

1963 Annual Report



CAROLINA Mills, Inc.

MAIDEN, NORTH CAROLINA

DIRECTORS



JULIUS W. ABERNETHY
Chairman of the Board

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

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

Dan M. Boyd
President, Spurgeon Hosiery Co.
Lincolnton, 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.

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

Edward P. Shrum
Vice President, Carolina Mills, Inc.
Maiden, 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.

Caldwell Ragan, Sr.
Vice President, Carolina Mills, Inc.
Gastonia, N. C.

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

W. L. Heafner
Honorary
Maiden, N. C.

OFFICERS

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

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

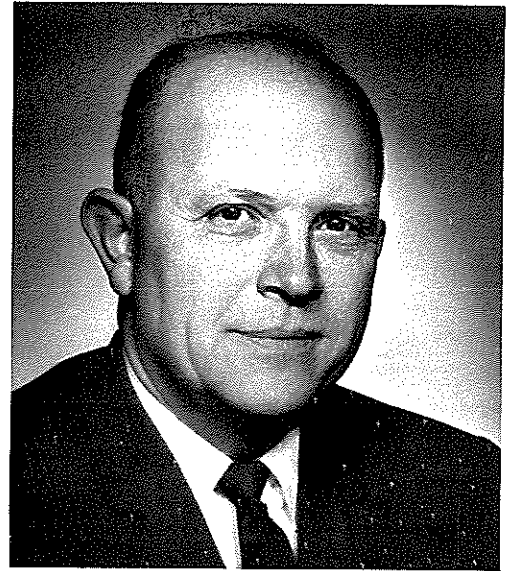
O. Leonard Moretz
President-Treasurer

Caldwell Ragan, Sr.
Vice President and General
Manager of Trenton Division

Edward Shrum
Vice President in Charge
of Manufacturing

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

PRESIDENT'S MESSAGE



O. LEONARD MORETZ
President

This year for the first time our stock is being traded over the counter. We are happy to have a number of new investors who have recently joined our family of stockholders. On behalf of the management team of Carolina Mills, I would like to extend them a cordial welcome in our group.

We would like for our stockholders and employees to be fully informed on all phases of our operations. In the past our reports and financial statements have been prepared in a very informal fashion. With our changed status we have prepared a more formal report which follows.

We hope you will find the information contained herein to be interesting and beneficial. If there is any additional information that you desire, we welcome your inquiries and will do our best to keep you posted on all phases of our operations.

O. LEONARD MORETZ
President

The Story of Carolina Mills

Carolina Mills was incorporated in 1928 when J. Alfred Moretz, of Hickory, N. C., merchant and receiver in bankruptcy of the Carolina Cotton Mills, of Maiden, joined with financier Julius W. Abernethy, of Newton, N. C., and the mill's attorney, Thomas P. Pruitt, to effect a reorganization. Mr. Abernethy was elected President, Mr. Pruitt, Vice President and Mr. Moretz, Secretary-Treasurer and General Manager. Mr. Moretz died in 1942 and was succeeded as Secretary-Treasurer by his son, O Leonard Moretz, who had served with the corporation since 1929.

Under the active managership of Alfred Moretz, Carolina Mills expanded operations in 1936 with the leasing of Catawba Cotton Mills, in Newton, and its operation under lease for two years. Acquisition of the plant followed, but its machinery was eventually liquidated and the building used as a warehouse until 1940. The mill, now known as Plant No. 2 in Newton, was re-equipped and operated as a supplement to production of the Maiden plant.

In 1941, Mr. Abernethy, Mr. Pruitt and Mr. Moretz acquired a controlling interest in the New City Mills, of Newton, operating this plant as a separate unit until 1947 when it was merged with Carolina Mills. In this same year a small knitting and sewing operation, Knit Products Co., of Hickory, also was merged with the Carolina Mills Corporation and moved to Newton.

A small integrated weaving mill, renamed "The Abernethy Manufacturing Co.," located in Laurinburg, N. C., was purchased in late 1942 by Mr. Abernethy, Mr. Pruitt and Mr. Leonard Moretz together with Mr. Herman Smith. The mill was moved to Newton in 1947 and integrated with Carolina Mills' Plant No. 3 to increase its production of Canton flannel.

Further expansion took place in 1950 with the purchase by Carolina Mills of the Anchor Mills of Huntersville, N. C. and the manufacture of carded single knitting yarns was begun. This plant was sold in 1953, and the sewing opera-

tions from the Knit Fabrics Company were sold in 1954. The dyeing and bleaching facilities that were established to serve this unit were retained and now are operated as Plant No. 4 with a capacity of 220,000 pounds weekly.

Two additional plants, later combined into one, were added to Carolina Mills' holdings in 1959 when the corporation acquired all of the outstanding stock of Glenn Mills, Inc., of Lincolnton, N. C. Known as Plant No. 5, the mill was re-equipped with the most modern machinery available, including refrigerated air conditioning. Its production is on high grade carded single knitting yarns in counts ranging from 16s to 30s.

In 1961 Carolina Mills purchased the Trenton Cotton Mills, of Gastonia, and the Abernethy Yarn Mills, of Statesville. Trenton Mills is widely noted for its high grade thread and specialty yarns, while Abernethy Mills produces carded and combed yarns in finer counts than in any other of the Carolina Mills' plants with the exception of Trenton.

Mr. Julius W. Abernethy, who has served as President of Carolina Mills since its inception in 1928, resigned from this position in 1960. He was succeeded as President by Mr. O. Leonard Moretz, Mr. Abernethy becoming Chairman of the Board. In 1958, prior to this change, Mr. Thomas P. Pruitt, Jr., was elected to the Vice Presidency to succeed his father, Mr. Thomas Pruitt, who died that year. Another change of officials in 1960 included the election of Mr. E. P. Shrum to a Vice Presidency and that of J. L. Thompson, Jr. to the office of Secretary and Assistant Treasurer. With the acquisition of Trenton Mills, of Gastonia, Mr. Caldwell Ragan, of that city, was elected a Vice President.

In 1963 Carolina Mills acquired Carolina Fine Fabrics located near Hickory. This plant weaves decorative fabrics for the apparel trade and home furnishings. This plant will consume large quantities of yarns produced in other plants and is another step to make Carolina Mills more fully integrated.

The Year in Review

For a number of years we have been preparing a "Business Report" for all employees which has been distributed along with our Christmas present. This report showed the distribution of each dollar of income like the presentation on the next page, and in addition carried a message summarizing the highlights of the past year's operations. This message is now being incorporated in our annual report to stockholders and a copy of this report is being distributed to each employee.

During the past year we have operated all units virtually without let-up. Most plants ran six days per week for the entire period. This is the continuation of a business surge that began for the textile industry about three years ago. This is the longest period of sustained high level operations we have experienced since the immediate post-war years, which ended in 1948. We hope this is an indication that the demand for textile products has now caught up with our ability to produce. If so, we should be able to maintain steady work schedules for some time to come.

This point of "balance" has been discussed and dreamed about by leaders of the Textile Industry as long as I can remember. With the achievement of this "balance" it was felt the textile industry would be able to realize earnings on its investment and sales in line with earnings in other industries like steel, oil, automobile, chemicals, etc. It is too bad our earning power is restricted by the continuation of a two price cotton system and our prices are still depressed by the resulting influx of foreign-produced textiles.

In order for us to maintain a position of leadership within our industry and to earn a profit on our operations, it is necessary that we keep our plants in top operating condition and take advantage of technological improvements as they develop. This past year we completed the installation of Crosrols on all cotton cards at Plants Nos. 1, 2, 3, 5 and 12 and installed new drafting on four spinning frames at Plant No. 2 and five frames at Plant No. 3. Substantial expenditures were made at Plant No. 4, completing the building started in the previous year and installing a new reel dryer and an exhaust system for the dye room.

An extensive addition was begun at Plant No. 3 (our flannel mill) which will not be completed until sometime in January. Twenty-five additional Draper Shuttleless looms were added, bringing our total to 225. At the time the first 200 looms were installed, we purchased more looms than our spinning at Plant No. 3 could supply. This over-capacity has been supplied with yarns spun at Plants No. 1 and No. 2. Since our sales of flannel have now grown to the point we can merchandise the out-put of 225 looms, we are increasing our carding and spinning facilities at this plant so it can handle all steps in producing its own flannel.

At our annual directors' meeting plans were approved for installing machinery in a building now owned in Lincolnton to spin yarns from Acrylic fibers, also to add 100 looms to our operations at Plant 14 (formerly Carolina Fine Fabrics) in Hickory. This work should be completed by mid-year and will add greatly to our diversification and earning ability.

We wish to thank our employees for the contribution they have made to our growth and progress through their dedicated efforts and splendid cooperation.

We would also like to express our appreciation to our fine group of stockholders who are furnishing the money which we build our plants, acquire our machinery, make our payrolls, and finance our sales and purchases. We sincerely hope our stewardship of your funds meets with your approval.

O. LEONARD MORETZ
President

Distribution of Each Dollar of Income

TOTAL INCOME	\$ 20,248,091	100.00%
Cost of Raw Materials, Services and Supplies	13,663,523	67.49
Paid in Taxes and Donations	482,749	2.38
Paid in Dividends to the 279 people whose savings are invested in this Business	248,185	1.23
Depreciation (Wear and Tear) on Buildings and Equipment	610,216	3.01
Retained Earnings used in the growth of the Business	408,871	2.02
Cost of Wages and Salaries	4,216,009	20.82
*Additional Benefits for Employees (Company's share of Social Security Taxes, Pension Trust, Group Insurance, Employees Welfare, Vacation Pay and Bonus)	618,538	3.05
	<u>\$ 20,248,091</u>	<u>100.00%</u>

*The average cost of these benefits for each employee, per hour—28c

STATEMENT

ASSETS	September 28 1963	September 29 1962
CURRENT ASSETS:		
Cash	\$ 672,368	\$ 745,347
Notes Receivable	16,944	26,393
Accounts Receivable, less reserves	2,470,949	1,871,064
Inventories, at lower of Cost or Market	2,386,220	2,153,913
Deferred Charges	87,262	93,821
Total Current Assets	\$ 5,633,743	\$ 4,890,538
Investments	\$ 27,590	\$ 37,890
PROPERTY, PLANT AND EQUIPMENT:		
Land and Buildings	\$ 2,114,708	\$ 2,244,391
Machinery and Equipment	6,108,620	5,601,615
Total	\$ 8,223,328	\$ 7,846,006
Less: Accumulated Depreciation	4,167,207	3,792,687
Depreciated Cost	\$ 4,056,121	\$ 4,053,319
OTHER ASSETS:		
Employees Notes and Accounts receivable	\$ 15,336	\$ 28,492
Cash Value Life Insurance	39,201	37,063
Deposits	55,131	62,408
Other Advances and Claims		25,342
Advances to wholly owned Subsidiary (Note B)		286,169
	\$ 109,668	\$ 439,474
TOTAL	\$ 9,827,122	\$ 9,421,221

AUDITOR'S CERTIFICATION

We have examined the balance sheet of Carolina Mills, Inc., as of September 28, 1963, and the related statements of income and retained earnings for the year (fifty-two weeks) then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

OF CONDITION

LIABILITIES AND STOCKHOLDERS' EQUITY	September 28 1963	September 29 1962
CURRENT LIABILITIES:		
Notes Payable — Banks	\$ 1,827,574	\$ 1,600,000
Current Maturities Long-Term Debt		100,000
Accounts Payable	493,090	353,471
Accrued Accounts	369,600	324,010
Federal and State income taxes (Note D)	227,056	263,950
Total Current Liabilities	\$ 2,917,320	\$ 2,641,431
 Long-Term Debt (Note C)	 337,500	 616,500
Total Liabilities	\$ 3,254,820	\$ 3,257,931
Stockholders' Equity		
CAPITAL STOCK — COMMON:		
Authorized 5,000,000 Shares, \$1.00 Par Issued and Outstanding 2,921,723 Shares	2,921,723	2,921,723
Capital Surplus	471,453	471,453
Retained Earnings	3,183,078	2,773,661
	\$ 6,576,254	\$ 6,166,837
Less Treasury Stock at Cost	3,952	3,546
Total Stockholders' Equity	\$ 6,572,302	\$ 6,163,290
 See accompanying footnotes which are an integral part of the financial statements		
TOTAL	\$ 9,827,122	\$ 9,421,221

In our opinion, the accompanying balance sheet and statement of income and retained earnings, including footnotes, present fairly the financial position of Carolina Mills, Inc., Maiden, N. C., at September 28, 1963, 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.

THIES, WHITFIELD AND GAINEX
Certified Public Accountants

Footnotes to Financial Statement

Note A. Investments pledged represent \$20,189.80 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.

Note B. On February 20, 1963, the Board of Directors approved a resolution for the company to enforce its rights as a creditor of Carolina Fine Fabrics, Inc., a subsidiary corporation, by taking over the assets of such company in partial payments of the amount owed to Carolina Mills, Inc. The Board also resolved to enforce its rights against the major shareholder of Carolina Fine Fabrics, Inc., prior to acquisition of the subsidiary corporation, as guarantor under an agreement dated September 12, 1963, of certain of the amounts loaned to Carolina Fine Fabrics, Inc. up to \$200,000.00.

On March 2, 1963, the subsidiary corporation was liquidated and a bad debt loss in the amount of \$320,410.71 was incurred after application of the collection of the guaranty agreement in the amount of \$208,000.00. Of the total loss of \$320,410.71, the prior year's income statement reflected \$221,000.00. The balance of the loss or \$99,410.71 is reflected on the income statement for the current year. The Company realized a deduction for bad debts in the amount of \$320,410.71, in the computation of State and Federal income taxes for the current year ending September 28, 1963.

Note C. On May 1, 1961, the company acquired the manufacturing properties of Abernethy Mills, Inc., Statesville, N. C., for \$600,000.00. The terms of settlement included \$100,000.00 down payment and an unsecured note for the balance of purchase price to be paid \$12,500.00 quarterly plus interest at 5 per cent on the unpaid balance. The unpaid balance at September 28, 1963 was \$337,500.00. Prepayments have been made on the loan and the entire balance due at September 28, 1963 is due after one year.

Note D. Provision for State and Federal income taxes as shown on the financial statements for the year ended September 28, 1963, has been reduced in the approximate amount of \$210,000.00 as a result of the realization of a deduction for tax purposes of a bad debt in the amount of \$221,000.00, which was reserved on the books of account at September 29, 1962, and certain other tax adjustments, including approximately \$53,300.00 reduction of the tax liability arising from the reduced rate of taxation on capital gains.

Note E. Lease agreements for textile equipment totaling \$1,884,501.28 have been entered into as of September 28, 1963. Of this amount \$1,311,300.17 has been paid, of which \$312,608.77 was paid on leases during the year ended September 28, 1963. Lease payments totaling \$237,351.46 are scheduled for payment for the fiscal year ended September 30, 1964. In addition to the foregoing leases the company has leased certain finishing equipment, which is to be charged for on a production basis.

Note F. State and Federal income tax returns have been examined for the year ended September 30, 1961.

Statement of Earnings and Retained Earnings

YEAR ENDED SEPTEMBER 28, 1963 WITH COMPARATIVE FIGURES FOR 1962

	FISCAL YEARS	
	1963	1962
Net Sales	\$ 19,907,332	\$ 17,711,771
Cost of Sales	18,770,287	16,870,523
Other Deductions (Income), Net	\$ 1,137,045	\$ 841,248
Net Earnings before Taxes	158,074	135,743
Provision for Federal and State Income Taxes (Note D)	\$ 978,971	\$ 705,505
Net Earnings	321,915	411,414
Retained Earnings at beginning of years	\$ 657,056	\$ 294,091
Prior years Income Tax adjustments	2,773,661	2,674,908
*Dividends Paid	\$ 3,430,717	\$ 2,968,999
Retained Earnings at end of year	545	38,290
	\$ 3,431,262	\$ 3,007,289
	248,184	233,628
	\$ 3,183,078	\$ 2,773,661

Source and Application of Funds

FUNDS AVAILABLE		DISPOSITION	
Earnings for year	\$ 657,056	Plant and Equipment	\$ 719,611
Depreciation	610,216	Decrease in Long-Term Debt	279,000
Sale or retirement of Assets (Book Value)	106,593	Dividends Paid	248,184
Decrease in advances to Subsidiary Corporation	286,169	Purchase Treasury Stock	406
Decrease in Other Assets	54,483	Increase in Working Capital	467,316
	\$ 1,714,517		\$ 1,714,517

*QUARTERLY DIVIDENDS ARE PAID ON THE FOLLOWING DATES

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

CAROLINA MILLS, Inc. • Eight Years

	1963	1962	1961
NET SALES	\$ 19,907,332	\$ 17,711,771	\$ 13,289,647
Net Earnings before Income Taxes	978,971	705,505	537,039
Income Taxes	321,915	411,414	268,329
Net Earnings	657,056	294,091	268,710
Dividends Paid (3)	248,184	233,628	212,010
Earnings Retained in Business	3,183,078	2,773,661	2,674,908 (1)
Working Capital	2,716,423	2,249,107	2,045,428
Plant and Equipment, less depreciation	4,056,121	4,053,319	4,459,507
Stockholders' Equity	6,572,302	6,163,290	6,055,433
Shares of Stock Outstanding	2,921,723	2,921,723	2,916,723 (1)
Book Value per Share	\$ 2.25	\$ 2.11	\$ 2.08

Per Share of Stock

Net Earnings	22.5¢	10.1¢	9.2¢
Dividends	8.5¢	8.0¢	7.3¢
Net Earnings Retained in Business	14.0¢	2.1¢	1.9¢
Cash flow	43.4¢	29.8¢	21.7¢

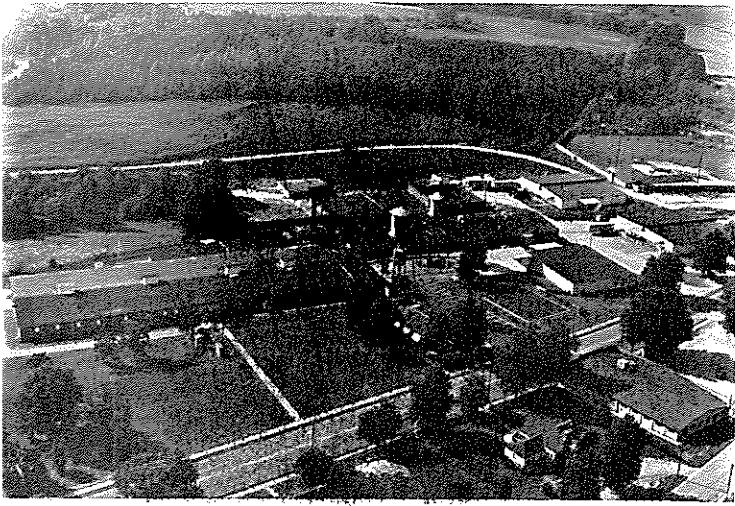
(1) Trenton Cotton Mills, Inc., merged into Carolina Mills, Inc., in year 1961 and treated as a "pooling of interest"

(2) Glenn Mills, Inc., acquired in year 1959 under a statutory merger

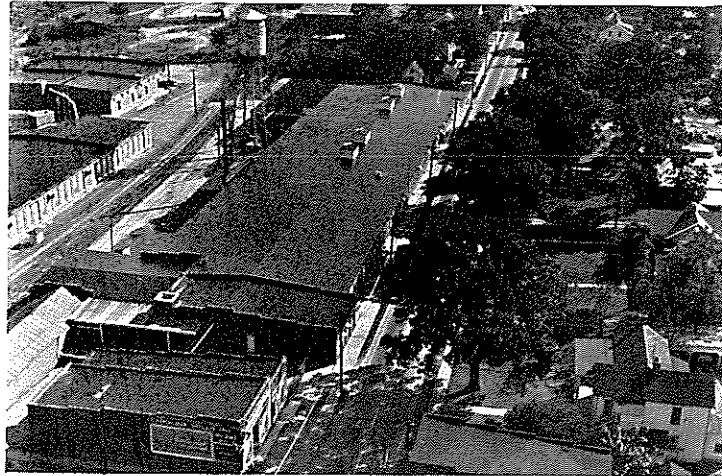
(3) See dividend paying reference on page 11

in Review from 1956 to 1963 Inclusive

1960	1959	1958	1957	1956
\$ 11,945,711	\$ 10,698,042	\$ 8,260,641	\$ 8,768,468	\$ 7,895,150
730,394	778,729	435,805	673,729	660,456
399,367	350,886	231,528	363,144	357,956
331,027	427,843	204,277	310,585	302,500
160,665	140,459	101,422	152,223	126,852
1,534,557	1,369,146	1,078,622	969,556	810,853
1,355,072	1,521,341	1,014,322	970,439	1,060,379
2,932,428	2,418,353	1,731,058	1,697,272	1,483,376
4,317,400	4,151,585	2,867,254	2,758,149	2,599,446
2,016,723	2,016,523 (2)	1,691,363	1,691,363	1,691,363
\$ 2.14	\$ 2.06	\$ 1.70	\$ 1.63	\$ 1.54
16.4¢	21.2¢	21.1¢	18.4¢	17.9¢
8.0¢	7.0¢	6.0¢	9.0¢	7.5¢
8.4¢	14.2¢	6.1¢	9.4¢	10.4¢
30.2¢	31.4¢	21.5¢	26.5¢	24.4¢



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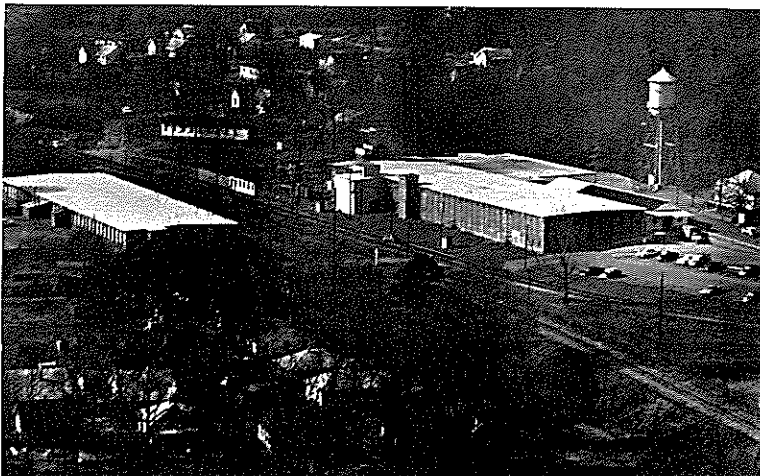


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The Plants

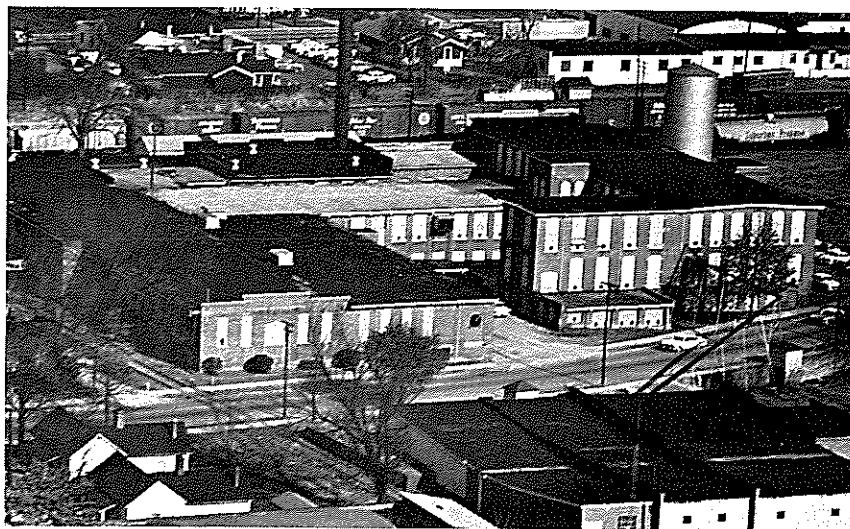


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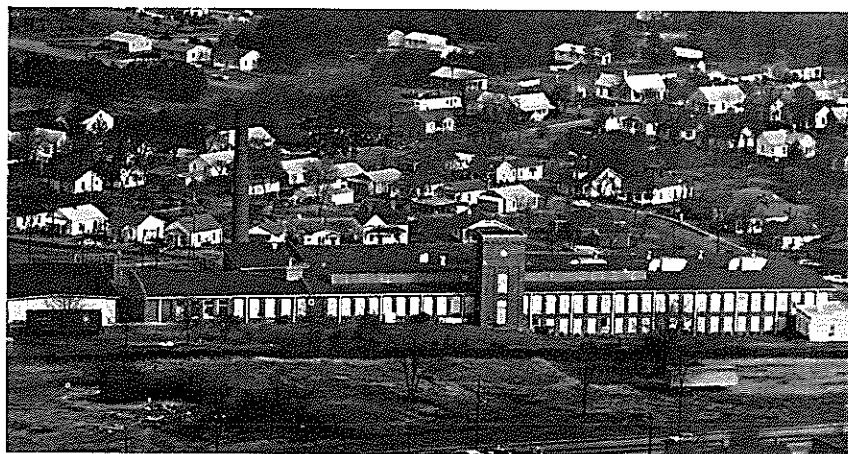


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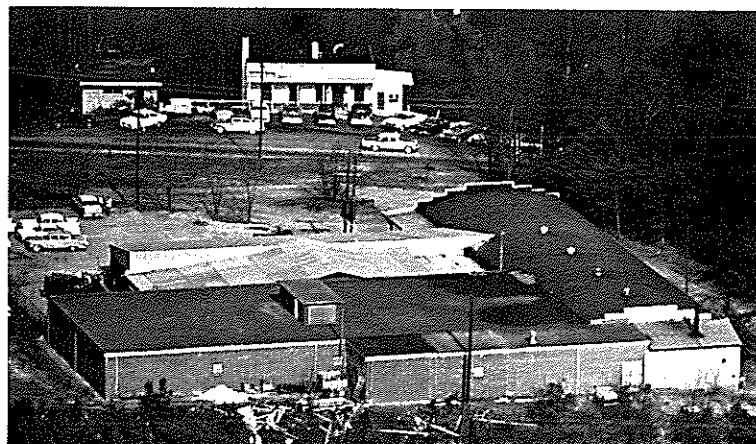
1. Plant No. 1, Maiden, North Carolina, Cotton and Synthetic Yarn Spinning. 2. Plant No. 2, Newton, North Carolina, Cotton and Synthetic Yarn Spinning. 3. Plants 3 and 4, Newton, North Carolina, Cotton Flannel Weaving and Commission Knit Goods Finishing. 4. Plant No. 5, Lincolnton, North Carolina, Cotton and Synthetic Spinning. 5. Plant No. 11, Gastonia, North Carolina, Combed Yarn Spinning. 6. Plant No. 12, Statesville, North Carolina, Carded Yarn Spinning. 7. Plant No. 14, Hickory, North Carolina, Decorative Weaving.



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