# 1975 Annual Report

CAROLINA MAIDEN
QUALITY TEXTILES

Carolina Mills, Inc.

MAIDEN, NORTH CAROLINA

# HIGHLIGHTS OF THE YEAR

| | Year Ended September 27 1975 | Year Ended September 28 1974 |
|---|---|---|
| **Operations:** | | |
| Sale of Products | $47,418,609 | $55,125,721 |
| Earnings Before Income Taxes | 336,161 | 3,029,465 |
| Net Income After Taxes | 350,511 | 1,573,776 |
| Depreciation and Amortization | 1,968,789 | 1,848,820 |
| Cash Flow | 2,319,300 | 3,422,596 |
| **Financial Position:** | | |
| Working Capital | 5,048,195 | 5,664,481 |
| Long-Term Debt | 1,771,154 | 2,340,385 |
| Total Assets | 27,510,956 | 25,796,581 |
| Stockholders' Equity | 14,516,195 | 14,658,510 |
| Average Shares Common Stock Outstanding | 3,369,223 | 3,371,359 |
| **Per Share of Stock:** | | |
| Earnings After Taxes | 10.40¢ | 46.68¢ |
| Cash Flow | 68.84¢ | 101.52¢ |
| Cash Dividends | 12.00¢ | 20.00¢ |
| Book Value at End of Year | $ 4.30 | $ 4.35 |

## DIRECTORS

Julius W. Abernethy
Chairman of the Board
Industrialist, Newton, N. C.

Julius W. Abernethy, Jr.
President Carolina Glove Co.
Newton, N. C.

Claude S. Abernethy, Jr.
Vice-President, Interstate Securities Corp
Newton, N. C.

Hurshell H. Keener
Attorney at Law
Hickory, N. C.

Caldwell Ragan, Sr.
Retired Textile Executive
Gastonia, N. C.

Joseph L. Barnett
Retired Textile Executive
Gastonia, N. C.

Joseph A. Moretz
Secretary-Treasurer
Maxwell-Royal Chair Co.
Hickory, N. C.

O. Leonard Moretz
President, Carolina Mills, Inc.
Maiden, N. C.

Edward P. Schrum
Sr. Vice President Carolina Mills, Inc.
Maiden, N. C.

T. P. Pruitt, Jr.
Vice President, Carolina Mills, Inc.
Maiden, N. C.

CHARLES LONG SIGMON
Sr. Vice President
First National Bank of Catawba County
Newton, N. C.

J. L. Thompson, Jr.
Secretary, Carolina Mills, Inc.
Maiden, N. C.

## OFFICERS

J. W. Abernethy, Sr.
Chairman of the Board

O. Leonard Moretz
President-Treasurer

Edward Schrum
Sr. Vice President

Jerry Harbinson
Assistant Vice President

T. P. Pruitt, Jr.
Vice President - Weaving Division

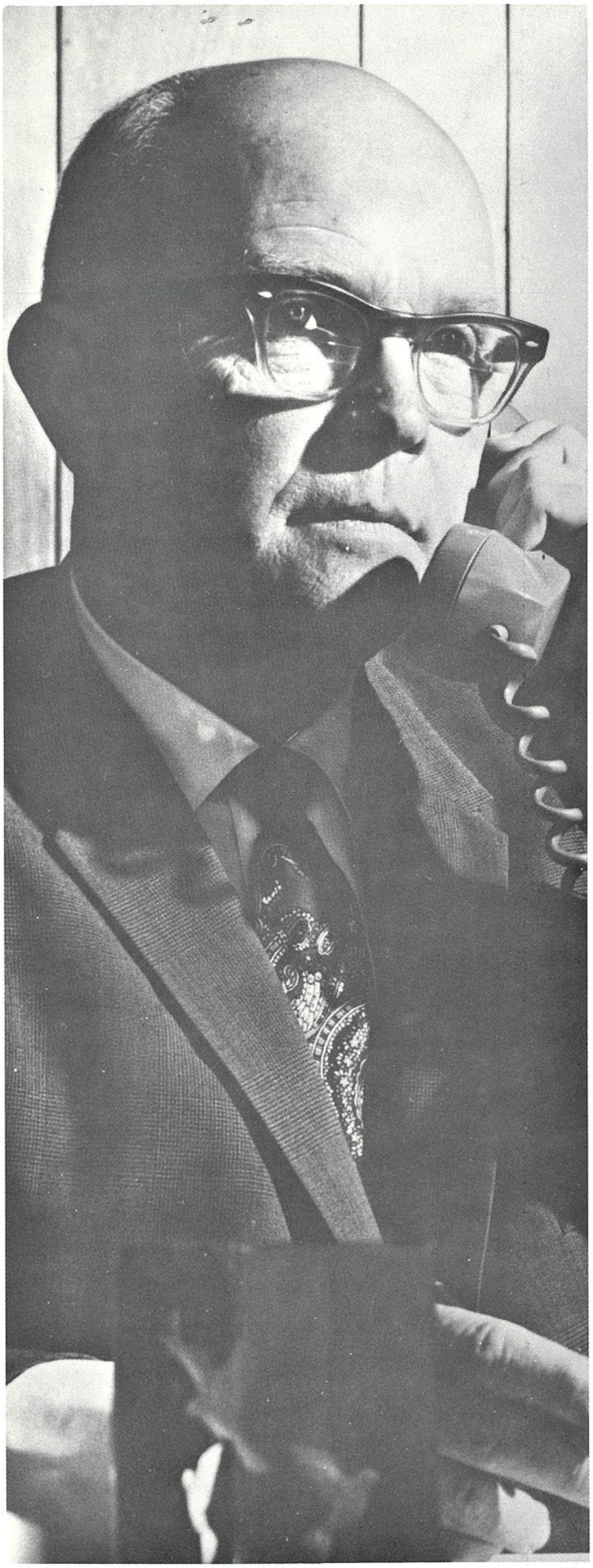
Kenneth C. Isaac
Vice President — Circular Knit Finishing

STEVE DOBBINS
Vice President — Warp Knitting Division

George A. Moretz
Vice President - Sales Yarn Division

J. L. Thompson, Jr.
Secretary and Assistant Treasurer

Julius W. Abernethy



## THE PRESIDENT'S MESSAGE

This past fiscal year has been most unusual and full of contradictions. The calendar year, 1974, started out with price controls in effect and with a demand for American made textile products so great that it did not appear possible that our production could ever meet the demand. By mid year, price controls were lifted and shortly thereafter a program of inventory liquidation was embarked upon that had a most drastic effect on our markets. Last December we were curtailing production most drastically. For the entire quarter, January through March, we operated our production facilities at 55% capacity and still had to inventory part of our production because there was little or no demand for our output. Still, by the end of our fiscal year we had seen our markets recover to the extent we were running five or six days per week.

Judging from our experience of the past year, it is apparent that our textile industry has learned that it is better to curtail production drastically when there is little demand for our products than to continue full operations and build tremendous inventories to hang heavily over our markets. Due to our curtailment program we did not build up heavy pressures to sell in an unwilling market and cut our prices to unrealistic levels in order to liquidate inventories or move production. As a result we have had a very healthy pricing program and we are now realizing nice profits from sales being made. During the past year we have seen our markets move full cycle – from insatiable demand to no demand to substantial demand.

During all of this gyration we were benefitted tremendously by having adopted the LIFO method of valuing inventories in 1974. Our stated earnings were reduced by $1,450,000 for our fiscal year ended 9/30/74 and increased by some $950,000 during the fiscal year ended 9/30/75 because of using LIFO. We still have a cushion of some $450,000 in our inventory valuations.

We have continued a program of up-grading our productive facilities. We are now looking forward to the completion of revamping our productive facilities at Plant No. 2. By September 30, 1976 we will have completed converting the production of this plant to Open End Spinning and doubling its capacity.

We are now embarking upon a new program for merchandizing finished knit fabrics into the high-fashion ladies ready-to-wear field and are quite excited about the prospects this holds for us. We should find greater utilization and profit potential from our sales yarns, knitting and finishing operations when this new program gets fully underway.

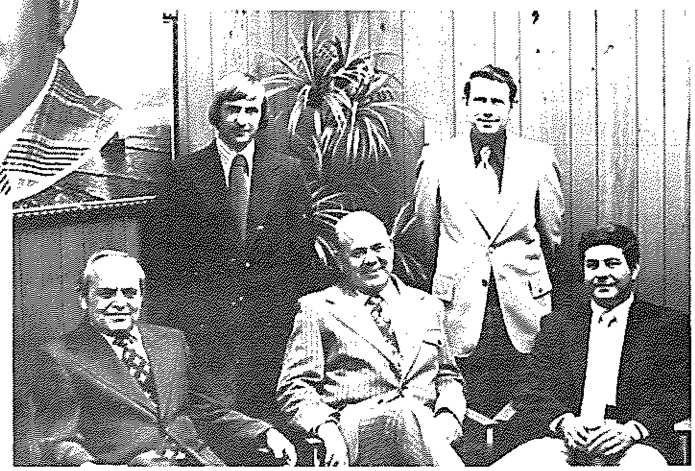
Leonard Moretz

Leonard Moretz
President

# "SPOTLIGHT ON SALES YARN"

George Moretz, Vice-President – Sales Yarn Division

Left to Right: Wayne Hefner, Director – Research & Development; Larry Teague, Planning Manager; Steve Bowman, Director – New Product Marketing; Ralph Kendrick, Fiber Buyer.



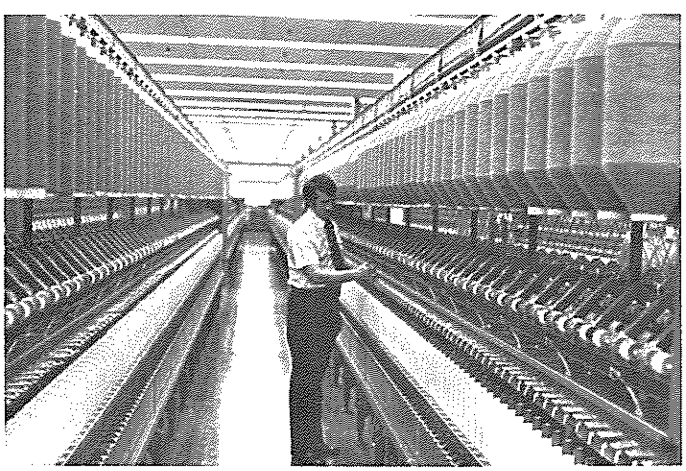
PLANT MANAGERS – Standing, left to right: Kermit Goodson, Plant # 2; Fred Hoffman, Plants # 5 & # 6; Seated, left to right: Jim Bean, J.W. Abernethy Plant; J. C. Bridgeman, Plant # 12 and J. V. Randall, Plant # 8.

SPOTLIGHT ON SALES YARN --------

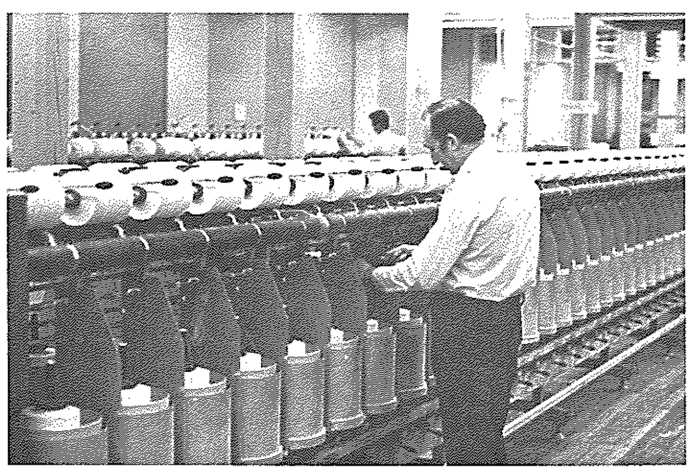
The Sales Yarn Division of Carolina Mills is comprised of six spinning plants. Each of these plants is balanced on different yarn counts, giving us the capacity to spin a range of counts from 6's to 40's without having too wide a range in any one plant. We also spin a different combination of fibers in each plant. This has enabled Carolina Mills to offer to the market a large variety of yarns at competitive prices, which has been the key to our success over the past few years and will be the key to our profitability in the future.

With Plant No. 8 containing 48 Investa BD200 open end spinning frames, Carolina Mills has the largest installation of OES for sales yarn in America. This plant is producing high quality yarns for the flame retardant children's sleepwear market, single knit, double knit, and warp knit outerwear markets, as well as yarns used in tufting and weaving. The market reception of our yarns is excellent.

Plant No. 2 is in the process of being converted from ring spinning to open end spinning. When this project is completed in June, 1976, we will have more than doubled the capacity of Plant No. 2 which will enable us to produce over 300,000 pounds of yarn per week, of which 25% can be twisted on our new Hamel two-for-one twisters. This, coupled with Plant No. 8's production of over 225,000 pounds per week, indicates that approximately one-half of our sales yarn production will



John Martin, General Supervisor of Spinning/Winding at J. W. Abernethy Plant, checks traveler tension at spinning.



Horace Fish, General Supervisor of Winding/Twisting, pieces up end at Plant # 2's new Hamel two-for-one twisters.

be open end spun. The production from Plant No. 2 is used primarily in home furnishing fabrics — woven and tufted. Diversification into the knitting field is anticipated with the additional open end spinning capacity.

Plant No. 1, (the Julius W. Abernethy Plant) opened in 1967, was built to provide maximum ability to spin a wide variety of fashion yarns from a variety of fibers simultaneously without contamination. The concept is working very well, and today, Carolina Mills occupies a leadership role in developing and merchandizing fashion yarns for the knit outerwear trade. We are currently spinning yarns such as Polyester/Silk, Polyester/Flax, 100% Bright Acrylics and 100% Polyester.

Plant No. 5 is set-up to spin primarily Polyester and Polyester blend yarns. We are spinning 100% Polyester for sliver knit backing yarns, as well as Polyester blends for knit outerwear such as Polyester/Wool/Rabbit Hair, and a Polyester/Viscose imitation hair yarn.

Plant No. 6 complements Plant No. 5 in 100% Polyester for sliver knit backing yarns. This plant also spins a Modacrylic/Polyester blend for flame retardant fabrics in coarse counts.

Plant No. 12 is our fine count production unit, spinning from 18's to 40's, with the capacity to twist 45% of its output. This plant has recently been converted to 100% Polyester yarns. With the knit outerwear market headed in the direction of lighter weight fabrics made on fine guage machines, this plant provides the additional flexibility and versatility needed to completely service the knitwear trade. This plant also supplies the narrow fabrics trade with 100% Polyester yarns they require.

Distribution of our yarns in the various markets is divided as follows:

| | |
|---|---|
| Apparel | 33% |
| Sliver Knit | 25% |
| Home Furnishing | 20% |
| Children's Sleepwear | 13% |
| Narrow Fabrics | 9% |

In order to merchandise our yarns in the market, Carolina Maiden Corporation, a wholly owned subsidiary, was established in 1964. Through excellent leadership and extremely capable personnel, we enjoy a leading position in the Sales Yarn Market.

**Discussing ring spinning at Plant # 5 are Jim Vansickle, General Supervisor and Bremonne Hefner, Spinning Supervisor.**

**Blair Ramsey, General Supervisor at Plant # 6, checks Schlafhorst winding.**

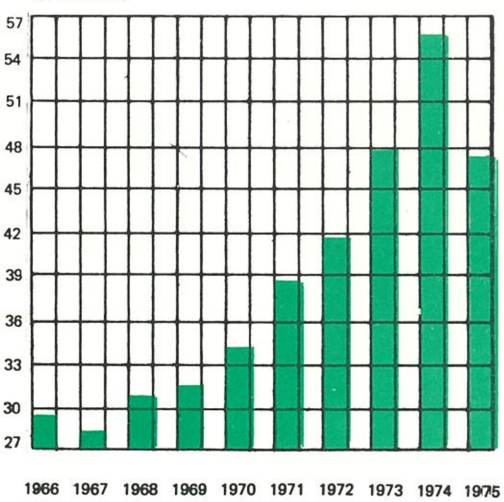
**Allen Hopper, Spinning/Winding Supervisor and Khal Shreitah, Carding Supervisor, check drawing sliver at open-end spinning in Plant # 8.**

**General Supervisor of Plant # 12 Winding/Twisting, Bob, Cook, talks with Schweiter winder tender Opal Stockton.**

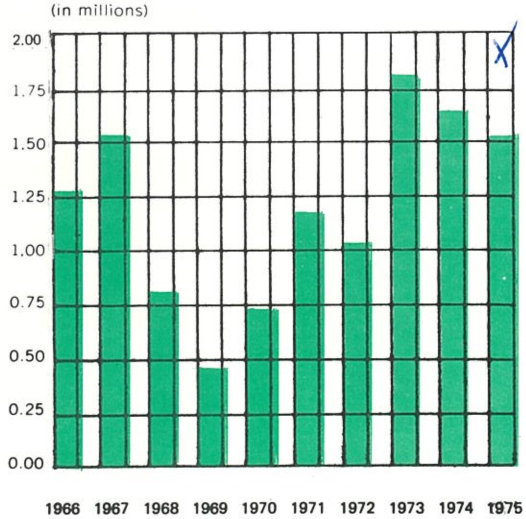
# TEN YEARS IN REVIEW

| | 1975 | 1974 |
|---|---|---|
| NET SALES | $47,418,609 | $55,125,721 |
| Net Earnings before Income Taxes | 336,161 | 3,029,465 |
| Income Taxes | 14,350 | 1,455,689 |
| Net Earnings | 350,511 | 1,573,776 |
| Dividends Paid | 404,301 | 674,377 |
| Earnings Retained in Business | 8,589,889 | 8,731,854 |
| Working Capital | 5,048,195 | 5,664,481 |
| Plant and Equipment - Less Depreciation | 10,799,336 | 10,667,995 |
| Stockholders Equity | 14,516,195 | 14,658,510 |
| Shares of Stock Outstanding | 3,369,173 | 3,373,544 |
| Book Value Per Share | $ 4.30 | $4.35 |
| Per Share of Stock | | |
| Net Earnings | 10.40¢ | 46.68¢ |
| Dividends - Cash | 12.00¢ | 20.00¢ |
| Stock | | |
| Cash Flow | 68.84¢ | 101.52¢ |

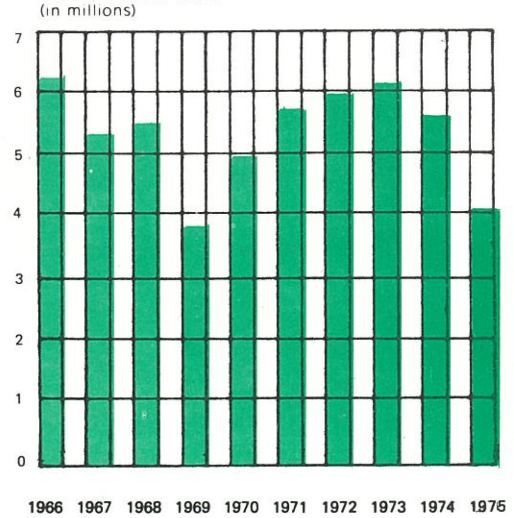
NET SALES
(in millions)




NET EARNINGS
(in millions)

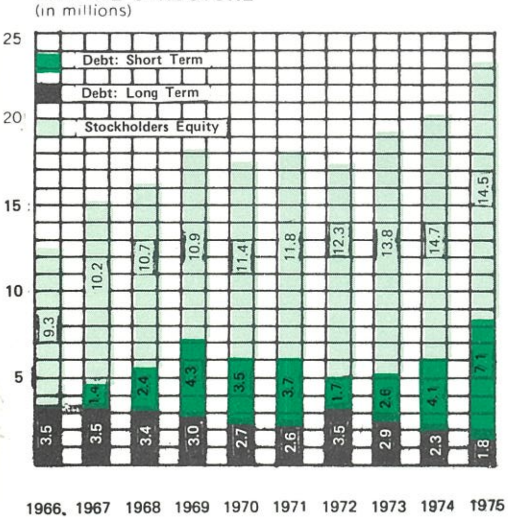



WORKING CAPITAL
(in millions)

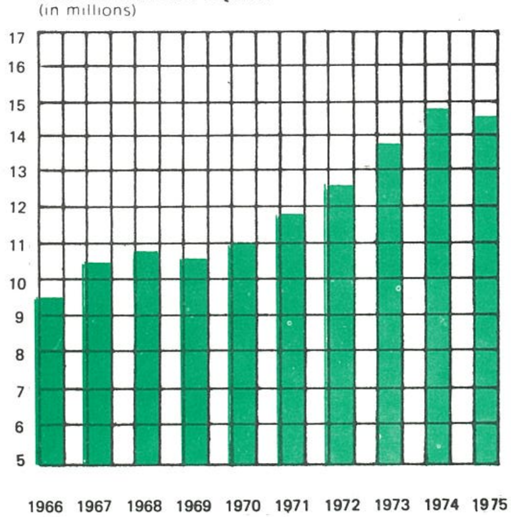


| 1973 | 1972 | 1971 | 1970 | 1969 | 1968 | 1967 | 1966 |
|---|---|---|---|---|---|---|---|
| $45,674,963 | $40,868,715 | $38,493,631 | $33,907,075 | $30,960,703 | $30,122,988 | $27,889,841 | $29,023,599 |
| 3,241,971 | 1,764,166 | 1,808,146 | 1,573,041 | 785,411 | 1,581,139 | 2,090,968 | 2,729,246 |
| 1,408,298 | 719,982 | 606,770 | 829,898 | 409,600 | 755,247 | 749,760 | 1,211,920 |
| 1,833,673 | 1,044,184 | 1,201,376 | 743,143 | 375,811 | 825,892 | 1,341,208 | 1,517,326 |
| 539,745 | 539,735 | 269,867 | 303,601 | 945,219 | 917,676 | 937,200 | 1,022,048 |
| 7,816,106 | 6,373,709 | 5,837,202 | 4,905,693 | 4,466,151 | 5,275,397 | 5,367,181 | 4,965,878 |
| 6,127,717 | 5,980,797 | 5,718,779 | 4,978,233 | 3,852,095 | 5,445,594 | 5,212,751 | 6,280,310 |
| 10,356,173 | 9,678,184 | 8,507,426 | 8,589,703 | 9,575,306 | 8,312,920 | 8,263,424 | 6,266,795 |
| 13,758,106 | 12,315,383 | 11,778,877 | 10,847,368 | 10,407,825 | 10,677,705 | 10,244,273 | 9,287,858 |
| 3,373,444 | 3,373,344 | 3,373,344 | 3,373,344 | 3,373,344 | 3,275,152 | 3,179,470 | 3,086,927 |
| $4.08 | $3.65 | $3.49 | $3.21 | $3.09 | $3.26 | $3.22 | $3.01 |
| 54.36¢ | 30.95¢ | 35.6¢ | 22.0¢ | 11.1¢ | 25.2¢ | 42.2¢ | 49.2¢ |
| 16.00¢ | 16.00¢ | 8.0¢ | 9.0¢ | 12.0¢ | 12.0¢ | 12.0¢ | 12.0¢ |
| | | | | 3.0% | 3.0% | 3.0% | 3.0% |
| 105.37¢ | 76.58¢ | 76.1¢ | 61.6¢ | 51.4¢ | 61.7¢ | 74.5¢ | 76.9¢ |

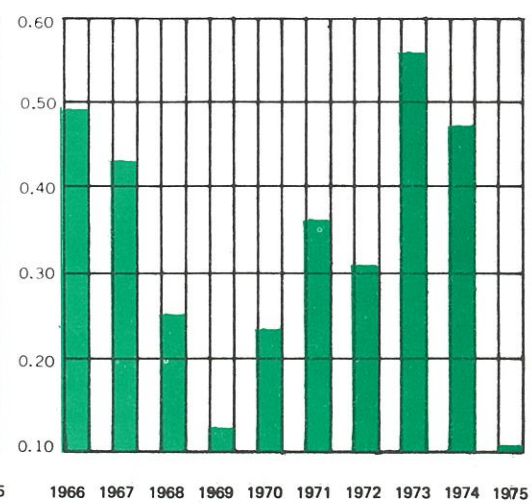
CAPITAL STRUCTURE
(in millions)




STOCKHOLDER'S EQUITY
(in millions)




NET EARNINGS (per share of stock) (in units of a dollar)



# CAROLINA MILLS, INC. AND WHOLLY OWNED SUBSIDIARY CORPORATIONS

## STATEMENT OF CONDITION

| Assets | September 27 1975 | September 28 1974 |
|---|---|---|
| Current Assets: | | |
| Cash | $ 989,639 | $ 1,216,417 |
| Notes Receivable | 43,123 | 55,916 |
| Accounts Receivable, Less Allowances of $205,000, 1975, $205,714 for 1974 | 8,012,040 | 6,006,048 |
| Inventories (Notes A&B) | 6,975,122 | 6,936,269 |
| Prepaid Expenses | 251,878 | 247,517 |
| Total Current Assets | 16,271,802 | 14,462,167 |
| Investments at Cost | 8,018 | 1,100 |
| Property, Plant and Equipment — At Cost | | |
| Land | 135,554 | 135,554 |
| Buildings and Equipment | 25,703,717 | 24,849,253 |
| Total | 25,839,271 | 24,984,807 |
| Less — Accumulated Drpreciation | 15,039,935 | 14,316,812 |
| Depreciated Cost | 10,799,336 | 10,667,995 |
| Other Assets: | | |
| Cash Value of Life Insurance | 107,765 | 102,222 |
| Other Notes and Accounts Receivable | 39,046 | 103,890 |
| Deposits | 274,625 | 448,835 |
| Deferred Loan Expense and Other | 10,364 | 10,372 |
| Totals | 431,800 | 665,319 |
| | 27,510,956 | $25,796,581 |

| Liabilities and Stockholders' Equity | September 27 1975 | September 28 1974 |
|---|---|---|
| Current Liabilities: | | |
| Notes Payable | | |
| Occidental Life Insurance — Current | $ 269,231 | $ 269,231 |
| Banks | 6,700,000 | 3,700,000 |
| Other | 100,000 | 100,000 |
| Accounts Payable | 2,900,180 | 2,643,993 |
| Accured Accounts | 1,184,084 | 1,657,315 |
| Federal and State Income Taxes (Note E) | 70,112 | 427,147 |
| Total Current Liabilities | 11,223,607 | 8,797,686 |
| Long-Term Liabilities | 1,771,154 | 2,340,385 |
| Total Liabilities | 12,994,761 | 11,138,071 |
| Stockholders' Equity | | |
| Capital Stock — Common | | |
| Authorized 5,000,000 Shares — $1.00 Par | | |
| Issued and Outstanding 3,373,544 | 3,373,544 | 3,373,544 |
| Capital Surplus | 2,568,768 | 2,568,768 |
| Retained Earnings | 8,589,889 | 8,731,854 |
| Total | 14,532,201 | 14,674,166 |
| Less — Treasury Stock — At Cost (4,371 Shares) | 16,006 | 15,656 |
| Total Stockholders' Equity | 14,516,195 | 14,658,510 |
| Totals | $27,510,956 | $25,796,581 |

**See Accompanying Footnotes which are an integral part of the Financial Statements.**

# FOOTNOTES TO FINANCIAL STATEMENTS
## September 27, 1975
## Carolina Mills, Inc. And Wholly Owned Subsidiary Corporations.

Note A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

1. Principles of Consolidation:
All subsidiaries of the company are wholly owned and are included in the consolidated financial statements. All material intercompany transactions have been eliminated.
2. Accounts Receivable:
Accounts are charged to income when considered uncollectible by the management. In addition, a reasonable reserve for doubtful accounts is carried on the books, for which no tax benefit has been realized by the company.
3. Inventories:
Inventories, stated at lower of cost or market, with cost determined by the last-in, first-out (LIFO), first-in, first-out (FIFO) or average cost method, are summarized below. The company adopted the LIFO cost method for the year ended, September 28, 1974.

| | |
|---|---|
| Finished Products: | |
| LIFO Cost | $1,366,864 |
| FIFO Cost | 321,594 |
| Average Cost | 1,357,559 |
| Work-in-Process: | |
| LIFO Cost | 645,331 |
| FIFO Cost | 861,530 |
| Average Cost | 275,264 |
| Raw Materials & Supplies: | |
| LIFO Cost | 1,680,808 |
| FIFO Cost | 466,172 |
| | $6,975,122 |

4. Depreciation:
Depreciation is provided principally under sum-of-the-years-digits and straight-line methods by charges to income in amounts sufficient to write off the cost of depreciable assets over the estimated useful lives of the various classes of property and equipment.
5. Income Taxes:
The company with its subsidiaries has filed consolidated Federal income tax returns for the year ended September 30, 1972 and subsequent years. Separate returns were filed for all years ending prior to September 30, 1972. Investment tax credits are accounted for by the flow-through method, and accordingly, the provision for income taxes are reduced in the year the credit arises.

Note B. INVENTORIES — $6,975,122

The company adopted the last-in, first-out (LIFO) method of inventory valuation of raw material fibers for its fiscal year ended September 28, 1974. Accordingly, the financial statements for the fifty-two week period ended September 27, 1975 reflect the LIFO method of valuation. Raw materials so priced include cotton and manmade synthetic fibers such as rayon, polyester and acrylics. Stock-in-process and finished goods are priced using the LIFO method for valuation of raw material component and average standard cost for labor and factory burden. The inventories are valued lower by $500,472 for 1975, and $1,388,869 for 1974, than they would have been had the first-in, first-out method of pricing been empolyed. The LIFO inventories are lower by approximately $232,000 as a result of not replacing the base stock to levels of units included in the opening inventory.

| | |
|---|---|
| Finished Yarn and Cloth | $3,046,017 |
| Stock-In-Process | 1,782,125 |
| Raw Materials | 1,680,808 |
| Supplies and Chemicals | 466,172 |
| | $6,975,122 |

Note C. LONG TERM DEBT $2,340,385

A fifteen year long-term loan agreement with Occidental Life Insurance Company of California, Los Angeles, California was entered into on June 27, 1966. The loan in the amount of $3,500,000 was dated August 1, 1966, with interest payable at 6½% per annum. The loan specifies quarterly payments of principal in the amount of $67,307.69 beginning November 1, 1968, with the last payment to be made on August 1, 1981. Restrictive convenants of the loan agreement were fully complied with f r the year ended September 27, 1975. Unpaid balance of the loan at September 27, 1975 was $1,615,385.

A five year long-term loan agreement with the Northwestern Bank, North Wilkesboro, N. C., was entered into on June 20, 1972, for $1,000,000. Terms of the agreement specify quarterly payments of principal of $50,000 over a five year period, with interest at ½% over bank's prime. At September 27, 1975, the unpaid balance was $350,000.

On August 15, 1972, a long-term loan in the amount of $700,000 was borrowed from Commerical Credit Industrial Corporation, Baltimore, Maryland. The company has pledged machinery and equipment which cost approximately $700,000 to secure the loan. Terms of the loan agreements include quarterly payments of principal in the amount of $25,000. The unpaid principal balance at September 27, 1975, was $375,000.

Note D. NONCANCELLABLE LEASES

Lease agreements for the rental of textile machinery and equipment totaling $5,255,799 were in effect as of September 27, 1975. The company had made payments against the leases in the total amount of $1,003,914, leaving an unpaid balance of $4,251,885. In addition, the company leases certain textile finishing equipment on a production basis. The terms of the leases are normally for eight to ten years payable on a straight-line basis. Lease payments for the year ending September 27, 1975, amounted to $790,202. We show below lease payments scheduled for the next five fiscal years ending September 30th.

| | |
|---|---|
| 1976 | $ 645,500 |
| 1977 | 645,500 |
| 1978 | 645,500 |
| 1979 | 552,936 |
| 1980 | 483,300 |
| 1981-1985 | 1,279,149 |
| | $4,251,885 |

Note E. Income tax returns have been examined by the Internal Revenue Service for fiscal years ending with September 30, 1971, when separate returns were filed by the parent and subsidiary corporations. The separate return years have been settled and recorded on the accounts of the companies. For the fiscal year ended September 30, 1972, the group elected to file a consolidated Federal return and unused net operating losses of two of the subsidiary corporations in the amount of $419,000 fr om separate return years were carried forward to the consolidated return. The Service has examined the consolidated returns for 1972 and 1973, and proposed an adjustment to the 1972 tax liability arising primarily from the deduction of the separate return years carryover losses. Attorneys for the company have protested the proposed deficiency assessment, and a fiscal determination had not been made at the balance sheet date.

The provision for Federal income tax has been reduced in the amount of $221,331 as a result of the flow-through method of accounting for the investment tax credit. For the year ended September 28, 1974, the credit amounted to $129,290, and was accorded the same accounting treatment.

Note F. PENSION PLAN

The company and its subsidiaries have a pension plan covering all employees with five (5) years service. The plan is self-administered with an independent trustee and an independent actuary. The company's accounting and funding policy is to fund the current years cost as computed by the independent actuary. In addition to the current years pension cost, the company pays an interest factor of 3½ percent on the past service cost. For the fiscal year ended September 27, 1975, the pension plan expense amounted to $165,000. The past service cost, which had not been funded amounted to approximately $1,108,400 at September 7, 1975.

Note G. Qualified stock options have been granted to the officers of the company at an option price of $3.75 a share expiring five (5) years from date of grant, which was March 1, 1973. Total number of shares under the option amounted to 70,000.

Note H. CONTINGENCIES AND COMMITMENTS

1. The company has entered into an agreement with Julius W. Abernethy, a director, office and major stockholder to acquire approximately 799,000 shares of common stock which has been restricted for sale to others without first giving the company right of first refusal. The "refusal terms" of the agreement means that the company will be offered the stock at a price per share that is the lesser of (1) same price per share at which the intended transfer is to be made or (2) the book value per share of such shares as of the end of the immediately preceding fiscal year of the company.
2. The company has entered into contractural purchase commitments and made deposits of $271,800 for the acquisition of machinery and equipment in the approximate amount of $3,177,780, at September 27, 1975. Of the total amount, $660,902 will be purchased and the remainder, or $2,516,878 will be financed externally through noncancellable financing leases.

## ACCOUNTANT'S OPINION

In our opinion, the accompanying consolidated balance sheet and consolidated statement of earnings, retained earnings and changes in financial position, including footnotes, present fairly the financial position of Carolina Mills, Inc. and its Wholly Owned Subsidiaries, Maiden, N. C., at September 28, 1974, and the results of its operations for the year (fifty-two weeks) then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year

Very truly yours,
Thies and Whitfield
Thies and Whitfield

Certified Public Accountants

## THE YEAR IN REVIEW

The thing we will remember most vividly regarding the year just closed is the extreme depression we experienced. Not since the early 1930's had we encountered a period when there was so little demand for textile products. Not since the early 1930's had we experienced such short work weeks! However, the extreme curtailment of production resulted in shortening the length of the depression and before the end of our fiscal year most of our plants were back in full production.

Even though we were in the middle of a depression, inflation continued to run its course. To offset higher living costs we increased wages during the course of the year and are now operating with an average hourly pay scale of $3.85 for our 1400 production workers.

### CIRCULAR KNIT FINISHING

Plant No. 4 is producing at the rate of 430,000 lbs. per week on a full work schedule. This is 130,000 lbs. more per week than last year at this time. The outlook for the three months ahead is good as the circular knits seem to have recovered very strongly. A price increase on August 30 will help our profit situation. Our labor market changed in the past six months as we now have a full labor complement.

This organization is geared for quality and production for the coming year. At this time we have no plans for any major machinery changes.

### WARP KNIT FABRICS

The first half of 1975 brought very poor economic conditions throughout the textile business and particularly in the knit fabrics area. As a result, both MoBill and Plant No. 15 operated on a sharply curtailed schedules during the first six months of 1975. However, the last six months have shown significant improvements in the knitwear markets with both plants running five or six day weeks.

The knit fabric competition and price pressure, along with continuing energy and other cost increases, have forced us to be as efficient and as cost conscious as possible. The employees in both plants along with the sales force of Knits by Carolina have responded well to this challenge. As a result, we have a good sound basis on which to build in 1976.

We will continue to serve the menswear and nurses uniform areas with particular emphasis in the children area. We've had several fabrics containing our open end yarn accepted and used by large children's wear people during 1975, and we hope to expand further in these fabrics during 1976.

In addition, we plan to develop more high-styled fabrics for the women's wear area, using as many of our Carolina Mills spun yarns as possible.

Barring any major national economic setbacks, 1976 should be a year in which the Warp Fabric Division should contribute substantially to the overall strength, direction and profitability of Carolina Mills.

### WEAVING

Total revamping and installation of new machinery has beem completed at Plant No. 3. This mill is now cleaning and blending all cotton raw materials required for the total production of canton flannel. This installation, in addition to blending and cleaning the cotton, encompasses high speed chute fed cards and high speed drawing, with filling yarn requirements being produced on open end spinning frames. These yarns are being woven on Draper shuttleless looms which Carolina Mills has had for a number of years but is still the best and latest model for weaving this type fabric. Our cloth room is now fully equipped with all high speed Planetary nappers. In addition to this machinery, an automatic bulk starch handling system enables Carolina Mills to purchase starch required for sizing the warp yarns at the lowest possible price.

This completes the total modernization program projected for this plant, making it th most up-to-date mill for the production of canton flannel.

Additional Taslanizing machines (a process for bulking filament yarns) have been installed in Plant No. 14, making a total of 26 machines. With the current number of looms in production these machines will supply approximately 90% of the bulked yarn requirements for the upholstery fabrics being produced.

Eight additional used Roscher looms have been purchased and are scheduled to go into production in February. These looms will increase our production capacity of upholstery fabric 50%. Additional warping capacity has also been added.

With the fine employees and supervisors to complement the machinery installations in Plants No. 3 and No. 14, we are very optimistic about the coming year.

### SALES YARN

The major portion of capital expenditures in the Sales Yarn Division was used to install Open End Spinning. Plant No. 8 is now complete with the addition of 28 Investa frames and support equipment. We now have the capacity in this plant to produce 225,000 pounds per week of yarn balanced on 22/1 cotton count.

At Plant No. 2, the twisting operation was converted from ring twisting to two-for-one twisting with the installation of six Hamel twisters. Two Ingolstadt OES frames were delivered with support equipment. These machines have been used primarily in development work. Construction has been started on a building to house 10 additional OES frames and support equipment that will more than double the production of this plant.

Five drawing frames with uni-leveling sliver control were installed at Plant No. 12. This has greatly improved the running quality of our yarn resulting in greater evenness, most noticeable in the finer yarn counts.

This past year also marked our entry into the world market. We have been successful in establishing several meaningful programs in Canada, England, and Europe. We anticipate that these markets will help level out the cyclical nature of our business.

While this past year has been an extremely difficult year for the textile industry, the outlook is very encouraging. The economy is beginning to pick up. We have seen a marked increase in the volume of our activity and anticipate this coming year will be a good year for the Sales Yarn Division.

We wish to take this opportunity to express our appreciation to each employee for the fine spirit of cooperation shown during the past year. Your loyalty during our periods of severe curtailment was most exemplary and confirms our contention that you make up one of our greatest assets.

## DISTRIBUTION OF EACH DOLLAR OF INCOME YEAR ENDED SEPT. 27, 1975

| | | |
|---|---|---|
| Total Income | $47,733,447 | 100.00% |
| Cost of Raw Materials, and Supplies | 31,641,878 | 66.29 |
| Paid in Taxes and Donations | 510,454 | 1.07 |
| Paid in Dividends to People whose Savings are Invested in this Business | 404,301 | .85 |
| Depreciation on Plant Equipment | 1,967,564 | 4.12 |
| Retained Earnings Used in the Growth of this Business | (53,790) | (.11) |
| Cost of Wages and Salaries | 11,362,607 | 23.80 |
| Additional Benefits of Employees (Company's Share of Social Security Taxes, Pension Trust, Group Insurance, Employees Welfare, Vacation Pay & Bonus and Profit Sharing) | 1,900,433 | 3.98 |
| | $47,733,447 | 100.00 |

## STATEMENT OF EARNINGS AND EARNINGS RETAINED

| YEAR ENDED SEPTEMBER 27, 1975 WITH COMPARATIVE FIGURES FOR 1974 | Fiscal Year | |
|---|---|---|
| | September 27 1975 | September 28 1974 |
| STATEMENT OF EARNINGS | | |
| Net Sales | $47,418,609 | $55,125,721 |
| Cost of Sales | 46,489,599 | 51,390,356 |
| | 929,010 | 3,735,365 |
| Other Income (Deductions) Net | (592,849) | (705,900) |
| Net Income Before Taxes | 336,161 | 3,029,465 |
| Provision for Income Taxes | (14,350) | 1,455,689 |
| Net Earnings | 350,511 | 1,573,776 |
| Retained Earnings at Beginning of Year | 8,731,854 | 7,816,106 |
| | 9,082,365 | 9,389,882 |
| Adjustment of Prior Years Income Tax | (88,175) | 16,349 |
| | 8,994,190 | 9,406,231 |
| Dividends Paid | 404,301 | 674,377 |
| Retained Earnings at End of Year | 8,589,889 | 8,731,854 |
| Per Share of Common Stock: | | |
| Net Earnings | 10.40¢ | 46.68¢ |

Quarterly dividens are paid on approximately the following dates:

January 10th to Stockholders of Record January 1st
March 10th to Stockholders of Record March 1st
June 10th to Stockholders of Record June 1st
September 10th to Stockholders of Record September 1st

---

## CHANGES IN FINANCIAL POSITION

### SOURCES OF WORKING CAPITAL

| | |
|---|---|
| Earnings for Year | $ 350,511 |
| Depreciation & Amortization | 1,968,789 |
| Book Value Assets Disposed | 6,564 |
| Decrease in Installment Receivables | 12,800 |
| Decrease in Machinery deposits | 174,210 |
| Decrease in Other Assets | 38,366 |
| Decrease in Working Capital | 616,286 |
| Total | $3,167,526 |

### DISPOSITION OF WORKING CAPITAL

| | |
|---|---|
| Acquisition of Plant and Equipment | $2,105,469 |
| Cash Dividends Paid | 404,301 |
| Reduction of Long-Term Debt | 569,231 |
| Payment additional Federal Income Taxes | 88,175 |
| Purchase of Treasury Stock | 350 |
| Total | $3,167,526 |

## CAROLINA MILLS, INC.

## PLANT LOCATIONS

### Maiden, North Carolina

General Administrative Offices
Central Warehouse for Finished Goods and Raw Materials
Trucking Department
Laboratory
Plant No. 1 (Julius W. Abernethy Plant) Ultra modern spinning of yarns from man-made fibers
Plant No. 8 Open End Spinning Plant
Plant No. 4 — Commission Finishing of Tubular Knit Goods

### Newton, North Carolina

Plant No. 2 — Coarse Yarns
Plant No. 3 — Canton Flannel

### Statesville, North Carolina

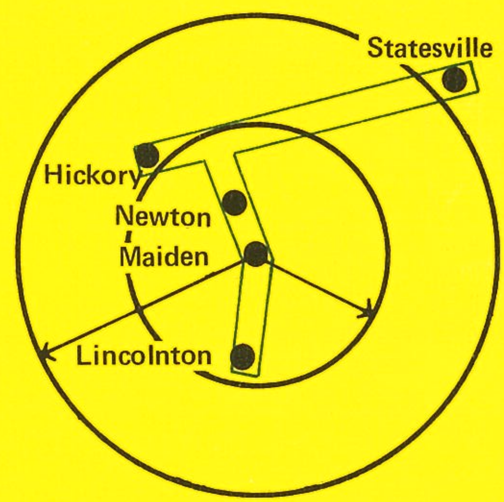
Plant No. 12 — Fine Count Yarns

### Hickory, North Carolina

Plant No 14 — Upholstery Fabrics
Plant No. 15 — Warp Knit Fabrics

### Lincolnton, North Carolina

Plant No. 5 — Spun Yarns for the Knitting Trade
Plant No. 6 — Polyesters Yarns




### Subsidiaries — (Wholly Owned)

Carolina Maiden Corp. — Yarn Sales Agency
Catawba Valley Computer Center — Data Processing Service
MoBill Textiles, Inc. — Finishing of Open Width Knit Fabrics
Knits by Carolina, Inc. — Knit Goods Sales Agency