

INDUSTRIAL NUCLEONICS CORPORATION

TWELFTH ANNUAL REPORT

FOR THE YEAR ENDED APRIL 30, 1962

INDUSTRIAL NUCLEONICS CORPORATION

COLUMBUS, OHIO

DIRECTORS

<u>NAME</u>	<u>POSITION</u>
Howard B. Begg	Director of various companies
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	Vice President and Treasurer Industrial Nucleonics Corporation
George B. Young	Executive Vice President Field Enterprises, Inc.

OTHER OFFICERS WHO ARE NOT DIRECTORS

Walter H. Canter, Jr.	General Manager
Kenneth E. Cameron	Secretary
Francis E. O'Riordan	Assistant Treasurer

HIGHLIGHTS OF 1961-62

TO OUR SHAREHOLDERS

Sales and rentals for our twelfth year of business were \$7,072,237 with net profits of \$459,881 - the second best earning record in our history.

Although sales and rentals declined from \$10,877,882 in 1960-61, a substantial portion of the difference was attributed to sub-contractor billings arising from the installation of Mail-Flo conveyor systems in United States Post Offices: \$259,000 in the current year versus \$3,381,000 in 1960-61. The profit margin on this type of sub-contracted business is negligible.

Gross income from the Rental Program increased 21% during the year, and sales of field maintenance services and replacement parts were up 10%. Substantial sums were invested in new Rental equipment during the year. This program will continue to expand in the coming year.

A cash dividend of twenty cents per share - the first in the company's history - was paid in December 1961.

The Company's financial position improved with working capital increasing from \$788,000 to \$1,010,000. A five-year term bank loan for \$500,000 was negotiated for working capital purposes and to finance

expansion of the Rental Program.

Shareholders' equity was \$2,118,000 at year end. Return on the average equity during the year was 24%.

The major developments of the year were:

1. The introduction of an entirely new line of equipment designed to measure and control the moisture content of various products such as paper, tobacco, food and many others. This new product is known as the AccuRay MOISTRON System. This is a major technological break-through which will greatly expand the Company's potential markets.
2. The rental agreement was promoted as an increasingly important means of marketing AccuRay control systems. This involves a short run sacrifice of profits and imposes a strain on our available capital, but the long run benefits of increased profits and more stable income will more than compensate for these temporary disadvantages.
3. The wide use of Service Contracts was encouraged, thus providing all necessary maintenance and engineering services on a scheduled basis for existing customers. This is increasing service income and is producing more satisfied customers - a source of repeat business.

4. A decision was made recently to withdraw from any further activity as an United States Post Office Mail-Flo conveyor system contractor. Over the last few years, this has been a profitable business, but the most desirable projects have been completed and the risks of future programs have increased. Our interest had been in automatic warehousing systems for industry. However, there are other opportunities which will offer greater potential.
5. The effort and personnel previously devoted to the Mail-Flo conveyor system have been redirected to develop business in the field of defense and space electronics.

During the year, continuing emphasis was placed on the organization and training of the Company's management and personnel. Much effort has been devoted to the preparation of a Five Year Plan to guide the Company in the rapidly growing electronics business.

INCOME PRODUCING SEGMENTS

One of our prime goals continues to be diversification of income sources. During 1961-62, six major product and/or service areas contributed to the Company's revenue. Income from rentals and service activities, including replacement parts, is becoming more significant each year. Sales also are being realized from Process Industries, from Tobacco controls, and from Post Office conveyor controls. This latter source of income is expected to phase out in 1962-63.

An increasing amount of our Heavy Industry equipment orders has been derived from export sources. This market is being cultivated and is expected to be productive of sustained business over the coming years. During the fiscal year, AccuRay equipment was shipped to Canada, South Africa, Australia, and the Netherlands.

In twelve years, military and defense contracts have accounted for only a small segment of our business. Now a concentrated, but selective, effort is being made to expand into the field of military and space electronics.

Instrumentation is divided into two categories - conventional instruments which measure environmental characteristics like temperature and pressure and analytical instrumentation which analyzes the end product for chemical and physical characteristics. Industrial Nucleonics is a key manufacturer in the area of on-line analytical instrumentation for industry.

NEW PRODUCTS

The most important engineering development of the year, and one that is expected to influence our operations for many years, is the AccuRay MOISTRON System.

The MOISTRON measurement and control system calculates the moisture content of a material such as paper, tobacco, food and similar materials. The paper industry offers the most immediate market for this product, but moisture content is an important factor in numerous industrial processes.

The MOISTRON System will operate in conjunction with existing AccuRay basis weight systems and is expected to stimulate sales of complementary equipment. The measurements are unaffected by variations in basis weight, sheet pressures, temperature, etc.

A wide interest has been shown in this product. The first shipments will be made by late 1962.

Our engineering group is continuing its efforts to improve our present line of products and to create new products with wide market potentials.

Particular attention is being given to the application of our specialized skills in the areas of radiation physics and in the industrial systems control technology to the problems of military and space electronics. Various areas of interest in which our Company is qualified are being investigated.

RESEARCH AND DEVELOPMENT

The introduction of the AccuRay MOISTRON System is mentioned elsewhere in this report. From an engineering viewpoint, this product has significance because it represents a principle of measurement, in no way associated with nuclear radiation.

Important work was done in improving our line of density gauges for measuring flows of fluids and semi-solids. Greater degrees of stability and sensitivity have been achieved and a product with greater scope and adaptability has been made available. More markets with varying economics in the low, medium, and high cost ranges can be served.

Continued improvements were introduced. For example, research in the measurement of very light weight materials made possible better control in the plastics industry.

Training programs in technical and management skills are used to expand the capabilities of our engineering staff.

In 1959, according to the National Science Foundation, only 502 companies in the United States performed over one million dollars of research and development. Fifty-nine percent of all research and development was paid for by the Federal government. Industrial Nucleonics Corporation has been spending approximately one million dollars per year on research, development, and various phases of engineering and has funded the entire program.

SALES

Our field sales organization continues to be one of the most efficient groups in the industrial electronic process control industry. Our average sales engineer has in excess of 3-1/2 years experience in sales work with the Company. Our marketing effort requires an unusual combination of talents in a sales engineer: knowledge of a complex control apparatus, know-how to apply it in a particular industrial environment, and the ability to do creative selling. This year, our ratio of orders per sales engineer was the best in the last five year span. The introduction of new products, such as the MOISTRON System, will aid this effort.

ORGANIZATION AND PERSONNEL

Recognition must be given to the ability and loyalty of the Company's staff - the engineers, salesmen, technicians, managers, and others, who constitute our prime asset and our greatest assurance of being able to capitalize on the opportunities of the future.

Most of our thirty key managers have been with us for about ten years, yet their average age is less than 40 years. In an industry characterized by rapid turnover of top level personnel, this is an enviable record. Real progress has been made during this year in organizing, planning and motivating the energies of this group toward the achievement of our immediate and long-term goals.

One out of five of all the employees who were with the Company ten years ago are still serving - most of them in key positions. 45% of our organization has been part of the Company for more than five years.

A Stock Option Plan for employees has been established in order to provide additional incentive to key executives and selected employees. The plan was adopted by the Board of Directors on February 15, 1962 and the 26,185 shares of common stock involved in the plan have been registered with the Securities and Exchange Commission as of May 28, 1962. The Company's prospectus of that date is attached to this report.

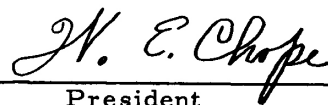
FUTURE

The electronics industry - the industrial segment of it in particular - presents many difficult and complex problems. Technologies change rapidly, entirely new areas of demand must be created, service facilities must be made available, and financial resources must be substantial.

Yet market studies indicate that industrial electronics and instrumentation offer the greatest opportunities for expansion in the future.

Industrial Nucleonics has the products, the staff, the facilities, and the experience to grow with this industry.

Your management expects that operations in 1962-63 will be on a profitable level and that progress will be made in introducing the MOISTRON System and in penetrating into the field of military/space electronics.



President

Columbus, Ohio

October 31, 1962

INDUSTRIAL NUCLEONICS CORPORATION
Comparative Balance Sheets -- Per Audit
As of April 30, 1962 and 1961

<u>A S S E T S</u>	<u>April 30,</u> <u>1962</u>	<u>April 30,</u> <u>1961</u>
CURRENT ASSETS:		
Cash	\$ 290,405	\$ 224,494
Accounts receivable		
Trade (net)	1,363,122	1,593,529
Government	182,582	648,070
Subsidiaries	196,474	59,956
Inventories	1,409,932	1,152,573
Less - Progress payments	(87,693)	(268,778)
Prepaid expenses	<u>110,194</u>	<u>89,843</u>
Total current assets	<u>\$3,465,016</u>	<u>\$3,499,687</u>
EQUIPMENT LEASED TO CUSTOMERS		
Equipment (at cost)	\$1,281,464	\$1,070,065
Less - Accumulated Depreciation	<u>497,502</u>	<u>377,617</u>
Depreciated Value	<u>\$ 783,962</u>	<u>\$ 692,448</u>
INVESTMENTS IN SUBSIDIARIES	<u>\$ 43,686</u>	<u>\$ 32,957</u>
PROPERTY, PLANT AND EQUIPMENT		
Machinery and equipment	\$ 447,327	\$ 362,731
Furniture and fixtures	<u>198,302</u>	<u>186,418</u>
	\$ 645,629	\$ 549,149
Less - Allowance for depreciation	<u>293,188</u>	<u>265,629</u>
	\$ 352,441	\$ 283,520
Land	147,933	147,933
Leasehold improvements (net)	<u>100,937</u>	<u>108,506</u>
Total property, plant and equipment	<u>\$ 601,311</u>	<u>\$ 539,959</u>
DEFERRED RESEARCH AND DEVELOPMENT COSTS	<u>\$ 685,042</u>	<u>\$ 668,930</u>
DEFERRED CHARGES	<u>\$ 13,863</u>	<u>-</u>
Total assets	<u><u>\$5,592,880</u></u>	<u><u>\$5,433,981</u></u>

<u>L I A B I L I T I E S A N D N E T W O R T H</u>	<u>April 30, 1962</u>	<u>April 30, 1961</u>
CURRENT LIABILITIES		
Notes payable		
Bank loans	\$ 450,000	\$ 550,000
Current maturities of term debt	432,176	280,595
4% Sinking Fund debentures	-	152,500
Accounts payable		
Trade	320,041	157,438
Sub-contracts	171,045	455,122
Other	95,631	85,122
Accrued salaries, wages, taxes, interest, etc.	406,857	423,308
Federal income taxes	<u>428,621</u>	<u>688,970</u>
Total current liabilities excluding lease financing	\$2,304,371	\$2,793,055
Lease financing	<u>150,598</u>	<u>192,408</u>
Total current liabilities	<u>\$2,454,969</u>	<u>\$2,985,463</u>
DEFERRED RENTAL INCOME	<u>\$ 26,365</u>	<u>\$ 33,405</u>
TERM LOANS	<u>\$ 497,081</u>	<u>\$ 207,766</u>
DEFERRED FEDERAL INCOME TAXES	<u>\$ 496,000</u>	<u>\$ 476,000</u>
CAPITAL STOCK AND SURPLUS:		
Common stock--par value \$.10--authorized 125,000 shares; outstanding at April 30, 1962, 97,315 shares	\$ 9,732	\$ 9,794
Paid-in surplus	88,576	141,714
Earned surplus	<u>2,020,157</u>	<u>1,579,839</u>
Total capital stock and surplus	<u>\$2,118,465</u>	<u>\$1,731,347</u>
 Total liabilities and net worth	 <u><u>\$5,592,880</u></u>	 <u><u>\$5,433,981</u></u>

INDUSTRIAL NUCLEONICS CORPORATION
Comparative Statement of Income -- Per Audit
For the Years Ended April 30, 1962, 1961 and 1960

	- - - - Year Ended April 30, - - - -		
	<u>1962</u>	<u>1961</u>	<u>1960</u>
SALES AND RENTALS	\$7,072,237	\$10,877,882	\$7,963,543
COST OF SALES	<u>3,761,560</u>	<u>7,009,222</u>	<u>4,237,574</u>
Gross Income	\$3,310,677	\$ 3,868,660	\$3,725,969
OPERATING EXPENSES:			
Selling, administrative, research and development	<u>2,285,568</u>	<u>2,146,275</u>	<u>2,935,650</u>
Net income from operations	<u>\$1,025,109</u>	<u>\$ 1,722,385</u>	<u>\$ 790,319</u>
OTHER DEDUCTIONS:			
Interest expense	\$ 78,588	\$ 127,636	\$ 96,379
Gain on sale of equipment previously leased, net	<u>(36,360)</u>	<u>(68,635)</u>	<u>(24,546)</u>
	<u>\$ 42,228</u>	<u>\$ 59,001</u>	<u>\$ 71,833</u>
Net income before Federal income taxes	\$ 982,881	\$ 1,663,384	\$ 718,486
Provision for Federal income taxes	<u>523,000</u>	<u>860,000</u>	<u>370,000</u>
Net income for the year	<u>\$ 459,881</u>	<u>\$ 803,384</u>	<u>\$ 348,486</u>
Net income per share*	<u>\$4.73</u>	<u>\$8.21</u>	<u>\$3.56</u>

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