

Company Profile

AccuRay Corporation, founded in 1950, serves raw materials processing industries around the world. Our business is designing, manufacturing, marketing and servicing computer-based process management systems. These systems use the latest technology to control manufacturing processes to save raw materials, reduce energy consumption, increase productivity and reduce production costs. They assure consistently high quality products for our customers in:

- Pulp and paper mills
- Cigarette factories
- Metals rolling plants
- Carpet mills
- Plastics, textiles and rubber operations

Nearly half of our 1,900 personnel work in our Columbus, Ohio, U.S.A. headquarters to plan, design or manufacture our systems. Our headquarters facilities are located on a modern, 33-acre site adjacent to Ohio State University. Proximity to the university environment has aided in our ability to keep abreast of current technology in electronics and computer science.

The other half of our people live and work in some 50 countries around the world. Their major responsibility is installation, systems engineering and servicing of AccuRay systems. They provide our customers with the technical assurance that AccuRay systems will achieve maximum results and perform to specifications.

AccuRay process management systems use the latest mini- and microcomputer technology to perform three basic functions:

- Provide accurate measurement data using a wide range of sensor technologies — nucleonic, X-ray, microwave, radio frequency, infrared, optical and pneumatic.

- Automatically control the manufacturing process by comparing the measurement data to control limits established for optimum performance.

- Assemble, analyze and present product information in language our customers understand for better production management. AccuRay systems can communicate intelligently with business host computers as part of the management information network.

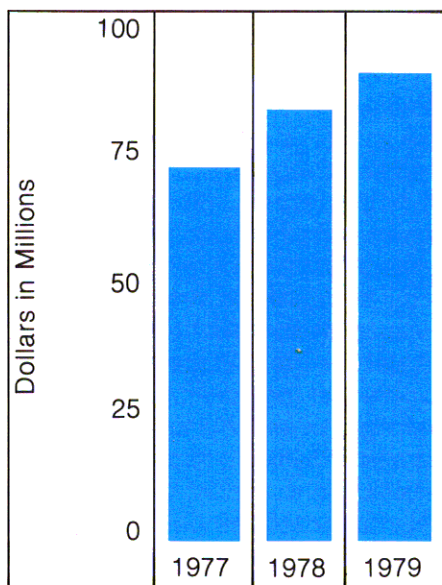
Division offices are strategically located around the world, staffed with expert personnel to provide systems engineering, technical programming support, installation and maintenance services to integrate AccuRay systems into customer businesses. In this way, AccuRay Corporation ensures continuing economic and quality results for each user.

Financial Highlights

Dollars in thousands except per share data	1979	1978
Operating Revenues	\$91,658	\$84,415
Net Income	1,206	433
Net Income per Share	0.35	0.13
Backlog	32,600	24,040

To Our Stockholders and Employees:

Operating Revenues



During 1979 the upward pressure on raw material and energy costs created new demand for AccuRay process automation systems. Total new orders for equipment and initial services received in 1979 increased to \$67.3 million, compared with \$58.9 million in 1978. New orders in the final quarter of 1979 were \$20.6 million, compared with \$16.5 million in 1978. The backlog at year end increased to \$32.6 million, compared with \$24.0 million a year earlier. This backlog includes equipment and related commitments for services to be performed within 12 months.

Total operating revenues recorded in 1979 for sales, service and leasing were \$91.7 million, compared with \$84.4 million in 1978. Net income was \$1,206,000, or 35 cents per share, compared with \$433,000, or 13 cents per share in 1978.

In the final quarter of 1979, total operating revenues were \$24.7 million, compared with \$23.5 million in 1978. Net income was \$447,000, or 13 cents per share, compared with \$65,000, or 2 cents per share a year earlier.

The following is a summary of financial highlights for the fiscal year ended December 31, 1979:

- Gross profit margins on total operating revenues increased to 41%, compared with 38% in 1978. In reviewing the two segments of our business, gross profit margins on sales revenues — representing primarily new equipment shipments — improved to 55%, compared with 47% a year earlier. Although these margins were the highest in the past ten years, they were partially offset by a reduction in margins on service and leasing revenues which decreased to

28%, compared with 29% a year earlier.

- Selling, administrative and other operating expenses increased 9% to \$20.8 million versus \$19.1 million in 1978.

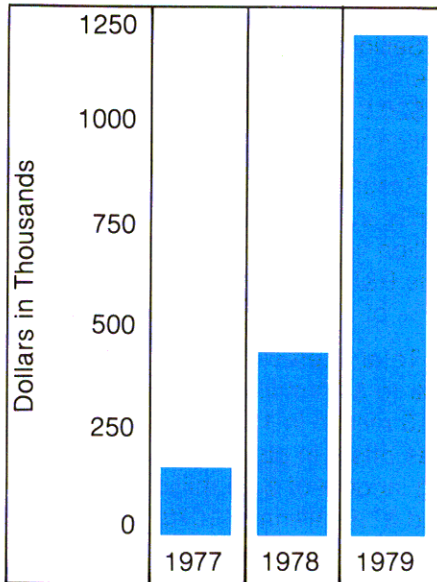
- Research and development expense increased 14% to \$6.3 million versus \$5.5 million in 1978. This R&D investment represented 14% of sales revenues in 1979.

- Total interest expense increased 9% to \$8.0 million, as compared to \$7.3 million in 1978. This expense was offset in part by earned financing income of \$3.0 million in 1979 and \$3.8 million in 1978 for systems installed under long-term installment sales and lease agreements. Therefore, net interest costs increased 43% to \$5.0 million in 1979, as compared to \$3.5 million in 1978.

- Foreign currency loss recorded in 1979 was \$492,000, compared with a gain of \$22,000 in 1978. This loss primarily reflects the costs for hedging transactions on overseas business which in 1978 were offset by translation gains produced by the decline of the dollar.

- Total bank debt was reduced an additional \$6.1 million in 1979 to \$37.7 million at year end versus \$43.8 million at December 31, 1978. This represents a total reduction in bank debt of \$36.7 million since 1974, when our bank debt at its peak reached \$74.4 million primarily due to internal financing of customer installment sale and lease agreements. In 1979 less than 5% of new equipment shipments required direct financing by the Company, compared with 54% in 1974.

Net Income



■ Total operating revenues per employee increased to \$47,700 in 1979, compared with \$44,100 in 1978. At year-end 1979, total employment was 1,900, compared with 1,940 a year earlier.

In recent reports to stockholders, we have emphasized the development of advanced software capabilities which allow for a continuing introduction of software-based products to the marketplace. This program is part of the Advanced System Development Plan followed by AccuRay Corporation to introduce in 1976 a new generation of control systems with microprocessor-based hardware and more powerful and flexible software. The objective of this plan is to establish a new industry standard for control system performance in process automation markets in the 1980's.

From our customers' viewpoint, we can now offer new generation systems with approximately twice the useful life of earlier control systems. This is because the equipment hardware has been greatly simplified and standardized in order that annual modernization of the installed system can be provided primarily through additions in software.

The architectural structure now in place is based upon emerging microprocessor technologies. Two major product families with a high degree of commonality of hardware are now available to build commercial systems in the 1980's for the raw materials processing industries. The product line providing minimum system capability utilizes multiple microprocessors in a shared memory environment. For mid-range to higher-level system capability, a second product line

combines the strength of both microcomputer and minicomputer technologies. Both of these families are designed for unit process level applications and interface with (1) a wide variety of on-line sensors for measurement of product properties, (2) input/output signals from the customer's process and (3) the overall hierarchical structure for millwide communications and control.

Over the next decade, we anticipate that individual AccuRay systems at the unit process level will be increasingly tied together into networks to provide the opportunity for expanded visibility by our customers into their mill operations. Current customer buying decisions must include an analysis of how each control system will fit within the millwide management system of the future. To meet this need, we are introducing the AccuRay Micro/Manager 8000 — a planned structure which conforms to the basic principles for networks in a millwide management system. As needs for millwide information and management continue to evolve, the Micro/Manager 8000 technology will provide the means to tie unit processes together within the mill to increase the efficient use of capital, machinery, labor, raw materials and energy.

In recent years, one of the emerging concerns of industry users of process automation systems has been the rapidly increasing costs of continuing maintenance service. Suppliers of process automation systems have frequently designed equipment to be maintained primarily by their own service organizations. It became traditional for the supplier



David L. Nelson
President

to provide a resident engineer at each customer installation on a continuing basis. As the cost of recruiting, training and staffing these engineers escalated in the 1970's, it meant that the annual cost of continuing maintenance to the customer often exceeded the amortized cost of the equipment. In addition, from the supplier viewpoint, we believe that every manufacturer of process automation systems has had serious difficulty in recent years in providing continuing maintenance services at an adequate profit level. Therefore, in order to provide solutions to these issues, we have taken an industry lead in offering a control system designed to be maintained by the customer. The higher level of customer involvement in routine, continuing maintenance results in a more cost-effective services program for the customer. Whereas prior equipment design discouraged such customer participation, the standardization of hardware and the availability of new software and firmware diagnostics make customer self-maintenance a practical alternative. At our training facility in Columbus, 170 customer personnel from 86 mill locations have been trained in maintenance of this new generation equipment.

As an example, we released to the marketplace in late 1979 a new Advanced Interactive Diagnostics (AID) package. AID is a fault isolation software tool which automatically tests one or all hardware modules in each AccuRay Micro system. The AID package consists of a separate software program on a diskette which is loaded into the system in the event of a service problem. The diskette contains a diagnostic executive program and

test programs which have a high probability of pinpointing a fault in the system to a specific replaceable part. The AID package can be utilized by customer maintenance personnel who follow instructions for corrective action provided by the system printer. This capability provides to the customer an improved overall cost-effective solution for continuing maintenance while allowing profit margins to improve for the specialized backup support services provided by AccuRay Corporation.

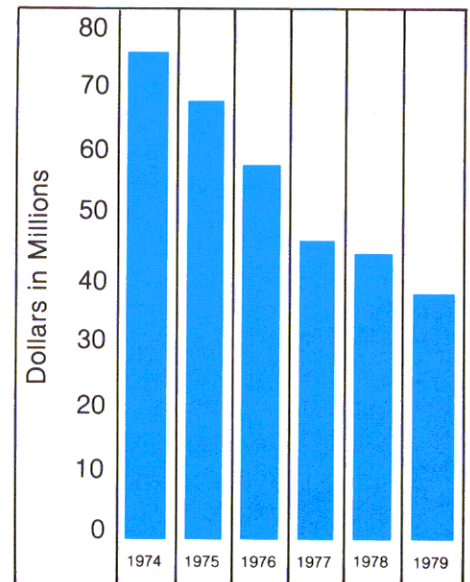
In 1979 the domestic market in the United States produced approximately 45% of the new business received by the Company, with the remainder of new business being divided between Western and Eastern Europe (35%), Western Pacific (11%) and Latin America (7%). This diversified business base represents a basic strength of AccuRay Corporation as we enter the 1980's, providing the ability to increase business at any given time in the more favorable geographical markets as other markets from time to time pass through periods of economic uncertainty.

In the 1980's, we will have the advantage of a leading technological product position, new customer maintenance strategies and a diversified geographical business base in order to better position AccuRay Corporation as a well-managed growth company and quality leader in the process automation industry.

Sincerely,

David L. Nelson
President

Bank Debt



AccuRay Corporation

DIRECTORS

Edward McC. Blair
Senior Partner
William Blair & Co.
(Investment Banking)

Christopher J. Campbell
Executive Vice President
AccuRay Corporation

Gordon B. Carson
Director of Finance
Northwood Institute (College)

Henry R. Chope
Executive Vice President
AccuRay Corporation

John Eckler
Managing Partner
Bricker & Eckler
(Attorneys at Law)

Thomas F. Jones
Vice President For Research
Massachusetts Institute of
Technology

David L. Nelson
President
AccuRay Corporation

George F. Schlaudecker
Consultant

Robert E. Swenson
Vice President - Finance
AccuRay Corporation

George B. Young
Director & Trustee
Various Organizations

OPERATING OFFICERS OF ACCURAY CORPORATION

William L. Adams
Vice President

Walter H. Canter, Jr.
Vice President

Donald D. Danison
Vice President

John E. DeWitt
Vice President

John E. Eickelberg
Vice President

David J. Foster
Vice President

Herbert J. Kahn
Vice President

John A. Koegel
Secretary and
General Counsel

Ralph D. Lockhart
Vice President

James D. Mitchell
Vice President

Thomas L. Simpson
Controller

Robert F. Zust
Treasurer

OPERATING OFFICERS OF ACCURAY INTERNATIONAL

William D. Bloebaum
Treasurer

Daniel J. Revyn
Vice President

Marc F. DeBacker
Controller

AUDITOR

Arthur Andersen & Co.
Columbus, Ohio 43215

TRANSFER AGENT

First National Bank of Chicago
Chicago, Illinois 60670

REGISTRAR

Harris Trust and Savings Bank
Chicago, Illinois 60690

PRINCIPAL OFFICES AND SUBSIDIARIES

Corporate Headquarters

650 Ackerman Road
Columbus, Ohio 43202

United States Offices

First Southern Federal Tower
Suite 702
Mobile, Alabama 36606

P.O. Box 3327
2777 Summer Street, 6th Floor
Stamford, Connecticut 06905

4800 S.W. Macadam Avenue
Suite 240
Portland, Oregon 97201

Piedmont Center
33 Villa Road, Suite 400A
Greenville, South Carolina 29615

Giltedge Building
4321 West College Avenue
Appleton, Wisconsin 54911

Worldwide Offices

Australia:

AccuRay Australia Pty. Ltd.
Level 4, B.M.A. House
815 Pacific Highway
Chatswood 2067
New South Wales, Australia

Benelux Countries:

AccuRay International
363 Chaussee de Malines
B-1950 Kraainem/Brussels
Belgium

Brazil:

AccuRay Sistemas Limitada
Rua Beneficencia Portuguesa
24 S/411
CEP. 01033
São Paulo, Brazil

Canada:

AccuRay of Canada Ltd.
1690 Boulevard Jules Poitras
Suite 203
Ville St. Laurent, Quebec
Canada H4N 1Z3

Finland:

AccuRay Finland Oy
Salomonkatu 17 B 6
00100 Helsinki 10
Finland

France:

AccuRay France S.A.R.L.
8, Rue Auguste-Renoir
78400 Chatou, France

Germany:

AccuRay Deutschland GmbH
52 Siegburg
Holzgasse 29-33
West Germany

Italy:

AccuRay Italia S.r.l.
Piazza Leonardo da Vinci, 1-3
16145 Genova, Italy

Japan:

AccuRay Japan Ltd.
New Kudan Building
No. 7, 3-Chome Kanda-Jimbocho
Chiyoda-ku
Tokyo, Japan

Mexico:

AccuRay Mexico S.A. de C.V.
Avenida de las Palmas 731-704
7^º Piso
Lomas de Chapultepec
Mexico, 10, D.F.

New Zealand:

AccuRay Australia Pty. Ltd.
Suite 2A
40 Eruera Street
P.O. Box 1643
Rotorua, New Zealand

South Africa:

AccuRay S.A. (Pty.) Ltd.
113 Old Main Road
P.O. Box 808
Pinetown 3600 (Durban)
Republic of South Africa

Spain:

AccuRay España
C/Milanesado 21-23
Barcelona 17, Spain

Sweden:

AccuRay Scandinavia A.B.
Bergshojden 32
Box 7102
S-17207 Sundbyberg, Sweden

United Kingdom:

AccuRay (U.K.) Limited
Langwood House
63-81 High Street
Rickmansworth (London)
Hertfordshire WD3 1EQ, England