RILEY STOKER CORPORATION

CONSOLIDATED BALANCE SHEET
AND
SURPLUS STATEMENTS

December 31, 1939

GEORGE A. SMITH AND COMPANY
Certified Public Accountants
390 MAIN STREET
Worcester, Mass.

GEORGE A. SMITH AND COMPANY
Certified Public Accountants
390 MAIN STREET
WORCESTER, MASS.

Walter J. O'Donnell, C.P.A.
Richard P. Smith, C.P.A.

March 26, 1940.

To the Board of Directors
Riley Stoker Corporation
Worcester, Massachusetts

We have made an examination of the Consolidated Balance Sheet of the Riley Stoker Corporation and Subsidiary Companies as at December 31, 1939, and of the Consolidated Income and Surplus Accounts for the year ended on that date. In connection therewith, we reviewed the system of internal control and accounting procedures of the Riley Stoker Corporation and the Badenhausen Corporation, and examined or tested accounting records and other supporting evidence of both companies by methods and to the extent we deemed appropriate without making a detailed audit of the transactions. With respect to the A. W. Cash Company, whose accounts were not audited by us, we were furnished with a report of independent accountants.

The Parent Company has contracted to purchase at a fixed price per share, less than par, the outstanding preferred stock of the Badenhausen Corporation, a subsidiary. In view of this contract, the accumulated dividends on this stock are not stated on the Balance Sheet.

In our opinion, the accompanying Consolidated Balance Sheet and related Statements of Income and Surplus Accounts fairly present the consolidated position of the Riley Stoker Corporation and its Subsidiaries at December 31, 1939 and the consolidated results from operations for the year ended on that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

(Signed) George A. Smith & Co.

RILEY STOKER CORPORATION

AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

December 31, 1939

ASSETS

CURRENT ASSETS		
Cash		$ 213,775.26
Receivables		
Customers' Notes	$ 6,513.50	
Customers' Accounts	766,126.63	
Others	1,467.91	
	$ 774,108.04	
Less: Reserve for Doubtful Accounts	37,937.76	736,170.28
Advances to Salesmen and Erectors		12,070.06
Royalties Accrued		4,165.79
Inventories (Quantities and Condition determined by Company; Priced at Cost)		766,110.59
Total Current Assets		$1,732,291.98
FIXED ASSETS		
Land	$ 175,864.11	
Buildings	836,650.35	
Machinery and Equipment	1,051,336.42	
	$2,063,850.88	
Less: Reserve for Depreciation	950,900.72	
	$1,112,950.16	
Fixed Assets Under Construction	11,668.28	1,124,618.44
PATENTS		33,025.05
OTHER ASSETS		
Note-Secured by First Mortgage Lien on Real Estate	$ 2,731.93	
Securities Acquired	8,750.55	
Employees' Stock Purchase Account	8,755.32	
Deposits in Closed Banks	987.81	
Foreign Funds (Subject to Withdrawal Restrictions)	11,840.36	33,065.97
DEFERRED CHARGES		
Prepaid Insurance, Interest, and Taxes	$ 10,853.95	
Deferred Commissions	28,176.54	
Supplies, Repairs and Maintenance Parts	6,180.24	45,210.73
		$2,968,212.17

RS-001668
1/17/02
NUECES

RILEY STOKER CORPORATION

AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

December 31, 1939

LIABILITIES

CURRENT LIABILITIES			
Notes Payable - Banks			$ 320,000.00
Accounts Payable - Trade			122,995.30
Advance Billing on Contracts			112,306.93
Provision for Federal and State Taxes			46,115.46
Accrued Payroll			11,963.04
Accrued Commissions			56,755.34
Accrued Insurance			6,866.21
Customers' Deposits			2,961.00
Other Current Liabilities			1,979.90
Total Current Liabilities			$ 681,943.18
OTHER LIABILITIES			
Account Payable - Trade Deferred		$ 3,555.12	
Debenture Notes of Subsidiary-4%, Due January 1, 1950		105,000.00	108,555.12
PREFERRED STOCK OF SUBSIDIARY NOT HELD BY RILEY STOKER CORP.			77,200.00
CAPITAL STOCK AND SURPLUS			
CAPITAL STOCK			
Preferred, 6%, Par $100.00 (Authorized, 9355 shares)			
Issued 8041 shares	$804,100.00		
Less 3690 shares in Sinking Fund	369,000.00		
Outstanding 4351 shares		$435,100.00	
Common, No Par (Authorized, 350,000 shares)			
Issued 349,954 shares	$801,056.62		
Less 6,063 shares in Treasury	17,399.29		
Outstanding 343,891 shares		783,657.33	
Total Capital Stock Outstanding			1,218,757.33
SURPLUS (Per Statement Attached)			
Capital Surplus		$344,855.68	
Earned Surplus		536,900.86	881,756.54
			$2,968,212.17
CONTINGENT LIABILITIES			
Notes Receivable Discounted	$107,654.21		
(Secured by Conditional Sales Contracts)			
CUMULATIVE PREFERRED STOCK DIVIDENDS IN ARREARS AT DECEMBER 31, 1939	$221,901.00		

RILEY STOKER CORPORATION

AND SUBSIDIARY COMPANIES

CONSOLIDATED SURPLUS ACCOUNT

December 31, 1939

EARNED SURPLUS

Balance, December 31, 1938		$490,301.37
Add		
Consolidated Net Income for Year	$49,373.59	
Miscellaneous Adjustments pertaining to previous years (net)	1,193.90	50,567.49
		$540,868.86
Deduct		
Preferred Stock Dividends Paid to Minority Stockholders of Subsidiary Company		3,968.00
Balance, December 31, 1939		$536,900.86

CAPITAL SURPLUS

Balance, December 31, 1938		$313,694.89
Add		
Excess of Par Value over Cost of Riley Stoker Corporation Preferred Stock Acquired	$25,979.35	
Excess of Par Value over Cost of Subsidiary Company Preferred Stock Acquired	5,181.44	31,160.79
Balance, December 31, 1939		$344,855.68

RILEY STOKER CORPORATION

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

For The Year Ended December 31, 1939

Profit on Operations after Selling and Administrative Expenses and including Provision for Doubtful Accounts, but before Depreciation and Amortization	$122,114.38
Depreciation and Amortization	71,826.46
Net Profit from Operations	$ 50,287.92
Other Income	26,417.97
Gross Income	$ 76,705.89
Other Deductions	13,916.59
Net Income before Federal Income Tax	$ 62,789.30
Provision for Federal Income Tax	13,415.71
Net Income Carried to Surplus	$ 49,373.59