# 1974 Annual Report


Carolina Mills, Inc.

MAIDEN, NORTH CAROLINA

# HIGHLIGHTS OF THE YEAR

| | Year Ended September 28 1974 | Year Ended September 29 1973 |
|---|---|---|
| **Operations:** | | |
| Sale of Products | $55,125,721 | $45,674,963 |
| Earnings Before Income Taxes | 3,029,465 | 3,241,971 |
| Net Income After Taxes | 1,573,776 | 1,833,673 |
| Depreciation and Amortization | 1,848,820 | 1,721,082 |
| Cash Flow | 3,422,596 | 3,554,755 |
| **Financial Position:** | | |
| Working Capital | 5,664,481 | 6,127,717 |
| Long-Term Debt | 2,340,385 | 2,909,615 |
| Total Assets | 25,796,581 | 22,926,263 |
| Stockholders' Equity | 14,658,510 | 13,758,106 |
| Average Shares Common Stock Outstanding | 3,371,359 | 3,373,444 |
| **Per Share of Stock:** | | |
| Earnings After Taxes | 46.68¢ | 54.36¢ |
| Cash Flow | 101.52¢ | 105.37¢ |
| Cash Dividends | 20.00¢ | 16.00¢ |
| Book Value at End of Year | $ 4.35 | $ 4.08 |

## DIRECTORS

Julius W. Abernethy
Chairman of the Board
Industrialist, Newton, N. C.

Julius W. Abernethy, Jr.
President Carolina Glove Co.
Newton, N. C.

Claude S. Abernethy, Jr.
Vice-President, Interstate Securities Corp.
Newton, N. C.

Hurshell H. Keener
Attorney at Law
Hickory, N. C.

Caldwell Ragan, Sr.
Retired Textile Executive
Gastonia, N. C.

Joseph L. Barnett
Retired Textile Executive
Gastonia, N. C.

Joseph A. Moretz
Secretary-Treasurer
Maxwell-Royal Chair Co.
Hickory, N. C.

O. Leonard Moretz
President, Carolina Mills, Inc.
Maiden, N. C.

Edward P. Schrum
Sr. Vice President Carolina Mills, Inc.
Maiden, N. C.

Stewart Materne
Retired Bank Executive
Richmond, Va.

T. P. Pruitt, Jr.
Vice President, Carolina Mills, Inc.
Maiden, N. C.

J. L. Thompson, Jr.
Secretary, Carolina Mills, Inc.
Maiden, N. C.

## OFFICERS

J. W. Abernethy, Sr.
Chairman of the Board

O. Leonard Moretz
President-Treasurer

Edward Schrum
Sr. Vice President

Jerry Harbinson
Assistant Vice President

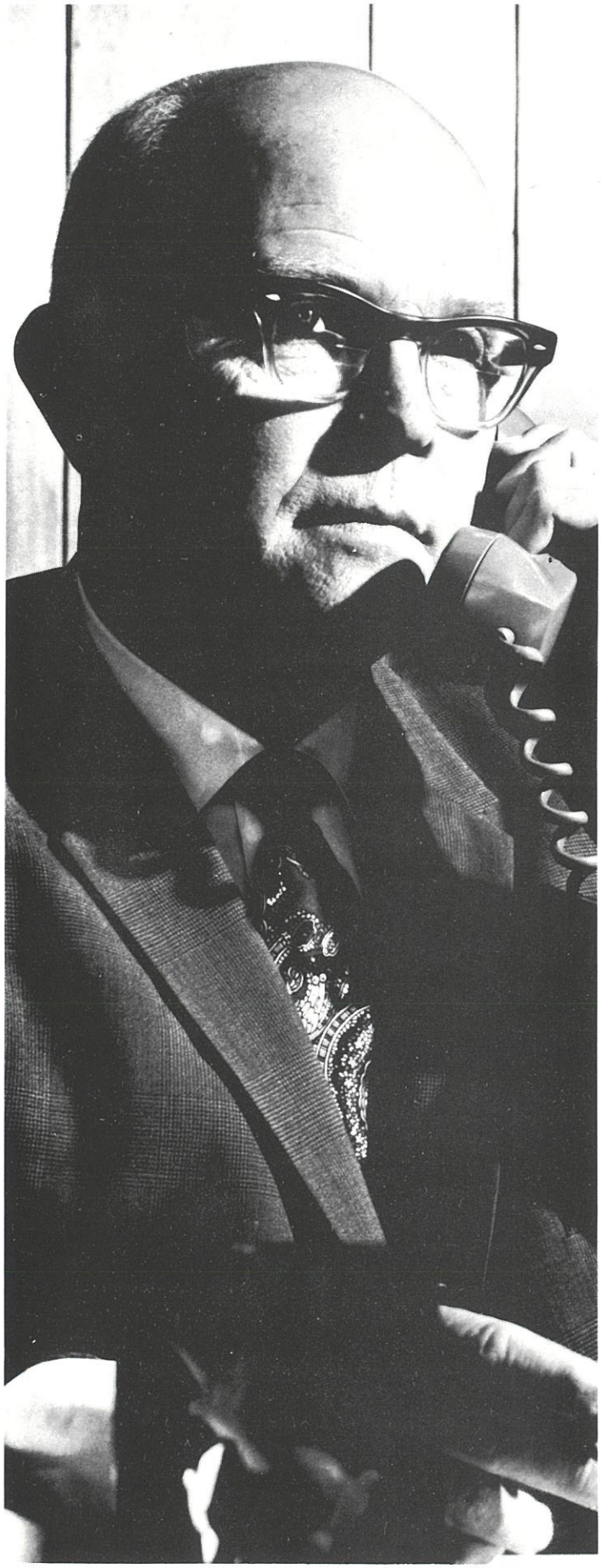
T. P. Pruitt, Jr.
Vice President - Weaving Division

Kenneth C. Isaac
Vice President - Knitting Division

George A. Moretz
Vice President - Sales Yarn Division

J. L. Thompson, Jr.
Secretary and Assistant Treasurer

Julius W. Abernethy



## THE PRESIDENT'S MESSAGE

One year ago we were operating in an economy of scarcities. Prices on most products manufactured within the U.S.A. were fixed by wage-price legislation, but prices in other areas of the world were escalating rapidly because of rampant inflation. Even though prices were held down on domestically manufactured goods, there were no controls on the quantities of our production that could be shipped into the higher priced markets that existed abroad. This, plus the fact that everyone realized that our prices would eventually have to rise to world market levels, created a very strong demand for all manufactured goods and apparently great shortages existed.

Now that controls have been lifted and prices have been permitted to seek their own level, we have experienced much higher prices in our domestic markets. With the spectre of continually rising prices being eliminated, the consuming public is no longer buying everything in sight and has started seeking real values again. Reduced demand has resulted in inventories being built-up and many firms are cutting prices to reduce inventories. Our entire textile industry is in the process of liquidating inventories. When inventories have returned to normal and prices have stablized, we should resume our program of vigorous growth and progress. In the meantime, rigorous curtailment of production is the only way to bring the supply-demand picture into balance.

We are now spinning all filling yarns for Plant No. 3 on open-end spinning frames. Our experience here, as well as the experience we have gained from operating O.E. spinning in Plant 8, confirms our projections as to the advantages to be gained from this new process for forming spun yarn. We are anxiously looking forward to completing the addition of 28 new frames of O.E. spinning at Plant No. 8. The conversion of Plant No. 2 to O.E. spinning will begin in 1975 and be completed in 1976. When these installations are complete we will have the capacity to spin more than one million pounds of sales yarn weekly with half of this being spun on O.E. spinning frames.

Leonard Moretz

Leonard Moretz
President

# "SPOTLIGHT ON WEAVING"

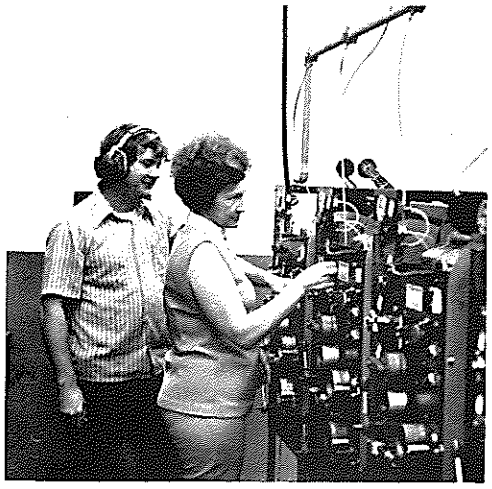
Due to the diversity of products, our company was divided into three areas. Early in 1972 these three divisions were established: Yarn Manufacturing and Sales; Knitting, Knit Finishing and Sales; Woven Fabrics and Sales.

Thomas P. Pruitt, Jr., Vice-President, was appointed Manager of the Woven Fabrics Division. This Division comprises two weaving operations, each with a specialty product.

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

Plant No. 14 in Hickory, North Carolina, produces a wide range of polypropylene and nylon upholstery fabrics. These goods are distributed nationwide to furniture manufacturers, builders of mobile homes and recreational vehicles, and contractors for sports arenas, theaters, and auditoriums. Fabrics from this unit are currently being used in such prominent structures as Louisiana State University Indoor Stadium and McCormick Place Civic Center and Exhibition hall in Chicago.

Twelve units for Taslanizing (a process for bulking filament yarn) have been ordered, five of which are in production. A new compressor has been installed for the operation of this process, which produces a very high quality bulk yarn. These yarns are then woven on the eight-feed Roscher Dobby Shuttleless looms. The diversity of this loom enables us to style and design most of the woven fabrics now in demand by our customers.



**Jerry Hunt, fixer, observes as Pearl Raines, operator trainee, removes full package of yarn from the Taslanizing machine.**

**Left to right: Clinton Sherrill, General Supervisor; Yvonne Blackwood, weaver; and Ernest Whitener, Plant Manager, match production fabric from the loom to sample swatch.**

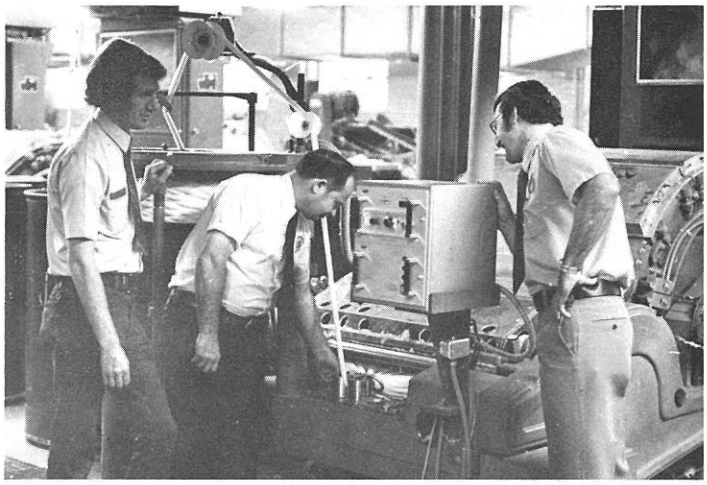
**Inspectors Fay Hatley (left) and Janie Hass (right) check fabric for quality.**

Carolina Mills Plant No. 3, located in Newton, North Carolina, devotes its entire production to canton flannel. The bulk of this production is shipped to work glove manufacturers, with the balance going to the manufacturers of industrial fabrics. Dependable service and high quality have enabled us to become the prime supplier of top work glove manufacturers on the eastern seaboard, throughout the midwest, extending to the state of Washington and into Canada.

In the past year this plant has installed a cotton blending system, chute fed cards and Platt Open End spinning to supply the filling yarn which constitutes two-thirds of the pounds of raw material required to produce this flannel. A starch storage and handling system has been purchased so that starch for sizing warps can be purchased in bulk.

Yarns from the Open End spinning go directly to shuttleless looms. After weaving, the fabric is processed through new roller nappers. A napper change was necessitated by the great difference in characteristics of Open End spun yarn as compared to conventional rings spun yarn.

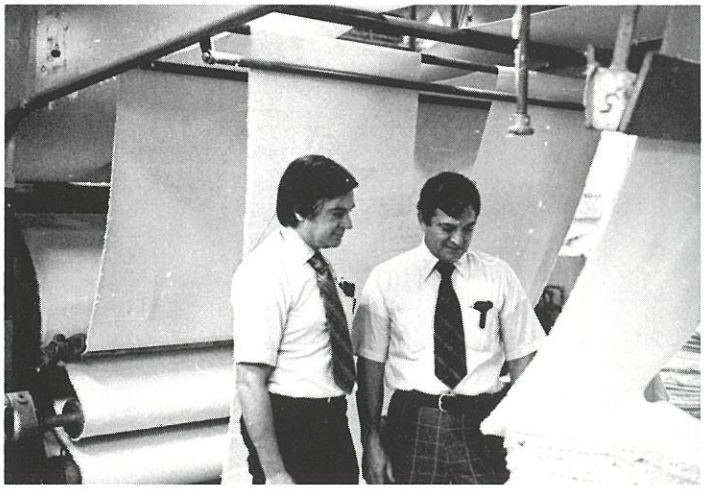
Bales of raw cotton entering Plant No. 3 exit as finished fabric ready to be cut and sewn into work gloves or processed for industrial use. Sales from this unit lead all plants of Carolina Mills in dollar volume and poundage.



**Left to right: Bill Rathbone, General Supervisor of Carding; L. A. Kiser, 3rd shift Carding Supervisor, and Don Hensley, 2nd shift Carding Supervisor, discuss the new chute-fed card.**

**John Hatchett (right), General Supervisor of Spinning/Spooling, watch spinner Gladys Huffman at the Open End spinning.**

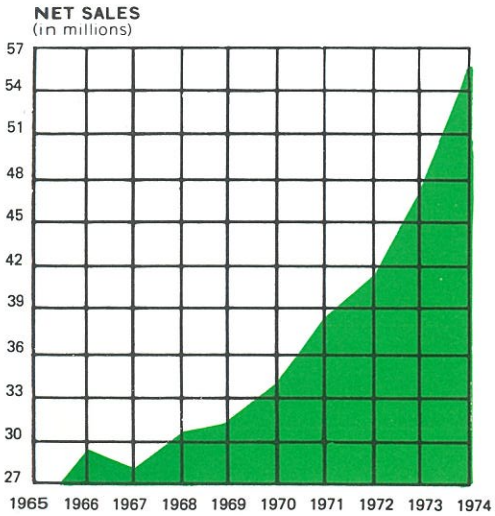
**John Cooke (left), General Supervisor of Weaving, assists Frank Kirk in tying-in warp yarn on the loom.**

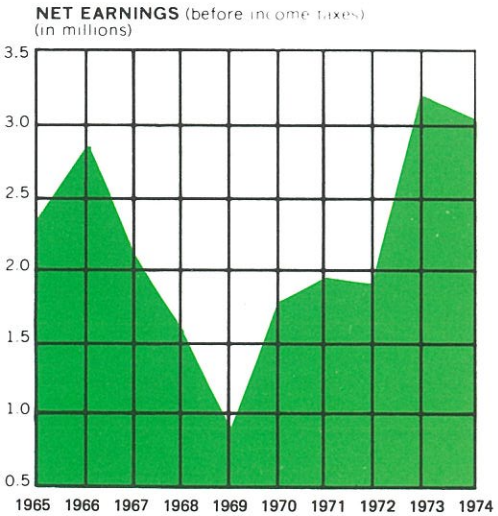


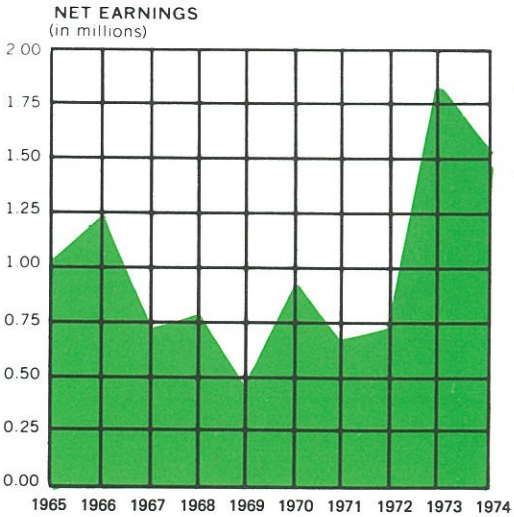
**F. E. Thornburg, Jr. (left), General Supervisor of Finishing, and James Harwell, Plant Manager, check the nap on canton flannel at the Plantery Napper.**

# TEN YEARS IN REVIEW

| | 1974 | 1973 |
|---|---|---|
| NET SALES | $55,125,721 | $45,674,963 |
| Net Earnings before Income Taxes | 3,029,465 | 3,241,971 |
| Income Taxes | 1,455,689 | 1,408,298 |
| Net Earnings | 1,573,776 | 1,833,673 |
| Dividends Paid | 674,377 | 539,745 |
| Earnings Retained in Business | 8,731,854 | 7,816,106 |
| Working Capital | 5,664,481 | 6,127,717 |
| Plant and Equipment - Less Depreciation | 10,667,995 | 10,356,173 |
| Stockholders Equity | 14,658,510 | 13,758,106 |
| Shares of Stock Outstanding | 3,373,544 | 3,373,444 |
| Book Value Per Share | $4.35 | $4.08 |
| | | |
| Per Share of Stock | | |
| Net Earnings | 46.68¢ | 54.36¢ |
| Dividends - Cash | 20.00¢ | 16.00¢ |
| Stock | | |
| Cash Flow | 101.52¢ | 105.37¢ |

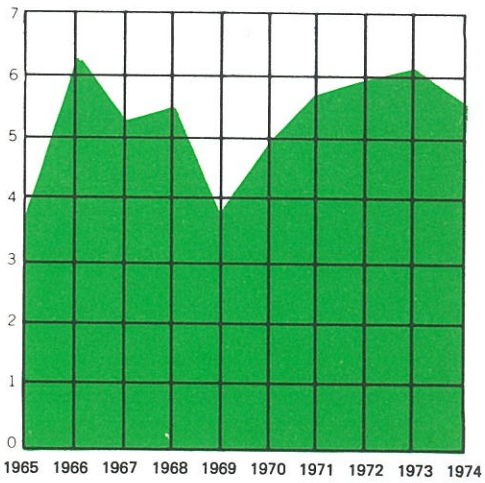


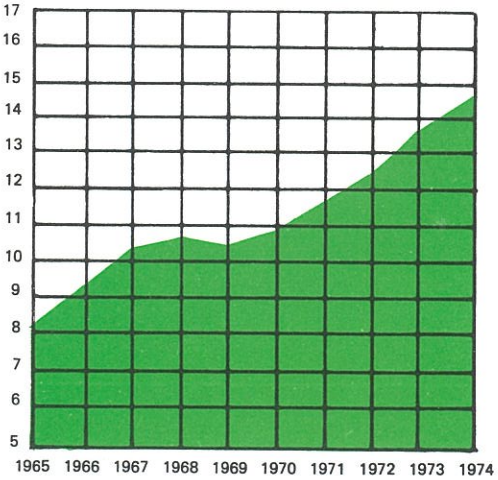



| 1972 | 1971 | 1970 | 1969 | 1968 | 1967 | 1966 | 1965 |
|---|---|---|---|---|---|---|---|
| $40,868,715 | $38,493,631 | $33,907,075 | $30,960,703 | $30,122,988 | $27,889,841 | $29,023,599 | $24,466,966 |
| 1,764,166 | 1,808,146 | 1,573,041 | 785,411 | 1,581,139 | 2,090,968 | 2,729,246 | 2,364,745 |
| 719,982 | 606,770 | 829,898 | 409,600 | 755,247 | 749,760 | 1,211,920 | 1,092,273 |
| 1,044,184 | 1,201,376 | 743,143 | 375,811 | 825,892 | 1,341,208 | 1,517,326 | 1,272,472 |
| 539,735 | 269,867 | 303,601 | 945,219 | 917,676 | 937,200 | 1,022,048 | 533,876 |
| 6,373,709 | 5,837,202 | 4,905,693 | 4,466,151 | 5,275,397 | 5,367,181 | 4,965,878 | 4,432,326 |
| 5,980,797 | 5,718,779 | 4,978,233 | 3,852,095 | 5,445,594 | 5,212,751 | 6,280,310 | 3,541,182 |
| 9,678,184 | 8,507,426 | 8,589,703 | 9,575,306 | 8,312,920 | 8,263,424 | 6,266,795 | 4,565,615 |
| 12,315,383 | 11,778,877 | 10,847,368 | 10,407,825 | 10,677,705 | 10,244,273 | 9,287,858 | 8,089,813 |
| 3,373,344 | 3,373,344 | 3,373,344 | 3,373,344 | 3,275,152 | 3,179,470 | 3,086,927 | 2,993,131 |
| $3.65 | $3.49 | $3.21 | $3.09 | $3.26 | $3.22 | $3.01 | $2.70 |
| | | | | | | | |
| 30.95¢ | 35.6¢ | 22.0¢ | 11.1¢ | 25.2¢ | 42.2¢ | 49.2¢ | 42.5¢ |
| 16.00¢ | 8.0¢ | 9.0¢ | 12.0¢ | 12.0¢ | 12.0¢ | 12.0¢ | 10.0¢ |
| | | | 3.0% | 3.0% | 3.0% | 3.0% | 2.% |
| 76.58¢ | 76.1¢ | 61.6¢ | 51.4¢ | 61.7¢ | 74.5¢ | 76.9¢ | 67.3¢ |

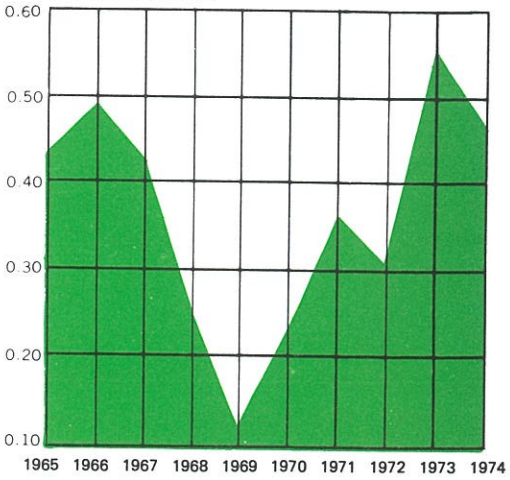
**WORKING CAPITAL**
(in millions)




**STOCKHOLDER'S EQUITY**
(in millions)




**NET EARNINGS** (per share of stock)
(in units of a dollar)



# CAROLINA MILLS, INC. AND WHOLLY OWNED SUBSIDIARY CORPORATIONS

## STATEMENT OF CONDITION

| Assets | September 28 1974 | September 29 1973 |
|---|---|---|
| Current Assets: | | |
| Cash | $ 1,216,417 | $ 1,849,579 |
| Notes Receivable | 55,916 | 445,321 |
| Accounts Receivable, Less Allowances of $205,714, 1974; 193,213.42 for 1973 | 6,006,048 | 5,132,750 |
| Inventories (Notes A&B) | 6,936,269 | 4,751,505 |
| Prepaid Expenses | 247,517 | 207,103 |
| Total Current Assets | 14,462,167 | 12,386,258 |
| Investments at Cost | 1,100 | 1,100 |
| Property, Plant and Equipment — At Cost | | |
| Land | 135,554 | 135,554 |
| Buildings and Equipment | 24,849,253 | 23,156,686 |
| Total | 24,984,807 | 23,292,240 |
| Less — Accumulated Drpreciation | 14,316,812 | 12,936,067 |
| Depreciated Cost | 10,667,995 | 10,356,173 |
| Other Assets: | | |
| Cash Value of Life Insurance | 102,222 | 97,083 |
| Other Notes and Accounts Receivable | 103,890 | 71,174 |
| Deposits | 448,835 | 2,835 |
| Deferred Loan Expense and Other | 10,372 | 11,640 |
| Totals | 665,319 | 182,732 |
| | $25,796,581 | $22,926,263 |

| Liabilities and Stockholders' Equity | | |
|---|---|---|
| Current Liabilities: | | |
| Notes Payable | | |
| Occidental Life Insurance — Current | $ 269,231 | $ 269,231 |
| Banks | 3,700,000 | 2,200,000 |
| Other | 100,000 | 100,000 |
| Accounts Payable | 2,643,993 | 1,801,012 |
| Accured Accounts | 1,657,315 | 1,326,042 |
| Federal and State Income Taxes (Note E) | 427,147 | 562,257 |
| Total Current Liabilities | 8,797,686 | 6,258,542 |
| Long-Term Liabilities | 2,340,385 | 2,909,615 |
| Total Liabilities | 11,138,071 | 9,168,157 |
| Stockholders' Equity | | |
| Capital Stock — Common | | |
| Authorized 5,000,000 Shares — $1.00 Par | | |
| Issued and Outstanding 3,373,544 | 3,373,544 | 3,373,344 |
| Capital Surplus | 2,568,768 | 2.568,556 |
| Retained Earnings | 8,731,854 | 7,816,106 |
| Total | 14,674,166 | 13,758,106 |
| Less — Treasury Stock — At Cost (4,271 Shares) | 15,656 | — 0 — |
| Total Stockholders' Equity | 14,658,510 | 13,758,106 |
| Totals | $25,796,581 | $22,926,263 |



See Accompanying Footnotes which are an integral part of the Financial Statesments.

# FOOTNOTES TO FINANCIAL STATEMENTS

## September 28, 1974

## Carolina Mills, Inc. And Wholly Owned Subsidiary Corporations.

**Note A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

1. Principals of Consolidation:
   All subsidiaries of the company are wholly owned and are included in the consolidated financial statements. All material intercompany transactions have been eliminated.
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 current year ended, September 28, 1974.

| | |
|---|---|
| Finished Products: | |
| LIFO Cost | $1,254,038 |
| FIFO Cost | 371,480 |
| Average Cost | 1,094,863 |
| Work-In-Process: | |
| LIFO Cost | 597,079 |
| FIFO Cost | 898,929 |
| Average Cost | 192,970 |
| Raw Materials & Supplies: | |
| LIFO Cost | 2,099,729 |
| FIFO Cost | 427,181 |
| | $6,936,269 |

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
5. Income Taxes:
   The company files with its subsidiaries a consolidated Federal income tax return. Consolidated returns were filed for fiscal years ended September 30, 1972 and 1973, and will be filed for the current fiscal year. Separate returns were filed for all years ending prior to September 30, 1972. 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 – $6,936,269**

The company has adopted the last-in, first-out (LIFO) method of inventory valuation of raw material fibers for its fiscal year ended September 28, 1974. Accordingly, the financial statements for the year then ended reflect the change to LIFO method of valuation. Raw materials so priced include cotton and manmade synthetic fibers such as rayon, ployester 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 at September 28, 1974 are lower by $1,388,869 than they would have been had the first-in, first-out method of pricing been employed.

| | |
|---|---|
| Finished Yarn and Cloth | $2,720,381 |
| Stock-In-Process | 1,688,978 |
| Supplies and Chemicals | 427,181 |
| | $6,936,269 |

**Note C. LONG-TERM DEBT $2,909,616**

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 payment 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 28, 1974. Unpaid balance of the loan at September 28, 1974 was $1,884,616.

A five year long-term loan agreement with The Northwestern Bank, North Wilkesboro, N. C., was entered into on June 20, 1972, for $1,000,000 Terms of the agreement specify quarterly payments of principal of $50,000 over a five year period, with interest at ½% over bank's prime. At September 28, 1974, the unpaid balance was $550,000.

On August 15, 1972, a long-term loan in the amount of $700,000 was borrowed from Commercial Credit Industrial Corporation, Baltimore, Maryland. The company has pledged machinery and equipment which cost approximately $700,000 to secure the loan. Terms of the loan agreement include quarterly payments of principal in the amount of $25,000. The unpaid principal balance at September 28, 1974, was $475,000.

**Note D. NONCANCELLABLE LEASES**

Lease agreements for the rental of textile machinery and equipment totaling $3,725,339 were in effect as of September 28, 1974. The company had made payments against the leases in the total amount of $2,146,157, leaving an unpaid balance of $1,579,182. In addition the company leases certain textile finishing equipment on a production basis. The terms of the leases are normally for eight years payable on a straight-line basis. Lease payments for the year ending September 28, 1974,amounted to $686,474. We show below lease payments scheduled for the next five fiscal years ending on September 30th.

| | |
|---|---|
| 1975 | $530,645 |
| 1976 | 237,535 |
| 1977 | 237,535 |
| 1978 | 237,535 |
| 1979 | 139,514 |
| 1980-1984 | 196,418 |

On August 1, 1970, a sale-and-leaseback arrangement was executed with Commercial Credit Corporation. Machinery which cost $660,909 was sold on a leaseback arrangement covering a period of 8 years and a total lease amount of $996,756. Monthly payments of $9,250 are required. The leaseback is included in the above figures.

**Note E.** Income tax returns have been examined by the Internal Revenue Service for fiscal years ending with September 30, 1971, when separate returns were filed by the parent and subsidiary corporations. The separate return years have been settled and recorded on the accounts of the companies. For the fiscal year ended September 30, 1972, the group elected to file a consolidated Federal return and unused net operating losses of two of the subsidiary corporations in the amount of $419,000 from separate return years were carried forward to the consolidated return. The Service has examined the consolidated returns for 1972 and 1973, and proposed an adjustment to the 1972 tax liability arising primarily from the deduction of the separate return years carryover losses. At the balance sheet date, the examining agent had not rendered a report and no determination had been made

The provision for Federal income tax has been reduced in the amount of $123,584 as a result of the flow-through method of accounting for the investment tax credit. For the immediately preceding year, the credit amounted to $148,440, and was accorded the same accounting treatment.

**Note F. PENSION PLAN**

The company and its subsidiaries 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 3½ percent on the past service cost. For the fiscal year ended September 28, 1974, the pension plan expense amounted to $225,000. The past service cost, which has not been funded amounted to approximately $1,557,700 at September 28, 1974.

**Note G.** Qualified stock options have been granted to the officers of the company at an option price at $3.75 a share expiring five (5) years from date of grant, which was March 1, 1973. Total number of shares under the option amounted to 70,000.

**Note H. CONTINGENCIES AND COMMITMENTS**

1. The company has entered into an agreement with Julius W. Abernethy, a director, officer and major stockholder, to acquire approximately 779,000 shares of common stock which have been restricted to sale for others without first giving the company right of first refusal. The "refusal terms" of the agreement means that the company will be offered the stock at a price per share that is the lesser of (1) the same price per share at which the intended transfer is to be made or (2) the book value per share of such shares as of the end of the immediately preceding fiscal year of the company.
2. The company has entered into contractural purchase commitments and made deposits of $446,000 for the acquisition of machinery and equipment in the approximate amount of $6,122,000, at September 28, 1974. Of the total amount of $6,122,000, at Sep purchased and the remainder, or $4,779,000 will be financed externally through noncancellable financing leases. The textile machinery is scheduled for delivery in the fiscal year 1975 in the amount of $3,850,000 and the year 1976 in the amount of $2,272,000. The commitments are are primarily for the purchase of new type foreign made open-end spinning and auxiliary equipment.

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## ACCOUNTANT'S OPINION

In our opinion, the accompanying consolidated balance sheet and consolidated statement of earnings, retained earnings and changes in financial position, including footnotes, present fairly the financial position of Carolina Mills, Inc. and its Wholly Owned Subsidiaries, Maiden, N. C., at September 28, 1974, and the results of its operations for the year (fifty-two weeks) then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change to last-in, first-out (LIFO) method of pricing certain raw material inventories as explained in footnote B.

Very truly yours,
Thies and Whitfield

Thies and Whitfield

Certified Public Accountants

## THE YEAR IN REVIEW

In keeping with our policy of initiating new programs and procedures, several significant steps have been taken.

Our insurance program was updated to accommodate the rising costs of medical and hospital care. A new pictorial and descriptive brochure was printed for distribution to customers, visitors, suppliers, employees and friends. Microfilm equipment, which helps eliminate storage problems and conserve records, has been installed in the Administrative offices. The second phase of a wage increase for hourly employees became effective October 1, 1974, in the form of a plant-wide incentive. This program encourages teamwork and enthusiasm by giving employees the opportunity to earn up to 10% of their regular pay through greater productivity, higher quality and plant safety. With three pay increases for employees during the past thirteen month period, we have been able to bring wages up to a competitive scale. Sharing company profits with employees in the form of higher wages is Carolina Mills' tangible way of expressing appreciation for the fine service they have rendered.

One of the most interesting developments in our organization is Open End spinning. We have had such fine results from our experience with this operation that we felt justified in enlarging the use of this modern technique. This has made our company more competitive in the market, at the same time enabling us to supply customers with a better quality product.

### WEAVING DIVISION

One of the most significant changes in the Weaving Division has been the installation of Open End spinning at Plant No. 3. The entire filling yarn operation has been structured around the use of Open End spinning. The picking process has been eliminated, cards were re-vamped to operate at higher speeds and new chute-fed cards, equipped with Uster Uni-leveling devises, have been installed. This renovation enables Plant No. 3 to produce higher quality varn for their canton flannel at the lowest cost possible.

Other features of the Weaving Division are described on pages 3 and 4.

### YARN DIVISION

During this past year the market for all of our yarns was exceptionally good. We were able to expand our programs in flame retardant children's sleepwear, and maintain our position in the home furnishings, apparel, sliver knit and elastic web markets. Our program of development of new fashion yarns for the knit outerwear market has enhanced our position in that market.

Plant No. 2 during this past year installed Schlafhorst automatic winding and chute fed cards. The ground work is being laid to convert this plant to Open End spinning and 12 Ingolstadt frames have been scheduled for delivery in 1975-1976.

At Plant No. 8 the building has been expanded to house the 28 additional Open End spinning frames that are on order for delivery in 4th quarter of 1974. The market acceptance of our Open End yarns has justified our commitment to expand in this area.

When the expansion of Plant No. 2 and Plant No. 8 are completed, the production of our Sales Yarn Division will exceed 1,000,000 pounds per week, and Open End spininng will account for one-half or 500,000 pounds per week.

Plant No. 12 completed work on the card room where high speed cards with cleaning were installed. We now have much more flexibility in this plant, while improving productivity and working conditions.

While this past year has been good, the outlook is not encouraging. With the economy slowing down, all of our markets have been adversely affected. We will be curtailing operations to keep production in line with shipments and will be fighting to keep and expand our share of the market.

### KNITTING DIVISION

The outlook for the immediate future is not good for our business. Our economic situation in this country is still in a downward position. We are hopeful that the bottom is near and we can level out in early 1975 and by mid year to into an upswing in our production, along with the economy.

The situation which we are now facing will require cooperation and understanding from everyone in every job. We must be more aware of our cost, efficiency and quality of goods produced. We must do everything possible to retain the business that we have and to develop and service any new accounts that we can get. We do have the team in each case to rise to the occasion and win.

Plant No. 4 has been able to produce at 300,000 pounds per week and above, which we hope to maintain. If we are able to do this we can be in a profit position. The bleaching programs are not as strong as expected at this time. The dye programs have been much stronger but show some signs of dropping off. We are exploring any new programs that can be found in the market to help maintain a level of production in the plant that will keep us working at a profit. Remember at this plant we sell only two things – Service and Quality.

Plant No. 15 had the opportunity to produce at almost full capacity for a period of several months, during which the people responded with effecienty and quality. The orders have now slowed. We have done a good job in the uniform fabrics and anticipate some continuing programs in this area. We had a 45,000 yard order from Farah on the spun-textured combination fabric and are hoping to obtain more. Our new line of fabrics for Fall 1975 are being shown at this time and we will have to wait for a reaction on them. We are making every effort to keep a level of production in our plant that will utilize the people and keep our goods going into the market.

MoBill: the double-knit market is still very depressed, which has kept our production down. Our texturized wovens are developing into some good programs and will help improve our work week. We have two double knitters that are running fairly good programs which we hope will continue. A lot of work has gone into developing the know-how to run single knits, texturized wovens, tricot knits, and warp knits along with double knits. This also includes dyeing the different dyeable fibers giving two and three color shades. Being able to do other than one type fabric will help us in the market in trying to get our production up. Our qulaity control program has developed into an important part of our operation as our quality is excellent.

The fine team work displayed by our employees this past year during the energy crisis allowed us to weather the storm. We were able to maintain production at a normal rate during this period without making emergency and unscheduled shifts in production schedules. We are certain that this same cooperative spirit will be exhibited as we work together to meet the challenges that confront us in the coming year.

## DISTRIBUTION OF EACH DOLLAR OF INCOME YEAR ENDED SEPT. 28, 1974

| | | |
|---|---|---|
| Total Income | $55,731,174 | 100.00% |
| Cost of Raw Materials, and Supplies | 34,706,378 | 62.27 |
| Paid in Taxes and Donations | 2,246,823 | 4.03 |
| Paid in Dividends to People whose Savings are Invested in this Business | 674,377 | 1.21 |
| Depreciation on Plant Equipment | 1,847,555 | 3.32 |
| Retained Earnings Used in the Growth of this Business | 899,399 | 1.61 |
| Cost of Wages and Salaries | 12,764,941 | 22.91 |
| Additional Benefits of Employees (Company's Share of Social Security Taxes, Pension Trust, Group Insurance, Employees Welfare, Vacation Pay & Bonus and Profit Sharing) | 2,591,701 | 4.65 |
| | $55,731,174 | 100.00% |

# STATEMENT OF EARNINGS AND EARNINGS RETAINED

YEAR ENDED SEPTEMBER 28, 1974
WITH COMPARATIVE FIGURES
FOR 1973

| STATEMENT OF EARNINGS | Fiscal Year September 28 1974 | Fiscal Year September 29 1973 |
|---|---|---|
| Net Sales | $55,125,721 | $45,674,963 |
| Cost of Sales | 51,390,356 | 43,365,880 |
| | 3,735,365 | 2,309,083 |
| Other Income (Deductions) Net | (705,900) | 173,797 |
| Net Income Before Taxes | 3,029,465 | 2,482,880 |
| Income Taxes (Footnote ) | 1,455,689 | 1,094,647 |
| Net Income Before Extraordinary Items | 1,573,776 | 1,388,233 |
| Extraordinary Item – Gain on Sale of Assets of Discontinued Operations Net of Applicable Income Taxes | – 0 – | 445,440 |
| Net Earnings | 1,573,776 | 1,833,673 |
| Retained Earnings at Beginning of Year | 7,816,106 | 6,373,709 |
| | 9,389,882 | 8,207,382 |
| Add Prior Years Income Tax Adjustment | 16,349 | 148,469 |
| | 9,406,231 | 8,355,851 |
| Dividends Paid | 674,377 | 539,740 |
| Retained Earnings at End of Year | 8,731,854 | 7,816,106 |
| Per Share of Common Stock: | | |
| Earnings Before Extraordinary Item | 46.68¢ | 41.15¢ |
| Extraordinary Item | –0– | 13.21¢ |
| Net Earnings | 46.68¢ | 54.36¢ |

Quarterly dividens are paid on approximately the following dates:

January 10th to Stockholders of Record January 1st
March 10th to Stockholders of Record March 1st
June 10th to Stockholders of Record June 1st
September 10th to Stockholders of Record September 1st

## CHANGES IN FINANCIAL POSITION

### SOURCES OF WORKING CAPITAL

| | |
|---|---|
| Earnings for Year | $1,573,776 |
| Depreciation & Amortization | 1,848,820 |
| Book Value Assets Disposed | 17,200 |
| Prior Years Adjustment RAR | 8,929 |
| Proceeds from Sale of Stock | 313 |
| Reduction in Installment Receivable, etc. | 24,115 |
| Decrease in Working Capital | 463,236 |
| | $3,936,389 |

### DISPOSITION OF WORKING CAPITAL

| | |
|---|---|
| Plant and Equipment | $2,169,156 |
| Cash Dividends Paid | 674,377 |
| Reduction of Long-Term Debt | 569,230 |
| Purchase of Treasury Stock | 15,656 |
| Increase in Other Assets | 61,970 |
| Increase in Machinery Deposits | 446,000 |
| | $3,936,389 |

# CAROLINA MILLS, INC.

## PLANT LOCATIONS

### Maiden, North Carolina

General Administrative Offices
Central Warehouse for Finished Goods and Raw Materials
Trucking Department
Laboratory
Plant No. 1 (Julius W. Abernethy Plant) Ultra modern spinning of yarns from man-made fibers
Plant No. 8 Open End Spinning Plant

### Newton, North Carolina

Plant No. 2 – Coarse Yarns
Plant No. 3 – Canton Flannel
Plant No. 4 – Commission Finishing of Tubular Knit Goods

### Statesville, North Carolina

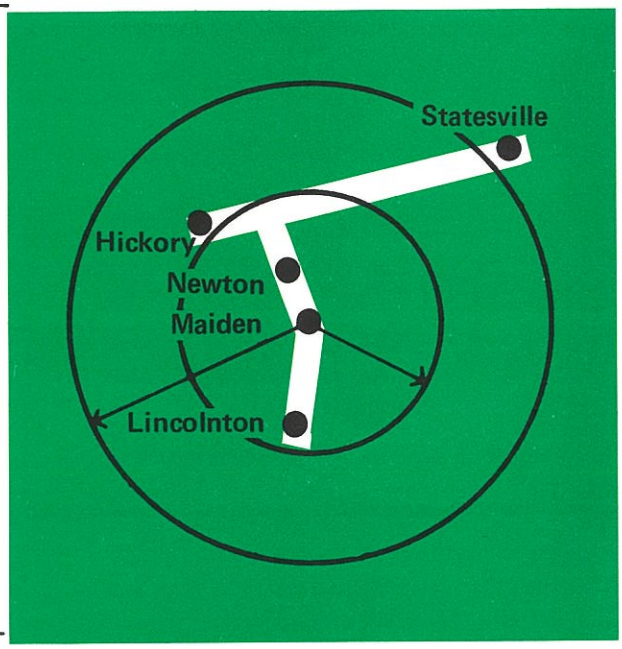
Plant No. 12 – Fine Count Yarns

### Hickory, North Carolina

Plant No. 14 – Upholstery Fabrics
Plant No. 15 – Warp Knit Fabrics

### Lincolnton, North Carolina

Plant No. 5 – Spun Yarns for the Knitting Trade
Plant No. 6 – Polyesters Yarns




### Subsidiaries – (Wholly Owned)

Carolina Maiden Corp. – Yarn Sales Agency
Catawba Valley Computer Center – Data Processing Service
MoBill Textiles, Inc. – Finishing of Open Width Knit Fabrics
Knits by Carolina, Inc. – Knit Goods Sales Agency