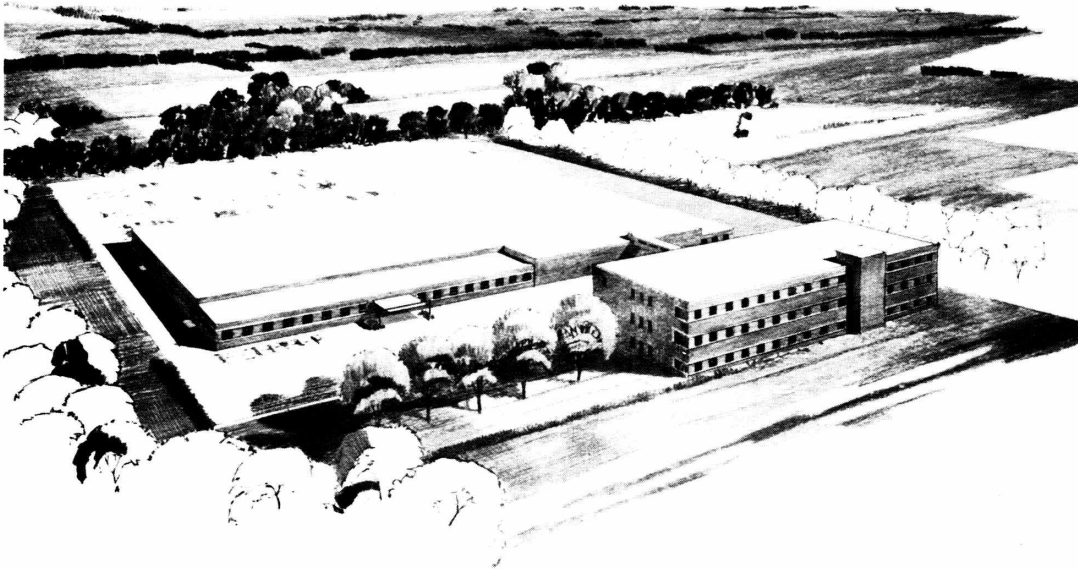


INDUSTRIAL NUCLEONICS CORPORATION
FOURTEENTH ANNUAL REPORT
FOR THE YEAR ENDED APRIL 30, 1964



A new office and plant building containing 52,000 square feet of space was constructed during the year.

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
David A. Bossen	Vice President
Kenneth E. Cameron	Secretary
Christopher J. Campbell	Assistant Treasurer
Clayton C. Hoskins	Assistant Secretary General Counsel

ACCURAY LEASING CORPORATION
COLUMBUS, OHIO

DIRECTORS

<u>NAME</u>	<u>POSITION</u>
Edward McC. Blair	Managing Partner William Blair & Company
Wilbert E. Chope	President Industrial Nucleonics Corporation
Robert E. Swenson	Vice President and Treasurer Industrial Nucleonics Corporation

OFFICERS

Robert E. Swenson	President
Clayton C. Hoskins	Secretary
Christopher J. Campbell	Treasurer

ACCURAY CORPORATION
COLUMBUS, OHIO

DIRECTORS

Wilbert E. Chope	President Industrial Nucleonics Corporation
Fred W. Truxall	Manager, Development Projects Industrial Nucleonics Corporation
Clayton C. Hoskins	Assistant Secretary Industrial Nucleonics Corporation

OFFICERS

Wilbert E. Chope	President
Fred W. Truxall	Secretary
Christopher J. Campbell	Treasurer

TO OUR SHAREHOLDERS:

HIGHLIGHTS OF 1963-64

Our fourteenth fiscal year, which ended on April 30, 1964, showed substantial progress in all operating figures. Sales increased by 16%, profits after taxes per share by 37%, and cash flow per share by 35%.

In addition, progress was made in strengthening our organization, expanding our product line, and planning for the future. A 67% increase in floor space was added during the year by the construction of a 52,000 square foot addition adjacent to our present building.

A summary of our key operating figures follows:

	<u>1963-64</u>	<u>1962-63</u>	<u>Percent Increase</u>
Sales	\$8,001,607	\$6,930,699	16
Profit after Taxes	421,419	307,880	37
Cash Flow *	1,061,000	789,000	35
Profit after Taxes per Share	4.34	3.17	37
Cash Flow per Share	10.90	8.13	35
Working Capital	2,257,664	2,142,502	6
Total Assets	8,106,893	6,200,795	31
Stockholders' Equity	2,798,968	2,409,218	16

* Profit after taxes plus depreciation and interest.

SALES

Sales in 1963-64 were \$8,001,607 compared to \$6,930,699 in 1962-63, an increase of 16%. This volume represents the highest sales level in our history when subcontractors' shipments of conveyors are excluded from previous years' sales. As in recent years, this sales figure would have been higher if it had not been for the increase in lease shipments.

Orders in our base-line operations were the highest in history. This increase reflected good general economic conditions, new products developed in the past few years attaining their projected sales, and continuing improvement of our marketing organization. Another factor contributing to our sales growth is the awareness by American industry of the need for reducing costs through better control of materials and machines.

Orders for leased equipment increased 40% over those for the previous year. Thus, AccuRay Leasing Corporation, the wholly-owned subsidiary created to facilitate financing of the leasing program and expand our concept of the AccuRay Results/Rental Program, continues to grow and provide results for its customers.

The Company's service and parts business was also at an all time high. This increase indicates a recognition by our customers of the need for our trained systems and service engineers to optimize the control system performance. Our present customer engineering organization can provide service to practically all of our customers

within two hours. This organization provides a solid base upon which to expand our line of electronic, on-line analytical instrumentation and control.

Leasing, service, and parts business continues to provide an ever-increasing percentage of our breakeven point. Such provides us with a good foundation every year and is a particularly important safeguard during potential economic recessions.

Orders from the international market rose substantially, indicating the superiority of our equipment over foreign equipment. More effort will be spent in 1964-65 in planning and selling this market.

Our marketing organization continues to be one of the Company's major assets. This organization has been built entirely from "within" and is staffed with outstanding young engineers who are able to creatively sell capital equipment systems of large unit dollar volume. Continuous emphasis is on training and organization of our marketing team.

Many other companies in the industrial process control field have attempted to sell through sales representatives. Some of them are just now beginning to set up their own sales engineering organizations. Industrial Nucleonics has already established a strong marketing organization. The initial cost of recruiting, training, and organizing our own marketing effort is already behind us.

FINANCE

The consolidated net profits after taxes were \$421,419 compared

to \$307,880 for the previous year. An increased volume of equipment shipped on the leasing program has deferred income and profits to future years.

The continued growth of cash flow and the equipment leasing program have provided the necessary funds for the Company's expansion during the past year. The \$2,257,664 net working capital as of April 30, 1964, is the highest in the Company's history. Total assets increased almost \$2,000,000, of which approximately \$800,000 is represented by an increase in current assets; almost \$500,000, in the net book value of equipment leased to customers; and \$635,000, by increased property, plant, and equipment.

An agreement was reached with The First National Bank of Chicago to increase the revolving term credit commitment from \$2,000,000 to \$3,500,000. As of April 30, 1964, \$2,000,000 had been borrowed under the terms of this agreement, and it is projected that this revision will provide adequate financing for our operations in 1964-65.

PRODUCTS

A hundred years ago, the major cost item in many products was labor. Materials cost ranked second, and machine cost, third. When steam and electrical power was substituted for men's muscle power, the mix of cost factors changed. In numerous processes, productivity increases of up to 48,000% were accomplished by the use of steam or electrical power-driven machines.

Today in many of America's basic industries, such as metals, petroleum, chemicals, foods, and paper, the cost of raw materials is by far the major cost factor, followed in turn by machine operating costs, and lastly, by labor costs. Potential savings from further reduction of labor content are not nearly as great as the potential cost savings possible through conserving materials and obtaining better machine utilization.

Many of the possible savings in materials and improved machine utilization will be accomplished through analytical instrumentation and automatic process control. These analytical instruments measure the properties of an output material. Based on the accurate, continuous measurement of end products, automatic feedback control then adjusts the process machinery. This automatic adjustment provides optimum quality at lowest manufacturing costs.

While the field of analytical instrumentation is relatively small today, it will expand and play an important part in the continued struggle to increase productivity and lower costs.

The requirements for the successful conception, manufacture, and sale of this powerful but complex equipment include:

1. Large expenditures for advanced research and development in many diverse fields, such as electronics, physics, chemistry, nucleonics, etc.
2. Specialized engineering of each piece of equipment for each individual application.

3. The creative sales engineering of new capital equipment.
4. The custom building of each individual order with particular emphasis on quality assurance.
5. Specialized installation of the equipment with each piece of machinery.
6. An overall systems approach to successfully integrate the equipment into the process economically as well as physically.
7. Follow-up, maintenance, and modernization.

We have staffed and organized ourselves to accomplish the above missions profitably. As this market grows, I. N. will continue to maintain its present position of leadership.

The multi-signal MOISTRON Measuring System has required successful completion of all of the above steps. Such has followed our prior experience in the successful development and application of nucleonic systems to industrial processes.

The MOISTRON System has been acclaimed by many paper makers as the only accurate way to measure moisture on a paper machine. Work is continuing to adapt this equipment to other applications.

RESEARCH AND DEVELOPMENT

Company-funded research and development expenditures of over \$1,000,000 a year place us among the top 400 to 500 companies in the

United States, according to studies by the National Science Foundation. This level of expenditures is necessary to make breakthroughs in the analytical instrumentation field.

During the year, our capabilities were increased by the addition of outstanding Ph. D. s in electronics and physics who have had wide experience in the related fields of radar, optics, infrared, communications, and computers.

We are concentrating our efforts in the military/ space field to directly related areas of technologies. While our contracts to date have been small, we have built up a good nucleus of top technical personnel. We expect to increase our volume of government-funded research and development this year.

ORGANIZATION AND PERSONNEL

Our success in the past has not rested on the shoulders of only one or two individuals. This success has been the result of a team effort involving highly trained professional, scientific, and engineering personnel. All members of our team are devoted to the successful operation of the Company and to an expanding future. In Industrial Nucleonics, capable personnel are truly our major asset.

In the process of selecting each new person for the Company, we not only examine how he will perform on the present team, but how effectively he will grow in capability and stature as the Company expands. By following this procedure, we have assembled a highly

capable "cadre" for a much larger organization of the future.

Increased emphasis has been placed upon corporate planning and long-term development. Mr. David Bossen, who has been our Vice-President of Marketing, has been elected Vice-President of Corporate Planning and Development. He has assembled an outstanding staff of personnel, all of whom have engineering degrees and most of whom also have master's degrees in Business Administration. They combine experience in marketing, research and development, finance, administration, and production at Industrial Nucleonics as well as at other companies.

Their job is to prepare our twenty-five-year and five-year strategic plans as well as our year-to-year operational plans.

Marketing research, analysis of technological trends, product specifications, and financial planning--all are part of the coordinated effort which must be done to assure ourselves a major role in the rapidly growing technologies of nucleonics, electronics, and process control. Such requires a greater emphasis on planning than normally would be necessary in nongrowth industries.

FUTURE

We are in the most rapidly expanding segment--the industrial market--of the rapidly growing electronics industry. We have pioneered new technologies, new marketing methods, and new control concepts. The team which has successfully brought us to this stage of our development

will be with us as we grow during the next twenty-five years. We anticipate continued profitable growth as a leader in the industrial electronics market.

With our lease, service, and parts income, and our equipment backlog, we anticipate profitable operations for 1964-65.


President

Columbus, Ohio
June 19, 1964

INDUSTRIAL NUCLEONICS CORPORATION
Consolidated Balance Sheets
As of April 30, 1964 and 1963

<u>A S S E T S</u>	April 30, 1964 <u>(Per Books)</u>	April 30, 1963 <u>(Per Audit)</u>
CURRENT ASSETS:		
Cash	\$ 371,132	\$ 293,938
Accounts Receivable -		
Trade (net)	1,790,499	1,542,738
Government	5,000	16,196
Subsidiaries	240,615	194,916
Inventories	1,904,407	1,528,563
Prepaid Expenses	<u>155,828</u>	<u>103,130</u>
Total Current Assets	<u>\$4,467,481</u>	<u>\$3,679,481</u>
EQUIPMENT LEASED TO CUSTOMERS:		
Manufacturing Cost	\$2,489,082	\$1,746,935
Less-Allowance for Depreciation	<u>885,676</u>	<u>628,685</u>
Net Book Value	<u>\$1,603,406</u>	<u>\$1,118,250</u>
INVESTMENTS IN SUBSIDIARIES	<u>\$ 33,826</u>	<u>\$ 38,439</u>
PROPERTY, PLANT AND EQUIPMENT:		
Machinery and Equipment	\$ 626,185	\$ 513,813
Furniture and Fixtures	261,434	224,802
Leasehold Improvements	138,280	130,214
	<u>\$1,025,899</u>	<u>\$ 868,829</u>
Less-Allowance for Depreciation	<u>461,095</u>	<u>381,154</u>
Plant and Equipment (net)	\$ 564,804	\$ 487,675
Construction in Progress	540,067	-
Land	<u>165,589</u>	<u>147,933</u>
Total Property, Plant and Equipment	<u>\$1,270,460</u>	<u>\$ 635,608</u>
DEFERRED RESEARCH AND DEVELOPMENT COSTS	<u>\$ 697,635</u>	<u>\$ 697,635</u>
DEFERRED CHARGES	<u>\$ 34,084</u>	<u>\$ 31,382</u>
Total Assets	<u>\$8,106,892</u>	<u>\$6,200,795</u>

<u>L I A B I L I T I E S A N D C A P I T A L</u>	April 30, 1964 <u>(Per Books)</u>	April 30, 1963 <u>(Per Audit)</u>
CURRENT LIABILITIES:		
Notes Payable -		
Bank Loans	\$ 550,000	\$ -
Current maturities of term debt	100,000	127,121
Accounts Payable -		
Trade	348,886	314,225
Government Subcontractors	-	44,290
Other	180,435	120,035
Accrued Salaries, Wages, Taxes, Interest, etc.	672,032	495,575
Federal Income Taxes	<u>358,464</u>	<u>435,733</u>
Total Current Liabilities	<u>\$2,209,817</u>	<u>\$1,536,979</u>
 DEFERRED INCOME	 <u>\$ 55,387</u>	 <u>\$ 73,143</u>
 LONG-TERM DEBT:		
Revolving Credit Notes	\$2,000,000	\$1,550,000
Bank Term Loan	275,000	375,000
Construction Loan	515,720	-
Other	<u>-</u>	<u>4,455</u>
Total Long-Term Debt	<u>\$2,790,720</u>	<u>\$1,929,455</u>
 DEFERRED FEDERAL INCOME TAXES	 <u>\$ 252,000</u>	 <u>\$ 252,000</u>
 CAPITAL STOCK AND SURPLUS:		
Common stock--par value \$0.10-- authorized 125,000 shares; outstanding at April 30, 1964, 97,097 shares	\$ 9,710	\$ 9,722
Paid-in Surplus	67,198	79,435
Earned Surplus	<u>2,722,060</u>	<u>2,320,061</u>
Total Capital Stock and Surplus	<u>\$2,798,968</u>	<u>\$2,409,218</u>
 Total Liabilities and Capital	 <u>\$8,106,892</u>	 <u>\$6,200,795</u>

INDUSTRIAL NUCLEONICS CORPORATION
Consolidated Statements of Income (1)
For the Years Ended April 30, 1964, 1963, 1962 and 1961

	Year Ended April 30,			
	<u>1964</u> ⁽²⁾	<u>1963</u>	<u>1962</u>	<u>1961</u>
SALES AND RENTALS	\$8,001,607	\$6,930,699	\$7,143,833	\$10,917,868
COST OF GOODS SOLD	<u>3,691,137</u>	<u>3,218,100</u>	<u>3,778,814</u>	<u>7,023,754</u>
Gross Income	\$4,310,470	\$3,712,599	\$3,365,019	\$3,894,114
OPERATING EXPENSES:				
Selling, administrative, research and development	<u>3,349,631</u>	<u>3,001,950</u>	<u>2,335,915</u>	<u>2,163,484</u>
Net Income from operations	<u>\$ 960,839</u>	<u>\$ 710,649</u>	<u>\$1,029,104</u>	<u>\$1,730,630</u>
OTHER DEDUCTIONS:				
Interest and miscellaneous expenses	\$ 114,621	\$ 104,581	\$ 78,588	\$ 127,636
Gain on sale of equipment previously leased, net	<u>(79,201)</u>	<u>(11,812)</u>	<u>(36,360)</u>	<u>(68,635)</u>
	<u>\$ 35,420</u>	<u>\$ 92,769</u>	<u>\$ 42,228</u>	<u>\$ 59,001</u>
Net Income before Federal Income Taxes	\$ 925,419	\$ 617,880	\$ 986,876	\$1,671,629
Provision for Federal Income Taxes	<u>504,000</u>	<u>310,000</u>	<u>524,000</u>	<u>863,000</u>
Net Income for the Year	<u>\$ 421,419</u>	<u>\$ 307,880</u>	<u>\$ 462,876</u>	<u>\$ 808,629</u>
Net Income per Share ⁽³⁾	<u>\$4.34</u>	<u>\$3.17</u>	<u>\$4.75</u>	<u>\$ 8.25</u>
Cash Flow per Share ⁽⁴⁾	<u>\$10.90</u>	<u>\$8.13</u>	<u>\$9.31</u>	<u>\$12.38</u>

NOTES:

- (1) Includes AccuRay Leasing Corporation and AccuRay Corporation (wholly-owned domestic subsidiaries).
- (2) Per books.
- (3) Based on shares outstanding at end of each respective period.
- (4) Net income plus depreciation and interest.



INDUSTRIAL NUCLEONICS
1964