,964
NET INCOME	\$ 29,067	\$ 23,069	\$ 34,096
EARNINGS PER SHARE	\$ 4.01	\$ 3.12	\$ 4.62
DIVIDENDS PER SHARE	\$ 1.80	\$ 1.80	\$ 1.70
Average number of common and common equivalent shares outstanding (000's)	7,252	7,388	7,373

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

Consolidated Statement of Changes in Financial Position

The Scott & Fetzer Company and Subsidiary Companies

(Dollars in thousands)

Year Ended November 30

1981 1980 1979

SOURCES OF WORKING CAPITAL

From operations

Net income	\$ 29,067	\$ 23,069	\$ 34,096
Income from unconsolidated subsidiaries and joint ventures	(1,451)	(386)	(2,664)
Depreciation	10,053	9,022	7,940
Deferred income taxes	164	1,768	1,253
Other	420	594	570
Total from operations	38,253	34,067	41,195
Net current assets of companies acquired	—	—	6,916
Proceeds from dispositions of divisions	1,800	—	819
Dispositions of property, plant and equipment, net	1,834	671	1,768
Decrease in other assets	211	—	2,992
Proceeds from issuance of long-term debt	—	—	40,000
Sale of common stock under stock options	—	344	368
Other	—	72	355
Total	42,098	35,154	94,413

USES OF WORKING CAPITAL

Investments in and advances to unconsolidated subsidiaries and joint ventures	1,435	2,000	—
Property, plant and equipment and other net assets of companies acquired	—	—	6,650
Additions to property, plant and equipment	11,457	14,651	26,375
Net current assets of divisions sold	1,684	—	524
Reduction of long-term debt	2,694	2,751	3,690
Purchases of treasury shares	17,143	—	—
Cash dividends paid	13,003	13,302	12,510
Other	269	15	—
Total	47,685	32,719	49,749

INCREASE (DECREASE) IN WORKING CAPITAL \$ (5,587) \$ 2,435 \$ 44,664

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

Consolidated Statement of Changes in Financial Position (continued)

(Dollars in thousands)

	Year Ended November 30		
	1981	1980	1979
CHANGES IN COMPONENTS OF WORKING CAPITAL			
Cash and cash equivalents	\$ 10,152	\$ 28,992	\$ 8,301
Trade, installment and other receivables	845	(16,422)	15,021
Inventories	(584)	(20,450)	16,740
Prepaid expenses	(355)	(293)	1,633
Notes payable	2,379	1,584	(1,354)
Accounts payable	(7,083)	9,046	4,993
Accrued employment costs, accrued liabilities and income taxes	(6,795)	(2,525)	(6,231)
Deferred income taxes	(4,702)	3,244	5,519
Current portion of long-term debt	556	(741)	42
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ (5,587)</u>	<u>\$ 2,435</u>	<u>\$ 44,664</u>

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

Business Segment Information by Industry

The Scott & Fetzer Company and Subsidiary Companies

(Dollars in thousands)

	Year Ended November 30		
	1981	1980	1979
NET SALES AND OTHER REVENUE			
Cleaning Systems & Household Products	\$118,020	\$110,583	\$124,126
Education & Information Systems	259,801	262,965	260,071
Energy & Control	90,324	79,390	85,186
Fluid Transmission	124,646	116,428	145,673
Vehicular Products	80,024	73,259	98,295
Intersegment Sales	(16,429)	(10,227)	(15,950)
	<u>\$656,386</u>	<u>\$632,398</u>	<u>\$697,401</u>
INCOME BEFORE INCOME TAXES			
Cleaning Systems & Household Products	\$ 16,951	\$ 15,394	\$ 20,286
Unconsolidated Finance Subsidiary	(1,486)	(192)	—
	<u>15,465</u>	<u>15,202</u>	<u>20,286</u>
Education & Information Systems	5,898	2,742	9,224
Unconsolidated Finance Subsidiaries and Joint Ventures	4,370	3,823	4,026
	<u>10,268</u>	<u>6,565</u>	<u>13,250</u>
Energy & Control	13,156	11,802	14,046
Fluid Transmission	10,557	4,016	11,233
Vehicular Products	10,446	8,836	12,997
Operating Earnings	59,892	46,421	71,812
Corporate Expenses and Net Interest	(2,965)	(9,083)	(8,752)
	<u>\$ 56,927</u>	<u>\$ 37,338</u>	<u>\$ 63,060</u>
IDENTIFIABLE ASSETS			
Cleaning Systems & Household Products	\$ 45,631	\$ 39,741	\$ 55,327
Unconsolidated Finance Subsidiary	(905)	(103)	—
	<u>44,726</u>	<u>39,638</u>	<u>55,327</u>
Education & Information Systems	112,304	108,103	104,142
Unconsolidated Finance Subsidiaries and Joint Ventures	31,374	28,747	29,061
	<u>143,678</u>	<u>136,850</u>	<u>133,203</u>
Energy & Control	37,513	33,345	37,615
Fluid Transmission	63,283	67,646	81,763
Vehicular Products	34,455	28,605	37,199
Corporate and Other	82,139	87,959	50,269
	<u>\$405,794</u>	<u>\$394,043</u>	<u>\$395,376</u>

Business Segment Information by Industry (continued)

The Scott & Fetzer Company and Subsidiary Companies

(Dollars in thousands)

	Year Ended November 30		
	1981	1980	1979
CAPITAL EXPENDITURES			
Cleaning Systems & Household Products	\$ 2,133	\$ 1,677	\$ 4,786
Education & Information Systems	1,167	2,329	3,196
Energy & Control	2,268	2,379	4,744
Fluid Transmission	3,096	3,203	9,421
Vehicular Products	1,092	1,235	2,323
Corporate and Other	1,701	3,828	1,905
	<u>\$ 11,457</u>	<u>\$ 14,651</u>	<u>\$ 26,375</u>
DEPRECIATION			
Cleaning Systems & Household Products	\$ 1,881	\$ 1,835	\$ 1,646
Education & Information Systems	1,850	1,797	1,701
Energy & Control	1,345	1,133	956
Fluid Transmission	2,706	2,484	2,163
Vehicular Products	1,049	1,028	1,013
Corporate and Other	1,222	745	461
	<u>\$ 10,053</u>	<u>\$ 9,022</u>	<u>\$ 7,940</u>

Business Segment Information by Geographic Area

	Year Ended November 30		
	1981	1980	1979
NET SALES AND OTHER REVENUE			
United States	\$611,331	\$579,680	\$645,801
Foreign	57,337	63,390	63,217
Interarea	(12,282)	(10,672)	(11,617)
	<u>\$656,386</u>	<u>\$632,398</u>	<u>\$697,401</u>
INCOME BEFORE INCOME TAXES			
United States	\$ 63,346	\$ 48,611	\$ 69,697
Foreign	(3,454)	(2,190)	2,115
	<u>59,892</u>	<u>46,421</u>	<u>71,812</u>
Corporate Expenses and Net Interest	(2,965)	(9,083)	(8,752)
	<u>\$ 56,927</u>	<u>\$ 37,338</u>	<u>\$ 63,060</u>
IDENTIFIABLE ASSETS			
United States	\$368,905	\$350,989	\$352,065
Foreign	36,889	43,054	43,311
	<u>\$405,794</u>	<u>\$394,043</u>	<u>\$395,376</u>

Notes to Consolidated Financial Statements

(Dollars in thousands except per share data)

1. Significant Accounting Policies

Reclassifications — Certain amounts in the 1980 balance sheet accounts have been restated to correspond to 1981 account classifications.

Principles of Consolidation — The consolidated financial statements include the accounts of all domestic and foreign subsidiaries, except for the finance and insurance subsidiaries and joint ventures which are carried on the equity basis. Intercompany balances and transactions have been eliminated in consolidation.

Short-Term Investments — Short-term investments, principally commercial paper and government securities, are carried at cost, which approximates market value.

Installment Receivables — 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 \$6,452 and \$8,910 at November 30, 1981 and 1980, respectively.

Profits on installment sales are credited to income at the time of sale. Monthly finance charges levied on substantially all domestic installment accounts are credited to income over the lives of the contracts, after deducting a provision for estimated uncollectible charges.

Inventory Valuation — The last-in, first-out method of inventory valuation is used for approximately 84% and 78% of total inventories in 1981 and 1980, respectively. The remaining inventory is valued at cost. Inventory valuations are at the lower of cost or market.

Property, Plant and Equipment — Property, plant and equipment is stated at cost. Expenditures for routine maintenance and repairs are charged to income, and major replacements and betterments are capitalized. When assets are retired or sold, the cost and related accumulated depreciation and amortization are removed from the accounts and the resulting gain or loss is included in income.

The straight-line method is used in the computation of depreciation and amortization for financial reporting purposes. Depreciation and amortization rates are based on the estimated useful lives of the assets.

Excess Cost Over Fair Value of Assets Acquired — The excess cost of investments over fair value of assets

acquired is being amortized on a straight-line basis, principally over a 40 year period.

Income Taxes — Deferred income taxes are provided for timing differences between financial and tax reporting, principally for income recognized from installment accounts receivable, depreciation and accrued expenses.

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

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

2. Inventories

In fiscal year 1980, the Company adopted the last-in, first-out (LIFO) method of inventory valuation for several operating units that had previously been reported under the first-in, first-out (FIFO) valuation method. This change resulted in a \$1,385 reduction of 1980 net earnings or 19 cents per share. The Company believes that the use of the LIFO method for inventory valuation results in a better matching of revenues and their associated costs.

At November 30, 1981 and 1980, if all inventories valued at LIFO costs had been valued at FIFO costs, net income would have been increased \$2,116 or 29 cents per share in 1981 and \$2,246, or 30 cents per share, in 1980. Included in these amounts were the results of inventory liquidations of LIFO quantities carried at costs prevailing in prior years. The effects of these liquidations were to increase 1981 and 1980 net income by \$680, or 9 cents per share and \$2,173, or 29 cents per share, respectively.

If FIFO costs had been used for inventories presently valued using the LIFO method, inventories would have been \$27,354 and \$23,205 higher than reported at November 30, 1981 and 1980, respectively.

Inventories at November 30, 1981 and 1980, consisted of the following:

	1981	1980
Raw materials	\$26,067	\$28,514
Work in process	27,830	28,666
Finished goods	25,714	23,015
	<u>\$79,611</u>	<u>\$80,195</u>

3. Investments in and Advances to Unconsolidated Subsidiaries and Joint Ventures

The investments in and advances to wholly-owned unconsolidated subsidiaries and joint ventures in which ownership is 50% or less are carried on the equity basis and at November 30, 1981 and 1980, were as follows:

	1981	1980
Finance subsidiaries	\$30,614	\$28,644
World Book Life Insurance	10,233	9,172
Joint ventures	(145)	—
	<u>\$40,702</u>	<u>\$37,816</u>

The consolidated balance sheet included net amounts receivable from unconsolidated subsidiaries of \$2,118 and \$4,454 at November 30, 1981 and 1980, respectively.

World Book Finance, Inc. (WBF) provides funds principally to finance the domestic installment receivables of World Book, Inc. Its wholly-owned consolidated subsidiary, United Retail Finance Company, provides funds to finance the installment receivables from customers of the Kirby division distributors. The Company is obligated under an operating agreement to make available to WBF amounts sufficient so that earnings, as defined, are at least 150% of fixed charges, primarily interest. The amounts provided were \$7,650 in 1981, \$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 WBF. Summarized financial statements of WBF follow.

	November 30	
	1981	1980
Assets		
Cash and cash equivalents	\$ 42,340	\$ 28,048
Finance receivables, net of allowance for credit losses	89,518	75,713
Other assets	1,639	323
Total Assets	<u>\$133,497</u>	<u>\$104,084</u>
Liabilities and Equity		
Accounts payable and other liabilities	\$ 4,917	\$ 1,571
Payables to affiliated company	1,697	69
Current portion of long-term debt	2,625	2,625
Long-term debt	92,125	69,750
Scott Fetzer equity	32,133	30,069
Total Liabilities and Equity	<u>\$133,497</u>	<u>\$104,084</u>

	Year Ended November 30		
	1981	1980	1979
Total revenue	\$ 15,139	\$ 11,550	\$ 11,011
Interest expense	8,426	7,158	7,224
Other expenses	2,500	813	175
Income taxes	2,149	1,786	1,768
Net income	<u>\$ 2,064</u>	<u>\$ 1,793</u>	<u>\$ 1,844</u>

4. Property, Plant and Equipment

Property, plant and equipment at November 30, 1981 and 1980, consisted of the following:

	1981	1980
Land and land improvements	\$ 4,436	\$ 3,493
Buildings	25,546	24,559
Machinery and equipment	94,862	89,065
Capitalized leases	14,088	14,018
	<u>138,932</u>	<u>131,135</u>
Accumulated depreciation and amortization	56,105	47,526
	<u>\$ 82,827</u>	<u>\$ 83,609</u>

5. Lines of Credit

The Company had bank credit lines available under contractual arrangements in the United States and foreign countries at November 30, 1981 and 1980 as follows:

	1981	1980
Total credit lines:		
Domestic (cancelled in 1981)	\$ —	\$50,000
Foreign (expire in 1982)	10,498	12,798
Credit lines utilized at year end:		
Domestic	—	—
Foreign	4,506	6,885

The Company paid a commitment fee at the rate of 1/2% per annum on unused domestic credit lines outstanding. Various commitment fees up to 1 1/2% per annum are paid on unused foreign credit lines.

6. Long-Term Debt

The major components of long-term debt at November 30, 1981 and 1980 were as follows:

	1981	1980
9 1/2% Notes, payable in annual installments of \$2,500 beginning 1983, due 1998	\$40,000	\$40,000
9 1/4% Notes, due 1985	30,000	30,000
Other long-term debt with interest rates from 8% to 14.35% due in installments thru 1988	871	1,914
Capitalized leases with interest rates from 4 1/4% to 15 1/4% due in installments thru 1989	6,030	7,381
	<u>\$76,901</u>	<u>\$79,595</u>

The 9 1/2% and 9 1/4% note agreements contain covenants regarding increases in debt, minimum asset-to-debt ratios and the extent to which dividends may be paid. Under the most restrictive of the debt covenants, retained earnings available for the payment of dividends amounted to \$41,515 at November 30, 1981.

Aggregate maturities of long-term debt during the five year period November 30, 1982 through 1986 are \$2,602, \$4,429, \$3,924, \$33,891, and \$3,467, respectively.

7. Leases

The Company leases certain equipment, offices, warehouses and production facilities.

Lease terms for capitalized facilities and machinery and equipment are generally 15 years and 5 to 8 years, respectively. The Company has options to purchase many of the capitalized assets and can renew or purchase many leased assets currently classified as operating leases.

Capital leases, which accounted for and amortized as Company-owned capital assets, at November 30, 1981 and 1980 were as follows:

	1981	1980
Land and land improvements	\$ 333	\$ 333
Buildings	9,500	9,418
Machinery and equipment	4,255	4,267
	<u>14,088</u>	<u>14,018</u>
Accumulated amortization	7,622	6,515
	<u>\$ 6,466</u>	<u>\$ 7,503</u>

Future minimum lease payments under noncancelable leases at November 30, 1981, are summarized below:

Year Ending November 30	Capitalized Leases	Operating Leases
1982	\$ 2,437	\$ 5,710
1983	2,365	5,238
1984	1,692	4,741
1985	1,524	4,273
1986	979	2,549
Later years	1,164	5,860
Total minimum lease payments	<u>10,161</u>	<u>28,371</u>
Less minimum sublease rents	—	693
Net minimum lease payments	<u>10,161</u>	<u>\$ 27,678</u>
Less estimated executory costs	78	
Less amount representing interest	<u>2,340</u>	
Present value of net minimum lease payments under capital leases	7,743	
Less current obligations	<u>1,713</u>	
Long-term capital lease obligations	<u>\$ 6,030</u>	

Net rent expense for noncancelable operating leases for the years ended November 30, 1981, 1980 and 1979 were as follows:

	1981	1980	1979
Gross rent expense	\$ 6,803	\$ 7,062	\$ 4,956
Less sublease rents	<u>166</u>	<u>207</u>	<u>83</u>
Net rent expense	<u>\$ 6,637</u>	<u>\$ 6,855</u>	<u>\$ 4,873</u>

8. Stock Options

The Company's 1973 and 1981 Stock Option Plans provide for the granting of options to key executive employees to purchase shares of the Company's common stock at not less than 100% of its fair market value on the date of grant. The 1981 Plan, adopted by the Board of Directors in November, 1981, is subject to shareholder approval at their annual meeting in March, 1982. Under the 1981 Plan, the Company may issue options intended to qualify as "Incentive Stock Options" as defined in the Internal Revenue Code. All the outstanding options which have been issued under each of the Plans are exercisable one-fourth each year commencing one year after date of grant and expire 10 years after date of grant. No charge to income is made by the Company with respect to options granted.

Both Plans permit the granting of stock appreciation rights to optionees. As of November 30, 1981, no such rights had been granted.

Changes in options outstanding under the 1973 Stock Option Plan during the years 1979, 1980 and 1981 follow:

	Shares	Option Price or Range
November 30, 1978	191,363	\$10 5/8 - 26 7/8
Granted	71,075	23 3/8
Exercised	(26,563)	10 5/8 - 13 7/8
Cancelled	<u>(15,000)</u>	19 1/2 - 26 7/8
November 30, 1979	220,875	10 5/8 - 26 7/8
Granted	105,900	23 1/8 - 23 1/4
Exercised	(25,900)	10 5/8 - 13 7/8
Cancelled	<u>(29,000)</u>	13 7/8 - 26 7/8
November 30, 1980	271,875	23 1/8 - 26 7/8
Granted	5,860	28
Cancelled	<u>(14,300)</u>	23 1/8 - 26 7/8
November 30, 1981	<u>263,435</u>	23 1/8 - 28

At November 30, 1981, 1980, and 1979, options exercisable under the 1973 Stock Option Plan were 139,264, 79,869, and 77,001, respectively, and 514,213, 514,213 and 540,113 shares were reserved for issuance. Shares available for future grants under the 1973 Plan at the end of each of the three years were 250,778, 242,338 and 319,238.

Pending shareholder approval, there were 69,490 options granted under the 1981 Stock Option Plan at an option price of \$28 per share. All of these options were outstanding at year-end. No options were exercisable under the 1981 Plan at November 30, 1981 while 500,000 shares were reserved for issuance.

9. Pension and Retirement Plans

The Company has noncontributory pension, profit-sharing or thrift plans covering all eligible employees. It also has deferred compensation agreements, none of which have been funded, with certain senior management employees. Company contributions charged to operations were \$6,587, \$7,363 and \$6,576 for the years ended November 30, 1981, 1980 and 1979, respectively. The decrease in pension cost in 1981 was due principally to a changed actuarial assumption increasing the assumed rate of return on plan assets from 5 1/4% to 6%.

Accumulated plan benefit information and plan net assets for the domestic defined benefit plans as of the date of the latest actuarial valuations, principally December 1, 1980, were as follows:

Actuarial present value of accumulated plan benefits	
Valued	\$ 19,947
Non-valued	2,871
Total value	\$ 22,818
Net assets at market value available for benefits	\$ 30,345

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was increased in 1981 from 5 1/4% to 7 1/4%.

The Company has a limited number of employees who participate in noncompany sponsored multi-employer plans.

10. Income Taxes

The provisions for income taxes were as follows:

	1981	1980	1979
Currently payable			
United States	\$ 19,798	\$ 14,199	\$ 30,575
State and local	3,964	2,343	3,051
Foreign	2,190	(797)	(396)
	<u>25,972</u>	<u>15,745</u>	<u>33,230</u>
Deferred			
Current	788	(3,244)	(5,519)
Noncurrent	1,100	1,768	1,253
	<u>1,888</u>	<u>(1,476)</u>	<u>(4,266)</u>
	\$ 27,860	\$ 14,269	\$ 28,964

The deferred income tax provision resulted from the following:

	1981	1980	1979
Accelerated depreciation	\$ 1,051	\$ 1,892	\$ 1,253
Expenses deductible for tax purposes when paid	(1,366)	(4,403)	1,086
Taxes deferred on installment sales	2,078	314	(6,465)
Tax rate differential on installment sales profit	—	—	(683)
State and local income/franchise tax timing differences	130	338	261
Other, net	(5)	383	282
	<u>\$ 1,888</u>	<u>\$ (1,476)</u>	<u>\$ (4,266)</u>

The effective total income tax rate was 48.9% in 1981, 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 1981 and 1980; 46.2% in 1979) resulted from the following:

	1981	1980	1979
State and local income taxes net of federal income tax benefit	3.8%	3.3%	2.6%
Investment tax credit and, in 1981, research & development credit	(1.5)	(3.4)	(1.5)
DISC income not taxed	(1.7)	(1.6)	(.6)
Foreign operations tax effect	2.8	(1.2)	.2
Worthless stock deductions — foreign operations	—	(5.1)	—
Rate differential on installment sales profit	—	—	(1.1)
Other, net	(.5)	.2	.1
	<u>2.9%</u>	<u>(7.8)%</u>	<u>(3)%</u>

11. Disposal of Operations

Effective December 1, 1981, the Company entered into an agreement to dispose of essentially all of its World Book, Inc. operations in Japan.

During 1981 and 1980, the Company charged operations for \$4,000 and \$6,000, respectively, to cover anticipated costs relating to this disposal and other aspects of World Book's international operations. These charges primarily represent estimated future losses on the realization of net asset values.

12. Business Segment Information

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

Segment data for 1980 and 1979 has been restated to reflect the realignment of operating units initiated in 1981. Additionally, certain financial data of unconsolidated finance subsidiaries and joint ventures have been

included with the segments with which they are vertically integrated.

World Book Finance, Inc. (WBF) is a wholly-owned unconsolidated domestic subsidiary of World Book, Inc. (WBI). WBF has a wholly-owned domestic consolidated subsidiary, United Retail Finance Company (URFC), which was organized in 1980. URFC is vertically integrated with the operations of the Cleaning Systems & Household Products segment.

WBI has a wholly-owned unconsolidated foreign finance subsidiary and also maintains two domestic joint ventures on the equity basis. These entities and WBF, excluding URFC, are vertically integrated with the Education & Information Systems segment.

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, and earnings of the life insurance unconsolidated subsidiary.

13. Contingent Liabilities

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

14. Quarterly Information (Unaudited)

	1981 Fiscal Year by Quarter			
	First	Second	Third	Fourth
Net sales and other revenue	\$153,639	\$175,581	\$163,687	\$163,479
Gross profit	68,870	74,424	67,596	78,805
Net income	5,548	9,068	8,052	6,399
Earnings per share	\$.75	\$ 1.23	\$ 1.09	\$.94

	1980 Fiscal Year by Quarter			
	First	Second	Third	Fourth
Net sales and other revenue	\$162,681	\$177,745	\$139,031	\$152,941
Gross profit	67,312	79,315	65,026	65,260
Net income	5,824	7,552	4,428	5,265
Earnings per share	\$.79	\$ 1.02	\$.60	\$.71

15. Impact of Inflation on the Business (Unaudited)

The Company's financial statements are prepared on a historical cost basis. This basis does not account for the effects of inflation, either general or specific, on the results of operations or changes in financial position. The following supplemental financial information has been prepared in accordance with the experimental techniques of Financial Accounting Standard No. 33. This standard requires computation of certain supplementary information utilizing two methods, constant dollar and current cost.

Both of these methods inherently involve the use of assumptions, estimates and subjective judgments and should not be viewed as precise indicators of the effects of inflation on the Company.

The constant dollar method was computed by adjusting historical costs for changes in the purchasing power of the dollar as measured by the Consumer Price Index for All Urban Consumers. The current cost of inventories was based on the first-in, first-out assumption as to inventory usage. 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 other fixed assets. The Company's use of the last-in, first-out method of inventory valuation for most locations minimized the adjustment to cost of sales under the current cost method. Depreciation applicable to both methods was computed with the same asset lives and in the same manner as are used in the primary financial statements.

Since inflation adjustments are not deductible for tax purposes, no adjustment was made to income tax expense, resulting in an effective tax rate of 57.8% for current cost basis net income and 62.5% for general inflation-adjusted net income, as compared to 48.9% in the primary financial statements.

The inflation-adjusted data clearly points out the problems businesses face in modernization and growth. The Company is continuing its programs to monitor cost controls and to improve productivity of all assets.

Consolidated Statement of Income Adjusted for Changing Prices (Unaudited)

For the year ended November 30, 1981

(Dollars in thousands except per share data)

	As Reported in Primary Statements	Adjusted For General Inflation (Constant Dollar)	Adjusted For Changes in Specific Prices (Current Cost)
Net sales and other revenue	\$656,386	\$656,386	\$656,386
Cost of goods sold	366,691	377,437	373,834
Gross profit	289,695	278,949	282,552
Selling, general and administrative expenses	235,592	237,166	237,215
Operating income	54,103	41,783	45,337
Other income (deductions):			
Interest and other income, net	15,356	15,356	15,356
Interest expense	(9,126)	(9,126)	(9,126)
Charge for services of finance subsidiary	(7,650)	(7,650)	(7,650)
Income from unconsolidated subsidiaries and joint ventures	4,244	4,244	4,244
Income before income taxes	56,927	44,607	48,161
Income taxes	27,860	27,860	27,860
Net income	\$ 29,067	\$ 16,747	\$ 20,301
Depreciation included above	10,053	14,970	15,124
Earnings per share:	4.01	2.31	2.80
Effective income tax rate	48.9%	62.5%	57.8%
Net assets at end of year	\$184,000	245,701	241,089
Gain from decline in purchasing power of net amounts owed		\$ 2,140	2,140
Increase in general price level of inventories and property, plant and equipment during the year			20,569
Less effect of increase in current cost			16,180
Excess of increase in general inflation over increase in current cost			\$ 4,389

Selling, general and administrative expenses have been adjusted for depreciation expense of \$1,574 and \$1,623 respectively, due to adjustments for general inflation and changes in current costs.

At November 30, 1981, the estimated current cost of inventories and property, plant and equipment, net of accumulated depreciation, was \$106,965 and \$119,905, respectively.

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				
	1981	1980	1979	1978	1977
Net sales and other revenue:					
As reported	\$656,386	\$632,398	\$697,401	\$478,222	\$351,187
Average 1981 dollars	656,386	699,933	876,612	666,799	526,003
Historical cost information adjusted for general inflation:					
Net income	16,747	9,403			
Net income per share	2.31	1.27			
Net assets at year-end	245,701	236,698			
Current cost information:					
Net income	20,301	11,914			
Net income per share	2.80	1.61			
Net assets at year-end	241,089	232,949			
Excess of increase in the general inflation over increase in current cost	4,389	4,178			
Gain from decline in purchasing power of net amounts owed	2,140	3,742			
Cash dividends per share:					
As reported	1.80	1.80	1.70	1.50	1.30
Average 1981 dollars	1.80	1.99	2.14	2.09	1.95
Common share market price at year-end:					
As reported	28.25	23.50	22.75	25.87	27.25
Average 1981 dollars	\$ 27.22	\$ 24.81	\$ 27.05	\$ 34.64	\$ 39.76
Average Consumer Price Index	270.5	244.4	215.2	194.0	180.6

**Report of Independent
Certified Public Accountants**

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

We have examined the consolidated balance sheet of The Scott & Fetzer Company and subsidiary companies at November 30, 1981 and 1980, and the related consolidated statements of income, shareholders' equity, and changes in financial position for the years ended November 30, 1981, 1980 and 1979. 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, 1981 and 1980, and the consolidated results of their operations and changes in financial position for the years ended November 30, 1981, 1980 and 1979, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand
Coopers & Lybrand

Cleveland, Ohio
January 26, 1982

**Report of the Board of Directors'
Audit Committee**

For over ten years, Scott Fetzer has had an Audit Committee composed of outside directors. This Committee has the responsibility to monitor the adequacy and effectiveness of Scott Fetzer's management and financial control systems and programs for risk management and asset control and security.

During 1981, the Audit Committee met five times with the Company's senior management, the public auditors and the Company's directors of management controls & audit and security. We also reviewed, prior to public announcement and publication, the Company's external financial reports.

It has been our policy that the principal responsibility for Scott Fetzer's control systems and the integrity of the published financial statements rests with the Company's chief executive and chief financial officers. These systems and statements are then regularly reviewed by our public auditors, Coopers & Lybrand. As we have stated in previous reports of this Committee, as outside directors we continue to be comfortable with the overall effectiveness of the Company's control systems and the external and internal audit programs.

We believe that the Company has implemented the proper programs and audit procedures to limit the possibility of improper payments and potential or actual conflicts of interest. Both the public and internal auditors have continued to assure us that these control proce-

dures are part of the overall system, and that senior management fully supports and monitors them and that they are regularly reviewed in the audit programs.

The Audit Committee continues to receive the full cooperation of Scott Fetzer's senior management and other appropriate personnel involved in the control programs. We believe that the Company will continue to refine and improve the management information and control programs, and these are regularly discussed with us.

In the opinion of the Audit Committee, Scott Fetzer's financial statements for 1981 are based on accounting policies which are consistent with prior years, and factually present the results of operations and current financial position.

On behalf of the Audit Committee, I wish to express our appreciation for the response, cooperation and efforts of all of those who have assisted us in executing our responsibilities during 1981.

For the Audit Committee,

James A. Hughes

James A. Hughes
Chairman

Cleveland, Ohio
January 26, 1982

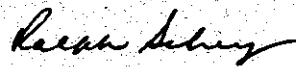
Report of Management

The management of The Scott & Fetzer Company is responsible for the preparation and presentation of the consolidated financial statements and related financial information included in this Annual Report. In fulfilling this responsibility, management has ensured that the financial information was prepared in accordance with generally accepted accounting principles which are consistently applied in all material respects. Management also furnished the estimates and judgments on which the accounting process, in many instances, must rely, and we believe the estimates and judgments used in preparing the financial information are reasonable and appropriate.

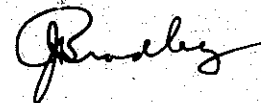
The Company has a system of internal controls designed to provide reasonable assurance at reasonable cost that its assets are safeguarded and that the Company's records reflect the transactions of the Company accurately and fairly. The system of internal control is supported by the selection of qualified personnel, organizational assignments that provide appropriate delegation of authority and division of responsibilities, and the dissemination of written policies and procedures. This is further reinforced by an extensive program of internal audits of management and financial controls including follow-up procedures that require responsive action by operating unit management.

The financial statements have been examined by Coopers & Lybrand, independent certified public accountants. Their examination provides an objective review of management's reporting of operating results and financial condition. Working with our internal auditors and making tests as appropriate, Coopers & Lybrand has audited the data included in the financial statements of this Annual Report, and their opinion concerning these statements is included elsewhere in this report.

The Audit Committee of the Board of Directors is composed entirely of outside directors. The committee meets periodically with senior management, internal auditors and the independent certified public accountants. These meetings include discussions of internal accounting controls, management controls and the quality of financial reporting. Financial management, as well as the internal auditors and independent public accountants, have full and free access to the Audit Committee.



R. E. Schey
President and
Chief Executive Officer



J. F. Bradley
Executive Vice President -
Administration and Finance

Directors

JOSEPH T. BAILEY

Retired; Former Chairman and Chief Executive Officer, The Warner & Swasey Co. Manufacturer of machine tools, construction equipment, and textile machinery

Audit Committee;
Compensation and Organization Committee

ROBERT W. BJORK

Partner, Tallasi Management Co., Investment advisory firm

Compensation and Organization Committee;
Nominating Committee

J. F. BRADLEY

Executive Vice President — Administration and Finance

Investment and Pension Committee, chairman;
Executive Committee

STEPHEN H. FULLER, Ph. D.**

Vice President, General Motors Corp. Manufacturer of automobiles, trucks, and related parts and accessories

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, 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

Investment and Pension Committee;
Executive Committee

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 23, 1982.

**Proposed for election as director at the Annual Shareholders Meeting, March 23, 1982.

Corporate Management

RALPH SCHEY

Age, 57 Chairman, President and Chief Executive Officer
Mr. Schey is also responsible for the administration and coordination of the Kirby and World Book units.

J. F. BRADLEY

Age, 51 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. He also is responsible for the administration and coordination of the consumer finance subsidiaries.

WALTER A. RAJKI

Age, 56 Senior Vice President
Mr. Rajki is responsible for the administration and coordination of the Adalet, Halex, France and Northland divisions.

JOHN BEBBINGTON

Age, 56 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, 60 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, 45 Group Vice President
Mr. Kier is responsible for the administration and coordination of the American Lincoln, Klevac, Powerwinch/Jason/Quikut divisions.

KENNETH J. SEMELSBERGER

Age, 45 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, 51 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.

A. HAROLD SONGER

Age, 43 Controller

THEODORE C. BLISS

Age, 41 Assistant Treasurer

JOHN E. FRERE

Age, 34 Assistant Controller

RICHARD E. HERTHNECK

Age, 36 Assistant Secretary and Associate Counsel

KENNETH A. HOOK

Age, 39 Assistant Secretary and Associate Counsel

CORRINE E. REYNOLDS

Age, 36 Assistant Secretary and Associate Counsel

Corporate Information

Corporate Office

14600 Detroit Avenue
Lakewood, Ohio 44107
Telephone: 216/228-6200
Telex: 810-421-8128

Annual Meeting

The annual meeting of shareholders will be held on Tuesday, March 23, 1982, at 10:30 a.m. at the Westlake Holiday Inn, 1100 Crocker Road, Westlake, Ohio 44145.

Form 10-K Report

Copies of Scott Fetzer's Form 10-K report, filed with the Securities and Exchange Commission, are available without charge upon written request to Robert C. Weber, Secretary of the Company.

Transfer Agent and Registrar

AmeriTrust Company
P.O. Box 6477
Cleveland, Ohio 44101

Common Stock

Scott Fetzer common shares are traded on the New York Stock Exchange, the Midwest Stock Exchange, and the Pacific Stock Exchange. The ticker symbol for the shares is SFZ.

Scott Leizer

Exhibit 22

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

	<u>Subsidiaries of Scott & Fetzer</u>	<u>State of Incorporation</u>	<u>% of Stock Owned</u>
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, 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 1981 Annual Report to shareholders of Scott Fetzer.

B. Unconsolidated subsidiary of World Book, Inc., for which separate financial is filed on pages F-9 through F-16 of the 1981 Form 10-K Report.

C. Consolidated subsidiary of World Book Finance, Inc.

END