

PLAINTIFF'S EXHIBIT

RS-344



RS-002398

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United States Filter is positioned for large potential growth. It has a strong and growing capability in the two technical fields that should figure prominently in industry and government concerns and spending in the 1980s—energy-related products and services and environmental control. The merger with The Riley Company brings together an excellent fit of the products and services of two technology oriented companies which together will serve these two vital growth industries.

Cover: Four Riley Stoker coal-fired steam generators provide the steam for the Santee-Cooper South Carolina Public Service Authority's Winyah Station near Georgetown, South Carolina. The newest unit is capable of producing two million pounds of steam per hour.

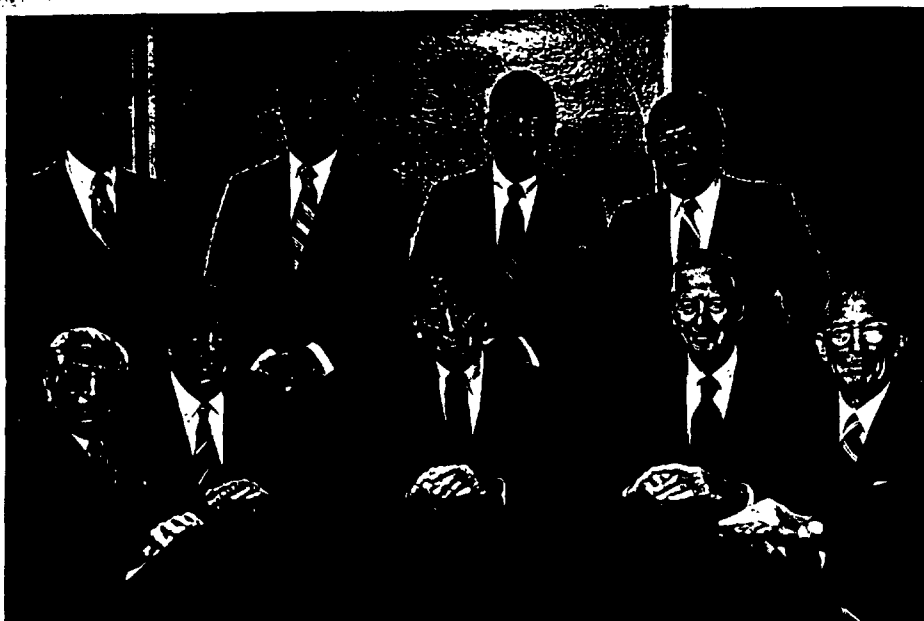
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	1979	1978	1977	1976	1975
Net Sales	\$611,551,000	\$540,815,000	\$423,657,000	\$358,177,000	\$246,402,000
Net Income	22,477,000	16,076,000	13,877,000	12,712,000	10,690,000*
Earnings Per Share					
Primary	2.01	1.55	1.70	1.57	1.32*
Fully Diluted	1.79	1.51	1.70	1.56	1.32*
Cash Dividends on Common Stock	.34	.30	.28	.24	.20
Shareholders' Equity	264,654,000	250,602,000	140,452,000	128,745,000	117,937,000
Cash, Cash Equivalents and Marketable Securities	234,760,000	139,106,000	40,626,000	53,220,000	47,606,000

*After extraordinary credit, net of taxes, of \$746,000 (\$.09 per share).

Contents

Letter to Shareholders	2
Markets, Products and Services	6
Review of Operations	
Power Generation Segment	8
Energy/Technology Segment	12
Natural Resources Segment	16
Environmental Systems Segment	18
Specialty Chemicals Segment	22
Investment in Koehring Company	26
Financial Information	27
Operations Information	44
Corporate Information	45



Board of Directors

From left to right: Louis Siegel, Earl F. Slick, Raymond A. Rich—Chairman, J. Van Denbergh, Jr. and George F.H. Nelson.
From right to left: Joseph A. Frates, Albert L. Butler, Jr., David R. Williams, Jr. and E. Purmort.

To Our Shareholders

Sales of United States Filter Corporation were \$611,551,000, up 13.0 percent from the \$540,815,000 reported last year. Net income was \$22,477,000, or \$2.01 per share in 1979 compared to \$16,076,000 in 1978 or \$1.55 per share, an increase of 40 percent, and 30 percent respectively.

By all counts—profits, sales, and financial strength—1979 was a year of significant progress. All the Company's segments—Energy/Technology, Specialty Chemicals, Environmental Systems, and Natural Resources—contributed to the earnings improvement. Also, effective cost-control programs, which continued through the year, had an impact on earnings results.

At the close of 1979, our backlog, including The Riley Company, was \$564 million, an increase of 115 percent above the \$262 million total at the end of the previous year. Year-end cash, cash equivalents, and marketable securities were \$235 million. After repayment of short-term borrowings in connection with the acquisition of The Riley Company, our adjusted cash and short-term investments would have been approximately \$175 million.

As a result of the Riley acquisition, our annual sales rate could approach \$1 billion by the end of the first quarter of 1980.

We believe we are in a good position to take advantage of opportunities based on our liquidity and financial strengths.

Acquisition of The Riley Company

On December 4, 1979, stockholders of The Riley Company approved the agreement to merge that company into U.S. Filter Corporation, in a transaction valued at approximately \$116 million, which includes capitalized acquisition costs. The addition of Riley should make U.S. Filter in 1980, about 20 times what it was in 1970, just before current management took charge.

We think the merger is an excellent fit of two technology-oriented companies serving two of the vital growth industries of the 1980s—energy generation and environmental controls.

Becoming our fifth major business segment, Riley is engaged primarily in the design, fabrication, and servicing of steam generating and auxiliary equipment for electric utilities and industry. The company is also engaged in the design and installation of flue gas desulfurization and gas cleaning systems; fabricates heavy metal, chemical processing tanks and large-capacity fuel storage tanks; and manufactures noise control devices, electronic annunciators, water desalinators, and regulating valves.

U.S. Filter will benefit from the merger in several ways. Overall, our strategic positioning is bolstered for significant growth in markets served, revenues, profits, and opportunities.

The compatibility of Riley with U.S. Filter's existing business segments should strengthen our product and service capabilities and create many opportunities for profitable synergism. U.S. Filter's dominant "people business"—exemplified by our engineering depth—is now backed by Riley's proven know-how in manufacturing for the energy industry. The result is a well-rounded mix of resources—tangible and intangible, human, and hardware.

Also, a stronger profit balance between our domestic and overseas operations has been achieved through this acquisition. In the past, foreign sales and services represented more than half of our profits. Now, over 75 percent of our business should originate in the United States. Even more importantly, some 95 percent of our tangible assets are in the United States, centering the bulk of our business activities in this country.

The management that has shaped Riley for the past several years will continue to operate the company as an integral part of the U.S. Filter team. With the support of U.S. Filter's resources, Riley should become an even stronger company than it is today.

We expect Riley to add further support to our excellent financial stability, liquidity, and balance sheet strength.

In addition, we expect the Riley acquisition will help us build a larger company with diversified resources and profits. This has been a key management goal for a number of years.

Dividends

On October 30th, the Board of Directors voted to increase the semi-annual dividend payable December 14, 1979, on its common stock from 16 cents to 18 cents per share. This brought 1979 cash dividend payments to 34 cents per common share, and indicated a 1980 annual dividend rate of 36 cents per share.

The action marked the fifth increase in cash dividends voted in the past six years. Since the present Board initiated cash dividend payments in 1973, the annual dividend rate has risen from 10 cents a share paid in 1973 to the 1980 indicated rate of 36 cents per common share.

Operating Segments

Energy/Technology

Through the year, our engineering companies, on a combined basis, enjoyed an upturn in business and were ahead of 1978 in sales and profits. This healthy increase was significantly assisted by improved operating efficiency and by continued strict adherence to expense reduction programs.

A significant capital expenditure increased our Atlas Foundry & Machine Co. plant capacity by one-third. This expansion reinforced Atlas' position as a leader in the production of high quality alloy steel castings for the energy and other industries.

In 1979, the Energy/Technology Segment posted sales of \$266,981,000 and operating income of \$6,972,000 compared to sales of \$260,645,000 and operating income of \$6,004,000 in 1978.

In operations and maintenance, our position was strengthened by renewal of our contract as operator of the Naval Petroleum Reserve at Elk Hills Field, California, and by being part of a joint venture drilling program for the Strategic Petroleum Reserve in New Orleans. In another joint venture project, one of our engineering firms, Holmes & Narver,

is performing a feasibility study for a new city in Libya, in North Africa. This project is planned to create all the necessary elements for a city of approximately 40,000 people. Still another joint venture contract was awarded by the U.S. Department of the Navy to support the expansion of the Royal Saudi Arabian Naval Forces. Further, an important design and engineering contract was received for the Anheuser-Busch brewery expansion in Van Nuys, California.

Specialty Chemicals

The Specialty Chemicals Segment, which provides products and services to industry and to marine shipping worldwide, marked another year of substantial progress. In 1979, the Specialty Chemicals Segment posted sales of \$97,991,000 and operating income of \$9,705,000 as compared to sales of \$82,921,000 and operating income of \$7,844,000 in 1978.

During 1979, this business segment introduced new instruments and products, and expanded its supply, distribution, and manufacturing capabilities. A new detection instrument was developed and marketed to identify industrial energy loss and to cut downtime due to bacterial slime growths in water systems. Another instrument was introduced to assist industry in maintaining production and conserving energy by monitoring the corrosion and fouling potential of water systems. Two new chemical products, designed specifically for motorship fuel programs, assist ship operators in obtaining maximum energy benefits from fuel, while minimizing corrosion formation. Our Specialty Chemicals Segment also was more active in the sale of defoamers to industries utilizing process water systems.

Environmental Systems

Our Environmental Systems Segment provides technology, hardware, and systems for air and water environmental control. In 1979, Environmental Systems' sales were \$116,397,000 and operating income was \$8,104,000. This was a substantial improvement over 1978 sales of

\$95,924,000 and operating income of \$6,543,000 in 1978.

The segment continued its leadership in the development of new products and innovative technology. One of these was the design and installation of the first commercial full-scale dry sulfur dioxide removal system in the United States. Also, significant work was done in the areas of odor reduction, emission control, solid waste disposal, and in making garbage and sludge incineration environmentally acceptable.

Other development work was carried out in such energy related fields as the filtration of solvent refined coal and supplying fuel and waste handling for fluidized-bed coal combustion technology.

In water and other liquid filtration, 1979 marked a high increase of new orders for pressure leaf and media filter equipment. Through the development and design of new fabrics, the segment maintained its leadership in the field of water and other liquid/solid separation.

Natural Resources Segment

The Natural Resources Segment—Filtrol Corporation—produces cracking catalysts and adsorbents, mines and processes coal and clay, and manufactures cement.

Another excellent year was posted by this segment of our business, with sales of \$130,182,000 and operating income of \$16,021,000, substantially ahead of 1978 sales of \$101,325,000 and operating income of \$11,876,000.

Sales of fluid catalytic cracking catalysts exceeded the 1978 volume primarily due to technologically improved catalysts and to increased refinery usage following sharply escalating crude oil prices. Similarly, orders for adsorbents from food oil processors accelerated during the year.

Under a grant from the U.S. Department of Energy, the company is developing special catalysts for use in the cracking and cleaning of oils from such sources as tar sands, shale, and coal.

The Cement Division enjoyed another good year because of an increase in construction activities in its market areas.

Power Generation Segment

The Power Generation Segment—The Riley Company—provides steam generating equipment and systems and pressure vessels, as well as process instrumentation and pollution control devices, to the utility, chemical, petrochemical and other industries.

The Riley Company did not contribute to the sales and earnings of U.S. Filter because the merger did not take place until December 1979. During the year, Riley received two utility boiler contracts and introduced an atmospheric fluidized bed combustion boiler. Additionally, the Company is part of a consortium that is building a solar power plant under a contract with the U. S. Department of Energy. Further, sales of process vessels to the petrochemical industry increased during the year.

Settlement of Filtrol Litigation

In mid-1979, public shareholders of our subsidiary, Filtrol Corporation, exchanged their stock for \$19 a share in cash. The action took place as part of a court-approved settlement of litigation brought by minority Filtrol shareholders who had asserted claims arising out of our 1978 tender offer for Filtrol stock. The Filtrol shareholders who had tendered and sold their stock for \$18 a share to U.S. Filter in 1978 received an additional 40 cents for each such share. As a result of the settlement, Filtrol Corporation became a 100 percent-owned subsidiary of U.S. Filter.

Koehring Investment

Koehring Company, a New York Stock Exchange listed company, in which we hold approximately 23 percent of the outstanding common shares, manufactures equipment for the construction and natural resource industries. Included are water-well drilling equipment and services; compacting equipment, cranes, excavators, pile hammers, and other construction industry components. For the fiscal year ended November 30, 1979, Koehring's sales were approximately \$477 million, and net earnings of approx-

imately \$14.3 million were 21 percent ahead of last year. Gains were attributable to vigorous construction markets worldwide, increased demand, and improvements in operations. Losses in certain problem areas were substantially reduced.

Our current position in Koehring is for investment purposes, with which we continue to be pleased.

The Flick Group Investment

The Flick Group's \$100 million cash investment, which constitutes approximately 35.3 percent of the voting stock of U.S. Filter, remains in the trust created as of October 26, 1978. We were advised by The Flick Group that the trustee will continue to hold, manage, and vote the preference shares, and that he will sell them within two years after the October 26, 1978 date, unless prior to such sale, our Filtrol subsidiary disposes of its petroleum cracking and hydrocarbon purification catalysts business. In that event, the trust will then terminate, and the trustee will transfer the preference shares to The Flick Group.

Alternate Fuel Sources

The nation's constant demand for energy and the ever increasing price of petroleum and natural gas have created a growing awareness of the need for alternate fuel sources. Through several of its subsidiaries and affiliates, U.S. Filter is helping to identify and solve some of the technical problems associated with the utilization of these alternate fuels.

For example, *underground gasification of coal and lignite*, which can produce fuel or chemical feedstock, is a goal of several programs conducted by the Company. Working with both the Department of Energy and industrial clients, we are studying the process of utilizing the gases produced by burning unminable coal underground without handling it. This process facilitates cost-effective conversion of low-grade coal into a usable fuel and in an environmentally acceptable fashion. Coal gasification is an effective way to convert solid fuel into gaseous fuel which can be transported to markets through con-

ventional pipeline systems. Currently, work is underway in both Texas and Wyoming to commercialize the gasification process. While design and construction of large-scale commercial plants may be several years off, U.S. Filter is examining other applications of coal gasification technology.

Another attractive alternate fuel source with which we are involved is biomass, a product of solar energy. This conversion of sunlight into wood or other organic matter, and the direct use of the matter as fuel, is becoming economically feasible. As a renewable source, biomass appears to hold great potential. As a subcontractor working with the Department of Energy, we are involved in assessing mining technology for all solid fuels. While this primarily involves coal, other minable fuel sources will be included. The technical programs include underground mining, surface mining, coal preparation, and unconventional hydrocarbon mining. One of the alternate fuels being studied is peat. Our Williams Brothers Engineering Company is assisting the Gas Research Institute to prepare an economic analysis for producing fuel gas from peat deposits.

The solvent refining process of coal offers another interesting alternate fuel source and opportunity for U.S. Filter. This technique removes pollutants such as sulfur and ash to produce a clean burning coal for heating purposes and for conversion to electricity.

Over the past two years, one of our subsidiaries has been researching solvent refined coal (SRC). As a result, the Company has developed a pilot filter which is being used in an SRC test facility for the removal of mineral residue. Also, in England, another subsidiary is building a filter for one SRC pilot plant, and is preparing estimates for a second 6,000 tons-per-day plant.

All these projects demonstrate how industry and government have become increasingly aware of the urgent need to develop effective utilization of alternate energy sources.

The Future

U.S. Filter has a strong and growing position in the two technical fields that should figure prominently in industry and government concerns and spending in the 1980s—energy-related products and services, and environmental controls.

We are advantageously positioned to make a significant contribution to the global needs for air and water pollution control, power generation, specialty chemicals, and energy technology—our major business areas.

Whatever energy policy eventually evolves for the United States, coal should increasingly supplement and then supplant oil and gas as the predominant fuel for steam generation. Such a development should benefit several U.S. Filter subsidiaries.

The United States has abundant coal deposits, but before it can be used to generate power, the coal must be mined, processed to make it environmentally clean, transported either in bulk or liquefied form, and burned. U.S. Filter has capabilities at each step in the process.

The increasing importance of conventional coal deposits in the nation's energy profile will create new markets for our engineering and manufacturing skills. As such, our subsidiaries will no doubt be heavily involved in converting coal to a viable, nonpolluting energy source.

Our Natural Resources Segment mines coal, while our Environmental Systems Segment produces scrubbers that make coal burning environmentally clean. The segment also designs, engineers, and manufactures fugitive emission controls, and fluidized bed combustion systems. Riley, too, makes some components for these coal related systems.

Another major emphasis of governments and industry in the 1980s will be technology and products that provide for a cleaner environment. The Environmental Protection Agency has estimated the total cost of the effort to meet national environmental goals at \$360 billion for the period 1977-1986. In this market, too, U.S. Filter is firmly established.

Today, U.S. Filter is in the strongest position it has ever been. In terms of people and products, technology and resources, cash and liquidity, we believe we are truly positioned for growth and for profit. We are achieving our goal of becoming a billion dollar corporation.

We will continue to grow through internal expansion, sound acquisitions, tested and seasoned management, and prudent fiscal judgment and controls.

Our next target is to reach total revenues of \$1.5 billion with a relative increase in net income. With the active dedication and cooperation of almost 11,000 employees in our worldwide organization, we are confident that we will attain this goal.

American Stock Exchange

According to an article which appeared in the February 25, 1980 edition of *Fortune* magazine, "1979 was a spectacular year for the stocks listed on the American Stock Exchange. The Amex's market-value index jumped 64 percent, vaulting high above the No. 2 gainer, the NASDAQ composite, which advanced 28 percent. The more widely used benchmarks of 'the market' lagged far behind: the New York Stock Exchange composite was up only 15.5 percent, the S. & P. 500 only 12.3 percent, and the Dow Jones industrial average just trudged along, with a 4 percent gain."

It is interesting to note that U.S. Filter's stock price on the last day of trading in 1978, closed at 10¼ and on the last day of trading in 1979, closed at 15¾, a 50 percent increase.

In conclusion, we want to extend our appreciation to our loyal employees and shareholders for their continued support and encouragement—without which we could not succeed.



Raymond A. Rich
Chairman and President

March 3, 1980

The merger of The Riley Company and United States Filter Corporation is an excellent fit of products and services of two technology oriented companies. The presentation below shows graphically the synergistic effect of this merger in the markets served by the Riley Divisions and the United States Filter Companies which are represented by colored dots, where applicable, under the heading Company Code.

The Riley Company	Company Code	Markets
Riley Stoker Group	••••• •	Chemical Processing
	•••••••• •••	Industrial Boilers
	•••••••	Iron and Steel Industry
	••••••••	Mining and Mineral Processing
	•••••••	Pulp and Paper Industry
	•••	Synthetic Fuels
	••••••••• ••••	Utilities
	•••••••	Water and Waste Treatment
Riley-Beaird Group	••••• •	Chemical Processing
	••••••• •	Food Processing
	•••••••• •••	Industrial Boilers
	••••••••	Mining and Mineral Processing
	••••••• •••	Petroleum Industry
	•••••••	Pulp and Paper Industry
	•	Transportation
	••••••••• ••••	Utilities
Process Instruments Group	•• ••	Cement Industry
	•••••• ••	Food Processing
	•••••••• •••	Industrial Boilers
	•••••••	Iron and Steel Industry
	••••• •••	Petroleum Industry
	•••••••	Pulp and Paper Industry
	•••••••	Synthetic Fuels
	••••••••• ••••	Utilities
	•••••••	Water and Waste Treatment
The Riley Division	U.S. Filter Companies	
• Cashco, Incorporated	• Atlas Foundry & Machine Co.	• Holmes & Narver, Inc.
• Environeering, Inc.	• Drew Chemical Corporation	• Menardi-Southern Corporation
• Panalarm and Panellit	• Ducon Company, Inc.	• MikroPul Corporation
• Riley-Beaird, Inc.	• Ducon Fluid Transport	• USF Fluid Systems Corporation
• Riley-Stoker Corporation	• Filtrol Corporation	• Williams Brothers Engineering Company

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Products

Adsorbents for food industry
Annunciators to monitor and control temperature and pressure
Antiscalants for marine and industrial applications
Bio-Matic™ water analyzers
Biocides for process water purification
Cement
Coal
Control panels for power plants and industrial applications
Corrosion inhibitors for marine and industrial applications

Cyclones for separation of solids and gases
Defoamers for industries that utilize process water
Desalinators to purify sea water
Dry scrubbers for removal of particulates
Dry sulfur dioxide removal systems for industrial and utility boilers
Electrostatic precipitators for air pollution control
Fabric filter systems for removal of particulates
Filter media for air and water pollution control systems

Fluid catalytic cracking catalysts for refineries
Fluid control valves for industry
Fluidized-bed combustion coal fired boilers for steam generation
Flotation cells for separation of oil from water
Fuel additives for more efficient combustion
Granular bed filters for water purification
Heat recovery equipment for diesel engines
Hydrodesulfurization catalysts for the petroleum industry

United States Filter Corporation	Company Code	Markets
Specialty Chemicals	•••••• ••	Food Processing
	•••••••• •••	Industrial Boilers
	•	Marine Boilers
	•	Petroleum Industry
	••••••••	Pulp and Paper Industry
	•••••	Transportation
	•••••••••• ••••	Utility Boilers
	•••••••	Water and Waste Treatment
Energy Technology	•• ••	Cement
	•••••• •	Chemical Processing
	••••••• ••	Food Processing
	••	Governmental Services
	•••••••••	Mining and Mineral Processing
	•••••• •••	Petroleum Industry
	••••••••	Synthetic Fuels
	•••••	Transportation
	•••••••••• ••••	Utilities
	•••••••	Water and Waste Treatment
Environmental Systems	••	Aluminum Processing
	•• ••	Cement
	•••••• •	Chemical Processing
	••••••• ••	Food Processing
	•••••••• •••	Industrial Boilers
	•••••••	Iron and Steel Industry
	•••••••••	Mining and Mineral Processing
	•••••• •••	Petroleum Industry
	••••••••	Pulp and Paper Industry
	•••••••••	Synthetic Fuel
	•••••••••• ••••	Utilities
Natural Resources	••	Construction
	••••••• ••	Food Processing
	•••••••• •••	Industrial Boilers
	•••••• •••	Petroleum Industry
	••••••••• ••••	Utilities

Industrial boilers for steam generation
Industrial coal gasification units
Industrial monitoring and control devices
Industrial silencers for noise limit control
Iron castings for industrial applications
Oil spill dispersants
Packing and jointings material for the marine industry
Pneumatic conveying equipment for solids handling
Pressure regulators for process control
Pressure vessels for the industrial and transportation industries
Pulse™ water analyzer

Pulverizers for industrial and medical applications
Skid mounted crude oil refineries
Steel castings
Utility boilers for steam generation
Wet scrubbers for air pollution control

Services
Architectural engineering
Evaluation of nonferrous mineral deposits
Mine development
Oil field operation
Operation and maintenance of government and industrial facilities

Pipeline engineering
Process plant design
Project management
Remote camp design
Reprocessed municipal waste system design
Synthetic fuel process design
Water resource management
Waste water treatment system design

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Power Generation Segment

Steam generation and related equipment to meet the changing energy needs of our society—Efficient and environmentally acceptable coal fired systems—Equipment to generate synthetic fuels from low cost coal—Precision fabricated metal hardware for the expanding petroleum, defense, and transportation industry.



Above: Aerial view of Consumers Power Company plant at Bay City, Michigan served by Riley steam generating equipment.

Opposite Page: This Riley-built propylene tower weighs approximately 400 tons and is over 200 feet long; it is one of the largest structures of its kind.

The Riley Company—the newest member of the U.S. Filter family—provides steam generating equipment and pressure vessels, as well as process instrumentation and pollution control devices to the utility, chemical, petrochemical, and other industries. Energy and the integrity of the environment are the company's major areas of involvement.

Riley operates through three principal units—Riley Stoker, Riley-Beaird, and the Process Instruments Group—and nine plants in the United States and Canada.

Riley Stoker has two major businesses: steam generating and related equipment, and flue gas scrubbers for utilities and industry which are designed and installed by Enviro-neering, Inc., a Riley subsidiary.

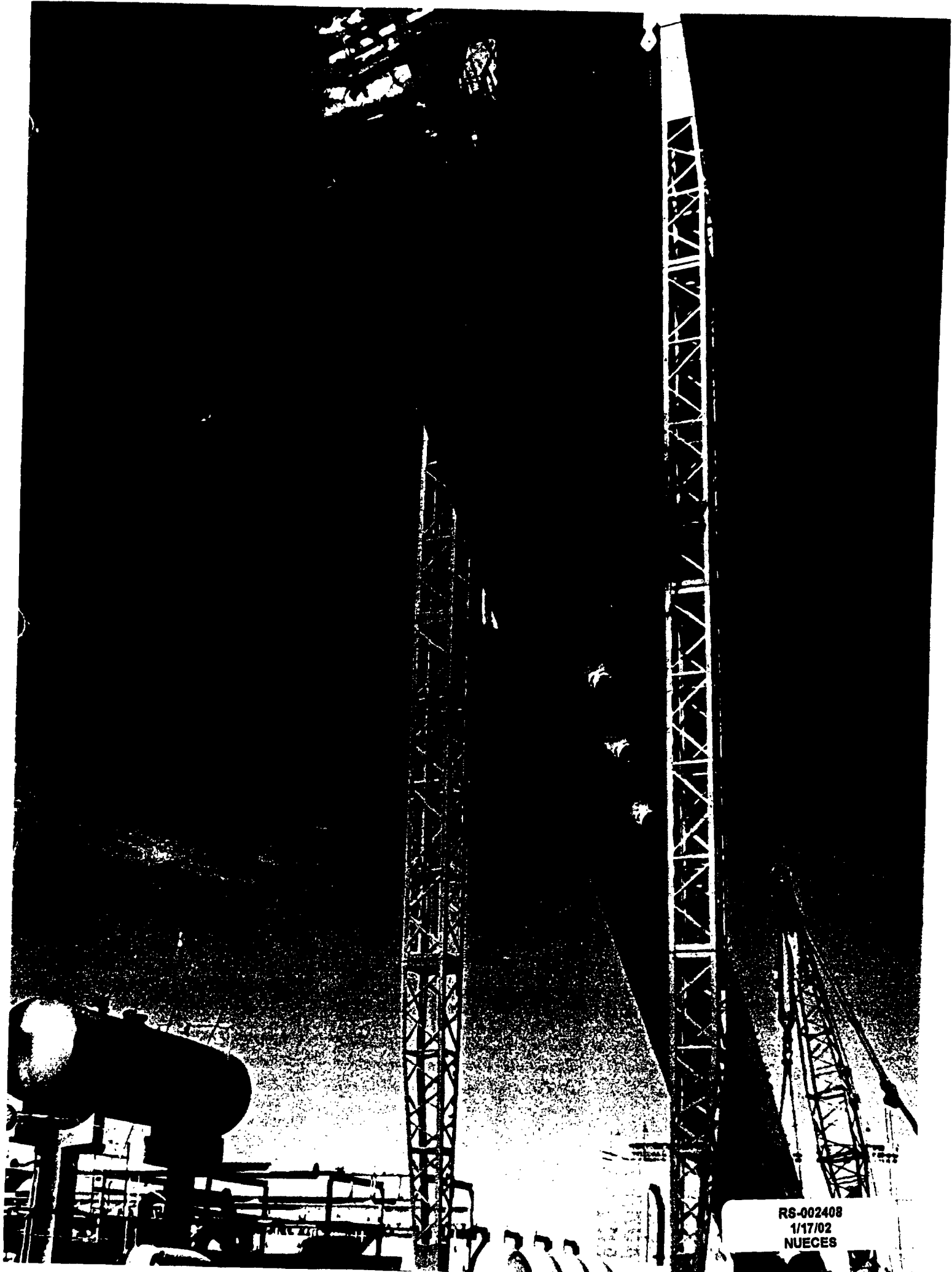
During 1979, both the utility and industrial market for large boiler systems climbed above the depressed levels of 1976 and 1977. Major orders received during the year included a \$30,000,000 contract for a 400-megawatt coal-fired boiler from a midwestern utility, and a \$25,000,000 contract for a 380-megawatt coal-fired boiler from a utility in the Southwest. Riley Stoker also is intensifying its marketing activities overseas, and has received an order totalling about \$20,000,000 for two 400-megawatt gas and oil-fired boilers to be erected in the Middle East.

A potentially significant product brought to the market last year was the atmospheric fluidized-bed combustion boiler.

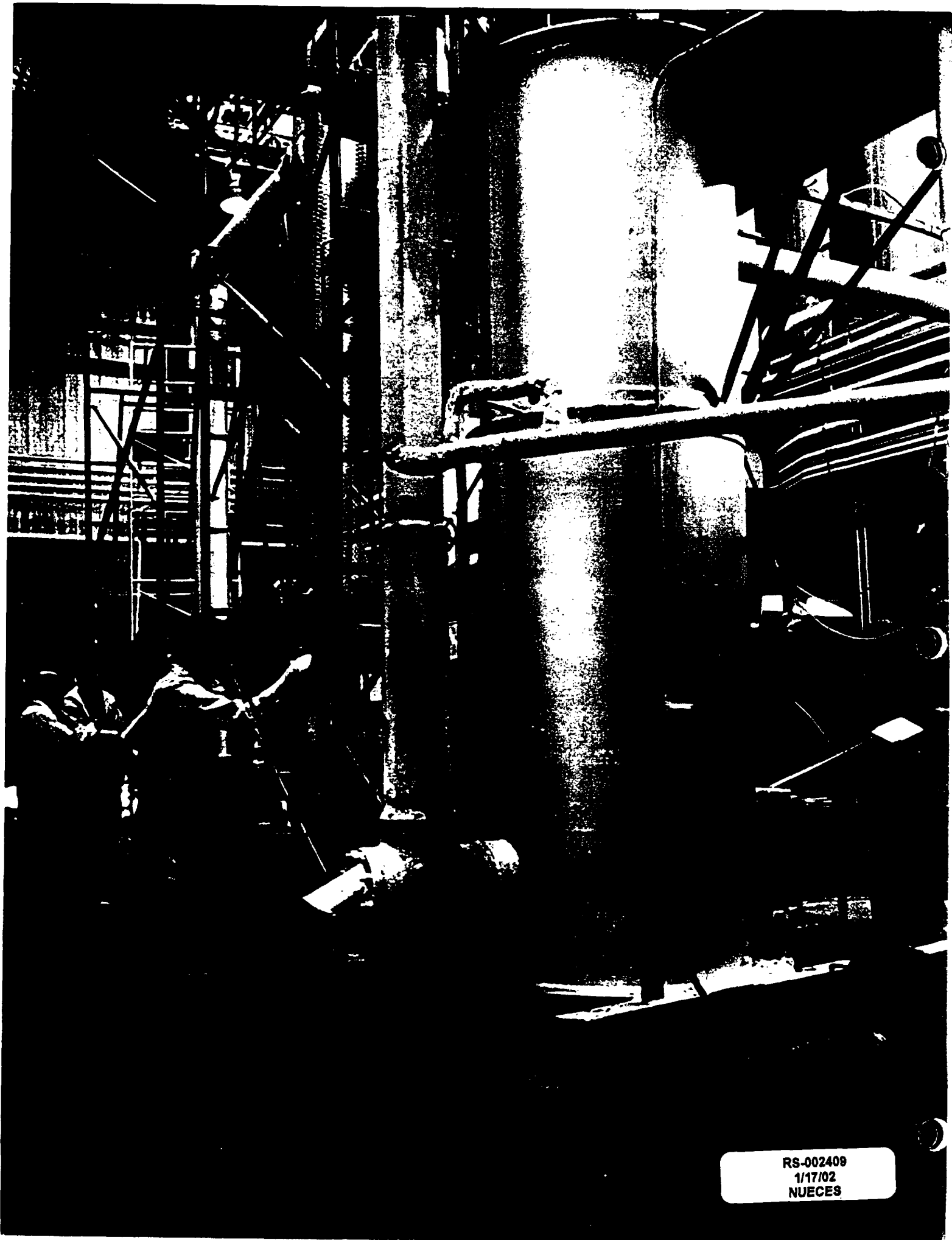
This development eliminates the need for flue gas desulfurization systems for industrial boilers, and results in lower total system costs. During 1979, Riley Stoker entered into an agreement with Babcock Contractors, Inc., a unit of Babcock & Wilcox Ltd. of the United Kingdom, for the design, manufacture and sale of the new boilers.

Riley Stoker also is participating in a consortium that is building a 10-megawatt solar power plant in California under a contract with the U.S. Department of Energy. The Group is providing engineering services on the central receiver steam generator portion of this pioneering project. At its Worcester, Massachusetts R & D facility, Riley Stoker also is conducting tests involving gasification of lignite coal; an evaluation is expected to be completed in early 1980.

Enviro-neering, Inc. continued to maintain its market position in traditional particulate wet scrubbing systems. The "New Source Performance Standards" issued pursuant to the Clean Air Act Amendments of 1977 necessitate the extensive use of flue gas desulfurization in many coal burning plants. As more utilities switch from oil to coal under federal energy programs, the market for such systems should grow substantially.



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RS-002409
1/17/02
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Riley-Beaird fabricates heavy metal products, including large pressure vessels for refineries and chemical plants, industrial gas storage vessels, and machined products and weldments of all types. Its proprietary products include Maxim® desalinators and industrial silencers, crude oil refineries, and natural gas scrubbers. These products are sold primarily to the hydrocarbon processing industries. Additional industries served include pulp and paper, transportation, aerospace, fossil and nuclear electric power, mining, cement, brewing, aluminum, and others.

Sales of process vessels to the petrochemical industry increased during 1979. This was made possible, in part, by Riley-Beaird's experience and capability in building large process vessels which require heavy metal forming, welding and handling equipment.

During 1979, the successful operation of a second Maxim® distillate fuel system enhanced its marketability. Enabling diesel engines and turbines to use crude oil processed on site as their fuel, the system eliminates the towers and other elaborate refinery equipment used previously to produce high-quality distillate fuel. As a result, the system is far less costly than other methods. The future for this mobile unit appears to be very promising.

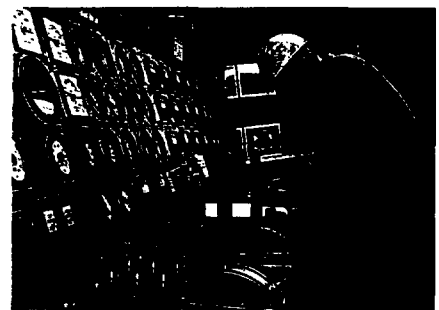
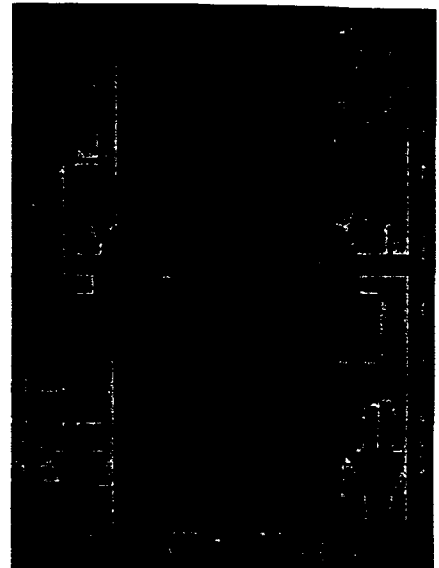
Overseas sales continued strong. Maxim® land-based sea water desalination plants were launched in the Middle East. In the Far East, a

second Maxim® distillate fuel system went into full-scale operation in early 1979.

The Process Instruments Group produces annunciator components and systems, together with related industrial monitoring control devices. Through its Cashco, Inc. unit, a broad line of pressure regulating and fluid control valves are marketed to industry.

The Group includes Panalarm Division, which makes annunciators and related equipment; Panellit Service Corporation, which services and maintains industrial instrumentation; the Panellit Division, which develops auxiliary equipment for boilers, and two overseas organizations: SIOC, Limited, serving the Canadian market, and SCAMA, Ltd., a subsidiary serving the British Isles market.

Applications of the Process Instruments Group's products and services now span a wide range of energy and environmental markets including petroleum refining, iron and steel processing, electric power generation, water and waste treatment, chemical processing, and the production of food, paper, cement, and other commodities.



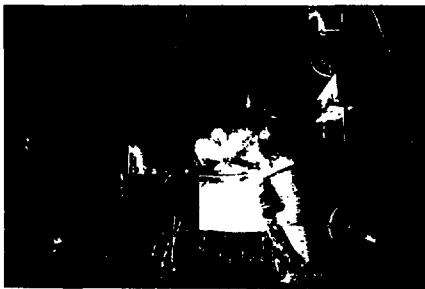
Top: This schematic shows how the unique design of the Riley Turbo Furnace increases the efficiency of steam production and, at the same time, minimizes the formation of oxides of nitrogen.

Above: A Riley-built PANALARM® panel provides systems monitoring in the engineering control room of ships.

Opposite Page: This bench model gasifier is in operation in the laboratory of the first full size pilot model of the Riley-Morgan coal gasifier near the Research and Development Laboratory in Worcester, Massachusetts.

Energy/Technology Segment

International engineering and project management capability—Oil, gas, water, and slurry pipeline expertise—Cost-effective process designs and construction for the mining, cement, and beverage industries—Proven worldwide logistical support capability—High technology steel castings for the petroleum, chemical, and nuclear industry.



Top: Removing slag from eight tons of molten steel.

Above: Charging molten steel into the Argon Oxygen Decarburization vessel for refining.

Opposite Page: Tapping refined steel from the Argon Oxygen Decarburization vessel.

The Energy/Technology Segment operates through four principal units: The Resource Sciences Corporation; Williams Brothers Engineering Company (Williams Brothers); Holmes & Narver, Inc. (H&N); and Atlas Foundry & Machine Co. (Atlas). These companies provide systems-engineering, project management services, and high-quality steel castings for customers and clients engaged in oil and natural gas production and processing, mining, pipeline transport, and the manufacture of valves and pumps for nuclear and conventional power plants.

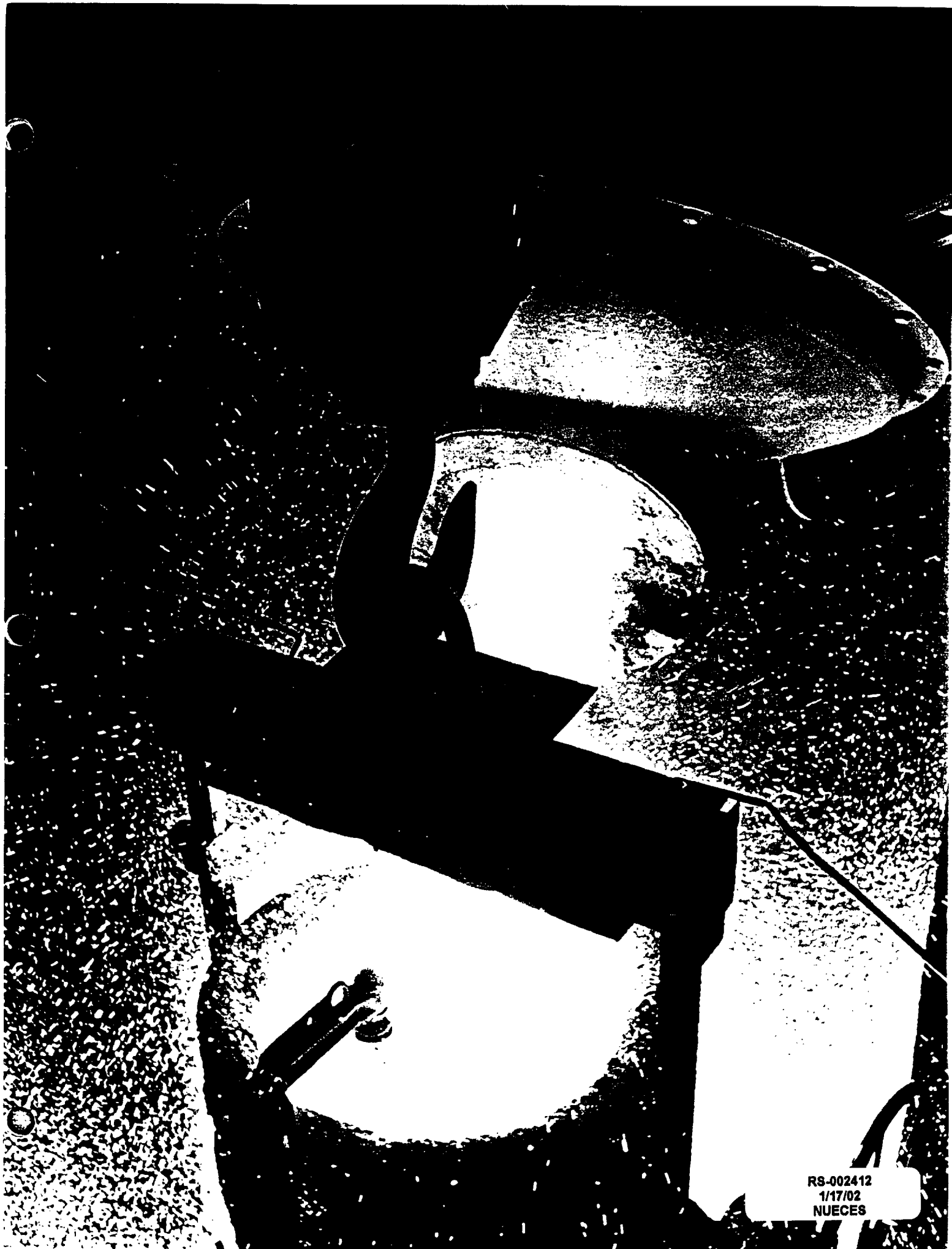
Williams Brothers' primary business is furnishing energy-related technical and management services to governments and industry. New projects in such service areas as: marine pipeline engineering, water pipeline, grassroots refinery work, and overseas oil and gas reservoir evaluations have grown over the past year. Our expanded marine engineering capability has been increased because of major projects in Abu Dhabi and Brazil. The company continues to aggressively pursue large, emerging markets for its services. In one such opportunity, the People's Republic of China invited Williams Brothers executives for several visits and presentations to two government ministries.

The Strategic Petroleum Reserve Drilling program, operated through

a joint venture, also represented increased penetration by Williams Brothers of this growing market. Looking ahead to 1980, we anticipate that the proposed Northern Tier crude oil pipeline from Port Angeles, Washington, to Clearbrook, Minnesota, will meet environmental considerations, so it can generate significant new work for the future.

Williams Brothers continued as contract-operator for the Naval Petroleum Reserve Elk Hills Field in California. An on-location staff of more than 400 is involved in developmental drilling, as well as in operations and maintenance.

Holmes & Narver, Inc., our other engineering firm, provides complete engineering, procurement and construction services for industrial and government facilities as well as specialized engineering services and logistical and support operations worldwide. Holmes & Narver, Inc. is engaged in the design and engineering of a 125,000 barrels-per-week expansion program for the Anheuser-Busch brewery in Van Nuys, California. This project is the latest in a series of engineering assignments undertaken for this client since 1952, when Holmes & Narver designed the original award-winning brewery at the same location. The current expansion includes site and yard, grain handling facilities, brewhouse, power plant, finished beer cellars, as well as beer packaging and shipping buildings.



RS-002412
1/17/02
NUECES

Additionally, as part of a joint venture project, H&N, a fifty percent participant, was awarded the first two phases of a multi-phase contract for a new city development in Libya. Work has begun on the project, named Brega New Town, which will be located 400 miles east of the capital, Tripoli. It will provide all the necessary elements for a city of approximately 40,000 persons.

In association with two other major companies, H&N became part of the HBH Company, a joint venture which was awarded a \$670 million contract from the U.S. Department of the Navy to support the expansion of the Royal Saudi Naval Forces. Holmes & Narver personnel will operate and maintain a ship repair facility at Jubail, manage the Saudi Navy logistics system, and inspect the constructed facilities. HBH will train Saudi Naval personnel to maintain their ships and to operate and maintain their facilities.

Holmes & Narver engineered and is the construction manager for a copper solvent extraction-electrowinning plant at Centromin's Cerro de Pasco Mine in Peru. H&N has a services contract for this project, which will recover 18 metric tons-per-day at a mine located 14,000 feet above sea level, using Holmes & Narver's patented "Low-Profile" design. "Low-Profile" is a

proven solvent extraction mixer-settler design concept that affords lower investment costs. Having completed a successful solvent extraction-electrowinning plant at Miami, Arizona for Cities Service Company, H&N was awarded a contract for engineering, procurement, and construction of a similar plant in Pinto Valley, Arizona. Also incorporating Holmes & Narver's patented "Low-Profile" concept in its design, the plant will process 6,000 gallons-per-minute of copper-bearing solution yielding approximately 10 million pounds of cathode copper per year.

In Wyoming, Holmes & Narver has completed the design, procurement, and construction and is currently operating a 25-tons-per-day uranium thin layer (TL) leach pilot plant. Capable of recovering both uranium and vanadium, the pilot plant project expands the use of Holmes & Narver's proprietary TL leach process from the processing of copper to the processing of uranium.

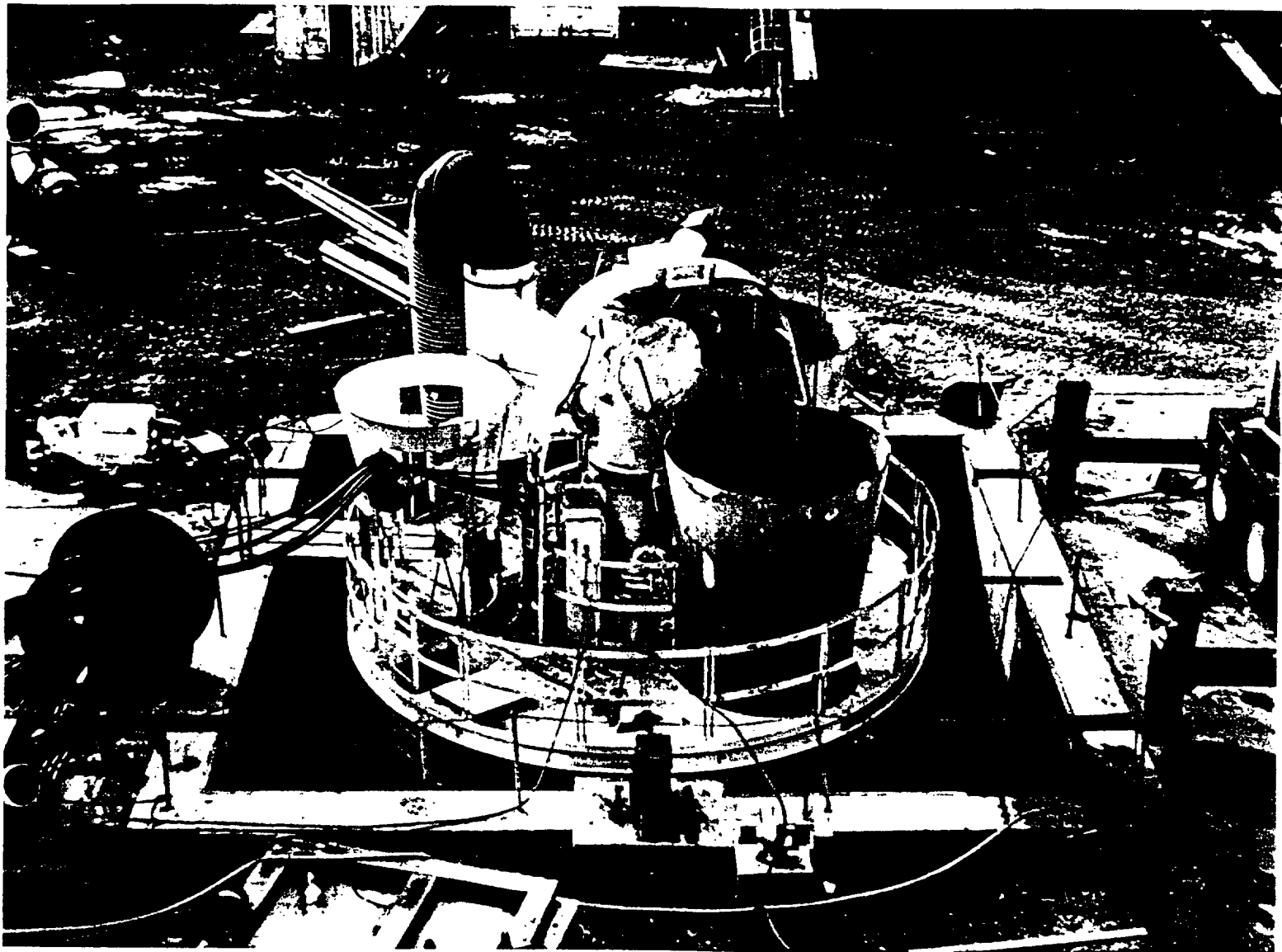
Output at Atlas increased by 13 percent over 1978, despite a softening in the subsidiary's traditional energy markets. Atlas is a recognized leader in supplying high-integrity steel and stainless steel pressure castings to equipment manufacturers serving the utility, petroleum, and other energy related markets.

Early in the year, Atlas completed a multimillion dollar capital expansion program, which has increased plant capacity by one-third. New facilities include an Argon Oxygen Decarburization metal refining pro-

cess which enables Atlas to offer steel castings with the highest quality possible in the industry. The radiographic examination facility permits Atlas to meet the most rigid internal quality standards on casting thickness up to 20 inches.

Historically, Atlas clients have been concentrated on the West Coast. A major 1979 marketing thrust into the Eastern, North Central, and Gulf Coast regions of the United States, areas where significant volumes of high-quality castings are purchased, has enabled Atlas to increase its production volume. This marketing program should result in additional new business.

The present combination of plant capacity, technological capability, and a highly skilled and experienced organization positions Atlas to capitalize on the increasing demand anticipated in the potential energy markets of the 1980s.



Top: This Blind Shaft Borer (BSB) is a mechanical shaft sinking system designed to bore and line a coal mine shaft. The Department of Energy, Division of Solid Fuel Extraction, is developing the BSB to help the coal mining industry reduce the time required for shaft sinking. Williams Brothers Engineering Company is the assistant to the technical project office.

Above: Holmes & Narver is engaged in the design and engineering of a 125,000 barrels-per-week expansion program for Anheuser-Busch's Van Nuys, California brewery.

Right: As operator of Naval Petroleum Reserve No. 1 in Tupman, California, Williams Brothers is developing this government holding to ultimately produce 400,000 barrels per day of crude oil.



RS-002414
1/17/02
NUECES

Natural Resources Segment

Products to enhance petroleum processing—Washed coal to meet clean air requirements—Adsorbents for the food processing industry—Cement for the growing needs of the Pacific Northwest and Ohio Valley—All are processed from raw materials mined by the natural resources segment.



Above: Major refineries use Filtrol's fluid cracking catalysts in the production of gasoline.

Filtrol Corporation, in which U.S. Filter now owns a 100 percent interest, consists of three operating units—the Catalysts and Adsorbents, the Cement, and Coal Divisions.

In 1979, sales of fluid catalytic cracking (FCC) catalysts exceeded 1978 volume, despite a sluggish market in the early part of the year. This improvement was due partly to new and improved catalysts developed by Filtrol, and partly to increased refinery usage following the onset of the "gasoline crunch." Catalysts play a critical role in the economical conversion of crude petroleum to usable gasoline and oil products and in enhancing the value of certain chemicals.

Sales of hydrodesulfurization (HDS) catalysts were relatively constant throughout the year and about equal to 1978 volume. HDS catalysts are used in petroleum refining to remove sulfur, nitrogen, and other impurities from both liquid and gaseous hydrocarbons.

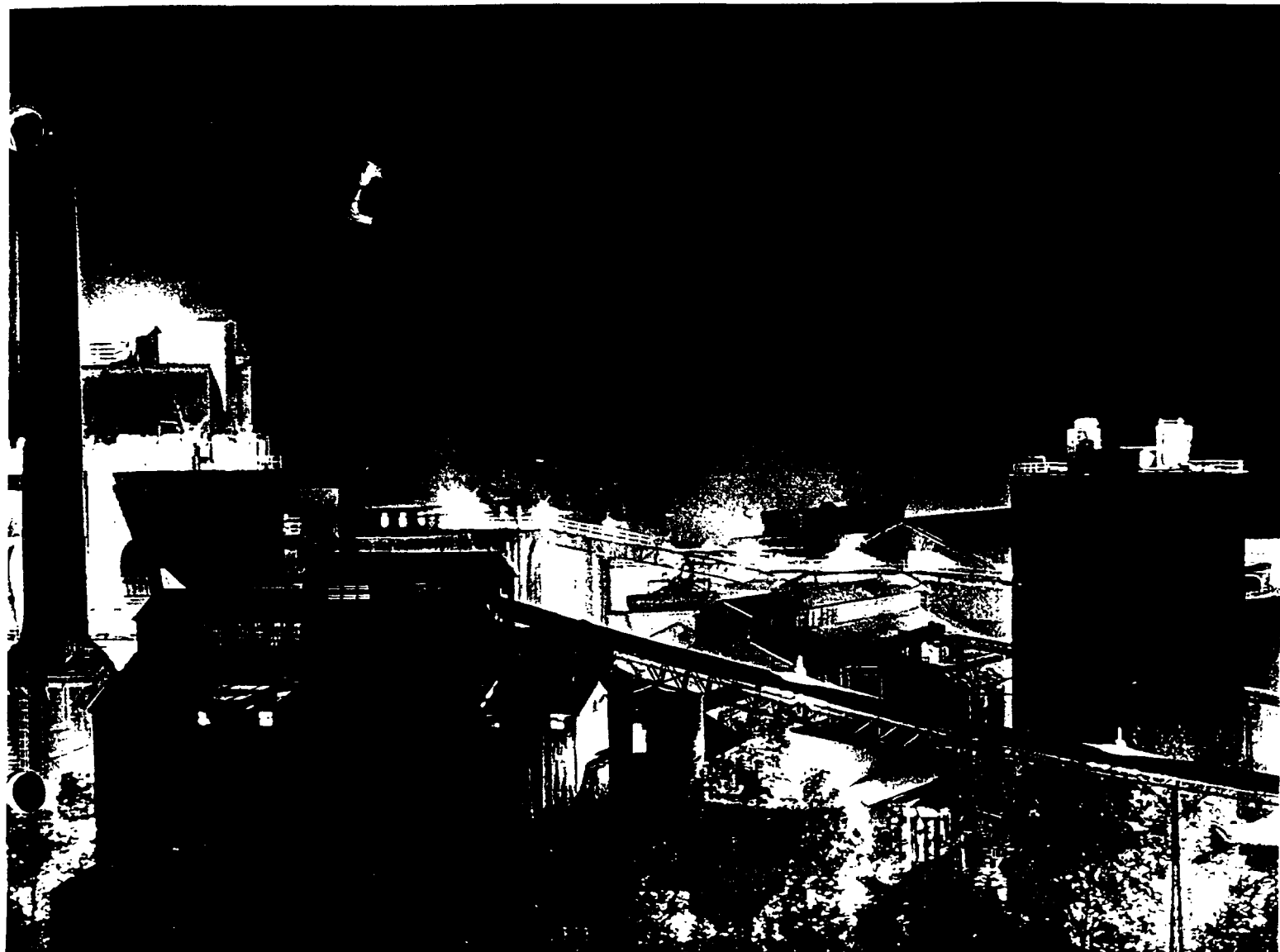
In the adsorbents market, food oil processors which are the major customer for these products continued to increase their usage throughout the year. Consequently, our adsorbents plants operated at near maximum capacity.

Filtrol's research program made considerable progress during the year. Under a grant from the U.S.

Department of Energy, the company is developing special catalysts for use in the cracking and cleaning of oils from such sources as tar sands, shale, and coal.

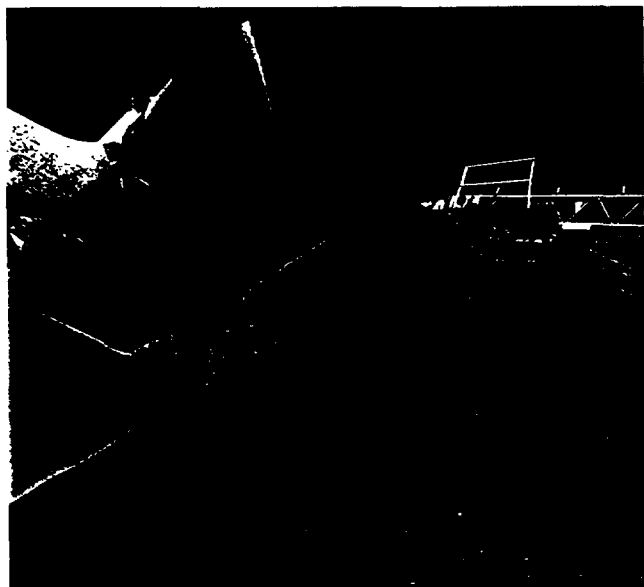
The Cement Division enjoyed another good year in 1979. Both the Bellingham, Washington and Zanesville, Ohio plants operated at maximum capacity and as a result the Cement Division reported net sales and net income ahead of 1978. Major capital improvements and maintenance projects were begun during 1979 at both locations which should increase the reliability and profitability of future operations.

The Coal Division experienced a continued disappointing year for two reasons: first, a softening in coal prices, and second, the reluctance of industry to accelerate, what we think is the inevitable, the conversion to coal from oil and gas. At year-end, pricing was trending upward, and the demand for washed coal in particular was increasing. Our washed coal, which has been reduced in sulfur content, is showing a slow but steady upturn in price and demand. Washed coal results in less contamination when used for fuel than "as mined" coal.



Above: A view of Filtrol's Columbia Cement Plant at Zanesville, Ohio during nighttime operations.

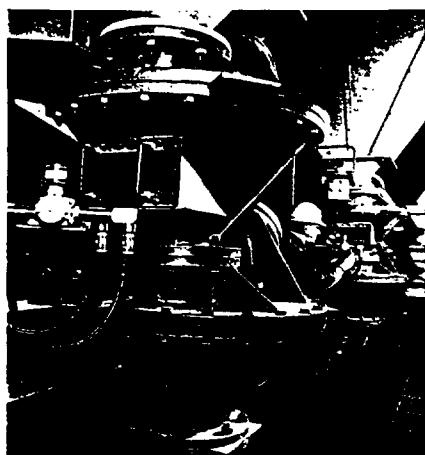
Left: Coal is mined in Ohio, processed to remove a large portion of the contaminants that cause pollution, and stored for use by industry.



RS-002416
1/17/02
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Environmental Systems Segment

Engineered systems and products for control of air and water pollution—Filtration and treatment of liquids—Innovations to reduce the cost of sulfur dioxide and particulate removal—Equipment and systems for product recovery, transport, and size reductions.



Above: A high capacity pressure pneumatic fly ash removal system designed and supplied by our Ducon Fluid Transport Division for a coal-fired boiler.

Opposite Page: U.S. Filter "Maxi-Flo" filter station removes sediment from in situ uranium leach solution prior to separation of the dissolved uranium content for further processing.

Our Environmental Systems Segment provides technology, hardware, and systems for environmental control and related industrial needs. These are broadly classified into the following areas: air pollution control and product recovery, water and waste treatment, and filter media for air and liquid systems. The Segment is also involved in pneumatic and hydraulic solids transport; pulverizing and air classification of solids; and the manufacture of liquid filtration equipment.

The Environmental Systems Segment operates through its MikroPul, Ducon, Fluid Systems, Fluid Transport, and Menardi-Southern units in the United States, as well as six foreign subsidiaries and numerous licensees worldwide.

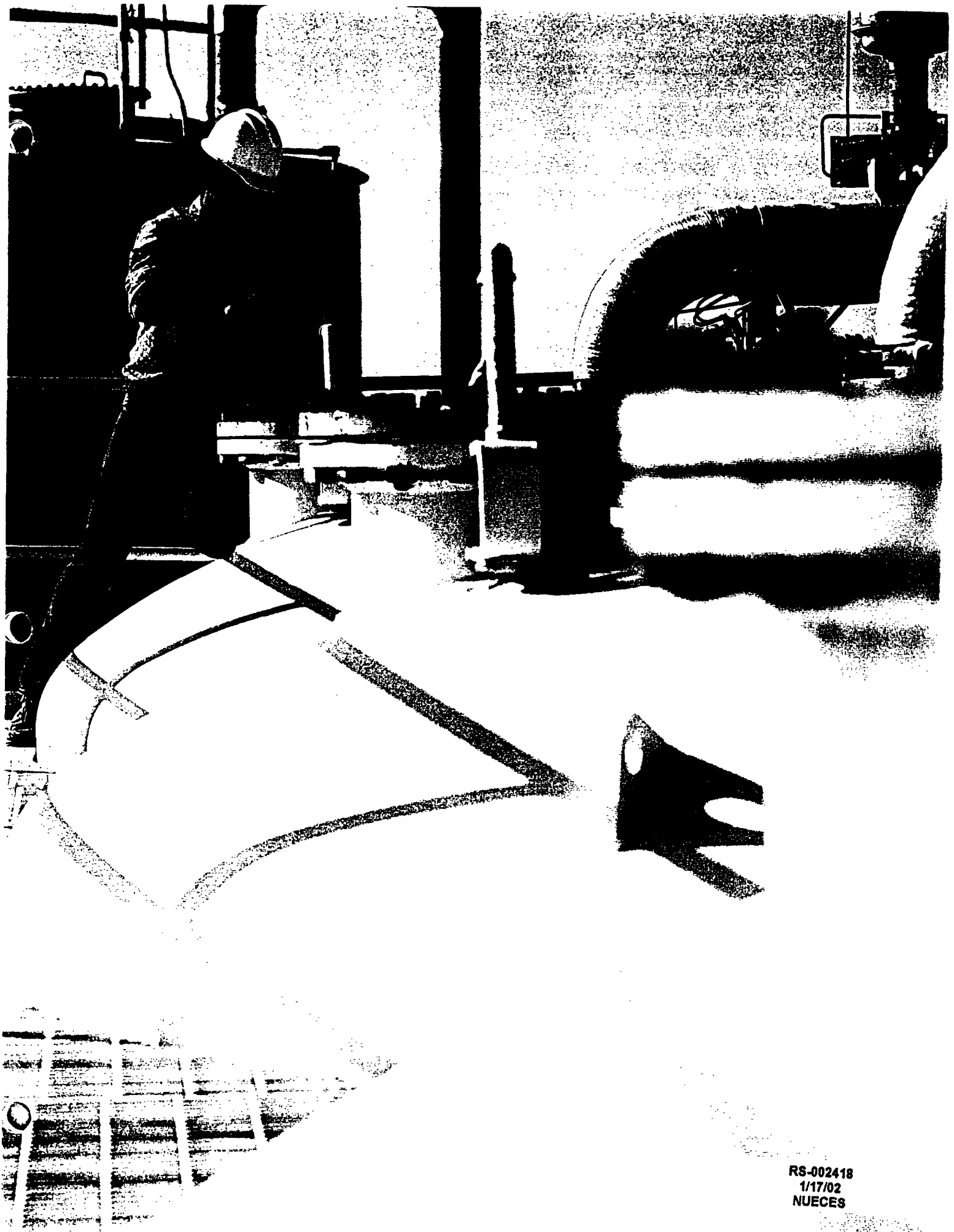
MikroPul's latest and most technically advanced dry scrubbing system is being installed on a 78,000 tons-per-year aluminum smelter in Iceland. This recent contract culminates ten years of technological progress within the various units of the Environmental Systems Segment.

The year also marked the start-up of the nation's first full-scale commercial dry sulfur dioxide removal system—designed and installed by MikroPul. The application of this pollution control system, on a coal-fired industrial boiler, should prove particularly significant when the Environmental Protection Agency's (EPA's) proposed "New Source Performance Standard," for this class of boiler, comes into effect in 1980.

This new system can help shift the nation's dependence away from oil to coal, and also reduce industry's rising cost for fuel.

In the liquid filtration area, 1979 was marked by a high level of new orders for our pressure leaf screening process and media filter equipment. In addition, the Fluid Systems unit successfully completed mechanical revisions of its test filter at the Solvent Refined Coal project at Wilsonville, Alabama. The solvent refining process, which removes pollutants such as sulfur and ash, can produce a clean burning coal for industrial use and can be used by utility companies for conversion to electricity. The application of flotation cells to treat poultry waste-water, which resulted in an influx of orders, was another Fluid Systems "first" during the year.

The Ducon unit is responding to new requirements for odor and emission control for the disposal or utilization of solid waste, garbage, and sludge in an environmentally acceptable manner. The Fluid Transport unit designs pneumatic conveying and chemical handling systems for treating both waste-water and the increasing volume of power plant sludge. This unit also is in the forefront in supplying fuel and waste handling for the emerging fluidized-bed coal combustion technology.



RS-002418
1/17/02
NUECES

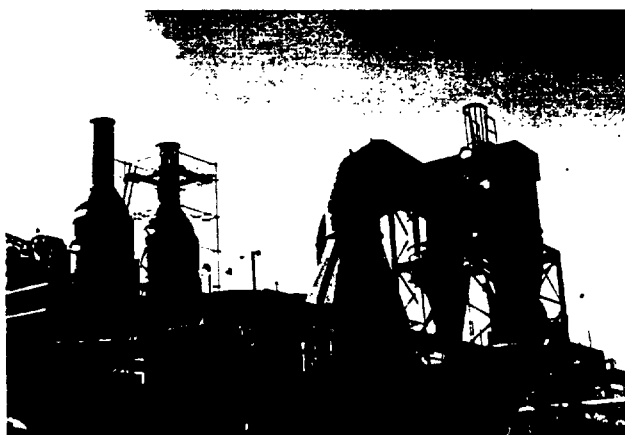
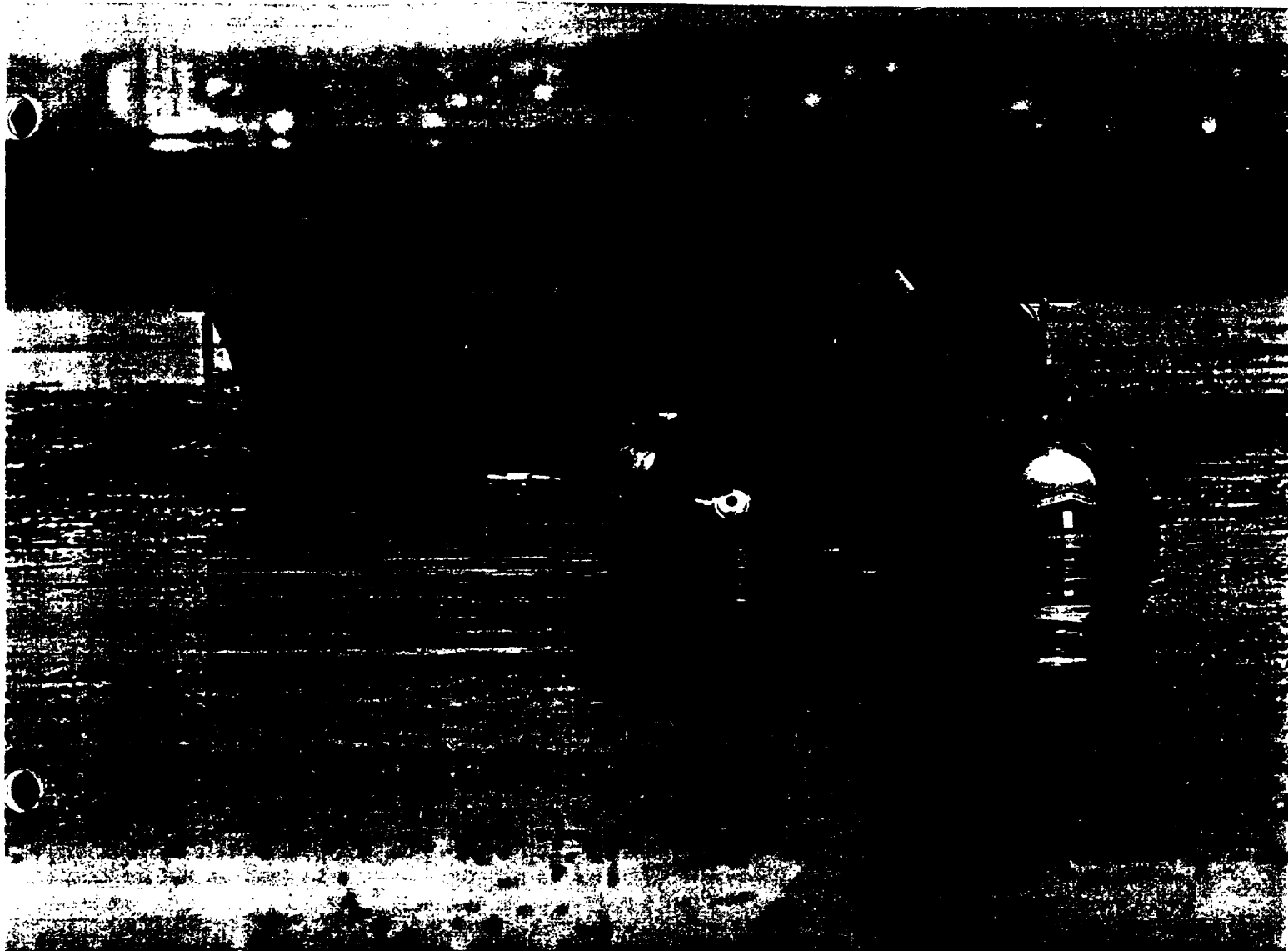
During the year, our MikroPul pulverizing equipment line made significant inroads in two separate applications. First, in the demanding Kaolin clay industry, where successful use of this equipment resulted in a better product at higher efficiency and a lower cost, compared to industry standards. The second application was the supply of pulverizing systems to competing pollution control companies. These systems are designed to accurately pulverize and disperse conditioning agents into boiler flue gas. The technique upgrades the collection efficiency of electrostatic precipitators and allows the plant to meet environmental codes.

Menardi-Southern is the recognized leader in production and sales of filter media for wet and dry filtration in both industrial processing and pollution control. A number of basic industries, such as foods, chemicals, metals, cement, and power, require some filtration of their products, and Menardi-Southern works with companies in all of them.

It should be noted that the energy shortage has created a greater awareness of the need by both electric utilities and industrial concerns

to burn coal while maintaining air quality standards. For many of these coal-burning units, the best solution has been Menardi-Southern's Tuflex®-treated glass fiber filter which has demonstrated excellent performance in maintaining air quality standards.

Other product applications include Menardi's Monofilter® woven polypropylene for soil erosion control in the civil construction industry and Aquascreen®, a patented product with the capacity to kill and control shoreline weeds. Since no other nonchemical materials are available for the latter, Aquascreen® has enjoyed increasing acceptance. For example, during 1979, the City of Seattle installed more than five acres of our screening material in Lake Washington.



Top: Installing Aquascreen® in Lake Washington, near Seattle, to kill and control shoreline weeds.

Above: Ducon-MikroPul Australia's installation of an air cleaning system on an iron ore dryer in Cliff West, Australia. The system consists of twin high efficiency, abrasive resistant lined Ducon cyclones followed by twin Ducon type UW4 dynamic scrubbers.

MikroPul's first industrial dry SO_2 and particulate removal system in operation on a base loaded pulverized coal fired boiler in the U.S.A. MikroPul spray dryer on the right is vented to a Mikro Pulsaire Fabric Filter on the left.

Specialty Chemicals Segment

Proprietary products to reduce fuel consumption and high cost of boiler and cooling system maintenance—Cost saving products for treatment of water and waste—Technical services and specialized instrumentation to identify and solve marine and industrial process water related problems.



Above: Shown above is the engine room space where the boiler and turbine are housed in a Very Large Crude Carrier (VLCC). The high pressure steam generators require exacting water treatment products and supervisory control programs. The application of Drew's ULTRA-MARINE® program provides for optimum operating efficiency, minimum operating expense, increased equipment reliability and reduced maintenance expenses.

Opposite Page: Drew maintains product supply and technical service capability in over 140 ports world-wide. Fuel treatments to improve combustion and increase energy efficiency represent an important part of Drew's sales.

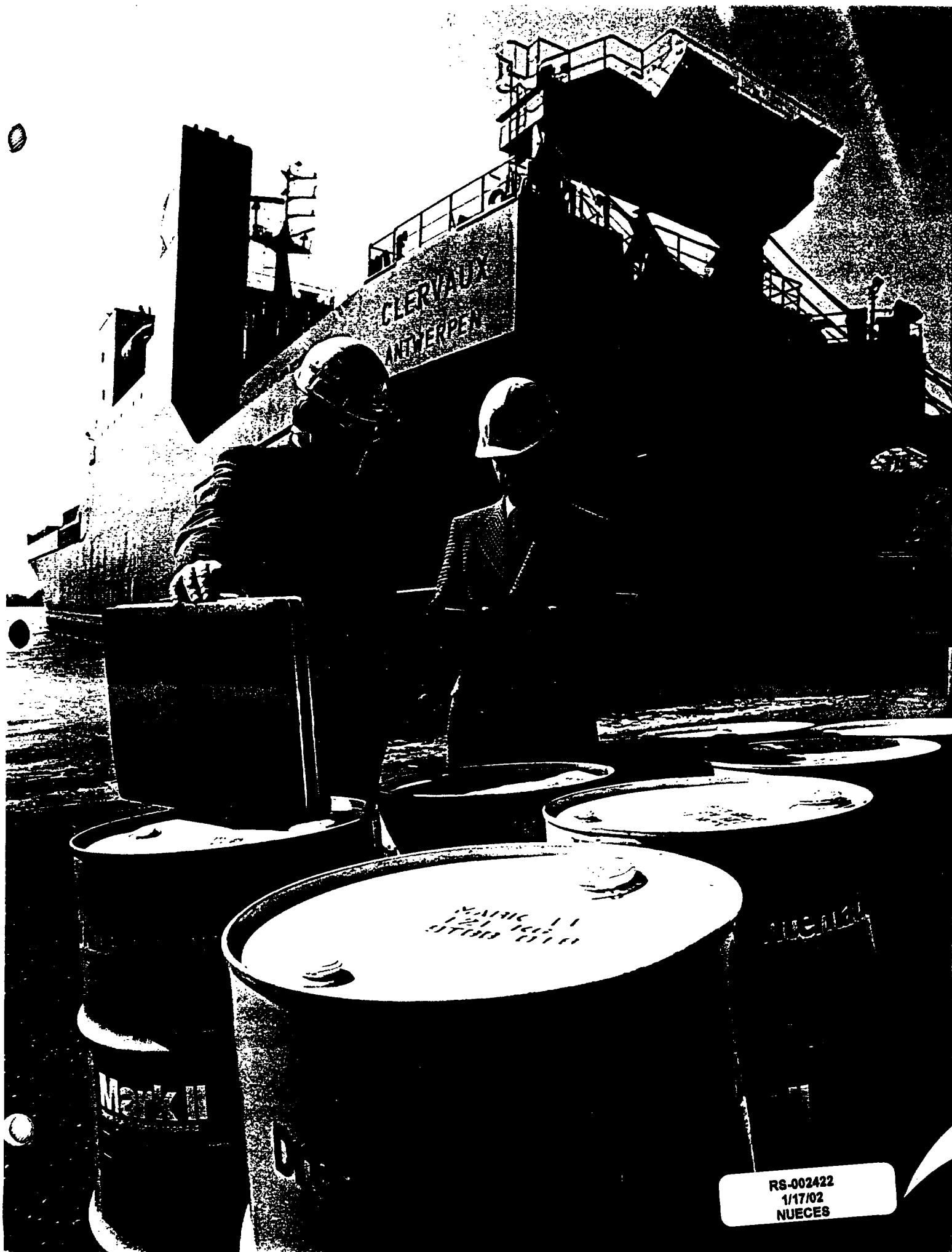
Drew Chemical Corporation, which forms U.S. Filter's Specialty Chemicals Segment, provides products and services to industry and to marine shipping, worldwide. Conserving energy, enhancing environmental quality, and facilitating production through the treatment of water and fuel, its products and services combat the problems of scaling, foaming, corrosion, and fouling in water, enhance fuel system operation, and provide for improved equipment maintenance. During the year, Drew introduced new products and instruments, an outgrowth of ongoing and extensive research and development activities; expanded supply, distribution and manufacturing capabilities; and broadened overseas sales coverage.

One of the factors which causes energy and productivity losses is the formation of bacterial slime in industrial water systems. During 1979, Drew introduced its BIO-MATIC™ analyzer to assist industry in coping with this problem. Developed in conjunction with Baylor College of Medicine, this instrument makes available for the first time, an accurate and immediate method for bacterial counting. As a result, a water system's tendencies toward bacterial fouling can be determined almost instantly, thus avoiding

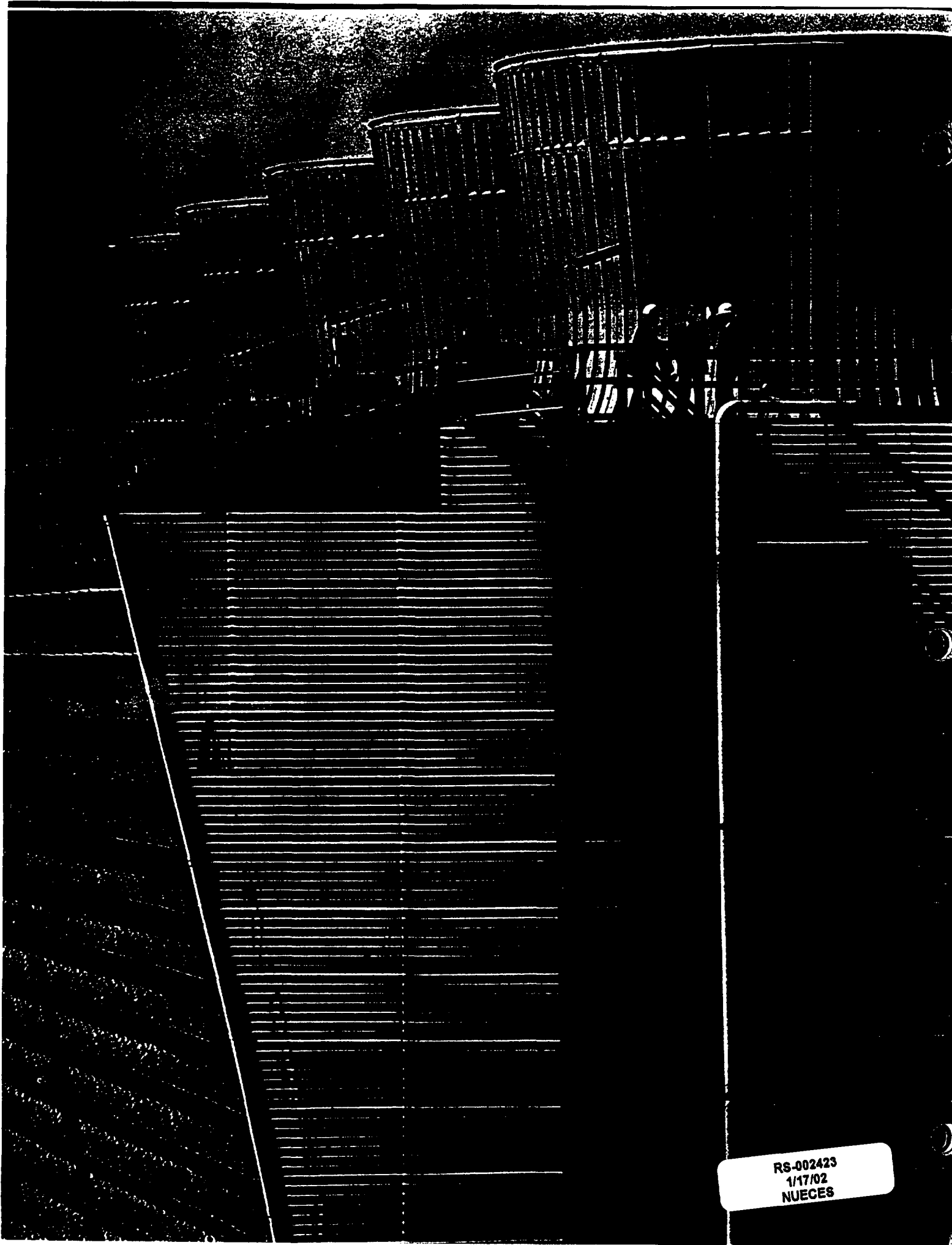
costly plant shutdowns. This instrument has been well received, and the sale of Drew's biocide and water treatment products should be enhanced through its use.

Another instrument to assist industry in maintaining production and conserving energy was devised by Drew in conjunction with Oregon State University. The PULSE™ analyzer is used to monitor the corrosion and fouling potential of a water system and thus provide a rapid alert and response to system upsets. On-site detection capability interacts with Drew's main frame computer at its Boonton, New Jersey headquarters, permitting immediate assessment and response to water corrosion and fouling problems. During the year, Drew was awarded a National Science Foundation grant to study fouling characteristics of cooling water using the PULSE analyzer. The PULSE analyzer should have a positive impact on the sale of Drew's water treatment products.

Two new chemical products developed by Drew, Bunkersol-D™ Sludge Control and L/T Soot Release™, were designed specifically for motorship fuel programs. Through the use of these new products, Drew is assisting ship operators in obtaining the maximum energy potential from fuel, while minimizing operating difficulties such as corrosion and deposit formation. Working with ship operators and diesel engine manufac-



RS-002422
1/17/02
NUECES



RS-002423
1/17/02
NUECES

turers, Drew is developing sophisticated programs to meet the fuel problems expected in coming years. As a result of escalating fuel prices and lower fuel quality, the sales of these treatment products increased during 1979.

Drew's improved oil spill dispersant, OSD/LT[™] was introduced in 1979 and has been accepted or authorized for use by major regulatory bodies around the world. The introduction of Drew's Packings & Jointings Inventory Control System resulted in increased sales to marine vessels. This system utilized controlled inventory storage of packings and jointings materials with inventory replenishment at the various ports-of-call and results in lower vessel operating and maintenance costs.

Drew launched its Motorgard X[™] service program to the worldwide shipping community during the year. This program for motor vessels provides reduced operating and maintenance costs and improved fuel efficiency.

Our Specialty Chemicals Segment was increasingly active in the sale of defoamers to industries that utilize process water systems including potato and sugar beet processors as well as markets in Europe and the Far East. New water-based defoamers were introduced into the aqueous industrial coatings and pulp and paper fields. In addition, bulk distribution of corrosion inhibitors, biocides, defoamers, antiscalants, and fuel treatments to industrial plants, mills as well as to remote oil field locations were intensified in the Southwest and in California.

Worldwide sales activities were expanded. Drew participated in the Incheba exposition in Bratislava, Czechoslovakia. Sales and service capabilities were enlarged in Eastern Europe and Yugoslavia to support the rapidly growing business in this region. Drew broadened its coverage of the People's Republic of China by signing an agency agreement with Shanghai Ocean Shipping Company. The agreement calls for complete product and service capability in the Port of Shanghai for both domestic and foreign flag vessels. Intensifying its efforts in the Middle East, Drew established a distributorship in Saudi Arabia in order to provide products and technical service in both water and fuel treatment.

Seminars on all phases of water and fuel treatment and processing additives were conducted throughout the United States, Europe, the Middle East, and the Far East.



Above: The phosphoric acid plant shown above is illustrative of the many industries utilizing process water. Drew is expanding its sales of defoamers and surfactants to these industries, to provide for more efficient productivity.

Opposite Page: The treatment of cooling water systems for the prevention of scaling, corrosion and biological growths requires technical supervision by Drew's field service engineers. The cooling tower shown is representative of the many systems world-wide utilizing Drew's products and services.

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1/17/02
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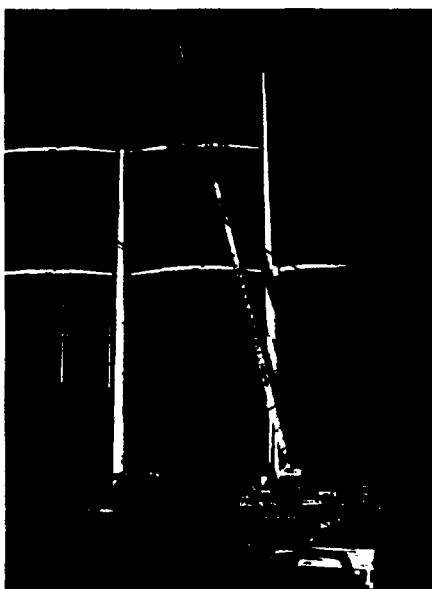
Investment in Koehring Company

Koehring is a manufacturer of specialized machinery and equipment for the construction and natural-resources industries—cranes and excavators, compaction equipment, waterwell drills, light construction equipment, and farm equipment. The company also manufactures hydraulic components and systems.



Top: Koehring's 1266D Hydraulic Excavator loading coal near Big Horn, Wyoming.

Above: Koehring's Lorain LRT-500 Rough Terrain Hydraulic Crane installing power lines near Knoxville, Tennessee.



The Koehring Company, in which U.S. Filter owns approximately 23 percent of the outstanding common stock, is a multinational machinery manufacturer serving customers in the construction, hydraulic component, farm, woodlands, water-well drilling, and related markets.

For the fourth consecutive year, Koehring posted new highs for both shipments and net earnings in its fiscal year ended November 30, 1979. The gains were attributable to vigorous construction markets in various parts of the world, strong product demand, and improvements in operations brought about during the past several years.

The world economy was favorable for Koehring's business in 1979. United States construction activity—both residential and commercial—sustained the momentum of 1978 for the greater part of the year. Improved economic conditions, mainly in Europe, the Middle East, and the Far East, provided a good sales climate.

Overall demand for Koehring's varied lines of construction and other equipment, was strong for most of fiscal 1979. Net shipments worldwide also advanced. Shipments and operating profits for Machinery and Equipment operations improved, as did shipments and profits for Hydraulic equipment.

As in the past, U. S. Filter continues to have confidence in its investment and in the management of Koehring.

Financial Information

Financial Contents

Five Year Summary of Operations	28
Financial Review	29
Consolidated Statement of Income and Retained Earnings	30
Consolidated Balance Sheet	31
Consolidated Statement of Changes in Financial Position	32
Notes to Consolidated Financial Statements	33
Report of Certified Public Accountants	38
Information Relating to the Company's Business Segments	39
Unaudited Supplementary Information on Changing Prices	42

Five Year Summary of Operations

(In thousands)

	Year ended December 31,				
	1979	1978	1977	1976	1975
Net sales	\$611,551	\$540,815	\$423,657	\$358,177	\$246,402
Cost of sales	460,810	410,697	310,255	252,930	162,009
Other operating expenses	117,730	104,591	93,334	84,386	69,758
Interest income	13,568	7,150	2,637	2,364	2,321
Interest expense	14,743	11,780	6,502	6,088	5,326
Other income—net	1,447	1,788	1,533	1,730	2,545
Provision for income taxes	13,313	7,549	7,300	8,600	5,340
Equity in earnings of Koehring Company	2,691	2,173	436	—	—
Equity in earnings of Filtrol Corporation	—	—	3,005	2,445	1,109
Minority interest in Filtrol Corporation	184	1,233	—	—	—
Extraordinary credit, net of taxes, (\$.09 per share)	—	—	—	—	746
Net income	22,477	16,076	13,877	12,712	10,690
Preferred dividends	23	23	23	23	30
Preference dividends	6,003	3,487	—	—	—
Net income applicable to common shares	\$ 16,451	\$ 12,566	\$ 13,854	\$ 12,689	\$ 10,660
Earnings per share					
Primary	\$2.01	\$1.55	\$1.70	\$1.57	\$1.32
Fully diluted	\$1.79	\$1.51	\$1.70	\$1.56	\$1.32
Average number of shares					
Primary	8,215	8,171	8,198	8,140	8,123
Fully diluted	12,586	10,708	8,198	8,184	8,123
Cash dividends on common stock	\$.34	\$.30	\$.28	\$.24	\$.20

Notes to Five Year Summary of Operations

As of July 1, 1975, the Company purchased Atlas Foundry & Machine Co. and the summary includes the results of operations from date of acquisition. Had the acquired corporation been included for the full year of 1975, net income would have increased \$1,871,000 (\$.24 per share).

The Company accounted for its 50.7% ownership in Filtrol Corporation on the equity method through December 31, 1977. During 1978, the Company increased its ownership to approximately 86% and, accordingly, included the accounts of Filtrol in its 1978 consolidated financial state-

ments, effective January 1, 1978. As a result of the Company's additional investment during 1979, Filtrol became a wholly-owned subsidiary.

In December 1979, the Company purchased The Riley Company for approximately \$116,000,000 in cash and notes, including capitalized acquisition costs. No results of operations for Riley are included in the Company's consolidated statement of income for 1979. Pertinent information relating to this acquisition is furnished in "The Riley Company" note to the consolidated financial statements.

Financial Review

Management's Discussion and Analysis of the Summary of Operations

As indicated in the notes to the consolidated financial statements included herein, the accounts of Filtrol have been included in the consolidated financial statements of the Company effective January 1, 1978. During 1977 and prior, the Company accounted for Filtrol under the equity method.

In December 1979, the Company purchased The Riley Company. No results of operations for The Riley Company are included for 1979.

Net Sales

Net sales increased by \$70,736,000 (13%) during 1979, and \$117,158,000 (28%) during 1978. The inclusion of Filtrol's sales for the full year of 1978 represented 86% of the 1978 increase. Sales by the Engineering Services subsegment of the Energy/Technology segment increased slightly, resulting from new jobs started in 1979, despite lower revenues from a major government contract. This compares to 1978 when the Engineering Services subsegment experienced higher revenues from a major government contract and lengthy start-up delays in other new jobs. Major new jobs were also started by the Environmental Systems segment during 1979 while the Specialty Chemicals segment experienced a resurgence of world-wide marine shipping activity. Higher sales by the Natural Resources segment resulted from increased demand for catalysts and adsorbents, cement and coal. Price increases accounted for the balance of the 1979 and 1978 sales increases, and were necessary to counter the effect of increased costs of labor and materials.

Cost of Sales

Cost of sales increased by \$50,113,000 (12%) in 1979 and \$100,442,000 (32%) in 1978 with the inclusion of Filtrol causing 81% of the total 1978 increase. The 1979 increase, and the balance of the 1978 increases, are represented by manufacturing costs, principally raw materials, payroll and related costs and repairs and maintenance expenses. In addition, the decrease in revenues during 1979 from a major government contract which has a lower gross margin, caused an improvement in the percentage relationship of cost of sales to sales.

Other Operating Expenses

Other operating expenses increased by \$13,139,000 (13%) in 1979 and \$11,257,000 (12%) in 1978. Generally, expense increases in this category are volume related and subject to the effects of inflation, especially in the areas of insurance and payroll and related costs. Through cost reduction and cost postponement programs, the Company has been able to minimize percentage increases in other operating expenses which have remained constant as a percentage of net sales.

Interest Income

Interest income increased by \$6,418,000 (90%) in 1979 and \$4,513,000 (171%) in 1978, which resulted from higher investments in cash equivalents made by the Company of cash resources resulting from the preference stock issuance on June 2, 1978. The 1979 increase reflects the full year's effect of greater investments at higher interest rates.

Interest Expense

Interest expense increased by \$2,963,000 (25%) in 1979 and \$5,278,000 (81%) in 1978. The 1979 increase resulted from increased short-term borrowings and foreign borrowings at higher prevailing interest rates. Of the 1978 increase, approximately 48% resulted from the inclusion of Filtrol. The balance of the 1978 increase resulted from additional borrowings and the increase in the Company's capitalized leases.

Other Income—Net

Other income—net decreased \$341,000 (19%) in 1979 and increased \$255,000 (17%) in 1978. In 1979 exchange losses were experienced resulting principally from the devaluation of the Brazilian cruzeiro which was offset somewhat by increased royalty income and improved earnings of joint ventures. The 1978 increase was due principally to higher royalty income and the inclusion of Filtrol but was somewhat offset by a reduction in equity in earnings of joint ventures.

Provision for Income Taxes

The provision for income taxes increased \$5,764,000 (76%) in 1979 and \$249,000 (3%) in 1978. The provision for income taxes and the effective tax rate are affected principally by changes in the level of taxable income and because of changes in the relationship of income from United States and foreign operations, deductions for percentage depletion and investment tax credits.

Equity in Earnings of Koehring Company

The Company's equity in earnings of Koehring Company increased \$518,000 (24%) in 1979 and \$1,737,000 (398%) in 1978. The 1979 increase resulted from higher sales volume and better profit margins in Koehring's major product lines. The 1978 increase reflects the first full year of the Company's equity in Koehring's earnings.

Net Income and Primary Earnings Per Share

Net income increased \$6,401,000 (40%) in 1979 and \$2,199,000 (16%) in 1978 while primary earnings per share increased \$.46 (30%) in 1979 and decreased \$.15 (9%) in 1978. In the computation of primary earnings per share the inclusion of the preference dividends on the Series A Convertible Preference Stock causes the percentage change in primary earnings per share to be less than the change in net income. For 1978, however, preference dividends are included in the computation only from June 2, 1978, the date of the preference stock issuance.

Consolidated Statement of Income and Retained Earnings

	Year Ended December 31,	
	1979	1978
	(In thousands)	
Net sales	\$611,551	\$540,815
Costs and expenses		
Cost of sales	460,810	410,697
Selling, general and administrative	113,061	100,084
Research and development	4,669	4,507
	578,540	515,288
	33,011	25,527
Other income (expenses)		
Interest income	13,568	7,150
Interest expense	(14,743)	(11,780)
Other—net	1,447	1,788
	272	(2,842)
	33,283	22,685
Provision for income taxes	13,313	7,549
	19,970	15,136
Equity in earnings of Koehring Company	2,691	2,173
Minority interest in Filtrol Corporation	(184)	(1,233)
Net income	22,477	16,076
Retained earnings at beginning of year	52,719	42,535
Cash dividends		
Preferred stock	(23)	(23)
Preference stock	(6,003)	(3,487)
Common stock—\$.34 per share (\$.30 in 1978)	(2,708)	(2,382)
Retained earnings at end of year	\$ 66,462	\$ 52,719
Earnings per share		
Primary	\$2.01	\$1.55
Fully diluted	\$1.79	\$1.51

Unaudited Quarterly Financial Data

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1/17/02
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		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
		(In thousands)			
Net sales	1979	\$134,572	\$147,512	\$161,169	\$168,298
	1978	121,650	130,300	144,662	144,203
Cost of sales	1979	102,148	111,682	121,052	125,928
	1978	93,131	97,648	110,223	109,695
Equity in earnings of Koehring	1979	365	829	739	758
	1978	126	669	642	736
Net income	1979	3,381	5,339	6,689	7,068
	1978	864	4,078	5,717	5,417
Earnings per share					
Primary	1979	.23	.47	.63	.68
	1978	.11	.43	.51	.50
Fully diluted	1979	.23	.43	.53	.56
	1978	.11	.43	.45	.45

Consolidated Balance Sheet

	December 31,	
	1979	1978
	(In thousands)	
Assets		
Current assets		
Cash and cash equivalents	\$184,790	\$139,106
Marketable securities, at cost (approximates market)	49,970	—
Accounts and notes receivable, less allowance for doubtful accounts of \$3,195,000 (\$1,782,000 in 1978)	161,336	89,467
Unbilled receivables and net costs incurred on uncompleted contracts	35,105	14,881
Inventories	80,037	40,435
Other current assets	3,830	2,626
Total current assets	515,068	286,515
Investments and advances, including Koehring Company		
\$22,343,000 (\$19,151,000 in 1978)	25,738	21,325
Property, plant and equipment—net	189,936	114,567
Cost in excess of net assets of companies acquired	68,457	56,694
Other assets	20,757	5,831
	\$819,956	\$484,932
Liabilities and Shareholders' Equity		
Current liabilities		
Notes payable to banks	\$ 75,542	\$ 12,163
Accounts payable	75,686	41,365
Contract advances and progress billings in excess of costs incurred	129,012	2,043
Salaries and fringe benefits	20,498	12,166
Other accrued expenses	33,535	20,640
Income taxes	23,142	7,525
Current installments of long-term debt	12,977	6,230
Total current liabilities	370,392	102,132
Long-term debt	175,429	119,063
Deferred income taxes	9,481	7,417
Total liabilities	555,302	228,612
Minority interest in Filtrol Corporation	—	5,718
Shareholders' equity		
Capital stock		
Preferred stock, 5% cumulative, \$10 par value, redeemable at par; authorized, 200,000 shares; 46,944 shares outstanding	469	469
Preference stock, without par value; authorized 5,000,000 shares; Series A convertible, stated value \$1; \$1.38 cumulative annual dividend, 4,350,000 shares outstanding, liquidating value \$100,050,000	4,350	4,350
Common stock, without par value, stated value \$1; authorized 20,000,000 shares; 7,974,892 shares outstanding (7,946,892 in 1978)	7,975	7,947
Paid-in capital	185,398	185,117
Retained earnings	66,462	52,719
Total shareholders' equity	264,654	250,602
	\$819,956	\$484,932

See accompanying notes.

Consolidated Statement of Changes in Financial Position

	Year Ended December 31,	
	1979	1978
	(In thousands)	
Sources of working capital		
Operations		
Net income	\$22,477	\$ 16,076
Items not affecting working capital		
Depreciation, depletion and amortization	10,598	9,161
Equity in undistributed earnings of Koehring Company and other investments	(2,713)	(2,078)
Deferred income taxes	1,618	1,185
Minority interest in Filtrol Corporation	184	1,233
Funds provided from operations	32,164	25,577
Net current assets upon consolidation of Filtrol Corporation	—	13,617
Net proceeds from issuance of preference stock	—	99,625
Long-term debt		
Notes issued in connection with The Riley Company acquisition	53,089	—
Other	5,789	30,323
Net book value of property, plant and equipment sold	1,654	624
Total sources of working capital	92,696	169,766
Uses of working capital		
Acquisition of The Riley Company		
Property, plant and equipment	69,906	—
Intangible assets	10,000	—
Note receivable	5,192	—
Cost in excess of net assets acquired	11,955	—
Long-term debt	(6,511)	—
Other—net	(853)	—
	89,689	—
Additional investment in Filtrol Corporation	7,943	17,062
Additional investment in Koehring Company	1,020	153
Additions to property, plant and equipment	15,882	18,468
Reduction in long-term debt	9,023	6,581
Cash dividends	8,734	5,892
Other—net	112	1,221
Total uses of working capital	132,403	49,377
Increase (decrease) in working capital	\$(39,707)	\$120,389
Increase (decrease) in components of working capital		
Cash, cash equivalents and marketable securities	\$95,654	\$ 98,480
Receivables and net costs incurred	92,093	31,210
Inventories and other current assets	40,806	16,913
Notes payable and current installments of long-term debt	(70,126)	(7,758)
Contract advances and progress billings in excess of costs incurred	(126,969)	394
Accounts payable and other liabilities	(55,548)	(21,211)
Income taxes	(15,617)	2,361
Increase (decrease) in working capital	\$(39,707)	\$120,389

See accompanying notes.

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1/17/02
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Notes to Consolidated Financial Statements

All of the following notes are an integral part of the Company's financial statements. In recent years, the Financial Accounting Standards Board and the Securities and Exchange Commission have issued various requirements for increased disclosure of data. This information, which is considered technical in nature, is included on pages 37, 42 and 43 of this annual report.

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. Investments in 50% and lesser-owned companies, including joint ventures, are stated at cost plus equity in undistributed earnings. The net assets of The Riley Company (Riley), acquired in December 1979, are included in the Company's December 31, 1979 consolidated balance sheet. No results of operations for Riley are included in the Company's consolidated statement of income for 1979.

Inventories

Inventories are stated generally at average or first-in, first-out cost not in excess of market. A portion of the cement inventories of Filtrol, which are not material to consolidated inventories, are accounted for on the last-in, first-out basis.

Depreciation, Depletion and Amortization

Depreciation is computed for buildings and improvements principally on the straight-line method over useful lives ranging from seven to fifty years and for machinery and equipment on the straight-line and declining balance methods over useful lives of two to thirty years. Amortization of capitalized leased properties is computed on a straight-line basis over the term of the lease. Clay and mineral deposits, including mine development costs, are depleted or amortized using the unit-of-production method based on the estimated quantity of future production.

Maintenance and repairs are charged to operations as incurred and renewals and betterments are capitalized. The net book value of property, plant and equipment retired or otherwise disposed of is generally removed from the accounts and the resulting gains and losses are included in operations.

Cost in excess of net assets of companies acquired is being amortized on the straight-line method, generally over forty years, except for excess cost related to acquisitions prior to October 31, 1970 which is not being amortized and has not diminished in value.

Long-Term Contracts

The percentage-of-completion method is used to account for long-term contracts.

In order to apply this method, total contract costs must be estimated. Certain contracts provide for the escalation of the sales price based on the future level of economic indices, as specified in the contract, and in such cases total contract revenue must also be estimated in applying the percentage-of-completion method. The percentage-of-completion is determined by relating the actual cost of work performed to date to the current estimated total cost of the respective contracts. When the estimate on a contract indicates a loss, the Company's practice is to record the entire loss. Unbilled receivables on uncompleted contracts represents the excess of costs incurred and profits recognized to date on the percentage-of-completion accounting method, over billings to date on certain contracts. Contract advances and progress billings in excess of costs incurred represents the excess of billings to date over costs incurred and profits recognized to date on the percentage-of-completion accounting method on the remaining contracts.

The Company does not charge selling and general and administrative expenses to inventory or net costs incurred.

Pension Plans

The Company has several pension plans covering substantially all of its employees. For most of its plans, the Company provides in its accounts normal cost plus interest on unfunded prior service costs. For the remaining plans, the Company provides in its accounts an amount equal to its funding. Funding for all plans, is based on normal cost plus amortization of unfunded past service cost over periods of ten to forty years.

Income Taxes

Provision has not been made for additional taxes that might result from the distribution to the Company of undistributed earnings of certain subsidiaries which are intended to be permanently reinvested in those subsidiaries' activities and are not considered available for distribution.

The Company accounts for the investment tax credit on the flow-through method.

Percentage depletion on clay and mineral deposits is deducted in calculating federal and state income taxes. This depletion is substantially in excess of the cost depletion for financial reporting purposes.

Earnings Per Share

Primary earnings per share are based on the average number of common shares outstanding and the common equivalent shares issuable upon conversion of the 5% secured convertible note, the awards of shares under the Key Executive Stock Incentive Plan and the exercise of stock options. Fully diluted earnings per share also assumes conversion of the 4,350,000 Series A convertible preference shares outstanding.

Cash and Cash Equivalents

Cash and cash equivalents includes the following:

	December 31,	
	1979	1978
	(In thousands)	
Cash	\$ 33,893	\$ 18,652
Certificates of deposit and time deposits	150,897	120,454
	\$184,790	\$139,106

Inventories

Inventories include the following:

	December 31	January 1
	1979	1978
	(In thousands)	
Finished goods	\$27,668	\$14,085
Work in process	18,229	7,720
Raw materials	26,836	12,277
Parts and supplies	7,304	6,353
	\$80,037	\$40,435

The above inventories are used in the computation of cost of sales, except \$30,564,000 attributable to Riley at December 31, 1979.

In connection with the increased ownership of Filtrol in 1979 and 1978, the apportioned fair values for the cement inventories exceeded the tax basis for such inventories by \$384,000 and \$274,000 at December 31, 1979 and 1978, respectively and, in accordance with APB Opinion No. 16, are reflected in consolidated inventories.

Property, Plant and Equipment

Property, plant and equipment, at cost, at December 31, is as follows:

	1979	1978
	(In thousands)	
Land and improvements	\$ 9,995	\$ 7,817
Clay and mineral deposits	4,202	3,918
Buildings and improvements	41,231	27,595
Capitalized leased properties	57,100	22,876
Machinery and equipment	134,270	100,472
	246,798	162,678
Less accumulated depreciation, depletion and amortization	56,862	48,111
	\$189,936	\$114,567

The Riley Company

In December 1979, the Company purchased Riley for approximately \$116,000,000 in cash and notes, including capitalized acquisition costs. The net assets of Riley are included in the Company's December 31, 1979 consolidated balance sheet. No results of operations for Riley are included in the Company's consolidated statement of income for 1979. The excess of the purchase price over Riley's net book value of the tangible assets acquired is \$56,040,000. Of this amount \$44,085,000 has been allocated to certain assets and liabilities based on their fair values at the acquisition date. The balance is included in

cost in excess of net assets of companies acquired and will be amortized over 40 years.

If the acquisition of Riley had occurred as of January 1, 1978, net sales on an unaudited pro forma basis would have been \$881,094,000 and \$794,410,000 for the years ended December 31, 1979 and 1978, respectively. The impact of this acquisition on pro forma net income and primary earnings per share would not have been material for either 1979 or 1978, after reflecting adjustments for such items as interest expense and depreciation and amortization of the fair values of acquired assets and goodwill.

Filtrol Corporation

During 1979, the Company increased its ownership in Filtrol from 86% to 100% at a cost of approximately \$8,000,000. Had the Company obtained 100 percent ownership of Filtrol effective January 1, 1978, the effect on earnings for 1979 and 1978 would not have been material. The Company's investments in Filtrol have been allocated to certain tangible assets based on their fair values existing as of the respective acquisition dates of the investments, except for \$50,175,000 of the original 1969 investment, which is included in cost in excess of net assets of companies acquired and is not being amortized since, in the opinion of management, it has not diminished in value.

Koehring Company

The Company currently holds approximately a 23% equity interest in the common shares of Koehring Company (Koehring) at a cost of approximately \$17,100,000. In October, 1979 the Company acquired 30,000 Series H convertible preferred voting shares of Koehring at a cost of \$1,020,000 (quoted market value at December 31, 1979 was \$900,000). Equity in the net assets of Koehring exceeds the cost of the Company's common stock investment by approximately \$3,000,000. The quoted market value of the common stock investment was \$13,570,000 at December 31, 1979. A condensed summary of the financial position and results of the operations of Koehring for its fiscal years ended November 30, as reported, follows:

	1979	1978
	(In thousands)	
Current assets	\$215,977	\$203,710
Other assets	128,209	112,237
	\$344,186	\$315,947
Current liabilities	\$111,265	\$100,910
Long-term debt	72,793	69,521
Other liabilities	26,478	21,560
	210,536	191,991
Shareholders' equity including preferred stock issues of \$26,715,000 (\$27,145,000 in 1978)	133,650	123,956
	\$344,186	\$315,947
Revenues	\$476,882	\$416,721
Expenses	449,945	392,041
Income before taxes	26,937	24,680
Income taxes	12,639	12,887
Net income	\$ 14,298	\$ 11,793

Debt

Long-term debt exclusive of current installments is as follows:

	December 31,	
	1979	1978
	(In thousands)	
10% promissory notes of a subsidiary due 1994	\$ 53,089	\$ —
9% promissory notes due 1995	26,000	26,000
8½% note payable in annual installments through 1991	12,000	13,000
10% promissory notes payable in installments through 1993	14,733	15,867
5% secured convertible note of a subsidiary payable 1981	3,000	3,000
10% secured subordinated note of a subsidiary payable 1981	3,000	3,000
9¾% note of a subsidiary payable in annual installments through 1991	18,200	19,800
Obligations of subsidiaries under capitalized leases due in various monthly installments	31,643	21,718
Other with varying maturities to 2001	13,764	16,678
	\$175,429	\$119,063

In October 1979, in connection with the Riley acquisition, the Company entered into a secured credit agreement with certain banks under which it may borrow up to \$60,000,000. Under this agreement, interest is payable at the prime rate. The provisions of the agreement require a commitment fee of ½% per year of the undrawn balance. Repayment of any outstanding borrowings thereunder is scheduled during February and March 1980, and corresponds to \$60,000,000 of time deposit maturities pledged as security for the loan. The balance sheet caption "Notes payable to banks" includes \$46,600,000 borrowed under this agreement.

In connection with the Riley acquisition, a subsidiary of the Company issued its promissory notes guaranteed by the Company aggregating \$54,173,000 at 10% due December 4, 1994, with 2% of the principal amount due in 1980.

In December 1978, the Company entered into a revolving credit and term loan agreement with certain banks under which it may borrow up to \$30,000,000. Under this agreement, interest is payable at 107% of the prime rate to December 1, 1982 and 107% of the sum of the prime rate plus ¼% to December 1, 1984, and 107% of the sum of the prime rate plus ½% to December 1, 1986. The provisions of the agreement require a commitment fee of ½% per year of the undrawn balance to December 1, 1982. On December 1, 1982, any outstanding borrowings may be converted into a term loan repayable in quarterly installments through December 1, 1986. This agreement replaced a prior revolving credit and term loan agreement for up to \$20,000,000 with the same banks. The balance sheet caption "Notes payable to banks" includes \$20,000,000 and \$8,000,000 at December 31, 1979 and 1978, respectively under this agreement.

Under a revolving credit and term loan agreement with a bank, Filtrol may borrow up to \$10,000,000 on or before March 31, 1982. Interest is payable at the prime rate to March 31, 1981 and at the prime rate plus ¼% through March 31, 1982. The provisions of the agreement require that Filtrol pay a commitment fee of ½% per year of the undrawn balance to March 31, 1982. On March 31, 1982 the revolving credit agreement may be converted into a term loan repayable in quarterly installments through March 31, 1986. Outstanding borrowings thereunder shall be at an interest rate of prime plus ¼% to March 31, 1983 and thereafter at prime plus ½%. The balance sheet caption "Notes payable to banks" includes \$8,000,000 and \$2,000,000 at December 31, 1979 and 1978 respectively borrowed under this agreement.

Several of the debt instruments of the Company as well as certain of its subsidiaries contain requirements and restrictions covering borrowings, sale and lease of assets, working capital and dividends. At December 31, 1979, retained earnings of approximately \$16,400,000 are available for payment of dividends by the Company. A portion of the stock of a wholly-owned subsidiary is pledged as collateral on the 5% secured convertible note and the 10% secured subordinated note.

The aggregate maturities of long-term debt during each of the next five years, inclusive of capitalized lease obligations are as follows:

1980	\$12,977,000
1981	\$14,673,000
1982	\$ 9,571,000
1983	\$ 7,539,000
1984	\$ 8,363,000

Pension Plans

Pension expense for the years 1979 and 1978 aggregated \$5,063,000 and \$4,683,000, respectively. The amount by which the actuarially computed value of vested benefits at the most recent actuarial valuation dates exceeds the market value of fund assets and balance sheet accruals at December 31, 1979 is \$3,127,000. Unfunded past service cost at the most recent actuarial valuation dates amounted to approximately \$17,600,000.

Capital Stock

Preference Stock

The Company has outstanding shares of Series A Convertible Preference Stock which was issued June 2, 1978. The Series A stock has one vote per share and is convertible on a share for share basis at any time into common shares. In connection with this issuance, paid-in-capital was increased by \$95,275,000, the difference between the stated value of \$1 per share and the purchase price of \$23 per share, net of expenses incurred with respect to the issuance thereof. There are no mandatory sinking fund or repurchase requirements. However, the Company may redeem all or part of the Series A stock after June 2, 1985 at a redemption price of \$24.38 per share decreasing in equal increments each year to \$23 in 1990 and each year thereafter.

Common Stock

At December 31, 1979, in addition to shares reserved under the Key Executive Stock Incentive Plan and for stock options, the Company has reserved 4,350,000 shares for the conversion of the Series A Preference Stock and 200,000 shares of common stock in connection with the 5% secured convertible note payable in 1981.

Key Executive Stock Incentive Plan

Under the Key Executive Stock Incentive Plan (the Plan), awards of common shares are made to key executive officers and senior management personnel of the Company and its subsidiaries. The maximum number of shares of the Company's common stock which may be issued under the Plan is 450,000 shares, less any shares of common stock issued pursuant to stock options exercised under the Company's stock option plan. Authorized but unissued shares available pursuant to the Plan, not subject to outstanding options under the Company's stock option plan, are reserved under the Plan. The exercise of an outstanding stock option or the issuance of common shares pursuant to the Plan, granted to the same participant, automatically terminates the other to the extent of the number of common shares exercised or issued, as the case may be. Shares awarded under the Plan are issued in installments over a period of time not exceeding eight years.

Awards for a total of 196,500 shares and 144,900 shares were outstanding at December 31, 1979 and 1978, respectively under the Plan. During 1979, 82,000 shares were awarded, 14,900 shares were surrendered or cancelled and 15,500 shares were issued pursuant to the Plan as compared to 7,600 shares issued in 1978. Shares totaling 193,600 and 187,100 were reserved at December 31, 1979 and 1978, respectively. Compensation costs related to the award of such shares are expensed over the period of time during which the restrictions on transfer and risk of forfeiture are in effect (not exceeding eight years). As a result,

compensation expense charged to operations in 1979 and 1978 was \$339,000 and \$220,000, respectively. Common stock increased by \$15,000 and \$8,000 and paid-in capital increased by \$178,000 and \$80,000 in 1979 and 1978, respectively.

Stock Options

The Company has common stock options outstanding to officers and key employees. The options are exercisable in specific amounts over various periods, principally no later than five to ten years from dates of grant. Options for 184,450 shares, with exercise prices at market value at dates of grant, were outstanding at December 31, 1979. Options under existing plans have been granted since 1971. Changes during 1978 and 1979 in shares of common stock reserved for issuance in connection with these options were as follows:

	Number of Shares	Option Price	
		Per Share	Aggregate
1978:			
Reserved, beginning of year	387,650		
Available for future grants	<u>(130,850)</u>		
Outstanding, beginning of year	256,800	\$ 4.87-\$16.25	\$2,380,000
Options granted	13,000	12.25- 14.50	184,000
Options exercised	(24,000)	4.87- 9.25	(198,000)
Options terminated or cancelled	(19,250)	7.50- 9.25	(169,000)
Options surrendered in connection with Key Executive award issuances	<u>(7,600)</u>	8.88- 11.13	<u>(69,000)</u>
Options outstanding, end of year	218,950	4.87- 16.25	2,128,000
1979:			
Options granted	12,500	11.63- 12.75	149,000
Options exercised	(12,500)	4.87- 8.88	(109,000)
Options terminated or cancelled	(19,900)	8.88-16.25	(206,000)
Options surrendered in connection with Key Executive award issuances	<u>(14,600)</u>	8.88-11.13	<u>(133,000)</u>
Options outstanding, end of year	184,450	8.88-14.50	\$1,829,000
Available for future grants	<u>144,500</u>		
Reserved, end of year (356,050 in 1978)	328,950		
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			1/17/02
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During 1979, options for 8,500 shares at prices of \$9.25 to \$14.50 became exercisable amounting to \$112,000 with market prices of \$11.50 to \$14.75 and an aggregate market value of \$107,000 at the exercisable dates. In 1978, options for 9,750 shares at prices of \$4.87-\$16.25 became exercisable amounting to \$108,000 with market prices of \$10.50 to \$15.38 and an aggregate market value of \$117,000 at the exercisable dates. Options for 152,950 shares and 187,700 shares were exercisable at December 31, 1979 and 1978, respectively. No charges have been made to income in connection with these options. The exercise of options, in 1979 and 1978, increased common stock by \$13,000 and \$24,000, and paid-in capital by \$103,000 and \$229,000, respectively, and had market values on the dates exercised of \$11.50-14.88 per share aggregating \$152,000 in 1979 and \$12.00-17.13 per share aggregating \$354,000 in 1978.

Long-Term Contracts

The component elements of billed accounts receivable from long-term contracts which have increased substantially as a result of the 1979 purchase of Riley, and which are included in the balance sheet caption "Accounts and notes receivable," are as follows:

	December 31,	
	1979	1978
	(In thousands)	
Commercial Customers		
Amounts billed and currently due	\$32,857	\$3,006
Retainage, due upon completion of contracts	12,425	830
U.S. Government		
Amounts billed and currently due	5,063	2,624
Retainage, due upon completion of contracts	266	189
	\$50,611	\$6,649

Substantially, all customer retainages are normally collected within one year.

Included in the balance sheet caption "Unbilled receivables and net costs incurred on uncompleted contracts" is approximately \$2,800,000 of costs incurred in excess of \$6,400,000 of progress billings.

Leases

The Company over the years has entered into leases for the rental of office space and manufacturing facilities. Accumulated amortization of capitalized leased properties was \$3,175,000 and \$1,926,000 in 1979 and 1978, respectively. Amortization of capitalized leased properties of \$1,618,000 and \$1,205,000 in 1979 and 1978, respectively, is included with depreciation expense. Interest expense on capitalized leases was \$2,982,000 and \$2,421,000 in 1979 and 1978, respectively. Future minimum lease payments under capitalized leases and minimum rental commitments under existing non-cancellable operating leases at December 31, 1979 are:

	Capitalized Leases	Operating Leases
	(In thousands)	
1980	\$ 4,550	\$ 4,323
1981	4,480	2,847
1982	4,348	1,872
1983	4,248	1,343
1984	4,133	1,161
Thereafter	51,656	4,481
Total minimum lease payments	73,415	\$16,027
Less estimated executory costs	286	
Net minimum lease payments	73,129	
Imputed interest (rates from 7% to 12%)	40,248	
Present value of net minimum lease payments	32,881	
Less current installments of capital lease obligations	1,238	
Long-term capital lease obligations included in long-term debt	\$31,643	

Rental expense under operating leases, net of minor sub-lease income, for the years ended December 31, 1979 and 1978 was \$8,749,000 and \$7,063,000, respectively.

Short-Term Borrowings and Compensating Balances

The following information relates to short-term debt and lines of credit for the years indicated:

	December 31,	
	1979	1978
	(In thousands)	
As of year-end:		
Amount of borrowings	\$75,542	\$12,163
Weighted average interest rate	16.0%	12.9%
Unused lines of credit	\$65,056	\$39,450
For the year ended:		
Maximum amount of month-end borrowings	\$75,542	\$12,163
Average amount of borrowings	\$12,854	\$ 4,280
Weighted average interest rate	13.9%	13.7%

At December 31, 1979, the Company is expected to maintain average compensating balances equivalent to 10% of the commitment in connection with a \$30,000,000 revolving credit and term loan agreement, balances equivalent to 10% of the commitment plus 10% of the borrowings thereunder in connection with the \$10,000,000 Filtrol revolving credit and term loan agreement and other domestic lines of credit totaling \$5,000,000. In addition, foreign lines of credit are maintained principally in connection with bank overdraft and note facilities.

The requirements to maintain compensating balances are informal and not legally restrictive. At December 31, 1979, these compensating balances, after adjustment for net float, amounted to approximately \$4,400,000. While the Company is complying with the compensating balance requirements, it is management's opinion that no penalty may be imposed if they are not met.

Unaudited Supplementary Information on Changing Prices

Unaudited Supplementary Information on Changing Prices is presented on pages 42 and 43 of this annual report.

Income Taxes

Income tax expense consists of the following:

	Current	Deferred	Total
	(In thousands)		
1979:			
Federal	\$ 6,748	\$ 2,726	\$ 9,474
Foreign	2,702	(152)	2,550
State and local	1,289	—	1,289
	\$10,739	\$ 2,574	\$13,313
1978:			
Federal	\$ 1,714	\$ 2,680	\$ 4,394
Foreign	2,409	(84)	2,325
State and local	830	—	830
	\$ 4,953	\$ 2,596	\$ 7,549

Deferred income tax amounts result principally from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and the tax effect of each are as follows:

	1979	1978
	(In thousands)	
Utilization of foreign tax credits	\$ 251	\$ 533
Utilization of investment tax credits	156	959
Depreciation and expenses related to long-term leases	373	532
Income related to certain long-term contracts	601	551
Other—net	1,193	21
	\$2,574	\$2,596

Components of the difference between the U.S. statutory federal income tax rate and the effective tax rate to the Company (expressed as a percentage of pre-tax income before equity in Koehring Company) are as follows:

	1979	1978
Statutory federal income tax rate	46%	48%
Foreign income not subject to tax	(5)	(8)
Foreign operations without tax benefit	1	4
Excess of percentage depletion over cost depletion	(4)	(6)
Investment tax credit	(3)	(3)
Other—net	5	(2)
Effective tax rate	40%	33%

Unremitted earnings of certain subsidiaries which are intended to be permanently reinvested, exclusive of those amounts which, if remitted in the near future, would result in little or no tax, aggregated \$26,600,000 at December 31, 1979.

Information Relating to the Company's Business Segments

Information concerning the Company's business segments included in the 1979 and 1978 financial statements and the extent of operations in different geographic areas is presented on pages 39, 40 and 41 of this annual report.

Contingencies

The Company is subject to various risks inherent in its business and is involved in several claims, suits and complaints by and against the Company arising in the ordinary course of business. In the opinion of management of the Company, the outcome of these matters will not have a material effect on the Company's financial position.

Report of Certified Public Accountants

The Board of Directors and Shareholders
United States Filter Corporation

We have examined the accompanying consolidated balance sheet of United States Filter Corporation at December 31, 1979 and 1978, and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The financial statements of Koehring Company, a corporation in which the Company has approximately a 23% common equity interest, have been examined by other independent auditors; insofar as our opinion on the consolidated financial statements relates to data included for Koehring Company, it is based solely on their report. In the consolidated financial statements, the Company's investment in Koehring Company was \$22,343,000 and \$19,151,000, respectively at December 31, 1979 and 1978, and the Company's equity in the net income of Koehring Company was \$2,691,000 and \$2,173,000, respectively for the years then ended.

In our opinion, based on our examinations and the report of the other independent auditors, the consolidated financial statements mentioned above present fairly the consolidated financial position of United States Filter Corporation at December 31, 1979 and 1978, and the related consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

New York, New York
February 26, 1980

Information Relating to the Company's Business Segments

The Company's business is comprised of five principal segments. The Energy/Technology segment, through its Engineering Services subsegment, is engaged principally in providing engineering services to the energy industry through the engineering and management of projects for the development, transportation and conversion of energy resources and other related businesses. Through its Nuclear and Other Metal Castings subsegment, the Energy/Technology segment also provides products, principally castings, built to customers' specifications for use principally in the energy production field for application in oil and gas pipelines, nuclear, and conventional power plants, and turbines and compressors. The quality manufacturing provided by this subsegment involves extensive non-destructive examination, testing and upgrading.

The Specialty Chemicals segment is a major supplier of products and services for water management and specialty chemicals for the industrial and marine markets.

The Environmental Systems segment designs, manufactures, sells and installs a wide range of air and water pollution control equipment and systems.

The Natural Resources segment has three subsegments, Catalysts and Adsorbents, Cement and Coal, the names of which are descriptive of the products or product lines from which the revenues of each such subsegment is derived. Clay and minerals are mixed and processed into products which are supplied to several basic areas of United States industry.

In December 1979, the Company acquired The Riley Company. The Riley Company represents the Company's Power Generation segment which is engaged in the design, manufacture, marketing and servicing of products relating to steam generation and fuel burning equipment, heavy metal fabrication and annunciator components and systems related industrial control monitoring devices (electronic systems).

Summary of Net Sales and Operating Income

	Year ended December 31,				
	1979	1978	1977 (In thousands)	1976	1975
Net sales					
Energy/Technology					
Engineering services	\$236,724	\$234,260	\$234,800	\$179,906	\$ 87,097
Nuclear and other metal castings	30,257	26,385	24,378	20,838	10,932
Specialty chemicals	97,991	82,921	74,220	65,910	56,425
Environmental systems	116,397	95,924	89,009	85,165	87,056
Natural resources					
Catalysts and adsorbents	71,585	53,189	—	—	—
Cement	49,956	42,783	—	—	—
Coal	8,641	5,353	—	—	—
Other	—	—	1,250	6,358	4,892
	\$611,551	\$540,815	\$423,657	\$358,177	\$246,402
Operating income					
Energy/Technology					
Engineering services	\$ 3,412	\$ 1,312	\$ 6,892	\$ 8,051	\$ 6,282
Nuclear and other metal castings	3,560	4,692	4,217	3,781	1,376
Specialty chemicals	9,705	7,844	8,794	8,529	6,679
Environmental systems	8,104	6,543	6,497	5,978	5,089
Natural resources					
Catalysts and adsorbents	10,677	5,939	—	—	—
Cement	8,022	5,675	—	—	—
Coal	(2,678)	262	—	—	—
Other	—	—	244	163	(30)
Segment totals	40,802	32,267	26,644	26,502	19,396
Interest income	13,568	7,150	2,637	2,364	2,321
Interest expense	(14,743)	(11,780)	(6,502)	(6,088)	(5,326)
General corporate expenses	(7,082)	(5,365)	(5,483)	(5,326)	(3,505)
Equity in earnings of other investments	738	413	440	1,415	1,289
Income before taxes, minority interest in Filtrol and equity in earnings of Koehring and prior to 1978, Filtrol	\$ 33,283	\$ 22,685	\$ 17,736	\$ 18,867	\$ 14,175

Notes:

1. The Riley Company, acquired in December 1979, represents the Company's Power Generation segment. See note to consolidated financial statements entitled "The Riley Company".
2. The Natural Resources segment was consolidated effective January 1, 1978.
3. Intrasegment sales of Coal to the Cement subsegment for purposes of its energy needs amounted to \$2,810,000 in 1979 and \$2,665,000 in 1978. These sales are priced at the approximate prevailing market value for the products involved.

4. The Engineering Services subsegment and Environmental Systems segment use the percentage of completion method to account for long-term contracts. The Company had sales to the United States Government and its agencies in the amount of \$151,000,000 (\$173,400,000 in 1978). A major government contract with the Engineering Services subsegment accounts for a substantial portion of these sales.

Information About The Company's Operations In Different Geographic Areas

	1979	1978 (In thousands)	1977
Sales to Unaffiliated Customers			
United States and Canada	\$523,417	\$471,162	\$364,386
Europe	54,461	43,363	38,313
Brazil	26,125	20,065	15,499
Other	7,548	6,225	5,459
	611,551	540,815	423,657
Interarea Sales			
United States and Canada	1,753	924	1,352
Europe	389	626	496
Brazil	437	144	240
Other	2,158	2,132	2,093
Eliminations	(4,737)	(3,826)	(4,181)
	—	—	—
	\$611,551	\$540,815	\$423,657
Operating Income			
United States and Canada	\$ 31,768	\$ 26,097	\$ 21,891
Europe	6,188	3,328	2,976
Brazil	2,515	2,875	1,935
Other	331	(33)	(158)
	\$ 40,802	\$ 32,267	\$ 26,644
Identifiable Assets			
United States and Canada	\$521,087	\$284,495	\$129,031
Europe	38,286	32,928	27,147
Brazil	18,197	15,224	11,048
Other	5,103	4,317	5,078
	\$582,673	\$336,964	\$172,304

Notes:

The Company's foreign operations consist of the production and sale of its products and the offering of its services through a combination of foreign subsidiaries (most of which are 100% owned), agents and licensees. The Company's foreign operations are subject to fluctuations in foreign currency exchange rates and changes in governmental policies and nationalization. Due to the internal strife in Iran, for example, the Company's operations on the National Iranian Gas Company IGAT-II gas pipeline project have been suspended since 1978. During 1979, the Company made appropriate provision against the realization of certain

assets connected with this project.

Transfers between geographic areas are accounted for at cost plus a service charge.

Equity in net assets of foreign operations (excluding Canada) was \$36,025,000 in 1979 and \$27,438,000 in 1978. Net exchange losses aggregated \$391,000 in 1979 compared to net exchange gains of \$463,000 in 1978. Export sales totaled approximately \$60,000,000 (\$55,000,000 in 1978 and \$48,000,000 in 1977).

RS-002439
1/17/02
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Quarterly Stock Price and Dividend Data

	Price		Dividend		Price		Dividend
1979	High	Low		1978	High	Low	
1st	\$13 $\frac{1}{2}$	\$10 $\frac{1}{2}$	\$ —	1st	\$13 $\frac{1}{2}$	\$10 $\frac{1}{2}$	\$ —
2nd	14	11	.16	2nd	16	11 $\frac{1}{2}$	.14
3rd	16 $\frac{1}{4}$	12 $\frac{1}{2}$	—	3rd	17 $\frac{3}{4}$	12 $\frac{1}{2}$	—
4th	15 $\frac{3}{4}$	11	.18	4th	15 $\frac{3}{8}$	9 $\frac{1}{2}$	.16

Additional Business Segment Information

	1979	1978 (In thousands)	1977
Identifiable Assets			
Energy/Technology			
Engineering services	\$ 70,395	\$ 61,029	\$ 53,298
Nuclear and other metal castings	22,019	19,274	15,272
Specialty chemicals	71,482	64,839	55,164
Environmental systems	63,812	56,512	48,570
Natural resources (See Note)	50,175	50,175	—
Catalysts and adsorbents	42,199	33,764	—
Cement	51,996	40,919	—
Coal	10,195	10,452	—
Power generation (See Note)	11,955	—	—
Steam generation and fuel burning equipment	101,255	—	—
Heavy metal fabrication	61,515	—	—
Electronic systems	25,675	—	—
Segment totals	582,673	336,964	172,304
General corporate assets, principally cash and cash equivalents	214,940	128,817	30,827
Investment in Koehring and in 1977, Filtrol	22,343	19,151	88,036
	\$819,956	\$484,932	\$291,167

Note: Represents cost in excess of net assets of the acquired segment.

Capital Expenditures			
Energy/Technology			
Engineering services	\$ 3,172	\$ 588	\$ 8,176
Nuclear and other metal castings	2,402	4,249	690
Specialty chemicals	1,598	5,829	9,575
Environmental systems	703	1,157	1,974
Natural resources			
Catalysts and adsorbents	4,810	3,432	—
Cement	2,622	2,426	—
Coal	575	787	—
Other	—	—	53
	\$ 15,882	\$ 18,468	\$ 20,468

Depreciation, Depletion & Amortization			
Energy/Technology			
Engineering services	\$ 1,520	\$ 1,435	\$ 896
Nuclear and other metal castings	398	294	267
Specialty chemicals	2,198	1,823	1,239
Environmental systems	968	1,037	1,024
Natural resources			
Catalysts and adsorbents	1,790	1,270	—
Cement	2,778	2,481	—
Coal	946	821	—
Other	—	—	182
	\$ 10,598	\$ 9,161	\$ 3,608

RS-002440
1/17/02
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Unaudited Supplementary Information on Changing Prices

General Background

The effect of rising price levels on the computation of business costs and profits which, in accordance with generally accepted accounting principles, have traditionally reflected historical costs and dollars of varying purchasing power, has under the persistent and severe inflation of the past decade, been debated heavily.

The following information, which is presented in compliance with Financial Accounting Standard No. 33 ("FAS 33") "Financial Reporting and Changing Prices," represents an approach to solving the inflation dilemma by providing certain measurements of the effects of inflation on the Company's operations and financial information about the Company, adjusted for the effects of inflation.

While it may be important for financial statement users to develop an understanding of the more significant impacts of inflation, in the Company's opinion, much of this data is subjective in nature. Therefore, the dominant focus should continue to be upon financial statements based upon transaction oriented historical prices. Selected inflation data should remain on a supplementary basis pending an extensive experimentation period for both the preparers and the users of financial statements.

Methods of Measuring Effects of Changing Prices

The two different methods prescribed by FAS 33 for measuring the effects of changing prices were used in calculating the information which follows.

The first method provides data adjusted for "general inflation" using the Consumer Price Index for all Urban Consumers as the broad-based measure of the general

inflation rate. The objective of this approach is to provide financial information in dollars of equivalent value or purchasing power (constant dollars), so that revenues for each year are matched with expenses expressed in corresponding units. In addition, financial data presented for a series of years are made more comparable by reporting the amounts for each year in terms of a common unit of measure of purchasing power.

The second method of measurement adjusts for "changes in specific prices." The objective of this method is to reflect the effects of changes in the specific prices (current costs) of the resources actually used in the Company's operations, so that measures of these resources and their consumption reflect the current costs of replacing these resources, rather than the historical cost amounts actually expended to acquire them. Adjustments for changes in specific prices of property, plant, and equipment, inventories and cost of sales are based on external price indices specifically or closely related to the resources being measured and on independent appraisals.

Both of these methods inherently involve the use of assumptions, approximations, and estimates, and therefore, the resulting measurements should be viewed in that context and not as precise indicators of the effects of inflation.

Review of Information Presented

Statement of Income Adjusted for Changing Prices

The amounts reported in the primary financial statements have been adjusted only for depreciation expense and cost of sales, in arriving at the net income amounts adjusted for general inflation and changes in specific prices. Revenues and all other operating expenses are considered to reflect the average price levels for the year, and, accordingly, have not been adjusted.

Unaudited Statement of Income Adjusted for Changing Prices

For the Year Ended December 31, 1979
(In thousands)

RS-002441
1/17/02
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	As Reported in the Primary Financial Statements	Adjusted for General Inflation	Adjusted for Changes in Specific Prices (Current Costs)
Net sales	\$611,551	\$611,551	\$611,551
Cost of sales, excluding related depreciation expense	454,260	458,370	457,495
Other operating expenses, excluding related depreciation expense	112,235	112,235	112,235
Depreciation, depletion and amortization	10,598	13,653	17,304
Interest (income) expense, net	1,175	1,175	1,175
Provision for income taxes	13,313	13,313	13,313
	591,581	598,746	601,522
Equity in earnings of Koehring Company	19,970	12,805	10,029
Minority interest in Filtrol Corporation	2,691	2,691	2,691
	(184)	(184)	(184)
Net income	\$ 22,477	\$ 15,312	\$ 12,536
Loss from decline in purchasing power of net monetary assets		\$ 1,790	\$ 1,790
Increase in general price level of inventories and property, plant and equipment held during the year			\$ 31,547
Less effect of increase in specific prices (current cost)*			18,637
Excess of increase in general price level over increase in specific prices			\$ 12,910

*At December 31, 1979 current cost of inventory was \$83,445,000 and current cost of property, plant, and equipment, net of accumulated depreciation, was \$269,348,000.

Although the adjustments for depreciation expense and cost of sales affect the pretax income amounts for general inflation and changes in specific prices, no adjustments have been made to the respective provisions for income taxes because present income tax laws do not allow deductions for higher depreciation adjustments for the effects of inflation.

The adjustments to depreciation and cost of sales, exclusive of depreciation, included in the adjusted net income amounts are as follows:

	Adjustment for General Inflation (In thousands)	Adjustment for Changes in Specific Prices
Depreciation, depletion and amortization expenses	\$3,055	\$6,706
Cost of sales, exclusive of depreciation	4,110	3,235
Total adjustment to net income	\$7,165	\$9,941

The depreciation adjustments decrease net income in both cases, since the Company's property, plant, and equipment under both methods have been adjusted upwards considerably, reflecting the replacement of old historical dollars by dollars measured by the "constant dollar" method and the "current cost" method.

The cost of sales adjustments also decrease net income in both cases. The higher cost of sales arises when recognizing the higher cost required to replace inventory consumed. The higher cost increment (during an inflationary period) covers the time span between the actual manufacture of goods and the delivery to customers. Inflationary impact on the Company's cost of sales is minimized at our Energy/Technology segment and at certain operations of our Environmental Systems segment where fixed price

and cost plus fixed fee contracts constitute a significant portion of sales.

The Consumer Price Index has been used to adjust costs and related depletion of the Company's unprocessed natural resources for both the "constant dollar" and "current cost" presentations.

Inflation also affects monetary assets, such as cash and receivables which lose purchasing power during inflationary periods since these assets will purchase fewer goods or services in time. Conversely, holders of liabilities benefit during such periods because less purchasing power will be required to satisfy their obligations. The Company's monetary assets exceeded its monetary liabilities during the year resulting in a net loss from inflation.

The increase in the current costs of the Company's inventories and property, plant and equipment is less than the increase in general inflation. This is attributable to the difference between the specific Producer Price Indices used to adjust these assets and the higher Consumer Price Index.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

The five-year comparison shows the effect of adjusting historical revenues to dollar amounts expressed in terms of average 1979 dollars, as measured by the Consumer Price Index. Revenues for 1975-1978 are higher, while the increase in revenues for each of those years to 1979 is correspondingly less. The market price per share and the cash dividend amounts indicate a similar trend of less growth from each of the earlier years to 1979.

The net assets of The Riley Company have been included in the computations of year-end net assets at average 1979 dollars, which are lower than their fair values at date of acquisition.

Unaudited Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

(thousands of average 1979 dollars)

	1979	1978	1977	1976	1975
Net sales—historical	\$611,551	\$540,815	\$423,657	\$358,177	\$246,402
Net sales—average 1979 Dollars	\$611,551	\$601,705	\$507,456	\$456,701	\$332,308
Historical Cost/Constant Dollar Data					
Net income	\$ 15,312				
Net income per common share	\$ 1.14				
Net assets at year-end	\$295,129				
Current Cost Data					
Net income	\$ 12,536				
Net income per common share	\$.80				
Net assets at year-end	\$326,771				
Decrease in specific prices, net of inflation	\$ 12,910				
Loss from decline in purchasing power of net monetary assets	\$ 1,790				
Cash dividends declared per common share	\$.33	\$.33	\$.34	\$.31	\$.27
Market price per common share at year-end	\$ 14.53	\$ 10.98	\$ 14.75	\$ 16.37	\$ 11.28
Average consumer price index	217.4	195.4	181.5	170.5	161.2

RS-002442
1/17/02
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Operations Information

Power Generation

United States Riley Corporation
Corporate Headquarters
1500 Higgins Road
Park Ridge, Illinois 60068
Telephone: (312) 692-5050
President: Howard C. Warren
Riley-Beaird Division
United States Riley Corporation
601 Benton Kelly Street
Shreveport, Louisiana 71130
Telephone: (318) 865-6351
President: William E. Adams

Riley Stoker Corporation
9 Neponset Street
Worcester, Massachusetts 01613
Telephone: (617) 852-7100
President: James J. Farrell
Process Instruments Group
7401 North Hamlin Avenue
Skokie, Illinois 60076
Telephone: (312) 675-2500
President: Roscoe H. Garrett

Energy/Technology

The Resource Sciences Corporation
6600 South Yale Avenue
Tulsa, Oklahoma 74177
Telephone: (918) 496-5000
Chairman and President: David R. Williams, Jr.
Williams Brothers Engineering
Company
6600 South Yale Avenue
Tulsa, Oklahoma 74177
Telephone: (918) 496-5020
President: Peter DeMay

Holmes & Narver, Inc.
999 Town & Country Road
Orange, California 92668
Telephone: (714) 973-1100
President: James R. Johnson
Atlas Foundry & Machine Co.
3021 South Wilkeson Street
Tacoma, Washington 98411
Telephone: (206) 475-4600
President: Leo H. Long, Sr.

Natural Resources

Filtrol Corporation
5959 West Century Boulevard
Los Angeles, California 90045
Telephone: (213) 649-5650
President: Ward F. Moore

Environmental Systems

USF Environmental Systems Corp.
275 Broadhollow Road
Melville, New York 11747
Telephone: (516) 752-9800
President: Karel A. Weits
USF Fluid Systems Corporation—
Whittier, California
MikroPul Corporation—Summit, New Jersey
The Ducon Company, Inc.—Mineola,
New York
Ducon Fluid Transport—
King of Prussia, Pennsylvania
Ducon-MikroPul Limited—Toronto, Canada

MikroPul Ducon Limited—
Shoeburyness, England
MikroPul GmbH—Cologne, Germany
MikroPul Ducon Equip. Ind. Ltda.—
Sao Paulo, Brazil
Ducon-MikroPul Aust. Pty. Ltd.—
Smithfield, Australia
Menardi-Southern Corporation
1853 Milledgeville Road
Augusta, Georgia 30903
Telephone: (404) 724-8241
President: Harland H. Reid

Specialty Chemicals

Drew Chemical Corporation
One Drew Chemical Plaza
Boonton, New Jersey 07005
Telephone: (201) 263-7600
President: John J. Sweeney

Investment

Koehring Company
200 Executive Drive
Brookfield, Wisconsin 53005
Telephone: (414) 784-5800
Chairman and President: Richard T. Lindgren

Corporation Information

Board of Directors

Albert L. Butler, Jr.
President and Treasurer, The Arista Company
(real estate holding and data processing service bureau)

Joseph A. Frates
Chairman of the Board, The Frates Company
(real estate investment)

George F. H. Nelson
Financial Consultant; Director, Surveyor Fund, Inc. (mutual fund)

Louis E. Purmort
Vice Chairman of the Board of United States Filter Corporation

Raymond A. Rich
Chairman of the Board, President and Member of the Executive Committee of United States Filter Corporation; Chairman of the Board of Patagonia Corporation (holding company for bank, savings and loan association and other financial service companies)

Louis Siegel
Senior Executive Vice President, Retired of and a Consultant to Union Bank

Earl F. Slick
Investor; Member of the Executive Committee of United States Filter Corporation

Frederick A. Van Denbergh, Jr.
Senior Partner, Saul, Ewing, Remick & Saul, Attorneys, and General Counsel to United States Filter Corporation

David R. Williams, Jr.
Member of the Executive Committee of United States Filter Corporation; Chairman of the Board and President of The Resource Sciences Corporation (engineering, management and support services), a subsidiary of United States Filter Corporation

General Counsel

Saul, Ewing, Remick & Saul
Philadelphia, Pennsylvania

Auditors

Arthur Young & Company
New York, New York

Officers

Raymond A. Rich
Chairman of the Board, President and Chief Executive Officer

Louis E. Purmort
Vice Chairman of the Board

Edwin T. Veith
Executive Vice President

Charles R. Bechtle, Jr.
Senior Vice President

John L. Farrell, Jr.
Senior Vice President—Law/Administration, and Corporate Secretary

Morgan A. Greenwood
Senior Vice President—Government Relations, and Assistant to the Chairman of the Board

Ronald E. Gustafson
Vice President—Employee Relations

James P. Kressler
Vice President—Finance and Chief Financial Officer

Paul J. Miller
Vice President—Corporate Planning and Development

Robert E. Miller
Vice President—Government Affairs

Arthur F. Parent
Vice President

Frank J. Schmidt
Vice President—Financial Services

Francis J. Boyle
Treasurer

Allan E. Johnson
Controller

J. Hugh Murphy
General Counsel

Jean W. Dickerson
Assistant Secretary

Sally L. Irving
Assistant Treasurer

Richard E. Nugent
Associate General Counsel

Salvatore M. Quadrino
Assistant Controller

Michael Rosenberg
Associate General Counsel

Transfer Agent, Registrar and Dividend Disbursing Agent

The First National Bank of Boston
Post Office Box 644
Boston, Massachusetts 02102

Corporate Offices

United States Filter Corporation
522 Fifth Avenue
New York, New York 10036
Telephone (212) 575-6800

Annual Report on Form 10-K

Shareholders may obtain a copy of the Company's Annual Report on Form 10-K for the year ended December 31, 1979 by writing to: John E. Drum, Manager of Financial Relations, United States Filter Corporation, 522 Fifth Avenue, New York, New York 10036.

Shareholder Communications

Transfer Agent, Registrar and Dividend Disbursing Agent—The First National Bank of Boston. All Shareholder correspondence regarding such matters as receipt or non-receipt of dividends, address changes, and changes of stock ownership should be directed to:

Mr. Henry D. Flemming
Assistant Vice President
The First National Bank of Boston
Post Office Box 644
Boston, Massachusetts 02102

Duplicate Mailings

When shares owned by one shareholder are held in different forms of that name (John R. Doe, J. R. Doe, and J. Richard Doe), duplicate mailing of shareholder information results. The company, by law, is required to mail to each name on the shareholder list unless the shareholder requests that duplicate mailings be eliminated. Such requests should be directed to: Mr. Henry D. Flemming, The First National Bank of Boston, at the address immediately above. If husband, wife, and children own stock in their own names, reports will be sent to each unless the shareholder helps to eliminate this duplication by requesting only one copy. Please send information indicating which name you wish to keep on the list and which names should be deleted. This will not affect dividend or proxy mailings.

Any communications regarding all other phases of our business should be directed to:

Mr. John E. Drum
Manager of Financial Relations
United States Filter Corporation
522 Fifth Avenue
New York, New York 10036

Stock Listing

American Stock Exchange
(Stock Symbol: USF)

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