ANNUAL REPORT FOR THE YEAR 1948
DIRECTORS

JAMES H. BREWSTER, JR.
BENNET BRONSON
W. SHIRLEY FULTON
CHAUNCEY P. GOSS, 3RD
WILLIAM M. GOSS
ARTHUR P. HICKCOX
WILLIAM T. HUNTER

OFFICERS

President and Treasurer ..................  LEAVENWORTH P. SPERRY
Executive Vice President .................  WILLIAM M. GOSS
Vice President .............................  BENNET BRONSON
Vice President .............................  ARTHUR P. HICKCOX
Vice President .............................  MARK L. SPERRY
Vice President .............................  HENRY W. WILD
Vice President .............................  ALAN C. CURTISS
Vice President .............................  PAUL E. FENTON
Vice President .............................  CHAUNCEY P. GOSS, 3RD
Secretary and General Counsel ..........  MARK L. SPERRY, 2ND
Assistant Treasurer and Comptroller ....  JOHN V. MONTAGUE
Assistant Secretary and Assistant Comptroller  WILLLIAM F. BURKE
Assistant Secretary ........................ JOHN B. GOSS
Assistant General Manager—Mills Division  JOHN J. HOBEN

HAMILTON BEACH COMPANY DIVISION
Vice President and Assistant Treasurer ..  THOMAS B. MYERS
Assistant Secretary and Assistant Treasurer .  ARNOLD O. WOLF

OAKVILLE COMPANY DIVISION
Vice President ............................  GEORGE BODEN
Vice President and General Manager ....  H. WESLEY LEAVENWORTH
Assistant Secretary ........................ DUTTON NOBLE

A. SCHRADER'S SON DIVISION
Vice President ............................  WILLIAM T. HUNTER
Vice President and General Manager ...... SEDDIN T. WILLIAMS
Assistant Vice President and Assistant Secretary  ROY L. DEBRAUWERE

WATERVILLE DIVISION
Vice President and General Manager ...... SAMUEL G. GAILLARD, JR.
Assistant General Manager ................  ARTHUR H. GOEPDEL
TO THE STOCKHOLDERS
OF SCOVILL MANUFACTURING COMPANY

February 18, 1949

The Board of Directors submits herewith its annual report for 1948, with financial
statements and the report of Messrs. Ernst & Ernst, independent auditors.

Earnings in 1948 amounted to $3,258,646 to which was added $416,159, earnings for
the years 1945, 1946, and 1947 not previously reported which resulted from expense,
tax, and interest adjustments. The total amount carried to Additional Capital for 1948
was therefore $3,674,805. The earnings for 1948 after paying the preferred dividends were
$2.43 per share of Common Stock and in 1947 were $4,318,005 or $3.31 per share as re-
ported last year. Sales in 1948 were $80,617,513 compared with $76,956,232 for 1947.

Cash dividends totalling $2.00 per share were paid in 1948 on the Common Stock
by a dividend of $.50 per share in each quarter, the same as in the preceding year.

There is a good deal of discussion about the necessity of writing down earnings by
a provision for replacement cost of plant greater than that provided by depreciation
allowances approved by the Internal Revenue Department. During 1948 we charged
against earnings $343,949 more for depreciation allowance than can be deducted for tax
purposes; the basis for this was explained in our 1945 report. This fact and because
the new assets costing $19,734,831 bought in the last three years are depreciated on
costs which are on a high level, make us feel we are providing reasonable amounts
for replacement.

INVENTORY VALUATION

We carry principal non-ferrous mill metals in our inventories on the “Lifo” plan which
has established a conservative basis as to tonnage and price. Their value at market prices
December 31, 1948 was approximately $6,370,000 greater than the price at which they
were carried in the balance sheet. This difference could be realized as profit only by a
sale of the inventory at current prices without replacement, and, of course, a going con-
cern cannot do this. A year ago this difference was about $4,420,000.

Quantities of metals carried in our inventories at these low “Lifo” prices, were gener-
ally maintained during the year, and accordingly, with minor exception, our earnings for
the year contain no profits from the sale of low priced metals.

Since the “Lifo” method of inventory results in such conservative valuations, we
believe that it is no longer necessary to maintain the special reserve which was set up by
appropriation of earnings over the years, and which reduced inventories to a still lower
basis than “Lifo”. Accordingly, that special reserve, which amounts to $2,335,538 has
now been added to Additional Capital.

CURRENT DEVELOPMENTS

We can imagine many stockholders are not very familiar with the business and
would like the views of their management as to current developments and as to what
plans are under way.

In general we make brass mill products and manufacture a great variety of articles
which are, and long have been, standard daily requirements for civilized people. As is
natural there is plenty of competition but we are sure that our goods will continue to
be in demand. We believe that for such a permanent type of business it is our duty to
have the best manufacturing equipment available and the best organization we can
collect. We expect that our recent heavy expenditures for equipment, together with those to be made during the next few months, will take care of major requirements for some time to come.

We are very careful about the people we employ, requiring that their health and their physical condition be good. Their aptitude for their position is examined. When they are accepted they can pride themselves upon having proved that they are superior people. We think this selection is wise because, if past history is any criterion, a surprising number will be working for the Company forty or fifty years from now.

Likewise many of the articles which we now make will doubtless still be made at that time. We have already been making buttons for 147 years. The volume of our business, as a rule, varies with the general business activity of the country, and earnings improve with increased volume. The year 1948 was no exception to this general rule though our earnings were held down by extraordinary expenses caused by the construction of our new mill, the cost of developing new products, lower volume and production problems at our Brooklyn plant, Schrader Division, starting up the new sand-casting foundry, rearrangement of production facilities, and other moves which should bring many future benefits. A good deal of this type of expense will continue into 1949.

ACTIVITIES AT DIVISIONS

On our new sheet brass mill we spent $5,324,490 in the year 1948 and hope to complete it in the first half of 1949. On other mill facilities we spent $374,544 and in addition on general Main plant and Waterville Division items, $2,194,471.

We did more brass mill business than in 1947 but still under handicap due to construction of the new building and installation of machinery. Likewise a rise in wages and the cost of material could not be promptly and adequately reflected in our selling prices.

We have continued to develop our slide fastener and the machinery to make it. Both seem most excellent and we have sold the product (which we call Gripper Zipper) to the satisfaction of our customers. Our people think our Zipper is the best made. The expense of getting started in this business is large, but it has much promise and is an item which complements our regular lines of closures consisting of snap fasteners and buttons and is sold largely to our regular customers.

At our Hamilton Beach Company Division business was very active. A new building is nearly completed. The cost of plant additions there in 1948 was $496,146. In addition to introducing new models of several of our principal products, we have undertaken the manufacture of the well-known "Johnson Beautiflor Electric Floor Polisher" under contract, after a study by us which led to its modification and improvement. As an apparatus run by an electric motor and made in large volume, it fits nicely into our line of work.

The manufacturing of plumbing goods at our Morency-Van Buren plant at Sturgis, Michigan, was moved to and was absorbed by our Waterville Plumbing Division. This move was undertaken at considerable expense, but should produce operating economies. We use part of the buildings at Sturgis for a sales warehouse, principally for mill products.

At the Oakville Company Division where we make pins, safety pins and many other small articles, business was good. Here we spent $325,595 for facilities. Some remarkable new machinery has been developed at this plant and additional units are still under construction.
New facilities for A. Schrader's Son Division, where we make automobile and bicycle tire valves and related items, cost $602,485 of which $194,534 was spent in England. The English operation did well but we had to leave earnings there to take care of the added investment in plant. That plant is the one best adapted to do tire valve business in the Sterling area and it exports a considerable amount. The Canadian factory at present ships a good deal to the English plant but we expect to do more of the work in England as we get that plant fully equipped. We purchased a leasehold with building in Birmingham, England, adjoining our present plant.

**Preferred Stock Sinking Fund**

For the 3.65% Preferred Stock we are required to provide a sinking fund of $200,000 if that sum is earned above the preferred dividend. For all or part of this payment we may substitute at its cost to us, Preferred Stock which we purchase. On April 15, 1948 we discharged this obligation for the year 1947 with stock, and on April 15, 1949 we expect to have enough stock to do likewise for 1948.

**Proposed New Financing**

During the last three years we spent $19,734,831 for new plant assets of which $9,317,994 was in 1948. We still have a large amount under contract.

These great expenditures have been made faster than we could provide the funds for them out of operations, so that at the end of the year we owed to banks $4,035,383 for borrowed money. As we rapidly finish and have to pay for the completion of our major plant expansion program additional money will be needed. We prefer not to carry so much in the form of current debt, and plan the issuance of $4,985,000 of the heretofore authorized Preferred Stock, if conditions seem opportune, the proceeds to be applied in payment of bank loans. This new series of Preferred Stock may differ from the series now outstanding in dividend rate, by the inclusion of a conversion privilege and in other features. It is planned that any additional funds needed will be obtained by short or long-term borrowing.

**Employee Matters**

The total amount of wages and salaries to employees in the United States for the year 1948 was $33,988,568 before deductions for various items required by the Government, or authorized by them. The cost to employees for amounts withheld by order of the Government was:

For Income Taxes .......... $3,060,026
For Old Age Benefits .... 283,381

We have no formal employees' retirement system for age or disability, but we paid over $235,000 last year to old employees who have retired. Likewise, without any set plan, we paid wages of over $155,000 to employees while they were out sick and additional benefits.

Relations with our employees and their unions continued good with no strikes or disturbances.

The year 1948 was a year of good accomplishment for the Company and many important improvements both in plant and organization were completed at considerable expense, further insuring our position for the future.

By Order of the Board of Directors

Leavenworth P. Sperry
President
## CONSOLIDATED STATEMENT OF INCOME

**SCOVIH MANUFACTURING COMPANY AND SUBSIDIARIES**

**YEARS ENDED DECEMBER 31, 1948 AND 1947**

<table>
<thead>
<tr>
<th>INCOME</th>
<th>1948</th>
<th>1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales—billed for products, services and sundry (less returns and adjustments)</td>
<td>$80,617,513</td>
<td>$76,956,232</td>
</tr>
<tr>
<td>Dividends, interest, rents, royalties, and sundry income</td>
<td>235,867</td>
<td>178,601</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>$80,853,380</strong></td>
<td><strong>$77,134,833</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>COSTS, EXPENSES AND ESTIMATED TAXES ON INCOME</th>
<th>1948</th>
<th>1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of goods and services sold (exclusive of items shown separately below) and transportation</td>
<td>56,694,511</td>
<td>51,670,329</td>
</tr>
<tr>
<td>Selling, administrative, and general expenses (exclusive of items shown separately below) and discounts allowed</td>
<td>8,424,696</td>
<td>7,899,200</td>
</tr>
<tr>
<td>Maintenance and repairs, etc.</td>
<td>5,954,334</td>
<td>6,251,085</td>
</tr>
<tr>
<td>Allowance for depreciation</td>
<td>2,351,686</td>
<td>1,990,141</td>
</tr>
<tr>
<td>Taxes—property and sundry</td>
<td>1,018,319</td>
<td>912,493</td>
</tr>
<tr>
<td>Taxes—social security</td>
<td>418,093</td>
<td>749,991</td>
</tr>
<tr>
<td>Loss on disposition of fixed assets</td>
<td>22,559</td>
<td>18,781</td>
</tr>
<tr>
<td>Other charges including interest</td>
<td>96,097</td>
<td>81,498</td>
</tr>
<tr>
<td>Estimated federal, state and foreign taxes on income, including prior year adjustments—net</td>
<td>2,614,439</td>
<td>3,213,310</td>
</tr>
<tr>
<td><strong>Total deductions from income</strong></td>
<td><strong>$77,594,734</strong></td>
<td><strong>$72,816,828</strong></td>
</tr>
</tbody>
</table>

**EARNINGS FOR YEAR**

<table>
<thead>
<tr>
<th></th>
<th>1948</th>
<th>1947</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>$ 3,258,846</strong></td>
<td><strong>$ 4,318,005</strong></td>
<td></td>
</tr>
</tbody>
</table>

Add adjustments of earnings for 1945, 1946 and 1947 consisting primarily of the capitalization of prior years’ expenses less related tax adjustments and interest—net | 416,159 |

**BALANCE** | **$ 3,674,805**

(Notes appear on page 9)
# Sundry Comparisons

**Scovill Manufacturing Company and Subsidiaries**

<table>
<thead>
<tr>
<th>Description</th>
<th>1948</th>
<th>1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes—property and sundry</td>
<td>$1,018,319</td>
<td>$912,493</td>
</tr>
<tr>
<td>Taxes—social security</td>
<td>418,093</td>
<td>749,991</td>
</tr>
<tr>
<td>Maintenance and repairs, etc.</td>
<td>5,954,334</td>
<td>6,251,085</td>
</tr>
<tr>
<td>Allowance for depreciation of plant facilities</td>
<td>2,351,686</td>
<td>1,990,111</td>
</tr>
</tbody>
</table>

| Additions to property, plant, and equipment                               | $9,317,994      | $6,232,335      |
| Gross book value of such items disposed of                               | 1,056,306       | 711,554         |
| Net loss on disposals of such items charged to allowances for depreciation| 5,314           | 35,758          |
| Loss on disposition of fixed assets charged to profit and loss            | 22,559          | 18,781          |

**Inventories:**

<table>
<thead>
<tr>
<th>Item</th>
<th>1948</th>
<th>1947</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finished Goods</td>
<td>$7,788,090</td>
<td>$6,845,689</td>
</tr>
<tr>
<td>Work in Process</td>
<td>7,918,319</td>
<td>6,880,118</td>
</tr>
<tr>
<td>Raw Materials</td>
<td>4,367,908</td>
<td>4,148,708</td>
</tr>
<tr>
<td>Supplies</td>
<td>1,131,072</td>
<td>1,060,094</td>
</tr>
<tr>
<td>Total inventories</td>
<td>$21,205,389</td>
<td>$18,934,609</td>
</tr>
</tbody>
</table>

| Number of Stockholders        | 14,009          | 13,585          |

| Number of employees at December 31st | 11,281 | 10,390 |