BUDGET AND CONTROL BOARD

MARCH 13 1974

POLLING OF MEMBERS

On March 13, 1974, P. C. Smith individually polled members of the Budget and Control Board concerning a Petition of Lancaster County for the issuing of $2,500,000 of Industrial Revenue Bonds on behalf of the Leesona Corporation. The following is a tabulation of the vote of Board members.

Governor John C. West (by phone)	Approved
Mr. Henry Mills (by phone)	Approved
Mr. R. J. Aycock (personal contact)	Approved
Senator Rembert C. Dennis (personal contact)	Approved
Mr. Grady L. Patterson, Jr. (out of town)	

EXHIBIT I ORIGINAL

MARCH 13, 1974

$2,500,000

FIRST MORTGAGE INDUSTRIAL REVENUE BONDS, SERIES 1974 (LEESONA CORPORATION - LESSEE) OF LANCASTER COUNTY, SOUTH CAROLINA

1782

Exhibit I ORIGINAL
MARCH 13, 1974

$2,500,000
FIRST MORTGAGE INDUSTRIAL REVENUE BONDS, SERIES 1974 (LEESONA CORPORATION - LESSEE) OF LANCASTER COUNTY, SOUTH CAROLINA

FOR DENSITY TESTING PURPOSES ONLY

1782

Columbia, South Carolina

March __, 1974

The State Budget and Control Board of South Carolina (the "Board") convened in called session at the regular meeting place of the Board at the Office of the Governor, in the Capitol Building, in the City of Columbia, South Carolina, at 11 o'clock A.M. on March 13, 1974, with the following members present:

John C. West	Governor of the State of South Carolina and Chairman of the Board
Grady L. Patterson, Jr.	State Treasurer
John Henry Mills	Comptroller General
Rembert C. Dennis	Chairman, Senate Finance Committee
Robert J. Aycock	Chairman, House Ways and Means Committee

Absent: Mr. Patterson

There was also present P. C. Smith, State Auditor and Secretary to the Board.

After the meeting had been duly called to order by the Chairman and the roll called with the above result, and after the minutes of the preceding meeting had been read and approved, the Chairman announced that one purpose of the meeting was to consider the adoption of a resolution approving the proposed issuance by Lancaster County, South Carolina, of $2,500,000 principal amount First Mortgage Industrial Revenue Bonds, Series 1974 (Leesona Corporation - Lessee).

Thereupon the following resolution was introduced in written form by Mr. Mills, was read in full, and after due discussion, pursuant to motion made by Mr. Aycock, and seconded by Mr. Mills, was adopted by the following vote:

AYE: 4

NAY: 0

The resolution was thereupon signed by the Chairman in evidence of his approval, was attested by the Secretary and was declared to be effective. The resolution is as follows:

A RESOLUTION approving the issuance by Lancaster County, South Carolina, of $2,500,000 principal amount First Mortgage Industrial Revenue Bonds, Series 1974 (Leesona Corporation - Lessee) as defined in and pursuant to the provisions of Act No. 103 of the Acts and Joint Resolutions of the General Assembly of the State of South Carolina, Regular Session of 1967, as amended (Chapter 8, Title 14, Code of Laws of South Carolina, 1962).

**** **** ****

WHEREAS, the County Board of Commissioners of Lancaster County, South Carolina (the "County Board") has heretofore, by submitting a petition under and pursuant to the provisions of Section 14 of Act No. 103 of the Acts and Joint Resolutions of the General Assembly of the State of South Carolina, Regular Session of 1967, as amended (Chapter 8, Title 14, Code of Laws of South Carolina, 1962) (the "Act"), requested the approval by the State Budget and Control Board of the issuance by Lancaster County (the "County") pursuant to the Act of its First Mortgage Industrial Revenue Bonds (as defined in the Act), Series 1974 (Leesona Corporation - Lessee), in the aggregate principal amount of $2,500,000 (the "Bonds"); and

WHEREAS, the County proposes to issue the Bonds for the purpose of financing the acquisition, constructing and equipping of an industrial facility under the Act, consisting of certain land, buildings, machinery and equipment to warehouse and distribute textile manufacturing parts and related products (collectively referred to as the "Project"); and

WHEREAS, the Project is to be leased to Leesona Corporation, a Massachusetts corporation, at a rental sufficient to pay the principal of and interest on the Bonds and the costs and expenses related to the issuance of the Bonds; and

WHEREAS, it is proposed that the Bonds will be secured by a pledge of the revenues to be derived from the leasing of the Project, and in addition by a pledge of the Lease of the Project and a first mortgage on the real property and improvements constituting the Project; and

WHEREAS, the County has submitted with said petition summarizing the documents to be entered into by the County in connection with the issuance of the Bonds, for review by the State Budget and Control Board, (i) An Inducement Contract by and between Leesona Corporation and the County executed by Leesona Corporation on February 5, 1974, and exeucted by the County Board of Commissioners of Lancaster County, South Carolina, on March 7, 1974, and (ii) A certified copy of a resolution adopted by the County Board of Commissioners of Lancaster County on March 7, 1974, and this Board has reviewed and considered each of said documents in its consideration of said petition by the County;

NOW, THEREFORE, BE IT RESOLVED, By the State Budget and Control Board of the State of South Carolina, as follows:

Section 1. That this Board has made an independent investigation of the matters set forth in the petition of the County Board referred to in the preamble hereto, and on the basis of such investigation it is hereby found, determined and declared:

(a) That the facts set forth in said petition, and in the preamble hereto, are in all respects true and correct;

(b) That the petition filed by the County Board contains all matters required by law and the rules of this Board to be set forth therein, and that in consequence thereof the jurisdiction of this Board has been properly invoked under and pursuant to Section 14 of the Act; and

(c) That the Project referred to in the petition of the County Board and in the preamble hereto is intended to promote the purposes of the Act and is reasonably anticipated to effect such result.

Section 2. That in consequence of the foregoing, the proposal of the County to acquire, construct and equip the Project, to lease the Project to Leesona Corporation and to finance the cost thereof and expenses incidental thereto by the issuance of Bonds, as defined in the Act, secured by a pledge of the revenues to be derived from the leasing of the Project, and in addition by a pledge of the Lease of the Project and a first mortgage on the real property and improvements constituting the Project, be and the same is hereby in all respects approved.

Section 3. That the Secretary of the State Budget and Control Board is hereby directed to publish one time in THE STATE, a newspaper having general circulation in Lancaster County, the following notice of approval by this Board:

NOTICE PURSUANT TO ACT NO. 103 OF THE ACTS AND JOINT RESOLUTIONS OF THE GENERAL ASSEMBLY OF THE STATE OF SOUTH CAROLINA, REGULAR SESSION OF 1967, AS AMENDED (CHAPTER 8, TITLE 14, CODE OF LAWS OF SOUTH CAROLINA, 1962)

Notice is hereby given pursuant to the provisions and requirements of Section 14 of Act No. 103 of the Acts and Joint Resolutions of the General Assembly of the State of South Carolina, Regular Session of 1967, as amended (Chapter 8, Title 14, Code of Laws of South Carolina, 1962) (the "Act"), that the State Budget and Control Board of South Carolina, pursuant to petition filed by the County Board of Commissioners of Lancaster County, South Carolina, has given its approval to the following undertaking by Lancaster County, South Carolina.

The issuance by Lancaster County of its First Mortgage Industrial Revenue Bonds (as defined in the Act), Series 1974 (Leesona Corporation - Lessee), in the aggregate principal amount of $2,500,000 (the "Bonds"), to finance the acquisition of certain land and the acquisition and construction of certain buildings, machinery and equipment to warehouse and distribute textile manufacturing parts and related products (the "Project"), to be located within the County of Lancaster. The Project will be leased to Leesona Corporation, a Massachusetts corporation, which will unconditionally covenant to pay rentals sufficient to pay the principal of, premium, if any, and interest on the Bonds. The Bonds will be payable solely and exclusively out of revenues to be derived from the leasing or sale of the Project to Leesona Corporation, and are to be additionally secured by a pledge of the Lease of the Project and a first mortgage on the Project real property.

In addition Leesona Corporation has agreed to pay, as additional rentals, to Lancaster County, the school district or school districts, and all other political units wherein the Project is located, in lieu of taxes, such amounts as would result from taxes levied on the Project by Lancaster County, said school district or school districts and other political units wherein the Project is located, if the Project were owned by Leesona Corporation, but with appropriate reductions similar to the tax exemptions, if any, which would be afforded to Leesona Corporation if it were the owner of the Project.

Notice is further given that any interested party may at any time within twenty (20) days after the date of the publication of this notice, challenge the validity of the State Budget and Control Board's approval of the Project and the issuance of the Bonds by Lancaster County to finance the same, by action de novo instituted in the Court of Common Pleas for Lancaster County, South Carolina.

STATE BUDGET AND CONTROL BOARD

By: P. C. Smith, Secretary

Section 4. That all orders and resolutions and parts thereof in conflict herewith are to the extent of such conflict hereby repealed, and this resolution shall take effect and be in full force from and after its passage and approval.

Passed and approved March 13, 1974.

CHAIRMAN, State Budget and Control Board

ATTEST:

Secretary, State Budget and Control Board

(Other business not pertinent to the above appears in the minutes of the Meeting.)

Pursuant to motion duly made and carried, the meeting was adjourned.

Chairman

ATTEST:

Secretary

STATE OF SOUTH CAROLINA)
)
COUNTY OF RICHLAND)

I, P. C. Smith, do hereby certify that I am the duly qualified and acting Auditor of the State of South Carolina and Secretary to the State Budget and Control Board. I further certify, according to the records of said Board in my official possession, as follows:

1. That the above and foregoing constitutes a true and correct copy of excerpts from the minutes of a meeting of the State Budget and Control Board held on March __, 1974, and of a resolution adopted at said meeting, as said minutes and resolution are officially of record in my possession.

2. That attached hereto is a true and correct copy of a petition filed with the State Budget and Control Board by the County Board of Commissioners of Lancaster County, South Carolina, which petition is the same petition referred to in the foregoing resolution of the State Budget and Control Board.

3. That the names of the members of the State Budget and Control Board, in office on the date of adoption of the foregoing resolution and on the date hereof, are as follows:

NAME	OFFICE
John C. West	Governor of the State of South Carolina and Chairman of the Board
Grady L. Patterson, Jr.	State Treasurer and Member of the Board
John Henry Mills	Comptroller General of South Carolina and Member of the Board
Rembert C. Dennis	Chairman of the Senate Finance Committee and Member of the Board
Robert J. Aycock	Chairman of the House Ways and Means Committee and Member of the Board

IN WITNESS WHEREOF, I have hereunto subscribed my official signature this 18 day of March, 1974.

[signature]
Secretary

L 1789

Lancaster, South Carolina

March 7, 1974

The County Board of Commissioners of Lancaster County, South Carolina (the "County Board") convened in general session at the regular meeting place of the County Board in the County Office Building in the City of Lancaster, South Carolina, at 4:00 o'clock P.M. on March 7, 1974, with the following members present:

J. Earl Tindall, Chairman
J. Erskine Thompson, Vice Chairman
Berry L. Mobley, Secretary
Robert H. Kirk, Jr.
Robert L. Mobley
Walter W. Rollins

ABSENT: Mrs. Margaret Kennington.

There was also present D. Glenn Yarborough, County attorney.

After the meeting had been duly called to order by the Chairman and the roll called with the above result, the Chairman announced that the purpose of the meeting was to consider the adoption of a resolution making application to the State Budget and Control Board of South Carolina (the "State Board") for the approval by the State Board of the issuance by Lancaster County of its First Mortgage Industrial Revenue Bonds, Series 1974 (Leesona Corporation - Lessee) in the aggregate principal amount of $2,500,000.

Thereupon, the following resolution was introduced in written form by Mr. Berry L. Mobley, was read in full, and after due discussion, pursuant to motion made by Mr. Robert L. Mobley and seconded by Mr. Robert H. Kirk, Jr., was adopted by the following vote:

AYE: J. Earl Tindall
J. Erskine Thompson
Berry L. Mobley
Robert H. Kirk, Jr.

AYE: (Continued)

Robert L. Mobley
Walter W. Rollins

NAY: None

The resolution was thereupon signed by the Chairman of the County Board of Commissioners in evidence of his approval, was attested by the Secretary and was declared to be effective. The resolution is as follows:

A RESOLUTION making application to the State Budget and Control Board of South Carolina for the approval by the Board of the issuance by Lancaster County, South Carolina, of its First Mortgage Industrial Revenue Bonds, Series 1974 (Leesona Corporation - Lessee) as defined in and pursuant to the provisions of Act No. 103 of the Acts and Joint Resolutions of the General Assembly of the State of South Carolina, Regular Session of 1967, as amended (Chapter 8, Title 14, Code of Laws of South Carolina, 1962) in the aggregate principal amount of $2,500,000.

WHEREAS, Lancaster County, South Carolina (the "County") acting by and through its County Board of Commissioners is authorized and empowered under and pursuant to the provisions of Act No. 103 of the Acts and Joint Resolutions of the General Assembly of the State of South Carolina, Regular Session of 1967, as amended, (Chapter 8, Title 14, Code of Laws of South Carolina, 1962) (hereinafter referred to as the "Act") to acquire and lease properties through which the industrial development of the State of South Carolina will be promoted and trade developed by inducing industrial enterprises to locate in and remain in the State of South Carolina and thus utilize and employ the manpower, agricultural products and natural resources of the State; and

WHEREAS, the County is further authorized by the Act to issue revenue bonds payable solely from the lease rentals, revenues and receipts from any such project and secured by a pledge of said lease rentals, revenues and receipts and by a mortgage on the land, buildings, improvements, machinery and equipment so acquired; and

WHEREAS, the County and Leesona Corporation, a Massachusetts corporation, entered into an Inducement Contract (the "Inducement Contract") executed by Leesona Corporation on February 5, 1974, and executed by the County Board on March 7, 1974, pursuant to which Leesona Corporation agreed to acquire certain real property and to construct and equip an industrial facility to warehouse and distribute textile manufacturing parts (the land, buildings, machinery and equipment and related facilities constituting the industrial facility is hereafter referred to as the "Project") in Lancaster County, South Carolina, in reliance upon the agreement of the County to pay the cost incurred by Leesona Corporation in acquiring, constructing and equipping the Project through the issuance by the County of revenue bonds under and pursuant to the provisions and requirements of the Act and subject to the approval of the State Budget and Control Board of South Carolina; and

WHEREAS, in order to implement the public purposes enumerated in the Act and in furtherance thereof to comply with the undertakings of the County pursuant to the Inducement Contract, the County proposes to issue $2,500,000 aggregate principal amount First Mortgage Industrial Revenue Bonds (as defined in the Act), Series 1974 (Leesona Corporation - Lessee) (the "Series 1974 Bonds") under and pursuant to the Act to finance the costs incurred and to be incurred by Leesona Corporation in acquiring, constructing and equipping the Project and to lease the Project to Leesona Corporation under and pursuant to the terms of a lease to be entered into between the County and Leesona Corporation; and

WHEREAS, it is now deemed advisable by this County Board to file with the State Budget and Control Board of South Carolina, in compliance with Section 14 of the Act, the Petition of the County requesting approval of the proposed financing by the State Budget and Control Board;

NOW, THEREFORE, BE IT RESOLVED by the County Board of Commissioners of Lancaster County, South Carolina, as follows:

Section 1. That it is hereby found, determined and declared by this County Board as follows:

(a) That the Project will constitute a "project" as said term is referred to and defined in Section 2(3) of the Act, and that the issuance of the Series 1974 Bonds in the aggregate principal amount of $2,500,000 to finance the Project will subserve the purposes and in all respects conform to the provisions and requirements of the Act.

(b) That neither the Project, the Series 1974 Bonds proposed to be issued by the County to finance the Project, nor any documents or agreements entered into by the County in connection therewith will constitute or give rise to a pecuniary liability of the County or a charge against its general credit or taxing power.

(c) That the issuance of the Series 1974 Bonds by the County in the aggregate principal amount of $2,500,000 will be required to finance the cost of the Project.

(d) That the amount necessary in each year to pay the principal of and interest on the Series 1974 Bonds proposed to be issued by the County is as follows:

Year	Principal Payment	Interest Payment	Total Debt Service
1974	$ 54,575	$ 68,375	$ 122,950
1975	113,725	132,175	245,900
1976	120,125	125,775	245,900
1977	126,875	119,025	245,900
1978	133,950	111,950	245,900
1979	141,475	104,425	245,900
1980	149,425	96,475	245,900
1981	157,825	88,075	245,900
1982	166,675	79,225	245,900
1983	176,050	69,850	245,900
1984	185,925	59,975	245,900
1985	196,375	49,525	245,900
1986	207,425	38,475	245,900
1987	219,025	26,875	245,900
1988	231,325	14,575	245,900
1989	119,225	2,475	121,700
TOTAL	$2,500,000	$1,187,250	$3,687,250

F 1793

(e) That inasmuch as Leesona Corporation is a corporation with established credit, the establishment of reserve funds in connection with the retirement of the Series 1974 Bonds and the maintenance of the Project is deemed unnecessary.

(f) That the Project will be leased by the County to Leesona Corporation upon terms which will require Leesona Corporation at its own expense, to maintain the Project in good repair and to carry all proper insurance with respect thereto, and will require Leesona Corporation to make the payments in lieu of taxes referred to in Section 6 of the Act.

(g) The Project will consist of land, buildings, machinery and equipment constituting an industrial facility for warehousing and distributing textile manufacturing parts and related products.

(h) A reasonable estimate of the cost of the Project including necessary expenses incident thereto is $2,500,000.

(i) In addition to the employment provided for those engaged in the construction of the Project, it is anticipated that after the Project has been completed and the facilities placed in operation, the Project will provide permanent employment for approximately seventy-five (75) persons from the County and areas adjacent thereto with a resulting alleviation of unemployment, and a substantial increase in payrolls and other public benefits incident to the conducting of industrial operations.

Section 2. That there be and there is hereby authorized and directed the submission on behalf of Lancaster County, of a Petition by this County Board of Commissioners requesting the approval of the proposed financing by the State Budget and Control Board of South Carolina pursuant to the provisions of Section 14 of the Act, said Petition, which constitutes and is hereby made a part of this authorizing resolution, to be in substantially the form attached hereto as Exhibit A.

Section 3. That the Chairman of the County Board of Commissioners of Lancaster County be and is hereby authorized and directed to execute said Petition in the name and on behalf of Lancaster County; and that the Secretary be and is hereby authorized and directed to affix the seal of the County Board of Commissioners to said Petition and to attest the same and thereafter to submit an executed copy of said Petition, together with a properly certified copy of this resolution, to the State Budget and Control Board, in Columbia, South Carolina.

Section 4. That all orders and resolutions and parts thereof in conflict herewith are to the extent of such conflict hereby repealed, and this resolution shall take effect and be in full force from and after its passage and approval.

Passed and approved March 7, 1974.

Chairman, County Board of
Commissioners of Lancaster County

ATTEST:

Secretary, County Board of
Commissioners of Lancaster
County

(Other business not pertinent to the above appears in the minutes of the meeting.)

Pursuant to motion duly made and carried, the meeting was adjourned.

Chairman

ATTEST:

Secretary

STATE OF SOUTH CAROLINA)
)
COUNTY OF LANCASTER)

I, Berry L. Mobley, do hereby certify that I am the duly qualified Secretary of the County Board of Commissioners of Lancaster County, South Carolina.

I further certify that the above and foregoing constitutes a true and correct copy of excerpts from the minutes of a regular meeting of the County Board of Commissioners of Lancaster County held on March 7, 1974, and of a resolution, together with Exhibit A attached thereto, adopted at said meeting, as said minutes, resolution and exhibit are officially of record in my possession.

IN WITNESS WHEREOF, I have hereunto subscribed my official signature and impressed hereon the official seal of the County Board of Commissioners of Lancaster County this 7th day of March, 1974.

Secretary

(SEAL)

1796

INDUCEMENT CONTRACT

THIS CONTRACT made and entered into by and between Lancaster County (the "County"), a body politic and corporate, and a political subdivision of the State of South Carolina and Leesona Corporation (the "Industry"), a corporation organized and existing under the laws of the State of Massachusetts.

W I T N E S S E T H:

ARTICLE I.

RECITATION OF FACTS

SECTION 1.01.

As a means of setting forth the matters of mutual inducement which have resulted in the making and entering into of this Contract, the following statements of fact are herewith recited:

1. The County is a body politic and corporate, and a political subdivision of the State of South Carolina, and is authorized and empowered by the provisions of Act No. 103 enacted at the 1967 Session of the General Assembly of South Carolina, as amended (the "Act"), to acquire, enlarge, improve, expand, equip, furnish, own, lease and dispose of properties through which the industrial development of the State will be promoted and trade developed by inducing new industries to locate in South Carolina and by encouraging industries now located in South Carolina to expand their investments and thus utilize and employ manpower and other resources of South Carolina.

2. The Industry proposes to construct an industrial facility and purchase and install all necessary machinery and equipment therein on approximately seventy-five (75) acres of land located in Lancaster County which will be used for warehousing and

distributing textile manufacturing parts. The cost of the land, improvements thereon, equipment and machinery installed (the Project), is estimated to be Two Million Five Hundred Thousand ($2,500,000) Dollars. The Project when completed and in operation will provide permanent employment for approximately seventy-five (75) persons.

3. The Industry has advised the County that its contemplated program is dependent upon the availability of assistance which the County might render through the sale of Lancaster County Industrial Revenue Bonds (the Bonds) pursuant to the Act, whereby the County would finance the cost of land acquisition, building construction, machinery and equipment acquisition and installation for the Project and lease the Project to the Industry.

4. The County has given due consideration to all of the proposals and requests of the Industry and has agreed to endeavor to effect the issuance of the Bonds at the time and on the terms and conditions hereafter set forth.

ARTICLE II.

UNDERTAKINGS ON THE PART OF THE COUNTY

The County agrees as follows:

SECTION 2.01.

That it will accept a conveyance of the real property, improvements, machinery and equipment referred to in Paragraph 2 of Section 1.01.

SECTION 2.02.

That it will, subject to the approval by the State Budget and Control Board required by the Act, authorize the issuance of Two Million Five Hundred Thousand ($2,500,000) Dollars Lancaster County, South Carolina, First Mortgage Industrial Revenue Bonds, Series 1974 (Leesona Corporation - Lessee), at such time as the Industry may request the County to do so.

SECTION 2.03.

That it will permit the Industry to arrange for the sale of the Bonds, in an amount sufficient to pay for the Project as aforesaid and if successful market arrangements can be made, it will adopt such proceedings as are necessary for the making of the Lease spoken of in Section 2.06 and the issuance and securing of the Bonds.

SECTION 2.04.

That if the Bonds shall be sold, it will provide that the proceeds thereof shall be applied to the payment of the costs theretofore and thereafter to be incurred in connection with the issuance of the Bonds and construction of the Project, including the necessary land, buildings, machinery, equipment and other purposes permitted by the Act, and the repayment of any funds advanced or loans incurred by the Industry for such purposes.

SECTION 2.05.

That prior to the issuance of the Bonds it will enter into an Indenture with the trustee bank to be selected by the Industry pursuant to which the Bonds will be issued. Such Indenture shall be substantially in the form used in connection with the issuance of South Carolina Industrial Revenue Bonds and shall constitute a lien on the Project to secure the payment of the Bonds. At the option of the Industry the County will issue the Bonds in the form of a note secured by a mortgage upon the Project in which event no indenture will be necessary.

SECTION 2.06.

That simultaneously with the issuance of the Bonds, it will lease to the Industry the said tract of land with the building, machinery and equipment hereinbefore referred to for a term commensurate with the life of the Bonds and at a rental which will provide the County with sums required to pay the principal, interest and premium, if any, on the Bonds, as and when the same become due and payable; and when the Bonds have been paid, the County will convey the Project to the Industry for One ($1.00) Dollar.

SECTION 2.07.

That, if requested by the Industry and in order to provide interim financing pending the issuance of the Bonds, the County will adopt the necessary proceedings and provide for the issuance of Bond Anticipation Notes pursuant to Act No. 116 of the Acts and Joint Resolutions of the General Assembly of the State of South Carolina, Regular Session of 1965, as amended, in anticipation of the issuance of the Bonds.

SECTION 2.08.

That it will perform such other acts and adopt such further proceedings as may be required to faithfully implement its undertakings and to consummate the proposed financing.

ARTICLE III.

UNDERTAKINGS ON THE PART OF THE INDUSTRY

SECTION 3.01.

The Industry agrees that the County will have no obligation to find a purchaser of the Bonds.

SECTION 3.02.

The Industry further agrees, if the plan proceeds as contemplated:

(a) to convey, or cause to be conveyed, to the County, the Project;

(b) to enter into a lease with the County, under the terms of which it will obligate itself to pay to the County sums sufficient to pay the principal, interest and premiums, if any, on the Bonds, as and when the same become due and payable, said Lease to be in form and contain such provisions as shall be satisfactory to the County and to the Industry;

(c) to obligate itself to make the additional rental payments required by the Act, including, but not limited to, payments in lieu of taxes;

(d) to hold the County harmless from all pecuniary liability and to reimburse it for all expenses to which it might be put in the fulfillment of its obligations under this Contract and in the implementation of its terms and provisions.

(e) to perform such further acts and adopt such further proceedings as may be required to faithfully implement its undertakings and consummate the proposed financing; and

(f) to covenant and agree in the Lease referred to hereinabove to install in the building which is a part of the Project all necessary equipment and machinery and that it will thereafter operate the Project as a plant for warehousing and distributing textile manufacturing parts or such other products as the Industry deems appropriate.

ARTICLE IV.

GENERAL PROVISIONS

SECTION 4.01.

All commitments of the County under Article II hereof are subject to all of the provisions of the Act and the condition that nothing contained in this Contract shall constitute or give rise to a pecuniary liability of the County or a charge against its general credit or taxing powers.

SECTION 4.02.

The parties agree that the Industry may proceed with the Project including land acquisition, construction and installation of machinery and equipment prior to the issuance of the Bonds.

SECTION 4.03.

All commitments of the County and the Industry hereunder are subject to the condition that the County and the Industry do agree on mutually acceptable terms and conditions of all documents whose execution and delivery are contemplated by the provisions hereof.

SECTION 4.04.

The parties understand that the Industry may choose not to finance the Project as herein provided, in which event this agreement shall become void.

IN WITNESS WHEREOF, the parties hereto, each after due authorization, have executed this Contract on the dates indicated.

LANCASTER COUNTY BOARD OF COMMISSIONERS

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Erskine Thompson

(SEAL)

ATTEST:

[illegible]

Secretary of the Lancaster County
Board of Commissioners

Dated: March 7, 1974

1802

LEESONA CORPORATION

By D. Robert Ammerman

Its Vice President - Finance
Treasurer

(SEAL)

ATTEST:

[signature]

Dated: Feb. 5, 1974

STATE OF SOUTH CAROLINA)
)
COUNTY OF LANCASTER)

TO: THE STATE BUDGET AND CONTROL)
BOARD OF SOUTH CAROLINA) PETITION

I

Statement of Facts

A. Jurisdiction of State Budget and Control Board. Lancaster County, South Carolina (the "County"), acting by and through its County Board of Commissioners (the "County Board") respectfully submits this Petition to the State Budget and Control Board of South Carolina (the "State Board") under and pursuant to the provisions and requirements of Act No. 103 of the Acts and Joint Resolutions of the General Assembly of the State of South Carolina, Regular Session of 1967, as amended (Chapter 8, Title 14, Code of Laws of South Carolina, 1962) (the "Act") and in particular Section 14 thereof, and respectfully requests the approval by the State Board of the issuance of the County of its First Mortgage Industrial Revenue Bonds (as defined in the Act), Series 1974 (Leesona Corporation - Lessee) in an aggregate principal amount of $2,500,000 (the "Series 1974 Bonds").

The following documents are submitted herewith as exhibits to the Petition:

EXHIBIT 1 - Inducement Contract by and between the County and Leesona Corporation, executed by Leesona Corporation on February 5, 1974, and executed by the County Board of Commissioners of Lancaster County, South Carolina, on March 7, 1974.

EXHIBIT 2 - Resolution of the County Board of Commissioners (the "Resolution"), adopted March 7, 1974.

It is expected that the transaction as finally consummated will conform in all substantive respects with the summary thereof contained herein subject to such changes as may be agreed to between the County and the Lessee that would not substantially modify the transaction. As described more fully herein, the County and the Lessee may fix the aggregate principal amount of the Series 1974 Bonds in an amount of $2,500,000.

B. The County and its Governing Body. The County is a body politic and corporate and a political subdivision of the State of South Carolina. The County Board of Commissioners is the governing body of the County, and, as such, is the "County Board" referred to and defined in Section 2(2) of the Act.

C. Statutory Authority. The County, subject to the approval of the State Board and to compliance in all other respects with the terms and provisions of the Act, is authorized and empowered by the Act to acquire and lease industrial development "projects" and to issue revenue bonds to defray cost of construction or purchase of such projects.

D. The Proposed Lessee. Leesona Corporation, a Massachusetts Corporation, with its principal office now located in the City of Warwick, Rhode Island, and duly authorized to conduct business in the State of South Carolina, has determined that it is desirable to operate an industrial facility to warehouse and distribute textile manufacturing parts and related products in Lancaster County, South Carolina, and pursuant to the provisions of the Inducement Contract, has acquired options on approximately seventy-five (75) acres of land (the "Land") and proposes to acquire such Land and to construct an industrial facility thereon and to install all necessary machinery and equipment therein and construct and install certain related facilities (the land, building, machinery and equipment and related facilities are hereinafter collectively referred to as the "Project") provided that the Project and expenses incidental thereto are financed by the issuance by the County of its revenue bonds authorized to be issued by the Act.

E. The Inducement Contract. Leesona Corporation, and the County have agreed, subject to the approval of the State Board, that the County will issue the Series 1974 Bonds in an aggregate principal of $2,500,000 pursuant to the Act to finance the Project, and that Leesona Corporation will lease the Project from the County at rentals sufficient to pay principal, interest and premium, if any, on the Series 1974 Bonds and to pay additional rental payments required by the Act, including, but not limited to payments in lieu of taxes.

F. Findings of the County Council. By resolution duly adopted on March 7, 1974, (the "Resolution"), Exhibit 2, the certified copy of which is submitted herewith as Exhibit 2, the County Board has formally found, determined and declared:

(1) That the Project will constitute a "project" as said term is referred to and defined in Section 2(3) of the Act, and that the issuance of the Series 1974 Bonds in the aggregate principal amount of $2,500,000 to finance the Project will subserve the purposes and in all respects conform to the provisions and requirements of the Act.

(2) That neither the Project, the Series 1974 Bonds

proposed to be issued by the County to finance the Project, nor any documents or agreements entered into by the County in connection therewith will constitute or give rise to any pecuniary liability of the County or a charge against its general credit or taxing power.

(3) That the issuance of the Series 1974 Bonds by the County in the aggregate principal amount of $2,500,000 will be required to finance the cost of the Project.

(4) That the amount necessary in each year to pay the principal of and interest on the Series 1974 Bonds proposed to be issued by the County is set forth in the Resolution.

(5) That inasmuch as Leesona Corporation is a corporation with established credit, the establishment of reserve funds in connection with the retirement of the Series of 1974 Bonds and the maintenance of the Project is deemed unnecessary.

(6) That the Project will be leased by the County to Leesona Corporation upon terms which will require Leesona Corporation at its own expense, to maintain the Project in good repair and to carry all proper insurance with respect thereto, and will require Leesona Corporation to make the payments in lieu of taxes referred to in Section 6 of the Act.

II

Additional Information furnished Pursuant to Section 14 of the Act

A. Brief Description of the Project. The Project will consist of land, buildings, machinery and equipment constituting an industrial facility to warehouse and distribute textile manufacturing parts and related products. The Lessee will be responsible for the construction of the Project according to specifications prepared by the Lessee and approved by the County. The Lessee will acquire the land by the exercise of the options it presently holds and will convey the land to the County upon payment of the purchase price from the proceeds of the Series 1974 Bonds. The County has authorized the Lessee to acquire the land and begin construction of the building and installation of machinery and equipment prior to the issuance of the Series 1974 Bonds, as authorized by Section 8 of the Act. The Lessee will be reimbursed for such expenditures from the proceeds of the Series 1974 Bonds.

B. Anticipated Effect of the Project upon Economy of the County and Adjacent Areas. In addition to the employment provided for those engaged in the construction of the Project, it is anticipated that after the Project has been completed and the industrial facility placed in operation, the Project will provide permanent employment for approximately seventy-five (75) persons from the County and areas adjacent thereto with a resulting alleviation of unemployment, and a substantial increase in payrolls and other public benefits incident to the conducting of industrial operations.

C. Reasonable Estimate of Cost of Project. A reasonable estimate of the cost of the Project including necessary expenses incident thereto is $2,500,000.

D. Summary of the Terms and Conditions of the Proposed Lease.

1. Net Lease

The Lease is a "Net Lease", and the Lessee agrees to pay all utility charges in connection with the Project and all taxes and other governmental charges which may be lawfully levied or assessed against or with respect to the Project or any interest of the Lessee or the County therein or in the Lease, or on any property of the Lessee thereon and (as long as any Bonds are outstanding), on the revenues or income of the County from the Project. The Lessee is not, however, required to pay any such taxes or charges as long as it contests the same in good faith, if the lien of the Indenture will not be materially endangered or any part of the Project subjected to loss. The Lessee also agrees to pay the fees and expenses of the Trustee and the County.

2. Term and Rentals.

The Lease will become effective upon its delivery which will occur at the time of or prior to the issuance of the Bonds but the term of the Lease shall commence on April 1, 1974, the date from which the Lessee's obligation to make rental payments for the account of the County accrues, and subject to certain conditions therein, will expire at midnight on March 31, 1989, with optional renewal periods at the election of the Lessee not to exceed a total of ten additional years.

The Lessee agrees to pay rent quarterly, directly to the Trustee for the account of the County, in amounts which will be sufficient in the aggregate to enable the Trustee to make the required payments of principal of and interest on the Bonds as and when the same fall due. The obligation of the Lessee to make rental payments is unconditional (whether or not the Project is completed) and, until such time as all of the Bonds have been paid in full or provision therefor is made, the Lessee may not terminate the Lease for any cause.

In addition, the Lessee has agreed to make payments in lieu of taxes as required by law.

3. Obligation to Construct and Complete Project.

The Lessee will construct and equip the Project in accordance with such plans and specifications, as may be from time to time prepared and amended by the Lessee and approved by the County.

The Lessee has agreed to use its best efforts to cause such construction to be completed as promptly as practicable. In the event, however, that the cost of the Project should exceed the proceeds from the sale of the Bonds deposited in the Construction Fund Account, the Lessee has agreed to complete the Project and to pay all the costs of the Project in excess of the moneys available from the Construction Fund Account provided, however, that the Lessee shall not during the three-year period immediately following the date of issue of the Series 1974 Bonds be obligated to make any capital expenditure with respect to the Project that would cause the aggregate amount of all capital expenditures with respect to the Project paid or incurred during the six-year period beginning three years before the date of issue of the Series 1974 Bonds, to equal $5,000,000.00. In such event the Lessee will not be entitled to any reimbursement therefor from the County, the Trustee or the holders of any of the Bonds, nor will it be entitled to any diminution of the rentals payable under the Lease.

4. Maintenance and Insurance.

During the term of the Lease, the Lessee shall keep the Project in good repair at its own cost.

The Lessee will insure the Project, under valid and enforceable policies issued by insurers of recognized responsibility, to the full insurable value (actual replacement value) of the Project, with customary deductible provisions, against loss or damage by fire, with extended coverage endorsement covering loss or damage by explosion, vandalism, malicious mischief and such other hazards as are normally covered by such endorsement. The Lessee further agrees to carry public liability insurance with reference to the Project in the amounts specified in the Lease.

5. Modifications, Improvements, Additions and Removal.

The Lessee may, at its own expense (unless Additional Bonds shall be issued for such purpose by the County at the Lessee's request), make additions, modifications or improvements that do not damage the basic structure of the Project or materially decrease its value. All such additions, modifications and improvements shall become the property of the County upon the expiration or termination of the Lease unless removed by the Lessee without damage to the Project (or repair by the Lessee of any damage caused by such removal).

The Lessee shall have the further privilege from time to time, at its own expense and without damage to the Project, or installing machinery, equipment, fixtures or personal property which shall remain the property of the Lessee and which may be removed at any time by the Lessee.

6. Damage to the Project.

Unless the Lessee has elected to exercise its option to purchase or is obligated to purchase the Project pursuant to the Lease, if prior to full payment of the Bonds (or provisions for payment thereof having been made in accordance with the provisions of the Indenture) the Project shall be damaged or partially or totally destroyed by fire, storm or other casualty exceeding $75,000.00 in the aggregate, all net insurance proceeds resulting from loss or damage shall be paid to the Trustee, whereupon:

(a) the Lessee will proceed promptly to rebuild, restore and repair the Project to at least the fair market value thereof immediately prior to such destruction, and

(b) the Trustee will apply so much as may be necessary of the net insurance proceeds to the payment of the costs of such rebuilding, restoration or repair.

In the event the net insurance proceeds are insufficient the Lessee will nonetheless restore and repair the Project to at least the fair market value thereof immediately prior to such destruction and the Lessee will pay the portion of the cost in excess of the amount of such net proceeds.

Any balance of the net insurance proceeds remaining after the payment of all costs shall be paid to the Trustee and used for payment of principal and interest on the Bonds, as provided in the Indenture.

7. Condemnation.

In the event that any part of the Project shall be taken under the exercise of the power of eminent domain, unless the Lessee is obligated to purchase the Project as a result of such action, any net proceeds received by the County and the Lessee from any award in such proceeding will be paid to and held by the Trustee, whereupon:

(a) the Lessee shall either (1) promptly and diligently restore and rebuild the Project to such condition as shall be reasonable in view of the nature of the taking and then intended use of the Project by the Lessee (without diminution of the rentals otherwise payable under the Lease), or (2) furnish the Trustee with a certificate executed by an authorized representative of the Lessee that such restoration and rebuilding is not required, and

(b) the Trustee will apply so much as may be necessary of the net proceeds of such award (after the payment of collection expenses) to the costs, if any, of such restoration and rebuilding.

Any balance of the net proceeds of the award in such eminent domain proceedings shall be paid to the Trustee and used for payment of principal and interest on the Bonds, as provided in the Indenture.

8. Options to Purchase.

The Lessee shall have the option to purchase the Project, and all additions, modifications, and improvements, thereto, (thereby terminating the Lease) prior to full payment of the Bonds (or provision therefor having been made in accordance with the provisions of the Indenture) upon certain conditions. The purchase price shall be equal to the sum of (a) the amount, if any, which when added to the amount then held by the Trustee and available for such purpose will be sufficient to redeem the outstanding Bonds, plus (b) an amount equal to the Trustee's fees and expenses accrued and to accrue until final payment and redemption of the Bonds.

The Lessee also has the option exercisable during the intial term of the Lease or at any time during any renewal term of the Lease, to purchase the Project for a price equal to the sum of (a) the amount, if any, which when added to the amount then held by the Trustee and available for such purpose will be sufficient to pay the principal of and interest on the outstanding Bonds, plus (b) an amount equal to the Trustee's fees and expenses accrued and to accrue until final payment of the Bonds, plus (3) the sum of $1.00.

Upon compliance with conditions set forth in the Lease, the Lessee will have the option to purchase at any time or from time to time any part of the unimproved land on which no part of the buildings or improvements leased from the County other than transportation or utility facilities is located. The proceeds derived from such purchase or purchases will be paid to the Trustee and used for the payment of principal and interest on the Bonds, as provided in the Indenture.

9. Obligations to Purchase.

The Lessee is obligated to purchase the Project prior to full payment of the Bonds (or provision therefor having been made in accordance with the provisions of the Indenture) upon the happening of certain events. The purchase price in any such event shall be equal to the sum of (a) the amount, if any, which when added to the amount then held by the Trustee and available for such purpose will be sufficient to redeem the outstanding Bonds in accordance with certain provisions, plus (b) an amount equal to the Trustee's fees and expenses accrued and to accrue until final payment and redemption of the Bonds.

10. Easements, Dedications, Annexations.

Upon compliance with conditions set forth in the Lease, the Lessee shall have the right to cause the County at any time, or from time to time, to (i) grant easements affecting the Project, (ii) to dedicate portions of the Project for roads, highway, and other public purposes, and (iii) to execute petitions to have the Project or portions thereof annexed to any municipality or included within any utility, highway or other improvement or service district.

11. Default.

The Lease provides that the happening of one or more of the following events will constitute an "Event of Default":

(a) failure of the Lessee to pay when due the rentals required to be paid under the terms of the Lease, continued for a period of five days,

(b) failure to observe and perform certain covenants under the Lease,

(c) assignment, mortgaging, encumbrance, or subletting by the Lessee of the Project, the Lease or the Lessee's estate, except as permitted by the Lease,

(d) failure of the Lessee to observe and perform any other of its covenants, conditions or agreements under the Lease, continued for a period of 60 days (or such longer period as might be required by the Lessee diligently to cure such default) after written notice given by the County,

(e) certain events of bankruptcy, liquidation or reorganization by the Lessee,

(f) breach of representation or warranty, and

(g) abandonment of the Project by the Lessee, if the Project shall remain uncared for, for more than 30 days.

12. Remedies.

Upon the happening of an Event of Default, the County may:

(a) pursuant to 20 days' notice to the Lessee, terminate the Lease, thereby terminating the rights (but not the obligations) of the Lessee under the Lease;

(b) re-enter and take possession of the Project, without terminating the Lease, and hold the Lessee liable for the rent and other payments due under the Lease each rental date; and

(c) after retaking possession of the Project and whether or not the Lease has been terminated, re-let the Project to another for the account of the Lessee, holding the

Lessee liable for all rent and other payments due up to the effective date of such re-letting and for the difference in the amounts payable by such new Lessee (after payment of all expenses of re-letting) and the amounts payable by the Lessee under the Lease.

As an alternative to the collection of the rent and other amounts due under the Lease (less the net proceeds of any re-letting) from the Lessee on the due dates thereof, (or if the Lease has been terminated, on the dates when the same would have fallen due absent such termination), the County may (i) declare an amount sufficient to redeem the outstanding Bonds to be immediately due and payable (but, under the United States Bankruptcy Act, the claim provable in respect thereof may be limited to one year's rent in the case of the bankruptcy of the Lessee and three year's rent in the case of the reorganization of the Lessee), or (ii) if the amount realized by the Trustee would be greater, declare all installments of rent and other amounts payable for the remainder of the term of the Lease, less the fair net rental value of the Project for the same period, to be immediately due and payable.

The Trustee, as assignee of the County's rights under the Lease, have the right to pursue the remedies accorded to the County under the Lease.

E. Summary of the Terms and Conditions of the Proposed Indenture.

1. Application of Bond Proceeds.

The proceeds from the sale of the Bonds shall be applied as follows: the accrued interest will be deposited in the Interest Account, which is the source of payment of all interest

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thereafter accruing on the Bonds, and will constitute a credit to the Lessee on the next succeeding payment or payments of rentals falling due under the Lease; and there will be deposited in an Expense Account for the payment of the expenses incurred in connection with the issuance and sale of the Bonds, and amount equal to such expenses; and will be paid to the Lessee as reimbursement to the Lessee the purchase price of the real property, that amount equal to said purchase price; and the balance of the Bond proceeds will be deposited in a Construction Fund Account held by the Depository under a Construction Deposit Agreement, and applied to the Cost of acquiring and constructing the Project, including reimbursement of the Lessee for amounts expended for such costs prior to the delivery of the Bonds. The Indenture prescribes the procedures and showings required for the disbursement of moneys in the Construction Fund Account.

Upon completion of the Project, any surplus moneys remaining in the Construction Fund Account will be paid into the Revenue Account and will constitute a credit to the Lessee on its next succeeding payment or payments of rentals under the Lease.

2. Application of Funds.

The quarterly rental payments derived from the Project will be deposited in a special account maintained with the Trustee and designated the Revenue Account. Moneys will be withdrawn by the Trustee from the Revenue Account three business days prior to each interest payment date on the Bonds and deposited (a) in the Interest Account for the payment of the interest on the Bonds falling due on such interest payment date, and (b) in the Bond Retirement Account for the payment of the principal amount of any Bonds maturing on such interest payment date.

3. <u>Investment</u>.

Any moneys held as a part of the Construction Fund Account or in any of the accounts created by the Indenture may be invested or reinvested by the Trustee in

(a) obligations of the United States and agencies thereof; and

(b) general obligations of the State of South Carolina or any of its political units; and

(c) obligations of Savings and Loan Associates to the extent that the same are secured by the Federal Savings and Loan Insurance Corporation; and

(d) certificates of deposit where such certificates of deposit are collaterally secured by securities of the type described in (a) and (b) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured including interest; and

(e) to the extent such investments are not prohibited by law for investment of bond proceeds by the County, certificates of deposit or other obligations of banks or trust companies, including the Trustee, organized under the laws of the United States or another state thereof, which have a combined capital and surplus of at least $10,000,000; and

(f) to the extent such investments are not prohibited by law for investment of bond proceeds by the County, prime commercial paper.

Any interest, profit, or loss on any investment made by the Trustee shall be credited or charged to the Revenue Account (and hence either constitute a credit to the Lessee on the next succeeding rental payments under the Lease or an additional charge to be made up by the Lessee, as the case may be).

4. Defaults and Remedies.

Upon the occurrence of any of the following events, the Trustee may, and upon the written request of the holders of not less than 25 percent in aggregate principal amount of the Bonds outstanding shall, declare the principal and accrued interest on all outstanding Bonds immediately due and payable, subject to waiver of such default (except a default in the payment of principal of or interest on the Bonds) and recision and annulment of such declaration by the holders of at least two-thirds in aggregate principal amount of the Bonds then outstanding under the conditions stated in the Indenture if all sums due except unmatured principal and paid and all defaults remedied:

(a) default in the due and punctual payment of any principal of or interest or premium on any Bonds;

(b) default in the performance of any other covenant, condition or agreement of the County contained in the Indenture or the bonds, continued for a period of 60 days after written notice given to the County by the Trustee, or to the County and the Trustee given by the holders of not less than 25 percent in aggregate principal amount of the Bonds then outstanding; and

(c) default by the Lessee under the Lease and the continuance of such default for the applicable period for the remedy thereof.

Upon the occurrence of an Event of Default, the Trustee may, and upon the written request of not less than a majority in principal amount of the Bonds then outstanding shall:

(a) take possession of the Project and operate and manage the same, and

(b) pursue any available remedy to enforce the payment of the Bonds, including the bringing of a suit in equity, the appointment of a receiver and foreclosure on and sale of the Project.

5. Modifications.

The Indenture may not be modified or amended without the approval of the holders of 66-2/3 percent or more in principal amount of the Bonds outstanding, except

(a) to cure any ambiguity or formal defect or omission,

(b) to grant to the Trustee additional rights for the benefit of the holders of the Bonds,

(c) to subject, describe or redescribe any property or collateral subjected or to be subjected to the lien and pledge of the Indenture,

(d) to qualify the Indenture under the Trust Indenture Act of 1939, and

(e) in connection with the issuance of Additional Bonds.

In any event, no such modification or amendment of the Indenture shall be made which will

(a) permit an extension of the maturity of the principal or interest on any Bond, or a reduction in the amount of principal, interest or redemption premium,

(b) reduce the percentage of holders of Bonds required for consent to such supplemental indentures, or

(c) permit the creation of any lien prior to or on a parity with the lien of the Indenture.

F. Payments in Lieu of Taxes by Lessee. As is required by Section 6 of the Act, the proposed Lease, requires Leesona Corporation to make payments to the County and to the school district or school districts and other political units wherein the Project is located, in lieu of taxes, in such amounts as would result from taxes levied if Leesona Corporation were the owner of the Project, but with appropriate reductions similar to the tax exemptions, if any, which would be afforded Leesona Corporation if it were the owner of the Project.

III

Request for Approval

WHEREFORE, The County Board of Commissioners respectfully prays:

A. That the State Board accept the filing of this Petition;

B. That thereafter, as soon as may be practicable, the State Board make such independent investigation as it deems advisable;

C. That, on the basis of such investigation and the information submitted herewith, the State Board make a finding that the Project is intended to promote the purposes of the Act and is reasonably anticipated to effect such result, and that the State Board, on the basis of such finding, issue its Order approving the Project and the proposal of the County Board of Commissioners to issue the Series 1974 Bonds; and

D. That the State Board cause notice of its approval to be published in the manner specified in Section 14 of the Act.

Respectfully submitted,

LANCASTER COUNTY, SOUTH CAROLINA

By
Chairman, Lancaster County
Board of Commissioners

ATTEST:

Secretary

(SEAL)

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March 13, 1974
Exh. I 3/13/74

P. C. Bd polled individually on approval of —

Lancaster County
4,500,000 Industrial Revenue Bonds
- Leesona Corp.
- Warehousing & distribution of textile machinery

Governor	-	by phone	-	Approved
Mills	-	"	-	"
Aycock	-	personal contact	-	"
Dennis	-	"	-	"
Patterson	-	(Out of town)	-	—

COMPARATIVE STATEMENT OF INCOME

	Three Months Ended Sept. 30			Nine Months Ended Sept. 30		
	1973	1972	% Increase	1973	1972	% Increase
Net Sales and Other Income	$20,212,784	$15,259,689	32%	$63,474,064	$47,099,274	35%
Income Before Income Taxes	1,787,787	851,801	110%	5,544,367	2,245,999	147%
Provision for Income Taxes	716,953	364,001	97%	2,390,485	985,392	143%
Net Income	1,070,834	487,800	120%	3,153,882	1,260,607	150%
Earnings per Share*	$0.60	$0.26	131%	$1.76	$0.69	155%
Common Shares Outstanding				1,768,668	1,768,668	

* Stated on the primary basis which gives effect to the warrants for 228,571 common shares held by an insurance company

To our stockholders:

The success of Leesona's ongoing profit improvement programs, which have sharply improved our earning power as sales rise, was again demonstrated in results for the third quarter and nine months ended September 30, 1973. In the nine months, we earned $1.76 per share, up from $.69 a year earlier. This 155% gain was achieved on a 35% sales improvement.

The gain in third quarter earnings also sharply outpaced the increase in sales. Per share earnings climbed 131% on a 32% rise in sales.

In the excellent results, we are seeing the beneficial effects of actions taken by management over the past few years to stimulate growth, notably the restructuring of our textile machinery marketing and manufacturing operations, establishment of the Uniwind K.K. joint venture in Japan and the acquisition of Cumberland Engineering. The operational strengths provided by these actions enabled Leesona to take maximum advantage of the healthy demand in world markets for textile and plastics machinery and of our improved competitive position, the result of revaluated world currencies.

The fourth quarter will be the best quarter of the year, both in sales and net income.

We look for continued gains in 1974. Order intake in the first three quarters of 1973 established a record for the period and the uptrend continues. On October 31, our backlog of unfilled orders was over $60 million, a new high. The backlog includes just about one month's orders for service and replacement parts, although annually parts sales account for about one-third of order intake.

For 1973 as a whole, we anticipate sales of between $85 million and $90 million, probably closer to the latter figure. 1972 sales were $67.5 million. Based on backlog and current market conditions, we project that shipments in 1974 will be above $100 million, a milestone for Leesona. By increasing our total manufacturing capacity by more than 25% in recent years, Leesona now has the capability of shipping up to $115 million of its products annually.

A substantial portion of our orders continues to come from new markets opening up for textile machinery in developing countries, in Eastern Europe and in other countries where governments are sponsoring or supporting textile industry modernization programs. We believe these new markets might prove a stabilizing influence for Leesona. Activity in many of these markets is not tied directly to economic conditions so we anticipate they could be counter-cyclical to markets in industrialized nations.

Leesona will make its first textile machinery shipment to Russia early next year. As a result of a seminar held early this year in that country, at which our marketing people discussed Leesona products with Russian textile people, the Russian government in September requested that we supply it with 50 Unifil loom winders for testing and evaluation. Successful tests could lead to substantial business for us in the large Russian market.

In plastics machinery, we have implemented our plan to expand Leesona's international business by acquiring an overseas manufacturing facility. In September, we purchased for cash U.S. Industries-Engineering Ltd., which had been a licensee of our Cumberland subsidiary. U.S. Industries, renamed Leesona Plastics Machinery Limited, has produced Cumberland's complete line of plastics size reduction equipment and parts, as well as other plastics systems. In the past, Leesona's participation in plastics machinery markets outside of North America has been minimal. The new subsidiary, which immediately adds approximately $3 million to Leesona's annual sales, now puts us in a position to more deeply penetrate the worldwide market, with Europe being the initial target.

There have been no important developments in the Company's false twist litigation involving challenges to the validity of Leesona's false twist patents, and claims both by and against Leesona for substantial amounts of damages under antitrust laws. As previously reported, Leesona has under appeal a ruling by the Federal District Court in Miami that its basic false twist patents are invalid. The litigation is complex and involves a number of novel patent and antitrust issues which may require resolution by appellate courts. In litigation of this character, it is impossible to predict the outcome. Leesona is continuing to press its case in every way possible.

Sincerely,

Ralph P Benn

President and Chief Executive Officer

November 19, 1973

Leesona Corporation, one of the world's largest textile machinery manufacturers, is also a leading producer of machinery for the plastics industry and a licensor of energy conversion technology.

Board of Directors

Ralph P. Benn
President and Chief Executive Officer

Donald C. Bowersock
Vice President, Itek Corporation

Edwin D. Campbell
President, Education Development Center, Inc.

Paul P. Johnson
Retired

A. Dix Leeson
Vice President, Reece Corporation

Robert Leeson
Chairman

Charles E. Mason, Jr.
Associate, White, Weld & Co., Inc.

A. Robert McMurray
Vice President and Treasurer

Donald R. Melville
Executive Vice President, Director, Norton Company

Malcolm D. Perkins
Partner, Herrick, Smith, Donald, Farley & Ketchum

Director Emeritus

W. Sidney Felton
Herrick, Smith, Donald, Farley & Ketchum

Officers

Robert Leeson
Chairman

Ralph P. Benn
President and Chief Executive Officer

John J. Baughan
Vice President

Glenn H. Edgecomb
Vice President

J. Robert Fryer
Vice President

William V. Goodhue
Vice President

Robert Leeson, Jr.
Vice President

A. Robert McMurray
Vice President and Treasurer

Anthony M. Moos
Vice President

R. Eugene Scribner, Jr.
Vice President

Ray M. Schroeder
Vice President

O. Eugene Garner
Assistant Treasurer

Front Cover: Mill Installation of Leesona's Slit Film Line converting Polymers into Textile Fibers.

LEESONA CORPORATION
World Headquarters
Warwick, Rhode Island 02887

1973 Third Quarter Results

LEESONA CORPORATION

1825

LEESONA
Leesona Corporation

World Headquarters
Warwick, Rhode Island 02887
Alfred J. Hart
Telephone (401) 739-7100

FOR IMMEDIATE RELEASE

Warwick, Rhode Island, February 14, 1974. Net earnings of Leesona Corporation for the year ended December 31, 1973, increased 147% to $4,945,264, or $2.77 per share, from $2,002,934, or $1.12 per share in 1972, Ralph P. Benn, president, announced today.

Sales were the highest in the history of the Company, rising 41% to $95,220,768, from $67,543,753 in 1972.

The fourth quarter of 1973 was the best three-month period the Company has ever had. Earnings increased 141% to $1,791,382, or $1.01 per share, from $742,327, or 43 cents per share, in the fourth quarter of 1972. Sales increased 55% to $31,746,704, from $20,444,479 in the same period last year.

Leesona's dramatic growth in 1973 was worldwide in scope with the Company's three major product areas - textile machinery, plastics machinery, and service and replacement parts - all sharing in the Company's prosperity.

The strong gains in sales and net income reflect, in part, greater efficiencies and capabilities in manufacturing and marketing which enabled the Company to take advantage of a booming worldwide market for textile and plastics machinery and the revaluation of world currencies which generally favored American companies.

Effective cost controls, which have widened profit margins, and the addition of Cumberland Engineering, acquired late in 1972, were also important in the year's performance. Also, the Japanese joint-venture which began operations toward the end of 1971, contributed 38 cents a share to net earnings of the Company.

The possible impact of the energy crisis on the Company's operations continues to be closely monitored. Leesona's manufacturing activities are not particularly vulnerable to fuel shortages, and although the plastics and synthetic fiber industries, two markets served by Leesona, require petrochemical feed stocks for production, their requirements have been given priority in the new petrochemical allocation regulations. In Great Britain, where most of industry is on a reduced work week due to the coal shortage, Leesona's Heywood plant has installed an oil-powered generator to increase its number of work days. However, it is impossible to know how long the coal miners in Great Britain will be on strike, and the Company's supply lines there could become disrupted in the event of a protracted strike.

As it presently stands, Leesona entered 1974 with a record backlog of unfilled orders of approximately $65,000,000, up 138% from a year ago. The recent strength of the dollar has shaded some of the competitive advantage gained by past currency revaluations, but the relative value of the dollar today against other major currencies has placed the Company in a much more favorable position than when the fixed currency parities of the early 1970's prevailed.

The uptrend in new orders which featured 1973 has continued into the new year. New orders in January again exceeded those of a year ago.

Barring further deterioration in the energy situation, and assuming that the current British labor crisis will be resolved reasonably soon, earnings in the first quarter of 1974 will continue at a high level, and the year of 1974 promises to be the best in the Company's history, with sales surpassing the $100,000,000 mark for the first time.

Sales and earnings of Leesona Corporation for the year ended December 31, 1973, compare with the year ended December 31, 1972, as follows:

	Year Ended December 31	
	1973	1972
Net Sales and Other Income	$95,220,768	$67,543,753
Income Before Taxes	8,011,248	3,362,920
Income Taxes	3,065,984	1,359,986
Net Income	4,945,264	2,002,934
Earnings Per Share*	$2.77	$1.12
Common Shares Outstanding	1,768,668	1,768,668

*Stated on the primary basis which gives effect to the warrants for 228,571 common shares held by an insurance company.

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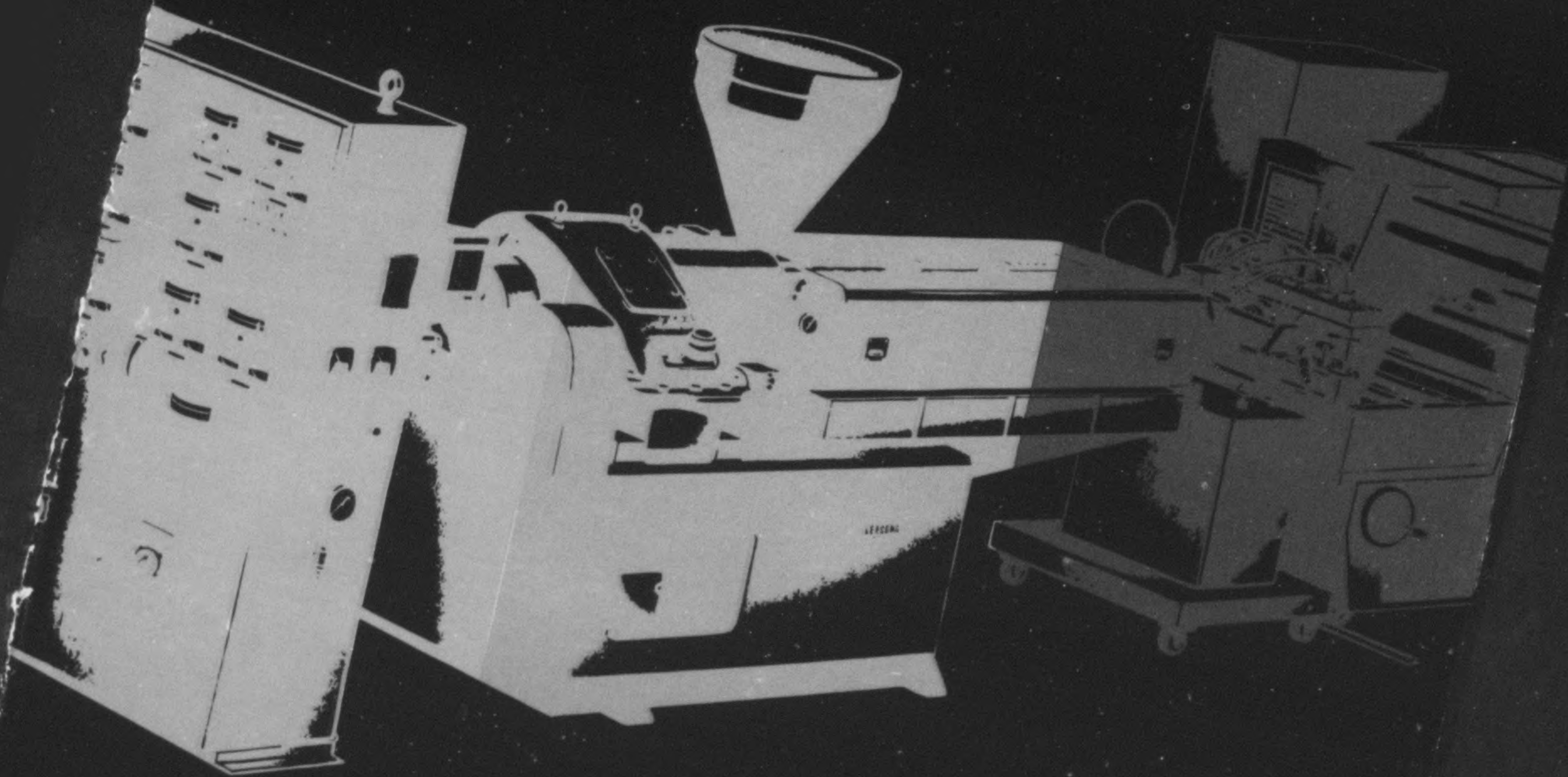
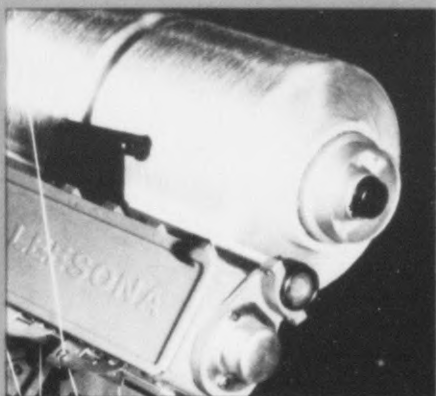
LEESONA

1972 ANNUAL REPORT





Textile Machinery Division

333 Strawberry Field Road
Warwick, Rhode Island 02887

Major Products:

Unifil®loom winders
False twist texturing machines
Uniconer®III automatic winder
Ring Twisters
Slit-Film system
Precision Winding machines
Sizers
Beaming machinery
Take-up machines

Textile Markets:

Weaving industry / Knitting industry
Spun yarn industry / Carpet industry
Man-made fiber producers

End Product Markets:

Apparel / Home furnishings
Industrial products

Plants:

Warwick, Rhode Island
Heywood, England
Darwen, England
Uniwind K.K., Japan (Joint Venture)

Sales Offices:

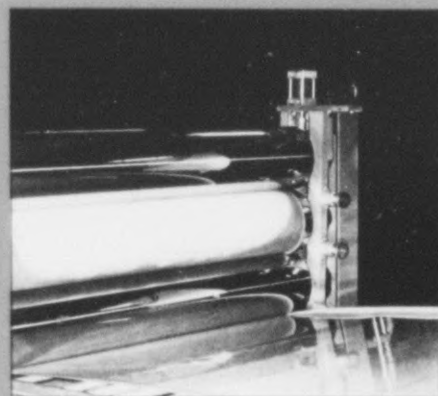
Charlotte, N. C. / Greensboro, N. C.
Greenville, S. C. / LaGrange, Ga.
Los Angeles, Calif. / Heywood, England
Paris, France / Milan, Italy
Frankfurt, Germany / Vienna, Austria
Mexico City, Mexico / Sao Paolo, Brazil
Osaka, Japan / Singapore
Melbourne, Australia / Sydney, Australia

European Administrative Headquarters:

Amstelveen, Netherlands

Agents:

Worldwide network



Plastics Machinery Group

Johnson Plastics Machinery Division
1600 Johnson Street
Chippewa Falls, Wisconsin 54729

Cumberland Engineering Company
P.O. Box 6065
Providence, Rhode Island 02904

Major Products:

Extrusion systems for sheet and film
Co-extrusion sheet and film lines
Foam profile extrusion systems
Extrusion dies
Pelletizers
Dicers
Granulators

Plastics Markets:

Resin producers
Processed material fabricators
Product fabricators

End Use Markets:

Packaging
Construction
Transportation
Furniture

Plants:

Chippewa Falls, Wisconsin
South Attleboro, Massachusetts

Sales Offices:

Chippewa Falls, Wisconsin
Providence, Rhode Island
Turnhout, Belgium

Agents:

Worldwide network

Energy Conversion Division

333 Strawberry Field Road
Warwick, Rhode Island 02887

Technology:

Advanced metal/air batteries
Fuel cells

Licensees—zinc/air batteries:

Gould, Inc.

Crompton Parkinson, Ltd.,
Division of Hawker-Siddeley

Energy Conversion Ltd.,
Div. of Guest Keen & Nettlefolds

Hitachi, Ltd.

Licensees—fuel cells:

Pratt & Whitney, Div. of United Aircraft
Energy Conversion Ltd.

Markets:

Industrial
Military
Consumer

LEESONA

1972 ANNUAL REPORT

Board of Directors

Ralph P. Benn
President and Chief Executive Officer

Donald C. Bowersock
Vice President,
Itek Corporation

Edwin D. Campbell
President,
Education Development Center, Inc.

Paul P. Johnson
Retired

A. Dix Leeson
Vice President,
Reece Corporation

Robert Leeson
Chairman

Charles E. Mason, Jr.
Associate,
White, Weld & Co., Inc.

A. Robert McMurray
Vice President and Treasurer

Donald R. Melville
Executive Vice President,
Director, Norton Company

Malcolm D. Perkins
Partner,
Herrick, Smith, Donald, Farley & Ketchum

Director Emeritus

W. Sidney Felton
Herrick, Smith, Donald, Farley & Ketchum

Officers

Robert Leeson
Chairman

Ralph P. Benn
President and Chief Executive Officer

John J. Baughan
Executive Vice President

A. Robert McMurray
Vice President and Treasurer

Glenn H. Edgecomb
Vice President

William V. Goodhue
Vice President

Anthony M. Moos
Vice President

Robert Leeson, Jr.
Vice President

James O. Alexander
Vice President

Frederic B. Kohli
Vice President

Henry H. Richardson
Vice President

R. Eugene Scribner, Jr.
Vice President

Raymond M. Schroeder
Vice President

O. E. Garner
Assistant Treasurer

General Counsel
Herrick, Smith, Donald, Farley
& Ketchum
Boston, Massachusetts

General Auditor
Ernst & Ernst
Providence, Rhode Island

Transfer Agents
The Chase Manhattan Bank
New York, New York

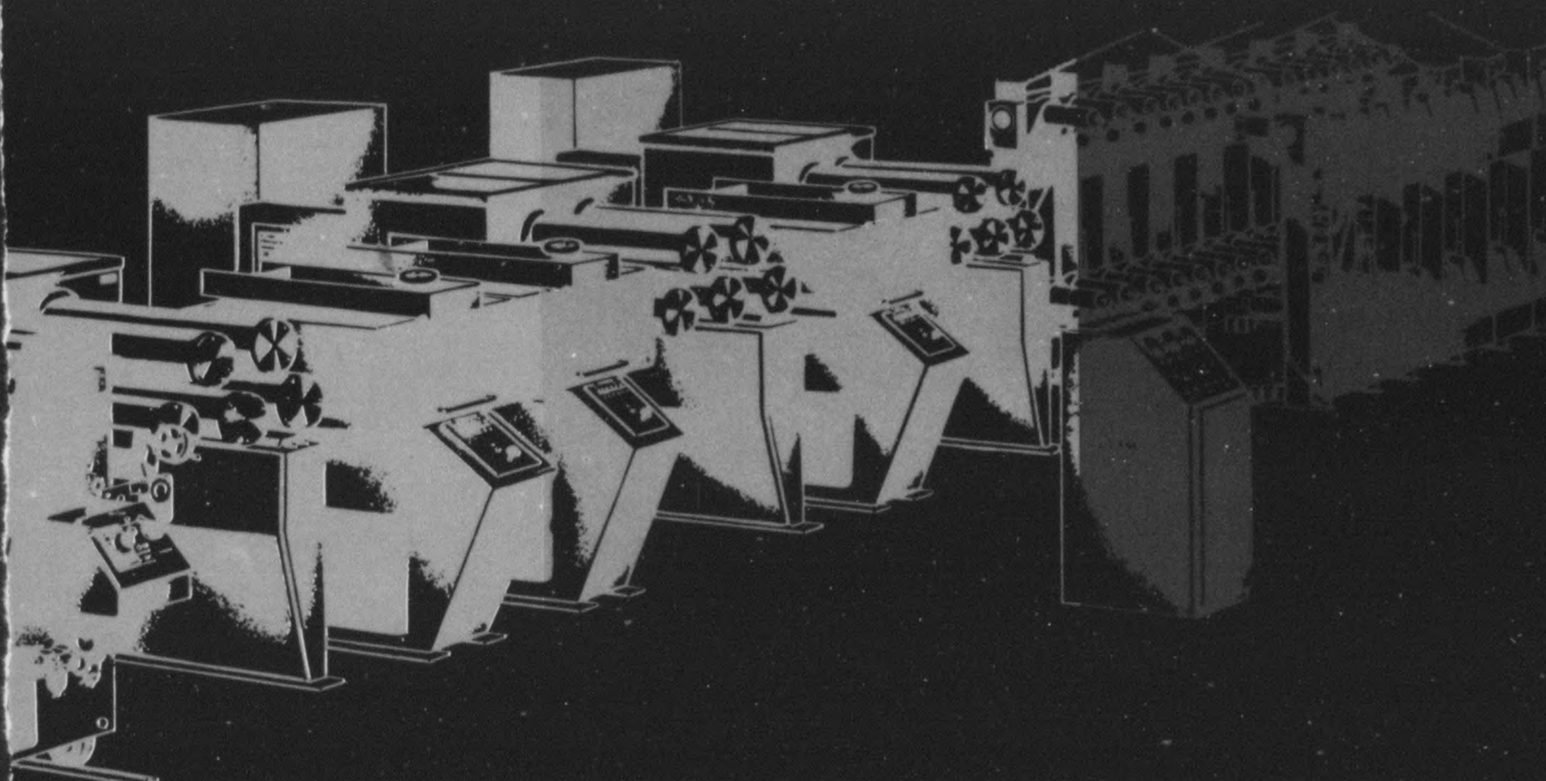
First Jersey National Bank
Jersey City, New Jersey

Registrar
The Chase Manhattan Bank
New York, New York

Executive Offices
333 Strawberry Field Road
Warwick, Rhode Island 02887

Stock Listing
New York Stock Exchange

Annual Meeting
Tuesday, April 24, 1973
10:30 a.m.
Copley Plaza Hotel
138 St. James Ave.
Boston, Massachusetts



Financial Highlights

Leesona is a worldwide, multi-product Company serving many segments of its two principal markets—the textile and plastics industries. A third market, which for Leesona is in a development stage but has excellent potential, is energy.

Because of its geographical and product diversification, Leesona is not dependent on any particular national market or industry segment.

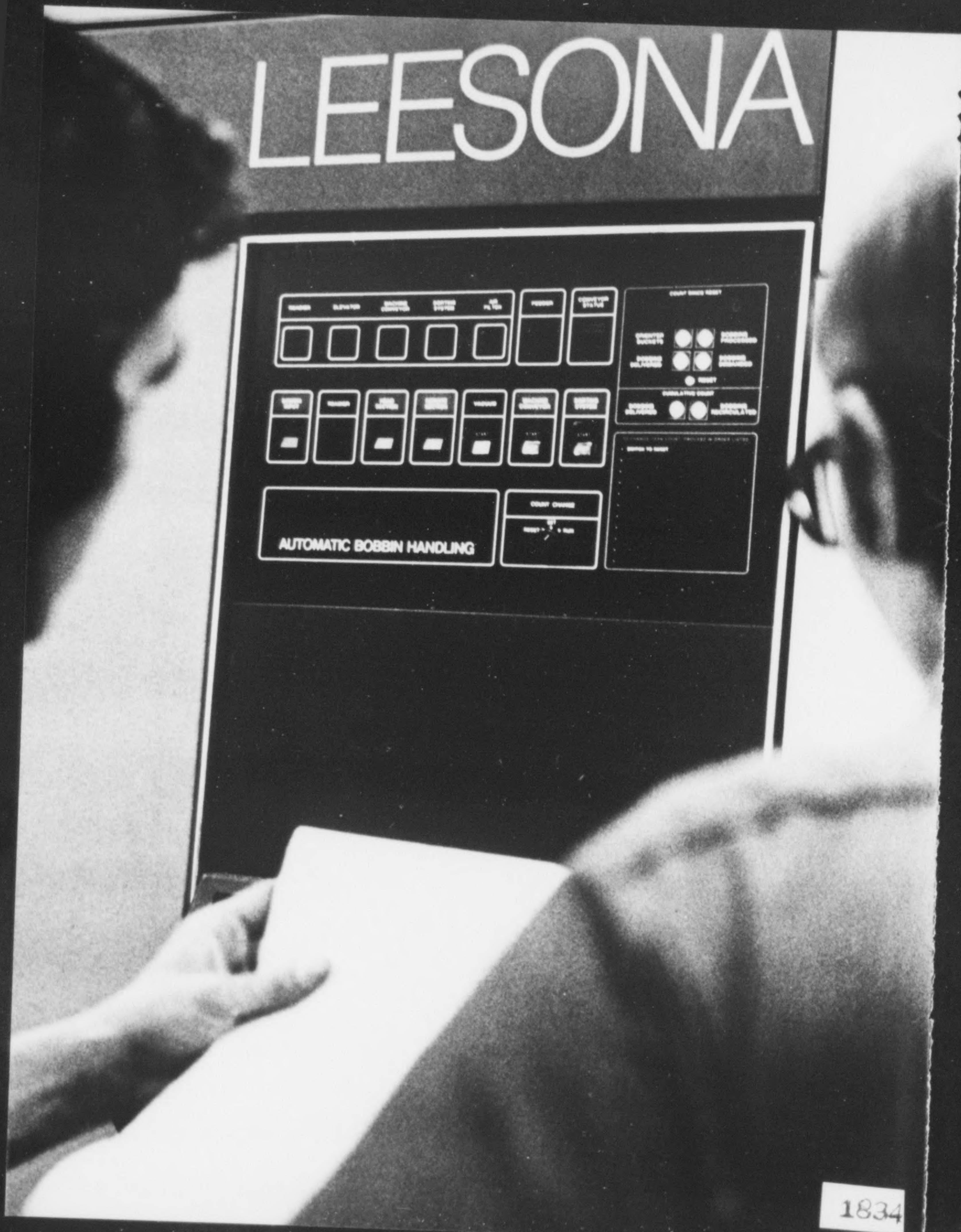
A high order of technology is a basic in all Leesona operations. In textile equipment, development of high-productivity, low-labor machinery is emphasized. Sophisticated engineering characterizes the plastics machinery line. And Leesona's advanced energy conversion technology is being applied by licensees in commercial compact batteries and development of pollution-free fuel cells. Leesona is giving high priority to developing systems utilizing the technologies of its textile and plastics machinery operations, one result of which is illustrated on the cover of the Report.

The Cover shows a Leesona slit-film system that combines the Textile Machinery Division's precision take-up winder and its beamer with Johnson's plastics extrusion equipment and potentially could include the plastics machinery of the recently-acquired Cumberland Engineering Company. The slit-film line produces fibers being used as a substitute for jute in carpet backing, as well as for various industrial applications. This line began to produce profits in 1972 and should make a significant contribution to 1973 earnings.

	Year Ended December 31,	
	1972	1971
Net Sales and Other Income	**$67,543,753**	$64,854,804
Income (Loss) from Continuing Operations Before Income Taxes, Equity Interest in Affiliate and Extraordinary Charges	**3,183,800**	(1,943,286)
Income Taxes	**1,359,986**	(1,643,222)
Income (Loss) from Continuing Operations Before Equity Interest in Affiliate and Extraordinary Charges	**1,823,814**	(300,064)
Equity in Net Income (Loss) of Affiliate	**179,120**	(248,416)
Income (Loss) from Continuing Operations Before Extraordinary Charges	**2,002,934**	(548,480)
Loss from Discontinued Operations — Less Applicable Income Taxes	**—**	(446,636)
Income (Loss) Before Extraordinary Charges	**2,002,934**	(995,116)
Extraordinary Charges — Less Applicable Income Taxes	**—**	(2,055,827)
Net Income (Loss)	**2,002,934**	(3,050,943)
Percent Net Income to Total Revenue	**3.0%**	—
Primary Income (Loss) Per Share of Common Stock*:		
From Continuing Operations Before Extraordinary Charges	**$1.12**	($ .31)
From Discontinued Operations	**—**	(.25)
Before Extraordinary Charges	**1.12**	(.56)
Extraordinary Charges	**—**	(1.17)
Net Income (Loss)	**1.12**	(1.73)
Working Capital	**30,117,742**	31,247,271
Depreciation	**1,855,255**	1,785,872
Expenditures for Plant and Equipment	**3,178,519**	1,998,492
Inventory	**24,161,863**	23,164,237
Ratio Current Assets to Current Liabilities	**2.6 to 1**	2.9 to 1
Total Stockholders' Equity	**34,187,523**	32,816,306
Book Value Per Share	**19.33**	18.65
Common Shares Outstanding	**1,768,668**	1,759,918
Number of Stockholders	**3,906**	3,886
Number of Employees	**3,322**	2,934
Research and Development	**3,952,510**	4,592,564

*Fully diluted net income per share was $1.11 in 1972.

Contents



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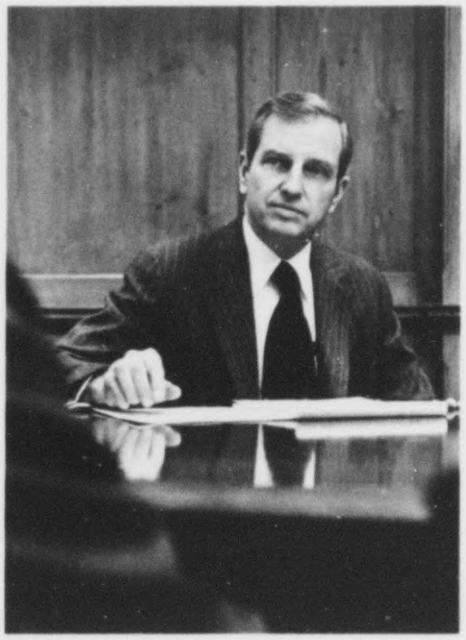
President's Letter



Top / Ralph P. Benn
President and
Chief Executive Officer

Left / Panel of unique "air logic" system developed by Leesona engineers for the new Automatic Bobbin Handling equipment. The system provides diagnostic aids for rapid location of operational faults and appropriate corrective measures, enabling unskilled labor to maintain the sophisticated machine.

To our Stockholders and Employees:

Leesona earned $2,002,934, or $1.12 per share, in 1972. This represents a sharp reversal from the downward earnings trend that prevailed during the 1970-71 worldwide capital goods recession and which culminated in the 1971 loss. What makes the turnaround in profits more gratifying and significant is that it was accomplished on only a 4% gain in sales.

At last year's stockholders' meeting, I reported that your management had utilized the recession to make changes to improve the Company's operating and financial structure. We emerged from that difficult period with a substantially lower break-even point, a stronger balance sheet, more efficient worldwide manufacturing and marketing organizations, and with definite plans for growing internally and through acquisition. Last year's return to profitability clearly shows that the measures we took to cut costs and revitalize the Company are producing the desired results.

Textile Machinery

Earnings in the Textile Machinery Division showed a healthy recovery on approximately the same volume. The much improved earnings reflected increased efficiency, a good product mix, lower manufacturing costs and a good earnings contribution from our joint venture in Japan, Uniwind K.K., in its first operating year.

The advantage we have in being a worldwide, multi-product company, serving various segments of the textile industry, was strongly evident in last year's textile machinery operations. Of total shipments, 48% went to the North American market and 52% to all other markets. As the year progressed, the U.S. textile industry increased its buying activity. However, the strong markets for Leesona in 1972 were Europe and the developing countries.

Service parts sales showed a marked improvement in 1972 and set a new high. With Leesona machinery installations increasing year after year, the service parts business has trended steadily upward and it now represents a major segment of the textile machinery operation.

The outlook for the Textile Machinery Division in 1973 is excellent. The incoming order rate in 1972 was up 19% from the year before, and has improved further this year. Moreover, the U.S. Department of Commerce has forecast that 1973 will be the best year in textile machinery buying since 1966.

Robert Leeson
Chairman of the Board

Plastics Machinery

In 1972, the Johnson Plastics Machinery Division had the best year in its history. Demand for its products was well ahead of 1971 both domestically and overseas.

Favorable factors in Johnson's performance were the improved condition of the world market for capital equipment and continuing growth in the plastics industry. Two new products also were of considerable importance.

The high rate of incoming business experienced last year continues, and we are looking for substantially higher volume at Johnson this year.

In discussing growth plans at the 1972 annual meeting, I said our first step would be to look for opportunities in textile and plastics machinery, the fields where we had our greatest expertise. A major first step was taken with the acquisition in November, 1972, of Cumberland Engineering Company, an important producer of size reduction equipment for the plastics industries. Cumberland has an excellent reputation and its products are considered the best in their field. At the present time, its sales are running at the annual rate of about $10 million, which will represent a substantial addition to our 1973 volume. Most important, we see opportunities for interaction between Johnson and Cumberland that would improve our competitive position and enable us to expand our total plastics machinery line still further. With the added volume from Cumberland, the overseas manufacturing of our plastics machinery becomes feasible.

Cumberland Engineering also seems to be headed for a record year in 1973.

Energy Conversion

During 1972, our licensees made promising advances in their development work on fuel cells and metal/air batteries. A licensee in Great Britain started in mid-year to produce and sell zinc/air batteries for use in hearing aids and portable paging devices. Leesona will receive royalty income from its energy conversion technology in 1973, but it is not expected to reach a significant level.

Our suit against the U.S. Government to receive royalties on military contracts for zinc/air batteries is still in progress.

Stretch Yarn Litigation and Royalties

During 1972, four more of the 64 stretch yarn licensees who challenged the validity of our patents settled out of court, bringing the total to seven. These seven agreed to pay Leesona past due and future royalties at 50% of the original rate.

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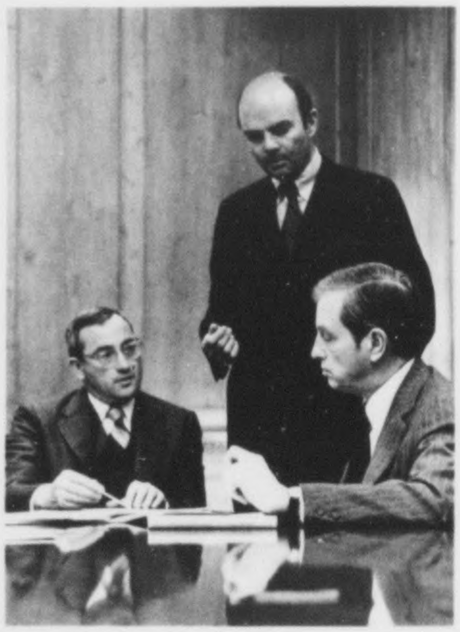

Robert Leeson, Jr. (standing), vice president responsible for corporate development, reviews plans with A. Robert McMurray, vice president of finance and treasurer and Ralph P. Benn, president and chief executive officer.

While our royalty income in 1972 was significant, the net effect, after deducting litigation expenses, was small. It should rise somewhat this year. We believe our patents are strong and intend to defend our rights to collect royalties on them.

Management

In September, we added Donald C. Bowersock to our Board of Directors. Mr. Bowersock is a vice president of Itek Corporation in charge of two Itek divisions, and formerly had been vice president, research and development, at Arthur D. Little, Inc.

Continuing our efforts to strengthen management, five new corporate vice presidents were named in 1972 and early this year.

The Outlook

We are confident that 1973 will be a much better year for Leesona than 1972. Last year's growth in orders accelerated in the early months of 1973 and Cumberland Engineering will add significantly to our shipments. In addition, because we sell our U.S. and British products for dollars, the recent dollar devaluation improved our competitive position with manufacturers of textile and plastics machinery in strong currency countries such as West Germany and Japan. While our joint venture in Japan sells for yen, we have the advantage of supplying parts for their products from the U.S. and the United Kingdom.

Based on all these factors, we are looking for increased volume in 1973. Our earning power on greater volume is highly leveraged through reduced costs and increased efficiencies. We, therefore, expect a larger percentage gain in earnings than in sales.

Prospects over the longer range are also bright. We have quality product lines and extensive new product development programs. We continue to improve the effectiveness of all areas of our operations. Our acquisition program will add new strength to our Company. And we have developed a young, aggressive management team to create opportunities and take advantage of others as they arise.

On behalf of our Board of Directors, I want to give sincere thanks to all of our employees for their continued help and cooperation. We also deeply appreciate the loyalty of our stockholders.

Sincerely,

Ralph P Benn

Ralph P. Benn
President

March 15, 1973

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Textile Machinery Division

Top / William V. Goodhue, vice president, research and development, Glenn H. Edgecomb, vice president, manufacturing and John J. Baughan, executive vice president, marketing, examine a section of the Company's new Uniconer III, now being pre-erected at the Leesona plant.

Right / A view of Uniconer III, the advanced third generation automatic winder introduced in 1972.

Leesona's excellent earnings recovery in 1972 reflected in large part the highly improved performance of its largest operation, the Textile Machinery Division. The Division's year was highlighted by a strong return to profitability, a sharp rise in new orders, increased efficiencies and cost savings in marketing and manufacturing, considerable progress in new product development and product improvement, and continued efforts to strengthen all aspects of operations.

Although second half shipments rose substantially over the year-earlier period, the gain was not enough to offset a decline in the first half which, due to lead time between receipt of orders and shipments, only partially reflected the increased demand for Leesona textile equipment that began in late 1971. Incoming orders continued at a high level in 1972 and early 1973.

Overseas shipments accounted for 52% of total textile machinery sales. As noted in the President's letter, Europe and the developing countries were the strongest markets. The products in greatest demand were the Unifil Loom Winder for the weaving industry, take-up machines for man-made fiber producers and the Uniconer III for the spun yarn industries. Uniconer III, the advanced third generation automatic winder introduced early last year, is the first of the textile machines to be fully pre-erected and tested at the Leesona plant and also to be re-styled.

Sales of service parts last year reached a record level and accounted for 33% of the Division's volume. While replacement parts continue to represent the major share of this business, increasing emphasis is being given to conversion kits for upgrading Leesona machines in the field with improved parts developed for new equipment. A special marketing group concentrates on service parts sales.

Two important factors in the divisional earnings recovery were the good profitability in its first year of operation of the Uniwind K.K. joint venture in Japan, and lower manufacturing costs resulting from the transfer of Unifil production from the U.S. to Great Britain. This transfer, started in 1971, was completed last summer. Benefits from these two factors should be greater in 1973.

Manufacturing

The strong demand for the Unifil necessitated increased capacity at the Heywood plant. Construction of a 30,000 square foot addition was started in 1972 and completed in March of this year.

During the past year, the plant in Darwen, England, was reorganized as an independent profit center. Its operations were completely separated from those at Heywood and manufacturing emphasis, which had centered on custom-made products, has been broadened to include more standard, larger-volume machines.

The manufacturing organization also is currently developing a program aimed at further minimizing purchasing costs. Being created is an international purchasing system, utilizing the knowledge of Leesona's worldwide representatives and agents on the availability and prices of products in their respective operating territories.

Marketing

A number of new marketing programs and plans were developed in 1972, directed mainly at increasing Leesona's share of the worldwide textile machinery market. The European administrative headquarters, established in late 1971 on a profit center and management system basis, was dramatically successful last year in the European, African and Middle East markets. Consequently, the profit center concept

Textile Machinery Division

Top / William V. Goodhue, vice president, research and development, Glenn H. Edgecomb, vice president, manufacturing and John J. Baughan, executive vice president, marketing, examine a section of the Company's new Uniconer III, now being pre-erected at the Leesona plant.

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Top / Vice presidents Frederic B. Kohli, Henry H. Richardson and James O. Alexander meet to discuss marketing strategies for textile machinery. Their respective responsibilities: worldwide Marketing Services, the Far Eastern and Latin American markets, and the North American market.

Left / A section of the Unifil Loom Winder, one of the strongest performers of the Leesona textile machinery line during 1972.

is now being applied regionally throughout the Company's worldwide marketing establishment.

Under new vice presidents, the North American sales force and the Marketing Services organization have been reorganized and strengthened. Among its responsibilities, Marketing Services develops and implements programs to provide a full range of high quality pre-sale and after-sale support services, including economic analysis of proposed installations and training programs for customers' management, technicians and machine operators. The Company's technical field services are being broadened and strengthened to improve Leesona's competitive position.

The Leesona network of sales offices has been expanded. New offices were opened in Osaka and Singapore to help improve Leesona and Uniwind sales in the Far East, and another was established in Vienna to generate additional business in the potentially large Eastern European market. Early this year, additional U.S. sales offices were opened in Greenville, South Carolina and Los Angeles. Also an office was opened in Brazil and another will be established in Latin America by mid-1973.

A significant market development in 1972 was the sharp increase in demand for the slit-film line, which combines Leesona's textile and plastics machinery. This line economically produces synthetic fibers used in place of jute in carpet backing and for various other industrial applications. The slit-film market has been growing rapidly. To generate a new impetus for sales of the Leesona line, a special fibers-from-film marketing force was established last year as part of the man-made fiber product management group.

Research and Development

Important progress was achieved in research and development activities. Development of the Automatic Bobbin Handling (ABH) system has advanced to the stage where a limited number of orders will be taken this year. The ABH, when combined with the Uniconer, forms a completely integrated system for the preparation, transportation, inspection and winding of yarn from bobbins to finished packages ready for conversion to fabrics. The Uniconer III-ABH system will be shown at the American Textile Machinery Exhibition-International in Greenville, South Carolina, this coming October. A unique feature of the ABH is an "air logic" system developed by Leesona which provides diagnostic aids for rapid location of operational faults and appropriate corrective measures. This system allows people with limited skills to maintain the sophisticated machinery.

The Uniconer III and ABH were developed to reduce labor and costs and improve yarn quality in spinning mill operations. Intensive development work is also underway to automate other high cost, labor-intensive phases of spinning.

Nearing completion is development of a new take-up machine for the slit-film line, one of a new generation of take-ups being developed. Also, a prototype will be available this year for producing continuous filament yarn from plastic film. This unique new method should produce yarns highly suitable for upholstery, carpet facing, rope, twine and many other applications. Leesona and Enshu, the joint venture partner in Japan, also have developed a prototype of a two-color Unifil, for which there appears to be a good potential market. During the past year many improvements were incorporated in the Unifil and Unifil MC which should extend and broaden the market for these machines.

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Plastics Machinery Group

Top / R. Eugene Scribner, Jr., the recently-named vice president, Plastics Machinery Group.

Right / A view of the new Johnson foam profile extrusion system developed during 1972. It produces a variety of foam products used as substitutes for wood in the construction and furniture industries.

This Group consists of the Johnson Plastics Machinery Division and Cumberland Engineering Company, which was acquired in November of last year. The grouping of Johnson and Cumberland nearly triples Leesona's plastics machinery sales, placing the Company among the leading plastics machinery producers in the country.

Johnson and Cumberland have different technologies and different, but complementary, product lines. In combination the two technologies and product lines offer new growth opportunities, particularly in the areas of new product and systems development.

A group vice president was named in November with worldwide responsibility for the Johnson and Cumberland operations. A major study is progressing to determine where efforts can be coordinated to take full advantage of the potential and to build on the Company's new market strength in the plastics field. One significant goal is to expand the manufacture of plastics machinery outside the United States. Johnson has marketed its machinery internationally for several years but, except for a licensee in England, the Cumberland operation has been completely domestic to date.

Johnson Plastics Machinery Division

1972 was a record year for Johnson in both sales and earnings. Sales gained 67% over 1971 and were up 27% from the previous record set in 1969. Order intake began picking up as far back as April, 1971, and continued at a strong level throughout 1972 and into the current year.

Reflected in the excellent showing was the generally improved economic climate here and overseas for capital investment and continuing major growth in the plastic resin industry. That industry had another record breaking year in 1972, which in turn sharply stimulated demand for plastics processing machinery.

New products also played an important role in the highly improved performance. Although virtually every Johnson product shared in the increased demand, it was the Division's co-extrusion sheet and flat film line and extrusion equipment for Leesona's slit-film line that showed the greatest gains. Ever since Johnson was acquired by Leesona, it has placed increasingly greater emphasis on research and development. The co-extrusion sheet and flat film line was introduced in 1971 together with a co-extrusion system for blown film. The slit-film line was developed jointly by Leesona's plastics and textile machinery engineering groups. Since the slit-film line is marketed by the Textile Machinery Division, it is discussed in greater detail in that section of the Report.

As a result of its research and development efforts during 1972, Johnson added a major product to its line early this year. It is a foam profile extrusion system, which produces a variety of foam products used as substitutes for wood in the construction and furniture industries. Among the items Johnson's new system produces are door and corner mouldings, door jams and door stops, furniture trim and picture frames. Foam profiles are well on the way to replacing wood in mobile

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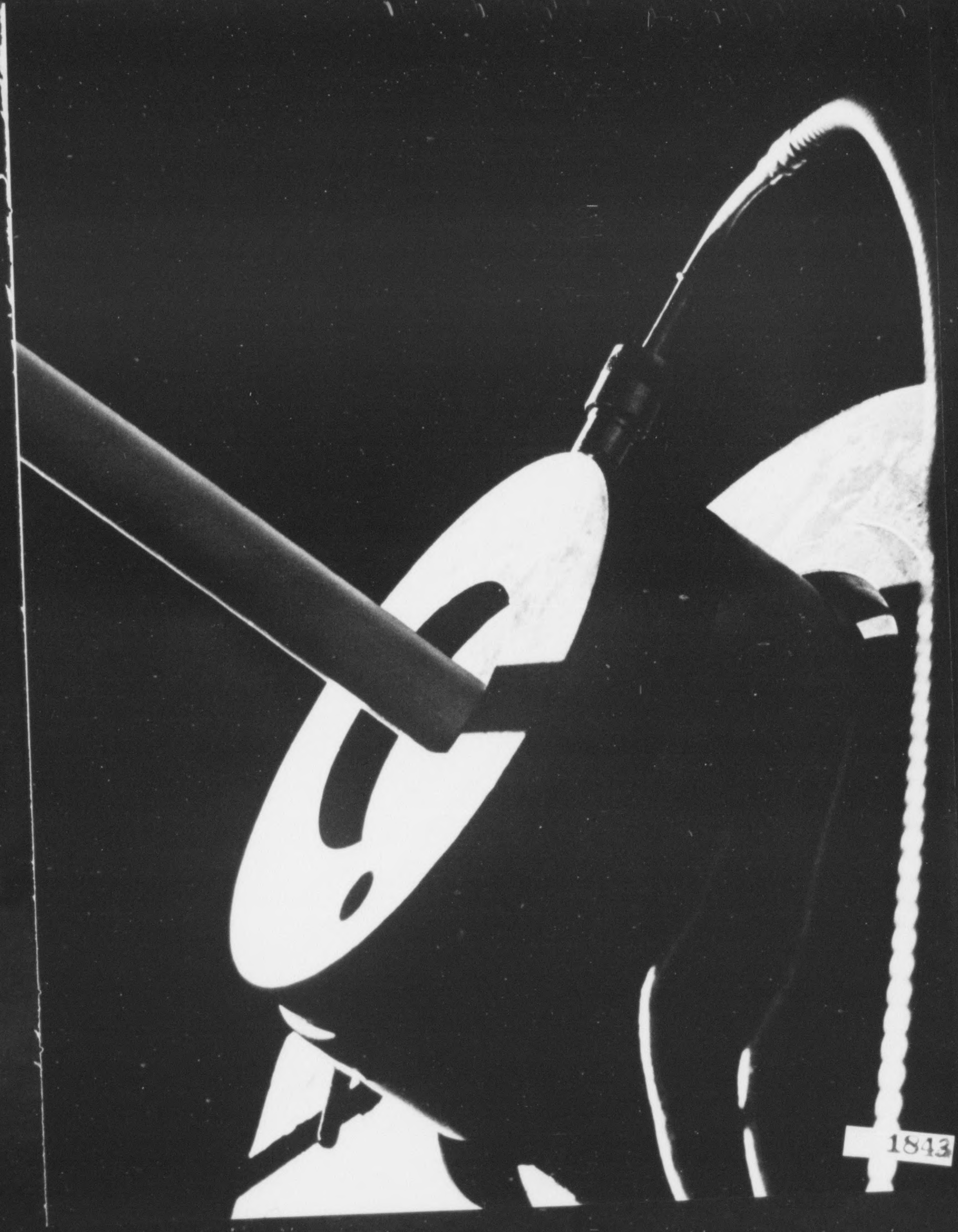
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A multi-tooth cutting element used in Cumberland pelletizers. Pelletizers are sold primarily to the large chemical and oil companies that produce resins.

homes, and the total market for this product will be substantial.

Later this year, Johnson expects to have available factory-erected extrusion systems which will provide customers with faster, more economical installations.

Johnson's international orders more than doubled last year, accounting for 19% of the total. A major boost to these orders came from the slit-film line. This past July a marketing subsidiary was established in Belgium and a demonstration center is now in operation there.

All signs point to another record year for this Division in 1973.

To keep manufacturing capacity abreast of growth, a 15,000 square foot addition to Johnson's Chippewa Falls, Wisconsin plant was completed in October. Additional advanced machining equipment was also installed for further improvement of production methods.

Cumberland Engineering Company

A leading manufacturer of size reduction equipment for the steadily growing U.S. plastics industry, Cumberland has established a good record of growth. Its sales over the past decade have increased on average about 14% a year.

Like Johnson, Cumberland's shipments and orders during the past year benefited from the improved economy and high level of activity in the resin and plastics processing industries. Its sales and profitability in 1973 are expected to reach a new high.

The major products are dicers, pelletizers and granulators, as well as knives required for that equipment. Knives and other replacement parts account for a good share of Cumberland's overall business. Size reduction equipment is needed in various operations of major segments of the plastics industry. Dicers and pelletizers are sold largely to resin producers, who mainly are large chemical and oil companies such as Du Pont and Gulf. Granulators, used to grind scrap for re-use, are sold to resin producers, to compounders and to fabricators of end products.

A successful research and development effort is contributing importantly to Cumberland's growing business. To meet the standards set by the Occupational Safety and Health Act, Cumberland engineers developed a sound control system for its machinery line. This business has grown to the point where more than 70% of incoming orders specify sound enclosure hoods which add materially to unit prices.

To capitalize on its size reduction technology, three years ago Cumberland entered the solid waste disposal field to custom design and install systems for disposal or reclamation of industrial and commercial waste. This operation, while small, is being carefully evaluated to determine its potential and how best to proceed.

As part of Leesona Corporation, Cumberland is intensifying its activities aimed at product improvement and new product development. Its programs are expected to benefit from the resources of the parent company and the complementary technology of the Johnson Division.

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Energy Conversion

Top / Anthony M. Moos, vice president responsible for the Company's energy conversion licensing operation.

Right / New zinc/air battery of Gould, Inc., Leesona's U.S. licensee, shown being sealed in vacuum welding device. The battery delivers almost four times as much energy per pound as any commercial battery currently in use.

There have been a number of encouraging developments for Leesona's energy conversion operation, which licenses its technology for advanced metal/air batteries and fuel cells in this country and abroad.

The fuel cell is promising because it offers a new kind of pollution-free generator that produces electricity through an electro-chemical reaction without smoke and noise.

Under the TARGET program sponsored by a group of gas and gas/utility companies, Pratt & Whitney developed a fuel cell which operates on natural gas and air. By the end of 1972, more than 50 experimental units had produced electricity for close to 100,000 hours in many types of installations, including single family homes, apartments, office buildings and light industrial plants.

In another forward program, Pratt & Whitney worked with a number of electric utility companies to establish specifications for a 26 megawatt generator with attractive advantages in environmental protection. Fuel cell technology was also applied to marine use, with delivery to the Navy of a prototype of a 20 kilowatt unit designed to provide power at ocean depths down to 20,000 feet.

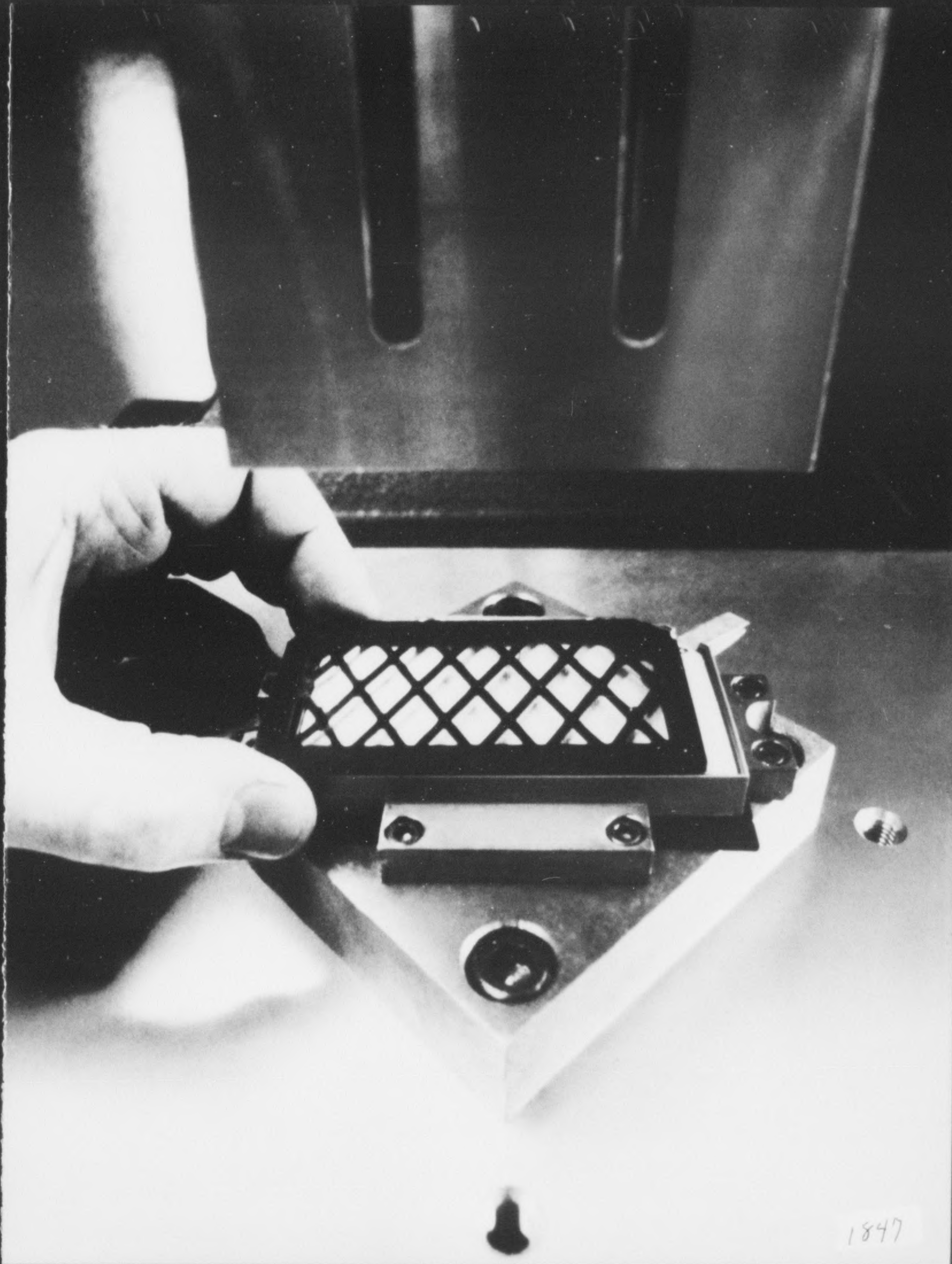
In May of last year, Energy Conversion Limited (ECL), a division of Guest Keen & Nettlefolds and one of two Leesona battery licensees in Great Britain, started commercial production of Metair primary zinc/air batteries. Of the several Metair batteries available, one is being supplied to the British Government for use in hearing aids distributed under England's national health program. ECL also has entered into an agreement with another English firm giving it exclusive worldwide rights to the Metair for use in portable paging devices.

Gould, Inc., a leading battery producer and Leesona's U.S. licensee, has moved closer to the introduction of its new zinc/air batteries. It is now installing a pilot production line and will soon complete tests of zinc/air cells in a variety of consumer appliances. Capable of delivering almost four times as much energy per pound as any existing commercial battery, the Gould battery appears ideal for shavers, lanterns, tape recorders, radios, toothbrushes and many other portable products. In cooperation with Leesona, Gould has an intensive effort underway for market development.

There will be royalty income from energy conversion in 1973, but it is not expected to reach a significant level.

Leesona technology, it is interesting to note, is at the heart of fuel cell and zinc/air battery progress. The development by the energy conversion operation of an economical, high-power air electrode was the breakthrough that made modern zinc/air batteries possible and permitted the further development of fuel cells for use in the Apollo spacecrafts and eventually for commercial applications.

1846



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Financial Review

A. Robert McMurray, vice president of finance and treasurer, and O. E. Garner, assistant treasurer, examine inventory control sheets in Leesona's computer room.

Net Income

Net income in 1972 was $2,002,934, or $1.12 per share, compared with a 1971 loss, before extraordinary charges and discontinued operations, of $548,480, equal to $.31 per share. The turnaround, achieved on a 4% rise in sales, was due primarily to effective cost controls and increased efficiencies and cost savings resulting from the 1971 reorganization of the Company's worldwide marketing and manufacturing organizations. Earnings and margins gained progressively from quarter to quarter, with net peaking in the fourth quarter at $742,327, or 43 cents a share. Continued improvement in net income and margins is expected in 1973.

Sales and Other Income

Sales and other income for 1972 amounted to $67,543,753, up 4% from $64,854,804 in 1971, restated to exclude discontinued operations. Fourth quarter sales and other income of $20,444,479 were significantly higher than volume in the three previous quarters and rose from $15,938,048 in the fourth quarter of 1971. The 1972 volume included Cumberland Engineering sales for November and December of approximately $2,000,000.

Textile machinery sales last year totaled $58,921,099, of which 52% represented overseas business. Sales of the Plastics Machinery Group were $7,661,444. Income from other sources amounted to $961,210.

Net Working Capital

Net working capital at year end was $30,117,742, down slightly from $31,247,271 a year earlier. The ratio of current assets to current liabilities on December 31, 1972 was a sound 2.6-1. An increase of $3,560,345 in accounts receivable over a year ago reflects the sharp increase in volume that occurred late in 1972. Inventories were up only $997,626 even though they included Cumberland Engineering. Without Cumberland, inventories were reduced during 1972 by nearly $2,000,000, which followed an $11,200,000 reduction during the previous year. Complete computerization of the textile machinery line at Warwick for inventory control was a factor in the two-year reduction.

Capital Expenditures

Capital expenditures totaled $3,178,519 compared with $1,998,492 in 1971. Depreciation was $1,855,255 against $1,785,872 a year earlier. Major capital investment projects during the year included additions to the Johnson and Heywood plants, an IBM 370-145 computer which is faster and has more capacity than the computer in use last year, and completion of tooling for Unifil Loom Winder production in the United Kingdom. Capital spending for 1973 is projected at $3,000,000. This projection, and the 1972 capital expenditures, do not include investment in Uniwind K.K., the joint venture in Japan.

Long Term Debt

Long term debt, including payments due within one year, was increased in 1972 by $4,000,000, mostly in conjunction with the Cumberland Engineering acquisition. Borrowing in connection with this acquisition also accounted for a major portion of the $2,692,912 increase during 1972 in short-term notes payable to banks. Since the end of 1972, funds generated from operations have reduced short-term borrowing from $5,259,464 to under $3,000,000. The Company has adequate financial resources and short-term credit to meet the upturn in business expected throughout 1973.

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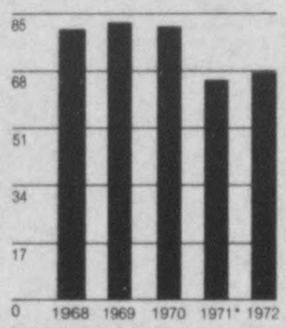
Financial Statements

Leesona Corporation and Subsidiaries

Net Sales & Other Income

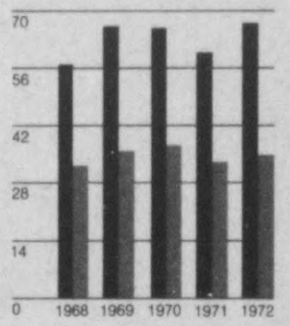
Millions of dollars



*Excludes discontinued operations

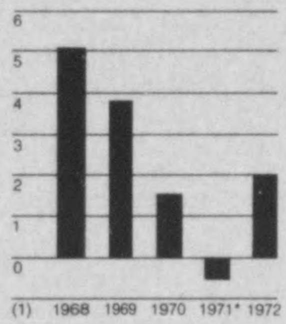
Total Assets vs.
Stockholders' Equity

Millions of dollars



Net Income (Loss)

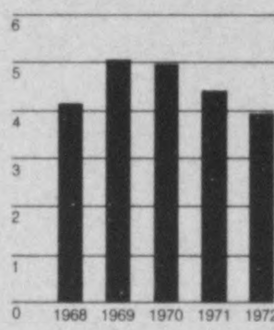
Millions of dollars



*From continuing operations before extraordinary charges

Research & Development Expenditures

Millions of dollars



Industrial Relations

The current two-year contract with the International Association of Machinists and Aerospace Workers covering production and maintenance employees at Warwick will expire on May 6, 1973. There is every expectation that negotiations for a new contract will be concluded satisfactorily.

During 1972, 56 Leesona employees retired under our Pension and Retirement Income Plans, bringing the total now receiving pension benefits to 375 persons.

Funds held on December 31, 1972, by the Morgan Guaranty Trust Company of New York, as Trustee of the Plans, totalled $12,565,219 market value.

The Company paid for or accrued during the year for the benefit of employees:

Salaries and Wages	$19,703,711
Pensions	1,080,416
Holidays	512,704
Vacations	1,017,594
Blue Cross	871,569
Social Security	1,108,118
Unemployment Compensation	243,084
Contribution to Group Life Insurance	231,044
Total	**$24,768,240**

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Consolidated Balance Sheet

Leesona Corporation and Subsidiaries

Assets	December 31, 1972	1971
Current Assets		
Cash	**$ 2,466,378**	$ 3,320,362
Trade accounts and notes receivable, less allowance of $449,446 ($394,363 in 1971) for doubtful accounts (Note D)	**18,588,466**	15,028,121
Recoverable income taxes	**809,781**	3,450,000
Inventories (Notes A and D)	**24,161,863**	23,164,237
Prepaid expenses	**1,257,843**	1,012,736
Deferred income taxes (Notes A and B)	**1,850,200**	1,600,000
Total Current Assets	**49,134,531**	47,575,456
Investments and Other Assets		
Investment in 50% owned foreign company (Note A)	**1,166,413**	987,293
Notes receivable from customers	**544,452**	636,714
Other	**123,024**	59,176
	1,833,889	1,683,183
Property, Plant and Equipment — on the basis of cost (Notes A and D)		
Land	**530,333**	293,931
Buildings	**4,148,952**	2,126,610
Machinery and equipment	**24,713,744**	17,930,079
	29,393,029	20,350,620
Less allowances for depreciation	**15,591,419**	11,384,235
	13,801,610	8,966,385
Unamortized Debt Discount (Note A)	**500,933**	539,467
Goodwill — at cost, less amortization of $3,682 (Note C)	**880,002**	—
	$66,150,965	$58,764,491

Liabilities and Stockholders' Equity	1972	1971
Current Liabilities		
Notes payable to banks	**$ 5,259,464**	$ 2,566,552
Accounts payable	**5,691,172**	4,825,820
Accrued expenses	**3,086,724**	2,976,490
Compensation and related taxes	**2,333,574**	1,796,210
Taxes, other than income taxes	**207,928**	221,652
United States and foreign income taxes	**1,764,580**	917,079
Current portion of long-term debt	**673,347**	3,024,382
Total Current Liabilities	**19,016,789**	16,328,185
Long-Term Debt — less current portion (Note D)	**12,946,653**	9,620,000
Stockholders' Equity (Notes D and E)		
Common Stock, par value $5 a share:		
Authorized 3,000,000 shares		
Issued and outstanding 1,768,668 shares (1,759,918 shares in 1971)	**8,843,340**	8,799,590
Additional paid-in capital	**675,625**	645,000
Retained earnings	**24,668,558**	23,371,716
	34,187,523	32,816,306
Contingent Liabilities and Commitments (Note F)	—	—
Litigation (Note G)	—	—
	$66,150,965	$58,764,491

The consolidated financial statements for 1971 have been restated as explained in Note B.
Certain reclassifications have also been made to permit comparison with 1972.
See notes to consolidated financial statements.

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Statement of Consolidated Income and Retained Earnings

Leesona Corporation and Subsidiaries

	Year Ended December 31, 1972	1971 (Note B)
Net sales and other operating revenue	$66,582,543	$63,314,434
Other income	961,210	1,540,370
	67,543,753	64,854,804
Cost and expenses:		
Cost of products sold	40,267,573	43,639,830
Selling, administrative and research expenses	21,079,740	19,913,338
Depreciation (Note A)	1,855,255	1,785,872
Interest	1,157,385	1,459,050
	64,359,953	66,798,090
Income (Loss) From Continuing Operations Before Income Taxes, Equity Interest and Extraordinary Charges	3,183,800	(1,943,286)
Income taxes: (Note A)		
United States and foreign	1,406,574	(973,222)
State	203,612	—
Deferred	(250,200)	(670,000)
	1,359,986	(1,643,222)
Income (Loss) From Continuing Operations Before Equity Interest and Extraordinary Charges	1,823,814	(300,064)
Equity interest in net income (loss) of 50% owned foreign company	179,120	(248,416)
Income (Loss) From Continuing Operations Before Extraordinary Charges	2,002,934	(548,480)
Loss from discontinued operations, less applicable income taxes (Note B)	—	(446,636)
Income (Loss) Before Extraordinary Charges	2,002,934	(995,116)
Extraordinary charges, less applicable income taxes (Note H)	—	(2,055,827)
Net Income (Loss)	2,002,934	(3,050,943)
Retained earnings at beginning of year	23,371,716	27,126,626
	25,374,650	24,075,683
Less cash dividends ($.40 per share in each year)	706,092	703,967
Retained Earnings At End of Year	$24,668,558	$23,371,716

Income (loss) per share of Common Stock: (Note A)	1972 Primary	1972 Fully Diluted	1971 Primary	1971 Fully Diluted
From continuing operations before extraordinary charges	$1.12	$1.11	($ .31)	($ .31)
From discontinued operations	—	—	(.25)	(.25)
Before extraordinary charges	1.12	1.11	(.56)	(.56)
Extraordinary charges	—	—	(1.17)	(1.17)
Net income (loss)	$1.12	$1.11	($1.73)	($1.73)

The consolidated financial statements for 1971 have been restated as indicated in Note B.

See notes to consolidated financial statements.

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Statement of Consolidated Changes in Financial Position

Leesona Corporation and Subsidiaries

	Year Ended December 31, 1972	1971
Source of Funds		
Income (loss) before extraordinary charges	$2,002,934	($ 995,116)
Items reflected in operations which did not affect working capital:		
Depreciation and amortization	1,903,908	1,928,531
Equity in (income) loss of 50% owned company	(179,120)	248,416
Total from operations, excluding extraordinary charges	3,727,722	1,181,831
Extraordinary charges	—	(2,055,827)
Total From (To) Operations	3,727,722	(873,996)
Long-term borrowings	4,000,000	2,000,000
Disposition of property, plant and equipment	143,389	849,142
Proceeds on exercise of stock options	74,375	—
Decrease in other assets	26,740	—
	7,972,226	1,975,146
Application of Funds		
Capital expenditures	3,178,519	1,998,492
Current maturities and retirement of long-term debt	1,616,221	3,024,382
Cash dividends	706,092	703,967
Investment in 50% owned company	—	1,235,709
Increase in other assets	—	349,549
Business acquired, less net current assets:		
Property, plant and equipment	3,655,350	—
Goodwill	883,684	—
Other assets	4,763	—
Long-term debt assumed	(942,874)	—
	3,600,923	—
	9,101,755	7,312,099
Decrease in Working Capital	$1,129,529	$5,336,953
Changes in Components of Working Capital		
Increase (decrease) in current assets:		
Cash	($ 853,984)	$ 208,592
Trade accounts and notes receivable	3,560,345	(1,733,041)
Recoverable income taxes	(2,640,219)	3,450,000
Inventories	997,626	(11,214,205)
Prepaid expenses	245,107	113,168
Deferred income taxes	250,200	1,600,000
Increase (decrease) in current assets	1,559,075	(7,575,486)
Increase (decrease) in current liabilities:		
Notes payable to banks	$2,692,912	($ 730,413)
Accounts payable	865,352	(606,386)
Accrued expenses	110,234	1,035,827
Compensation and related taxes	537,364	(173,435)
Taxes, other than income taxes	(13,724)	(154,932)
United States and foreign income taxes	847,501	(1,027,576)
Current portion of long-term debt	(2,351,035)	(581,618)
Increase (decrease) in current liabilities	2,688,604	(2,238,533)
Decrease in Working Capital	$1,129,529	$ 5,336,953

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

Leesona Corporation and Subsidiaries

December 31, 1972

Note A—Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. Upon consolidation all significant intercompany accounts and transactions are eliminated.

The Company's investment in the 50% owned foreign company is carried at cost, adjusted to reflect the Company's share in the net earnings or loss of the foreign company.

Translation of Foreign Currencies

The accounts of foreign subsidiaries are translated into U.S. dollars based on appropriate rates of exchange. Current assets, except inventory, and current liabilities are translated at year end exchange rates. Inventories are generally translated at rates in effect when the inventory was acquired. Non-current assets and non-current liabilities are translated at rates prevailing at the dates the assets were acquired or the liabilities incurred. Income and expense accounts, other than depreciation and the effect of inventories on cost of products sold, are translated at current rates in effect during the year. The net unrealized gains or losses on translation of foreign currencies to U.S. dollars are reflected in operations.

The devaluation of the United States dollar announced in February 1973 will result in an immaterial increase in net assets upon translation of foreign currency accounts in 1973 and will be reflected in income during 1973.

The assets and liabilities of foreign subsidiaries included in the consolidated financial statements amounted to $11,042,000 and $3,322,000, respectively at December 31, 1972 and $14,438,000 and $3,980,000 respectively at December 31, 1971.

Inventories

The classification of inventories is as follows:

	1972	1971
Finished products	$ 1,442,961	$ 1,738,288
Work-in-process	5,082,024	3,380,964
Manufactured and purchased parts	15,822,466	16,228,458
Materials	1,814,412	1,816,527
	$24,161,863	$23,164,237

Inventories are priced at the lower of first-in, first-out cost or market.

Depreciation

The Company uses a combination of accelerated and straight-line methods of providing for depreciation of property, plant and equipment based upon the estimated useful lives of the assets. Of the provisions for depreciation for 1972 and 1971, approximately $1,074,000 and $1,202,000, respectively, were provided on accelerated methods and the balances were provided on the straight-line method.

Unamortized Debt Discount

Unamortized debt discount represents the value assigned to the warrant to purchase 228,571 shares of Common Stock of the Company, which was issued in connection with the 10% note payable to the insurance company. The amount is being amortized on a straight-line basis over the period the note is outstanding.

Pension Plans

It is the policy of the Company to fund pension costs accrued under several pension plans covering substantially all employees, and to generally amortize unfunded prior service costs over a thirty-year period. Pension expense amounted to $1,055,200 in 1972 and $1,185,500 in 1971. For one of the plans the actuarially computed value of vested benefits, as of the most recent valuation date, exceeded the total of the pension fund and balance sheet accruals by approximately $423,000.

Research and Development Expenses

Costs associated with the development of new products and changes to existing products are charged to operations as incurred.

Income Taxes

The provision for income taxes is based on elements of income and expense as reported for financial statement purposes. Deferred income taxes represent the income tax effects related to expenses reported for financial statement purposes before the time such expenses are deductible for income tax purposes and result principally from provisions for possible obsolete and excess inventories, discontinued product lines and product warranties.

The investment tax credit is accounted for on the flow-through method as a reduction of the provision for United States income taxes in the year in which the credits are available for income tax purposes. Investment tax credits amounted to $119,000 in 1972 and were insignificant in 1971.

Because the Company plans to reinvest a portion of the undistributed earnings of its foreign subsidiaries to continue to finance foreign expansion and to meet operating requirements, United States incomes taxes have not been provided on these earnings. The amount of undistributed earnings after available foreign tax credits which are considered to be indefinitely reinvested was approximately $700,000 at December 31, 1972.

During 1972, the Company organized a Domestic International Sales Corporation (DISC) which receives certain tax benefits and special tax treatment under the provisions of the Revenue Act of 1971. The amount of the DISC's income for which federal income taxes have not been provided was approximately $170,000 for the year ended December 31, 1972.

The provisions and credit for income taxes do not bear the customary relationship to pretax income principally because of rate differentials between the United States and foreign countries in 1972 and 1971, investment tax credits and income of the DISC in 1972, and the application of foreign taxes as credits in 1971 which directly increased recoverable United States income taxes.

Earnings Per Share

Primary earnings per share in 1972 have been computed by dividing net income by the weighted average shares of Common Stock and dilutive common stock equivalents outstanding. Shares issuable in connection with the warrant and stock options are considered common stock equivalents. The weighted average shares outstanding during the year were increased by the excess of the shares to be issued over the shares that could have been purchased from the proceeds of the exercise of the warrant and stock options using the average market price of the Company's Common Stock during the period the warrant and stock options were outstanding. The same assumptions were made in computing fully diluted earnings per share in 1972, except that the market price of the Company's Common Stock at the end of the year was used.

Loss per share in 1971 was based on the weighted average number of shares outstanding during the year.

Note B—Restatement of Financial Statements

The statement of consolidated income and retained earnings for the year ended December 31, 1971 has been restated to show as a separate item the results of operations of the Coil Winding Division which was sold in 1971. Net sales of this division for 1971 were $1,299,562.

The consolidated balance sheet at December 31, 1971 has been restated to reclassify deferred income taxes from a noncurrent asset to a current asset. Such taxes represent the cumulative tax effects of timing differences with respect to current assets and current liabilities. (See Note A)

Note C—Business Combination

As of November 1, 1972, the Company acquired all of the outstanding capital stock of Cumberland Engineering Company, Inc. and a related real estate company for cash of $6,500,000. The transaction has been accounted for as a purchase and accordingly the operations of the acquired companies are included in the consolidated financial statements from the date of acquisition and the excess of the purchase price over the fair value of the net assets acquired has been assigned to goodwill and is being amortized over a forty-year period.

Unaudited pro forma consolidated results of operations, assuming the companies had been combined at the beginning of 1972 and 1971, are presented below.

	Year ended December 31,	
	1972	1971
Net sales and other operating revenue	$74,179,589	$71,487,434
Income (loss) before extraordinary charges	1,814,027	(1,114,721)
Net income (loss)	1,814,027	(3,170,548)
Primary income (loss) per share:		
Before extraordinary charges	$1.02	($ .63)
Net income (loss)	1.02	(1.80)

Note D—Long-Term Debt

Long-term debt at December 31, 1972 and 1971 consisted of the following:

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	1972	1971
Notes Payable to Insurance Companies		
10% note payable in quarterly installments of $182,000 commencing February 1975 to August 1985 with a final payment of $174,000 in November 1985	$ 8,000,000	$ 8,000,000
5⅝% note payable in semi-annual installments of $150,000 to May 1977	1,350,000	1,650,000
6½% note payable in quarterly installments of $6,500 to December 1972 and $9,000 thereafter to June 1980	270,000	296,000
Note payable to bank with interest at 1½% in excess of prime rate payable in monthly installments of $16,667 commencing February 1973 to January 1978 and a final payment of $1,000,000 in January 1978	2,000,000	
8% mortgage note payable in monthly installments of $14,339 for principal and interest to January 1988	1,500,000	
Note payable in semi-annual installments of $50,000 to September 1977 with interest at ½% in excess of prime rate	500,000	
Other long-term debt (all due within one year):		
Loan payable in quarterly installments of $820,000 with interest at ½% in excess of prime rate		2,440,000
Other		258,382
	13,620,000	12,644,382
Less current portion	673,347	3,024,382
	$12,946,653	$ 9,620,000

The loan agreements with the insurance companies contain, among other covenants, restrictions on the payment of cash dividends and purchase of treasury stock and provide for the maintenance of minimum working capital. At December 31, 1972 and 1971 working capital was in excess of the required amounts under the agreements. At December 31, 1972 and 1971 retained earnings were not available for dividends. The Company received waivers to permit the Board of Directors to declare dividends in 1972 and for the first quarter of 1973, and intends to seek similar waivers for the remainder of 1973.

In connection with certain of the long-term debt obligations, the following assets were pledged at December 31, 1972: accounts receivable $1,915,839; inventories $2,642,203; and property, plant and equipment (net book value) $4,415,174.

Note E—Stock Options and Warrant

The Company has in effect a Stock Option Plan under the terms of which options for the purchase of Common Stock are granted to officers and key employees at a price not less than the market value of the Common Stock at the date of grant. During the year ended December 31, 1972 options for 13,000 shares were granted (36,000 in 1971), options for 8,500 shares were cancelled (23,000 in 1971) and options for 8,750 shares were exercised at $8.50 per share. No options were exercised in 1971. At December 31, 1972, options were outstanding for the purchase of 79,500 shares at prices ranging from $12.13 to $17.94 per share, of which 24,750 were exercisable. At December 31, 1971, options were outstanding for the purchase of 83,750 shares at prices ranging from $8.50 to $17.94 per share, of which 8,750 were exercisable.

In connection with the issuance of the 10% note payable, the Company issued a warrant permitting the insurance company to purchase 228,571 shares of Common Stock at a price of $14 per share. The warrant is exercisable at any time prior to November 30, 1985.

At December 31, 1972, 315,571 shares of Common Stock were reserved for issuance upon exercise of the warrant and stock options.

The increase in additional paid-in capital in 1972 represents the excess of the proceeds on the exercise of stock options over the par value of 8,750 shares of Common Stock issued in connection with the stock options. There was no change in Common Stock or additional paid-in capital in 1971.

Note F—Contingent Liabilities and Commitments

At December 31, 1972, the Company was contingently liable for conditional sales contracts sold to banks in the approximate amount of $1,587,000. The Company was also contingently liable as guarantor of the debt of its 50% owned foreign company which amounted to $1,200,000 at December 31, 1972.

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Notes to Consolidated Financial Statements

Leesona Corporation and Subsidiaries

At December 31, 1972, the Company was committed under lease agreements which require payments of $815,000 in 1973, $719,000 in 1974, $690,000 annually thereafter through 1977, $600,000 in 1978 and $516,000 annually thereafter to 1986. The principal lease, which was written in 1961, is for the Company's Warwick manufacturing plant and also requires payments for taxes, insurance and maintenance. At the end of the lease term, the Company has the option to purchase the Warwick property for $5,000.

Note G—Litigation

The Company is a party to various lawsuits involving the validity of its stretch yarn patents and the obligation of licensees to pay royalties thereon. Certain licensees have purported to cancel their license agreements alleging that the patents are invalid or unenforceable. Some of these licensees have claimed repayment of past royalties and damages under the antitrust laws. During the latter part of 1969, substantially all the United States licensees stopped paying royalties under their license agreements, and whether the Company recovers such royalties and will be entitled to future royalties will depend on the outcome of the pending litigation.

Management is not aware of any basis on which a claim against the Company for damages under the antitrust laws or a return of past royalties could be sustained.

Note H—Extraordinary Charges

These charges for the year ended December 31, 1971 consisted of the following:

Reorganization expenses ($138,079) and costs incident to discontinued operations	$2,431,491
Provision for anticipated loss on abandonment of certain product lines	1,746,296
	4,177,787
Less applicable federal and state income taxes	2,121,960
	$2,055,827

Note I—Change in Accounting Estimate

Prior to 1971, it had been the practice of the Company to provide for sales and product adjustments as incurred. Commencing in 1971, due to the prevailing economic conditions in the textile industry, the Company adopted the practice of providing allowances for anticipated adjustments in these areas. This resulted in increasing the net loss, net of applicable income taxes, for the year ended December 31, 1971 by approximately $450,000 ($.26 per share).

Accountants' Report

Leesona Corporation and Subsidiaries

Board of Directors and Stockholders
Leesona Corporation
Warwick, Rhode Island

We have examined the consolidated financial statements of Leesona Corporation and subsidiaries for the years ended December 31, 1972 and 1971. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of the British subsidiary in 1972 or of the British and French subsidiaries in 1971, which statements reflect total assets at December 31, 1972 and 1971 representing 12% and 23%, respectively, of consolidated assets and which reflect net sales and other operating revenue for the years ending December 31, 1972 and 1971 representing 18% and 25%, respectively, of consolidated net sales and other operating revenue. These statements were examined by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the British subsidiary in 1972 and the British and French subsidiaries in 1971, is based solely upon the reports of the other independent accountants.

In our opinion, based upon our examination and the reports of the other independent accountants, the accompanying balance sheet and statements of income and retained earnings and changes in financial position present fairly the consolidated financial position of Leesona Corporation and subsidiaries at December 31, 1972 and 1971, and the consolidated results of their operations, changes in stockholders' equity and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst + Ernst

Providence, Rhode Island
February 13, 1973

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10 Year Financial Review

Leesona Corporation and Subsidiaries

(Dollar amounts in thousands, except for per share data) (Common shares outstanding in thousands)

	1972	1971(1)	1970	1969	1968	1967	1966	1965	1964	1963(2)
Net Sales and Other Income	**$67,544**	$64,855	$80,824	$81,765	$79,678	$61,241	$65,007	$56,666	$57,521	$38,521
Income (Loss) from Continuing Operations Before Taxes, Equity Interest in Affiliate and Extraordinary Charges	**3,184**	(1,943)	3,403	7,404	11,172	4,306	7,990	6,588	7,421	3,115
Income (Loss) from Continuing Operations Before Equity Interest and Extraordinary Charges	**1,824**	(300)	1,599	3,811	5,063	2,436	3,942	3,481	3,710	1,434
Equity in Net Income (Loss) of Affiliate	**179**	(248)	—	—	—	—	—	—	—	—
Income (Loss) from Continuing Operations Before Extraordinary Charges	**2,003**	(548)	1,599	3,811	5,063	2,436	3,942	3,481	3,710	1,434
Loss from Discontinued Operations—less Applicable Income Taxes	**—**	(447)	—	—	—	—	—	—	—	—
Income (Loss) Before Extraordinary Charges	**2,003**	(995)	1,599	3,811	5,063	2,436	3,942	3,481	3,710	1,434
Extraordinary Charges—less Applicable Income Taxes	**—**	(2,056)	—	—	—	—	—	—	—	—
Net Income (Loss)	**2,003**	(3,051)	1,599	3,811	5,063	2,436	3,942	3,481	3,710	1,434
Percent Net Income to Total Revenue	**3.0%**	—	2.0%	4.7%	6.4%	4.0%	6.1%	6.1%	6.5%	3.7%
Working Capital	**30,118**	31,247	36,584	32,360	24,791	21,880	21,346	18,497	16,238	13,646
Depreciation	**1,855**	1,786	1,859	1,828	1,661	1,502	1,500	1,364	1,405	1,424
Ratio Current Assets to Current Liabilities	**2.6-1**	2.9-1	3.0-1	2.4-1	2.1-1	2.3-1	2.7-1	2.2-1	2.2-1	2.2-1
Total Stockholders' Equity	**34,188**	32,816	36,571	34,923	31,999	27,529	25,755	22,454	19,547	16,248
Long Term Debt	**12,947**	9,620	10,644	7,992	2,715	3,015	3,274	3,340	3,459	3,809
Total Assets	**66,151**	58,764	65,782	65,980	56,751	48,076	41,964	41,768	36,282	32,174
Per Share Statistics										
Primary Income (Loss): (3)										
From Continuing Operations Before Extraordinary Charges	**1.12**	(.31)	.91	2.17	2.88	1.39	2.25	1.98	2.12	.82
Before Extraordinary Charges	**1.12**	(.56)	.91	2.17	2.88	1.39	2.25	1.98	2.12	.82
Net Income (Loss)	**1.12**	(1.73)	.91	2.17	2.88	1.39	2.25	1.98	2.12	.82
Common Dividends	**.40**	.40	.40	.40	.40	.40	.40	.40	.29	.25
Book Value	**19.33**	18.65	20.78	19.84	18.18	15.69	14.68	12.79	11.16	9.33
Common Shares Outstanding—End of Year	**1,769**	1,760	1,760	1,760	1,760	1,760	1,760	1,760	1,752	919

(1) 1971 restated to show as a separate item the results of operations of Coil Winding Division which was sold in 1971. Years prior to 1971 not restated.

(2) Amounts per share stated after appropriate adjustments for stock split effective November 30, 1964.

(3) Fully diluted net income per share was $1.11 in 1972.

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LEESONA

333 Strawberry Field Road
Warwick, Rhode Island 02887

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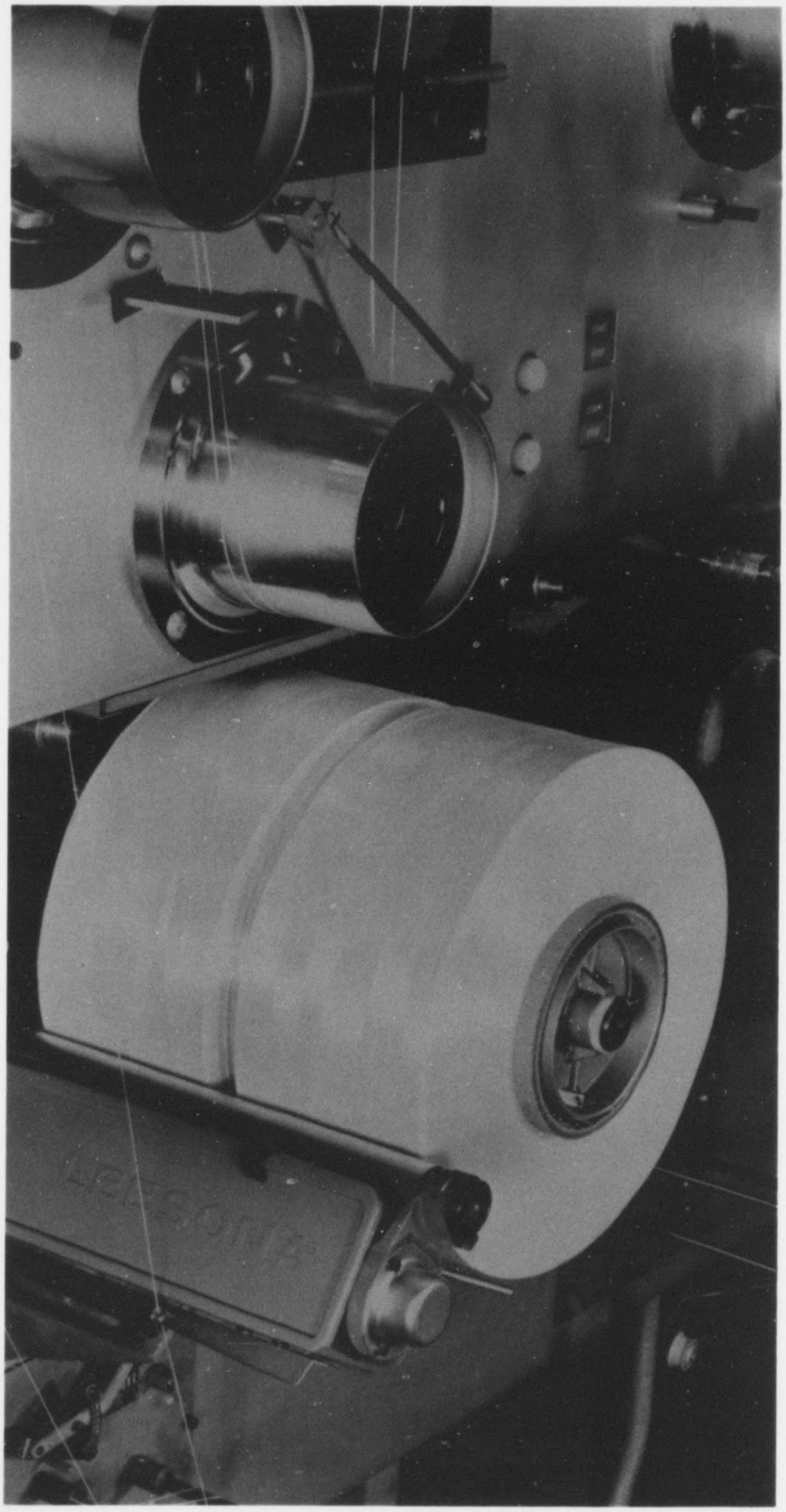

LEESONA

Annual Report 1971

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Board of Directors

Ralph P. Benn
President and Chief Executive Officer

Edwin D. Campbell
Consultant

Stephen M. DuBrul, Jr.
Partner,
Lehman Brothers

Paul P. Johnson
Vice Chairman

A. Dix Leeson
Vice President, Planning,
Reece Corporation

Robert Leeson
Chairman

Charles E. Mason, Jr.
Associate,
White, Weld & Co.

A. Robert McMurray
Vice President of Finance and Treasurer

Donald R. Melville
Vice President,
Director, Norton Company

Malcolm D. Perkins
Partner,
Herrick, Smith, Donald,
Farley & Ketchum

Officers

Robert Leeson
Chairman

Paul P. Johnson
Vice Chairman

Ralph P. Benn
President and Chief Executive Officer

John J. Baughan
Executive Vice President

A. Robert McMurray
Vice President of Finance and Treasurer

Glenn H. Edgecomb
Vice President

Anthony M. Moos
Vice President

William V. Goodhue
Vice President

Robert Leeson, Jr.
Vice President

George S. Gregory
Vice President

Thomas D. Webb
Vice President

O. E. Garner
Assistant Treasurer

General Counsel
Herrick, Smith, Donald, Farley & Ketchum
Boston, Massachusetts

General Auditor
Ernst & Ernst
Providence, Rhode Island

Transfer Agents
The Chase Manhattan Bank
New York, New York

The First National Bank of Jersey City
Jersey City, New Jersey

Registrar
United States Trust Company of New York
New York, New York

Executive Offices
333 Strawberry Field Road
Warwick, Rhode Island 02887

Stock Listing
New York Stock Exchange

Annual Meeting
Tuesday, April 25, 1972
10:30 a.m.
Sheraton-Plaza Hotel
Boston, Massachusetts

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Leesona Corporation

1971 Annual Report

Contents

The cover photograph is a Leesona take-up machine. The Company is a leading producer of take-ups for the worldwide fiber producing industry.

Leesona's Unicorner Automatic Winder and Automatic Bobbin Handling (ABH) equipment on exhibit at last September's International Textile Machinery Association show in Paris. The Unicorner and ABH combined form a completely integrated system of yarn processing from the spinning operation to finished cones.

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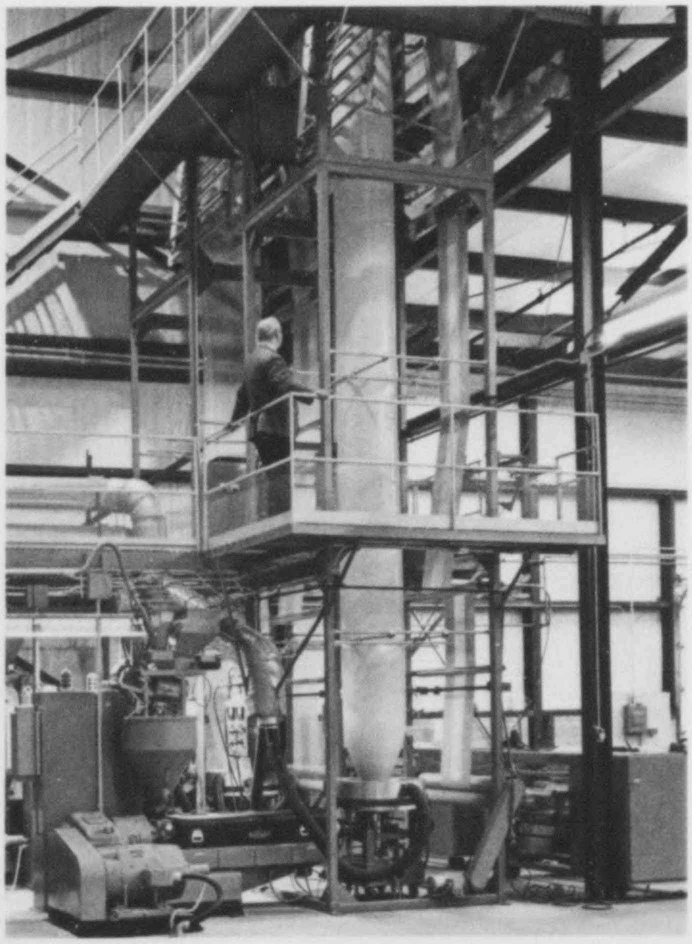
Financial Highlights

	1971	1970
Net Sales & Other Income	$66,154,366	$80,824,499
Net Income (Loss) Before Income Taxes & Extraordinary Items	(2,919,338)	3,402,815
Income Taxes	(1,924,222)	1,804,238
Net Income (Loss) Before Extraordinary Charges	(995,116)	1,598,577
Extraordinary Charges — Less Applicable Income Taxes	2,055,827	—
Net Income (Loss)	(3,050,943)	1,598,577
Percent Net Income to Total Revenue	—	2.0%
Per Share of Common Stock		
Income (Loss) Before Extraordinary Charges	(.56)	.91
Extraordinary Charges	(1.17)	—
Net Income (Loss)	(1.73)	.91
Working Capital	29,647,271	36,584,224
Depreciation	1,889,998	1,859,117
Expenditures for Plant & Equipment	1,149,350	2,428,581
Inventory	23,164,237	34,378,442
Ratio Current Assets to Current Liabilities	2.8-1	3.0-1
Total Stockholders' Equity	32,816,306	36,571,216
Book Value Per Share	18.65	20.78
Common Shares Outstanding	1,759,918	1,759,918
Number of Stockholders	3,886	4,126
Number of Employees	2,934	3,670
Research & Development	4,592,564	4,955,409



A Johnson blown film extrusion line at customer's plant.

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President's Letter

To Our Stockholders and Employees:

Sales and Earnings

Leesona's sales declined 18% in 1971 to $66,154,366 from $80,824,499 in 1970. This decline is attributable mainly to the depressed state of the worldwide capital equipment market. In addition, the dock strikes in the final quarter of 1971 curtailed shipments to overseas markets.

Notwithstanding the decline, the Company's normal operations would have resulted in approximately a breakeven for 1971 due to the large scale cost reduction programs instituted over the last two years. Management, however, took the opportunity afforded by the recession, which started affecting Leesona late in 1969, to eliminate unprofitable product lines and to increase reserves against potential costs arising from the recession period. The resulting extraordinary charges, together with the increase in reserves and other non-recurring costs, were responsible for a 1971 loss of $3,050,943 after taxes, equal to $1.73 per share. The 1970 net income after taxes was $1,598,577, equal to 91 cents per share.

Our 1972 breakeven point has now been reduced to approximately two-thirds of the early 1970 level, reflecting the high priority given last year to further cost reduction and expense controls. The substantially lower breakeven point was accomplished without impeding future growth.

Another strengthening action taken last year was the evaluation of each product line in terms of its contribution to past performance and prospects for the future. This review led to the decision to dispose of our Coil Winding Machinery Division and it was sold for cash. This operation represented only a small part of Leesona's overall activity, and management believes that the funds generated by its disposition can be more productively used elsewhere. Reserves were also set aside for the phasing out of a number of marginal low-volume textile machinery products.

Despite their adverse effect on 1971 income, the changes requiring the write-offs, combined wtih other actions taken last year, have created a stronger, more streamlined, lower cost Company ready for good earnings growth with any improvement in volume of sales. These continuing efforts to improve the Company produced a number of significant accomplishments in 1971.

Financial Position

Leesona entered 1972 with a balance sheet as strong as any in recent years. Inventory during 1971 was reduced by over $11 million. Debt was also reduced by about $2.4 million. In addition, the discontinuance of low margin products and unprofitable operations, along with the attendant recovery of taxes, will give Leesona a strong cash flow. The resulting strength of our balance sheet will provide considerable cash and borrowing flexibility for planned expansion into new products and businesses.

Textile Machinery Division

Major changes to improve efficiencies and lower costs in our manufacturing activities were among the important initiatives of 1971. Transfer of all Unifil® Loom Winder production from Warwick to Leesona Ltd. in Great Britain was started and is nearing completion. The cost advantages expected from this action appear to be as projected. The manufacturing plant of Uniwind K.K., our 50%-owned joint venture in Japan, was completed in January, 1972, and Unifil Loom Winders for the Far East are now being assembled there.

The effectiveness and cost of our worldwide textile machinery marketing operation has been improved through consolidating the organization under one

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leadership. Planning, coordinating, and monitoring activities are now centralized at Leesona's headquarters at Warwick. In addition, the concept of product management has been introduced, and our product line is now divided into three major categories, each with a competent manager. In Europe, our marketing headquarters in France and Great Britain have been consolidated into a new centralized marketing headquarters established early in 1972 in the Netherlands. In addition, the English and French service parts depots have been consolidated in Great Britain.

In 1971, our expenditures for research and development continued at a high level. We did, however, refine our system for evaluating projects so that funds invested will be concentrated in areas offering the greatest profit potential. These efforts have made possible a program for 1972 which is immediately more economical and more effective.

Johnson Plastics Machinery Division

This Division has also felt the effect of the economic downturn. Order intake, however, began to improve in the second quarter, and in the last three quarters of 1971 new orders improved at a rate double that of the industry and exceeded the 1970 rate. Additional products for thermoforming and co-extrusion, as well as the general increase in orders for existing products, indicate 1972 will be one of the best years to date for this Division.

Leesona Moos Division

Advanced fuel cell and metal/air battery technology activities have now progressed to a point in our licensees' laboratories where it is no longer necessary to continue operating Leesona's electro-chemical laboratory. Therefore, further cost reduction was achieved in the fourth quarter by closing down this operation and moving the Division headquarters to Warwick. This Division has now evolved into a worldwide patent and licensing operation.

Litigation

Over the past year, three of our stretch yarn licensees have made out-of-court settlements with Leesona, agreeing to pay past due and future royalties at 50% of the past rate. The three are: J. P. Stevens & Co., Collins & Aikman, Corp. and Firestone Tire & Rubber Company. Additional settlements on similar terms would be welcomed, and work continues toward that end. Leesona remains convinced of the strength of its patent position and the validity of its license arrangements, and is prepared to defend these positions vigorously in court.

Looking Ahead

Although shipments delayed by the dock strikes late in 1971 will be a positive factor, the first half of 1972 will generally reflect the low order intake of 1971. However, domestic orders for textile machinery took a turn for the better during the past several months, following the earlier improvement in orders for plastics machinery. As a result, erosion of the backlog ceased in September and backlog has increased since then. The signs of gradual recovery of the U.S. economy, the re-instatement of the investment tax credit, and the recently liberalized depreciation schedules are expected to help the capital equipment industry substantially. Leesona's position should also benefit from the currency realignments which have made U.S.-produced machinery more competitive with the products of our overseas competitors.

It is difficult to forecast under present conditions, but from what we now know, we believe 1972 will be profitable. Beyond 1972, and with an improved business environment, our prospects are excellent.

Our growth objectives and a course of action to achieve them have been planned. New executive talent was added during 1971 and this, combined with

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the existing management strengths, made possible a greater decentralization of management responsibilities. As a result, the President's office is now able to concentrate on overall growth objectives and the actions required to accomplish them.

On behalf of our directors, I wish to thank our employees and stockholders for their loyal support in this trying year. It is our hope and expectation that the stronger Leesona that developed during 1971 will benefit all of you in the years ahead.

Sincerely,

Ralph P. Benn

Ralph P. Benn
President
March 17, 1972

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The Management Team

A A. ROBERT McMURRAY
Vice President of Finance and Treasurer

B ROBERT LEESON
Chairman

C GEORGE S. GREGORY
Vice President

D RALPH P. BENN
President and Chief Executive Officer

E JOHN J. BAUGHAN
Executive Vice President

F THOMAS D. WEBB
Vice President

G WILLIAM V. GOODHUE
Vice President

H PAUL P. JOHNSON
Vice Chairman

I ROBERT LEESON, JR.
Vice President

J O. E. GARNER
Assistant Treasurer

K ANTHONY M. MOOS
Vice President

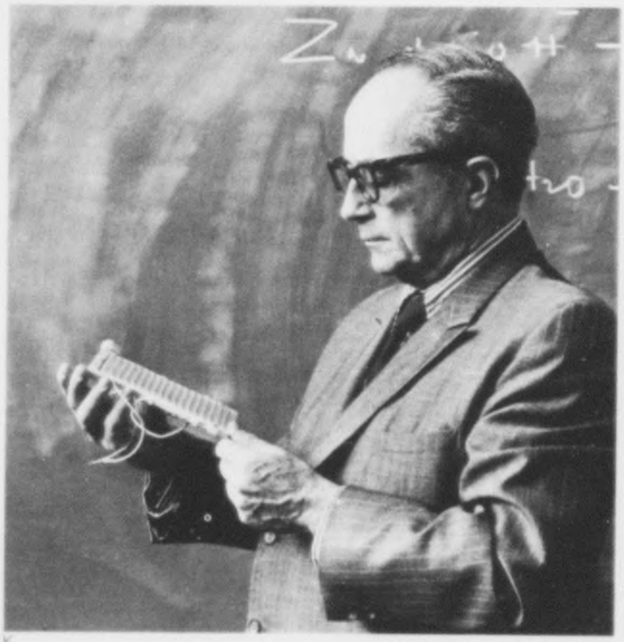
L GLENN H. EDGECOMB
Vice President


G


H


I


J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Research and Development

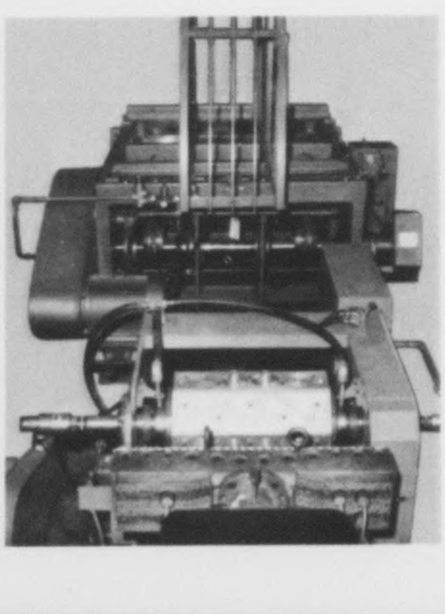
Leesona's general approach to R&D has been to identify the needs for improved technology in the markets it serves, and then to meet these needs by developing machines that do the jobs more efficiently, while requiring less labor. Its excellent success in these efforts has made Leesona a leading producer of automated, cost-saving machines for the worldwide textile industry. The Johnson custom-designed plastics machinery line enjoys a well-established reputation in world markets for its advanced engineering.

Textile Machinery Division

Many advances have been made during 1971 in the areas of product improvement, new product development and applied research. A special effort was directed at exploring unique textile processing techniques which could lead to major new products in the future.

Significant improvements in the multi-color Unifil® MC were developed during 1971. The Automatic Bobbin Handling (ABH) development progressed well and is now in the final stage of field testing. When combined with the Uniconer®, the ABH forms a completely integrated system of yarn manufacturing from the spinning operation to finished cones.

Another major project was the design and prototyping of a new, more advanced texturing machine. The new design provides for higher speeds, greater yarn package capacity, precision process control and draw texturing capability.



It is aimed at the growing textured polyester market which is expected to expand rapidly in the future. In addition, there are underway many active programs not ready for disclosure looking to the further expansion and diversification of the Leesona product base.

In R&D activities, increased emphasis has been placed on achieving maximum effectiveness, both administratively and technically. The consolidation of service and engineering functions last year, and improvement in scheduling and budgeting techniques, will insure better overall project performance and control. In engineering, greater use is now being made of the computer for design and machine simulation studies. Also, Leesona has greatly increased its capability in electronic and pneumatic control technology.

An important project during the current year will be completing the development of a system to produce continuous filament from cast or blown film for the textile industry. Early this year, Leesona was licensed jointly by Smith & Nephew of England and Shell International of Holland to manufacture and market on a non-exclusive basis equipment for roll embossing film, which is a major segment of the continuous filament system. This system will also consist of Johnson plastics extrusion machinery and Leesona precision take-up equipment. Initially, the system will be used exclusively in the production of polypropylene fiber in a range to include textile deniers.

Johnson Plastics Machinery Division

At this Division, a new continuous thermoforming line has been developed. This system, completely self-contained from the extruder to the final stacking of the finished parts, makes possible production speeds previously unattainable. Approximately 50% of the sheet manufactured on Johnson extruders are converted into end products by thermoforming. More advanced systems for extrusion lamination of plastics for various textile end uses, such as wall coverings, upholstery fabrics and industrial products, were also developed in 1971. A new sheet die design with many advanced features also was completed last year, and work is now underway on a new series of the Johnson Flex Lip die.

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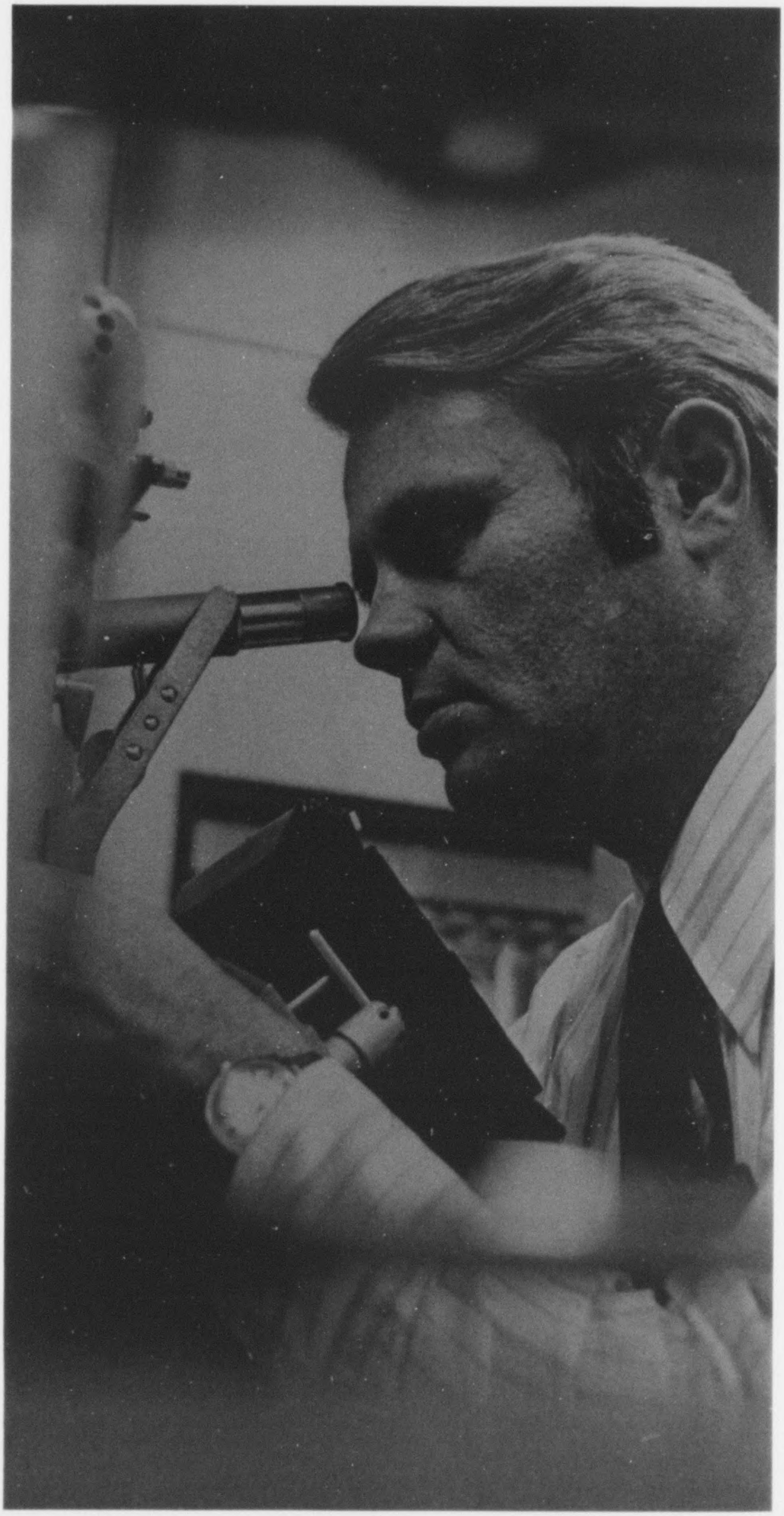

A new extrusion thermoforming line, completely self-contained from extruder to final stacking of finished products, was developed in 1971 at the Johnson Plastics Machinery Division.

Continuing the Company's strong commitment to research and development, Leesona research engineers made many advances last year in product improvement, new product development and applied research.

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Manufacturing

Textile Machinery Division

Plans to improve efficiencies and economies in Leesona's worldwide textile machinery manufacturing facilities, as outlined in the 1970 Annual Report, were almost completely implemented during 1971. This strengthening of production capabilities, aimed at increasing profitability, was centrally directed from Warwick by the new manufacturing organization created last year to better coordinate operations of the U.S., English and Japanese facilities.

A major reorganization of Leesona Ltd.'s Heywood and Darwen plants was a key part of the planned program. During the past year, the transfer of all Unifil Loom Winder production from Warwick to Heywood was approximately 75% accomplished and is expected to be completed by mid-1972. At that point, Heywood production will be wholly concentrated on Unifils to supply the world market except for the Far East. Other textile machines formerly manufactured at Heywood are now being produced at the Darwen plant.

In conjunction with the production changes, the Heywood physical plant and equipment were substantially upgraded. Management at the production level also was strengthened.

Another significant manufacturing development for the future was the completion in January, 1972, of the 186,000 square foot plant in Japan of Uniwind K.K., the Company's joint venture with Enshu, Ltd.

With foresight of the slowdown that developed last year in the Far Eastern textile markets, it was decided to hold down investment in manufacturing equipment for the new facility and only assemble the Unifil Loom Winder there until market conditions warranted the start of manufacturing. Recovery in this market should be aided by the resolution in recent months of the U.S. textile quota and worldwide monetary situations. In addition, the Japanese Government has a plan underway to upgrade its textile industry by replacing obsolete looms with modern equipment. It is likely the new looms would be equipped with Leesona's Unifil Loom Winders, which add to loom efficiency and production of quality fabrics.

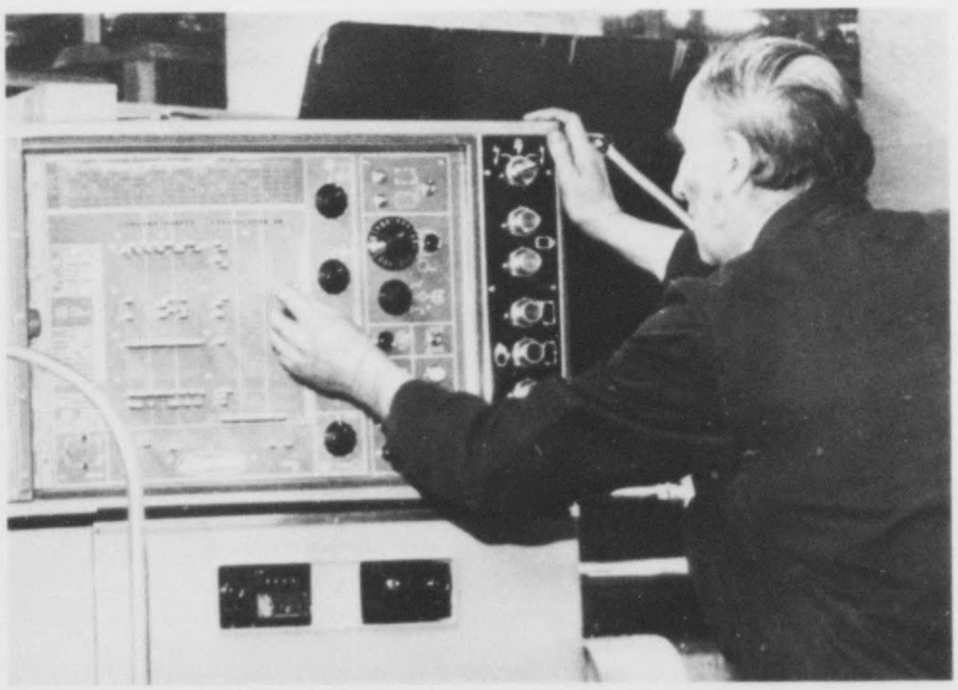
At Warwick, a computer program for greater inventory control was accelerated during 1971 and by the end of the 1972 first half the textile machinery line will be fully computerized. With this greater computerization, orders are now completely broken down and specific parts ordered for them. This program was a contributing element to the sharp reduction in inventory in 1971.

As a follow-up to the manufacturing improvements already achieved, a new longer-range plan to further strengthen production capabilities is currently being programmed. Its objective will be to utilize the U.S. and overseas facilities so that products for the worldwide market are manufactured on the most profitable basis possible.

Johnson Plastics Machinery Division

At the Chippewa Falls, Wisconsin, plant of the Johnson Plastics Machinery Division, manufacturing capability was further upgraded last year by the installation of an advanced electrically discharged drill. This equipment allows metal removing operations that are impossible with conventional machining methods and expands the design parameters of its extrusion equipment. Continuing emphasis on modern advanced manufacturing methods will enable Johnson to enhance product quality and improve production efficiency.

Johnson's full line of custom-designed continuous process systems to extrude plastic film, sheet, pipe, and profiles are produced at the Chippewa Falls plant for the Division's worldwide markets. Johnson gives special emphasis to film and sheet lines, including coating and laminating.



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A program initiated in 1971 to make the Company's European manufacturing operations more efficient and economical included a substantial upgrading of Leesona Ltd.'s Heywood, England plant. Photo shows control panel of newly installed automatic machining equipment.

New 186,000 square foot plant in Japan of Uniwind K.K., Leesona's 50%-owned joint venture, before its completion in January, 1972. The Unifil Loom Winder is now being assembled there for the Far Eastern market.

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Marketing

Textile Machinery Division

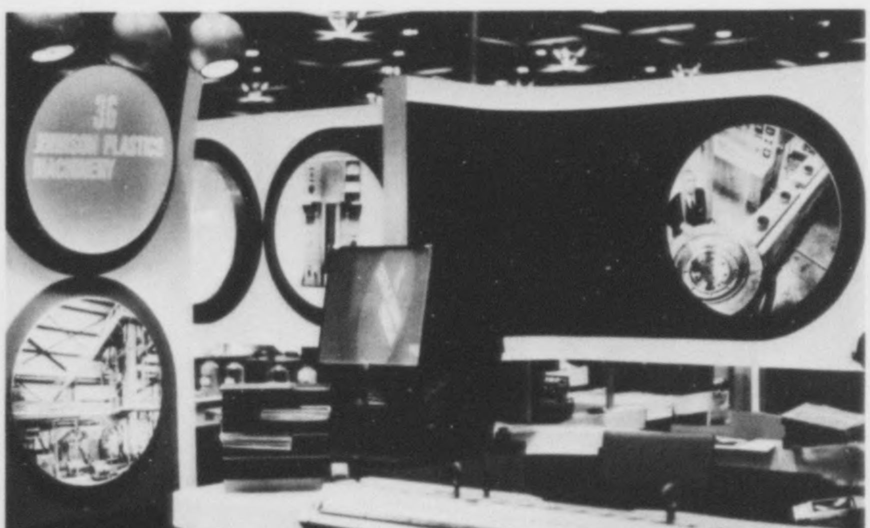
An important development for growth was the restructuring last year of Leesona's textile machinery group to unify it into one coordinated, worldwide organization. Planning and direction is now centered with the Executive Vice President, Marketing at Warwick.

A key element in this reorganization was the re-orienting of people and strategies along product rather than market lines. In-depth marketing teams were established with the appointment of three worldwide product managers, each supported by marketing coordinators and product specialists. Their efforts, coordinated with strong pre-sale and after-sales service forces which the Company maintains in all the major textile producing areas, are aimed at strengthening Leesona's participation in present markets, opening new markets in developing countries and a closer alignment with research to stimulate and speed new product development.

Another major step in the restructuring program was the consolidation of our marketing groups in England and France into a single European organization headquartered in Amstelveen, Netherlands. The international network of regional sales organizations will further be expanded with the opening of new sales and service offices in the Far East. New European sales offices may also be established in an effort to better serve the changing textile markets.

Quality after-sales service has long been a significant element in Leesona's marketing capabilities. To further improve customer service, the Service Parts Division at Warwick completely computerized its inventory of some 20,000 items during the past year. In Europe, the consolidation of the English and French service parts depots into one larger and more efficient depot at Heywood was recently completed.

Due to generally bad economic conditions and trade and monetary uncertainties, activity in many of our markets was at an extremely low level during 1971. As the year progressed, the North American textile industry began showing signs of recovery from its two-year slump. This recovery was reflected in Leesona's order rate during the fourth quarter of 1971. The import trade agreements, the high rate of housing starts, and expected increases in automotive sales and consumer spending for apparel enhances the outlook for the U.S. textile industry this year. Although the North American market may well be the dominant factor in Leesona's 1972 sales picture, our worldwide marketing organization is now structured to meet competition more aggressively in all markets. Special efforts are presently being made to cultivate markets in Eastern Europe and in the emerging industrial nations in Africa, Latin America, and Southeast Asia.



With labor costs rising and manpower shortages on the increase in many countries, the worldwide textile industry's need for more efficient, automated machinery continues to grow. Leesona's broad line of textile equipment, used in all segments of the fabric, yarn and fiber producing industries, is designed to meet these needs.

During the current quarter, Leesona introduced a third generation Uniconer automatic winding machine—Uniconer III. This advanced equipment is available in four models engineered specifically for the knitting, weaving, dyeing and multi-purpose textile manufacturer. Many technological improvements for greater reliability and quality are incorporated into the new equipment, which will be pre-erected at the Leesona plant to save installation time and labor at customers' mills. The Uniconer III also has been completely re-styled for a more modern, attractive look and easier maintenance.

Johnson Plastics Machinery Division

During 1971, this Division strengthened its domestic and overseas marketing organization in spite of the drop in sales. The sales decline reflected the poor state of the capital equipment market in general, and also the fact that the increase in resin sales over the past two years had not yet sufficiently caught up with the 1969 expansion of the plastics industry's processing capacity. However, this industry traditionally expands capacity well in advance of rising production requirements and plastics machinery manufacturers are looking for a buying surge in 1972.

At Johnson, demand for its products began moving up in April, 1971, and a high level was sustained during the rest of the year. Based on year-end backlog and the optimistic industry forecast, 1972 sales could be close to the record level established in 1969. The co-extrusion system for producing multi-layer plastics from film or sheet which Johnson is now manufacturing and marketing under license, is expected to contribute to the sales increase.

To expand its international business, which accounted for almost 20% of its 1971 sales, Johnson will establish this year its first overseas sales subsidiary and demonstration center in Belgium.

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The Johnson Plastics Machinery Division's exhibit at the international trade show last year in Düsseldorf, West Germany.

New automatic handling equipment recently installed in the Service Parts Depot at Warwick to expedite customer deliveries.

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Leesona Moos Division

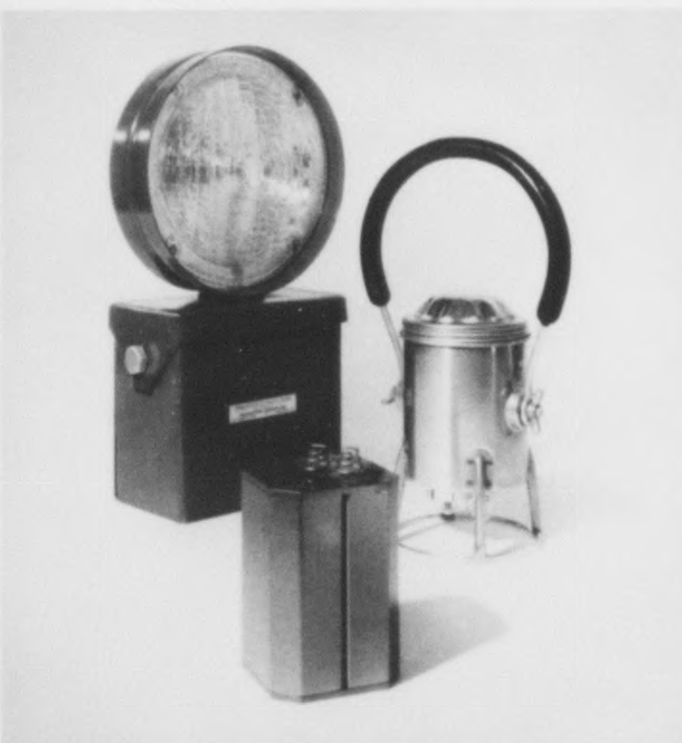
Development of Leesona's energy conversion technology at licensee laboratories has now advanced to the point where the continued operation of Leesona Moos Laboratory is no longer necessary. This, coupled with efforts to keep costs at the lowest possible level until there is royalty income from battery and fuel cell licensees, resulted in the moving early last year of the energy conversion operation from Long Island to corporate headquarters in Warwick. This Division's activities will now be concentrated on developing the full potential of its energy conversion technology and patent and licensing positions.

Gould, Inc., the Company's American licensee for the metal-air battery, has reported that it has available a new zinc-air battery which can be designed in almost every configuration. Gould expects the zinc-air to become a popular battery system in the years ahead.

Leesona's English licensee, Energy Conversion Limited which is a division of Guest Keen & Nettlefolds Ltd., will start producing in 1972 the "Metair" zinc-air battery for application in hearing aids. In England, hearing aids are supplied to those who need them under that country's national health program.

The TARGET field test program for the natural gas fuel cell power plant, developed by the Pratt & Whitney Division of United Aircraft Corporation which is Leesona's licensee, is moving forward. As of December 31, 1971, five experimental units had been installed to determine whether fuel cell power plants are feasible for on-site electrical power generation in commercial, industrial and residential applications. Because fuel cells produce electricity directly through an electrochemical reaction, they eliminate overhead utility lines and the pollutants that flow from conventional power stations. To date, the 32 gas and gas-electric companies comprising the TARGET group and United Aircraft have invested nearly $50 million in developing the natural gas fuel cell. By June, 1972, 31 more experimental units will be in operation.

Potential applications for fuel cells with large power capabilities would include utility substations and rural electrification in under-developed areas. United Aircraft has reported that several major electric utilities have agreed to support a Pratt & Whitney program to develop fuel cell power plants for location at substations or other suitable places along utility lines to supplement power generated at central stations.



1874

Zinc-air battery developed by Gould, Inc., American licensee of Leesona's metal-air battery technology, has potential application in industrial and safari lamps among other products.

Natural gas fuel cell power plants, future mini-versions of the experimental units now being tested in an auto repair shop in Chicago by Peoples Gas Company, one of the 32 gas and gas-electric companies comprising the TARGET group. The Pratt & Whitney Division of United Aircraft Corporation, Leesona's licensee, developed the natural gas fuel cell for TARGET at an investment to date of $50 million.

1875

Financial Review

Sales

Sales and other income in 1971 totaled $66,154,366, against $80,824,499 the previous year. All machinery operations were adversely affected by the slump in the worldwide capital equipment industry. Fourth quarter sales were reduced by the dock strikes. Shipments outside of the United States accounted for 54% of total 1971 sales. The Textile Machinery Division's shipments to foreign markets were 58% of its total volume.

The Company's incoming order rate began picking up in September and new orders in each of the past six months have been greater than in comparable months one year ago. Backlog at year end was about 18% higher than the 1971 low level reached in August, but was lower than the December 31, 1970 backlog figure. Based solely on current backlog, shipments during the first half of 1972 may fall below last year's level. The upturn in textile machinery orders reflects renewed buying activity by the U.S. textile industry. The improvement in orders for the Johnson plastics machinery, which began last April, came mainly from domestic markets. Special efforts are now being made to further develop Johnson's markets abroad.

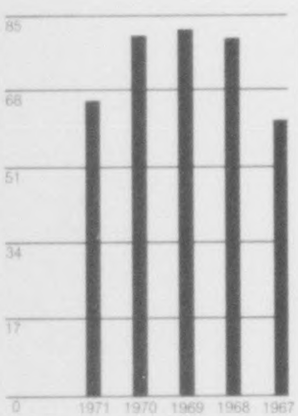
Write-Offs Result in Deficit

During 1971, management initiated major steps to strengthen Leesona's operating and financial position which involved substantial write-offs. The elimination of unprofitable product lines was the major item in extraordinary charges, which totaled $2,055,827 after provision for income taxes. (See Note K to financial statements.)

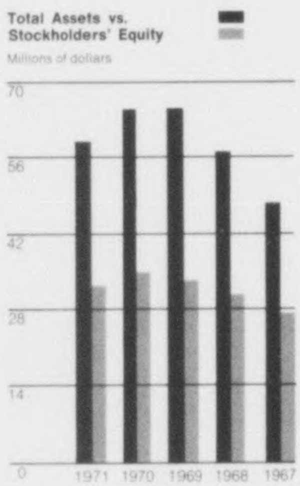
In addition, reserves against potential costs arising from the recession were established. Other non-recurring costs charged to 1971 income included start-up expenses at the Japanese joint venture plant and the transfer of Unifil Loom Winder production to England. The added reserves and other non-recurring costs, together with the extraordinary items, resulted in a loss of $3,050,943 after taxes.

An aggressive cost reduction program successfully lowered the expense level during 1971 and will result in further cost reductions during 1972. These reductions, along with the elimination of unprofitable product lines, have lowered the Company's breakeven point significantly. As a result, Leesona expects to have profitable operations during 1972 and its earning power on improved volume is highly leveraged.

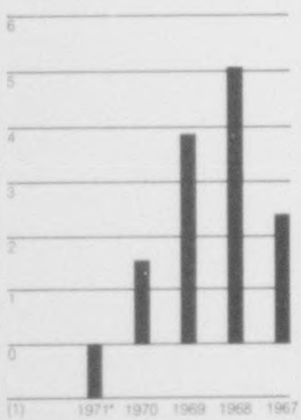
Net Sales & Other Income
Millions of dollars



Total Assets vs. Stockholders' Equity
Millions of dollars

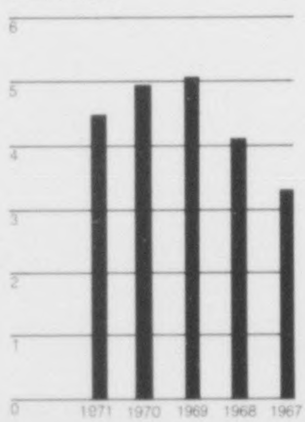


Net Income (Loss)
Millions of dollars



* Before extraordinary charges

Research & Development Expenditures
Millions of dollars



Balance Sheet — Liquidity Position Greatly Improved

The Company intensified its efforts to reduce inventory in line with contracting volume during the year. By year end, inventory was $23,164,237 compared with $34,378,442 on December 31, 1970, a drop of $11,214,205. Of this drop, approximately $3,400,000 was a result of the elimination of certain product lines. Debt, short and long-term, was reduced by $2,401,412 in 1971. Since June, 1970, debt has been reduced by nearly $6,000,000. The Company's liquidity has been enhanced by the anticipated recovery of $3,450,000 of U.S. taxes as a result of the 1971 write-offs.

The improved balance sheet position gives the Company the required liquidity and flexibility to take full advantage of an upturn in business and also the financial resources to implement plans for growth.

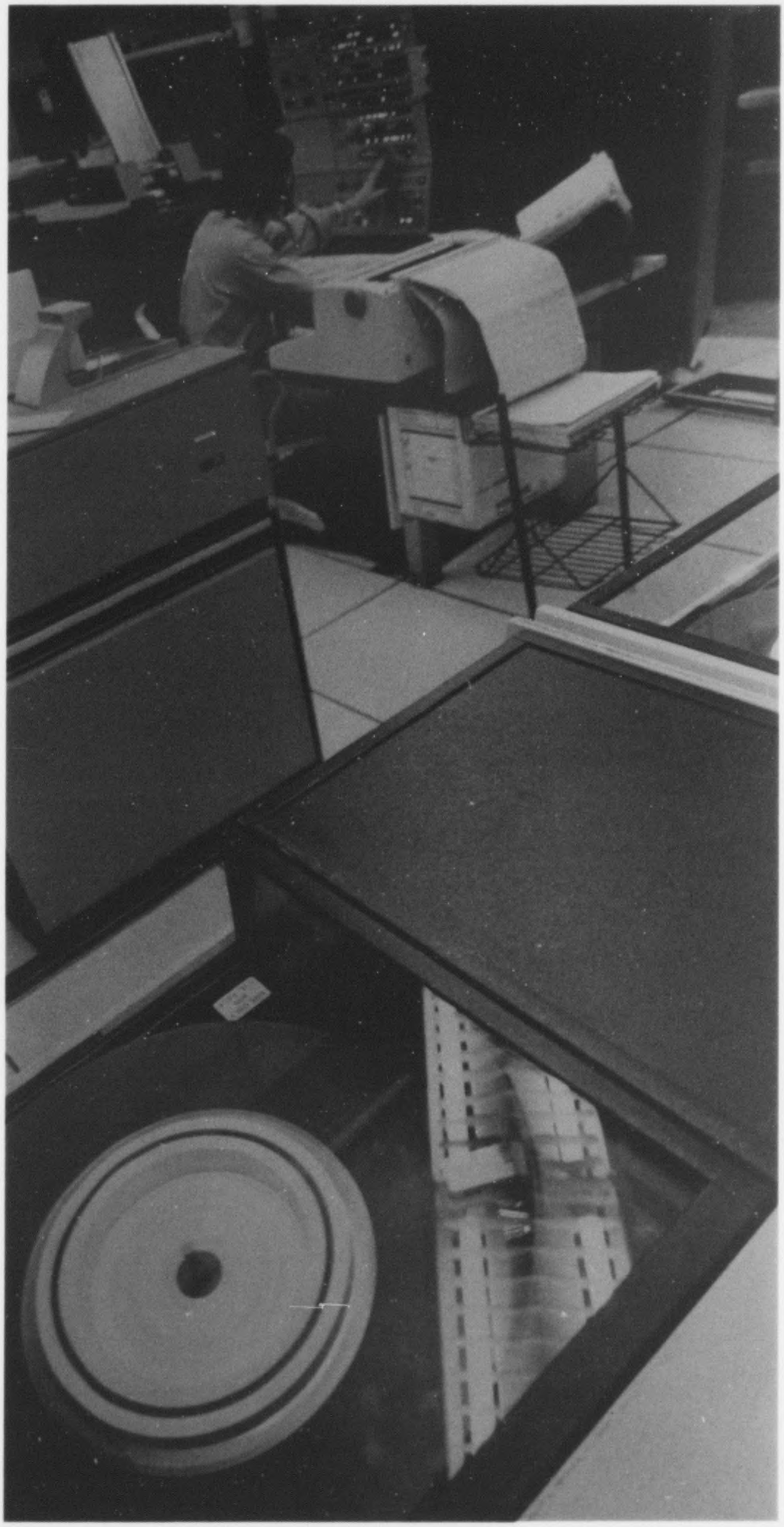
Dividend Rate Maintained; Reflects Improved Liquidity

Cash dividends of 10 cents per share were paid for each quarter of 1971, continuing the 40 cent annual rate that had been in effect. In spite of the 1971 deficit, the Company's improved liquidity made it possible to maintain the usual quarterly payment.

Capital Expenditures

Spending for capital equipment in 1971 totaled $1,149,350 against $2,428,581 in 1970. Depreciation was $1,889,998, compared with $1,859,117 the previous year. The 1971 expenditures do not include the investment made last year in the Japanese joint venture.

1876



Computer room at Warwick. Increased computerization in 1971 of textile machinery product lines and service parts contributed to last year's substantial reduction in inventory.

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Consolidated Balance Sheet

Leesona Corporation and Subsidiaries

ASSETS	December 31 1971	December 31 1970
CURRENT ASSETS		
Cash	$ 3,320,362	$ 3,111,770
Notes and accounts receivable, less allowance for doubtful accounts of $394,363 and $218,430, respectively	15,328,121	16,761,162
Recoverable federal income taxes	3,450,000	—
Inventories — principally at the lower of standard cost or market	23,164,237	34,378,442
Prepaid expenses	1,012,736	899,568
TOTAL CURRENT ASSETS	46,275,456	55,150,942
INVESTMENT AND OTHER ASSETS		
Investment in partially-owned foreign company — at cost less equity in net loss — Note B	987,293	—
Receivables from customers, not currently due	636,714	179,815
	1,624,007	179,815
PROPERTY, PLANT, AND EQUIPMENT — on the basis of cost		
Land	293,931	195,932
Buildings	2,126,610	2,068,867
Machinery and equipment	17,797,553	18,466,213
Leased machinery	132,526	137,797
Less allowances for depreciation (deduction) — Note F	(11,384,235)	(11,161,776)
	8,966,385	9,707,033
DEFERRED CHARGES		
Deferred federal income taxes	1,600,000	—
Unamortized debt discount — Note D	539,467	578,000
Patents and trademarks — at cost, less amortization	59,176	166,526
	2,198,643	744,526
	$59,064,491	$65,782,316

LIABILITIES	December 31 1971	December 31 1970
CURRENT LIABILITIES		
Notes payable to banks and other short-term borrowings	$ 2,566,553	$ 3,361,965
Accounts payable and customers' advances on contracts	6,479,183	6,739,731
Accrued wages and expenses	3,640,989	2,914,367
United States and foreign income taxes	917,078	1,944,655
Payments required within one year on long-term debt	3,024,382	3,606,000
TOTAL CURRENT LIABILITIES	16,628,185	18,566,718
LONG-TERM DEBT (exclusive of payments required within one year) — Note C		
Notes payable to banks	—	2,698,382
Notes payable to insurance companies	9,620,000	7,946,000
	9,620,000	10,644,382
STOCKHOLDERS' INVESTMENT		
Common Stock, par value $5 a share — Notes D & E Authorized 3,000,000 shares Issued and outstanding — 1,759,918 shares	8,799,590	8,799,590
Additional paid-in capital — Note D	645,000	645,000
Income retained for use in the business — Note C	23,371,716	27,126,626
	32,816,306	36,571,216
CONTINGENT LIABILITIES — Notes L & N		
	$59,064,491	$65,782,316

See notes to consolidated financial statements.

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Statement of Consolidated Income

Leesona Corporation and Subsidiaries

LEESONA

	Year ended December 31 1971	1970
Net sales and other operating revenue	$64,613,996	$80,317,114
Other income	1,540,370	507,385
	66,154,366	80,824,499
Costs and expenses:		
Cost of products sold	44,550,677	49,830,348
Selling, administrative and research expenses	20,925,563	24,212,756
Depreciation — Note F	1,889,998	1,859,117
Interest	1,459,050	1,519,463
Equity in net loss of partially-owned foreign company — Note B	248,416	—
	69,073,704	77,421,684
INCOME — (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY CHARGES	(2,919,338)	3,402,815
Income taxes — Note J:		
United States and foreign	(1,254,222)	1,686,158
State	—	118,080
Deferred	(670,000)	—
	(1,924,222)	1,804,238
INCOME — (LOSS) BEFORE EXTRAORDINARY CHARGES	(995,116)	1,598,577
Extraordinary charges — less applicable income taxes — Note K	2,055,827	—
NET INCOME — (LOSS)	($ 3,050,943)	$ 1,598,577
Per share of Common Stock — Note M:		
Income — (loss) before extraordinary charges	($ .56)	$.91
Extraordinary charges	(1.17)	—
Net income — (loss)	($1.73)	$.91

Parentheses indicate deduction.
See notes to consolidated financial statements.

Statement of Consolidated Income Retained for Use in The Business

	Year ended December 31 1971	1970
Balance at beginning	$27,126,626	$26,056,025
Add net income — (loss)	(3,050,943)	1,598,577
	24,075,683	27,654,602
Less cash dividends declared ($.40 a share in 1971; $.30 a share in 1970 with $.10 per share declared in 1969 applicable to 1970)	703,967	527,976
BALANCE AT END	$23,371,716	$27,126,626

Parentheses indicate deduction.
See notes to consolidated financial statements.

Industrial Relations

In May, 1971, we entered into a two year contract with the International Association of Machinists and Aerospace Workers covering production and maintenance employees at Warwick.

During the past year, 57 Leesona employees retired under our Pension and Retirement Income Plans, bringing the total now receiving pensions to 354 persons.

Funds held on December 31, 1971, by the Morgan Guaranty Trust Company of New York, as Trustee of the Plans, totalled $9,777,201 market value.

The Company paid for or accrued during the year for the benefit of employees:

Salaries and Wages	$23,351,238
Pensions	1,217,024
Holidays	491,769
Vacations	1,061,475
Blue Cross	957,764
Social Security	1,167,875
Unemployment Compensation	147,116
Contribution to Group Life Insurance	218,286
TOTAL	$28,612,547

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Statement of Consolidated Changes in Financial Position

Leesona Corporation and Subsidiaries

	Year Ended December 31 1971	1970
SOURCE OF FUNDS		
From ordinary operations:		
Income — (loss) before extraordinary item	($ 995,116)	$ 1,598,577
Charges to income — (loss) not affecting working capital:		
Provision for depreciation	1,889,998	1,859,117
Amortization of debt discount	38,533	—
Deferred income taxes	(670,000)	—
TOTAL FROM ORDINARY OPERATIONS	263,415	3,457,694
From extraordinary items:		
Extraordinary items	(2,055,827)	—
Charges not affecting working capital — deferred income taxes	(930,000)	—
TOTAL FROM EXTRAORDINARY ITEMS	(2,985,827)	—
TOTAL FROM OPERATIONS	(2,722,412)	3,457,694
Increase in long-term debt	—	2,652,382
TOTAL	(2,722,412)	6,110,076
APPLICATION OF FUNDS		
Investment in partially-owned company — net	987,293	—
Increase (decrease) in other assets	349,549	(81,740)
Additions to property, plant, and equipment — net	1,149,350	1,439,355
Payments and transfers to current maturities of long-term debt	1,024,382	—
Cash dividends	703,967	527,976
TOTAL	4,214,541	1,885,591
INCREASE (DECREASE) IN WORKING CAPITAL	($ 6,936,953)	$ 4,224,485
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in working capital assets:		
Cash	$ 208,592	$ 804,497
Notes and accounts receivable	(1,433,041)	(2,197,624)
Recoverable United States income taxes	3,450,000	—
Inventories	(11,214,205)	1,176,352
Prepaid expenses	113,168	(57,375)
TOTAL	(8,875,486)	(274,150)
Increase (decrease) in working capital liabilities:		
Notes payable to banks and other short-term borrowings	(795,412)	(5,987,401)
Accounts payable and customers' advances on contracts	(260,548)	797,930
Accrued wages and expenses	726,622	519,695
Dividend payable	—	(175,992)
United States and foreign income taxes	(1,027,577)	334,133
Payments required within one year on long-term debt	(581,618)	13,000
TOTAL	(1,938,533)	(4,498,635)
INCREASE (DECREASE) IN WORKING CAPITAL	($6,936,953)	$ 4,224,485

Parentheses indicate deduction.

See notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

Leesona Corporation and Subsidiaries

LEESONA

Years ended December 31, 1971 and December 31, 1970

Note A — Principles of Consolidation

The accounts of the Company and all subsidiaries have been included in the consolidated financial statements. All significant inter-company transactions and accounts have been eliminated. Net assets of foreign subsidiaries included in the consolidated financial statements at December 31, 1971 and December 31, 1970 amounted to approximately $11,100,000 and $6,690,000, respectively.

Financial statements of the foreign subsidiaries have been translated to U. S. dollars at approximate current rates of exchange, except that certain property accounts and depreciation have been translated generally at historical rates.

Note B — Investment

The Company uses the equity method of accounting for its investment in Common Stock of its partially-owned company, Uniwind K.K. (50% owned) which commenced operations during 1971.

Pertinent information relative to this company is as follows:

	1971
Assets	$4,799,392
Liabilities	2,450,171
Net sales	564,161
Net loss	519,332

Note C — Long-Term Debt

The composition of long-term debt was as follows:

	Year ended December 31 1971	1970
BANKS		
A term loan bearing interest at the rate of ½ of 1% over the prime rate repayable in quarterly installments of $820,000	—	$ 2,440,000
Note with interest at a rate based on the Eurodollar market	—	258,382
	—	2,698,382
INSURANCE COMPANIES		
10% note payable in quarterly installments of $182,000 beginning on February 28, 1975 through August 31, 1985 and a final installment of $174,000 on November 30, 1985	$ 8,000,000	$ 6,000,000
5⅝% note, payable in semi-annual installments of $150,000	1,350,000	1,650,000
6½% note, payable in quarterly installments of $6,500 through December 31, 1972 and quarterly installments of $9,000 from March 31, 1973 to maturity	270,000	296,000
	9,620,000	7,946,000
	$ 9,620,000	$10,644,382

The loan agreements with the insurance companies and banks include, in addition to other covenants, restrictions on the payment of cash dividends on capital stock, reduction of outstanding capital stock, and the maintenance of minimum working capital. As of December 31, 1971 under the most restrictive provisions of these covenants, income retained for use in the business was not available for dividends.

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However, a waiver has been obtained which permits the payment of quarterly dividends of $.10 a share for the first and second quarters of 1972. Management anticipates receiving waivers for the third and fourth quarters. As of December 31, 1970 income retained in the business in the amount of $771,312 was free of such restrictions. As of December 31, 1971 and December 31, 1970 working capital was in excess of the required amounts under the agreements.

Note D — Additional Paid-In Capital

Changes in Additional Paid-In Capital were as follows:

	Year ended December 31 1971	1970
At beginning of year	$645,000	$ 67,000
Issuance of warrant to purchase Common Stock of the Company	—	578,000
At end of year	$645,000	$645,000

The insurance company holding the 10% long-term note received a warrant during 1970 to purchase 228,571 shares of Common Stock at $14 per share at any time prior to November 30, 1985. The note and warrant purchase agreement provides that under certain circumstances the Company will receive a percentage of the proceeds from the sale by the insurance company of the warrant or Common Stock acquired through the exercise of the warrant at prices in excess of certain stated amounts.

For accounting purposes, the warrant was assigned a value of $578,000 and, accordingly, a deferred charge for the same amount was recorded in 1970 as unamortized debt discount applicable to the long-term note.

Note E — Stock Options

The following tabulation presents information pertaining to outstanding stock options:

December 31, 1971		December 31, 1970	
Shares	Price per Share	Shares	Price per Share
8,750	$ 8.50	8,750	$ 8.50
23,000	12.13	37,000	15.25
4,000	14.19	25,000	15.56
34,000	15.25		
5,000	15.56		
9,000	17.94		
83,750		70,750	

These options expire at various dates to 1975. As of December 31, 1971 and December 31, 1970, 8,750 shares were exercisable. During the year ended December 31, 1971 options for 23,000 shares were cancelled and options for 36,000 shares were issued. No options were exercised during the years ended December 31, 1971 and December 31, 1970.

Note F — Depreciation

Provision for depreciation of property, plant, and equipment has been made on a basis considered adequate to amortize the cost of depreciable assets over their estimated useful lives, principally by the declining balance method except for certain assets which have been depreciated by the straight-line method.

Note G — Long-Term Leases

As of December 31, 1971 and December 31, 1970 the Company was committed under long-term leases expiring at various dates to 1987 for the use of branch offices and manufacturing plants and equipment with aggregate annual rentals of approximately $851,000 and $862,000,respectively, plus taxes, insurance, and maintenance. The Company has the option to purchase the Warwick manufacturing plant.

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Note H — Retirement Plans

PARENT COMPANY:
Pension and retirement plans are in effect for employees in the United States. The amounts charged to expense for 1971 and 1970 in connection with these plans amounted to $1,110,000 and $1,170,400, respectively, which included amortization of prior service cost over a thirty year period. The Company's policy is to fund pension cost accrued. The actuarially computed value of vested benefits exceeded the total of the pension fund by approximately $670,000 at December 31, 1971.

SUBSIDIARY:
A contributory pension plan is in effect covering substantially all of its employees. The amounts charged to expense for 1971 and 1970 in connection with the plan amounted to approximately $75,500 and $48,500, respectively. The subsidiary's policy is to fund pension cost accrued.

Note I — Accounting Changes

It has been the consistent practice of the Company to provide for sales and product adjustments and inventory shortages as incurred. In 1971, the Company, due to the current economic conditions in the textile field, in addition, has made allowances for anticipated adjustments in these areas. This resulted in increasing the net loss, net of tax effect, for the year ended December 31, 1971 by approximately $450,000.

Note J — Federal Income Taxes

The relatively high 1971 effective tax credit in relation to the consolidated operating loss results primarily from rate differentials between the United States and foreign countries and the application of foreign taxes as credits which directly increase the recoverable United States taxes.

Note K — Extraordinary Charges

These charges for the year ended December 31, 1971 consisted of the following:

Reorganization expenses ($138,079) and costs incident to discontinued operations	$2,431,491
Provision for anticipated loss on abandonment of certain product lines	1,746,296
	4,177,787
Less applicable federal and state income taxes	2,121,960
	$2,055,827

Note L — Contingent Liability

As of December 31, 1971 and December 31, 1970 the Company was contingently liable for conditional sales contracts sold to banks in the approximate amounts of $1,555,000 and $1,684,000, respectively. The Company also was contingently liable for loans and discounted commercial paper of its 50% partially-owned foreign company in an approximate amount of $1,150,000.

Note M — Net Income — (Loss) Per Share

Net income — (loss) per share has been determined based upon average outstanding shares. The exercise of outstanding options or warrant in 1970 would not have a material effect on net income per share.

Note N — Litigation

Leesona is a party to various lawsuits involving the validity of its stretch yarn patents and the obligation of licensees to pay royalties thereon. Certain licensees have purported to cancel their license agreements alleging that the patents are invalid or unenforceable. Some of these licensees have claimed repayment of past royalties and damages under the antitrust laws. During the latter part of 1969, substantially all the United States licensees stopped paying royalties under their license agreements, and whether the Company recovers such royalties and will be entitled to future royalties will depend on the outcome of the pending litigation.

Management is not aware of any basis on which a claim against the Company for damages under the antitrust laws or a return of past royalties could be sustained.

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10 Year Financial Review

Leesona Corporation and Subsidiaries

(Dollar amounts in thousands, except for per-share data)
(Common shares outstanding in thousands)

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
Net Sales and Other Income	$66,154	$80,824	$81,765	$79,678	$61,241	$65,007	$56,666	$57,521	$38,521	$28,132
Net Income (Loss) Before Taxes and Extraordinary Items	(2,919)	3,403	7,404	11,172	4,306	7,990	6,588	7,421	3,115	816
Net Income (Loss) Before Extraordinary Charges	(995)	1,599	3,811	5,063	2,436	3,942	3,481	3,710	1,434	364
Extraordinary Charges Less Applicable Income Taxes	2,056	—	—	—	—	—	—	—	—	—
Net Income (Loss)	(3,051)	1,599	3,811	5,063	2,436	3,942	3,481	3,710	1,434	364
Percent Net Income to Total Revenue	—	2.0%	4.7%	6.4%	4.0%	6.1%	6.1%	6.5%	3.7%	1.3%
Working Capital	29,647	36,584	32,360	24,791	21,880	21,346	18,497	16,238	13,646	12,852
Depreciation	1,890	1,859	1,828	1,661	1,502	1,500	1,364	1,405	1,424	1,237
Ratio Current Assets to Current Liabilities	2.8-1	3.0-1	2.4-1	2.1-1	2.3-1	2.7-1	2.2-1	2.2-1	2.2-1	3.4-1
Total Stockholders' Equity	32,816	36,571	34,923	31,991	27,529	25,755	22,454	19,547	16,248	15,225
Long Term Debt	9,620	10,644	7,992	2,715	3,015	3,274	3,340	3,459	3,809	4,020
Total Assets	59,064	65,782	65,980	56,751	48,076	41,964	41,768	36,282	32,174	24,853
Income (Loss) Per Common Share Before Extraordinary Charges	(.56)	.91	2.17	2.88	1.39	2.25	1.98	2.12	.82	.21
Income (Loss) Per Common Share	(1.73)	.91	2.17	2.88	1.39	2.25	1.98	2.12	.82	.21
Common Dividends Paid Per Share	.40	.40	.40	.40	.40	.40	.40	.2875	.25	.25
Book Value Per Share	18.65	20.78	19.84	18.18	15.69	14.68	12.79	11.16	9.33	8.74
Common Shares Outstanding	1,760	1,760	1,760	1,760	1,755	1,755	1,755	1,752	919	919

Amounts per share are stated after appropriate adjustments for the stock split effective November 30, 1964.

Accountants' Report

Board of Directors
Leesona Corporation
Warwick, Rhode Island

We have examined the consolidated balance sheet of Leesona Corporation and subsidiaries as of December 31, 1971 and December 31, 1970, and the related statements of consolidated income and income retained for use in the business and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of the British or French consolidated subsidiaries, which statements were examined by other independent accountants whose reports thereon have been furnished to us.

In our opinion, based upon our examination and upon the reports of the other independent accountants as mentioned above, the accompanying balance sheet and statements of income and income retained for use in the business and changes in financial position present fairly the consolidated financial position of Leesona Corporation and subsidiaries at December 31, 1971 and December 31, 1970, the consolidated results of their operations, the changes in stockholders' equity, and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Ernst

Providence, Rhode Island
February 21, 1972

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Leesona Worldwide

United States

Textile Machinery Division
333 Strawberry Field Road
Warwick, Rhode Island 02887

Johnson Plastics Machinery Division
1600 Johnson Street
Chippewa Falls, Wisconsin 54729

Leesona Moos Division
333 Strawberry Field Road
Warwick, Rhode Island 02887

Sales Offices
Charlotte, N. C.
Greensboro, N. C.
LaGrange, Ga.

International

Leesona Ltd.
Heywood and Darwen, England

Leesona S.A.
Paris, France

Leesona S.A.
Frankfurt, West Germany

Leesona S.A.
Milan, Italy

Leesona Corporation
Basle, Switzerland

Dyer & Phillips Pty., Ltd.
Melbourne and Sydney, Australia

Leesona Latinoamericana S.A.
Edo. De Mexico, Mexico

Leesona BV
Amstelveen, Netherlands

Leesona Nederland BV
Amstelveen, Netherlands

Uniwind K.K. (Joint Venture)
Ichinoiya-Cho, Japan

1885

LEESONA

333 Strawberry Field Road, Warwick, Rhode Island 02887

1886

E N D

1887