

# Carolina Mills

## **1981 Annual Report**

Carolina Mills



## ON OUR COVER

Embossed on the cover is our new company identity which was adopted this year. We've retained our Maiden symbol with a simplified, stylized version of the silhouette that has been with us through decades of growth since the 1930's. It is particularly fitting for this year's cover since the featured story is "Where We've Been, Where We Are, and Where We're Going".

With the symbol is our new Carolina Mills' logo which features a specially designed typeface. This new identity will be showing up in more and more places in the future.

## To Our Shareholders:

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1981 continued to be a significant period in the growth of Carolina Mills. We reported the largest sales volume in our history, as well as our largest profit. These accomplishments indicate the accuracy of our planned long-range program.

In the past year a great amount of time was spent in constructing the new Null furniture plant. This is now ready for occupancy and fine tuning of this operation will be done in the near future.

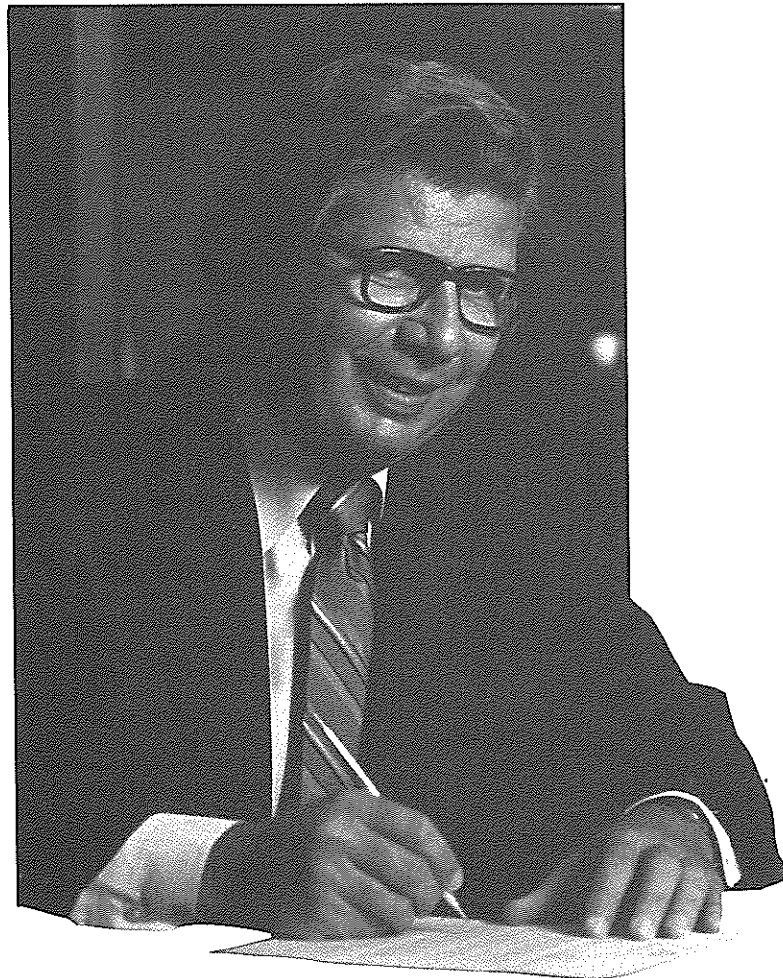
Additional time was used in planning and negotiating the acquisition of A. M. Smyre Manufacturing Company, a yarn spinning operation whose products complement our own production. Smyre will add forty million dollars to Carolina's sales volume next year. This move fits well in the planned growth of Carolina.

Other parts of our operations also received attention with new machinery and procedures being installed in many of our plants.

Forward progress is the program of each Carolina employee and with reasonable economic conditions, our company is in an excellent position to grow and prosper in the coming years.



EDWARD P. SCHRUM  
*President*



# Highlights of The Year

## Carolina Mills, Inc. And Wholly Owned Subsidiaries

	Year Ended	
	October 3 1981	September 27 1980
<b>Operations:</b>		
Sale of Products .....	\$113,943,593	\$93,363,384
Earnings Before Income Taxes.....	10,982,477	8,269,717
Net Income After Taxes.....	5,879,561	4,593,149
Depreciation and Amortization.....	2,495,346	3,480,025
Cash Flow.....	8,374,907	8,073,174
<b>Financial Position:</b>		
Working Capital .....	18,017,838	16,166,995
Long-Term Debt.....	9,225,689	5,590,592
Total Assets.....	54,848,308	43,713,845
Stockholders' Equity .....	32,243,191	28,065,843
Shares Outstanding End of Year .....	3,444,581	3,452,815
<b>Per Share of Common Stock:</b>		
(1) Earnings After Taxes.....	\$1.71	\$1.35
Cash Flow.....	\$2.43	\$2.34
Cash Dividends .....	\$ .48	\$ .43
Book Value at End of Year .....	\$9.36	\$8.13

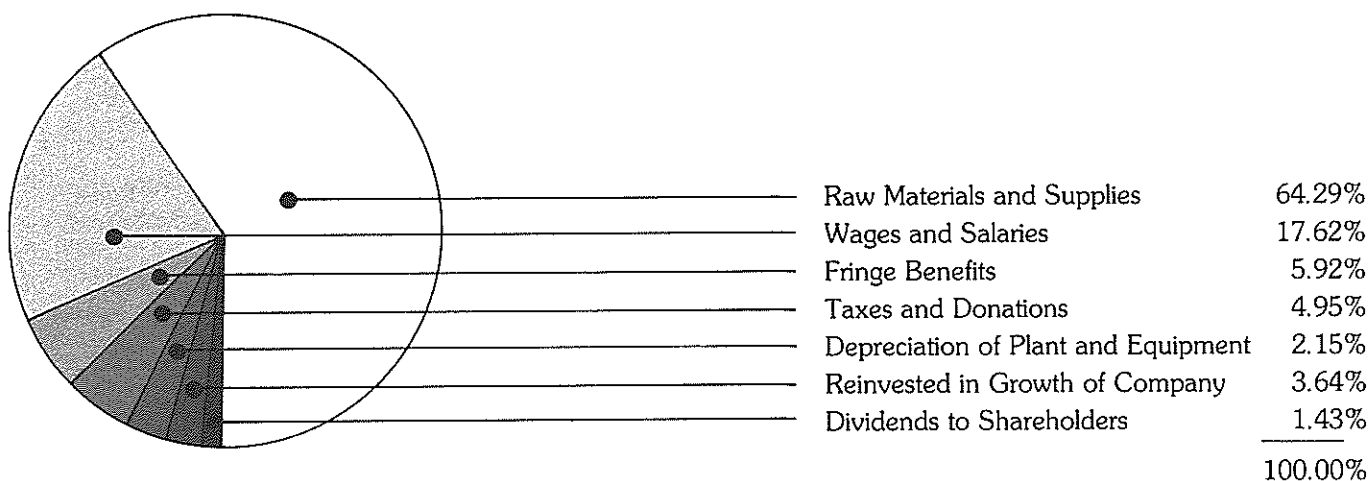
(1) Computed Based Upon Average  
Shares Outstanding

# Distribution of Each Dollar of Income

Carolina Mills, Inc.  
And Wholly Owned Subsidiaries

Year Ended October 3, 1981

Total Income .....	\$115,865,281	100.00%
Wages and Salaries .....	\$ 20,412,230	17.62
Fringe Benefits .....	6,856,625	5.92
Raw Materials and Supplies .....	74,489,080	64.29
Depreciation of Plant & Equipment .....	2,492,324	2.15
Taxes and Donations .....	5,735,461	4.95
Reinvested in Growth of Company .....	4,226,027	3.64
Dividends to Shareholders .....	1,653,534	1.43
Total .....	\$115,865,281	100.00%



# The Year In Review

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Again this year Carolina Mills anticipated further growth through the proposed acquisition of Smyre Manufacturing Company of Ranlo, N. C. Smyre's 750 employees, plus 185 from Null along with Carolina Mills' 1465, increased our family to 2400.

The clubhouse in Maiden underwent extensive remodeling which includes new kitchen facilities and an additional meeting room.

Governor Hunt presented Carolina Mills an award for excellence in exporting for increasing sales in the international market by 53%.

A full color 20-page booklet was produced to inform friends and customers about our company. The Carolina Mills textile scholarship to North Carolina State University was increased from \$1,000 to \$4,000 per year for four years. Employees participated in compiling "A Carolina Christmas", a book containing recipes, craft and gift ideas for the holiday season. For the first time Carolina Mills became a sponsor for Junior Achievement, assisting thirty high school students in establishing their own company named "Carolina Creations".

We were saddened by the deaths of director emeritus Joseph Leroy Barnett (September 3, 1898–February 16, 1981), and director Joseph A. Moretz (November 12, 1908–November 5, 1981).

## **Knit Finishing Division**

1980 was good but 1981 was better. Our production reached a record 25 million pounds, which was 3 million pounds more than last year. This was made possible by the efforts of the people at Plant No. 4. Their efficiency, procedures and organization produced the quality and quantity required to attain these new levels.

A new wet processor was installed in 1981 and another will be installed in December. This is a continuing upgrading program to improve quality and quantity.

As soon as we can determine which machinery best suits our customers' needs we will increase our capacity for dyed goods at Plant No. 4. This will be keeping in step with customer demands and a changing market.

We look forward to 1982.

## **Weaving Division**

This year Plant No. 3 established a record high in both dollar volume and yards sold. The last planned phase of the modernization program for yarn processing has been completed. This enables yarn production to balance out with weaving requirements. We now have as modern and up-to-date 100% cotton plant as any in this country. All OSHA dust standards are in complete compliance.

Plant No. 3 is now equipped with the most modern machinery available to complement an excellent group of employees to make this a superior operation in the production of canton flannel.

Plant No. 14 sales of residential upholstery fabric and nylon contract fabrics increased again this year. Improved styling in home furnishings fabrics and additional customers in the contract sales area have permitted us to increase our average sale price as well as operate on a more consistent schedule.

Our Research and Development department is in the process of developing fabrics for the wall covering market to complement our contract upholstery line. The wall covering samples produced by Plant No. 14 currently being tested in the market place indicate we should make an impact with this product.

## **Yarn Division**

1981 was a very difficult year for the Sales Yarn Division. Record high interest rates for much of the year forced our customers and the retailers to be very inventory cautious. This meant our customers would only place orders for yarn when they

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received orders for fabric or garments. As a result, we operated for much of the year with a lower than desirable backlog of orders, and scheduling production of proper blends and yarn counts was extremely difficult. Also the extremely high interest rates took their toll on some of our customers as some declared bankruptcy and some just decided to cease operations.

Export sales suffered during the later part of the year as the dollar gained strength in the world money markets. This made our yarn prices less attractive to our foreign customers. However, we continue to make progress in our export program by selling into new areas of the world and broadening our base in the world market.

The most exciting part of 1981 for the Sales Yarn Division was the proposed acquisition of A. M. Smyre Manufacturing Company in Ranlo, N. C. Smyre has a reputation in the market for producing top quality yarns for apparel, spun from polyester and cotton, and for carpets, spun from nylon. The acquisition will enable us to broaden our product line and better serve some of our current customers. It also places us in a new market, carpet yarns, which gives us diversification into an area of the home furnishings market where we have not been before.

A. M. Smyre has three manufacturing facilities. Plant No. 1 is a medium count (26/1 average) polyester/cotton spinning operation. The yarn from this plant is sold to knitters making fine gauge fabrics for women's and children's tops and dresses. Plant No. 2 is a coarse count (20/1 average) polyester/cotton spinning plant. Both intimate blends of polyester/cotton are made and mock twist (one end of polyester roving, one end c.p. roving) polyester/cotton are made. Most of the production from this plant goes into children's wear or active sportswear apparel. Plant No. 4 is the carpet yarn plant spinning primarily nylon yarns. Our product lines include deep dye, cationic dye and regular dye yarns. We are serving a lot of customers making contract carpet for hotels, office buildings, etc. Because of this, the carpet yarn business has not been hurt as badly by the high interest rates as has the residential carpet business. Strong sales representation in the carpet yarn market as well as good manufacturing facilities and a reputation for producing a quality product creates enthusiasm for this new venture.

As we look forward to this coming year, interest rates are beginning to recede. If the President's new economic program begins to work and the economy does recover, we can anticipate good growth in sales and earnings. The cooperation and dedication of our good people have been most instrumental in our success of the past and will be most meaningful in the success we have in the future.

### **Furniture Division (Null Manufacturing)**

During the past year, tremendous progress was made toward the completion of Null's new manufacturing facility, executive office and showroom complex located just north of Maiden on U. S. highway #321. This project is on schedule, with a planned start-up time in early 1982. The manufacturing building has been completed. Approximately 90% of the new machinery and equipment has been received and about 70% of the automated materials handling systems has been installed. This facility will enable Null to consolidate all manufacturing operations into one unit. This will make us the most modern and efficient operation of our type in the country, utilizing the latest technological advances throughout.

Even with the soft consumer demand for durable goods during the past year, Null's sales remained relatively stable. With the good acceptance of new product offerings, we are optimistic for the coming year and for the decade of the 80's. We are presently expanding our occasional table line and moving forward with the development of additional upholstery and casual family room groupings, supported by a more aggressive marketing effort.

## Where We've Been, Where We Are, And Where We're Going

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*Artist rendering of the new Null Manufacturing furniture plant under construction.*

It all began with one plant employing 110 people and three men who recognized a business opportunity and applied their resources and abilities. Through sound organization and wise acquisition, that business mushroomed into a leading company. Today, Carolina Mills, Inc. is a financially sound, multi-product corporation with thirteen textile and furniture plants.

From the very beginning, Carolina Mills has had aggressive and progressive leadership. The company was formed in 1928 to acquire the floundering Carolina Cotton Mills in Maiden which had been in operation since 1915. Growth began in 1938 with the acquisition of another yarn manufacturing unit, Catawba Cotton Mills in Newton (now plant #2). This was the first of a total of thirteen acquisitions and mergers which would follow.

It soon became apparent that our customers could be better served and our own raw material shipments expedited by an internal traffic system. Thus, in 1946 we began ownership and operation of our own fleet of trucks.

Carolina Mills continued its policy of diversification as a means of strengthening the structure of the company. Other acquisitions followed: New City Mills, Newton, NC (now plant #3) and Knit Products Company of Hickory, NC (now plant #4) in 1947; Glenn Mills of Lincolnton, NC in 1959 (now plants #5 & #6); in 1961 Abernethy Yarn Mills, Statesville, NC (plant #12) and Trenton Mills at Gastonia, NC (closed in 1972); followed by Carolina Fine Fabrics at Hickory in 1963 (plant #14).

With the expansion of manufacturing capabilities, the company was ready to mount an aggressive sales program.

Carolina Maiden Corporation, a subsidiary, was established in 1964 to handle the marketing of Carolina Mills yarns as well as other accounts.

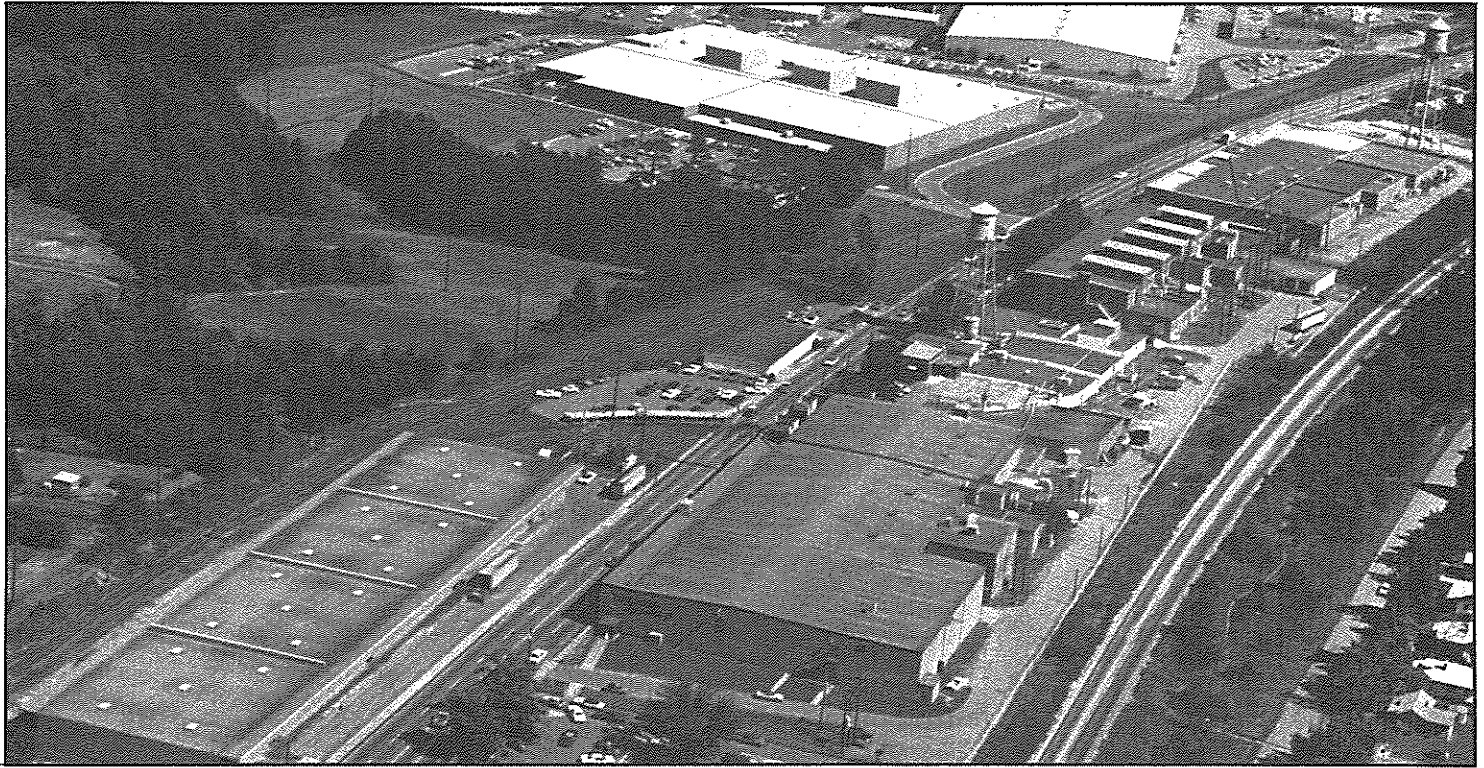
New administrative offices were built in 1966 to take care of the additional paper work and personnel required to run the steadily expanding company. In 1967 one of the most modern textile plants in existence, the J. W. Abernethy Plant (plant #1) was constructed near Maiden. This is a fine example of the progressiveness of Carolina Mills and the textile industry.

In 1971 Carolina Mills set up warp knitting operations in Hickory called Knits By Carolina, which was discontinued in 1977. Another subsidiary, Catawba Valley Computer Center, was begun in Hickory in 1972 to facilitate the mounds of paper work that had begun to accumulate. Like the Carolina Maiden subsidiary, CVCC also took on outside customers. This operation was merged into Carolina Mills in 1975 and moved to the Maiden offices.

Throughout the years Carolina Mills has continually diversified the product line and kept abreast of fashion trends. The installation of Open End spinning in 1972 was further evidence of the company's initiative and desire to better serve customers.

Even though considerable work has been devoted to mergers and acquisitions, Carolina Mills has continued to improve and expand existing facilities. One of our foremost goals has been to improve the work environment and provide better benefits for the conscientious and dependable employees who have become a vital part of the company. Major benefits inaugurated through the years were free





*Aerial view of Smyre Manufacturing complex in Gaston County.*

employee hospital insurance (1934), pension retirement (1942), profit sharing (1964), as well as paid holidays and vacations.

A look at our past history attests to the fact that we stay abreast of what is happening in the industry and throughout the world. The 1975 recession in the United States simply opened another door for our aggressive company — sales in the foreign market.

In 1980, for the first time in the company's history, Carolina Mills ventured outside the textile industry through the acquisition of a Maiden, NC furniture operation, Null Manufacturing. Combining two of the largest industries in North Carolina — furniture and textiles — afforded an even greater stability to our firm.

Again in 1981 we expanded significantly with the acquisition of Smyre Manufacturing, a three-plant yarn operation in Gaston County. This provided production we formerly didn't offer, polyester/cotton, which is one of the largest yarn markets in the business.

This is where we are at the end of 1981. What about the future? A statement from chief executive officer Ed Schrum best summarizes the company's theory. "If we don't move forward, we will go backward. There is no such thing as standing still."

Carolina Mills past growth was not automatic. It was a planned, systematic program, based on studies of cash flow, sales volume and ever-changing market conditions. These plans are constantly being updated and re-evaluated.

It is apparent from our history of modernization projects that Carolina Mills will continue along these lines. Necessary

additions to the administrative offices are being planned to properly handle our latest acquisitions. We will be streamlining our present manufacturing operations with push-button technology and looking at additional facilities as well. The program of continued growth is necessary to provide more benefits for employees and greater stability so that short recession periods will not have such an adverse effect. Becoming a larger corporation has enabled us to stay in business by staffing various positions that are required to meet government regulations in such areas as nursing, insurance, dust standards and other OSHA requirements.

With regard to foreign markets, the concept adopted by Carolina Mills is that textiles is a world-wide industry and we must be prepared to sell and buy on a world-wide basis. We buy from foreign markets in order to equip our plants with the best machinery possible, and we will sell to other countries if they desire to buy our products.

Attention has always been given to the quality of life in the communities that support our plants. Our goal is to stay involved with local government, the Chamber of Commerce, civic clubs, and to develop the same good relationships in areas recently entered just as we have in the communities where we have been operating. We will continue to emphasize the importance of textiles and furniture in the schools and communities. As we continue to grow, so can our support for our churches, clubs, educational institutions and other community endeavors grow.

This is Where We've Been, Where We Are, and Where We're Going. Thank you for coming with us.

# Statement of Condition

## Carolina Mills, Inc. And Wholly Owned Subsidiaries

Assets	October 3 1981	September 27 1980
Current Assets:		
Cash.....	\$ 4,978,425	\$ 2,482,294
Notes Receivable .....	452,216	355,437
Accounts Receivable, Less Allowance of \$303,500 for 1981; \$288,500 for 1980.....	13,756,579	11,580,262
Inventories.....	10,954,829	10,333,583
Temporary Investments.....	1,077,846	999,375
Prepaid Expenses.....	177,371	237,069
Overpayment of Federal Income Taxes .....	-0-	236,385
Total Current Assets.....	<u>\$31,397,266</u>	<u>\$26,224,405</u>
Investments at Cost .....	39,400	39,400
Property, Plant and Equipment-at Cost		
Land.....	248,633	248,633
Buildings and Equipment .....	<u>39,715,702</u>	<u>33,799,461</u>
Total.....	<u>\$39,964,335</u>	<u>\$34,048,094</u>
Less Accumulated Depreciation .....	<u>19,301,979</u>	<u>17,473,870</u>
Depreciated Cost .....	<u>\$20,662,356</u>	<u>\$16,574,224</u>
Construction in Progress .....	2,341,858	52,047
Leased Property Under Capital Leases, Less Accumulated Amortization .....	<u>377,249</u>	<u>772,350</u>
Total.....	<u>\$23,381,463</u>	<u>\$17,398,621</u>
Other Assets:		
Other Notes and Accounts Receivable .....	\$ 8,836	\$ 8,231
Cash Value Life Insurance .....	-0-	6,828
Deposits.....	425	425
Deferred Loan Expense.....	20,918	3,022
Deferred Interest.....	-0-	32,913
	<u>\$ 30,179</u>	<u>\$ 51,419</u>
Total Assets.....	<u><u>\$54,848,308</u></u>	<u><u>\$43,713,845</u></u>
<b>Liabilities and Stockholder's Equity</b>		
Current Liabilities:		
Notes Payable:		
Occidental Life Insurance—Current.....	\$ -0-	\$ 269,231
Installment Loans—Current .....	11,549	73,663
Banks.....	395,411	395,411
Industrial Revenue Bonds.....	860,000	-0-
Obligations Under Capital Leases—Current.....	295,317	341,230
Accounts Payable.....	6,469,204	5,145,374
Accrued Accounts.....	4,229,269	3,475,397
Federal and State Income Taxes .....	<u>1,118,678</u>	<u>357,104</u>
Total Current Liabilities.....	<u>\$13,379,428</u>	<u>\$10,057,410</u>
Deferred and Long-Term Liabilities .....	<u>9,225,689</u>	<u>5,590,592</u>
Total Liabilities .....	<u>\$22,605,117</u>	<u>\$15,648,002</u>
Stockholders' Equity:		
Capital Stock—Common		
Authorized 5,000,000 Shares—\$1.00 Par		
Issued and Outstanding 3,444,581 in 1981		
and 3,452,815 in 1980 .....	\$ 3,444,581	\$ 3,452,815
Capital Surplus .....	2,724,182	2,764,627
Retained Earnings.....	<u>26,074,428</u>	<u>21,848,401</u>
Total Stockholders' Equity .....	<u>\$32,243,191</u>	<u>\$28,065,843</u>
Totals.....	<u><u>\$54,848,308</u></u>	<u><u>\$43,713,845</u></u>

## Condensed Statement of Changes in Financial Position

Carolina Mills, Inc.  
And Wholly Owned Subsidiaries

	Fiscal Year Ended	
Sources of Working Capital	October 3 1981	September 27 1980
Earnings for the Year . . . . .	\$ 5,879,561	\$ 4,593,149
Depreciation and Amortization . . . . .	2,495,346	3,480,025
Working Capital Provided From Operations . . . . .	\$ 8,374,907	\$ 8,073,174
Book Value of Fixed Assets Disposed . . . . .	131,661	4,618
Sale of Common Stock . . . . .	42,883	1,575
Increase in Deferred Federal Income Taxes . . . . .	684,369	65,175
Increase in Long-Term Debt . . . . .	2,950,728	4,439,776
Decrease in Other Assets . . . . .	18,218	-0-
Working Capital Adjustment-Due to Acquiring Subsidiary-Null Manufacturing Corp. on July 1, 1980 . . . . .	-0-	392,427
Total . . . . .	<u>\$12,202,766</u>	<u>\$12,976,745</u>

### Disposition of Working Capital

Acquisition of Plant and Equipment . . . . .	\$ 8,606,827	\$ 4,777,954
Cash Dividends Paid . . . . .	1,653,534	1,468,589
Purchase and Retirement of Treasury Stock . . . . .	91,562	186,936
Increase in Other Assets . . . . .	-0-	70,084
Total . . . . .	<u>\$10,351,923</u>	<u>\$ 6,503,563</u>
Increase in Working Capital . . . . .	1,850,843	6,473,182
	<u>\$12,202,766</u>	<u>\$12,976,745</u>

### Changes in Components of Working Capital

Increase or (Decrease) in Current Assets:		
Cash . . . . .	\$ 2,496,131	\$ 472,809
Notes and Accounts Receivable . . . . .	2,273,096	1,860,430
Inventories . . . . .	621,246	2,117,761
Temporary Investments . . . . .	78,471	103,298
Deferred Charges . . . . .	(59,698)	(25,431)
Overpayment Federal Income Taxes . . . . .	(236,385)	(321,753)
	<u>\$ 5,172,861</u>	<u>\$ 4,207,114</u>
Increase or (Decrease) in Current Liabilities:		
Notes Payable . . . . .	\$ 528,655	\$ (2,530,926)
Obligations Payable . . . . .	(45,913)	15,334
Accounts Payable . . . . .	1,323,830	(169,035)
Accrued Accounts . . . . .	1,515,446	418,559
	<u>\$ 3,322,018</u>	<u>\$ (2,266,068)</u>
Increase in Working Capital . . . . .	<u>\$ 1,850,843</u>	<u>\$ 6,473,182</u>

# Statement of Earnings and Retained Earnings

Carolina Mills, Inc.  
And Wholly Owned Subsidiaries

	Fiscal Year Ended	
	October 3 1981	September 27 1980
<b>Year Ended October 3, 1981 With Comparative Figures for 1980</b>		
<b>Statement of Earnings:</b>		
Net Sales .....	\$ 113,943,593	\$93,363,384
Cost of Sales .....	<u>100,464,581</u>	<u>83,286,084</u>
	\$ 13,479,012	\$10,077,300
Other Income (Deduction) Net. ....	<u>(2,496,535)</u>	<u>(1,807,583)</u>
Net Income Before Taxes .....	\$ 10,982,477	\$ 8,269,717
Provision for Income Taxes .....	<u>5,102,916</u>	<u>3,676,568</u>
Net Earnings .....	\$ 5,879,561	\$ 4,593,149
Retained Earnings at Beginning of Year .....	<u>21,848,401</u>	<u>18,723,841</u>
	\$ 27,727,962	\$23,316,990
Dividends Paid .....	<u>1,653,534</u>	<u>1,468,589</u>
Retained Earnings at End of Year .....	\$ 26,074,428	\$21,848,401
Net Earnings Per Share .....	\$ 1.71	\$ 1.35

## Notes to Financial Statements

Carolina Mills, Inc.  
And Wholly Owned Subsidiary Corporations  
Maiden, N. C.  
October 3, 1981

### 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 October 3, 1981, 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.

#### Finished Products:

LIFO Cost .....	\$ 2,347,447
FIFO Cost .....	963,261
Average Cost .....	2,331,376

#### Work-In-Process:

LIFO Cost .....	850,699
FIFO Cost .....	942,535
Average Cost .....	313,030

#### Raw Materials & Supplies:

LIFO Cost .....	2,247,730
FIFO Cost .....	958,751
	<u>\$ 10,954,829</u>

### 4. Depreciation

Depreciation is computed using the accelerated method for income tax purposes and straight-line method for financial statements for the current year. In prior years the accelerated method was used for both the financial statements and income tax returns. See change in accounting method, footnote I.

### 5. Income Taxes

The Company with its subsidiaries, Carolina Maiden Corporation and Null Manufacturing Corporation, files 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.

The Company uses the last-in, first-out (LIFO) method of inventory valuation for raw material fibers. Accordingly, the financial statements for the fifty-three week period ended October 3, 1981 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 \$4,190,692 for 1981, and \$2,963,562 for 1980, than they would have been had the first-in, first-out method of pricing been employed.

Finished Goods .....	\$ 5,642,084
Stock-In-Process .....	2,106,264
Raw Materials .....	2,723,999
Supplies and Chemicals .....	482,482
	<u>\$ 10,954,829</u>

#### Note B.

**INVENTORIES — \$10,954,829**

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**Note C.**

**LONG-TERM DEBT OTHER  
THAN CAPITAL LEASE  
OBLIGATIONS**

*North Carolina National Bank \$5,000,000*

The Company has entered into a long-term loan 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.

*Catawba County Industrial Revenue Bonds \$8,500,000*

The Company has borrowed \$8,500,000 by loan agreement with Catawba County, at October 3, 1981, funds were held by the Trustee under the escrow agreement in the amount of \$4,321,644, the balance or \$4,178,356 having been drawn down. The Revenue Bonds bear quarterly interest at a rate equal to sixty (60) percent of the prime rate not to exceed 10.2% or be less than 3% so long as there is no determination of taxability by the Internal Revenue Service.

The loan requires repayment in forty (40) consecutive quarterly installments. The first twenty installments are in the amount of \$215,000 and the second twenty are in the amount of \$210,000. The quarterly installments are payable commencing October 1, 1981 and ending July 1, 1991.

The Industrial Revenue Bond Note is secured by a deed of trust on all real and personal property located in Catawba County, N. C. being constructed or purchased with these funds. As of October 3, 1981, the Company was in compliance with the provisions of the loan agreement including the making of the first payment on October 1, 1981.

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**Note D.**

**CAPITAL LEASES**

Noncancelable 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	
	October 3 1981	September 27 1980
<b>Classes of Property</b>		
Manufacturing Textile		
Machinery and Equipment .....	\$2,513,474	\$2,513,474
Less Accumulated Amortization .....	<u>2,136,225</u>	<u>1,741,124</u>
	<u>\$ 377,249</u>	<u>\$ 772,350</u>

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

1982 .....	\$352,319
1983 .....	76,578

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**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 October 3, 1981.

The provision for Federal income tax has been reduced in the amount of \$257,728 as a result of the flow-through method of accounting for the investment tax credit. For the year ended September 27, 1980 the credit amounted to \$353,808, and was accorded the same accounting treatment.

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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 October 3, 1981, the pension plan expense amounted to \$532,000. The past service cost, which has not been funded amounted to approximately \$1,554,835 at October 1, 1980, according to the most recent actuarial computation available.

**Note F.  
PENSION PLAN**

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The Company has entered into an agreement dated October 28, 1981, with the directors of A. M. Smyre Manufacturing Company, Gastonia, N. C. , under which agreement, the stockholders of A. M. Smyre Company will receive common stock, of Carolina Mills, Inc., or cash in exchange for their shares. The exchange is subject to the approval of the stockholders of A. M. Smyre Manufacturing Company at a meeting to be held on November 23, 1981.

**Note G.  
PROPOSED ACQUISITION  
OF SUBSIDIARY  
CORPORATION**

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The Company has entered into contractual purchase commitments for the acquisition of machinery and equipment in the approximate amount of \$3,000,000, at October 3, 1981.

**Note H.  
CONTINGENCIES AND  
COMMITMENTS**

For the fifty-three week period ended October 3, 1981, the Company changed its method of computing financial statement depreciation from the accelerated to the straight-line method. This change was limited to the current year with no retroactive change to prior years.

**Note I.  
CHANGE IN ACCOUNTING  
METHOD**

The effect of the change was to increase net income by \$651,797 or approximately 19 cents a share. For income tax purposes depreciation is computed using an accelerated method. Deferred income taxes of \$629,537 were recorded as a result of these depreciation timing differences.

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I have examined the consolidated balance sheets of Carolina Mills, Inc. and Wholly Owned Subsidiaries, Maiden, N. C., as of October 3, 1981 and September 27, 1980, and the related consolidated statements of earnings, retained earnings and changes in financial position for the years (fifty-three weeks and 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.

**Accountant's  
Opinion**

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 October 3, 1981 and September 27, 1980, and the results of its operations for the years (fifty-three weeks and 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 effect of the change in accounting method referred to — Footnote I.

Very truly yours,

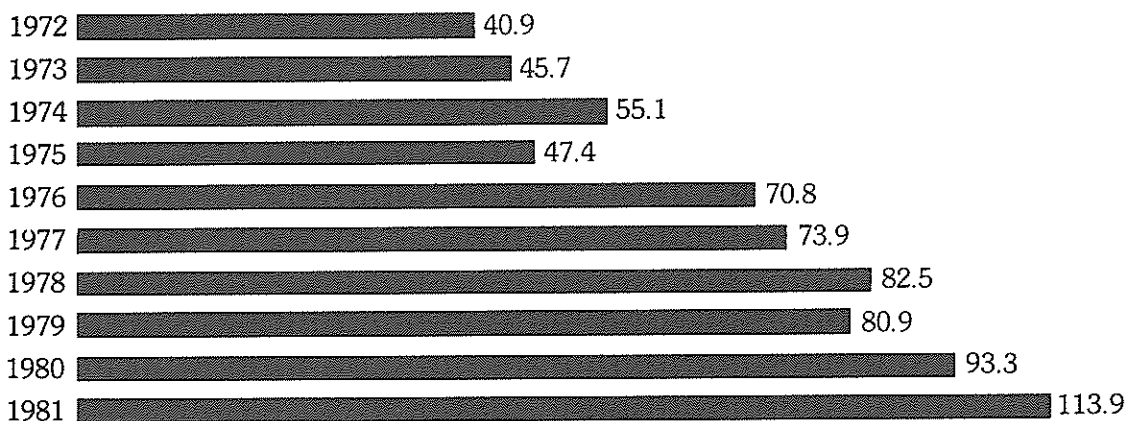
*Owen H. Whitfield*

Owen H. Whitfield  
Certified Public Accountant

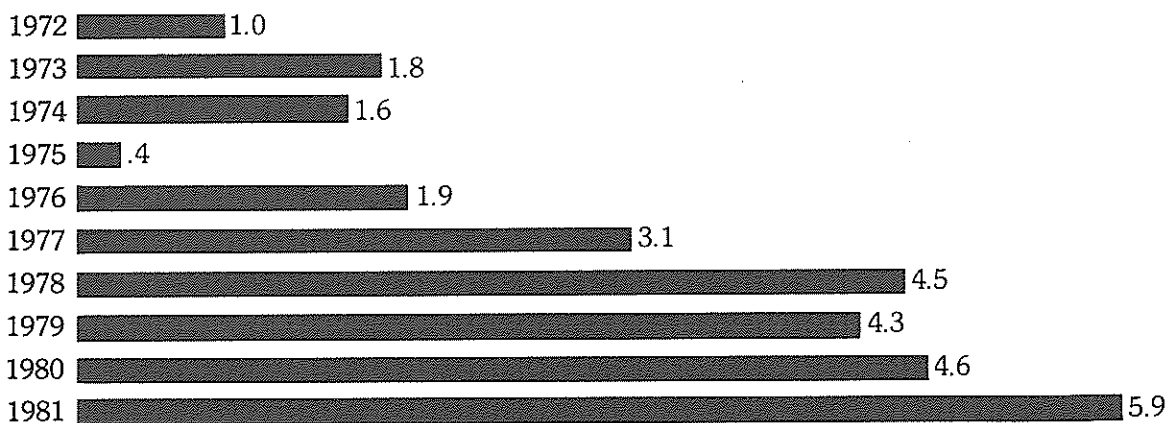
## Ten Years in Review

	1981	1980	1979	1978
Net Sales.....	<b>\$113,943,593</b>	\$93,363,384	\$80,925,750	\$82,470,935
Net Earnings Before Income Taxes.....	<b>\$ 10,982,477</b>	8,269,717	7,614,133	8,486,566
Income Taxes.....	<b>5,102,916</b>	3,676,568	3,328,748	3,967,462
Net Earnings.....	<b>5,879,561</b>	4,593,149	4,285,385	4,519,104
Dividends Paid.....	<b>\$ 1,653,534</b>	1,468,589	1,363,840	1,158,826
Earnings Retained in Business.....	<b>26,074,428</b>	21,848,401	18,723,841	15,802,296
Working Capital.....	<b>18,017,838</b>	16,166,995	9,693,813	11,120,418
Plant and Equipment—Less Depreciation.....	<b>\$ 23,381,463</b>	17,398,621	16,104,085	14,987,691
Stockholders' Equity.....	<b>32,243,191</b>	28,065,843	24,734,217	21,912,564
Shares of Stock Outstanding..	<b>3,444,581</b>	3,452,815	3,399,046	3,417,619
Book Value Per Share.....	<b>\$ 9.36</b>	\$ 8.13	\$ 7.28	\$ 6.41
<b>Per Share of Stock</b>				
Net Earnings.....	<b>\$1.71</b>	\$1.35	\$1.26	\$1.32
Dividends—Cash.....	<b>\$ .48</b>	\$ .43	\$ .40	\$ .34
Cash Flow.....	<b>\$2.43</b>	\$2.34	\$2.18	\$2.10

### NET SALES Figures shown are in millions of dollars



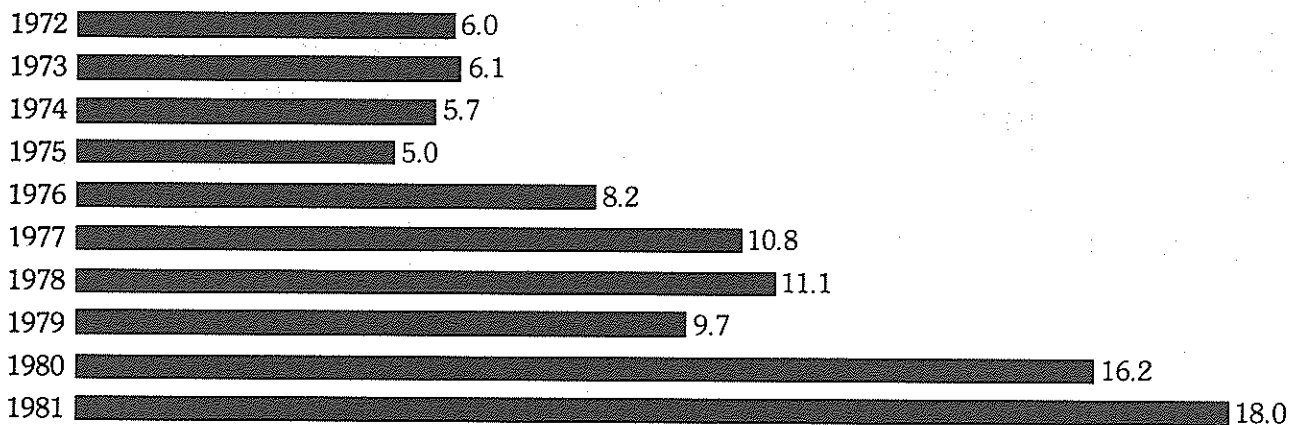
### NET EARNINGS



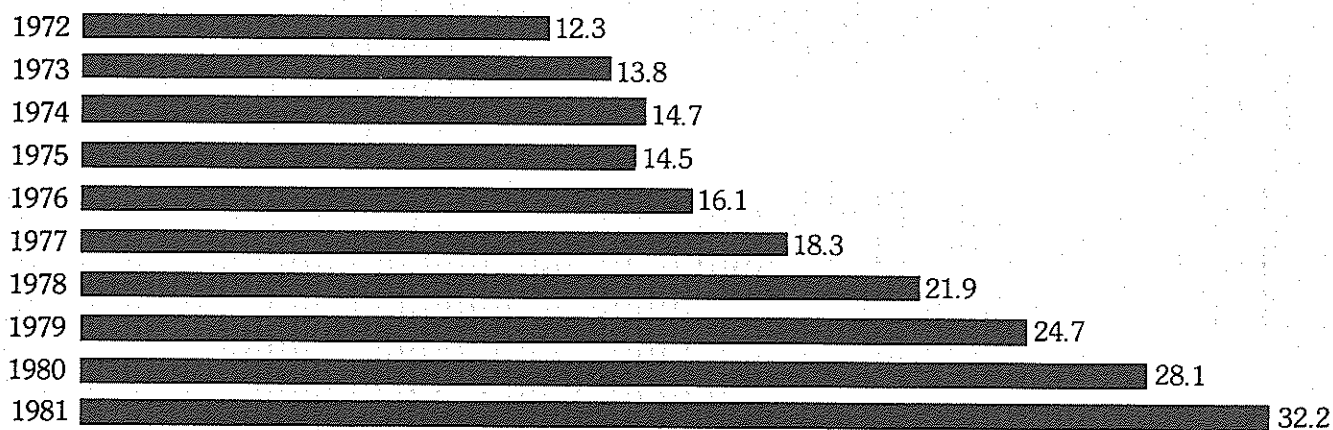


1977	1976	1975	1974	1973	1972
\$73,921,334	\$70,817,799	\$47,418,609	\$55,125,721	\$45,674,963	\$40,868,715
5,812,349	3,099,159	336,161	3,029,465	3,241,971	1,764,166
2,682,130	1,165,983	(14,350)	1,455,689	1,408,298	719,982
3,130,219	1,993,176	350,511	1,573,776	1,833,673	1,044,184
874,487	370,416	404,301	674,377	539,745	539,735
12,442,018	10,140,272	8,589,889	8,731,854	7,816,106	6,373,709
10,796,050	8,233,344	5,048,195	5,664,481	6,127,717	5,980,797
14,368,017	15,908,635	10,799,336	10,667,995	10,356,173	9,678,184
18,343,106	16,050,735	14,516,195	14,658,510	13,758,106	12,315,383
3,363,412	3,363,412	3,369,173	3,373,544	3,373,444	3,373,344
\$ 5.46	\$ 4.77	\$ 4.30	\$ 4.35	\$ 4.08	\$ 3.65
93.14¢	57.48¢	10.40¢	46.68¢	54.36¢	30.95¢
26.00¢	11.00¢	12.00¢	20.00¢	16.00¢	16.00¢
166.67¢	116.85¢	68.84¢	101.52¢	105.37¢	76.58¢

## WORKING CAPITAL



## STOCKHOLDERS' EQUITY



## Corporate Information

### DIRECTORS

**\*Julius W. Abernethy, Jr.**  
President, Carolina Glove Company,  
Newton, N. C.; age 59; joined board 10/28/47.

**Julius W. Abernethy, III**  
Sales Administration, Carolina Glove,  
Newton, N. C.; age 34; joined board 11/23/76.

**\*Claude S. Abernethy, Jr.**  
Vice-President, Interstate Securities Corporation,  
Newton, N. C.; age 54; joined board 5/24/72.

**Dan Mark Boyd, III**  
President, Times Oil Corporation,  
Lincolnton, N. C.; age 43; joined board 11/23/76.

**\*Hurshell H. Keener**  
Investor  
Hickory, N. C.; age 51; joined board 11/16/66.

**George A. Moretz**  
Vice President, Carolina Mills, Inc.,  
Maiden, N. C.; age 39; joined board 11/23/76.

**Joseph A. Moretz (Deceased 11-05-81)**  
Retired furniture executive;  
Hickory, N. C.; age 71; joined board 11/02/55.

**\*Thomas P. Pruitt, Jr.**  
Vice President, Carolina Mills, Inc.,  
Maiden, N. C.; age 59; joined board 11/02/55.

**Robert A. Ragan**  
Investments,  
Charlotte, N. C.; age 43; joined board 11/22/77.

**\*Edward P. Schrum**  
President, Carolina Mills, Inc.,  
Maiden, N. C.; age 54; joined board 11/19/58.

**Charles Long Sigmon**  
Regional Executive Vice President, First Union National Bank  
Hickory, N. C.; age 67; joined board 11/25/75.

**J. L. Thompson, Jr.**  
Secretary-Treasurer, Carolina Mills, Inc.,  
Maiden, N. C.; age 63; joined board 11/12/59.

\*(Members of executive committee)

### DIRECTOR EMERITUS:

**Caldwell Ragan, Sr.**  
Retired Textile Executive,  
Gastonia, N. C.; age 83; 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.

Maiden, North Carolina  
General Administrative Offices  
Data Processing 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  
Fine count spun polyester yarns  
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; selected case goods.  
Subsidiary—(Wholly Owned)  
Acquired 11/24/81  
A. M. Smyre Manufacturing, Ranlo, NC  
Combed cotton/polyester yarns and  
carpet yarns



Carolina Mills, Inc. P. O. Box 157 Maiden, North Carolina 28650