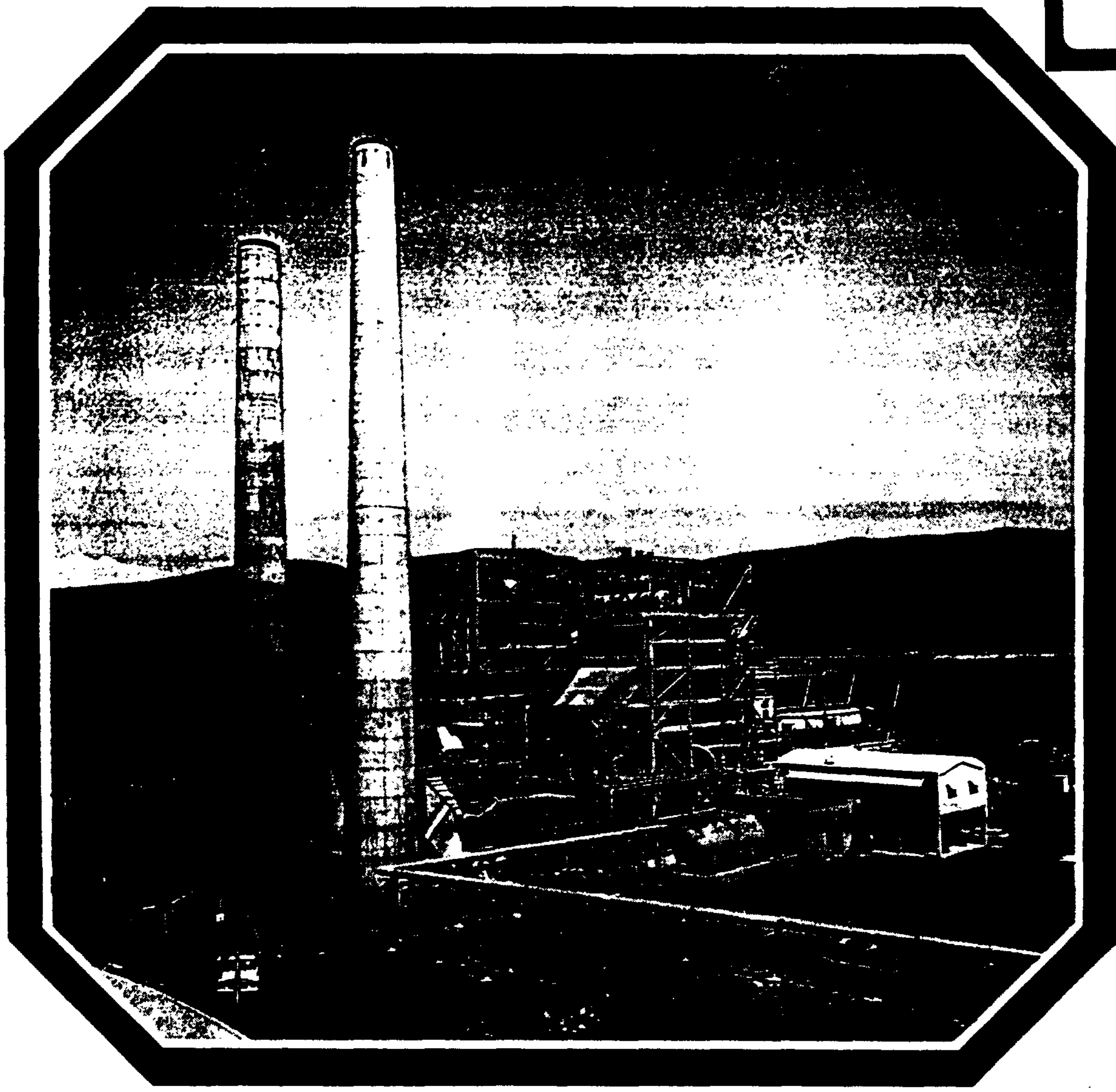
PLAINTIFF'S EXHIBIT

RS-303



RILEY STOKER CORPORATION 1965 ANNUAL REPORT

RS-001108
1/17/02
NUECES

Officers and Directors

DIRECTORS

Fred H. Daniels
Honorary Chairman

Louis E. Griffith
Chairman

Robert K. Griffith

Chapin Riley

Robert S. Bowditch

Philip R. Mather

Richard J. Rutherford

Bruce G. Daniels

Ellis T. Knobloch

OFFICERS

Louis E. Griffith
Chairman, Vice President and General Manager

Robert K. Griffith
President and Treasurer

Henry H. Michelsen
Vice President — Sales

Henry H. Hemenway
Vice President — Engineering

Ellis T. Knobloch
Vice President

Alexander L. Mitchell
Vice President — Chicago Office

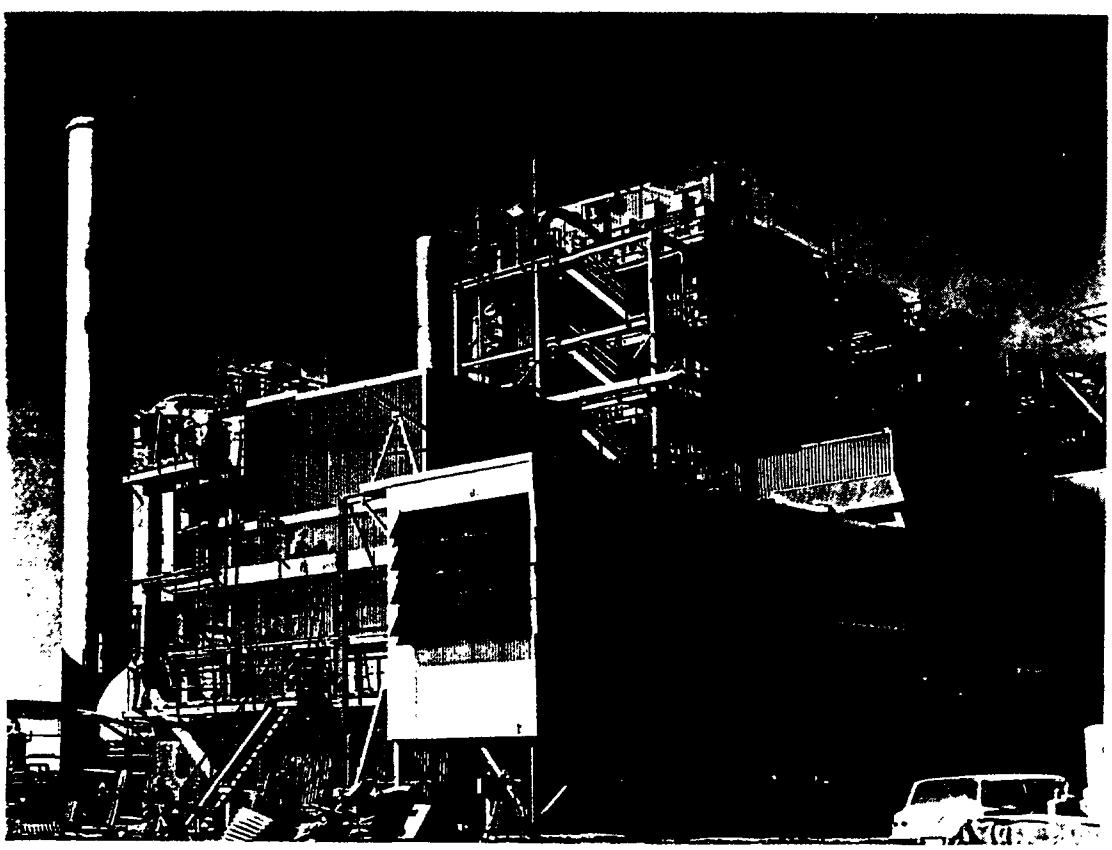
Kathleen M. Crooks
Secretary

Our Cover—Strikingly beautified by colorful porcelainized lagging and impressive in their performance are the two Riley Boilers at Tracy Station near Reno, Nevada. They provide a dependable steam generated power supplement to Sierra Pacific Power Company's hydro and diesel output.

Carolina Power & Light Company has three Riley Steam Generating Units operating at three separate generating stations. This is Unit No. 1 at Skyland Station at Asheville, N. C. The three units produce more than five and one-half million pounds of steam per hour. All are equipped with Riley pulverizing mills and burners.

Financial Highlights

	1965	1964	1963	1962	1961
Sales (Billings)	$47,645,518	$42,164,562	$33,838,166	$37,183,878	$43,286,888
Net Earnings before Federal Taxes	(615,037)	1,712,134	1,881,017	682,873	3,184,800
Net Earnings after Federal Taxes	(631,128)	783,153	1,071,412	469,633	1,521,689
Net Earnings Per Share before Federal Taxes	(1.57)	4.38	4.81	1.75	8.14
Net Earnings Per Share after Federal Taxes	(1.61)	2.00	2.74	1.20	3.89
Cash Dividends Per Share	1.60	1.60	1.60	1.60	1.60
Net Worth	17,019,655	18,263,530	18,089,690	17,638,393	17,795,032
Net Worth Per Share	43.53	46.71	46.26	45.11	45.51
Shares Outstanding	391,014	391,014	391,014	391,014	391,014
Expenditures for Plant and Equipment	722,306	858,973	876,050	443,660	1,049,163
Working Capital	12,766,460	13,542,067	13,461,610	13,920,809	14,004,035



In the foreground is one of Riley's new OD Boilers as it nears completion at Kaiser Aluminum and Chemical Company, Baton Rouge, Louisiana. Three Riley Turbo Furnace Boilers installed in previous years are also shown.

RS-001110
1/17/02
NUECES

To Our Shareholders

Comparative results of our consolidated operations for the years of 1965, 1964, 1963, 1962 and 1961 are summarized on page 2.

Despite profitable operations by all other divisions in 1965 a substantial loss by the Badenhausen Corp. division resulted in a consolidated loss of $631,128 after taxes for 1965.

Continued high cost of producing new designs for major components of steam generator units combined with expensive past practice work procedures are largely responsible for the disappointing results of Badenhausen Corp. division operations.

To accomplish acceptable results in the operation of the Badenhausen Corp. division appropriate changes have been made in Plant Management and Supervisory Personnel and a three year labor relations contract, which eliminates many expensive past practice production procedures, has recently been negotiated with the United Steelworkers Union.

In addition our cost reduction program has been further intensified and all production methods are being evaluated and analyzed for potential improvement.

In 1965 expenditures for additions and improvements to wholly owned property and facilities totaled $722,306.

Financial figures given in this report do not reflect the effect of Engineering Fees not received from our Licensees. Such Engineering Fees, totaling approximately $2,000,000, are based on contracts sold by our Licensees and the Engineering Fees involved will be paid to us in the same ratio as our Licensees receive contract payments from customers.

The consolidated backlog of unfilled orders on December 31, 1965 was $82,655,231 and on February 1, 1966 was $87,980,972.

With a substantial backlog of unfilled orders for all divisions, an anticipated improvement in the operations of the Badenhausen Corp. division and many capable associates, your Management is dedicated to making a significant improvement in the results of our operations in 1966.

The cooperation of our customers, shareholders, loyal employees and suppliers is acknowledged with appreciation and thanks.

By Order of The Board of Directors

L. E. Griffith, Chairman

R. K. Griffith, President

February 15, 1966

Consolidated Statement of Income

FOR THE YEAR ENDED DECEMBER 31, 1965

Sales		[illegible]
Cost of Sales		[illegible]
Gross Income		[illegible]
Selling Expense	[illegible]	

RS-001112
1/17/02
NUECES

RILEY *Stoker Corporation*

Consolidated Balance Shee

ASSETS

Current Assets		
Cash		$ 600,020.57
Marketable Securities at Cost (Market Value $5,234,283.50)		5,565,764.29
Notes and Accounts Receivable—Trade, Less Allowance of $37,647.33 for Doubtful Accounts	$13,308,744.22	
Other	828,795.85	14,137,540.07
Inventories of Materials and Supplies (At Lower of Cost or Market)		6,533,218.12
Costs of Uncompleted Contracts in Excess of Related Billings		1,667,807.80
Engineering in Process		570,359.81
Advances to Salesmen, Erectors and Others		314,334.28
Prepaid Expenses		286,128.85
Total Current Assets		$29,675,173.79
Other Assets		
Stock of Other Corporations—At Cost	$ 13,943.13	
Notes Receivable—Trade, Maturing After 1966	326,578.67	340,521.80
Fixed Assets		
Land	$ 404,753.46	
Buildings	5,404,677.01	
Machinery and Equipment	7,403,357.05	
	$13,212,787.52	
Less: Accumulated Depreciation	8,140,019.65	
	$ 5,072,767.87	
Buildings and Machinery Under Construction	23,489.20	5,096,257.07
Patents—At Cost Less Depreciation		1.00
		$35,111,953.66

NOTES TO FINANCIAL STATEMENTS

Note A—**Basis of Consolidation**—The consolidated financial statements include the accounts of the Company and all subsidiaries (each of which is wholly owned). Intercompany items and transactions have been eliminated in the consolidated figures.

Note B—**Depreciation**—For financial reporting purposes and for Federal Income Tax purposes, depreciation is provided for by the straight line method and by the declining balance method, based upon estimated useful lives of the assets.

ecember 31, 1965

LIABILITIES

Current Liabilities		
Notes Payable to Banks		$ 6,600,000.00
Accounts Payable		3,326,491.95
Customers' Advances		4,962,730.61
Accrued Liabilities		
Payroll	$ 225,574.01	
Commissions	498,300.32	
State and Other Taxes	569,494.75	
Retirement Plan	506,252.35	
Other	219,869.90	2,019,491.33
Total Current Liabilities		$16,908,713.89
Reserves		
Building Fund	$ 200,000.00	
Contingencies	150,000.00	
Expenses	1,033,585.16	1,383,585.16
Stockholders Equity		
Capital Stock—Common, Par Value $3.00 Per Share		
Authorized—1,050,000 Shares		
Issued and Outstanding—391,014 Shares	$ 1,173,042.00	
Capital Surplus (No Change During the Year)	1,444,497.05	
Retained Earnings	14,202,115.56	
Total Stockholders' Equity		16,819,654.61
		$35,111,953.66

NOTES TO FINANCIAL STATEMENTS

Note C—Bonus Profit Sharing Plans—The Company has bonus profit sharing plans under which distribution is made in the following year to a selected list of employees of the Corporation as approved by the Board of Directors. The total payment is computed by a formula on the basis of the year's income. The total accrual charged to 1965 operations is $12,000, payable to participants of a subsidiary.

Note D—Retirement Plans—Accrued Retirement charged to 1965 operations is $506,252.35.

RILEY *Stoker Corporation*

Consolidated Statement of Application of Funds

FOR THE YEAR ENDED DECEMBER 31, 1965

Funds Expended			
Dividends Paid			$ 625,622.40
Additions to Plants, Equipment and Facilities			722,305.63
Total Funds Expended			$ 1,347,928.03
Funds Provided			
Depreciation		$ 648,469.53	
Increase in Reserves		137,045.38	
		$ 785,514.91	
Less: Net Loss for the Year	$ 631,128.30		
Gain on Sale of Assets	7,756.80	638,885.10	$ 146,629.81
Proceeds from Sale of Assets			10,454.50
Decrease in Long-Term Notes Receivable			404,844.25
Adjustment of Prior Years' Federal Taxes			10,392.28
Total Funds Provided			$ 572,320.84
Decrease in Working Capital			$ 775,607.19
Changes in Working Capital for the Year			
Increase in			
Notes Payable			$ 4,250,000.00
Customers' Advances			814,424.84
Retirement Plan			506,252.35
Other Liabilities			208,509.34
Decrease in			
Marketable Securities			354,074.20
			$ 6,133,260.73
Less: Increase in			
Accounts Receivable	$2,720,095.54		
Inventories	874,865.96		
Other Assets	120,044.05	$3,715,005.55	
Decrease In			
Accounts Payable	$ 780,464.67		
Federal Taxes on Income	862,183.32	1,642,647.99	5,357,653.54
Decrease in Working Capital			$ 775,607.19

To The Board of Directors
Riley Stoker Corporation
9 Neponset Street
Worcester, Massachusetts

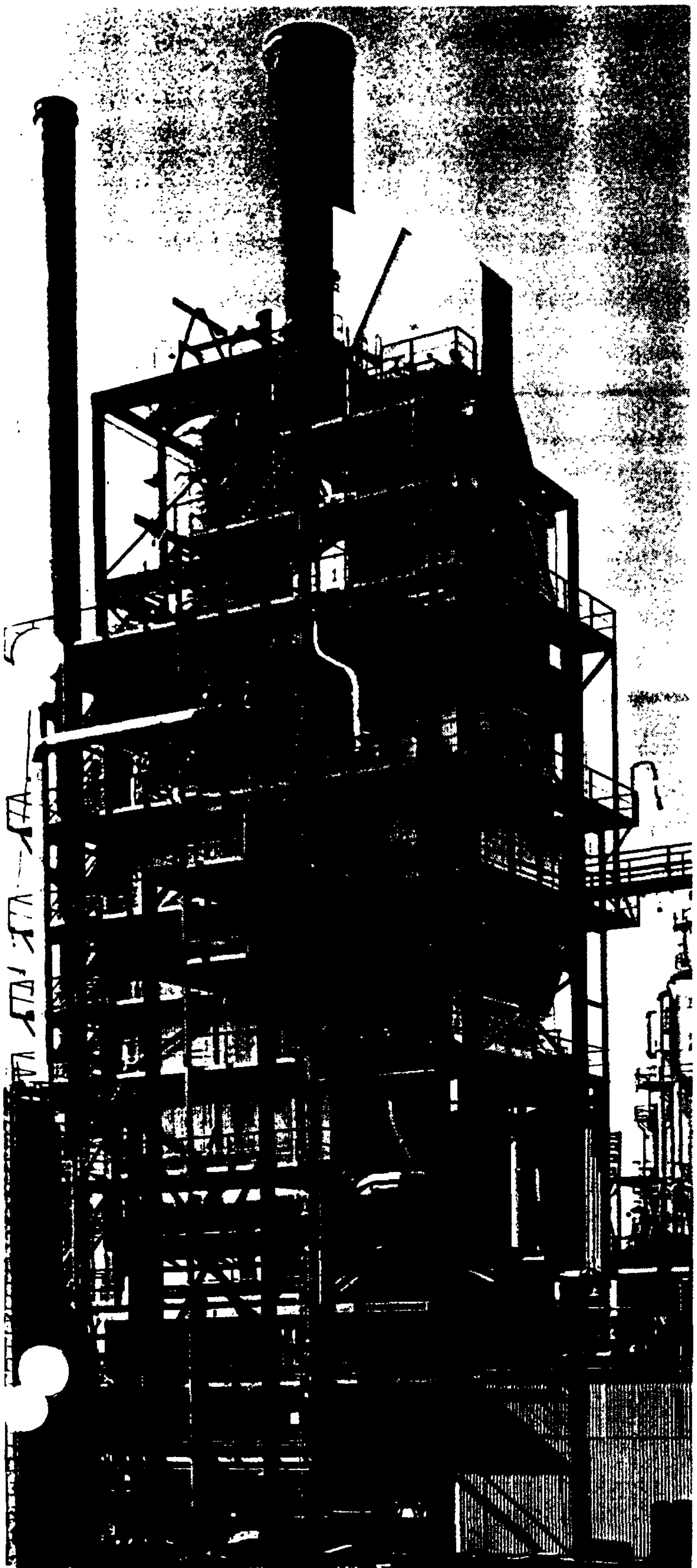
Gentlemen:

We have examined the consolidated balance sheet of Riley Stoker Corporation and subsidiary companies as of December 31, 1965 and the related consolidated statements of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income and retained earnings present fairly the financial position of Riley Stoker Corporation and subsidiary companies at December 31, 1965 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

George A. Smith and Company
Certified Public Accountants

Worcester, Massachusetts
February 7, 1966



1965 Highlights

Manufacturing

The total capital investment of $722,306 in 1965 included expenditures for cost reduction equipment at our Detroit, Badenhausen Corporation, A. W. Cash Company, and Union Iron Works plants.

Recently authorized capital expenditures included the installation of two additional electric melting furnaces which will substantially reduce the cost of foundry operations at our Detroit plant.

These capital expenditures are the consequence of a continuing cost reduction program with particular emphasis on all areas of the Badenhausen Corp. division operations.

Sales

Total consolidated sales volume of new contracts closed in 1965 substantially exceeded total new sales volume closed in 1964 and includes increased new sales volume by all divisions.

Current inquiries reflecting the expansion of our national economy indicate that the volume of new business available to our industry will continue at a high level in 1966.

A Riley 250,000 lbs/hr Turbo Furnace Boiler installed at Marathon Oil Company at Detroit, Michigan. This boiler is fired by oil and refinery by-product fuels—CO gas and fluid coke—and is equipped with Riley Ball Tube Mills.

Brief History of the Company

Riley Stoker Corporation was incorporated under the laws of the Commonwealth of Massachusetts in 1913. Its wholly owned subsidiaries, included in the within Consolidated Financial Statement, are Badenhausen Corporation and Union Iron Works, both incorporated under the laws of the Commonwealth of Pennsylvania, and A. W. Cash Company, incorporated under the laws of the state of Delaware.

The principal business of Riley Stoker Corporation and its subsidiaries, Badenhausen Corporation and Union Iron Works, is the design, manufacture, sale and erection of steam generating and fuel burning equipment, with the electric utility industry accounting for more than 80% of its sales.

Prior to 1960 the Company's Badenhausen Corporation plant manufactured all of its steam generating equipment which included high temperature, high pressure steam generators, reheaters, superheaters (convection, radiant), air heaters, economizers, steel clad settings, water cooled furnaces, CO boilers.

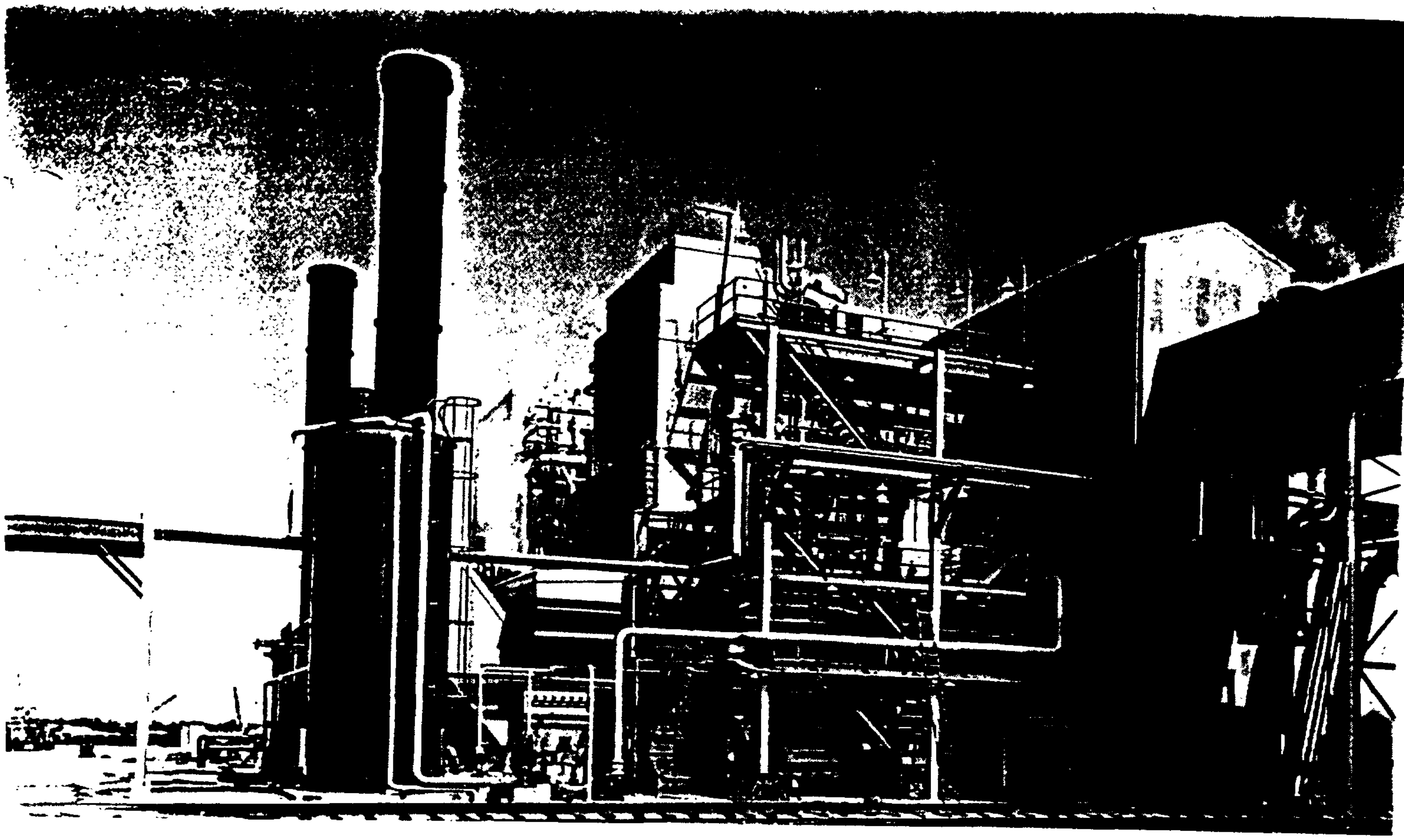
In 1960 with the acquisition of Union Iron Works, the Riley line of products was complemented by the following Union products sold in the same general market: package boilers, low pressure boilers, waste heat boilers, high temperature hot water heaters, thermal liquid heaters, process equipment, vaporizers for organic fluids, forced circulation heaters, welded fabricated steel, autoclaves.

The Company's fuel burning equipment is manufactured at its Detroit, Michigan plant and includes coal pulverizers, spreader stokers, traveling grate stokers, oscillating grate stokers, coal, oil and gas burners, multiple retort stokers, single retort stokers, refuse fuel burning equipment, bagasse burning stokers.

A. W. Cash Company manufactures and sells pressure and temperature regulating valves, combustion control equipment and missile loading valves.

The locations of the Company's manufacturing plants, sales offices, licensed manufacturing associates and overseas agents are set forth on the back cover of this report.

Five MH Package Steam Generators made up this shipment to a Gulf Oil Company refinery in Louisiana. The trip started out by rail and finished by barge via the Ohio and Mississippi Rivers. Each unit is capable of generating 120,000 pounds of steam per hour.



A remarkably efficient fuel burning system developed by Riley for burning bagasse is being used with Riley-Union boilers in sugar mills in every major sugar-producing area in the world. A typical installation is the two 120,000 lbs/hr Riley boilers, above operating for the Sugar Cane Growers Cooperative of Florida at Belle Glade.

RILEY BOILER USERS (Partial List)

PUBLIC UTILITIES

Arizona Public Service Co.
Carolina Power & Light Co.*
Central Power & Light Co.
Kansas Gas & Electric Co.*
Holyoke Water Power Co.*
Minnesota Power & Light Co.*
Eastern Iowa Light & Power Co.
Philadelphia Electric Co.*
Louisiana Power & Light Co.*
Texas Electric Service Co.*
Public Service Company of Indiana, Inc.*
Arkansas Power & Light Co.
Utah Power & Light Co.*
Columbus & Southern Ohio Electric Co.*
Central Illinois Light Co.*
Houston Lighting & Power Co.*
South Carolina Electric & Gas Co.*
Union Electric Co. of Missouri*
Nevada Power Co.
Commonwealth Edison Co.
Florida Power Corporation*
Dallas Power & Light Co.*
Monongahela Power Co.
The Potomac Edison Co.*
Delaware Power & Light Co.
Massachusetts Electric Co.
Southwestern Gas & Electric Co.
Northern States Power Co.
Central Louisiana Electric Co.*
Gulf Power Co.*
Sierra Pacific Power Co.*
Pennsylvania Electric Co.
Iowa Electric Light & Power Co.*
Montana-Dakota Utilities Co.*
Mississippi Power Co.*
Ohio Edison Co.*
Iowa Public Service Co.*
Interstate Power Co.*
Pacific Gas & Electric Co.*
Southern Indiana Gas & Electric Co.*
Upper Peninsula Power Co.
New Orleans Public Service Inc.*
Northern Virginia Power Co.
Iowa-Illinois Gas & Electric Co.*
West Penn Power Co.
Upper Michigan Power & Light Co.*
Superior Water, Light & Power Co.
The Cliffs Power & Light Co.
Otter Tail Power Co.*
North Dakota Power & Light Co.
The Hartford Electric Light Co.
Taiwan Power Co.*
Community Public Service Co.
Wisconsin Electric Power Co.
West Texas Utilities Co.*
Fitchburg Gas & Electric Co.
The Detroit Edison Co.
Manila Electric Co.*
Tampa Electric Co.*
San Diego Gas & Electric Co.
Southwestern Power Co.
Salt River Power District*
Boston Edison Co.
Louisville Gas & Electric Co.
Georgia Power Co.
Alabama Power Co.

INDUSTRIALS

General Motors Corp.*
Ford Motor Co.*
Celanese Corporation*
Great Atlantic & Pacific Tea Co.*
Boise Cascade Corp.*
The Dow Chemical Co.*
Deere & Company
Esso Standard Oil Co.*
Standard Oil of Calif.*
Bethlehem Steel Corp.
U. S. Steel Corp.*
Republic Steel Corp.*
Marathon Southern Corp.
The Texas Co.
Shell Oil Co.*
Tidewater Oil Co.
The Champion Paper & Fibre Co.*
W. Va. Pulp & Paper Co.*
Gaylord Container Corp.*
Olin-Mathieson Chemical Corp.*
B. F. Goodrich Company*
Union Carbide Chemical Co.*
Continental Can Co.*
Kennecott Copper Corp.*
Hooker Chemical Corp.*
Swift & Co.*
Western Electric Co.*
E. I. duPont de Nemours & Co.*
U. S. Rubber Co.*
A. E. Staley Mfg. Co.*
Crocker Burbank & Co., Ass'cn.
St. Regis Paper Co.*
Masonite Corp.*
Humble Oil and Refining Co.*
American Enka Corp.*
Commercial Solvents Corp.
American Viscose Corp.*
Monsanto Chemical Co.*
Rayonier, Inc.*
Westinghouse Electric Co.*
General Electric Co.*
Northern Ohio Sugar Co.
Crucible Steel Corp. of America
Gulf States Paper Co.
Campbell Soup Co.
Pennsylvania Railroad*
St. Croix Paper Co.*
Glidden Co.*
International Harvester Co.*
Allis Chalmers Mfg. Co.*
Norton Co.*
Pratt & Whitney Div.
  of United Aircraft*
Publicker Industries, Inc.*
McDonnell Aircraft Corp.*
Mead Corporation*
Great Lakes Steel Corp.*
General Foods Corp.*
American Brass Co.*
American Smelting & Refining Corp.*
Freeport Sulphur Co.
Kaiser Aluminum & Chemical Corp.*
Celotex Corp.
The Charmin Paper Products Co.
Bryant Sugar House*
Alton Box Board Co.*
Marathon Oil Co.
Shell Chemical Co.*
Diamond National Corp.*
Emery Industries, Inc.
Strathmore Paper Co.
Koppers Co., Inc.*
Upjohn Company*
C. H. Dexter & Sons, Inc.
American Oil Co.
Barber Colman Co.
Standard Brands, Inc.
P. H. Glatfelter Co.
Hormel & Co.
Weyerhaeuser Corp.
Remington Rand Co.*
Archer-Daniels-Midland Co.*
Penn Station Housing Project
Copperweld Steel Co.
Libby, McNeill & Libby*
Naugatuck Chemical Co.
Morgan Packing Co.
Toledo Edison Co.
Holy Cross College*
Suntide Refining Co.
Tobin Packing Co.
R. J. Reynolds Tobacco Co.*
Carnation Company*
Chrysler Corporation*
Firestone Tire & Rubber Co.*
Chevrolet Motor Division*
American Chemical Co.*
Wyckoff Steel Co.*
Atlantic Refining Co.
H. J. Heinz Co.
Anheuser-Busch, Inc.
The Hilton-Davis Chemical Co.
The American Tobacco Co.
Corning Glass Co.
U. S. Plywood Corporation
Shell Oil Co.*
General Electric Co.
United Rubber & Chemical Co.
Utah-Idaho Sugar Co.*
Indiana State College
Knox College
Southampton Penitentiary Farms
Norwich University
Rikers Island Penitentiary
Miles Chemical Co.
National Bureau of Standards
Pond Lily Co.
Nicholson File Co.
Great Lakes Steel Div.
  National Steel Corp.
Hercules Powder Co.*
Buckeye Sugars, Inc.
Hudson Pulp & Paper Co.
Antilles Chemical Co.*
Rochdale Village, Inc.
Bucyrus-Erie Co.
Johns-Manville Products Co.*
Reynolds Metals Co.
Torrington Company*
The Budd Company
Ingersoll Rand Co.
Thomas J. Lipton Co., Inc.
Holly Sugar Co.*
American Smelting & Refining Co.*
Swift & Co.
Mohawk Paper Mill, Inc.
Container Corporation of America*
Florida Sugar Corp.
Kohler Company
General Aniline & Film Corp.
Princeton University
Sugar Cane Growers Coop*
Goodyear Tire & Rubber Co.*
Geigy Chemical Co.
Hunt Foods and Industries
Georgia Pacific Corp.
Cooper Tire and Rubber Co.
Chemstrand Co.
Eastman Kodak Co.
National Steel Corp.
Great Western Sugar Co.
Brown & Williamson Tobacco Co.
Gulf Oil Corp.*
Borden Chemical Co.
The Boeing Co.
Continental Oil Co.
Spreckles Sugar Co.
Erving Paper Mills
U.S. Gypsum

*Repeat Orders

RS-001118
1/17/02
NUECES

RILEY *Stoker Corporation*

GENERAL OFFICES – WORCESTER, MASSACHUSETTS

OPERATIONS DIRECTORY

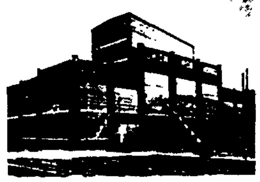
Manufacturing Plants in the United States

Detroit, Michigan
Riley Stoker Corporation Division

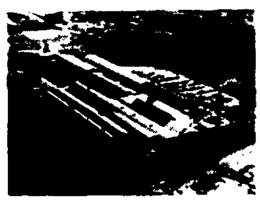
Erie, Pa.
Union Iron Works Division

Cornwells Heights, Pa.
Badenhausen Corporation Division

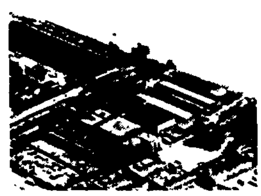
Decatur, Illinois
A. W. Cash Co. Division



Union Iron Works



Badenhausen Corporation



Detroit Division

Central Offices—Worcester

SALES OFFICES—Albuquerque, Atlanta, Boston, Charlotte, Chicago, Cincinnati, Cleveland, Detroit, Denver, Honolulu, Houston, Jacksonville, Kansas City, Los Angeles, New Orleans, New York, Philadelphia, Pittsburgh, Portland, Salt Lake City, San Francisco, Seattle, St. Louis, St. Paul, Syracuse, Washington.

Licensed Manufacturing Associates

JOHN BROWN LAND BOILERS, LTD.
Steam Generating and Fuel Burning Equipment
British Commonwealth of Nations
(Except Australia, New Zealand, Canada, India, Pakistan)
Steam Generating Equipment
Europe (Except Belgium, Luxenbourg, France, Spain, Portugal and their possessions)

FOSTER WHEELER LIMITED
Steam Generating and Fuel Burning Equipment
Canada

DISTRAL LTDA.
Republic of Columbia
Products of Union Iron Works Division

RILEY DODDS AUSTRALIA, LIMITED
Steam Generating and Fuel Burning Equipment
Australia and New Zealand

FAMA,
Stokers — Europe, Cambodia, Turkey and Viet Nam

CHAUDRONNERIES PIERRE BROUHON
Steam Generating Equipment
Belgium, Congo, Grand Duchy of Luxembourg

SOCIETE D'EXPLOIATION D'USINES METALLURGIQUES
Steam Generating Equipment and Gas, Oil, Coal Burners
France, Spain, Portugal and their possessions

Overseas Agents

COLUMBIA
C. E. Halaby & Co., Ltd.

URUGUAY
J. Felix Castillo, Jr.

VENEZUELA
Ortiz & Mejia C. A.

MEXICO
Construcciones De Ingenieria Electrica Y Mecanica, S.A.

INDIA
G. S. Atwal & Co.

VIET NAM AND CAMBODIA
Brownell, Lane Intl. Ltd.

PAKISTAN
Interhom Ltd.

KOREA
Joongwon & Company, Ltd.

GREECE
John T. Dontopoulos

KINGDOM OF DENMARK
Thomas Schmidt

TAIWAN
The Suiki Enterprise Co., Ltd.

PHILIPPINES
Atlantic Gulf and Pacific Co. of Manila, Inc.

ARGENTINA
Sociedad Argentina Tecnica
Industrial y Comercial, S. A.

PUERTO RICO AND DOMINICAN REPUBLIC
Abarca Warehouses Corp.

ISLAND of MAURITIUS
Rey & Lenferna, Ltd.

CHILE
Racontec Ltda.

TURKEY
Sinai Tatbikat T.A.S.