

INDUSTRIAL NUCLEONICS CORPORATION

ELEVENTH ANNUAL REPORT

FOR THE YEAR ENDED APRIL 30, 1961

INDUSTRIAL NUCLEONICS CORPORATION

COLUMBUS, OHIO

DIRECTORS:

<u>NAME</u>	<u>POSITION</u>
Howard B. Begg	President Squier, Schilling & Skiff
Edward McC. Blair	Managing Partner William Blair & Company
Gordon B. Carson	Vice President The Ohio State University
Henry R. Chope	Executive Vice President Industrial Nucleonics Corporation
Wilbert E. Chope	President Industrial Nucleonics Corporation
John Eckler	Partner Bricker, Evatt, Barton, Eckler & Niehoff Assistant Secretary Industrial Nucleonics Corporation
Marshall Field, Jr.	President Field Enterprises, Inc.
Robert E. Swenson	Treasurer & General Manager Industrial Nucleonics Corporation
George B. Young	Executive Vice President Field Enterprises, Inc.

OTHER OFFICERS WHO ARE NOT DIRECTORS:

Kenneth E. Cameron	Secretary
Francis E. O'Riordan	Assistant Treasurer

To Our Shareholders:

## HIGHLIGHTS OF 1960-61

Industrial Nucleonics completed its eleventh year of business and its tenth year of sales on April 30, 1961. Sales were \$10,877,882 compared with sales of \$7,963,543 for the previous year. Profits after taxes were \$803,384 compared with profits after taxes of \$348,486 for the previous year.

Included in the above sales figures were \$3,380,756 of subcontracts for 1960-61 and \$943,403 of subcontracts for 1959-60. These subcontracts were purchases by the company of conveyors for Mail-flt conveyor systems which the company furnished the U. S. Post Office. The net sales after subcontracts were \$7,497,126 in 1960-61 compared with \$7,020,140 in 1959-60.

These increases in sales and profits were a result of our diversification program which started in 1957. The diversification program included (1) new products leading to more industrial applications, (2) a rental program, (3) an equipment servicing organization, and (4) an expanded sales organization.

Emphasis during the past year was placed on improved planning, organizing, and control by management. Industrial Nucleonics' team reached a new high in hard work and willing cooperation during the year. This continued dedication is the best assurance of the company's successful future.

Industrial Nucleonics continued to build its field sales, installations, and service organizations in order to take advantage of new potentials that had been created in many new industries, including petroleum, chemical, foods, and mining.

The company continued to be active in research and development of new products and systems. New technologies developed involve "non-isotope" measuring devices and advanced, automatic control systems.

## PRESENT INCOME-PRODUCING SEGMENTS OF INDUSTRIAL NUCLEONICS' BUSINESS

The company has accomplished considerable diversification during the last several years. Through the addition of products for the process

industries (chemical, petroleum, food, mining), the total number of potential customer plants on which our sales organization can call has increased from 1600 to 56,700. The process industries products include (1) density gauges, (2) container fill inspection and control gauges, (3) level measuring systems, and (4) pipewall thickness gauges. Continued growth is expected in the process industries as the products continue to gain acceptance.

The company's concentration has been on business which will produce a continuous, year-to-year income. Business falling in this category is derived from (1) sales to the process industries of smaller, lower priced products, (2) service income, (3) sales of replacement parts and supplies, and (4) income from rentals and leases. Industrial Nucleonics will continue to design and sell large control systems. These systems now sell for an average price of \$30,000 per installation and find increasing use in the steel, rubber, plastics, paper, and building materials industries. The rental program makes sales of these larger control systems easier by permitting a manufacturer to obtain the benefit of improved control without a large capital investment.

Other income-producing areas include (1) tobacco equipment sales, (2) foreign sales, (3) sales of conveyor controls, and (4) government business.

## ORGANIZATION AND PERSONNEL

The company is proud of the management team and organization which it has developed. The median age of the top 30 managers of Industrial Nucleonics is 37 years. The median time that these managers have been with the company is 9 years. In many industries 9 years would not be considered significant. However, 9 years in the industrial electronics process industry represents practically its entire history.

The toughest challenge of any new company is the development of an effective team. Developing potential, creating new markets, manufacturing complicated products at a profit, financing operations, and hiring qualified personnel are all difficult tasks which face a new company, particularly one which is pioneering a new field. However, getting 423 creative design engineers, sales engineers, managers, and other skilled personnel to work together harmoniously and efficiently has been Industrial Nucleonics' most important task. This team effort contributed significantly to last year's increase in profits.

The continued efforts of this team of creative engineers, sales engineers, and managers give the company the greatest assurance for continued

growth. One of the company's major goals will be to retain, inspire, motivate, and develop this team.

## FIELD SALES AND SERVICE ORGANIZATION

The sales, service, and systems engineers in the Industrial Nucleonics' field organization constitute the most qualified and one of the few national field organizations in the industrial electronic process control industry. There are 113 Industrial Nucleonics' engineers working in 32 territories in the United States. These engineers are classified as follows:

Sales Engineers & Managers	40
Systems Engineers	7
Installation & Service	<u>66</u>

113

The activities of the installations, service, and systems engineers are paid for by the customer. It is expected that a large portion of the company's profitable business will be derived from service activities. About 70% of the company's present service and installations personnel are either under long-term service contracts or else have their services committed for planned equipment installations. This organization continues to make the rental program attractive to the customer and Industrial Nucleonics.

The company continued to be the leading supplier of products and services in its field.

## ENGINEERING AND NEW TECHNOLOGIES

Research, development, and engineering activities subdivide into three categories. These are (1) measurement of product properties and process variables, (2) control of industrial processes and machinery, and (3) readout and processing of data.

Industrial Nucleonics has invested heavily in research and development. Starting about four years ago, a large, accelerated effort was directed toward developing new products which would greatly expand Industrial Nucleonics' total marketing potential. In a two-year period, 20 new products were developed and introduced by the company.

During the last two years, considerable research and development effort was expended toward basic investigations into new principles that could

be utilized in measuring devices. Such work has involved investigations into unified theories and approaches involving basic interaction between energy and matter. Such investigations are fundamental to measuring devices employing microwaves, infrared, ultraviolet as well as beta, gamma, and neutron radiations.

Recently Industrial Nucleonics has been extremely active in investigating systems for control of multiple process variables. A number of patents have been applied for on these newer measuring and control systems.

Favorable consulting relationships have been worked out with various outside technical personnel. Many new technological developments have their origin at the university academic level. With the proximity of Industrial Nucleonics to Ohio State University, the company has been successful in blending the creativity of outstanding academic personnel with the practical design and engineering abilities of its own engineering personnel. Continuing relationships with industrial research organizations, such as Battelle Memorial Institute, are maintained.

During the coming years the company plans to seek research and development contracts from the government. In this way our government will benefit from the techniques of measurement, control, and data pioneered by Industrial Nucleonics for industry. We will also extend our research and development capabilities in many of the newer techniques in electronics, nucleonics, and space exploration.

The company continues to receive patents on its developments. By the end of this year approximately 100 patents will have been issued on the company's developments. Industrial Nucleonics is the only company in its field having a significant patent position.

## SUMMARY

During 1957-59, the company introduced a number of new products. During 1959-61, Industrial Nucleonics concentrated on consolidating previous gains and maximizing operating efficiencies. It is the goal for the future to sell products at a profit and to back up these products with profitable services. In addition, the company will continue to add new measuring and control devices to its line as these new products are developed and can be marketed at a profit.

It is anticipated that operations for the coming year will be at a profit.

The demands of our country's expanding population and the requirements

for national defense will create new demands on industry. More high-quality products will be needed with lower production costs. The knowledge, skills, products, and services of Industrial Nucleonics will be a necessary part of this expanding economy.

A handwritten signature in cursive script, reading "J. E. Chope". The signature is written in dark ink and is positioned above the printed name "President".

President

Columbus, Ohio

July 21, 1961

INDUSTRIAL NUCLEONICS CORPORATION  
 Comparative Statement of Income -- Per Audit  
For the Years Ended April 30, 1961, 1960, 1959, 1958, and 1957

	----- Year Ended April 30, -----				
	<u>1961</u>	<u>1960</u>	<u>1959</u>	<u>1958</u>	<u>1957</u>
SALES	\$10,877,882	\$7,963,543	\$4,165,540	\$4,889,189	\$4,738,003
COST OF SALES	<u>7,009,222</u>	<u>4,237,574</u>	<u>2,355,608</u>	<u>2,362,057</u>	<u>2,280,410</u>
Gross Income	\$ 3,868,660	\$3,725,969	\$1,809,932	\$2,527,132	\$2,457,593
OPERATING EXPENSES:					
Selling, administrative, research and development	<u>2,146,275</u>	<u>2,935,650</u>	<u>2,307,056</u>	<u>1,855,563</u>	<u>1,934,633</u>
Net income (loss) from operations	<u>\$ 1,722,385</u>	<u>\$ 790,319</u>	<u>\$ (497,124)</u>	<u>\$ 671,569</u>	<u>\$ 522,960</u>
OTHER DEDUCTIONS:					
Interest expense	\$ 127,636	\$ 96,379	\$ 58,222	\$ 14,696	\$ 33,352
Gain on sale of equipment previously leased, net	<u>(68,635)</u>	<u>(24,546)</u>	<u>(37,278)</u>	<u>(16,855)</u>	<u>(49,362)</u>
	<u>\$ 59,001</u>	<u>\$ 71,833</u>	<u>\$ 20,944</u>	<u>\$ (2,159)</u>	<u>\$ (16,010)</u>
Net income (loss) before Federal income taxes	\$ 1,663,384	\$ 718,486	\$ (518,068)	\$ 673,728	\$ 538,970
Provision for Federal income taxes *	<u>860,000</u>	<u>370,000</u>	<u>(260,000)</u>	<u>335,610</u>	<u>291,000</u>
Net income (loss) for the year	<u>\$ 803,384</u>	<u>\$ 348,486</u>	<u>\$ (258,068)</u>	<u>\$ 338,118</u>	<u>\$ 247,970</u>
Net income per share **	<u>\$8.21</u>	<u>\$3.56</u>	<u>\$(2.64)</u>	<u>\$3.45</u>	<u>\$2.52</u>

\* Provision for Federal income taxes for the year ended April 30, 1959, reflects recovery of payments in previous years.

\*\* Based on shares outstanding at end of each respective period.

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INDUSTRIAL NUCLEONICS CORPORATION  
 Comparative Balance Sheets -- Per Audit  
As of April 30, 1961 and 1960

	<u>April 30,</u> <u>1961</u>	<u>April 30,</u> <u>1960</u>
<b><u>A S S E T S</u></b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 224,494	\$ 182,598
Accounts receivable (net)		
Government	648,070	418,728
Trade	1,593,529	996,634
Subsidiaries	59,956	108,427
Inventories	1,152,573	1,268,824
Prepaid expenses	<u>89,843</u>	<u>77,397</u>
<b>Total current assets</b>	<b><u>\$3,768,465</u></b>	<b><u>\$3,052,608</u></b>
<b>EQUIPMENT LEASED TO CUSTOMERS (cost)</b>		
	<u>Original Sales Price</u>	
	<u>4/30/61</u>	<u>4/30/60</u>
Equipment	\$2,375,000	\$2,091,000
Less - Accum. Deprec.	<u>831,000</u>	<u>580,000</u>
Deprec. Value	<u>\$1,544,000</u>	<u>\$1,511,000</u>
	<u>\$ 692,448</u>	<u>\$ 623,930</u>
<b>INVESTMENTS IN SUBSIDIARIES</b>	<b><u>\$ 32,957</u></b>	<b><u>\$ 10,983</u></b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Machinery and equipment	\$ 362,731	\$ 339,402
Furniture and fixtures	<u>186,418</u>	<u>181,042</u>
	\$ 549,149	\$ 520,444
Less - Allowance for depreciation	<u>265,629</u>	<u>203,521</u>
	\$ 283,520	\$ 316,923
Land	147,933	147,933
Leasehold improvements (net)	<u>108,506</u>	<u>106,875</u>
<b>Total property, plant and equipment</b>	<b><u>\$ 539,959</u></b>	<b><u>\$ 571,731</u></b>
<b>DEFERRED RESEARCH AND DEVELOPMENT COSTS</b>	<b><u>\$ 668,930</u></b>	<b><u>\$ 661,760</u></b>
<b>Total assets</b>	<b><u>\$5,702,759</u></b>	<b><u>\$4,921,012</u></b>

	<u>April 30,</u> <u>1961</u>	<u>April 30,</u> <u>1960</u>
<b><u>L I A B I L I T I E S   A N D   N E T   W O R T H</u></b>		
<b>CURRENT LIABILITIES</b>		
Notes payable		
Bank loans paid in May, 1961	\$ 550,000	\$ 930,000
Current maturities of term debt	280,595	251,843
4% S.F. debentures due June, 1962, payable August 31, 1961	152,500	52,000
Accounts payable		
Trade	157,438	836,702
Sub-contracts	455,122	219,367
Other	85,122	110,183
Accrued salaries, wages, taxes, interest, etc.	423,308	411,101
Federal income taxes	688,970	242,470
Ten-year subordinated income debentures	<u>-0-</u>	<u>55,600</u>
Total current liabilities excluding lease financing	\$2,793,055	\$3,109,266
Lease financing	<u>192,408</u>	<u>53,000</u>
Total current liabilities	<u>\$2,985,463</u>	<u>\$3,162,266</u>
DEFERRED RENTAL INCOME	<u>\$ 302,183</u>	<u>\$ 76,513</u>
TERM LOANS	<u>\$ 207,766</u>	<u>\$ 178,570</u>
DEFERRED FEDERAL INCOME TAXES	<u>\$ 476,000</u>	<u>\$ 425,000</u>
4% S.F. DEBENTURES due June, 1962	<u>\$ -0-</u>	<u>\$ 150,700</u>
<b>CAPITAL STOCK AND SURPLUS:</b>		
Common stock--par value \$.10--authorized 125,000 shares; outstanding 97,935 shares	\$ 9,794	\$ 9,794
Paid-in* surplus	141,714	141,714
Earned surplus	<u>1,579,839</u>	<u>776,455</u>
Total capital stock and surplus	<u>\$1,731,347</u>	<u>\$ 927,963</u>
<b>Total liabilities and net worth</b>	<u><u>\$5,702,759</u></u>	<u><u>\$4,921,012</u></u>

## NOTE TO FINANCIAL STATEMENTS

A considerable proportion of the company's expenditures are for research and development which benefit future periods. Therefore, the company has decided to capitalize those costs relating to successful projects and amortize them over a three-year period from the introduction of the product. This provides the company with a better method of appraising the operations of the current year. These expenses have been, and will continue to be, charged to expense in the year in which they occur for purposes of our Federal income tax statement.

In addition the company changed its depreciation policy from the double declining balance method to the straight-line method. The double declining method will continue to be used for income tax purposes.

The following comparison shows the effect of this adjustment and the effect of using the straight-line method of depreciation retroactive to May 1, 1955, on the profits after taxes for the past five years.

<u>Year Ended</u> <u>April 30</u>	<u>As Reported in</u> <u>Previous Annual</u> <u>Statements</u>	<u>Audited Figures</u> <u>As Adjusted</u>
1957	\$224,985	\$247,970
1958	159,402	338,118
1959	(385,670)**	(258,068)**
1960	247,608	348,486
1961	752,221 *	803,384 *

\* Using past method of reporting.

\*\* Provision for Federal Income Taxes for year ended April 30, 1959, reflects recovery of payments in previous years.