measurex

1995 ANNUAL REPORT

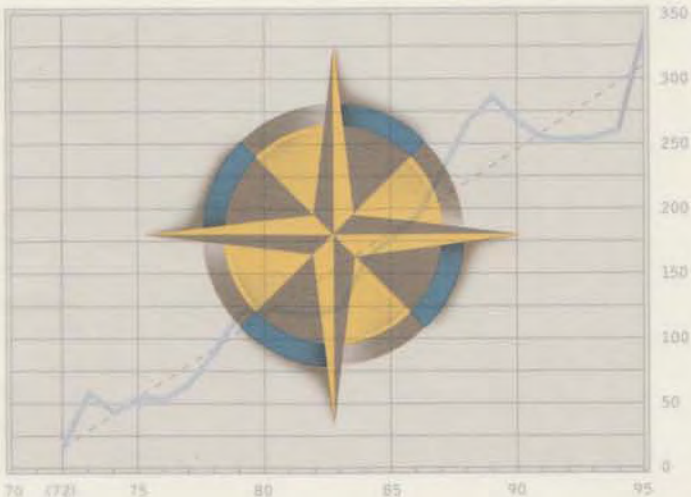
RESULTS worldwide

GROWTH THROUGH "THE TIGER": MEASUREX'S WORLDWIDE SALES AND SERVICE ORGANIZATION

95

north

MEASUREX
WORLDWIDE REVENUE GROWTH
Dollars in Millions



Since its initial public offering in 1972, Measurex's revenue has grown at a compound rate of 14 percent. 1995 saw a sharp increase in revenue growth.

— *Actual Revenues*   - - *"Best Fit" Trend*

west

east

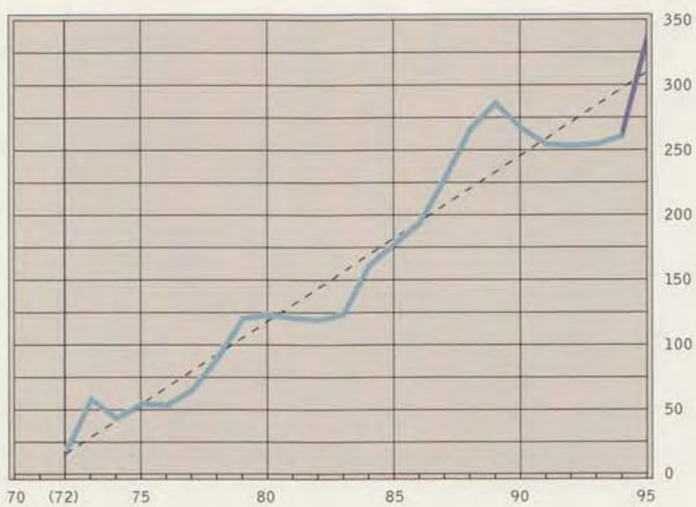
south

north

west

east

MEASUREX
WORLDWIDE REVENUE GROWTH
Dollars in Millions

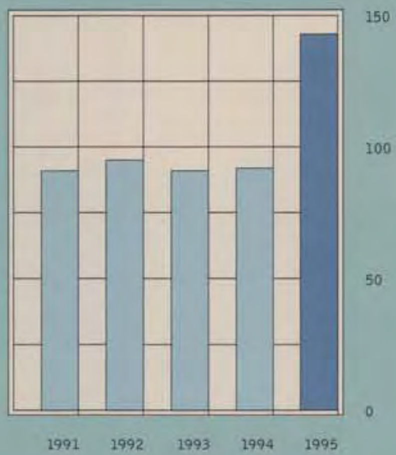


Since its initial public offering in 1972, Measurex's revenue has grown at a compound rate of 14 percent. 1995 saw a sharp increase in revenue growth.

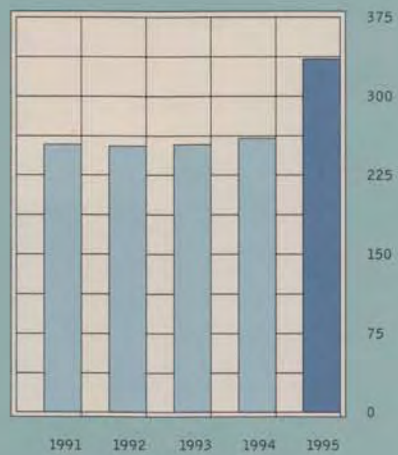
Actual Revenues — *"Best Fit" Trend*

south

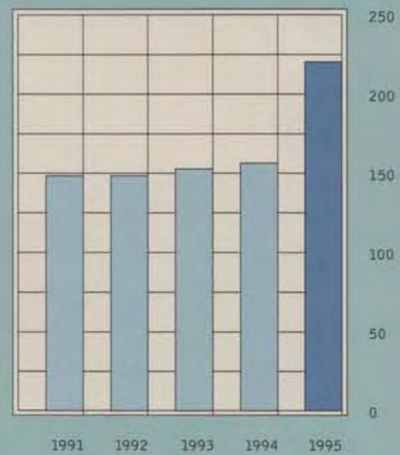
System Backlog
Dollars in Millions



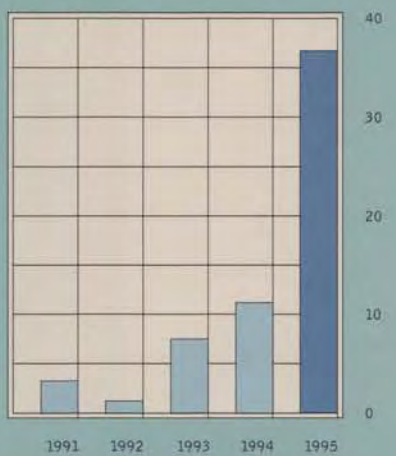
Revenues
Dollars in Millions



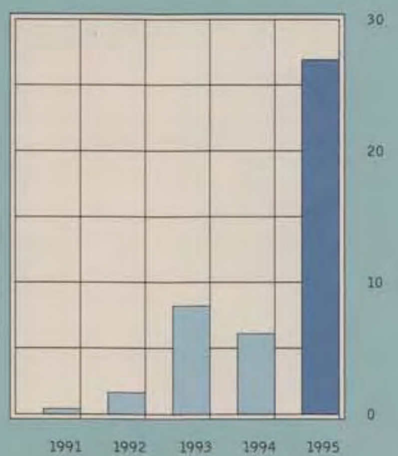
System Revenue
Dollars in Millions



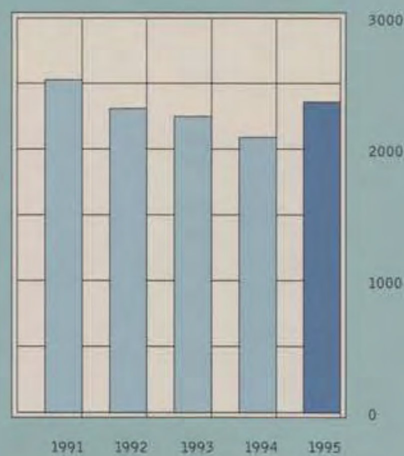
Earnings from Operations before Exit Costs
Dollars in Millions



Net Income
Dollars in Millions



Worldwide Employment



Financial Highlights

(Dollar amounts in thousands except per share data)	1995	1994	% CHANGE
For the Fiscal Year			
Revenues	$335,216	$259,979	29%
Earnings from operations before exit costs	$ 36,687	$ 11,181	228%
Earnings from operations	$ 36,687	$ 4,800	664%
Net income	$ 26,946	$ 6,107	341%
Net income per share	$ 1.60	$ .34	371%
Dividends per share	$ .44	$ .44	–
System orders	$270,000	$160,000	69%
End of Fiscal Year			
System backlog	$143,000	$ 92,000	55%
Working capital	$ 89,309	$123,536	(28%)
Total assets	$286,705	$319,823	(10%)
Total debt	$ 19,806	$ 20,617	(4%)
Shareholders' equity	$166,045	$217,183	(24%)
Number of employees	2,360	2,090	13%
Shares outstanding (thousands)	15,713	18,130	(13%)

Shareholders Letter

DEAR SHAREHOLDERS:

I'm pleased to announce that 1995 was a record-setting year for Measurex. Driven by our paper customers' focus on improving quality and manufacturing efficiencies, every quarter set a company record for orders or revenue. Investments we made in the past five years also began to pay off in orders, revenue and earnings. Setting the stage for further growth, we made two acquisitions to expand our industrial systems business, one in 1995 and one in January 1996.

System orders for the year increased 69 percent over last year, to $270 million. Total revenues, including service, grew 29 percent to $335 million from $260 million in 1994. Net income totaled $26.9 million, an impressive increase of 341 percent over 1994 net income of $6.1 million. Earnings per share grew to $1.60 in comparison with last year's $0.34.

These successes, and our belief in continued growth in the future, rest in a "secret weapon" we've been developing since the Company began. We've made this strategy the theme for this report — our worldwide distribution network and service organization. This powerful network allows us to introduce products and achieve immediate worldwide distribution. To further that growth, Measurex is constantly looking to both develop and acquire products to distribute through this large worldwide network — a process I like to call "feeding the tiger." We target products that will provide the process improvements and cost savings our customers are looking for. As you'll read in the rest of this report, this strategy brought us some impressive results in 1995.

Key Events At the beginning of the first quarter, Measurex acquired the Webart division of Cincinnati-based The Ohmart Corporation and its ConceptOne® measurement and control products. The acquisition added a lower-priced, PC-based system to our Industrial Systems Division's product line, opening up a new market for smaller plastics and sheet applications. In January 1996, we acquired Data Measurement Corporation, a manufacturer of measurement systems for the steel industry based in Gaithersburg, Maryland. We intend to expand DMC's steel industry gauging systems into full computer-integrated control and information systems, as we've done in other industries we serve.

During the year, to improve shareholder value, we bought back all the shares of our common stock (3.6 million) owned by Harnischfeger Industries, Inc.

1995 was a record-setting year in which Measurex saw the results of introducing new products worldwide. At the beginning of 1996, we continued our diversification by entering a new industry—steel.

for $96 million. The buyback, combined with good earnings, improved our return on equity from a 5 percent annualized rate before exit costs in fourth quarter, 1994 to a 24 percent annualized rate in fourth quarter, 1995.

Our balance sheet remains strong, with a projected debt-to-capital ratio of less than 17 percent after paying for our DMC acquisition.

Outlook In 1995, Measurex continued to diversify by expanding its Industrial Systems Division (ISD) product line, which we expect will accelerate growth of that division's revenue. Even though our paper industry customers were taking downtime in late 1995 to compensate for an inventory bulge, they increased their Measurex system orders in fourth quarter, 1995. We look forward to a continued upturn in this industry as customers upgrade their process control systems rather than build new mills. With the growth in consumption in Asia, we feel that world paper demand will continue to increase and utilize additional capacity. In 1996, we expect to see revenues increase as we feed newly acquired products to the hungry "tiger," our worldwide sales and service organization. At a trade show in early March, we will announce two new sensors as well as significant new enhancements to MXOpen.®

After this year of prosperity, I'd like to sincerely thank all of you who have supported Measurex through the downturn. I look forward to sharing news of Measurex's further growth with you.

David A. Bossen

DAVID A. BOSSEN
Chairman of the Board and
Chief Executive Officer

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Chairman of the Board and
Chief Executive Officer

JOHN C. GINGERICH
President and
Chief Operating Officer

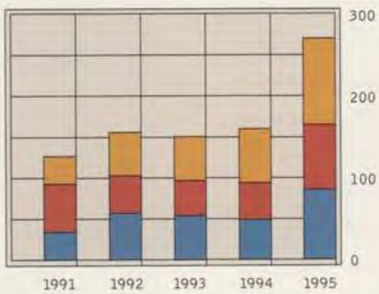
Our Greatest Strength

Measurex's Worldwide Sales and Service

Measurex is an international company that generates nearly 60 percent of its revenue from outside the United States. With representation in nearly every industrialized country in the world, our sales and service organization forms a unique network of distribution and support. Over the last five years, through a severe paper industry recession, Measurex continued to invest in new products. We made four important acquisitions and many major product launches, the result of over $100 million in R&D investments. We "fed" these acquired and developed products into our worldwide sales and distribution network. By 1995, all of our product lines were seeing significant revenue growth, and customers were seeing a whole new level of results.

Order Trends By Regions Worldwide
Dollars in Millions

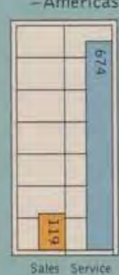
- *U.S.*
- *Europe*
- *Rest of the World*



regions worldwide: americas

Manufacturing Facilities • *Sales and Service Locations*

Employees in the Field – Americas



Expanding our Plastics Market; Entering the Steel Industry

In early 1995, Measurex acquired the ConceptOne® measurement system, which opened up a new market segment for Measurex in lower end plastics systems. Revenues for the ConceptOne system nearly doubled in 1995.

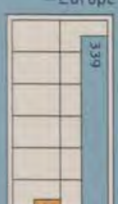
Data Measurement Corp., Gaithersburg, Maryland *At the beginning of 1996, Measurex entered the steel industry with the acquisition of DMC. DMC's expertise in steel measurement complements Measurex's control, information and web inspection expertise.*

Worldwide Sales and Service

europe

asia/pacific

Employees in the Field – Europe



Integrating Developed and Acquired Products

Aylesford Newsprint, United Kingdom *At Aylesford, southeast of London, Measurex's wide range of products were integrated in one of the largest Measurex installations ever. Quality is crucial at Aylesford, because the mill's new PM#14 produces paper with 100 percent recycled content. Since startup in April 1995, Measurex's MXOpen has helped the mill produce a top quality, consistent sheet.*

Employees in the Field – Asia/Pacific

Success in the Japanese Market

New Oji Paper, Kasugai, Japan *Few American electronics manufacturers have achieved success in the quality-conscious Japanese market. Perseverance, local presence and a commitment to customer results have helped Measurex gain market share in the Japanese marketplace since Measurex Japan's startup in 1973. Measurex's MXOpen measurement accuracy, combined with Measurex Devron cross-direction controls, help New Oji Paper produce the highest quality sheet.*

What We Do

Measurex systems and service optimize the process. They enable customers to deliver the highest quality products and services to their customers, efficiently.

MEASUREX HAS ALWAYS BEEN "THE RESULTS COMPANY."

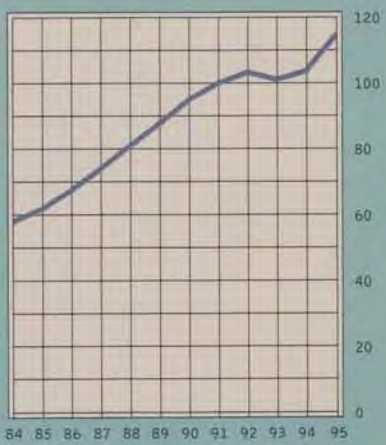
Measurex's founding philosophy is to produce tangible economic results for customers — a return on investment they can quantify. Today, with more than 4,000 systems installed, Measurex's focus is still on optimizing the customer's process for bottom line benefits. With the acquisitions made in the past five years, Measurex offers the industries it serves more integrated measurement, control and information solutions than any other supplier.

When Measurex introduced MXOpen, the first open integrated process control system, it met customer demand for a standards-based system. The ground-breaking product has become one of the most successful launches ever for a process control product. Enhancements to MXOpen released in 1994 linked all products on the network and provided easier, more intuitive access to information. By 1995, Measurex had sold its 750th MXOpen system. Further enchancements to MXOpen, including two new key sensors, will be announced in spring of 1996.

Behind this sophisticated network is an invaluable worldwide "human network" of process control service and support technicians. Their expertise in digital process control helps the customer get maximum value from each Measurex system and from the process itself.

A continuing revenue source is the large installed base of older Measurex systems, many of them older than ten years and still in operation. Measurex provides an upgrade path so that mills and plants with older systems can take advantage of the latest open system measurement and control technology to improve quality and increase production.

SERVICE REVENUE
Dollars in Millions



ABOVE *Measurex service revenues have shown consistent, recession-resistant growth.*

OPPOSITE *Measurex controls key characteristics of carbonless sheet on "The Chief" paper machine at Mead Paper in Chillicothe, Ohio.*

The Growth Strategy

We develop and acquire the best products for distribution through our sales and service network. We "feed them to the tiger" and see immediate worldwide distribution.

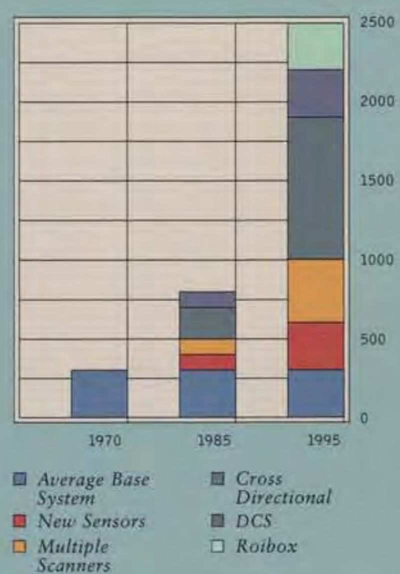
PLOTTING A COURSE FOR GROWTH THAT BENEFITS OUR CUSTOMERS AND SHAREHOLDERS.

In its 27 years, Measurex has established a worldwide organization that provides sales support and process optimization services in 34 countries. This worldwide organization is the foundation for Measurex's growth strategy. With this network in place, Measurex can introduce new or acquired products worldwide and support them locally. Products plugged into this network have the potential for immediate growth.

To "feed the tiger"—that is, to keep a flow of products moving through this worldwide network—Measurex constantly targets product development and acquisitions that will benefit from this distribution and support. The products of three strategic acquisitions, made from 1990 to 1995, have now been introduced worldwide.

With this, the range of products available to each customer has expanded. In 1970, the order potential per typical paper machine was $300,000. By 1995, the order potential per typical machine from Measurex's full range of products was $2.5 million. Along with the growth in revenue for Measurex comes the incredible growth in potential economic results for the customer, with a fully integrated network of solutions supported by one locally accessible supplier. With this integrated network, made up of products it has both developed and acquired, Measurex can now provide customers with a system that spans the entire process—from raw materials, through machine scheduling and production, visual inspection, shipping and even up through enterprise-wide management.

ORDER POTENTIAL PER PAPER MACHINE
Dollars in Thousands



ABOVE Measurex's product development and acquisitions have increased the total order potential per machine from $300,000 to $2.5 million.

OPPOSITE At Aylesford Newsprint in the United Kingdom, the Measurex Roibox web inspection system helps ensure the look of the mill's 100 percent recycled sheet.

Results of the Strategy

1995 saw the payoffs of the growth strategy, with increases in acquisition revenues and a series of record performance quarters.

Acquisitions are a growing part of Measurex's total revenue.

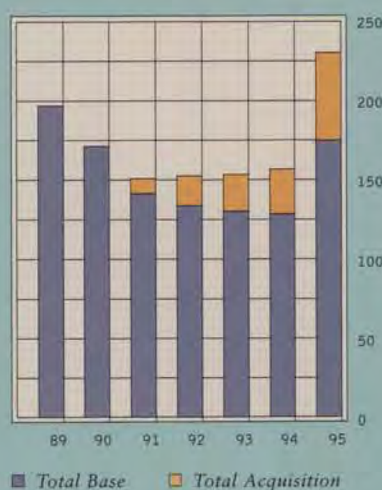
In 1995, acquisitions in the past five years made up 25 percent of total systems revenue. Revenues from the Devron cross-direction controls division jumped from $17 million at acquisition in 1991, to 1995's $60 million. Revenues from the Roibox web inspection division have doubled since its acquisition in 1993, primarily due to the introduction worldwide of its inspection system. And annual revenues from ConceptOne—a plastics gauging product line acquired in early 1995—have already nearly doubled.

Financial experts have called 1990—1994 the worst recession ever for the paper industry, Measurex's largest customer base. Yet recovery from this recession was one of the fastest ever for Measurex—with a series of record quarters in 1995. Investments made during the recession helped Measurex emerge stronger than when it entered, and with improved market share.

In addition to product development and three acquisitions, Measurex also invested in expanding its presence in Asia. New offices opened in China, Indonesia and India to take advantage of the improved economic climate. Asia continues to be a large area of growth in paper consumption, and a large market for Measurex. The explosive demand for paper in China will benefit papermakers worldwide. Demand in Asia for our Industrial Systems Division products is also growing rapidly, especially in the plastics and metals industries.

A solid, continuing source of more than one-third of Measurex's revenues has been its service business, which has been recession resistant. Service continues to evolve into areas of added value, such as process optimization and network service and support. Growth continues in the large number of competitor systems maintained by Measurex service technicians.

Revenues: Base Business Plus Acquisition
Dollars in Millions



ABOVE *Products acquired over the past five years have become an increasing percentage of total systems revenue.*

OPPOSITE *At New Oji Paper in Kasugai, Japan, Measurex Devron's ProCoat™ coating system improves coating consistency and blade change recovery.*

Diversification Opportunities

Growth on the horizon: Entry into the steel industry and increased diversification with Measurex's Industrial Systems Division.

Measurex began 1995 and 1996 with two diversifying acquisitions.

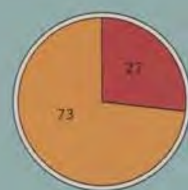
In January of 1996, Measurex acquired Data Measurement Corporation (DMC), a supplier of measurement systems to the steel industry. It was another strategic acquisition for Measurex. Measurex has more than 20 years of experience in the related aluminum industry. DMC provides measurement systems specific to steel, which Measurex's control, web inspection and information products will complement. The potential market for steel systems is large. The entry into steel increases the Industrial Systems Division's percentage of our total system revenue from 16 percent to 27 percent, on a 1995 pro forma basis.

Though DMC has a strong leading market share in the U.S., only 14 percent of the steel sheet produced worldwide is made domestically. This is another reason why DMC makes such an ideal acquisition—Measurex will expand DMC's international market by selling and supporting DMC products with its worldwide sales and service network.

System orders from other ISD industries—plastics, rubber, aluminum and nonwovens—increased 63 percent this year. ConceptOne, which opened up a whole new market segment for lower-end plastics measurement systems, saw growth through increased distribution since its acquisition at the beginning of 1995. To meet the special needs of emerging markets, several specially adapted ConceptOne systems were sold to paper customers in China and India.

Increased Diversification

Percentage of Systems Revenue–1995



Percentage of Systems Revenue—1995 with DMC Steel Business (pro forma)

- *Industrial Systems*
- *Paper Systems*

Above *With the acquisition of Data Measurement Corporation (DMC), Measurex's Industrial Systems Division accounted for 27 percent of total systems revenue for 1995, on a pro forma basis.*

Opposite *Measurex DMC's steel measurement system measures thickness across a five-foot sheet at Rouge Steel's hot strip rolling mill in Dearborn, Michigan.*

Glossary of Terms

CROSS DIRECTION (CD) CONTROLS
Software and hardware that make corrections to product characteristics to ensure quality and consistency across the width of a sheet.

COATING MEASUREMENT AND CONTROL
Paper, plastics and metals are often coated with substances for visual appeal, adhesion or protection. Coating measurement and control precisely measures and makes corrections to the consistency and weight of the coating.

DISTRIBUTED CONTROL SYSTEM (DCS)
A process control system in which the control of different functions in the mill or plant is decentralized for greater reliability.

ENTERPRISE-WIDE SYSTEM
Linking individual plants' or mills' operations with corporate headquarters on a computer network, for such tasks as invoicing, order entry, customer service and production scheduling, in order to make best use of the enterprise's resources.

INTEGRATED CONTROL SYSTEM (ICS)
The consolidation of distributed control and supervisory systems in order to coordinate and optimize mill or plant operations.

MACHINE DIRECTION (MD)
Measurement and control of sheet characteristics and quality down the length of the sheet.

OPEN SYSTEM
A computer system based on international standards used by a majority of hardware and software suppliers. An open system allows for modification and expansion, as well as compatibility with other suppliers' systems.

PROCESS OPTIMIZATION
Fine-tuning a process so that it produces maximum output of the highest quality product, at maximum efficiency.

SCANNER
A frame extending across the sheet that supports a unit holding sensors that measure sheet characteristics. The sensor unit traverses the sheet from edge to edge along the scanner frame, making measurements.

SENSORS
A device that measures sheet characteristics (such as weight, thickness, moisture content or color) and transmits them to a computer for processing.

SUPERVISORY SYSTEM
(OR QUALITY CONTROL SYSTEM)
High-level controls that are layered on top of a mill or plant's distributed control system, to "supervise" the process and keep product characteristics on target.

WEB INSPECTION SYSTEM
A system made up of cameras that scan the sheet for visual defects.

Financials

Results of Operations

System orders for 1995 were $270 million, which represented a 69% increase from $160 million in 1994 and a 79% increase from $151 million in 1993. This was the highest order total in the Company's history. Paper systems orders increased as a result of the industry's rebound from recession and the Company's ongoing efforts to expand its product offering through internal development and acquisition. Industrial Systems orders increased as a result of the acquisition of the Webart division of The Ohmart Corporation at the beginning of 1995 and the Company's ongoing focus on this business.

The industry and geographic breakdown of system orders is as follows:

	Year Ended (amounts in millions)		
	December 3, 1995	November 27, 1994	November 28, 1993
United States	$105.0	$ 66.0	$ 53.0
Europe	79.0	45.0	43.0
Rest of World	86.0	49.0	55.0
Total	$270.0	$160.0	$151.0
Paper Systems	$234.0	$138.0	$127.0
Industrial Systems	36.0	22.0	24.0
Total	$270.0	$160.0	$151.0

System backlog at the end of 1995 was $143 million, up from $92 million at the end of 1994 and $91 million at the end of 1993. Approximately 90% of the 1995 backlog is scheduled to be shipped in 1996.

System revenue was $220.3 million in 1995, a 41% increase from $156.3 million in 1994, and a 44% increase from $152.8 million in 1993. The increase resulted from the growth in orders.

Service and other revenue of $114.9 million increased 11% from $103.7 million in 1994 and 14% from $101.2 million in 1993. Growth in the installed base of systems, additional process optimization services and foreign currency movements accounted for the increase.

System margins for 1995 were 41% compared to 36% in 1994 and 35% in 1993. This improvement resulted from better utilization of existing capacity and fixed overhead, a favorable product mix with higher margin products being sold and improved pricing.

Service and other margins for 1995 were 38% compared to 37% in 1994 and 36% in 1993. The continued improvement in service margins in 1995 and 1994 reflects better utilization of field service resources as the installed base increases and a wider range of services are sold to customers.

Product development costs of $19.4 million in 1995 decreased 3% and 8% from 1994 and 1993, respectively. This reflected savings achieved from the restructuring that took place in the fourth quarter of 1994.

Selling and administrative expense of $76.7 million for 1995 increased $13.3 million or 21% from 1994 and $15.6 million or 25% from 1993. The increase resulted from higher sales commissions, profit sharing and bonuses consistent with the increase in the Company's revenue and income, additional sales personnel to provide improved sales coverage, extra travel and stronger foreign currencies.

As a result of these changes, earnings from operations for 1995 increased to $36.7 million from $4.8 million in 1994 and $7.5 million in 1993. The 1994 earnings from operations included a charge of $6.4 million relating to a restructuring plan.

Interest expense of $2.8 million increased over the 1994 level of $1.3 million and the 1993 level of $0.9 million as a result of higher debt levels during the year. Interest income of $7.0 million was $1.3 million higher than 1994 and $0.8 million higher than 1993. The increase over 1994 was due to a smaller loss on available-for-sale investments and interest income relating to a favorable foreign tax settlement.

The effective tax rate for 1995 was 34% compared to 39% and 35% in 1994 and 1993, respectively. The lower rate resulted from changes in the geographic mix of earnings and the return to profitability in 1995 of several subsidiaries for which no tax benefit for losses could be taken in 1994.

Net income for 1995 was $26.9 million, a $20.8 million increase from $6.1 million in 1994 and an increase of $18.7 million from $8.2 million in 1993. Earnings per share for the year were $1.60 per share compared to $0.34 per share in 1994 and $0.46 per share in 1993.

During October 1995, the Financial Accounting Standards Board issued Statement No. 123 (SFAS No. 123), "Accounting for Stock-Based Compensation." This standard, which establishes a fair value-based method of accounting for stock-based compensation plans also permits an election to continue following the requirements of APB Opinion

No. 25, "Accounting for Stock Issued to Employees" with disclosures of pro forma net income and earnings per share under the new method. The Company is reviewing the alternatives under SFAS No. 123 but does not expect there will be any effect on the financial condition and results of operations of the Company. Disclosure requirements of SFAS No. 123 will be effective for the Company's fiscal year 1997.

Liquidity and Capital Resources

Measurex continues to maintain a strong financial position with cash and cash equivalents and short-term investments of $64.1 million as of the 1995 year-end. In addition, the Company had unsecured revolving bank lines of credit available of $88 million of which $12 million was committed to letters of credit. The Company believes that its existing cash balances, lines of credit and cash provided by operations will provide adequate flexibility to fund the Company's operating needs, capital expenditures and cash dividends through fiscal year 1996, and the DMC acquisition identified below.

Subsequent to year-end, on January 10, 1996, the Company acquired Data Measurement Corporation (DMC), located in Gaithersburg, Maryland, a leading manufacturer of measurement systems for the steel industry, for $18.625 per share or $31.3 million in cash. DMC will operate as a separate subsidiary of the Company, and as part of the Industrial Systems Division, with manufacturing, engineering, product marketing and sales support continuing in Gaithersburg.

In the year ended December 3, 1995, the Company generated $50.0 million of cash from operating activities compared to $11.1 million in 1994 and $2.3 million in 1993. In 1995, $42.8 million was generated by net income after adjustments for non-cash items, and $22.0 million as a result of discounting certain contracts receivable with a financial institution. These cash inflows were offset by increases in working capital of $14.9 million, including a $24.0 million increase in accounts and contracts receivable before the discounting transaction and a $12.4 million increase in inventory and service parts. These cash outflows were partially offset by increases in accounts payable and accrued expenses of $12.6 million and in income taxes payable of $4.8 million. Increased orders, revenue and profit before tax resulted in the increased working capital requirements.

Cash of $11.2 million was generated from investing activities compared to usage of $1.2 million in 1994 and usage of $6.9 million in 1993. In 1995, the Company sold its available-for-sale securities for $11.3 million and reduced its holding in held-to-maturity securities by $18.1 million. Investments in property, plant and equipment totaled $9.4 million during fiscal year 1995, up from $6.7 million in 1994 and up from $8.3 million in 1993. The increase was the result of additional investment in equipment to support the Company's growth. On December 14, 1994, the Company acquired the Webart Division of The Ohmart Corporation and its family of on-line measurement and control systems for $3.4 million in cash and a $0.7 million note payable. Capitalized software decreased by $0.9 million from 1994 to approximately $1.9 million in 1995.

Cash used in financing activities was $81.0 million compared to $4.1 million during 1994 and to cash provided of $8.7 million in 1993. During 1995, the Company paid $100.3 million to repurchase 3.8 million shares of its own stock of which $96.0 million was to repurchase all 3.6 million shares owned by Harnischfeger Industries, Inc. at the then current market value, reducing Harnischfeger's holdings of the Company's stock from 20% at November 27, 1994 to zero. Offsetting the cash outflow for this transaction and $7.0 million for dividends, the Company received $27.6 million cash in connection with its Employee Stock Purchase Plan and stock options exercised.

The Company's current ratio was approximately 1.9 at fiscal year-end 1995 compared to 2.5 at fiscal year-end 1994. The debt to capitalization ratio was 11% at year-end 1995 compared to 9% at year-end 1994.

As a result of the above activities, and excluding exchange rate fluctuations, the Company's cash and cash equivalents decreased by $19.3 million from $82.3 million at year-end 1994 to $62.9 million at year-end 1995.

Three years ended December 3, 1995 (Dollar amounts in thousands except per share data)

	1995	1994	1993
Revenues			
Systems	$220,292	$156,294	$152,839
Service and other	114,924	103,685	101,158
Total revenues	335,216	259,979	253,997
Operating Costs and Expenses			
Systems	130,650	100,077	99,728
Service and other	71,803	65,288	64,501
Product development	19,368	19,992	21,146
Selling and administrative	76,708	63,441	61,122
Exit costs	–	6,381	–
Total operating costs and expenses	298,529	255,179	246,497
Earnings from operations	36,687	4,800	7,500
Other Income (Expense)			
Interest expense	(2,817)	(1,335)	(948)
Interest income and other, net	6,958	5,687	6,127
Total other income, net	4,141	4,352	5,179
Income before income taxes and cumulative effect of accounting change	40,828	9,152	12,679
Provision for income taxes	13,882	3,569	4,464
Income before cumulative effect of accounting change	26,946	5,583	8,215
Cumulative effect of accounting change	–	524	–
Net income	$ 26,946	$ 6,107	$ 8,215
Net income per share:			
Income before cumulative effect of accounting change	$ 1.60	$ .31	$ .46
Cumulative effect of accounting change	–	.03	–
Net income per share	$ 1.60	$ .34	$ .46
Dividends per share	$ .44	$ .44	$ .44
Average number of common and common equivalent shares (thousands)	16,887	18,189	18,051

The accompanying notes are an integral part of the consolidated financial statements.

December 3, 1995 and November 27, 1994 (Dollar amounts in thousands except per share data)

	1995	1994
Assets		
Current assets:		
Cash and cash equivalents	$ 62,924	$ 82,254
Short-term investments	1,138	27,030
Accounts receivable	76,702	61,583
Inventories	33,349	24,685
Prepaid and other	13,574	11,957
Total current assets	187,687	207,509
Contracts receivable	16,208	32,139
Service parts	13,773	12,286
Property, plant and equipment, net	49,752	49,655
Other assets	19,285	18,234
Total assets	$286,705	$319,823
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 4,458	$ 4,387
Short-term debt	–	4,063
Accounts payable	8,004	5,989
Accrued expenses	77,326	65,686
Income taxes payable	8,590	3,848
Total current liabilities	98,378	83,973
Long-term debt	15,348	12,167
Deferred income taxes	6,934	6,500
Total liabilities	120,660	102,640
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $.01 par value; authorized: 10,000,000 shares; issued and outstanding: none		
Common stock, $.01 par value; authorized: 50,000,000 shares; outstanding: 1995 – 18,932,013 shares, 1994 – 19,019,975 shares	189	190
Additional capital	79,584	75,115
Retained earnings	176,296	162,836
Cumulative translation adjustments	(1,939)	(3,301)
Less: Treasury stock at cost: 1995 – 3,218,568 shares, 1994 – 889,562 shares	(88,085)	(17,657)
Total shareholders' equity	166,045	217,183
Total liabilities and shareholders' equity	$286,705	$319,823

The accompanying notes are an integral part of the consolidated financial statements.

Three years ended December 3, 1995 (Dollar amounts in thousands except per share data)

	Common Stock	Additional Capital	Retained Earnings	Cumulative Translation Adjustments	Treasury Stock	Total
Balance November 29, 1992	$190	$75,181	$168,098	$(2,019)	$ (22,997)	$ 218,453
Proceeds from treasury stock issued under employee stock purchase and stock option plans (115,103 shares) including related tax benefits	–	21	–	–	3,125	3,146
Excess of cost of treasury shares issued over proceeds received	–	–	(1,216)	–	–	(1,216)
Foreign currency translation	–	–	-	(3,688)	–	(3,688)
Net income	–	–	8,215	–	–	8,215
Dividends ($.44 per share)	–	–	(7,886)	–	–	(7,886)
Treasury stock acquired (298,600 shares)	–	–	–	–	(5,160)	(5,160)
Balance November 28, 1993	190	75,202	167,211	(5,707)	(25,032)	211,864
Proceeds from treasury stock issued under employee stock purchase and stock option plans (303,164 shares) including related tax benefits	–	(87)	–	–	7,375	7,288
Excess of cost of treasury shares issued over proceeds received	–	–	(2,596)	–	–	(2,596)
Foreign currency translation	–	–	–	2,406	–	2,406
Net income	–	–	6,107	–	–	6,107
Dividends ($.44 per share)	–	–	(7,886)	–	–	(7,886)
Balance November 27, 1994	190	75,115	162,836	(3,301)	(17,657)	217,183
Proceeds from treasury stock issued under employee stock purchase and stock option plans (1,456,044 shares) including related tax benefits	(1)	4,469	–	–	29,837	34,305
Excess of cost of treasury shares issued over proceeds received	–	–	(6,487)	–	–	(6,487)
Foreign currency translation	–	–	-	1,362	–	1,362
Net income	–	–	26,946	–	–	26,946
Dividends ($.44 per share)	–	–	(6,999)	–	–	(6,999)
Treasury stock acquired (3,785,050 shares)	–	–	–	–	(100,265)	(100,265)
Balance December 3, 1995	$189	$79,584	$176,296	$(1,939)	$ (88,085)	$ 166,045

The accompanying notes are an integral part of the consolidated financial statements.

Three years ended December 3, 1995 (Dollar amounts in thousands)

	1995	1994	1993
Cash Flows from Operating Activities			
Net income	$ 26,946	$ 6,107	$ 8,215
Non-cash items included in net income:			
Depreciation and amortization:			
Service parts	1,835	1,032	1,055
Property, plant and equipment	9,200	9,343	9,997
Capitalized software and goodwill	4,539	4,921	3,935
Deferred income taxes	(772)	(3,883)	(2,307)
Translation loss	392	133	396
Inventory reserves	674	2,216	3,473
Exit costs	–	4,662	–
Net decrease (increase) in:			
Accounts and contracts receivable	1,980	(8,795)	(7,420)
Inventories and service parts	(12,360)	(374)	(3,912)
Prepaid and other	(593)	2,034	792
Net increase (decrease) in:			
Accounts payable and accrued expenses	12,626	(4,289)	(12,333)
Income taxes payable	4,752	(2,901)	468
Other, net	737	846	(80)
Net cash provided by operating activities	49,956	11,052	2,279
Cash Flows from Investing Activities			
Purchase of held-to-maturity securities	(3,475)	(37,009)	(33,781)
Purchase of available-for-sale securities	–	(3,360)	(31,684)
Sale of available-for-sale securities	11,255	11,864	25,155
Maturities of held-to-maturity securities	18,111	36,846	45,176
Acquisition of property, plant and equipment	(9,434)	(6,716)	(8,329)
Acquisition of technology	(3,418)	–	–
Acquisition of subsidiary, net of cash acquired	–	–	(1,668)
Capitalized software	(1,874)	(2,787)	(1,725)
Net cash provided by (used in) investing activities	11,165	(1,162)	(6,856)
Cash Flows from Financing Activities			
Additions to short-term debt	–	4,063	–
Payment of short-term debt	(4,063)	–	–
Additions to long-term debt	60,095	–	21,971
Payment of long-term debt	(57,419)	(4,975)	(2,191)
Dividends	(6,999)	(7,886)	(7,886)
Stock issued under employee stock purchase and stock option plans	27,628	4,692	1,930
Payment for treasury stock	(100,265)	–	(5,160)
Net cash (used in) provided by financing activities	(81,023)	(4,106)	8,664
Effect of exchange rate fluctuations on cash and cash equivalents	572	430	(2,415)
Net (decrease) increase in cash and cash equivalents	(19,330)	6,214	1,672
Cash and cash equivalents at beginning of year	82,254	76,040	74,368
Cash and cash equivalents at end of year	$ 62,924	$ 82,254	$ 76,040
Supplemental Disclosures of Cash Flow Information			
Cash paid during the year for:			
Interest	$ 2,817	$ 1,335	$ 948
Income taxes	$ 5,514	$ 8,167	$ 5,509
Note exchanged for intangible assets	$ 700	$ –	$ –

The accompanying notes are an integral part of the consolidated financial statements.

(Dollar amounts in thousands unless otherwise noted)

Summary of Significant Accounting Policies

Fiscal Year The Company uses a 52-53 week fiscal year. References to 1995, 1994 and 1993 are for fiscal years ended December 3, 1995, November 27, 1994 and November 28, 1993, respectively. Fiscal year 1995 was a 53 week year and 1994 and 1993 were 52 week years.

Consolidation The consolidated financial statements include the accounts of all subsidiaries after elimination of intercompany balances and transactions.

Foreign Currency Translation The functional currency of foreign sales and service operations (except certain operations in hyper-inflationary countries) is the local currency. For all other operations, the functional currency is the U.S. dollar. The effects of translating local functional currency financial statements are included in shareholders' equity. The effects of foreign currency transactions and remeasuring the financial position and results of operations into the functional currency are included in interest income and other.

The Company enters into foreign currency forward contracts to hedge certain non-U.S. dollar system orders and to reduce its overall exposure to the effects of currency fluctuations related to the remeasurement of non-functional currency net asset or liability positions. Gains and losses on forward contracts, which are not designated as hedges for accounting purposes, are included in interest income and other.

Revenue Recognition The Company generally recognizes revenue from system sales at the time of shipment provided any remaining obligations are insignificant and collection is probable. Revenue on certain software contracts are recognized on a percentage-of-completion basis. Service and other revenues are recognized as the services are provided or ratably over the life of the contracts.

Product Development Expenses The Company is actively engaged in basic technology and applied research and development programs which are designed to develop new or improved products and process applications. The cost of these programs is charged to expense as incurred except for certain software development costs which are capitalized as described in the "Capitalized Software" policy below.

Capitalized Software Costs related to the conceptual formulation and design of software products are expensed as product development. Costs incurred subsequent to establishing the technological feasibility of software products are capitalized.

Amortization of capitalized software costs, which begins when products are available for general release to customers, is computed on a straight-line basis over the expected product lives, generally estimated to be three years.

Income Taxes The Company adopted Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes," at the beginning of fiscal year 1994, which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Prior to 1994, taxes were provided for items included in the consolidated statements of income regardless of the period when such items may be reported for tax purposes ("deferred" method).

The Company provides U.S. and foreign income taxes on the portion of the accumulated earnings of the Company's foreign subsidiaries which are intended to be remitted to the parent company within the foreseeable future.

Cash and Cash Equivalents Cash and cash equivalents generally consist of cash and highly liquid short-term investments with original maturities of 90 days or less.

Short-Term Investments Short-term investments include investments held-to-maturity and investments available-for-sale. Investments held-to-maturity are stated at amortized cost with original maturities between 3 and 12 months. Investments that are considered available-for-sale are carried at market value. Unrealized gains and losses are reported net of tax as a separate component of shareholders' equity until realized.

Inventory Valuation Inventories are stated at the lower of standard cost (which approximates actual cost determined on a first-in, first-out basis) or market. Inventory costs include raw materials, direct labor and manufacturing overhead.

Depreciation Property, plant and equipment are depreciated on a straight-line basis over estimated useful lives which range as follows: buildings and improvements – 3 to 40 years; machinery and equipment – 3 to 20 years. Service parts are depreciated on a 7 year declining balance basis. When assets are sold or retired, the cost and related accumulated depreciation are removed from the accounts and the resulting gains or losses are included in income.

Goodwill Goodwill is amortized on a straight-line basis over periods up to 25 years.

Net Income Per Share Net income per share is computed based on the weighted average number of common shares

(Dollar amounts in thousands unless otherwise noted)

outstanding during the year adjusted to reflect the assumed exercise of outstanding employee stock options to the extent these items had a dilutive effect on the computation.

Reclassification The Company has reclassified the presentation of certain prior year information to conform with the current year presentation format. These changes had no effect on the financial condition or results of operations as previously reported.

Recent Pronouncement During October 1995, the Financial Accounting Standards Board issued Statement No. 123 (SFAS No. 123), "Accounting for Stock-Based Compensation." This standard, which establishes a fair value-based method of accounting for stock-based compensation plans, also permits an election to continue following the requirements of APB Opinion No. 25, "Accounting for Stock Issued to Employees," with disclosures of pro forma net income and earnings per share under the new method. The Company is reviewing the alternatives under SFAS No. 123 but does not expect there will be any effect on the financial condition and results of operations of the Company. Disclosure requirements of SFAS No. 123 will be effective for the Company's fiscal year 1997.

Short-Term Investments

The carrying value of held-to-maturity securities at December 3, 1995 and November 27, 1994 approximates market and comprises the following securities:

	1995	1994
Commercial paper	$ 200	$ 4,220
Canadian government obligations	–	4,123
Foreign certificates of deposits	938	7,433
	$ 1,138	$15,776

At November 27, 1994, the Company also held a preferred stock portfolio classified as available-for-sale with a cost of $11.1 million, a market value of $10.6 million, and gross unrealized holding losses of $0.5 million. During 1995, the Company sold this investment and the related future contracts used to hedge the portfolio. The realized losses on this portfolio were $0.9 million in 1995 and $0.7 million in 1994.

Accounts Receivable

Accounts receivable consist of the following:

	1995	1994
Accounts receivable	$72,588	$56,619
Contracts receivable, current portion	7,332	11,547
Less:		
Allowances for noncollection and system returns	(3,218)	(6,583)
	$76,702	$61,583

Inventories

Inventories consist of the following:

	1995	1994
Purchased parts and components	$14,579	$12,417
Work-in-process	12,843	7,724
Finished subassemblies and systems	5,927	4,544
	$33,349	$24,685

Contracts Receivable

Contracts receivable consist of the following:

	1995	1994
Contracts receivable	$30,217	$51,483
Less:		
Unearned financing income	(4,212)	(5,738)
Allowance for noncollection and system returns	(2,465)	(2,059)
	23,540	43,686
Current portion	(7,332)	(11,547)
	$16,208	$32,139

The aggregate amount of payments receivable by the Company in fiscal years subsequent to 1995 is set forth below:

1996 - $8,902
1997 - $8,068
1998 - $4,830
1999 - $3,695
2000 - $2,712
Thereafter - $2,010

During 1995, the Company entered into an agreement to discount certain contracts receivable with a financial institution. As contracts receivable are discounted, a sale is recorded and gains, the difference between proceeds received and the net book value of the contracts receivable, are reflected in interest income and other, net. Proceeds from discounting contracts receivable were $22.0 million in 1995. A portion of discounting gains is deferred to offset future administration costs and is amortized over the remaining term of the discounted contracts receivable.

(Dollar amounts in thousands unless otherwise noted)

Under the terms of this agreement, the Company is contingently liable for losses in the event of non-payment by the contract receivable obligor. The agreement provides for limited recourse of up to 20% or full recourse at 100% of discounting proceeds, depending on the credit risk associated with specific contracts receivable. At December 3, 1995, the total amount of contracts subject to recourse was $13.1 million. Under the agreement, the Company has granted a security interest to the financial institution in the equipment as collateral. The Company retains ownership of the equipment and its residual value.

The discounting agreement contains certain termination events which allow the financial institution to assume administrative control of the lease portfolio and could prohibit further discounting.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and consist of the following:

	1995	1994
Land	$ 5,537	$ 5,533
Buildings and improvements	39,008	38,680
Machinery and equipment	75,170	69,922
	119,715	114,135
Less:		
Accumulated depreciation	(69,963)	(64,480)
	$ 49,752	$ 49,655

Other Assets

Other assets, net of amortization, consist of the following:

	1995	1994
Goodwill	$ 9,828	$ 7,978
Capitalized software	4,681	5,852
Other	4,776	4,404
	$ 19,285	$ 18,234

The increase in goodwill is attributable to the acquisition of the Webart Division of The Ohmart Corporation.

Accrued Expenses

Accrued expenses consist of the following:

	1995	1994
Accrued payroll and related items	$29,272	$24,321
Accrued labor service	11,538	9,393
Customer deposits	17,767	12,377
Exit costs	1,354	4,862
Other	17,395	14,733
	$77,326	$65,686

Financial Instruments

On December 3, 1995, the Company had two credit agreements that provide for unsecured borrowings up to $95 million. These agreements include a $20 million revolving credit agreement that provides for variable interest rate borrowings based on the London Interbank Offer Rate (LIBOR) and a $75 million multi-currency credit agreement with a group of banks providing borrowings at variable interest rates including a base rate borrowing, an offshore rate borrowing and local currency rate borrowing. The agreements expire July 1996 and February 1998, respectively. There was $88 million available in connection with these agreements at December 3, 1995, of which $12 million was committed to letters of credit.

The Company also has a 5.35% five-year unsecured term loan agreement with a bank. Interest is payable quarterly, with principal payable in equal quarterly installments of $1.0 million through June 1998.

These agreements contain certain covenants regarding working capital, indebtedness and tangible net worth. The Company was in compliance with all covenants at December 3, 1995.

Debt consists of the following:

	1995	1994
Bank credit agreements	$ 6,907	$ –
Term loan	11,000	15,000
Other borrowings	1,899	1,554
	19,806	16,554
Less amounts due within one year	(4,458)	(4,387)
	$15,348	$12,167

Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the difference between the carrying amount and fair value of the loans is immaterial.

(Dollar amounts in thousands unless otherwise noted)

The aggregate future principal payments of long-term debt are as follows:

1996 - $4,458	1999 - $ 139
1997 - $4,695	2000 - $ 100
1998 - $3,346	Thereafter - $7,068

At December 3, 1995, the Company had foreign exchange forward contracts valued at $54.1 million, maturing from December 1995 to June 1997, denominated in the following currencies: 75% European, 20% Canadian and 5% Yen. The value of the foreign currency forward contracts approximates fair value, which was based on estimated foreign exchange rates as of December 3, 1995. Approximately 99% of the contracts are with one financial institution.

Commitments and Contingencies

The Company leases various facilities and equipment under noncancelable lease agreements. Rent expense under all operating leases was approximately $4.9 million, $4.7 million and $4.4 million in 1995, 1994 and 1993, respectively. Future minimum lease payments under these noncancelable operating leases as of December 3, 1995 are approximately $4.7 million, $3.3 million, $2.0 million, $1.4 million and $1.4 million for fiscal years 1996, 1997, 1998, 1999 and 2000, respectively, and approximately $2.6 million in total for years following 2000.

At December 3, 1995, the Company was contingently liable for approximately $12.0 million relating principally to letters of credit issued to support collections.

The Company is subject to legal proceedings and claims that arise in the normal course of its business. In the opinion of management, these proceedings will not have a material adverse effect on the financial position and results of operations of the Company.

Exit Costs

In the fourth quarter of 1994, the Company recorded a $6.4 million charge for exit costs relating to a restructuring plan. This charge included $5.1 million for employee termination costs of which $4.7 million was paid out by the end of fiscal year 1995. The charge also included $1.3 million to consolidate certain long-term leasehold facilities of which $0.3 million was used by the end of fiscal year 1995.

Interest Income and Other

Interest income and other consists of the following:

	1995	1994	1993
Interest income	$7,680	$ 7,040	$6,523
Loss on short-term investments	(330)	(1,220)	–
Foreign exchange loss	(392)	(133)	(396)
	$6,958	$ 5,687	$6,127

Stock Option and Stock Purchase Plans

Under the Company's Stock Option Plan, 5,110,240 shares of common stock have been reserved for issuance to officers and key employees.

Options may be granted at prices not lower than the fair market value of the Company's common stock at the date of grant. Options generally become exercisable in four equal annual installments commencing one year from the date of grant. Options generally expire, if not exercised, within ten years from the date of grant. The Stock Option Plan includes an automatic option grant program for the Company's non-employee directors. Such options expire 10 years from the date of grant.

A summary of transactions relating to options during fiscal years 1993, 1994 and 1995 is set forth below:

Options Outstanding

(Amounts in thousands except per share data)

	Shares	Price Per Share	Amount
November 29, 1992	2,400.3	$ 5.63 -$32.44	$44,598
Granted	594.7	16.31 - 19.69	11,099
Terminated	(290.5)	5.63 - 32.44	(5,791)
Exercised	(44.5)	15.63 - 17.00	(749)
November 28, 1993	2,660.0	5.63 - 31.13	49,157
Granted	622.0	17.88 - 21.88	11,705
Terminated	(72.6)	15.63 - 31.13	(1,483)
Exercised	(233.7)	7.02 - 21.06	(3,926)
November 27, 1994	2,975.7	5.63 - 29.00	55,453
Granted	961.7	25.63 - 34.50	21,186
Terminated	(122.0)	15.63 - 23.63	(2,603)
Exercised	(1,388.8)	5.63 - 23.63	(24,509)
December 3, 1995	2,426.6	$ 5.63 -$34.50	$49,527

At year-end 1995 and 1994, options to purchase 702,234 shares and 1,401,532 shares, respectively, were exercisable at prices ranging from $5.63 to $29.00 for both years.

Shares available for option grants at year-end 1995 and 1994 were 1,018,074 and 1,857,922, respectively.

(Dollar amounts in thousands unless otherwise noted)

The Company has an Employee Stock Purchase Plan which covers substantially all employees of the parent company and certain subsidiaries. Common stock purchases are paid through periodic payroll deductions of up to 10% of eligible compensation. The participant's purchase price is 85% of the lower of the closing market price on the first trading day or the last trading day of the quarter in which the stock is purchased by the employee. The Company has issued 1,038,356 shares of its stock (including 482,003 treasury shares) under this plan as of December 3, 1995.

The Company has approximately 187,000 shares available for future issuance under the Employee Stock Purchase Plan. These shares may be issued from treasury shares or authorized but unissued common stock.

Employee Benefit Plans

The Company has a profit sharing plan in which all eligible U.S. employees participate. The Company makes contributions to profit sharing funds based upon a percentage of consolidated pretax income as defined in the Plan. In addition, the Company matches employees pretax contributions to the Plan.

Certain foreign employees are eligible to participate in similar profit sharing programs or local pension plans. With respect to these plans, the pension benefit obligations and plan assets were not material.

The Company contributions to all these plans totaled $4.8 million, $3.0 million and $2.7 million for 1995, 1994 and 1993, respectively.

Income Taxes

The Company adopted FAS Statement No. 109, "Accounting for Income Taxes," as of November 29, 1993, and the cumulative effect of this change in accounting for income taxes was to increase 1994 net income by $0.5 million. Prior years' financial statements were not restated.

Total income tax expense was allocated as follows:

	1995	1994
Income from continuing operations	$13,882	$3,569
Goodwill, for initial recognition of acquired tax benefits	—	(829)
Shareholders' equity, for compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(4,346)	(286)
	$ 9,536	$2,454

The provision for income taxes before cumulative effect of the accounting change was as follows:

	1995	1994	1993
Current income taxes:			
United States	$ 5,251	$ 753	$ 386
Foreign	8,493	6,265	6,059
State	679	434	326
	14,423	7,452	6,771
Deferred income taxes:			
United States	2,215	(2,682)	(3,862)
Foreign	(2,756)	(1,201)	1,555
	(541)	(3,883)	(2,307)
Provision for income taxes	$13,882	$ 3,569	$ 4,464

The foreign provision for income taxes is based on foreign pretax earnings of approximately $30.5 million, $15.5 million and $19.3 million in 1995, 1994 and 1993, respectively.

The Company has not provided for United States income taxes on the cumulative earnings of certain foreign subsidiaries that are considered invested indefinitely outside the United States in the amount of $51.0 million at December 3, 1995.

At December 3, 1995, the Company has a capital loss carryforward of $1.7 million which expires in 2000. The Company also has in various tax jurisdictions net operating loss carryforwards of approximately $10.7 million and tax credit carryforwards of approximately $3.2 million at current exchange rates. Approximately $4.5 million of the net operating loss carryforwards and all the tax credit carryforwards will expire in varying amounts between 1996 and 2002. A valuation allowance has been provided for a portion of the deferred tax assets related to these carryforwards.

(Dollar amounts in thousands unless otherwise noted)

The principal items accounting for the difference between income taxes computed at the United States statutory rate and the provision for income taxes are as follows:

	1995	1994	1993
United States statutory tax	$14,289	$3,112	$4,310
Effect of:			
Foreign sales corporation	(259)	(354)	(322)
Current and prior earnings of foreign operations taxed at differing rates	5,957	396	592
State income taxes	530	288	215
Valuation allowance	(7,369)	322	–
Other items	734	(195)	(331)
Provision for income taxes	$13,882	$3,569	$4,464

The components of deferred tax assets and liabilities are as follows:

	1995	1994
Deferred income tax assets:		
Inventory and revenue-related reserves	$ 5,500	$ 6,324
Accrued expenses	5,939	6,575
Net operating loss and tax credit carryforwards	7,784	9,831
Other	1,437	348
Gross deferred tax assets	20,660	23,078
Deferred income tax liabilities:		
Financial leases	3,639	3,370
Capitalized software	2,303	1,989
Depreciation	987	1,175
Undistributed earnings of foreign subsidiaries	7,880	4,486
Other	1,203	481
Gross deferred tax liabilities	16,012	11,501
Valuation allowance for deferred tax assets	(1,225)	(8,594)
Net deferred tax assets	$ 3,423	$ 2,983

The net change in the total valuation allowance for the year ended December 3, 1995, includes a reduction of approximately $7.4 million in the valuation allowance established at the beginning of 1994 for certain net operating loss carryforwards and deferred tax assets which, due to a change in circumstances, were either utilized during 1995 or are expected to be utilized.

Transactions with Affiliated Company

The Company has a cooperative marketing and sales arrangement with Beloit Corporation, a subsidiary of Harnischfeger Industries, Inc. At November 27, 1994, Harnischfeger owned 20% of the Company's common stock. During 1995, the Company repurchased all 3.6 million shares owned by Harnischfeger for $96.0 million in cash. Transactions with Beloit for the year ended December 3, 1995 were not material.

Subsequent Event

On January 10, 1996, the Company acquired Data Measurement Corporation (DMC) for $18.625 per share or $31.3 million in cash. DMC, located in Gaithersburg, Maryland, is a leading manufacturer of measurement systems for the steel industry.

Business Segments

The Company operates in one principal industry segment: the design, development, manufacture, sales and service of computer-integrated manufacturing systems. The Company sells these products to the paper, plastics, metals, rubber and chemical industries. Approximately 85% of the Company's system revenue is from the paper industry in 1995, 1994 and 1993.

No single customer accounted for 10% or more of revenues during 1995, 1994 or 1993.

The Company's products are principally distributed and serviced through its own marketing and service organizations. Operations are conducted worldwide and are grouped into three geographic areas: United States, Europe, and Other International (primarily Canada, Asia/Pacific and the Latin American countries).

(Dollar amounts in thousands unless otherwise noted)

The following table summarizes the geographic operations of the Company:

(Dollar amounts in millions)	1995	1994	1993
Revenues from unaffiliated customers:			
United States	$136.4	$112.8	$ 94.5
Europe	104.8	77.7	79.5
Other International	94.0	69.5	80.0
Consolidated	$335.2	$260.0	$254.0
Transfers between geographic areas:			
United States	$ 52.7	$ 41.5	$ 43.7
Europe	6.7	5.2	–
Other International	30.2	20.2	21.4
Consolidated	$ 89.6	$ 66.9	$ 65.1
Earnings (loss) from operations:			
United States	$ 19.2	$ 3.3	$ (3.4)
Europe	13.5	5.5	4.7
Other International	10.2	2.3	11.5
Corporate	(6.2)	(6.3)	(5.3)
Consolidated	$ 36.7	$ 4.8	$ 7.5

(Dollar amounts in millions)	1995	1994	1993
Identifiable assets:			
United States	$111.1	$120.6	$116.6
Europe	73.7	60.6	48.5
Other International	53.3	54.5	55.1
Corporate	48.6	84.1	98.1
Consolidated	$286.7	$319.8	$318.3

Internal selling prices are designed to allocate manufacturing profits to manufacturing entities and sales and service profits to sales and service entities.

The United States revenues from unaffiliated overseas customers in 1995, 1994 and 1993, were not significant.

Corporate identifiable assets include short-term cash investments.

REPORT OF INDEPENDENT ACCOUNTANTS

To The Shareholders, Measurex Corporation

We have audited the accompanying consolidated balance sheets of Measurex Corporation as of December 3, 1995 and November 27, 1994, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three fiscal years in the period ended December 3, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the consolidated financial position of Measurex Corporation as of December 3, 1995 and November 27, 1994, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended December 3, 1995, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

San Jose, California
December 19, 1995

Interim Financial Information (Unaudited)

(Dollar amounts in thousands except per share data)	1995 Quarter Ended March 5	June 4	Sept. 3	Dec. 3
Revenues	$73,435	$76,987	$91,643	$93,151
Gross margin	26,191	30,183	36,559	39,830
Income before income taxes	5,195	7,992	12,859	14,782
Net income	3,481	5,224	8,485	9,756
Net income per share	.20	.30	.51	.59
Dividends per share	.11	.11	.11	.11

(Dollar amounts in thousands except per share data)	1994 Quarter Ended Feb. 27	May 29	Aug. 28	Nov. 27
Revenues	$61,645	$62,578	$65,654	$70,102
Gross margin	22,664	22,981	23,674	25,295
Income (loss) before income tax and cumulative effect of accounting change	3,366	3,135	4,161	(1,510)
Income (loss) before cumulative effect of accounting change	2,188	1,778	2,538	(921)
Cumulative effect of accounting change	524	–	–	–
Net income (loss)	2,712	1,778	2,538	(921)
Net income (loss) per share	.15	.10	.14	(.05)
Dividends per share	.11	.11	.11	.11

Market For The Registrant's Common Stock and Related Security Holder Matters

The Company's common shares are listed on the New York and Pacific Stock Exchanges.

As of December 3, 1995, there were 1,223 shareholders of record. Dividends of $.44 per share were paid in 1995 and 1994.

	1995 Price		1994 Price	
	High	Low	High	Low
1st Quarter	$24 1/4	$20 3/8	$20 5/8	$18 1/2
2nd Quarter	27 3/4	22 3/8	19 3/4	17 7/8
3rd Quarter	33 1/8	25 1/2	21 1/4	17 3/8
4th Quarter	35 3/4	27 1/8	22 1/2	19 1/2

Five years ended December 3, 1995
(Dollar amounts in thousands except per share data)

	1995	1994	1993	1992	1991
Revenue					
Systems	$220,292	$156,294	$152,839	$148,367	$148,249
Service and other	114,924	103,685	101,158	104,220	105,730
Total revenues	335,216	259,979	253,997	252,587	253,979
Gross Margin:					
Systems	$ 89,642	$ 56,217	$ 53,111	$ 49,123	$ 54,534
Service and other	43,121	38,397	36,657	36,406	33,312
Total gross margin	132,763	94,614	89,768	85,529	87,846
Earnings from operations before exit and restructuring costs	$ 36,687	$ 11,181	$ 7,500	$ 1,222	$ 3,247
Earnings (loss) from operations	36,687	4,800	7,500	(7,752)	(8,448)
Income before income taxes, extraordinary credit and cumulative effect of accounting change	40,828	9,152	12,679	1,678	519
Net income	26,946	6,107	8,215	1,625	389
Net income per share	1.60	.34	.46	.09	.02
Dividends per share	.44	.44	.44	.44	.44
System orders	270,000	160,000	151,000	156,000	127,000
System backlog	143,000	92,000	91,000	95,000	91,000
Gross margin:					
Systems	40.7%	36.0%	34.7%	33.1%	36.8%
Service and other	37.5%	37.0%	36.2%	34.9%	31.5%
Total gross margin	39.6%	36.4%	35.3%	33.9%	34.6%
Earnings (loss) from operations	10.9%	1.8%	3.0%	(3.1%)	(3.3%)
Net income	8.0%	2.3%	3.2%	0.6%	0.2%
Income tax rate	34.0%	39.0%	35.2%	57.4%	25.0%
Working capital	$ 89,309	$123,536	$137,720	$133,305	$154,744
Total assets	286,705	319,823	318,316	322,884	339,539
Total debt	19,806	20,617	21,299	891	5,033
Shareholders' equity	166,045	217,183	211,864	218,453	231,718
Current ratio	1.9:1	2.5:1	2.8:1	2.6:1	2.9:1
Return on beginning equity	12.4%	2.9%	3.8%	.7%	.2%
Return on beginning assets	8.4%	1.9%	2.5%	.5%	.1%
Book value per share	$ 10.57	$ 11.98	$ 11.87	$ 12.12	$ 12.82
Total product development costs	$ 21,242	$ 22,779	$ 22,871	$ 25,248	$ 25,331
Capitalized software costs	(1,874)	(2,787)	(1,725)	(4,636)	(2,332)
Product development expense	$ 19,368	$ 19,992	$ 21,146	$ 20,612	$ 22,999
Capital expenditures	$ 9,434	$ 6,716	$ 8,329	$ 7,781	$ 8,211
Number of employees	2,360	2,090	2,250	2,310	2,530
Shares outstanding (thousands)	15,713	18,130	17,844	18,028	18,077

Directors of Measurex Corporation

Paul Bancroft III*
Retired President and Chief Executive Officer
Bessemer Securities Corporation
(Private investment company)

Dwight C. Baum**
Senior Vice President
Paine Webber Incorporated
(Investment banking firm)

David A. Bossen
Chairman of the Board and
Chief Executive Officer
Measurex Corporation

John C. Gingerich
President and Chief Operating Officer
Measurex Corporation

Jeffery T. Grade**
Chairman and Chief Executive Officer
Harnischfeger Industries
(A multi-industry company)

Dr. Orion L. Hoch*
Chairman Emeritus
Litton Industries
(A multi-industry company)

John W. Larson*
Chairman
Brobeck, Phleger and Harrison, LLP
(Law firm)

John W. McKittrick
President
Tel-Research Corporation
(A consulting business)

Graham Tyson**
Retired Chairman and Chief Executive Officer
Dataproducts Corporation
(Manufacturer of computer printers)

William W. Goessel***
Retired Chairman and Chief Executive Officer
Harnischfeger Industries
(A multi-industry company)

* Member of Compensation Committee
** Member of Audit Committee
*** Nonvoting Advisory Director

Principal Officers of Measurex Corporation

David A. Bossen
Chairman of the Board and
Chief Executive Officer

John C. Gingerich
President and Chief Operating Officer

Robert McAdams Jr.
Executive Vice President,
Finance and Information Services and
Chief Financial Officer

William J. Weyand
Executive Vice President,
Worldwide Sales and Service

Glenn R. Wienkoop
Executive Vice President
and President, Industrial Systems Division

Robert W. Hirt
Vice President, Taxes

Neil J. Laird
Vice President and Controller

Lance M. Lissner
Vice President,
Corporate Planning and Development

Phillip E. Peterson
Vice President, Human Resources

John G. Preston
Vice President and General Manager,
Integrated Control Systems Division

Charles Van Orden
Vice President, General Counsel
and Secretary

Mark Nordstrom
Assistant Treasurer

John W. Larson
Assistant Secretary

Principal Officers of Subsidiaries and Divisions

Anders B. Axelsson
Vice President and Managing Director
Sales and Service
Europe and Africa

Gregory J. Ayres
Vice President, Sales and Service
Americas

Denis M. Brotzel
Vice President, Sales
Industrial Systems Division

Robert H. Bucher
Vice President and General Manager
Measurex Devron, Inc.

Robert L. Cyr
Vice President,
Service Business

Barry C. Dale
Vice President, Sales and Service
Americas

Dr. Markku E. Jääskeläinen
Vice President and General Manager
Measurex Roibox Oy

Masaaki Ohno
President, Measurex Japan Ltd.

Frederic S. Rolandi
Vice President and General Manager
Measurex DMC

Keith A. Wheeler
Vice President and General Manager
Management Systems Division

Norman D. Winton
Vice President, Sales and Service
Asia-Pacific

Form 10-K

Measurex's Form 10-K, the Company's annual report filed with the Securities and Exchange Commission, will be sent without charge upon written request.

Please write:
Corporate Communications
Measurex Corporation
One Results Way
Cupertino, CA 95014-5991

Stock Listings

Measurex's common stock is listed on the New York and Pacific Stock Exchanges and trades under the symbol MX.

Transfer Agent and Registrar

The Bank of New York
New York, New York

Independent Accountants

Coopers & Lybrand, LLP
San Jose, California

Legal Counsel

Brobeck, Phleger and Harrison, LLP
San Francisco, California

Notice of Annual Meeting

The annual meeting of shareholders will be held on Friday, April 12, 1996, at corporate headquarters, Cupertino, California.

Worldwide Offices and Facilities

Argentina
Buenos Aires

Australia
Melbourne

Austria
Vienna

Brazil
Campinas

Canada
Montreal, Quebec
Mississauga, Ontario
Vancouver, British Columbia

Chile
Concepción

Colombia
Cali

Finland
Helsinki
Kuopio

France
Paris

Germany
Frankfurt

India
Bangalore

Indonesia
Jakarta

Ireland
Waterford

Italy
Milan

Japan
Tokyo
Sapporo
Takamatsu

Korea
Seoul

Mexico
Mexico City

Netherlands
Tiel

New Zealand
Rotorua

Norway
Skien

People's Republic of China
Beijing

Portugal
Setubal

Russia
St. Petersburg

Singapore

South Africa
Durban

Spain
San Sebastian

Sweden
Borlange

Switzerland
Baar

Taiwan
Taipei

Thailand
Bangkok

Turkey
Istanbul

United Kingdom
Datchet
Northfleet
Risley

United States
Atlanta, Georgia
Cincinnati, Ohio
Cupertino, California
Dublin, Ohio
Gaithersburg, Maryland
Green Bay, Wisconsin
Miami, Florida
Mobile, Alabama
Vancouver, Washington
Westbrook, Maine

Venezuela
Valencia

Designed and Produced by Jacobs Fulton Design Group, Palo Alto, CA

Measurex Purpose, Vision, and Values

Purpose

WHY WE ARE HERE

To achieve superior results for our customers, shareholders and employees, by being the leading supplier of measurement, control and information systems and services.

Vision

WHAT WE WANT TO BE

We want to be the partner of choice for our customers—reflecting our superior results, dedication to quality and commitment to their success.

Values

THE WAY BY WHICH WE STRIVE TO ACCOMPLISH OUR PURPOSE AND VISION

Customer Satisfaction We listen to our customers. We are partners with them in improving their processes. We exceed their expectations and anticipate their needs.

Employee Satisfaction We will make Measurex a great place to work.

Excellence Be the best in what we do.

Innovation We continuously improve our products, service and processes through initiative and creative thinking.

Integrity We are honest, fair and ethical. We keep our commitments.

Ownership Each of us takes responsibility for the quality of our work as we strive for the continuing success of our business.

Teamwork We work together to achieve our goals. We value each other's contributions and communicate in an open and honest manner. We foster a climate of trust.

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Measurex is "The Results Company," the leading supplier of computer-integrated measurement, control and information systems and services. The Company's wide range of products improves product quality, process efficiency and cost savings. Industries served by the Company include paper, plastics, nonwovens, aluminum, steel and rubber. Measurex's customers are served by sales and service subsidiaries located in 50 offices and 34 countries around the world. More than 1,380 of Measurex's 2,360 employees are dedicated to the sales, support and servicing of the customers' products.

measurex

Corporate Headquarters
One Results Way
Cupertino, CA 95014-5991

Phone: 408-255-1500
Fax: 408-864-7570

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