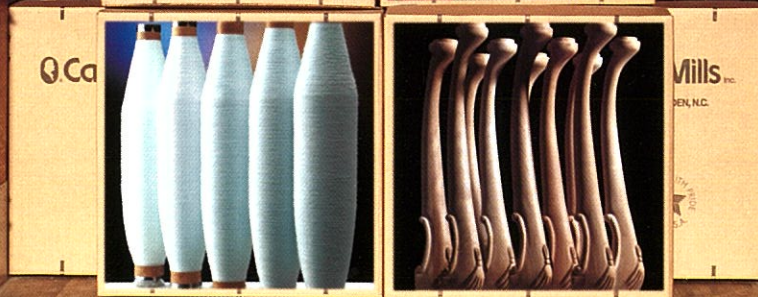


Q. Carolina Mills Inc.
1994 ANNUAL REPORT



**NEXT STOP
CUSTOMERS!**



CAROLINA MILLS INC.
MAIDEN, NC 28650



CAROLINA MILLS INC.
MAIDEN, NC 28650



HIGHLIGHTS

CAROLINA MILLS, INC AND
WHOLLY - OWNED SUBSIDIARIES

	1994	1993
Earnings Per Share	\$ 1.24	\$ 1.61
Sales	190,282,000	200,452,577
Net Income	4,855,000	6,328,453
Stockholders' Equity	84,217,533	84,153,848
Number of Employees	2,220	2,427

Customer Committed

At Carolina Mills, we've always worked with some of the best-known, most respected retailers and manufacturers in the business. So, as we set out to fashion our own success more than 65 years ago, we recognized that there was more at stake than just our good name. For our customers to deliver on their promises to consumers, we must, too.

That is why we have committed ourselves to providing outstanding quality and reliable, accommodating customer service. In each division, we have equipped a dedicated, trained and experienced staff with advanced computer, fax and voice mail technologies, enabling them to monitor ordering, customer inquiries, job quality and delivery with ease. Add to that a complete, private trucking fleet, and you have service and quality control that go the distance.

Now, whether it is raw materials to be incorporated into another company's wares or the finished product supplied directly by CM Furniture, our customers are also buying the reassurance that we will always help them deliver the very best.

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DIRECTORS
ADMINISTRATION

MESSAGE FROM THE PRESIDENT

It was a year of continued progress for Carolina Mills despite the fact that results did not meet our expectations. The economy, while generally good in 1994, had several weak spots one of which was textiles. This had a significant effect on our operations.

In 1994, sales decreased five percent from the prior year to \$190.3 million. Earnings per common share decreased 23 percent to \$1.24 while net earnings decreased \$4.9 million.

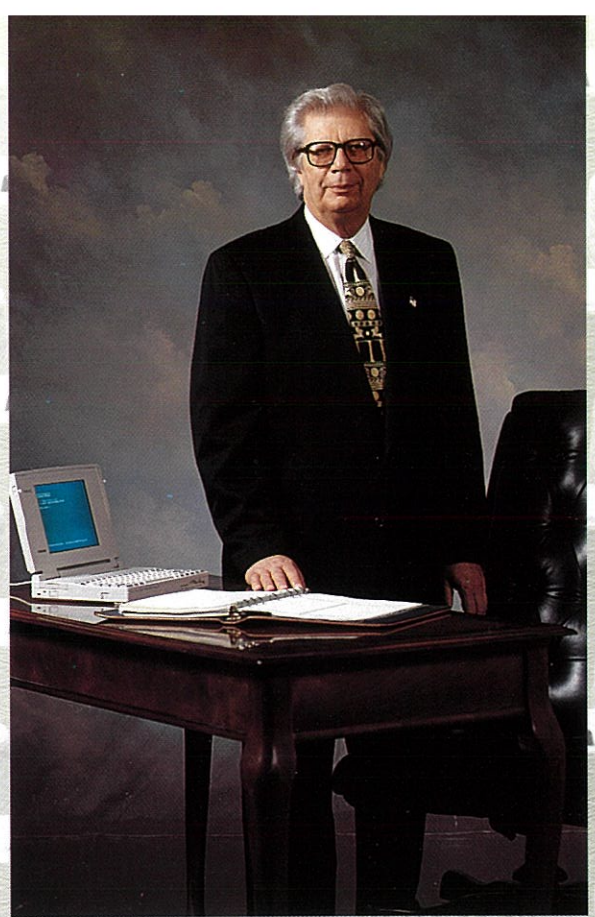
These results were very unsatisfactory but we do believe changes were made and new markets uncovered that will produce more normal results in the future. We continue to focus on delivering superior service, technology, and performance to our customers as well as understanding their businesses and working with them to solve mutual problems. These relationships allow us to anticipate the future with enthusiasm.

Thank you for your support and we look forward to 1995.

Yours very truly,



E.P. Schrum
President



Glove Manufacturers Put Their Hands Together For Outstanding Service

The Weaving Division

The applause from glove manufacturers and other flannel and upholstery clients of the Weaving Division has been positively inspiring this year.

Of all the things we are doing right, one unique service is our policy of analyzing gloves sent to us by our flannel customers. By helping them evaluate the construction, weight and fiber of a particular product

(often an import), we can make materials and product construction decisions that much easier. Often, we can recommend comparable or superior fabrics available through Carolina Mills at an equally attractive price.

On a daily basis, prompt, courteous service and accurate account information are ensured through the use of personal computers by all office personnel. When a customer calls, staff can easily handle orders, schedule production and quote prices without delay. In our upholstery plant, computers help us monitor costs and maximize efficiency. Computers are also used to track daily-updated inventory, shipments-progress status, freight carriers and delivery dates. Bar coding further automates this process in the flannel plant.

Two staff members in our corporate office work exclusively for Plant No. 3 (Flannel) and three others for Plant No. 14 (Upholstery). This dedicated staff set-up allows us to offer more personalized service to every customer.

On a daily basis, prompt, courteous service and accurate account information are ensured through the use of personal computers by all office personnel.



Thomas P. Pruitt, Jr.
Vice President
Weaving Division

Customer remarks: "...Any success we have enjoyed would not have been possible without the help of your customer service people when we needed a special order, your warehouse people when we needed a rush order, your quality people when we had a fabric problem, and the countless other people that make up your 'team.'..."



*Susan Jones and Sherry McRee,
Weaving Division Customer Service*



Polishing Customer Relationships With A Dedicated Team Approach

Finishing Division

Customer service teams are responsible for only a limited number of clients, allowing them more time to concentrate on the individual needs of each customer.

Managing the ins and outs of a customer's account is not a job for just anyone. Only those with a strong working knowledge of the customer's unique products and manufacturing processes can offer our customers the service they deserve.

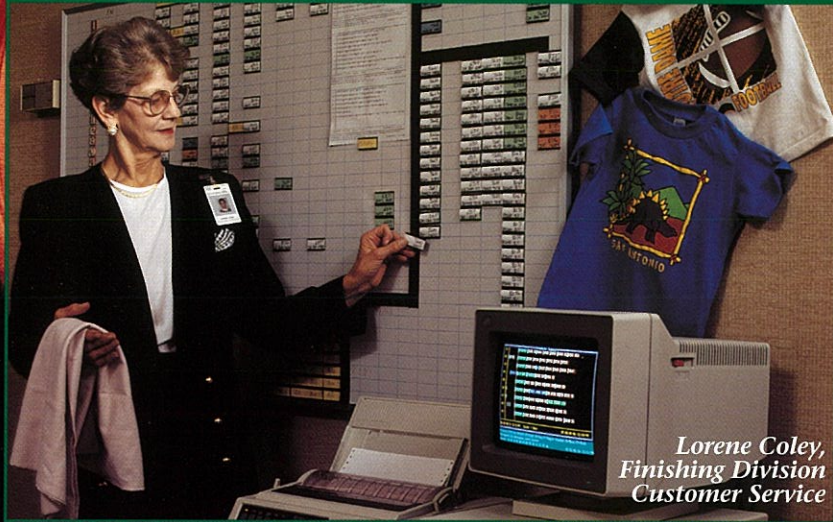
That is why we have divided the Customer Service/Quality Control facet of the Finishing Division into six teams of two members. Each team is responsible for only a limited number of clients, allowing them more time to concentrate on the individual needs of each of their customers. From the time a fabric is received, through processing, testing, completion and shipping, the team monitors every step to ensure the customer's ultimate satisfaction.

Drawn from our office and management staff, aspiring service representatives participate in months of training with an experienced customer service professional before receiving clients of their own. Not only are these individuals capable, they are accessible. Every service representative has an individual phone number which allows callers direct, immediate access to their team.

Automated ordering procedures also contribute to the quality of our customer service. Bar code readings monitored throughout the manufacturing process enable plant management, customer service and quality assurance personnel to locate information with a few quick keystrokes.

Some customers have electronic links with our DataPoint system that allow them to transmit lot number, roll numbers, weights of rolls, and finishing instructions directly into our system. Later, we can send finished data back through this network to verify daily sew-in, projected completion dates and shipping summaries.

Customer remarks: "I would like to thank you for the quick response your organization has been giving us on delivery with excellent quality. As you know in today's market our customers are putting more demands on us and Carolina Mills has stepped up and met the challenge. Thanks again for going the extra mile."



*Lorene Coley,
Finishing Division
Customer Service*



Nailing Customer Service With Automated Order Tracking

Furniture Division



Electronic tracking makes it possible to provide customers with up-to-the-minute information on the availability of products and the status of their orders.

Nowhere is the importance of efficient customer service more apparent than in our CM Furniture Division. All CM products are sold directly to retail stores. Often, products have already been purchased by the consumer before the dealer ever places an order. That means we have two, equally important customers counting on us to perform.

From receipt until shipment, every CM Furniture order receives careful personal attention. On-line, electronic data systems between our plant and customer service representatives in the Maiden office simplify that task, providing accurate and timely information on demand for every order and account.

Electronic tracking makes it possible to provide customers with up-to-the-minute information on the availability of products and the status of their orders. In the finished goods warehouse and shipping department, bar coding supplies extensive detail on all items in production and those on their way out the door.

Rapid turn-around on orders requires careful planning of production schedules, as well, so that we can maintain sufficient inventory to fill our customers' needs. Personal contact with key customers and careful analysis of sales activities also help accomplish this task.

Of course, attentive customer service doesn't end with delivery. Sales aids that can help retailers move CM product are happily supplied to customers upon request. We also quickly follow through on requests for servicing of our products after shipment.

Whether it's our advanced technology or our personal touch, CM Furniture has earned the confidence of the industry's most demanding, discerning customers.

Customer Remarks:

"We love CM Furniture products in our store. With forty thousand square feet of display space, we sell a variety of better quality furniture lines. The style and quality of CM products is outstanding and the service is the best. No other table line equals the quick shipments provided by CM."

*Dennis Henry,
Connie Yarbrough,
CM Furniture
Customer Service*



Unraveling The Secrets Of Effective Communication

Sales Yarn Division

The ability to anticipate and skillfully address a customer's needs and concerns does not just come naturally. Each of our customer service personnel participate in professional seminars and telephone skills workshops to build upon their strengths.



George A. Moretz
Vice President
Sales Yarn Division

By standardizing procedures and account documentation, customer service representatives within the Sales Yarn Division are paving the way for more effective, more accountable communications between the customer and Carolina Mills.

Four personal service representatives attend to the routine administrative needs, inquiries and requests of their assigned customers, accessing their accounts easily and immediately by computer. Each request is then numbered to assist personal account managers in following up on every procedure. Our customers can be doubly confident that their needs will be met.

Of course, the ability to anticipate and skillfully address a customer's needs and concerns doesn't just come naturally. Each of our customer service personnel participate in professional seminars and telephone skills workshops to build upon their strengths.

The more information our people have, the better they can do their jobs. That's why the Sales Yarn Division prepares updated, weekly reports on shipments, product inventory by plant, average weekly shipments, samples mailed and special announcements. Monthly sales and customer service magazines also provide information and new ideas.

For the customer's convenience, personal service representatives have a direct phone number with three separate lines. After hours, during lunch or on weekends, they can conduct urgent business they need by leaving a message on their service representative's personal voice mail.



Customer remarks: "You are an excellent supplier and rank with the Best. You should be proud of your business - quality and service are excellent."

Susan Martin and Scottie Abernethy, Sales Yarn and Sales Yarn Manufacturing Division, Customer Service

Enhanced Quality And Speed Tied To Capital Improvements In '94

Sales Yarn Manufacturing

In Sales Yarn Manufacturing, our commitment to continuous service and quality enhancement led to the completion of several important capital projects during 1994.

As an added convenience, all plants now provide computer-generated bar code labels that enable customers to receive and process our products with the highest degree of accuracy and the least amount of effort.



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

Plant No. 2 was completely revamped with the installation of new Rieter RSB 851 Draw Frames and Savio FRS Open-end Spinning Machines. This significantly increased the flexibility of the plant by allowing more than one product to be produced on a machine simultaneously. These machines can deliver either cones or various tubes depending on the customers' needs.

Plant No. 8 completed the installation of several new Rieter RSB 851 Draw Frames and Schlafhorst SE-9 ACO-288 Open-end Spinning Machines. The fastest and longest spinning machines in the world, these new additions will provide our fine count, open-end yarn customers with premium quality and cost-effective production speeds.

To serve the growing demand for high quality, piled yarns, Plant No. 22 added more doubling and twisting capacity. The new SSM Doubler and Volkman Twisters allow us to offer fine quality and reliable performance in critical applications. These yarns are made without the addition of oils that can create environmental concerns and increased processing costs for our customers.

As an added convenience, all plants now provide computer-generated bar code labels that enable customers to receive and process our products with the highest degree of accuracy and the least amount of effort. And we're continuing to emphasize customer recycling, with all plants now offering returnable, reusable and recyclable packaging materials. Future efforts will minimize the use of cardboard as well as comply with landfill restrictions that our customers face.

OFFICERS

EDWARD P. SCHRUM
Chief Executive Officer,
President, Treasurer

THOMAS P. PRUITT, JR.
Vice President,
Weaving Division
Assistant Treasurer

GEORGE A. MORETZ
Vice President,
Sales Yarn Division
Assistant Secretary

STEPHEN G. DOBBINS, JR.
Vice President, Yarn
Manufacturing Division
Secretary

KENNETH C. ISAAC
Vice President,
Knit Finishing Division
Retired, December 1993



*Carolina Mills, Inc. Officers:
(l. to r.) Stephen G. Dobbins, Jr.,
Edward P. Schrum, Thomas P. Pruitt, Jr.,
and George A. Moretz*

CAROLINA MILLS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

October 1, 1994 and October 2, 1993



	October 1 1994	October 2 1993
ASSETS		
CURRENT ASSETS		
Cash	\$ 805 291	\$ 1 091 075
Investments	5 227 586	5 244 141
Accounts receivable trade less allowance for doubtful accounts of \$639,500 for 1994 and \$619,500 for 1993	28 832 101	27 119 868
Income tax refund receivable	56 209	-
Notes receivable	-	12 000
Inventories	22 124 637	21 935 768
Deferred income taxes	822 000	624 000
Prepaid expenses	<u>315 799</u>	<u>886 907</u>
TOTAL CURRENT ASSETS	<u>\$ 58 183 623</u>	<u>\$ 56 913 759</u>
PROPERTY AND EQUIPMENT		
Land	1 066 493	1 066 493
Buildings	28 814 848	28 566 800
Machinery and equipment	107 819 783	101 600 798
Transportation equipment	12 000 141	12 063 699
Construction in progress	3 413	-
Investment property	<u>246 079</u>	<u>250 563</u>
	149 950 757	143 548 353
Less accumulated depreciation	<u>93 647 331</u>	<u>88 851 120</u>
	<u>56 303 426</u>	<u>54 697 233</u>
OTHER ASSETS		
Cash value of life insurance, net of policy loans of \$15,813,241 for 1994 and \$11,464,475 for 1993	1 321 028	3 412 165
Notes receivable less current portion	-	8 016
Travel and employee advances	6 500	10 093
Deposits on equipment	<u>140 429</u>	<u>1 263 775</u>
	<u>1 467 957</u>	<u>4 694 049</u>
	<u>\$115 955 006</u>	<u>\$116 305 041</u>

October 1
1994

October 2
1993

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Notes Payable	\$ 3 622 725	\$ 2 824 054
Current maturities of long term debt	166 991	--
Accounts payable	9 281 876	11 132 605
Accrued expenses	5 336 706	5 500 854
Income taxes payable	<u>405 449</u>	<u>8 898</u>

TOTAL CURRENT LIABILITIES 18 813 747 19 466 411

DEFERRED COMPENSATION AND OTHER 7 206 512 6 598 039

DEFERRED INCOME TAXES 5 091 000 5 251 790

LONG TERM DEBT 626 214 834 953

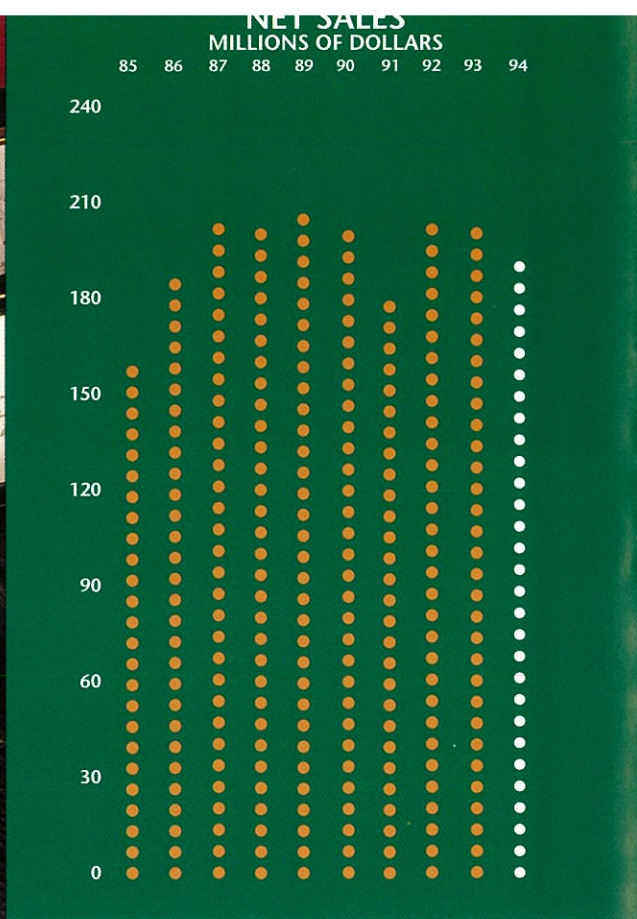
TOTAL LIABILITIES 31 737 473 32 151 193

STOCKHOLDERS' EQUITY

Common stock—\$1 par value Authorized 15,000,000 shares, Issued and outstanding: 1994—3,885,825 shares; 1993—3,927,452 shares	3 885 825	3 927 452
Additional paid-in capital	1 801 039	2 643 039
Retained earnings	<u>78 530 669</u>	<u>77 583 357</u>
	<u>84 217 533</u>	<u>84 153 848</u>

\$115 955 006 \$116 305 041

Ten Years In Review

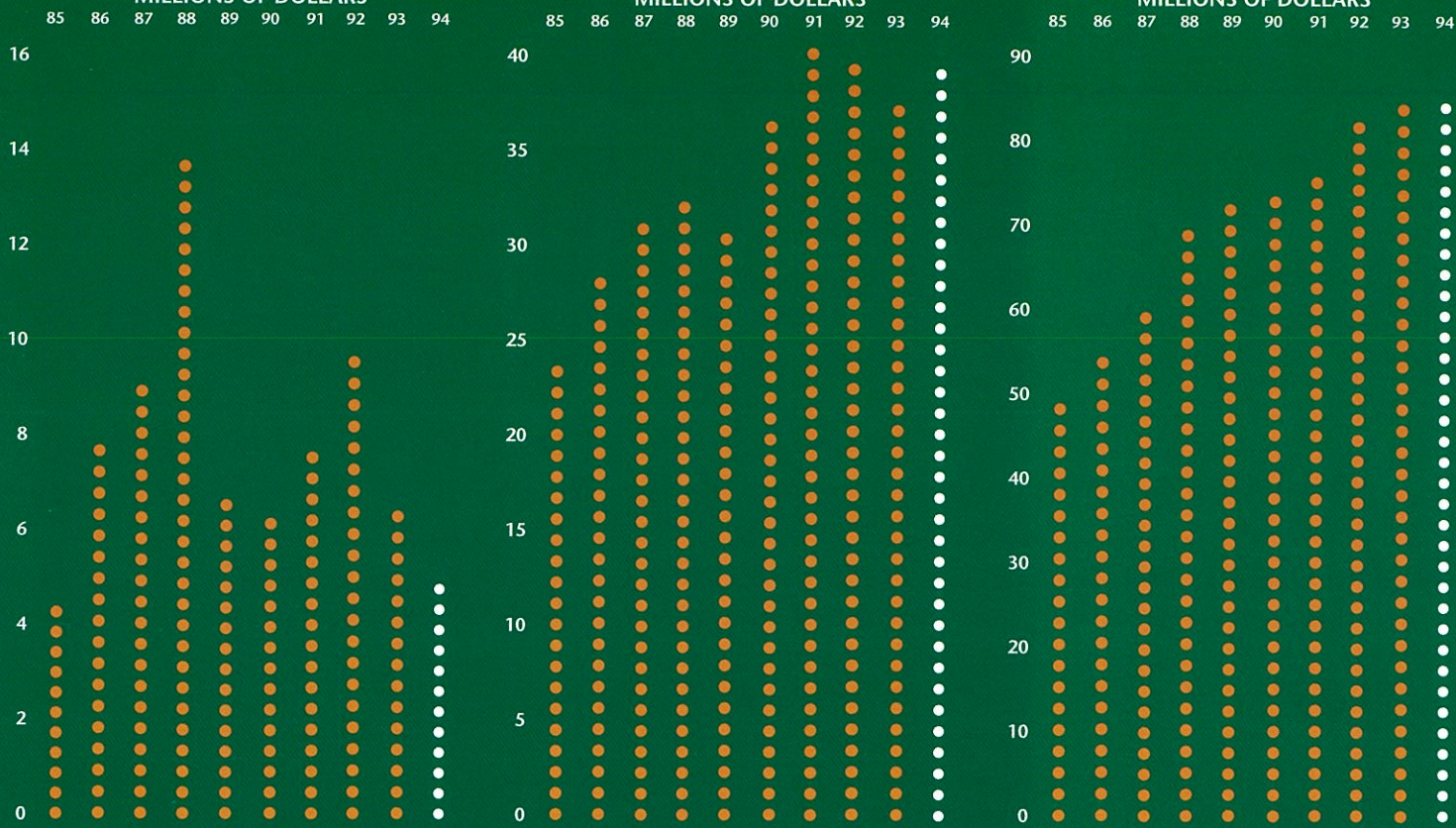


	1994	1993	1992	1991
Net Sales	\$190,281,730	200,452,577	203,725,749	178,782,185
Net Earnings Before Income Tax	\$ 6,635,600	9,753,453	15,739,455	12,214,101
Income Tax	\$ 1,780,348	3,425,000	6,139,000	4,659,000
Net Earnings	\$ 4,855,252	6,328,453	9,600,455	7,555,101
Dividends Paid	\$ 3,907,940	3,929,670	3,954,037	3,881,639
Earnings Retained in Business	\$ 78,530,669	77,583,357	75,184,574	69,538,156
Working Capital	\$ 39,369,876	37,447,348	39,665,430	40,282,547
Plant and Equipment Less Depreciation	\$ 56,303,426	54,697,233	47,599,345	47,911,963
Stockholder's Equity	\$ 84,217,533	84,153,848	82,083,506	75,945,152
Shares of Stock Outstanding	\$ 3,885,825	3,927,452	3,943,722	3,866,352
Book Value Per Share	\$ 21.67	21.43	20.81	19.64
Per Share of Stock				
Net Earnings	\$ 1.24	1.61	2.47	1.95
Dividends-Cash	\$ 1.00	1.00	1.00	1.00
Cash Flow	\$ 3.32	3.60	4.48	4.02

NET EARNINGS
MILLIONS OF DOLLARS

WORKING CAPITAL
MILLIONS OF DOLLARS

STOCKHOLDERS' EQUITY
MILLIONS OF DOLLARS

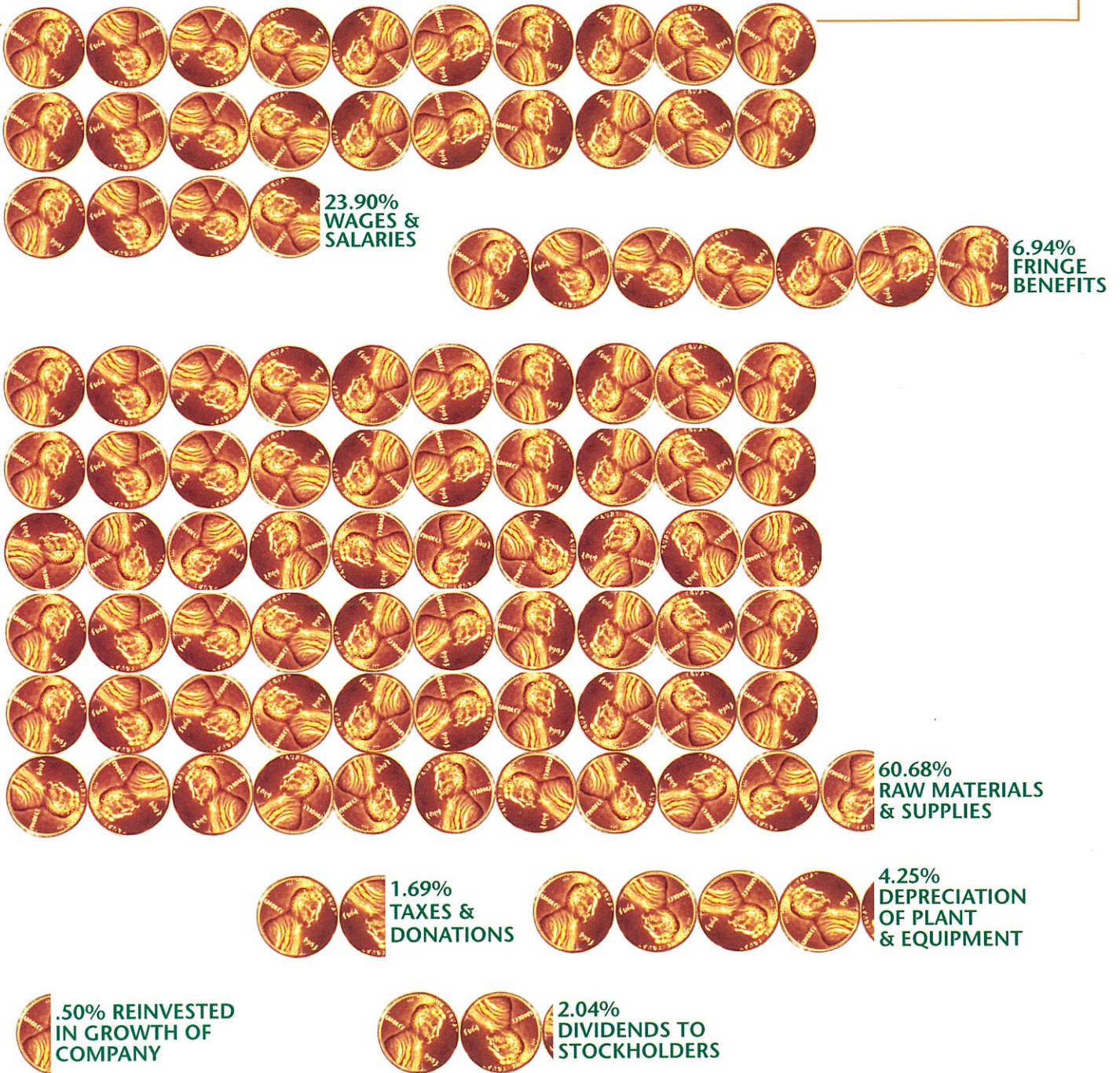


	1990	1989	1988	1987	1986	1985
NET EARNINGS	200,548,871	207,997,333	200,621,500	204,205,292	187,884,211	158,120,387
Operating Income	9,985,417	10,941,564	22,891,296	16,653,408	14,092,129	6,947,797
Interest Expense	3,753,564	4,286,130	9,103,014	7,719,422	6,318,822	2,622,447
NET EARNINGS	6,231,853	6,655,434	13,788,282	8,993,986	7,773,307	4,325,350
Income Tax Expense	3,968,205	3,985,960	3,941,221	3,244,125	2,383,694	2,071,535
Minority Interest	65,864,694	63,601,046	60,931,572	51,084,511	45,394,650	40,005,037
NET EARNINGS	36,651,362	30,723,969	32,114,939	31,064,819	28,156,515	23,565,436
Goodwill Impairment	44,221,668	47,525,870	44,296,673	39,884,391	38,500,889	37,503,718
NET EARNINGS	73,882,852	72,217,192	69,786,318	59,291,257	54,041,111	48,437,934
Other Income	3,949,884	3,980,257	3,992,762	3,948,062	3,988,469	3,396,859
Other Expense	18.71	18.14	17.48	15.02	13.55	12.30
NET EARNINGS	1.57	1.67	3.49	2.26	1.96	1.09
Other Expense	1.00	1.00	1.00	.82	.60	.52
NET EARNINGS	3.50	3.51	5.19	3.89	3.42	2.46

Distribution of Income

Carolina Mills, Inc and Wholly Owned Subsidiaries

• Wages and Salaries	\$ 45,820,149	23.90%
• Fringe Benefits	13,307,391	6.94
• Raw Materials and Supplies	116,334,860	60.68
• Depreciation of Plant and Equipment	8,143,779	4.25
• Taxes and Donations	3,246,229	1.69
• Reinvested in Growth of Company	947,312	.50
• Dividends to Stockholders	3,907,940	2.04
Total Income	\$191,707,660	100.00%
<i>Year ended October 1, 1994</i>		



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 05/24/72

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

Investments
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

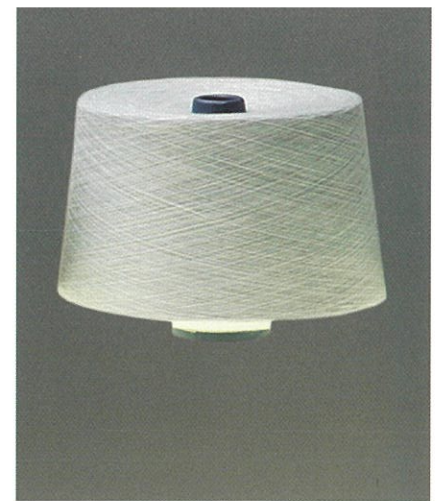
J.L. Thompson, Jr.

Director Emeritus
Elected to the Board 11/12/59

•Executive Committee

CORPORATE HEADQUARTERS

P.O. Box 157
618 Carolina Avenue
Telephone (704) 428-9911
FAX (704) 428-2335



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,
Bob Cook, 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. 4N/Newton, NC
Commission finishing tubular knit goods,
Robert Bristow, Plant Manager

PLANT No. 4C/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*



The image shows the back of a white box truck with its double doors open. The truck is set against a green background. The doors are held open by two vertical metal struts. On the top edge of the doors, there are two sets of red lights. A horizontal green stripe runs across the middle of the doors, with a yellow stripe below it. The Carolina Mills Inc. logo, featuring a yellow silhouette of a person's head in a green circle, is on the left side of the doors. The text "Carolina Mills Inc." is printed in green across the doors. At the bottom of the doors, there are two sets of red lights and a "Great Dane" logo. Below the doors, there are three white signs: one on the left, one in the center, and one on the right. The left and right signs feature the Carolina Mills Inc. logo and the text "CAROLINA MILLS INC. MAIDEN, NC 28650". The center sign says "NEXT STOP CUSTOMERS!".

 Carolina Mills Inc.

Great Dane

NEXT STOP
CUSTOMERS!



CAROLINA MILLS INC.
MAIDEN, NC 28650



CAROLINA MILLS INC.
MAIDEN, NC 28650