MINUTES OF
Budget and
Control Board
Meeting

November 1, 1977

MINUTES OF BUDGET AND CONTROL BOARD MEETING

NOVEMBER 1, 1977

State Auditor William T. Putnam and Assistant State Auditor William A. McInnis on this date completed a poll of the following Budget and Control Board members on the item of business described below:

Governor James B. Edwards
Mr. Grady L. Patterson, Jr.
Mr. Earle E. Morris, Jr. (through secretary Abston)
Representative Tom G. Mangum
Senator Rembert C. Dennis

INDUSTRIAL REVENUE REFUNDING BONDS - CHESTER COUNTY - Budget and Control Board members were advised that a Petition had been received from Chester County requesting approval of the issuance of Industrial Revenue Refunding Bonds on behalf of Springs Mills, Inc. in an amount sufficient to refund the principal of the bonds outstanding from an original $35,000,000 Industrial Revenue Bond issue approved on January 9, 1968 by the Budget and Control Board. The amount of the proposed issue is estimated to be $25,000,000. The refunding is to be accomplished by the issuance by the County of the Refunding Bonds and deposit of the proceeds thereof in an irrevocable escrow deposit fund created pursuant to an escrow deposit agreement. The funds deposited in the escrow deposit fund will be used to purchase United States Treasury Certificates of Indebtedness, Notes and Bonds - State and Local Government Series which, together with the interest to be paid thereon, and the balance of the sum deposited, will be sufficient to pay the interest on the outstanding bonds as they shall become due to and including the maturity dates and to pay the principal of the outstanding bonds on such maturity dates. The Budget and Control Board members polled were assured that the legal documents pertaining to this issue had been reviewed by the Office of the Attorney General and that satisfactory financial data had been received and was, at the time of the poll, under review by the State Auditor's Office.

The Budget and Control Board members polled adopted a Resolution approving the Chester County proposal to issue Industrial Revenue Refunding Bonds in an amount presently estimated to be $25,000,000 on behalf of Springs Mills, Inc., pursuant to 1976 Code Sections 4-29-10 et seq., and particularly Code Section 4-29-110, subject to a satisfactory financial review.

(SECRETARY'S NOTE: Subsequent to the completion of the poll, the State Auditor's Office review of the financial information submitted was completed with satisfactory results.)

Information relating to this matter has been retained in these files and is identified as Exhibit I.

EXHIBIT I
11/1/77

The State of South Carolina

Office of the Attorney General

KAREN LeCRAFT HENDERSON
ASSISTANT ATTORNEY GENERAL

WADE HAMPTON OFFICE BUILDING
POST OFFICE BOX 11549
COLUMBIA, S. C. 29211
TELEPHONE 803-758-3970

DANIEL R. McLEOD
ATTORNEY GENERAL

November 1, 1977

Hon. William T. Putnam
State Auditor
Wade Hampton State Office Building
Columbia, South Carolina 29211

Re: $25,000,000 Chester County, South Carolina, Industrial Revenue Refunding Bonds, Series 1977 (Springs Mills, Inc. - Lessee)

Dear Mr. Putnam:

Regarding the above-referenced bonds, we have reviewed the Petition and other documents submitted to the State Budget and Control Board for its approval pursuant to Sections 4-29-10 et seq., CODE OF LAWS OF SOUTH CAROLINA, 1976, and particularly Section 4-29-110 thereof, and the same appear, in our opinion, to be in order.

With kind regards,

Karen LeCraft Henderson

Karen LeCraft Henderson
Assistant Attorney General

KLH;bbb

RESOLUTION 11/1/77

STATE OF SOUTH CAROLINA BUDGET AND CONTROL BOARD

WHEREAS, the County Council of Chester County (the "County Council") has petitioned the State Budget and Control Board of South Carolina (the "State Board") seeking the approval of the State Board to an undertaking by the County Council pursuant to Act No. 103 of the General Assembly of the State of South Carolina for 1967 (the "Act"); and,

WHEREAS, the proposed undertaking consists of the refunding of Chester County Industrial Revenue Bonds (Textile Series 1968) (the "Outstanding Bonds"), the proceeds of which were used to acquire from Springs Mills, Inc. ("Springs") a parcel of land aggregating approximately 140 acres in Chester County and an industrial building, machinery and equipment located thereon, designed for the manufacture of textiles and known as the Katherine Plant (the "Project"); and,

WHEREAS, the Project is leased to Springs at a rental sufficient to provide for the payment of the Outstanding Bonds and costs and expenses resulting from the issuance thereof; and,

WHEREAS, in order to refund the Outstanding Bonds, the County Council proposes to provide for an issue of Refunding Bonds in an amount, presently estimated to be \$25,000,000, which would be sufficient to refund the principal of the Outstanding Bonds (together with any unpaid interest thereon and any premiums, expenses, and commissions necessary to be paid in connection therewith). Such Refunding Bonds are to be payable from the rentals derived from Springs and additionally secured by a Trust Indenture; and

WHEREAS, the net proceeds from the issuance of such Refunding Bonds, except for a small amount of cash, will be used to purchase United States Treasury Certificates of Indebtedness, Notes and Bonds -- State and Local Government Series which will be held in escrow and irrevocably pledged, together with the cash, to the payment of principal and interest on the Outstanding Bonds as such principal and interest become due and payable in accordance with the terms thereof; and,

WHEREAS, a summary of the provisions of the Escrow Agreement, the Lease and Agreement, Trust Indenture, and Guaranty in connection with the refunding have been submitted and considered by this Board.

NOW THEREFORE, BE IT RESOLVED BY THE STATE BUDGET AND CONTROL BOARD IN MEETING DULY ASSEMBLED:

1. It has been found and determined by the State Board:

(a) That the statement of facts set forth in the recitals of this Resolution are in all respects true and correct;

(b) That the County Council has filed a proper petition to the State Board as required by the Act and has established that Springs will pay as additional rentals, in lieu of taxes, the sums prescribed by Section 6 of the Act;

(c) That the Project provides employment and is of the benefit to Chester County and adjoining areas;

(d) That the Project promotes the purposes of the Act;

(e) That the issuance of the Refunding Bonds is in the public interest and for a public purpose and will promote the purposes of the Act and is reasonably anticipated to effect such results.

2. On the basis of the foregoing findings, the proposed undertaking of the County Council to issue the Refunding Bonds payable from the revenues to be derived from the leasing of the Project to Springs, be and the same is hereby approved.

3. Notice of the action of the State Board in giving approval to the undertaking of Chester County above-described shall be published in the Chester News and Reporter, which is a newspaper having general circulation in Chester County.

4. The notice to be published shall be in form substantially as set forth in Exhibit A of this Resolution.

W. T. Putnam

Secretary

November 1, 1977

NOTICE PURSUANT TO ACT NO. 103 OF
THE ACTS OF THE GENERAL ASSEMBLY
OF SOUTH CAROLINA FOR THE YEAR 1967

Notice is hereby given that, following the filing of a Petition by the County Council of Chester County (the "County Council") to the State Budget and Control Board of South Carolina (the "State Board"), approval has been given by the State Board to the following undertaking, viz.:

The refunding of Chester County Industrial Revenue Bonds (Textile Series 1968) (the "Outstanding Bonds"), the proceeds of which were used to acquire from Springs Mills, Inc. ("Springs") a parcel of land aggregating approximately 140 acres in Chester County and an industrial building, machinery and equipment located thereon designed for the manufacture of textiles and known as the Katherine Plant (the "Project"). The Project is leased to Springs at a rental sufficient to provide for the payment of the Outstanding Bonds and costs and expenses resulting from the issuance thereof.

To refund the Outstanding Bonds, the County Council will issue Refunding Bonds in an amount presently estimated to be $25,000,000, which would be sufficient to refund the principal of the Outstanding Bonds (together with any unpaid interest thereon and any premiums, expenses, and commissions necessary to be paid in connection therewith). Such Refunding Bonds are to be payable from the rentals derived from Springs and additionally secured by a Trust Indenture.

The net proceeds from the issuance of such Refunding Bonds, except for a small amount of cash, will be used to purchase United States Treasury Certificates of Indebtedness, Notes and Bonds -- State and Local Government Series which will be held in escrow and irrevocably pledged, together with the cash, to the payment of principal and interest on the Outstanding Bonds as such principal and interest become due and payable in accordance with the terms thereof.

In addition Springs has agreed to pay as additional rentals to Chester County, the School District, and all other political units wherein the Project is located, in lieu of taxes, such amounts as would result from taxes levied on the Project by Chester County, the said School District, and the said other political units wherein the Project is situated, if the Project were owned by Springs but with appropriate reductions similar to the tax exemptions, if any, which would be afforded to Springs if it were the owner of the Project.

Notice is further given that any interested party may at any time within twenty (20) days after the date of the publication of this notice, challenge the validity of the action of the State Board in approving the undertaking of the County Council by action denovo instituted in the Court of Common Pleas for Chester County.

THE STATE BUDGET AND CONTROL BOARD

By
Secretary

Received via Telecopier at ETV 10/31/77 p.m.

October 26, 1977

SUMMARY OF PROPOSED CHESTER COUNTY BOND REFUNDING TRANSACTION

The purpose of this memorandum is to describe the various features of the advance refunding transaction which E. F. Hutton & Company has proposed to Springs Mills, Inc.

Until about March 15, 1968, the Internal Revenue Service permitted local and state governments to issue tax-exempt revenue bonds to finance industrial plants to be leased to corporations. The amounts to be financed could be in unlimited amounts providing the proceeds were applied to certain capital expenditures. Thus, on March 15, 1968, Chester County, South Carolina issued $35 million of tax-exempt Industrial Revenue Bonds (Textile Series 1968) due March 1, 1993. After this issue, IRS (and Congress) eliminated unlimited financing of this nature. However, as a result of a ruling received by Georgia-Pacific Corporation in April 1977 from the IRS, that company and others have engaged in "advance refundings" of industrial revenue bonds.*

As of today, the principal amount of the 1968 issue

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* Hutton has recently assisted such corporations as Airco, Archer-Midland-Daniels, Ralston Purina Company, and Hospital Corporation of America in successful advanced refunding transactions and shortly will assist Union Camp Corporation as well.

has been reduced to $25,325,000, its average remaining life is 8.855 years, and its average interest rate is 5.75%.

Hutton has proposed that the County issue a new tax-exempt issue in the amount of approximately $25,000,000 which would bear an interest rate, under today's market conditions, in the area of 6 3/8%. This issue would have a maturity of 30 years and an average life of 28 years. The proceeds of this new advance refunding issue will be invested at the closing in special issues of U. S. Government Bonds and these investments placed irrevocably in an escrow account in which the principal and interest earned thereon are pledged to the repayment of the 1968 issue as its principal and interest payments become due. Also, upon the closing, we believe that we would be permitted to remove the 1968 issue from our balance sheet and substitute the refunding issue for it. Inasmuch as the 1968 issue would be then backed by U. S. Government bonds, they will be upgraded to Aaa/AAA by the rating agencies.

Exhibit I attached hereto sets forth the assumptions discussed above as well as a number of the benefits of this transaction to Springs Mills. We believe the major benefits are:

(1) Springs Mills may maintain capital funds borrowed at a tax-exempt rate in its capital structure over the next 28 years as compared to the 8.855 years for the 1968 issue currently outstanding.

(2) The principal amount of the new issue ($25,000,000) is approximately $325,000 less than the principal amount of the outstanding issue because of the arbitrage gain between the 5.75% 1968 issue and the interest rate on the special issues of U. S. Government Bonds. This $325,000 difference will result in a small extraordinary gain for book purposes for 1977, and will create a tax liability for future years.

(3) The present value of after-tax cash flow savings with the refunding issue at a discount rate of 10% is estimated to be $6,810,000. These savings arise because the sinking fund payments on the new issue commence in 1997, whereas the sinking fund payments on the 1968 issue are currently being made.

(4) Total interest savings over the next 30 years, assuming that principal repayments on the 1968 issue were refinanced at an assumed corporate borrowing rate of 8 3/8% as compared with a similar refinancing of the principal repayments of the new issue which would start in 1997, total $8,735,243.

The new issue would be in the form of a limited offering to a selected number of sophisticated institutional investors. Hutton expects that the issue would be placed with approximately seven to ten such investors.

Hutton believes that it will be helpful to establish Springs Mills' credit with potential investors in order to secure the most advantageous interest rate and maturity. The 1968 issue was rated Baa by Moodys' Investors Services in 1968, and the Company has not sought a rating thereafter.

Based on a preliminary review of material supplied by the Company, Hutton recommends that a formal presentation be made to both Moodys and Standard & Poors Corporations in order to receive at least a Baa/BBB ratings on the proposed advance refunding issue.

We believe it would be prudent for Springs Mills to proceed as rapidly as possible to accomplish this financing. We understand that there is a regulations project underway at the Internal Revenue Service to review advance refunding of industrial revenue development bonds. It is possible that the IRS could take action in the future to limit the attractiveness of advance refunding, either by reducing the maturity and average life of a refunding issue or to restrict severely the circumstances under which it may take place. Furthermore, Hutton advises that the municipal bond market, which until approximately three weeks ago had been strong and stable, has deteriorated somewhat recently.

SPRINGS MILLS, INC.

FINANCIAL SUMMARY

October 25, 1977

ASSUMPTIONS
1. Term 30 years
2. Interest Rate 6.375%
3. Sinking Fund Starts in 12/15/97 to retire approximately 40% of the issue by final maturit
4. Refunding issue dated 12/15/77.

PRINCIPAL CHANGES	NET OR STANDARD REFUNDING
Outstanding	$25,325,000
Proposed Refunding Issue	25,000,000
Principal Reduction	$ 325,000
ACCRUED INTEREST CAPITALIZED IN REFUNDING ISSUE	$ 418,048
PRESENT VALUE OF AFTER-TAX CASH FLOW SAVINGS WITH THE REFUNDING ISSUE	
Discount Rate 10%	$ 6,810,000
TOTAL INTEREST SAVINGS OVER NEXT 30 YEARS ASSUMING PRINCIPAL PAYMENTS ARE REFINANCED AT CORPORATE BORROWING RATE	
Corporate Rate 8.375%	$ 8,735,243
AVERAGE LIFE	
Outstanding Bonds	8.86 years
Proposed Refunding Issue	28.00 years
Percent Increase in Average Life	216%
AVERAGE COUPON	
Outstanding Bonds	5.750%
Proposed Refunding Issue	6.375%

STATE OF SOUTH CAROLINA

COUNTY OF CHESTER

TO THE STATE BUDGET AND CONTROL BOARD OF SOUTH CAROLINA	PETITION

Petition of the County Council of Chester County ("the County Council" and the "County", respectively) pursuant to Act No. 103 of the Acts of the General Assembly of the State of South Carolina for the year 1967 (the "Act") [Code of Laws of South Carolina, 1976, §4-29-10, et seq], respectfully shows:

1. The County Council is the governing body of Chester County and was so constituted by Articles 1 and 7 of Chapter 9, Title 4, Code of Laws of South Carolina, 1976 [Code of Laws §4-1-10 et seq and §4-9-610 et seq], and as such it is the "County Board" referred to in the Act. Code of Laws §4-29-10(2).

2. The Act authorizes and empowers the County Council, if it shall comply with the provisions set forth in the Act, to acquire land, buildings, and other improvements deemed necessary, suitable, and useful as an industrial plant; to lease the same; and, to finance the acquisition of the same through the issuance of bonds payable from and secured by a pledge of the revenues to be derived from such project.

3. In furtherance of the stated purposes of the Act and in compliance with the provisions of the Act, the County, in 1968, issued $35,000,000 Industrial Revenue Bonds (Textile Series 1968) (the "Outstanding Bonds") pursuant to the Act and used the proceeds from such issue to acquire an industrial plant, known as the Katherine Plant, for the manufacture of textiles (the "Project"); the Project was then leased to Springs Mills, Inc., a South Carolina corporation ("Springs").

4. In connection with undertaking the Project, the County Council (formerly styled by laws as the Board of County Directors), by resolution adopted January 2, 1968, authorized the filing of its Petition to the State Budget and Control Board ("State Board") for approval of the Project, as required by the Act which petition included a brief description of the Project and its anticipated effect upon the economy of the County and a reasonable estimate of the cost of the Project, a copy of which petition is attached hereto as Exhibit A and incorporated herein by reference. On January 9, 1968, the State Board, by resolution, gave its approval to the Project, to the lease of the Project to Springs, and to the financing of the Project by the issuance by the County of the Outstanding Bonds, which resolution is attached hereto as Exhibit B and incorporated herein by reference.

5. Pursuant to the terms of the lease between Springs and the County, Springs has made lease payments which have

provided funds for the reduction of the principal amount of $35,000,000 of the Outstanding Bonds to the presently outstanding amount of $25,325,000, which amount is the amount of the Outstanding Bonds to be refunded.

6. The Act provides that any bonds issued thereunder may, at any time, be refunded by any county issuing same, but only with the prior approval of the State Board, by the issuance by any such county of its refunding bonds in such amount as the county board of such county may deem necessary but not exceeding an amount sufficient to refund the principal of the bonds to be refunded, together with any unpaid interest thereon and any premiums, expenses, and commissions necessary to be paid in connection therewith. The Act further provides that any such refunding may be effected, whether the bonds to be refunded have matured or shall thereafter mature, by the sale of the refunding bonds and the application of the proceeds for the payment of the bonds to be refunded. Code of Laws §4-29-110.

7. Pursuant to the Act, the County Council proposes to issue its Industrial Revenue Refunding Bonds (the "Refunding Bonds") in an amount sufficient to refund the principal of the Outstanding Bonds (together with any unpaid interest thereon and any premiums, expenses, and commissions necessary to be paid in connection therewith), presently estimated to be $25,000,000 (such amount cannot be

fixed precisely until an interest rate on the Refunding Bonds has been determined and agreed to by the County Council). In general terms, such refunding will be accomplished by the issuance by the County of the Refunding Bonds and the deposit, for investment and use as hereinafter described, of the proceeds thereof, net of expenses and commissions necessary to be paid in connection with the issuance of the Refunding Bonds, in an irrevocable escrow deposit fund created pursuant to an escrow deposit agreement (the "Escrow Agreement"). The funds deposited in the escrow deposit fund, except for a small amount of cash, will be used to purchase United States Treasury Certificates of Indebtedness, Notes and Bonds -- State and Local Government Series ("Federal Securities"). The Federal Securities, together with the interest to be paid thereon, and the balance of the sum deposited, will be sufficient to pay the interest on the Outstanding Bonds as the same shall become due to and including the maturity (or mandatory sinking fund) dates, and to pay the principal of (whether at maturity or upon mandatory sinking fund redemption) the Outstanding Bonds on such maturity (or mandatory sinking fund) dates.

8. The Refunding Bonds will be issued by the County pursuant to a trust indenture (the "Trust Indenture"),

under the terms of which the Refunding Bonds will be secured by a pledge of all revenues derived by the County from the sale, lease, or other disposition of the Project pursuant to a leasing arrangement (the "Lease and Agreement") with Springs, which Lease and Agreement will require semi-annual rental payments in amounts equal to the maturing installments of principal of and interest on the Refunding Bonds. Neither the Refunding Bonds nor the interest coupons appertaining thereto will constitute an indebtedness of the County within the meaning of any provision of the State Constitution or any statutory limitation, and will never constitute or give rise to a pecuniary liability of the County or a charge against its general credit or taxing powers.

9. In connection with the issuance of the Refunding Bonds, the County Council, by resolution adopted October 31, 1977, has found and determined as follows:

> (a) The issuance of the Refunding Bonds is in the public interest and for a public purpose and will subserve the purposes of the Act;
>
> (b) The Refunding Bonds will give rise to no pecuniary liability of the County or a charge against its general credit or taxing power;
>
> (c) The Refunding Bonds will be issued in an amount sufficient to refund the principal of the Outstanding Bonds (together with any unpaid interest thereon and any premiums, expenses, and commissions necessary to be paid in connection therewith), presently estimated to be $25,000,000;

(d) Refunding of the Outstanding Bonds will be in the best interests of the holders of such Bonds in that the Federal Securities (and interest earned thereon) will be held in escrow and irrevocably pledged to the payment of the principal and interest on such Bonds as such principal and interest become due and payable in accordance with the terms of such Bonds;

(e) The proposed leasing arrangement will obligate Springs unconditionally to pay the amount necessary to provide the annual payments of principal and interest to become due on the Refunding Bonds, and to pay other costs in connection therewith, and will contain an appropriate provision requiring Springs to pay, in lieu of taxes, such amounts as would otherwise be paid if Springs owned the Katherine Plant;

(f) It is not deemed advisable to establish any reserve funds in connection with the retirement of the Refunding Bonds and the maintenance of the Katherine Plant; and,

(g) The terms under which the Katherine Plant is to be leased to Springs will provide that Springs shall maintain the Katherine Plant and carry all proper insurance with respect thereto.

10. A general summary of the terms of the proposed Escrow Agreement, the Lease and Agreement, the Trust Indenture, and a Guaranty Agreement from Springs to the trustee under the Trust Indenture guaranteeing payment of principal of and interest on the Refunding Bonds, is attached hereto as Exhibit C and incorporated herein by reference.

Upon the basis of the foregoing, the County Council respectfully prays:

THAT the State Board accept the filing of the Petition presented herewith; that, as soon as practicable, it make its independent investigation of the proposed refunding and of the terms and provisions of the Escrow Agreement, the Lease and Agreement, and the Trust Indenture, and the Guaranty Agreement as it deems advisable; and, that thereafter it find that the proposed refunding will promote the purposes of the Act, that it is reasonably anticipated to effect such result, and that it approve the refunding on the basis of such findings and authorize a published notice of its approval in the manner set forth in Section 14 of the Act. Code of Laws §4-29-140.

Respectfully submitted,

COUNTY COUNCIL OF CHESTER COUNTY

By J. J. Martin
Chairman

[Seal]

Attest:

R. Carlisle Roddey
Secretary

RESOLUTION

EXHIBIT B

STATE OF SOUTH CAROLINA BUDGET AND CONTROL BOARD

WHEREAS, the Board of County Directors of Chester County (the County Board) has petitioned the State Budget and Control Board of South Carolina (the State Board) seeking the approval of the State Board to an undertaking by the County Board pursuant to Act No. 103 of the General Assembly of the State of South Carolina for 1967 (the Act); and

WHEREAS, the proposed undertaking consists of the acquisition from Springs Mills, Inc. (Springs) of a parcel of land, aggregating approximately 140 acres in Chester County, located at the intersection of South Carolina Road No. 9 and No. 12-56, together with an industrial building, machinery and equipment located thereon and designed to produce at full production approximately 640,000 yards of sheeting per week, (the Project); and

WHEREAS, the Project will employ approximately 475 persons with an annual payroll of about $2,700,000; and

WHEREAS, the Project is to be leased to Springs at a rental sufficient to provide for the payment of the bonds of Chester County hereafter referred to, and costs and expenses resulting from the issuance thereof, and

WHEREAS, in order to finance the Project, the County Board proposes to provide for an issue of $35,000,000 Industrial Revenue Bonds (Textile Series 1968) payable from the rentals derived from

Springs and additionally secured by a Trust Indenture; and

WHEREAS, drafts of the Acquisition Contract, Lease and Agreement, and Trust Indenture between Chester County and Springs have been submitted and considered by this Board,

NOW THEREFORE, BE IT RESOLVED BY THE STATE BUDGET AND CONTROL BOARD IN MEETING DULY ASSEMBLED:

1. It has been found and determined by the State Board:

(a) That the statement of facts set forth in the recitals of this Resolution are in all respects true and correct,

(b) That the County Board has filed a proper petition to the State Board establishing a reasonable estimate of the cost of the Project, a general summary of the terms and conditions of the Acquisition Contract, Lease and Agreement, and Trust Indenture to be made by the County Board and has established that Springs will pay as additional rentals, in lieu of taxes, the sums prescribed by Section 6 of the Act,

(c) That the Project will provide employment in its operation, and will be of benefit to Chester County and adjoining areas,

(d) That the Project is intended to promote the purposes of the Act and is reasonably anticipated to effect such results.

2. On the basis of the foregoing findings, the proposed undertaking of the County Board to acquire the Project, to lease the same to Springs and to finance the cost thereof through the issuance of Bonds payable from the revenues to be derived from the operation of the Project and additionally secured by the said Trust Indenture, be and the same is hereby approved.

3. Notice of the action of the State Board in giving approval to the undertaking of Chester County above-described shall be published in the Chester News, which is a newspaper having general circulation in Chester County.

4. The notice to be published shall be in form substantially as set forth as Exhibit A. of this Resolution.

SUMMARY OF DOCUMENTS

Following is a summary of the Escrow Agreement, Lease and Agreement, Trust Indenture and Guaranty Agreement referred to in the Petition to which this Exhibit is attached. Terms defined in the Petition will be used herein with the same meaning.

Escrow Agreement: Pursuant to the Escrow Agreement among the County, Springs and a bank or trust company to be designated (the "Escrow Agent"), the County will deposit the proceeds from the sale of the Refunding Bonds with the Escrow Agent to be used to purchase the Federal Securities and to be held as uninvested cash. The uninvested cash, the Federal Securities, as the same mature, and the income and interest earned thereon will be sufficient, and will be applied by the Escrow Agent, to pay the principal of and interest on the Outstanding Bonds as the same become due.

The Escrow Agent shall have no power to sell, transfer, otherwise dispose of or request the redemption of the Federal Securities or to substitute therefor any other obligations. The escrow created pursuant to the Escrow Agreement shall be irrevocable and the holders of the Outstanding Bonds shall have an express lien on all moneys and Federal Securities held by the Escrow Agent until paid in accordance with the Escrow Agreement. The escrow Agreement shall terminate when all of the Outstanding Bonds and coupons appertaining thereto have been paid in accordance with the provisions of the Escrow Agreement. If any Outstanding Bonds

or coupons are not presented for payment when due and payable, the nonpayment thereof shall not prevent the termination of the Escrow Agreement. All moneys or Federal Securities held in escrow at termination and not needed for the payment of the principal of or interest on any of the Outstanding Bonds shall be transferred to Springs.

Lease and Agreement: The County and Springs will either (i) enter into a leasing arrangement (the "Lease") or (ii) amend the Lease and Agreement presently existing between the County and Springs and referred to in Exhibit A to the petition (the "Outstanding Lease"). In either event, the County will agree to lease and rent the Project to Springs and Springs will agree to lease and rent the same from the County. If the Lease is entered into, it will become effective upon delivery and the Lease term shall commence upon the termination of the Outstanding Lease, but in no event later than March 1, 1993. Alternatively, the Outstanding Lease may be amended to extend its term. In either event, the leasing arrangement will continue at least to the date of final maturity of the Refunding Bonds, unless sooner terminated as described below.

The rents payable under the Lease or the amended Outstanding Lease, (hereinafter collectively referred to as the "Lease and Agreement"), subject to certain credits as therein provided, will equal the payments of interest, principal and sinking fund installments due with respect to the Refunding Bonds. No further payments of such rents need be made when and so long as the amount in the Bond Fund, established pursuant to the Trust Indenture, is sufficient to pay the interest on

and principal of the Refunding Bonds. Rent will be paid by Springs directly to the Trustee.

The Lease and Agreement will provide that Springs will keep the Project in good repair at its own cost. Springs will also be required to take out and maintain at its own expense insurance against fire and certain other risks. In the event of damage to or destruction of the Project, or if the Project is taken or condemned under power of eminent domain in whole or in part, Springs' obligation to pay rent will not be abated in any respect. Any proceeds received in such events will be used to repair, restore, relocate, modify or improve the Project or to redeem the Refunding Bonds.

Under the Lease and Agreement, Springs shall have the option to purchase the Project: (1) under certain conditions that allow the Refunding Bonds to be redeemed; or (2) at any time after the full payment of the Refunding Bonds, or after provision for the payment thereof has been made.

In case of purchase of the Project pursuant to (1) above, the purchase price will be a sum sufficient to redeem all Refunding Bonds then outstanding and to pay all reasonable and necessary fees and expenses of the Trustee and any paying agent accrued and to accrue through final payment of the Refunding Bonds. In case of purchase of the Project pursuant to (2) above, the purchase price shall not exceed $100.00.

In compliance with Section 6 of the Act, the Lease and Agreement provides that Springs is required to make

payments to the County, school district or districts, and other political units wherein the Project is located in lieu of taxes, in such amounts as would result from taxes levied on the Project by such County, districts or political units, if the Project were owned by Springs, but with appropriate reductions similar to the tax exemptions, if any, which would be afforded to Springs if it were the owner of the Project. The County agrees to cause the Project to be valued, rates applied to such values and statements of such to be sent to Springs as if the Project were so owned by Springs. Springs agrees to pay all such payments in lieu of taxes as long as required by law.

Trust Indenture: The Trust Indenture authorizing and providing for the issuance of the Refunding Bonds will be entered into by the County and a bank or trust company to be designated (the "Trustee").

Under the Trust Indenture, all of the income and revenues derived by the County under the Lease and Agreement from the lease of the Project or from the sale or other disposition of the Project are pledged for the payment of the principal of and interest on the Refunding Bonds.

A Bond Fund, into which the rental payments derived under the Lease and Agreement and certain other amounts specified in the Indenture will be deposited, will be maintained with the Trustee. While any Refunding Bonds are outstanding, moneys in the Bond Fund will be used solely for the payment of the principal, premium, if any, and interest on the Refunding Bonds and for the redemption or purchase for cancellation of Refunding Bonds prior to maturity.

Neither the Refunding Bonds nor the interest coupons appertaining thereto will constitute an indebtedness of the County within the meaning of any provisions of the State Constitution or any statutory limitation, and will never constitute or give rise to a pecuniary liability of the County or a charge against its general credit or taxing powers.

The Trust Indenture contains customary covenants on the part of the County with respect to payment of principal and interest, inspection of Project books, and related matters, as well as customary provisions for bondholders' remedies, trustees' duties and amendment of the Trust Indenture.

The Guaranty: Pursuant to the Guaranty, Springs will unconditionally guarantee to the Trustee for the benefit of the holders of the Refunding Bonds and the interest coupons appertaining thereto (1) the full and prompt payment of the principal of, and premium, if any, on any Refunding Bond when and as the same shall become due, whether at the stated maturity thereof or by acceleration or call for redemption or otherwise, and (2) the full and prompt payment of any interest on any Refunding Bond when and as the same shall become due. The Guaranty will remain in effect until the entire principal of and interest on the Refunding Bonds shall have been paid in full or provision for the payment thereof has been made in accordance with the Trust Indenture.

WHEREAS the State of South Carolina has determined by Act No. 103 of the General Assembly of the State of South Carolina for 1967 (the "Act") [Code of Laws of South Carolina, 1976, §4-29-10 et seq] that it is in the public interest to utilize industrial revenue bond financing to induce manufacturing enterprises to locate and to remain in the State and to authorize the refunding of any such industrial revenue bonds issued under the Act; and,

WHEREAS in 1968 Chester County (the "County") issued its Industrial Revenue Bonds (Textile Series 1968) (the "Outstanding Bonds") in the principal amount of $35,000,000 to finance the construction and equipping of an industrial plant for the manufacture of textiles, known as the Katherine Plant, which Plant thereafter was leased to Springs Mills, Inc. ("Springs") and the operation of which thereby provided employment to approximately 650 inhabitants of the State; and,

WHEREAS lease payments to date made by Springs have provided funds for the reduction of the principal amount of such Outstanding Bonds from $35,000,000 to the presently outstanding amount of $25,325,000; and,

WHEREAS Section 11 of the Act [Code of Laws of South Carolina, 1976, §4-29-110] provides that any industrial revenue bonds issued under the Act may be refunded by any county issuing same, but only with the approval of the State Budget and Control Board being first obtained, by the issuance by any such county of its refunding bonds in such amount as the county board of such county may deem necessary, but not exceeding an amount sufficient to refund the principal of the bonds to be refunded together with any unpaid interest thereon and any premiums, expenses, and commissions necessary to be paid in connection therewith; and,

WHEREAS Springs has sought the agreement of the County Council of the County to issue Industrial Revenue Refunding Bonds (the "Refunding Bonds") in an amount sufficient to refund the principal of the Outstanding Bonds (together with any unpaid interest thereon and any premiums, expenses, and commissions necessary to be paid in connection therewith), presently estimated to be $25,000,000; to enter into a leasing arrangement pursuant to which the Katherine Plant would continue to be leased by Springs at semi-annual rental payments in amounts equal to the maturing installments of principal of and interest on the Refunding Bonds (such leasing arrangement to contain an option permitting Springs to purchase the Katherine Plant at a price not to exceed $100 when the Refunding Bonds shall have been paid); and, to assume such other obligations as are required by the provisions of the Act; and,

WHEREAS the proceeds from the issuance of such Refunding Bonds will be used to purchase United States Treasury Certificates of Indebtedness, Notes and Bonds--State and Local Government Series (the "Federal Securities") which will be held in escrow and irrevocably pledged to the payment of principal and interest on the Outstanding Bonds as such principal and interest become due and payable in accordance with the terms thereof; and,

WHEREAS it is appropriate at this time to authorize the filing of a petition on behalf of the County Council of the County in connection with the proposed issuance of the Refunding Bonds to provide funds for the refunding of the Outstanding Bonds, together with any unpaid interest and expenses and commissions necessary to be paid in connection therewith.

NOW, THEREFORE, BE IT RESOLVED by the County Council of Chester County, South Carolina, as follows:

(1) It is hereby found and determined as follows:

(a) The issuance of the Refunding Bonds is in the public interest and for a public purpose and will subserve the purposes of the Act;

(b) The Refunding Bonds will give rise to no pecuniary liability of the County or a charge against its general credit or taxing power;

(c) The Refunding Bonds will be issued in an amount sufficient to refund the principal of the Outstanding Bonds (together with any unpaid interest thereon and any premiums, expenses, and commissions necessary to be paid in connection therewith), presently estimated to be $25,000,000;

(d) Refunding of the Outstanding Bonds will be in the best interests of the holders of such Bonds in that the Federal Securities (and interest earned thereon) will be held in escrow and irrevocably pledged to the payment of the principal and interest on such Bonds as such principal and interest become due and payable in accordance with the terms of such Bonds;

(e) The proposed leasing arrangement will obligate Springs unconditionally to pay the amount necessary to provide the annual payments of principal and interest to become due on the Refunding Bonds, and to pay other costs in connection therewith, and will contain an appropriate provision requiring Springs to pay, in lieu of taxes, such amounts as would otherwise be paid if Springs owned the Katherine Plant;

(f) It is not deemed advisable to establish any reserve funds in connection with the retirement of the Refunding Bonds and the maintenance of the Katherine Plant; and,

(g) The terms under which the Katherine Plant is to be leased to Springs will provide that Springs shall maintain the Katherine Plant and carry all proper insurance with respect thereto.

(2) The petition on behalf of the County Council to the State Budget and Control Board of South Carolina, in substantially the form submitted to this meeting, is hereby approved, with such modifications, additions, or deletions therein as may be approved by the County Attorney; and, the Chairman and the Secretary are each hereby authorized to execute such petition and to cause the same to be filed with such State Board and to do such other acts and things as may be necessary or desirable in connection therewith.

(3) The Chairman and the Secretary are each authorized to proceed with the preparation and/or execution of such additional documents and papers as, in the opinion of the County Attorney, may be necessary or advisable in connection with the transactions above set forth and to do any and all other acts and things which they may deem necessary or advisable in connection with the foregoing.

Director Marion M. Thomson offered the above resolution, and his motion was duly seconded by Director L. W. Pittman and was unanimously adopted by the members of the County Council.

J. Martin
Chairman

C E R T I F I C A T I O N

I hereby certify that the foregoing Resolution was duly adopted at a meeting of the County Council of Chester County, South Carolina, held on October 31, 1977, at which meeting all members were present; that the original Resolution is incorporated in the permanent records of said meeting; and, that the foregoing is a true and correct copy thereof.

Oct. 31, 1977

R. Carlisle Roddey

Secretary

C E R T I F I C A T I O N

I, Dan M. Byrd, Jr., Secretary of Springs Mills, Inc., hereby certify that the following resolutions were duly adopted at a meeting of the Board of Directors of Springs Mills, Inc. held on October 27, 1977, at which a majority of the members of the Board were present, that the resolutions are incorporated in the permanent records of the meeting, and that the following is a true and correct copy thereof:

> RESOLVED: That the appropriate officers of the Company are authorized to agree with the County Council of Chester County for the issuance of refunding revenue bonds to provide funds for the refunding of the outstanding bonds of the $35,000,000 Chester County, South Carolina Industrial Revenue Bonds (Textile Series 1968), such issue of refunding revenue bonds to be in a principal amount of approximately $25 million and to include such terms, rate of interest, and other provisions as the Executive Committee of this Board may deem proper; and,

> RESOLVED FURTHER: That in the event such officers agree with the Chester County Council as aforesaid, such officers are authorized to enter into a leasing arrangement with Chester County pursuant to which the Katherine Plant would continue to be leased by the Company from Chester County at semi-annual rental payments in amounts equal to the maturing installments of principal of and interest on such refunding revenue bonds (such leasing arrangement to contain an option permitting the Company to purchase such plant at a price not to exceed $100 when the refunding revenue bonds shall have been paid), and to assume such other obligations as are required by the provisions of The South Carolina Industrial Revenue Bond Act of 1967, [Code of Laws of South Carolina, 1976, §4-29-10 <u>et seq</u>]; and,

RESOLVED FURTHER: That such officers of the Company are authorized to proceed with the preparation and execution of such documents and papers as counsel may deem necessary or advisable in connection with the foregoing transaction and, to do any and all other acts and things and to execute personally or by attorney any and all other documents which they may deem necessary or advisable in connection with the foregoing.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of Springs Mills, Inc., this 31st day of October, 1977.

Dan M. Byrd, Jr.
Secretary

(Corporate Seal)

EXHIBIT A

STATE OF SOUTH CAROLINA

COUNTY OF CHESTER

TO THE STATE BUDGET AND CONTROL BOARD OF SOUTH CAROLINA	PETITION

Petition of the Board of County Directors of Chester County (the "County Board"), pursuant to Act No. 103 of the Acts of the General Assembly of the State of South Carolina for the year 1967, respectfully shows:

1. The County Board is the governing body of Chester County and was so constituted by the statute now codified as Article 2, Chapter 28, Title 14, Code of Laws of South Carolina, 1962, as amended, and as such it is the "County Board" referred to in Act No. 103 of the General Assembly enacted at the 1967 Regular Session (the "Act").

2. The Act authorizes and empowers the County Board, if it shall comply with the provisions set forth in the Act, to acquire land, buildings and other improvements deemed necessary, suitable and useful as an industrial plant; to lease the same; and to finance the acquisition of the same through the issuance of bonds payable from and secured by a pledge of the revenues to be derived from such project.

3. In furtherance of the stated purposes of the Act, the County proposes to issue approximately $35,000,000 industrial revenue bonds of the County pursuant to the Act and use their proceeds to acquire an industrial plant for the manufacture of textiles (the "Project") to be leased to Springs Mills, Inc., a South Carolina corporation (the "Lessee").

4. In connection with undertaking the Project the County Board, by resolution adopted January , 1968, has found and determined as follows:

(a) The Project will subserve the purposes of the Act;

(b) The Project will give rise to no pecuniary liability of the County or a charge against its general credit or taxing power;

(c) The amount of bonds of the County required to finance the Project is $35,000,000;

(d) The proposed Lease and Agreement obligates Lessee unconditionally to pay the amount necessary to provide the annual payments of principal and interest to become due on the Bonds and to pay other costs in connection therewith and contains an appropriate provision requiring Lessee to pay in lieu of taxes, such amounts as would otherwise be paid if Lessee owned the Project.

(e) It is not deemed advisable to establish any reserve funds in connection with the retirement of the proposed bonds and the maintenance of the Project; and

(f) The terms under which the Project is to be leasedprovide that the Lessee shall maintain the Project and carry all proper insurance with respect thereto.

5. As provided in the proposed Acquisition Contract (attached hereto) between the County Board and the Lessee, the Project shall consist of land and rights therein, industrial buildings, structures, machinery and equipment suitable for a plant for the production of sheeting containing natural or man-made fibers or blends of both and designed at full production to produce approximately 640,000 yards of sheeting per week. The Project will be located near the corporate limits of the City of Chester in Chester County.

6. The County Board has determined that the construction of the Project will have a beneficial effect upon the economy of Chester County and of the areas adjacent thereto in that, among other things, it is estimated that the Project will employ approximately 475 persons with an annual payroll of about $2,700,000 per year.

7. A reasonable estimate of the cost of the Project, including site acquisition, capitalized interest and financing costs, is $35,000,000.

8. The following is a general summary of the terms of the proposed Acquisition Contract and Lease Agreement between the County and the Lessee and of the proposed Trust Indenture securing the bonds:

Acquisition Contract. Contemporaneously with the execution of the Trust Indenture, the County will enter into an Acquisition

ontract with the Lessee substantially in the form of contract ttached hereto as Exhibit A. The Acquisition Contract will obligate he Lessee to construct the Project on a site near the corporate imits of the City of Chester, Chester County. In the Acquisition ontract, the County will agree to purchase and the Lessee will agree o sell the Project for a price equal to the actual cost thereof to he Lessee or such lesser amount as shall be available from the proceeds f the bonds. In the Acquisition Contract it will be provided that he bond proceeds, after providing for two years of interest on the onds, will be held in escrow and paid to the Lessee in installments s it incurs costs in the construction of the Project. Conveyance nd transfer of title of the Project to the County is to take place rior to or on March 31, 1969 (but in no event more than 180 days fter such date).

Lease and Agreement. Concurrently with the making of the cquisition Contract, the County and the Lessee will enter into a ease and Agreement (the "Lease") substantially in the form of agree- ent attached hereto as Exhibit B. In the Lease, the County will gree to lease and rent the Project to the Lessee and the Lessee will gree to lease and rent the same from the County. The term of the easehold estate will commence on the date on which title to the roject is conveyed and transferred to the County and will continue t least to the date of final maturity of the bonds, unless sooner

terminated as described below. The rents payable under the Lease, subject to certain credits as therein provided, will equal the payments of interest, principal and sinking fund installments due with respect to the bonds. No further payments of such rents need be made when and so long as the amount in the Bond Service Fund is sufficient to pay the interest on and principal of the bonds. Rent will be paid by the Lessee directly to the Trustee for deposit in a special trust fund (the "Bond Service Fund"). Amounts in the Bond Service Fund will be pledged pursuant to the Trust Indenture to the payment of the bonds and the interest thereon.

The Lease will provide that the Lessee will keep the Project in good repair at its own cost. The Lessee will also be required to take out and maintain at its own expense insurance against fire and certain other risks. In the event of damage to or destruction of the Project the Lessee's obligation to pay rent will not be abated in any respect, but the Lessee will be entitled to the proceeds of insurance upon completion of repairs or, at the option to the Lessee, periodically upon progress in making repairs. In the event the Project is taken or condemned under power of eminent domain in whole or in part, the Lessee's obligation to pay rent will not be abated in any respect. If it is lawful and economically feasible to repair, restore or reconstruct, the Lessee will be required at its expense to do so, but will be reimbursed for its expenses from the condemnation award, any balance of such award being paid into the Bond Service Fund;

if such is not the case, the condemnation award will be deposited in the Bond Service Fund.

At any time after the commencement of the term of the Lease but not more than 180 days subsequent to the expiration thereof, the Lessee shall have the option to purchase the Project at a purchase price equal to the amount necessary, when added to the Bond Service Fund, to retire the Bonds in accordance with the provisions of the Trust Indenture, plus $1.00.

In compliance with Section 6 of the Act, paragraph 5 of the Lease Agreement provides that the Lessee is required to make payments to the County, school district or districts, and other political units wherein the Project is located in lieu of taxes, in such amounts as would result from taxes levied on the Project by such County, districts or political units, if the Project were owned by the Lessee, but with appropriate reductions similar to the tax exemptions, if any, which would be afforded to the Lessee if it were the owner of the Project. The basis for such payment of sums in lieu of taxes as required by the Act is stated in said paragraph 5 of the Lease Agreement attached hereto and reference is made thereto.

<u>Trust Indenture</u>. The Trust Indenture authorizing and providing for the issuance of the bonds will be entered into by the County substantially in the form of indenture attached hereto as Exhibit C. Under the Trust Indenture the bonds are secured by a pledge of all revenues from or in connection with the Project, including

all moneys received under the Lease Agreement required to be paid into the Bond Service Fund. Neither the bonds nor the interest coupons appertaining thereto will constitute an indebtedness of the County within the meaning of any provision of the State Constitution or any statutory limitation, and will never constitute or give rise to a pecuniary liability of the County or a charge against its general credit or taxing powers.

In addition to the bonds to be initially issued, the Trust Indenture will authorize a limited principal amount of additional parity bonds to finance enlargements, improvements or expansions of the Project. The Trust Indenture also provides for the establishment of an Escrow Fund pursuant to the Acquisition Contract, the deposit therein of bond proceeds, their disbursement and the investment thereof. It establishes a Bond Service Fund and provides for the payment therefrom of amounts necessary for principal of and interest on the bonds when due. The Trust Indenture contains customary covenants on the part of the County with respect to payment of principal and interest, inspection of Project books, and related matters, as well as customary provisions for bondholders' remedies, trustees' duties and amendment of the Trust Indenture.

Upon the basis of the foregoing, the County Board respectfully prays,

THAT the State Board accept the filing of the petition presented herewith; that as soon as practicable, it make its independent

CERTIFICATE

I, CHARLES W. McTEER, certify that the foregoing form of Petition to the State Budget and Control Board of South Carolina (a) is the same as the form of such document submitted to the Board of County Directors at its January 2, 1968 meeting and referred to in the Resolutions adopted by the Board at such meeting and (b) is the same as the form of such document submitted to the State Budget and Control Board of South Carolina on January 3, 1968.

Charles W. McTeer
County Attorney

stigation of the Project and the terms and provisions of the sition Contract, the Lease and Agreement, and the Trust ture as it deems advisable, and that thereafter it finds the proposed Project will promote the purposes of the Act; it is reasonably anticipated to effect such result, and that proves the Project on the basis of such findings and authora published notice of its approval in the manner set forth in on 14 of the Act.

Respectfully submitted,

BOARD OF COUNTY DIRECTORS
OF CHESTER COUNTY

By ______________________________
Chairman

)

t:

____
Secretary

C E R T I F I C A T E

I, J. B. McDowell, certify that the foregoing form of ion to the State Budget and Control Board of South Carolina e same as the form of such document submitted to the Board unty Directors at its January 2, 1968 meeting and referred the Resolutions adopted by the Board at such meeting.

____
J. B. McDowell
Secretary

MC-I

EXHIBIT I
11/1/77

Springs Springs Mills, Inc.

Executive Offices
Fort Mill, S. C. 29715
803/547-2901

Francis L. Bell
Vice President—
Personnel Administration

November 3, 1977

The Honorable William T. Putnam
State Auditor, State of South Carolina
200 Hampton Office Building
P. O. Box 11333
Columbia, South Carolina 29211

Dear Bill:

Springs deeply appreciates everything you did Tuesday to help Chester County become eligible for the $25,000,000 Advance Refunding Bond Issue.

Without your help, we would not be on our way with the issue. Many thanks.

Warm personal regards.

Sincerely,

Francis Bell

Francis L. Bell

FLB:hgw

cc: Mr. H. W. Close
Mr. D. M. Byrd

C E R T I F I C A T I O N

I, Dan M. Byrd, Jr., Secretary of Springs Mills, Inc., hereby certify that the following resolutions were duly adopted at a meeting of the Board of Directors of Springs Mills, Inc. held on October 27, 1977, at which a majority of the members of the Board were present, that the resolutions are incorporated in the permanent records of the meeting, and that the following is a true and correct copy thereof:

RESOLVED: That the appropriate officers of the Company are authorized to agree with the County Council of Chester County for the issuance of refunding revenue bonds to provide funds for the refunding of the outstanding bonds of the $35,000,000 Chester County, South Carolina Industrial Revenue Bonds (Textile Series 1968), such issue of refunding revenue bonds to be in a principal amount of approximately $25 million and to include such terms, rate of interest, and other provisions as the Executive Committee of this Board may deem proper; and,

RESOLVED FURTHER: That in the event such officers agree with the Chester County Council as aforesaid, such officers are authorized to enter into a leasing arrangement with Chester County pursuant to which the Katherine Plant would continue to be leased by the Company from Chester County at semi-annual rental payments in amounts equal to the maturing installments of principal of and interest on such refunding revenue bonds (such leasing arrangement to contain an option permitting the Company to purchase such plant at a price not to exceed $100 when the refunding revenue bonds shall have been paid), and to assume such other obligations as are required by the provisions of The South Carolina Industrial Revenue Bond Act of 1967, [Code of Laws of South Carolina, 1976, §4-29-10 et seq]; and,

RESOLVED FURTHER: That such officers of the Company are authorized to proceed with the preparation and execution of such documents and papers as counsel may deem necessary or advisable in connection with the foregoing transaction and, to do any and all other acts and things and to execute personally or by attorney any and all other documents which they may deem necessary or advisable in connection with the foregoing.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of Springs Mills, Inc., this 31st day of October, 1977.

Dan M. Byrd, Jr.

Secretary

(Corporate Seal)

WHEREAS the State of South Carolina has determined by Act No. 103 of the General Assembly of the State of South Carolina for 1967 (the "Act") [Code of Laws of South Carolina, 1976, §4-29-10 et seq] that it is in the public interest to utilize industrial revenue bond financing to induce manufacturing enterprises to locate and to remain in the State and to authorize the refunding of any such industrial revenue bonds issued under the Act; and,

WHEREAS in 1968 Chester County (the "County") issued its Industrial Revenue Bonds (Textile Series 1968) (the "Outstanding Bonds") in the principal amount of $35,000,000 to finance the construction and equipping of an industrial plant for the manufacture of textiles, known as the Katherine Plant, which Plant thereafter was leased to Springs Mills, Inc. ("Springs") and the operation of which thereby provided employment to approximately 650 inhabitants of the State; and,

WHEREAS lease payments to date made by Springs have provided funds for the reduction of the principal amount of such Outstanding Bonds from $35,000,000 to the presently outstanding amount of $25,325,000; and,

WHEREAS Section 11 of the Act [Code of Laws of South Carolina, 1976, §4-29-110] provides that any industrial revenue bonds issued under the Act may be refunded by any county issuing same, but only with the approval of the State Budget and Control Board being first obtained, by the issuance by any such county of its refunding bonds in such amount as the county board of such county may deem necessary, but not exceeding an amount sufficient to refund the principal of the bonds to be refunded together with any unpaid interest thereon and any premiums, expenses, and commissions necessary to be paid in connection therewith; and,

WHEREAS Springs has sought the agreement of the County Council of the County to issue Industrial Revenue Refunding Bonds (the "Refunding Bonds") in an amount sufficient to refund the principal of the Outstanding Bonds (together with any unpaid interest thereon and any premiums, expenses, and commissions necessary to be paid in connection therewith), presently estimated to be $25,000,000; to enter into a leasing arrangement pursuant to which the Katherine Plant would continue to be leased by Springs at semi-annual rental payments in amounts equal to the maturing installments of principal of and interest on the Refunding Bonds (such leasing arrangement to contain an option permitting Springs to purchase the Katherine Plant at a price not to exceed $100 when the Refunding Bonds shall have been paid); and, to assume such other obligations as are required by the provisions of the Act; and,

WHEREAS the proceeds from the issuance of such Refunding Bonds will be used to purchase United States Treasury Certificates of Indebtedness, Notes and Bonds--State and Local Government Series (the "Federal Securities") which will be held in escrow and irrevocably pledged to the payment of principal and interest on the Outstanding Bonds as such principal and interest become due and payable in accordance with the terms thereof; and,

WHEREAS it is appropriate at this time to authorize the filing of a petition on behalf of the County Council of the County in connection with the proposed issuance of the Refunding Bonds to provide funds for the refunding of the Outstanding Bonds, together with any unpaid interest and expenses and commissions necessary to be paid in connection therewith.

NOW, THEREFORE, BE IT RESOLVED by the County Council of Chester County, South Carolina, as follows:

(1) It is hereby found and determined as follows:

(a) The issuance of the Refunding Bonds is in the public interest and for a public purpose and will subserve the purposes of the Act;

(b) The Refunding Bonds will give rise to no pecuniary liability of the County or a charge against its general credit or taxing power;

(c) The Refunding Bonds will be issued in an amount sufficient to refund the principal of the Outstanding Bonds (together with any unpaid interest thereon and any premiums, expenses, and commissions necessary to be paid in connection therewith), presently estimated to be $25,000,000;

(d) Refunding of the Outstanding Bonds will be in the best interests of the holders of such Bonds in that the Federal Securities (and interest earned thereon) will be held in escrow and irrevocably pledged to the payment of the principal and interest on such Bonds as such principal and interest become due and payable in accordance with the terms of such Bonds;

(e) The proposed leasing arrangement will obligate Springs unconditionally to pay the amount necessary to provide the annual payments of principal and interest to become due on the Refunding Bonds, and to pay other costs in connection therewith, and will contain an appropriate provision requiring Springs to pay, in lieu of taxes, such amounts as would otherwise be paid if Springs owned the Katherine Plant;

(f) It is not deemed advisable to establish any reserve funds in connection with the retirement of the Refunding Bonds and the maintenance of the Katherine Plant; and,

(g) The terms under which the Katherine Plant is to be leased to Springs will provide that Springs shall maintain the Katherine Plant and carry all proper insurance with respect thereto.

(2) The petition on behalf of the County Council to the State Budget and Control Board of South Carolina, in substantially the form submitted to this meeting, is hereby approved, with such modifications, additions, or deletions therein as may be approved by the County Attorney; and, the Chairman and the Secretary are each hereby authorized to execute such petition and to cause the same to be filed with such State Board and to do such other acts and things as may be necessary or desirable in connection therewith.

(3) The Chairman and the Secretary are each authorized to proceed with the preparation and/or execution of such additional documents and papers as, in the opinion of the County Attorney, may be necessary or advisable in connection with the transactions above set forth and to do any and all other acts and things which they may deem necessary or advisable in connection with the foregoing.

Director Marion M. Thomas offered the above resolution, and his motion was duly seconded by Director L. D. Pettman and was unanimously adopted by the members of the County Council.

J. J. Martin

Chairman

C E R T I F I C A T I O N

I hereby certify that the foregoing Resolution was duly adopted at a meeting of the County Council of Chester County, South Carolina, held on October 31, 1977, at which meeting all members were present; that the original Resolution is incorporated in the permanent records of said meeting; and, that the foregoing is a true and correct copy thereof.

October 31, 1977

R. Claudie Roddey

Secretary

STATE OF SOUTH CAROLINA

COUNTY OF CHESTER

TO THE STATE BUDGET AND CONTROL BOARD OF SOUTH CAROLINA	PETITION

Petition of the County Council of Chester County ("the County Council" and the "County", respectively) pursuant to Act No. 103 of the Acts of the General Assembly of the State of South Carolina for the year 1967 (the "Act") [Code of Laws of South Carolina, 1976, §4-29-10, et seq], respectfully shows:

1. The County Council is the governing body of Chester County and was so constituted by Articles 1 and 7 of Chapter 9, Title 4, Code of Laws of South Carolina, 1976 [Code of Laws §4-1-10 et seq and §4-9-610 et seq], and as such it is the "County Board" referred to in the Act. Code of Laws §4-29-10(2).

2. The Act authorizes and empowers the County Council, if it shall comply with the provisions set forth in the Act, to acquire land, buildings, and other improvements deemed necessary, suitable, and useful as an industrial plant; to lease the same; and, to finance the acquisition of the same through the issuance of bonds payable from and secured by a pledge of the revenues to be derived from such project.

3. In furtherance of the stated purposes of the Act and in compliance with the provisions of the Act, the County, in 1968, issued $35,000,000 Industrial Revenue Bonds (Textile Series 1968) (the "Outstanding Bonds") pursuant to the Act and used the proceeds from such issue to acquire an industrial plant, known as the Katherine Plant, for the manufacture of textiles (the "Project"); the Project was then leased to Springs Mills, Inc., a South Carolina corporation ("Springs").

4. In connection with undertaking the Project, the County Council (formerly styled by laws as the Board of County Directors), by resolution adopted January 2, 1968, authorized the filing of its Petition to the State Budget and Control Board ("State Board") for approval of the Project, as required by the Act which petition included a brief description of the Project and its anticipated effect upon the economy of the County and a reasonable estimate of the cost of the Project, a copy of which petition is attached hereto as Exhibit A and incorporated herein by reference. On January 9, 1968, the State Board, by resolution, gave its approval to the Project, to the lease of the Project to Springs, and to the financing of the Project by the issuance by the County of the Outstanding Bonds, which resolution is attached hereto as Exhibit B and incorporated herein by reference.

5. Pursuant to the terms of the lease between Springs and the County, Springs has made lease payments which have

provided funds for the reduction of the principal amount of $35,000,000 of the Outstanding Bonds to the presently outstanding amount of $25,325,000, which amount is the amount of the Outstanding Bonds to be refunded.

6. The Act provides that any bonds issued thereunder may, at any time, be refunded by any county issuing same, but only with the prior approval of the State Board, by the issuance by any such county of its refunding bonds in such amount as the county board of such county may deem necessary but not exceeding an amount sufficient to refund the principal of the bonds to be refunded, together with any unpaid interest thereon and any premiums, expenses, and commissions necessary to be paid in connection therewith. The Act further provides that any such refunding may be effected, whether the bonds to be refunded have matured or shall thereafter mature, by the sale of the refunding bonds and the application of the proceeds for the payment of the bonds to be refunded. Code of Laws §4-29-110.

7. Pursuant to the Act, the County Council proposes to issue its Industrial Revenue Refunding Bonds (the "Refunding Bonds") in an amount sufficient to refund the principal of the Outstanding Bonds (together with any unpaid interest thereon and any premiums, expenses, and commissions necessary to be paid in connection therewith), presently estimated to be $25,000,000 (such amount cannot be

fixed precisely until an interest rate on the Refunding Bonds has been determined and agreed to by the County Council). In general terms, such refunding will be accomplished by the issuance by the County of the Refunding Bonds and the deposit, for investment and use as hereinafter described, of the proceeds thereof, net of expenses and commissions necessary to be paid in connection with the issuance of the Refunding Bonds, in an irrevocable escrow deposit fund created pursuant to an escrow deposit agreement (the "Escrow Agreement"). The funds deposited in the escrow deposit fund, except for a small amount of cash, will be used to purchase United States Treasury Certificates of Indebtedness, Notes and Bonds -- State and Local Government Series ("Federal Securities"). The Federal Securities, together with the interest to be paid thereon, and the balance of the sum deposited, will be sufficient to pay the interest on the Outstanding Bonds as the same shall become due to and including the maturity (or mandatory sinking fund) dates, and to pay the principal of (whether at maturity or upon mandatory sinking fund redemption) the Outstanding Bonds on such maturity (or mandatory sinking fund) dates.

8. The Refunding Bonds will be issued by the County pursuant to a trust indenture (the "Trust Indenture"),

under the terms of which the Refunding Bonds will be secured by a pledge of all revenues derived by the County from the sale, lease, or other disposition of the Project pursuant to a leasing arrangement (the "Lease and Agreement") with Springs, which Lease and Agreement will require semi-annual rental payments in amounts equal to the maturing installments of principal of and interest on the Refunding Bonds. Neither the Refunding Bonds nor the interest coupons appertaining thereto will constitute an indebtedness of the County within the meaning of any provision of the State Constitution or any statutory limitation, and will never constitute or give rise to a pecuniary liability of the County or a charge against its general credit or taxing powers.

9. In connection with the issuance of the Refunding Bonds, the County Council, by resolution adopted October 31, 1977, has found and determined as follows:

(a) The issuance of the Refunding Bonds is in the public interest and for a public purpose and will subserve the purposes of the Act;

(b) The Refunding Bonds will give rise to no pecuniary liability of the County or a charge against its general credit or taxing power;

(c) The Refunding Bonds will be issued in an amount sufficient to refund the principal of the Outstanding Bonds (together with any unpaid interest thereon and any premiums, expenses, and commissions necessary to be paid in connection therewith), presently estimated to be $25,000,000;

(d) Refunding of the Outstanding Bonds will be in the best interests of the holders of such Bonds in that the Federal Securities (and interest earned thereon) will be held in escrow and irrevocably pledged to the payment of the principal and interest on such Bonds as such principal and interest become due and payable in accordance with the terms of such Bonds;

(e) The proposed leasing arrangement will obligate Springs unconditionally to pay the amount necessary to provide the annual payments of principal and interest to become due on the Refunding Bonds, and to pay other costs in connection therewith, and will contain an appropriate provision requiring Springs to pay, in lieu of taxes, such amounts as would otherwise be paid if Springs owned the Katherine Plant;

(f) It is not deemed advisable to establish any reserve funds in connection with the retirement of the Refunding Bonds and the maintenance of the Katherine Plant; and,

(g) The terms under which the Katherine Plant is to be leased to Springs will provide that Springs shall maintain the Katherine Plant and carry all proper insurance with respect thereto.

10. A general summary of the terms of the proposed Escrow Agreement, the Lease and Agreement, the Trust Indenture, and a Guaranty Agreement from Springs to the trustee under the Trust Indenture guaranteeing payment of principal of and interest on the Refunding Bonds, is attached hereto as Exhibit C and incorporated herein by reference.

Upon the basis of the foregoing, the County Council respectfully prays:

THAT the State Board accept the filing of the Petition presented herewith; that, as soon as practicable, it make its independent investigation of the proposed refunding and of the terms and provisions of the Escrow Agreement, the Lease and Agreement, and the Trust Indenture, and the Guaranty Agreement as it deems advisable; and, that thereafter it find that the proposed refunding will promote the purposes of the Act, that it is reasonably anticipated to effect such result, and that it approve the refunding on the basis of such findings and authorize a published notice of its approval in the manner set forth in Section 14 of the Act. Code of Laws §4-29-140.

Respectfully submitted,

COUNTY COUNCIL OF CHESTER COUNTY

By J. W. Martin
Chairman

[Seal]

Attest:

R. Carlisle Roddey
Secretary

SUMMARY OF DOCUMENTS

Following is a summary of the Escrow Agreement, Lease and Agreement, Trust Indenture and Guaranty Agreement referred to in the Petition to which this Exhibit is attached. Terms defined in the Petition will be used herein with the same meaning.

Escrow Agreement: Pursuant to the Escrow Agreement among the County, Springs and a bank or trust company to be designated (the "Escrow Agent"), the County will deposit the proceeds from the sale of the Refunding Bonds with the Escrow Agent to be used to purchase the Federal Securities and to be held as uninvested cash. The uninvested cash, the Federal Securities, as the same mature, and the income and interest earned thereon will be sufficient, and will be applied by the Escrow Agent, to pay the principal of and interest on the Outstanding Bonds as the same become due.

The Escrow Agent shall have no power to sell, transfer, otherwise dispose of or request the redemption of the Federal Securities or to substitute therefor any other obligations. The escrow created pursuant to the Escrow Agreement shall be irrevocable and the holders of the Outstanding Bonds shall have an express lien on all moneys and Federal Securities held by the Escrow Agent until paid in accordance with the Escrow Agreement. The escrow Agreement shall terminate when all of the Outstanding Bonds and coupons appertaining thereto have been paid in accordance with the provisions of the Escrow Agreement. If any Outstanding Bonds

or coupons are not presented for payment when due and payable, the nonpayment thereof shall not prevent the termination of the Escrow Agreement. All moneys or Federal Securities held in escrow at termination and not needed for the payment of the principal of or interest on any of the Outstanding Bonds shall be transferred to Springs.

Lease and Agreement: The County and Springs will either (i) enter into a leasing arrangement (the "Lease") or (ii) amend the Lease and Agreement presently existing between the County and Springs and referred to in Exhibit A to the petition (the "Outstanding Lease"). In either event, the County will agree to lease and rent the Project to Springs and Springs will agree to lease and rent the same from the County. If the Lease is entered into, it will become effective upon delivery and the Lease term shall commence upon the termination of the Outstanding Lease, but in no event later than March 1, 1993. Alternatively, the Outstanding Lease may be amended to extend its term. In either event, the leasing arrangement will continue at least to the date of final maturity of the Refunding Bonds, unless sooner terminated as described below.

The rents payable under the Lease or the amended Outstanding Lease, (hereinafter collectively referred to as the "Lease and Agreement"), subject to certain credits as therein provided, will equal the payments of interest, principal and sinking fund installments due with respect to the Refunding Bonds. No further payments of such rents need be made when and so long as the amount in the Bond Fund, established pursuant to the Trust Indenture, is sufficient to pay the interest on

and principal of the Refunding Bonds. Rent will be paid by Springs directly to the Trustee.

The Lease and Agreement will provide that Springs will keep the Project in good repair at its own cost. Springs will also be required to take out and maintain at its own expense insurance against fire and certain other risks. In the event of damage to or destruction of the Project, or if the Project is taken or condemned under power of eminent domain in whole or in part, Springs' obligation to pay rent will not be abated in any respect. Any proceeds received in such events will be used to repair, restore, relocate, modify or improve the Project or to redeem the Refunding Bonds.

Under the Lease and Agreement, Springs shall have the option to purchase the Project: (1) under certain conditions that allow the Refunding Bonds to be redeemed; or (2) at any time after the full payment of the Refunding Bonds, or after provision for the payment thereof has been made.

In case of purchase of the Project pursuant to (1) above, the purchase price will be a sum sufficient to redeem all Refunding Bonds then outstanding and to pay all reasonable and necessary fees and expenses of the Trustee and any paying agent accrued and to accrue through final payment of the Refunding Bonds. In case of purchase of the Project pursuant to (2) above, the purchase price shall not exceed $100.00.

In compliance with Section 6 of the Act, the Lease and Agreement provides that Springs is required to make

payments to the County, school district or districts, and other political units wherein the Project is located in lieu of taxes, in such amounts as would result from taxes levied on the Project by such County, districts or political units, if the Project were owned by Springs, but with appropriate reductions similar to the tax exemptions, if any, which would be afforded to Springs if it were the owner of the Project. The County agrees to cause the Project to be valued, rates applied to such values and statements of such to be sent to Springs as if the Project were so owned by Springs. Springs agrees to pay all such payments in lieu of taxes as long as required by law.

Trust Indenture: The Trust Indenture authorizing and providing for the issuance of the Refunding Bonds will be entered into by the County and a bank or trust company to be designated (the "Trustee").

Under the Trust Indenture, all of the income and revenues derived by the County under the Lease and Agreement from the lease of the Project or from the sale or other disposition of the Project are pledged for the payment of the principal of and interest on the Refunding Bonds.

A Bond Fund, into which the rental payments derived under the Lease and Agreement and certain other amounts specified in the Indenture will be deposited, will be maintained with the Trustee. While any Refunding Bonds are outstanding, moneys in the Bond Fund will be used solely for the payment of the principal, premium, if any, and interest on the Refunding Bonds and for the redemption or purchase for cancellation of Refunding Bonds prior to maturity.

Neither the Refunding Bonds nor the interest coupons appertaining thereto will constitute an indebtedness of the County within the meaning of any provisions of the State Constitution or any statutory limitation, and will never constitute or give rise to a pecuniary liability of the County or a charge against its general credit or taxing powers.

The Trust Indenture contains customary covenants on the part of the County with respect to payment of principal and interest, inspection of Project books, and related matters, as well as customary provisions for bondholders' remedies, trustees' duties and amendment of the Trust Indenture.

The Guaranty: Pursuant to the Guaranty, Springs will unconditionally guarantee to the Trustee for the benefit of the holders of the Refunding Bonds and the interest coupons appertaining thereto (1) the full and prompt payment of the principal of, and premium, if any, on any Refunding Bond when and as the same shall become due, whether at the stated maturity thereof or by acceleration or call for redemption or otherwise, and (2) the full and prompt payment of any interest on any Refunding Bond when and as the same shall become due. The Guaranty will remain in effect until the entire principal of and interest on the Refunding Bonds shall have been paid in full or provision for the payment thereof has been made in accordance with the Trust Indenture.

EXHIBIT A

STATE OF SOUTH CAROLINA

COUNTY OF CHESTER

TO THE STATE BUDGET AND CONTROL BOARD OF SOUTH CAROLINA	PETITION

Petition of the Board of County Directors of Chester County (the "County Board"), pursuant to Act No. 103 of the Acts of the General Assembly of the State of South Carolina for the year 1967, respectfully shows:

1. The County Board is the governing body of Chester County and was so constituted by the statute now codified as Article 2, Chapter 28, Title 14, Code of Laws of South Carolina, 1962, as amended, and as such it is the "County Board" referred to in Act No. 103 of the General Assembly enacted at the 1967 Regular Session (the "Act").

2. The Act authorizes and empowers the County Board, if it shall comply with the provisions set forth in the Act, to acquire land, buildings and other improvements deemed necessary, suitable and useful as an industrial plant; to lease the same; and to finance the acquisition of the same through the issuance of bonds payable from and secured by a pledge of the revenues to be derived from such project.

3. In furtherance of the stated purposes of the Act, the County proposes to issue approximately $35,000,000 industrial revenue bonds of the County pursuant to the Act and use their proceeds to acquire an industrial plant for the manufacture of textiles (the "Project") to be leased to Springs Mills, Inc., a South Carolina corporation (the "Lessee").

4. In connection with undertaking the Project the County Board, by resolution adopted January , 1968, has found and determined as follows:

(a) The Project will subserve the purposes of the Act;

(b) The Project will give rise to no pecuniary liability of the County or a charge against its general credit or taxing power;

(c) The amount of bonds of the County required to finance the Project is $35,000,000;

(d) The proposed Lease and Agreement obligates Lessee unconditionally to pay the amount necessary to provide the annual payments of principal and interest to become due on the Bonds and to pay other costs in connection therewith and contains an appropriate provision requiring Lessee to pay in lieu of taxes, such amounts as would otherwise be paid if Lessee owned the Project.

(e) It is not deemed advisable to establish any reserve funds in connection with the retirement of the proposed bonds and the maintenance of the Project; and

(f) The terms under which the Project is to be leasedprovide that the Lessee shall maintain the Project and carry all proper insurance with respect thereto.

5. As provided in the proposed Acquisition Contract (attached hereto) between the County Board and the Lessee, the Project shall consist of land and rights therein, industrial buildings, structures, machinery and equipment suitable for a plant for the production of sheeting containing natural or man-made fibers or blends of both and designed at full production to produce approximately 640,000 yards of sheeting per week. The Project will be located near the corporate limits of the City of Chester in Chester County.

6. The County Board has determined that the construction of the Project will have a beneficial effect upon the economy of Chester County and of the areas adjacent thereto in that, among other things, it is estimated that the Project will employ approximately 475 persons with an annual payroll of about $2,700,000 per year.

7. A reasonable estimate of the cost of the Project, including site acquisition, capitalized interest and financing costs, is $35,000,000.

8. The following is a general summary of the terms of the proposed Acquisition Contract and Lease Agreement between the County and the Lessee and of the proposed Trust Indenture securing the bonds:

Acquisition Contract. Contemporaneously with the execution of the Trust Indenture, the County will enter into an Acquisition

ontract with the Lessee substantially in the form of contract ttached hereto as Exhibit A. The Acquisition Contract will obligate he Lessee to construct the Project on a site near the corporate imits of the City of Chester, Chester County. In the Acquisition ontract, the County will agree to purchase and the Lessee will agree o sell the Project for a price equal to the actual cost thereof to he Lessee or such lesser amount as shall be available from the proceeds f the bonds. In the Acquisition Contract it will be provided that he bond proceeds, after providing for two years of interest on the onds, will be held in escrow and paid to the Lessee in installments s it incurs costs in the construction of the Project. Conveyance nd transfer of title of the Project to the County is to take place rior to or on March 31, 1969 (but in no event more than 180 days fter such date).

Lease and Agreement. Concurrently with the making of the cquisition Contract, the County and the Lessee will enter into a ease and Agreement (the "Lease") substantially in the form of agree-ent attached hereto as Exhibit B. In the Lease, the County will gree to lease and rent the Project to the Lessee and the Lessee will gree to lease and rent the same from the County. The term of the easehold estate will commence on the date on which title to the roject is conveyed and transferred to the County and will continue t least to the date of final maturity of the bonds, unless sooner

terminated as described below. The rents payable under the Lease, subject to certain credits as therein provided, will equal the payments of interest, principal and sinking fund installments due with respect to the bonds. No further payments of such rents need be made when and so long as the amount in the Bond Service Fund is sufficient to pay the interest on and principal of the bonds. Rent will be paid by the Lessee directly to the Trustee for deposit in a special trust fund (the "Bond Service Fund"). Amounts in the Bond Service Fund will be pledged pursuant to the Trust Indenture to the payment of the bonds and the interest thereon.

The Lease will provide that the Lessee will keep the Project in good repair at its own cost. The Lessee will also be required to take out and maintain at its own expense insurance against fire and certain other risks. In the event of damage to or destruction of the Project the Lessee's obligation to pay rent will not be abated in any respect, but the Lessee will be entitled to the proceeds of insurance upon completion of repairs or, at the option to the Lessee, periodically upon progress in making repairs. In the event the Project is taken or condemned under power of eminent domain in whole or in part, the Lessee's obligation to pay rent will not be abated in any respect. If it is lawful and economically feasible to repair, restore or reconstruct, the Lessee will be required at its expense to do so, but will be reimbursed for its expenses from the condemnation award, any balance of such award being paid into the Bond Service Fund;

if such is not the case, the condemnation award will be deposited in the Bond Service Fund.

At any time after the commencement of the term of the Lease but not more than 180 days subsequent to the expiration thereof, the Lessee shall have the option to purchase the Project at a purchase price equal to the amount necessary, when added to the Bond Service Fund, to retire the Bonds in accordance with the provisions of the Trust Indenture, plus $1.00.

In compliance with Section 6 of the Act, paragraph 5 of the Lease Agreement provides that the Lessee is required to make payments to the County, school district or districts, and other political units wherein the Project is located in lieu of taxes, in such amounts as would result from taxes levied on the Project by such County, districts or political units, if the Project were owned by the Lessee, but with appropriate reductions similar to the tax exemptions, if any, which would be afforded to the Lessee if it were the owner of the Project. The basis for such payment of sums in lieu of taxes as required by the Act is stated in said paragraph 5 of the Lease Agreement attached hereto and reference is made thereto.

Trust Indenture. The Trust Indenture authorizing and providing for the issuance of the bonds will be entered into by the County substantially in the form of indenture attached hereto as Exhibit C. Under the Trust Indenture the bonds are secured by a pledge of all revenues from or in connection with the Project, including

all moneys received under the Lease Agreement required to be paid into the Bond Service Fund. Neither the bonds nor the interest coupons appertaining thereto will constitute an indebtedness of the County within the meaning of any provision of the State Constitution or any statutory limitation, and will never constitute or give rise to a pecuniary liability of the County or a charge against its general credit or taxing powers.

In addition to the bonds to be initially issued, the Trust Indenture will authorize a limited principal amount of additional parity bonds to finance enlargements, improvements or expansions of the Project. The Trust Indenture also provides for the establishment of an Escrow Fund pursuant to the Acquisition Contract, the deposit therein of bond proceeds, their disbursement and the investment thereof. It establishes a Bond Service Fund and provides for the payment therefrom of amounts necessary for principal of and interest on the bonds when due. The Trust Indenture contains customary covenants on the part of the County with respect to payment of principal and interest, inspection of Project books, and related matters, as well as customary provisions for bondholders' remedies, trustees' duties and amendment of the Trust Indenture.

Upon the basis of the foregoing, the County Board respectfully prays,

THAT the State Board accept the filing of the petition presented herewith; that as soon as practicable, it make its independent

C E R T I F I C A T E

I, CHARLES W. McTEER, certify that the foregoing form of Petition to the State Budget and Control Board of South Carolina (a) s the same as the form of such document submitted to the Board of County Directors at its January 2, 1968 meeting and referred to in he Resolutions adopted by the Board at such meeting and (b) is the ame as the form of such document submitted to the State Budget and Control Board of South Carolina on January 3, 1968.

Charles W. McTeer
County Attorney

stigation of the Project and the terms and provisions of the isition Contract, the Lease and Agreement, and the Trust nture as it deems advisable, and that thereafter it finds the proposed Project will promote the purposes of the Act; it is reasonably anticipated to effect such result, and that pproves the Project on the basis of such findings and author- a published notice of its approval in the manner set forth in on 14 of the Act.

Respectfully submitted,

BOARD OF COUNTY DIRECTORS
OF CHESTER COUNTY

By ______________________________
Chairman

)

t:

____
Secretary

C E R T I F I C A T E

I, J. B. McDowell, certify that the foregoing form of ion to the State Budget and Control Board of South Carolina e same as the form of such document submitted to the Board unty Directors at its January 2, 1968 meeting and referred the Resolutions adopted by the Board at such meeting.

____
J. B. McDowell
Secretary

RESOLUTION

EXHIBIT B

STATE OF SOUTH CAROLINA BUDGET AND CONTROL BOARD

WHEREAS, the Board of County Directors of Chester County (the County Board) has petitioned the State Budget and Control Board of South Carolina (the State Board) seeking the approval of the State Board to an undertaking by the County Board pursuant to Act No. 103 of the General Assembly of the State of South Carolina for 1967 (the Act); and

WHEREAS, the proposed undertaking consists of the acquisition from Springs Mills, Inc. (Springs) of a parcel of land, aggregating approximately 140 acres in Chester County, located at the intersection of South Carolina Road No. 9 and No. 12-56, together with an industrial building, machinery and equipment located thereon and designed to produce at full production approximately 640,000 yards of sheeting per week, (the Project); and

WHEREAS, the Project will employ approximately 475 persons with an annual payroll of about $2,700,000; and

WHEREAS, the Project is to be leased to Springs at a rental sufficient to provide for the payment of the bonds of Chester County hereafter referred to, and costs and expenses resulting from the issuance thereof, and

WHEREAS, in order to finance the Project, the County Board proposes to provide for an issue of $35,000,000 Industrial Revenue Bonds (Textile Series 1968) payable from the rentals derived from

Springs and additionally secured by a Trust Indenture; and

WHEREAS, drafts of the Acquisition Contract, Lease and Agreement, and Trust Indenture between Chester County and Springs have been submitted and considered by this Board,

NOW THEREFORE, BE IT RESOLVED BY THE STATE BUDGET AND CONTROL BOARD IN MEETING DULY ASSEMBLED:

1. It has been found and determined by the State Board:

(a) That the statement of facts set forth in the recitals of this Resolution are in all respects true and correct,

(b) That the County Board has filed a proper petition to the State Board establishing a reasonable estimate of the cost of the Project, a general summary of the terms and conditions of the Acquisition Contract, Lease and Agreement, and Trust Indenture to be made by the County Board and has established that Springs will pay as additional rentals, in lieu of taxes, the sums prescribed by Section 6 of the Act,

(c) That the Project will provide employment in its operation, and will be of benefit to Chester County and adjoining areas,

(d) That the Project is intended to promote the purposes of the Act and is reasonably anticipated to effect such results.

2. On the basis of the foregoing findings, the proposed ndertaking of the County Board to acquire the Project, to lease he same to Springs and to finance the cost thereof through the ssuance of Bonds payable from the revenues to be derived from the peration of the Project and additionally secured by the said Trust Indenture, be and the same is hereby approved.

3. Notice of the action of the State Board in giving approval to the undertaking of Chester County above-described shall be published in the Chester News, which is a newspaper having general circulation in Chester County.

4. The notice to be published shall be in form substantially as set forth as Exhibit A. of this Resolution.

Exhibit C

SUMMARY OF DOCUMENTS

Following is a summary of the Escrow Agreement, Lease and Agreement, Trust Indenture and Guaranty Agreement referred to in the Petition to which this Exhibit is attached. Terms defined in the Petition will be used herein with the same meaning.

Escrow Agreement: Pursuant to the Escrow Agreement among the County, Springs and a bank or trust company to be designated (the "Escrow Agent"), the County will deposit the proceeds from the sale of the Refunding Bonds with the Escrow Agent to be used to purchase the Federal Securities and to be held as uninvested cash. The uninvested cash, the Federal Securities, as the same mature, and the income and interest earned thereon will be sufficient, and will be applied by the Escrow Agent, to pay the principal of and interest on the Outstanding Bonds as the same become due.

The Escrow Agent shall have no power to sell, transfer, otherwise dispose of or request the redemption of the Federal Securities or to substitute therefor any other obligations. The escrow created pursuant to the Escrow Agreement shall be irrevocable and the holders of the Outstanding Bonds shall have an express lien on all moneys and Federal Securities held by the Escrow Agent until paid in accordance with the Escrow Agreement. The escrow Agreement shall terminate when all of the Outstanding Bonds and coupons appertaining thereto have been paid in accordance with the provisions of the Escrow Agreement. If any Outstanding Bonds

or coupons are not presented for payment when due and payable, the nonpayment thereof shall not prevent the termination of the Escrow Agreement. All moneys or Federal Securities held in escrow at termination and not needed for the payment of the principal of or interest on any of the Outstanding Bonds shall be transferred to Springs.

Lease and Agreement: The County and Springs will either (i) enter into a leasing arrangement (the "Lease") or (ii) amend the Lease and Agreement presently existing between the County and Springs and referred to in Exhibit A to the petition (the "Outstanding Lease"). In either event, the County will agree to lease and rent the Project to Springs and Springs will agree to lease and rent the same from the County. If the Lease is entered into, it will become effective upon delivery and the Lease term shall commence upon the termination of the Outstanding Lease, but in no event later than March 1, 1993. Alternatively, the Outstanding Lease may be amended to extend its term. In either event, the leasing arrangement will continue at least to the date of final maturity of the Refunding Bonds, unless sooner terminated as described below.

The rents payable under the Lease or the amended Outstanding Lease, (hereinafter collectively referred to as the "Lease and Agreement"), subject to certain credits as therein provided, will equal the payments of interest, principal and sinking fund installments due with respect to the Refunding Bonds. No further payments of such rents need be made when and so long as the amount in the Bond Fund, established pursuant to the Trust Indenture, is sufficient to pay the interest on

and principal of the Refunding Bonds. Rent will be paid by Springs directly to the Trustee.

The Lease and Agreement will provide that Springs will keep the Project in good repair at its own cost. Springs will also be required to take out and maintain at its own expense insurance against fire and certain other risks. In the event of damage to or destruction of the Project, or if the Project is taken or condemned under power of eminent domain in whole or in part, Springs' obligation to pay rent will not be abated in any respect. Any proceeds received in such events will be used to repair, restore, relocate, modify or improve the Project or to redeem the Refunding Bonds.

Under the Lease and Agreement, Springs shall have the option to purchase the Project: (1) under certain conditions that allow the Refunding Bonds to be redeemed; or (2) at any time after the full payment of the Refunding Bonds, or after provision for the payment thereof has been made.

In case of purchase of the Project pursuant to (1) above, the purchase price will be a sum sufficient to redeem all Refunding Bonds then outstanding and to pay all reasonable and necessary fees and expenses of the Trustee and any paying agent accrued and to accrue through final payment of the Refunding Bonds. In case of purchase of the Project pursuant to (2) above, the purchase price shall not exceed $100.00.

In compliance with Section 6 of the Act, the Lease and Agreement provides that Springs is required to make

payments to the County, school district or districts, and other political units wherein the Project is located in lieu of taxes, in such amounts as would result from taxes levied on the Project by such County, districts or political units, if the Project were owned by Springs, but with appropriate reductions similar to the tax exemptions, if any, which would be afforded to Springs if it were the owner of the Project. The County agrees to cause the Project to be valued, rates applied to such values and statements of such to be sent to Springs as if the Project were so owned by Springs. Springs agrees to pay all such payments in lieu of taxes as long as required by law.

Trust Indenture: The Trust Indenture authorizing and providing for the issuance of the Refunding Bonds will be entered into by the County and a bank or trust company to be designated (the "Trustee").

Under the Trust Indenture, all of the income and revenues derived by the County under the Lease and Agreement from the lease of the Project or from the sale or other disposition of the Project are pledged for the payment of the principal of and interest on the Refunding Bonds.

A Bond Fund, into which the rental payments derived under the Lease and Agreement and certain other amounts specified in the Indenture will be deposited, will be maintained with the Trustee. While any Refunding Bonds are outstanding, moneys in the Bond Fund will be used solely for the payment of the principal, premium, if any, and interest on the Refunding Bonds and for the redemption or purchase for cancellation of Refunding Bonds prior to maturity.

Neither the Refunding Bonds nor the interest coupons appertaining thereto will constitute an indebtedness of the County within the meaning of any provisions of the State Constitution or any statutory limitation, and will never constitute or give rise to a pecuniary liability of the County or a charge against its general credit or taxing powers.

The Trust Indenture contains customary covenants on the part of the County with respect to payment of principal and interest, inspection of Project books, and related matters, as well as customary provisions for bondholders' remedies, trustees' duties and amendment of the Trust Indenture.

The Guaranty: Pursuant to the Guaranty, Springs will unconditionally guarantee to the Trustee for the benefit of the holders of the Refunding Bonds and the interest coupons appertaining thereto (1) the full and prompt payment of the principal of, and premium, if any, on any Refunding Bond when and as the same shall become due, whether at the stated maturity thereof or by acceleration or call for redemption or otherwise, and (2) the full and prompt payment of any interest on any Refunding Bond when and as the same shall become due. The Guaranty will remain in effect until the entire principal of and interest on the Refunding Bonds shall have been paid in full or provision for the payment thereof has been made in accordance with the Trust Indenture.

<u>C E R T I F I C A T I O N</u>

I, Dan M. Byrd, Jr., Secretary of Springs Mills, Inc., hereby certify that the following resolutions were duly adopted at a meeting of the Board of Directors of Springs Mills, Inc. held on October 27, 1977, at which a majority of the members of the Board were present, that the resolutions are incorporated in the permanent records of the meeting, and that the following is a true and correct copy thereof:

RESOLVED: That the appropriate officers of the Company are authorized to agree with the County Council of Chester County for the issuance of refunding revenue bonds to provide funds for the refunding of the outstanding bonds of the $35,000,000 Chester County, South Carolina Industrial Revenue Bonds (Textile Series 1968), such issue of refunding revenue bonds to be in a principal amount of approximately $25 million and to include such terms, rate of interest, and other provisions as the Executive Committee of this Board may deem proper; and,

RESOLVED FURTHER: That in the event such officers agree with the Chester County Council as aforesaid, such officers are authorized to enter into a leasing arrangement with Chester County pursuant to which the Katherine Plant would continue to be leased by the Company from Chester County at semi-annual rental payments in amounts equal to the maturing installments of principal of and interest on such refunding revenue bonds (such leasing arrangement to contain an option permitting the Company to purchase such plant at a price not to exceed $100 when the refunding revenue bonds shall have been paid), and to assume such other obligations as are required by the provisions of The South Carolina Industrial Revenue Bond Act of 1967, [Code of Laws of South Carolina, 1976, §4-29-10 <u>et seq</u>]; and,

RESOLVED FURTHER: That such officers of the Company are authorized to proceed with the preparation and execution of such documents and papers as counsel may deem necessary or advisable in connection with the foregoing transaction and, to do any and all other acts and things and to execute personally or by attorney any and all other documents which they may deem necessary or advisable in connection with the foregoing.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of Springs Mills, Inc., this 31st day of October, 1977.

Dan M. Byrd, Jr.
Secretary

(Corporate Seal)

WHEREAS the State of South Carolina has determined by Act No. 103 of the General Assembly of the State of South Carolina for 1967 (the "Act") [Code of Laws of South Carolina, 1976, §4-29-10 et seq] that it is in the public interest to utilize industrial revenue bond financing to induce manufacturing enterprises to locate and to remain in the State and to authorize the refunding of any such industrial revenue bonds issued under the Act; and,

WHEREAS in 1968 Chester County (the "County") issued its Industrial Revenue Bonds (Textile Series 1968) (the "Outstanding Bonds") in the principal amount of $35,000,000 to finance the construction and equipping of an industrial plant for the manufacture of textiles, known as the Katherine Plant, which Plant thereafter was leased to Springs Mills, Inc. ("Springs") and the operation of which thereby provided employment to approximately 650 inhabitants of the State; and,

WHEREAS lease payments to date made by Springs have provided funds for the reduction of the principal amount of such Outstanding Bonds from $35,000,000 to the presently outstanding amount of $25,325,000; and,

WHEREAS Section 11 of the Act [Code of Laws of South Carolina, 1976, §4-29-110] provides that any industrial revenue bonds issued under the Act may be refunded by any county issuing same, but only with the approval of the State Budget and Control Board being first obtained, by the issuance by any such county of its refunding bonds in such amount as the county board of such county may deem necessary, but not exceeding an amount sufficient to refund the principal of the bonds to be refunded together with any unpaid interest thereon and any premiums, expenses, and commissions necessary to be paid in connection therewith; and,

WHEREAS Springs has sought the agreement of the County Council of the County to issue Industrial Revenue Refunding Bonds (the "Refunding Bonds") in an amount sufficient to refund the principal of the Outstanding Bonds (together with any unpaid interest thereon and any premiums, expenses, and commissions necessary to be paid in connection therewith), presently estimated to be $25,000,000; to enter into a leasing arrangement pursuant to which the Katherine Plant would continue to be leased by Springs at semi-annual rental payments in amounts equal to the maturing installments of principal of and interest on the Refunding Bonds (such leasing arrangement to contain an option permitting Springs to purchase the Katherine Plant at a price not to exceed $100 when the Refunding Bonds shall have been paid); and, to assume such other obligations as are required by the provisions of the Act; and,

WHEREAS the proceeds from the issuance of such Refunding Bonds will be used to purchase United States Treasury Certificates of Indebtedness, Notes and Bonds--State and Local Government Series (the "Federal Securities") which will be held in escrow and irrevocably pledged to the payment of principal and interest on the Outstanding Bonds as such principal and interest become due and payable in accordance with the terms thereof; and,

WHEREAS it is appropriate at this time to authorize the filing of a petition on behalf of the County Council of the County in connection with the proposed issuance of the Refunding Bonds to provide funds for the refunding of the Outstanding Bonds, together with any unpaid interest and expenses and commissions necessary to be paid in connection therewith.

NOW, THEREFORE, BE IT RESOLVED by the County Council of Chester County, South Carolina, as follows:

(1) It is hereby found and determined as follows:

(a) The issuance of the Refunding Bonds is in the public interest and for a public purpose and will subserve the purposes of the Act;

(b) The Refunding Bonds will give rise to no pecuniary liability of the County or a charge against its general credit or taxing power;

(c) The Refunding Bonds will be issued in an amount sufficient to refund the principal of the Outstanding Bonds (together with any unpaid interest thereon and any premiums, expenses, and commissions necessary to be paid in connection therewith), presently estimated to be $25,000,000;

(d) Refunding of the Outstanding Bonds will be in the best interests of the holders of such Bonds in that the Federal Securities (and interest earned thereon) will be held in escrow and irrevocably pledged to the payment of the principal and interest on such Bonds as such principal and interest become due and payable in accordance with the terms of such Bonds;

(e) The proposed leasing arrangement will obligate Springs unconditionally to pay the amount necessary to provide the annual payments of principal and interest to become due on the Refunding Bonds, and to pay other costs in connection therewith, and will contain an appropriate provision requiring Springs to pay, in lieu of taxes, such amounts as would otherwise be paid if Springs owned the Katherine Plant;

(f) It is not deemed advisable to establish any reserve funds in connection with the retirement of the Refunding Bonds and the maintenance of the Katherine Plant; and,

(g) The terms under which the Katherine Plant is to be leased to Springs will provide that Springs shall maintain the Katherine Plant and carry all proper insurance with respect thereto.

(2) The petition on behalf of the County Council to the State Budget and Control Board of South Carolina, in substantially the form submitted to this meeting, is hereby approved, with such modifications, additions, or deletions therein as may be approved by the County Attorney; and, the Chairman and the Secretary are each hereby authorized to execute such petition and to cause the same to be filed with such State Board and to do such other acts and things as may be necessary or desirable in connection therewith.

(3) The Chairman and the Secretary are each authorized to proceed with the preparation and/or execution of such additional documents and papers as, in the opinion of the County Attorney, may be necessary or advisable in connection with the transactions above set forth and to do any and all other acts and things which they may deem necessary or advisable in connection with the foregoing.

Director Marion M. Thomas offered the above resolution, and his motion was duly seconded by Director L. W. Pittman and was unanimously adopted by the members of the County Council.

J. M. Martin
Chairman

CERTIFICATION

I hereby certify that the foregoing Resolution was duly adopted at a meeting of the County Council of Chester County, South Carolina, held on October 31, 1977, at which meeting all members were present; that the original Resolution is incorporated in the permanent records of said meeting; and, that the foregoing is a true and correct copy thereof.

October 31, 1977

R. Carlisle Roddey
Secretary

STATE OF SOUTH CAROLINA

COUNTY OF CHESTER

TO THE STATE BUDGET AND CONTROL BOARD OF SOUTH CAROLINA	PETITION

Petition of the County Council of Chester County ("the County Council" and the "County", respectively) pursuant to Act No. 103 of the Acts of the General Assembly of the State of South Carolina for the year 1967 (the "Act") [Code of Laws of South Carolina, 1976, §4-29-10, et seq], respectfully shows:

1. The County Council is the governing body of Chester County and was so constituted by Articles 1 and 7 of Chapter 9, Title 4, Code of Laws of South Carolina, 1976 [Code of Laws §4-1-10 et seq and §4-9-610 et seq], and as such it is the "County Board" referred to in the Act. Code of Laws §4-29-10(2).

2. The Act authorizes and empowers the County Council, if it shall comply with the provisions set forth in the Act, to acquire land, buildings, and other improvements deemed necessary, suitable, and useful as an industrial plant; to lease the same; and, to finance the acquisition of the same through the issuance of bonds payable from and secured by a pledge of the revenues to be derived from such project.

3. In furtherance of the stated purposes of the Act and in compliance with the provisions of the Act, the County, in 1968, issued $35,000,000 Industrial Revenue Bonds (Textile Series 1968) (the "Outstanding Bonds") pursuant to the Act and used the proceeds from such issue to acquire an industrial plant, known as the Katherine Plant, for the manufacture of textiles (the "Project"); the Project was then leased to Springs Mills, Inc., a South Carolina corporation ("Springs").

4. In connection with undertaking the Project, the County Council (formerly styled by laws as the Board of County Directors), by resolution adopted January 2, 1968, authorized the filing of its Petition to the State Budget and Control Board ("State Board") for approval of the Project, as required by the Act which petition included a brief description of the Project and its anticipated effect upon the economy of the County and a reasonable estimate of the cost of the Project, a copy of which petition is attached hereto as Exhibit A and incorporated herein by reference. On January 9, 1968, the State Board, by resolution, gave its approval to the Project, to the lease of the Project to Springs, and to the financing of the Project by the issuance by the County of the Outstanding Bonds, which resolution is attached hereto as Exhibit B and incorporated herein by reference.

5. Pursuant to the terms of the lease between Springs and the County, Springs has made lease payments which have

provided funds for the reduction of the principal amount of $35,000,000 of the Outstanding Bonds to the presently outstanding amount of $25,325,000, which amount is the amount of the Outstanding Bonds to be refunded.

6. The Act provides that any bonds issued thereunder may, at any time, be refunded by any county issuing same, but only with the prior approval of the State Board, by the issuance by any such county of its refunding bonds in such amount as the county board of such county may deem necessary but not exceeding an amount sufficient to refund the principal of the bonds to be refunded, together with any unpaid interest thereon and any premiums, expenses, and commissions necessary to be paid in connection therewith. The Act further provides that any such refunding may be effected, whether the bonds to be refunded have matured or shall thereafter mature, by the sale of the refunding bonds and the application of the proceeds for the payment of the bonds to be refunded. Code of Laws §4-29-110.

7. Pursuant to the Act, the County Council proposes to issue its Industrial Revenue Refunding Bonds (the "Refunding Bonds") in an amount sufficient to refund the principal of the Outstanding Bonds (together with any unpaid interest thereon and any premiums, expenses, and commissions necessary to be paid in connection therewith), presently estimated to be $25,000,000 (such amount cannot be

fixed precisely until an interest rate on the Refunding Bonds has been determined and agreed to by the County Council). In general terms, such refunding will be accomplished by the issuance by the County of the Refunding Bonds and the deposit, for investment and use as hereinafter described, of the proceeds thereof, net of expenses and commissions necessary to be paid in connection with the issuance of the Refunding Bonds, in an irrevocable escrow deposit fund created pursuant to an escrow deposit agreement (the "Escrow Agreement"). The funds deposited in the escrow deposit fund, except for a small amount of cash, will be used to purchase United States Treasury Certificates of Indebtedness, Notes and Bonds -- State and Local Government Series ("Federal Securities"). The Federal Securities, together with the interest to be paid thereon, and the balance of the sum deposited, will be sufficient to pay the interest on the Outstanding Bonds as the same shall become due to and including the maturity (or mandatory sinking fund) dates, and to pay the principal of (whether at maturity or upon mandatory sinking fund redemption) the Outstanding Bonds on such maturity (or mandatory sinking fund) dates.

8. The Refunding Bonds will be issued by the County pursuant to a trust indenture (the "Trust Indenture"),

under the terms of which the Refunding Bonds will be secured by a pledge of all revenues derived by the County from the sale, lease, or other disposition of the Project pursuant to a leasing arrangement (the "Lease and Agreement") with Springs, which Lease and Agreement will require semi-annual rental payments in amounts equal to the maturing installments of principal of and interest on the Refunding Bonds. Neither the Refunding Bonds nor the interest coupons appertaining thereto will constitute an indebtedness of the County within the meaning of any provision of the State Constitution or any statutory limitation, and will never constitute or give rise to a pecuniary liability of the County or a charge against its general credit or taxing powers.

9. In connection with the issuance of the Refunding Bonds, the County Council, by resolution adopted October 31, 1977, has found and determined as follows:

(a) The issuance of the Refunding Bonds is in the public interest and for a public purpose and will subserve the purposes of the Act;

(b) The Refunding Bonds will give rise to no pecuniary liability of the County or a charge against its general credit or taxing power;

(c) The Refunding Bonds will be issued in an amount sufficient to refund the principal of the Outstanding Bonds (together with any unpaid interest thereon and any premiums, expenses, and commissions necessary to be paid in connection therewith), presently estimated to be $25,000,000;

(d) Refunding of the Outstanding Bonds will be in the best interests of the holders of such Bonds in that the Federal Securities (and interest earned thereon) will be held in escrow and irrevocably pledged to the payment of the principal and interest on such Bonds as such principal and interest become due and payable in accordance with the terms of such Bonds;

(e) The proposed leasing arrangement will obligate Springs unconditionally to pay the amount necessary to provide the annual payments of principal and interest to become due on the Refunding Bonds, and to pay other costs in connection therewith, and will contain an appropriate provision requiring Springs to pay, in lieu of taxes, such amounts as would otherwise be paid if Springs owned the Katherine Plant;

(f) It is not deemed advisable to establish any reserve funds in connection with the retirement of the Refunding Bonds and the maintenance of the Katherine Plant; and,

(g) The terms under which the Katherine Plant is to be leased to Springs will provide that Springs shall maintain the Katherine Plant and carry all proper insurance with respect thereto.

10. A general summary of the terms of the proposed Escrow Agreement, the Lease and Agreement, the Trust Indenture, and a Guaranty Agreement from Springs to the trustee under the Trust Indenture guaranteeing payment of principal of and interest on the Refunding Bonds, is attached hereto as Exhibit C and incorporated herein by reference.

Upon the basis of the foregoing, the County Council respectfully prays:

THAT the State Board accept the filing of the Petition presented herewith; that, as soon as practicable, it make its independent investigation of the proposed refunding and of the terms and provisions of the Escrow Agreement, the Lease and Agreement, and the Trust Indenture, and the Guaranty Agreement as it deems advisable; and, that thereafter it find that the proposed refunding will promote the purposes of the Act, that it is reasonably anticipated to effect such result, and that it approve the refunding on the basis of such findings and authorize a published notice of its approval in the manner set forth in Section 14 of the Act. Code of Laws §4-29-140.

Respectfully submitted,

COUNTY COUNCIL OF CHESTER COUNTY

By J J Martin

Chairman

[Seal]

Attest:

R. Carlisle Roddey

Secretary

EXHIBIT A

STATE OF SOUTH CAROLINA

COUNTY OF CHESTER

TO THE STATE BUDGET AND CONTROL BOARD OF SOUTH CAROLINA	PETITION

Petition of the Board of County Directors of Chester County (the "County Board"), pursuant to Act No. 103 of the Acts of the General Assembly of the State of South Carolina for the year 1967, respectfully shows:

1. The County Board is the governing body of Chester County and was so constituted by the statute now codified as Article 2, Chapter 25, Title 14, Code of Laws of South Carolina, 1962, as amended, and as such it is the 'County Board" referred to in Act No. 103 of the General Assembly enacted at the 1967 Regular Session (the "Act").

2. The Act authorizes and empowers the County Board, if it shall comply with the provisions set forth in the Act, to acquire land, buildings and other improvements deemed necessary, suitable and useful as an industrial plant; to lease the same; and to finance the acquisition of the same through the issuance of bonds payable from and secured by a pledge of the revenues to be derived from such project.

3. In furtherance of the stated purposes of the Act, the County proposes to issue approximately $35,000,000 industrial revenue bonds of the County pursuant to the Act and use their proceeds to acquire an industrial plant for the manufacture of textiles (the "Project") to be leased to Springs Mills, Inc., a South Carolina corporation (the "Lessee").

4. In connection with undertaking the Project the County Board, by resolution adopted January , 1968, has found and determined as follows:

(a) The Project will subserve the purposes of the Act;

(b) The Project will give rise to no pecuniary liability of the County or a charge against its general credit or taxing power;

(c) The amount of bonds of the County required to finance the Project is $35,000,000;

(d) The proposed Lease and Agreement obligates Lessee unconditionally to pay the amount necessary to provide the annual payments of principal and interest to become due on the Bonds and to pay other costs in connection therewith and contains an appropriate provision requiring Lessee to pay in lieu of taxes, such amounts as would otherwise be paid if Lessee owned the Project.

(e) It is not deemed advisable to establish any reserve funds in connection with the retirement of the proposed bonds and the maintenance of the Project; and

(f) The terms under which the Project is to be leasedprovide that the Lessee shall maintain the Project and carry all proper insurance with respect thereto.

5. As provided in the proposed Acquisition Contract (attached hereto) between the County Board and the Lessee, the Project shall consist of land and rights therein, industrial buildings, structures, machinery and equipment suitable for a plant for the production of sheeting containing natural or man-made fibers or blends of both and designed at full production to produce approximately 640,000 yards of sheeting per week. The Project will be located near the corporate limits of the City of Chester in Chester County.

6. The County Board has determined that the construction of the Project will have a beneficial effect upon the economy of Chester County and of the areas adjacent thereto in that, among other things, it is estimated that the Project will employ approximately 475 persons with an annual payroll of about $2,700,000 per year.

7. A reasonable estimate of the cost of the Project, including site acquisition, capitalized interest and financing costs, is $35,000,000.

8. The following is a general summary of the terms of the proposed Acquisition Contract and Lease Agreement between the County and the Lessee and of the proposed Trust Indenture securing the bonds:

Acquisition Contract. Contemporaneously with the execution of the Trust Indenture, the County will enter into an Acquisition

ontract with the Lessee substantially in the form of contract ttached hereto as Exhibit A. The Acquisition Contract will obligate he Lessee to construct the Project on a site near the corporate imits of the City of Chester, Chester County. In the Acquisition ontract, the County will agree to purchase and the Lessee will agree o sell the Project for a price equal to the actual cost thereof to he Lessee or such lesser amount as shall be available from the proceeds f the bonds. In the Acquisition Contract it will be provided that he bond proceeds, after providing for two years of interest on the onds, will be held in escrow and paid to the Lessee in installments s it incurs costs in the construction of the Project. Conveyance nd transfer of title of the Project to the County is to take place rior to or on March 31, 1969 (but in no event more than 180 days fter such date).

Lease and Agreement. Concurrently with the making of the cquisition Contract, the County and the Lessee will enter into a ease and Agreement (the "Lease") substantially in the form of agree- ent attached hereto as Exhibit B. In the Lease, the County will gree to lease and rent the Project to the Lessee and the Lessee will gree to lease and rent the same from the County. The term of the easehold estate will commence on the date on which title to the roject is conveyed and transferred to the County and will continue t least to the date of final maturity of the bonds, unless sooner

terminated as described below. The rents payable under the Lease, subject to certain credits as therein provided, will equal the payments of interest, principal and sinking fund installments due with respect to the bonds. No further payments of such rents need be made when and so long as the amount in the Bond Service Fund is sufficient to pay the interest on and principal of the bonds. Rent will be paid by the Lessee directly to the Trustee for deposit in a special trust fund (the "Bond Service Fund"). Amounts in the Bond Service Fund will be pledged pursuant to the Trust Indenture to the payment of the bonds and the interest thereon.

The Lease will provide that the Lessee will keep the Project in good repair at its own cost. The Lessee will also be required to take out and maintain at its own expense insurance against fire and certain other risks. In the event of damage to or destruction of the Project the Lessee's obligation to pay rent will not be abated in any respect, but the Lessee will be entitled to the proceeds of insurance upon completion of repairs or, at the option to the Lessee, periodically upon progress in making repairs. In the event the Project is taken or condemned under power of eminent domain in whole or in part, the Lessee's obligation to pay rent will not be abated in any respect. If it is lawful and economically feasible to repair, restore or reconstruct, the Lessee will be required at its expense to do so, but will be reimbursed for its expenses from the condemnation award, any balance of such award being paid into the Bond Service Fund;

if such is not the case, the condemnation award will be deposited in the Bond Service Fund.

At any time after the commencement of the term of the Lease but not more than 180 days subsequent to the expiration thereof, the Lessee shall have the option to purchase the Project at a purchase price equal to the amount necessary, when added to the Bond Service Fund, to retire the Bonds in accordance with the provisions of the Trust Indenture, plus $1.00.

In compliance with Section 6 of the Act, paragraph 5 of the Lease Agreement provides that the Lessee is required to make payments to the County, school district or districts, and other political units wherein the Project is located in lieu of taxes, in such amounts as would result from taxes levied on the Project by such County, districts or political units, if the Project were owned by the Lessee, but with appropriate reductions similar to the tax exemptions, if any, which would be afforded to the Lessee if it were the owner of the Project. The basis for such payment of sums in lieu of taxes as required by the Act is stated in said paragraph 5 of the Lease Agreement attached hereto and reference is made thereto.

Trust Indenture. The Trust Indenture authorizing and providing for the issuance of the bonds will be entered into by the County substantially in the form of indenture attached hereto as Exhibit C. Under the Trust Indenture the bonds are secured by a pledge of all revenues from or in connection with the Project, including

all moneys received under the Lease Agreement required to be paid into the Bond Service Fund. Neither the bonds nor the interest coupons appertaining thereto will constitute an indebtedness of the County within the meaning of any provision of the State Constitution or any statutory limitation, and will never constitute or give rise to a pecuniary liability of the County or a charge against its general credit or taxing powers.

In addition to the bonds to be initially issued, the Trust Indenture will authorize a limited principal amount of additional parity bonds to finance enlargements, improvements or expansions of the Project. The Trust Indenture also provides for the establishment of an Escrow Fund pursuant to the Acquisition Contract, the deposit therein of bond proceeds, their disbursement and the investment thereof. It establishes a Bond Service Fund and provides for the payment therefrom of amounts necessary for principal of and interest on the bonds when due. The Trust Indenture contains customary covenants on the part of the County with respect to payment of principal and interest, inspection of Project books, and related matters, as well as customary provisions for bondholders' remedies, trustees' duties and amendment of the Trust Indenture.

Upon the basis of the foregoing, the County Board respectfully prays,

THAT the State Board accept the filing of the petition presented herewith; that as soon as practicable, it make its independent

CERTIFICATE

I, CHARLES W. McTEER, certify that the foregoing form of Petition to the State Budget and Control Board of South Carolina (a) s the same as the form of such document submitted to the Board of County Directors at its January 2, 1968 meeting and referred to in ne Resolutions adopted by the Board at such meeting and (b) is the ame as the form of such document submitted to the State Budget and ontrol Board of South Carolina on January 3, 1968.

Charles W. McTeer

Charles W. McTeer
County Attorney

stigation of the Project and the terms and provisions of the sition Contract, the Lease and Agreement, and the Trust ture as it deems advisable, and that thereafter it finds the proposed Project will promote the purposes of the Act; it is reasonably anticipated to effect such result, and that proves the Project on the basis of such findings and author- a published notice of its approval in the manner set forth in on 14 of the Act.

Respectfully submitted,

BOARD OF COUNTY DIRECTORS
OF CHESTER COUNTY

By ______________________
Chairman

)

t:

____
Secretary

C E R T I F I C A T E

I, J. B. McDowell, certify that the foregoing form of ion to the State Budget and Control Board of South Carolina e same as the form of such document submitted to the Board unty Directors at its January 2, 1968 meeting and referred the Resolutions adopted by the Board at such meeting.

____
J. B. McDowell
Secretary

RESOLUTION

EXHIBIT B

STATE OF SOUTH CAROLINA BUDGET AND CONTROL BOARD

WHEREAS, the Board of County Directors of Chester County (the County Board) has petitioned the State Budget and Control Board of South Carolina (the State Board) seeking the approval of the State Board to an undertaking by the County Board pursuant to Act No. 103 of the General Assembly of the State of South Carolina for 1967 (the Act); and

WHEREAS, the proposed undertaking consists of the acquisition from Springs Mills, Inc. (Springs) of a parcel of land, aggregating approximately 140 acres in Chester County, located at the intersection of South Carolina Road No. 9 and No. 12-56, together with an industrial building, machinery and equipment located thereon and designed to produce at full production approximately 640,000 yards of sheeting per week, (the Project); and

WHEREAS, the Project will employ approximately 475 persons with an annual payroll of about $2,700,000; and

WHEREAS, the Project is to be leased to Springs at a rental sufficient to provide for the payment of the bonds of Chester County hereafter referred to, and costs and expenses resulting from the issuance thereof, and

WHEREAS, in order to finance the Project, the County Board proposes to provide for an issue of $35,000,000 Industrial Revenue Bonds (Textile Series 1968) payable from the rentals derived from

Springs and additionally secured by a Trust Indenture; and

WHEREAS, drafts of the Acquisition Contract, Lease and Agreement, and Trust Indenture between Chester County and Springs have been submitted and considered by this Board,

NOW THEREFORE, BE IT RESOLVED BY THE STATE BUDGET AND CONTROL BOARD IN MEETING DULY ASSEMBLED:

1. It has been found and determined by the State Board:

(a) That the statement of facts set forth in the recitals of this Resolution are in all respects true and correct,

(b) That the County Board has filed a proper petition to the State Board establishing a reasonable estimate of the cost of the Project, a general summary of the terms and conditions of the Acquisition Contract, Lease and Agreement, and Trust Indenture to be made by the County Board and has established that Springs will pay as additional rentals, in lieu of taxes, the sums prescribed by Section 6 of the Act,

(c) That the Project will provide employment in its operation, and will be of benefit to Chester County and adjoining areas,

(d) That the Project is intended to promote the purposes of the Act and is reasonably anticipated to effect such results.

2. On the basis of the foregoing findings, the proposed undertaking of the County Board to acquire the Project, to lease the same to Springs and to finance the cost thereof through the issuance of Bonds payable from the revenues to be derived from the operation of the Project and additionally secured by the said Trust Indenture, be and the same is hereby approved.

3. Notice of the action of the State Board in giving approval to the undertaking of Chester County above-described shall be published in the <u>Chester News</u>, which is a newspaper having general circulation in Chester County.

4. The notice to be published shall be in form substantially as set forth as Exhibit A. of this Resolution.

Exhibit C

SUMMARY OF DOCUMENTS

Following is a summary of the Escrow Agreement, Lease and Agreement, Trust Indenture and Guaranty Agreement referred to in the Petition to which this Exhibit is attached. Terms defined in the Petition will be used herein with the same meaning.

Escrow Agreement: Pursuant to the Escrow Agreement among the County, Springs and a bank or trust company to be designated (the "Escrow Agent"), the County will deposit the proceeds from the sale of the Refunding Bonds with the Escrow Agent to be used to purchase the Federal Securities and to be held as uninvested cash. The uninvested cash, the Federal Securities, as the same mature, and the income and interest earned thereon will be sufficient, and will be applied by the Escrow Agent, to pay the principal of and interest on the Outstanding Bonds as the same become due.

The Escrow Agent shall have no power to sell, transfer, otherwise dispose of or request the redemption of the Federal Securities or to substitute therefor any other obligations. The escrow created pursuant to the Escrow Agreement shall be irrevocable and the holders of the Outstanding Bonds shall have an express lien on all moneys and Federal Securities held by the Escrow Agent until paid in accordance with the Escrow Agreement. The escrow Agreement shall terminate when all of the Outstanding Bonds and coupons appertaining thereto have been paid in accordance with the provisions of the Escrow Agreement. If any Outstanding Bonds

or coupons are not presented for payment when due and payable, the nonpayment thereof shall not prevent the termination of the Escrow Agreement. All moneys or Federal Securities held in escrow at termination and not needed for the payment of the principal of or interest on any of the Outstanding Bonds shall be transferred to Springs.

Lease and Agreement: The County and Springs will either (i) enter into a leasing arrangement (the "Lease") or (ii) amend the Lease and Agreement presently existing between the County and Springs and referred to in Exhibit A to the petition (the "Outstanding Lease"). In either event, the County will agree to lease and rent the Project to Springs and Springs will agree to lease and rent the same from the County. If the Lease is entered into, it will become effective upon delivery and the Lease term shall commence upon the termination of the Outstanding Lease, but in no event later than March 1, 1993. Alternatively, the Outstanding Lease may be amended to extend its term. In either event, the leasing arrangement will continue at least to the date of final maturity of the Refunding Bonds, unless sooner terminated as described below.

The rents payable under the Lease or the amended Outstanding Lease, (hereinafter collectively referred to as the "Lease and Agreement"), subject to certain credits as therein provided, will equal the payments of interest, principal and sinking fund installments due with respect to the Refunding Bonds. No further payments of such rents need be made when and so long as the amount in the Bond Fund, established pursuant to the Trust Indenture, is sufficient to pay the interest on

and principal of the Refunding Bonds. Rent will be paid by Springs directly to the Trustee.

The Lease and Agreement will provide that Springs will keep the Project in good repair at its own cost. Springs will also be required to take out and maintain at its own expense insurance against fire and certain other risks. In the event of damage to or destruction of the Project, or if the Project is taken or condemned under power of eminent domain in whole or in part, Springs' obligation to pay rent will not be abated in any respect. Any proceeds received in such events will be used to repair, restore, relocate, modify or improve the Project or to redeem the Refunding Bonds.

Under the Lease and Agreement, Springs shall have the option to purchase the Project: (1) under certain conditions that allow the Refunding Bonds to be redeemed; or (2) at any time after the full payment of the Refunding Bonds, or after provision for the payment thereof has been made.

In case of purchase of the Project pursuant to (1) above, the purchase price will be a sum sufficient to redeem all Refunding Bonds then outstanding and to pay all reasonable and necessary fees and expenses of the Trustee and any paying agent accrued and to accrue through final payment of the Refunding Bonds. In case of purchase of the Project pursuant to (2) above, the purchase price shall not exceed $100.00.

In compliance with Section 6 of the Act, the Lease and Agreement provides that Springs is required to make

payments to the County, school district or districts, and other political units wherein the Project is located in lieu of taxes, in such amounts as would result from taxes levied on the Project by such County, districts or political units, if the Project were owned by Springs, but with appropriate reductions similar to the tax exemptions, if any, which would be afforded to Springs if it were the owner of the Project. The County agrees to cause the Project to be valued, rates applied to such values and statements of such to be sent to Springs as if the Project were so owned by Springs. Springs agrees to pay all such payments in lieu of taxes as long as required by law.

Trust Indenture: The Trust Indenture authorizing and providing for the issuance of the Refunding Bonds will be entered into by the County and a bank or trust company to be designated (the "Trustee").

Under the Trust Indenture, all of the income and revenues derived by the County under the Lease and Agreement from the lease of the Project or from the sale or other disposition of the Project are pledged for the payment of the principal of and interest on the Refunding Bonds.

A Bond Fund, into which the rental payments derived under the Lease and Agreement and certain other amounts specified in the Indenture will be deposited, will be maintained with the Trustee. While any Refunding Bonds are outstanding, moneys in the Bond Fund will be used solely for the payment of the principal, premium, if any, and interest on the Refunding Bonds and for the redemption or purchase for cancellation of Refunding Bonds prior to maturity.

Neither the Refunding Bonds nor the interest coupons appertaining thereto will constitute an indebtedness of the County within the meaning of any provisions of the State Constitution or any statutory limitation, and will never constitute or give rise to a pecuniary liability of the County or a charge against its general credit or taxing powers.

The Trust Indenture contains customary covenants on the part of the County with respect to payment of principal and interest, inspection of Project books, and related matters, as well as customary provisions for bondholders' remedies, trustees' duties and amendment of the Trust Indenture.

The Guaranty: Pursuant to the Guaranty, Springs will unconditionally guarantee to the Trustee for the benefit of the holders of the Refunding Bonds and the interest coupons appertaining thereto (1) the full and prompt payment of the principal of, and premium, if any, on any Refunding Bond when and as the same shall become due, whether at the stated maturity thereof or by acceleration or call for redemption or otherwise, and (2) the full and prompt payment of any interest on any Refunding Bond when and as the same shall become due. The Guaranty will remain in effect until the entire principal of and interest on the Refunding Bonds shall have been paid in full or provision for the payment thereof has been made in accordance with the Trust Indenture.

Springs Springs Mills, Inc.

Interim Report
For the Three Months
and Nine Months Ended
October 1, 1977

To the Shareholders:

Springs Mills had higher sales and earnings for the first nine months of 1977.

Sales for the third quarter were up, but earnings for the period declined.

Net income for the first nine months, which ended October 1, was $10,439,000, up 3.8 per cent from net income of $10,061,000 in the first nine months of 1976. Earnings amounted to $1.19 per share, compared with earnings of $1.15 per share in the first nine months of 1976.

Net sales for the first nine months were $474,763,000, up 8 per cent from net sales of $439,418,000 in the first nine months of 1976.

For the third quarter, net income was $2,321,000, down 28.1 per cent from net income of $3,226,000 in the third quarter of 1976. Earnings for the third quarter amounted to 26 cents per share, compared with earnings of 37 cents per share in the third quarter of 1976.

Net sales in the third quarter were $151,357,000, up 6.2 per cent from net sales of $142,500,000 in the third quarter of 1976.

H W Close

Fort Mill, S. C.
October 28, 1977

H. W. Close
Chairman of the Board

Peter G. Scotese

Peter G. Scotese
President, Vice Chairman
and Chief Executive Officer

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
(Unaudited)
SPRINGS MILLS, INC. AND SUBSIDIARIES
(000 omitted except per share amounts)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 1, 1977	October 2, 1976	**October 1, 1977**	October 2, 1976
INCOME				
Net Sales	**$151,357**	$142,500	**$474,763**	$439,418
Cost and expenses:				
Cost of goods sold	**134,113**	124,141	**414,298**	382,491
Selling, administrative and general expenses	**12,101**	11,200	**37,413**	34,536
Interest	**1,297**	1,392	**4,097**	4,216
Other (income), net	**(356)**	(183)	**(1,092)**	(926)
Total	**147,155**	136,550	**454,716**	420,317
Income before income taxes	**4,202**	5,950	**20,047**	19,101
Provision for income taxes	**1,881**	2,724	**9,608**	9,040
Net income	**$ 2,321**	$ 3,226	**$ 10,439**	$ 10,061
Net income per share	**$ .26**	$ .37	**$ 1.19**	$ 1.15
Weighted average number of shares of common stock and common stock equivalents outstanding during period	**8,765**	8,755	**8,765**	8,773
RETAINED EARNINGS				
Retained earnings at beginning of period	**$279,968**	$270,727	**$275,750**	$267,154
Net income	**2,321**	3,226	**10,439**	10,061
Cash dividends on common stock (quarterly per share amounts — 1977 - $.2250; 1976 - $.1875)	**(1,950)**	(1,625)	**(5,850)**	(4,887)
Retained earnings at end of period	**$280,339**	$272,328	**$280,339**	$272,328

(See Notes to Financial Statements, Page Four.)

CONSOLIDATED BALANCE SHEET

(Unaudited)

SPRINGS MILLS, INC. AND SUBSIDIARIES

(000 omitted except share data)

	October 1, 1977	October 2, 1976
ASSETS		
Current Assets:		
Cash	$ 4,319	$ 8,492
Short-term investments	9,055	14,200
Accounts receivable (principally trade)	99,395	92,254
Inventories, at lower of cost (principally LIFO) or market	154,237	135,322
Other	7,002	7,713
Total current assets	274,008	257,981
Property, Plant and Equipment	393,895	381,471
Less accumulated depreciation and amortization	233,608	216,700
Property, plant and equipment, net	160,287	164,771
Investments and Deferred Charges	5,464	7,929
Total	$439,759	$430,681
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt	$ 4,166	$ 4,075
Accounts payable	34,252	26,618
Other accrued liabilities	23,442	26,374
Total current liabilities	61,860	57,067
Long-Term Debt	64,924	71,820
Deferred Income Taxes, etc.	24,024	20,806
Shareholders' Equity:		
Common stock – \$.50 par value	4,374	4,374
Additional paid-in capital	5,469	5,463
Retained earnings	280,339	272,328
Total	290,182	282,165
Less cost of common shares in treasury (1977 – 84,797; 1976 – 80,964)	1,231	1,177
Total shareholders' equity	288,951	280,988
Total	$439,759	$430,681

(See Notes to Financial Statements, Page Four.)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(Unaudited)
SPRINGS MILLS, INC. AND SUBSIDIARIES
(000 omitted)

	Thirty-Nine Weeks Ended	
	October 1, 1977	October 2, 1976
Working capital provided by:		
Operations:		
Net income	**$10,439**	$10,061
Depreciation and amortization	**14,979**	13,767
Other, net	**1,527**	1,628
Total from operations	**26,945**	25,456
Proceeds from long-term debt	**0**	3,011
Other, net	**2,013**	(738)
Working capital provided	**28,958**	27,729
Working capital applied to:		
Additions to property, plant and equipment	**12,800**	15,863
Reduction of long-term debt	**6,349**	4,377
Dividends paid	**5,850**	4,887
Working capital applied	**24,999**	25,127
Increase in working capital	**$ 3,959**	$ 2,602
Increase (decrease) in working capital by components:		
Cash	**$ (6,363)**	$ (2,247)
Short-term investments	**(8,045)**	5,300
Receivables	**(8,615)**	(9,906)
Inventories	**35,101**	23,286
Other current assets	**1,328**	931
Current maturities — long-term debt	**15**	50
Accounts payable	**(10,092)**	(1,669)
Other accrued liabilities	**630**	(13,143)
Increase in working capital	**$ 3,959**	$ 2,602

(See Notes to Financial Statements, Page Four.)

Notes To Financial Statements

1. These financial statements should be read in conjunction with the Financial Statements presented in the 1976 Annual Report of Springs Mills, Inc.

   In the opinion of the management of Springs Mills the accompanying financial statements contain all adjustments (consisting of only normal recurring accruals) necessary for their fair presentation. The results for interim periods reflect, however, adjustments for certain items which can only be finally determined on an annual basis. These items include valuation of the majority of inventories on a LIFO cost basis, provision for income taxes, and provision for investment tax credits. The accompanying statements reflect the applicable portions of the estimated annual amount for such items.

   The results for interim periods are not necessarily indicative of results for the remainder of the year.

2. On June 23, 1977, the U. S. District Court for the District of South Carolina permanently enjoined the U.S. Consumer Product Safety Commission from enforcing regulations, previously issued by the Commission, which would have required Springs Mills to repurchase certain fabric containing the chemical flame retardant TRIS. On June 28, 1977, the Commission filed a notice of appeal from such order to the U. S. Circuit Court of Appeals for the Fourth Circuit. Counsel for Springs Mills is of the opinion that the District Court's order will be sustained on appeal.

3. For comparative purposes, certain 1976 amounts shown in the accompanying financial statements have been reclassified to conform with 1977 classifications.

Sanger Growth Marks Seabrook Expansion

Seabrook Foods' westward expansion is typified by the growth of the company's Sanger Plant in California's San Joaquin Valley. The plant now processes more than four times the amount of fruits and vegetables it processed when it was acquired by Seabrook in 1971.

With investment from Springs sparking growth, Sanger now accounts for some 40 per cent of Seabrook Foods' total production. Today, the plant is believed to be the nation's largest single frozen fruit and vegetable operation.

Seabrook's West Coast operations at Sanger, Albany, Ore., and Lynden, Wash., are supplying an increasing amount of frozen fruits and vegetables marketed by Seabrook in the West, Northeast and South. The company also has concentrated on building management strength in its Northern Division, which has new headquarters in Fresno, Calif., 18 miles from Sanger.

Seabrook, a wholly-owned subsidiary of Springs, was acquired in 1973 as a diversification move.

Aerial view of Springs' Lancaster Plant, scheduled for modernization.

$30 Million Project

Springs To Modernize Lancaster Plant

Springs has announced a $30 million modernization program for portions of the company's Lancaster Plant in Lancaster, S.C.

Board Chairman H. W. Close said the three-year project was designed to assure a future for the 82-year-old spinning and weaving plant. The plant, largest of Springs' 20 textile plants, employs 3,500 people in the manufacture of apparel fabrics.

Close said details of the modernization project are still incomplete.

"Our detailed planning is proceeding cautiously," Close said. "One reason is the difficulty of bringing new textile technology into some parts of such a huge, old plant. We also are carefully analyzing our future labor needs and our ability to recruit new employees in the Lancaster market."

He said Springs cannot completely meet its present labor needs at Lancaster Plant.

"But we wouldn't make the investment if we didn't think we could continue to make a profit at Lancaster Plant for many years to come," Close said.

The Lancaster modernization is part of a five-year capital improvement program for Springs' textile operations that will cost "in excess of $100 million", the Springs chairman said.

He said that Springs' new five-year plan stressed building the company's competitive strength in textiles, its historic business.

Close said productivity is the key to Springs' long-term textile program. He added that many investment dollars will go toward complying with government regulations.

"But these investment projects will improve our productivity and upgrade the jobs we can offer people in terms of pay, benefits and working conditions," he said.

Cover [illegible]

Springs Mills, Inc.

Springs Springs Mills, Inc.

Interim Report For the Three Months and Six Months Ended July 2, 1977

To the Shareholders:

Springs had higher sales and earnings for both the first half and the second quarter of 1977.

Net income for the first six months of 1977, which ended July 2, was $8,118,000, up 18.8 per cent from net income of $6,835,000 in the first six months of 1976. Earnings amounted to 93 cents per share, compared with earnings of 78 cents per share in the first six months of 1976.

Net sales for the first six months of 1977 were $323,406,000, up 8.9 per cent from net sales of $296,918,000 in the first six months of 1976.

For the second quarter of 1977, net income was $4,436,000, up 25.8 per cent from net income of $3,526,000 in the second quarter of 1976. Earnings for the quarter amounted to 51 cents per share, compared with earnings of 40 cents per share in the second quarter of 1976.

Net sales in the second quarter of 1977 were $165,108,000, up 10.5 per cent from net sales of $149,384,000 in the second quarter of 1976.

Sales for the second quarter and the first six months were the highest for those periods in the company's history. Earnings for the second quarter and the first six months were the highest since 1974.

These results are encouraging. We hope the remainder of the year will continue to reflect this same level of business activity for Springs.

H W Close

Fort Mill, S.C.
August 5, 1977

H. W. Close
Chairman of the Board

Peter G. Scotese

Peter G. Scotese
President, Vice Chairman
and Chief Executive Officer

COVER: Mattie Goodman, a weaver, makes an adjustment on one of the new Ruti weaving machines installed recently in Springs' Elliott Plant. These advanced looms operate more than twice as fast as conventional looms and are much quieter.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
(UNAUDITED)
SPRINGS MILLS, INC. AND SUBSIDIARIES
(000 omitted except per share amounts)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 2, 1977	July 3, 1976	**July 2, 1977**	July 3, 1976
INCOME				
Net sales	**$165,108**	$149,384	**$323,406**	$296,918
Cost and expenses:				
Cost of goods sold	**142,898**	129,692	**280,185**	258,350
Selling, administrative and general expenses	**12,541**	11,737	**25,312**	23,336
Interest	**1,384**	1,536	**2,800**	2,824
Other (income), net	**(257)**	(398)	**(736)**	(743)
Total	**156,566**	142,567	**307,561**	283,767
Income before income taxes	**8,542**	6,817	**15,845**	13,151
Provision for income taxes	**4,106**	3,291	**7,727**	6,316
Net income	**$ 4,436**	$ 3,526	**$ 8,118**	$ 6,835
Net income per share	**$ .51**	$ .40	**$ .93**	$ .78
Weighted average number of shares of common stock and common stock equivalents outstanding during period	**8,765**	8,798	**8,764**	8,782
RETAINED EARNINGS				
Retained earnings at beginning of period	**$277,482**	$268,828	**$275,750**	$267,154
Net income	**4,436**	3,526	**8,118**	6,835
Cash dividends on common stock (1977 - $.2250 per share; 1976 - $.1875 per share)	**(1,950)**	(1,627)	**(3,900)**	(3,262)
Retained earnings at end of period	**$279,968**	$270,727	**$279,968**	$270,727

NOTES TO FINANCIAL STATEMENTS

1. These financial statements should be read in conjunction with the Financial Statements presented in the 1976 Annual Report of Springs Mills, Inc.

   In the opinion of the management of Springs Mills the accompanying financial statements contain all adjustments (consisting of only normal recurring accruals) necessary for their fair presentation. The results for interim periods reflect, however, adjustments for certain items which can only be finally determined on an annual basis. These items include valuation of the majority of inventories on a LIFO cost basis, provision for income taxes, and provision for investment tax credits. The accom-

(Continued Next Page)

CONSOLIDATED BALANCE SHEET
(UNAUDITED)
SPRINGS MILLS, INC. AND SUBSIDIARIES
(000 omitted except share data)

	July 2, 1977	July 3, 1976
ASSETS		
Current Assets:		
Cash	$ 4,311	$ 6,464
Short-term investments	13,595	19,600
Accounts receivable (principally trade)	98,256	91,373
Inventories, at lower of cost (principally LIFO) or market	137,851	124,212
Other	8,000	6,466
Total current assets	262,013	248,115
Property, Plant and Equipment	391,602	378,822
Less accumulated depreciation and amortization	229,845	212,894
Property, plant and equipment, net	161,757	165,928
Investments and Deferred Charges	6,399	9,691
Total	$430,169	$423,734
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt	$ 4,167	$ 4,088
Accounts payable	25,200	25,025
Other accrued liabilities	21,190	22,550
Total current liabilities	50,557	51,663
Long-Term Debt	67,303	72,235
Deferred Income Taxes, etc.	23,690	20,305
Shareholders' Equity:		
Common stock - $.50 par value	4,374	4,374
Additional paid-in capital	5,467	5,461
Retained earnings	279,968	270,727
Total	289,809	280,562
Less cost of common shares in treasury (1977 - 81,844; 1976 - 69,464)	1,190	1,031
Total shareholders' equity	288,619	279,531
Total	$430,169	$423,734

NOTES TO FINANCIAL STATEMENTS (Continued)

panying statements reflect the applicable portions of the estimated annual amount for such items.

The results for interim periods are not necessarily indicative of results for the remainder of the year.

2. On June 23, 1977, the U. S. District Court for the District of South Carolina permanently enjoined the U.S. Consumer Product Safety Commission from enforcing regulations, previously issued by the Commission, which would have required Springs Mills to repurchase certain fabric containing the chemical flame retardant TRIS. On June 28, 1977,

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(UNAUDITED)

SPRINGS MILLS, INC. AND SUBSIDIARIES
(000 omitted)

	Twenty-Six Weeks Ended	
	July 2, 1977	July 3, 1976
Working capital provided by:		
Operations:		
Net income	**$ 8,118**	$ 6,835
Depreciation and amortization	**10,104**	9,415
Other, net	**1,148**	1,077
Total from operations	**19,370**	17,327
Proceeds from long-term debt	**0**	3,011
Working capital provided	**19,370**	20,338
Working capital applied to:		
Additions to property, plant and equipment	**9,030**	12,433
Reduction of long-term debt	**3,970**	3,962
Dividends paid	**3,900**	3,262
Other, net	**(797)**	2,541
Working capital applied	**16,103**	22,198
Increase (decrease) in working capital	**$ 3,267**	$ (1,860)
Increase (decrease) in working capital by components:		
Cash	**$ (6,371)**	$ (4,275)
Short-term investments	**(3,505)**	10,700
Receivables	**(9,754)**	(10,787)
Inventories	**18,715**	12,176
Other current assets	**2,326**	(316)
Current maturities - long-term debt	**14**	37
Accounts payable	**(1,040)**	(76)
Other accrued liabilities	**2,882**	(9,319)
Increase (decrease) in working capital	**$ 3,267**	$ (1,860)

the Commission filed a notice of appeal from such order to the U.S. Circuit Court of Appeals for the Fourth Circuit. Counsel for Springs Mills is of the opinion that the District Court's order will be sustained on appeal.

3. For comparative purposes, certain 1976 amounts shown in the accompanying financial statements have been reclassified to conform with 1977 classifications.

Springs Goes to Court
TRIS Case Could Have Far-Reaching Importance

Springs has challenged the Consumer Product Safety Commission (CPSC) in a court case that could have far-reaching effects upon the regulation of products intended for the marketplace.

In the spring of 1977, the CPSC declared that the chemical flame retardant TRIS, and all garments, fabrics, yarns, and fibers containing TRIS and intended for use by children, were "banned hazardous substances". If upheld, this action by the CPSC would require producers to re-purchase garments, fabrics, yarns, fibers and chemicals containing TRIS at a cost estimated by the CPSC in the range of hundreds of millions of dollars.

Springs, which has been a major supplier of fabrics for children's sleepwear, is contesting the action in the Federal courts. Here are some of the main points in Springs' position:

1. The Federal government in 1971-72 compelled the textile industry to produce flame-resistant fabrics for children's sleepwear and to bring these products to market on a tight time schedule. The only chemical then available that would produce an acceptable flame-resistant finish was TRIS. The textile industry said more time was needed to test the toxic and allergenic effects of the TRIS finish. The government turned down this request and ordered the industry to produce flame-resistant fabrics speedily. The effect was to compel the use of TRIS.

2. In 1977, under pressure from the Environmental Defense Fund, the CPSC issued its ban of all TRIS-treated fabrics and garments for children. CPSC said there was evidence that TRIS might cause cancer. Springs sued the CPSC in Federal District Court in South Carolina, contending that the CPSC failed to follow the procedures set forth in the Federal Hazardous Substances Act. Specifically, Springs declared that the CPSC had not held hearings that would permit the parties affected to test the credibility and validity of the evidence against TRIS.

3. Springs contends there is serious question that valid scientific evidence would support the complaints against TRIS-treated fabrics and garments. The company pointed out that the National Cancer Institute has called the data derived from tests on highly-sensitized rats and mice "preliminary, unverified and uninterpreted". The company also pointed out that a CPSC doctor has stated that skin absorption tests presented to the CPSC were not scientifically valid.

4. The District Court permanently enjoined the CPSC from enforcing the ban and re-purchase of TRIS-treated fabrics and garments. The CPSC has filed notice that it will appeal this decision to a higher court.

Springs believes that the right to a hearing is fundamental. The company feels the case is a vital one and that a decision in its favor could lead to a more restrained and logical approach to the regulation of products, based upon scientific evidence that withstands careful examination.

In the meantime, Springs has withdrawn from the children's sleepwear market on the grounds that the present regulatory environment is erratic and unpredictable.

A bulldozer levels out coal just unloaded from the rail car at right. This "coal field" is part of Springs' inventory for the winter months. It stretches for acres. At right are Mrs. Edith Gardner, coal purchasing agent; Robert S. Hudspeth, vice president-purchasing; and (wearing hardhat) Robert Vaughn, Grace Power Plant superintendent.

Springs Builds Inventory of Energy; Looks for New Ways to Conserve

A massive power failure the night of July 13 blacked out New York City and neighboring Westchester County for 25 hours. The nation's largest city was crippled. The blackout shut down our marketing and sales headquarters for a day.

On July 21, near the end of a prolonged heat wave, three generators kicked out in the system of the power company which supplies most of Springs' plants in the two Carolinas. Several other generators were down at the same time for various reasons. The power company avoided an interruption of service by the emergency purchase of power from other suppliers.

The two incidents, hundreds of miles apart, illustrate one facet of the critical energy problems facing the United States and the world.

Another facet was illustrated last winter when supply shortages forced a suspension of natural gas deliveries to industrial plants in South Carolina. The interruption forced Springs to close five plants for a week.

Since that time, Springs has increased its efforts to build its supplies of energy for the winter months of 1978. At the same time, the search has been intensified for new and additional ways of conserving energy.

Except for electricity purchased from outside sources, coal provides about 70 per cent of the energy used by Springs. The company's major user of energy is the big Grace Finishing Plant complex near Lancaster, S.C. The complex has its own power plant, which uses coal to generate electricity and steam used in the operations. Today, 60,000 tons of coal are stockpiled at Grace, enough coal to meet the plant's needs for five months. The inventory buildup anticipates possible price increases, delivery prob-

(Continued Next Page)

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lems and labor contract renewals in the coal and rail industries.

As another precaution, Springs now has 915,000 gallons of propane stored in four locations, an emergency backup supply just in case natural gas deliveries are interrupted again this winter. This supply is sufficient to keep our textile plants running at full capacity for 23 operating days. Springs uses gas for certain textile processing steps.

Currently, Springs is installing a propane/air standby plant for its Seabrook Foods facilities in Montezuma, Ga. Seabrook uses natural gas in some stages of food preparation.

Springs' energy group is spearheading a study to examine energy-saving possibilities for the next five years. Out of the study will come long-range conservation goals and plans.

One example of energy-saving technology is an infra-red pre-dryer now being installed at Grace Finishing Plant. It's expected to cut natural gas used in that process by 50 per cent. Another example is a system now under study which captures hot air exhausted from processing equipment and re-uses it for heating the plant.

Because of a multitude of conservation efforts, energy used by Springs per pound of cloth processed was 17.7 per cent less in June 1977 than in June 1972.

John V. Cauthen

John Cauthen Heads Manufacturing; His Goal Is Productivity

John V. Cauthen, 48, joined Springs in June as corporate vice president-textile manufacturing, a newly-created position. He reports to James B. Lasley, executive vice president.

He had been with Burlington Industries since 1959, most recently as manufacturing vice president of the Greige Fabrics Division.

Peter G. Scotese, president and chief executive officer, said Cauthen's appointment "underscores our determination to remain a major force in textiles. His assignment, in essence, is to maximize the productivity of our textile investment."

Board Chairman H. W. Close said Cauthen would play a key role in Springs' five-year capital improvement program for its textile operations.

Springs Mills, Inc.

Corporate Headquarters
P.O. Box 70
Fort Mill, S.C. 29715
(803) 547-2901

Interim Report
For the Three Months Ended
April 2, 1977

89th Annual Meeting:
A Report to Shareholders

Springs Springs Mills, Inc.

Interim Report For the Three Months Ended April 2, 1977

89th Annual Meeting: A Report to Shareholders

Contents

Management gets a hand.

Reporters follow talks at media table.

To The Shareholders:

Springs had higher sales and earnings for the first quarter of 1977, compared with the first quarter of 1976.

Net income for the quarter ended April 2, 1977 was $3,682,000, or 42 cents per share, compared with net income of $3,309,000, or 38 cents per share, in the first quarter of 1976. This was an increase of 11 per cent.

Net sales for the first quarter of 1977 were $158,298,000, an increase of 7.3 per cent from net sales of $147,534,000 in the first quarter of 1976.

This was our best first quarter since 1974. Barring unforeseen complications, we see this improvement continuing steadily for at least the intermediate future.

H W Close

H. W. Close
Chairman of the Board

Peter G. Scotese

Peter G. Scotese
President, Vice Chairman
and Chief Executive Officer

Fort Mill, S.C.
May 6, 1977

Financial Results

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
(UNAUDITED)

SPRINGS MILLS, INC. AND SUBSIDIARIES
(000 omitted except per share amounts)

	Thirteen Weeks Ended	
	April 2, 1977	April 3, 1976
INCOME		
Net sales	**$ 158,298**	$ 147,534
Cost and expenses:		
Cost of goods sold	**137,287**	128,658
Selling, administrative and general expenses	**12,771**	11,599
Interest	**1,416**	1,288
Other (income), net	**(479)**	(345)
Total	**150,995**	141,200
Income before income taxes	**7,303**	6,334
Provision for income taxes	**3,621**	3,025
Net income	**$ 3,682**	$ 3,309
Net income per share	**$ .42**	$ .38
Weighted average number of shares of common stock and common stock equivalents outstanding during period	**8,765**	8,798
RETAINED EARNINGS		
Retained earnings at beginning of period	**$275,750**	$267,154
Net income	**3,682**	3,309
Cash dividends on common stock (1977 - $.2250 per share; 1976 - $.1875 per share)	**(1,950)**	(1,635)
Retained earnings at end of period	**$277,482**	$268,828

See Notes to Financial Statements.

CONSOLIDATED BALANCE SHEET
(UNAUDITED)

SPRINGS MILLS, INC. AND SUBSIDIARIES
(000 omitted except share data)

	April 2, 1977	April 3, 1976
ASSETS		
CURRENT ASSETS:		
Cash	**$ 5,498**	$ 9,699
Short-term investments	**25,800**	24,200
Accounts receivable (principally trade)	**94,586**	89,705
Inventories, at lower of cost (principally LIFO) or market	**130,758**	113,543
Other	**6,706**	6,267
Total current assets	**263,348**	243,414
PROPERTY, PLANT AND EQUIPMENT	**386,767**	374,045
Less accumulated depreciation and amortization	**225,232**	209,344
Property, plant and equipment, net	**161,535**	164,701
INVESTMENTS AND DEFERRED CHARGES	**7,614**	11,195
TOTAL	**$432,497**	$419,310
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	**$ 4,299**	$ 4,032
Accounts payable	**26,596**	25,716
Other accrued liabilities	**22,457**	17,112
Total current liabilities	**53,352**	46,860
LONG-TERM DEBT	**69,649**	74,240
DEFERRED INCOME TAXES, ETC	**23,362**	19,999
SHAREHOLDERS' EQUITY:		
Common stock - $.50 par value	**4,374**	4,373
Additional paid-in capital	**5,468**	5,445
Retained earnings	**277,482**	268,828
Total	**287,324**	278,646
Less cost of common shares in treasury (1977 - 81, 844; 1976 - 27,564)	**1,190**	435
Total shareholders' equity	**286,134**	278,211
TOTAL	**$432,497**	$419,310

See Notes to Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(UNAUDITED)
SPRINGS MILLS, INC. AND SUBSIDIARIES
(000 omitted)

	Thirteen Weeks Ended	
	April 2, 1977	April 3, 1976
Working capital provided by:		
Operations:		
Net income	**$ 3,682**	$ 3,309
Depreciation and amortization	**5,076**	4,613
Other, net	**772**	716
Total from operations	**9,530**	8,638
Proceeds from long-term debt	**0**	3,000
Working capital provided	**9,530**	11,638
Working capital applied to:		
Additions to property, plant and equipment	**3,637**	7,883
Reduction of long-term debt	**1,624**	1,564
Dividends paid	**1,950**	1,635
Other, net	**512**	2,314
Working capital applied	**7,723**	13,396
Increase (decrease) in working capital	**$ 1,807**	$ (1,758)
Increase (decrease) in working capital by components:		
Cash	**$ (5,184)**	$ (1,040)
Short-term investments	**8,700**	15,300
Receivables	**(13,424)**	(12,455)
Inventories	**11,622**	1,507
Other current assets	**1,032**	(515)
Current maturities - long-term debt	**(118)**	93
Accounts payable	**(2,436)**	(767)
Other accrued liabilities	**1,615**	(3,881)
Increase (decrease) in working capital	**$ 1,807**	$ (1,758)

NOTES TO FINANCIAL STATEMENTS

1. In the opinion of the management of Springs Mills, Inc. the accompanying financial statements contain all adjustments (consisting of only normal recurring accruals) necessary for their fair presentation. The results for interim periods reflect, however, adjustments for certain items which can only be finally determined on an annual basis. These items include valuation of the majority of inventories on a LIFO cost basis, provision for income taxes, and provision for investment tax credits. The accompanying statements reflect the applicable portions of the estimated annual amount for such items.

   The results for interim periods are not necessarily indicative of results for the remainder of the year.

2. For comparative purposes, certain 1976 amounts shown in the accompanying financial statements have been reclassified to conform with 1977 classifications.

Springs Annual Meeting Highlights

89th Meeting

The 89th annual meeting of the shareholders of Springs Mills, Inc. was held at the corporate headquarters in Fort Mill, S.C., beginning at 9:30 a.m., Thursday, April 21, 1977.

Board of Directors

With 89.1 per cent of the shares voted, shareholders elected nine incumbent directors and one new director to serve for the ensuing year. The new director is Charles W. Coker, Jr., president of Sonoco Products Company, Hartsville, S.C. He succeeds his father, Charles W. Coker, Sr., who retired from the board after serving continuously and with distinction since 1968.

Deferred Compensation

A deferred compensation arrangement for directors who are not employees of the company was approved by the shareholders. The arrangement permits "outside" directors to defer their compensation for Board service, if they so desire. Details are contained in the 1977 proxy statement.

Independent Auditors

Shareholders ratified the appointment of Haskins & Sells as independent public accountants to audit the books and records of the company and its subsidiaries for the 1977 fiscal year.

Reports

Board Chairman H. W. Close discussed with shareholders the environment in which the company is operating, strategies for dealing with these environmental factors, and the management's overall plans for the next five years. President Peter G. Scotese discussed the company's results for 1976 and operations for the first quarter of 1977. In addition, he covered company performance as shown by certain key measurements and some approaches to managing the business.

Attendance

The meeting was attended by approximately 180 persons, including shareholders, news media, executives, auditors, and members of the financial community. The meeting lasted one hour and 22 minutes, concluding at 10:52 a.m.

Shareholders register for meeting.

Remarks of H. W. Close
Chairman of the Board

Chairman H. W. Close presides.

The economy.

My remarks will deal with the environment in which we're operating today, how we plan to deal with it, and the long-term plans we have for Springs Mills.

Mr. Scotese will cover the operations of the company in his remarks.

I might point out that by the time we finish it will be too late for anyone to change his vote.

But I'll also point out — in reference to the one shareholder question from the floor last year — that we don't have any writeoffs to discuss or explain for 1976.

That's a statement we haven't been able to make for five previous years. And I think that's a positive point on which to begin.

Springs is coming off a year in which we recovered from the recession. It was a good year, and it gives us encouragement.

We think we'll have an even better year in 1977.

The company is sound. Our goals are attainable. Our management team is capable. And, barring unforeseen disaster, the economy favors a gradual if unspectacular improvement.

It's generally believed that the Carter Administration's economic stimulus program will not spur inflation unduly — if Congress can control itself.

Some students of the economy believe real disposable income will outpace inflation during 1977. This would be quite a change from the relatively flat performance of that key statistic since 1972. Growth in real disposable income usually translates into higher consumer spending.

With particular reference to textiles, studies indicate that the 25-to-34-year age group will have the highest gains in earned income between now and 1980. This style-conscious group is the largest consumer of textile products.

Add to this the growing demand for convenience foods in that and other age groups, and we have the potential for an economic climate in which Springs Mills' present businesses can thrive.

But it's not all peanuts and cream.

We've already learned that consumer confidence is a fragile commodity. An oversupply of caution still exists.

We know that a flare-up of inflation can be talked into a double-digit fire.

On the one hand, a respected economist advises us that we can't rely on economists. On the other hand, an equally respected economist tells us that we should invest our capital because opportunities are ripe and the risks are minimal.

The government.

The new Administration tells us very little, so far. It chooses not to stake out its attitudes toward business — except to say it wants new investment. And up to now, it has given only tacit support to labor legislation.

In such a vague atmosphere, confident planning is difficult.

Business in America today, more and more, must look to government both for guidance and for storm signals. Whether we agree that it should or not, the Federal government sets the economic tone of the country. Some clear indications of intent and direction would be a help.

And while we're busy trying to read Government's road map, we have to make plans to deal with the environment that Government action — or inaction — produces. Most of the challenges we face today have their roots in government policy on such matters as inflation, capital formation, trade, energy, pollution control, agriculture, health and safety, consolidation, and labor relations. All of these are significant issues specifically affecting Springs Mills.

Let's consider a few of these in terms of Springs' operating environment.

Textile import controls are vital. The international

Imports.

Multi-Fiber Arrangement expires this year and must be renewed. Talks in March broke down and there seems to be no urgency on the part of our government to get things moving, despite President Carter's pledge for renewal of the trade arrangement.

Meanwhile, imports coming into the U.S. under existing treaties are exceeding the projected growth rate for textile markets in this country.

I have been active in this area, working with others in the textile industry to develop controls that are fair but firm. I know the trade-offs and diplomacy involved. But I also know the ultimate effect of opening U.S. textile markets to the world. When that happens, domestic markets are depressed, textile plants close and the jobs of U.S. textile workers are lost. Many of those jobs are concentrated in single towns — such as Lancaster or Fort Mill — and a great many are held by minorities and women.

The nation cannot afford to let the U.S. textile industry go down the drain. I'm encouraged that other industries and labor, mindful of the unique responsibilities and costs that American business has to bear, are joining in the fight. It's a fight we must win.

Energy.

Another political issue bearing on our future is energy. Our demand for all forms of energy is growing and it appears this demand will have to be met with foreign oil.

The textile industry is one of those businesses where open flame applications are required. Under today's technology, that means either natural gas or propane. So we're vitally interested in the politics of energy.

The long-promised national energy plan is now before Congress. We hope Congress will apply some basic principles to the package it ultimately approves. One is decontrol of all energy prices. Let the marketplace allocate fuels to the uses of most value and discourage extravagance. Another basic is to stimulate development of U.S. resources, including coal, oil, gas and nuclear generation. And a third basic is to place the necessity of conservation measures on every segment of society, not just the industrial sector.

A national energy policy has been needed for a long time. Whether we have one in the works will be determined by what Congress does with the President's energy proposals.

Regulations.

We've just gone through hearings on Government regulations for dust levels in our textile plants. The proposed guidelines would cost the industry about $3 billion. They would sharply increase energy consumption and they would reduce the dust levels in textile plants to something better than the dust level in this meeting room.

Springs Mills cares about the health of its employees. We've demonstrated that in many ways over the years. We're already reducing the dust levels in our plants, and we'll reduce them further. But we don't think it's practical to jeopardize the jobs of the people we're trying to help by requiring unrealistic spending.

Just as in the related areas of noise and environmental control, we want to make progress within feasible technological and economic limits. But we have to comply with the law, and this puts a strain on our ability to remain competitive. It's a fact of American business life we have to live with — and the customer ultimately pays the cost.

A typical example is our recent problem with flame-retardant fabrics — which we began producing to meet government requirements. Both the original flammability standards and this month's ban on certain flame-retardant fabrics were based on data that can be questioned.

Whether it's Congress, the agencies, the White House or the State House, government frequently displays a shocking disregard for economic consequences in its zeal to provide a perfect, hazard-free environment for people.

There are many other government-related issues that affect us.

Federal pressures hinder the consolidation process in our fragmented textile industry. We need more mergers, because we need fewer but stronger companies to meet our challenges.

Labor.

Labor-oriented legislation facing Congress — common situs picketing, repeal of 14-B and other so-called "reforms" — is tied directly to organized labor's Southern strategy.

Agriculture.

Legislation currently in the Senate Agriculture Committee would put the U.S. back in the surplus commodity business, establish a minimum crop loan rate, and would sharply increase the target price for crops. The government would pay farmers the difference between the target price and the market price. This would affect the cost and supply of cotton and vegetables, and the taxpayers' tab would rise enormously.

So government and Springs Mills have become partners in a sense. In some respects it's like a shotgun wedding. We have to make the best of it, but we didn't think it would be this expensive.

In this kind of environment, where is Springs Mills today?

Springs today.

We've changed a lot in the 1970s.

We're much larger and more complex. We've diversified, both within textiles and outside of textiles.

We have people strength as well as financial strength. Our employees, in the plants and offices, have shown they are capable and loyal. They want us to win.

We've improved our planning and marketing skills and our product mix. We've walked away from chronic profit drains.

We're doing a better job of watching the environment, particularly the political arena. For example, we have Board and Management level Public Affairs Committees to develop policies and activities for us in the government area. We are studying the matter of activating a Corporate Political Action Committee to focus on good government. We recently placed more emphasis on planned, formalized community relations with the appointment of a staff manager to direct this important area. And we maintain steady involvement in policy issues through our state and national trade associations and the U.S. Chamber of Commerce.

So where do we go from here?

Most of you are familiar with the general elements of our long-range plan, first established in 1972. We wanted to diversify, make ourselves more liquid and use our textile assets to finance our sales and earnings growth.

Circumstances change. Objectives must change with them. We're in the process of modifying our long-range plan in order to accommodate to our present and near-term environment.

Long-range plan.

The Corporate Management Committee met in February, as we do each year, to review and update our long-range plan. This year we reached some major conclusions about our emphasis and direction. I can't be specific because the planning staff is still putting the slide rule to our ideas and developing specific strategies to implement them.

But I can give you a general feel for the directions we think Springs should take — and will take.

First, we continue to think it's best to diversify our investments. We're in frozen foods and we expect to remain in and build that business. We'll continue to investigate companies outside of textiles for possible acquisition.

So we aren't going to drastically change that aspect of our diversification plans.

Textile business.

But we are going to increase our emphasis on our major business — the textile business, which is our source of cash.

Springs Mills is going to have an active interest, not only in its present textile business, but in new textile products that we can add either by acquisition or internal expansion.

Our management agrees that Springs is going to remain a major competitive factor in textiles. To ensure this, we have agreed on a major five-year development program for our textile operations.

Last year, we told you that our long-range plan called for a five-year textile investment of $60 million. I can report to you today that we have made an even stronger commitment to textiles.

$100 million in textiles.

Between now and 1981, Springs will invest more than $100 million in its textile business. We expect the bulk of this capital spending to go into new, highly productive equipment.

Our new five-year modernization plan will be expensive, as was our huge program of the 1960s. To pay for it will require earnings growth and continued strong cash management.

But we're serious about our commitment to the textile business, to our 17,000 textile employees, and to the Carolinas communities in which we operate. We intend to continue to be an outstanding textile company.

Frozen foods.

Springs has the same goals for its frozen food business. We don't intend to neglect it, because it's an important part of our company. We expect it to grow, and our plans envision that Seabrook Foods will be producing sufficient profit in the future to finance much of its own expansion without relying as heavily as it has on Springs capital. Mr. Scotese will tell you more about Seabrook in his remarks.

In outline form, I've covered the new thrust of our long-range plans and expectations. Details are being developed.

I believe that most shareholders, management and the Board support our shift in emphasis.

Summary.

In summary:

We expect to increase our financial commitment to our textile business.

We will actively pursue other textile interests, through internal product development and through acquisition.

We will continue to develop our frozen foods business so it will ultimately finance its own growth. This is close at hand.

We will continue to explore other non-textile investment possibilities.

We will place a premium on technological excellence and higher productivity.

We want Springs to be in a position of both financial and technological strength so we can exploit profitable opportunities that come along in the future.

We've made substantial progress already and we plan to accelerate the pace.

One reason for our progress is the man who's going to speak next. Pete Scotese was called a "maverick" by one of the trade papers, and I guess he is. He came to us not bound by traditional thinking, and the mix has been healthy.

He's the classic professional manager, and everyone in Springs has learned a great deal from him. He's going to report to you on the company's operations.

Shareholder [illegible] arrives for meeting.

A shareholder registers.

[illegible]

[illegible] with President William A. [illegible]

Remarks of Peter G. Scotese President, Vice Chairman and Chief Executive Officer

President Peter G. Scotese chats prior to meeting

Mr. Close has done an excellent job of positioning Springs within its operating environment, and expressing our longer term expectations.

I'm going to talk to you about our results for 1976 and our operations so far in 1977. I'll also cover how Springs has performed with respect to certain key measurements over the years. I'll review some recent developments which will affect our operations. And I'll discuss some specific approaches we use in managing your business.

Let's start with our 1976 results. You've seen our annual report or read the news accounts.

We had a good year, overall. It was better than we expected a little more than a year ago, when we were just coming out of the economic recession and absorbing the write-offs of our Indonesian project. Our projections turned out to be too cautious.

As Chart No. 1 shows, our net sales were the highest in our history at \$618 million. Of these, \$490 million were in textiles and \$128 million were in frozen foods. The chart shows our five-year progress.

Our net income, expressed in earnings per share, was the highest since 1973 and the second highest since 1966. This is shown in Chart No. 2.

Return on equity is an important measure for us. It helps us assess how well we're using the shareholders' investment. In Chart No. 3, you can see what happened: we had a decent return of 7 per cent in 1973, but slipped in 1974 and 1975. We turned it around in 1976, climbing to 5.3 per cent, our best result since 1973. But we still have a very long way to go.

In 1976 we got back on the growth track.

Among our textile divisions, the Apparel Fabrics Division, our largest, had an outstanding year. So did the Retail and Specialty Fabrics Division. Our Consumer Products Division and our Knit Division oper-

(Financial charts Pages 22 to 24)

ated in depressed markets, and their results were unsatisfactory. The International Division had record sales but profits were hurt by foreign currency exchange.

Our frozen foods subsidiary, Seabrook Foods, had higher sales in 1976. Seabrook's Southern Region and Seafood Division had excellent results, as they have had ever since we acquired Seabrook in 1973. However, higher costs and severe price competition in western and northwestern fruit and vegetable markets reduced Seabrook's overall profit margins.

It was a mixed year in the sense that some of our operating units had great results and some had poor results. However, our total results point up the advantages of our diversification.

And we get benefits from some divisions whose results are disappointing. One is corporate overhead absorption. Another benefit, and one of the most significant, is cash flow.

Cash flow.

Many people say you don't get points for cash flow.

But for a balance-sheet oriented company like Springs, cash generation is very important.

In its simplest terms, cash flow is the amount of dollars you take in, minus what you pay out, after taxes. In broad, general financial terms, cash flow is net income plus depreciation. Each month Springs averages about $3 million in cash flow that must be invested-either in capital expenditures, working capital, short-term investments, or loan reductions.

A diversified company has an advantage over a single-product company in this regard. This year to date, with minor exceptions where higher sales have resulted in higher accounts receivable, all of our textile divisions and Seabrook have a positive cash flow. Cash flow is enhanced by our LIFO inventory accounting. Our LIFO inventory reserve at the end of 1976 was approximately $75 million, up from $58 million at the end of 1975.

Cash flow is not a fall-back term to mask disappointing profits. It's a key to our liquidity, our financial strength and our investment strategies for textiles as well as frozen foods. We now require monthly cash flow reports from each division so we and they can be more current on the use and generation of cash.

Assets ratio.

During 1976 we resumed our progress toward some long-term goals consistent with our long-range plan.

We have pursued a deliberate strategy in recent years to increase our ratio of current assets to fixed assets. Chart No. 4 illustrates this point. In 1972, the ratio was 1-to-1; in 1976 it was 1.6-to-1. Today we are not so top-heavy in fixed assets as we were. We are more liquid and our capital is more mobile. We think we have done as well as anyone in textiles in this regard.

Chart No. 5 shows another way of looking at this important area of asset management. You can see that, since 1970, the dollar value of our current assets has grown by nearly $100 million. Current assets now represent 60.9 per cent of our total assets. Meanwhile, depreciated plant, property and equipment — our fixed assets — have declined from just over 50 per cent of our total assets in 1970 to less than 40 per cent in 1976.

Our assets are generating more dollars of sales, as Chart No. 6 shows. In 1970, each dollar of assets produced 88 cents in sales. In 1976, each dollar of assets produced $1.43 in sales.

In short, despite an increase in sales from $308 million in 1970 to $618 million last year, and with a conservative accounting basis, we have strengthened our balance sheet liquidity and made our invested dollars much more productive.

I received a letter from one of our shareholders recently. He had just finished reading the annual report, and he wrote in part:

> "Your earnings were excellent considering the environment in which you had to operate . . . The balance sheet is a comfort to me. After paying all your bills, you'd still have over $100 million of your current assets in your pocket, plus all of your fixed assets."

The writer made some additional computations. Since they deal with the effect of the LIFO reserve, according to the government I'm not supposed to talk about them in specific terms. But I can say the writer was comforted by the cash-producing powers of LIFO, as it is reflected in our reported earnings, our balance sheet and the intrinsic worth of each share of our stock.

Resale products.

This man has recognized the fundamental financial strength resulting from our approach to asset management.

As we have shifted our emphasis from bricks and mortar to more liquid assets, an increasing percentage of our sales is coming from products we do not make. A recent analysis of 1976 figures shows that about 16 per cent of our sales last year came from products purchased outside of Springs — grey fabric, finished specialty fabrics such as Ultrasuede, printed fabrics, seafood and various fruits and vegetables. Resale of these products accounted for approximately $100 million of our 1976 sales. This represented about 11 per cent of our textile sales and about 33 per cent of our frozen food sales.

We think this trend is important for a number of reasons in addition to our balance sheet strength. For example, it is a response to the textile industry's chronic oversupply problem, which basically stems from overcapacity. It provides us flexibility in responding to changes in the marketplace, and to investment opportunities. And it allows us to channel scarce capital into those areas where it is needed most — to maintain and modernize our existing plants and equipment, to expand our business and provide more employment opportunities, and to meet growing government requirements.

Thrust in technology.

Technology is the answer to our need for greater productivity. Mr. Close has told you of our stepped-up efforts to improve our technological base. Our annual report for 1976 showed how the pace of technological change is quickening at Springs, through the use of lasers, air-jet looms, recycling systems and others.

This is going to be the thrust of our future capital investments.

Chart No. 7 shows our capital expenditures for 1975 and 1976, and those planned for 1977. During 1976, we invested $17.8 million in new property, plant and equipment — more than $12 million in textiles and $5 million in frozen foods. The total is an increase from the $14.6 million we invested in capital projects during 1975.

For 1977 we plan capital expenditures of at least $18.7 million, $15.2 million in textiles and $3.5 million in frozen foods.

I might add that of this amount, $1.2 million will be spent to comply with federal or state government regulations. This means the remaining investment must work even harder to produce profit. That's why we have established new review procedures to ensure that our capital investments meet our expectations.

As Mr. Close has told you, we expect to increase our textile capital spending to a level of more than $100 million over the next five years. This suggests that the actual investment in textiles for 1977, and for succeeding years, will be substantially higher than our current plan.

Capital intensity.

We keep reading about the textile industry's gradual move to capital intensity and away from high labor content. Chart No. 8 indicates this trend at Springs. Sales have moved from $20,000 per employee to $30,000 per employee in the last five years.

Our people are producing more, and they're getting paid more. Chart No. 9 shows the cumulative effect of hourly wage increases at Springs since 1971. Using 1971 as an index base of 100 shows that wage increases since then represent a cumulative increase of 53.7 per cent. That figure will continue to grow as our people contend with inflation, and competition for labor in the Southeast intensifies.

Inventory turnover.

We have steadily improved our inventory turnover during the last five years, as Chart No. 10 shows. This is an important measure for us. Inventory turnover is a key to improved gross profit dollars and return on investment.

These charts give you some idea of the way we are managing your assets — your business. We are stressing balance sheet liquidity, cost control, productivity, strict inventory management and prudent investment of capital in our operations. Our aim is long-term earnings growth built on a sound financial footing.

We have made progress in these areas over the years, despite some unanticipated detours along the way. The progress is continuing in 1977.

First quarter.

We had our best first quarter since 1974. Net sales for the quarter were up 7.3 per cent over 1976, and net income was up 11 per cent.

Three recent developments bear on our performance, and our expectations for the coming months.

One is the energy situation.

Natural gas.

As most of you know, we encountered shortages of both natural gas and its alternative, propane, in late January. The gas cut-off occurred only hours after we had been assured that supplies would be available. The cut-off resulted in a week's curtailment at our Grace Finishing Plant, and four of our other South Carolina plants. All told, 4,000 employees were out of work and our deliveries were slowed.

A remarkable effort by Springs people got tank trucks rolling, pumping stations modified, propane located and bought, and those 4,000 employees back on the job in a week.

But the basic problem remains. Costs are rising, supplies are still tight and all industries are searching for ways to head off a repeat performance next winter.

We have concentrated our efforts on obtaining a minimum four-week supply of propane for use as needed next winter. As of this week we have in storage a two-week supply. Additionally, we are proceeding with further modifications to our equipment to reduce our use of natural gas, or in some cases to give ourselves the flexibility to burn whatever fuel is less costly, or more plentiful.

Energy costs per pound of textile goods processed at Springs have more than doubled since 1972. This has occurred despite a fine energy conservation program that has reduced our actual energy consumption per pound of goods produced by 11.3 per cent in the last three years. Energy cost and supply will demand more and more of management's attention. Our best estimates are that our energy costs in 1977 will exceed our earlier expectations by as much as $1.5 million.

Dividend increase.

A second recent development is one I'm sure did not escape the shareholders. We raised the quarterly dividend in the first quarter from 18¾ cents per share to 22½ cents per share. This was our first dividend change since 1974, and puts the annual dividend rate at 90 cents per share.

We felt our improved earnings in 1976 and our expectations for 1977 justified the increase.

A third development relates to our frozen foods busi-

Seabrook.

ness. Our investment in frozen foods has been disappointing to date in terms of contributions to reported earnings. This is largely because of external economic factors and certain accounting changes. We still expect our frozen food business to pay off for us, to balance our textile cycle. Seabrook's first quarter was in the black and the rest of the year is very promising.

We are announcing today a change we think will help speed that turnaround. Seabrook foods will henceforth concentrate exclusively on fruit, vegetables and prepared foods. Seabrook's Seafood Division is being separated and will become another wholly-owned subsidiary of Springs Mills.

Jerre L. Pearson will continue as chairman and chief executive officer of Seabrook Foods. Murry P. Berger, who has been president of Seabrook as well as president of the Seafood Division, will be president and chief executive officer of the new seafood company.

This change offers four major advantages.

— It will separate what is basically a marketing cooperative, Seafood, from what is basically a manufacturer, the Fruit and Vegetable division of Seabrook.

— It will allow the management of both subsidiaries to concentrate on building the businesses they know best.

— It will provide another "core company" around which we can build.

— It will provide further decentralization of our corporation.

Our seafood business has always been profitable.

Our much larger fruit and vegetable business has grown and changed, and has embarked on a marketing program designed to improve its sales of branded and specialty food products.

This establishment of our seventh operating unit should enhance our profit opportunities in 1977 and beyond.

Management change.

I also want to announce a major management change. Mr. Andrew J. Crane has been elected an executive vice president and appointed chief financial officer of Springs. He will also become a member of our Corporate Management Committee.

He will succeed in these posts Mr. John P. Duffy, who is resigning to resume his study of law.

Andy Crane has been with Springs since 1951, and is a former controller and vice president-budget director of Springs. Since 1975 he has served as vice president-assistant to the president. He is exceptionally qualified to be our chief financial officer, responsible for the controller's and treasurer's offices, internal audit, credit and financial analysis.

We wish John Duffy well in his pursuit. He has brought a discipline to our capital budgeting. And he has been the architect of our long-range planning process as well as our chief financial officer since 1975.

The rest of 1977.

Now let's look at the rest of 1977. We expect better performances in our consumer products, knit and frozen food businesses for the year, compared with 1976. Apparel fabric and retail fabric operations should continue strong.

There are variables in any business, of course. Unpredictability is inherent in a fashion-oriented environment.

So we cannot write our plans in concrete. We simply have to anticipate the worst and avoid catastrophe.

What we can do is focus on controlling those things we can control, particularly our manufacturing costs and our inventories.

We intend to do that in 1977.

Above all, we will continue to build our textile and frozen food businesses for the long term by sticking to our principles of sound, flexible asset management.

Springs' objective remains unchanged: we are determined to produce quality earnings backed by solid financial strength.

Our plans, policies and strategies are, and will be, geared to that goal.

(There were no questions from the floor. After a report on the results of the balloting, the meeting was adjourned.)

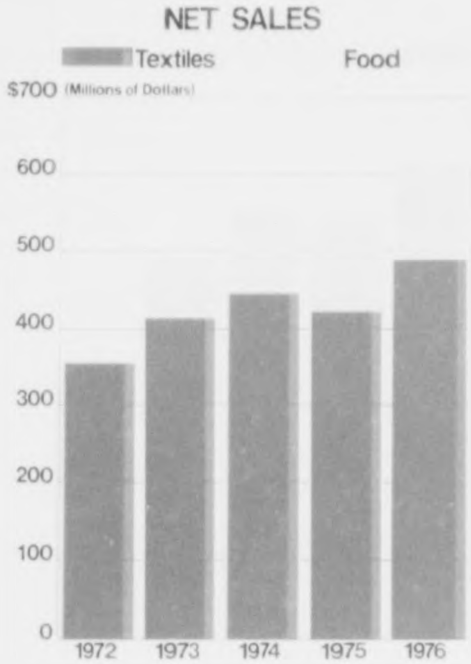


Chart No. 1

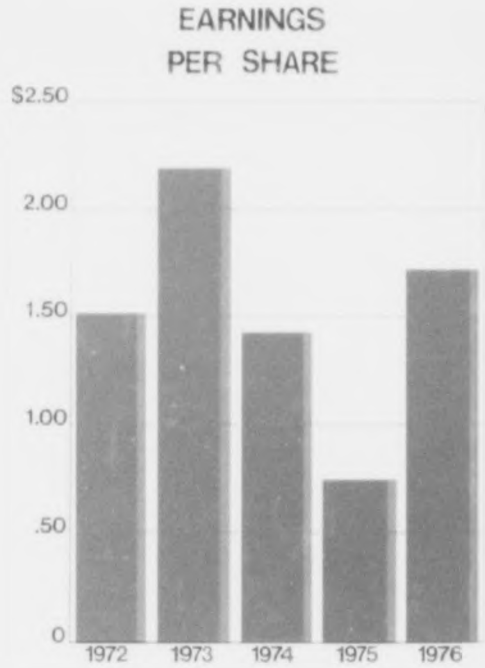


Chart No. 2

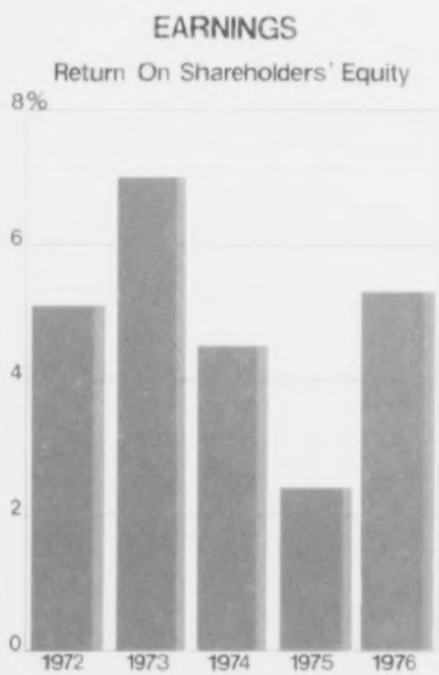


Chart No. 3

RATIO OF CURRENT ASSETS TO NET FIXED ASSETS

1976	1.6 To 1
1975	1.5 To 1
1974	1.5 To 1
1973	1.2 To 1
1972	1.0 To 1

Chart No. 4

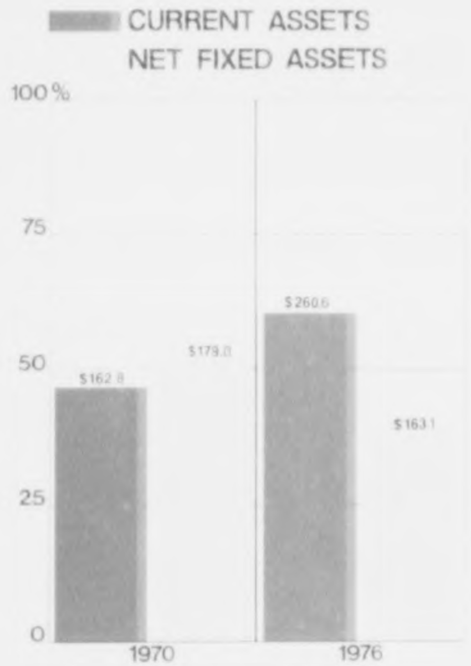
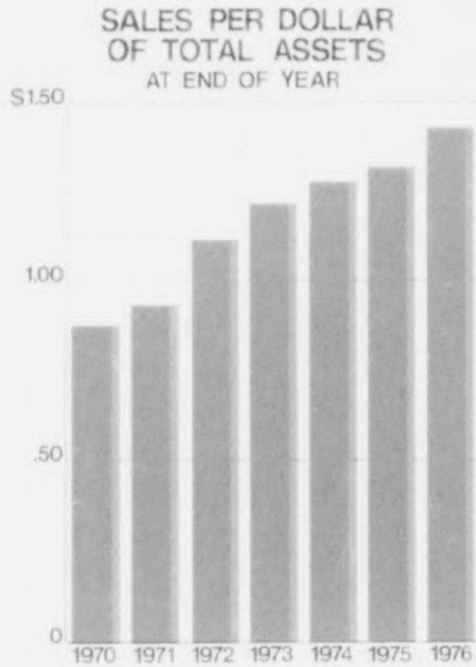


Chart No. 5



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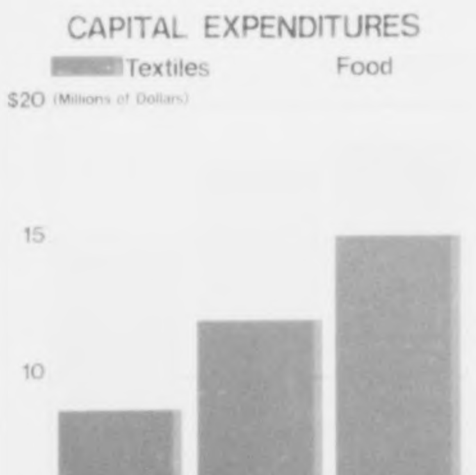

Chart No. 7

Chart No. 8

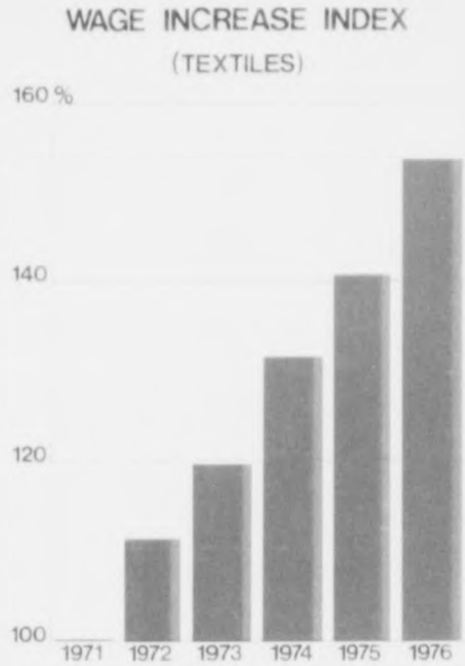

Chart No. 9

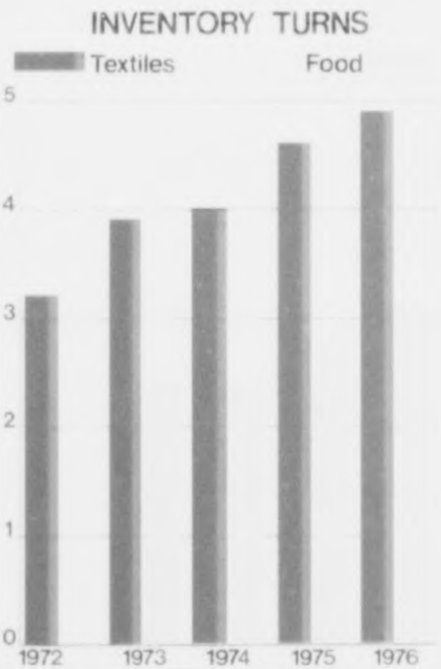

Chart No. 10

Catching up on the news.

Checking shareholder material.

More than [illegible] people came

Retiring director C. W. Coker Sr. (left) with his son, new director Charles W. Coker Jr.

New executive vice president [illegible]

Chairman D. W. Coker [illegible]

Springs

Springs Mills, Inc.

Corporate Headquarters
P.O. Box 70
Fort Mill, S.C. 29715
(803) 547-2901

Marketing Headquarters
104 West 40th St.
New York, N.Y. 10018
(212) 556-6000

Customer Service Center
P.O. Box 111
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Research and Development Center
P.O. Box 70
Fort Mill, S.C. 29715
(803) 547-2901

Seabrook Foods, Inc.
1775 The Exchange, Suite 230
Atlanta, Ga. 30339
(404) 436-0826


Springs
Springs Mills, Inc. 1976 Annual Report

On the Covers: Outside cover shows ruby-red laser beam inspecting fabric. New system dramatizes Springs' growing commitment to technology. Inside front cover (above) illustrates ultimate result of technology: the diverse range of Springs' textile products.

This Is Springs:

Springs is in two businesses, textiles and frozen foods, with a combined 1976 sales volume of $618 million.

We are one of the nation's major textile manufacturers, with 20 U.S. plants, 17,000 employees, and 1976 textile sales of $490 million.

Textile products include sheets, pillowcases, towels, draperies, comforters and quilted bedspreads; and woven, nonwoven and knitted fabrics for apparel, decorative furnishings, home sewing and handkerchiefs.

A wholly-owned subsidiary, Seabrook Foods, Inc., is a leader in the frozen food industry. Seabrook has 9 plants, average employment of 3,000 and 1976 sales of $128 million. Seabrook processes, packages and distributes frozen vegetables, fruits, seafood and prepared foods.

'Technology changes. New computer languages and equipment are so diverse, one person can't know it all. But it gives our customers, and us, faster answers.'

Dot Funderburk
Project Manager,
Programming
Customer Service Center

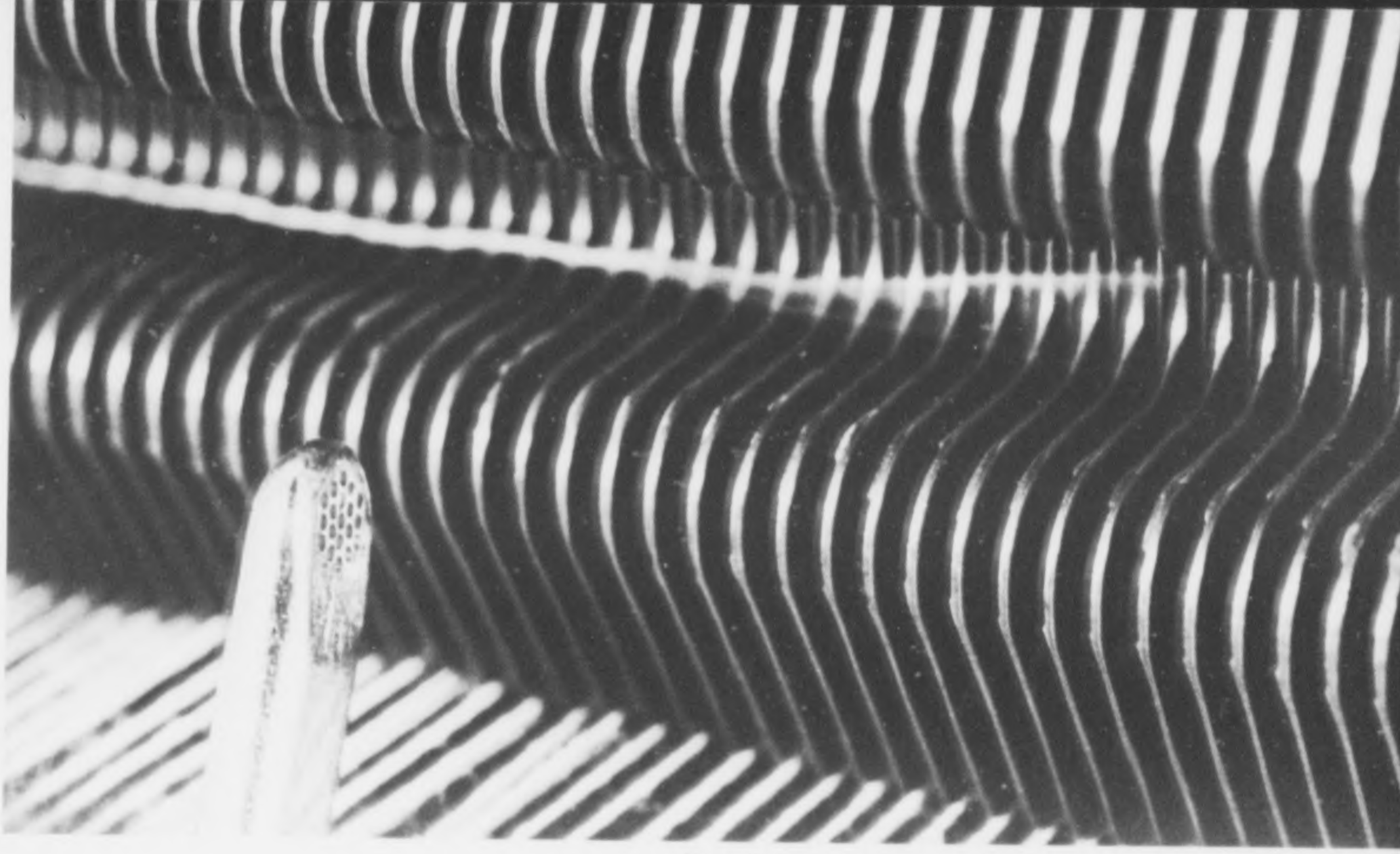
Contents

Springs Springs Mills, Inc.

Financial Highlights

For the fiscal years ended January 1, 1977 (52 weeks) and January 3, 1976 (53 weeks)
(000 omitted except per share amounts)

	1976	1975	% Increase (Decrease)
Net sales	$617,517	$543,091	13.7
Income from continuing operations	15,108	10,686	41.4
Loss from discontinued operations	0	4,114	(100.0)
Net income	15,108	6,572	129.9
Depreciation and amortization	18,352	18,204	.8
Property additions	17,846	14,569	22.5
Working capital	208,189	198,312	5.0
Long-term debt	71,273	72,804	(2.1)
Shareholders' equity	284,411	276,412	2.9
Per share of common stock:			
Income from continuing operations	1.72	1.22	41.4
Loss from discontinued operations	0	.47	(100.0)
Net income	1.72	.75	129.9
Dividends	.75	.75	0
Working capital	24.02	22.79	5.0
Shareholders' equity	32.82	31.76	2.9
Weighted average number of shares outstanding	8,768	8,771	0



Propelled by jets of air, strand of yarn is fired across "third generation" weaving machine at nearly 200 miles an hour.

To The Shareholders:

Our 1976 net income was the best since 1973. Our sales were the highest in our history.

Our apparel fabrics, home sewing, specialty fabrics and frozen seafoods markets were very strong and we exceeded expectations. However, the markets for sheets, [illegible] fabrics and some frozen vegetables remained depressed and results were unsatisfactory. Our export business improved but the performance of our French marketing subsidiary, Springs Europe S.A., was adversely affected by adjustments for currency exchange.

In general, the year reflected the economic recovery from 1975.

Technology

1976 was a year of genuine recovery from the recession. It was also a year in which the pace of technological change in the textile industry accelerated.

[illegible], Springs and other textile companies are exploring new technology in their search for improved productivity.

[illegible]

"third generation" weaving machines. We began installing the industry's first [illegible] laser scanner fabric inspection system. We purchased computerized yield control systems for [illegible]. We intensified the use of [illegible]. We further automated sheet sewing and introduced automated [illegible].

This [illegible] in technology and productivity is necessary as we attempt to remain competitive in world markets. [illegible]

Capital Investment

During 1976, we invested $[illegible] million in new plants, [illegible]

[illegible]

Ultrasonic waves power heat elements on this quilting machine, fusing polyester fiber to produce the quilted look.

produces woven fabrics for career apparel; addition of another sonic quilting machine and a batting line at our Riverlawn Plant; another expansion of screen printing capacity; purchase of two yield control systems for doubleknits; construction of an automated quick-freezing facility at our Sanger, Calif., frozen food plant; and modernization of repackaging facilities at our Montezuma, Ga., and Seabrook, N.J., frozen food plants. In addition, we acquired a vegetable processing plant and a cold storage plant at Lake Odessa, Mich., which included $2 million of property, plant and equipment.

Financial Developments

We maintained our concentration on balance sheet liquidity in 1976. The company is financially strong.

Our long-term debt dropped slightly and we had no short-term debt during the year. Our cash and credit positions are strong. Inventory turnover showed a slight improvement and we ended 1976 with our inventories in generally good balance.

In an effort to improve our asset liquidity, we have deliberately increased the ratio of current assets to fixed assets. This ratio was 1.6 to 1 in 1976, compared with 1 to 1 in 1970.

Board and Management Changes

Our Board of Directors was expanded from nine to 10 members in 1976. Six are outside directors.

Dan M. Krausse, founder, president and chief executive officer of Earth Resources Company, Dallas, Tex., was elected to the Board in July. He succeeded John F. Lebor of Cincinnati, Ohio, who retired in April.

Albert J. Bows, dean of the Graduate School of Business Administration at Emory University, Atlanta, Ga., was elected to the Board in October. Bows is a retired director and senior partner of the accounting firm of Arthur Andersen & Co.

Also in July, the Board elected Michael Newton controller of Springs succeeding M. H. Smith, who has retired.

In April, 1977, Charles W. Coker will retire from our Board of Directors. Mr. Coker has served on the Board with distinction since 1968, and we are deeply grateful for his contribution to Springs.

The Business Environment

Our business environment in 1977, for both textiles and frozen foods, will depend largely on improvement in the discretionary portion of the consumer's spendable income, and where the consumer elects to spend it. It will also depend on our ability to pass along expected cost increases for raw products, fiber, energy and labor.

Our 1977 plans assume that inflation will not eliminate real gain in the domestic economy. We expect to share in that gain.

Rapidly rising imports of foreign textiles and apparel continue to pose a major threat to the textile industry. Imports rose more than 40 per cent in 1976, exceeding 5 billion square yards despite the existence of trade agreements. Such volume endangers U.S. jobs and de-

H. W. Close

Peter G. Scotese

presses overall markets for U.S. products. The international Multi-Fiber Agreement (MFA) expires in 1977 and must be re-negotiated. Renewal of the MFA on the basis of reasonable import growth is a critical issue facing the industry and the new Administration.

Energy supply is another critical issue. Development of a strong national energy policy, which includes deregulation of natural gas prices, is vital to the economic security of our industry and its employees.

The Outlook

Near-term, we expect to improve our performance in sheets, doubleknit fabrics and frozen fruit and vegetables. Prices are firming in these markets and industry inventories are more in line with sales expectations.

Apparel fabrics and home sewing again should be good markets for us. We expect continued good results from our frozen seafood and international textile sales operations.

For the long term, we will continue to emphasize the development of our two basic businesses, textiles and frozen foods.

We will strengthen our textile base through modernization, improved productivity, a heavier emphasis on technology, and continuing textile product diversification.

We have made incremental investments in frozen foods since we acquired Seabrook in 1973, and expect this to be a continuing long-term strategy. These investments, together with other Seabrook strategies implemented since the acquisition, should begin to yield improved results in 1977.

We look to 1977 as a year in which our textile and frozen foods businesses will show measurable progress toward our long-term objectives.

H W Close

H. W. Close
Chairman of the Board

Peter G. Scotese

Peter G. Scotese
President, Vice Chairman
and Chief Executive Officer

Fort Mill, S.C.
March 11, 1977

'The rotaries print smoother, with better detail. My job's easier, too. I just flip a switch and keep my eyes open.'

Ray Carson Faulkenberry
Screen Print Operator
Grace Screen Print Plant

Finished Fabrics for Manufacturers*

	1976	1975
Sales (in millions)	$272.1	$224.6
% of Company Total	44.1	41.4

*(Apparel Fabrics Division, Knit Division, Retail and Specialty Fabrics Division sales to manufacturers, International Division sales of apparel fabrics.)

Apparel Fabrics Division

The Apparel Fabrics Division weaves, dyes, prints and finishes woven fabrics for sale to apparel manufacturers and to manufacturers of decorative home furnishings. Most fabrics are sold under the Springmaid® brand name. Major products are broadcloth, batiste and print cloth. These fabrics go into many end uses: men's shirting, underwear, pajamas and handkerchiefs; women's blouses, sportswear, sleepwear and lingerie; children's wear, including flame-retardant sleepwear; and decorative home furnishings, such as cafe curtains, dust ruffles, bedspreads and tablecloths. The division also produces and sells medium weight fabrics for slacks, outerwear and industrial uniforms. Most fabrics are made from blends of polyester and cotton.

The Apparel Fabrics Division in 1976 had the highest sales in its history and made a significant contribution to profits.

Despite greatly increased costs, especially for cotton, the division improved its performance over 1975 through higher sales prices, increased volume and a better product mix.

Sales of solid color and fancy men's shirting fabrics increased, as did sales of printed decorative fabrics for home furnishings. The division expects to increase its rotary screen printing capacity in 1977 to meet rising demand for prints.

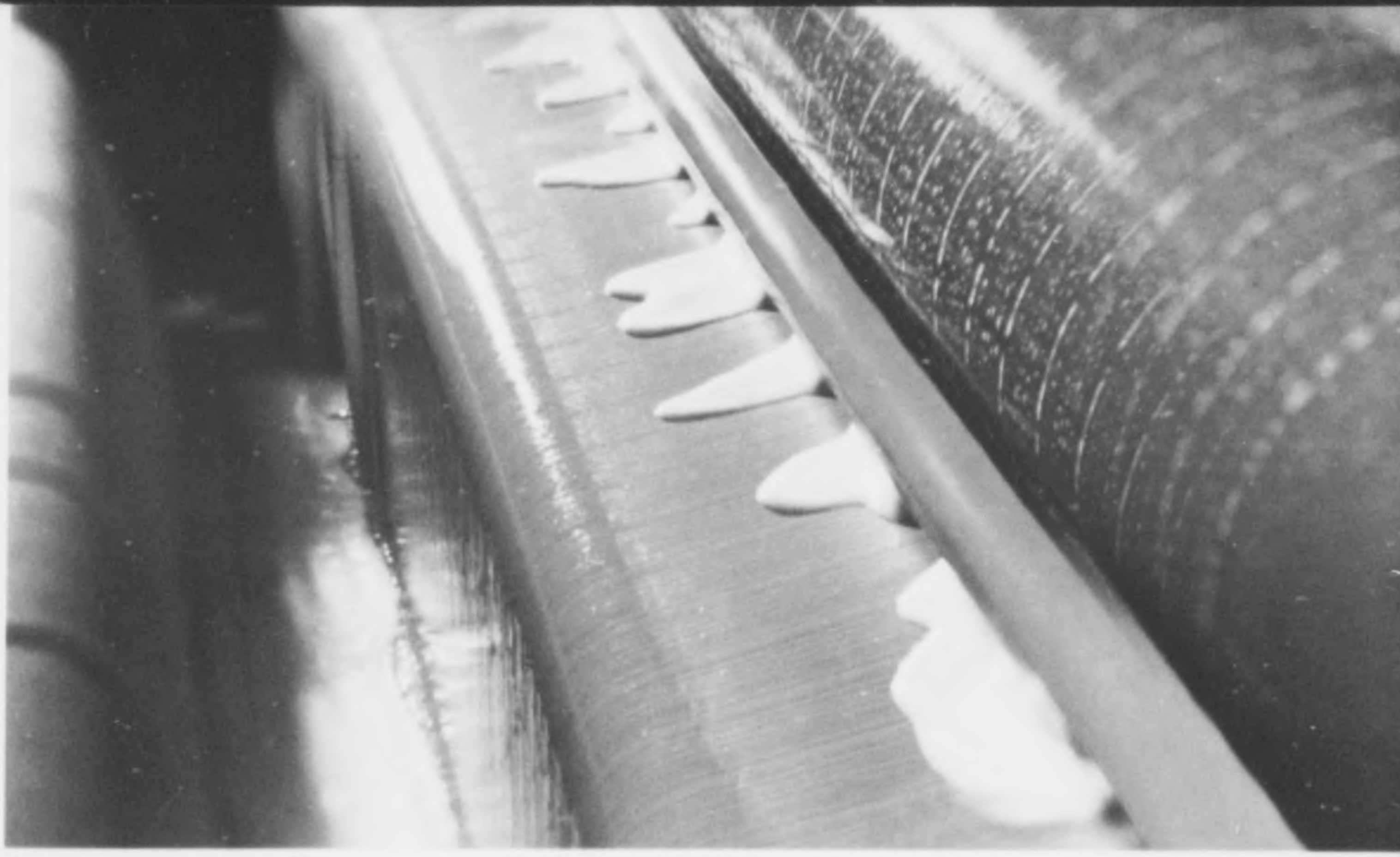
The division continued to grow as a major supplier of medium weight fabrics for industrial uniforms, sportswear and children's playwear. At Springfield Plant, where these fabrics are produced, a $3.5 million project to modernize and expand weaving capacity was completed in 1976. Later in the year, the division began a $3.2 million project to modernize the plant's yarn manufacturing systems. Included are high-speed, chute-fed carding machines which will increase productivity and reduce dust levels.

During the year the division reorganized its styling department to improve fashion coordination of its product lines.

As 1977 began, the ratio of unfilled orders to inventories was lower than that of a year earlier. However, the outlook for sales volume was good despite increasing pressure on margins. Higher cotton costs and growing competition from imports are major areas of concern.

New technology is basic to the division's plans. Early in 1977, a laser scanner fabric inspection system was installed at Leroy Plant. The laser system is more accurate and inspects cloth 10 times faster than the visual inspection it replaced. The laser system will be coupled with a computer system designed to provide optimum yield of first quality fabrics.

During 1977, an initial purchase of air-jet looms, costing more than $1.5 million, will go into operation at Elliott Plant. Hailed as a "third generation" of weaving equipment, the Swiss air-jet looms are more than twice as fast as conventional looms. They are less costly to operate and maintain, and meet current government noise level regulations. Springs will have the first commercial quantity of these looms in the world.



Chemical research in textiles focuses on new finishes and new finishing techniques.

Knit Division

The Knit Division knits, dyes and finishes polyester and blended doubleknit fabrics for men's, women's, and children's wear, and career and athletic apparel. The fabrics are sold nationally to garment manufacturers under the Springmaid® brand name. They are also sold to the home sewing market. With two modern plants, the eight-year-old division is the fourth largest producer of doubleknit fabrics in the nation. The division buys its yarn from outside manufacturers.

Knit Division dollar sales and operating results were adversely affected in 1976 by oversupply and consequent price erosion, which continued to depress the entire doubleknit industry. Lower polyester yarn prices partially cushioned this effect.

The division produced more pounds of fabric in 1976 as it has each year in its history. Despite market conditions, its two manufacturing plants operated six days a week most of the year, in order to maintain volume, absorb overhead and generate significant cash flow for Springs. Inventories remained in balance with sales.

Sales of fabrics for women's wear and career and athletic apparel showed increases. Larger shares of these markets resulted.

Marketing management concentrated on new and innovative styling in 1976. The new lines make use of spun wool, cotton and silk yarns in combination with recently-developed variations of existing filament fibers. Some fabrics have brushed finishes, which impart the look and feel of wovens.

New computer-based yield control systems were purchased for Mullins Plant in 1976. The division also uses computer systems to match colors, design fabric patterns and samples, monitor production and assign plant job loads.

Springs has become a major resource to larger doubleknit customers, while many competitors have dropped out of the industry. With highly modern, efficient plants and aggressive styling and merchandising, division management feels its 1977 prospects are encouraging.

Retail and Specialty Fabrics Division

Springs Retail and Specialty Fabrics Division supplies fabrics to the home sewing market and to manufacturers. Major brands are Springmaid®, Skinner® and Ultrasuede®. Retail outlets are national chains, fabric chains, independent fabric shops, department stores, mass merchandisers and variety stores. Customers of the division's specialty fabrics include manufacturers of such diverse products as couture apparel, bridal gowns, luggage, career apparel, outerwear, accessories, upholstery and art needlecraft supplies. The division has no manufacturing operations. Its products are purchased from a variety of sources, including Springs' Apparel

Supercards produce webs of fiber nearly three times faster than older models.

Fabrics, Consumer Products and Knit divisions.

Although the overall home sewing market has been relatively static during the past three years, the Retail and Specialty Fabrics Division has improved its sales and profit contribution each year.

Major reasons for the 1976 results were strong demand for key items and a diverse product line, which enabled the division to satisfy changing consumer tastes and meet market opportunities as they developed.

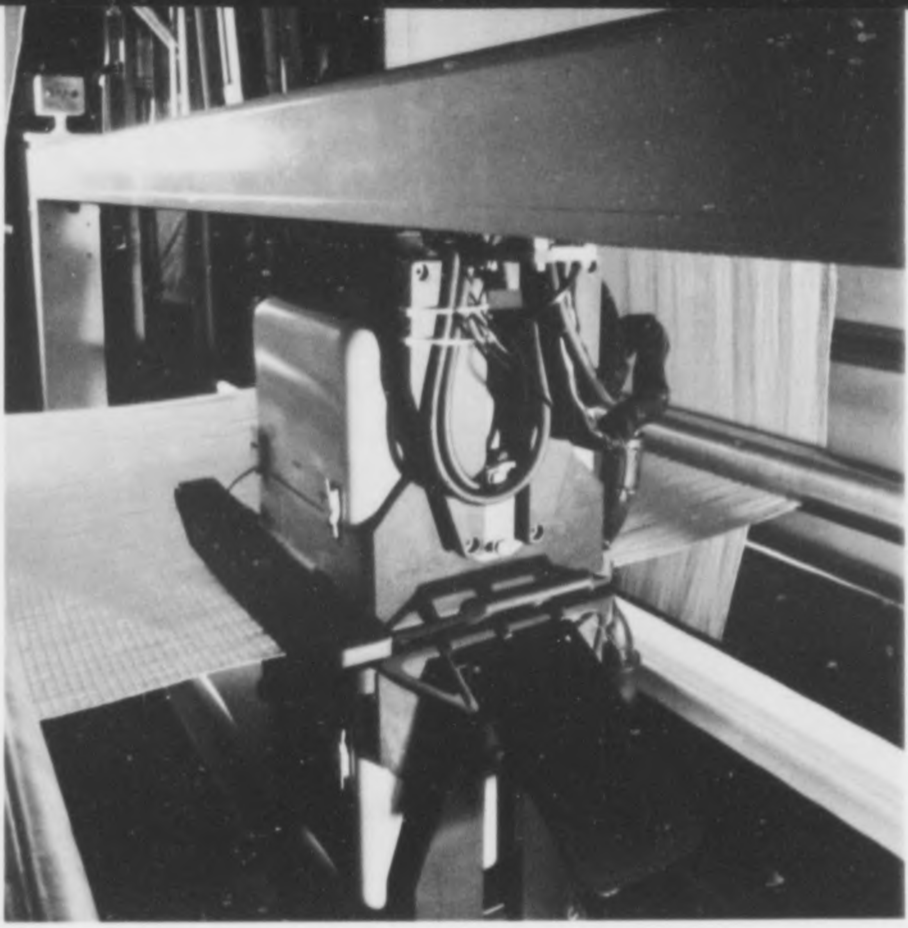
Sales to retailers of woven fabrics produced by Springs increased in 1976. The division also increased its sales of higher-priced Skinner® specialty fabrics, particularly the popular Ultrasuede® fabric. Doubleknit fabric sales for home sewing were weaker.

Among our product innovations during 1976 were printed wide sheeting for home sewing, and fabrics with children's garment patterns printed on them. Both found good market acceptance.

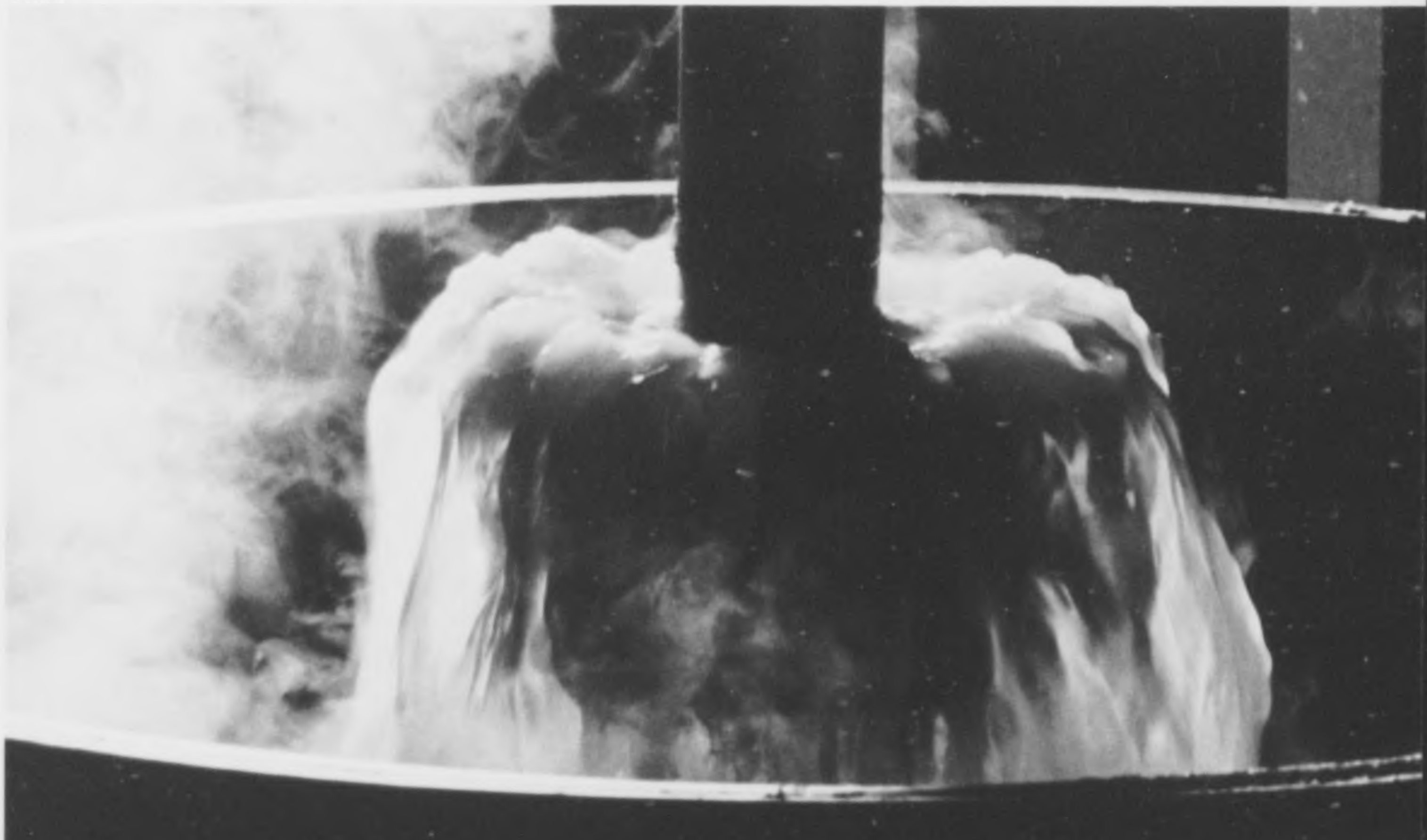
The division expects pressure on prices, which developed during the last half of 1976, to continue into the first half of 1977.

"The yield control makes it possible for me to spend more time on quality because the machine is taking care of yield. I feel I'm doing a better job."

Don Erby
Tenter Frame Operator
Mullins Plant



Yield control system (above) uses Beta scanner and mini-computer to assure optimum weight in doubleknits. Below, recycling technology reclaims polyvinyl alcohol from waste water.



'It's much easier to weave on the Sulzers. There are not as many yarn breaks, and production and quality are better.'

Josephine Spencer
Weaver
Aileen Plant

Textile Products for Consumers*

	1976	1975
Sales (in millions)	$203.9	$185.2
% of Company Total	33.0	34.1

*(Consumer Products Division, Retail and Specialty Fabrics Division sales of home sewing fabrics, International Division sales of consumer products.)

Consumer Products Division

The Consumer Products Division produces and sells sheets, pillowcases, pillow shams, sonic quilted bedspreads, draperies, comforters and bath products. Springmaid® brand products are sold primarily to major department stores. Pequot® and Morgan Jones® brand products are sold primarily to mass merchandise stores. Substantial private label sales are made to the major chain stores and to some department stores. Other outlets are premium and trading stamp merchandisers, military post exchanges, institutional users and Springs' International Division.

Despite an increase in dollar sales over 1975, the Consumer Products Division experienced depressed profit margins because industry overproduction, combined with a sluggish sheet market, prevented increases in sales prices sufficient to offset increased costs.

Sheet industry unit sales were the lowest in five years. Springs' unit sales of sheets were down slightly.

Plant operations were curtailed periodically in an effort to reduce inventories.

Sales of the higher-priced designer sheet lines remained strong. However, profit margins in the large volume, medium and lower-price ranges fell sharply because of severe price competition. Unexpectedly higher cotton prices and manufacturing costs were encountered.

The division has increased the number of end-uses for its sheeting production. These include bedspreads, comforters and draperies, and the home sewing, decorative home furnishings and export markets. This effort will be expanded in 1977.

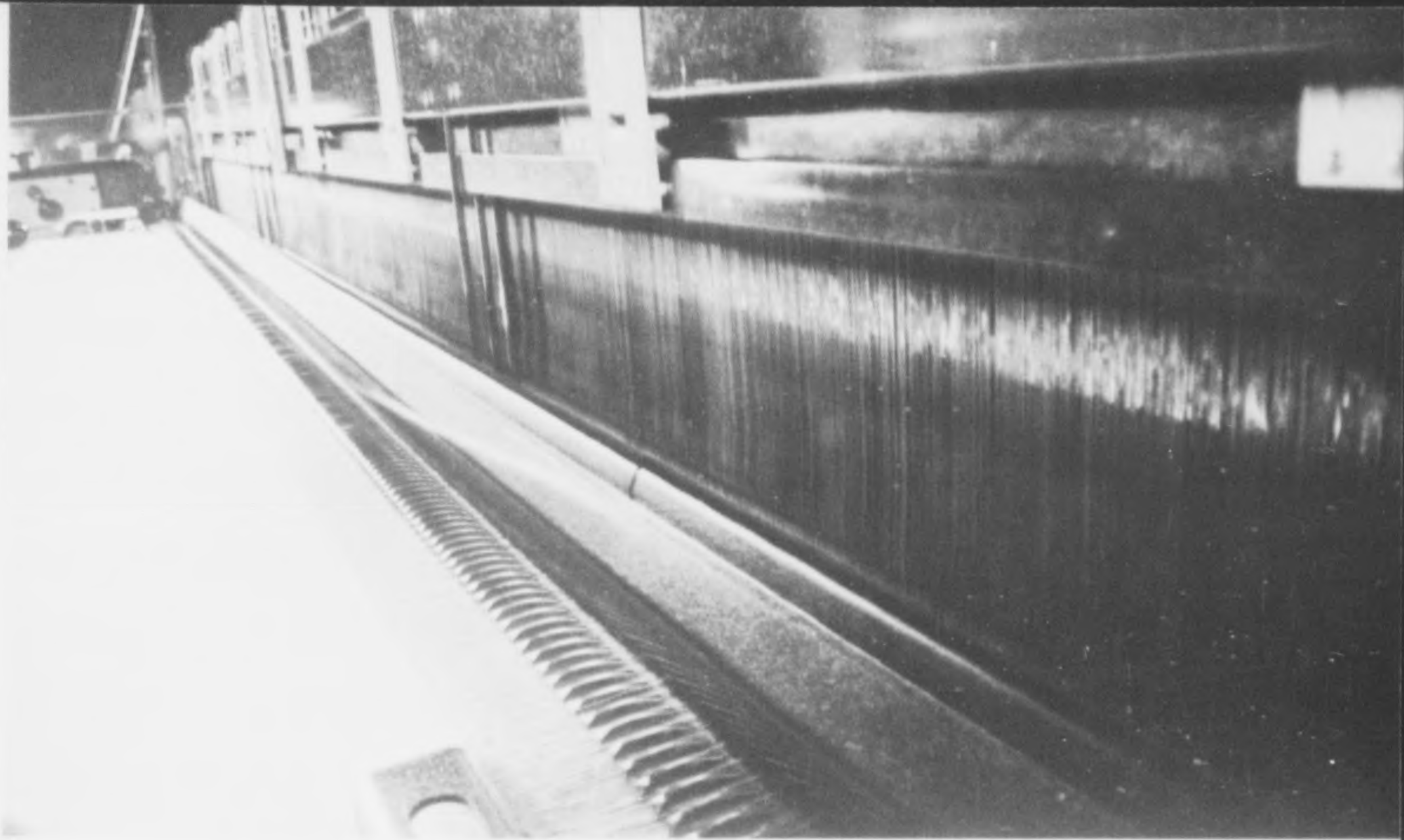
Sales of sonic quilted bedspreads increased. A second Pinsonic quilting machine and facilities for batting production at Riverlawn Plant were added in 1976. The division also formed a separate department to merchandise draperies produced at Riverlawn.

Late in 1976, the division began converting its sheeting production from a 50-50 blend of polyester and cotton to a blend of 65 per cent polyester, 35 per cent cotton. Management expects this move to aid in stabilizing fiber costs, to improve manufacturing efficiencies, to reduce dust levels and to make a more durable product with better no-iron characteristics.

Long-term programs to improve efficiency at Fort Mill and Katherine plants began. Installation of new weaving machines at Aileen Plant was completed. Automatic sheet sewing and packaging facilities were expanded during the year.

Bill Blass' fifth Springmaid® collection and an Egyptian motif group in the Metropolitan Museum of Art series introduced in November received strong market responses.

The outlook for 1977 is for improved volume and profit, with a focus on stronger middle-line styling and greater manufacturing efficiency.



New shuttleless weaving machines nearly 11 feet wide produce polyester-cotton fabric for king size sheets.

International Division

The International Division has two principal activities: export sales of Springs products and the operations of an overseas subsidiary and joint venture. The subsidiary is Springs Europe, S.A., a majority-owned French company which sells woven polyester fabrics and Springmaid/Morgan-Jones® [illegible] sheets and towels in Western Europe. Texfil, S.A. is a Mexican joint venture to produce terry towels. Springs is a minority partner.

Although the International Division represents less than [illegible] percent of Springs' total sales, it has experienced steady sales growth since it was created in [illegible].

While the division achieved record sales in 1976, profit from operations was reduced due to unfavorable currency exchange adjustments. This affected the results of the company's French subsidiary, Springs Europe, S.A. The subsidiary's name was changed from Springs International, S.A.R.L. during 1976.

Export volume was up substantially, largely because of increased sales of U.S.-made sheets and [illegible] [illegible]

[illegible]

the year as the economy began to recover and prices firmed. Springs Europe faces a strong forward order position going into 1977.

During 1976, Springs terminated its interest in [illegible] Textile Manufacturing Corporation of [illegible] [illegible] 1975.

Other Revenues*

	1976	1975
[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]

*[illegible]

Packaging machine (above) automatically boxes sheets and pillowcases. Automated pillowcase hemmer (below) does task formerly performed by hand-operated machines.

This automatic hemmer surprised us all. It's a lot smoother than we expected and quality's better. It's real progress and we're proud of it.

Faye Griffin
Hemming Supervisor
Grace Sewing Plant

'I've been in the frozen seafood business 20 years. There's been an astounding amount of automation in that time.'

Herb Little
Production
Superintendent
Tampa Plant

Frozen Foods

	1976	1975
Sales (in millions)	$127.8	$121.6
% of Company Total	20.7	22.4

Seabrook Foods

Seabrook Foods, Inc., a wholly-owned subsidiary of Springs, has corporate headquarters in Atlanta, Ga. The company processes, packages and distributes frozen vegetables, fruits, seafood and prepared foods. Seabrook operates through three profit centers: the Northern and Southern Regions of the Fruit and Vegetable Division, and the Seafood Division. Products are sold under Seabrook's brand names and under private labels. Distribution is mainly through brokers and wholesalers, to retail food stores, institutions and for export. Sales are concentrated in the Northeast, Southeast and Far West. Company brands include Seabrook Farms®, Snow Crop®, Chill Ripe®, McKenzie's™, Kitchen Ready®, Glacier™ Reg, Gold King®, and Carnation® seafood.

Seabrook Foods, Inc. increased its dollar sales in 1976, but pounds sold dropped slightly.

The subsidiary's Southern Region and Seafood Division had excellent results, but higher costs and severe price competition in western and eastern fruit and vegetable markets depressed overall profit margins.

Inventory liquidation began in mid-1975 because of a combination of reduced demand and rising inventories unique in the industry's history. This liquidation continued to depress fruit and vegetable markets through most of the year. Seabrook's inventories had been substantially reduced in 1975, and remained in relatively satisfactory balance throughout 1976.

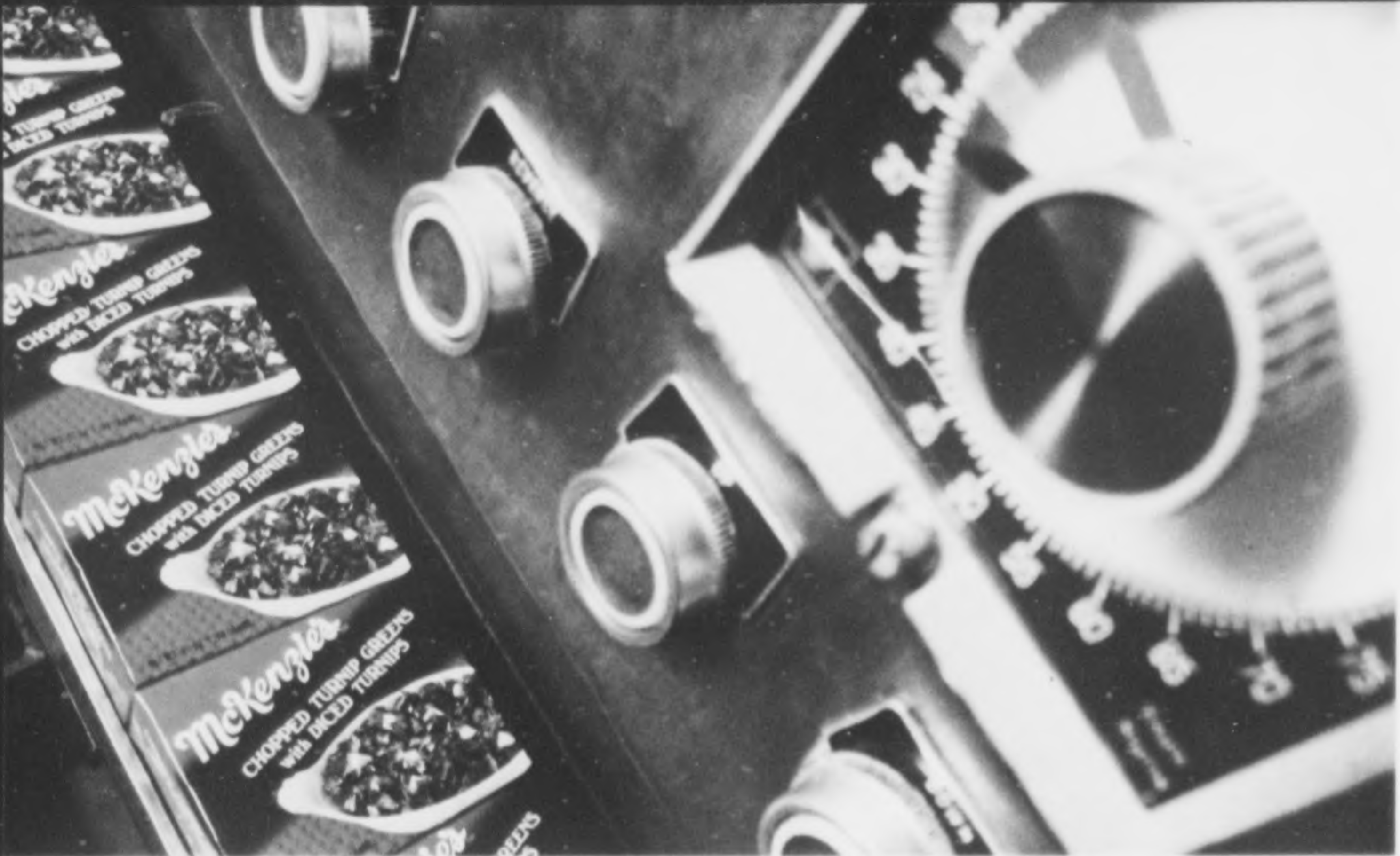
By the fourth quarter of 1976, the industry's inventories had stabilized and selling prices had begun to firm. Cost increases slowed from the high rates of the two previous years. As 1976 ended, Seabrook's fruit and vegetable operations reflected these encouraging trends.

For the second straight year, the Seafood Division had the best results in its history. The frozen seafood industry's raw products remained in generally short supply and demand and prices were strong.

Three projects begun in late 1975, designed to reduce processing costs and improve production capabilities, were completed in 1976. The fresh vegetable processing portion of the New Jersey plant was closed because it was inefficient. Its production was relocated in other Seabrook facilities. Seabrook made its first move into the Midwest, acquiring Lake Odessa Canning Company and Reed Johnson Cold Storage Company, both of Lake Odessa, Mich. And a new, modern vegetable production line was added to the Sanger, Calif., plant.

New vegetable mixes introduced in 1975 proved successful sellers in 1976. This line will be expanded in 1977, promoted with a strong consumer advertising program.

Seabrook management expects the frozen fruit and vegetable industry to improve in 1977. The company positioned itself in 1976 to capitalize on this expected upturn.



Packaged greens (above) are conveyed to automatic plate freezing unit. Giant container of shrimp (below) is lifted from cooking vat, ready to be quick-frozen.

"My production lines for greens, beans and squash are automated now. We have less downtime than we used to, and more production. There's been a lot of change here."

J. B. Barnes
Production Foreman
Montezuma Plant

'Energy conservation has become a high priority in textiles. Now suppliers are designing machines with energy-saving devices included.'

Ted Glover
Group Leader
Research and
Development Center

High-speed rotary screen printer delivers up to 10 colors at 50 yards per minute and uses less energy than earlier models.

Personnel

During 1976, Springs continued to concentrate on strong relationships with employees and to provide competitive pay and benefits. Textile employee turnover was below 30 per cent in 1976, about one-half the industry average.

A major focus is the upgrading of employees, particularly women and racial minorities. In Springs' textile business during 1976, women received 28 per cent of all promotions and blacks received 26.5 per cent.

Springs' textile employment is 46.1 per cent female and 28.2 per cent racial minorities. Frozen food employment is 53.3 per cent female and 57.9 per cent racial minorities.

Training is a key to career development. Springs spent $3.7 million in 1976 to provide skills training for 7,500 textile employees and management supervisory development training for 1,500 employees. The management courses ranged from home study cassettes to resident study at the Harvard University Advanced Management Program. Seabrook Foods has established programs for supervisory training and management development, using in-plant facilities as well as those of the American Management Association.

During 1976, hourly textile employees received their seventh general wage increase in five years. The increase amounted to more than $10 million in direct wages on an annual basis. The investment policy of the Profit-Sharing Plans was altered to gain more earnings stability. A system of annual performance appraisals for all hourly textile employees went into effect. Effective Jan. 1, 1977, the company established a policy of textile facility seniority to replace department seniority.

Extensive medical programs, carried out by a staff of five doctors, 36 nurses and six testing technicians, offer preventive medicine, first aid, physical examinations and systematic breathing and hearing testing. A computerized health profile of each employee is maintained.

Ongoing employee communications activities include corporate and plant level publications, plant communications centers, special newsletters, special events, a suggestion system and athletic programs at all facilities.

During 1977, Springs will complete a second series of attitude surveys among employees at all textile plants. This will be compared with benchmark studies conducted in 1973-74.

Springs' waste treatment facilities at Grace Finishing Plant are extensive. Recent expansion brings total investment in pollution control at the plant to nearly $5 million.

Energy

Springs' ongoing energy conservation program produced savings of nearly $2 million in 1976. The company's energy costs of $23.1 million would have reached $25 million without the conservation measures.

Seabrook Foods accounted for $3.5 million of Springs' total energy costs. A formal energy conservation program for Seabrook has been established, and energy conservation teams are being formed at all Seabrook locations. The approach is similar to that used in Springs' textile operations.

Based upon energy units per pound of goods produced, energy consumption in textile operations was [illegible] since the 1972 base period. However, the improvement over 1975 was less than 1 percent. Extremely cold weather in the first quarter of 1976 adversely affected conservation efforts.

The importance of energy conservation is underscored by Springs' energy cost per pound of textile goods produced. This cost has risen [illegible] since 1972.

Natural gas is critical to textile finishing processes, with propane the only alternative fuel. Although there were no production cutbacks because of fuel shortages in 1976, Springs and other textile manufacturers experienced shortages of both natural gas and propane in early 1977. The impact of these shortages, which would have been more severe except for Springs' advance planning with producers and excellent relationships with government officials. The company is planning additional storage facilities to assure continuity of energy supply.

Energy costs are expected to continue rising faster than the inflation rate. Springs' ability to control these costs will require some capital investment, as well as close attention to trends in pricing and availability.

Research and Development

Springs devoted its research and development efforts in 1976 to methods of increasing productivity and manufacturing new products, and to other methods of reducing production costs.

Technological advances evaluated at the Research and Development Center and subsequently adopted for Springs' textile plants include a laser scanner fabric inspection system, third generation carpet looms, a computerized system to control the finished weight of woven fabrics, and equipment to reduce sizing between wet tables during wet processing.

The R&D Department also helped develop extensive renovation plans for the manufacturing facilities of the Apparel Fabrics and Consumer Products divisions. The plans are aimed at modernizing facilities to improve efficiency, output per man-hour and product quality.

Product development work included evaluation of a new flame-retardant finish for children's sleepwear, development of an improved durable press finish for sheets and towels that aided Springs' decision to increase the polyester content of its sheets. In addition, the Center made nearly 1,000 samples of new fabrics for evaluation by Springs' customers.

Board of Directors

H. W. Close
Chairman of the Board; age 57; joined Springs 1946; joined Board 1951.

Peter G. Scotese
President, Vice Chairman and Chief Executive Officer; age [illegible]; joined Springs and Board 1969.

James B. Lasley
Executive Vice President and director; age [illegible]; joined Springs 1948; Board service 1964-66 and 1968 to present.

Malcolm W. West, Jr.
Executive Vice President and director; age [illegible]; joined Springs 1970; joined Board 1972.

Albert J. Bows
Dean, Graduate School of Business Administration, Emory University, Atlanta, Ga.; retired director and senior partner, Arthur Andersen & Co.; age [illegible]; joined Board 1976.

Charles W. Coker
Retired Chairman, Sonoco Products Company, Hartsville, S.C.; age [illegible]; joined Board 1966.

Herbert R. Elsas
Partner, Sutherland, Asbill & Brennan, Atlanta, Ga.; age 67; joined Board 1975.

Donald N. Frey
Chairman, President and Chief Executive Officer, Bell & Howell Company, Chicago, Ill.; age [illegible]; joined Board 1975.

Dan M. Krausse
President and Chief Executive Officer, Earth Resources Company, Dallas, Tex.; age 51; joined Board 1976.

L. Chester May
Chairman, The Chicago Bank of Commerce, Chicago, Ill.; age [illegible]; joined Board 1975.


Close


Scotese


Lasley


West


Bows


Coker


Elsas


Frey


Krausse


May

Management's Analysis Of Operations

Summary Of Operations

	1976	1975
Operations (in millions):		
Net sales	$617.5	$543.1
Operating costs and expenses	584.9	514.8
Interest	5.6	6.1
Other expense (income) net	(1.5)	2.0
Income before income taxes	28.5	20.2
Income taxes	13.4	9.5
Income from continuing operations	15.1	10.7
Income (loss) from discontinued operations	0	(4.1)
Income before extraordinary item	15.1	6.6
Extraordinary item — income (charge)	0	0
Net income	15.1	6.6
Cash dividends	6.5	6.5
Depreciation and amortization expense from continuing operations	18.4	18.2
Weighted average number of shares outstanding	8.8	8.8
Per share of common stock:		
Income from continuing operations	$1.72	$ 1.22
Income (loss) from discontinued operations	0	(.47)
Extraordinary item — income (charge)	0	0
Net income	1.72	.75
Cash dividends	.75	.75
Percent:		
Income from continuing operations to net sales	2.4%	2.0%
Net income to net sales	2.4	1.2
Net income to shareholders' equity at the end of year	5.3	2.4
Net income to total assets	3.5	1.6

*1975 and 1969 had fifty-three weeks. All other fiscal years had fifty-two weeks.

Management's Discussion of Operations

1976 Compared with 1975

Sales: Consolidated net sales increased by $74.4 million, or 13.7%. Sales by Product and Line of Business are shown in the table on page 20.

Textile operations reflected a general recovery from the severely depressed markets of 1975, when prices fell sharply from the previous year's levels. This price recovery to pre-recession levels accounted for most of the textile sales increase of $68.2 million.

Sales of finished fabrics to manufacturers increased by $47.5 million, which represented 69.6% of the total textile sales increase. The increase in this category resulted from a 4% increase in sales volume and from improved product mix and higher average sales prices despite a continuing decline in prices for double knit fabrics.

Consumer products' textile markets were relatively weak in 1976. Springs unit sales did not increase significantly from the depressed levels of 1975. The sales increase of $18.7 million in this category was due mainly to favorable changes in product mix and higher sales prices.

Sales of frozen foods increased by $6.2 million. The increase was due to increased sales prices and improved product mix. Pounds sold decreased slightly as segments of the frozen fruit and vegetable industry remained depressed.

Operating Costs and Expenses: Operating costs and expenses increased by $70.1 million as shown in the Distribution of the Sales Dollar table on page 21. Approximately $5.2 million of the increase was attributable to 1975 pretax costs being reduced by liquidation of LIFO inventory quantities (see Note 4 to Financial Statements). The remainder of the 1976 cost increase was due to a general escalation of practically all costs, particularly in

Fiscal Years*							
1974	**1973**	**1972**	**1971**	**1970**	**1969**	**1968**	**1967**
$555.9	$491.8	$355.3	$286.6	$276.1	$262.0	$229.8	$226.8
505.6	445.3	321.7	266.1	258.9	247.6	226.5	213.6
11.0	7.2	3.6	3.4	3.7	2.6	2.6	.8
(.8)	0	0	.1	(.4)	(1.1)	(1.2)	(.5)
40.1	39.3	30.0	17.0	13.9	12.9	1.9	12.9
19.6	18.6	14.0	8.6	6.7	6.2	(.8)	5.2
20.5	20.7	16.0	8.4	7.2	6.7	2.7	7.7
(8.1)	(1.8)	(1.8)	0	(1.0)	.4	(.8)	(.9)
12.4	18.9	14.2	8.4	6.2	7.1	1.9	6.8
0	0	(1.0)	.9	0	0	0	0
12.4	18.9	13.2	9.3	6.2	7.1	1.9	6.8
6.2	5.2	6.9	8.6	8.6	8.6	8.6	8.6
20.9	18.8	16.4	15.5	14.6	12.6	11.1	10.0
8.7	8.7	8.6	8.6	8.6	8.6	8.6	8.6
$ 2.35	$ 2.39	$ 1.85	$ .97	$ .83	$ .78	$ .32	$ .89
(.92)	(.20)	(.22)	.01	(.11)	.04	(.10)	(.10)
0	0	(.11)	.10	0	0	0	0
1.43	2.19	1.52	1.08	.72	.82	.22	.79
71	.60	.80	1.00	1.00	1.00	1.00	1.00
3.7%	4.2%	4.5%	2.9%	2.6%	2.6%	1.2%	3.4%
2.2	3.9	3.7	3.3	2.2	2.7	.8	3.0
4.5	7.0	5.1	3.7	2.5	2.8	.8	2.6
2.9	4.3	3.7	2.7	1.8	2.1	.6	2.3

the important categories of cotton and employee wages and benefits.

Other Expense: Other expense for 1975 included a $3.6 million pretax charge for anticipated costs of the shutdown and relocation of a portion of the productive capacity of the frozen food operation at Seabrook, N.J. No adjustment to the reserves set up in 1975 to cover the anticipated expenses was required.

Income Before Taxes: As shown in the Summary of Operations and also in the Sales and Income by Line of Business table on page 20, income before taxes increased by $8.3 million, or 41%, in 1976.

Of the increase, $4.3 million resulted from the economic recovery of some segments of the textile business, primarily in apparel fabrics, and the ability to offset cost increases through higher sales prices.

Frozen food operations showed a decrease of $4 million in pretax loss. This was principally due to the nonrecurring pretax charge in 1975 of $3.6 million for costs of the Seabrook, N.J. shutdown and relocation. Favorable results in 1976 from the seafood and southern vegetable operations were offset by disappointing results from the western and eastern fruit and vegetable operations.

1975 Compared with 1974

Sales: Consolidated net sales decreased by $12.8 million (2.3%) which was the result of a $23 million (5.2%) decrease in textile sales, partially offset by a $10.2 million (9.2%) increase in sales of frozen foods.

Reduced textile sales were due principally to a decrease in sales prices resulting from severely weakened textile markets, especially in the first half of 1975. These price decreases were somewhat offset by increased sales volume. The increase in frozen food sales was due equally to increases in sales prices and volume.

Sales by Products and Sales and Income by Lines of Business

(dollars in millions)

	1976		1975*		1974		1973		1972	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Sales:										
Textiles:										
Finished fabrics for manufacturers	$272.1	44.1	$224.6	41.4	$241.9	43.6	$219.6	44.7	$182.2	51.3
Consumer products .	203.9	33.0	185.2	34.1	191.8	34.5	184.9	37.6	158.3	44.5
Other	13.7	2.2	11.7	2.1	10.8	1.9	7.5	1.5	14.8	4.2
Total	489.7	79.3	421.5	77.6	444.5	80.0	412.0	83.8	355.3	100.0
Frozen foods	127.8	20.7	121.6	22.4	111.4	20.0	79.8	16.2	0	0
Total	$617.5	100.0	$543.1	100.0	$555.9	100.0	$491.8	100.0	$355.3	100.0
Income (loss) before income taxes, discontinued operations and extraordinary item:										
Textiles	$ 29.2	102.5	$ 24.9	123.3	$ 42.2	105.2	$ 37.0	94.1	$ 30.0	100.0
Frozen foods	(.7)	(2.5)	(4.7)	(23.3)	(2.1)	(5.2)	2.3	5.9	0	0
Total	$ 28.5	100.0	$ 20.2	100.0	$ 40.1	100.0	$ 39.3	100.0	$ 30.0	100.0

*1975 had fifty-three weeks. All other fiscal years had fifty-two weeks.

Operating Costs and Expenses: Operating costs and expenses increased by $9.2 million, or 1.8%, even after the reduction in raw materials, labor, and other costs due to liquidation of LIFO inventory quantities. Raw materials expense also was lower due to reduced 1975 textile operating levels. Manufacturing salaries, wages and employee benefits increased as a result of general wage increases in 1975 and 1974, but the full impact of these increases was offset by reduced textile operating levels. Other manufacturing expenses rose owing to higher energy, supply, dye and chemical costs.

Interest Expense: Interest expense decreased by $4.9 million due to the retirement during 1975 of $22 million in long-term debt and a decrease in the average short-term debt outstanding.

Other Expense: Other expense for 1975 included the nonrecurring charge for the shutdown and relocation at Seabrook, N.J. previously mentioned.

Income Before Taxes: Lower sales prices and increased costs and expenses in textile operations accounted for $17.3 million of the $19.9 million decrease in income before income taxes in 1975.

Discontinued Operations: The 1975 loss from discontinued operations of $4.1 million (net of applicable tax credits of $5.2 million) resulted from the operations and disposition, because of worthlessness, of Boundsgreen/Daralon. Losses from the Boundsgreen/Daralon operation also were incurred in 1974, 1973, and 1972, respectively, of $1.3 million, $.4 million, and $.1 million.

Prior Years

Change in Accounting Principle: During 1974, Springs extended its use of the LIFO dollar value method to include synthetic raw materials and the remainder of its manufactured textile inventories consisting of synthetic

Distribution of the Sales Dollar*

(dollars in millions)

	1976		1975*		1974	
	Amount	%	Amount	%	Amount	%
Operating costs and expenses:						
Raw materials	$235.6	38.2	$198.1	36.5	$209.6	37.7
Manufacturing salaries, wages and employee benefits	164.8	26.7	151.3	27.8	146.5	26.4
Other manufacturing expenses	122.6	19.8	106.3	19.7	87.4	15.7
Depreciation charged to cost of goods sold	17.4	2.8	17.4	3.2	20.0	3.6
Selling, general and administrative expenses	44.5	7.2	41.7	7.7	42.1	7.6
Total operating costs and expenses	584.9	94.7	514.8	94.9	505.6	91.0
Interest	5.6	.9	6.1	1.1	11.0	2.0
Other expense (income)	(1.5)	(.2)	2.0	.3	(.8)	(.1)
Income taxes	13.4	2.2	9.5	1.7	19.6	3.5
Loss from discontinued operations	0	0	4.1	.8	8.1	1.4
Total costs and expenses	602.4	97.6	536.5	98.8	543.5	97.8
Cash dividends	6.5	1.0	6.5	1.2	6.2	1.1
Earnings retained	8.6	1.4	.1	0	6.2	1.1
Total sales dollar	$617.5	100.0	$543.1	100.0	$555.9	100.0

*1975 had fifty-three weeks. All other fiscal years had fifty-two weeks.

content of in process and finished goods and certain other inventory costs (which were formerly valued at approximate average costs). Effective in 1974, Springs adopted the LIFO dollar value method with the natural business unit method of pooling for the majority of its frozen food inventories, which had been valued at approximate average costs. During 1974 Springs also changed from a multiple pool LIFO method to a single natural business unit LIFO method of pooling for its textile inventories, subject to review by the Internal Revenue Service. The effect on reported earnings for 1974 of extending the use of LIFO to cover a greater portion of inventories was a decrease of approximately $3.8 million ($.44 per share). The effect on reported earnings for 1974 of changing the method of pooling was a decrease of approximately $2.3 million ($.26 per share).

Acquisition of Seabrook: Springs acquired Seabrook as of March 3, 1973 in a transaction accounted for as a purchase. Of the $136.5 million increase in 1973 consolidated sales over 1972, $79.8 million was due to the acquisition of Seabrook. In 1973, Seabrook contributed $2.3 million to income before income taxes and discontinued operations. On February 28, 1974 Seabrook acquired Albany Frozen Foods, Inc. in a transaction accounted for as a purchase. The operations of Albany are not material to the consolidated financial statements.

Discontinued Operations and Extraordinary Item: Loss from discontinued operations for 1974, 1973, 1972 and 1971 reflected the losses (net of tax benefits) from discontinuance in 1974 of the Terry and Carpet operations as well as the Boundsgreen/Daralon losses previously mentioned. The extraordinary loss in 1972 resulted from the estimated disposal costs and losses (net of tax benefit) expected to arise from the discontinuance in 1973 of the carpet yarn operation.

Statistical Data

	1976	1975	1974	1973	1972
Selected balance sheet data (in millions):					
Working capital (1)	$208.2	$198.3	$207.5	$195.0	$127.9
Property, plant and equipment:					
Cost	383.6	367.3	358.4	385.6	358.8
Accumulated depreciation and amortization	220.5	205.5	190.3	194.0	186.0
Net	163.1	161.8	168.1	191.6	172.8
Property additions	17.8	14.6	19.1	20.4	18.1
Long-term debt	71.3	72.8	94.8	106.9	30.0
Shareholders' equity	284.4	276.4	276.1	269.6	255.7
Per share of common stock:					
Working capital	24.02	22.79	23.96	22.62	14.87
Shareholders' equity	32.82	31.76	31.88	31.28	29.74
Price range:					
High	15¼	11⅞	13⅜	15⅛	19⅛
Low	10¼	8⅝	8¼	10	13⅛
Statistics:					
Inventory turnover (2)	4.3	4.0	3.5	3.7	3.2
Accounts receivable turnover (3)	6.7	6.6	5.4	5.5	5.2
Net sales divided by total assets (4)	1.4	1.3	1.2	1.2	1.0
Current ratio (5)	5.0	5.7	5.4	5.4	3.5
Other:					
Approximate number of shareholders	4,870	4,750	4,760	4,620	4,290
Average number of employees	20,100	19,400	22,400	23,400	20,200

(1) Excess of current assets over current liabilities.
(2) Cost of goods sold divided by average of month-end inventories.
(3) Net sales divided by average of month-end receivables.
(4) Net sales divided by average of month-end total assets.
(5) Current assets divided by current liabilities.

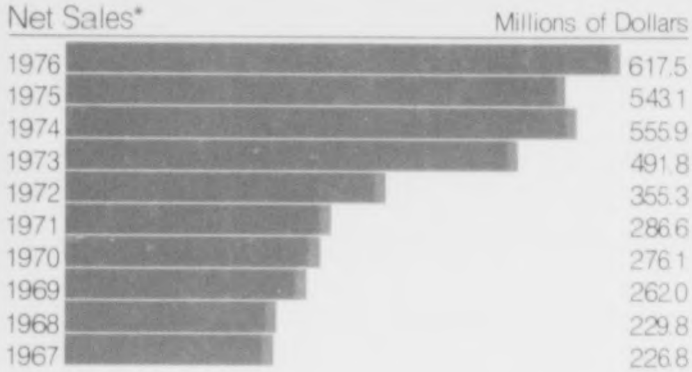
Dividends and Price Range of Common Stock

Per share dividends paid and high/low sales prices of Springs Mills common stock (traded on the New York Stock Exchange), by quarters for the last two years, were as follows:

1976					
Quarter	1st	2nd	3rd	4th	Year
Dividends Paid (¢):	18¾	18¾	18¾	18¾	75
Common Stock Prices ($):					
High	14¼	15¼	12⅞	13⅜	15¼
Low	10¼	12½	11¼	11¼	10¼

1975					
Quarter	1st	2nd	3rd	4th	Year
Dividends Paid (¢):	18¾	18¾	18¾	18¾	75
Common Stock Prices ($):					
High	10¾	10¾	10⅞	11⅞	11⅞
Low	8⅝	9¼	9⅛	9⅜	8⅝

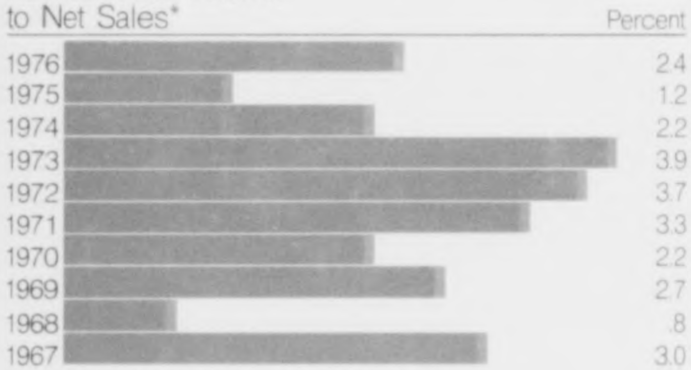
Net Sales*



*Continuing Operations

Net Income

Per Cent Net Income to Net Sales*



*Net Sales from Continuing Operations

Net Income as Per Cent of Equity

Per Common Share

Per Common Share

Consolidated Balance Sheet

Springs Mills, Inc. and Subsidiaries
January 1, 1977 and January 3, 1976

Assets

	1976	1975
	(In thousands)	
Current assets:		
Cash	$ 10,682	$ 10,739
Short-term investments (at lower of cost or market)	17,100	8,900
Accounts receivable (principally trade)	108,010	102,160
Inventories	119,136	112,036
Other	5,674	6,782
Total current assets	260,602	240,617
Property, plant and equipment:		
Land and improvements	7,148	7,423
Buildings	92,647	90,245
Machinery, equipment, leasehold improvements, etc.	280,280	266,751
Construction in progress	3,560	2,929
Total	383,635	367,348
Less accumulated depreciation and amortization	220,539	205,580
Property, plant and equipment, net	163,096	161,768
Notes receivable, deferred charges, and other	7,034	8,460
Total	$430,732	$410,845

See Notes to Financial Statements.

Liabilities and Shareholders' Equity

	1976	1975
	(In thousands)	
Current liabilities:		
Current maturities of long-term debt	$ 4,181	$ 4,125
Accounts payable	24,160	24,949
Income taxes	7,706	0
Accrued profit sharing and incentive pay	4,535	3,124
Other accrued liabilities	11,831	10,107
Total current liabilities	52,413	42,305
Long-term debt	71,273	72,804
Deferred income taxes, etc.	22,635	19,324
Shareholders' equity:		
Preferred stock — voting — $1.00 par value (authorized, 1,000,000 shares; outstanding, none)	0	0
Common stock — $.50 par value (authorized, 12,500,000 shares; issued, 1976 — 8,748,219; 1975 — 8,728,412)	4,374	4,364
Additional paid-in capital	5,463	5,301
Retained earnings	275,750	267,154
Total	285,587	276,819
Less cost of common shares in treasury (1976 — 80,844; 1975 — 25,464)	1,176	407
Shareholders' equity	284,411	276,412
Total	$430,732	$410,845

Consolidated Statements of Income and Retained Earnings

Springs Mills, Inc. and Subsidiaries
For the fiscal years ended January 1, 1977 (52 weeks) and January 3, 1976 (53 weeks)

Income

	1976	1975
	(In thousands, except per share data)	
Net sales	$617,517	$543,091
Cost and expenses:		
Cost of goods sold	540,402	473,121
Selling, administrative and general expenses	44,480	41,729
Interest	5,660	6,067
Other, net	(1,490)	1,972
Total	589,052	522,889
Income before income taxes	28,465	20,202
Income taxes	13,357	9,516
Income from continuing operations	15,108	10,686
Loss (gain) from discontinued operations:		
From operations, net	0	5,038
On disposition, net	0	(924)
Total	0	4,114
Net income	$ 15,108	$ 6,572
Per share:		
Income from continuing operations	$ 1.72	$ 1.22
(Loss) from discontinued operations	0	(.47)
Net income	$ 1.72	$ .75
Weighted average number of shares outstanding	8,768	8,771

Retained Earnings

	1976	1975
Retained earnings at beginning of year	$267,154	$267,105
Net income	15,108	6,572
Cash dividends on common stock (per share: 1976 — $.75; 1975 — $.75)	(6,512)	(6,523)
Retained earnings at end of year	$275,750	$267,154

See Notes to Financial Statements.

Consolidated Statement of Changes in Financial Position

Springs Mills, Inc. and Subsidiaries
For the fiscal years ended January 1, 1977 (52 weeks) and January 3, 1976 (53 weeks)

	1976	1975
	(In thousands)	
Working capital provided by:		
Operations:		
Income from continuing operations	$15,108	$10,686
(Loss) from discontinued operations	0	(4,114)
Items not currently requiring working capital:		
Depreciation and amortization	18,352	18,204
Deferred taxes, net (includes $780,000 in 1975 of deferred tax benefit for discontinued operations)	2,544	509
Other, net	1,002	1,738
Working capital provided by operations	37,006	27,023
Write-off of investment in and loans to Boundsgreen/Daralon	0	3,442
Disposition of property, plant and equipment, net	225	4,800
Proceeds from long-term debt	3,011	2,704
Other, net	1,614	695
Working capital provided	41,856	38,664
Working capital applied to:		
Additions to property, plant and equipment	17,846	14,569
Reduction of long-term debt	4,542	25,599
Dividends paid	6,512	6,523
Purchase of subsidiaries (Lake Odessa companies — 1976, Sanger companies — 1975):		
Property, plant and equipment, net	2,059	2,089
Deferred charges, net	250	9
Long-term debt	0	(908)
Purchase of treasury stock	770	0
Working capital applied	31,979	47,881
Increase (decrease) in working capital	$ 9,877	$ (9,217)
Increase (decrease) in working capital, by components:		
Cash	$ (57)	$ (4,190)
Short-term investments	8,200	8,900
Receivables	5,850	9,938
Inventories	7,100	(25,052)
Other current assets	(1,108)	(3,273)
Current maturities of long-term debt	(56)	7
Accounts payable	789	(486)
Income taxes	(7,706)	0
Accrued profit sharing and incentive pay	(1,411)	1,150
Other accrued liabilities	(1,724)	3,789
Increase (decrease) in working capital	$ 9,877	$(9,217)

See Notes to Financial Statements

Notes To Financial Statements

Note 1. Summary of Significant Accounting Policies:

A. **Principles of Consolidation, etc.**: The accompanying consolidated financial statements include Springs Mills, Inc. (Springs), its wholly-owned subsidiaries, including Seabrook Foods, Inc. and its subsidiaries (Seabrook), and a 99%-owned subsidiary, Springs Europe, S.A. (formerly Springs International, S.A.R.L.).

As of January 31, 1975 and March 31, 1976, respectively, Seabrook acquired Sanger Ice & Cold Storage Company and Sanger Precooling Co., Sanger, California (Sanger companies) at a cost of $1,275,000, and Lake Odessa Canning Company and Reed Johnson Cold Storage Co., Lake Odessa, Michigan (Lake Odessa companies) at a cost of $2,880,000 in transactions accounted for as purchases. Accordingly, the Sanger and Lake Odessa companies have been included in consolidation since such dates of acquisition. Had the Sanger companies been acquired as of December 29, 1974 and had the Lake Odessa companies been acquired as of January 4, 1976, there would have been no material effect on consolidated net sales or net income for 1975 or 1976.

B. **Property and Depreciation**: Property, plant and equipment are stated at cost. Maintenance and repairs are deducted from income as incurred, and renewals or improvements are capitalized. Depreciation and amortization are provided over the estimated useful lives of the related assets, using the straight-line method.

Certain long-term lease transactions relating to the financing of plants have been capitalized as property, plant and equipment and the lease obligations treated as long-term debt.

C. **Deferred Charges**: Goodwill, licenses and trademarks are recorded at cost less amortization. Goodwill is being amortized over ten and forty-year periods, licenses are being amortized over a fifty-four year period, and trademarks are not amortized.

D. **Income Taxes**: Deferred income taxes relate to timing differences in the recognition of certain expenses for financial statements and income tax purposes. Investment tax credits are deducted from federal income tax expense under the "flow-through" method.

E. **Earnings Per Share**: Per share amounts are based on the weighted average number of shares of common stock and common stock equivalents (shares issuable under stock options and deferred compensation arrangements) outstanding during each year.

Note 2. Quarterly Data (unaudited):

Selected quarterly data are presented as follows (in millions except per share data):

	1976*					1975*				
	1st	2nd	3rd	4th	Total	1st	2nd	3rd	4th	Total
Net sales	$147.5	$149.4	$142.5	$178.1	$617.5	$106.9	$127.3	$132.7	$176.2	$543.1
Gross profit	18.3	19.0	17.8	22.0	77.1	10.4	15.1	17.8	26.7	70.0
Income (loss) from continuing operations	3.3	3.5	3.2	5.1	15.1	(.3)	2.8	3.0	5.2	10.7
(Loss) from discontinued operations	0	0	0	0	0	(.4)	(.5)	(2.1)	(1.1)	(4.1)
Net income (loss)	$ 3.3	$ 3.5	$ 3.2	$ 5.1	$ 15.1	$ (.7)	$ 2.3	$ .9	$ 4.1	$ 6.6
Per share:										
Income (loss) from continuing operations	$ .38	$ .40	$ .37	$ .57	$ 1.72	$ (.04)	$ .33	$ .34	$ .59	$ 1.22
(Loss) from discontinued operations	0	0	0	0	0	(.04)	(.06)	(.24)	(.13)	(.47)
Net income (loss)	$ .38	$ .40	$ .37	$ .57	$ 1.72	$ (.08)	$ .27	$ .10	$ .46	$ .75

*All quarters included thirteen weeks, except the fourth quarter of 1975, which included fourteen weeks.

Net income in the fourth quarter of 1976 includes a favorable adjustment of $347,000 ($.04 per share) due to lower than anticipated frozen food production costs during the year and lower than anticipated inventory quantities at year end.

Income from continuing operations in the fourth quarter of 1975 was adversely affected by a $1,850,000 ($.21 per share) after tax charge associated with the costs of the shutdown and relocation of a portion of the productive capacity of the frozen food operation at Seabrook, New Jersey. Additionally, $2,293,000 ($.26 per share) of the total favorable adjustment due to liquidation of LIFO inventory quantities described in Note 4 was recorded in the fourth quarter of 1975.

Note 3. Discontinued Operations: During 1975, Springs recognized a net loss of $4,114,000 from the operations of Boundsgreen Company Limited and P. T. Daralon Textile Manufacturing Corporation of Indonesia (Boundsgreen/Daralon) and the write-off, as worthless, of its interest in Boundsgreen/Daralon. The 1975 net loss resulted from a $5,038,000 loss from operations of Boundsgreen/Daralon reduced by the gain of $924,000 on termination of investment in, and loans and obligations to Boundsgreen/Daralon. Such gain consisted of the excess of estimated income tax credit ($5,183,000) over the provision for losses on loans to Boundsgreen/Daralon ($2,734,000) and the reserve for additional costs which were expected to be incurred ($1,525,000) classified as a current liability. In 1976 Springs terminated its interest in Boundsgreen/Daralon. Substantially all costs relating to the discontinuance of Boundsgreen/Daralon had been incurred at January 1, 1977 and no adjustment to the reserve was required.

Note 4. Inventories: Inventories are valued at the lower of cost or market, cost being determined by use of the last-in, first-out (LIFO) dollar value method for the majority (81% in 1976 and 80% in 1975) of such inventories, and approximate average cost being used for the remainder.

If the first-in, first-out (FIFO) method of inventory accounting had been used for those portions of the 1976 and 1975 inventories valued by use of the LIFO method, inventories would have been approximately $75,000,000 and $58,000,000 higher than reported for 1976 and 1975, respectively.

During 1975, inventory quantities were reduced. This reduction resulted in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 1975 purchases, the effect of which increased net income by approximately $2,664,000, or $.30 per share.

Note 5. Income Taxes: The components of the provision for income taxes, the principal items of tax charges included in deferred taxes and a reconciliation of the statutory United States rate of 48.0% to the effective tax rates are as follows:

Provision (Credit) for Income Taxes (In thousands)	1976	1975	
		Continuing Operations	Discontinued Operations
Current	$11,516	$8,793	$(4,403)
Deferred	3,141	1,723	(780)
Investment tax credit ($.15 per share in 1976; $.11 per share in 1975)	(1,300)	(1,000)	0
Income tax provision (credit)	$13,357	$9,516	$(5,183)

Deferred Income Taxes (In thousands)	1976	1975	
		Continuing Operations	Discontinued Operations
Excess of tax over book depreciation	$ 1,855	$1,804	$0
Expense of plant closings charged to expense on books but not deductible until incurred	731	(1,354)	0
Changes in provisions for commodity and contract losses	0	851	0
Reserve charged to expense on books but not deductible until incurred	726	0	(780)
Other	(171)	422	0
Deferred income tax provision (credit)	$ 3,141	$1,723	$ (780)

Reconciliation to Effective Tax Rates	1976	1975 Continuing Operations	1975 Discontinued Operations
Statutory United States income tax rate	48.0%	48.0%	(48.0%)
State income tax effective rate	3.2	3.2	(3.2)
Investment credit	(4.6)	(5.0)	0
Effect of losses of foreign operations*	0	0	(4.6)
Other	.3	.9	0
Effective tax rate (tax credit)	46.9%	47.1%	(55.8%)

* Tax credits were not recognized on losses of $5,038,000 in 1975 from operations of foreign subsidiaries (Boundsgreen/Daralon) since such losses are not deductible for Federal and State income tax purposes. However, losses incurred on disposal of investment in and loans to foreign subsidiaries are deductible as either ordinary losses or capital losses. Accordingly, tax credits were recognized on losses incurred on disposition of investments in and loans to Boundsgreen/Daralon.

Note 6. Short-Term Debt: $82,000,000 was available under bank lines of credit at January 1, 1977. Springs is expected to maintain average compensating balances of 10% of these lines of credit plus 10% of amounts borrowed. No short-term debt was outstanding during 1976 and no material amounts were outstanding in 1975.

Note 7. Long-Term Debt: Long-term debt consists of the following:

	1976	1975
	(In thousands)	
7.95% Promissory Note to an insurance company payable in annual installments of $2,220,000 from 1976 to 1993	$37,780	$40,000
Capitalized lease obligation on a textile manufacturing plant in Chester, S.C. at an average rate of 5.5%; $975,000 due for 1977 and in increasing annual amounts to $2,320,000 through 1993	26,300	27,225
Loan Agreement with Lancaster County, S.C. for textile plant pollution control facilities at interest rates from 5.3% to 5.75%; $150,000 due annually through 1988 and $200,000 thereafter to 1994	3,000	3,150
Other	8,374	6,554
	75,454	76,929
Less current maturities	4,181	4,125
Total long-term debt	$71,273	$72,804

The long-term debt agreement with the insurance company provides, among other things, for certain restrictions on the payment of cash dividends and on the acquisition of Springs stock, and for the maintenance of working capital at certain minimum levels. Under these restrictions, consolidated retained earnings of $38,564,000 were available at January 1, 1977 for cash dividends and acquisition of stock. Working capital at that date was in excess of the minimum requirement under this agreement.

The gross amounts capitalized in connection with the above lease obligation are: land and improvements — $466,000; building — $4,431,000; and machinery, equipment, etc. — $28,033,000. Lease payments for each of the next five years are approximately $2,450,000 which include interest of $1,474,000, $1,422,000,

$1,364,000, $1,301,000 and $1,234,000 for the years 1977-1981, respectively.

Total annual retirements of long-term debt, including capitalized lease payments, will be: 1977 — $4,181,000; 1978 — $4,170,000; 1979 — $6,942,000; 1980 — $3,986,000; 1981 — $3,781,000; and in varying amounts thereafter to 1994.

Note 8. Shareholders' Equity: Changes in shareholders' equity, exclusive of retained earnings, are shown below.

	Common Stock	Additional Paid-In Capital	Treasury Stock
		(In thousands)	
Balance at December 28, 1974	$4,344	$5,107	$ 407
Proceeds from sales of 40,755 shares of common stock under employee stock option plan	20	192	0
Other	0	2	0
Balance at January 3, 1976	4,364	5,301	407
Proceeds from sales of 19,657 shares of common stock under employee stock option plan	10	160	0
Purchase of 55,500 shares of common stock for treasury	0	0	770
Other	0	2	(1)
Balance at January 1, 1977	$4,374	$5,463	$1,176

Note 9. Stock Options: Under Springs stock option plan, options may be granted to officers and key employees and also may be substituted for options held by employees of corporations acquired by Springs. Options to purchase a maximum of 425,000 shares of common stock may be granted at prices (except in the case of substitute options) not less than 85% of the fair market value of the stock at date of grant; all options (except substitute options) granted under the plan have been granted at a price of 100% of such fair market value. Except in the case of substitute options, options cannot be exercised until the holder has been employed one year after date of grant.

As part of the acquisition by Springs of Seabrook, options held by employees of Seabrook to purchase shares of Seabrook stock were replaced (in a number and at prices per share determined in accordance with provisions of the Internal Revenue Code) by substitute options to purchase shares of Springs common stock.

Information with respect to options under this plan is as follows:

		Option Prices		Fair Market Value*	
	Number of Shares	Per Share	Total (000 omitted)	Per Share	Total (000 omitted)
Options outstanding at:					
January 3, 1976	251,502	$7.66 to $18.69	$3,222	$8.75 to $18.69	$3,325
January 1, 1977	218,094	$8.32 to $18.69	$2,877	$8.75 to $18.69	$2,886
Options exercisable at:					
January 3, 1976	243,002	$7.66 to $18.69	$3,133	$8.75 to $18.69	$3,236
January 1, 1977	210,344	$8.32 to $18.69	$2,771	$8.75 to $18.69	$2,781

	Number of Shares	Option Prices Per Share	Option Prices Total (000 omitted)	Fair Market Value* Per Share	Fair Market Value* Total (000 omitted)
Options which became exercisable during:					
1975	14,150	$8.75 to $11.88	$ 139	$9.50 to $11.50	$ 153
1976	8,500	$9.75 to $11.50	$ 89	$12.00 to $14.75	$ 115
Options which were exercised during:					
1975	40,755	$5.16 to $6.79	$ 212	$8.87 to $10.68	$ 400
1976	19,657	$7.66 to $9.73	$ 170	$11.75 to $14.94	$ 252

*At dates options were granted, became exercisable, or were exercised, as applicable.

At January 1, 1977 and January 3, 1976 there were 83,898 and 70,147 shares, respectively, available for the grant of options.

Note 10. Deferred Unit Stock Plan: Under Springs deferred unit stock plan awards of stock equivalents may be made to officers and key employees. The plan also provides for the purchase of Springs common stock to be held as treasury shares for distribution under this plan. Expenses under this plan for 1976 and 1975 were $268,000 and $162,000, respectively.

Note 11. Employees' Retirement, Profit Sharing, and Incentive Plans: Springs and its subsidiaries maintain several retirement, profit sharing, and incentive plans for employees.

Contributions by Springs and its subsidiaries to employee retirement plans were $1,035,000 for 1976 and $911,000 for 1975. Contributions required are determined by independent actuaries, with normal costs being funded currently and past service costs being amortized over periods ranging from 30-40 years. As of the dates of the latest actuarial studies, the total value of assets under each plan exceeded the present value of vested benefits under each. Subsidiaries of Springs also made contributions of $250,000 for 1976 and $331,000 for 1975 to certain multi-employer plans.

Contributions by Springs and its subsidiaries to profit sharing plans were $3,260,000 for 1976 and $2,420,000 for 1975.

Management incentive plans maintained by Springs and its subsidiaries provide annual awards, based on personal performance and operating profits, to approximately 150 key employees. Awards under such plans were $1,319,000 for 1976 and $906,000 for 1975.

All retirement and profit sharing plans maintained by Springs and its subsidiaries have been revised to comply with the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). These revisions had no material effect on annual costs or funding requirements for 1976 and it is not anticipated that future costs for the maintenance of such plans will be significantly affected by the revisions.

Note 12. Transactions With Related Parties: For many years, Springs has transacted business with companies which are controlled by the Chairman of the Board of Springs and his family and related entities. Transactions with such companies during 1976 and 1975 included premium payments of $4,787,000 and $3,542,000, respectively, to an insurance company for the employee portion of certain group insurance policies. This insurance company has requested the opinion of the Department of Labor concerning the continuation under ERISA of the purchase of these group insurance policies by Springs. In 1974, Springs purchased a warehouse from a railway company for $1,950,000 payable over twenty years in monthly installments of $16,000 including interest at 7.5% per annum. The unpaid balance at January 1, 1977 was $1,817,000. In the opinion of Springs management, the services and facilities described in the above transactions, as well as other less significant services provided by these and other related companies, have been obtained by Springs at competitive prices or rates and could have been secured from other sources only at comparable or higher costs.

Note 13. Commitments and Contingent Liabilities: Springs has guaranteed a bank line of credit of $3,000,000 for letters of credit for the account of a joint venture of Seabrook in connection with the purchase of seafood from foreign producers.

Note 14. Replacement Cost Information (unaudited): The accompanying financial statements were prepared on the basis of historical costs in accordance with generally accepted accounting principles. This year, for the first time, the Securities and Exchange Commission has required certain corporations subject to its jurisdiction to estimate the current cost to replace their inventories and productive capacity at the end of their fiscal years and to disclose such estimates and the related effect of such costs on cost of sales and depreciation expense for such years in their annual reports on Form 10-K filed with the Commission. A copy of Springs Form 10-K will be available upon request.

Although the cumulative impact of inflation over a number of years has resulted in higher cost for replacement of plant and equipment, such inflationary increases have been offset substantially by increased productivity which resulted from technological improvements of new asset additions. Additionally, the impact of inflation on Springs has to some extent been offset by increased selling prices. In some recent years, however, competitive conditions have prevented sufficient increases in the selling prices of certain products necessary to keep pace with inflationary trends.

Note 15. Reclassifications: For comparative purposes, certain 1975 amounts shown in the accompaning financial statements have been reclassified to conform with 1976 classifications.

Accountants' Opinion

The Board of Directors of
Springs Mills, Inc.:

We have examined the consolidated balance sheet of Springs Mills, Inc. and subsidiaries as of January 1, 1977 and January 3, 1976 and the related statements of consolidated income and retained earnings and changes in financial position for the fiscal years 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.

In our opinion, such consolidated financial statements present fairly the financial position of the companies at January 1, 1977 and January 3, 1976 and the results of their operations and the changes in their financial position for the fiscal years then ended in conformity with generally accepted accounting principles applied on a consistent basis.

Haskins & Sells

Charlotte, North Carolina
February 14, 1977

Haskins & Sells
Certified Public Accountants

Board of Directors

Albert J. Bows
Dean, Graduate School of Business Administration
Emory University
Atlanta, Ga.

H. W. Close
Chairman of the Board

Charles W. Coker
Retired Chairman
Sonoco Products Company
Hartsville, S.C.

Herbert R. Elsas
Partner
Sutherland, Asbill & Brennan
Atlanta, Ga.

Donald N. Frey
Chairman, President and Chief Executive Officer
Bell & Howell Company
Chicago, Ill.

Dan M. Krausse
President and Chief Executive Officer
Earth Resources Company
Dallas, Tex.

James B. Lasley
Executive Vice President

L. Chester May
Chairman of the Board
The Chicago Bank of Commerce
Chicago, Ill.

Peter G. Scotese
President, Vice Chairman and Chief Executive Officer

Malcolm W. West, Jr.
Executive Vice President

Committees of the Board

Executive Committee
Messrs. Close, chairman; Scotese, vice chairman; Coker, Lasley, West

Audit Committee
Messrs. Elsas, chairman; Bows, May

Finance and Planning Committee
Messrs. May, chairman; Krausse, Lasley

Management Compensation and Organization Committee
Messrs. Frey, chairman; Coker, Elsas

Public Affairs Committee
Messrs. Coker, chairman; Close, West

Officers

H. W. Close
Chairman of the Board

Peter G. Scotese
President, Vice Chairman and Chief Executive Officer

John P. Duffy
Executive Vice President

James P. Kelley
Executive Vice President

James B. Lasley
Executive Vice President

Jerre L. Pearson
Executive Vice President

Malcolm W. West, Jr.
Executive Vice President

Francis L. Bell
Vice President-Personnel Administration

Dan M. Byrd, Jr.
Vice President, General Counsel and Secretary

Andrew J. Crane
Vice President-Assistant to the President

Marshall Doswell
Vice President-Corporate Communications

Charles M. Harrell
Assistant Controller

Dr. William H. Martin
Vice President-Research and Development

George F. McCourt
Vice President-Credit

William A. Moore
Treasurer

Michael Newton
Controller

Floyd E. Williams, Jr.
Vice President-Engineering Services

Corporate Committees

Management Committee
Messrs. Scotese, chairman; Lasley, vice chairman; Close, Duffy, Kelley, Pearson, West

Operating Committee
Messrs. Scotese, chairman; West, vice chairman; Berger, Coletti, Crane, Gossett, Kelley, Lankford, O'Donoghue

International Committee
Messrs. Close, chairman; West, vice chairman; Berger, Coletti, Lasley

Public Affairs Committee
Messrs. Close, chairman; Doswell, vice chairman; Bell, Byrd

Human Relations Committee
Messrs. Moser, chairman; Bell, vice chairman; Ballard, Byrd, Carter, Doswell, Hallett, Newton, Sellers, West

Operating Divisions

APPAREL FABRICS DIVISION

104 West 40th St.
New York, N.Y. 10018
Woven fabrics for apparel and decorative home furnishings, sold under the Springmaid® brand name.

Officers

James P. Kelley
President

Norman J. Concool
Vice President-Sales

Robert A. Crosby
Vice President-Sales

E. O. Fitzpatrick
Controller

Murphy L. Fontenot
Vice President-Merchandising

George W. Gage
Vice President-Grey Manufacturing

John L. Hallett
Vice President-Manufacturing

Edward P. Harding
Vice President-Marketing

Thomas B. Hollingsworth
Vice President-Finishing

J. Warren Ladue
Vice President-Merchandising

Plants
Elliott Plant, Fort Lawn, S.C.
Eureka Plant, Chester, S.C.
Kershaw Plant, Kershaw, S.C.
Grace Finishing Plant, Grace, S.C.
Lancaster Plant, Lancaster, S.C.
Leroy Plant, Fort Lawn, S.C.
Oxford Plant, Lancaster, S.C.
Springfield Plant, Laurel Hill, N.C.
Springsteen Plant, Chester, S.C.

CONSUMER PRODUCTS DIVISION

104 West 40th St.
New York, N.Y. 10018
Packaged sheets, pillowcases, bath products, draperies, comforters and quilted bedspreads. Products sold under the Springmaid®, Morgan Jones®, and Pequot® brand names.

Officers

M. John O'Donoghue
President

V. A. Ballard
Vice President-Manufacturing

John E. Conroy
Vice President-Marketing

Robert E. Gehl
Vice President-Merchandise Manager, Sheets

Stephen Joyce
Vice President-Retail Sales

William M. Moredock
Vice President-Grey Manufacturing

James B. Perkins
Vice President-General Sales Manager

William W. Wilkerson
Controller

Plants
Aileen Plant, Biscoe, N.C.
Fort Mill Plant, Fort Mill, S.C.
Frances Plant, Fort Lawn, S.C.
Gayle Plant, Chester, S.C.
Grace Screen Printing Plant, Grace, S.C.
Grace Sewing Plant, Grace, S.C.
Katherine Plant, Chester, S.C.
Riverlawn Plant, Fort Lawn, S.C.
White Plant, Fort Mill, S.C.

INTERNATIONAL DIVISION

104 West 40th St.
New York, N.Y. 10018
Export sales of textile products, textile marketing in Western Europe. Products sold under the Springmaid® and Morgan Jones® brand names.

Officers

Sonio E. Coletti
President

Springs Europe, S.A.
57 Avenue de Villiers
75017 Paris, France

Pierre Laurence
Managing Director

KNIT DIVISION

119 West 40th St.
New York, N.Y. 10018
Doubleknit fabrics for apparel and home sewing, sold under the Springmaid® brand name.

Officers

Toy C. Gossett
President

S. LeRoy Carter
Vice President-Manufacturing

M. A. Lightman
Vice President-Marketing

Phillip D. Ray
Vice President-Converting

C. T. Rowell
Controller

Plants
Monroe Plant, Monroe, N.C.
Mullins Plant, Mullins, S.C.

RETAIL AND SPECIALTY FABRICS DIVISION

1430 Broadway
New York, N.Y. 10018
Woven, nonwoven and knitted fabrics for home sewing and specialty manufacturers, sold under the Springmaid® and Skinner® brand names.

Officers

M. Courtney Lankford
President

Daniel Goldstein
Vice President-Retail Merchandising

C. Patrick McGinty
Vice President-Sales

John Purcell
Controller

Abraham Waters
Vice President-Fashion Fabrics Marketing

SEABROOK FOODS, INC.
Corporate Headquarters
1775 The Exchange, Suite 230
Atlanta, Ga. 30339

Packaged frozen fruits, vegetables, seafood and prepared foods for retail and institutional use. Brand names include Seabrook Farms®, Snow Crop®, Chill Ripe®, McKenzie's™, Carnation® seafood, Kitchen Ready®, Gold King® and Glacier™ Reg.

Officers

*Jerre L. Pearson
Chairman of the Board and Chief Executive Officer

*Murry P. Berger
President

Paul S. Reed
President-Fruit and Vegetable Division

James M. Seabrook
Executive Vice President-North

*Preston C. Williams, Jr.
Executive Vice President-South

Jack D. Grooms
Vice President-Controller

Jim N. Parkhill
Vice President-Marketing

*Hal L. Stewart
Vice President-Sales, South

Seward T. Sweet
Vice President-Planning and Development

*Also Officers of Springs Mills, Inc.

Plants

Alamo, Tex.
Albany, Ore.
Lake Odessa, Mich.
Lynden, Wash.
Montezuma, Ga. (2)
Sanger, Calif.
Seabrook, N.J.
Tampa, Fla.

Springs Mills, Inc.

Corporate Headquarters
P.O. Box 70
Fort Mill, S.C. 29715
(803) 547-2901

Marketing Headquarters
104 West 40th St.
New York, N.Y. 10018
(212) 556-6000

Customer Service Center
P.O. Box 111
Lancaster, S.C. 29720
(803) 285-4343

Research and Development Center
P.O. Box 70
Fort Mill, S.C. 29715
(803) 547-2901

Seabrook Foods, Inc.
1775 The Exchange, Suite 230
Atlanta, Ga. 30339
(404) 436-0826

Shareholders' Information

Stock Transfer Agents
Manufacturers Hanover Trust Company
40 Wall St.
New York, N.Y. 10015

Wachovia Bank and Trust Company
Wachovia Center
Charlotte, N.C. 28234

Registrars of Stock
Morgan Guaranty Trust Company of New York
23 Wall St.
New York, N.Y. 10015

North Carolina National Bank
NCNB Plaza
Charlotte, N.C. 28255

Stock Listing
Common stock traded on New York Stock Exchange. Ticker symbol: SMI

Availability of Form 10-K

In addition to this Annual Report, Springs Mills files an annual report on Form 10-K with the Securities and Exchange Commission. The latest Form 10-K will be available on or about March 31, 1977. A copy may be obtained without charge by writing: Springs Mills, Inc. P.O. Box 70, Fort Mill, S.C. 29715 Attention: Secretary.

Annual Meeting

The annual meeting of shareholders of Springs Mills will be held at 9:30 a.m. on Thursday, April 21, 1977 in Springs' Executive Office Building, Fort Mill, S.C. Notice of the meeting and proxy materials are contained in a mailing separate from this Annual Report.

Frozen food technology provides consumers with products from the world's oceans. Shrimp above are cooked and ready for freezing. Still relatively young, the frozen food industry makes technological advances each year.