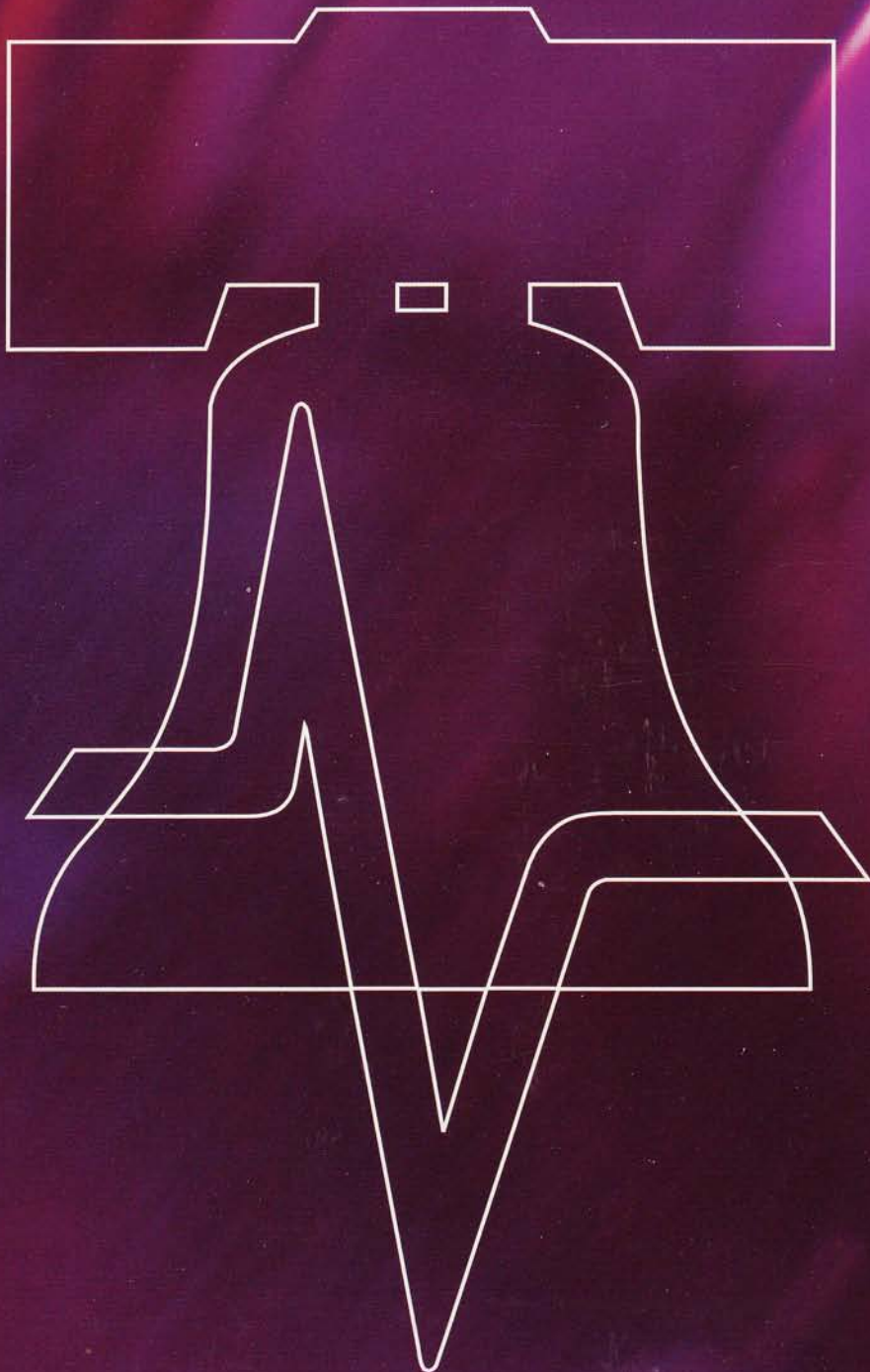


Liberty Technologies, Inc.



To Our Shareholders

Market response to Liberty Technologies' products and services made 1995 a **dynamic year**. As competitive pressures drive industry to redefine productivity standards, maintenance of critical assets is becoming a management priority for companies worldwide. Liberty is forging ahead into this **emerging market** as a premier supplier of diagnostic and nondestructive evaluation products and services to the power, process and industrial markets worldwide.

As a result of deliberate strategic initiatives, Liberty has **positioned itself for sustainable growth** and solid operational and financial performance as an international company. The key factors that are contributing to our growth are: innovative technology; a broad range of products; customer focused service; penetration of the global market; a strong management team and dedicated workforce; and a sound financial position.

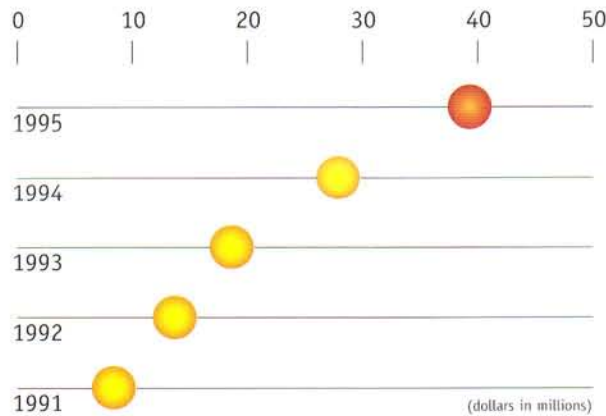
Liberty closed the year in **strong financial** condition. Shareholders' equity was \$16.4 million. Working capital was \$5.8 million and operating cash flow was positive. Revenues were up 41% to \$391 million from \$277 million the previous year. These increases were attributable mainly to a full year's results from Industrial NDT Company (INDT) and Beta Monitors and Controls, both of which were acquired in 1994, as well as some internal growth. In Liberty's first complete year of operating INDT, its revenues increased 45%.

During the year, we integrated our acquisitions and realigned the Company to **optimize our ability to capture strategic markets**, facilitate cross-selling and streamline operations. As part of this reorganization Liberty recorded a restructuring charge of \$758,000.

In addition, Liberty wrote-off capitalized software development costs of \$3.6 million. This write-off is due to the rapidly changing technology environment in which the Company operates and its impact on product life cycles. While these changes resulted in reporting an operating loss for 1995, the Company is **better prepared than ever** for the future. Excluding the write-offs, operating income for 1995 was \$738,000.

Liberty is **delivering innovative solutions** to industries faced with the universal operations and maintenance challenges of reliability, productivity, safety and cost-containment. Liberty's

Total Revenue



products are designed to reduce operations and maintenance costs for customers involved in capital intensive industries such as power, refining, chemical, aerospace and pulp and paper. We are **unique** in our ability to provide technology that gathers, processes, and translates raw data into information which

facilitates operational decision making. This technology enables Liberty's customers to achieve improved levels of efficiency, productivity and profitability.

Our services business is **dedicated to meeting customer needs**. We provide comprehensive nondestructive evaluation services as well as dynamic testing services which utilize our technologically-advanced products. To help customers realize the maximum return on their investment, we also offer product support services and training classes. In addition, our service business provides a channel for Liberty's products into new markets.

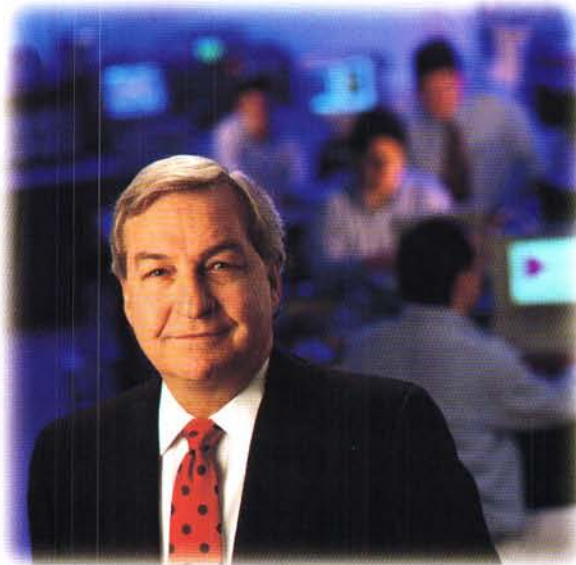
In 1995, we continued to focus on the following **core business strategies** to support our mission and achieve sustained revenues and earnings growth:

(1) Expand Liberty's presence worldwide.

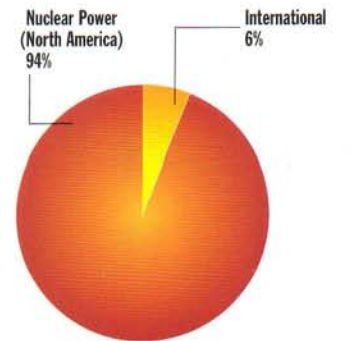
Beginning with an **unprecedented joint venture** with Electricité de France, the world's largest utility, Liberty advanced the potential for new strategic alliances and other marketing ventures around the globe. The resulting jointly-owned French company, Liberty M.P., provides predictive maintenance products and related services critical to the safe, reliable operation of electric power and industrial plants in the European Union. In addition, this joint venture is intended to serve as a conduit for the introduction of condition monitoring and nondestructive testing technology developed by Electricité de France and Liberty into the commercial marketplace. We consider Electricité de France to be a strong partner with an outstanding record of performance. Their advocacy of condition monitoring gives credence to the use of these practices in the maintenance of critical plant equipment.

Liberty intends to further expand its **international presence** and marketing opportunities through additional joint ventures, strategic alliances and acquisitions and by continuing to develop products and services that address the needs of customers in a variety of industrial markets. We expect additional joint ventures and strategic alliances to follow, where appropriate, to meet our business objectives and advance our core strategies as we broaden channels into the international markets.

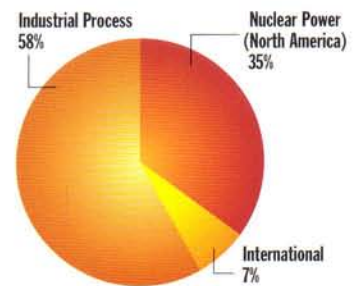
In addition to our joint venture and technical alliance with Electricité de France, Liberty currently enjoys strategic business partnerships with Asea Brown Boveri and Framatome Technologies. To further strengthen our resources, we have also created technical alliances with the National Science Foundation and the Electric Power Research Institute.



Changing Sources of Revenue
1993 vs. 1995



1993 Revenues – \$18,558

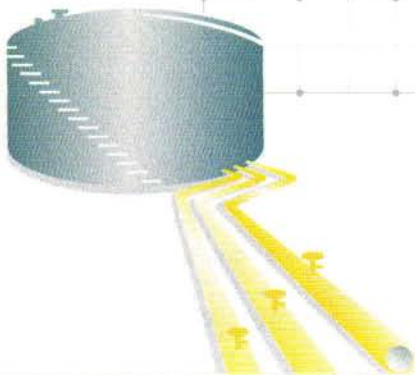
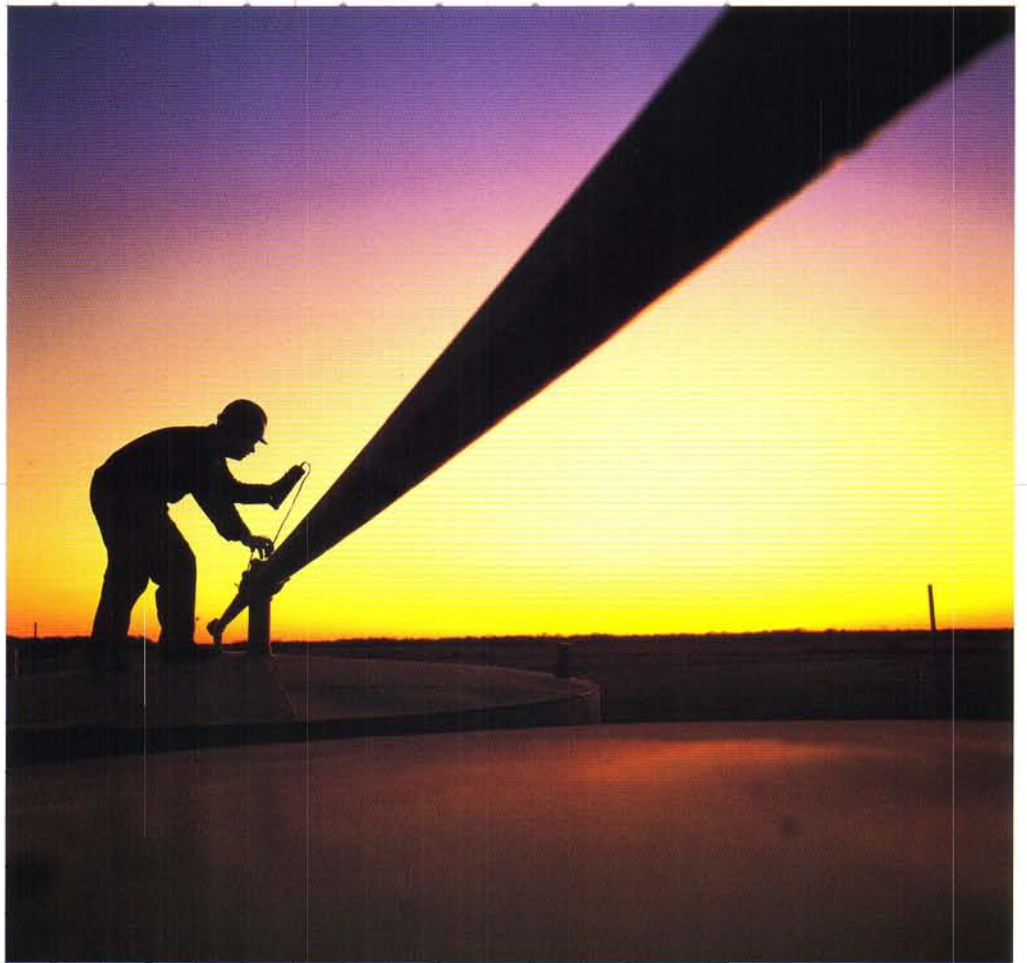


1995 Revenues – \$39,119

R. Nim Evatt
President, Chairman and
Chief Executive Officer

We provide information which facilitates operational decision making. RECIP-TRAP® analyzes reciprocating engines and compressors and rotating machinery.

Driven



(2) Offer value-added products and services.

Significant marketing achievements in 1995 included the launch of the first phase of RADView,SM the Film Digitizer and Workstation which converts existing radiographic film to a digital format. The second phase, which replaces conventional film with reusable phosphor screens, was released in early 1996, reinforcing our commitment to offering value-added products that **meet the critical needs of customers.** Our industrial digital radiography technology provides faster, more accurate, lower cost and safer methods for acquiring and analyzing radiographic information. In addition, the Company augments its RADView products with training and consulting services to ensure **maximum utility and performance** as we do for our full array of products.

We maintain **close contact with our customers** who provide valuable feedback regarding product design and application. Some of our active product development projects include a portable and an on-line motor analysis product designed to measure the performance and condition of electric motors while machinery is operating. Our M-HEALTHSM and RECIP-TRAPSM products are being enhanced with additional efficiency determinants and diagnostic tools to identify degraded conditions for critical engines, compressors and diesels as well as other plant-wide machinery.

We are investing in knowledge-based diagnostic systems, unique sensors, wavelet transform, algorithm development, data compression, information displays, wireless communications and phosphor imaging technology. As a market leader in certain sensor technologies, we intend to maintain a **leadership position** by continuing development in this area. Liberty is in the final phases of developing a high temperature, high reliability pressure sensor for ignition and diesel applications, a high temperature calibration instrument, and a multiple output calibration-free sensor.

(3) Differentiate on service and technology.

Another highlight of 1995 was the 29% increase in overall service revenues. The trend of industrial process and power generation companies toward outsourcing predictive maintenance functions bolsters Liberty's strategic





commitment to build our services business as we work to balance sources of revenue and **create new channels for product sales**. We have become a leader in developing software intensive products and services in response to existing and rapidly growing needs for diagnostic, condition monitoring and nondestructive evaluation.

In 1996 and the years ahead, we intend to continue to devote substantial resources to engineering and product development to maintain our competitive edge through proprietary technological capabilities. This success and our continued commitment to **technological excellence** was recognized in 1995 when Liberty was named Technology Company of the Year by the Eastern Technology Council. Moreover, Liberty was awarded eight U.S. patents in 1995 and has seven patent applications pending.

Broadening Market Perspective

Competitive pressures are driving industries to ensure the reliability of machinery to maximize capacity utilization. The cost of maintenance, repair and operations of U.S. industrial plants exceeds \$300 billion annually. Plant managers must achieve greater efficiency and productivity throughout their businesses. One way to reduce costs is by optimizing maintenance practices. Plants can achieve greater asset utilization by extending the life of critical plant machinery. Liberty's products non-intrusively identify equipment that requires specific maintenance and, just as importantly, identify equipment that does not require maintenance.

Once focused solely on the nuclear power market, Liberty has strategically invested in the future. We have **redirected our resources** into the development of technologies and services that are designed to replace current operations and maintenance practices of critical plant equipment in globally competitive industries. In 1993, Liberty's revenues were almost completely dependent on the domestic nuclear power industry. Today, the domestic nuclear business provides approximately one-third of the Company's revenues.

Leading-edge Technology

Protected by more than 60 owned and licensed patents, Liberty has the **broadest range** of proprietary condition monitoring products and supporting services of any diagnostic testing and predictive maintenance

Responsive



Our product development efforts focus on commercializing our technologies for targeted applications in new markets as well as further enhancing and streamlining our current products.



Innovative



Digital radiography is the next generation in industrial radiography and Liberty's RADView™ is at the forefront. Among many benefits, the system's bar coding capability facilitates record keeping.



Patented technology such as RADView is **enabling industry to streamline operations.** Industrial radiography is a billion dollar market, not including money spent to maintain conventional film radiographs. Similar to the X-ray procedure we undergo in the dentist's office, conventional industrial radiography uses a source, a subject and film that is processed with chemicals and viewed on a light box. This technology is 100 years old. Digital radiography is the next generation and Liberty is at the **forefront** for industrial applications. RADView's applications are broad and include the inspection of pipes, welds, erosion, corrosion and castings in the power, process, construction and aerospace industries.



Liberty's RADView is a total imaging solution for conversion of radiographic film records to a digital format and direct digital acquisition of radiographs employing a patented phosphor technology. Digital images are optimized and viewed on a high resolution monitor, permanently archived on optical disks and electronically transmitted for remote viewing and analysis.

With the RADView Film Digitizer, existing film records can be converted to a digital format to reduce records management costs, prevent information loss, and provide for rapid and easy access to nondestructive testing records. RADView Filmless Radiography dramatically reduces radiographic exposure times and virtually eliminates over and under exposure errors. In addition, because of the re-usable imaging media, film development facilities, processing chemicals and waste are eliminated.

After the favorable response to our Film Digitizer and Workstation in 1995, **prospects** for our filmless system introduced in early 1996 **look strong.** This proprietary technology is protected by 38 U.S. patents under license by the Company.

In the last five years, Liberty **invested** an average of 18% of revenues in research and development. Our product development efforts focus on commercializing our technologies for targeted applications in new markets as well as enhancing the performance and capabilities of our current products.





Strong outlook

The market for diagnostic products and services specifically designed for predictive maintenance continues to grow, fueled by an increasing demand for greater productivity, cost control and plant safety. The trend toward condition monitoring is irreversible and inevitable. Liberty has positioned itself to take advantage of this global demand.

Liberty's strengths are further enhanced by a team of **highly skilled, dedicated employees** who work together toward a common goal.



In the evolution of a company, there are few times more exciting than those Liberty began to experience in 1995. Emerging market response, continuing **worldwide growth**, the continued development of highly **innovative products**, and improving **financial stability** all reinforce Liberty's mission and potential to be the world's leading provider of diagnostic, condition monitoring and nondestructive evaluation systems and services.

Thank you to our shareholders, customers and employees. As we continue to build on our investments and achievements, we are enthusiastic about the potential for an ever stronger company and more **significant growth** in a developing global market.

R. Nim Evar
President, Chairman and
Chief Executive Officer

Global

Our motor analysis systems are designed to measure the performance and health of electric motors while machinery is operating.

