

INDUSTRIAL NUCLEONICS CORPORATION

THIRTEENTH ANNUAL REPORT

FOR THE YEAR ENDED APRIL 30, 1963

TO OUR SHAREHOLDERS:

## HIGHLIGHTS OF 1962-63

The fiscal year which ended on April 30, 1963 was characterized by many important advancements for Industrial Nucleonics Corporation in the areas of continued financial growth and stability, further expansion of the Lease/Rental Program, introduction of new products, growth and profitability of the service organization, and the successful entry of the Company into the defense/space electronics industry.

Equipment shipments, customer service engineering and rental income, excluding subcontractors shipments of conveyors, were the highest in Company history. This was not reflected in the current year's consolidated sales, however, as shipments under lease/rental doubled in the past twelve months resulting in a deferral of income and profits. Sales and rentals of \$6,930,699 resulted in profits of \$307,880, or \$3.17 per share. Cash flow\* of \$8.13 per share was realized. The decrease in sales and profits from the previous year was due primarily to increased shipments under the Lease/Rental Program. The volume of equipment shipped under this plan enabled the Company to exceed its best previous year by more than a million dollars in the shipment of large measuring and control systems for sheet manufacturing industries. While increased lease/rental shipments resulted in the deferral of income on these shipments until future years, the gross rentals did increase 43% in the current year and are expected to be of continuing importance in the growth and stability of future earnings.

In December, 1962, the Company negotiated a \$2,000,000 revolving term credit agreement with the First National Bank of Chicago. This financial arrangement has made shipments of lease/rental equipment substantially "self-financing" for the first time in the nine years of this program. As of April 30, 1963, \$1,550,000 had been borrowed under the terms of this credit agreement, and the corporate balance sheet shows an improved net working capital position of \$2,142,502 as compared with \$1,010,047 as of April 30, 1962.

The first MOISTRON systems were installed during the current fiscal year. The accurate determination of moisture on a paper machine has expanded our market potential greatly and will enable us successfully to sell additional basis weight units.

\* Profits after taxes plus depreciation and interest.

Our customer engineering and service organization has continued to expand on a profitable basis. Combined with the Lease/Rental Program, our service organization is an important factor in our successful marketing of capital equipment.

## OPERATIONS

### History

Since its inception, Industrial Nucleonics has pioneered industrial process control by advanced electronic-analytical measuring and control systems. This has required large sums of money to be spent over long periods of time for the research, development, engineering, and production of this equipment. In addition, a highly specialized, engineering-oriented, marketing and servicing organization was required to create the need, sell the customer, perform the necessary field analysis and engineering to successfully install the equipment, work with the customer to obtain proper equipment operations, and validate the economic results achieved.

In addition to the fact that the nature of the business required substantial expenditures on projects and personnel for many years before returns could be received, the Company's market areas have been concentrated in the capital equipment segment of our economy. Almost all of Industrial Nucleonics' systems sales are classified as capital expenditures and subject to the involved request, justification and approval procedures of large corporations. The length of the development cycle and the variations in capital expenditures of large corporations caused fluctuations in Company sales and profits. Further, in many years a substantial percentage of the Company's business came from large orders from specific industries. This also intensified the sales peaks and valleys.

Three years ago, management began implementing a long-term plan to establish a "base line operation" for the Company to iron out the sales fluctuations and enable the Company to concentrate on longer term programs. The program included specific marketing plans, emphasis upon the development of products with large potential, the introduction of an improved leasing program, and the enlargement and improvement of our service organization. In addition, costs, prices and over-all efficiency were improved. The efforts of management and all Company personnel were concentrated on this program.

## Progress

Significant results were achieved during this past fiscal year. This progress was accomplished only with the dedication of each member of Industrial Nucleonics and through effective teamwork.

The Lease/Rental Program has been a key factor in the success of the Company's base line operations. Emphasis was placed on a lease program in 1958 but had to be withdrawn several years later because of the cash drain and the adverse effect on earnings in the early years of the lease. After five years of excellent results with leasing, arrangements were made for long-term financing of the leases. This enabled the Company to again emphasize the Lease/Rental Program and the percentage of leases to total orders reached the highest level in history. In addition to adequate financing, such a program requires rugged, well designed equipment, provisions for obsolescence, and a nationwide service organization.

The service organization now numbers 85 men who are strategically located throughout the United States, and in 90% of the cases there is an Industrial Nucleonics service man located within 75 miles of our installations. This is a strong selling point to a prospective customer who is considering the purchase or lease of an advanced electronic-analytical measuring and control system.

Gross shipments of Industrial Nucleonics equipment (including shipments on a lease basis at their current selling price) plus the income from leasing and services were at the highest point in the Company's history. Customer orders from the base line areas exceeded the previous year for the fifth consecutive year, and marketing costs as a percent of orders decreased for the fifth consecutive year on these products and services. The income from the Lease/Rental Program and service income increased for the eighth consecutive year and is now a substantial portion of the Company's break-even income for the year.

## FINANCING

One of the major accomplishments of the year was the financing of the Lease/Rental Program through a long term revolving credit agreement with the First National Bank of Chicago. This has enabled the Company to emphasize this program without impairing its working capital position as it has in the past.

Continued profits and the excellent experience with the leasing program over the past six years made the financing possible.

A wholly-owned subsidiary, AccuRay Leasing Corporation, was created to facilitate the financing of the leasing program. This subsidiary also will enable the Company to evaluate more precisely the manufacturing operations and the separate leasing business. Industrial Nucleonics sells the equipment to AccuRay Leasing, which then conducts the leasing business with the lessee. Service is provided by the Industrial Nucleonics service organization under contract to AccuRay Leasing. In the consolidated statement included with this report, leasing income is taken into income over the life of the lease agreement.

The Company's net working capital position of \$2,142,502 as of April 30, 1963, is an all-time high. With the continued lease financing, no additional requirements for operations are anticipated.

## MARKETING

The Company's marketing organization continues to be one of its strongest assets. In pioneering the new field of electronic-analytical instrumentation and control, it was necessary to create a demand for an unrecognized need. This further compounded the problem of finding an engineer who could sell capital equipment. The Company has had to develop its own personnel as well as the techniques necessary to sell this specialized market.

The average length of service for the key managers and supervisors in the Marketing Department is nine years. The average length of service of the sales engineers in the field is four years. The marketing group's experience in working together as a team will be one of the key factors in insuring the Company's future position as our country's industrial plants continue their modernization programs and as products and systems become increasingly more complex.

Shipments to the international markets continued to grow without a major, organized effort. The Company plans to devote more effort to these markets in the coming years.

## NEW PRODUCTS

The first shipments of the AccuRay MOISTRON systems were made in late 1962. This unit, which utilizes multiple radiofrequencies and a computer, is the most accurate means ever devised for measuring moisture on a paper machine. It represents nine years of effort and a substantial sum of money to solve one of the industry's most pressing problems.

The MOISTRON system is an excellent example of the Company's policy of developing unique solutions to major process problems and protecting this development with a strong patent position. It also complements the Company's other products sold to the same customer. As future product developments are made, industry will be closer to complete feedback controls for manufacturing processes.

The MOISTRON system has been accepted enthusiastically by the paper makers, who over the years have tried many other approaches to solving the pressing problem of accurate moisture measurement while the paper is being produced.

As with all sophisticated, on-line, electronic-analytical instruments, the equipment must be specified for a particular machine and set of environmental conditions. Industrial Nucleonics' capability to provide this advanced sales, engineering, and installation services on a routine basis is one of its key assets in this field.

Work is progressing on applying the MOISTRON systems to moisture determination in other materials.

## RESEARCH AND DEVELOPMENT

Research and development in the United States is experiencing an explosive growth. From just over \$1 billion in 1940 to \$4 billion in 1950, to \$14 billion in 1960, total research and development in the United States is expected to top \$20 billion in 1963. Two-thirds of this total R & D is sponsored by the Federal Government. The Federal Government is now spending more money on research and development in one year than it did in all the years from the Revolutionary War through and including World War II, during which vast amounts were spent on radar, the advanced airplanes, and the atomic bomb.

This participation by the Federal Government is having a marked influence on research and development in the United States, especially in certain industries. 80% of the money spent by the Government for defense and space goes to two industries - aerospace and electronics. 92% of all research and development in the aerospace and 73% of all research and development in the electronics industries is sponsored by the Federal Government. 80% of all electrical engineers in the United States are working on some phase of government work.

With the country's \$20 billion commitment to send three men to the moon, technology is continuing to change at a rapid rate, and a higher and higher percentage of it will be sponsored by the Federal Government.

The Company's policy has been to concentrate on the long-term development of the industrial process control market. Further increases in productivity in these industries will depend upon major breakthroughs in instrumentation and control techniques. Consequently, the value of the Company's products to these industries will increase every year, as American industry struggles to stay competitive with foreign competition and rising internal costs. The Company's major effort will still be directed toward these markets.

However, the Company must compete with the defense "cost plus" research for its major raw material - brain power. Products and technologies in the electronics industry are changing faster than private industry can afford. Nevertheless these products and technologies developed for the government have potential application in industry.

The Company has decided to participate in defense/space research and development to stay competitive with advancing techniques, to attract key scientists and engineers, and to share with the government Industrial Nucleonics' valuable know-how and capabilities in the applications of nuclear energy to solve defense/space problems.

#### DEFENSE/SPACE

A division has been established under the Executive Vice President to perform research and development for the defense and space efforts. This group of Industrial Nucleonics personnel has been augmented with additional scientists and engineers with training and experience in nucleonics and electronics.

To date, this new division has performed preliminary research and development work necessary to bid on "Request for Proposals" for research and development contracts for NASA, The Quartermaster Corps, the Air Force and Signal Corps. In addition, unsponsored research and development work has been performed and several unsolicited proposals submitted.

One unsolicited proposal has led to a contract for a feasibility study for a nuclear Missile Lift-Off System. There are several acceptable methods for tracking a missile once it is several thousand feet in the air. However, at present the only acceptable method of tracking during the first thousand feet is by optical means, which are not usable during fog or other adverse weather conditions. The nuclear Missile Lift-Off System proposed by Industrial Nucleonics would track the missile accurately for the first thousand feet under all weather conditions.

Other potential applications of nucleonics in space include a Silent Nuclear Instrument Landing System for combat aircraft, a nuclear instrument for determining distance from the Apollo spacecraft to the surface of the moon during the final phase of its landing on an uncertain surface, and positioning control of spacecraft for rendezvous in outer space.

The Company's Defense/Space Division has proposed many other unique solutions to problems with which the defense and space agencies are faced. It is expected that in the coming years Industrial Nucleonics will provide a valuable service to the community, and in turn will benefit through the availability of additional technical know-how.

#### ORGANIZATION AND PERSONNEL

The continuing growth and profitability of the company are dependent primarily upon the capability and experience of our personnel. Every year we have continued to strengthen this prime corporate asset through added experience and training. In addition, we have carefully chosen technical, sales, and administrative personnel to strengthen our organization and supplement management and operating abilities. This group of engineers, salesmen, technicians, managers, clerical, and production employees is envied by our competitors and unmatched throughout the industry.



The Stock Option Plan adopted in February, 1962 has been excellently received and will serve very well its primary purpose of providing additional incentive to key executives and employees. As of the date of this report, options for 11,255 shares were outstanding.

### FUTURE

Opportunities for corporate expansion in the electronics industry are widespread, challenging, and virtually unlimited. In order to take advantage of those most likely to produce results for Industrial Nucleonics we have carefully developed our strategic plan. This long-term program has been implemented by detailed operating plans for five years. Marketing and Product Development involve a continuing review of the many available opportunities.

We move into the future confident of our product, technical know-how, experience, and personnel. Your management expects that operations in 1963-64 will continue on a profitable level and further progress will be made in achieving the long-range goals of the Company.

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President

Columbus, Ohio  
September 23, 1963

INDUSTRIAL NUCLEONICS CORPORATION  
 Comparative Balance Sheets--Per Audit  
As of April 30, 1963 and 1962

<u>A S S E T S</u>	<u>April 30,</u> <u>1963</u>	<u>April 30,</u> <u>1962</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 293,938	\$ 290,405
Accounts receivable		
Trade (net)	1,347,520	1,363,122
Government	16,196	182,582
Subsidiaries	194,916	196,474
Inventories	1,557,180	1,409,932
Less - Progress payments	(28,617)	(87,693)
Prepaid expenses	<u>298,348</u>	<u>110,194</u>
 Total current assets	 <u>\$ 3,679,481</u>	 <u>\$ 3,465,016</u>
<b>EQUIPMENT LEASED TO CUSTOMERS</b>		
Manufacturing Cost	\$ 1,746,935	\$ 1,281,464
Less - Allowance for depreciation	<u>418,685</u>	<u>497,502</u>
Net book value	<u>\$ 1,328,250</u>	<u>\$ 783,962</u>
<b>INVESTMENTS IN SUBSIDIARIES</b>		
	<u>\$ 38,439</u>	<u>\$ 43,686</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Machinery and equipment	\$ 513,813	\$ 447,327
Furniture and fixtures	224,802	198,302
Leasehold improvements	<u>130,214</u>	<u>119,454</u>
	\$ 868,829	\$ 765,083
Less - Allowance for depreciation	<u>381,154</u>	<u>311,705</u>
Plant and equipment (net)	\$ 487,675	\$ 453,378
Land	<u>147,933</u>	<u>147,933</u>
Total property, plant and equipment	<u>\$ 635,608</u>	<u>\$ 601,311</u>
<b>DEFERRED RESEARCH AND DEVELOPMENT COSTS</b>		
	<u>\$ 697,635</u>	<u>\$ 685,042</u>
<b>DEFERRED CHARGES</b>		
	<u>\$ 31,382</u>	<u>\$ 13,863</u>
 Total assets	 <u><u>\$ 6,410,795</u></u>	 <u><u>\$ 5,592,880</u></u>

L I A B I L I T I E S   A N D   C A P I T A L

April 30,  
1963

April 30,  
1962

CURRENT LIABILITIES

Notes payable		
Bank loans	\$ -	\$ 450,000
Current maturities of term debt	127,121	432,176
Accounts payable		
Trade	314,225	320,041
Government Sub-contractors	44,290	171,045
Other	120,035	95,631
Accrued salaries, wages, taxes, interest, etc.	495,575	406,857
Federal income taxes	<u>435,733</u>	<u>428,621</u>
Total current liabilities excluding lease financing	\$ 1,536,979	\$ 2,304,371
Lease financing	<u>-</u>	<u>150,598</u>
Total current liabilities	<u>\$ 1,536,979</u>	<u>\$ 2,454,969</u>

DEFERRED INCOME	<u>\$ 73,143</u>	<u>\$ 26,365</u>
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TERM LOANS	<u>\$ 1,929,455</u>	<u>\$ 497,081</u>
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DEFERRED FEDERAL INCOME TAXES	<u>\$ 462,000</u>	<u>\$ 496,000</u>
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CAPITAL STOCK AND SURPLUS

Common stock--par value \$.10--authorized 125,000 shares; outstanding at April 30, 1963, 97,222 shares	\$ 9,722	\$ 9,732
Paid-in surplus	79,435	88,576
Earned surplus	<u>2,320,061</u>	<u>2,020,157</u>
Total capital stock and surplus	<u>\$ 2,409,218</u>	<u>\$ 2,118,465</u>

Total liabilities and capital	<u>\$ 6,410,795</u>	<u>\$ 5,592,880</u>
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INDUSTRIAL NUCLEONICS CORPORATION  
 Comparative Statement of Income--Per Audit (1)  
For the Years Ended April 30, 1963, 1962, 1961 and 1960

	- - - - -Year Ended April 30,- - - - -			
	<u>1963</u>	<u>1962</u>	<u>1961</u>	<u>1960</u>
SALES AND RENTALS	\$ 6,930,699	\$ 7,072,237	\$ 10,877,882	\$ 7,963,543
COST OF SALES	<u>3,218,100</u>	<u>3,761,560</u>	<u>7,009,222</u>	<u>4,237,574</u>
Gross Income	\$ 3,712,599	\$ 3,310,677	\$ 3,868,660	\$ 3,725,969
 OPERATING EXPENSES:				
Selling, administrative, research and development	<u>3,001,950</u>	<u>2,285,568</u>	<u>2,146,275</u>	<u>2,935,650</u>
Net income from operations	<u>\$ 710,649</u>	<u>\$ 1,025,109</u>	<u>\$ 1,722,385</u>	<u>\$ 790,319</u>
 OTHER DEDUCTIONS:				
Interest and miscellaneous expenses	\$ 104,581	\$ 78,588	\$ 127,636	\$ 96,379
Gain on sale of equipment previously leased, net	<u>(11,812)</u>	<u>(36,360)</u>	<u>(68,635)</u>	<u>(24,546)</u>
	<u>\$ 92,769</u>	<u>\$ 42,228</u>	<u>\$ 59,001</u>	<u>\$ 71,833</u>
Net income before Federal income taxes	\$ 617,880	\$ 982,881	\$ 1,663,384	\$ 718,486
Provision for Federal income taxes	<u>310,000</u>	<u>523,000</u>	<u>860,000</u>	<u>370,000</u>
Net income for the year	<u>\$ 307,880</u>	<u>\$ 459,881</u>	<u>\$ 803,384</u>	<u>\$ 348,486</u>
Net income per share (2)	<u>\$ 3.17</u>	<u>\$ 4.73</u>	<u>\$ 8.21</u>	<u>\$ 3.56</u>
Cash flow per share (3)	<u>\$ 8.13</u>	<u>\$ 9.20</u>	<u>\$ 12.25</u>	<u>\$ 6.80</u>

NOTES:

- (1) AccuRay Leasing Corporation included from date of incorporation, December 28, 1962 and AccuRay Corporation included for year ended April 30, 1963.
- (2) Based on shares outstanding at end of each respective period
- (3) Net income plus depreciation and interest.