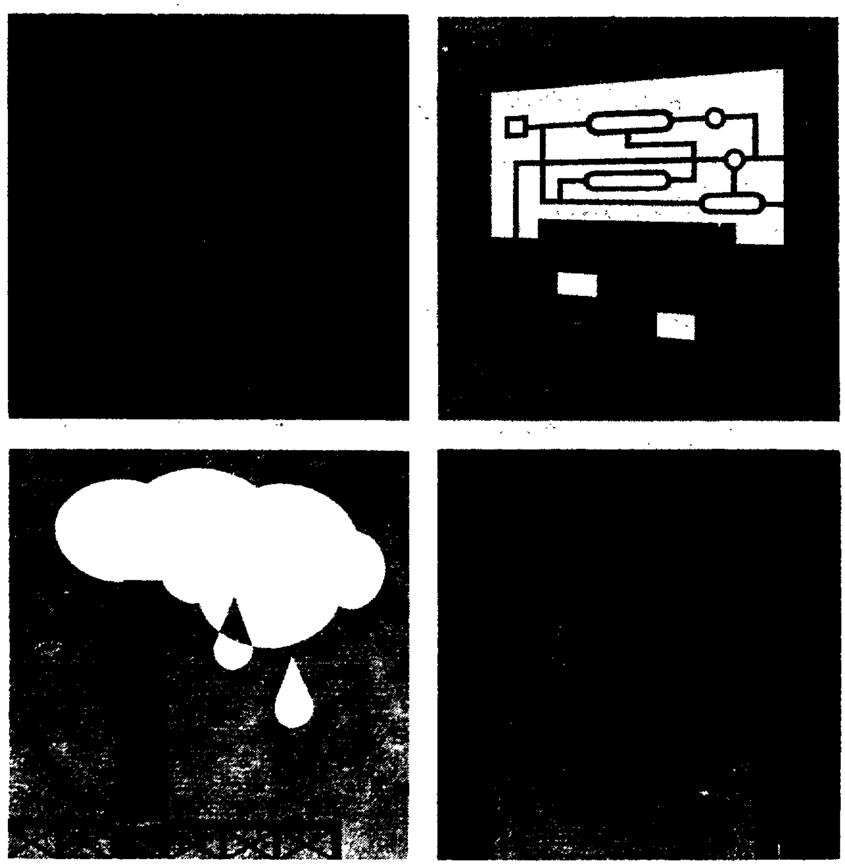
THE RILEY COMPANY

ANNUAL REPORT FOR THE YEAR ENDED JUNE 30, 1972



RILEY THE RILEY COMPANY

...A New Name Combining Old Strengths

The Riley Company is the new name, adopted November 1, 1971, combining the former Riley Stoker Corporation, the SCAM Instrument Corporation, and the SCAM subsidiaries including Medelco, Inc.

Riley Stoker, now a wholly-owned subsidiary, is one of the four leading manufacturers of steam generators and accessory equipment for the electric power and other industries. The SCAM Instrument Division manufactures automatic annunciator systems and components which perform alarm work for the process industries. Medelco, Inc., is the developer and marketer of a system of data accumulation and retrieval for hospitals. (Cover design depicts Riley's role in steam generators, pollution control, instrumentation, and hospital information.)

Financial Highlights

Financial Highlights	1972	1971*
Sales and contract revenues	$ 86,186,887	$ 91,103,117
Income before income taxes and extraordinary items	$ 2,304,060	$ 5,277,842
Income before extraordinary items	$ 1,345,973	$ 2,382,567
Extraordinary items, net of tax	(1,290,000)	(241,000)
Net income for the year	$ 55,973	$ 2,141,567
Income (loss) per share:		
Income before extraordinary item	$ .91	$ 1.69
Extraordinary items	(.87)	(.17)
Net income	$ .04	$ 1.52
Average shares outstanding	1,485,106	1,416,050
Stockholders' investment	$ 17,548,320	$ 15,759,822
Stockholders' investment per share outstanding at end of year	$ 11.81	$ 11.15
Working capital	$ 12,883,286	$ 13,598,535
Current ratio	1.5	1.5
Shares outstanding at June 30	1,485,357	1,412,916

**Restated to include results of Environeering, Inc., acquired in February, 1972 in a pooling of interests.*

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To Our Stockholders:

This is our first report to you under our new corporate name, The Riley Company.

This is a report covering a most significant year in our history, in which the culmination of a three-year relationship resulted in the merger of Riley Stoker Corporation and The SCAM Instrument Corporation. Through that merger, The Riley Company was born on November 1, 1971.

SCAM had first invested in Riley Stoker in April, 1969, acquiring 51 per cent of its common stock. It acquired another 42 per cent in October, 1970, and the final 7 per cent as of November 1, 1971. The decision to adopt the name, The Riley Company, reflects the fact that the Riley Stoker business represents 80 per cent of the sales of the combined company. Additionally, Riley had been building a following since 1913 as a supplier of steam generators to the electric utility and other industries.

During the year we also acquired Environeering, Inc., of Skokie, Illinois, for 80,960 shares of Riley common stock, in order to add equipment and system capability in the air pollution control field for industrial and utility applications. We also closed the unprofitable Detroit foundry.

In July, 1972, we purchased the privately-owned Abbott Heat Exchanger Corporation, headquartered at Supulpa, Oklahoma, a suburb of Tulsa. It is now a subsidiary of Riley Stoker Corporation, and is renamed "Riley Southwest Corporation". The company designs and manufacturers steam generator components for electric utilities and other industries. Riley Southwest plans an immediate 50% expansion of its manufacturing facilities which will provide Riley Stoker additional modern production capabilities required to handle its increasing backlog.

Earnings Results

The full benefits of these changes are not reflected in the results for our fiscal year ended June 30, 1972.

Net sales and contract revenues totaled $86,186,887 in fiscal 1972, compared with $91,103,117 a year ago.

Income before extraordinary items amounted to $1,345,973 in the year ended June 30, 1972, compared with $2,382,567 in the preceding year. After an extraordinary charge of $2,480,000, before taxes, to cover estimated costs and expenses due to the permanent closing of the Cornwells Heights, Pa., plant, net income in fiscal 1972 was $55,973. In fiscal 1971, after a charge of $241,000, net of taxes, in connection with the closing of the Detroit foundry, total net income was $2,141,567.

On a per share basis, income before extraordinary item was .91 cents in fiscal 1972 compared with $1.69 a year earlier. After extraordinary items, net income in the latest year was 4 cents per share against $1.52 in fiscal 1971. All 1971 figures have been restated to include results of Environeering, Inc., acquired on a pooling of interests basis in February, 1972.

HOWARD C. WARR[illegible]

Our order backlog at the end of the fiscal year climbed to $180 million, compared with $148 million at the end of fiscal 1971.

Principal factor in the lower results is the strike which began March 17, 1972, at our Cornwells Heights, Pa., plant, a large Riley facility for the manufacture of steam generating boilers for the electric power companies.

After extensive but unsuccessful attempts to achieve a settlement with the union, on August 4, 1972, we announced the permanent closing of the plant. Despite concerted efforts to operate this plant profitably, it had become economically impractical. About 800 employees were affected, and termination settlements have been made with the unions as to severance pay, relocations, and related matters.

The immediate effect of the strike was the delay of production of generator components in process when the strike began, and attendant unabsorbed plant overhead expense. As the strike continued, orders were placed with qualified subcontractors to duplicate some materials in the struck plant and reduce, as much as possible, delays to customer schedules.

Components for projects starting in the manufacturing phase after the strike began have been assigned to the company's plant at Erie, Pa., and to those of subcontractors. Concurrently, the company has undertaken a modification and expansion of the Erie facility which has doubled its output of waterwall panels since the strike began and it is planned to double such production again by December of this year. This modification will also increase its capacity for production of economizer, superheater and reheater element sections for utility generators.

The reported operating results for fiscal 1972, reflect the losses due to the strike, including unabsorbed manufacturing overhead expense during the period, increased construction costs to be experienced, material duplication, higher fabrication cost, some inventory obsolescence and the costs associated with carrying and handling inventories excessive to current requirements.

The extraordinary charge in the amount of $2,480,000 before taxes is a non-recurring provision for costs incident to the permanent closing of the Cornwells Heights plant.

There has been caution on the part of electric utilities, our principal customer industry, in contracting for new facilities. This stems from concern about the ecology, as a result of strong statements from consumers and from government agencies. Also delaying construction has been a need for rate increases for the electric utility industry. Because electric power is such a vital industry, these problems have never been allowed to remain for any extended period of time, and we expect that they will be solved in this instance.

Petroleum companies, which are important customers for our annunciator systems, have been reluctant to construct new plants in the face of the controversy over high-lead or low-lead fuels, and new fuels that might be required for the proposed

Wankel engine. But Texaco recently announced it was going ahead with five new refineries in various parts of the country, and we expect this to signal renewal of construction by the oil companies. SCAM was awarded the annunciator contract on the first of the plants to be started. Throughout this period of lower construction, our SCAM operation continued to maintain high sales and profit levels and continued its full research and development program during the year, and brought out several significant new products.

Hospitals, traditionally troubled with financial problems, are the market for Medelco. This subsidiary has the lead in data accumulation and retrieval systems for the hospital industry. Despite hospitals' current problems, Medelco has climbed from a total of 22 hospitals under contract a year ago to 28 today, leading us to believe that the system is no longer to be regarded as merely a concept, but as an accomplished producer of savings in hospital operations.

Current Outlook

Your management believes that the profits generated by our original process instrumentation business should continue, and we anticipate a more normal year for Riley Stoker. The Medelco subsidiary continues to be a problem but we believe that the coming year will reduce the losses Medelco experienced previously.

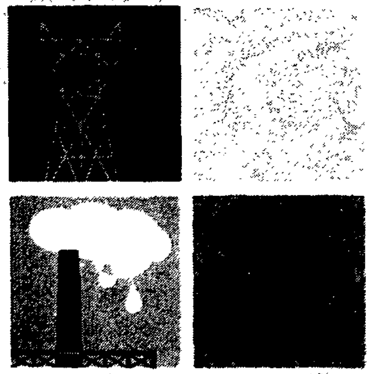
Some signs of upturn are visible in utility construction, in capital spending for industry, and in the outlook for the hospital industry.

As we start our first full year as The Riley Company, we pledge to you a renewed aggressiveness in pursuing profitable programs for the company. We have combined many strengths in the new organization, and we hope that our efforts to take maximum advantage of these strengths will win your continued approval.

Sincerely,

HOWARD C. WARREN
Chairman

Chicago, Illinois
September 26, 1972



Riley Stoker Corporation Adds Pollution Control Capability Through Environeering

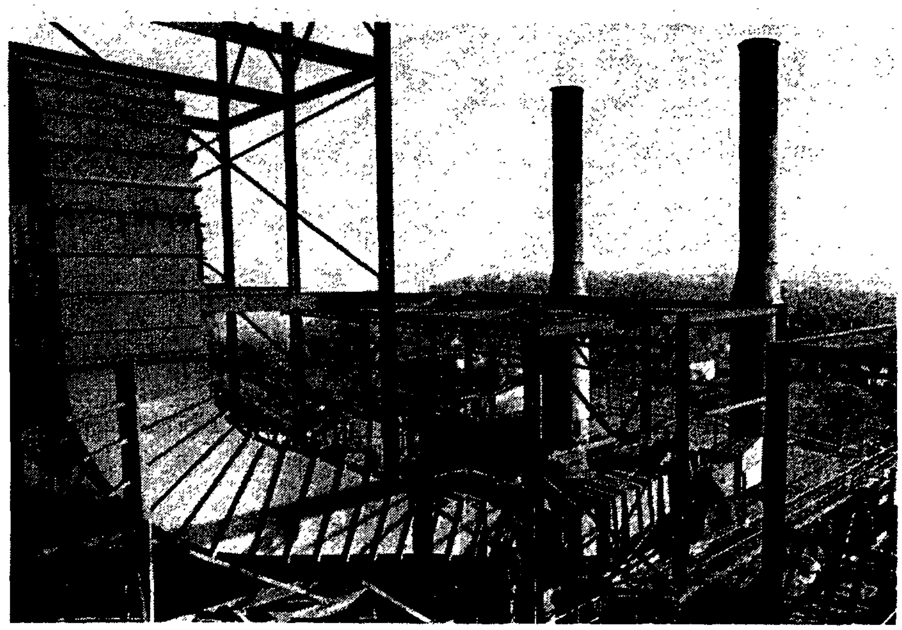
The Riley Stoker Corporation, operating as a subsidiary of The Riley Company, continued its improvement for the first 8 months of the fiscal year, prior to a strike at one of its manufacturing facilities which halted shipments from that plant. It also added fundamental new strength for supplying today's utility market with the acquisition of Environeering, Inc.

Through the first 8 months, Riley Stoker operations were profitable at approximately the levels projected for the period and a highly liquid financial condition has been maintained right up to the present time.

During this year, Riley Stoker Corporation had announced important new orders for large steam generators from Central Illinois Light Company, Consumers Power Company and Western Farmers Electric Cooperative which, together with other orders, brought its backlog to a record level just over $180 million from $148 million at the year end a year earlier.

New generators had been completed and were in routine start-up phase for a number of customers, including Public Service Electric and Gas Company, South Carolina Electric and Gas, Jacksonville Public Service Authority, Arkansas Electric Cooperative, Louisiana Electric Cooperative, and Brazos Electric Cooperative.

Initial planning was completed to establish a Gas Systems Division, to design and market complete particulate and sulphur oxide removal systems for utility and industrial customers, adapting the wet scrubber component technology developed by Environeering.



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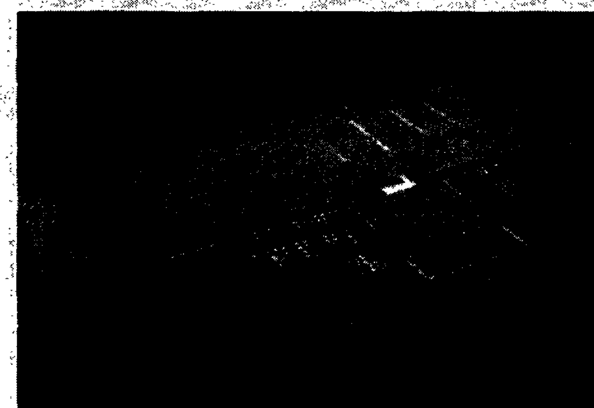
A joint agreement recently concluded with Central Illinois Light Company will provide a prototype sulphur dioxide and fly ash removal system. The system will be designed around the Ventri-Rod® scrubber developed by Environeering, Inc., for removal of sulphur dioxide and fly ash from the flue gas.



Recently acquired Abbott Heat Exchanger Corporation, now renamed Riley Southwest Corporation, near Tulsa, Oklahoma. Huge metal forming machinery is for manufacture of boiler components. The plant is already undergoing 50 per cent expansion.

New Strengths in Evidence

In short, the new strengths built into Riley Stoker Corporation in recent years since it began a turnaround toward profitability, were again in evidence. Riley Stoker, which earned $75,000 in its year ended December 31, 1967, lost $1.1 million from operations the following year, and lost $3 million from operations in the first half of 1969. Present management made its first investment in Riley Stoker in April, 1969, acquiring 51 per cent of the stock, and a turnaround was started. For the year ended June 30, 1971, the revitalization efforts had produced a profit from operations of $1,750,000 on record sales of $71,319,000.

Principal factors in the rebuilding have been a project oriented management structure, a results conscious product improvement program, stronger maintenance and service program, adherence to contract schedules, more aggressive marketing, and a resultant favorable evaluation of Riley Stoker as a future supplier of large generators by utilities which it has not served in recent years.

In the period immediately ahead, the subsidiary expects to meet schedule commitments with the improved Erie, Pa., facility and the expanded facility of the acquired Abbott Heat Exchanger Corp. which has been renamed Riley Southwest Corporation, and the available capacity of proven, qualified subcontractors. The acquisition of additional manufacturing facilities will be made as required for our growing backlog. Dependence on subcontractors will become nominal in the second half of fiscal 1973 and at its end, the subsidiary expects to be able to manufacture its requirements of steam generator components in its own facilities.

While these actions do imply a challenge for management in the near term, their long-range effects can only be viewed as positive. Current planning of its

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customers appears to favor fossil fired steam generators, due to delay and escalation in costs associated with nuclear programs.

All authoritative sources look to long-term unbroken growth for the electric power industry. The Department of Commerce reports that public utilities were the strongest category in private construction (aside from residential) in 1971 and are continuing strong in 1972.

Electric power shortages in many local areas, together with warnings of "brownouts" by utility executives and other competent observers, are spurring the construction of new power generating facilities. The 1970 National Power Survey recently released by the Federal Power Commission backs up general estimates of a 7.2% average annual growth in the 1970's. For the 1980's the Report estimates growth at 6.6%, and says other staff studies put the growth in the 6 to 8% annual range.

Environeering Systems Under Study

Proposals to provide air pollution control systems for generators of Riley Stoker design are under active consideration by a number of utility and industrial customers.

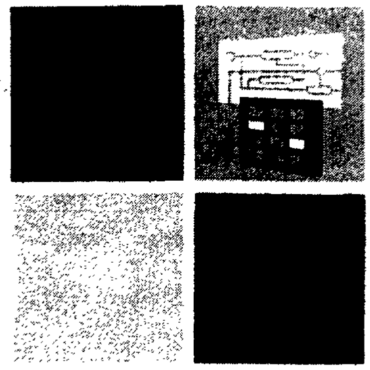
Electric utilities are feeling increased government and public pressure for installation of such systems and Riley Stoker, with the acquisition of Environeering in February, 1972, now has the capability of supplying them as part of a total package.

Environeering—formerly the National Dust Collector Corporation—has more than 20 years experience in research and engineering, and has designed more than 1,000 pollution control systems. It is a pioneer in sulfur dioxide and particulate removal, and its scrubbers have been used commercially for this purpose since 1968. Over 500 emission control systems have been supplied to foundries, and its systems have been used on municipal incinerators, fertilizer plants, other chemical plants, and also in the mining industry. It also sponsors schools and seminars on pollution control.

Proprietary products include absorbers, scrubbers, water pollution control equipment, odor and noise control equipment and stack sampling equipment. Environeering designs and engineers its products and systems, and subcontracts the manufacturing to various fabricators.

While Environeering's early work was based on a marble-bed scrubber, its new generation is based on the Ventri-Rod® hydro-filter. The Ventri-Rod® scrubber uses a series of cylindrical rods combined with water injection to remove sulfur dioxide and dust. Tests have shown that it has substantial maintenance and performance advantages over the former method of removal. These advantages are believed to be in part responsible for the ordering of this scrubber by the Philadelphia Electric Company for a major installation.

Fundamental breakthroughs offering much potential have been achieved in the research program, which represents an investment of millions of dollars over the last 12 years. Basic and applied research to further develop pollution control systems continues.



SCAM Division Continues Profitable Performance... New Compact Alarm Products Introduced

The process instrumentation business of The Riley Company, now operated as a division, continued its series of profitable performances in fiscal 1972, and developed several new products that continue its leadership as the innovator in the industry.

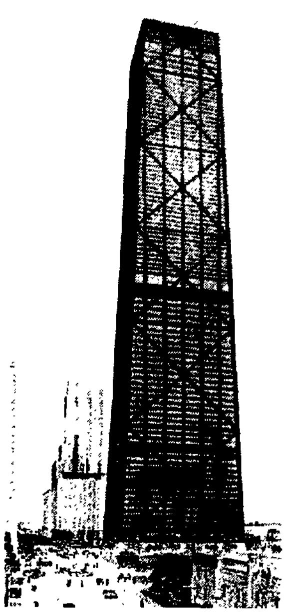
Operating the first four months of the fiscal year as the original SCAM Instrument Corporation, and the final eight months under the new corporate organization, the SCAM Instrument Division business turned in a gratifying performance in the face of severe competition and a softness in volume of new business.

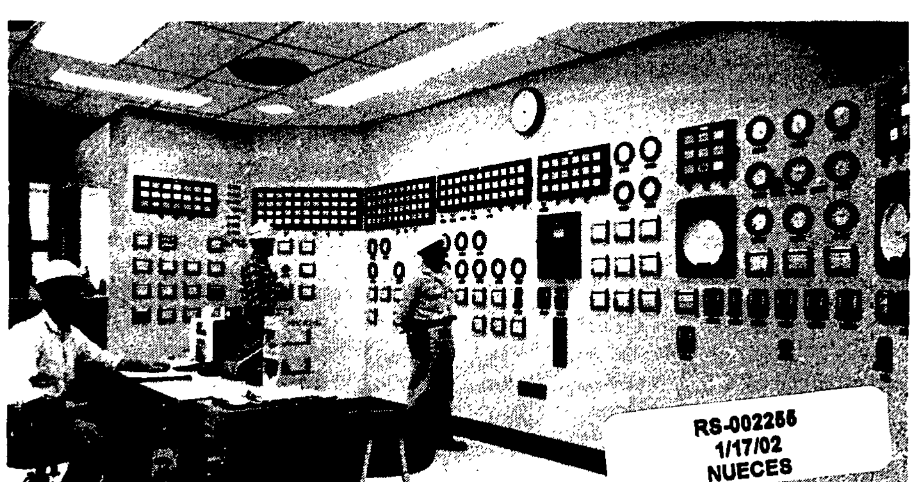
SCAM'S principal products are instant alarming systems for industry. These products—called annunciators—perform sentry work in plants by detecting "off-normal" occurrences on an assembly line, or in process machinery, or in other areas of a plant's operation. For example, in monitoring the flow of material through a pump, the sensor may record an abnormally high rate of flow, or a pressure reading which is below normal level. It sends a message automatically to the annunciator, which alerts the human operator visually through a light alarm and audibly through a horn or bell.

The operator silences the sound, while the light continues signalling until it is acknowledged and a correction made. SCAM's annunciator components and systems detect variations in remote areas of a plant and enclosed sections of conveyors and other mechanical operations that would be awkward or impossible for a human being to monitor. It can also automatically shut down related equipment.

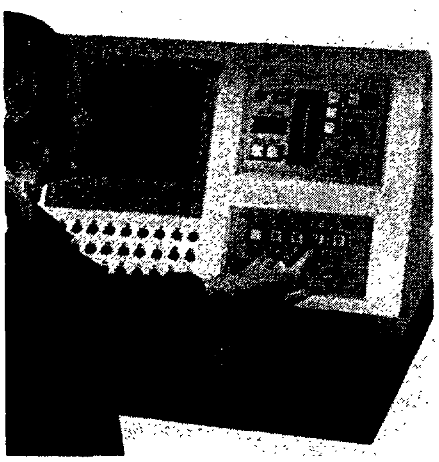
SCAM has one of the most varied product lines in the industry. Variety of annunciators is required in such factors as window size; in the method of operation—either through electro-mechanical relays or through solid state circuitry; in the degree of safety required in an operation; and in the manner and sequence in which the various visual and audible signals are to be activated.

Illustrative of a commercial building installation is the John Hancock Center in Chicago, which is using annunciator panels in three separate locations to monitor such things as heating, air conditioning, water pressure, elevator controls, and some items related to security.





SCAM, with important markets in petroleum, chemical, public utility, food and paper industries, also makes temperature monitors activated by primary sensing devices—thermocouples and resistance-temperature-detectors (RTD's). While the RTD temperature monitor has been manufactured for quite some time, it is now being repackaged as part of a new (Series 80) line and will be compatible in appearance and monitoring with thermocouple and voltage monitors as well as new annunciator products—rounding out a recognizable "family" of products.



Annunciator console for the Panaplex 120 [illegible] display space [illegible] of messages are [illegible] memory buffer

In addition to the Panalarm annunciators, the SCAM operation consists of four subsidiaries—SIOC, Limited, of Toronto, Ontario; Scama, Ltd., of England, Panellit Service Corporation of Skokie, Illinois, and Cashco, Inc. of Decatur, Illinois.

Cashco manufactures control valves, regulators and related products. Their reputation for quality and reliability in this field is widespread. Recent developments include the expansion of the valve line into larger sizes so as to enlarge the market they can serve.

Panellit Service Corporation performs construction, installation, and maintenance service on all types of instrumentation. For example, Panellit may install piping and wiring between the sensing and control devices, check out the final installation, and then perform contract maintenance and in-hourse repair. It operates from regional headquarters in Los Angeles, Houston, Atlanta, and Wilmington.

The service subsidiary's success is directly correlated to the pace of heavy construction in the petroleum and chemical industries. Neither has been moving at a strong rate in recent months, and with this pace slowed, some growth of self-service has been noted in these industries.

Canadian Subsidiary Assists in Developing Major Product

The Canadian subsidiary (SIOC, Ltd.) participated in the development of the principal new product offered this past year by SCAM. The product is a new annunciator—the Panaplex 120—which permits the display of alarm messages in an extremely compact area.

Former practice required a separate display window for each new event to be displayed. In 1964 SCAM began to theorize that through use of a cathode ray tube of the type used in television, display space could be re-used. The project was assigned to the SIOC subsidiary in Toronto, and in 1972, the Panaplex was introduced to the market.

With the Panaplex, space for display of no more than 12 alarm messages is required. A buffer memory stores up to 796 alarm events, each of which automatically is called into view when a variation from normal occurs in the function it monitors. The sequence of events is also monitored and reported.

In monitoring a bearing, for example, the rate of oil flow, the temperature of the oil, the temperature of the bearing, and the motor pumping the oil are monitored. Failure in one could cause failure in the four, as well as subsequent failures at related points through the plant. The Panaplex 120 prints out the sequence in which the failures occurred, an important contribution in helping the operator to identify the cause of the initial failure and then to make a prompt correction.

Another new product introduced late in the fiscal year was a new Model 88 solid state Milli-Trip monitor, which features compact packaging in continuous monitoring of millivolt inputs.

A new time delay signal input was introduced during the second quarter of the year. Built for solid state annunciator systems, the plug-in module provides an adjustable time delay for either normally open or normally closed contacts.

New products were brought into the SCAM line through the integration into SCAM of Cashco, Inc., of Decatur, Illinois, which came into the corporation as a subsidiary of Riley Stoker on November 1, 1971. Cashco designs and manufactures at its plant in Decatur a line of pressure regulating and fluid control valves, sold under the trade name "Cashco." They are used principally in air, water and steam lines with application in steam generating and distribution, chemical process, water treatment, sewerage disposal and related industries.

Markets

Petroleum industry construction has been at a lower rate in the past year or more, due to industry caution over whether to build for low-lead or high-lead gasoline, and what major investments need be made to respond to changed fuel needs in the event of a breakthrough by the Wankel engine now being discussed.

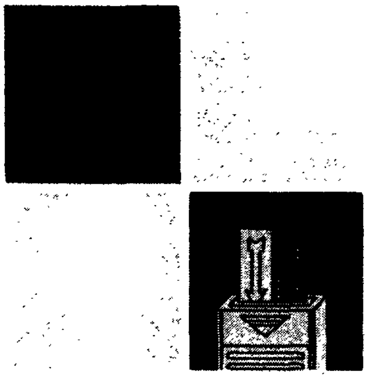
An encouraging sign in this regard was the announcement by Texaco that it plans to go ahead with construction of five major refinery projects in various parts of the country. SCAM was awarded the annunciation on the first of the five to be started.

For the utility market, SCAM in the past year completed compilation and publication of a detailed bulletin listing all the various optional annunciation inputs, with a summary of those most used and those least used. SCAM is hopeful this will lead to a greater degree of standardization among utility customers, with a resultant saving to the utilities and greater production efficiencies for SCAM.

Improvement in the chemical market is tied to the national economy, and currently no major stimulants or depressants are apparent. This market is advancing at a nominal pace, in step with the need for new chemical products.

It has also been found that SCAM instrumentation is used to an additional degree—rather than to a smaller degree—with installation of computers. While computers can perform alarming functions, most operators feel that the computer should not be checking itself, while doing its direct digital control job. An additional independent annunciator alarm is preferred.

New in the current year at SCAM is a unified reporting system among the Canada, England, and United States operations in the area of quality control, covering rejects before shipment and why the failures occurred. Competition among the three groups has resulted in significant improvement in quality control.



From its start at St. John's Hospital in Joplin, Missouri, in 1967 to the most recent installation underway at Parkview Episcopal Hospital in Pueblo, Colorado, this year, the Medelco subsidiary has been breaking new ground in hospital information systems.

The contract with the Pueblo hospital is the 28th for Medelco's unique hospital data accumulation and retrieval system. Through good years and bad for the hospital business, all 28 have remained in the system. This indication of proven performance is encouraging as Medelco enters what it regards as a new phase of its program.

Beginning in the current fiscal year, the information system will be marketed and promoted not as a new untried concept, but as an on-going, proven method of reducing hospital costs and the length of hospital stays.

Supporting the contention that hospital data accumulation and retrieval is now an established business, is the recent or emerging entry into the field of increased competition. Medelco previously had the only proven system of its kind in operation. The newer entries will have a mixed effect on Medelco, with an over-all net benefit foreseen. While increased competition normally is undesirable, in this case it may be the key to new orders. Medelco has been the trailblazer, building to its total of 28 hospitals since its inception. Yet one of the principal retardants to sales has been the lack of other sources against which to compare costs and effectiveness, and the lack of alternate sources should the hospital be dissatisfied with its supplier. Thus Medelco has been selling against skepticism of the concept, working almost alone in proving its value. While 28 hospitals is a gratifying number, it has not even dented the market. Medelco estimates that at least 3,000 hospitals in the United States, having 300 beds or more, would be logical users of the system. The potential market is about $1.5 billion.

Each Medelco system costs between $350,000 and $800,000. This is a major expenditure for any hospital, and the hospital industry has been slow to make major commitments in recent years. This has been due to a cash flow problem, caused by slowed-up payments under many government and other programs, increased labor costs, and also, as some evidence suggests, that in a period of a slower national economy, people simply postpone attending to their health needs.

Hospital occupancy rates for 1970 and 1971 were lower than those of 1969, partly reflecting the above factors and also partly as a result of overbuilding in some areas. The U.S. Department of Commerce, which forecasts an 11 per cent increase in spending for medical and health services in 1972, also notes a "mounting concern among professional medical groups, consumers, legislators, and the business community about the need for improved management and cost control in the medical services industry, and the desirability of making available better medical care to more people."

Both of these goals should be helpful to Medelco, which has invested heavily in its development program over the last five years. While it has not operated profitably in any of those years, interest in the system is continuing to increase, and the record of proven performance is expected to aid Medelco as information systems become more common.

A TREND? RATES GO DOWN

With hospital costs having risen astronomically in recent years, from an average of $44 a day in 1965 to $81 a day in 1971, it may be a hopeful sign that one Medelco user, Fort Sanders Presbyterian Hospital in Knoxville, Tenn., reduced its daily charge by *$1.00* a day, and attributes the reduction to saving from installation of the Medelco system.

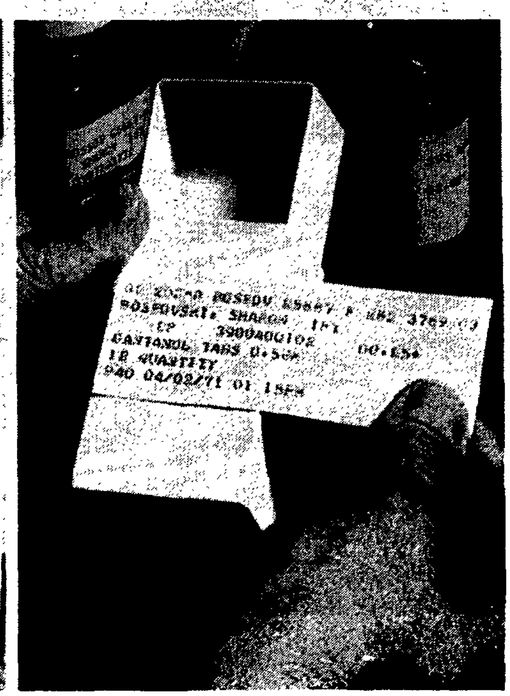
Another Medelco user has returned $70,000 into its building fund. Over-all, Medelco studies show that its system can reduce the length of hospital stays from one-half day to one full day.

T.H.I.S. Eliminates Clerical Routine

The Medelco hospital information handling system is called T.H.I.S. (Total Hospital Information System). T.H.I.S. basically consists of a central processing unit and a Medelco terminal at each nursing station and at ancillary departments. (The terminal consists of a file of re-usable punched cards, an optical card reader, and a teleprinter.)

To order a product or a service for a patient, a nurse selects a "patient" card from the file at her desk and an "action" card for the service required, and drops the cards through the card reader. The message is instantly transmitted to all stations in the hospital that need the information. For example, if the order is for a radiology procedure that requires medication, the message will be printed in both Radiology and Pharmacy. It is also printed at the originating station as an accuracy check and as an entry for the patient's chart. By cutting down on the amount of professional staff time otherwise taken in routine clerical chores, T.H.I.S. increases hospital revenues, eliminates deciphering of hand-written and hand-delivered messages, updates inventory records, updates patient charges, prevents delays, and makes beds available earlier than otherwise. It also affords administrators an additional measure of control in running the hospital.

Among the managing personnel of the 28 hospitals using the system are represented both the president and immediate past president of the American Hospital Association, indicating the appeal which the Medelco system has to the trend-setters within the industry.



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The Riley Company and Subsidiaries

Consolidated Balance Sheets — June 30, 1971 and 1972	**1971**	**1972**
Assets	(As Restated Note 3)	
CURRENT ASSETS:		
Cash	$ 4,658,517	$ 2,714,870
Marketable securities, at cost (which approximates market price) (Note 12)	9,794,895	11,268,295
Receivables, less reserves of $68,137 in 1971 and $81,871 in 1972 (Note 12)	15,622,098	12,924,742
Current portion of lease contracts receivable	375,628	316,583
Unbilled contract work (Note 1)	2,632,097	3,924,891
Inventories, at lower of cost (first-in, first-out basis) or market (Note 1)—		
Work in process and finished products	1,221,943	2,550,991
Raw materials and purchased parts	6,003,214	3,658,263
Prepaid Federal income taxes	——	1,328,356
Prepaid expenses	644,798	529,157
Total current assets	$ 40,953,190	$ 39,216,148
LEASE CONTRACTS RECEIVABLE, less current portion included above (Note 1)	$ 1,187,083	$ 653,465
RESIDUAL VALUE OF LEASED EQUIPMENT (Note 1)	$ 90,000	$ 69,000
INVESTMENTS, at estimated realizable value (Note 12)	$ 259,935	$ 259,935
PROPERTY HELD FOR SALE, net of accumulated depreciation (Note 4)	$ ——	$ 1,216,849
PLANT AND EQUIPMENT, at cost (Notes 1 and 12):		
Land	$ 535,933	$ 322,084
Buildings and improvements	7,827,973	4,079,534
Machinery and equipment	11,219,636	12,073,793
	$ 19,583,542	$ 16,475,411
Less—Accumulated depreciation	(12,457,552)	(9,586,246)
Total plant and equipment, net	$ 7,125,990	$ 6,889,165
OTHER ASSETS:		
Costs in excess of net assets of acquired companies (Notes 2 and 5)	$ 2,222,645	$ 2,779,737
Other	486,359	715,259
Total other assets	$ 2,709,004	$ 3,494,996
	$ 52,325,202	$ 51,799,558

The accompanying notes are an integral part of these balance sheets.

RILEY

Liabilities	1971 (As Restated Note 3)	1972
CURRENT LIABILITIES:		
Notes payable to bank	$ 1,262,822	$ —
Current portion of long-term debt	160,531	171,756
Accounts payable	5,462,472	3,776,287
Advances and deferred contract revenue (Note 1)	15,619,080	16,175,044
Reserve for costs and expenses of plant shutdown (Note 4)	—	2,206,061
Accrued expenses	4,546,241	4,003,714
Income taxes (Note 5)	303,509	—
Total current liabilities	$ 27,354,655	$ 26,332,862
LONG-TERM DEBT, less current portion included above:		
Note payable, 8% (Note 2)	$ 4,814,143	$ 4,695,782
First mortgage, 6½%, payable in monthly installments to 1984	467,335	440,473
Second mortgage, 2%, payable in monthly installments to 1984	353,450	326,917
Convertible subordinated notes, 6%, due in 1979 (Note 9)	2,000,000	2,000,000
Other notes payable, including deferred interest	165,364	173,204
Total long-term debt	$ 7,800,292	$ 7,636,376
DEFERRED FEDERAL INCOME TAXES (Note 1)	$ 416,000	$ 282,000
MINORITY INTEREST IN RILEY STOKER CORPORATION (Note 2):		
Minority interest in common stock and capital surplus	$ 200,121	$ —
Minority interest in retained earnings	794,312	—
	$ 994,433	$ —
STOCKHOLDERS' INVESTMENT:		
Preferred stock, no par value; 100,000 shares authorized; no shares issued	$ —	$ —
Common stock, $1 par value; 1,900,000 shares authorized; 1,460,402 shares issued in 1971 and 1,485,357 in 1972 (Notes 7 and 10)	1,800,263	1,485,357
Capital surplus	5,624,873	7,529,846
Retained earnings	8,477,144	8,533,117
	$ 15,902,280	$ 17,548,320
Deduct—Treasury common stock, at cost (47,486 shares in 1971 and none in 1972) (Note 2)	(142,458)	—
Total stockholders' investment	$ 15,759,822	$ 17,548,320
	$ 52,325,202	$ 51,799,558

The accompanying notes are an integral part of these balance sheets.

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Consolidated Statements of Income For the Five Years Ended June 30, 1972

	Year Ended June 30				
	As Restated for Pooling (Note 3)				
	1968	1969	1970	1971	1972
Net sales and contract revenues (Note 2)	$ 12,326,487	$ 15,133,270	$ 69,019,441	$ 91,103,117	**$ 86,186,887**
Cost of sales and work performed	7,475,258	9,133,388	58,857,541	76,653,443	**73,291,941**
Gross profit	$ 4,851,229	$ 5,999,882	$ 10,161,900	$ 14,449,674	**$ 12,894,946**
Selling, general and administrative expenses	3,188,084	3,839,435	9,296,834	9,732,142	**11,277,868**
Income from operations	$ 1,663,145	$ 2,160,447	$ 865,066	$ 4,717,532	**$ 1,617,078**
Other income or (expense)—					
Royalty, interest and leasing income, etc.	$ 36,330	$ 227,646	$ 875,838	$ 1,103,190	**$ 1,344,340**
Interest expense	(27,281)	(28,212)	(876,946)	(542,880)	**(657,358)**
Total other income (expense), net	$ 9,049	$ 199,434	$ (1,108)	$ 560,310	**$ 686,982**
Income before income taxes and extraordinary items	$ 1,672,194	$ 2,359,881	$ 863,958	$ 5,277,842	**$ 2,304,060**
Provision for income taxes—					
Federal (Notes 1 and 5)—					
Current provision	$ 716,000	$ 1,104,000	$ 520,495	$ 2,082,013	**$ 732,833**
Deferred	—	—	88,300	327,700	**(134,000)**
State	—	—	112,218	106,810	**100,672**
Foreign	134,000	156,796	151,487	134,866	**219,050**
Total provision for income taxes	$ 850,000	$ 1,260,796	$ 872,500	$ 2,651,389	**$ 918,555**
Income before minority interest and extraordinary items	$ 822,194	$ 1,099,085	$ (8,542)	$ 2,626,453	**$ 1,385,505**
Minority interest before extraordinary items (Note 2)	—	—	235,443	(243,886)	**(39,532)**
Income before extraordinary items	$ 822,194	$ 1,099,085	$ 226,901	$ 2,382,567	**$ 1,345,973**
Extraordinary items—					
Patent settlement proceeds, net of income taxes of $152,500	152,500	—	—	—	—
Estimated costs and expenses for plant shutdowns, net of related income tax benefits and minority interest (Note 4)	—	—	—	(241,000)	**(1,290,000)**
Net income for the year	$ 974,694	$ 1,099,085	$ 226,901	$ 2,141,567	**$ 55,973**
Income (loss) per share (Note 6)—					
Primary—					
Income before extraordinary items	$ .68	$ .84	$ .16	$ 1.69	**$ .91**
Extraordinary items	.12	—	—	(.17)	**(.87)**
Net income	$ .80	$ .84	$ .16	$ 1.52	**$ .04**
Fully diluted—					
Income before extraordinary items				$ 1.52	**$ .82**
Extraordinary items				(.14)	**(.79)**
Net income				$ 1.38	**$ .03**

The accompanying notes are an integral part of these statements.

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Consolidated Statements of Common Stock, Capital Surplus and Retained Earnings
For the Five Years Ended June 30, 1972

	Common Stock	Capital Surplus	Retained Earnings
Balance, July 1, 1967, as previously reported	$ 1,719,303	$ 242,267	$3,907,620
Amounts applicable to pooling of Environeering, Inc. (Note 3)	80,960	288,118	127,277
Balance, July 1, 1967, as restated	$ 1,800,263	$ 530,385	$4,034,897
Net income for the year	—	—	974,694
Balance, June 30, 1968	$ 1,800,263	$ 530,385	$5,009,591
Net income for the year	—	—	1,099,085
Excess of market price over cost of treasury stock issued (principally in connection with public offering)	—	5,094,488	—
Balance, June 30, 1969	$ 1,800,263	$5,624,873	$6,108,676
Net income for the year	—	—	226,901
Balance, June 30, 1970	$ 1,800,263	$5,624,873	$6,335,577
Net income for the year	—	—	2,141,567
Balance, June 30, 1971	$1,800,263	$5,624,873	$8,477,144
Net income for the year	—	—	55,973
Excess of market price over cost of treasury shares issued and par value of original shares issued in purchase of 7.4% of Riley Stoker (Note 2)	24,955	1,565,112	—
Transfer in connection with change from no par value to $1 par value (Note 10)	(339,861)	339,861	—
Balance, June 30, 1972	$ 1,485,357	$7,529,846	$8,533,117

The accompanying notes are an integral part of these statements.

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Consolidated Statements of Changes in Financial Position

For the Two Years Ended June 30, 1972

	1971 (As Restated Note 3)	1972
WORKING CAPITAL WAS OBTAINED FROM:		
Operations—		
Net income before extraordinary items	$ 2,382,567	$ 1,345,973
Add (deduct)—		
Provisions for depreciation and amortization (straight-line method)	846,983	964,153
Deferred Federal income taxes	327,700	(134,000)
Minority interest in net income of Riley Stoker, including $154,819 of tax benefits relating to loss carry-forwards used in 1971	378,705	39,532
Total from operations	$ 3,935,955	$ 2,215,658
Decrease in cost of Riley Stoker resulting from tax benefits of preacquisition loss carry-forwards	1,227,385	128,685
Sale of investments	2,768,825	—
Additional long-term debt	4,814,143	—
Retirements of plant and equipment	117,795	480,141
Other, net	50,125	—
Total funds obtained	$ 12,914,228	$ 2,824,484
WORKING CAPITAL WAS USED FOR:		
Costs and expenses relating to plant shutdowns, net of income tax benefit and minority interest	$ 241,000	$ 1,290,000
Additions to plant and equipment	1,106,520	2,375,000
Purchase of Riley Stoker Corporation	6,000,000	—
Increase (decrease) in—		
Residual value of leased equipment	61,000	(21,000)
Noncurrent portion of lease contracts receivable	720,929	(533,618)
Reduction in notes payable	68,810	163,916
Other, net	—	265,435
Total funds used	$ 8,198,259	$ 3,539,733
INCREASE (DECREASE) IN WORKING CAPITAL	$ 4,715,969	$ (715,249)
CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets—		
Cash	$ 1,294,808	$(1,943,647)
Marketable securities	9,765,225	1,473,400
Receivables	795,636	(2,756,401)
Inventories and unbilled contract work	(2,277,693)	276,891
Prepaid Federal income taxes and expenses	330,890	1,212,715
	$ 9,908,866	$(1,737,042)
(Increase) decrease in current liabilities—		
Notes payable to bank	$ (137,623)	$ 1,262,822
Accounts payable	(1,241,065)	1,686,185
Advances and deferred contract revenues	(2,425,317)	(555,964)
Current portion of long-term debt	(111,442)	(11,225)
Income taxes	(93,385)	303,509
Accrued expenses and reserves for plant shutdowns	(1,184,065)	(1,663,534)
	$ (5,192,897)	$ 1,021,793
INCREASE (DECREASE) IN WORKING CAPITAL	$ 4,715,969	$ (715,249)

The accompanying notes are an integral part of these statements.

(1) Summary of Accounting Policies:

Consolidation—

The consolidated financial statements include the accounts of the Company and all subsidiaries, including Riley Stoker Corporation for 1970, 1971 and 1972 (as explained in Note 2) and Environeering, Inc. for all periods (acquired on a pooling of interests as explained in Note 3). All significant intercompany transactions have been eliminated in consolidation. 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 and their accounts have been translated into U. S. dollars at the appropriate exchange rates.

The Company's investment in consolidated subsidiaries exceeds its equity therein by $4,675,753 and $8,530,955 at June 30, 1971 and 1972, of which $2,222,645 and $2,779,737, respectively is reflected in the consolidated balance sheets as "costs in excess of net assets of acquired companies." The remainder, $2,453,108 and $5,751,218 at June 30, 1971 and 1972, respectively, represents accumulated losses of subsidiaries since dates of acquisition which, together with certain related accumulated tax benefits realized in the Company's consolidated tax returns are included in consolidated retained earnings.

It is not the Company's policy to amortize the costs in excess of net assets of acquired companies arising prior to October 31, 1970 ($2,160,637, principally relating to Riley Stoker), unless in the opinion of management, there has been a diminution in the value. The cost of Riley Stoker in excess of net assets arising out of the purchase of the remaining 7.4% interest in Riley Stoker in November, 1971 ($698,372) is being amortized over a 40-year period in accordance with the requirement of Opinion No. 17 of the Accounting Principles Board of the American Institute of Certified Public Accountants.

Accounting for Long-Term Contracts—

Riley Stoker Corporation recognizes income on long-term contracts on the "percentage-of-completion" accounting 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. However, no profits are recorded until a significant amount of actual contract work has been accomplished. 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 recorded profit or losses to date over billings to date on certain contracts. Advances and deferred contract revenue represent the excess of billings to date over costs incurred and recorded profit or losses to date on the remaining contracts.

Accounting for Lease Contracts—

The Company uses the finance method of accounting for full payout leases for hospital systems. Under this method, manufacturing profit, representing the excess of the regular selling price of the systems over the related manufacturing and installation costs, is recognized upon completion of installation of the systems. The excess of the aggregate amount of lease receivables over the regular selling price (net of estimated residual value) is recorded as unearned lease income which is amortized over the terms of the lease using the sum of the months-digits method.

For Federal income tax purposes, lease payments are reported as income when earned, and the cost of leased hospital system is depreciated over the estimated useful life of the system on the declining-balance method. Deferred Federal income taxes are provided for the difference in tax and accounting methods.

Depreciation Policy—

The companies follow the practice of providing depreciation on plant and equipment on the straight-line method for book purposes and accelerated methods for tax purposes. The estimated useful lives are as follows:

Asset Description	Asset Life
Building and improvements	20 to 40 years
Machinery and equipment	2 to 10 years

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.

Inventories—

Inventories used in the determination of cost of sales, priced at the lower of cost (first-in, first-out basis) or market, were as follows (restated to include Environeering, Inc. on a pooling-of-interests basis):

	Raw Materials and Purchased Parts	Work in Process and Finished Goods	Total
June 30—			
1970	$6,302,713	$2,350,129	$8,652,842
1971	6,003,214	1,221,943	7,225,157
1972	3,658,263	2,550,991	6,209,254

Investment Credit—

The Company uses the flow-through method of accounting for the investment tax credit.

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The Company acquired 50.9% of the common stock of Riley Stoker Corporation during April and May, 1969, for $7,470,000 in cash and 41.7% in October, 1970 for $6,000,000 pursuant to an agreement with Pennsylvania Engineering Corporation. The Company made an initial cash payment of $1,000,000 and issued subordinated 8% notes for the remaining $5,000,000. The notes are payable in equal quarterly installments of $125,000 (principal and interest), with a final payment of $3,614,950 on September 1, 1980 and are fully subordinated to any other present or future indebtedness of the Company. During November, 1971, the Company acquired the remaining 7.4% of common shares of Riley Stoker in exchange for 72,441 common shares of the Company (47,486 of treasury common shares and 24,955 common shares previously unissued) which had a quoted market price of $24.00 per share at that time.

Riley Stoker's operations are included in the accompanying consolidated statements of income for fiscal years 1970, 1971 and 1972 and the income or loss applicable to the appropriate minority interests is deducted in the respective periods. Net sales and contract revenues of Riley Stoker amounted to $52,890,000 in 1970, $71,319,000 in 1971 and $68,478,000 in 1972.

In February, 1972, the Riley Company acquired all of the issued and outstanding shares of Environeering, Inc. in exchange for 80,960 shares of the Company's common stock. This transaction was accounted for as a pooling of interests and, accordingly, the accompanying consolidated financial statements have been restated to include the accounts of Environeering on a June 30 fiscal-year basis. Also, the common stock issued as of June 30, 1971, has been retroactively stated to give effect to the issuance of 80,960 shares. There were no transactions between the companies prior to the combination.

In fiscal 1972, Environeering had sales of $1,938,000 and a net loss of $143,000 for the period prior to the date the acquisition was consummated. Environeering did not record tax benefits on losses prior to the date of acquisition. A tax benefit of $134,000 has been reflected for losses subsequent to January, 1972, when it was included in the consolidated tax return of the Company (Note 5).

The following table summarizes the effect of the Environeering pooling of interests on the accompanying consolidated statements of income:	Year Ended June 30				
	1968	1969	1970	1971	1972
Net sales and contract revenues—					
Before pooling	$10,684,615	$11,877,911	$66,470,517	$88,023,310	$83,449,385
After pooling	12,326,487	15,133,270	69,019,441	91,103,117	86,186,887
Income before extraordinary items—					
Before pooling	$ 866,109	$ 1,244,979	$ 506,472	$ 2,639,907	$ 1,635,145
After pooling	822,194	1,099,085	226,901	2,382,567	1,345,973
Net income—					
Before pooling	$ 1,018,609	$ 1,244,979	$ 506,472	$ 2,398,907	$ 345,145
After pooling	974,694	1,099,085	226,901	2,141,567	55,973

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. Employees at the Cornwells Heights plant had been on strike since March 17, 1972. The estimated costs and expenses of $2,480,000 related to the shutdown of this operation, net of related income tax effect of $1,190,000, are shown as an extraordinary item in the 1972 consolidated statement of income. The costs and expenses will be deductible for tax purposes in the year in which they are expended. The Cornwells Heights property is shown as "Property Held for Sale" in the accompanying consolidated balance sheet.

In July, 1971, the Company ceased activities at its Detroit foundry and the expenses related to this shutdown ($501,000), net of related income tax effect ($240,000) and minority interests ($20,000), are shown as an extraordinary item in the 1971 consolidated statement of income.

The Company and its subsidiaries file a consolidated income tax return. As of June 30, 1972, Riley Stoker Corporation has available as a deduction from its own future taxable income the following items:

(a) Net operating loss carry-forward of approximately $2,600,000 which expires in 1974.

(b) Pension fund provisions of approximately $343,000 recorded in the accounts but not reportable for tax purposes until the amounts are funded.

(c) Approximately $154,000 of investment tax credits expiring in varying amounts through 1976 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 Riley Stoker's own taxable income or taxes payable since they were incurred prior to the Company acquiring an interest in excess of 80% of Riley Stoker.

The Company and its subsidiaries have available capital loss carry-forwards of approximately $1,800,000 which expire in 1976.

As of June 30, 1972, for financial reporting purposes, approximately $2,500,000 of Riley Stoker's operating loss carry-forward and unfunded pension provisions and $1,800,000 of capital loss carry-forward relate to periods prior to the Company's acquisition of Riley Stoker. Accordingly, any future tax benefits relating to these items will be recorded as a reduction of the cost of subsidiary in excess of underlying net assets.

Environeering, Inc., acquired in 1972, also has available approximately $700,000 of net operating loss carry-forwards, subject to review by the Internal Revenue Service, which expires in varying amounts through 1977 and can only be used in future consolidated tax returns to the extent of Environeering's own taxable income.

(6) Earnings Per Share:

Primary earnings per share for the five years ended June 30, 1972, have been determined based on the shares outstanding during the periods after giving effect to (1) a two-for-one split in September, 1967, (2) common stock equivalents assuming the exercise of the Company's stock options under the treasury stock method (based on average market price) where and to the extent such exercise would be dilutive, and (3) the 80,960 common shares of the Company issued in the acquisition of Environeering, Inc. in February, 1972, which was accounted for as a pooling of interests. The average number of common shares or common stock equivalent shares used in computing primary earnings per share was as follows: 1,212,416 (1968), 1,304,954 (1969), 1,412,050 (1970), 1,416,050 (1971), and 1,485,106 (1972).

Fully, diluted earnings per share have been determined assuming:

(1) The 6% convertible subordinated notes of Riley Stoker Corporation (Note 9) were converted.

(2) All dilutive stock options (Note 7) were exercised under the treasury stock method.

Riley Stoker Corporation had a net loss for the year ended June 30, 1970, and therefore the assumed conversion of the 6% convertible subordinated notes and exercise of Riley Stoker's stock options would have an antidilutive effect. The average number of common shares and common stock equivalent shares used in computing fully diluted earnings per share was 1,417,931 in 1971 and 1,621,816 in 1972.

(7) Stock Option Plans:

Under its qualified stock option plan, 74,250 shares of the Company's common stock are reserved for issuance to executives and key employees. The qualified stock option plan provides that the option price shall be at least 100% of the fair market value of the stock on the date of grant, that the options become exercisable two years from date of grant and expire five years from the date of grant, and that certain other requirements be met. On November 1, 1971, the Company assumed the outstanding Riley Stoker options equal to 30,000 shares of the Company's common stock at an option price of $7.20 per share. No options were exercised in 1971 or 1972 and 27,250 shares remain available for granting of options under this plan at June 30, 1972.

A summary of the Company's stock options under this plan for the two years ended June 30, 1972, is as follows:

	Number of Shares	Option Price	
		Per Share	Aggregate
Options outstanding at June 30, 1970	11,000	$15.00-$27.00	$252,000
Canceled due to terminations	(4,000)	$27.00	(108,000)
Options outstanding at June 30, 1971	7,000	$15.00-$27.00	$144,000
Options granted	10,000	$26.50-$28.50	272,500
Riley Stoker options assumed	30,000	$7.20	216,000
Options outstanding at June 30, 1972	47,000		$632,500

An additional 10,000 shares are also reserved under an option granted in 1970 to the Secretary and a director of the Company to purchase such shares at $13.50 per share, which was the fair market value at date of grant.

No accounting is made with respect to the Company's options until they are exercised, at which time the par value will be credited to common stock and the difference will be credited to capital surplus.

(8) Pension Plans:

Riley Stoker Corporation and Cashco, Inc. have various pension plans covering substantially all of their employees. Pension costs included in the consolidated statement of income amounted to $690,000 in 1970 and $1,169,000 in 1971, and $686,000 in 1972, which included, as to certain of the plans, amortization of past-service costs over periods ranging from 10 to 30 years. Pension costs include $381,000 in 1971, representing previously unfunded past-service costs recorded in connection with the shutdown of a plant and have been included in the extraordinary item in the consolidated statement of income for 1971.

It is the Company's policy to fund the pension contributions as required by collective bargaining agreements and based on tax and other considerations.

The unfunded past-service cost as of June 30, 1971, the date of the most recent actuarial review, was approximately $883,000.

(9) 6% Convertible Subordinated Notes:

The 6% Convertible Subordinated Notes due November

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1, 1979, are convertible into the Company's common shares 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. There are 204,082 shares of the Company's common stock reserved for conversions of these notes. The notes are payable to Mr. Howard C. Warren, the Chairman of the Board and majority stockholder of the Company.

(10) Common Stock:

The stockholders voted to amend the Certificate of Incorporation of the Company providing for a reduction in the number of common shares which the corporation has authority to issue from 4,900,000 shares to 1,900,000 shares and a change to $1.00 par value (previously no par value). As of June 30, 1972, the Company had 1,485,357 shares of common stock outstanding, including 80,960 shares issued in 1972 in the acquisition of Environeering, Inc. and 72,441 shares (47,486 treasury shares and 24,955 previously unissued shares) issued in 1972 in the purchase of the remaining 7.4% of Riley Stoker Corporation.

(11) Subsequent Acquisition:

In July, 1972, the Riley Stoker Corporation purchased all of the outstanding stock of Abbott Heat Exchanger Corporation for cash of $200,000, and the guarantee of certain debt by the Riley Stoker Corporation. This transaction will be accounted for as a purchase in fiscal 1973. The amount by which the purchase price exceeds the fair value of the net assets acquired will be allocated to "costs in excess of net assets of acquired companies." Prior to its acquisition Abbott Heat Exchanger Corporation (which name has been changed to Riley Southwest Corporation), had available Federal income tax loss carry-forwards presently estimated at $1,900,000 and expiring in varying amounts through 1977 which, subject to audit by the Internal Revenue Service, will be available to offset its own future taxable income. The costs in excess of net assets of acquired companies will be reduced by the amount of the tax benefits derived from these tax loss carry-forwards.

(12) Supplemental Information:

Marketable securities and other security investments—

Name of Issuer and Title of Issue	Principal Amount or Number of Shares	Cost	Value Based on Current Market Quotations
U.S. Treasury bills due on various dates	$8,295,000	$ 8,232,545	$ 8,237,148
1st mortgage bonds	2,450,000	2,191,250	2,187,313
Other bonds	900,000	812,250	809,500
Other marketable securities	1,000	32,250	36,500
		$11,268,295	$11,270,461
Various preferred stock at estimated realizable value	22,836	$ 259,935	$ 271,200

Property and Equipment—

COST	Land	Buildings and Improvements	Machinery and Equipment
Balance, July 1, 1970, as previously reported	$535,933	$7,651,411	$10,646,050
Amount applicable to pooling of Environeering, Inc. (Note 3)	—	—	82,902
Balance, July 1, 1970, restated	$535,933	$7,651,411	$10,728,952
Additions, at cost	—	237,575	868,945
Sales and retirements	—	(50,826)	(388,448)
Transfers between accounts	—	(10,187)	10,187
Balance, June 30, 1971	$535,933	$7,827,973	$11,219,636
Additions, at cost	—	442,380	1,932,620
Sales and retirements (A)	(125,000)	(723,145)	(1,078,463)
Transfers to property held for sale (B)	(88,849)	(3,467,674)	—
Balance, June 30, 1972	$322,084	$4,079,534	$12,073,793

ACCUMULATED DEPRECIATION	Buildings and Improvements	Machinery and Equipment
Balance, July 1, 1970, as previously reported	$4,155,419	$ 7,793,399
Amount applicable to pooling of Environeering, Inc.	—	26,148
Balance, July 1, 1970, restated	$4,155,419	$ 7,819,547
Provision charged to profit and loss	222,635	581,430
Sales and retirements	(17,419)	(304,060)
Transfers between accounts	(2,960)	2,960
Balance, June 30, 1971	$4,357,675	$ 8,099,877
Provision charged to profit and loss	228,414	686,421
Sales and retirements (A)	(661,997)	(784,470)
Transfer to property held for sale (B)	(2,339,674)	—
Balance, June 30, 1972	$1,584,418	$ 8,001,828

(A) Principally relates to sale of Detroit foundry (Note 4)

(B) Represents Cornwells Heights, Pennsylvania, property (Note 4).

Reserves—

	Reserve for Doubtful Accounts	Reserve to Reduce Investments of Riley Stoker to Estimated Realizable Value
Balance, July 1, 1970, as previously reported	$64,647	$2,571,134
Amounts applicable to pooling of Environeering, Inc.	3,211	—
Balance, July 1, 1970, restated	$67,858	$2,571,134
Provisions charged to income	6,144	—
Write-off of doubtful accounts	(5,865)	—
Reserve applicable to investments sold	—	(2,347,959)
Balance, June 30, 1971	$68,137	$ 223,175
Provisions charged to income	28,104	—
Write-off of doubtful accounts	(14,370)	—
Balance, June 30, 1972	$81,871	$ 223,175

Supplementary profit and loss information—

	Cost of Goods Sold	Other Expense	Total
Year ended June 30, 1971—			
Maintenance and repairs	$ 864,444	$111,013	$ 975,457
Depreciation and amortization	691,907	155,076	846,983
Taxes other than taxes on income—			
Payroll	1,019,676	154,261	1,173,937
Other	274,286	56,088	330,374
Rents and royalties	56,664	165,322	221,986
Management and service contract fees	—	—	—
Year ended June 30, 1972—			
Maintenance and repairs	$ 401,782	$181,162	$ 582,944
Depreciation and amortization	742,456	221,697	964,153
Taxes other than taxes on income—			
Payroll	1,409,172	155,415	1,564,587
Other	229,925	134,507	364,432
Rents and royalties	104,138	195,882	300,020
Management and service contract fees	—	—	—

Auditors' Report

To the Stockholders and Board of
Directors of The Riley Company:

We have examined the consolidated balance sheets of THE RILEY COMPANY (a Delaware corporation formerly known as The SCAM Instrument Corporation) AND SUBSIDIARIES as of June 30, 1971 and 1972, and the related consolidated statements of income, common stock, capital surplus and retained earnings for the five years ended June 30, 1972, and the statements of changes in financial position for the two years ended June 30, 1972. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the consolidated financial position of The Riley Company and Subsidiaries as of June 30, 1971 and 1972, and the results of their operations for the five years ended June 30, 1972, and changes in financial position for the two years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
September 1, 1972.

THE RILEY COMPANY

Directors

R. J. Flynn
President,
Riley Stoker Corporation

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 Treasurer,
The Riley Company

Officers

H. C. Warren
Chairman and Treasurer

R. J. Flynn
President,
Riley Stoker Corporation

R. H. Garrett
President,
Process Instrument Division

P. Pedersen
Secretary

D. Knopf
Assistant Secretary

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

RS-002269
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RILEY THE RILEY COMPANY

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