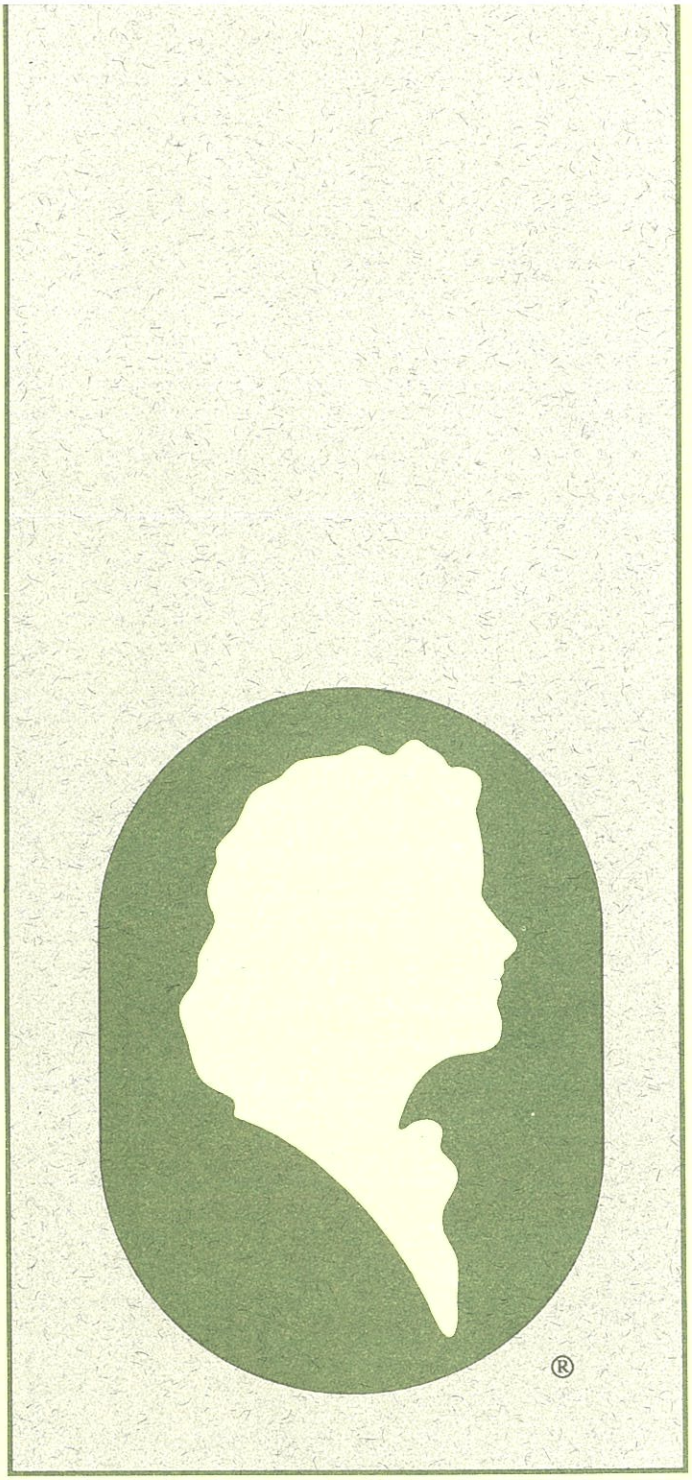

Carolina Mills Inc

1991 ANNUAL REPORT

HIGHLIGHTS

CAROLINA MILLS, INC. AND WHOLLY OWNED SUBSIDIARIES

	1991	1990
Earnings Per Share	**$ 1.95**	$ 1.57
Sales	**$178,782,185**	$ 200,548,871
Net Income	**$ 7,555,101**	$ 6,231,853
Stockholders' Equity	**$ 75,945,152**	$ 73,882,852
Number of Employees	**2,419**	2,321

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LOCATIONS

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

Plant No. 1 (J.W. Abernethy)
Maiden, NC
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. 3
Newton, NC
Woven canton flannel
Kermit Goodson, Plant Manager

Plant No. 4
Newton, NC
Commission finishing of tubular knit goods
Robert Bristow, Plant Manager

Plant No. 5
Lincolnton, NC
Spun polyester yarns
Fred Hoffman, Plant Manager

Plant No. 6
Lincolnton, NC
Spun polyester blend yarns
Fred Hoffman, Plant Manager

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

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

Plant No. 12
Statesville, NC
Fine count spun polyester yarns
Bob Cook, Plant Manager

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

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

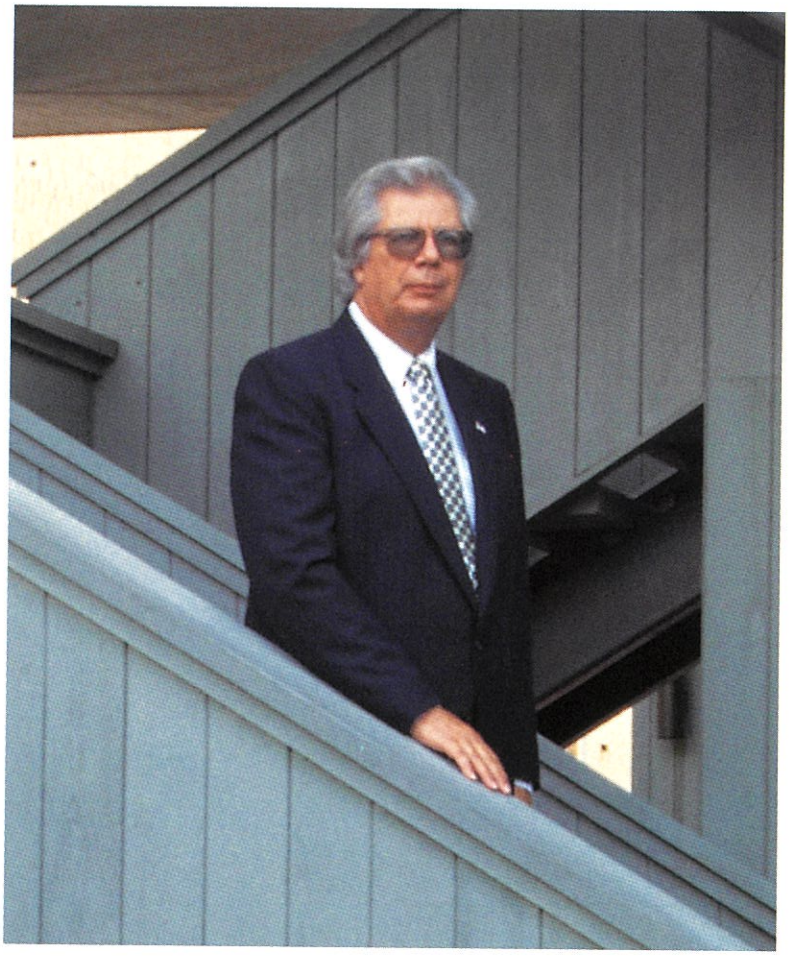
Plant No. 22
Ranlo, NC
Spun polyester yarns
Khal Shreitah, Plant Manager

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

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

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

Message From The President



Your company had its share of good and bad during 1991. Good from the profits we were able to generate—but not so good when we look at dollar sales volume and short work schedules for our people. Our net profits per share were up by 24% over 1990, while net sales dollars dropped by 11%. Lower volume, lower unit prices, and a larger percentage of commission processing contributed to our smaller dollar sales.

The highlight of our year was the building, completing, and successful starting of our new commission finishing plant in Valdese, NC. This operation is running at full capacity and exceeding our expectations. It is a vital profit center for Carolina and will continue to enhance our operations in the future.

Carolina Mills has a strong balance sheet with low debt and adequate cash reserves necessary to continue growing. With your backing and the cooperation of all our employees, we will maintain a good place for people to work and a financially sound place for stockholders to invest their funds.

Yours very truly,

E. P. Schrum

E. P. Schrum
President

Officers

Maiden, North Carolina Corporate Headquarters

Edward P. Schrum
Chief Executive Officer
President
Treasurer

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

Jerry G. Harbinson
Vice President
Administration
Secretary

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

George A. Moretz
Vice President
Sales Yarn Division

Kenneth C. Isaac
Vice President
Knit Finishing Division

(l-r) Kenneth Isaac, George Moretz, Stephen Dobbins, Jerry Harbinson, Thomas Pruitt, Ed Schrum

Directors

- **Julius W. Abernethy, Jr.**
  President
  Carolina Glove Company
  10/28/47

- **Thomas P. Pruitt, Jr.**
  Vice President
  Carolina Mills, Inc.
  11/02/55

- **Edward P. Schrum**
  President Carolina Mills, Inc.
  11/19/58

J. L. Thompson, Jr.
Secretary to Board of Directors
11/12/59

- **Hurshell H. Keener**
  Investor
  11/16/66

- **Claude S. Abernethy, Jr.**
  Vice President Interstate
  Securities Corporation
  5/24/72

Julius W. Abernethy, III
Vice President
Carolina Glove Company
11/23/76

D. Mark Boyd, III
President Times Oil Corporation
11/23/76

George A. Moretz
Vice President
Carolina Mills,Inc.
11/23/76

Robert A. Ragan
Investments
11/22/77

Franklin E. Rader
Investor
11/16/90

•Executive committee

ADMINISTRATION

A lot of time and work on behalf of the Administrative area of the company was devoted this past year in support of the new Plant No. 9, in Valdese, for the Finishing Division. An application package was developed and a completed issuance of Industrial Revenue Bonds was accomplished to provide low-cost financing for the Project.

Data-Processing devoted time and effort in support of the new project. The Data-Point Mainframe Computer System, which supports the Finishing Division was expanded, and accompanying terminals, wand readers, printers, and data lines were installed to support the added production.

In other areas of Data Processing, the Plant No. 3 and Plant No. 14 fabric systems were enhanced to provide improved systems in this area. The finished goods inventories, both in the yarn and canton flannel fabric areas, were physically verified through use of bar code wand reading.

Upgrades and enhancements were made in various areas where personal computers are utilized. Support has been given to all of the yarn and fabric plants in launching a new computer based energy management system for each plant.

A total re-organization of the company's records storage area and the development of a computer based identification system was completed.

Data Processing began a project to completely computerize the Human Resources function, one of the remaining major administrative functions not computerized. This will greatly enhance our ability to take care of our people's needs.

The new AT&T telephone system was installed in the Corporate Office to serve the Maiden Complex. This system offers the advantages of new electronic technology, such as direct inward dialing, speed dialing, voice mail, call coverage, etc. The system can grow easily, and should serve the needs of the company for many years to come.

One final Administrative change deserves mentioning, which is a change in the administration of the company's Workmens Compensation Insurance program. This program is linked, of course, to the overall cost of health care, which has been rising at a high rate. We have worked with our provider, and converted this insurance program to a self-insured plan. This was done in an effort to contain cost and improve cash flow in this area.

We continue to be committed to new administrative approaches that offer improved management capabilities and improved productivity.

A total re-organization of the company's records storage area and the development of a computer based identification system was completed.

SALES YARN DIVISION

The year 1991 was difficult for the Sales Yarn Division for several reasons. First, the war in the Gulf and the subsequent economic recession caused our customers to reduce their activity level. The other main reason for tough business for this division is the preference of the consumer for cotton and cotton-rich blends in apparel fabrics. Our company primarily sells yarns of man-made fibers.

The first and second quarters of the fiscal year were the low points of the year. During the third quarter, business in the apparel area picked up substantially. Retailers, cautious about placing forward commitments, reduced their commitments to their offshore resources. When they decided to buy, they would not wait for the deliveries from offshore and placed major commitments with their domestic suppliers. This helped our business in this area of the market.

Our business in home furnishings and automotive upholstery-related products has not seen a similar pick-up. As is normal in a recovery, larger ticket items such as furniture and automobiles are the last to recover.

We have seen prices rebound in cotton yarns; this has made our yarns spun from man-made fibers more attractive.

Most economists are projecting a slower-than-normal recovery from this recession. Many of our customers are still very cautious and are placing orders only as they get orders. Although this makes planning difficult, we are able to respond better than our competition with the flexibility we have in our systems and plants.

We expect to improve our results next year because we have modern plants and a workforce dedicated to providing quality products and service to our customers.

...we have modern plants and a workforce dedicated to providing quality products...

Sales Yarn Manufacturing Division

This past year proved to be very challenging and difficult for the nine plants in our Sales Yarn Division. The lingering economic recession and further erosion of our markets from imports forced scheduled reductions and unexpected changes in our product lines. Once again, the members of the Sales Yarn Division team reacted with determination and flexibility to meet the challenge of these difficult times. As a result of their efforts, we have seen a steady improvement in our business and have moved closer to our goal of becoming the "preferred" supplier to each of our customers.

During 1991, we undertook several new division projects. Certainly one of the most successful and exciting is our recycling program. By implementing procedures to recycle our used cardboard and polypropylene bale wrappings, we have already saved thousands of pounds of waste from being placed in landfills. Some plants are also recycling computer paper, white office paper, and aluminum cans. These efforts will be expanded in 1992 as we work toward our goal of zero waste by the mid 1990s. We feel recycling is the right thing to do environmentally and is a sound economic approach as landfill space becomes scarce and more expensive in the future.

Another division project has been the establishment of Quality Action Teams with our fiber suppliers. We now have three teams working on fiber products involving seven of our nine plants. The objective is for us to learn more about how fibers are made and for our suppliers to learn more about how we use their products. Significant improvements in production, quality, and cost have already been made as a result of recommendations from these teams. We will expand this program during 1992. In addition, we plan to set up Quality Action Teams with several key customers during the coming year.

The division safety emphasis continued during 1991, with our plants receiving numerous safety awards from textile trade associations and the State of North Carolina. Much of the credit for this success goes to our plant employee safety committees, who are constantly working to insure a clean, accident-free plant environment.

Our division commitment remains to utilize our dedicated work force and the latest in technology to constantly improve quality, service, production, and safety. This will enhance our profitability and insure our continued success in the future.

Our division commitment remains to utilize our dedicated work force and the latest in technology to constantly improve quality, service, production, and safety.

CM Furniture, Inc.

This was a year of change for CM Furniture. Through reorganization of our management and product line, we took many steps toward positioning our company to serve a highly competitive market on a profitable basis.

The economic slump and the related downturn greatly affected the furniture industry. We initiated several efforts in attempts to compensate for retail sales declines.

The product line was redirected by adding strength with new designs and product categories.

Special merchandising programs were developed to meet competitive prices and allow sales promotions.

New sales representatives were appointed in several states where we had no representation and changes were made in territories with low sales activity.

Unfortunately, these efforts did not prevent us from experiencing the sales declines seen throughout our industry.

During the year, considerable progress was made in developing better utilization of materials and labor. Employee involvement contributed to much of this.

Throughout the year, all of our people participated in weekly small-group discussions with employees and management. Many beneficial suggestions and comments were brought to these meetings by employees and team spirit is much stronger.

Even though we experienced a number of short work weeks, we have had no loss of skilled employees and our work force expresses considerable understanding and support for the company.

All in all, we have made the most of a difficult year. We believe the company is developing a good position to take advantage of opportunities as consumer purchases of furniture increase.

... considerable progress was made in developing better utilization of materials and labor.

Weaving Division

The canton flannel plant, Plant No. 3, experienced some changes this past year. Most of these changes centered on the shipping and receiving area of the plant. A new shipping and receiving office was constructed to better accommodate the computer system, which is connected directly to the mainframe in the Maiden Corporate Office. The shipping and receiving docks were revamped to permit the shipping of cloth from two areas of the warehouse. Shipping labels were changed to accommodate bar coding. This proved to be an asset in assigning rolls to go to specific customers and maintaining an accurate inventory.

Machinery changes involved the upgrading of the tenter frame. New rails, chain and automatic lubricating systems were installed. Also installed was an electronic temperature control on the size box on the slasher. This enabled the plant to better control the temperature of the starch before it is applied to the warp yarn.

The canton flannel plant was impacted by imported work gloves and a slow economy. However, on the brighter side, we had some sales of fabric to another industry which enabled us to operate on a better schedule this year. Our people continuously work toward making the plant the best and safest producer of canton flannel in the market today.

The furniture industry continues to be sluggish despite economic forecasts of improving business conditions. This does not mean that Plant No. 14 sat back and waited on conditions to improve. During the past year we took the initiative to make our share of the furniture fabric industry ready for the economic "boom."

This year, we have contracted with an independent design team to supply us with new and innovative designs. This design team has its own computer system to aid in color selection. By reviewing colors of each pattern prior to going to the loom, valuable time and costs are saved. The first group of patterns are already in our salesmen's hands and are receiving good reviews in the marketplace. Our customers have commented on the new look of Carolina Mills fabrics, which pleases our salesmen. Fabrics designed in-house also received positive comments. Hiring an outside design team let our customers know we are determined to be a major factor in this industry.

Our customers have commented on the new look of Carolina Mills fabrics.

In our efforts to keep updated equipment in the plant, a Benninger Electronic Warper was purchased. This warper is capable of making better quality warps at higher speeds. Although not new, this machine has already out-performed the machine it replaced.

The "Just in Time" trend sweeping the industry has prompted us to launch a quick ship program of our own. Our program, P.D.Q., is aimed at the contract and jobber markets. Basically, we have approximately 300 rolls of our most popular styles and colors ready for immediate shipment. There is a slight upcharge for this service, but reception has been good. This program is just under one year old with great growth pertential. The possibility exists that we will expand this program to our residential customers once we can determine the products and customers to be targeted.

It has been an interesting year in the furniture industry. A lot of our customers are no longer in business and we will miss them. Surviving these economic times has not been easy. Thanks to our dedicated employees, we have weathered some difficult situations and developed a stronger working team.

During the past year, we took the initiative to make our share of the furniture fabric industry ready for the economic "boom."

VALDESE

THE PLANT OF THE FUTURE HERE TODAY

KNIT GOODS FINISHING

Production at Plants 4N in Newton and 4C in Conover increased to 44.8 million pounds in 1991. This represented a 10 percent increase over the 1990 production of 40.5 million pounds produced in 1990. New records were set as plant production exceeded the one million pound per week level several times in 1991.

The addition of three Colorstar pressure dye machines enabled Plant 4N to raise total dye production to over 400,000 pounds per week. This equipment enabled our customers to be competitive by using less expensive, faster striking dyes on some of the plants four most difficult colors. The ACS Color computer system was added to improve the color matching and create a "pass-fail" evaluation using the computer eye. An older finish pad was replaced with a new tripad and an air makeup unit in the dyehouse was installed that improved working conditions.

At Plant 4C, the L&L Compressive shrinkage machines continued to be replaced with the Tube-Tex Paknit II machines. The four Paknit II's enabled the plant to process a large volume of 100% cotton fabrics; and two Gessner napping machines were added to increase the plant's capacity to process fleece fabrics.

New records were set as plant production exceeded the one million pound per week level several times in 1991.

VALDESE

In 1990, the knit finishing division was expanded. Business was excellent with Plants 4C and 4N running a full seven day work week schedule. Several customers began expansion projects that required additional finishing and dyeing from our operations. Forty-five acres of land was purchased just outside the town limits of Valdese. This location was located approximately 25 miles from the divisional headquarters in Conover.

The town of Valdese supplied the needed water and sewer requirements. Burke County provided opportunities to employ excellent people and provided the leadership and friendship necessary to our operation.

A 94,000 square feet bleach, dye and finishing plant was built and equipped with the latest in industry technology, equipment and processing. The plant was given the number 9 and was referred to as Carolina Mills Plant No. 9.

The plant provided finishing for circular knit underwear and athletic wear fabrics on a commission basis. Plant No. 9 was designed to receive greige goods; direct, process and ship them as finished products. It operated as an independent operation from the rest of the division. It would however, be dependent on the divisional office in Conover for customer service, computer, trucking and administrative functions. Phase One production was predicted to be 385,000 pounds per week with 124 employees.

Before Phase One was completed, it was realized that 500,000 pounds per week was needed to supply the customers needs. Phase Two was begun and completed as the fiscal year ended. During the completion of Phase Two, three Scholl Colorstar pressure dye machines were ordered.

The September 28th ending quarter was the first full quarter that Plant 9 was in production. The production for the quarter was nearly 4.5 million pounds with sales of 3.5 million dollars. The total employment was 145.

Business was good during the past year and the forecast for the upcoming year continues to look very bright. If further expansion is necessary, the production floor space can be doubled with the addition of the "other half" of the building. Valdese will be the location for expansion because of the land, water and waste water treatment that is necessary for further growth.

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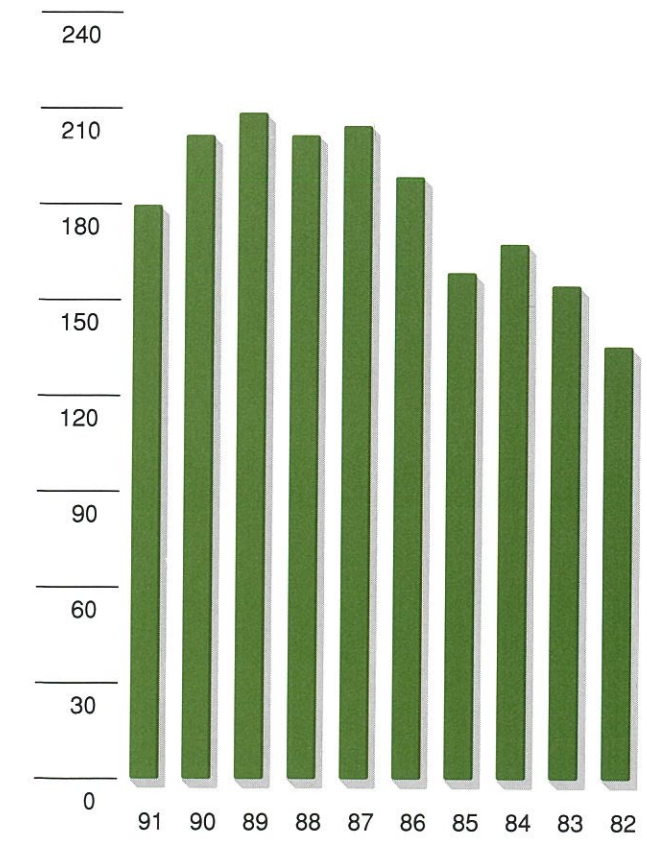
STATEMENT OF CONDITION

CAROLINA MILLS, INC.
AND WHOLLY OWNED SUBSIDIARIES

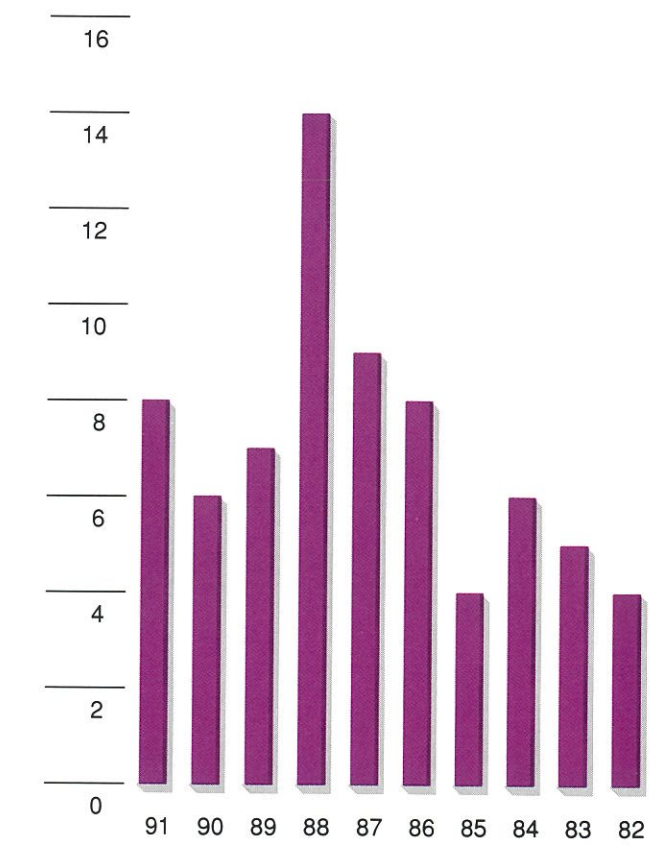
ASSETS:	September 28 1991	September 30 1990
Current Assets:		
Cash and Bank Balance.	$ 2,267,000	$ 311,000
Notes Receivable.	3,000	6,000
Accounts Receivable - Net.	24,285,000	22,798,000
Inventories.	21,218,000	20,247,000
Prepaid Expenses.	309,000	290,000
Temporary Investments.	6,725,000	6,642,000
Refundable Income Tax.	— 0 —	302,000
TOTAL CURRENT ASSETS	$ 54,807,000	$ 50,596,000
Fixed Assets.	$122,763,000	$112,917,000
Less Reserve for Depreciation. . . .	74,851,000	68,695,000
NET FIXED ASSETS	$ 47,912,000	$ 44,222,000
OTHER ASSETS	$ 5,830,000	$ 11,458,000
TOTAL ASSETS	$108,549,000	$106,276,000
LIABILITIES:		
Current Liabilities:		
Notes Payable.	$ 840,000	$ 817,000
Accounts Payable.	7,863,000	8,723,000
Accruals.	5,821,000	4,405,000
TOTAL CURRENT LIABILITIES	$ 14,524,000	$ 13,945,000
Long Term Notes Payable	7,495,000	8,335,000
Deferred Taxes & Other	10,585,000	10,113,000
TOTAL LIABILITIES	$ 32,604,000	$ 32,393,000
STOCKHOLDERS' EQUITY		
CAPITAL STOCK.	$ 3,866,000	$ 3,950,000
PAID IN SURPLUS.	2,541,000	4,068,000
EARNED SURPLUS.	69,538,000	65,865,000
TOTAL STOCKHOLDERS' EQUITY	$ 75,945,000	$ 73,883,000
TOTAL LIABILITIES AND EQUITY	$108,549,000	$106,276,000

	1991	1990	1989	1988
Net Sales	$178,782,185	200,548,871	207,997,333	200,621,500
Net Earnings Before Income Taxes	$ 12,214,101	9,985,417	10,941,564	22,891,296
Income Taxes	$ 4,659,000	3,753,564	4,286,130	9,103,014
Net Earnings	$ 7,555,101	6,231,853	6,655,434	13,788,282
Dividends Paid	$ 3,881,639	3,968,205	3,985,960	3,941,221
Earnings Retained in Business	$ 69,538,156	65,864,694	63,601,046	60,931,572
Working Capital	40,282,547	36,651,362	30,723,969	32,114,939
Plant and Equipment-Less Depreciation	$ 47,911,963	44,221,668	47,525,870	44,296,673
Stockholder's Equity	$ 75,945,152	73,882,852	72,217,192	69,786,318
Shares of Stock Outstanding	$ 3,866,352	3,949,884	3,980,257	3,992,762
Book Value Per Share	$ 19.64	18.71	18.14	17.48
Per Share of Stock				
Net Earnings	$ 1.95	1.57	1.67	3.49
Dividends - Cash	$ 1.00	1.00	1.00	1.00
Cash Flow	$ 4.02	3.50	3.51	5.19

Net Sales



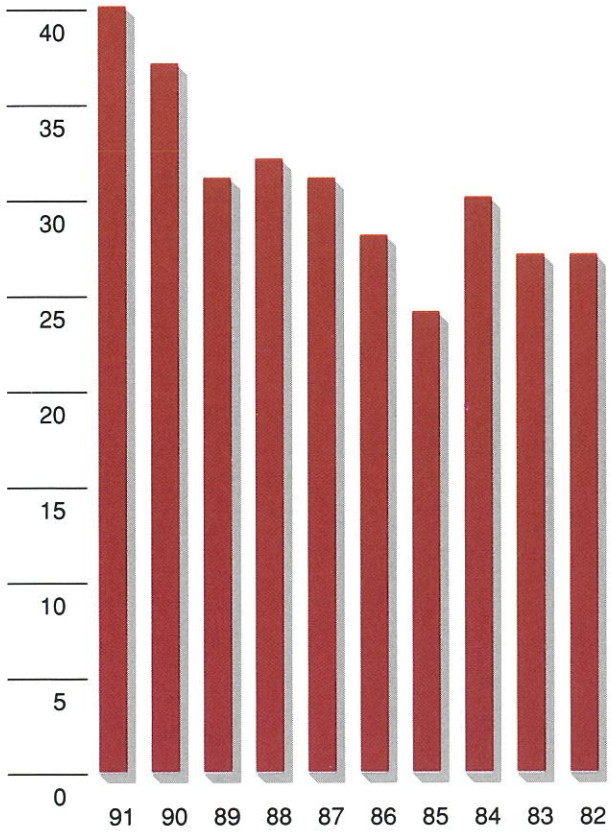
Net Earnings



1987	1986	1985	1984	1983	1982
204,205,292	187,884,211	158,120,387	166,627,353	154,490,368	134,733,139
16,653,408	14,092,129	6,947,797	10,266,128	8,167,165	6,491,624
7,719,422	6,318,822	2,622,447	4,743,456	3,323,239	2,151,305
8,933,986	7,773,307	4,325,350	5,522,672	4,843,926	4,340,319
3,244,125	2,383,694	2,071,535	2,158,867	1,997,832	1,999,961
51,084,511	45,394,650	40,005,037	37,589,041	34,225,236	31,379,142
31,064,819	28,156,515	23,565,436	29,799,983	26,531,627	26,952,039
39,884,391	38,500,889	37,503,718	38,014,653	39,794,301	33,777,397
59,291,257	54,041,111	48,437,934	46,533,628	43,160,340	40,344,791
3,948,062	3,988,469	3,936,859	3,998,393	3,995,798	3,999,900
15.02	13.55	12.30	11.64	10.80	10.09
2.26	1.96	1.09	1.38	1.21	1.11
.82	.60	.52	.54	.50	.50
3.89	3.42	2.46	2.66	2.34	2.04

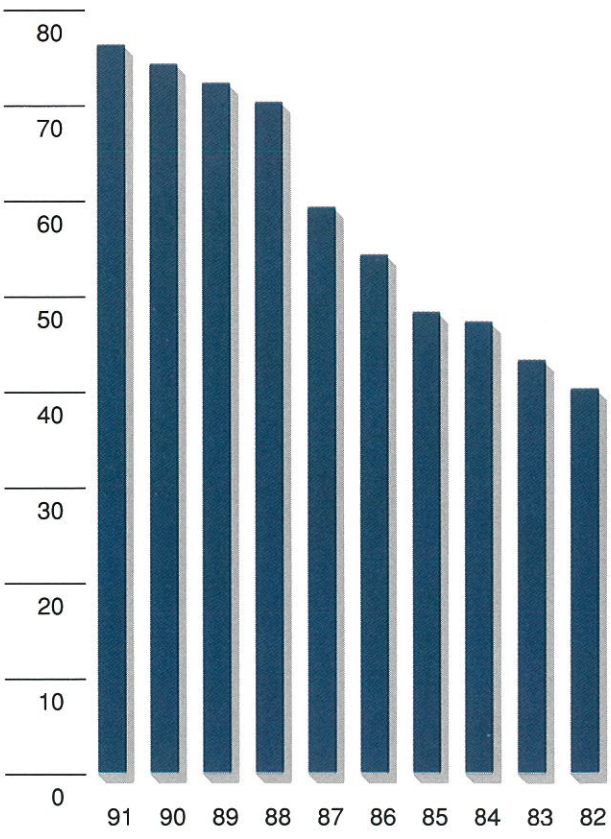
Working Capital

Millions of Dollars

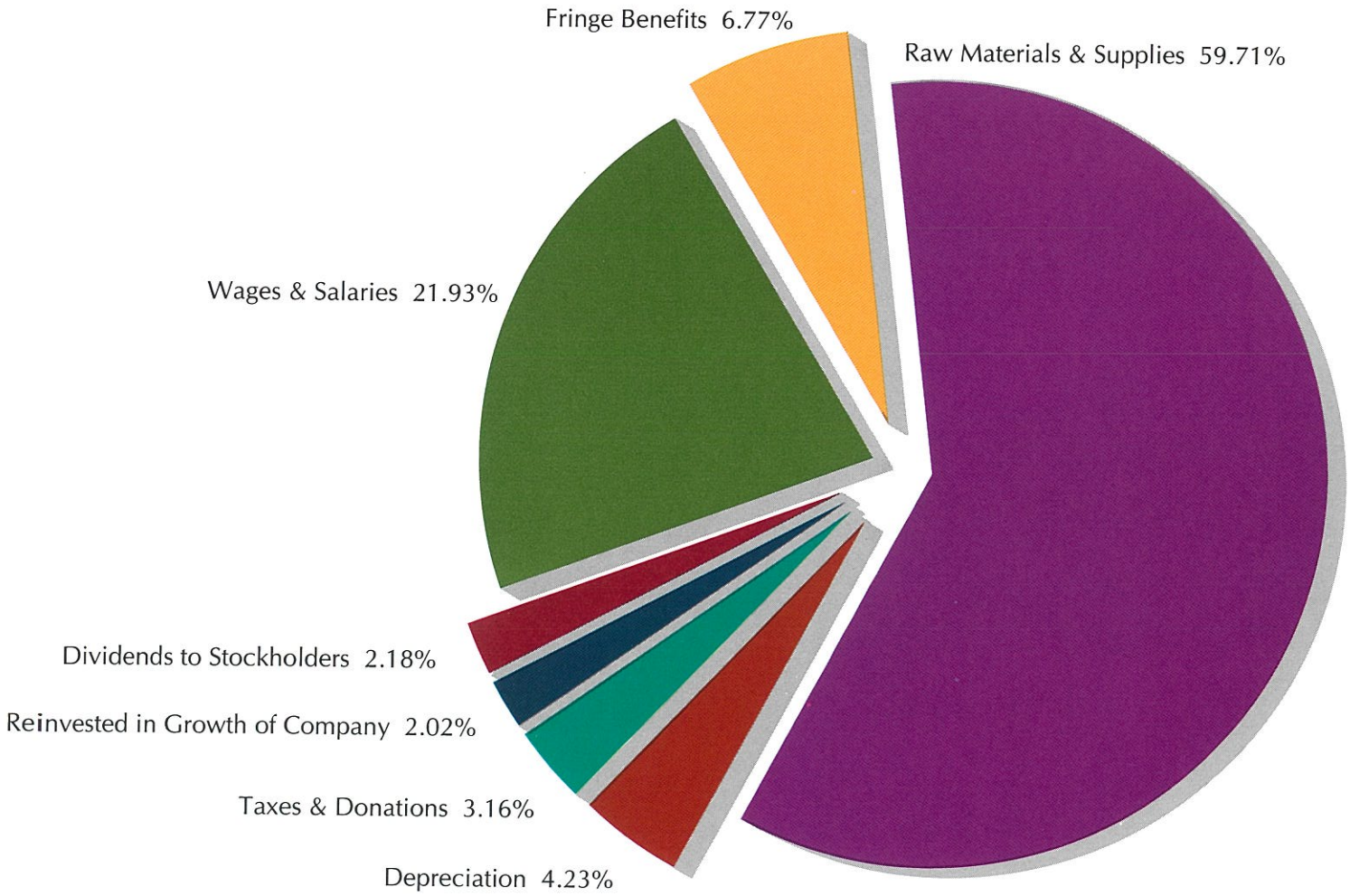
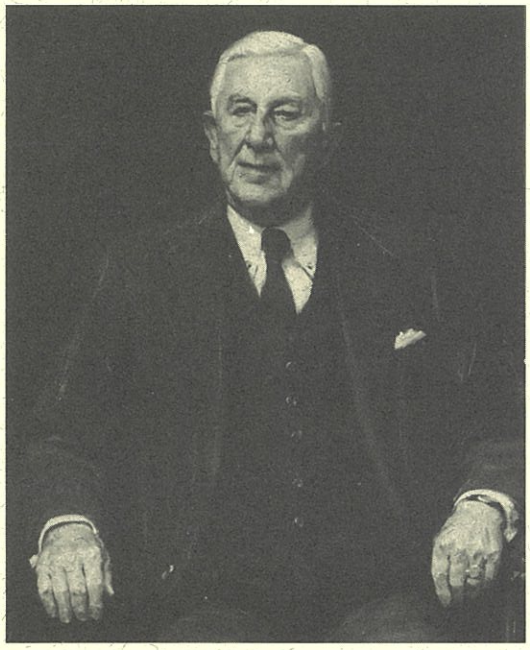


Stockholders Equity

Millions of Dollars



Distribution Of Each Dollar Of Income

Carolina Mills, Inc.
And Wholly Owned Subsidiaries
Year Ended September 28, 1991

Distribution of Income		
Total Income	$182,091,998	100.00%
Wages and Salaries	39,928,207	21.93%
Fringe Benefits	12,325,052	6.77
Raw Materials and Supplies	108,722,357	59.71
Depreciation of Plant and Equipment	7,711,661	4.23
Taxes and Donations	5,763,054	3.16
Reinvested in Growth of Company	3,673,462	2.02
Dividends to Stockholders	3,968,205	2.18
	$182,091,998	100.00%