

QUALITY

Carolina Mills Inc.
1995 ANNUAL REPORT

Highlights

Carolina Mills, Inc. and Wholly-Owned Subsidiaries

	1995	1994
Earnings Per Share	\$1.59	\$1.24
Sales	189,197,000	190,282,000
Net Income	6,140,000	4,855,000
Stockholders' Equity	86,189,289	84,217,533
Number of Employees	2,050	2,220

Contents

Message From the President	1
1995 Annual Report	2 - 10
Officers	11
Financial Report	12 - 13
Ten Year Review	15
Distribution of Each Dollar	16
Directors & Administration	17

Quality

Our Most Precious Commodity

It's happening in nearly every industry: companies are employing increasingly sophisticated technologies and offering an escalating variety of products and services—only to find their customers expecting and demanding more. The old adage, “Quality is our most important product” has never been more true than today.

In this fiercely competitive marketplace, consistent, superlative quality and service are often *the* factors determining who gets, and keeps, the business. In 1995, Carolina Mills has enjoyed yet another gratifying year of unparalleled quality and steady, loyal business. We're proud to acknowledge that this success was made possible by the personal commitment of each and every one of Carolina Mills 2050 employees. Their dedication and ingenuity have helped us preserve the solid reputation for craftsmanship and valued service that we cherish and guard today.

Quality is the theme we have selected for this year's annual report. In order to be successful, fine quality is demanded and expected in the market place. A customer will consider a purchase if he knows the quality of your product meets his requirements; only then will he discuss price. At Carolina Mills, we purchase supplies and raw materials to manufacture the finest quality products for our customers. This is essential, but it is the excellent quality of the people in our company that makes the difference. From the sales person who contacts the customer, to each individual in the manufacturing plant, consistent good quality which satisfies the customer is paramount.

1995 started as a banner year, but the last quarter was very slow. We look to 1996 with anticipation and expect an upturn in demand.

Yours very truly,



E.P. Schrum
President



Message From The President

Weaving Division

Working Quality Into The Daily Fabric

During our many years on the job, maintaining a watchful eye on quality has been as much a part of our day in Weaving as punching the clock and trading punchlines over lunch.

The routine begins as raw materials at our central warehouse are carefully inspected and graded for quality, weight and color consistency. In our plants, machines are checked daily to ensure impeccable, even production. Samples of yarns and fabrics are pulled for numerous quality checks, both at our plants and at the corporate lab. Finally, finished products are closely examined for finish quality, pattern alignment and possible defects.

Beyond our usual care, however, 1995 also saw the implementation of an exciting new modernization program at each plant which will further ensure our customers of the finest quality with every order.

Improvements in Plant No. 3 include new Rieter drawing machines with electronic auto-leveling and sliver monitoring. Warp and filling spinning are in the process of being upgraded to Schlafhorst Autocoro units. Equipped with the latest quality monitoring technology, the

Autocoros are capable of identifying problems immediately and providing technicians with printouts indicating the rotors that need to be checked. A Westpoint warper and slasher and 42 new Somet looms have also been purchased, and will greatly increase our capacity for high quality weaving of a wide range of fabric styles. New machinery was purchased to give the customers top quality Canton Flannel, Canton Fleece and other fabrics up to 72" in width.

At Plant No. 14, technological improvements include a new creel for maintaining even tension on yarns going into the warper. We've also invested in several cost-effective support systems that will heighten our workers' efficiency in the constant patrolling of product quality. Head gear with special vision magnification has been issued to all ty-in operators to help them easily spot problem areas. Likewise, our fabric inspectors now have the benefit of lighted back panel and base panel inspection tables, which will make it easier to spot any defects not detectable on the loom. By halting production and eliminating the problem immediately, these newly equipped quality "police" ensure that only the finest fabrics are produced on our looms.



1995 saw the implementation of exciting new modernization programs at each plant, which will further ensure our customers of the finest qualities with every order.

Sales Yarn Division

Developing Quality Ties With Yarn Customers



Culp Decorative Fabrics held their second annual supplier Appreciation Luncheon in August. During the event, Carolina Mills was recognized for excellence in quality and service and received Culp's second highest award, the Silver Award. Culp currently uses yarn manufactured at Plant No. 2, Plant No. 5, and Plant No. 12.

Howard Dunn, President of Culp; Ed Schrum, President of Carolina Mills, Inc.; Jo Ann Harper and Barbara Huffman, Carolina Maiden Corporation

at Carolina Mills, we're fortunate that we've always held ourselves to such exacting standards for quality and service. It's prepared us well to satisfy the toughest critics of all.

Expecting service expertise for their dollar as well as top quality yarn, many of our customers have established performance evaluation systems for their suppliers. Carolina Mills is proud to enjoy top awards and

the highest regard among these most discriminating customers, including Culp, Inc., Southern Mills and Flynt Fabrics. Flynt Fabrics recently began a vendor evaluation program and Carolina Mills

received the highest score of any yarn supplier.

Of course, a job well done is its own reward.

Again this year, Sales Yarn has profited by blanketing the marketplace with account representatives. Our marketing company, Carolina Maiden Corporation, begins the process by covering the yarn market with account representatives who personally visit the customer, on a regular basis, and gain an

understanding of their needs and solicit orders. So, in addition to new work orders, they bring back a renewed understanding of each customer's particular requirements and needs. This useful data is updated in weekly market reports, monthly forecasts and annual market surveys. Representatives meet with management quarterly to review business, plan activities for key customers and identify new opportunities in the marketplace.

Each customer has a personal customer service representative to ensure that our quality of service is better than our competitors. Easily accessible via a direct dial number, these quality liaisons can immediately furnish their customers with shipping dates, order status, contract history and other vital information through our extensive management information systems.

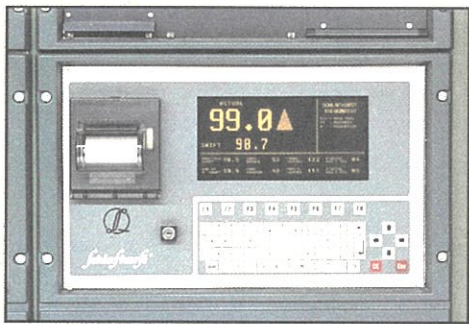
Should the need arise, specialized or problematic orders are attended to by staff in our technical service department. These experts work with customers and plant personnel to refine, develop and continually improve our products and their performance in our customer's plants.

*Personal
customer
service
representatives
have a hand in
every order our
customers
place.*



Sales Yarn Manufacturing Division

From Challenge Come Pride And Improvement



When the ultimate goal is to consistently meet or exceed your customers' expectations, your job is never done.

That's why Sales Yarn Manufacturing is constantly working to establish and improve upon solid working relationships, to enhance our technical knowledge and capabilities, and to constantly reevaluate our products and procedures. Not surprisingly, we've accomplished quite a lot in 1995.

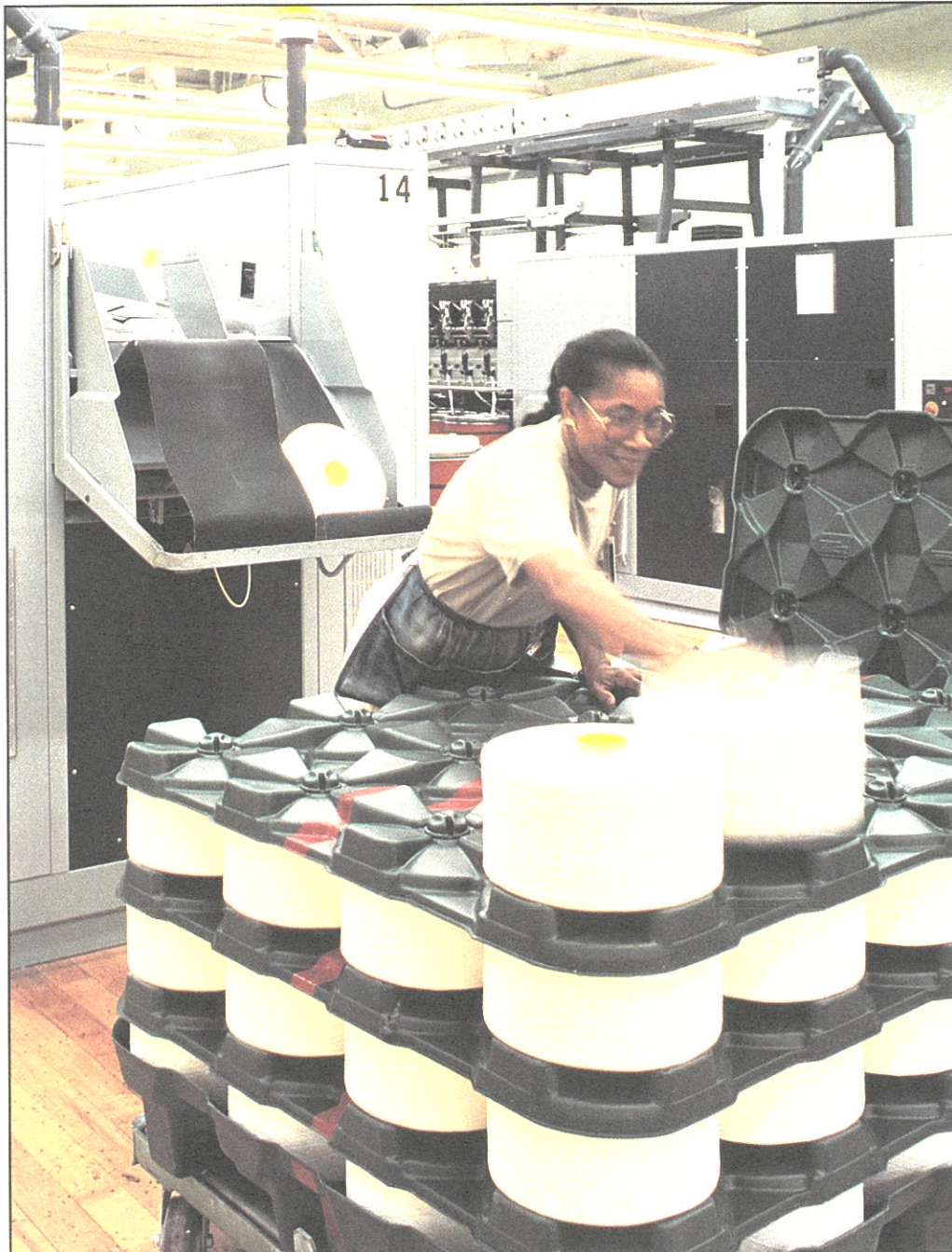
Working closely with our fiber suppliers, we've established a network of dedicated Quality Action Teams which will concentrate on improving the quality and consistency of our incoming raw materials.

Our sales and technical service associates have nurtured a similar rapport with our customers, exchanging plant visits and heightening our understanding of each customer's operations and specifications, as well as our own future opportunities.

With the wheels of progress turning as furiously as one of our own high capacity spinning machines, developments in textile, computer and various industry

technologies present a unique challenge to even the most competitive of manufacturing teams. Training and retraining, therefore, are a constant focus for Sales Yarn Manufacturing associates, who have honed their skills with the help of Catawba Valley Community College and the North Carolina Center for Applied Textile Technology. Many of our technicians, as well, attended advanced training sessions provided by our machinery manufacturers this year.

While hustling to the forefront of technology as a team, we've also worked to improve upon the machinery and hardware our people employ. In 1995, we increased air-jet spinning capacity in two of our plants while continuing to refine and better utilize open-end and ring spinning technologies installed in recent years. Major investments in computer hardware and software have enhanced accuracy, accessibility and response time in our reporting of crucial quality and production data. So we're better able to meet the most demanding orders and deadlines that customers send our way.



*Sales Yarn
Manufacturing
is constantly
working to
establish and
improve upon
solid working
relationships,
to enhance our
technical
knowledge and
to constantly
reevaluate our
products and
procedures.*

Knit Finishing Division

Quality Assurance With A Graceful Hand

Precise specifications, timely shipment, consistent color, weight, width, hand and shrinkage... with all that we're asked to deliver in our Knit Finishing Division each day, conscientious quality assurance is a full time job in itself.

For the dedicated members of our quality assurance and customer service teams, that job includes anticipating and understanding our buyers' diverse and changing needs. Such insight enables our Quality Assurance Supervisors to match each plants' materials and resources to market demand. These experienced hands also track fabric lots through receiving, manufacturing and shipping to facilitate delivery—on specification and on time.

With every lot and order, aspects of fabric quality are carefully monitored, recorded and reported. Stitch counting, wash testing and yield checks, color fastness testing, wet and dry crock testing and color run

cards on every dye lot are just a few of the quality checks that help us to consistently deliver the very best.

Of course, our people aren't our only resource for delivering quality.

Dye lots are read on an ACS Color Computer to achieve customers' specified color standards, and all quality test results are made available to management through our capable DataPoint Computer program. New Jemco Continuous Bleach systems equip us to satisfy an increasing demand for "creaseless" white fabric. High capacity Scholl America dye equipment makes easy work of top quality dyeing. Even our familiar fleet of Carolina Mills trucks, which enables us to minimize roll handling by shipping on racks directly from our plants, is among the list of advanced and practical technologies that help Knit Finishing maintain its quality edge.



*Insight enables
our Quality
Assurance
Supervisors to
match each
plant's
materials and
resources to
market demand.*

CM Furniture Division

Quality Control Ingrained

*a*t CM Furniture, product quality is closely monitored throughout the manufacturing process—from raw lumber to polished luster—so that we can deliver solid craftsmanship and unshakable satisfaction with every order.

Stringent quality control begins even before the first table top is cut. To ensure the lasting beauty and strength of every finished piece, all raw lumber is carefully checked for proper

drying. Humidity controls spaced throughout our plant then maintain a stable, optimal environment to protect our wood parts for the length of the manufacturing process.

This year, CM Furniture established the use of Master Patterns for even greater precision and consistency of all machine-crafted parts. As each machine is set up, new parts are checked against the pattern for detail and fit. Random inspections are made during the machining process and again as parts are completed. Already, these patterns have proven to be effective, cost-efficient tools for maintaining our strict quality standards.

Once assembled, our products are thoroughly hand-sanded and scrutinized for defects. During the twenty-step finishing process that follows, master finish panels are matched against the items produced to verify color and sheen. An additional, critical review then wraps up the process, packing added confidence and satisfaction into every customer's shipment.



**Carolina Mills, Inc.
Officers:**

Pictured from left to right:

Thomas P. Pruitt, Jr.
*Vice President,
Weaving Division
Assistant Treasurer*

Stephen G. Dobbins, Jr.
*Vice President, Yarn
Manufacturing Division
Secretary*

George A. Moretz
*Vice President,
Sales Yarn Division
Assistant Secretary*

Edward P. Schrum
*Chief Executive Officer,
President, Treasurer*



CAROLINA MILLS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 1995 and October 1, 1994

ASSETS

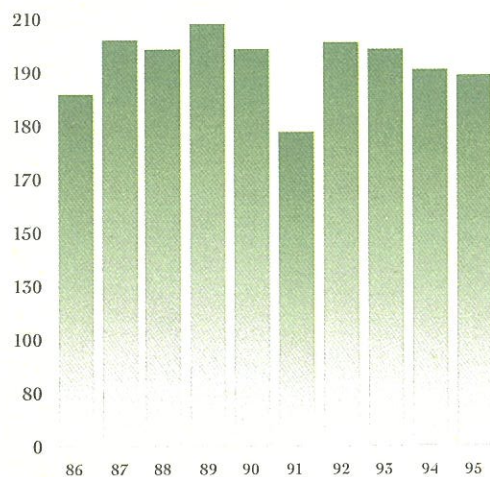
	September 30 1995	October 1 1994
CURRENT ASSETS		
Cash	\$ 564 649	\$ 805 291
Investments	--	5 227 586
Accounts receivable trade less allowance for doubtful accounts of \$659,500 for 1995 and \$639,500 for 1994	27 231 395	28 832 101
Income tax refund receivable	1 149 076	56 209
Inventories	24 869 333	22 124 637
Deferred income tax asset	689 829	822 000
Prepaid expenses	<u>763 857</u>	<u>315 799</u>
TOTAL CURRENT ASSETS	<u>\$ 55 268 139</u>	<u>\$ 58 183 623</u>
INVESTMENTS	<u>5 353 427</u>	<u>--</u>
PROPERTY AND EQUIPMENT		
Land and improvements	1 190 635	1 066 493
Buildings	29 083 903	28 814 848
Machinery and equipment	108 677 118	107 819 783
Transportation equipment	12 406 478	12 000 141
Construction in progress	36 070	3 413
Investment property	<u>246 079</u>	<u>246 079</u>
	151 640 283	149 950 757
Less accumulated depreciation	<u>98 619 956</u>	<u>93 647 331</u>
	<u>53 020 327</u>	<u>56 303 426</u>
OTHER ASSETS		
Cash value of life insurance, net of policy loans of \$18,252,508 for 1995 and, \$15,813,241 for 1994	1 756 303	1 321 028
Travel and employee advances	7 200	6 500
Deposits on equipment	<u>2 300 943</u>	<u>140 429</u>
	4 064 446	1 467 957
	<u>\$117 706 339</u>	<u>\$115 955 006</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

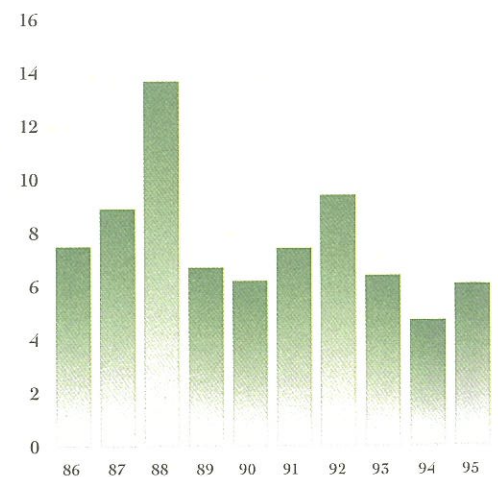
	September 30 1995	October 1 1994
CURRENT LIABILITIES		
Notes Payable	\$ 3 931 959	\$ 3 622 725
Current maturities of long term debt	166 991	166 991
Accounts payable	8 295 600	9 281 876
Accrued expenses	5 181 861	5 536 706
Income taxes payable	<u>2 177</u>	<u>405 449</u>
TOTAL CURRENT LIABILITIES	<u>17 578 588</u>	<u>18 813 747</u>
DEFERRED COMPENSATION AND OTHER	<u>8 011 238</u>	<u>7 206 512</u>
DEFERRED INCOME TAXES LIABILITY	<u>5 468 000</u>	<u>5 091 000</u>
LONG TERM DEBT	<u>459 224</u>	<u>626 214</u>
TOTAL LIABILITIES	<u>\$31 517 050</u>	<u>\$31 737 473</u>
STOCKHOLDERS' EQUITY		
Common stock—\$1 par value		
Authorized 15,000,000 shares,		
Issued and outstanding:		
1995—3,858,433 shares;		
1994—3,885,825 shares;	3 858 433	3 885 825
Additional paid-in capital	1 237 586	1 801 039
Retained earnings	80 800 517	78 530 669
Unrealized gain on Investment Securities, Net	<u>292 753</u>	<u>—</u>
	<u>86 189 289</u>	<u>84 217 533</u>
	<u>\$117 706 339</u>	<u>\$115 955 006</u>

Ten Years In Review

	1995	1994	1993	1992
Net Sales	\$ 189,197,269	190,281,730	200,452,577	203,725,749
Net Earnings				
Before Income Tax	\$ 9,547,265	6,635,600	9,753,453	15,739,455
Income Tax	\$ 3,407,350	1,780,348	3,425,000	6,139,000
Net Earnings	\$ 6,139,915	4,855,252	6,328,453	9,600,455
Dividends Paid	\$ 3,870,067	3,907,940	3,929,670	3,954,037
Earnings Retained in Business	\$ 80,800,517	78,530,669	77,583,357	75,184,574
Working Capital	\$ 37,689,551	39,369,876	37,447,348	39,665,430
Plant and Equipment Less Depreciation	\$ 53,020,327	56,303,426	54,697,233	47,599,345
Stockholder's Equity	\$ 86,189,289	84,217,533	84,153,848	82,083,506
Shares of Stock Outstanding	\$ 3,858,433	3,885,825	3,927,452	3,943,722
Book Value Per Share	\$ 22.34	21.67	21.43	20.81
Per Share of Stock				
Net Earnings	\$ 1.59	1.24	1.61	2.47
Dividends-Cash	\$ 1.00	1.00	1.00	1.00
Cash Flow	\$ 3.74	3.32	3.60	4.48

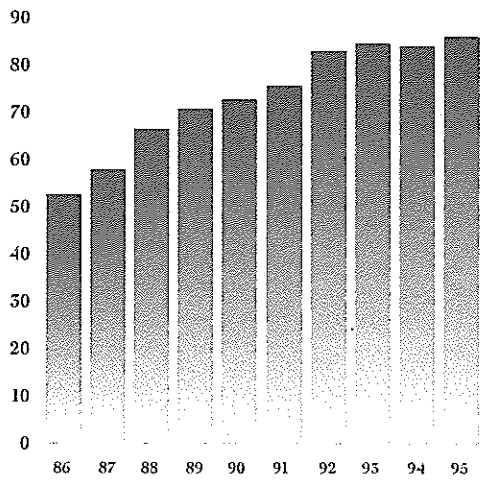
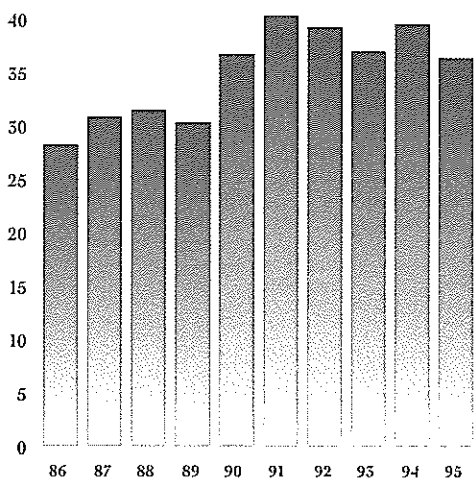


NET SALES
MILLIONS OF DOLLARS



NET EARNINGS
MILLIONS OF DOLLARS

	1991	1990	1989	1988	1987	1986
	178,782,185	200,548,871	207,997,333	200,621,500	204,205,292	187,884,211
	12,214,101	9,985,417	10,941,564	22,891,296	16,653,408	14,092,129
	4,659,000	3,753,564	4,286,130	9,103,014	7,719,422	6,318,822
	7,555,101	6,231,853	6,655,434	13,788,282	8,993,986	7,773,307
	3,881,639	3,968,205	3,985,960	3,941,221	3,244,125	2,383,694
	69,538,156	65,864,694	63,601,046	60,931,572	51,084,511	45,394,650
	40,282,547	36,651,362	30,723,969	32,114,939	31,064,819	28,156,515
	47,911,963	44,221,668	47,525,870	44,296,673	39,884,391	38,500,889
	75,945,152	73,882,852	72,217,192	69,786,318	59,291,257	54,041,111
	3,866,352	3,949,884	3,980,257	3,992,762	3,948,062	3,988,469
	19.64	18.71	18.14	17.48	15.02	13.55
	1.95	1.57	1.67	3.49	2.26	1.96
	1.00	1.00	1.00	1.00	.82	.60
	4.02	3.50	3.51	5.19	3.89	3.42



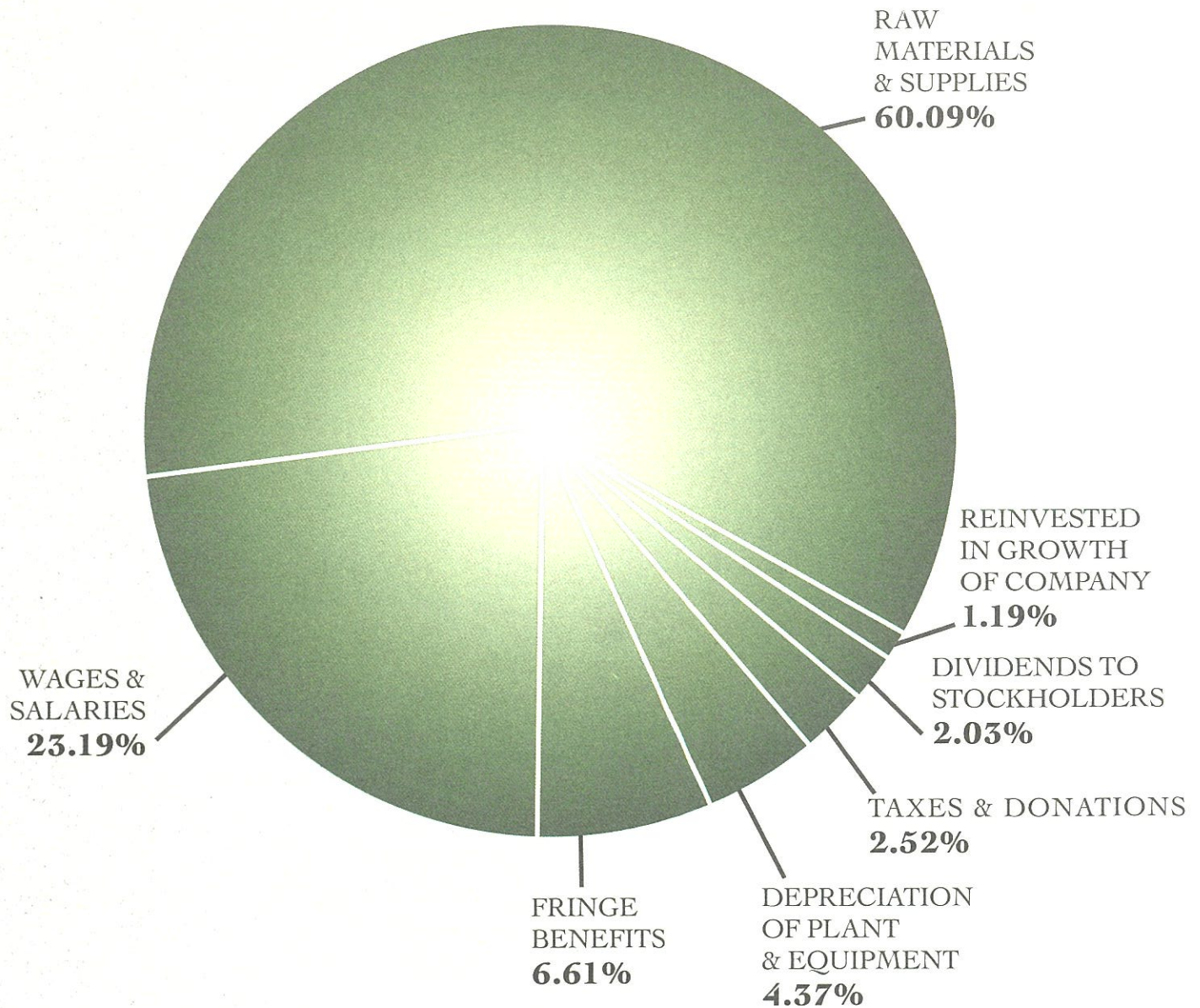
WORKING CAPITAL
MILLIONS OF DOLLARS

STOCKHOLDERS' EQUITY
MILLIONS OF DOLLARS

Distribution of Income Carolina Mills, Inc and Wholly Owned Subsidiaries

• Wages and Salaries	\$ 44,297,273	23.19%
• Fringe Benefits	12,613,174	6.61
• Raw Materials and Supplies	114,788,783	60.09
• Depreciation of Plant and Equipment	8,339,352	4.37
• Taxes and Donations	4,818,208	2.52
• Reinvested in Growth of Company	2,269,848	1.19
• Dividends to Stockholders	3,870,067	2.03
Total Income	\$190,996,705	100.00%

Year ended September 30, 1995



BOARD OF DIRECTORS

Thomas P. Pruitt, Jr. •

Vice President
Carolina Mills, Inc
Elected to the Board 11/02/55

Edward P. Schrum •

President
Carolina Mills, Inc.
Elected to the Board 11/09/58

Hurshell H. Keener •

Investor
Elected to the Board 11/16/66

Claude S. Abernethy, Jr. •

Vice President
Interstate Securities Corporation
Elected to the Board 5/24/72

Julius W. Abernethy, III •

Vice President
Carolina Glove Company
Elected to the Board 11/25/76

D. Mark Boyd, III

President
Times Oil Corporation
Elected to the Board 11/25/76

George A. Moretz

Vice President
Carolina Mills, Inc.
Elected to the Board 11/25/76

Robert A. Ragan

Investor
Elected to the Board 11/27/77

Franklin E. Rader

Investor
Elected to the Board 11/16/90

Christine S. Abernethy

Elected to the Board 11/20/92

Stephen G. Dobbins, Jr.

Vice President
Carolina Mills, Inc.
Elected to the Board 11/18/95

J.L. Thompson, Jr.

Director Emeritus
Elected to the Board 11/12/59

• *Executive Committee*

A Commitment To Do More

Uncompromising quality: it's a theme that has not only served us well in 1995, but has since our founding back in 1928. As we move into the next century, we'll continue to explore our customers' needs, refine our procedures, implement new technologies, double check our work, and train and retrain to ensure our customers of the very finest quality and service the industry has to offer.

After all, it is the final inspection by our customers that is the most crucial, and inevitably, the most satisfying for each of us, throughout every hard-working division at Carolina Mills.

YARN DIVISION

Plant No. 1/Maiden, NC
(J.W. Abernethy)
Spun polyester blend yarns,
Gary Hefner, Plant Manager

Plant No. 2/Newton, NC
Coarse open-end spun yarns,
J.V. Randall, Plant Manager

Plant No. 5/Lincolnton, NC
Spun polyester yarns,
Bill Canipe, Plant Manager

Plant No. 6/Lincolnton, NC
Spun polyester blend yarns,
Bill Canipe, Plant Manager

Plant No. 8/Maiden, NC
Open-end spun yarns,
Allen Hooper, Plant Manager

Plant No. 12/Statesville, NC
Fine count spun polyester yarns,
Steve Sparks, Plant Manager

Plant No. 21/Ranlo, NC
Spun polyester yarns,
Khal Shreitah, Plant Manager

Plant No. 22/Ranlo, NC
Spun polyester yarns,
Khal Shreitah, Plant Manager

Plant No. 24/Ranlo, NC
Carpet yarns,
Bob Harrison, Plant Manager

FINISHING DIVISION

Plant No. 4/Conover, NC
Commission finishing tubular knit goods,
Robert Bristow, Plant Manager

Plant No. 9/Valdese, NC
Commission finishing of tubular knit goods,
Robert Bristow, Plant Manager

WEAVING DIVISION

Plant No. 3/Newton, NC
Woven canton flannel,
Kermit Goodson, Plant Manager

Plant No. 14/Hickory, NC
Woven upholstery fabrics,
Gary Bowers, Plant Manager

SUBSIDIARIES

Carolina Maiden Corporation
Maiden, NC and New York
Wholly-Owned Subsidiary
Yarns sales agency

CM Furniture, Inc.
Maiden, NC
Wholly-Owned Subsidiary
*Exposed wood and fully upholstered
furniture, selected case goods*



Carolina Mills Inc.

P.O. Box 157

618 Carolina Avenue

Maiden, North Carolina 28650