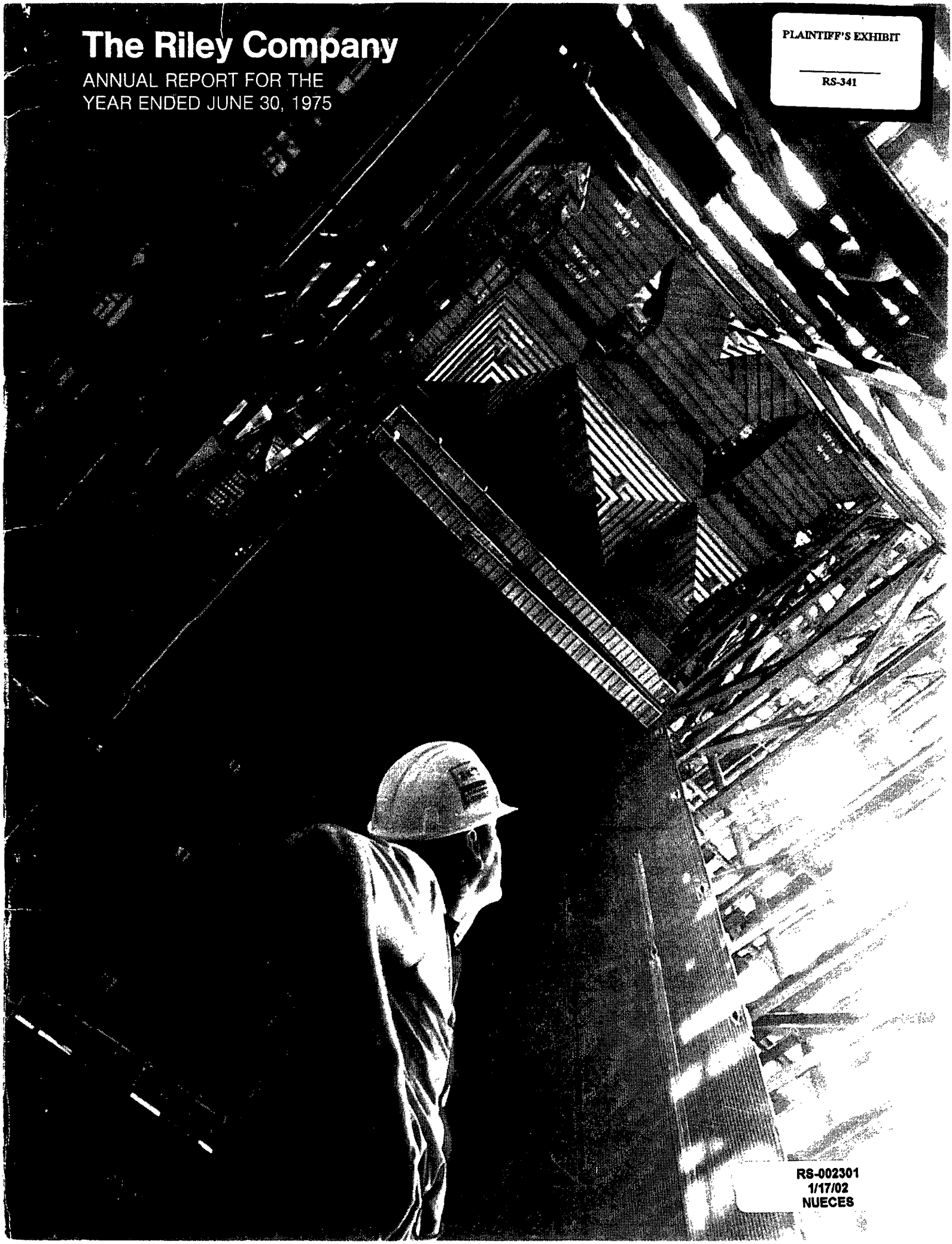
The Riley Company

ANNUAL REPORT FOR THE
YEAR ENDED JUNE 30, 1975

PLAINTIFF'S EXHIBIT

RS-341



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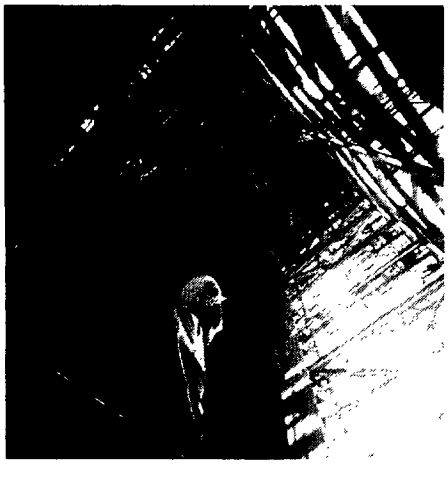
Financial Highlights

Year Ended June 30	1975	1974
Sales and contract revenues	$188,373,910	$169,663,761
Income before extraordinary items	$ 2,779,222	$ 4,608,821
Extraordinary item, net of tax	—	650,141
Net income for the year	$ 2,779,222	$ 5,258,962
Income per share:		
Income before extraordinary items	$1.82	$3.04
Extraordinary items	—	.43
Net income	$1.82	$3.47
Average shares outstanding	1,515,357	1,515,357
Shares outstanding at June 30	1,515,357	1,515,357
Stockholders' investment	$ 28,377,524	$ 25,598,302
Stockholders' investment per share outstanding at end of year	$18.73	$16.89
Working capital	$ 20,373,805	$ 17,171,079
Current ratio	1.4	1.3
	June 30, 1975	July 28, 1974
Total backlog	$329,000,000	$296,000,000



Front cover: A massive steam generator furnace, with a capacity of more than 2,000,000 pounds of steam per hour, is shown during construction by Riley for the South Carolina Public Service Authority at Georgetown, S. C. The assembly, when completed, is more than 240 feet from the bottom to the top.

THE RILEY COMPANY provides a broad spectrum of products and services for the process and energy industries, ranging from steam generating systems and large welded structures to monitoring instruments. Its major products are steam generators and associated equipment; high-pressure process vessels; fractionating towers and reactors for hydrocarbon processing; LP-gas storage systems; rail car tanks; electrical instruments; control valves and regulators; data accumulation and communications systems; and Maxim® industrial silencers and water desalination systems. Its prime customers are the electric utility, chemical, petroleum and petro-chemical industries.

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To Our Shareholders:

The Riley Company again produced record sales during the fiscal year ended June 30, 1975, and our backlog of business was at an all time high of $329,000,000.

Sales and contract revenues were $188,373,910, up 11 percent over the prior year.

Net income after taxes of $2,779,-222, or $1.82 per share primary before extraordinary item, was down 40 percent.

Stockholder's investment amounted to $28,377,524, up 11 percent over the prior year, and equal to $18.73 per share outstanding at year end.

Earnings results for the year were severely affected by the disappointing results of our fourth quarter, in which the company sustained a loss of $.80 per share. The losses in the fourth quarter were due principally to losses recorded on utility boiler contracts of our Riley Stoker subsidiary. The losses on these contracts were due primarily to substantial increases in material and labor costs on fixed price contracts or contracts subject to limited escalation. Additionally, the company had a strike at the Riley Southwest, Sapulpa, Oklahoma plant, which commenced on May 5, 1975 and ended on August 19, 1975.

Particularly gratifying, however, was the Company's ability to operate at record levels while at the same time investing resources and manpower in programs intended to assure future growth, both medium and long range.

We continued to strengthen and expand our organization, especially in the technical and management levels. The new Research and Development Center, opened last year in Worcester, Mass., was further expanded. Company-wide R&D expenditures of $3,441,487 again were at record levels. As is our custom, R&D costs were charged as expense against current operations.

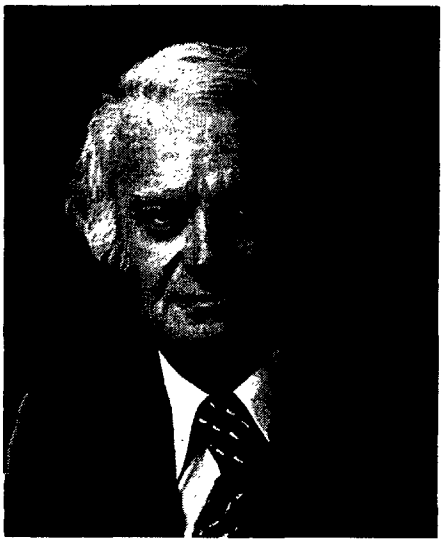
In one of our major areas of R&D exploration, significant progress was made in coal gasification, the process by which low and medium BTU gas is extracted from coal and which has the potential to add enormously to the nation's energy resources. We constructed and are operating at our R&D center a modern, full scale coal gasification unit designed for heavy duty utility and industrial use. Our tests to date have confirmed our judgment that the Riley-Morgan unit offers the simplest and most reliable method of converting coal into gas in conformance with environmental regulations. Our tests are being followed closely by utility, industrial and governmental officials. Additional information on our progress is contained in the operations sections of this Report. At this point we are confident that the Riley-Morgan coal gasifier, and related equipment, will be a substantial and attractive addition to the Riley Stoker Group's total business effort.

Our other areas of research include fuel burning, boiler design, scrubber technology and emission control. Our new fuel burning and experimental firing chamber, 65 feet long, is one of the most advanced in the world and enables us to test the largest commercial burners for fossil fuels.

Virtually all of The Riley Company's business is related to the production or control of energy. Our heavy metal fabrication unit, Riley-Beaird, Inc., at Shreveport, La., is heavily booked with orders from the petroleum and petrochemical industries for process vessels, pressure storage tanks, hydrocarbon processing reactors, and fractionating columns. These and other industries also are creating a strong demand for our Maxim® evaporators and desalinators.

Also enjoying record orders in the petroleum and petro-chemical fields is our Process Instruments Group headquartered in Skokie, Ill. Both Riley-Beaird and Process Instruments are benefiting from an increase in overseas orders from the petro-chemical industry.

In the utility field, the Riley Stoker Group at Worcester, Mass., recorded the highest order activity in its history during the year—14 units representing approximately 4,000,000 kilowatts of electrical capacity. We are affected only minimally by the cancellation and stretch-out of heavy equipment orders by utilities. Most of the cut-backs were in the nuclear area, and, furthermore, the coal burning equipment and boilers of the type we engineer and install are in strong demand because of the oil and gas shortage.



With the improvement in funding prospects, as well as national employment levels, we anticipate increased order activity in the utility field in the forthcoming year. Unemployment was a strong factor in reduction of electrical usage during the past year. This was particularly noticeable in the East where unemployment is still high and which, as a result, will tend to defer installation of added generating capacity there.

We were saddened by the death during the year of R. N. Benjamin, a director and former chairman of Stone & Webster, Inc. He was a respected and dedicated member of our board whose counsel was much sought.

In reviewing your Company's progress of the last three years, there were disappointments but with our large backlog and greater availability of materials and dedication of our employees we expect to make further progress in the forthcoming year. While the difficulties of our times are not to be underestimated, your management will do everything possible to meet our economic obligations to customers, shareholders, employees and to the public.

Sincerely,

Howard C. Warren
Chairman and
Chief Executive Officer

September 5, 1975

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Riley Stoker Group

J. J. Farrell, *President*

The primary scope of the Group continues to be the design, manufacture and installation of large steam generating systems for electrical power plants. Related to this primary scope of business are the design and manufacture of smaller steam boilers, either packaged or field erected, for industrial users either for electrical power generation or process steam. The Group's Maintenance & Repair Division participates in the substantial after-market for these products with replacement parts and repair and modification services. Fuel burning equipment, an essential element in the steam generating system, is also manufactured by the Group and sold either as part of the steam generating system or as separate components. Environeering offers a line of particulate and gas scrubbing modules to the utility and industrial markets. The Group has made considerable progress in two significant and growing markets, coal gasification and flue gas scrubbing systems.

Because of good market participation, new orders secured during the year were at a high level in spite of the fact that the market dropped off substantially following the surge of utility buying in 1974 and the subsequent deferral and cancellation of a few smaller orders. Orders for domestic utility boilers secured during the year included 14 units representing approximately 3,958 MW (megawatts) of electrical capacity and 28,846,000 pounds of steam per hour.

Most significant is that most of the orders taken in 1974 have price escalation clauses which will protect against any substantial or unexpected material or labor cost increases over the life of the contracts.

All but one of the orders placed with the Group for large steam generating systems during the year were for coal burning. The trend in the industry has very quickly shifted to coal burning boilers in view of the scarcity of supply and/or price levels expected for gas and oil. This trend to coal provides substantial opportunities for the Group since a coal burning boiler is larger and requires more auxiliary equipment than an oil or gas burning boiler of the same rating, and revenue and profit opportunities are thereby enhanced by the shift to coal.

The availability and low sulphur content of western coals makes this an attractive fuel choice for many utilities. Several of the orders received in 1974 were for boilers which will burn these western coals. The largest of these is the order received from Cajun Electric Power Cooperative Inc. for two 550 MW boilers with a total contract price in excess of 75



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million dollars. These boilers are for initial operation in 1979 and 1980. These and other boilers recently ordered will be of the Turbo Furnace® design which offers superior operating characteristics, particularly in control of oxides of nitrogen emissions.

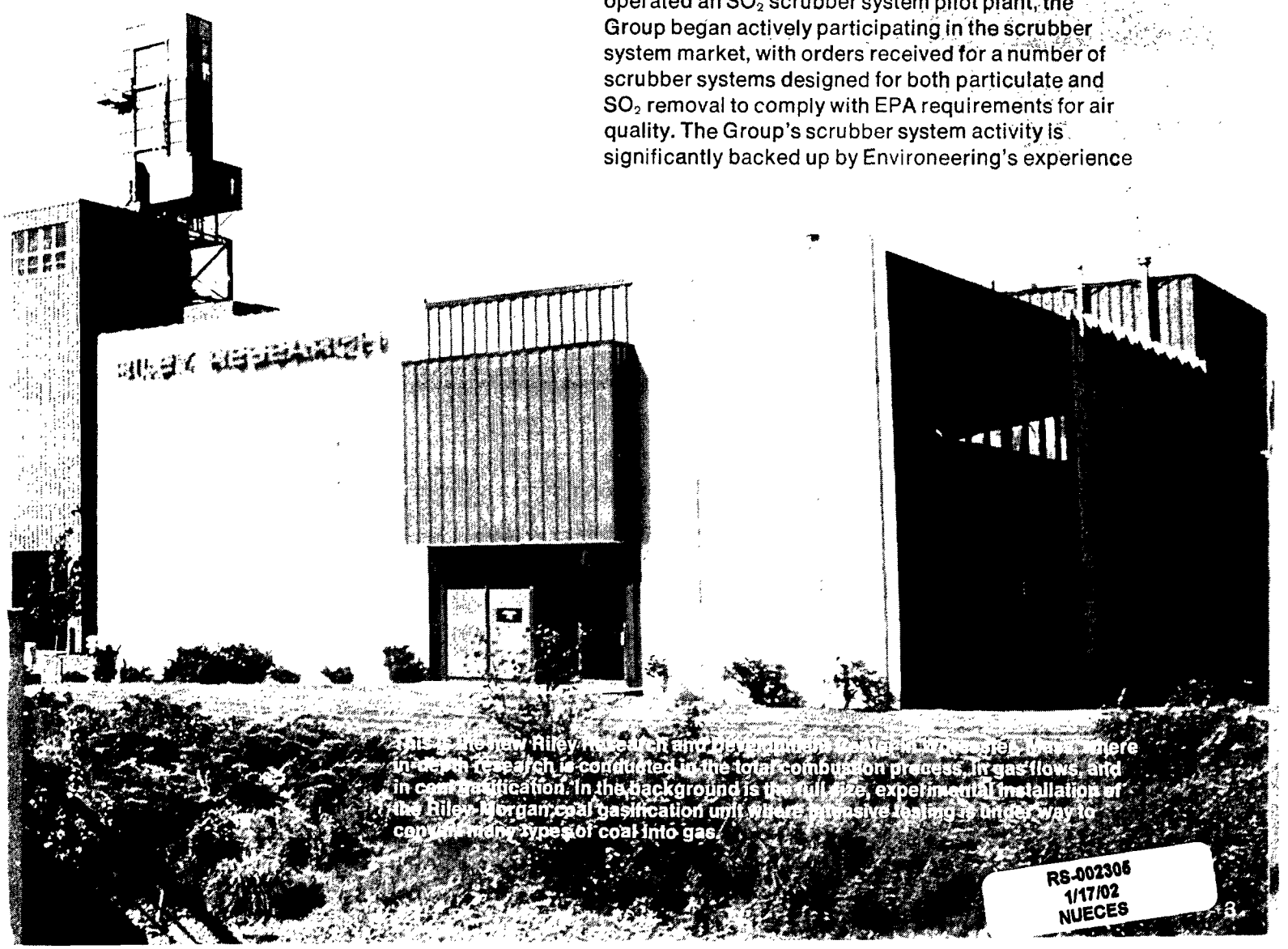
As the economy receded, as electrical energy growth leveled off and as electric utilities found problems in raising capital funds, there was a major industry wave of order cancellations or deferrals. Most of the major cancellations and deferrals were for nuclear plants with a longer construction cycle and high capital requirements. However, there were a number of utility deferrals involving fossil fuel plants of the type the Group supplies with boilers.

Fortunately, the impact on the Group was relatively modest. Cancellations were limited to several small contracts, all with industrial buyers. No large utility contracts were cancelled. Deferrals for the most part were in terms of months rather than years, with engineering design work continuing on schedule. These deferrals tend to more nearly level the future production load as the very large Group backlog will be manufactured over a somewhat longer period than the original orders contemplated.

While material availability gradually improved throughout the year, material costs continued to increase significantly. As the year end approached, it was determined that increased material and labor costs on certain contracts with fixed prices or subject to limited escalation would make these contracts unprofitable. Therefore, in accordance with the percentage of completion method of accounting, the losses to be incurred were immediately recorded and, thus, the fourth quarter reported a substantial loss which resulted in losses for the fiscal year.

The Maintenance & Repairs Division made progress during the year in spite of a cut-back by many utilities on certain kinds of maintenance work. The impetus to convert from single fuel capability resulted in a number of boiler conversion projects which the Maintenance & Repairs Division handled effectively. The increased use of coal as a fuel also is providing a greater market for replacement parts because of the abrasive and erosive characteristics of the fuel as it is processed for burning in boilers.

After having successfully designed, built and operated an SO_2 scrubber system pilot plant, the Group began actively participating in the scrubber system market, with orders received for a number of scrubber systems designed for both particulate and SO_2 removal to comply with EPA requirements for air quality. The Group's scrubber system activity is significantly backed up by Environeering's experience



This is the new Riley research and development [illegible] where research is conducted in the total combustion process, in gas flows, and in coal gasification. In the background is the full size, experimental installation of the Riley-Morgan coal gasification unit where extensive testing is under way to convert many types of coal into gas.

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and competence in the design and manufacture of the scrubber modules themselves.

Group sales and engineering service were expanded with particular emphasis on additional coverage for the Rocky Mountain and western states.

The Group's new Research & Development Center, which was completed in 1974, became fully operational in 1975. A number of programs are underway, with good progress reported, directed at fundamental technical areas related to large high pressure boiler design. This work will contribute significantly to the Group's ability to move upward in boiler ratings and fuel burning capability and also provide for a continuing improvement in reliability of the new boilers being installed.

A major R&D effort during the year was in the coal gasification field. Coal gasification represents a major new market for the Group. As the country achieves energy independence, it will be necessary to more fully utilize domestic coal resources. To effectively use these resources, some of the coal must be converted to gas. The major markets for coal gasification are [illegible] of existing oil or gas burning boi[illegible] placement of natural gas used by [illegible] which increasingly will be r[illegible] residential use.

[illegible] mental work was completed on a [illegible] Construction was com- [illegible] mercial size gas producer which is [illegible] low BTU or intermediate BTU gas. Experimen[illegible] essing on this commercial unit. There is a gro[illegible] interest on the part of industrial and utility customers, and the Group expects that this interest will culminate in orders which will be the initial entry into what is destined to become a very substantial future market.

A new test furnace was also completed at the R&D Center. This furnace is capable of testing various types of fuel burning equipment and fuels in order to improve designs and increase the Group's competence in the area of fuel burning and emission control.

During the year, the Group was not immediately successful in negotiating a new contract at its Riley Southwest Plant in Sapulpa, Oklahoma, and a strike resulted. Although this had an adverse impact on operations, with the diversity of manufacturing capability in the Riley Company, it was possible to move work from the Riley Southwest Plant to these other plants. The strike was settled August 19, 1975. Redundancy of manufacturing capability for the various components manufactured by the Group continues to be a basic operating philosophy.

As the Group has moved forward in the size, ratings and fuels burned of the boilers it is supplying, some operating problems have been encountered. Concentrated attention has been given to these problems. Good progress in resolving these problems is being made in achieving fully satisfactory performance on all installed boilers. The Group continues to put heavy emphasis on boiler performance and reliability through its R&D, engineering, design and quality assurance programs.

Standardization of designs for packaged and field erected industrial boilers was implemented and offers improved profitability for these highly competitive product lines.

Progress was made in the continued modernization of manufacturing plants and the acquisition of equipment to improve productivity both in the shops and on construction sites.

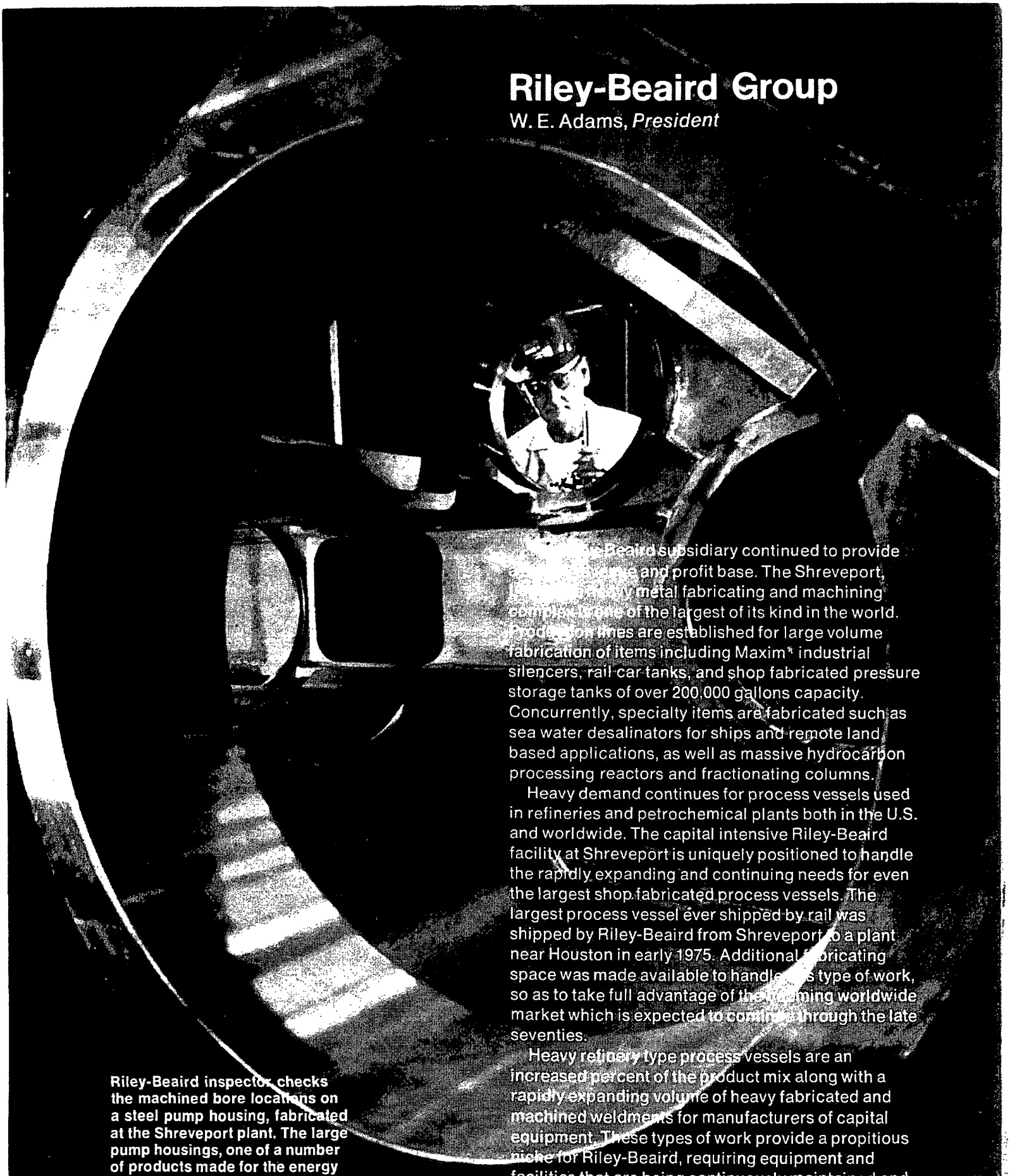
1976 promises to be another year of high activity level for the Group. A large backlog will sustain revenues. Positions in its new markets for coal gasification and fuel gas scrubber systems will be strengthened. The orders market for large boilers is expected to strengthen again as load growths resume and the financial conditions of electrical utilities improve.



The heart of the Riley-Morgan coal gasification system is the gasifier—or partial oxidation furnace—where solid coal is burned at optimum temperatures to produce

Riley-Beaird Group

W. E. Adams, *President*



Riley-Beaird subsidiary continued to provide [illegible] and profit base. The Shreveport, [illegible] heavy metal fabricating and machining complex is one of the largest of its kind in the world. Production lines are established for large volume fabrication of items including Maxim® industrial silencers, rail car tanks, and shop fabricated pressure storage tanks of over 200,000 gallons capacity. Concurrently, specialty items are fabricated such as sea water desalinators for ships and remote land based applications, as well as massive hydrocarbon processing reactors and fractionating columns.

Heavy demand continues for process vessels used in refineries and petrochemical plants both in the U.S. and worldwide. The capital intensive Riley-Beaird facility at Shreveport is uniquely positioned to handle the rapidly expanding and continuing needs for even the largest shop fabricated process vessels. The largest process vessel ever shipped by rail was shipped by Riley-Beaird from Shreveport to a plant near Houston in early 1975. Additional fabricating space was made available to handle this type of work, so as to take full advantage of the upcoming worldwide market which is expected to continue through the late seventies.

Heavy refinery type process vessels are an increased percent of the product mix along with a rapidly expanding volume of heavy fabricated and machined weldments for manufacturers of capital equipment. These types of work provide a propitious niche for Riley-Beaird, requiring equipment and facilities that are being continuously maintained and upgraded. Capital expenditures were increased to maintain and improve the facilities.

Riley-Beaird inspector checks the machined bore locations on a steel pump housing, fabricated at the Shreveport plant. The large pump housings, one of a number of products made for the energy and capital equipment industries, range in weight from 7,000 to 13,000 pounds.

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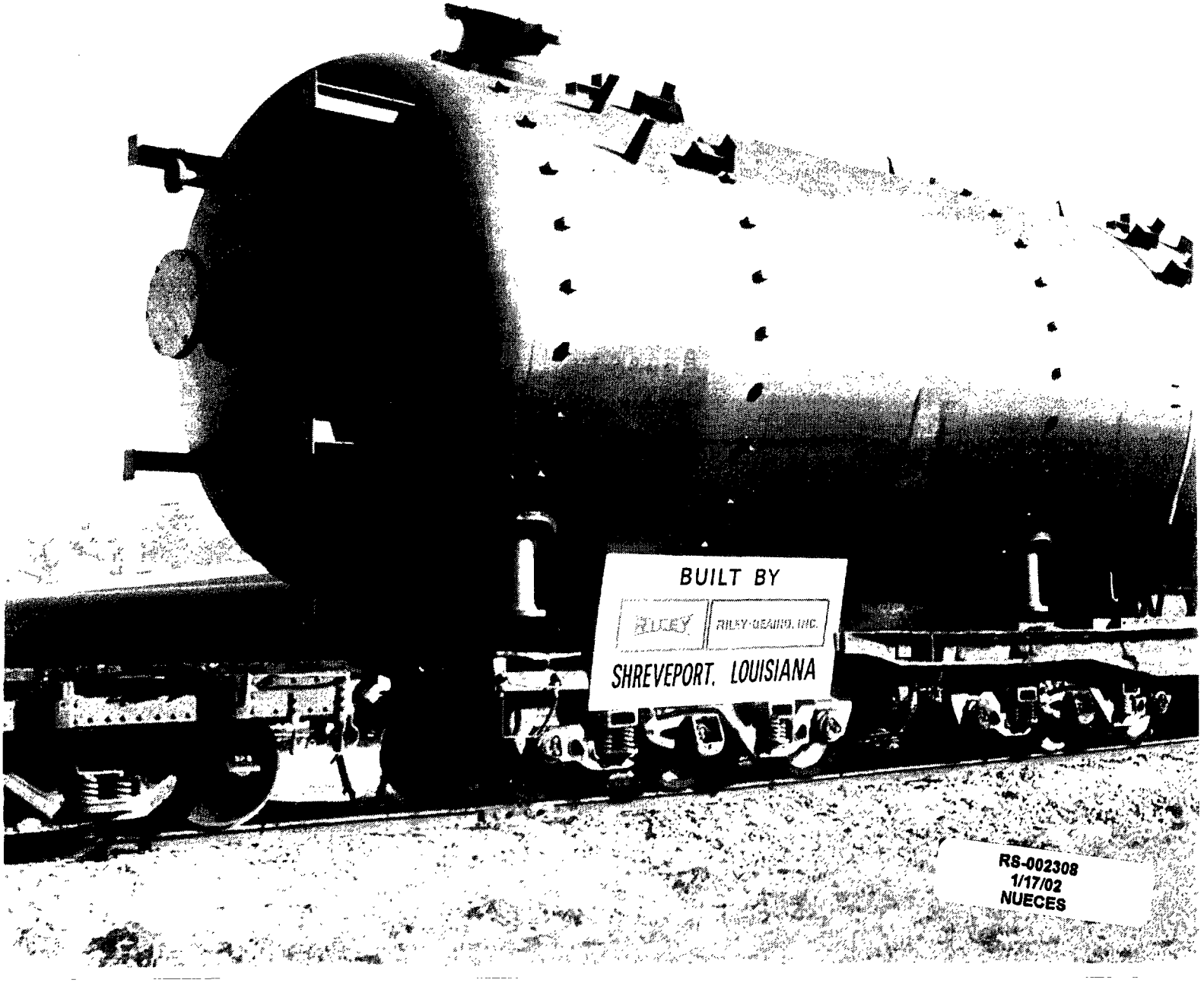
Demand for propane storage and that for storage of other liquified gases stored under pressure continued strong. During the latter part of the year, there was some decrease in demand for propane storage used by industry for standby and supplemental fuel. Also, we experienced a sharply decreased market for rail car tanks. This decrease was anticipated and replaced by increased bookings and revenue in large pressure storage tanks for refineries, gas processing and petrochemical plants. This product/market is closely tied to that of heavy process vessels, and will continue into the late seventies.

Large components for capital equipment manufacturers continue to provide increased revenue and profit for the company. The end customers for much of this type of business are in hydrocarbon production and processing. These are good long-term growth markets which Riley-Beaird is supplying both on a direct basis, in the case of process vessels, and indirectly through the capital equipment manufacturers.

Revenue in the proprietary line of Maxim® industrial silencers increased more than 25% and is expected to continue strong growth in the coming year. Market share was increased, along with market growth increase due in part to increased OSHA regulations and enforcement. Waste heat recovery equipment, standardized by Maxim®, was responsible for an increased share of the total business.

Standard Maxim® heat recovery desalinators contributed to increased revenue and profits. These are used and sold in worldwide markets for fishing vessels, yachts, work boats, and oil drilling and production platforms. Maxim® designs and performance are well established, and considered as the best and most efficient in the industry. In addition, Maxim® evaporator technology was consolidated in the



concentration of wastes for the plating market, with several installations made and proven in service and savings.

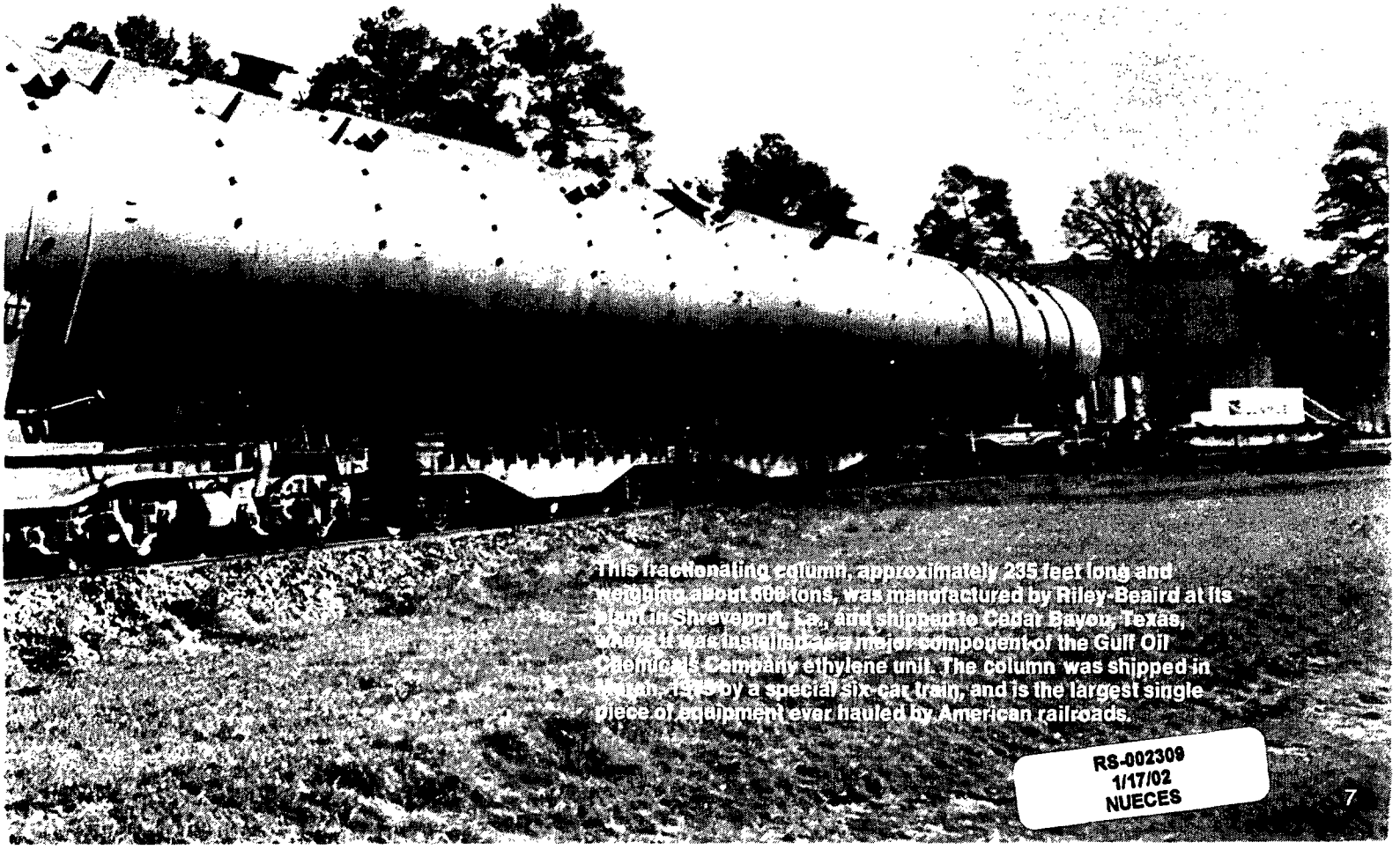
Maxim® large marine evaporators and ancillary heat exchange equipment were sold at increased volumes for application on submarines, aircraft carriers, and LNG and large crude oil tankers. In addition, standard modular type Maxim® sea water distillation plants are finding greatly increased applications in remote refineries and electric utilities. Many of these are repeat orders resulting from very successful initial installations.

Continuing engineering and new product development was significantly increased in fiscal year 1975 and will continue to be increased in the coming years. This development is both for improvement of existing proprietary products and technology and for extension of the product lines to present markets. The greatest emphasis is in the areas of noise control and desalination, directed toward solutions for improving the environment and with long term growth potential.

Employment was stable during the year, with concentration on adding to the skills of the existing work force. Efficiency of operations and safety was and is at an all-time high. Worker safety programs are continually enforced, with the result being a safe place to work for all of the employees.

Material control and quality control received increased attention, to provide materials as needed, and finished products of the highest quality. A computerized material control system was implemented in the fiscal year just ended, using CRT terminals tied in to the central processing unit. This provides for a standardized information format, accurate data recording, early warning of developing problems and prompt response to manufacturing and customer requests for information. Quality control is supported by one of the most complete welding laboratory facilities in the industry. Included is an optical emission spectograph for chemical analysis of low alloy and stainless steel and weld deposits; charpy impact testing equipment including refrigeration units to provide low temperature testing conditions; also included is a small stress relieving furnace to simulate conditions to weld qualification procedures.

In the past, heavy metal fabrication and machining has tended to lag the general economy. Following this trend, the Riley-Beaird work load had continued at a heavy pace. Although our business options will be somewhat reduced in the coming year, it is expected that the work load will remain firm, and that bookings will continue at a very adequate level in the hydrocarbon processing industries. This will sustain our operations at a continuing high and profitable level.



This fractionating column, approximately 235 feet long and weighing about 600 tons, was manufactured by Riley-Beaird at its plant in Shreveport, La., and shipped to Cedar Bayou, Texas, where it was installed as a major component of the Gulf Oil Chemicals Company ethylene unit. The column was shipped in March, 1975, by a special six-car train, and is the largest single piece of equipment ever hauled by American railroads.

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Process Instruments Group

R. H. Garrett, *President*

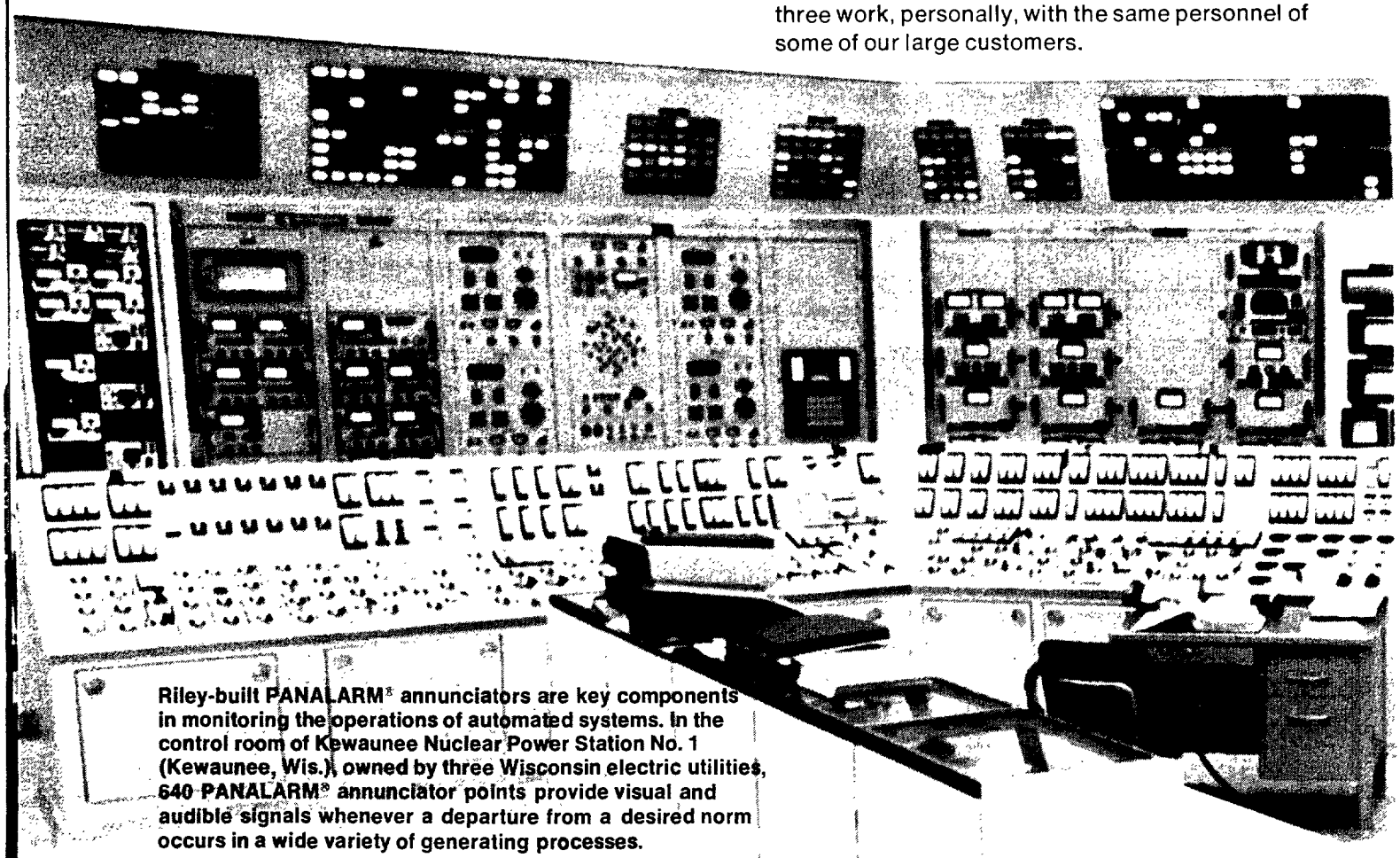
Fiscal 1975 has been a rewarding year for the Process Instruments Group. Our markets were active and we delivered the majority of our products on time, with no stretch-out in shipping schedules.

The chemical and petroleum industries provided a good source for increased sales throughout the year as regards control valves and monitoring products. Automobile and heavy appliance manufacturers curtailed some plans and were a less significant factor in the Group's sales volume than had been anticipated. Similarly, electric utilities stretched out their construction schedules and so reduced their need for certain products. Other industries served by the Process Instruments Group, including pulp and paper, food, cement, shipbuilding, water and waste treatment and metals responded about as expected.

The Process Instruments Group, historically, has not experienced extreme effects of either recession or prosperity to the degree that manufacturers of consumer oriented products have. Thus far, the current economy influence is in accord with this pattern. A marked and prolonged swing in the general economy can, however, affect the Group—both in growth and profitability.

Component materials and other costs continued the rise, initiated early in fiscal 1973, through fall and early winter of 1974. A definite leveling and even some reduction in these has occurred more recently. There is, of course, a floor, established by labor contracts, raw material and energy prices, that resists any downward movement of the Group's cost of sales. Productivity gains and design changes, however, are *not* limited and the Group will continue to make progress in this area through perpetual cost/efficiency improvement efforts.

SIOC Limited, Canada, SCAMA Limited, United Kingdom and the PANALARM Division, Skokie, Illinois, continued to make worldwide progress with their industrial monitoring products this past year. Again, the advantages of having three organizations, widely separated but manufacturing to identical standards is evident in dealing with international projects. Interestingly, there are situations where all three work, personally, with the same personnel of some of our large customers.



Riley-built PANALARM® annunciators are key components in monitoring the operations of automated systems. In the control room of Kewaunee Nuclear Power Station No. 1 (Kewaunee, Wis.), owned by three Wisconsin electric utilities, 640 PANALARM® annunciator points provide visual and audible signals whenever a departure from a desired norm occurs in a wide variety of generating processes.

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Annunciators continue as an important product of SIOC, SCAMA and the PANALARM Division. These provide a visual and audible alarm calling attention to plant and process abnormalities as they monitor an ever widening group of variables. A typical system may have from 50 to 500 different functions or devices to monitor simultaneously. In a typical control room, the annunciator array of back-lighted windows is mounted in a control panel; one of the back-lighted windows with its individualized message being assigned to each of the 50 to 500 functions or devices.

The PANAGRAPH® is a unique version of the annunciator that presents a pictorial diagram of the plant or process being monitored with the lighted alarm messages located right in the diagram so as to very quickly register locations and relationship when any plant or process upset occurs.

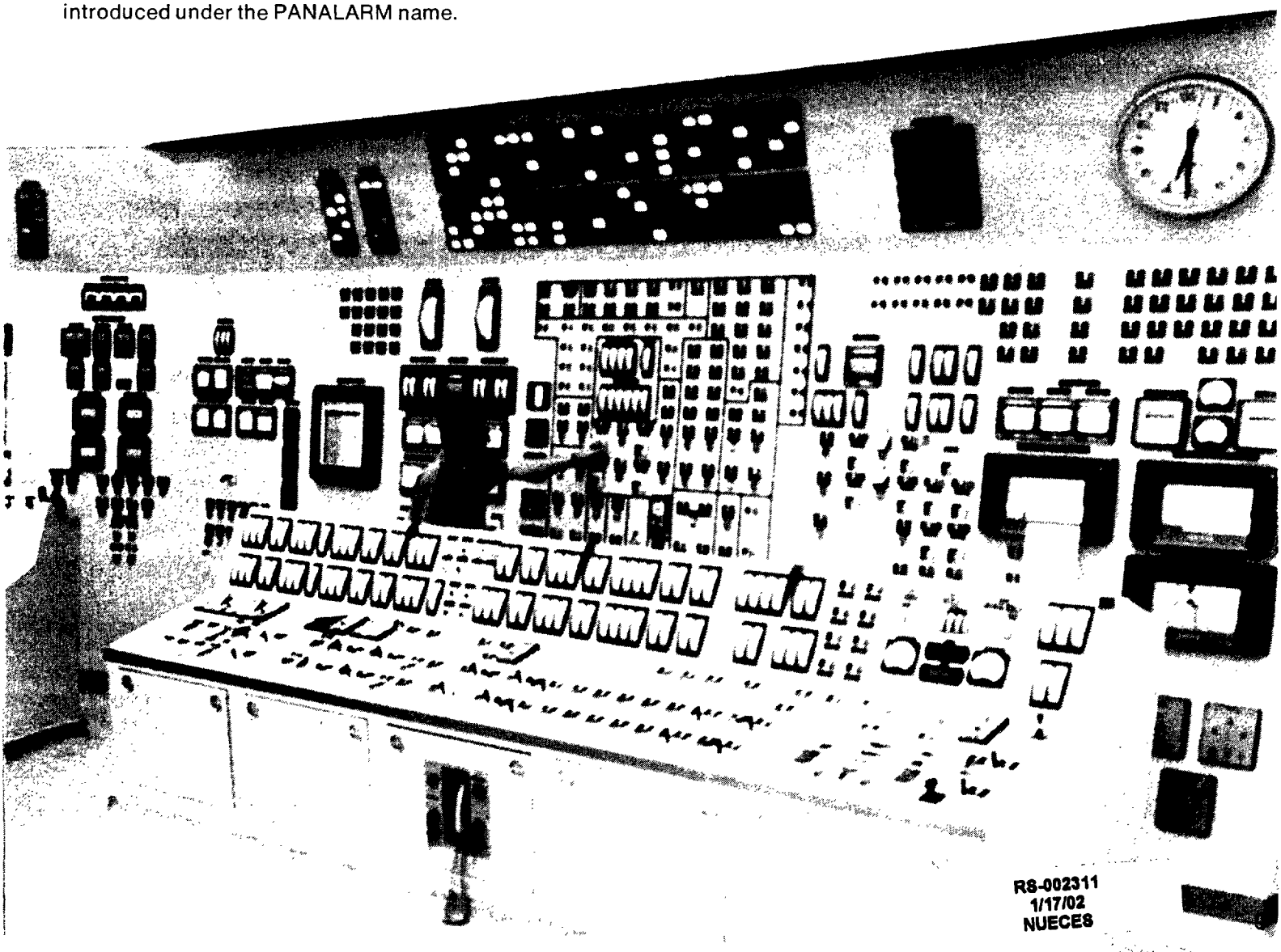
The Series 120 Cathode Ray Tube version of the annunciator displays alarm messages on a television type screen providing for an extremely compact viewing area. A substantial number of these systems were sold in fiscal 1975, the first installation having been noted in last year's Annual Report.

The coming year will see several new products introduced under the PANALARM name.

One of the products scheduled for early introduction is the Power-Sonic control which is applicable to pulverizers (grinding mills) commonly used by the electric utilities. This new product has been developed through a coordinated effort between PANALARM and engineers of the Instruments and Controls Department of the Riley Stoker group.

CASHCO, Incorporated, located in Decatur, Illinois, was unable to take full advantage of the control valve and regulator market potential. Material scarcities, principally castings, were prevalent in the first months of fiscal 1975. Aggressive procurement policies and closely coordinated production schedules, were rewarding, however, and CASHCO set new records for shipments.

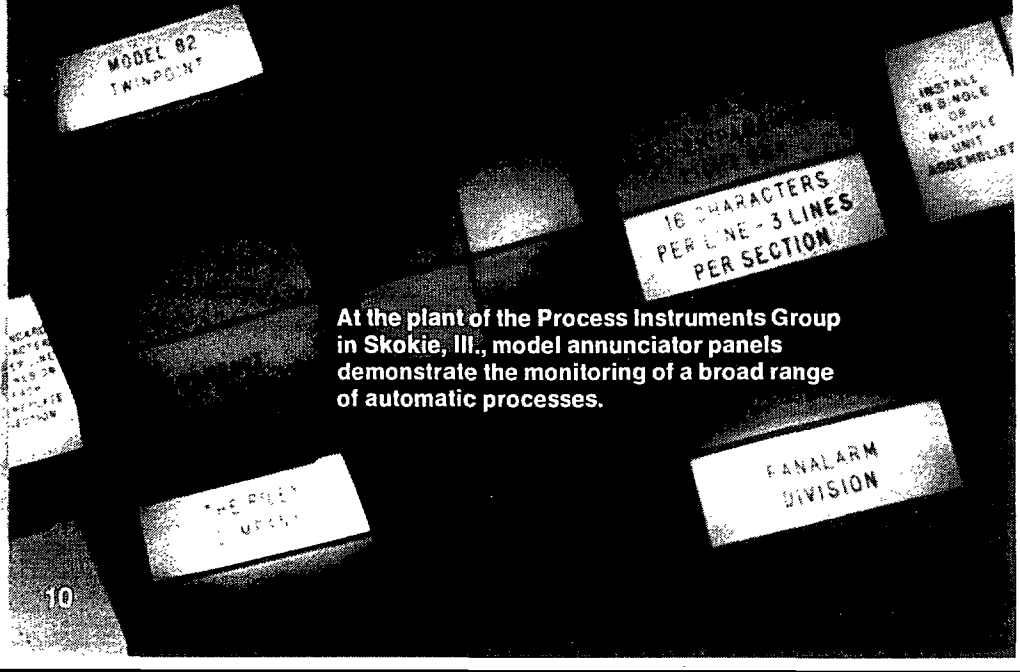
CASHCO has a strong position in the steam generation segment of the control valve market and a significant "entry" position in many other market segments. Efforts to improve their penetration in some of the latter, particularly the chemical and petrochemical segments should begin to show results shortly.



Panellit Service Corporation, with headquarters in Skokie, Ill., specializes in maintaining industrial instrumentation. They have added to their list of long term, in-plant maintenance contracts and improved the sales and profitability of their own instrument repair shops. PSC continued its association with the Institute of Gas Technology where important work in the field of coal gasification is taking place. The instrumentation task assignments at IGT are interesting and challenging. PSC is poised for growth and, with a reasonable general economy in the coming year, additional sales/maintenance facilities, personnel and the contracts to support these will result.

MEDELCO, Incorporated, of Skokie, Illinois, specializes in communication and data collection systems and equipment for use in hospitals. The MEDELCO system accumulates data and automatically transmits patient orders and other information between nursing stations and ancillary departments such as radiology, laboratory and business offices in hospitals.

Recognizing austere factors in the hospital economic and regulatory climate, MEDELCO severely restricted expenditures in fiscal 1975 and was able to make a positive contribution to the Process Instruments Group. During this period, it improved The Hospital Information System (T.H.I.S.)" through introduction of a Direct-to-Computer interface and new, faster and quieter printers. Six hospitals have already taken advantage of the interface to integrate the MEDELCO system with financial data processing. The new printers will be part of MEDELCO's most recent total system sale, scheduled for operation early in fiscal 1976.



At the plant of the Process Instruments Group in Skokie, Ill., model annunciator panels demonstrate the monitoring of a broad range of automatic processes.

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Consolidated Statements of Income and Retained Earnings

For the years ended June 30, 1975 and 1974

	1975	1974
Net sales and contract revenues (Notes 1 and 3)	$188,373,910	$169,663,761
Cost of sales and work performed	161,104,845	140,923,519
Gross profit	$ 27,269,065	$ 28,740,242
Operating expenses—		
Selling	$ 8,457,597	$ 7,614,996
General and administrative	8,445,607	8,908,384
Research and development (Note 1)	3,441,487	1,635,460
Total operating expenses	$ 20,344,691	$ 18,158,840
Income from operations	$ 6,924,374	$ 10,581,402
Other income (expense)—		
Royalty, interest and other income	$ 1,369,325	$ 1,615,664
Provision for market decline of securities, net of gains in 1974 (Note 2)	(433,320)	(650,000)
Interest expense	(1,814,157)	(2,056,245)
Total other income (expense), net	$ (878,152)	$ (1,090,581)
Income before income taxes and extraordinary item	$ 6,046,222	$ 9,490,821
Provision for income taxes (Notes 1 and 6)	3,267,000	4,882,000
Income before extraordinary item	$ 2,779,222	$ 4,608,821
Extraordinary item—		
Gain on sale of property, net of related income taxes (Note 5)	—	650,141
Net income for the year	$ 2,779,222	$ 5,258,962
Retained earnings, beginning of year	16,367,099	11,108,137
Retained earnings, end of year (Note 4)	$ 19,146,321	$ 16,367,099
Net income per share (Note 7)—		
Primary—		
Income before extraordinary item	$1.82	$3.04
Extraordinary item	—	.43
Net income	$1.82	$3.47
Fully diluted—		
Income before extraordinary item	$1.63	$2.71
Extraordinary item	—	.38
Net income	$1.63	$3.09

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The accompanying notes are an integral part of these statements

THE RILEY COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 1975 and 1974

Assets	1975	1974
CURRENT ASSETS:		
Cash	$ 4,964,243	$ 6,037,806
Certificates of deposit and U.S. Treasury Bills	1,397,942	2,300,000
Marketable securities, at adjusted cost which approximates quoted market (Note 2)	544,148	4,154,749
Receivables, less reserves of $192,300 in 1975 and $168,538 in 1974 (Notes 3 and 14)	32,076,330	29,213,956
Unbilled contract work (Notes 1 and 3)	11,057,764	5,384,962
Inventories, at lower of cost (first-in, first-out basis) or market (Note 1)—		
Work in process and finished products	9,228,038	9,030,721
Raw materials and purchased parts	12,696,706	10,490,957
Prepaid Federal income taxes (Notes 1 and 6)	2,624,000	1,122,000
Prepaid expenses	404,844	522,429
Total current assets	$ 74,994,015	$ 68,257,580
PLANT AND EQUIPMENT, at cost (Notes 1, 4 and 14):		
Land	$ 565,829	$ 565,829
Buildings and improvements	22,775,829	22,833,940
Machinery and equipment	20,722,711	19,734,577
	$ 44,064,369	$ 43,134,346
Less-Accumulated depreciation	(12,892,558)	(10,984,481)
Total plant and equipment, net	$ 31,171,811	$ 32,149,865
OTHER ASSETS:		
Costs in excess of net assets of acquired companies (Notes 1 and 6)	$ 1,016,160	$ 1,272,912
Other	965,355	1,660,273
Total other assets	$ 1,981,515	$ 2,933,185
	$108,147,341	$103,340,630

The accompanying notes are an integral part of these balance sheets

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Liabilities	1975	1974
CURRENT LIABILITIES:		
Notes payable to banks (Note 4)	$ 7,500,000	$ —
Current portion of long-term debt	1,865,176	1,824,885
Accounts payable	13,539,794	7,084,275
Advances and deferred contract revenue (Notes 1 and 3)	21,762,638	29,817,983
Reserve for costs and expenses of plant shutdown (Note 5)	170,801	273,028
Accrued expenses	8,288,373	8,283,586
Accrued income taxes (Notes 1 and 6)	1,493,428	3,802,744
Total curent liabilities	$ 54,620,210	$ 51,086,501
LONG-TERM DEBT, less current portion included above (Note 4)	$ 24,364,447	$ 26,029,827
DEFERRED FEDERAL INCOME TAXES (Notes 1 and 6)	$ 785,160	$ 626,000
STOCKHOLDERS' INVESTMENT:		
Preferred stock, no par value; 100,000 shares authorized; no shares issued	$ —	$ —
Common stock, $1 par value; 1,900,000 shares authorized; 1,515,357 shares issued (Notes 8 and 9)	1,515,357	1,515,357
Capital surplus	7,715,846	7,715,846
Retained earnings (Note 4)	19,146,321	16,367,099
Total stockholders' investment	$ 28,377,524	$ 25,598,302
	$108,147,341	$103,340,630

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Consolidated Statements of Changes in Financial Position

For the years ended June 30, 1975 and 1974

	1975	1974
WORKING CAPITAL WAS OBTAINED FROM:		
Operations—		
Net income before extraordinary item	$ 2,779,222	$ 4,608,821
Add (deduct)		
Provisions for depreciation and amortization	3,019,994	2,876,455
Deferred Federal income taxes	159,160	31,000
Total from operations	$ 5,958,376	$ 7,516,276
Decrease in cost of subsidiaries resulting from tax benefits of preacquisition loss carry-forwards	235,200	1,095,414
Sale and retirement of plant and equipment	234,089	819,739
Proceeds from sale of property held for sale, net of taxes paid	—	1,616,990
Other, net	678,695	218,408
Total funds obtained	$ 7,106,360	$ 11,266,827
WORKING CAPITAL WAS USED FOR:		
Additions to plant and equipment	$ 2,238,254	$ 5,578,619
Reduction in long-term debt	1,665,380	9,419,612
Total funds used	$ 3,903,634	$ 14,998,231
INCREASE (DECREASE) IN WORKING CAPITAL	$ 3,202,726	$ (3,731,404)
CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets—		
Cash	$ (1,073,563)	$ 1,911,785
Certificates of deposit and U.S. Treasury Bills	(902,058)	(4,370,882)
Marketable securities	(3,610,601)	3,379,207
Receivables	2,862,374	6,550,054
Inventories and unbilled contract work	8,075,868	1,147,000
Prepaid Federal income taxes and prepaid expenses	1,384,415	443,457
	$ 6,736,435	$ 9,060,621
(Increase) decrease in current liabilities—		
Current portion of long-term debt and notes payable to banks	$ (7,540,291)	$ 376,178
Accounts payable	(6,455,519)	46,143
Advances and deferred contract revenue	8,055,345	(8,765,942)
Accrued income taxes	2,309,316	(3,523,235)
Accrued expenses and reserve for plant shutdown	97,440	(925,169)
	$ (3,533,709)	$ (12,792,025)
INCREASE (DECREASE) IN WORKING CAPITAL	$ 3,202,726	$ (3,731,404)

The accompanying notes are an integral part of these statements

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Notes to Consolidated Financial Statements

(1) Summary of Major Accounting Policies:

Consolidation—

The consolidated financial statements include the accounts of the Company and all subsidiaries. The fiscal years of SIOC Limited (Canada), as well as SIOC's wholly-owned subsidiary, SCAMA Limited (England), end on March 31, and May 31, respectively, and accordingly, the results of their operations, which are not material, have been included in the accompanying consolidated statements of income on the basis of their respective fiscal years. Current assets and liabilities of these foreign subsidiaries are translated at the rates of exchange in effect at June 30, 1975 and 1974, respectively; noncurrent assets and liabilities are translated at the rates in effect when the assets were acquired and the obligations were incurred; revenue and expense accounts are translated at average foreign exchange rates for the year. Foreign exchange gains or losses have not been material. All significant intercompany transactions have been eliminated in consolidation.

The costs in excess of net assets of acquired companies are being amortized over periods of 35 to 40 years.

Accounting for Long-Term Contracts—

Riley Stoker Corporation recognizes income on long-term contracts on a 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 contract work 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. Advances and deferred contract revenue 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. (See Note 3.)

Inventories—

Inventories are priced at the lower of cost (first-in, first-out basis) or market, and include materials, labor and manufacturing overhead.

The inventories used in the determination of cost of sales for the two years ended June 30, 1975 were as follows:

June 30—	Raw Materials and Purchased Parts	Work in Process and Finished Goods	Total
1973	$10,208,813	$8,052,353	$18,261,166
1974	10,490,957	9,030,721	19,521,678
1975	12,696,706	9,228,038	21,924,744

Property, Depreciation and Maintenance and Repairs Policies—

The Company follows the practice of providing depreciation on plant and equipment on the straight-line method for book purposes and a combination of straight-line and accelerated methods for tax purposes. The estimated useful lives are 10 to 45 years for buildings and improvements and 3 to 20 years for machinery and equipment. Depreciation expense was:

1974	$2,642,932
1975	2,982,219

Maintenance and repairs are charged to expense when incurred. Cost of major renewals or betterments is capitalized by charges to the appropriate property account. The cost of property retired or otherwise disposed of is removed from the property account, the accumulated depreciation is removed from the related reserve and the net gain or loss is credited or charged to income.

Income Taxes—

Income tax expense is based on reported income adjusted for differences that will never enter into the computation of taxes payable. Deferred (prepaid) income tax expense is provided for temporary differences between book and taxable income. The Company uses the flow-through method of accounting for the investment tax credit. The investment tax credit was $133,000 in 1975 and $326,000 in 1974.

Research and Development—

Research and development costs are charged to expense as incurred. Of the total research and development costs in 1975 of $3,441,487, $2,041,000 was related to the Company's coal gasification research.

(2) Marketable Securities:

In 1974, the Company provided a reserve of $800,000 to state its marketable securities at quoted market. In 1975, substantially all marketable securities were sold and the Company realized capital losses of $993,000 of which $550,000 was charged against the previously pro-

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vided reserves. The remaining marketable securities at June 30, 1975, are stated at cost less the remaining reserve which approximates current market value (See Note 6).

(3) Long-Term Contracts:

Unbilled Contract Work and Advances and Deferred Contract Revenue—

Unbilled contract work includes the actual cost of work performed to date on long-term contracts and profits recognized to date in excess of billings to date on certain contracts. The components of unbilled contract work are as follows

	As of June 30,	
	1975	1974
Actual costs incurred	$102,441,643	$67,966,429
Related profits recognized	4,947,875	4,867,209
	$107,389,518	$72,833,638
Less—billings to date	96,331,754	67,448,676
	$ 11,057,764	$ 5,384,962

Advances and deferred contract revenue represents the excess of billings to date over actual costs incurred and profits recognized on the remaining contracts.

The components of advances and deferred contract revenue are as follows:

	As of June 30,	
	1975	1974
Advance billings	$229,685,053	$226,463,770
Less—Related costs incurred and profits recognized	207,922,415	196,645,787
	$ 21,762,638	$ 29,817,983

During the fourth quarter of fiscal 1975, the Company provided approximately $8,500,000 for additional estimated costs to complete a number of utility boiler contracts. These provisions for additional estimated costs to complete were necessitated by substantial cost increases which have recently taken place. Cost increases on fixed price utility boiler contracts or contracts subject to only limited price escalation are the primary factor accounting for these provisions for additional estimated costs to complete. These costs are included in the accompanying consolidated financial statements in accordance with the percentage of completion method of accounting for long-term contracts (See Notes 1 and 6). The company does not charge general and administrative expenses to inventory or unbilled contract work.

Receivables—

Accounts receivable includes $3,255,848 and $3,935,676 at June 30, 1975 and 1974, respectively, representing amounts billed to customers, but not paid under retainage provisions of certain contracts. Substantially all retainages are due within one year.

(4) Indebtedness:

Long-term debt consisted of the following at June 30:

	1975	1974
7½% notes payable $1,100,000 annually through December 31, 1978 with a final payment of $4,918,567 on December 31, 1979(A)	$9,318,568	$10,418,567
8% note payable $125,000 quarterly with a final payment of $3,614,950 on September 1, 1980(B)	4,428,986	4,567,665
6% convertible subordinated notes, due in 1979(C)	2,000,000	2,000,000
Long-term lease obligations payable in varying amounts through 1987(D)	9,444,890	9,967,689
2% and 6½% first and second mortgages payable in monthly installments to 1984	648,501	706,907
Other	388,678	193,884
	$26,229,623	$27,854,712
Less current maturities	1,865,176	1,824,885
	$24,364,447	$26,029,827

(A) Secured by the common stock of Riley-Beaird, Inc., held in escrow, and a lease on Beaird's facilities.

(B) Fully subordinated to any other present or future indebtedness of the Company and secured by 41.7% of the common stock of Riley Stoker Corporation.

(C) Convertible into the Company's common stock at $9.80 per share at any time to maturity, which conversion price is subject to adjustment under certain conditions. The notes are subordinated to senior indebtedness outstanding or hereafter incurred. The notes are payable to Mr. Howard C. Warren, the Chairman of the Board and majority stockholder of the Company.

(D) Represents lease obligations assumed by the Company in connection with acquisitions, including a lease with the City of Shreveport covering Riley-Beaird's manufacturing facility. The initial term of this lease extends to 1987 with lease payments ranging from $383,750 in 1976 to $561,665 in 1987 and contains a renewal provision for 5 terms of 5 years at a rental of $12,000 per annum. The lease has been capitalized and is included in the accompanying consolidated financial statements as a long-term lease obligation. $11,952,833 was allocated to this manufacturing facility in recording the Beaird purchase based on estimated fair value and is being depreciated over the remaining life of the lease.

Scheduled aggregate maturities of long-term debt outstanding at June 30, 1975 for the next five fiscal years are as follows:

1976	1,865,176
1977	1,911,166
1978	1,952,190
1979	1,989,391
1980	7,855,501

The Company entered into a revolving credit agreement with several banks in November, 1973, which provides for a maximum credit of $12,000,000 to November, 1976 with interest at ¼% over the minimum commercial lending rate. The agreement also provides for a ½% annual commitment fee on the unused portion of the revolving credit to November, 1976.

At June 30, 1975, $7,500,000 was outstanding under this agreement, which also represents the maximum borrowing during the year at 7¼% interest. The average

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interest rate for the year was 7.7%. There were no borrowings under this agreement during 1974. In August, 1975, the Company borrowed an additional $1,500,000.

In connection with these borrowings, the Company has an informal arrangement to maintain compensating balances amounting to 10% of the revolving credit commitment, plus 10% of loan usage thereunder. The Company was in compliance with this compensating balance arrangement at June 30, 1975 and throughout the year.

Under the revolving credit agreement, the Company has agreed, among other things, not to pay any cash dividends without the prior written consent of the bank (which the agreement provides shall not be unreasonably withheld) and also to maintain consolidated working capital of at least $12,000,000 and consolidated tangible net worth of at least $16,000,000. As of June 30, 1975, consolidated working capital and tangible net worth, as defined, were $20,322,091 and $27,250,305, respectively.

(5) Extraordinary Item:

In August, 1972, the Company, for business and economic reasons, decided to permanently shut down the operations of its Cornwells Heights, Pennsylvania, plant and transfer the operations to other locations. In September, 1973, the Company sold this property at a gain of approximately $1,100,000, net of commissions. This gain, net of related income tax effect of $452,000, is shown as an extraordinary item in the accompanying consolidated statement of income. Capital loss carryovers are available to offset taxes otherwise payable on the gain and this tax benefit ($330,000) has been credited to cost in excess of net assets of acquired companies in 1974.

(6) Income Taxes:

The provision for income taxes consists of the following (000 omitted):

	1975	1974
Federal—		
Current	$3,620	$3,584
Deferred	(1,211)	(192)
Utilization of preacquisition tax loss carry forwards	216	920
	$2,625	$4,312
Foreign	343	308
State	299	262
	$3,267	$4,882

The provision (credit) for deferred income taxes results from timing differences in the recognition of income and expenses for tax and financial statement purposes. The sources of these differences and the tax effect of each were as follows (000 omitted):

	1975	1974
Excess of tax over book depreciation	$ 270	$ 243
Long-term contract losses not currently deductible	(1,397)	—
Other costs and expenses not currently deductible	(105)	(223)
Adjustment to previously deferred taxes	—	(150)
Other, net	21	(62)
	$(1,211)	$ (192)

The total provision for income taxes exceeds the amount computed by applying the U. S. Federal income tax rate of 48% to income before taxes by approximately $365,000 in 1975 and $326,000 in 1974. The difference arises from the following (000 omitted):

	1975		1974	
Provision computed at statutory rate	$2,902	48.0%	$4,556	48.0%
State income taxes	155	2.6	126	1.3
Loss on marketable securities, not deductible	213	3.5	384	4.0
Investment tax credit	(133)	(2.2)	(326)	(3.4)
Other	130	2.1	142	1.5
	$3,267	54.0%	$4,882	51.4%

The Company and its domestic subsidiaries file a consolidated income tax return. As of June 30, 1975, certain subsidiaries have available as a deduction from their own future taxable income the following items:

(a) Net operating loss carry-forwards of approximately $1,109,000 which expire $283,000 in 1976 and $826,000 in 1977.

(b) Approximately $17,000 of investment tax credits expiring in varying amounts through 1979 and subject to certain limitations.

For tax purposes, the above items, which are subject to review by the Internal Revenue Service, can only be used in future consolidated tax returns to the extent of the subsidiaries' own taxable income or taxes payable since they were incurred prior to the Company acquiring 80% interest in the subsidiaries.

The Company and its domestic subsidiaries have available capital loss carry-forwards of approximately $1,773,000, of which $599,000 expires in 1976, $181,000 expires in 1978, and $993,000 expires in 1980.

As of June 30, 1975, for financial reporting purposes, approximately $787,000 of operating loss carry-forwards related to periods prior to the Company's acquisition of a subsidiary under the purchase method of accounting. Accordingly, any future tax benefits relating to these items will be recorded as a reduction of the cost of subsidiaries in excess of underlying net assets.

(7) Earnings Per Share:

Primary earnings per share for the two years ended June 30, 1975 have been determined based on the shares outstanding during the periods, after giving effect to common stock equivalents assuming the exercise of the Company's stock options under the treasury stock method where and to the extent such exercise would be dilutive. The average number of common shares and common share equivalents used in computing primary earnings per share was as follows: 1,526,753 (1975) and 1,516,968 (1974)

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The Riley Company Consolidated Summary of Earnings *(000 omitted)*

	Year Ended June 30,				
	1975	1974	1973	1972	1971
Net sales and contract revenues	$188,374	$169,664	$112,310	$86,187	$91,103
Gross profit	27,269	28,740	19,542	13,240	14,747
Interest expense	1,814	2,056	1,540	657	543
Provision for income taxes	3,267	4,882	2,585	919	2,651
Income before minority interest and extraordinary items	2,779	4,609	2,575	1,386	2,626
Minority interest	—	—	—	(40)	(244)
Extraordinary items	—	650	—	(1,290)	(241)
Net income	2,779	5,259	2,575	56	2,141
Per share					
Primary—					
before extraordinary items	$1.82	$3.04	$1 70	$ 91	$1.69
net income	1.82	3 47	1 70	04	1 52
Fully diluted—					
before extraordinary items	1.63	2.71	1 54	82	1.52
net income	1.63	3 09	1.54	.03	1 38
Cash dividends	—	—	—	—	—

Management Discussion and Analysis of the Summary of Earnings

Net Sales and Contract Revenues: The Riley Company had record sales and contract revenues of $188,373,910 in the fiscal year ended June 30, 1975 reflective of the strong demand for all of the product lines of the Company. They were 11% higher than fiscal year 1974 sales of $169,663,761.

Sales for fiscal year 1975 continued the long-term growth trend of the Company experienced in the past five years. Growth in sales volume has been both from increased customer demand for all the Company's products as well as from the acquisition of the Riley-Beaird subsidiary made in the fiscal year ended June 30, 1973. The extremely high demand for various pressure and process vessels, particularly for the chemical and petroleum industry in the past year, as a result of the energy shortage, has had a particularly beneficial effect on both the sales and the profitability of the heavy metal fabrication operations of the Company as shown in the breakdown of lines of business below.

Lines of Business: The Company and its subsidiaries are engaged primarily in the design, manufacture and servicing of steam generating and fuel burning equipment, annunciator components and systems related industrial monitoring control devices and heavy metal fabrication. The sales and contract revenues and income or (loss) before income taxes and extraordinary items attributable to each line of business for the last five fiscal years is as follows:

	(000 omitted) Year Ended June 30,				
	1975	1974	1973*	1972	1971
Net sales and contract revenues—					
Electronic systems	$ 19,399	$ 16,966	$ 13,477	$17,237	$16,399
Steam generators and fuel burning equipment	115,922	101,798	76,371	68,950	74,704
Heavy metal fabrication	53,053	50,900	22,462	—	—
Total, The Riley Company	$188,374	$169,664	$112,310	$86,187	$91,103
Net income before taxes and extraordinary items—					
Electronic systems	$ 3,954	$ 2,373	$ 1,032	$ 2,580	$ 2,481
Steam generators and fuel burning equipment	(8,030)	3,322	2,425	(276)	2,797
Heavy metal fabrication	10,122	3,796	1,703	—	—
Total, The Riley Company	$ 6,046	$ 9,491	$ 5,160	$ 2,304	$ 5,278

** Includes only 6 months operations for Riley-Beaird acquired January 1, 1973.*

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Income from Operations: Income from operations in fiscal year ended June 30, 1975 declined to $6,924,374 from a record level of $10,581,402 in the fiscal year ended June 30, 1974. The principal reasons for this decline of $3,657,028 were the substantial losses incurred by the Riley Stoker subsidiary in the fourth quarter of the fiscal year, which not only offset the profits generated by the other divisions of The Riley Company in that quarter, but caused a net loss after taxes for The Riley Company of $1,190,098 in this quarter, or $ 80 per share of common stock

Significant increases in the estimated costs to complete certain utility contracts of the Riley Stoker subsidiary, primarily in the areas of purchased material and vendor supplied auxiliary equipment for contracts which had been taken in prior fiscal years on fixed price or contracts with very limited escalation provisions had to be re-

flected in the fourth quarter as these contracts reached the stage in production where the impact of additional costs could be properly evaluated

Income from operations in fiscal year 1974 of $10,581,402 was approximately $5,000,000 higher than in fiscal year 1973. The acquisition of the Riley-Beaird subsidiary which took place on January 1, 1973, constituted the major factor for this increase in income from operations as well as a significant portion of the increase in sales from $112,310,227 in the fiscal year ended June 30, 1973 as compared to $169,663,761 in the year ended June 30, 1974. Further, the year ended June 30, 1974 included a full year of Riley-Beaird operations and earnings under the ownership of The Riley Company, whereas the prior fiscal year included only a six-month period of Riley-Beaird's operations and earnings.

Operating Expenses: Selling expenses in the fiscal year ended June 30, 1975 amounted to $8,457,597 as compared to $7,614,996 in the year ended June 30, 1974 and $6,063,887 in the year ended June 30, 1973. The increased expenditures for selling costs are entirely the result of the growth in sales volume in these years, as well as the substantial increase in the backlog of the company's business during the same periods

General and Administrative expenses of $8,445,607 in the year ended June 30, 1975, compared to $8,908,384 in the year ended June 30, 1974, and to $6,537,757 in the year ended June 30, 1973. Reduced by $462,777 over last year, the Company has been able to achieve economies in its administrative costs as its sales volume increased. General Administrative expenses amounted to 4.5% of sales in the current fiscal year as compared to 5.2% in the prior year and 5.8% two years ago

Research and Development Expenses: Consistent with The Riley Company's policy of writing off all expense incurred in its research and development programs against current operations, the company wrote-off $3,441,487 in the fiscal year ended June 30, 1975, an increase of over 110% over the prior fiscal year. Research and development expense, as a ratio to sales, amounted to 1.8% in the fiscal year ended June 30, 1975, 1.0% in the fiscal year ended June 30, 1974, and 1.1% in the fiscal year ended June 30, 1973. Although The Riley Company conducted research and development programs at all of its profit centers, the largest portion of the total costs incurred in the fiscal year 1975 was expensed at the Riley Stoker subsidiary in connection with its coal gasification unit development. The research and development costs incurred on the coal gasification program amounted to $2,041,000 equal to 59.3% of the total research and development costs expensed by The Riley Company

Summary of Quarterly Earnings Before Extraordinary Items

	1975 (000)	1974
First quarter	$1,042	$ 878
Second quarter	1,578	993
Third quarter	1,349	1,357
Fourth quarter	(1,190)	1,381

Summary of ASE Stock Prices

	1975		1974	
	High	Low	High	Low
First quarter	10⅞	7⅜	15⅜	9⅜
Second quarter	12⅞	8	18⅞	11⅞
Third quarter	15⅜	8½	17	14
Fourth quarter	19¾	14	14¾	10⅛

THE RILEY COMPANY AND SUBSIDIARIES

Directors

DR. G. W. HAZZARD
President
Worcester Polytechnic Institute

C. O. NEWLIN
Vice President
Continental Illinois National Bank and Trust Company of Chicago

P. PEDERSEN
Secretary and General Counsel
The Riley Company

R. J. RUTHERFORD
Chairman of the Board
Riley Stoker Corporation

H. C. WARREN
Chairman and President
The Riley Company

Officers

H. C. WARREN
Chairman, President and Treasurer
The Riley Company

HERMAN BERGMAN
Vice President, Finance
The Riley Company

W. E. ADAMS
President
Riley-Beaird, Inc.

J. J. FARRELL
President
Riley Stoker Corporation

R. H. GARRETT
President
Process Instruments Group
Vice President
The Riley Company

P. PEDERSEN
Secretary

D. KNOPF
Assistant Secretary

W. F. BERG
Controller

Transfer Agents

First National Bank of Chicago
Chicago, Illinois

Morgan Guaranty Trust Company of New York
New York, New York

Registrars

Continental Illinois National Bank and Trust Company of Chicago

First National City Bank
New York, New York

Auditors

Arthur Andersen & Co

Legal Counsel

Pedersen & Houpt

The financial and other information contained in this annual report is in conformity with the Form 10-K annual report filed by the company with the S. E. C. A copy of the form 10-K, which contains additional information about the company, will be furnished to any stockholder upon written request to D. Knopf, Assistant Secretary, The Riley Company, 1500 Higgins Road, Park Ridge, Illinois 60068.

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The Riley Company

1500 Higgins Road
Park Ridge, Illinois 60068

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THE RILEY COMPANY
1500 Higgins Road
Park Ridge, Illinois 60068

Reference Sheet
March, 1975

RECENT FINANCIAL HIGHLIGHTS

	Second Quarter Ended December 31		Six Months Ended December 31	
	1974	1973	1974	1973
Sales and Revenues	$50,485,532	$41,962,019	$93,216,676	$76,797,276
Net Income*	$ 1,578,436	$ 993,029	$ 2,620,223	$ 1,870,915
Earnings Per Share*	$ 1.04	$ .65	$ 1.73	$ 1.23

	Year Ended June 30	
	1974	1973
Sales and Revenues	$169,663,761	$112,310,227
Net Income*	$ 4,608,821	$ 2,575,020
Earnings Per Share*	$ 3.04	$ 1.70

*Excludes extraordinary items.

(See financial section for details.)

BACKLOG

January 1, 1974 — $230,000,000
January 1, 1975 — $295,000,000

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BUSINESS

The Riley Company designs, manufactures, sells and services a broad spectrum of industrial products ranging from steam generating systems and large welded structures to monitoring and process instruments. In terms of current sales volume, its major products are steam generators and associated equipment; high-pressure process vessels; fractionating towers and reactors for hydrocarbon processing; LP-gas storage systems; rail car tanks; electrical instruments; control valves and regulators; data accumulation and communications systems; and Maxim® industrial silencers and water desalination systems.

Its prime customers are the electric utility, chemical, petroleum and petro-chemical industries.

The company's newest venture, coal gasification, is discussed in detail later in this report.

Approximately sixty per cent of Riley sales are to the electric utility industry. Annual demand for electricity in the U.S., according to government and industry estimates, is expected to climb from 1.7 trillion kilowatt-hours to more than 6 trillion kilowatt-hours in the next 20 years. To meet the demand, the electric utilities' yearly expenditures for capital equipment are expected to rise from the $18 billion level of 1975 to $84 billion by 1995. Although high financing costs and energy conservation efforts have temporarily slowed such capital expenditures, long-term prospects for solid growth appear favorable.

Focused as it is on the utility and energy industries, the company is described by Howard C. Warren, chairman and president, as "in a strong position to respond to the needs of today's energy shortages and the long-term needs of the years ahead."

The Riley Company's sales and revenues are generated in these three groups:

Riley Stoker Group

1974 contribution to sales —60 per cent
1974 contribution to earnings —35 per cent

This group, employing about 1700 people, is engaged primarily in the design, manufacture, and installation of large steam generating plants for electric utilities and the production of smaller ready-to-install packaged steam generators for industry. It offers generating plants ranging in capacity from 25,000 to upwards of 6,000,000 pounds of steam per hour to utilities. For industrial applications, Riley steam generators range from 10,000 to 1,500,000 pounds of steam per hour. Also, the Group makes and sells separately the fuel burning components and replacement parts for steam generating systems, and offers repair and maintenance service on such systems. Environeering, Inc., makes gas scrubbers and other emission control equipment for utilities and industry.

Riley Stoker facilities consist of an engineering and executive headquarters in Worcester, Mass.; a Research and Development Center in Worcester; a recently modernized 310,000 square foot plant in Erie, Pa; Riley Southwest, in Sapulpa, Okla., a plant with more than 175,000 square feet where heavy metal parts are fabricated.

Riley-Beaird, Inc.

1974 contribution to sales —30 per cent
1974 contribution to earnings —40 per cent

This Group, headquartered in a 675,000 square foot plant in Shreveport, La., and employing about 1,200 people, was acquired in January, 1973, primarily to supplement the productive capabilities of the Riley Stoker Group—particularly such major sections of steam generators as steam drums and water wall panels.

In addition, the Group produces proprietary products including Maxim® silencers for diesel engines and gas turbines; Maxim® evaporators for desalination and for chemical pollution control; and large pressure vessels for the petroleum and chemical industries.

Steadily increasing sales of these proprietary products are helping to even out cyclical patterns of sales to utilities and process industries.

Both revenue and profit for the first half of the current fiscal year continue at high levels.

A major new source of sales is now available to the group as major industrial users respond to the energy crisis by installing large LP-gas storage tanks, which Riley-Beaird can fabricate on a production line basis. Also stemming from the energy crisis is an opportunity for the group to supply components for the heavy wall clad platforming reactors used to produce non-or low-leaded gasoline and to fabricate specialized process equipment and vessels for the manufacture of synthetic natural gas from coal.

Process Instruments Group

1974 contribution to sales —10 per cent
1974 contribution to earnings —25 per cent

The main member of this Group, Panalarm Division, Skokie, Ill. manufacturers annunciators (industrial monitoring systems), data handling equipment, and transducers. The Group also includes Cashco, Inc., a Decatur, Ill. control valve manufacturer; Panellit Service Corporation, Skokie, Ill. which services and maintains industrial instrumentation; and Medelco, Inc., designers and manufacturers of hospital information systems. The international market for industrial monitoring systems is served by two other members of the Group: Sioc, Limited in Canada, and its subsidiary, Scama, Limited in the United Kingdom. Total Process Instruments Group employees: 650.

Most of the Group's products are marketed to the process industries—chemical, petroleum, petro-chemical, food, paper, cement and other manufacturers who process liquids, slurries, etc. — all of which are highly automated. Supplementing this market are manufacturers of electric power, autos, refrigerators, television sets, roofing and other industries characterized by highly automated assembly line manufacturing technology. Automation requires monitoring devices and systems, the Group's speciality.

Panalarm's best known monitors are annunciators, which present a visible and audible signal whenever a departure from a desired norm occurs in automatic processing and therefore requires human attention. A typical annunciator is centrally located in a control room and provides one or more human operators with an overview of as many as 500 processes.

During the first half of the current fiscal year, the rate of orders received by the Group has increased over the comparable period last year. Unlike the groups serving heavy industry, whose products require long manufacturing lead times, the manufacturing cycles for products in the Process Instruments Group are relatively short, and therefore backlogs are not significant in this group's operations.

MARKET OPPORTUNITIES

Electric utilities in the United States, first among the company's major markets, are increasing their generating capacity in response to the country's energy needs. Today, the source of about 75 per cent of this generating capacity is fossil-fueled steam units and associated equipment of the kind made by Riley. And over the next five years, according to industry estimates, fossil-fired steam units will account for the majority of net additions to electric utility generating capacity. Expansion of capacity is reflected in the increased sales of steam generating systems made by the Riley Stoker Group.

Of the last 22 steam generating units sold by Riley, all have been coal-fired, and all but two have been of the company's Dry Bottom Turbo™ furnace design which minimizes pollutants.

In recent months, the company has experienced minor delays and stretch-outs of contracts with some public utilities who are finding it difficult to raise the capital funds needed for new power plant construction in the current state of the economy. Additional stretch-outs may continue to take place.

Many of the electric utilities' spending cuts, however, have been for nuclear power plants rather than for fossil-fired units of the type made by Riley. The company has been able to maintain its backlog at record levels, and does not anticipate any significant effect from the minor delays and stretch-outs on its earnings performance for the fiscal year ending June 30, 1975.

The chemical industry spent a record $5.6 billion on plant and equipment in 1974, and is expected to spend well over $7 billion on plant and equipment in 1975. Over the long term, industry analysts predict an accelerating need for greater capacity, beginning in the second half of 1975. This market area is important to both the Riley-Beaird and Process Instruments Groups.

In the petroleum industry, consumer demand at a time of continuing short supply has created tremendous pressures to develop new capacity for petroleum refining, handling, and transportation. The present turmoil in the world production and distribution of petroleum supplies is expected to result in expanded opportunities for the Riley Stoker, Riley-Beaird and Process Instruments Groups.

The petro-chemical industry, faced with rising demands, is expected to consume annually about 12 per cent of gas and oil produced in U.S. refineries by 1980, compared to about 4 per cent during 1974. Riley-Beaird and the Process Instruments Group supply pressure storage tanks, process vessels and monitoring systems to meet the increasing capital equipment needs of the industry.

In the field of environmental improvement, the increasing use of taconite in the iron ore processing industry, and the significant expansion of mechanized waste-incineration plants, both with special emission control requirements, are expected to enlarge the market for Environeering, Inc.'s Ventri-Rod® scrubbers.

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COAL GASIFICATION

The Riley Company is moving with dispatch, but carefully, into coal gasification—a new business area that utilizes the company's considerable experience and resources in converting coal into useful energy. A

full scale coal gasifier has been developed for testing and operation at Worcester, Mass.

The company announced its entry into the field in February, 1974, as the nation's need for more domestic sources of energy became increasingly apparent. It acquired the manufacturing rights and operating technology for Morgan gas producers and embarked upon a major developmental and testing program financed entirely by Riley funds.

The Morgan gasifiers had been proved over many years of industrial use, producing a low BTU gas with a heating value of about 160 BTU's. Riley is concentrating upon modifying the process so that gas with a heat value of from 120 to 320 BTU's can be produced and with many pollutants reduced or eliminated so the gas can be burned directly and meet environmental standards. The new Riley-Morgan units will be offered for sale in both the low and the intermediate BTU energy ranges.

Heading the coal gasification program is R.J. Rutherford, chairman of the Riley Stoker Group and past president of what is now the Commonwealth Gas Company of Worcester. Rutherford, describing coal gasification as an "old-new" field, summarizes the company's thrust in this way:

"By adapting an existing system to today's needs we have, in effect, eliminated at least one step in the design and production of a clean, efficient fuel that will help reduce the United States' dependence upon oil while at the same time meeting environmental requirements."

Riley's coal gasification development work is being conducted at the company's new fuel burning laboratory and research facility at Worcester, Mass. A 40-inch diameter "bench model" went into operation in January and has been operating successfully on various types of coals, including coking coals.

In addition to environmental considerations, coal gasification is regarded by Riley as a readily available means of further utilizing the nation's vast coal reserves and at lower cost than oil. As far as utilities are concerned, Riley proposes that the coal gasifier plant be built adjacent to the power plant boiler.

A major advantage of coal gasification in steam generator installations is the utility's ability to burn coal gas in boilers presently equipped for oil and gas firing.

Marketing efforts for the large, intermediate BTU units are focused upon the utility field but the smaller, low BTU Riley-Morgan gasifiers are attracting much attention from manufacturing industries to which they are being offered as a readily available source of gas for heating and processes.

RESEARCH AND DEVELOPMENT

Research and development has become an area of highest priority as the result of a series of events that began when Howard C. Warren, chairman and president, merged Riley Stoker with Scam Instruments and formed The Riley Company in 1971.

An electrical engineer with a record for innovation and pioneering in the field of process instrumentation, he ordered an R & D program designed to give Riley Stoker—an old and respected name in the manufacture of coal, oil and gas-fired steam generators – a reputation for technical superiority in a field in which it is by far the smallest of four manufacturers.

Shortly thereafter, concern over the nation's energy sources began to mount. Coupled with this was increased public realization that the country's vast coal reserves were assets of great potential.

With its years of experience and technical knowledge in combustion of coal and the manufacture of steam plants for utilities and industry, Riley was ideally situated to move quickly in advancing the technology of clean burning of fuel that would meet environmental considerations.

Out of this combination of factors came a greatly expanded and intensified R & D program marked by:

•A new 14,000 square foot Research and Development Center in Worcester, Mass., which includes a 300 million BTU experimental firing chamber and a full scale coal gasification test unit.

Within the Center is a complex of laboratories staffed and equipped to perform sophisticated analyses of coal, gas, and water; to develop data on the gasification of coal; and to conduct research in the fields of hydraulics and combustion.

•The highest R & D expenditures in the company's history, budgeted in the 1975 fiscal year in excess of $3 million.

•Sharply focused areas of exploration concerned with (a) more efficient energy production within (b) environmentally acceptable limits: fuel burning and boiler design, coal gasification, and scrubber technology.

The R & D concern for protection of the environment is built upon a record of achievement over the years. Riley's Dry Bottom Turbo™ Furnace was designed specifically for more efficient steam production while at the same time minimizing formation of oxides of nitrogen—major pollutants in fuel burning. Environeering, Inc., is a leader in advancing scrubber technology for removal of sulphur compounds and particulate emission from utility and industrial applications. Noise pollution is dealt with by Maxim® silencers, manufactured by the Riley-Beaird Group.

Maxim® silencer applications include suppression of noise caused by high pressure steam discharges from electric power plants, by blowdowns of oil pipelines and compressor piping, and by similar utility and industrial operations to bring sounds within regulatory limits. Development work is designed to keep pace with the need for equipment to handle steadily increasing demands of utility stations and industry.

Maxim® evaporation technology is similarly being expanded to cope with steadily growing concentrates of industrial waste and spent regenerates and to recover metal from plating operations.

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HISTORY

The company, headquartered in Chicago, is an outgrowth of the union of **Scam Instrument Corporation** (founded in 1953) of Skokie, Ill. and a pioneer in the then infant automated control and monitoring industry, and the **Riley Stoker Corporation** of Worcester, Mass., an old and respected name in the steam generation field.

With the acquisition of Riley Stoker in 1971, the corporation became The Riley Company, with Scam founder Howard Warren the chief executive officer.

In February, 1972, the company acquired all of the outstanding shares of **Environeering, Inc.**, Skokie, Ill., in exchange for 80,960 shares of the company's common stock. Environeering supplies air pollution control systems to utilities and industry.

On August 1, 1972, Riley Stoker Corporation purchased all of the outstanding stock of Abbott Heat Exchanger Corporation. The facility, re-named **Riley**

CONSOLIDATED SUMMARY OF OPERATIONS

	(Audited) For the Year Ended June 30,				
	1974	1973(1)	1972*	1971	1970
Net sales and contract revenues	$169,663,761	$112,310,227	$86,186,887	$91,103,117	$69,019,441
Net income before extraordinary items (2)	4,608,821	2,575,020	1,345,973	2,382,567	226,901
Extraordinary items (3)	650,141	—	(1,290,000)	(241,000)	—
Net income	$ 5,258,962	$ 2,575,020	$ 55,973	$ 2,141,567	$ 226,901
Earnings per share: (4)					
Primary—					
Income before extraordinary items	$ 3.04	$ 1.70	$ .91	$ 1.69	$ .16
Extraordinary items	.43	—	(.87)	(.17)	—
Net income	$ 3.47	$ 1.70	$ .04	$ 1.52	$ .16
Fully diluted—					
Income before extraordinary items	$ 2.71	$ 1.54	$ .82	$ 1.52	
Extraordinary items	.38	—	(.79)	(.14)	
Net income	$ 3.09	$ 1.54	$ .03	$ 1.38	
Average shares outstanding	1,515,357	1,513,908	1,485,106	1,412,916	1,412,916

FOOTNOTES:

***A 20-week strike at the Cornwells Heights plant adversely affected sales and net income before extraordinary items in both 1972 and early 1973. In addition, $1,290,000 was provided in 1972 (see note 3) to cover costs and expenses for the shutdown of this plant.**

(1) In January, 1973, the company purchased the business and assets, subject to liabilities of AMF Beaird, Inc., Shreveport, La., from AMF Incorporated. The business is now operating under the name Riley-Beaird, Inc., a wholly owned subsidiary. In August, 1972, Riley Stoker Corporation purchased all of the outstanding stock of Abbot Heat Exchanger Corporation (renamed Riley Southwest Corporation) for the assumption of certain liabilities and the guarantee of certain debt by Riley Stoker. The operating results of Riley-Beaird, Inc. and Riley Southwest Corporation are included in The Riley Company income data presented above since the dates of purchase.

(2) In view of the unstable conditions existing in the securities market at June 30, 1974, the Company provided $800,000 to state its marketable securities at quoted market. During 1974, the Company realized $150,000 of capital gains from the sale of marketable securities. The net difference of $650,000 was charged against earnings in 1974.

(3) The extraordinary item for fiscal 1974 is the net gain on the sale of the Cornwells Heights facility. Extraordinary items for fiscal 1972 and fiscal 1971 are the costs and expenses of the plant shutdown at Cornwells Heights (1972) and of the foundry shutdown at Detroit, Mich. (1971), net of related income tax benefits and minority interest.

(4) Primary earnings per share have been determined on the basis of shares outstanding during the periods and common stock equivalents assuming the exercise of stock options under the treasury stock method (based on average market price) where and to the extent such exercise would be dilutive. Fully diluted earnings per share have been calculated on the assumption convertible subordinated notes were converted and all of the stock options exercised under the treasury stock method.

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Southwest Corporation, now operates as a part of the Riley Stoker Group.

In January, 1973, the third segment of the three-group company was added with the acquisition from AMF of **Riley-Beaird** of Shreveport, La., for $27 million. Riley-Beaird is a major manufacturer of heavy capital equipment for the energy and petrochemical industries.

The union of Scam and Riley Stoker in 1971 was a logical one, stemming from the determination by Scam's management that the company should participate directly in one of its major markets which appeared to be headed toward notable expansion. The electric utility industry was a natural choice. Riley Stoker, a leading manufacturer of steam generating equipment for electric power companies, provided an exceptional entry into this growing area of service. And the subsequent acquisitions—Environeering, Riley Southwest, and Riley-Beaird—strengthened the company's capabilities and expanded its markets in the growing, capital intensive industries it serves today.

RECENT DEVELOPMENTS

Major Orders and Contracts: During the 12 months ended February 28, 1975, the company, through its Riley Stoker Group, received seven major orders for the design, fabrication and construction of coal-burning, reheat type steam generating units, with production capacities ranging from 1,355,000 to 4,423,684 pounds of steam per hour. The largest in dollar volume ($45 million) of these orders was from the Arizona Electric Power Cooperative, Inc. (September 24, 1974) for two units which will provide steam to two turbine generators of approximately 194 megawatts each at the Apache Generating Station near Cochise, Ariz.

Plant Expansion and Construction: A $1 million expansion and modernization program at the Erie plant of Riley Stoker, and a $1.3 million expansion program at Riley Southwest, have been completed by the company within the last two years. Total capital expenditures by the company in fiscal 1974, chiefly for plant modernization, were $5.5 million.

CAPITALIZATION

Capitalization as of June 30, 1974 consisted of $26 million of long-term debt and 1,515,357 shares of common. There are 254,082 shares of common reserved for note conversions and stock purchase options. The company has not paid dividends on its common stock, a decision that is regularly reviewed by the board of directors in light of earnings and of operating and capital requirements. The company's working capital and income generation enabled it to operate during fiscal 1974 without resorting to borrowing. The company contemplates no major new financing during fiscal year 1975. The company has recently availed itself of $6 million of borrowings under its existing $12 million, 3-year bank line of credit.

STOCK DATA

Float (est.): 760,000 shares

Price Range:

1974	17	- 7 3/8
1973	20 5/8	- 7 1/8
1972	35 3/4	- 13 3/4
1971	33 1/8	- 15 1/8
1970	19 3/4	- 7 1/4

CORPORATE DATA AND CALENDAR

The company's officers and directors include:

Howard C. Warren	Chairman of the Board, President and Director
H. Bergman	Vice President, Finance
W.E. Adams	President, Riley-Beaird, Inc.
J.J. Farrell	President, Riley Stoker Corporation
R.H. Garrett	President, Process Instruments Group
P. Pedersen	Secretary, General Counsel and Director
D. Knopf	Assistant Secretary
W.F. Berg	Controller
R.J. Rutherford	Director; Director–American Gas Association; Director–Mechanics National Bank; Director–Commonwealth Gas Company
R.N. Benjamin	Director; Director–Stone & Webster, Inc
C.O. Newlin	Director; Vice President–Continental Illinois National Bank and Trust Company of Chicago; Director–Chamberlain Manufacturing Corporation

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Fiscal year ends: June 30
Annual report published: Late August
Annual meeting of shareholders: Third Monday in September
Quarterly income statements published: Approximately one month after the close of each of the first three quarters
Stock listing: American Stock Exchange; ticker symbol RIL

FINANCIAL DATA

THE RILEY COMPANY AND SUBSIDIARIES

(Unaudited)

	For the Quarter Ended December 31,		For the Six Months Ended December 31,	
	1974	1973	1974	1973
Net sales and contract revenues	$50,485,532	$41,962,019	$93,216,676	$76,797,276
Income before income taxes and extraordinary items	$ 3,036,436	$ 1,979,029	$5,675,223	$ 3,759,915
Provision for income taxes	1,458,000	986,000	3,055,000	1,889,000
Income before extraordinary items (1)	$ 1,578,436	$ 993,029	$ 2,620,223	$ 1,870,915
Extraordinary items (Less applicable income taxes, (2)	—	14,137	—	740,093
Net income	$ 1,578,436	$ 1,007,166	$ 2,620,223	$ 2,611,008
Earnings per share: (3)				
Primary—				
Income before extraordinary items	$ 1.04	$ .65	$ 1.73	$ 1.23
Extraordinary items	—	.01	—	.49
Net income	$ 1.04	$ .66	$ 1.73	$ 1.72
Fully diluted—				
Income before extraordinary items	$ .93	$ .59	$ 1.54	$ 1.10
Extraordinary items	—	.01	—	.43
Net income	$ .93	$ .60	$ 1.54	$ 1.53
Average shares outstanding	1,515,357	1,515,357	1,515,357	1,515,357

FOOTNOTES:

(1) In view of the unstable conditions existing in the securities market at September 30, 1974, the Company provided $350,000 in the first quarter to state its marketable securities at quoted market. In addition, during the quarter ended September 30, 1974, the Company realized $163,079 of long-term losses from the sale of marketable securities. The total of $513,079 was charged against earnings in the first quarter.

(2) In September, 1973, Riley Stoker Corporation disposed of its facilities at Cornwells Heights, Pennsylvania, at a capital gain, net of commissions, of $1,101,934. Related State and Federal Income Taxes of $451,793 have been deducted and the Federal capital gains tax of $330,580, after utilizing capital loss carry-forwards, has been credited to the costs in excess of net assets of acquired companies. In addition, a $89,952 extraordinary tax credit was realized from the utilization of a loss carryforward of Environeering, Inc.

(3) Primary earnings per share have been determined on the basis of shares outstanding during the periods and common stock equivalents assuming the exercise of stock options under the treasury stock method (based on average market price) where and to the extent such exercise would be dilutive. Fully diluted earnings per share have been calculated on the assumption convertible subordinated notes were converted and all of the stock options exercised under the treasury stock method.

If you are not a stockholder of the company but would like to have your name placed on the company's mailing list to receive annual, interim and other reports distributed by the company, please write to H.L. Reed, Gardner, Jones & Company, Inc., 111 E. Wacker Drive, Chicago, Illinois 60601.

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DIRECTORS

R. N. Benjamin
Director, Stone & Webster, Inc.

C. O. Newlin
Vice President, Continental Illinois National Bank and Trust Company of Chicago

P. Pedersen
Secretary and General Counsel
The Riley Company

R. J. Rutherford
Chairman of the Board, Riley Stoker Corporation

H. C. Warren
Chairman and President, The Riley Company

OFFICERS

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Vice President, Finance, The Riley Company

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J. J. Farrell
President, Riley Stoker Corporation

R. H. Garrett
President, Process Instruments Group

P. Pedersen
Secretary

D. Knopf
Assistant Secretary

W. F. Berg
Controller

TRANSFER AGENTS

First National Bank of Chicago
Chicago, Illinois

Morgan Guaranty Trust Company of New York
New York, New York

REGISTRARS

Continental Illinois National Bank and Trust Company of Chicago
Chicago, Illinois

First National City Bank
New York, New York

AUDITORS

Arthur Andersen & Co.

LEGAL COUNSEL

Pedersen & Houpt

To stockholders: Please review your mailing address and if a change is necessary advise Shareholder Services. First National Bank of Chicago, One First National Plaza, Chicago, Ill. 60670.

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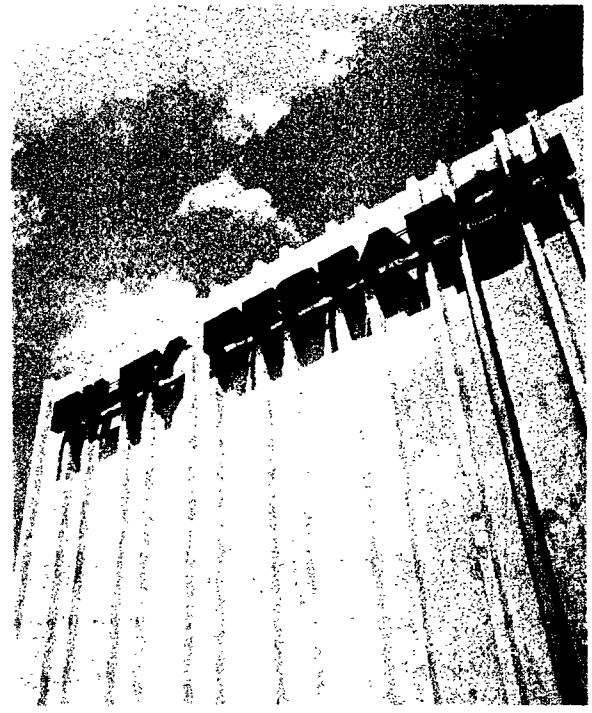
REPORT TO SHAREHOLDERS
THIRD QUARTER ENDED MARCH 31, 1975



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TO OUR STOCKHOLDERS:

Sales and contract revenues for the quarter ended March 31, 1975, amounted to $46,322,976. For the first nine months of this fiscal year our sales and revenues of $139,539,472 are up by 13 per cent over the same period of the prior year.

Net income before extraordinary items amounted to $1,349,097, equal to $.89 per share for the quarter ended March 31, 1974, and totalled $3,969,320, equal to $2.62 per share for the first nine months, an increase of 23 per cent over the same period of the prior year.

Our backlog of unfilled orders, reflecting the high demand for our products, is now at the $315,000,000 level, an increase of $57,000,000 over our backlog at the same point in time last year. Our backlog is now at a record high for The Riley Company.

Sales and Revenues for the quarter were slightly down as compared to last quarter and to the same quarter a year ago due to scheduling delays resulting from deferral of contracts and material delivery problems. We appear to be entering a period where material deliveries are back to normal and material costs seem to be leveling off. We do not expect further contract deferrals and believe that sales and contract revenues will again increase in the fourth quarter.

H. C. Warren
Chairman of the Board
May 2, 1975

THE RILEY COMPANY AND SUBSIDIARIES
CONSOLIDATED SUMMARY OF OPERATIONS

(Unaudited)	For the Quarter Ended March 31, 1975	For the Quarter Ended March 31, 1974	For the Nine Months Ended March 31, 1975	For the Nine Months Ended March 31, 1974
Net Sales and contract revenues	$46,322,976	$46,969,516	$139,539,472	$123,766,792
Income before income taxes and extraordinary items	$ 2,736,097	$ 2,692,002	$ 8,411,320	$ 6,451,917
Provision for income taxes	1,387,000	1,335,000	4,442,000	3,224,000
Income before extraordinary items (Note 1)	$ 1,349,097	$ 1,357,002	$ 3,969,320	$ 3,227,917
Extraordinary items (less applicable income taxes Note 2)	—	(89,952)	—	650,141
Net Income	$ 1,349,097	$ 1,267,050	$ 3,969,320	$ 3,878,058
Earnings per share (Note 3):				
Primary—				
Income before extraordinary items	$ .89	$ .89	$ 2.62	$ 2.13
Extraordinary items	—	(.06)	—	.43
Net income	$ .89	$ .83	$ 2.62	$ 2.56
Fully diluted—				
Income before extraordinary items	$ .79	$ .79	$ 2.33	$ 1.90
Extraordinary items	—	(.05)	—	.38
Net income	$ .79	$ .74	$ 2.33	$ 2.28
Average Shares outstanding			1,515,357	1,515,357

Unfilled Orders: March 31, 1975—$315,000,000 March 31, 1974—$258,000,000

NOTES TO SUMMARY OF OPERATIONS:

Note (1) In view of the continued unstable conditions existing in the securities market at September 30, 1974, the Company provided $350,000 in the First Quarter to state its marketable securities at quoted market. In addition, during the quarter ended September 30, 1974, the Company realized $163,079 of long-term losses from the sale of marketable securities. The total of $513,079 was charged against earnings in the First Quarter.

Note (2) In September, 1973, Riley Stoker Corporation disposed of its facilities at Cornwells Heights, Pennsylvania, at a capital gain, net of commissions, of $1,101,934. Related State and Federal Income Taxes of $451,793 have been deducted and the Federal capital gains tax of $330,580, after utilizing capital loss carry-forwards, has been credited to the costs in excess of net assets of acquired companies. An adjustment of $89,952 was made in the estimated utilization of loss carryforwards for the quarter ended March 31, 1974.

Note (3) Primary earnings per share have been determined on the basis of shares outstanding during the periods and common stock equivalents assuming the exercise of stock options under the treasury stock method (based on average market price) where and to the extent such exercise would be dilutive.

Fully diluted earnings per share have been calculated on the assumption that the 6% subordinated notes were converted and all of the stock options exercised under the treasury stock method.

RS-002330
1/17/02
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DIRECTORS

R. N. Benjamin
Director, Stone & Webster, Inc.

C. O. Newlin
Vice President, Continental Illinois National Bank and Trust Company of Chicago

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THE RILEY COMPANY 2

REPORT TO SHAREHOLDERS
SECOND QUARTER ENDED DECEMBER 31, 1974



RS-002331
1/17/02
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TO OUR STOCKHOLDERS:

Profit performance and sales and contract revenues of The Riley Company in the second quarter improved in all of our operating groups.

Sales and contract revenues for the quarter ended December 31, 1974, amounted to $50,485,532, a 20 per cent increase over the prior year's second quarter sales. For the first six months of this fiscal year, our sales and contract revenues are up by 21 per cent over the same period of the prior year.

Net income before extraordinary items amounted to $1,578,436, equal to $1.04 per share, up by 60 per cent over the second quarter of the prior year. For the first six months of this year our earnings per share amounted to $1.73 and there were no extraordinary items. In the comparable six months of our prior fiscal year we earned $1.72 per share, which, however, included $.49 per share of extraordinary income. On a comparable basis, therefore, our income per share before extraordinary items is up by 41 per cent over the same period of the prior year.

The continued high level of demand for our company's products to satisfy the energy needs of this country is reflected in our extremely healthy backlog of unfilled orders. We are pleased to report that so far this year we have not been faced with any significant cancellations of contracts. Our backlog of unfilled orders as of December 31, 1974 amounted to $295,000,000; the $8,000,000 reduction from the reported September 30, 1974 backlog of $303,000,000 being due to an increase of $8,000,000 in sales and contract revenues over new orders booked in the second quarter.

We are experiencing some minor delays and stretch-outs of contracts with certain public utilities who are finding it difficult to raise the capital funds needed for new power plant construction in the current state of the economy. Additional stretch-outs may continue to take place. However, as of this writing, we do not anticipate any significant effect on our earnings performance this current fiscal year.

Sincerely,

H. C. Warren

H. C. Warren
Chairman of the Board
January 31, 1975

THE RILEY COMPANY AND SUBSIDIARIES
CONSOLIDATED SUMMARY OF OPERATIONS

(Unaudited)	For the Quarter Ended December 31, 1974	For the Quarter Ended December 31, 1973	For the Six Months Ended December 31, 1974	For the Six Months Ended December 31, 1973
Net Sales and contract revenues	**$50,485,532**	$41,962,019	**$93,216,676**	$76,797,276
Income before income taxes and extraordinary items	**$ 3,036,436**	$ 1,979,029	**$ 5,675,223**	$ 3,759,915
Provision for income taxes	**1,458,000**	986,000	**3,055,000**	1,889,000
Income before extraordinary items (Note 1)	**$ 1,578,436**	$ 993,029	**$ 2,620,223**	$ 1,870,915
Extraordinary items (less applicable income taxes) (Note 2)	**–**	14,137	**–**	740,093
Net Income	**$ 1,578,436**	$ 1,007,166	**$ 2,620,223**	$ 2,611,008
Earnings per share (Note 3):				
Primary–				
Income before extraordinary items	**$ 1.04**	$ .65	**$ 1.73**	$ 1.23
Extraordinary items	**–**	.01	**–**	.49
Net income	**$ 1.04**	$ .66	**$ 1.73**	$ 1.72
Fully diluted–				
Income before extraordinary items	**$ .93**	$ .59	**$ 1.54**	$ 1.10
Extraordinary items	**–**	.01	**–**	.43
Net income	**$ .93**	$ .60	**$ 1.54**	$ 1.53
Average shares outstanding			**1,515,357**	1,515,357

Unfilled Orders: December 31, 1974–$295,000,000 December 31, 1973–$230,000,000

NOTES TO SUMMARY OF OPERATIONS:

Note (1) In view of the continued unstable conditions existing in the securities market at September 30, 1974, the Company provided $350,000 in the first quarter to state its marketable securities at quoted market. In addition, during the quarter ended September 30, 1974, the Company realized $163,079 of long-term losses from the sale of marketable securities. The total of $513,079 was charged against earnings in the first quarter.

Note (2) In September, 1973, Riley Stoker Corporation disposed of its facilities at Cornwells Heights, Pennsylvania, at a capital gain, net of commissions, of $1,101,934. Related State and Federal Income Taxes of $451,793 have been deducted and the Federal capital gains tax of $330,580, after utilizing capital loss carry-forwards, has been credited to the costs in excess of net assets of acquired companies. In addition, a $75,815 extraordinary tax credit was realized from the utilization of a loss carryforward of Environeering, Inc.

Note (3) Primary earnings per share have been determined on the basis of shares outstanding during the periods and common stock equivalents assuming the exercise of stock options under the treasury stock method (based on average market price) where and to the extent such exercise would be dilutive.

Fully diluted earnings per share have been calculated on the assumption that the 6% subordinated notes were converted and all of the stock options exercised under the treasury stock method.

RS-002332
1/17/02
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P. Pedersen
Secretary and General Counsel
The Riley Company

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Chairman of the Board, Riley Stoker Corporation

H. C. Warren
Chairman and President, The Riley Company

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Chicago, Illinois

Morgan Guaranty Trust Company of New York
New York, New York

REGISTRARS
Continental Illinois National Bank and Trust Company of Chicago
Chicago, Illinois

First National City Bank
New York, New York

AUDITORS
Arthur Andersen & Co.

LEGAL COUNSEL
Pedersen & Houpt

To stockholders: Please review your mailing address and if a change is necessary advise Shareholder Services, First National Bank of Chicago, One First National Plaza, Chicago, Ill. 60670.

RILEY THE RILEY COMPANY

1500 HIGGINS ROAD / PARK RIDGE, ILL. 60068

THE RILEY COMPANY 1

REPORT TO SHAREHOLDERS
FIRST QUARTER ENDED SEPTEMBER 30, 1974



RS-002333
1/17/02
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TO OUR STOCKHOLDERS:

The profit achievement of The Riley Company in the first quarter continues to reflect good performance in nearly all fields of our operations. In spite of the unstable conditions of the economy in general, and the stock market in particular, we are continuing to make progress both in sales and contract revenues and in net earings.

Sales and contract revenues for the quarter ended September 30, 1974, amounted to $42,731,144, a 23% increase over the prior year's first quarter sales.

Net income before extraordinary items amounted to $1,041,787, up by 19% over the first quarter of the prior year. This increase in net income is after absorbing a total of $513,079 of combined losses on security sales and additional provisions for market decline of securities held.

On a per share basis, The Riley Company earned $.69 in the first quarter after absorbing security losses equal to $.34 per share, as compared to net primary income before extraordinary items of $.58 per share in the first quarter of the prior fiscal year.

The continued emphasis on the need for energy in this country is reflected in our extremely healthy backlog of unfilled orders. Although the continued inflationary trend continues to affect both our material and labor costs, and material shortages are occurring in certain areas, we are continuously striving to overcome these difficulties by aggressive management action and cost controls.

We are pleased with our continued progress in earnings in the face of these general economic conditions, and we are optimistic for this fiscal year as a whole.

Sincerely,

H. C. Warren

H. C. Warren
Chairman of the Board
October 28, 1974

THE RILEY COMPANY AND SUBSIDIARIES
CONSOLIDATED SUMMARY OF OPERATIONS

(Unaudited)

	For the Quarter ended September 30	
	1974	1973
Net Sales and contract revenues	$42,731,144	$34,835,257
Income before income taxes and extraordinary items	$ 2,638,787	$ 1,780,558
Provision for income taxes	1,597,000	902,672
Income before extraordinary items (Note 1)	$ 1,041,787	$ 877,886
Extraordinary items (less applicable income taxes) (Note 2)	–	725,956
Net income	$ 1,041,787	$ 1,603,842
Earnings per share (Note 3):		
Primary –		
Income before extraordinary items	$ .69	$ .58
Extraordinary items	–	.48
Net income	$ .69	$ 1.06
Fully diluted –		
Income before extraordinary items	$ .61	$ .51
Extraordinary items	–	.42
Net income	$ .61	$ .93
Average shares outstanding	1,515,357	1,515,357

Unfilled Orders: September 30, 1974 – $303,000,000 September 30, 1973 – $215,000,000

NOTES TO SUMMARY OF OPERATIONS:

Note (1) In view of the continued unstable conditions existing in the securities market at September 30, 1974, the Company has provided $350,000 to state its marketable securities at quoted market. In addition, during the quarter ended September 30, 1974, the Company realized $163,079 of long-term losses from the sale of marketable securities. The total of $513,079 has been charged to, and is included in Net Income Before Extraordinary Items of $1,041,787 for the three months ended September 30, 1974.

Note (2) In September, 1973, Riley Stoker Corporation disposed of its facilities at Cornwells Heights, Pennsylvania, at a capital gain, net of commissions of $1,101,934. The related effect of a capital gains tax of $330,580, after utilizing a capital loss carryforward, has been credited to the costs in excess of net assets of acquired companies.

In addition, a $75,815 extraordinary tax credit was realized from the utilization of a loss carryforward of Environeering, Inc.

Note (3) Primary earnings per share have been determined on the basis of shares outstanding during the periods and common stock equivalents assuming the exercise of stock options under the treasury stock method (based on average market prices) where and to the extent such exercise would be dilutive.

Fully diluted earnings per share have been calculated on the assumption that the 6% subordinated notes were converted and all of the stock options exercised under the treasury stock method.

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