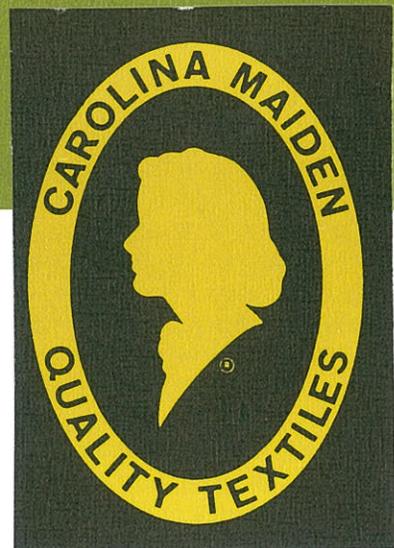


1968 Annual Report



DIRECTORS

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

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

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

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

Joseph L. Barnett
Secretary-Treasurer
Perfection Spinning Co.
South Fork Mfg. Co.
Belmont, 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
Vice President, Carolina Mills, Inc.
Maiden, N. C.

R. P. Caldwell
President, R. P. Caldwell & Co.
Gastonia, N. C.

Stewart Materne
Vice President
First and Merchants National Bank
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

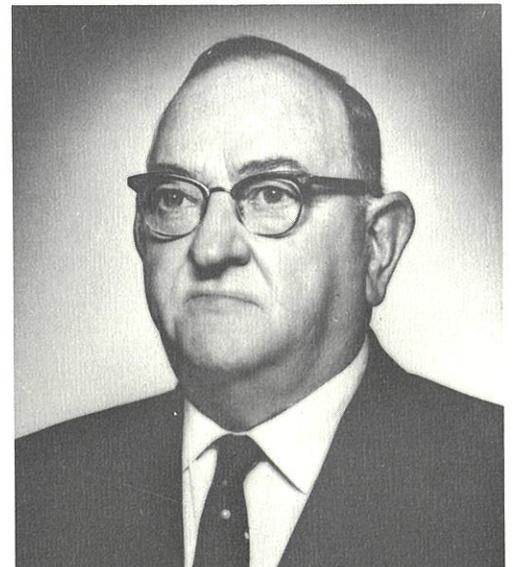
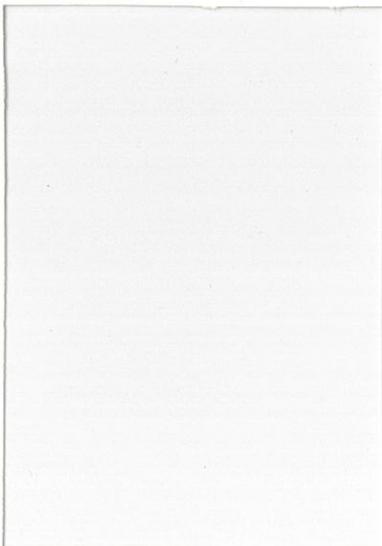
J. W. Abernethy, Sr.
Chairman of the Board

O. Leonard Moretz
President-Treasurer

Edward Schrum
Vice President in Charge
of Manufacturing

T. P. Pruitt, Jr.
Vice President in Charge
of Fabric Marketing

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



Julius W. Abernethy

HIGHLIGHTS OF THE YEAR

	Year Ended	
	September 28 1968	September 30 1967
Operations:		
Dollar Value of Sales	\$30,122,988	\$27,889,841
Earnings Before Income Taxes	1,581,139	2,090,968
Net Income After Taxes	825,892	1,341,208
Depreciation for Year	1,195,947	1,027,245
Cash Flow for Year	2,021,839	2,368,453
Financial Position:		
Working Capital	5,445,594	5,212,751
Long Term Debt	3,230,769	3,500,000
Total Assets	18,486,949	16,879,776
Stockholders' Equity	10,677,705	10,244,273
Shares Outstanding—Year End	3,275,152	3,179,470
Per Share of Stock:		
Earnings After Taxes	25.22¢	42.18¢
Cash Flow	61.73¢	74.49¢
Cash Dividends	12.00¢	12.00¢
Book Value at End of Year	\$ 3.26	\$ 3.22

PRESIDENT'S MESSAGE

Due to premium prices American spinners have had to pay for cotton this past year as compared with prices paid by foreign spinners, the price differential between domestic and foreign spun yarn widened appreciably. Many of our customers had already established approved sources for securing foreign spun yarns. With the increased prices of domestic yarns, the poundage of yarns coming in from abroad doubled this past year.

We must find ways to offer customers, and ultimately the public, certain things they can only obtain from a domestic producer. Part of the over-all solution seems to lie in the direction of increased emphasis on man-made fibers with development of fabrics with unusual new features. Another part of the solution is in offering to our customers quick help with production problems that are related to their use of our

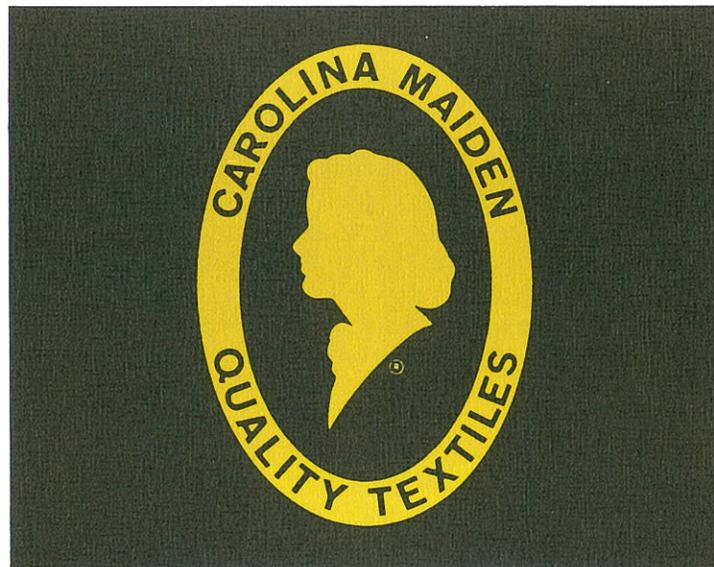
products. Further, maintaining a dependable level of quality is becoming more important than ever. All of this must be done while holding down our operating costs so our products can be competitively priced.

You will find a survey of our current efforts in product development and controls elsewhere in this report. Meanwhile, you may be sure that we are seeking new ways to combat the problems of maintaining and increasing our market position. We expect to have some exciting developments in this area to tell you about by the time of next year's report.

Leonard Moretz
Leonard Moretz
President



Leonard Moretz



Control Systems . . . keys to success

What's new? How good is it? How much will it cost? We ask these questions about cars, foods and many other purchases we consider making. Carolina Mills' customers ask these questions, too. At Carolina Mills we must ask these questions about our own operation so we can be sure there will be profits after the goods are sold.

There is a department here to answer each question: Research and Development under the direction of George Moretz, Quality Control under the direction of Byron Bean, and Cost Control under the direction of Bill Berry. Mr. Moretz is in contact with customers, offering a unique service in creating new yarns and using new fibers in unusual ways to meet their special needs. He is also in regular contact with all fiber manufacturers, keeping up with everything that is new. When a particular new fiber appears to have great promise, he orders a small quantity for experimentation. Usually a fiber is run both alone and in various combinations with better known fibers. Under the watchful eyes of both Mr. Moretz and Mr. Bean, the fiber and its combinations are run in the pilot plant to determine optimum running conditions, machine speeds and other settings. Any precautions that must be taken are discovered and the level of quality to be maintained is set. From this information, Mr. Berry can project the production costs on the new yarn and decide what the price to customers should be.

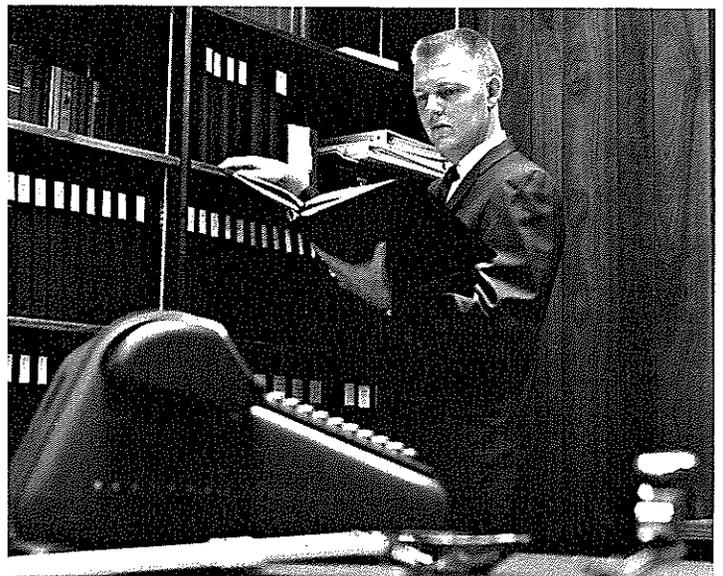
At Plant #12 in Statesville, the basement room which formerly housed twistors was refloored. Thirty-four of the spinning frames from original Plant #1 in Maiden, were moved into this basement area. Schlafhorst winders were added to bring the total installation up to 10 winders with 50 spindles each. On the first floor, all 27,500 spindles now have a uniform drafting element as a result of the new drafting that was installed on spindles that had not previously been converted.

Our second, and perhaps more exciting, phase of streamlining has been use of the training program called "The Dynamics of Supervision!" The program has been completed in most plants and will be given in all plants by the end of the current year. Of course, a training program sounded like "school" at first and this did not particularly appeal to anyone. But the supervisors who have taken the course found it was not like any school they had ever attended before. Instead of hearing long, tiresome lectures, the supervisors had a chance to participate and express their own ideas while learning some of the problems of fellow supervisors. Several have commented that, in addition to learning to handle situations on the job in a better manner, they are using some of the new approach successfully in their home lives and social activities. It is amazing that in every department where the supervisor has had the course there has been a reduction in employee turnover and in down time of operational equipment. Employees

in these departments have a genuine team spirit and seem to be enjoying their work more. By the time this course has been completed in all plants, Carolina Mills should be the Carolinas' happiest place to work!

When a new yarn goes into production, it is subject to the same Quality Control techniques as all yarns produced at Carolina Mills. Each plant has a tester who monitors the humidity recorder to assure a constant humidity range and checks the break, count and evenness. Samples from every stage of production in every plant are tested on a regular schedule. These samples are delivered to the Quality Control lab where they are checked for moisture content, uniformity of size and rate of slubs. Often when the desired quality is lacking, the cause can be identified at once. Then the plant is notified of the problem and solution. But sometimes the Quality Control personnel must go into the plant where the problem occurs to look for its origin. At other times it is necessary to go back to the pilot plant and reset each process to find the cause of the difficulty. If changes are major, such as slowing machines significantly, Cost Control is contacted for a new cost projection. It may be learned that profitable production of a particular yarn is impossible as originally planned and an adjustment in price or fiber substitution is necessary.

Customers know they can get accurate answers to their questions from Carolina Mills. And they know they can depend on receiving a specified quality consistently. A large part of Carolina Mills' story of continuing success is due to these development and control systems.



1. Bill Berry checks the cost factors that affect the profits on a particular product.



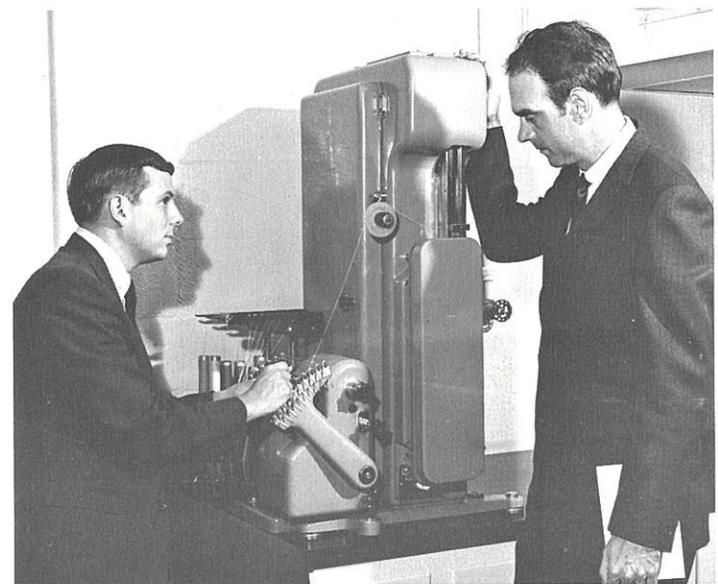
2. Byron Bean and George Moretz talk with Carolyn Deal about the results of the Uster tests that show the evenness of spinning in the sample.



3. George Moretz and Ann Henline discuss a new product being spun in the Pilot Plant.



4. Byron Bean and Ruth Cansler discuss the characteristics of a quality yarn.



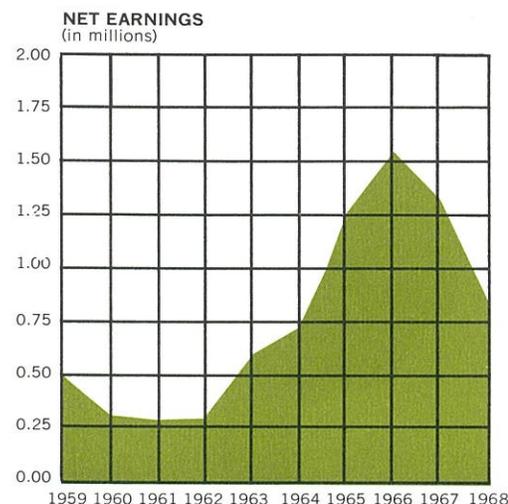
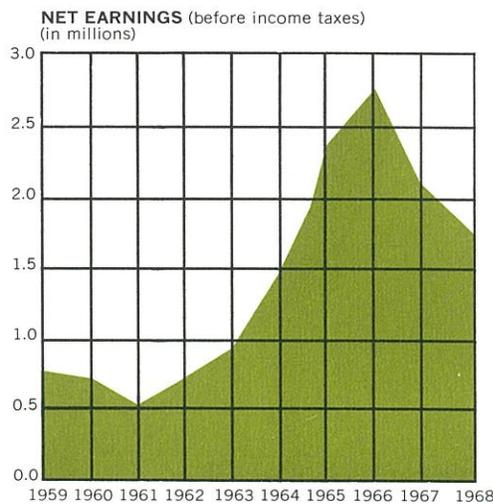
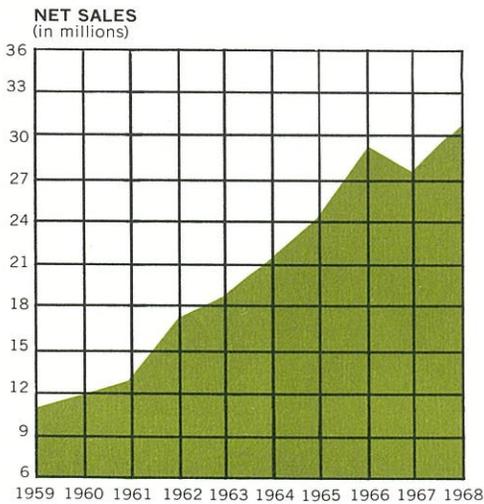
5. George Moretz and Byron Bean use the Uster single end break machine to detect the variations that occur in consecutive break tests run on a new sample yarn.

TEN YEARS IN REVIEW



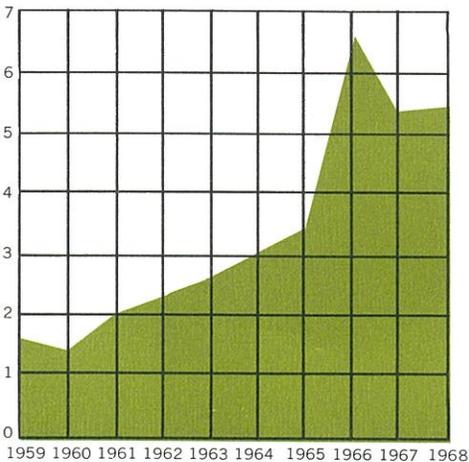
	1968	1967
NET SALES	\$30,122,988	\$27,889,84
Net Earnings before Income Taxes	1,581,139	2,090,96
Income Taxes	755,247	749,76
Net Earnings	825,892	1,341,20
Dividends Paid	917,676	937,20
Earnings Retained in Business	5,275,397	5,367,18
Working Capital	5,445,594	5,212,75
Plant and Equipment—Less Depreciation	8,312,920	8,263,42
Stockholders Equity	10,677,705	10,244,27
Shares of Stock Outstanding	3,275,152	3,179,47
Book Value Per Share	\$3.26	\$3.2
Per share of Stock		
Net Earnings	25.2¢	42.2
Dividends—Cash	12.0¢	12.0
—Stock	3.0%	3.0%
Cash Flow	61.7¢	74.5

- (1) Trenton Cotton Mills, Inc., merged into Carolina Mills, Inc. in year 1961 and treated as a "pooling of interest".
- (2) Glenn Mills, Inc., acquired in year 1959 under a statutory merger.

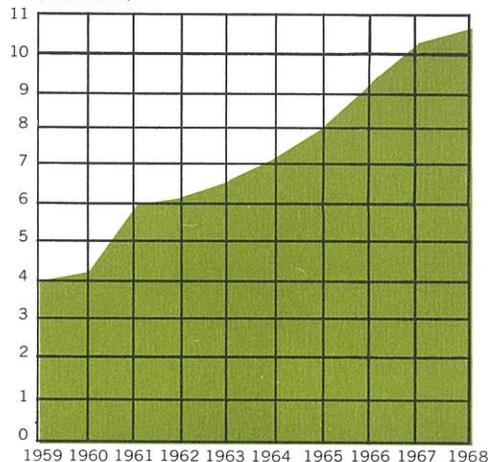


	1966	1965	1964	1963	1962	1961	1960	1959
	\$29,023,599	\$24,466,966	\$21,797,283	\$19,907,332	\$17,711,771	\$13,289,647	\$11,945,711	\$10,698,042
	2,729,246	2,364,745	1,550,406	978,971	705,505	537,039	730,394	778,729
	1,211,920	1,092,273	765,629	321,915	411,414	268,329	399,367	350,886
	1,517,326	1,272,472	784,777	657,056	294,091	268,710	331,027	427,843
	1,022,048	533,876	292,407	248,184	233,628	212,010	160,665	140,459
	4,965,878	4,432,326	3,681,167	3,183,078	2,773,661	2,674,908 (1)	1,534,557	1,369,146
	6,280,310	3,541,182	3,102,206	2,716,423	2,249,107	2,045,428	1,355,072	1,521,341
	6,266,795	4,565,615	4,066,788	4,056,121	4,053,319	4,459,507	2,932,428	2,418,353
	9,287,858	8,089,813	7,084,008	6,572,302	6,163,290	6,055,433	4,317,400	4,151,585
	3,086,927	2,993,131	2,926,518	2,921,723	2,921,723	2,916,723 (1)	2,016,723	2,016,523 (2)
	\$3.01	\$2.70	\$2.42	\$2.25	\$2.11	\$2.08	\$2.14	\$2.06
	49.2¢	42.5¢	26.8¢	22.5¢	10.1¢	9.2¢	16.4¢	21.2¢
	12.0¢	10.0¢	10.0¢	8.5¢	8.0¢	7.3¢	8.0¢	7.0¢
	3.0%	2%						
	76.9¢	67.3¢	50.0¢	43.4¢	29.8¢	21.7¢	30.2¢	31.4¢

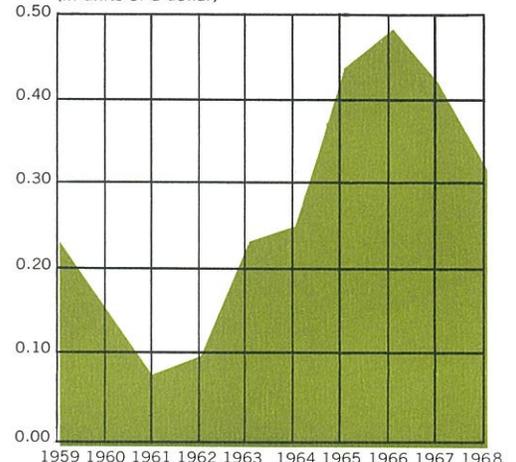
WORKING CAPITAL
(in millions)



STOCKHOLDER'S EQUITY
(in millions)



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





CAROLINA MILLS, INC.

STATEMENT OF CONDITION

	September 28 1968	September 30 1967
Current Assets:		
Cash	1,008,950	721,593
Notes Receivable	79,304	65,048
Accounts Receivable, Less Allowances of \$150,000	3,365,692	3,602,026
Inventories, at Lower of Cost or Market (Note B)	5,221,147	3,768,020
Prepaid Expenses	348,976	191,567
Total Current Assets	<u>10,024,069</u>	<u>8,348,254</u>
Investments—at Cost (Note C)	<u>36,426</u>	<u>41,144</u>
Fixed Assets:		
Land	106,812	68,184
Buildings and Equipment	<u>16,344,939</u>	<u>15,309,044</u>
Total	16,451,751	15,377,228
Less—Accumulated Depreciation	<u>8,138,831</u>	<u>7,113,804</u>
Depreciated Cost	<u>8,312,920</u>	<u>8,263,424</u>
Other Assets:		
Cash Value Life Insurance	69,935	67,673
Other Notes and Accounts Receivable	23,078	26,364
Deposits	2,493	113,317
Deferred Loan Expense	<u>18,028</u>	<u>19,600</u>
Total Other Expense	<u>113,534</u>	<u>226,954</u>
Totals	<u>18,486,949</u>	<u>16,879,776</u>

	September 28 1968	September 30 1967
Liabilities and Stockholders' Equity		
Current Liabilities:		
Notes Payable		
Occidental Life Insurance Co.—Current	269,231	
Banks	2,160,000	1,420,000
Other	20,000	20,000
Accounts Payable	1,069,066	864,038
Accrued Accounts	719,555	741,785
Federal and State Income Taxes (Notes D and G)	<u>340,623</u>	<u>89,680</u>
Total Current Liabilities	<u>4,578,475</u>	<u>3,135,503</u>
Long-Term Debt (Note E)	<u>3,230,769</u>	<u>3,500,000</u>
Total Liabilities	<u>7,809,244</u>	<u>6,635,503</u>
Stockholders' Equity		
Capital Stock—Common		
Authorized 5,000,000 Shares \$1.00 Par		
Issued and Outstanding 3,275,152—1968	3,275,152	3,179,470
Capital Surplus	2,127,156	1,697,622
Retained Earnings	<u>5,275,397</u>	<u>5,367,181</u>
Totals	<u>10,677,705</u>	<u>10,244,273</u>
Totals	<u>18,486,949</u>	<u>16,879,776</u>

See Accompanying Footnotes which are integral part of the Financial Statements.

Note A. The principles of consolidation was to include the parent corporation, Carolina Mills, Inc., and its wholly owned subsidiary, Carolina Maiden Corporation, Maiden, N.C., and to eliminate all intercompany transactions and intercompany balances at September 28, 1968.

Note B. Inventories at September 28, 1968, in the amount of \$5,221,146.99 were priced at the lower of cost or market, cost being determined at actual for raw materials on a first-in first-out basis. Stock-in-Process and finished yarn and cloth are priced using cost of raw materials and standard cost for labor and burden. Slow moving finished goods included in the inventories have been reduced below cost or market to give consideration to aging. Inventories consisted of the following:

Finished Yarn and Cloth.	\$2,549,319.47
Stock-in-Process.	1,088,844.14
Raw Materials.	1,478,794.11
Supplies and Chemicals.	<u>104,189.27</u>
Total.	<u>\$5,221,146.99</u>

Note C. Investments pledged represent \$17,326.80 in building and loan stock left with the building and loan associations to add additional security to deeds of trust covering purchase of village houses by employees of the company. The amount of the liability cannot exceed the amount of the certificate of deposit with the building and loan associations. The fair market value of investments at September 28, 1968, approximated \$210,725.85.

Note D. Investment tax credit for the current year ended September 28, 1968, amounted to \$71,716.61. The company has adopted the method of treating the credit as a reduction of Federal income taxes of the year in which the credit arises. For the year ended September 30, 1967, the investment credit was \$302,268.00 and the flow-through method was consistently used.

Note E. 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 \$3,500,000.00 was dated August 1, 1966, with interest payable at 6-1/8% per annum. The loan specifies quarterly payments of principal in the amount of \$67,307.69 beginning November 1, 1968, with the last payment to be made on August 1, 1981. Restrictive covenants of the loan agreement were fully complied with for the year ended September 28, 1968.

Note F. Lease agreements for the rental of textile machinery and equipment totaling \$7,199,447.03 were in effect as of September 28, 1968. The company had made payments against the leases in the total amount of \$3,388,957.29, leaving an unpaid balance of \$3,810,489.74. 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. We show below lease

payments for the five years ended September 28, 1968.

1968	\$790,494.00
1967	485,444.00
1966	340,944.00
1965	308,623.00
1964	272,385.00

Lease payments for the year ending September 30, 1969 are scheduled in the amount of \$746,466.96.

Note G. State and Federal income tax returns have been examined and settled through the fiscal year ended September 30, 1965.

Note H. During the year under review a 3% stock dividend was paid which amounted to 95,157 shares. Retained earnings was charged in the amount of \$523,363.50, the market value of shares issued. Capital surplus was credited with the excess over par value, which amounted to \$428,206.50. Capital surplus account also was increased by sales of stock at a premium in the amount of \$1,327.50.

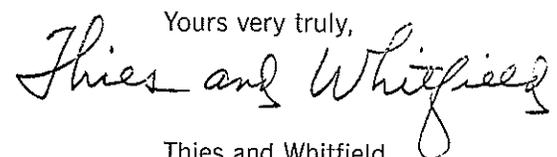
Note I. Pension Plan

The company and its subsidiary have a pension plan covering all employees with five (5) years service. The plan is self administered with an independent trustee and an independent actuary. The company's accounting and funding policy is to fund the current years cost as computed by the independent actuary. In addition to the current years' pension cost, the company pays an interest factor of 3½ per cent on the past service cost. For the fiscal year ended September 28, 1968, the pension plan expense amounted to \$120,339.02. The past service cost, which has not been funded amounted to approximately \$340,643.00 at September 28, 1968.

Note J. Outstanding contractual obligation for purchase of machinery and equipment approximated \$800,000.00 at September 28, 1968.

ACCOUNTANTS' OPINION

In our opinion, the accompanying balance sheet and statement of earnings and retained earnings, including footnotes, present fairly the financial position of Carolina Mills, Inc., and Wholly Owned Subsidiary, Maiden, N.C., at September 28, 1968, 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.

Yours very truly,


Thies and Whitfield
 Certified Public Accountants

THE YEAR IN REVIEW

Emphasis during the past year has been on streamlining operations throughout our network of plants. This effort has been divided into two phases—physical improvement within the plants, and a unique training program which enables supervisors to create a better working atmosphere in their own departments. Together, these efforts will help achieve the goal of maintaining a competitive market position, as the president mentioned, by producing consistent quality with utmost efficiency.

In Plants #1, #2, #3, #4, and #5, all processes were carefully evaluated and improvements were made wherever possible, such as installation of spectomatic slub catchers in Plant #1. This device scans and detects slubs and breaks the yarn at the slub.

At Plant #6, 6,000 square feet were added to house a new opening and blending room. This relieved congestion around other plant operations and made it possible to open and handle all stocks smoothly while increasing the variety of stocks that could be brought in simultaneously. Improved handling at the beginning of processing results in improved

finished yarn quality.

Time and attention were focused on the development of beam twisting in the area formerly occupied as the carding and spinning room of the original Plant #1 at Maiden. Assembled here are all of the twisters from Plant #12 in Statesville. This brings the total number of twister spindles in Plant #7 up to 15,650. Sufficient floor space has been reserved for the twisters from Plant #2 and they will soon be moved to this plant, now known as the Yarn Processing Center. A monorail system for positioning section beams into the creels of twisters was erected and put into operation.

Winders were added in the space vacated by moving twisters from the former Plant #1 twister room. With beaming, twisting and plied yarn winding concentrated at Plant #7, the spinning capacity of the spinning plants can be increased.

A Barber Coleman spooler was moved from Statesville to Plant #11, Gastonia, where it replaced the hand spoolers that had been in operation previously. Bringing in the spooler necessitated revamping the twister creels and the humidifying system.

DISTRIBUTION OF EACH DOLLAR OF INCOME *Year Ended September 30, 1968*

Total Income	\$30,358,475	100.00%
Cost of Raw Materials, Services and Supplies	18,055,588	59.47
Paid in Taxes and Donations	979,355	3.23
Paid in Dividends to people whose Savings Are Invested in This Business	394,313	1.30
Depreciation (Wear and Tear) on Buildings and Equipment	1,195,947	3.94
Retained Earnings Used in the Growth of the Business	431,579	1.42
Cost of Wages and Salaries	8,172,496	26.92
*Additional Benefits of Employees (Company's Share of Social Security Taxes, Pension Trust, Group Insurance, Employees Welfare, Vacation Pay and Bonus, and Profit Sharing Trust	<u>1,129,197</u>	<u>3.72</u>
	<u>\$30,358,475</u>	<u>100.00%</u>



*The average cost of these benefits for each employee, per hour 35¢.
Number of employees on Payroll, 1602 as of 9-28-68.



STATEMENT OF EARNINGS AND EARNINGS RETAINED

Year Ended September 28, 1968
With Comparative figures
for 1967

	Fiscal Year	
	1968	1967
Net Sales	\$30,122,988	\$27,889,841
Cost of Sales	<u>28,393,600</u>	<u>25,386,758</u>
	1,729,388	2,503,083
Other Deductions (Income), Net	<u>148,249</u>	<u>412,115</u>
	1,581,139	2,090,968
Provisions for Federal and State Income Taxes (footnote D)	<u>755,247</u>	<u>749,760</u>
Net Earnings	825,892	1,341,208
Retained Earnings at Beginning of Year	<u>5,367,181</u>	<u>4,965,878</u>
	6,193,073	6,307,086
Adjustment for Prior Income Taxes and Other	<u>6,193,073</u>	<u>2,705</u>
	917,676	6,304,381
Dividends Paid	<u>917,676</u>	<u>937,200</u>
Retained Earnings at End of Year	<u><u>5,275,397</u></u>	<u><u>5,367,181</u></u>

*Quarterly dividends are paid on the following dates:

- January 10th, to Stockholders of Record December 20th
- March 10th, to Stockholders of Record March 1st
- June 10th, to Stockholders of Record June 1st
- September 10th, to Stockholders of Record September 1st

This amount includes value of stock dividend \$523,363

SOURCE AND APPLICATION OF FUNDS

Funds Available

Earnings for Year	\$ 825,892
Depreciation	1,195,947
Sale or Retirement of Assets (Book Value)	11,831
Sale of Common Stock	1,853
Decrease in Other Assets	<u>113,421</u>
	<u>2,148,944</u>

Disposition

Plant and Equipment	1,252,557
Cash Dividends Paid	394,313
Decrease in Term Notes Payable	269,230
Increase in Working Capital	<u>232,844</u>
	<u>\$2,148,944</u>



CAROLINA MILLS, INC.

PLANT LOCATIONS

Maiden, North Carolina

General Administrative Offices
Central Blending Room
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. 7 (Yarn Processing Center)
Plying yarns from several spinning plants

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—Decorative, Wearing Apparel and Upholstery Fabrics

Lincolnton, North Carolina

Plant No. 5—Spun Yarns for the Knitting Trade
Plant No. 6—Acrylic Yarns

Gastonia, North Carolina

Plant No. 11—Combed Thread and Specialty Yarns

