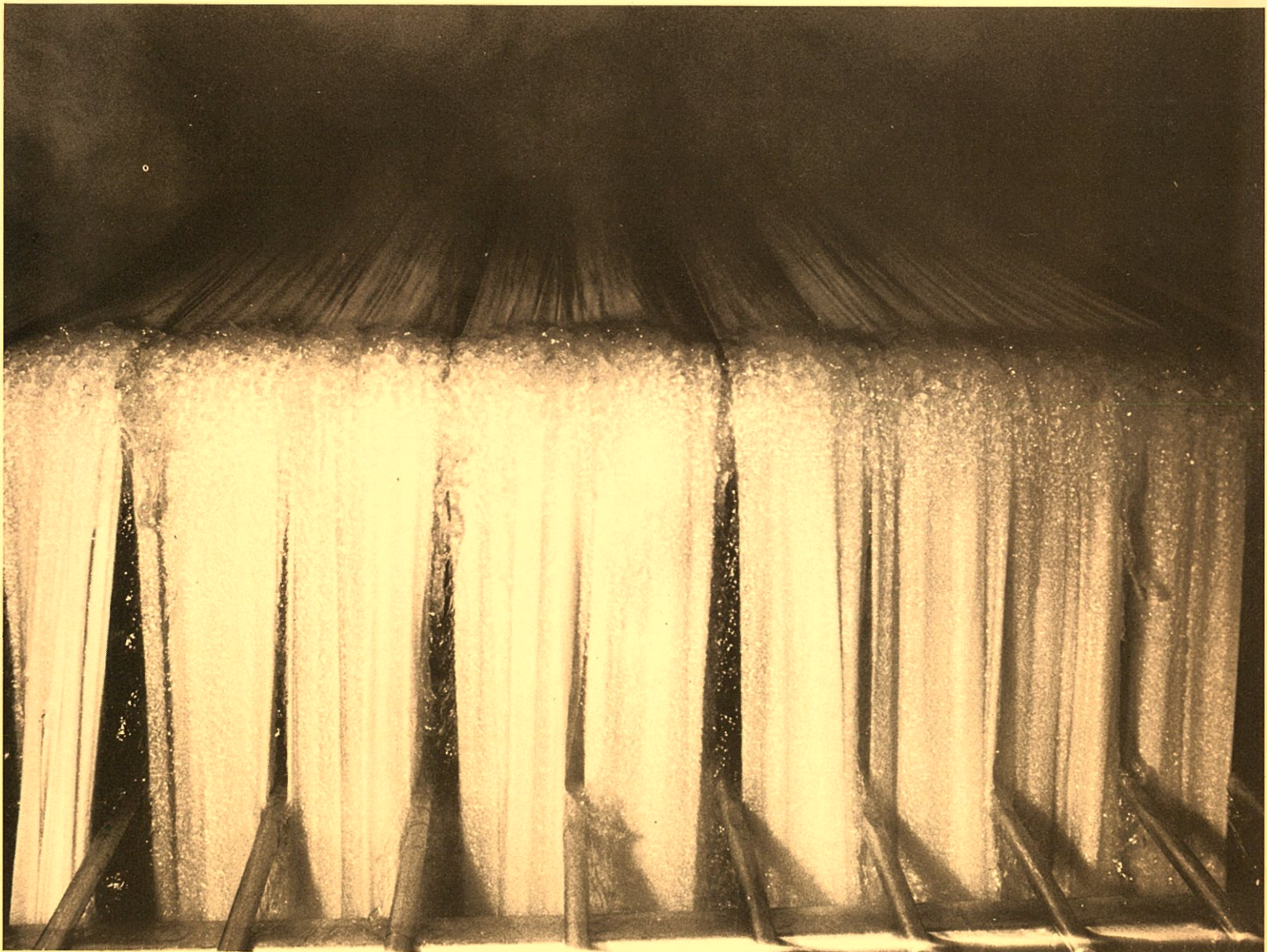


CAROLINA MILLS, INC.
ANNUAL REPORT 1980



ON OUR COVER

The background image on our cover shows fabric being processed during a dye cycle in a ten foot atmospheric dye beck at Carolina Mills plant #4 in Newton. See pages 6 and 7 for a feature article on our Knit Finishing Division.

CORPORATE ADDRESS

Carolina Mills, Inc.
618 Carolina Avenue
Maiden, North Carolina 28650
P. O. Box 157
Telephone (704) 428-9911

To Our Shareholders:

Another year has passed and we are proud of an excellent year at Carolina Mills. 1980, the best year in our history, was made possible by co-operation from each company employee. We were able to reach sales of \$93,393,000, a fifteen per cent increase over last year with net earnings of \$4,593,000, a seven per cent increase over 1979. These results during a recessionary year are good indicators of the underlying strength of our company

During the year, we took a very important step in merging Null Manufacturing Corporation into Carolina Mills, Inc. This was accomplished through an exchange of common shares and we believe this broadening of our product line by diversifying into furniture manufacturing will enable us to generate better income on a more consistent basis. Our plans for Null include a new modern facility, now under construction, that will consolidate all Null Manufacturing units and double their capacity. This plant should be in operation late in 1981. We anticipate good future results from this move.

In our textile operations, we continue to move forward with more and better modernization programs. It is our aim to make Carolina Mills second to no other textile facility with regard to manufacturing facilities, working conditions, and quality products. In this way we feel we can best serve the stockholders as well as our employees. 1981 will be used to continue this effort.

Edward P. Schrum

Edward P. Schrum
President



Highlights of The Year

Carolina Mills, Inc.
And Wholly Owned Subsidiaries

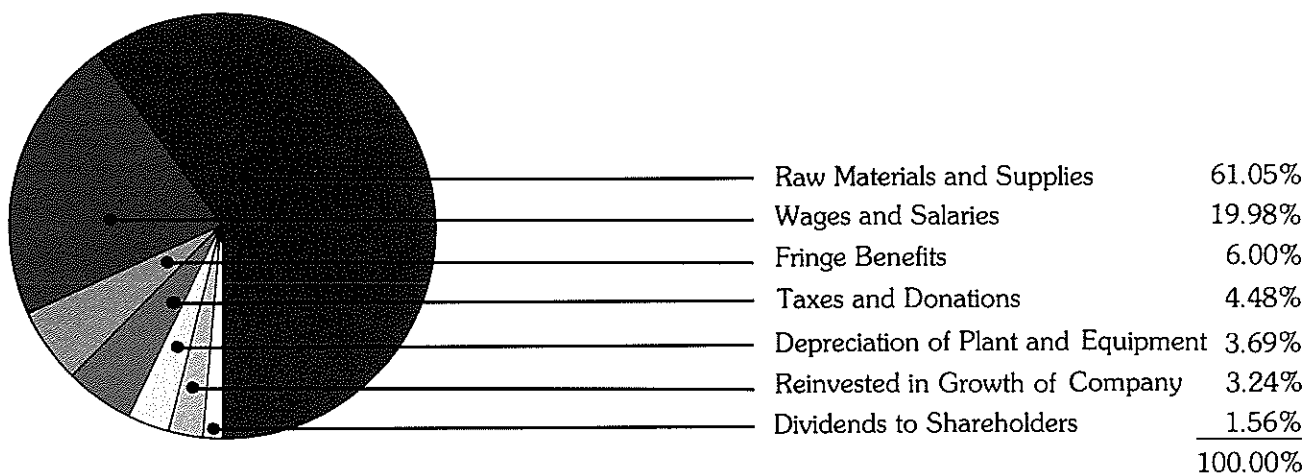
	Year Ended	
	September 27, 1980	September 29, 1979
Operations:		
Sale of Products	\$93,363,384	\$80,925,750
Earnings Before Income Taxes.....	8,269,717	7,614,133
Net Income After Taxes.....	4,593,149	4,285,385
Depreciation and Amortization.....	3,480,025	3,134,477
Cash Flow	8,073,174	7,419,862
Financial Position:		
Working Capital	16,166,995	9,693,813
Long-Term Debt.....	5,590,592	1,085,641
Total Assets	43,713,845	38,143,336
Stockholders' Equity	28,065,843	24,734,217
Shares Outstanding End of Year	3,452,815	3,399,046
Per Share of Common Stock:		
(1) Earnings After Taxes	\$1.35	\$1.26
Cash Flow	\$2.34	\$2.18
Cash Dividends.....	\$.43	\$.40
Book Value at End of Year.....	\$8.13	\$7.28

(1) Computed Based Upon Average Shares
Outstanding

Distribution of Each Dollar of Income

Carolina Mills, Inc.
And Wholly Owned Subsidiaries
Year Ended September 27, 1980

Total Income	<u>\$94,192,762</u>	<u>100.00%</u>
Wages and Salaries	\$18,815,378	19.98
Fringe Benefits	5,655,498	6.00
Raw Materials and Supplies	57,503,499	61.05
Depreciation of Plant & Equipment	3,478,800	3.69
Taxes and Donations	4,217,611	4.48
Reinvested in Growth of Company	3,053,387	3.24
Dividends to Shareholders	<u>1,468,589</u>	<u>1.56</u>
Total	<u>\$94,192,762</u>	<u>100.00%</u>



The Year in Review

The big news for the year just ended is that for the first time Carolina Mills ventured outside textiles into the furniture industry. The acquisition of Null Manufacturing Corporation even further diversifies our product line which already includes sales yarn, upholstery fabrics, canton flannel, and commission finishing of tubular knit goods. Including subsidiaries, Carolina Mills' total employment is now 1,662.

Our company received a national award for joining with area high school students to extol the value of our free enterprise system. Employees also became involved by sponsoring children in a free enterprise coloring book contest featuring Sally Squirrel and Tommy Turtle. The praises of "Beautiful Tar Heel Textiles" were proclaimed in schools, communities and with a display at the local shopping mall. For year ending 12/31/79, employees received for the first time service awards for ten, fifteen and twenty years of service with our company. These are in addition to the five and twenty-five year awards which have been presented for some time. A company-wide newspaper named the "Carolina Quarterly" by the employees was begun during 1980.

Weaving Division

Despite the economy being slightly depressed, plant #3's dollar volume of sales was only 1.6% less than the previous year. We have high expectations of showing an improvement for the coming year. The last planned phase of total modernization was started in mid-October. By January of 1981, plant #3 will be completely equipped with the latest cotton processing machinery available, from automatic bale grabbing through shuttleless looms. This will include the same type new high speed cards that were installed in our warp spinning operation last year which have proved very successful in our operation. This installation is the last step necessary to meet all OSHA dust standards. It will also make this plant as modern and up-to-date as any mill processing 100% cotton. It is a plant that all of Carolina Mills can be proud of.

Sales of residential upholstery fabrics declined during the past year primarily due to the drop in new housing starts. In spite of this, plant #14 had a 40.6% increase in dollar volume of sales over the previous year. The sales of nylon contract fabrics were largely responsible. Service and quality from this plant continues to attract an increasing number of customers in contract furniture manufacturing.

Sales Yarn Division

Through the dedication and cooperation of our people, the Sales Yarn Division has completed another successful year in spite of the ups and downs of the 1980 economy.

The market for sales yarn this past year was relatively good until June. Beginning in June and through the fourth quarter our sales yarn operations were adversely affected by the recession. Our operating schedules were curtailed in line with company policy to control inventories. Export sales continued to grow and accounted for over 10% of our volume. We are pleased with the progress we have made in exporting our yarns and are continuing our efforts to broaden the customer base in the world market.

Major emphasis at Plant #1 is on marketing yarns with higher margins to the knit outerwear trade, making use of the flexibility of product mix available in this plant to improve our margins. Plant #1 completed the installation of two new Schlafhorst model 138 Autoconers featuring the latest in automatic winding technology.

At plant #2 work has concentrated on improving yarns for the hosiery trade and developing yarns for the sweater trade. We are very optimistic about these developments and expect to see improved performance of this plant this next year. Plant #2 completed the rebuilding and updating of its Ingolstadt open-end spinning frames.

Plant #5 has had steady business for most of the year. Emphasis is being placed on developing a program with higher margins this next year to improve plant performance. The main thrust of our capital improvements during 1980 was concentrated in the Lincoln plants. Plant #5 replaced all the old winders by installing eight new Schlafhorst model 138 Autoconers.

Plant #6 was adversely affected early in the year by the product mix change made the previous year. This plant was changed from acrylic yarns to polyester yarns in April and improved results have already been realized. Plant #6 was completely renovated with the addition of eight new Marzoli cards, eight new Versamatic draw frames. This project included a remodeling of the old building and a new building addition featuring a new canteen, employee entrance, new restrooms, a nurse's station, new offices and additional air conditioning to insure a pleasant and comfortable work environment. We are confident this plant will have a much better year as a result of these changes.

Plant #8 had a most successful year. This plant was the last to feel the affects of the recession. We have developed several new blends for the market which we anticipate will help plant performance this next year.

Plant #12 was the first plant to feel the affects of the recession. In spite of an adverse market for six months, this plant did quite well and we look for improved markets this next year. Plant #12 completed the installation of six new Rovematic roving frames which have significantly improved the quality of the yarn produced in this plant.

In spite of the difficult period encountered toward the end of the fiscal year, the yarn division increased sales 4.3% in unit volume while dollar sales increased 15.2%. We feel the yarn market hit bottom during the fourth quarter of our fiscal year and we are now on the road to recovery. Our performance this next year will depend on how quickly and strongly the economy recovers from the recession.

Knit Finishing Division

This past year has been a period of growth for plant #4. The addition of four new A.T.Y.C. low liquor dyeing machines, which use less water and chemicals, has allowed us to improve our dye efficiency and production capability. This addition plus the implementation of a prebleaching process gives us the capability to dye 200,000 pounds weekly. A new six-reel Proctor Schwartz dryer and a new Tubular Textile Calendar machine have relieved production flow problems in finishing and allowed us to reach a six-day production level of 500,000 pounds finished. The growth realized in our dye programs and the holding steady in our bleach programs enabled plant #4 to establish new records in pounds produced and total dollar volume. For the fiscal year ending September 27, 1980, we produced over 22,000,000 pounds.

We consider ourselves fortunate to have overall a fine group of customers who provide us with a full work week. Going into the new fiscal year we are continuing our six-day work week and it appears that we will have a good first quarter.

Carolina Mills plant #4 continues to be known industry-wide as a quality finisher, giving excellent service to the customer. We see no change for 1981 at this time and feel that our production will continue.

Furniture Division (Null Manufacturing)

In June of 1980 Carolina Mills and Null Manufacturing reached an agreement to merge through an exchange of common stock. Null, a manufacturer of exposed wood family room furniture, fully upholstered furniture and occasional tables, is operating as a wholly owned subsidiary of Carolina Mills and has retained its company name. Groundbreaking ceremonies were held October 13 for a new \$8-½ million plant to be completed by the fall of 1981 which will consolidate their operations from three units into one. It is expected that the new facility will increase overall employment by about 200 persons, or double their current number. Carolina Mills is happy to welcome this new member to the family.

Knit Finishing Division

In the late 1940's and early 50's, Carolina Mills operated a unit in Newton known as Knitmode, which made knit garments for babies. After bleaching and dyeing the knit goods for their own cutting and sewing operation, this plant had extra capacity to handle small programs of commission work for outside customers. In 1953 the Knitmode operation was sold and moved except for the dyeing and finishing portion. This remained as part of Carolina Mills and continued handling commission work for outside customers; thus, the birth of plant #4 as a commission dyeing and finishing operation, destined to become the largest in the south. Production capacity, about 20,000 to 25,000 pounds per week at that time, in 1980 reaches 500,000 pounds in some weeks. Fabrics processed at plant #4 go into a wide range of end usage including underwear for men and women, sleep and loungewear for women, sportswear (golf shirts, tennis shirts, etc.), diapers and even throw covers for sofas and chairs.

Plant #4 has become known throughout the tubular knit goods industry in this country and many foreign countries basically as a result of two important developments. In 1965 a special shrinkage machine was developed at plant #4 and made into a productive process. This process, which reduces and controls shrinkage on tubular knit goods was a major improvement in quality production, and was later sold to the Sanforize Company. Today it is the well-known "San-for-Knit" process. One of the most common places this term appears is in the Sears catalog.

The second major development occurred in 1966. The creation of a continuous bleaching kier enabled the knit goods industry to bleach continuously at the rate of 1500 pounds of fabric per hour. These machines are now in operation in plants in Canada, Mexico, Japan, Australia, Egypt, Hungary and Turkey.



Ken Isaac, vice president, Knit Finishing Division.

As the business began to grow, so did the problem of maintaining a dependable work force. Since plant #4 was basically set up for a six-day schedule, it was necessary to operate the plant on Saturdays. Competing with other industries in the area who did not require Saturday work or second shift employees was tough. But Carolina Mills' management has never been afraid of a challenge. Thus, the



Customer coordinators Lorene Coley (standing) and Doris Miller (seated) review customers' orders.

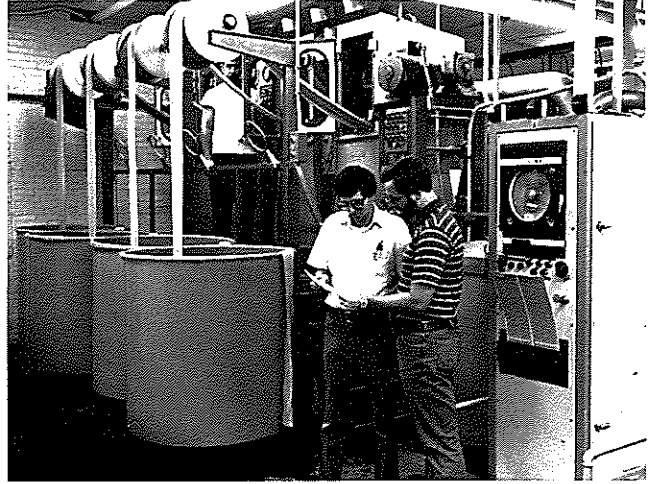


Robert Bristow, plant manager, reviews weekly production report from the computer with Becky Harris, data coordinator and computer operator.

decision was made to adopt an idea unique to this area at that time. They would implement the three-day work week, whereby employees would work twelve hours per day for three days each week, utilizing two day and two night shifts. This has been extremely successful, resulting in improved attendance, decreased turnover, better quality and quantity production and happier employees. After operating six years under this program, plant #4 is fully staffed with the finest overall work force in the plant's history and



Left to right: Jack Mehaffey, washer operator; Ervin Keever, quality control supervisor; Louis Williams, washer operator; and Junior Davis, shift supervisor observe fabric after final washing in continuous bleaching kier.



Bob Lineberger (left), superintendent of dyeing, and Terry Michaels (right), assistant dyeing superintendent, check shading on fabric being unloaded from the A.T.Y.C. low liquor ratio dyeing machine. Grady Campbell, operator, is in background.

has a waiting list for those seeking employment with them.

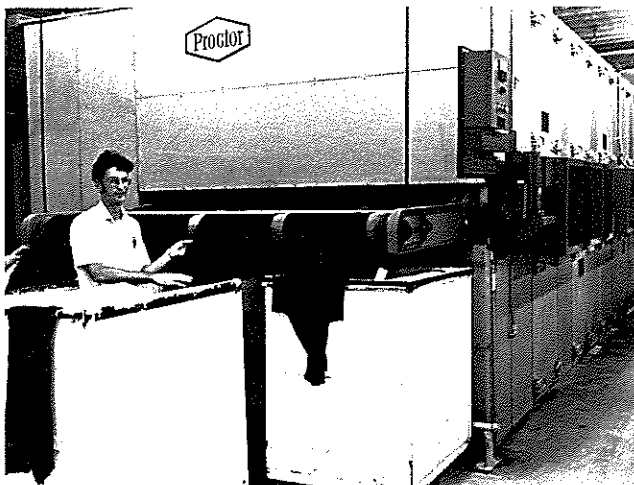
The upgrading of machinery and a full work force increased production to the point that a faster, more efficient method of controlling and monitoring the processing was necessary. In November of 1977, installation of a sophisticated computer system was begun. Now complete and being fully utilized, this system handles billing, invoicing, processing instructions and dye chemicals inventory. It retains

1300 dye formulas and can print out the entire formula at a moment's notice.

According to Ken Isaac, Vice President of Knit Finishing, a lot of the success of plant #4 can be attributed to the people in leadership positions at the plant. These people have all come from within the company, having been trained and promoted as openings occur. One of the prime examples is the plant manager, Robert Bristow, who as a high school student worked

with the company. He then continued his education at North Carolina State University on a Carolina Mills scholarship, returning after graduation to enter the company's training program.

"We have an excellent group to work with throughout the entire plant," stated Isaac. "They are very proud of our operation here at plant #4, and in turn we are very proud of them."



Frank Lineberger, shift foreman in the finishing department, checks fabric going into the six-reel dryer.



Steve Henry, warehouseman, schedules a batch of fabric for processing.

Statement of Condition
Carolina Mills, Inc.
And Wholly Owned Subsidiaries

Assets	September 27, 1980	September 29, 1979
Current Assets:		
Cash.....	\$ 2,482,294	\$ 2,009,485
Notes Receivable	355,437	73,980
Accounts Receivable, Less Allowance of \$288,500 for 1980; \$271,00 for 1979	11,580,262	10,001,289
Inventories.....	10,333,583	8,215,822
Temporary Investments.....	999,375	896,077
Prepaid Expenses.....	237,069	262,500
Overpayment of Federal Income Taxes	236,385	558,138
Total Current Assets.....	\$ 26,224,405	\$ 22,017,291
Investments at Cost	39,400	14,400
Property, Plant and Equipment-at Cost Land.....	248,633	129,488
Buildings and Equipment	33,799,461	32,629,595
Total.....	\$ 34,048,094	\$ 32,759,083
Less Accumulated Depreciation	17,473,870	17,768,578
Depreciated Cost	\$ 16,574,224	\$ 14,990,505
Construction in Progress	52,047	-0-
Leased Property Under Capital Leases, Less Accumulated Amortization	772,350	1,113,580
Total.....	\$ 17,398,621	\$ 16,104,085
Other Assets:		
Other Notes and Accounts Receivables.....	\$ 8,231	\$ 2,888
Cash Value Life Insurance	6,828	-0-
Deposits.....	425	425
Deferred Loan Expenses.....	3,022	4,247
Deferred Interest.....	32,913	-0-
	\$ 51,419	\$ 7,560
Total Assets.....	\$ 43,713,845	\$ 38,143,336

Liabilities and Stockholder's Equity

Current Liabilities:		
Notes Payable:		
Occidental Life Insurance—Current.....	\$ 269,231	\$ 269,231
Installment Loans—Current	73,663	-0-
Banks.....	395,411	3,000,000
Obligations Under Capital Leases—Current....	341,230	325,896
Accounts Payable.....	5,145,374	5,314,409
Accrued Accounts.....	3,475,397	3,158,407
Federal and State Income Taxes	357,104	255,535
Total Current Liabilities.....	\$ 10,057,410	\$ 12,323,478
Deferred and Long-Term Liabilities.....	5,590,592	1,085,641
Total Liabilities.....	\$ 15,648,002	\$ 13,409,119
Stockholders' Equity:		
Capital Stock—Common		
Authorized 5,000,000 Shares—\$1.00 Par Issued and Outstanding 3,452,815 in 1980 and 3,399,046 in 1979	\$ 3,452,815	\$ 3,399,046
Capital Surplus	2,764,627	2,611,330
Retained Earnings.....	21,848,401	18,723,841
Total Stockholders' Equity	\$ 28,065,843	\$ 24,734,217
Totals.....	\$ 43,713,845	\$ 38,143,336

Condensed Statement of Changes in Financial Position

Carolina Mills, Inc.

And Wholly Owned Subsidiaries

	Fiscal Year Ended	
	September 27, 1980	September 29, 1979
Sources of Working Capital		
Earnings for the Year	\$ 4,593,149	\$ 4,285,385
Depreciation and Amortization	3,480,025	3,134,477
Working Capital Provided From Operations	<u>\$ 8,073,174</u>	<u>\$ 7,419,862</u>
Book Value of Fixed Assets Disposed	4,618	40,459
Sale of Common Stock	1,575	9,964
Increase in Deferred Federal Income Taxes	65,175	28,726
Increase in Long-Term Debt	4,439,776	-0-
Working Capital Adjustment-Due to Acquiring Subsidiary-Null Manufacturing Corp. on July 1, 1980	<u>392,427</u>	<u>-0-</u>
Total	<u><u>\$12,976,745</u></u>	<u><u>\$ 7,499,011</u></u>
Disposition of Working Capital		
Acquisition of Plant and Equipment	\$ 4,777,954	\$ 4,290,105
Cash Dividends Paid	1,468,589	1,363,840
Purchase and Retirement of Treasury Stock	186,936	109,856
Increase in Other Assets	70,084	2,040
Decrease in Long-Term Debt	-0-	3,159,775
Total	<u>\$ 6,503,563</u>	<u>\$ 8,925,616</u>
Increase (Decrease) in Working Capital	<u>6,473,182</u>	<u>(1,426,605)</u>
	<u><u>\$12,976,745</u></u>	<u><u>\$ 7,499,011</u></u>
Changes in Components of Working Capital		
Increase or (Decrease) in Current Assets:		
Cash	\$ 472,809	\$(2,999,616)
Notes and Accounts Receivable	1,860,430	1,507,074
Inventories	2,117,761	463,621
Temporary Investments	103,298	(8,000)
Deferred Charges	(25,431)	100,037
Overpayment Federal Income Taxes	<u>(321,753)</u>	<u>558,138</u>
	<u>\$ 4,207,114</u>	<u>\$ (378,746)</u>
Increase or (Decrease) in Current Liabilities:		
Notes Payable	\$ (2,530,926)	\$ 2,200,000
Obligations Payable	15,334	14,650
Accounts Payable	(169,035)	93,924
Accrued Accounts	<u>418,559</u>	<u>(1,260,715)</u>
	<u>\$ (2,266,068)</u>	<u>\$ 1,047,859</u>
Increase (Decrease) in Working Capital	<u><u>\$ 6,473,182</u></u>	<u><u>\$(1,426,605)</u></u>

Statement of Earnings and Retained Earnings

Carolina Mills, Inc.

And Wholly Owned Subsidiaries

	Fiscal Year Ended	
	September 27, 1980	September 29, 1979
Year Ended September 27, 1980 With Comparative Figures for 1979		
Statement of Earnings:		
Net Sales	\$93,363,384	\$80,925,750
Cost of Sales	83,286,084	72,048,935
	<u>\$10,077,300</u>	<u>\$ 8,876,815</u>
Other Income (Deduction) Net	(1,807,583)	(1,262,682)
Net Income Before Taxes	\$ 8,269,717	\$ 7,614,133
Provision for Income Taxes	3,676,568	3,328,748
Net Earnings	<u>\$ 4,593,149</u>	<u>\$ 4,285,385</u>
Retained Earnings at Beginning of Year ..	18,723,841	15,802,296
	<u>\$23,316,990</u>	<u>\$20,087,681</u>
Dividends Paid	1,468,589	1,363,840
Retained Earnings at End of Year	<u>\$21,848,401</u>	<u>\$18,723,841</u>
Net Earnings Per Share	\$ 1.35	\$ 1.26

Notes to Financial Statements

Carolina Mills, Inc.

And Wholly Owned Subsidiary Corporations

Maiden, N. C.

September 27, 1980

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. At September 27, 1980, the consolidation includes the parent Company, Carolina Maiden Corporation, Carolina Mills Domestic International Sales Corporation, and Null Manufacturing Corporation.

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 30, 1974.

Finished Products:

LIFO Cost	\$ 2,123,722
FIFO Cost	849,444
Average Cost	2,090,858

Work-In-Process:

LIFO Cost	811,059
FIFO Cost	868,566
Average Cost	313,803

Raw Materials & Supplies:

LIFO Cost	2,551,615
FIFO Cost	724,516
	<u>\$ 10,333,583</u>

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. Depreciation is computed using the accelerated method for both the financial statements and income tax returns.

5. Income Taxes

The Company with its subsidiary, Carolina Maiden Corporation and Null Manufacturing Corporation, filed a consolidated Federal income tax return. A Domestic International Sales Corporation (DISC) is Wholly Owned, however, it is not included in the consolidated return in accordance with The Provisions of The Internal Revenue Code. Investment tax credits are accounted for by the flow-through method, and accordingly, the provision for income taxes is reduced in the year the credit arises.

Note B.

INVENTORIES — \$10,333,583 The Company uses the last-in, first-out (LIFO) method of inventory valuation for raw material fibers. Accordingly, the financial statements for the fifty-two week period ended September 27, 1980 reflect the LIFO method of valuation. Raw materials so priced include cotton and man-made 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 \$2,963,562 for 1980, and \$1,756,332 for 1979, than they would have been had the first-in, first-out method of pricing been employed.

Finished Yarn and Cloth	\$ 5,064,024
Stock-In-Process	1,993,428
Raw Materials	2,878,562
Supplies and Chemicals	397,569
	<u>\$ 10,333,583</u>

Note C.

**LONG-TERM DEBT OTHER
THAN CAPITAL LEASE
OBLIGATIONS***Occidental Life Insurance Co. — \$269,231*

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 covenants of the loan agreement were fully complied with for the year ended September 27, 1980. Unpaid balance of the loan at September 27, 1980 was \$269,231.

North Carolina National Bank \$5,000,000

The Company has entered into a long-term agreement with North Carolina National Bank, Charlotte, N.C. dated September 17, 1980, in the amount of \$5,000,000. The agreement specifies quarterly principal installments of \$250,000 each, with the first installment to be paid on October 1, 1982. Interest is payable quarterly at existing prime rate, but not to be less than eight (8) percent per annum and no more than fifteen (15) percent. The loan is unsecured.

Note D.

CAPITAL LEASES

Noncancellable leases have been determined to be capital leases and have been capitalized as of October 2, 1976. A financing lease is defined as a lease which, during the noncancelable lease period, either covers 75% or more of the estimated economic life of the leased property or has terms which assure the lessor a full recovery of the fair market value of the property plus a reasonable return on the investment.

The following is an analysis of the leased property under capital lease by major classes:

	Asset Balance At	
	September 27, 1980	September 29, 1979
Classes of Property		
Manufacturing Textile		
Machinery and Equipment	\$2,513,474	\$2,513,474
Less Accumulated Amortization	1,741,124	1,399,894
	<u>\$ 772,350</u>	<u>\$ 1,113,580</u>

The following is a schedule by years of future minimum lease payments under capital leases:

1981	\$386,871
1982	352,319
1983	76,578

Note E.

INCOME TAXES

Income tax returns have been examined and settled by the Internal Revenue Service for the fiscal year ended September 30, 1976. All adjustments arising from the Federal examination have been reflected in the financial statements at September 27, 1980.

The provision for Federal income tax has been reduced in the amount of \$353,808 as a result of the flow-through method of accounting for the investment tax credit. For the year ended September 29, 1979 the credit amounted to \$399,938, and was accorded the same accounting treatment.

**Note F.
PENSION PLAN**

The Company and its subsidiary 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 six (6) percent on the past service cost. For the fiscal year ended September 27, 1980, the pension plan expense amounted to \$391,000. The past service cost, which had not been funded amounted to approximately \$1,577,619 at October 1, 1979, accordingly to the most recent actuarial computation available.

**Note G.
ACQUISITION OF
SUBSIDIARY
CORPORATION**

On July 1, 1980, the Company acquired all the outstanding common stock of Null Manufacturing Corporation. The acquisition was treated as a purchase for accounting purposes. The consolidated statements include the operations of Null Manufacturing Corporation for the period beginning July 1, 1980 and ending September 27, 1980.

**Note H.
CONTINGENCIES AND
COMMITMENTS**

An application has been filed with the North Carolina State Department of Commerce, Raleigh, N. C. for \$8,500,000 of industrial revenue bonds to be issued by the Catawba County Bonding Authority. The funds received from the bond issue will be used to construct a building and acquire equipment for a new furniture manufacturing facility. The bonds will be repaid in quarterly principal payments over ten (10) years with interest payable at sixty (60) percent of the prime rate with upper and lower prime rates of five (5) and seventeen (17) percent respectively. At September 27, 1980 the application had not been approved, however, management anticipates approval. Grading expenditures of approximately \$68,000 and consulting fees of approximately \$30,000 have been incurred for the project.

The Company has entered into contractual purchase commitments for the acquisition of machinery and equipment in the approximate amount of \$1,005,000 at September 27, 1980.

**Accountant's
Opinion**

I have examined the consolidated balance sheets of Carolina Mills, Inc. and Wholly Owned Subsidiaries, Maiden, N. C., as of September 27, 1980 and September 29, 1979, and the related consolidated statements of earnings, retained earnings and changes in financial position for the years (fifty-two weeks) then ended. My examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as I considered necessary in the circumstances.

In my opinion, the accompanying consolidated balance sheets and consolidated statement of earnings, retained earnings and changes in financial position, including notes, present fairly the financial position of Carolina Mills, Inc. and its Wholly Owned Subsidiaries, Maiden, N. C., at September 27, 1980 and September 29, 1979, and the results of its operations for the years (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,

Owen H. Whitfield

Owen H. Whitfield
Certified Public Accountant

Ten Years in Review

	1980	1979	1978	1977
Net Sales.....	<u>\$93,363,384</u>	<u>\$80,925,750</u>	<u>\$82,470,935</u>	<u>\$73,921,334</u>
Net Earnings Before Income Taxes.....	\$ 8,269,717	\$ 7,614,133	8,486,566	5,812,349
Income Taxes.....	<u>3,676,568</u>	<u>3,328,748</u>	<u>3,967,462</u>	<u>2,682,130</u>
Net Earnings.....	<u>4,593,149</u>	<u>4,285,385</u>	<u>4,519,104</u>	<u>3,130,219</u>
Dividends Paid.....	\$ 1,468,589	\$ 1,363,840	1,158,826	874,487
Earnings Retained in Business.....	<u>21,848,401</u>	<u>18,723,841</u>	<u>15,802,296</u>	<u>12,442,018</u>
Working Capital.....	<u>16,166,995</u>	<u>9,693,813</u>	<u>11,120,418</u>	<u>10,796,050</u>
Plant and Equipment—Less Depreciation.....	\$17,398,621	\$16,104,085	14,987,691	14,368,017
Stockholders' Equity.....	<u>28,065,843</u>	<u>24,734,217</u>	<u>21,912,564</u>	<u>18,343,106</u>
Shares of Stock Outstanding..	<u>3,452,815</u>	<u>3,399,046</u>	<u>3,417,619</u>	<u>3,363,412</u>
Book Value Per Share.....	\$ 8.13	\$ 7.28	\$ 6.41	\$ 5.46
Per Share of Stock				
Net Earnings.....	\$1.35	\$1.26	\$1.32	93.14¢
Dividends—Cash.....	\$.43	\$.40	\$.34	26.00¢
Cash Flow.....	\$2.34	\$2.18	\$2.10	166.67¢

NET SALES

Figures shown are in millions of dollars

1971	38.5
1972	40.9
1973	45.7
1974	55.1
1975	47.4
1976	70.8
1977	73.9
1978	82.5
1979	80.9
1980	93.3

NET EARNINGS

1971	1.2
1972	1.0
1973	1.8
1974	1.6
1975	.4
1976	1.9
1977	3.1
1978	4.5
1979	4.3
1980	4.6

1976	1975	1974	1973	1972	1971
<u>\$70,817,799</u>	<u>\$47,418,609</u>	<u>\$55,125,721</u>	<u>\$45,674,963</u>	<u>\$40,868,715</u>	<u>\$38,493,631</u>
3,099,159	336,161	3,029,465	3,241,971	1,764,166	1,808,146
1,165,983	(14,350)	1,455,689	1,408,298	719,982	606,770
<u>1,993,176</u>	<u>350,511</u>	<u>1,573,776</u>	<u>1,833,673</u>	<u>1,044,184</u>	<u>1,201,376</u>
370,416	404,301	674,377	539,745	539,735	269,867
10,140,272	8,589,889	8,731,854	7,816,106	6,373,709	5,837,202
<u>8,233,344</u>	<u>5,048,195</u>	<u>5,664,481</u>	<u>6,127,717</u>	<u>5,980,797</u>	<u>5,718,779</u>
15,908,635	10,799,336	10,667,995	10,356,173	9,678,184	8,507,426
<u>16,050,735</u>	<u>14,516,195</u>	<u>14,658,510</u>	<u>13,758,106</u>	<u>12,315,383</u>	<u>11,778,877</u>
3,363,412	3,369,173	3,373,544	3,373,444	3,373,344	3,373,344
\$ 4.77	\$ 4.30	\$ 4.35	\$ 4.08	\$ 3.65	\$ 3.49
57.48¢	10.40¢	46.68¢	54.36¢	30.95¢	35.6¢
11.00¢	12.00¢	20.00¢	16.00¢	16.00¢	8.0¢
116.85¢	68.84¢	101.52¢	105.37¢	76.58¢	76.1¢

WORKING CAPITAL

1971	5.7
1972	6.0
1973	6.1
1974	5.7
1975	5.0
1976	8.2
1977	10.8
1978	11.1
1979	9.7
1980	16.2

STOCKHOLDERS' EQUITY

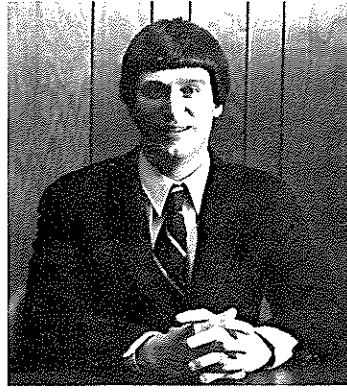
1971	11.8
1972	12.3
1973	13.8
1974	14.7
1975	14.5
1976	16.1
1977	18.3
1978	21.9
1979	24.7
1980	28.1



CLAUDE S. ABERNETHY, JR.



JULIUS W. ABERNETHY, JR.



JULIUS W. ABERNETHY, III



JOSEPH L. BARNETT



DAN MARK BOYD, III



HURSELL H. KEENER

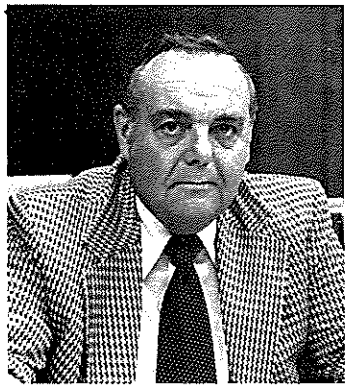


GEORGE A. MORETZ

DIRECTORS



JOSEPH A. MORETZ



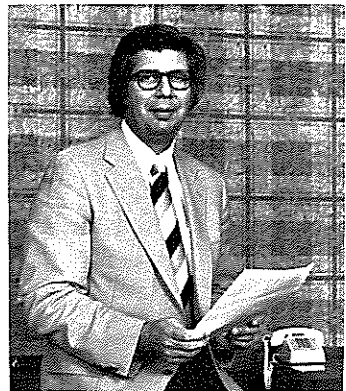
THOMAS P. PRUITT, JR.



CALDWELL RAGAN, SR.



ROBERT A. RAGAN



EDWARD P. SCHRUM



CHARLES LONG SIGMON



J. L. THOMPSON, JR.

Corporate Information

DIRECTORS

Julius W. Abernethy, Jr.
President, Carolina Glove Company,
Newton, N. C.: age 58; joined board 10/28/47.

Julius W. Abernethy, III
Sales Administration, Carolina Glove,
Newton, N. C.: age 33; joined board 11/23/76.

Claude S. Abernethy, Jr.
Vice-President, Interstate Securities Corporation,
Newton, N. C.: age 53; joined board 5/24/72.

Dan Mark Boyd, III
President, Times Oil Corporation,
Lincolnton, N. C.: age 42; joined board 11/23/76.

***Hurshell H. Keener**
President, Impact Furniture Company,
Hickory, N. C.: age 50; joined board 11/16/66.

George A. Moretz
Vice President, Carolina Mills, Inc.,
Maiden, N. C.: age 38; joined board 11/23/76.

Joseph A. Moretz
Retired furniture executive;
age 71; joined board 11/02/55.

***Thomas P. Pruitt, Jr.**
Vice President, Carolina Mills, Inc.,
Maiden, N. C.: age 58; joined board 11/02/55.

Robert A. Ragan
Vice President, NCNB,
Charlotte, N. C.: age 42; joined board 11/22/77.

***Edward P. Schrum**
President, Carolina Mills, Inc.,
Maiden, N. C.: age 53; joined board 11/19/58.

Charles Long Sigmon
President, First National Bank of Catawba County,
Hickory, N. C.: age 66; joined board 11/25/75.

J. L. Thompson, Jr.
Secretary-Treasurer, Carolina Mills, Inc.,
age 62; joined board 11/12/59.

*(Members of executive committee)

DIRECTORS EMERITI:

Joseph L. Barnett
Retired Textile Executive,
Gastonia, N. C.: age 82; joined board 4/25/61.

Caldwell Ragan, Sr.
Retired Textile Executive,
Gastonia, N. C.: age 82; joined board 4/25/61.

OFFICERS

Edward P. Schrum
President, Assistant Treasurer and
Chief Executive Officer

Thomas P. Pruitt, Jr.
Vice President—Weaving Operations

Jerry G. Harbinson
Vice President—Administration and
Assistant Secretary

George A. Moretz
Vice President—Sales Yarn Operations

Kenneth C. Isaac
Vice President—Knit Finishing Operations

Stephen G. Dobbins
Vice President—Sales Yarn Manufacturing

J. L. Thompson, Jr.
Secretary and Treasurer

CAROLINA MILLS, INC.

PLANT LOCATIONS

Maiden, North Carolina

General Administrative Offices
Computer Center
Central Warehouse for finished goods
and raw materials
Trucking Department
Laboratory

Plant No. 1 (Julius W. Abernethy
Plant) **Jim Bean**, Plant Manager,
Spun yarns from man-made fibers

Plant No. 8—**J. V. Randall**, Plant
Manager

Open-end spun yarns for knitting

Statesville, North Carolina

Plant No. 12—**J. C. Bridgeman**,
Plant Manager

Newton, North Carolina

Plant No. 2—**Kermit Goodson**, Plant
Manager

Coarse open-end spun yarns
Plant No. 3—**Jim Harwell**, Plant
Manager

Woven canton flannel for work glove
industry

Plant No. 4—**Robert Bristow**, Plant
Manager

Commission finishing of tubular knit
goods

Hickory, North Carolina

Plant No. 14—**Ernest Whitener**, Plant
Manager

Woven upholstery fabrics

Lincolnton, North Carolina

Plant No. 5—**Fred Hoffman**,
Plant Manager

Spun yarns for the knitting trade

Plant No. 6—**Fred Hoffman**,
Plant Manager

Spun polyester blend yarns

Subsidiary—(Wholly Owned)

Carolina Maiden Corporation, Maiden,
N. C. and New York, N. Y.

Edward L. Strauss, President
Yarn sales agency

Subsidiary—(Wholly Owned)

**Carolina Mills Domestic International
Sales Corporation (DISC)**
Maiden, N. C.

Subsidiary—(Wholly Owned)

Null Manufacturing, Maiden, N. C.
Philip Null, President
Exposed wood and fully upholstered
furniture and occasional tables