



1996
Annual Report



Highlights

Carolina Mills, Inc. and Wholly-Owned Subsidiaries

	1996	1995
Earnings Per Share	\$1.75	\$1.59
Sales	168,170,000	189,197,000
Net Income	6,714,000	6,140,000
Stockholders' Equity	87,814,719	86,189,289
Number of Employees	1,845	2,050

***Carolina Mills is
leading the textile
industry in preparing
for the 21st century.***

Contents

Message From the President	1
1996 Annual Report	2 – 10
Officers	11
Financial Report	12 – 13
Ten Year Review	14 – 15
Distribution of Each Dollar	16
Directors and Administration	17

The next three years could easily bring more change than we can possibly imagine...we will be positioned for these changes.

Having worked with Carolina Mills for the last 45 years, I have seen many remarkable changes. These have happened not only in our company but in the total textile industry. We have seen spinning frames evolve into automated yarn producing machines making yarn virtually untouched by human hands. Looms are now fabric forming machines with fantastic speeds. Other equipment has followed similar paths.

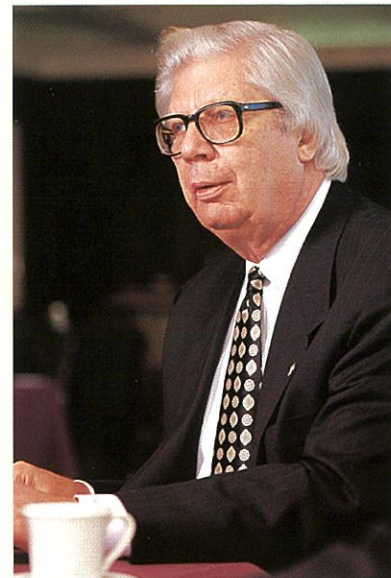
Now we are looking forward to the year 2000 only three years away. We feel that what has transpired in this industry is only the beginning. The next three years could easily bring more change than we can possibly imagine. We, at Carolina Mills, will be positioned for these changes.

Thank you for your support and we look forward to 1997.

Very truly yours,



E.P. Schrum
President





Foundations for the Future

Carolina Mills is leading the textile industry in preparing for the 21st century. Today more than ever, that preparation is built on the interlocking foundations of people and technology. Employees, suppliers, equipment, and information systems all play strategic roles in ensuring continuous improvement in quality, productivity, and service to our customers.

Efforts to strengthen our foundations for the future are guided by attention to those customers and their evolving needs. Whether we are pioneering the use of new equipment or investing in specialized training for our employees, our focus is on developing answers to the challenges that will face our customers tomorrow. By improving our ability to meet their goals, we will be assured of our own solid position in the competitive marketplace of the new millennium.

***...our focus is on developing
answers to the challenges
that will face our customers
tomorrow.***

New technology allows us to provide our customers with improved yarn uniformity.

Building and Maintaining a World-Class Yarn Manufacturing Enterprise

In Sales Yarn Manufacturing, we are zeroing in on the future from an already elevated foundation.

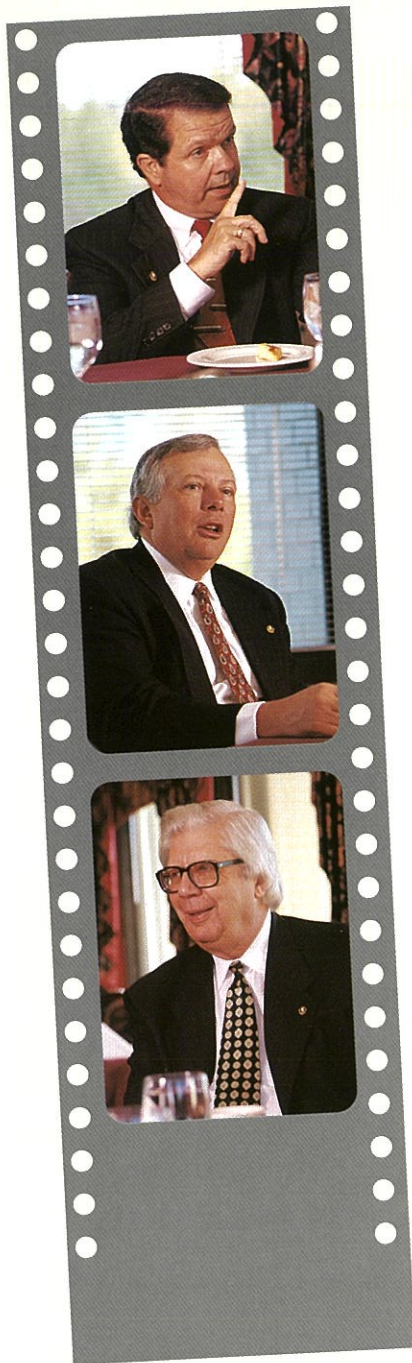
Building on the solid infrastructure of dedicated employees and an aggressive, five-year capital spending program, 1996 was a year of surpassed expectations. We met or exceeded most of our production and quality goals while setting new records for safety performance and waste recycling. No small feat for a company in the 90's.

Each of our nine yarn plants has renewed its commitment to continuous incremental improvements in all areas as the key to our continued success as we prepare to enter the 21st century.

Sales Yarn Manufacturing continued to invest in equipment and technology that not only make us leaders today, but will carry us toward the next century. We improved key processes with the latest in yarn spinning technology, including several new systems unveiled at the International Machinery Exhibition in Milan, Italy.

Through air-jet spinning, we set a new standard in supplying yarns to the market. This new technology allows us to provide our customers with improved yarn uniformity, which means the resulting fabrics are superior to those produced from conventional ring-spun yarns or open-end spun yarns. Murata air-jet spinning frames were added at Plant No. 22 and Plant No. 24 in Ranlo. In addition, new Reiter RSB-951 draw frames were added at





Plant No. 24 as well as at Plant No. 5 and Plant No. 6 in Lincolnton. Plant No. 8 in Maiden added SE-9 Schlafhorst spinning frames to its operations, making it one of the newest and most modern open-end spinning plants in the world.

Understanding that one of our most important tools is information, we continued to increase the number of personal computers at each plant site. Putting technology at the finger tips of growing numbers of employees has resulted in more timely and accurate information for internal use, increased productivity, reduction in errors when dealing with suppliers, and more rapid and direct response to customer needs.

Amid the hum of technological progress, we understand that our base for the future is anchored first and foremost by people. Our continued investment in our staff and in customer and supplier relationships is of utmost importance. We take full advantage of the resources available through local community colleges and machinery suppliers to train and provide continuing computer and technical education for our associates. Meanwhile, our quality action teams are thriving, as

employees work with customers and suppliers to identify both improvement issues and opportunities for growth.

As we envision the future together, each of our nine yarn plants has renewed its commitment to continuous, incremental improvements. We view this pledge as key to our ongoing success as we prepare to enter the 21st century.

...our quality action teams are thriving, as employees work with customers and suppliers to identify both improvement issues and opportunities for growth.

Ongoing employee training and development emerges as a chief strategy for survival and growth in the next century.

We will continue to implement new technologies and to monitor those that are emerging, constantly placing Carolina Mills at the forefront of improvements in quality, service, and manufacturing costs. For example, we have ordered new roller jet MJS air-jet spinning equipment for evaluation. If it meets our standards, this advanced technology should enable us to increase our productivity and enhance our quality even more.

Efforts to expand both internal and external electronic communication networks will continue, with upgraded information systems improving operating efficiency. Finally, ongoing employee training and development emerges as a chief strategy for survival and growth in the next century, and the relationships those employees build with our customers and suppliers will continue to be paramount.

Building and maintaining a world-class yarn manufacturing enterprise is a never-ending process propelled by world-class people. We are fortunate to possess this primary ingredient for tomorrow's success today. The hard work and dedication of Sales Yarn Manufacturing employees ensures that customers will receive only the best in quality and service in the year 2000 and well beyond.

Embracing New Strategies and Innovations

1996 was marked by pivotal, strategic change in the Knit Finishing Division. The well-orchestrated innovations are resulting in immediate benefits today while positioning the Division for maximum performance in the years ahead.



During the year we consolidated all manufacturing equipment and manufacturing personnel to Plant 9 in Valdese. A highly streamlined production flow was the outcome. Our enhanced flexibility and responsiveness, added to our more efficient use of labor and equipment, position us to be more competitive than ever in meeting the increasing quality and cost demands of the global knit fabric markets.

At the same time, we consolidated all receiving and shipping to our Distribution and Customer Service Center at Plant No. 4C in Conover, sharpening both the productivity and accuracy of our services. The concentration of activity allows us to receive and verify greige goods shipments and to be even more efficient and timely in our scheduling and preparation of lots. Completed lots are consolidated at Plant No. 4C and shipped in the most cost-effective manner customer schedules allow.

We are also adding and expanding to meet customer needs. We have ordered special handling equipment to accommodate customers who are moving to large knit rolls, and we are expanding our returnable rack system to minimize the need for customer handling. Studies to identify additional automated systems that improve handling of both large and small rolls are underway. We are also evaluating new computer systems that will further improve our electronic data interchange with customers. The system we select will allow us to advance our internal lot tracking and quality information systems, providing customers with more real-time information.

We are also evaluating new computer systems that will further improve our electronic data interchange with customers.

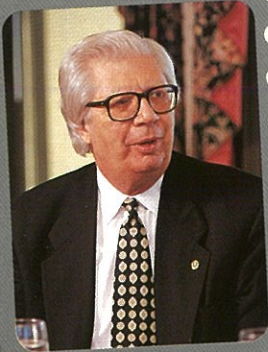
To stake our claim in the marketplace of the future, we have established a new marketing and sales effort, directed at aggressively pursuing increased business in our traditional market areas and at developing new outlets for our knit finishing services. In carving out additional niches, we are placing special emphasis on “added value” services for both foreign and domestic customers.

As we move toward the year 2000, the associates of the Knit Finishing Division are focused on embracing the new strategies and innovations that will allow us to maintain our position as the largest and, more important, the best provider of our kind. We will continue to initiate productive partnerships with both suppliers and customers, working together to successfully meet the challenges of a new century and a changing global marketplace.

Focusing on the Future

While the furniture industry has experienced a period of slow down, Plant No. 14 has been operating in acceleration mode. 1996 has been a year of optimism and anticipation. Our sales force and designers alike have been hard at work focusing on the future: fresh avenues of business, the latest color options, new customers and, most critical, creative ideas for securing our position in the furniture industry well into the 21st century.

In part, we know what the future holds. We understand the key factors of business success in the next century. Quick response to changing customer needs, attention to industry-shaping trends, and the ability to alter course overnight in order to keep up with those trends will all be crucial. That is why, in 1996, we focused on preparing our employees for an increasingly competitive marketplace.



...working now to ensure that our facility, our equipment, our information systems, and our people are prepared to compete, survive, and flourish far beyond the year 2000.

Many staff members attended computer training courses to learn how we can best use electronic networks as communication tools that enhance our services. We conducted brainstorming sessions with our production schedulers and yarn inventory clerk to find ways to guarantee smooth and timely processing of new orders. And most essential, we worked with our suppliers, securing partnerships and ensuring that they are as dedicated to building a successful future together as we are.

We have made other long-term preparations through continuous purchasing of the latest manufacturing equipment and through the development of permanent cost-saving procedures.

Our vision for the future is perhaps best reflected in our approach to quality control. Our procedures are all in the process of being adjusted, seeing to it that we meet not only the demands of today's customers but also the quality standards of those 10 years from now.

Though the team at Plant No. 14 is enthusiastic about the new markets that will open and the new products we are developing for them, we also understand that new competition will emerge. We are working now to ensure that our facility, our equipment, our information systems, and our people are prepared to compete, survive, and flourish far beyond the year 2000.

Sales yarn division, this wholly-owned subsidiary has tripled the output of sales yarn.

Setting New Market Standards in Canton Flannel Production

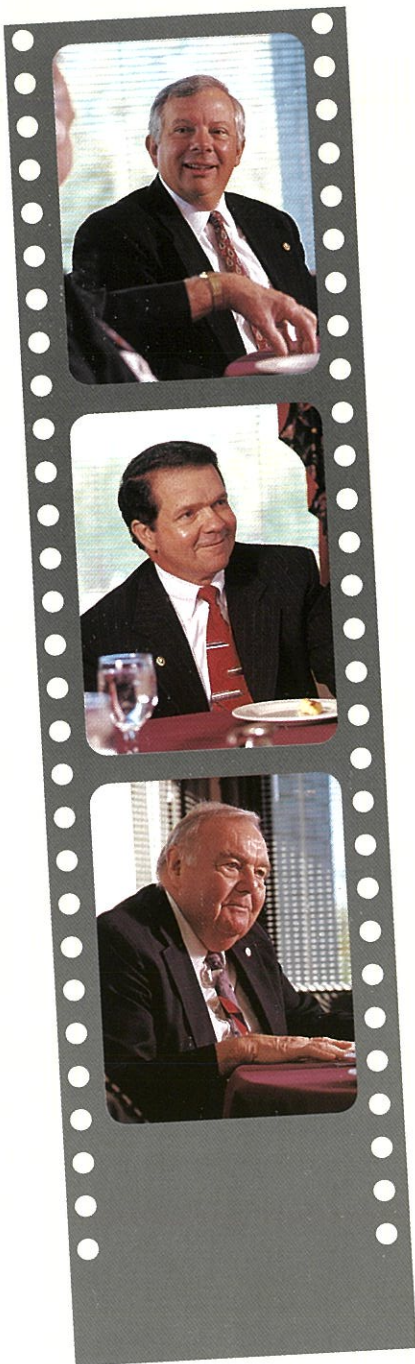
In 1996, Plant No. 3 was established as a state-of-the-art center for the production of a variety of weaves and widths of top-quality Canton Flannel.

Manufacturing and administrative operations were moved to the former site of Plant No. 4, following complete renovation of the facility, along with installation of the latest air conditioning and air filtration systems. Machinery purchased in 1995 continues to perform well alongside 1996 additions. New equipment was purchased for the Finishing Department, and an Entec batching machine, equipped with infra-red heat for removing moisture from flannel, was installed. Nappers process flannel being woven on new looms. A Winsor and Jerault T-6 Tenter Frame that processes cloth up to 76 inches in width was installed, as was a Byars inspection machine, with inspection screen and automatic roll-up.

When finish quality and pattern alignment have passed critical muster, our new automated materials handling system takes the cloth to the warehouse for shipment.

Throughout 1996, operators, technicians, and supervisors attended classes and received on-the-floor training in the newest technologies involved in operating and maintaining our equipment investments. The result is a highly skilled and educated workforce, trained to produce Canton Flannel of superb quality.

Our extensive modernization and education efforts position Plant No. 3 to set market standards into the next century.



Anticipating Market Needs — Ensuring that Carolina Mills will be First to Meet Them

Carolina Mills was scanning the landscape of the future back in 1964 when it established the Sales Yarn Division to handle marketing for the company. Since then, this wholly-owned subsidiary has tripled the output of sales yarn.

To better serve the marketplace, the Sales Yarn Division has centralized customer service functions in our Maiden corporate offices. The move has enabled us to provide customers with quicker and more accurate responses to their questions and requests.

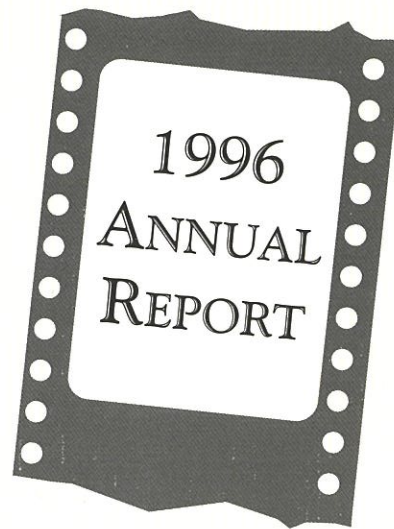
In 1996, some of our most discriminating customers recognized Carolina Mills for this attention to service, as well as for quality and on-time shipments. Culp, Inc., Collins and Aikman, Southern Mills, and Flynt Fabrics are just a few of the companies who awarded us top honors through their vendor evaluation programs.

Sales Yarn Division's primary challenge for the future is, quite simply, to forecast it. We are expanding our company-wide use of computers, beginning with complete sales force automation. This allows our account managers to answer customer questions even before they are posed, coupling outstanding products with further advances in service.

On a grander scale, we are using increasingly sophisticated methods for accurately anticipating market needs in the years to come — and ensuring that Carolina Mills will be first to meet them.

***Sales Yarn Division's
primary challenge for
the future is, quite
simply, to forecast it.***

*...anticipating market needs...and
ensuring that Carolina Mills will be
first to meet them.*



**CAROLINA MILLS,
INC. OFFICERS:**

from left to right, seated

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

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

from left to right, standing

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

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

CAROLINA MILLS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

September 30, 1996 and October 1, 1995

ASSETS

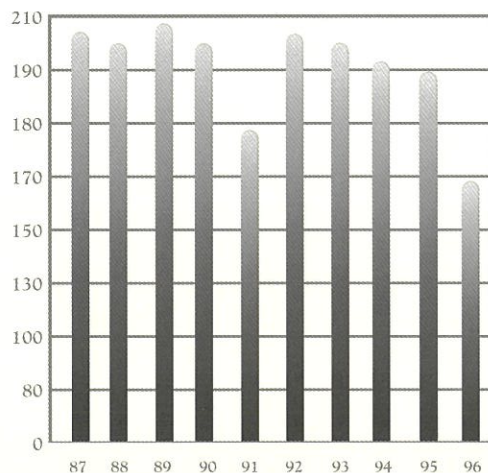
	September 28 1996	September 30 1995
CURRENT ASSETS		
Cash	\$ 400 525	\$ 564 649
Accounts receivable-trade, less allowance for doubtful accounts of \$677,000 for 1996 and \$659,500 for 1995	25 010 587	27 231 395
Notes Receivable	383 145	—
Income tax refund receivable	1 201 853	1 149 076
Inventories	19 809 956	24 869 333
Deferred income tax asset	975 795	689 829
Prepaid expenses	<u>376 539</u>	<u>763 857</u>
TOTAL CURRENT ASSETS	\$ <u>48 158 400</u>	\$ <u>55 268 139</u>
INVESTMENTS	<u>5 177 083</u>	<u>5 353 427</u>
PROPERTY AND EQUIPMENT AT COST		
Land and improvements	1 048 310	1 190 635
Buildings	26 468 853	29 083 903
Machinery and equipment	116 511 846	108 677 118
Transportation equipment	11 953 931	12 406 478
Construction in progress	19 131	36 070
Investment property	<u>198 879</u>	<u>246 079</u>
	156 200 950	151 640 283
Less accumulated depreciation	<u>93 620 266</u>	<u>98 619 956</u>
	\$ <u>62 580 684</u>	\$ <u>53 020 327</u>
OTHER ASSETS		
Cash value of life insurance, net of policy loans of \$21,268,801 for 1996 and \$18,252,508 for 1995	2 734 041	1 756 303
Travel and employee advances	7 400	7 200
Deposits on equipment	453 736	2 300 943
Notes receivable, less current portion	<u>892 121</u>	<u>—</u>
	<u>4 087 298</u>	<u>4 064 456</u>
	\$ <u>20 003 465</u>	\$ <u>117 706 339</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

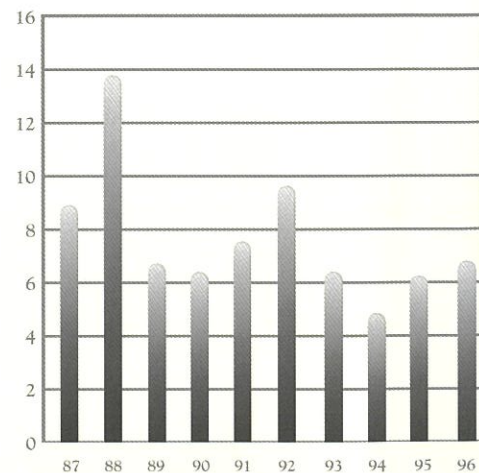
	September 28 1996	September 30 1995
CURRENT LIABILITIES		
Notes Payable	\$ 4 176 172	\$ 3 3 931 959
Current maturities of long term debt	166 991	166 991
Accounts payable	8 778 052	8 295 600
Accrued expenses	4 994 955	5 181 861
Income taxes payable	<u>—</u>	<u>2 177</u>
 TOTAL CURRENT LIABILITIES	 <u>18 116 170</u>	 <u>17 578 588</u>
 DEFERRED COMPENSATION AND OTHER	 <u>8 820 917</u>	 <u>8 011 238</u>
 DEFERRED INCOME TAXES LIABILITY	 <u>4 961 000</u>	 <u>5 468 000</u>
 LONG TERM DEBT	 <u>290 659</u>	 <u>459 224</u>
 TOTAL LIABILITIES	 <u>\$ 32 188 746</u>	 <u>\$ 31 517 050</u>
 STOCKHOLDERS' EQUITY		
Common stock—\$1 par value authorized 15,000,000 shares, issued and outstanding: 1996—3,809,905 shares; 1995—3,858,433 shares;	3 809 905	3 858 433
Additional paid-in capital	292 348	1 237 586
Retained earnings	83 621 999	80 800 517
Unrealized gain on investment securities, net	90 467	292 753
	<u>87 814 719</u>	<u>86 189 289</u>
	<u>\$120 003 465</u>	<u>\$ 117 706 339</u>

Ten Years In Review

	1996	1995	1994	1993
Net Sales	\$ 168,170,145	189,197,269	190,281,730	200,452,577
Net Earnings				
Before Income Tax	8,867,561	9,547,265	6,635,600	9,753,453
Income Tax	2,154,000	3,407,350	1,780,348	3,425,000
Net Earnings	\$ 6,713,561	6,139,915	4,855,252	6,328,453
Dividends Paid	3,820,906	3,870,067	3,907,940	3,929,670
Earnings Retained in Business	83,621,999	80,800,517	78,530,669	77,583,357
Working Capital	\$ 30,042,230	37,689,551	39,369,876	37,447,348
Plant and Equipment Less Depreciation	62,580,684	53,020,327	56,303,426	54,697,233
Stockholder's Equity	\$ 87,814,719	86,189,289	84,217,533	84,153,848
Shares of Stock Outstanding	3,809,905	3,858,433	3,885,825	3,927,452
Book Value Per Share	23.05	22.34	21.67	21.43
Per Share of Stock				
Net Earnings	\$ 1.75	1.59	1.24	1.61
Dividends-Cash	\$ 1.00	1.00	1.00	1.00
Cash Flow	\$ 3.98	3.74	3.32	3.60

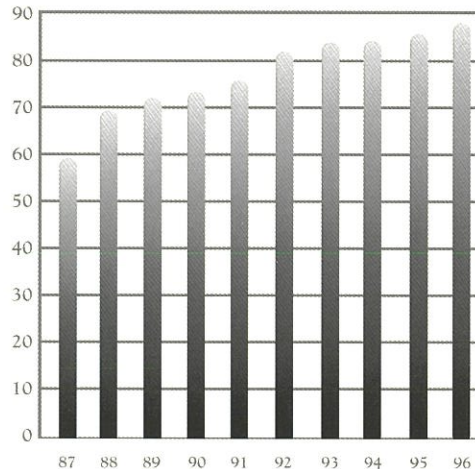
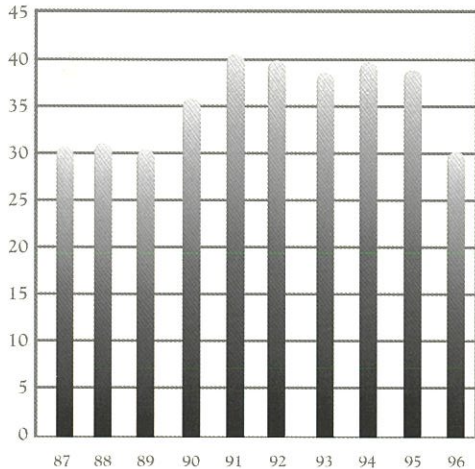


NET SALES
MILLIONS OF DOLLARS



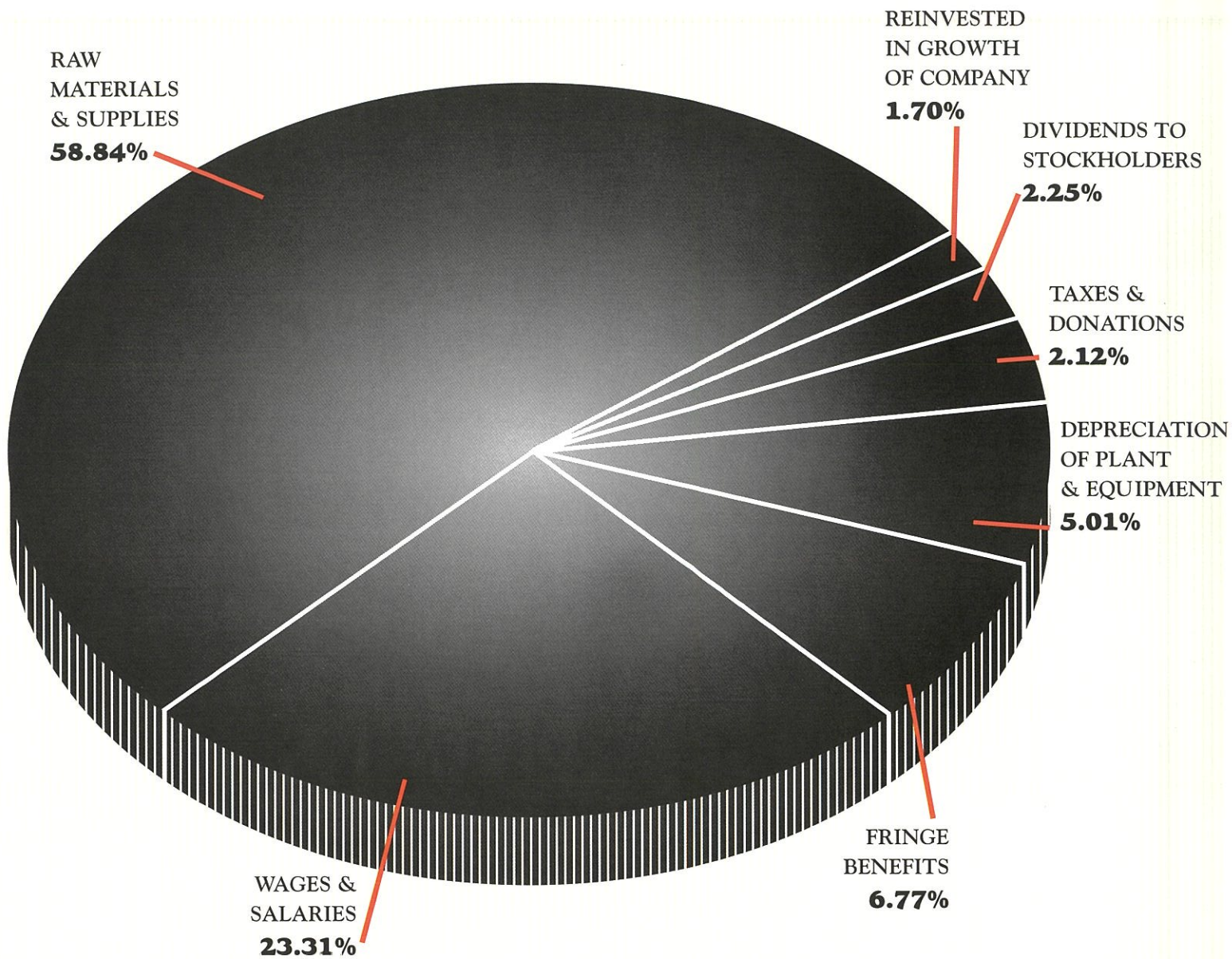
NET EARNINGS
MILLIONS OF DOLLARS

1992	1991	1990	1989	1988	1987
203,725,749	178,782,185	200,548,871	207,997,333	200,621,500	204,205,292
15,739,455	12,214,101	9,985,417	10,941,564	22,891,296	16,653,408
6,139,000	4,659,000	3,753,564	4,286,130	9,103,014	7,719,422
9,600,455	7,555,101	6,231,853	6,655,434	13,788,282	8,993,986
3,954,037	3,881,639	3,968,205	3,985,960	3,941,221	3,244,125
75,184,574	69,538,156	65,864,694	63,601,046	60,931,572	51,084,511
39,665,430	40,282,547	36,651,362	30,723,969	32,114,939	31,064,819
47,599,345	47,911,963	44,221,668	47,525,870	44,296,673	39,884,391
82,083,506	75,945,152	73,882,852	72,217,192	69,786,318	59,291,257
3,943,722	3,866,352	3,949,884	3,980,257	3,992,762	3,948,062
20.81	19.64	18.71	18.14	17.48	15.02
2.47	1.95	1.57	1.67	3.49	2.26
1.00	1.00	1.00	1.00	1.00	.82
4.48	4.02	3.50	3.51	5.19	3.89



WORKING CAPITAL
MILLIONS OF DOLLARS

STOCKHOLDERS' EQUITY
MILLIONS OF DOLLARS



Distribution of Income

Carolina Mills, Inc. and Wholly Owned Subsidiaries

• Wages and Salaries	\$ 39,615,901	23.31%
• Fringe Benefits	11,500,243	6.77
• Raw Materials and Supplies	99,986,519	58.84
• Depreciation of Plant and Equipment	8,518,622	5.01
• Taxes and Donations	3,602,423	2.12
• Reinvested in Growth of Company	2,892,655	1.70
• Dividends to Stockholders	3,820,906	2.25

Total Income

Year ended September 28, 1996

\$169,937,269

100.00%

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
(Sold April 1, 1996)

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 11/23/76

D. Mark Boyd, III
President
Times Oil Corporation
Elected to the Board 11/23/76

George A. Moretz
Vice President
Carolina Mills, Inc.
Elected to the Board 11/23/76

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 11/18/93

J.L. Thompson, Jr.
Director Emeritus
Elected to the Board 11/12/59

● Executive Committee



 **Carolina Mills** Inc.

P.O. Box 157
618 Carolina Avenue
Maiden
North Carolina 28650