MINUTES OF
Budget and
Control Board
Meeting

October 19, 1977

MINUTES OF BUDGET AND CONTROL BOARD MEETING

OCTOBER 19, 1977 10:00 A. M.

The Budget and Control Board met at 10:00 a. m. on October 19, 1977 in the Alcoholic Beverage Control Commission Hearing Room in the Edgar A. Brown State Office Building with the following members in attendance:

Governor James B. Edwards
Mr. Grady L. Patterson, Jr.
Senator Rembert C. Dennis
Representative Tom G. Mangum

Also attending were Board Secretary State Auditor William T. Putnam and, for the budget hearing portions of the meeting, Budget Development Director E. C. Garvin and members of the Finance Division Budget Development staff. Governor's Executive Assistant John LaFitte and Assistant State Auditor William A. McInnis also attended the regular business portion of the meeting.

The following items of business were considered:

1978-79 BUDGET HEARINGS - The Budget and Control Board heard budget requests for 1978-79 from the following agencies:

State Development Board
(Presentation on Graduate Medical Education in Community Hospitals)
(Presentation by Municipal Association Representatives)
Parks, Recreation and Tourism
Attorney General's Office

At the conclusion of this portion of the budget hearings, the Budget and Control Board met at 12:15 p. m. to consider the following regular business matters.

MINUTES OF PREVIOUS MEETINGS - Budget and Control Board members previously had been furnished with minutes of meetings held on October 11 and 12, 1977.

Upon a motion by Mr. Patterson, seconded by Senator Dennis, the

Budget and Control Board approved these minutes as written.

FUTURE EXECUTIVE SESSION - State Auditor Putnam advised the Budget and Control Board that he had received an opinion from the Attorney General's Office that the Budget and Control Board may hold Executive Sessions to consider budget requests and asked the Board to consider setting a time and place for such an Executive Session meeting.

Following a brief discussion, upon a motion by Senator Dennis, seconded by Mr. Patterson, the Budget and Control Board agreed to hold an Executive Session to consider budget requests. The motion by Senator Dennis stipulated that the Executive Session would be held within the limits prescribed by the Freedom of Information Act and it was agreed that the time and place of such a meeting would be set in open session at a future meeting. The referenced opinion is identified as Exhibit O is these files.

RESOLUTION ON MERIT INCREMENTS FOR UNCLASSIFIED POSITIONS - The Budget and Control Board without objection agreed to consider a Resolution authorizing any agency having access to non-appropriated funds to use such funds to supplement funds appropriated for unclassified positions to the extent necessary to grant an average 4% merit increment to all unclassified positions which might be eligible for such an increase. The Resolution provided further that the prior ruling of the Budget and Control Board would not be modified with respect to the funding of merit increases for classified employees.

Following a brief discussion, upon a motion by Mr. Patterson, seconded by Senator Dennis, the Budget and Control Board adopted the referenced Resolution, a copy of which has been retained in these files and is identified as Exhibit I.

POLL AGENDA - State Auditor Putnam pointed out that Poll Item 8, relating to a Spartanburg County Industrial Revenue Bond Petition had been withdrawn from the Poll Agenda and requested that Poll Item 1, Contract # 2, relating to a proposed consultant contract between the Museum Commission and E. Verner Johnson, Architects & Planners, and Poll Item # 6, relating to a proposed Industrial Revenue Bond issue by Lexington County, be considered in Executive Session. Items included in the Poll Agenda are specifically identified as such in these minutes.

CONSULTANT SERVICES CONTRACTS (POLL ITEM 1) - The Budget and Control Board without objection approved a consultant services contract between the Division of Administration and International Energy Associates, Ltd., involving a maximum of $50,000, 50% of which would be Federal funds and 50% State funds. The contract period is from 10/1/77 through 5/31/78 and the purpose of the effort covered by the contract is to develop science and technology resources for the Governor and to improve the Governor's policy formulation and coordination by developing a mechanism to bring South Carolina's scientific and technological resources to bear on problems of concern to the Governor. Related information is filed as Exhibit I-A.

DIVISION OF GENERAL SERVICES - USE OF INSURANCE RESERVE FUNDS (POLL ITEM 2) - Division of General Services Director Furman McEachern advised the Board that his Division's "number one attorney" has been appointed to an administrative position paid from appropriated funds and that the Attorney General now desires to assign an Assistant Attorney General to General Services to work primarily on tort and medical liability insurnce programs. Director McEachern also advised the Board that his Division will have to reimburse the Attorney General's Office for the services of the assigned attorney and recommended that the Board approve the use of approximately $25,000 of Insurance Reserve Funds annually for this purpose.

The Budget and Control Board without objection approved the referenced use of approximately $25,000 of Insurance Reserve Funds annually, as requested by Mr. McEachern.

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

STATE COLLEGE - USE OF EXCESS TUITION FUNDS (POLL ITEM 3) - State College Vice President for Business and Finance Harold A. Jenkins has requested Budget and Control Board authorization to use $500,000 of tuition debt service (sinking) funds now on deposit to finance an expansion of the State College Library.

It has been determined that, at present, as a result of the defeasance action by the Budget and Control Board taken on 4/20/77, State College has no State Institution Bonds "outstanding" within the statutory definition.

The Budget and Control Board without objection approved the use of excess tuition debt service (sinking) funds in the amount of $500,000 for an expansion of the State College Library, pursuant to 1976 Code Section 59-107-180.

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

FORESTRY COMMISSION - REPLACEMENT OF YAUHANNAH TOWER RESIDENCE (POLL ITEM 4) - State Forester John Tiller reports that the Yauhannah Tower residence was destroyed on 10/1/77 by fire and he requests Budget and Control Board authorization to replace it. Mr. Tiller estimates that the cost of replacement will be $24,000 and indicates that $18,000 of this amount will come from insurance proceeds and $6,000 will come from Forestry Commission operating revenue.

The Budget and Control Board without objection authorized the Forestry Commission to replace the Yauhannah Tower residence and to use $18,000 of insurance proceeds and $6,000 from Commission operating revenue as the sources of funds for the project.

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

DIVISION OF MOTOR VEHICLE MANAGEMENT - ETV FLEET ADDITIONS (POLL ITEM 5) - Division Director Allan Spence reports that the Educational Television Commission has requested permission to purchase four vans and one station wagon to support new or expanded programs in the Columbia, Sumter, Beaufort and Rock Hill areas. Mr. Spence recommends approval of these fleet additions.

The Budget and Control Board without objection approved the purchase of four vans and one station wagon by the Educational Television Commission, as recommended by Motor Vehicle Management Division Director Spence.

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

INDUSTRIAL REVENUE BONDS - MARLBORO COUNTY (POLL ITEM 7) - The Budget and Control Board was presented with a Petition from Marlboro County for the issuance of $2,500,000 Industrial Revenue Notes on behalf of Hanes Hosiery, Inc. The firm is engaged in the dyeing, packaging and distribution of pantyhose and, when completed, the project will provide employment for about 225 persons.

After being assured that all 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 reviewed by the State Auditor's Office, the Budget and Control Board, upon a motion by Mr. Patterson, seconded by Senator Dennis, adopted a Resolution approving the Marlboro County proposal to issue $2,500,000 Industrial Revenue Notes on behalf of Hanes Hosiery, Inc., pursuant to 1976 Code Section 4-29-10 et seq.

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

EXECUTIVE SESSION - State Auditor Putnam announced that four personnel matters and two contractual items had been proposed for consideration in Executive Session.

Following a brief discussion, the Budget and Control Board without objection agreed to consider these matters whereupon Governor Edwards declared the meeting to be in Executive Session.

RATIFICATION OF EXECUTIVE SESSION ACTIONS - Following the Board's consideration of Executive Session items, the meeting was opened and the following actions taken by the Board in Executive Session were ratified:

(1) Authorized salary adjustments for 18 Spartanburg Technical College faculty members;

(2) Received a report on overtime earnings by Department of Mental Health physicians and authorized Mental Health Commissioner Hall and State Personnel Division Director Mullins to work out procedures for regulating such earnings;

(3) Accepted the resignation of Howard Victry as Director of the Second Injury Fund;

(4) Approved a Lexington County Petition to issue $4,500,000 Industrial Revenue Bonds on behalf of Champion Road Machinery International Corporation, subject to the receipt of an investment letter from the purchaser of the Bonds by the State Auditor;

(5) Postponed to a future meeting consideration of a contract for consultant services proposed by the Museum Commission; and

(6) Authorized State Auditor Putnam to seek additional information on a personnel matter involving the University of South Carolina.

This portion of the meeting was adjourned at 1:45 p. m. The Board reconvened at 3:00 p. m. to continue its scheduled budget hearings.

1978-79 BUDGET HEARINGS - The Budget and Control Board continued with the scheduled budget hearings and heard the budget requests of the following agencies:

Educational Television Commission
State Personnel Division
State Employees Association
South Carolina Coastal Council

EXHIBIT O
10/19/77

The State of South Carolina

Office of the Attorney General

FRANK K. SLOAN
DEPUTY ATTORNEY GENERAL

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

DANIEL R. McLEOD
ATTORNEY GENERAL

October 18, 1977

Honorable William T. Putnam
Secretary
State Budget and Control Board
Wade Hampton Office Building
Columbia, South Carolina

Dear Bill:

This will reply to your request for an opinion whether the State Budget and Control Board may hold executive sessions to consider proposed budget requests presented to it, following public meetings at which the requests are presented.

It is the opinion of this office that such executive sessions are specifically permitted by the Freedom of Information Act, Section 30-3-40 (b), Code of Laws, 1976, because at such executive sessions the Board will be considering matters involving employment and compensation of individual employees and also to receive administrative briefings from the staff. Executive sessions for such purposes have been specifically approved by the Supreme Court in the case of Cooper v. Bales, 268 S.C. 270, 233 S. E.2d 306 (1977), which construed the Freedom of Information Act.

As required by the Act the Board should vote in public session to conduct executive sessions, setting the time and place of such sessions and stating the purposes thereof. Then, decisions made in an executive session must be confirmed thereafter in a public open session.

The Attorney General concurs in this opinion.

Sincerely,

Frank K. Sloan

Frank K. Sloan
Deputy Attorney General

FKS/jr

EXHIBIT I
10/19/77

RESOLUTION

Whereas, the General Assembly made available to each State agency appropriated funds to provide classified positions with an average merit increase of approximately 4%, and

Whereas, the funds appropriated for merit raises for unclassified positions will provide an average increase of only 1.7% to 2%, and

Whereas, the Budget and Control Board has previously ruled that funds appropriated for merit increments cannot be supplemented by non-appropriated funds to give merit increments on salaries or portions of salaries paid from appropriated funds, and

Whereas, the members of the Budget and Control Board have become convinced that the General Assembly intended that eligible classified and unclassified employees should be treated equally in the matter of merit increments,

Be it therefore resolved, that any agency having access to non-appropriated funds may use such funds to supplement funds appropriated for merit increments for unclassified positions to the extent necessary to grant an average 4% merit increment to all unclassified positions which might be eligible for such an increase. Provided, however, that the previous ruling of the Budget and Control Board shall not be modified with respect to the funding of merit increases for classified employees.

EXHIBIT I-A
10/19/77

STATE BUDGET AND CONTROL BOARD

POLL OF October 19, 1977 POLL ITEM NUMBER 1

Agency: Various

Subject: Consultant Services Contracts

1. DIVISION OF ADMINISTRATION: Consultant: International Energy Associates, Ltd. Maximum Dollars: $50,000 Source: 50% Federal/50% State Period: 10/1/77 - 5/31/78 Purpose: To develop science and technology resources for the Governor; to improve the Governor's policy formulation and coordination by developing a mechanism to bring South Carolina's scientific and technological resources to bear on problems of concern to the Governor.

2. MUSEUM COMMISSION: Consultant: E. Verner Johnson, Architects & Planners; Maximum Dollars: $40 per hour, $10,000 maximum Source: State Period: 11/1/77 - 11/30/78 Purpose: To advise Museum Commission on program, staff, exhibits and their costs.

Board Action Requested:

Approve, pursuant to Appropriation Act proviso

Vote Of Board Member: (Please indicate by initialing appropriate line below.)

________ I approve of the above action.

________ I disapprove of the above action.

________ Hold for regular meeting.

Attachments:

(1) Report on Consultants form
(2) Sennema 10/10/77 letter to Putnam plus attachment

STATE AUDITOR'S OFFICE

#80601

REPORT ON CONSULTANTS

Name of State Agency: Division of Administration - Office of Community Development

Date of Report: 10/14/77 Prepared by: Paul Tsalapatas

Name of Consultant or Firm: International Energy Associates Ltd.

Address of Consultant or Firm: 2600 Virginia Ave. NW Washington, D. C. 20037

Terms of Consultant Contract:

Beginning Date: 10-1-77 Ending Date: 5-31-78

Rate of Pay: $____ per ____; Maximum under this contract: $ 50,000.00

Source of Funds: 25,000 (50 %) (State); 25,000 (50 %) (Federal); ____ (%) (Other)

Purpose or Goal of Consultant: N.S.F.

Developing Science and Technology Resources for the Governor

Was this Individual or Firm Selected through the Submission of Bids or Proposals?

Yes ____ No X

If yes, How many Bids or Proposals were Received? ____

APPROVED
OCT 19 1977
Budget & Control Board
WHan

(NSF)

DOA Unit: Office of Community Development

Contract Monitor: Joe Wickel

Contractor: International Energy Associates Limited 2600 Virginia Ave. N.W. Washington, D. C. 20037 (Federal Employer's Identification No. ______)	Project No. 80601 (To be assigned by Contract Officer) Contract Number ISP77-25869-A Unit/Contract/Objective Codes: 817/ 01 / 0208
Furnish Requisition/Bill for Payment to: Paul Tsalapatas, Director, Contract Management Suite 307, Edgar A. Brown Building 1205 Pendleton Street Columbia, S. C. 29201 (Show Project & Contract Numbers on all invoices)	Pages 1 thru 10 and Appendix 1
General Nature of Contract: National Science Foundation Developing Science and Technology Resources for the Governor	Amount: $50,000.00 Period of Contract: Oct.1, 1977 to May 31, 1978 (8 mos Area Covered: Statewide

The Contractor agrees to furnish and deliver all products and perform all services set forth in the attached pages for the consideration stated therein.

Changes: This Contract constitutes the entire Agreement between the parties. No amendment or modification changing its scope or terms shall have any force or effect unless in writing and signed by both parties.

Subcontracting: None of the work or services covered by this Contract shall be subcontracted without prior written approval.

Compliance: The Contractor shall comply with all applicable terms, conditions, laws, rules and regulations which deal with or relate to funding and performance of this Contra

Name and Address of Contractor
(or Chief Elected Official):
International Energy Associates Limited
2600 Virginia Ave. N.W.
Washington, D. C. 20037

Office of the Governor
Division of Administration
Edgar A. Brown Building
1205 Pendleton Street
Columbia, South Carolina 29201

10/14/7

By: ______________________
(signature)
Dr. John W. Simpson
(typed name and title)

By: ______________________
(signature)
JERRY W. BRANHAM, DIRECTOR
(typed name and title)
DIVISION OF ADMINISTRATION

ATTEST:

____
(signature)

____
(Treasurer or Attorney, if applicable)

By: ______________________
(signature)
Joe Wickel, Director, Office of Community Dev
(title and DOA Unit)

AGREEMENT

THIS AGREEMENT, entered into as of this 1st day of October, 1977, by and between International Energy Associates Limited (herein called the "Contractor") and the Division of Administration, Office of the Governor (herein called the "Planning Agency"),

WITNESSETH THAT:

WHEREAS, the Planning Agency desires to engage the Contractor to render certain technical and professional services hereafter described in connection with an undertaking which is expected to be partially financed under A National Science Foundation Grant.

NOW THEREFORE, the parties hereto do mutually agree as follows:

Section 1. Employment of Contractor. The Planning Agency hereby agrees to engage the Contractor and the Contractor hereby agrees to perform the services hereinafter set forth in connection with the project of the Planning Agency under National Science Foundation Grant #ISP77-25869.

Section 2. Scope of Services. The Contractor shall do, perform and carry out, in a satisfactory and proper manner, as determined by the Planning Agency, the following services for the planning areas as designated below:

See Attached: Conduct of the Proposed Study

All work activities undertaken pursuant to the provisions of this Section shall benefit residents of the planning area on a non-discriminatory basis. The above 7
work elements shall be performed in accordance with the following detailed work descriptions:

SCOPE OF SERVICES:

CONDUCT OF THE PROPOSED STUDY

A. Gather data on state capability and interest:

1. Review the data already in hand in the State Development Office or elsewhere to identify past attempts to develop S/T mechanisms. Review the reasons for the "failure" of these to assure the same mistakes are not repeated in the future.

2. Survey similar programs in other states including as a minimum the North Carolina Research Triangle, the Spindletop Project in Kentucky, Route 128 Complex in Massachusetts. Determine how the projects were started, how financed, how staffed and what were the tangible and intangible results.

3. Determine information needed for evaluation; including an inventory of the capabilities of people in state organizations, the physical facilities that exist and those that might be available full or parttime, willingness and ability to help in various ways, level of perception of the desirability of such an organization, areas in which each organization sees the need for R&D.

4. The survey contemplated in 3 above will be undertaken with reference to one or more of several issue areas to be identified by the Governor.

   The contractor shall contact educational institutions, industrial organizations and foundations, as well as community leaders in the State.

   The contractor shall also take a general inventory of R&D work already in progress in the various organizations, particularly that funded by the U. S. Government.

5. The information concerning desire and willingness to participate shall include the following:

   (a) Willingness to contribute
      (1) Financially
         (a) By grant
         (b) By cost sharing
      (2) By loan of equipment or facilities
      (3) By loan of people
      (4) By assisting in obtaining contracts

   (b) Willingness to participate in development programs
      (1) By establishing a group in the complex with a continuing funded program;
      (2) By professors or others participating in execution of contracts;
      (3) By doing part of a project with own people and facilities.

(c) Desire for results from the program
    (1) Determine the preceived need for this type of program to get specific results needed by their organization
    (2) Desire for this type of organization to help recruit or other specific ancillary results

(d) Desire for general benefits to the state. Determine level of willingness to contribute, even though they see little specific benefit to themselves.

(e) Determine level of willingness to take a major role
    (1) State government
    (2) Industry
    (3) Educational institutions
    (4) Others

6. The contractor shall put the above in the form of a questionnaire to be sent to in-state organizations (industry, educational, etc.).

7. Review the Results of the Questionnaire. The Contractor shall review the results of the questionnaire together with other data that has been collected. They will then evaluate the results and determine areas of ambiguity or where data is lacking.

8. Interviews. Interviews as necessary will be conducted to determine additional facts.

B. Gather data on out-of-state potential customers

1. Review available data to determine possible fits between potential organization capability and interest with programs for which various national organizations have funding.

2. Conduct interviews with several organizations where possible fits exist to determine interest.

3. Potential customers include national industrial companies, major national foundations, Energy Research and Development Administration, Federal Energy Administration, Environmental Protection Agency, Nuclear Regulatory Commission, General Accounting Office, Office of Technology Assessment, Department of Health, Education and Welfare, Department of Housing and Urban Development, Department of Interior, National Science Foundation, National Research Council and Electric Power Research Institute.

C. In consultation with key members of the Executive Branch of the State Government and appropriate Federal organizations, develop alternative approaches for identifying priority issues for policy research and analysis. The analysis shall cover short-term and reactive situations as well as medium term and long term or anticipating situations.

D. Develop alternative mechanisms for applying science and technology to the formulation of policy options for the Governor. The contractor shall consult with state government officials, federal government officials and industrial research organizations to determine how the alternatives might function and how research programs are prepared to meet overall corporate objectives.

E. The contractor shall tentatively diagram the policy-formulation process which provides the Governor with information and support for major decisions. This task shall include identifying those places in the process which could strengthen by the use of S/T resources. The appropriate institutional locations for these resource inputs will also be identified.

F. Study accumulated data and prepare plans -

The contractor shall study the data collected and prepare several alternative plans.

G. Discuss plans with the council.

H. Meetings with key top U. S. Government Officials and Directors of major foundations.

In order to better determine interest and even to create interest and entre for the business development team, it is suggested that the consultant Project Leader, with one or more state political leaders (Governor, Senators, Representatives, etc.), make these vists.

I. Prepare final recommendations and report.

J. Project Period:

The final report will be completed within eight months of the contract date.

EXHIBIT II
10/19/77

STATE BUDGET AND CONTROL BOARD

POLL OF October 19, 1977 POLL ITEM NUMBER 2

Agency: Division of General Services

Subject: Use of Insurance Reserve Funds

Division Director McEachern reports that his Division's "number one attorney" has been appointed to an administrative position paid from appropriated funds and that the Attorney General now desires to assign an Assistant Attorney General to General Services to work primarily on tort and medical liability insurance programs.

Director McEachern also advises that his Division will have to reimburse the Attorney General's Office for the services of the assigned attorney and recommends that the use of Insurance Reserve Funds for this purpose be approved by the Board. He also cites the following 1977-78 Appropriation Act proviso (Page 46):

"Provided, Further, That the State Budget and Control Board is authorized and empowered to employ special agents to examine insurance risks carried by the said Board, and to perform any other duties which may be required of them, and the cost of necessary supplies, equipment, and travel expense of the special agents, shall be paid from the revenues of the Insurance Reserve Fund."

Board Action Requested:

Approve the referenced use of Insurance Reserve Funds, as requested by Division of General Services Director McEachern.

Vote Of Board Member: (Please indicate by initialing appropriate line below.)

________ I approve of the above action.

________ I disapprove of the above action.

________ Hold for regular meeting.

Attachments:

EXHIBIT II
10/19/77

STATE BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
AGENDA

October 19, 1977

I. Utilization of Insurance Reserve Funds

The Division of General Services has appointed our number one attorney to an administrative position paid out of appropriated funds. The Attorney General now desires to assign an assistant attorney general to this Division to work primarily on the tort and medical liability programs. It will be necessary for the Division to reimburse the attorney general for these services. It is recommended that the Board approve use of funds from the Insurance Reserve Fund for this purpose. The current appropriation bill provides that the "Budget and Control Board is authorized and empowered to employ special agents to ... to perform any other duties which may be required of them, and the cost of necessary supplies, equipment, and travel expenses of the special agents, shall be paid from the revenues of the Insurance Reserve Fund." (77-78 Appropriation Act page 46) The funds required will amount to approximately $25,000 on an annualized basis.

r.

EXHIBIT III
10/19/77

STATE BUDGET AND CONTROL BOARD

POLL OF October 19, 1977 POLL ITEM NUMBER 3

Agency: State College

Subject: Use of Sinking Funds

State College Vice President for Business and Finance Harold A. Jenkins requests authorization to use $500,000 of tuition debt service (sinking) funds now on deposit to finance an expansion of the College Library.

At present, as a result of the defeasance action by the Board taken on 4/20/77, State College has no State Institution Bonds "outstanding" within the statutory definition.

Board Action Requested:

Approve use of excess tuition debt service (sinking) funds in the amount of $500,000 for an expansion of the State College Library, pursuant to 1976 Code Section 59-107-180.

Vote Of Board Member: (Please indicate by initialing appropriate line below.)

________ I approve of the above action.

________ I disapprove of the above action.

________ Hold for regular meeting.

Attachments:

Jenkins 10/5/77 letter to Putnam

M.C.I.

SOUTH CAROLINA STATE COLLEGE
Orangeburg, South Carolina 29117

next B & C
Bd meeting

October 5, 1977

OFFICE OF THE VICE PRESIDENT
FOR BUSINESS AND FINANCE

Mr. William T. Putnam, Secretary
State Budget and Control Board
Post Office Box 11333
Columbia, South Carolina 29211

Dear Mr. Putnam:

Reference is made to an earlier conversation between you and Dr. M. Maceo Nance, Jr., President, South Carolina State College concerning our need to accomplish some renovations for expansion of the college library and the means by which the work may be financed. Reference is made also to my conversation with you on September 28 relative to the same subject.

According to our records we currently have on hand and in deposit with the Office of the State Treasurer the sum of $894,035 in our tuition debt service fund. We have received authorization to utilize $310,000.00 of these funds to complete construction on the Teaching Museum/Planetarium and now respectfully request permission to ear-mark $500,000 for use in the expansion of the college library.

Favorable action,by the Board, on this request will be appreciated.

Sincerely yours,

Harold A. Jenkins

Harold A. Jenkins
Vice President for Business
and Finance

HAJ:mm

M&I

SOUTH CAROLINA STATE COLLEGE
Orangeburg, South Carolina 29117

October 5, 1977

next B&C
Bd meeting

check to see if ok
with Grady P.

OFFICE OF THE VICE PRESIDENT
FOR BUSINESS AND FINANCE

Mr. William T. Putnam, Secretary
State Budget and Control Board
Post Office Box 11333
Columbia, South Carolina 29211

Dear Mr. Putnam:

Reference is made to an earlier conversation between you and Dr. M. Maceo Nance, Jr., President, South Carolina State College concerning our need to accomplish some renovations for expansion of the college library and the means by which the work may be financed. Reference is made also to my conversation with you on September 28 relative to the same subject.

According to our records we currently have on hand and in deposit with the Office of the State Treasurer the sum of $894,035 in our tuition debt service fund. We have received authorization to utilize $310,000.00 of these funds to complete construction on the Teaching Museum/Planetarium and now respectfully request permission to ear-mark $500,000 for use in the expansion of the college library.

Favorable action, by the Board, on this request will be appreciated.

Sincerely yours,

Harold A. Jenkins
Vice President for Business
and Finance

(See over)

HAJ:mm

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10/11/77

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EXHIBIT IV
10/19/77

STATE BUDGET AND CONTROL BOARD

POLL OF October 19, 1977 POLL ITEM NUMBER 4

Agency: Forestry Commission

Subject: Replacement of Yauhannah Tower Residence

State Forester John Tiller reports that the Yauhannah Tower residence was destroyed on 10/1/77 by fire and requests authorization to replace it.

Estimated cost of replacement is $24,000, $18,000 of which is to come from insurance coverage with $6,000 to come from Forestry Commission operating revenue.

Board Action Requested:

Authorize replacement of Yauhannah tower residence using $18,000 from insurance recovery and $6,000 from Commission operating revenue as the source of funds.

Vote Of Board Member: (Please indicate by initialing appropriate line below.)

__________ I approve of the above action.

__________ I disapprove of the above action.

__________ Hold for regular meeting.

Attachments:

Tiller 10/7/77 letter to Putnam plus E-1 form

M.S.

B.R. action

South Carolina State Commission of Forestry

JOHN R. TILLER, STATE FORESTER P. O. BOX 21707 COLUMBIA, S. C. 29221

October 7, 1977

State Auditor
205 Wade Hampton Office Building
P. O. Box 11333
Columbia, S.C. 29211

Attention: Mr. Putnam

Dear Sir:

On Saturday, October 1, 1977 the tower residence at Yauhannah was totally destroyed by fire.

We request permission to rebuild this residence with currently employed personnel using $18,000 in funds to be paid from the State Insurance Fund and $6,000 from operating revenue to cover expenditures for necessary materials and other related expenses.

Tentative construction details have been discussed with the State Engineer's Office.

With prompt action we feel we can have the tower operator in a residence in less than four months, weather permitting.

Very truly yours,

John R. Tiller
State Forester

JRT:jlp

1927 STATE COMMISSION OF FORESTRY 50TH ANNIVERSARY SOUTH CAROLINA 1977

EXHIBIT V
10/19/77

STATE BUDGET AND CONTROL BOARD

POLL OF October 19, 1977 POLL ITEM NUMBER 5

Agency: Division of Motor Vehicle Management

Subject: Requested Fleet Additions by ETV

Division Director Spence reports that ETV has requested permission to purchase four vans and one station wagon to support new or expanded programs in the Columbia, Sumter, Beaufort and Rock Hill areas.

Board Action Requested:

Division Director Spence recommends approval of the ETV request for authorization to purchase four vans and one station wagon.

Vote Of Board Member: (Please indicate by initialing appropriate line below.)

_________ I approve of the above action.

_________ I disapprove of the above action.

_________ Hold for regular meeting.

Attachments:

Spence agenda notes and Enclosure (3).

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF MOTOR VEHICLE MANAGEMENT
P. O. BOX 633
COLUMBIA, S.C. 29202

ALLAN J. SPENCE
DIRECTOR
PHONE: (803) 758-7816

AGENDA ITEMS
STATE BUDGET AND CONTROL BOARD

1. Mr. Allan J. Spence, Director, Division of Motor Vehicle Management, desires to appear before the Board and present the following items:

   A. State Vehicle Assignment Criteria for model year 1978. This item was discussed briefly at the Board meeting on September 14, 1977. Since there was some concern about the type to be assigned to full time commissioners, this particular item is again brought before the Board for their consideration. Please see enclosure (1).

   Recommendation: Approval. Full time commissioners have been placed in the same relative position as large agency directors and therefore rate a Class II (full size) vehicle.

   B. Proposed specification for 1978 police units. This item was not discussed at the previous meeting because of a pending recommendation by the Board of Commissioners, S. C. Department of Highways and Public Transportation. Please see enclosure (2).

   Recommendation: Approval. The specifications are the same as last year with the exception of the addition of AM radios. It is pointed out that only one (1) manufacturer is eligible to bid on this 121 inch wheelbase unit insofar as Ford Motor Company is the only manufacturer that makes this size police unit in 1978. The Highway Commission feels that this size unit is needed in order to properly perform the mission assigned to the State Highway Patrol. Please see enclosure (2).

   C. S. C. Educational Television Network request permission to purchase four (4) vans and one (1) station wagon. These units will support new and/or expanded programs in the Columbia, Sumter, Beaufort and Rock Hill areas.

   Recommendation: Approval. It appears that the requested units are justified as to intended use and savings on reimbursement mileage. Please see enclosure (3).

SOUTH CAROLINA EDUCATIONAL TELEVISION NETWORK

drawer l 2712 millwood avenue columbia south carolina 29250

HENRY J. CAUTHEN
president and general manager

August 11, 1977

Mr. Claude Davis
Director of Operations
Division of Motor Vehicle Management
300 Gervais Street
Columbia, S.C.

Dear Claude:

I am submitting this request for additional vehicles at this time in order to obtain approval for the purchase of vehicles. After the request has been approved and the contracts have been awarded, I will submit the necessary forms (DMVM Form 6-77) which will reflect the proper type, model, etc. of the vehicle on contract.

The additional vehicles needed are four (4) vans with front passenger seat and one (1) station wagon. We are estimating that the vans will cost approximately $5400 each and the station wagon will cost approximately $4800 each. The funds for the purchase of all of these vehicles ($26,400) will be taken from funds which are available from the Corporation of Public Broadcasting. Such funds can be used for this type of purchase if the equipment (motor vehicles) will be used in support of the instructional or public efforts.

These vehicles are needed and will be operated as indicated below:

A. Van - assigned and operated out of agency motor pool in Columbia. Will be used by the Seven30 news staff to comply with the requirements of the Federal Communications Commission's ascertainment requirements. This requires that all radio and television licensees produce programs that will meet the needs of the communities around the state. These programs will be produced on film and/or portable video equipment. This vehicle would be equipped with shelving, racks and/or partitions which would contain the equipment necessary for such productions.

Enclosure (3)

B. Van - assigned and operated by staff of WRJA-TV, Sumter, S.C. Presently, the WRJA operations has one (1) vehicle and one (1) small television remote unit assigned for their use. The present vehicle is used to transport films and portable video equipment to schools, hospitals, etc. within the station coverage area for production of local community interest programs both in the instructional and public broadcasting areas. During 1976-1977, the Sumter station expended approximately $1300 in mileage reimbursement which would be saved by this additional vehicle. In addition to this savings, the additional vehicle would allow us to meet the needs of the local communities and to comply with the FCC's ascertainment requirements within this area.

C. Van - assigned and operated by staff of WJWJ-TV, Beaufort, S.C. The same needs and requirements exist here as in Sumter. The savings in reimbursed mileage expenses at WJWJ-TV would be at least $2500 per year due to its' more remote location. Additionally, since both WRJA-TV and WJWJ-TV will be operating a second portable video system this year, the need for these additional vehicles becomes even more critical.

D. Van and station wagon - assigned and operated by Field Technical Services staff of WNSC-TV, Rock Hill, S.C. These vehicles will be used to carry equipment and supplies that are required for the installation, testing and maintenance of the television and radio sets and the antennas and building distribution systems that are necessary for the schools to utilize the instructional radio and television programs that will be offered by the new operations from WNSC-TV in Rock Hill.

As you can see, all of the vehicles are primarily the result of two new programs. The FCC ascertainment requirement which was imposed on Educational broadcasters for the first time and the new station operations in Rock Hill.

We currently have 35 owned vehicles and no leased vehicles. We have only 1 vehicle assigned for exclusive use, that of the General Manager. We would estimate that each of these vehicles would travel 17,000 miles annually.

Mr. Claude Davis
Page 3
August 11, 1977

I hope that I have given you sufficient information concerning the need for and request to purchase these additional vehicles. If you should need any additional information, please let me know. I certainly appreciate all of your concern and assistance in all of our motor vehicle needs.

Sincerely,

Bill

George W. Hopkins, Jr.
Director
Division of Special Services

GWH,jr./bd

EXHIBIT VI
10/19/77

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

October 17, 1977

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

Re: $2,500,000 Marlboro County, South Carolina, First Mortgage Industrial Revenue Note, Series 1977 (Hanes Hosiery, Inc. - Lessee)

Dear Mr. Putnam:

Regarding the above-referenced note, 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 the same appear, in our opinion, to be in order.

With kind regards,

Karen LeCraft Henderson

Karen LeCraft Henderson

bbb

ORIGINAL 10/19/77

RESOLUTION

STATE OF SOUTH CAROLINA BUDGET AND CONTROL BOARD

WHEREAS, heretofore the Marlboro County Council (the County Board) did, pursuant to Title 4, Chapter 29, Code of Laws of South Carolina, 1976 (the Act), petition 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 the Act; and

WHEREAS, the proposed undertaking consists of the acquisition by the County Board of a parcel of land containing approximately 10 acreas of land located in Marlboro County, (the County), on which the County Board will finance the acquistion, construction, and equipping of certain facilities for the dyeing, packaging and distribution of panty hose together with the necessary machinery and equipment (said 10 acre tract of land and the buildings, and equipment constituting the said facilities being hereinafter referred to as the Project), and which Project will be leased to Hanes Hosiery, Inc., a North Carolina corporation (the Lessee); and

WHEREAS, the Project is to be leased to the Lessee at a rental sufficient to provide for the payment of the Note of the 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 the issuance of its $2,500,000 Marlboro County, South Carolina, First Mortgage Industrial Revenue Note, Series 1977 (Hanes Hosiery, Inc. - Lessee) (the Note) payable from the rentals derived from the Lessee. The County's Note will be secured by a Mortgage and Security Agreement from the County to Wachovia Bank and Trust Company, N.A., the purchaser of the Note, which will constitute a first mortgage lien on the Project; and the payment of the principal of, prepayment penalty, if any, and interest on the Note will be unconditionally guaranteed by Hanes Corporation, a corporation organized under the laws of the State of North Carolina (the Guarantor); and

WHEREAS, the form of the Lease Agreement between the County and the Lessee, the Guaranty Agreement between the Purchaser and the Guarantor and of the Note and the Mortgage and Security Agreement have been 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 Lease, the Guaranty Agreement and the Note and Mortgage spoken of hereinabove and has established that the Lessee will pay as additional rentals, in lieu of taxes, the sums prescribed by the Act.

(c) That the Project will provide employment for approximately 225 persons and will be of benefit to the 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 Project to the Lessee and to finance the cost of constructing the Project through the issuance of a $2,500,000 Marlboro County, South Carolina, First Mortgage Industrial Revenue Note, Series 1977 (Hanes Hosiery, Inc. - Lessee) payable from the revenues to be derived from the leasing of the Project and additionally secured by the said Mortgage and Guaranty Agreement, all pursuant to the Act (including changes in any details of the said financing as finally consummated which do not materially affect the said undertaking), be and the same is hereby approved.

3. Notice of the action taken of the State Board in giving approval to the undertaking of the County above described in paragraph 2, supra, shall be published in THE HERALD ADVOCATE, a newspaper having general circulation in the County.

4. That notice to be published shall be in form substantially as set forth as EXHIBIT "A" of this Resolution.

EXHIBIT "A"

NOTICE PURSUANT TO TITLE 4, CHAPTER 29,
CODE OF LAWS OF SOUTH CAROLINA, 1976

Notice is hereby given that following the filing of a Petition by the Marlboro County Council (the County Board) 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 (including changes in any details of the said financing as finally consummated which do not materially affect the said undertaking), viz:

The acquisition by the County Board of a parcel of land containing approximately 10 acres in Marlboro County, South Carolina (the County) on which the County Board will finance the acquisition, construction and equipping of certain facilities for the dyeing, package, and distribution of panty hose (said facilities being hereinafter referred to as the Project). To finance the construction of the Project, the County Board will issue a $2,500,000 Marlboro County, South Carolina, First Mortgage Industrial Revenue Note, Series 1977 (Hanes Hosiery, Inc. - Lessee) (the Note) pursuant to Title 4, Chapter 29, Code of Laws of South Carolina, 1976. The County Board will lease the Project to Hanes Hosiery, Inc., a North Carolina corporation (the Lessee), under a Lease Agreement and the Note of the County will be payable solely from the rentals to be paid to the County by the Lessee, which has irrevolcably convenanted and agreed to pay when due, all sums required for the principal and interest thereon; Hanes Corporation, a North Carolina corporation (the Guarantor), will unconditionally guarantee the payment of the principal of, prepayment penalty, if any, and interest on the Note.

In addition the Lessee has agreed to pay as additional rentals to the 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 the County, the said School District, and the said other political units wherein the Project is situate, 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 Lease by which the County will lease the Project to the Lessee will provide that the Lessee shall purchase the Project for One Dollar ($1.00) upon the payment in full of the Note.

When completed, it is estimated that the Project will provide employment for approximately 225 persons.

Notice is further given that any interested party may at any time within twenty (20) days after the date of publication of this Notice, but not afterwards, challenge the validity of the action of the State Board in approving the undertaking of the County Board by action de novo instituted in the Court of Common Pleas for Marlboro County.

THE STATE BUDGET AND CONTROL BOARD

By: William T. Putnam

PUBLICATION DATE:

____

STATE OF SOUTH CAROLINA

COUNTY OF CHARLESTON

I, WILLIAM T. PUTNAM, Auditor of the State of South Carolina, and Secretary of the State Budget and Control Board, DO HEREBY CERTIFY:

That the said State Budget and Control Board is composed of the following:

His Excellency, James B. Edwards, Governor of South Carolina and Chairman of the Board;

The Honorable Grady Leslie Patterson, Jr., State Treasurer;

The Honorable Earle E. Morris, Jr., Comptroller General of South Carolina;

The Honorable Rembert C. Dennis, Chairman of the Senate Finance Committee; and

The Honorable Tom G. Mangum, Chairman of the House Ways and Means Committee.

That due notice of meeting of said Board, called to be held at the office of the ____________________, in the ____________________ Building, at Columbia, South Carolina, at ______ __.M., on ___________, 1977, was given to all members in writing, and at least four (4) days prior to said meeting; that all of the members of said Board were present at said meeting with the exception of: __________________ ____.

That at said meeting a Resolution, of which the attached is a true, correct and verbatim copy, was introduced by ________________, who moved its adoption; said motion was seconded by ________________, and upon vote being taken and recorded it appeared that the following votes were cast:

FOR MOTION	AGAINST MOTION

That the Chairman thereupon delivered the Resolution unanimously adopted, and the original thereof has been duly entered in the permanent records of minutes of said Board, in my custody as its Secretary.

____
Secretary

____________, 1977

STATE OF SOUTH CAROLINA

COUNTY OF MARLBORO

TO THE STATE BUDGET AND CONTROL BOARD OF SOUTH CAROLINA	P E T I T I O N

The Petition of the Marlboro County Council (the County Council) respectfully shows:

1. The County Council is the governing body of Marlboro County as established by law, and, as such, is the County Board referred to in Title 4, Chapter 29, Code of Laws of South Carolina, 1976 (the Act).

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, equipment, machinery and other improvements deemed necessary, suitable and useful by any industrial enterprise; to lease the same; and to finance the acquisition, construction and equipping of the same through the issuance of bonds or notes payable from and secured by a pledge of the revenues to be derived from the leasing of such land, buildings, equipment and machinery and other improvements.

3. The County Council agreed with Hanes Hosiery, Inc., a North Carolina corporation (the Lessee) that the County Council will undertake to finance the acquisition, construction and equipping of facilities for the dyeing, packaging

and distribution of panty hose located in Marlboro County, through the issuance of an Industrial Revenue Note pursuant to the Act. In this connection, the County Council has agreed to accept a conveyance of the parcel of land on which the industrial facilities are located, and the County Council has agreed to issue a Two Million Five Hundred Thousand Dollar ($2,500,000) Marlboro County, South Carolina, First Mortgage Industrial Revenue Note, Series 1977 (Hanes Hosiery, Inc. - Lessee), pursuant to the Act in order to finance the acquisition, construction and equipping of the aforesaid facilities (said facilities being hereinafter referred to as the Project).

4. The County Council is advised by the Lessee that the cost of the Project will be approximately Two Million Five Hundred Thousand Dollars ($2,500,000) and that, therefore, in order to finanace the acquisition, construction and equipping of the Project, including the costs and charges incident to the issuance and sale of the note hereinafter described, it will be necessary that the County Council issue a Two Million Five Hundred Thousand Dollars ($2,500,000) Marlboro County, South Carolina, First Mortgage Industrial Revenue Note, Series 1977 (Hanes Hosiery, Inc. - Lessee) (the Note).

5. When completed the Project will employ approximately 225 persons.

6. For the reasons above set forth and hereinafter disclosed the County Council has found:

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

(b) By reason of undertaking the Project no pecuniary liability will result to the County nor will there be a charge against its general credit or taxing power.

(c) The proposed Lease between the County and the Lessee will unconditionally obligate the Lessee to pay rent in an amount adequate to provide for the principal and interest payments on the Note.

(d) The Note will be dated and will mature and bear interest in amounts and at rates set forth in Article II of the draft of the Note Ordinance enclosed herewith.

(e) The terms of the Lease will require the Lessee to carry proper insurance and to pay all costs of maintaining the Project in good repair.

7. Pursuant to the Act, the County Council sets forth the following information:

(a) The Project to be financed consists of the acquisition of a parcel of land located in Marlboro County, South Carolina and the construction and equipping thereon of facilities for the dyeing, packaging and distribution of panty hose.

(b) The Project will provide permanent employment for approximately 225 persons. It is, therefore, believed that the Project will have a beneficial effect upon the economy of the County and areas adjacent thereto.

(c) The cost of the entire Project will amount to approximately $2,500,000, including the cost of acquiring the said land, the construction of the necessary building thereon, and all other expenses to be incurred in connection therewith.

8. The proposed Lease, a draft copy of which is presented herewith, will provide, among other things, the following:

(a) To finance the cost of the acquisition, construction and equipping of the Project, the County will issue a $2,500,000 Marlboro County, South Carolina, First Mortgage Industrial Revenue Note, Series 1977 (Hanes Hosiery, Inc. - Lessee). The Note will be secured by a pledge of the rents to be paid by the Lessee and will be further secured by a Mortgage, as authorized by the Act.

(b) The proceeds derived from the sale of the Note, will be paid over to a depository bank under the Note Ordinance and used to pay the costs incident to the acquisition, construction and equipping of the Project, and the issuance of the Note.

(c) The Lease will contain a specific provision by which the Lessee will unconditionally agree to make payments to Marlboro County, to any School District in Marlboro County, and to all other political units in which the Project is situated, in lieu of taxes, in such amounts as would result from taxes levied on the Project by Marlboro County, by any such School District, and by said political units if the Project were owned by the Lessee, but with appropriate reductions similar to the tax reductions, if any, which would be afforded the Lessee were it the owner of the Project.

(d) The Lease contains no provision imposing any pecuniary liability upon the County or which would create a charge upon its general credit or taxing power.

(e) The Lease imposes upon the Lessee the obligation to pay, in addition to the moneys required for the payment of the principal and interest of the Note, all other costs and expenses resulting from the execution and delivery of the Lease and the issuance of the Note pursuant thereto.

9. The payment of the Note will be unconditionally guaranteed by Hanes Corporation, a North Carolina corporation, pursuant to a Guaranty Agreement between Hanes Corporation and the Mortgagee under the Mortgage and Security Agreement described below.

10. The proposed Mortgage and Security Agreement is in conventional form and constitutes a forecloseable mortgage upon the Project. Included in the granting clause of the Mortgage and Security Agreement will be:

(a) All real and personal property and interests therein, acquired or to be acquired, for the Project.

(b) The right, title and interest of the County in the Lease.

(c) All rentals and revenues derived by the County under the Lease, except those payments to be made in lieu of taxes or by way of indemnification.

The Note Ordinance makes provision for the issuance of the Two Million Five Hundred Thousand Dollars ($2,500,000) Note referred to above. It provides for the payment and prepayment of the Note.

11. The proposed Lease, Mortgage and Security Agreement, Note Ordinance and Guaranty Agreement (draft copies of which are enclosed herewith) will be in the form heretofore used in the issuance of Industrial Revenue Notes pursuant to the Act. While changes will be made in the enclosed forms, it is not expected that there will be any changes which will substantially affect the undertaking as now outlined therein.

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

That the State Budget and Control Board accept the filing of the Petition presented herewith and that it do, thereafter and as soon as practicable, make its independent investigation of the Project and the terms and provisions of the Lease, the Mortgage and Security Agreement, the Note Ordinance and the Guaranty Agreement as it deems advisable, that the proposed Project will promote the purposes of the Act and that it is reasonably anticipated to effect such result, and on the basis of such finding, that it does approve the Project, including changes in any details of the said financing as finally consummated which do not materially affect the said undertaking, and give published notice of its approval in the manner set forth in the act.

October 13, 1977

Respectfully submitted,

MARLBORO COUNTY COUNCIL

(SEAL)

By William P. Wallace
Chairman

Attest:

Katherine Lovelace
Clerk

SINKLER GIBBS & SIMONS
PROFESSIONAL ASSOCIATION
ATTORNEYS & COUNSELLORS AT LAW
2 PRIOLEAU STREET
CHARLESTON, S. C. 29402

POST OFFICE BOX 340

TELEPHONE 722-3366
AREA CODE 803

October 7, 1977

Hanes

Ms. Katherine Lovelace
Clerk, Marlboro County Council
Bennettsville, South Carolina 29512

Re: $2,500,000 Marlboro County, South Carolina, Industrial Revenue Bonds, 1977 Series (Hanes Corporation - Lessee)

Dear Ms. Lovelace:

I am enclosing the following in connection with the above bonds:

(1) Eight copies of a Resolution authorizing a Petition to the State Budget and Control Board for its approval of these bonds and providing for the holding of a public hearing concerning the leasing of county-owned real property.

(2) An original, blue-backed Petition to be submitted to the Budget and Control Board.

(3) Eight copies of an Ordinance authorizing the issuance of the above bonds and the execution of the necessary documents.

(4) Drafts of the Lease Agreement (with Guaranty Agreement and Assignment attached) and the Mortgage and Security Agreement.

I would appreciate your submission of the Resolution and Ordinance at the meeting of County Council to be held on Thursday, October 13. The Resolution requires only one reading; the Ordinance should be given first reading at the meeting on the 13th and two additional readings at the next two meetings of County Council.

Upon adoption of the Resolution, please certify the eight copies by completion of the Certificate appearing on the last page of each Resolution, and have the original blue-backed Petition executed on behalf of the County as indicated on the final page. I would appreciate your returning seven copies of the Resolution to us for inclusion in the closing documents in this issue and forwarding one copy of the Resolution and the signed Petition to:

Karen LeCraft Henderson
Assistant Attorney General
Hampton Office Building - Box 11549
Columbia, South Carolina 29211

Should you or any member of County Council have any questions concerning this issue, please do not hesitate to call me. Thank you for your help in this matter.

Yours very truly,

Tom Hilhur

TAH:jpw
Enclosures
cc: Harry R. Easterling, Esq.
Karen L. Henderson
William A. McInnis
Charles Y. Lackey, Esq.

A RESOLUTION

APPROVING THE FINANCING OF THE ACQUISITION, CONSTRUCTION AND EQUIPPING OF CERTAIN INDUSTRIAL FACILITIES IN MARLBORO COUNTY (TO BE LEASED TO HANES HOSIERY, INC.) THROUGH THE ISSUANCE OF A TWO MILLION FIVE HUNDRED THOUSAND DOLLAR ($2,500,000) MARLBORO COUNTY, SOUTH CAROLINA FIRST MORTGAGE INDUSTRIAL REVENUE NOTE, SERIES 1977 (HANES HOSIERY, INC. - LESSEE); AUTHORIZING A PETITION TO THE STATE BUDGET AND CONTROL BOARD OF SOUTH CAROLINA FOR ITS APPROVAL OF SUCH UNDERTAKING PURSUANT TO TITLE 4, CHAPTER 29, CODE OF LAWS OF SOUTH CAROLINA, 1976, PROVIDING FOR THE HOLDING OF A PUBLIC HEARING PURSUANT TO SECTION 4-9-130, CODE OF LAWS OF SOUTH CAROLINA, 1976, PUBLICATION OF NOTICE OF SUCH HEARING, AND OTHER MATTERS RELATING THERETO.

BE IT RESOLVED BY THE MARLBORO COUNTY COUNCIL IN MEETING DULY ASSEMBLED:

ARTICLE I

FINDINGS OF FACT

SECTION 1.01

As an incident to the adoption of this Resolution, the Marlboro County Council (which is the governing body of the County) (the County Council), has made the following findings:

1. Hanes Hosiery, Inc., a North Carolina Corporation (the Lessee), has proposed that the County Council assist in financing the acquisition, construction and equipping of certain facilities for the dyeing, packaging and distribution of panty hose, located in Marlboro County, to be leased to the Lessee, at an estimated cost of $2,500,000 through the issuance of an Industrial Revenue Note pursuant to the authorization of Title 4, Chapter 29, Code of Laws of South Carolina, 1976 (the Act). The Lessee has advised the County Council that its proposed industrial project would be aided

by the assistance which the County might render through the sale of a $2,500,000 Industrial Revenue Note pursuant to the Act. The County Council has agreed so to finance the acquisition, construction and equipping of the said facilities (the tract of land and the building and equipment thereon constituting the said facilities are hereinafter referred to as the Project), and adopts this Resolution to evidence its approval of the issuance of a $2,500,000 First Mortgage Industrial Revenue Note, Series 1977 (Hanes Hosiery, Inc. - Lessee) (the Note) as aforesaid, to authorize a petition to the State Budget and Control Board (the State Board), setting forth the facts required by the Act, to authorize the holding of a public hearing on the question of the leasing of real property to be owned by the County and leased to the Lessee in connection with the note financing, and to provide for publication of notice of such hearing.

2. The County Council has determined that the Project will subserve the purposes of the Act and neither the Project nor the Note will give rise to any pecuniary liability of Marlboro County or a charge against its general credit or taxing power.

3. The amount necessary to finance the Project is Two Million Five Hundred Thousand Dollars ($2,500,000).

4. The Lessee has submitted to the County Council a draft of the proposed Lease, under which the Lessee will

agree to pay as rent the amount necessary to provide the annual payments of principal and interest on the said Note.

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

6. Pursuant to a Guaranty Agreement, Hanes Corporation will unconditionally guarantee the payment of principal of, prepayment penalty, if any, and interest on the Note.

7. In view of the well established credit of the Hanes Corporation and the successful arrangements to effect a sale of the Note without the establishment of reserve funds for the payment of the principal and interest, no such reserve funds will be established.

8. The Note will be issued as a tax exempt Note by virtue of an election to be made pursuant to the provisions of Section 103 (b)(6)(A) and (D) of the Internal Revenue Code of 1954, as amended.

9. Hanes Corporation has arranged for the sale of the Note to Wachovia Bank & Trust Company, N.A.

ARTICLE II

SUBMISSION OF PETITION

SECTION 2.01

The Petition in form substantially as attached hereto as Exhibit A shall be presented to the State Board to seek the approval required by the Act; said Petition shall be duly executed by the Chairman and Clerk of the County Council.

ARTICLE III

PUBLIC HEARING AND NOTICE

SECTION 3.01

Pursuant to Section 4-9-130, Code of Laws of South Carolina, 1976, a public hearing shall be held on the question of leasing the real property to be financed with the Note to the Lessee. Such public hearing shall be held before final action by County Council authorizing any such lease.

SECTION 3.02

Not less than fifteen days prior to the hearing provided for in Section 3.01 hereof, the Chairman of County Council shall cause notice of such hearing to be published in THE HERALD-ADVOCATE, a newspaper of general circulation in Marlboro County. Such notice shall be substantially in the form attached hereto as Exhibit B.

EXHIBIT A

STATE OF SOUTH CAROLINA

COUNTY OF MARLBORO

TO THE STATE BUDGET AND CONTROL BOARD OF SOUTH CAROLINA	)	P E T I T I O N

The Petition of the Marlboro County Council (the County Council) respectfully shows:

1. The County Council is the governing body of Marlboro County as established by law, and, as such, is the County Board referred to in Title 4, Chapter 29, Code of Laws of South Carolina, 1976 (the Act).

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, equipment, machinery and other improvements deemed necessary, suitable and useful by any industrial enterprise; to lease the same; and to finance the acquisition, construction and equipping of the same through the issuance of bonds or notes payable from and secured by a pledge of the revenues to be derived from the leasing of such land, buildings, equipment and machinery and other improvements.

3. The County Council agreed with Hanes Hosiery, Inc., a North Carolina corporation (the Lessee) that the County Council will undertake to finance the acquisition, construction and equipping of facilities for the dyeing, packaging

and distribution of panty hose located in Marlboro County, through the issuance of an Industrial Revenue Note pursuant to the Act. In this connection, the County Council has agreed to accept a conveyance of the parcel of land on which the industrial facilities are located, and the County Council has agreed to issue a Two Million Five Hundred Thousand Dollar ($2,500,000) Marlboro County, South Carolina, First Mortgage Industrial Revenue Note, Series 1977 (Hanes Hosiery, Inc. - Lessee), pursuant to the Act in order to finance the acquisition, construction and equipping of the aforesaid facilities (said facilities being hereinafter referred to as the Project).

4. The County Council is advised by the Lessee that the cost of the Project will be approximately Two Million Five Hundred Thousand Dollars ($2,500,000) and that, therefore, in order to finanace the acquisition, construction and equipping of the Project, including the costs and charges incident to the issuance and sale of the note hereinafter described, it will be necessary that the County Council issue a Two Million Five Hundred Thousand Dollars ($2,500,000) Marlboro County, South Carolina, First Mortgage Industrial Revenue Note, Series 1977 (Hanes Hosiery, Inc. - Lessee) (the Note).

5. When completed the Project will employ approximately 225 persons.

6. For the reasons above set forth and hereinafter disclosed the County Council has found:

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

(b) By reason of undertaking the Project no pecuniary liability will result to the County nor will there be a charge against its general credit or taxing power.

(c) The proposed Lease between the County and the Lessee will unconditionally obligate the Lessee to pay rent in an amount adequate to provide for the principal and interest payments on the Note.

(d) The Note will be dated and will mature and bear interest in amounts and at rates set forth in Article II of the draft of the Note Ordinance enclosed herewith.

(e) The terms of the Lease will require the Lessee to carry proper insurance and to pay all costs of maintaining the Project in good repair.

7. Pursuant to the Act, the County Council sets forth the following information:

(a) The Project to be financed consists of the acquisition of a parcel of land located in Marlboro County, South Carolina and the construction and equipping thereon of facilities for the dyeing, packaging and distribution of panty hose.

(b) The Project will provide permanent employment for approximately 225 persons. It is, therefore, believed that the Project will have a beneficial effect upon the economy of the County and areas adjacent thereto.

(c) The cost of the entire Project will amount to approximately $2,500,000, including the cost of acquiring the said land, the construction of the necessary building thereon, and all other expenses to be incurred in connection therewith.

8. The proposed Lease, a draft copy of which is presented herewith, will provide, among other things, the following:

(a) To finance the cost of the acquisition, construction and equipping of the Project, the County will issue a $2,500,000 Marlboro County, South Carolina, First Mortgage Industrial Revenue Note, Series 1977 (Hanes Hosiery, Inc. - Lessee). The Note will be secured by a pledge of the rents to be paid by the Lessee and will be further secured by a Mortgage, as authorized by the Act.

(b) The proceeds derived from the sale of the Note, will be paid over to a depository bank under the Note Ordinance and used to pay the costs incident to the acquisition, construction and equipping of the Project, and the issuance of the Note.

(c) The Lease will contain a specific provision by which the Lessee will unconditionally agree to make payments to Marlboro County, to any School District in Marlboro County, and to all other political units in which the Project is situated, in lieu of taxes, in such amounts as would result from taxes levied on the Project by Marlboro County, by any such School District, and by said political units if the Project were owned by the Lessee, but with appropriate reductions similar to the tax reductions, if any, which would be afforded the Lessee were it the owner of the Project.

(d) The Lease contains no provision imposing any pecuniary liability upon the County or which would create a charge upon its general credit or taxing power.

(e) The Lease imposes upon the Lessee the obligation to pay, in addition to the moneys required for the payment of the principal and interest of the Note, all other costs and expenses resulting from the execution and delivery of the Lease and the issuance of the Note pursuant thereto.

9. The payment of the Note will be unconditionally guaranteed by Hanes Corporation, a North Carolina corporation, pursuant to a Guaranty Agreement between Hanes Corporation and the Mortgagee under the Mortgage and Security Agreement described below.

10. The proposed Mortgage and Security Agreement is in conventional form and constitutes a forecloseable mortgage upon the Project. Included in the granting clause of the Mortgage and Security Agreement will be:

(a) All real and personal property and interests therein, acquired or to be acquired, for the Project.

(b) The right, title and interest of the County in the Lease.

(c) All rentals and revenues derived by the County under the Lease, except those payments to be made in lieu of taxes or by way of indemnification.

The Note Ordinance makes provision for the issuance of the Two Million Five Hundred Thousand Dollars ($2,500,000) Note referred to above. It provides for the payment and prepayment of the Note.

11. The proposed Lease, Mortgage and Security Agreement, Note Ordinance and Guaranty Agreement (draft copies of which are enclosed herewith) will be in the form heretofore used in the issuance of Industrial Revenue Notes pursuant to the Act. While changes will be made in the enclosed forms, it is not expected that there will be any changes which will substantially affect the undertaking as now outlined therein.

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

That the State Budget and Control Board accept the filing of the Petition presented herewith and that it do, thereafter and as soon as practicable, make its independent investigation of the Project and the terms and provisions of the Lease, the Mortgage and Security Agreement, the Note Ordinance and the Guaranty Agreement as it deems advisable, that the proposed Project will promote the purposes of the Act and that it is reasonably anticipated to effect such result, and on the basis of such finding, that it does approve the Project, including changes in any details of the said financing as finally consummated which do not materially affect the said undertaking, and give published notice of its approval in the manner set forth in the act.

October 13, 1977

Respectfully submitted,

MARLBORO COUNTY COUNCIL

(SEAL)

By William P. Wallace
Chairman

Attest:

Katherine Lovelace
Clerk

EXHIBIT B

PUBLIC NOTICE

Notice is hereby given by the Marlboro County Council that a public hearing will be held relating to the proposed leasing by Marlboro County of certain industrial facilities conveyed or to be conveyed to the County by Hanes Hosiery, Inc. and to be financed by the issuance of a $2,500,000 marlboro County, South Carolina, First Mortgage Industrial Revenue Note, Series 1977 (Hanes Hosiery, Inc., - Lessee). The hearing will be held at the Marlboro County Council Conference Room in the County Courthouse, Bennettsville, South Carolina, at 9:30 ~~P~~A.M. Eastern Daylight Time, Thursday, November 10, 1977.

William P. Wallace

Chairman, Marlboro County Council

STATE OF SOUTH CAROLINA

COUNTY OF MARLBORO

I, the undersigned Clerk of the Marlboro County do hereby certify that the foregoing is a true, correct and verbatim copy of a Resolution duly adopted by the Marlboro County Council having been read at a duly called meeting of said County Council on October 13, 1977.

Witness my hand and seal of the Marlboro County Council this 13 th day of October, 1977.

Katherine Lovelace
Clerk, Marlboro County Council

(SEAL)

THE STATE OF SOUTH CAROLINA)
) MORTGAGE AND SECURITY AGREEMENT
COUNTY OF MARLBORO)

TO ALL WHOM THESE PRESENTS MAY CONCERN:

MARLBORO COUNTY, a political subdivision of the State of South Carolina and a body politic and corporate, SENDS GREETINGS:

WHEREAS, MARLBORO COUNTY (the "County") is authorized and empowered by Title 4, Chapter 29, Code of Laws of South Carolina, 1976 (the Act) to acquire, own, lease, dispose of, and mortgage the properties hereinafter described to promote the industrial development of South Carolina by inducing industrial facilities to locate and remain in South Carolina and thus utilize and employ manpower and other resources of South Carolina; and

WHEREAS, the County is further authorized by the said Act to issue revenue bonds or notes payable solely from the lease rentals and revenues from any such project and secured by a pledge of such lease rentals, revenues and receipts and by a mortgage on the land, buildings, improvements, machinery and equipment so acquired; and

WHEREAS, the County has made the necessary arrangements with Hanes Hosiery, Inc. (the Lessee), a corporation organized under the laws of the State of North Carolina, for the acquisition of land, buildings, equipment and machinery constituting industial facilities which will be of the character and accomplish the purpose prescribed by the said Act and the County has further entered into a Lease Agreement with the Lessee dated as of November 1, 1977 (the Lease Agreement) specifying the terms and conditions of the acquisition of the said facilities and the leasing of the same to the Lessee; and

WHEREAS, the execution and delivery of this Mortgage and Security Agreement (the Mortgage) have been authorized by an Ordinance duly adopted by the Marlboro County Council and the County, in accordance with the requirements of the said Act, has submitted its Petition to the State Budget and Control Board of South Carolina and the said Board has duly approved the said undertaking and thereby authorized the Marlboro County Council to proceed with the acquisition and financing of the same. Notice of such approval was duly published in newspapers having general circulation in Marlboro County and, notwithstanding more than twenty (20) days have elapsed from the date of the publication of such notice, no challenge has been made to the validity of such approval as provided in the said Act; and

WHEREAS, the cost of such facilities is estimated to be $2,500,000 and the Lessee has agreed to pay all amounts required in excess of the proceeds available from a $2,500,000 note issue, and therefore to finance the cost of the said facilities, including the necessary expenses incidental thereto, will require the initial issuance, sale and delivery of a $2,500,000 Marlboro County First Mortgage Industrial Revenue Note, Series 1977 (Hanes Hosiery, Inc. - Lessee), which has been purchased by Wachovia Bank & Trust Company, N.A.; and

WHEREAS, the said Marlboro County, in and by its $2,500,000 First Mortgage Industrial Revenue Note, Series 1977 (Hanes Hosiery, Inc. - Lessee) is indebted to Wachovia Bank & Trust Company, N. A., in accordance with the terms and conditions of the said Note in the amount of $2,500,000 and is now minded, pursuant to the authorization of the said Act, to secure payment thereof by this Mortgage upon the said facilities acquired with the proceeds of the said Note and the Lease rentals and revenues hereinafter described; and

WHEREAS, under the provisions of the Lease Agreement, Marlboro County has agreed to issue Additional Notes (as defined in the Lease Agreement) in certain circumstances, and it is intended that this Mortgage shall secure the indebtedness evidenced by the said Additional Notes in an aggregate principal amount not exceeding $5,000,000 if and when the Additional Notes shall be issued.

NOW, KNOW ALL MEN, That the said Marlboro County, in consideration of the said debt and sum of money aforesaid, and for the better securing of the payment thereof to the said Wachovia Bank & Trust Company, N. A., Winston-Salem, North Carolina, in accordance with the terms of the said Note and Additional Notes; and also in consideration of the further sum of THREE DOLLARS ($3.00) to it, the said Marlboro County, in hand well and truly paid by the said Bank at and before the sealing and delivery of these Presents, the receipt whereof is hereby acknowledged, has granted, bargained, sold and released, and by these Presents, DOES GRANT, bargain, sell and release unto the said WACHOVIA BANK & TRUST COMPANY, N. A., Winston-Salem, North Carolina, subject always to the Lease Agreement and the rights of the Lessee thereunder:

I

The real property situated in Marlboro County, South Carolina, described in Exhibit A attached hereto, with all buildings, additions, improvements and fixtures now or hereafter located thereon or therein and with the tenements, hereditaments, servitudes, appurtenances, rights, privileges and immunities thereunto belonging or appertaining which may from time to time be owned by the County.

II

The machinery, equipment or other property described in Exhibit B attached hereto, and substitutions or replacements therefor; all machinery, equipment or other property acquired by the County with the proceeds from the Notes secured by this Mortgage, and substitutions or replacements therefor; all machinery, equipment or other property which under the terms of the Lease Agreement is to become the property of the County or subjected to the lien of this Mortgage; and, without limiting the foregoing, all of the property of the County at any time installed or located on the land described in Exhibit A attached hereto.

III

All right, title and interest of the County in and to the Lease Agreement, and all lease rentals, revenues and receipts received or to be received under the Lease Agreement, except amounts paid by the Lessee thereunder to the County and other local taxing authorities in lieu of taxes pursuant to Section 5.5 thereof and all amounts paid by Lessee to the County pursuant to Sections 6.3, 8.7 or 10.4 thereof.

IV

All lease rentals, revenues and receipts arising out of or in connection with the ownership of the Project (as defined in the Lease Agreement), except amounts paid under Section 5.5 or Sections 6.3, 8.7 or 10.4 of the Lease Agreement.

V

Any and all other property from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security hereunder by the County or by anyone on its behalf or with its written consent to the Mortgagee, which is hereby authorized to receive any and all such property at any and all times to hold and apply the same subject to the terms hereof.

TO HAVE AND TO HOLD all and singular the said premises, equipment, machinery, and other property and said revenues unto the said Wachovia Bank & Trust Company, N. A., Winston-Salem, North Carolina, its successors and assigns forever.

IT IS THE EXPRESS CONDITION of this Mortgage and to all obligations of Marlboro County hereunder and resulting herefrom that neither this Mortgage nor any obligation or covenant of Marlboro County hereunder shall create any pecuniary liability of Marlboro County nor any charge against its taxing powers or upon its general credit; but any such obligation for the payment of money shall be payable solely from the lease rentals, revenues and receipts derived from or in connection with the facilities hereinabove described, including moneys received under the Lease Agreement as hereinabove more fully described; and nothing in the Notes nor in this Mortage shall be considered as pledging any other funds or assets of Marlboro County.

AND the said Marlboro County does hereby bind itself and its Successors to warrant and forever defend all and singular the said premises unto the said Wachovia Bank & Trust Company, N. A., Winston-Salem, North Carolina, its successors, lawfully claiming, or to claim the same, or any part thereof.

IT IS AGREED in the Lease Agreement that the Lessee shall keep the mortgaged real and personal property insured, inter alia, against loss and damage from fire and extended coverage hazards for the benefit of the said Mortgagee. In default thereof, the said Mortgagee, its successors or assigns, may effectuate such insurance and reimburse themselves under this Mortgage for the expense thereof, with interest thereon from the date of its payment at the rate of twelve per centum (12 %) per annum. And it is further agreed, in the event of other insurance and contribution between the insurers, that the said Mortgagee, its successors or assigns, shall be entitled to receive from the aggregate of the insurance moneys to be paid, a sum equal to the amount of the debt insured by this Mortgage.

IT IS AGREED in the Lease Agreement that the Lessee shall pay (subject to Lessee's right to contest) all lawful taxes, assessments and other charges upon the said premises when the same shall first become payable. In default thereof the said Mortgagee, its successors or assigns, may cause the same to be paid, together with all penalties and costs incurred thereon, and reimburse themselves under this Mortgage for the sum so paid, with interest thereon from the date of such payment at the rate of twelve per centum (12%) per annum.

AND IT IS AGREED by and between the said parties that upon any default by the Lessee under the Lease Agreement, or upon any default made in the payment of the interest on or the principal of the said Note or Additional Notes, when the same shall become payable, then the entire amount of the debt secured or intended to be secured hereby shall become due, at the option of the said Mortgagee, its successors or assigns, although the period for the payment thereof may not then have expired.

AND IT IS AGREED by and between the said parties that should legal proceedings be instituted for the collection of the debt secured hereby, then in that event the said Mortgagee, its successors or assigns, shall have the right to have a receiver appointed of the rents and profits of the above described premises, who, after deducting all charges and expenses attending such proceedings, and the execution of the said trust as receiver, shall apply the residue of the said rents and profits towards the payment of the debt secured hereby.

AND IT IS FURTHER AGREED, by and between the parties that should legal proceedings be instituted for the foreclosure of this Mortgage or for any purpose involving this Mortgage, or should the debt hereby secured be placed in the hands of an attorney at law for collection by suit or otherwise, that all costs and expenses incurred by the Mortgagee, including a reasonable counsel fee, shall thereupon become due and payable as a part of the debt secured hereby, and may be recovered and collected hereunder.

PROVIDED ALWAYS, NEVERTHELESS, and it is the true intent and meaning of the parties to these Presents, that if the said MARLBORO COUNTY shall well and truly pay, or cause to be paid unto the said WACHOVIA BANK AND TRUST COMPANY, N. A., Winston-Salem, North Carolina, its successors or assigns, the said debt or sum of money aforesaid, with interest thereon, if any shall be due, according to the true intent and meaning of the said Notes, then this Deed of Bargain and Sale shall cease, determine, and be utterly null and void; otherwise it shall remain in full force and virtue.

AND IT IS AGREED by and between the said parties, that Marlboro County is to hold and enjoy the said premises until default of payment shall be made.

IN WITNESS WHEREOF, MARLBORO COUNTY, SOUTH CAROLINA, has caused these presents to be signed in his name and behalf by the Chairman of the Marlboro County Council, and the Clerk of the Marlboro County Council, and its corporate seal to be hereunto affixed, all as of the 1st day of November, A.D., 1977.

MARLBORO COUNTY, SOUTH CAROLINA

(SEAL)

By______________________________
Chairman, Marlboro County Council

By______________________________
Clerk, Marlboro County Council

SIGNED, SEALED AND DELIVERED
IN THE PRESENCE OF:

____

____

EXHIBIT A

DESCRIPTION OF LEASED LAND

(Attached to Mortgage and Security Agreement from Marlboro County to Wachovia Bank & Trust Company, N. A., dated as of November 1, 1977.)

EXHIBIT B

DESCRIPTION OF LEASED EQUIPMENT

(Attached to Mortgage and Security Agreement from Marlboro County to Wachovia Bank & Trust Company, N. A., dated as of November 1, 1977).

STATE OF SOUTH CAROLINA

COUNTY OF MARLBORO

PERSONALLY appeared before me ______________________________ and made oath that he saw the within named MARLBORO COUNTY, SOUTH CAROLINA, by ______________________, Chairman of the Marlboro County Council, and by __________________________, Clerk of the Marlboro County Council, sign, and affix the corporate seal, and as the Act and Deed of the said Marlboro County deliver the within written Mortgage and Security Agreement, and that he with ________________________________ witnessed the execution thereof.

____

SWORN to before me this

___ day of ____________, 1977.

________________________________(L.S.)
Notary Public for South Carolina

My Commission Expires: ______________

MARLBORO COUNTY, SOUTH CAROLINA

INDUSTRIAL REVENUE NOTE

SERIES 1977

(HANES HOSIERY, INC. - LESSEE)

NOTE ORDINANCE

AN ORDINANCE

AUTHORIZING THE ISSUANCE OF A $2,500,000 MARLBORO COUNTY, SOUTH CAROLINA, FIRST MORTGAGE INDUSTRIAL REVENUE NOTE, SERIES 1977 (HANES HOSIERY, INC. - LESSEE), FOR THE PURPOSE OF FINANCING THE COST OF CONSTRUCTION, ACQUISITION AND EQUIPPING OF CERTAIN INDUSTRIAL FACILITIES; THE EXECUTION AND DELIVERY OF A LEASE AGREEMENT BETWEEN HANES HOSIERY, INC. AND THE COUNTY (TOGETHER WITH AN ASSIGNMENT OF THE COUNTY'S INTEREST THEREIN); AND PROVIDING FOR THE SECURING OF SAID NOTE; AND OTHER MATTERS RELATING THERETO.

WHEREAS, Marlboro County is authorized and empowered by the provisions of Title 4, Chapter 29, Code of Laws of South Carolina, 1976 (the Act), to acquire, own, improve, equip, lease, dispose of and mortgage properties in order that the industrial development of South Carolina will be promoted and trade developed by inducing manufacturing enterprises to locate and remain in South Carolina and thus utilize and employ manpower and other resources of South Carolina, and

WHEREAS, the County is further authorized by the Act to issue revenue bonds or notes payable by the County solely out of Lease Rentals (as hereinafter defined); and

WHEREAS, the County has made arrangements with Hanes Hosiery, Inc., a corporation organized and existing under the laws of the State of North Carolina and duly qualified to do business in the State of South Carolina (hereinafter sometimes referred to as the Lessee) for the acquisition, construction and equipping of facilities for the dying, packaging and distributing of panty hose in the County, including the necessary land, building and equipment (the

Project) which will be of the character and accomplish the purposes prescribed by the Act, and the County proposes to enter into a Lease Agreement with the Lessee specifying the terms and conditions of the acquisition of the Project and the leasing thereof; and

WHEREAS, it has been determined that the amount now required to finance the cost of the Project, including necessary expenses incidental thereto, will require the initial issuance, sale and delivery of a note hereinafter designated as MARLBORO COUNTY, SOUTH CAROLINA, FIRST MORTGAGE INDUSTRIAL REVENUE NOTE, SERIES 1977 (HANES HOSIERY, INC. - LESSEE) in the aggregate principal amount of $2,500,000 (the Series 1977 Note); and

WHEREAS, the $2,500,000 aggregate principal amount of the Series 1977 Note to be issued is to be in substantially the form set forth as Exhibit C to the Lease Agreement (hereinafter defined) with necessary and appropriate variations, omissions and insertions as permitted or required by this Note Ordinance.

NOW, THEREFORE, BE IT ORDAINED by the Marlboro County Council in meeting duly assembled:

ARTICLE I

DEFINITIONS

SECTION 101. The terms defined in this Section 101 (except as herein otherwise expressly provided for or unless the context otherwise required) for all purposes of this Ordinance and of any Ordinance supplemental or amendatory hereto shall have the respective meanings specified in this Section 101.

"ACT" means Title 4, Chapter 29, Code of Laws of South Carolina, 1976.

"ADDITIONAL NOTES" means any Notes issued pursuant to Section 207 of this Ordinance.

"CHAIRMAN" Means the chief executive officer of the County Board. The term shall also include the duly elected or appointed Acting Chairman or Vice Chairman of the County Board whenever, by reason of absence, illness, or other reason, the person who is the Chairman is unable to act.

"CONSTRUCTION FUND" means the fund created pursuant to Section 4.3 of the Lease.

"COUNTY" means Marlboro County, South Carolina, a body politic and corporate and a political subdivision of the State of South Carolina, and its successors and assigns.

"COUNTY BOARD" means the Marlboro County Council as the governing body of the County, and any successor body.

"DEPOSITORY" means Wachovia Bank and Trust Company, N. A., as Depository of the Construction Fund.

"LEASE AGREEMENT" means the Lease Agreement to be executed by and between the County and the Lessee and to be dated as of November 1, 1977, and any amendments or supplements thereto.

"LEASE RENTALS" means all of the revenues, rents and receipts derived directly or indirectly from the leasing or sale of the Project including all moneys received under the Lease Agreement (excepting only amounts paid pursuant to Sections 5.5, 6.3, 8.7 or 10.4 thereof).

"LESSEE" means Hanes Hosiery, Inc., a corporation organized and existing under the laws of the State of North Carolina, and its successors and assigns and any surviving, resulting or transferee corporation as provided in Section 8.3 of the Lease Agreement.

"MORTGAGE" means the Mortgage and Security Agreement relating to the Project dated November 1, 1977, from the County to the Mortgagee.

"MORTGAGEE" means Wachovia Bank and Trust Company, N. A., the Purchaser of the Series 1977 Note.

"NOTES" means all Industrial Revenue Notes of the County issued pursuant to this Ordinance.

"ORDINANCE" means this Ordinance of the County Board authorizing, among other things, the issuance of the Series 1977 Note, as the same may be amended or supplemented from time to time in accordance with the terms hereof.

"SERIES 1977 NOTE" means the $2,500,000 Marlboro County First Mortgage Industrial Revenue Note, Series 1977 (Hanes Hosiery, Inc. - Lessee) issued pursuant to this Ordinance.

ARTICLE II

THE NOTES

SECTION 201. RESTRICTION OF ISSUANCE OF NOTES. No Notes may be issued under the provisions of this Ordinance except in accordance with this Article. The total principal amount of Notes that may be outstanding hereunder is hereby expressly limited to $5,000,000.

SECTION 202. ISSUANCE OF SERIES 1977 NOTE. The Series 1977 Note in the principal amount of $2,500,000, dated as of the date of delivery thereof, designated Marlboro County, South Carolina First Mortgage Industrial Revenue Note, Series 1977 (Hanes Hosiery, Inc. - Lessee) shall be issued. The Series 1977 Note shall bear interest on the unpaid principal balance thereof from November 1, 1977 at the rate of 5-5/8% per annum payable on February 1, 1978 and quarterly thereafter on May 1, August 1, November 1 and February 1 of each year until payment in full of the principal thereof (or in the event any such date is not a business day then on the next succeeding business day thereafter with interest accrued to such day). The principal of the Series 1977 Note shall mature as follows: $12,500 on February 1, May 1, August 1 and November 1 in each of the years 1980 to 1982, inclusive, and $58,750 on February 1, May 1, August 1 and November 1 in each of the years 1983 to 1992, inclusive.

Payments of interest made in respect of the Series 1977 Note shall be made at the times set forth above to the Mortgagee. The Mortgagee shall keep a record of all such payments.

SECTION 203. EXECUTION; LIMITED OBLIGATION. The Notes shall be executed on behalf of the County by the Chairman and the corporate seal of the County shall be impressed thereon and attested by the Clerk of the County Board.

In case any officer whose signature shall appear on the Notes shall cease to be such officer before the delivery of the Notes, such signautre shall nevertheless be valid and sufficient for all purposes, the same as if such officer had remained in office until delivery.

The Notes, together with interest thereon, shall be limited obligations of the County payable by the County solely from the Lease Rentals. The Notes do not now and shall never constitute an indebtedness of the County within the meaning of any state constitutional provison or statutory limitation and shall never constitute nor give rise to a pecuniary liability of the County or a charge against its general credit or taxing powers.

SECTION 204. FORM OF NOTES. The Notes shall be substantially in the form set forth in Exhibit C attached to the Lease Agreement with such appropriate variations, omissions and insertions as are permitted or required by the Ordinance.

SECTION 205. DELIVERY OF THE SERIES 1977 NOTE. The County shall execute and deliver to the Mortgagee or a representative of the Mortgagee the Series 1977 Note in the principal amount of $2,500,000.

SECTION 206. MEDIUM OF PAYMENT. The Notes shall be payable with respect to principal and interest, in Federal or other immediately available funds.

SECTION 207. ISSUANCE OF ADDITIONAL NOTES. The County, at the request of the Lessee and to the extent permitted by law in effect at the time therof, shall use its best efforts to issue Additional Notes from time to time for the purpose of refunding any Notes previously issued or providing for the acquisition of additional land or interest therein within the County which shall become part of the Leased Land (as defined in the Lease Agreement), or for the acquisition, construction or improvement of buildings, structures, facilities, machinery or equipment, all to become part of the Project and to be located on the Leased Land (as defined in the Lease Agreement) on a parity with the Series 1977 Note and any Additional Notes theretofore or thereafter issued under this Ordinance. The proceeds of any Additional Notes shall be used solely to refund Notes or pay the costs of improvement to the Project and to pay the costs incident to the issuance of the Additional Notes, in accordance with Section 8.9 of the Lease Agreement.

Such Additional Notes shall be issued in such series and principal amounts, within the limitations herein provided, shall be dated, shall bear interest at such rate or rates, shall be subject to redemption at such times and prices, and shall mature in such years as the ordinance supplemental hereto authorizing the issuance thereof shall fix and determine.

ARTICLE III

PREPAYMENT OF NOTES

SECTION 301. NOTES PREPAYABLE. The Notes shall be subject to prepayment in the event of (a) exercise by the Lessee of its option to purchase the Project as provided in Section 11.2 of the Lease Agreement, or (b) mandatory purchase of the project by the Lessee pursuant to Section 12.2 of the Lease Agreement. If prepaid in any of such events, the Notes shall be subject to prepayment by the County at any time, whether or not an interest payment date, in whole and not in part, at the principal amount thereof plus accrued interest to the prepayment date and, but only in the event of a prepayment as a result of the mandatory purchase of the Project pursuant to Section 12.2 of the Lease Agreement, a prepayment penalty of six month's interest on the principal amount of the Notes at the time outstanding multiplied by the number of six-month periods, or fraction thereof, between the date as of which interest on the Notes is (or is determined as provided in Section 12.2 of the Lease Agreement to be) taxable and the prepayment date. If it shall occur that any principal installment on any of the Notes shall have been paid subsequent to the date as of which interest on the Notes became, or was so determined to have become, taxable but prior to the prepayment of the Notes from the purchase price derived from the mandatory purchase of the Project by the Lessee pursuant to Section 12.2 of the Lease Agreement, then in such event the holder thereof shall be entitled to receive from the purchase price be paid by the Lessee pursuant to Section 12.2 of the Lease Agreement a prepayment penalty computed on such principal amounts to the date of their payment whether at maturity or by prepayment.

The Series 1977 Note may also be prepaid on any date hereafter, (whether or not such date is an interest payment date) in whole or in part (but if in part in the inverse order of the principal maturities of said Note) at the prepayment fees (expressed as percentages of the principal amount) set forth in the table below plus accrued interest to the prepayment date:

Prepayment Date (Dates Inclusive)	Prepayment Price
November 1, 1977 through October 31, 1987	103%
November 1, 1987 and thereafter	100%

SECTION 302. NOTICE OF PREPAYMENT. In the event any Notes or portions thereof are to be prepaid, the County shall give written notice to the holder or holders thereof at their addresses as shown in the Lease Agreement at least five business days prior to the date of prepayment.

ARTICLE IV

LEASE AGREEMENT, MORTGAGE AND CLOSING DOCUMENTS

SECTION 401. AUTHORIZATION OF LEASE AGREEMENT AND MORTGAGE. The Chairman and Clerk of the County Board are hereby authorized and directed to execute, seal and deliver, on behalf of the County, the Lease Agreement and the Mortgage each in the form heretofore presented to the County Board. The Chairman of the County Board, however, is hereby authorized, prior to execution and delivery of the Lease Agreement and the Mortgage to make such changes or modifications in the form of either of such agreements as may be required or deemed appropriate by him in order to accomplish the purposes of the transactions authrorized by this Ordinance. The execution and delivery of the Lease Agreement and the Mortgage by the Chairman and Clerk of the County Board shall be conclusive evidence of the due execution in accordance with the Ordinacne, on behalf of the County, of each such instrument which shall thereupon become binding and enforceable against the County.

SECTION 402. CLOSING DOCUMENTS. The Chairman and Clerk of the County Board are fully empowered and authorized to take such further action and to execute and deliver such closing documents as may be necessary and proper to effect the delivery of the Notes in accordance with the terms and conditions herein set forth, and the action of such officers or either of them in executing and delivering any of such documents, in such form as he or they shall approve, is hereby fully authorized.

SECTION 403. CONDITION OF COUNTY'S OBLIGATION; PAYMENT OF PRINCIPAL AND INTEREST. Each and every covenant herein made, including all covenants contained in the various sections of this Article IV, is predicated upon the condition that any obligation for the payment of money incurred by the County shall not create a pecuniary liability of the County of a charge upon its general credit or against its taxing powers, but shall be payable solely from the Lease Rentals which Lease Rentals are to be specifically pledged to the payment of the Notes in the manner and to the extent in this Ordinance and in the Mortgage specified and nothing in the Notes or in this Ordinance shall be considered as pledging any other funds or assets of the County.

Subject to the foregoing, the County covenants that it will promptly pay the principal of and interest on the Notes at the place, on the dates and in the manner provided herein and in the Notes according to the true intent and meaning thereof.

SECTION 404. PERFORMANCE OF COVENANTS; AUTHORITY OF COUNTY. The County covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in the Ordinance, in the Notes and in all proceedings pertaining thereto. The County represents and warrants that it is duly authorized under the Constitution and laws of the State of South Carolina to issue the Notes authorized hereby, to enter into the Lease Agreement, and to pledge the Lease Rentals in the manner and to the extent herein and in the Mortgage set forth; that all actions on its part for the issuance of the Notes will have been duly and effectively taken on or prior to the date of delivery thereof and that the Notes in the hands of the holders and owners thereof will be valid and binding obligations of the County in accordance with their terms.

SECTION 405. INSTRUMENTS OF FURTHER ASSURANCE. The County covenants that it will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered, such further acts, instruments and things as may be reasonably required for the better assuring, transferring, conveying, pledging, assigning and confirming unto the holders of the Notes the Lease Rentals pledged in the Mortgage to the payment of the principal of and interest on the Notes.

The County covenants and agrees that, except as herein provided, it will not sell, convey, mortgage, encumber or otherwise dispose of any part of the Lease Rentals.

ARTICLE V

CUSTODY AND APPLICATION OF PROCEEDS OF NOTES

SECTION 501. CONSTRUCTION FUND; DISBURSEMENTS. There is hereby created and established with the Depository a trust fund to bear the designation "Marlboro County (Hanes Project) 1977 Industrial Construction Fund". All of the proceeds of the issuance and delivery of the Series 1977 Note shall be deposited in the Construction Fund. Moneys in the Construction Fund shall be expended for the cost of the facilities in accordance with the provisions of the Lease Agreement and particularly Section 4.3 thereof.

The Depository is hereby authorized and directed to make payments out of the Construction Fund in accordance with Article IV of the Lease Agreement.

The Depository shall keep and maintain records pertaining to the investments of moneys in the Construction Fund and all disbursements therefrom and after the Lessee shall have certified that the Project has been completed as provided in Section 4.5 of the Lease Agreement the Depository shall, if required by the Lessee, file copies of such records thereof with the County, with the Mortgagee and with the Lessee.

ARTICLE VI

MISCELLANEOUS

SECTION 601. SEVERABILITY. If any provision of the Ordinance shall be held or deemed to be or shall in fact be inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions or in all jurisdictions, or in all cases because it conflicts with any other provision or provisions hereof or any Constitution or statute or rule of law or public policy, or for any other reason, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions herein contained invalid, inoperative or unenforceable to any extent whatever.

The invalidity of any one or more phrases, sentences, clauses or sections in the Ordinance contained, shall not affect the remaining portions of the Ordinance, or any part thereof.

SECTION 602. PAYMENTS DUE ON SATURDAYS, SUNDAYS AND HOLIDAYS. If any principal of or interest on the Note falls due on a Saturday, Sunday or public holiday at the place of payment thereof, then such due date shall be extended to the next succeeding full business day at such place and interest shall be payable in respect of such extension.

SECTION 603. COUNTERPARTS. This Ordinance shall be executed by the County Board in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 604. ORDINANCE CONSTITUTES CONTRACT. In consideration of the purchase and acceptance of the Notes by the purchasers thereof, this Ordinance shall for all purposes be deemed to be and shall constitute a contract between the County and the holders from time to time of the Notes.

STATE OF SOUTH CAROLINA

COUNTY OF MARLBORO

I, the undersigned Clerk of the Marlboro County Council do hereby certify that the foregoing is a true, correct and verbatim copy of an Ordinance duly adopted by the Marlboro County Council having been read at three duly called meetings of said County Council on ________ __, 1977, _______ __, 1977 and ______ __, 1977.

Witness my hand and seal of the Marlboro County Council this ____ day of _________, 1977.

____
Clerk, Marlboro County Council

(SEAL)

MARLBORO COUNTY, SOUTH CAROLINA

AND

HANES HOSIERY, INC.

LEASE AGREEMENT

Dated as of November 1, 1977

THIS LEASE AGREEMENT dated as of November 1, 1977, between Marlboro County, a body politic and corporate and a political subdivision of the State of South Carolina, acting by and through the Marlboro County Council (the County Board) as the governing body of Marlboro County, party of the first part, and Hanes Hosiery, Inc., a corporation organized and existing under the laws of the State of North Carolina, duly qualified to do business in South Carolina, party of the second part.

W I T N E S S E T H:

In consideration of the respective representations and agreements hereinafter contained, the parties hereto agree as follows (provided, that in the performance of the agreements of the party of the first part herein contained, any obligation it may thereby incur for the payment of money shall not create a pecuniary liability or charge upon its general credit or taxing powers but shall be payable solely out of the proceeds derived from this Agreement, the issuance of the Note referred to in Section 1.1 hereof and the insurance proceeds, proceeds from property released in accordance with Sections 6.2 or 11.3 hereof, and condemnation awards as herein provided):

ARTICLE I

DEFINITIONS AND INTERPRETATIONS

SECTION 1.1. Certain terms used in this Lease Agreement are defined herein. When used herein, such terms shall have the meanings given to them by the language employed in this Article I defining such terms, unless the context clearly indicates otherwise.

SECTION 1.2. The following terms are defined terms under this Lease Agreement:

"ACT" means Title 4, Chapter 29, Code of Laws of South Carolina, 1976.

"ADDITIONAL NOTES" means the Additional Notes of the County issued pursuant to Section 207 of the Note Ordinance.

"AGREEMENT" or "LEASE AGREEMENT" means the within Lease Agreement between the County and the Lessee.

"AUTHORIZED LESSEE REPRESENTATIVE" means the person at the time designated to act in behalf of the Lessee by written certificate furnished to the County and the Mortgagee containing the specimen signature of such person and signed on behalf of the Lessee by the president or any vice president of the Lessee.

"BUILDING" means those certain buildings and all other facilities forming a part of the Project and not constituting part of the Leased Equipment which are located or are required by Section 4.1(a) hereof to be constructed on the Leased Land, as they may at any time exist, including any air conditioning and heating systems (and any replacements thereof), all of which shall be deemed fixtures.

"CHAIRMAN" means the chief executive officer of the County Board. The term shall also include the Vice Chairman of the County Board whenever, by reason of absence, illness, or other reason, the person who is the Chairman is unable to act.

"COMPLETION DATE" means the date of completion of the construction of the Building and the installation therein of the Leased Equipment as that date shall be certified as provided in Section 4.5 hereof.

"CONSTRUCTION FUND" means the Construction Fund created in accordance with the provisions of Section 4.3 hereof.

"CONSTRUCTION PERIOD" means the period between the beginning of construction or the date on which any Notes are delivered to the purchaser thereof (whichever is earlier) and the Completion Date.

"COUNTY" means Marlboro County, South Carolina, a body politic and corporate, and its successors and assigns.

"COUNTY BOARD" means the Marlboro County Council and any successor body.

"GUARANTOR" means Hanes Corporation, a North Carolina corporation, its successors and assigns, and any surviving, resulting or transferee corporation as provided in Section 2.6 of the Guarantee Agreement.

"GUARANTY AGREEMENT" means the agreement between the Hanes Corporation and the Mortgagee, dated as of November 1, 1977, by which Hanes Corporation unconditionally guarantees the full and prompt payment of the principal, prepayment penalty, if any, and interest on the Notes. The Guaranty Agreement is attached hereto as Exhibit "D".

"INDEPENDENT COUNSEL" means an attorney duly admitted to practice law before the highest court of any state and not an employee of either the County or the Lessee.

"INDEPENDENT ENGINEER" means an engineer or engineering firm registered and qualified to practice the profession of engineering under the laws of South Carolina and who or which is not a full-time employee of either the County or the Lessee.

"LEASE TERM" means the duration of the leasehold estate in this Agreement as specified in Section 5.1 hereof.

"LEASED EQUIPMENT" means those items of machinery, equipment and related property required herein to be acquired and installed in the Building or elsewhere on the Leased Land with proceeds from the sale of the Notes or the proceeds of any payment by the Lessee pursuant to Section 4.6 hereof and any item of machinery, equipment and related property acquired and installed in substitution therefor and renewals and replacements thereof pursuant to the provisions of Sections 4.1(b), 6.1, 6.2(a), 7.1 and 7.2 hereof and is further defined as all property owned by the County and hereby leased to the Lessee which is not included in the definition of Leased Land or Building, but not including Lessee's own machinery and equipment installed under the provisions of Section 9.7 hereof. Leased Equipment is more particularly described in Exhibit "B" attached hereto which, by this reference thereto, is incorporated herein.

"LEASED LAND" means the real property and interest therein and the easements described in Exhibit "A" attached hereto which, by this reference thereto, is incorporated herein.

"LESSEE" means (i) party of the second part hereto and its successors and assigns and (ii) any surviving, resulting or transferee corporation as provided in Section 8.3 hereof.

"LICENSED ENGINEER" means an engineer or engineering firm registered and qualified to practice the profession of engineering under the laws of South Carolina.

"MORTGAGE" means the Mortgage and Security Agreement given by the County to Wachovia Bank and Trust Company, N. A., as Mortgagee, of even date herewith, pursuant to which the County's interest in this Agreement and the lease rentals, revenues and receipts received by the County from the Project (except payments pursuant to Sections 5.5, 6.3, 8.7 or 10.4 of this Agreement) are pledged and the Project is mortgaged as security for the payment of principal, prepayment penalty, if any, and interest on the Notes.

"MORTGAGEE" means Wachovia Bank and Trust Company, N. A., as holder of the Series 1977 Note and Mortgage of the County, its successors and assigns.

"NET PROCEEDS", when used with respect to any insurance or condemnation award, means the gross proceeds from the insurance or condemnation award with respect to which that term is used remaining after payment of all expenses (including attorneys' fees and any other collection expenses) incurred in the collection of such gross proceeds.

"NOTES" means the Industrial Revenue Notes of all series issued by the County pursuant to the Note Ordinance.

"NOTE ORDINANCE" means the Ordinance adopted by the County Board providing for the terms and provisions of the Notes, and any ordinance supplemental thereof and any amendment thereto.

"PENALTY RATE" shall be interest at the rate of twelve percent (12%) per annum.

"PERMITTED ENCUMBRANCES" means, as of any particular time, (i) liens for ad valorem taxes not then delinquent, (ii) this Agreement and the Mortgage, (iii) utility, access and other easements and rights of way, flood rights, encroachments and leases that a Licensed Engineer and the Authorized Lessee Representative certify will not interfere with or impair the operations being conducted in the Building (or, if no operations are being conducted therein, the operations for which the Building was designed or last modified) (iv) such minor defects, irregularities, encumbrances, easements, rights of way, and clouds on title as normally exist with respect to properties similar in character to the Project and as do not, in the opinion of an Independent Counsel acceptable to the Mortgagee and to the Authorized Lessee Representative, materially impair the property affected thereby for the purpose for which it was acquired or is held by the County, and (v) mechanic's and materialmen's liens not filed or perfected in the manner prescribed by Chapter 5, Title 45, Code of Laws of South Carolina, 1962, as in effect on the date hereof, or otherwise.

"PROJECT" means the Leased Land, the Building and the Leased Equipment.

"SERIES 1977 NOTE" means the $2,500,000 First Mortgage Industrial Revenue Note, Series 1977 (Hanes Hosiery, Inc - Lessee) of the County, secured by the Mortgage, and the proceeds of which will be used to finance the acquisition, construction and equipping of the Project. The Series 1977 Note shall be substantially in the form of the attached Exhibit "C".

SECTION 1.3. The words "hereof", "herein", "hereunder" and other words of similar import refer to this Lease Agreement as a whole.

SECTION 1.4. References to Articles, Sections, and other subdivisions of this Lease Agreement are to the designated Articles, Sections, and other subdivisions of this Lease Agreement as originally executed.

SECTION 1.5. The headings of this Lease Agreement are for convenience only and shall not define or limit the provisions hereof.

ARTICLE II

REPRESENTATIONS

SECTION 2.1. Representations by the County. The County makes the following representations as the basis for the undertakings on its part herein contained:

(a) The County is a body politic and corporate and a political subdivision of the State of South Carolina, and is authorized and empowered by the provisions of the Act to enter into the transactions contemplated by this Agreement and to carry out its obligations hereunder. The Project constitutes and will constitute a "project" within the meaning of the Act. By proper action by the County Board and the State Budget and Control Board of South Carolina, the County has been duly authorized to deliver this Agreement.

(b) The County has acquired by deed of the Lessee recorded simultaneously herewith, the Leased Land, and has authorized, and does hereby authorize, the Lessee to construct thereon the Building, to acquire and install the Leased Equipment in the Building or on the Leased Land, to acquire and install all other things deemed necessary in connection with the Project; and the County proposes to lease the Project to the Lessee and to sell the Project to the Lessee at the expiration or earlier termination of the Lease Term, all for the purposes of promoting the industrial development, developing trade, and utilizing and employing the manpower, agricultural products and natural resources of South Carolina.

(c) Heretofore, the County Board and the Lessee did agree that the County would finance the cost of acquiring the Leased Land and constructing and equipping of facilities for the dyeing, packaging and distribution of panty hose thereon through the issuance of an industrial revenue note pursuant to the Act. The Lessee estimates that such cost will amount to $2,500,000, consisting of approximately $50,000 for the Leased Land, approximately $1,700,000 for the construction of the Building, and approximately $750,000 for the cost of the Leased Equipment, and Lessee has agreed that it will bear all expenses in excess of the amount of the proceeds derived from the sale of the Notes. On that basis the County now proposes to issue the Series 1977 Note in the form of a single fully registered Note in the aggregate principal amount of $2,500,000, dated as the date of delivery thereof, which will mature and bear interest, and which will be subject to prepayment on the occasions and at such penalties as provided in the Note Ordinance in order to finance the cost of acquiring, constructing and equipping the Project.

SECTION 2.2. Representations by the Lessee. The Lessee makes the following representations as the basis for the undertaking on its part herein contained:

(a) The Lessee is a corporation duly incorporated under the laws of the State of North Carolina, is in good standing under its Charter and the laws of North Carolina and of South Carolina, and has power to enter into this Agreement and by proper corporate action has been duly authorized to execute and deliver this Agreement.

(b) Neither the execution and delivery of this Agreement, the consummation of the transactions contemplated hereby, nor the fulfillment of or compliance with the terms and conditions of this Agreement, conflict with or result in a breach of any of the terms, conditions or provisions of any corporate restriction or any agreement or instrument to which the Lessee is now a party or by which it is bound, or constitute a default under any of the foregoing, or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of the Lessee under the terms of any instrument or agreement.

(c) Relying upon the agreement of the County to finance the cost of acquiring, constructing and equipping the Project as aforesaid, the Lessee has acquired the Leased Land and proceeded with the construction of the Building.

(d) This Lease Agreement, under which the County acquires the Project, leases and hereafter conveys the Project to the Lessee, is the method employed by the Lessee in financing the acquisition of the Project and in effecting the payment of the Notes.

(e) In order to provide a further inducement to the purchase of the Series 1977 Note, Hanes Corporation, of which the Lessee is a subsidiary, has entered into the Guaranty Agreement with the Mortgagee.

(f) All proceeds derived from the sale of the Series 1977 Note will be used to acquire the Project, which consists entirely of land and property of a character subject to the allowance for depreciation as prescribed in Section 103 (b)(6)(A) and (D) of the Internal Revenue Code of 1954, as amended, and no part of the proceeds of the Notes will be used to finance inventory or for working capital.

ARTICLE III

DEMISING CLAUSES

SECTION 3.1. Demise of the Leased Land, Building and the Leased Equipment. The County demises and leases to the Lessee, and the Lessee leases from the County, the Leased Land, the Building and the Leased Equipment at the rental set forth in Section 5.3 hereof, and in accordance with the provisions of this Agreement.

SECTION 3.2. Warranty of Title. The County warrants that it has acquired a good and marketable fee simple title to the Leased Land, free from all encumbrances other than Permitted Encumbrances, and the County will furnish, at the time of the delivery of the Notes, a written opinion of Independent Counsel acceptable to the Mortgagee and to the Authorized Lessee Representative that it has good and marketable fee simple title to the Leased Land, subject to Permitted Encumbrances.

SECTION 3.3. Title Insurance. At the time of the delivery of the Notes, the County will provide a Mortgagee Title Insurance Policy (or an appropriate Binder) upon the Leased Land and Building issued by a Company approved by the Mortgagee insuring the lien of the Mortgage upon the Leased Land and Building, when completed, subject to no encumbrances other than Permitted Encumbrances, in the amount of not less than $1,750,000, which is the estimated value of the Leased Land and Building. Any Net Proceeds therefrom shall be paid to the Mortgagee to be applied against principal payments on the Notes in inverse order of maturity.

ARTICLE IV

COMPLETION OF THE PROJECT; ISSUANCE OF THE SERIES 1977 NOTE; CONSTRUCTION FUND

SECTION 4.1. Agreement to Construct and Equip the Building on the Leased Land. The County has acquired the Leased Land, by deed of the Lessee. The Lessee agrees that it will exercise the authorizations given to it by the County as set forth in Section 2.1(b) and:

(a) It will cause the Building to be completed on the Leased Land wholly within the boundary line thereof which will be utilized in accordance with a general description heretofore furnished to the County by the Lessee.

(b) It will cause to be acquired and installed in the Building or on the Leased Land for use of the Lessee the Leased Equipment, to consist of the machinery, equipment and related property described in the general list thereof in Exhibit "B" attached hereto, and incorporated herein by reference thereto, and such other items of machinery and equipment and any transportation facility and equipment used as an integral part of the Project, which in Lessee's judgment may be necessary for operation of the Project.

The Lessee agrees to complete the construction of the Building and the acquisition and installation of the Leased

Equipment as promptly as practicable after receipt of the proceeds derived from the sale of the Series 1977 Note.

SECTION 4.2. Agreement to Issue Series 1977 Note; Application of Note Proceeds. In order to provide funds for payment of the costs of the Project, the County agrees that it will by December 31, 1977, execute and deliver the Series 1977 Note and cause it to be delivered to the Mortgagee and it will thereupon deposit in the Construction Fund the proceeds received from said sale.

SECTION 4.3. Establishment of Construction Fund; Disbursements from the Construction Fund. Not later than the occasion of the delivery of the Series 1977 Note, the County will establish the Construction Fund, in a bank approved by the Lessee and the Mortgagee. Withdrawals from the Construction Fund shall be made only upon the signature of the Authorized Lessee Representative. The moneys in the Construction Fund will be used for the following purposes (but, subject to the provisions of Section 4.9 hereof, for no other purposes):

(a) The fees for recording the deed whereby the Leased Land is conveyed to the County, this Agreement, the Mortgage and any title curative documents that either the Mortgagee, the Lessee or Independent Counsel may deem desirable to file for record in order to perfect or protect the title of the County to the Leased

Land or to perfect or protect the lien and security interest of the mortgage on the Project; and the fees and expenses in connection with any actions or proceedings that either the Mortgagee, the Lessee or the Independent Counsel may deem desirable to bring in order to perfect or protect the title of the County to the Leased Land or to perfect the lien and security interest of the Mortgage on the Project.

(b) Payment to the Lessee and the County, as the case may be, of such amounts, if any, as shall be necessary to reimburse the Lessee and the County in full for advances and payments made by them or either of them prior to or after the delivery of the Notes for expenditures in connection with (i) the acquisition by the County of title to the Leased Land, including the cost of the Leased Land and the preparation of plans and specifications for the Project (including any preliminary study or planning of the Project or any aspect thereof) and (ii) clearing the Leased Land, the construction of the Building, the acquisition and installation of the Leased Equipment, and all construction, acquisition and installation expenses required to provide utility services or other facilities, and all real or personal properties deemed necessary in connection with the Project (including architectural, engineering and supervisory services with respect to any of the foregoing).

(c) Payment of the cost of title insurance, legal, financing and accounting fees and expenses and printing and engraving costs, if any, incurred in connection with the authorization, sale and issuance of the Note, the preparation of this Agreement, the Mortgage and all other documents in connection therewith and in connection with the acquisition of title to the Leased Land and Building.

(d) Payment for labor, services, materials and supplies used or furnished in site improvement and in the construction of the Building, payment for all costs incident to the acquisition and installation of the Leased Equipment, payment for the cost of the construction, acquisition and installation of utility services or other facilities, and all real and personal property deemed necessary in connection with the Project and payment for the miscellaneous expenses incidental to any of the foregoing items including the premium on any surety bond.

(e) Payment of the fees, or out-of-pocket expenses, if any, for architectural, engineering and supervisory services with respect to the Project.

(f) To such extent as they shall not be paid by a contractor for construction with respect to any part of the Project, payment of the premium on all insurance required to be taken out and maintained during the Construction Period under this Agreement, or reimbursement thereof if paid by the Lessee.

(g) Payment of the taxes, assessments and other charges, if any, referred to in Section 6.3 hereof that may become payable during the Construction Period, or reimbursement thereof if paid by the Lessee.

(h) Payment of expenses incurred with approval of the Lessee in seeking to enforce any remedy against any contractor or subcontractor in respect of any default under a contract relating to the Project.

(i) Payment of any other costs and expenses relating to the Project, including payment of the fees and expenses of the bank acting as custodian of the Construction Fund.

(j) All moneys remaining in the Construction Fund after completion of the Building and acquisition and installation of the Leased Equipment and payment in full of the costs thereof, and after payment of all other items provided for in the preceding subsections (a) to (i), inclusive, of this Section, shall be applied to the payments as they become due on the Notes, except for amounts retained in the Construction Fund with the approval of the Authorized Lessee Representative for payment of Project costs not then due and payable; any balance remaining of such retained funds after full payment of all such Project costs to be applied to the payments as they become due on the Notes.

It is further agreed that:

(1) On the occasion of each payment from the Construction Fund in accordance with the preceding provisions of this Section, the Authorized Lessee Representative shall file a written certificate with the Bank acting as custodian of the Construction Fund and with the Mortgagee establishing: (i) that none of the items for which the payment is being made has formed the basis for any payment theretofore made from the Construction Fund and (ii) that each item for which the payment is being made is or was necessary in connection with the Project, is in conformance with the plans and specifications therefor, and is authorized by this Agreement to be paid.

(2) In the case of any contract providing for retention by the Lessee of a portion of the contract price, there shall be paid from the Construction Fund only the net amount remaining after deduction of any such portion.

SECTION 4.4. Depository Bank May Rely on Order of Authorized Representative. The bank in which the Construction Fund shall be deposited may honor withdrawals upon the signature of the Authorized Lessee Representative and shall have no further liability with respect to payments made in accordance with such order.

SECTION 4.5. Establishment of Completion Date. The Completion Date shall be evidenced to the bank acting as custodian of the Construction Fund, to the Mortgagee and to the County Board by a certificate prepared by the Lessee and signed by the Authorized Lessee Representative stating that, except for amounts retained in the Construction Fund for Project costs not then due and payable as provided in Section 4.3(j), (i) the Building has been completed in accordance with the specifications therefor and all labor, services, materials and supplies used in such construction have been paid for, (ii) all other facilities necessary in connection with the Project have been constructed, acquired and installed in accordance with the specifications therefor and all costs and expenses incurred in connection therewith have been paid, the Leased Equipment has been installed to his satisfaction, the Leased Equipment so installed is suitable and sufficient for the efficient operation of the Project for the purposes specified in Section 4.1(a) hereof and all costs and expenses incurred in the acquisition and installation of the Leased Equipment have been paid. Notwithstanding the foregoing, such certificate shall state that it is given without prejudice to any rights against third parties which exist at the date of such certificate or which may subsequently come into being. It shall be the duty of the Lessee to cause the certificate contemplated by this Section 4.5 to be furnished as soon as the Project shall have been completed.

SECTION 4.6. Lessee Required to Pay Project Costs in Event Construction Fund Insufficient. In the event the moneys in the Construction Fund available for payment of the costs of the Project should not be sufficient to pay the costs thereof in full, the Lessee agrees to complete the Project free of all liens and encumbrances (other than Permitted Encumbrances) and to pay all that portion of the costs of the Project as may be in excess of the moneys available therefor in the Construction Fund. The County does not make any warranty, either express or implied, that the moneys which will be paid into the Construction Fund and which, under the provisions of this Agreement, will be available for payment of the costs of the Project, will be sufficient to pay all the costs which will be incurred in that connection. The Lessee agrees that if after exhaustion of the moneys in the Construction Fund the Lessee should pay any portion of the said costs of the Project pursuant to the provisions of this Section, it shall not be entitled to any reimbursement therefor from the County or from the Mortgagee, nor shall it be entitled to any diminution of the rents payable under Section 5.3 hereof. The obligation of the Lessee to complete the Project shall survive any termination of this Agreement, subject to the force majeure provisions of the concluding paragraph of Section 10.1.

SECTION 4.7. Authorized Lessee Representative and Successors. The Lessee will designate, in the manner prescribed in Section 1.2, the Authorized Lessee Representative. In the event that any person so designated hereunder and his alternate or alternates, if any, should become unavailable or unable to take any action or make any certificate provided for or required in this Agreement, a successor shall be appointed in the same manner.

SECTION 4.8. Enforcement of Remedies Against Contractors and Subcontractors and Their Sureties. The Lessee covenants that it will take such action and institute such proceedings as shall be necessary to cause and require all contractors and material suppliers to complete their contracts diligently in accordance with the terms of said contracts, including, without limitation, the correcting of any defective work, with all expenses incurred by Lessee in connection with the performance of its obligations under this Section 4.8 to be considered part of the Project costs referred to in Section 4.3(i), and the County agrees that the Lessee may, from time to time, in its own name, or in the name of the County, take such action as may be necessary or advisable, as determined by Lessee, to insure the construction of the Project in accordance with the terms of such construction contracts, and the installation of machinery and equipment in accordance with any applicable contract pertaining thereto, to insure the peaceable and quiet enjoyment of the Project for the Lease Term, and to insure the performance by the County of all covenants and obligations of the County under this Agreement, with all costs and expenses incurred by the Lessee in connection therewith to be considered as part of the Project costs referred to in Section 4.3(i). Any amounts recovered by way of damage, refunds, adjustments or otherwise in connection with the foregoing prior to the Completion Date, less legal expenses incurred in order to collect the same, shall be paid into the Construction Fund and after the Completion Date shall be applied to the payments as they become due on the Notes.

SECTION 4.9. Investment of Construction Fund Moneys Permitted - Limitation on Investments. Any moneys held as a part of the Construction Fund shall at the written request of the Authorized Lessee Representative be invested or reinvested by the bank acting as custodian of the Construction Fund in (i) obligations of the United States and agencies thereof or unconditionally guaranteed as to principal and interest by the United States or any such agencies; (ii) general obligations of the State of South Carolina or any of its political units; (iii) Savings and Loan Associations to the extent that the same are secured by the Federal Savings and Loan Insurance Corporation; (iv) certificates of deposit where such certificates of deposit are collaterally secured by securities of the type described in (i) and (ii) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest or (v) to the extent permitted by the Law of South Carolina then in effect, repurchase agreements covering obligations of the type described in (i) and (ii) above with the Mortgagee or a member bank or banks of the Federal Reserve System or securities dealers approved by the Authorized Lessee Representative provided that all moneys in each such investment arrangement shall be continuously and fully secured by obligations of the type described in (i) and (ii) above of a market value equal at all times to the amount of such investment arrangement. Any such investments shall be held by or under the control of the bank acting as custodian of the Construction Fund and shall be deemed at all times a part of the Construction Fund and the interest accruing thereon and any profit realized from such investments shall be credited to such fund, and any loss resulting from such investments shall be charged to such fund. The bank acting as custodian of the Construction Fund shall sell and reduce to cash funds a sufficient amount of such investments whenever the cash balance in the Construction Fund is insufficient to pay a requisition when presented.

The Lessee further convenants and agrees:

(a) That it will not direct the investment of any moneys held as a part of the Construction Fund in a manner which shall be contrary to any policy or rules or regulations of the Internal Revenue Service with respect to "arbitrage bonds" within the meaning of Section 103(c)(2) of the Internal Revenue Code of 1954, as amended, and the applicable regulations issued thereunder and as in effect on the occasion of the delivery of any of the Notes (the Regulations); and

(b) It will furnish to the County accurate information to enable the appropriate County officers and Bond Counsel to make all necessary certifications required by the Regulations.

ARTICLE V

EFFECTIVE DATE OF THE AGREEMENT; DURATION OF LEASE TERM; RENTAL PROVISIONS; PAYMENTS IN LIEU OF TAXES AND UNCONDITIONAL OBLIGATIONS OF LESSEE

SECTION 5.1. Effective Date of this Agreement; Duration of Lease Term. This Agreement shall become effective upon its delivery, and the leasehold estate created in this Agreement shall then begin, and, subject to the provisions of this Agreement (including particularly Articles X and XI and Section 12.2 hereof), shall expire November 1, 1992.

SECTION 5.2. Delivery and Acceptance of Possession. The County agrees to deliver to the Lessee sole and exclusive possession of the Leased Land upon execution and delivery of this Agreement and Lessee thereupon and thereafter shall have sole and exclusive possession of the Project during the Lease Term (subject to the right of the County and the Mortgagee to enter thereon for inspection purposes and to the other provisions of Section 8.2 hereof).

SECTION 5.3. Rents and Other Amounts Payable. On or before February 1, 1978, and on or before each May 1, August 1, November 1 and February 1 thereafter until the principal of and interest on the Series 1977 Note shall have been fully paid, the Lessee shall pay to the Mortgagee for the account of the County, as rent for the Project, a sum equal to the amount payable on such date as principal and interest upon the Series 1977 Note in Federal or other immediately available funds.

In the event Additional Notes shall be issued pursuant Article II of the Note Ordinance, thereafter on or before any date on which the principal or interest on any such Notes shall be due, until the principal of, prepayment penalty, if any, and interest on all such Notes shall have been fully paid or provisions for the payment thereof shall have been made in accordance with the Note Ordinance, the Lessee shall pay a sum equal to the amount payable on such date as principal and/or interest upon such Notes, as provided in the Note Ordinance.

In any event each rental payment under this Section shall be sufficient to pay the total amount of interest and principal (whether at maturity or by prepayment as provided in the Notes and Mortgage) payable on each such payment date, and if at any payment date the rental payment is insufficient to make required payments of principal (whether at maturity or by prepayment as provided in the Notes and Mortgage) and interest on such date the Lessee will forthwith pay any such deficiency; provided that any amount at any time held for application to the payments as they become due on the Notes in accordance with the provisions hereof shall be credited against the next rental payment to the extent such amount is in excess of the amount required for payments of the Notes theretofore due; and provided further, that if the amount held by the Mortgagee for application as aforesaid should be sufficient to pay at the times required the principal of, prepayment penalty, if any, and interest on the Notes due or to become due to maturity or to such earlier date on which the Notes are called for prepayment in full in accordance with the terms of the Notes and the Note Ordinance, the Lessee shall not be obligated to make any further rental payments under the foregoing provisions of this Section.

In the event the Lessee should fail to make any of the payments required in this Section 5.3 the item or installment so in default shall continue as an obligation of the Lessee until the amount in default shall have been fully paid, and the Lessee agrees to pay the same with interest thereon at the Penalty Rate until fully paid. The provisions of this Section shall be subject to the provisions of Section 9.6 hereof.

SECTION 5.4. Place of Rental Payments. The rent provided for in Section 5.3 hereof shall be paid directly to the Mortgagee for the account of the County and will be applied against the Notes.

SECTION 5.5. Payments in Lieu of Taxes. It is recognized that under the provisions of the Act when any project is leased by a county pursuant to the Act the lessee thereof shall be required to make payments to the county, the school district or school districts, and other political units wherein the project shall be located in lieu of taxes, in such amounts as would result from taxes levied on the project by such county, school district or school districts, and other political unit or 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. For the sole purpose of enabling the Lessee to comply with the aforesaid obligation, it is agreed that the County in cooperation with the Lessee (i) shall cause the Project to be valued as if privately owned as aforesaid for purposes of the said taxes by the State Tax Commission of South Carolina or such other appropriate officer or officers as may from time to time be charged with responsibility for making such valuations; (ii) shall cause to be appropriately applied to the valuation or valuations so determined the respective rate or rates of such taxes that would be applicable to the Project if so privately owned; (iii) shall cause the respective appropriate officer or officers charged with the duty of levying and collecting taxes to submit to the Lessee, when the respective levies are made upon property privately owned as aforesaid, a statement specifying the amount and due date or dates of such taxes which the County, school district and other political units having taxing powers would receive if such property were so privately owned; and the Lessee shall file any accounts or tax returns required with the appropriate officer or officers. The Lessee shall pay to the aforesaid taxing authorities when due all such payments in lieu of taxes with respect to the Project required by the Act to be paid to the aforesaid taxing authorities, subject in each case to the Lessee's right to obtain exemptions (and discounts), if any, therefrom which would be afforded to a private owner of the Project and to seek to obtain a refund of any such payments made, and subject further to the Lessee's right to contest or appeal in good faith any such payment in the manner provided by law. The Lessee's obligation to make such additional payments shall continue only so long as and to the extent the Lessee is required by law to pay the aforesaid amounts in lieu of taxes. Once having paid the amounts required by this Section 5.5 to be paid by it in lieu of taxes, the Lessee shall not be required to pay any such taxes for which a payment in lieu thereof has been made to the State or to any city, county, town, school district or other political unit, any other statute to the contrary notwithstanding. In the event the Lessee shall fail to make any of the payments required by this Section 5.5, the amount or amounts so in default shall continue as an obligation of the Lessee until fully paid and the Lessee agrees to pay the same with interest thereon at the Penalty Rate until paid.

SECTION 5.6. Obligations of Lessee Hereunder Unconditional. Subject to the provisions of Section 9.6 hereof, the obligations of the Lessee to make the payments required in Sections 5.3 and 5.5 hereof and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional and until such time as the principal, prepayment penalty, if any, and interest on the Notes shall have been duly paid or provisions for the payment thereof shall have been made in accordance therewith, the Lessee (i) will not suspend or discontinue any payments provided for in Section 5.3 hereof, (ii) will perform and observe all of its other agreements contained in this Agreement, and (iii) except as provided in Section 11.1 hereof will not terminate the Lease Term for any cause including, without limiting the generality of the foregoing, failure of the Lessee to complete the Project, any acts or circumstances that may constitute failure of consideration, eviction, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of South Carolina or any political subdivision of either thereof or any failure of the County to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Agreement. Nothing contained in this Section shall be construed to release the County from the performance of any of the agreements on its part herein contained, and in the event the County should fail to perform any such agreement on its part, the Lessee may institute such action against the County as the Lessee may deem necessary to compel performance so long as such action does not abrogate the Lessee's obligations contained in the first sentence of this Section 5.6. The Lessee may, however, at its own cost and expense and in its own name or in the name of the County, prosecute or defend any action or proceeding or take any other action involving third persons which the Lessee deems reasonably necessary in order to secure or protect its right of possession, occupancy and use hereunder, and in such event the County hereby agrees to cooperate fully with the Lessee and to take all action necessary to effect the substitution of the Lessee for the County in any such action or proceeding if the Lessee shall so request.

ARTICLE VI

MAINTENANCE, TAXES AND INSURANCE

SECTION 6.1. Maintenance and Modifications of Project by Lessee. The Lessee agrees that during the Lease Term it will at its own expense (i) keep the Project in as reasonably safe condition as its operations shall permit and (ii) keep the Building and Leased Equipment and all other improvements forming the Project in good repair and in good operating condition, making from time to time all necessary repairs thereto and renewals and replacements thereof. The Lessee may, also at its own expense, make from time to time any additions, modifications or improvements to the Project it may deem desirable for its business purposes that do not adversely affect the use of the Project for the purpose for which it is intended. Subject to the provisions of Section 9.7 hereof, such additions, modifications and improvements so made by the Lessee shall be on the Leased Land and become a part of the Project. The Lessee will not permit any mechanics' or other liens to be established or remain against the Project for labor or materials furnished in connection with any additions, modifications, improvements, repairs, renewals or replacements so made by it; provided, that if the Lessee shall first notify the Mortgagee of its intention so to do, the Lessee may in good faith contest any mechanics' or other liens filed or established against the Project, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom unless the Mortgagee shall notify the Lessee that, in the opinion of an Independent Counsel acceptable to Lessee's Authorized Representative, by nonpayment of any such items, the lien of the Mortgage as to any part of the Project will be materially endangered or the Project or any part thereof will be subject to loss or forfeiture, in which event the Lessee shall promptly pay and cause to be satisfied and discharged all such unpaid items. The County will cooperate fully with the Lessee in any such contest.

SECTION 6.2. Removal of Leased Equipment. The County shall not be under any obligation to renew, repair or replace any inadequate, obsolete, worn out, unsuitable, undesirable, or unnecessary Leased Equipment. If no event of default under this Agreement shall have happened and be continuing, in any instance where the Lessee in its discretion determines that any items of Leased Equipment have become inadequate, obsolete, worn out, unsuitable, undesirable or unnecessary, the Lessee may remove such items of Leased Equipment from the Building and the Leased Land and (on behalf of the County) sell, trade in, exchange or otherwise dispose of them (as a whole or in part) without any reponsibility or accountability to the County or the Mortgagee therefor, provided that the Lessee shall either:

(a) Substitute (either by direct payment of the cost thereof or by advancing to the County the funds necessary therefor) and install anywhere in the Building or on the Leased Land other machinery, equipment or related property having equal or greater utility (but not necessarily having the same function) in the operation of the Project for the purpose for which it is intended, all of which substituted machinery, equipment or related property shall be free of all liens and encumbrances (other than Permitted Encumbrances) and shall become a part of the Leased Equipment; or

(b) Not make any such substitution and installation, provided (i) that in the case of the sale of any such Leased Equipment to anyone other than itself or in the case of the scrapping thereof, the Lessee shall pay to the Mortgagee, to be applied against the principal last maturing on the Notes, the proceeds from such sale or the scrap value thereof, as the case may be, (ii) that in the case of the trade-in of such Leased Equipment for other machinery, equipment or related property not to be installed in the Building or on the Leased Land, the Lessee shall pay to the Mortgagee, to be applied against the principal last maturing on the Notes, the amount of the credit received by it in such trade-in and (iii) that in the case of the sale of any such Leased Equipment to the Lessee or in the case of any other disposition thereof, the Lessee shall pay to the Mortgagee, to be applied against the last maturing principal installments on the Notes, an amount equal to the original cost thereof less depreciation at rates calculated in accordance with generally accepted accounting practices.

The removal from the Project of any portion of the Leased Equipment pursuant to the provisions of this Section shall not entitle the Lessee to any abatement or diminution of the rents payable under Section 5.3 hereof.

The Lessee shall promptly report to the Mortgagee each such removal, substitution, sale and other disposition and shall pay to the Mortgagee such amounts as are required by the provisions of the preceding subsection (b) of this Section to be paid to the Mortgagee promptly after the sale, trade-in or other disposition requiring such payment; provided, that no such report and payment need be made until the amount to be so paid on account of all such sales, trade-ins or other dispositions not previously reported aggregates at least $10,000. The Lessee shall not remove, or permit the removal of, any of the Leased Equipment from the Leased Land except in accordance with the provisions of this Section.

SECTION 6.3. Taxes, Other Governmental Charges and Utility Charges. The County and the Lessee acknowledge (i) that pursuant to Section 13 of the Act, no part of the Project owned by the County will be subject to taxation in South Carolina, (ii) that under present law the income and profits (if any) of the County from the Project are not subject to either Federal or South Carolina taxation, (iii) and that under present law there is no tax imposed upon leasehold estates in South Carolina, and (iv) that these factors, among others, have induced the Lessee to enter into this Agreement.

However, the Lessee will pay, as the same become due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Project or any machinery, equipment or other property installed or brought by the Lessee therein or thereon (including, without limiting the generality of the foregoing, any taxes levied upon or with respect to the lease rentals, revenues or receipts of the County from the Project which, if not paid, will become a lien on the Project prior to or on a parity with the lien of the Mortgage or a charge on the revenues and receipts therefrom prior to or on a parity with the charge thereon and the pledge or assignment thereof to be created and made in the Mortgage, and including all ad valorem taxes lawfully assessed upon the leasehold estate hereby granted and conveyed to the Lessee in the Leased Land, Building and Leased Equipment), all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Project and all assessments and charges lawfully made by any governmental body for public improvements that may be secured by lien on the Project; provided, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Lessee shall be obligated to pay only such installments as they become due.

If the Lessee shall first notify the Mortgagee of its intention so to do, the Lessee may, at its expense and in its own name and behalf or in the name and behalf of the County, in good faith contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Mortgagee shall notify the Lessee that, in the opinion of Independent Counsel, by non-payment of any such items the lien or security interest of the Mortgage will be materially endangered or the Project or any part thereof will be subject to loss or forfeiture, in which event such taxes, assessments or charges shall be paid promptly. The County will cooperate fully with the Lessee in any such contest. In the event that the Lessee shall fail to pay any of the foregoing items required by this Section to be paid by the Lessee, the County or the Mortgagee may (but shall be under no obligation to) pay the same and any amounts so advanced therefor by the County or the Mortgagee shall become an additional obligation of the Lessee to the one making the advancement, which amounts, together with interest thereon at the Penalty Rate from the date thereof until paid, the Lessee agrees to pay.

SECTION 6.4. Insurance Required. (a) Lessee shall, at Lessee's sole cost and expense at all times during the Lease Term, keep the Project insured against loss or damage in accordance with the customary insurance practices of Lessee, but in all events to the following extent:

(1) Against the perils of fire and the hazards ordinarily included under standard extended coverage endorsements in amounts necessary to prevent the application of the co-insurance provisions of the applicable policies but not less than the lesser of 80% of the full insurable value thereof within the terms of applicable policies or an amount equal to the principal amount of the Notes outstanding from time to time.

(2) Against war risks when a state of war or national or public emergency exists and such insurance

is obtainable from a department or agency of the United States Government, upon reasonable terms, in the full amount necessary to prevent the application of the co-insurance provisions of the applicable policies but not less than 80% of the then full insurable value, or, if such amounts be not obtainable, then in the highest amount which can be so obtained.

(3) If there are boilers or pressure vessels, from boiler of pressure vessel explosion in an amount customarily carried in the case of similar industrial operations.

The term "full insurable value" means such value as shall be determined from time to time at the request of the County, Lessee or Mortgagee (but not more frequently than once in every twenty-four (24) months) by one of the insurers selected by Lessee.

(b) At all times during the Lease Term, Lessee shall at no cost or expense to the County, maintain or cause to be maintained:

(i) General public liability insurance (including Workmen's Compensation insurance in amounts usually carried by similar operations) against claims for bodily injury or death occurring upon, in or about the Project, with such insurance (other than Workmen's Compensation Insurance) to afford protection to the limits of not less than $250,000 in respect to bodily injury or death to any one person and to the limit of not less than $500,000 in respect of any one accident; and

(ii) Property damage insurance against claims for damage to property occurring upon, in or about the Project with such insurance to afford protection to the limit of not less than $500,000 in respect of damage to the property of any one owner.

(c) The insurance required by this Section 6.4, except the said war risk insurance, shall be maintained in full force and effect at all times during the Lease Term, except that such insurance required by Section 6.4(a) need not be placed in force and effect until the completion of the construction of the Building, provided that builder's risk insurance is in effect at least to the extent contemplated by Section 6.4(a) and provided further that in no event shall the insurance required by Section 6.4(a) be placed into force and effect later than the expiration of the builder's risk insurance carried pursuant to the provisions of any contracts entered into with contractors, with the end in view of having full insurance coverage at all times.

(d) Copies or certificates of the insurance required by this Section, each bearing notations evidencing payment of the premiums or other evidence of payment satisfactory to the Mortgagee, shall be delivered by Lessee to the Mortgagee. And, in the case of expiring policies throughout the term, copies or certificates of any new or renewal policies, each bearing notations evidencing payment of the premiums or other evidence of payment satisfactory to the Mortgagee, shall be delivered by Lessee to the Mortgagee.

(e) Policies of insurance provided for in Section 6.4(a) and any builder's risk insurance referred to in Section 6.4(c) shall name the County and the Lessee as insureds as their respective interests may appear, provided, however, that the Mortgagee shall also be named as a party insured pursuant to a standard mortgagee clause as its interests may appear, and provided further that while any amount remains unpaid on the Notes, all such insurance proceeds shall be payable as provided in Section 7.1 hereof.

(f) All insurance required by this Section 6.4 shall be effected with responsible insurance companies selected by the Lessee. Lessee shall cause appropriate provisions to be inserted in each insurance policy making each policy non-cancellable without at least ten (10) days prior written notice to the County, Lessee and Mortgagee. Also, it is agreed that no claim shall be made and no suit or action at law or in equity shall be brought by the County or by anyone claiming by, through or under the County, against Lessee for any damage to the Project covered by the insurance provided for by this Section 6.4, however caused, but nothing in this sub-section (f) shall diminish Lessee's obligation to repair or rebuild as provided in Section 7.1. The Lessee shall have the sole right and responsibility to adjust any loss with the insurer involved and to conduct any negotiations in connection therewith, provided that so long as any amount remains outstanding and unpaid on the Notes, no settlement of any claim shall be effected without the written consent of the Mortgagee.

SECTION 6.5. Application of Net Proceeds of Insurance. The Net Proceeds of the insurance carried pursuant to the provisions of Section 6.4(a) hereof shall be received by the Lessee and shall then be paid and applied as provided in Section 7.1 hereof and the Net Proceeds of Insurance carried pursuant to the provisions of Section 6.4(b) hereof shall be applied toward extinguishment or satisfaction of the liability with respect to which such insurance proceeds may be paid.

SECTION 6.6. Advances by the County or the Mortgagee. In the event the Lessee shall fail to maintain the full insurance coverage required by this Agreement or shall fail to keep the Project in as reasonably safe condition as its operations will permit, or shall fail to keep the Building and the Leased Equipment in good repair and good operating condition, the County or the Mortgagee may (but shall be under no obligation to) take out the required policies of insurance and pay the premiums on the same or make the required repairs, renewals and replacements; and all amounts so advanced therefor by the County or the Mortgagee shall become an additional obligation of the Lessee to the one making the advancement, which amounts, together with interest thereon at the Penalty Rate from the date thereof, the Lessee agrees to pay.

ARTICLE VII

DAMAGE, DESTRUCTION AND CONDEMNATION

SECTION 7.1. Damage and Destruction. (a) Unless the Building or the Leased Equipment shall be damaged to the extent prescribed by, and the Lessee shall elect to exercise its option to purchase pursuant to, the provisions of Section 11.2(a) hereof, if prior to full payment of the Notes the Project is damaged by fire or other casualty to such extent that the claim for loss under the insurance policies required to be carried pursuant to Section 6.4(a) hereof resulting from such destruction or damage is not greater than $100,000 the Lessee (i) will promptly repair, rebuild or restore the property damaged or destroyed to substantially the same condition thereof as existed prior to the event causing such damage or destruction with such changes, alterations and modifications (including the substitution and addition of other property) as may be desired by the Lessee and as will not adversely affect the use of the Project for the purpose for which it is intended, and (ii) shall apply for such purpose so much as may be necessary of any Net Proceeds of insurance resulting from such claims for losses. All Net Proceeds of insurance resulting from such claims for losses not in excess of $100,000 shall be paid to the Lessee, subject to provisions of Section 7.1(3) hereof.

(b) Unless the Building or the Leased Equipment shall be destroyed or damaged to the extent prescribed by, and the

Lessee shall elect to exercise its option to purchase pursuant to, the provisions of Section 11.2(a) hereof, if prior to full payment of the Notes the Project is destroyed or is damaged (in whole or in part) by fire or other casualty to such extent that the claim for loss under the insurance policies required to be carried pursuant to Section 6.4(a) hereof resulting from such destruction or damage is in excess of $100,000, the Lessee shall promptly give written notice thereof to the Mortgagee. All Net Proceeds of insurance received by the Lessee resulting from such claims for losses in excess of $100,000 shall be paid to and held by the Mortgagee in a separate trust account, whereupon (i) the Lessee will proceed promptly to repair, rebuild or restore the property damaged or destroyed to substantially the same condition thereof as existed prior to the event causing such damage or destruction with such changes, alterations and modifications (including the substitution and addition of other property) as may be desired by the Lessee and as will not adversely affect the use of the Project for the purpose for which it is intended, and (ii) the Mortgagee will apply so much as may be necessary of the Net Proceeds of such insurance to payment of the costs of such repair, rebuilding or restoration, either on completion thereof or as the work progresses.

(c) In the event said Net Proceeds are not sufficient to pay in full the costs of such repair, rebuilding or restoration, the Lessee will nonetheless complete said work and will pay that portion of the costs thereof in excess of the amount of said Net Proceeds.

(d) The Lessee shall not, by reason of the payment of such excess costs (whether by direct payment thereof or advances to the County or Mortgagee therefor), be entitled to any reimbursement from the County, or the holder of any of the Notes, or any abatement or diminution of the rents payable under Section 5.3 hereof.

(e) Any balance of such Net Proceeds remaining after payment of all the costs of such repair, rebuilding or restoration shall be paid to the Mortgagee to be applied against the principal payments on the Notes in inverse order of their maturity. If the Notes have been fully paid all Net Proceeds will be paid to the Lessee.

SECTION 7.2. Condemnation. Unless title to, or temporary use of, all or substantially all of the Project shall have been taken by condemnation and the Lessee shall elect to exercise its option to purchase pursuant to the provisions of Section 11.2(b) hereof, in the event that title to, or the temporary use of, the Project or any part thereof shall be taken under the exercise of the power of eminent domain by any governmental body or by any person, firm or corporation acting under governmental authority, the

Lessee shall be obligated to continue to make the rental payments specified in Section 5.3 hereof. The County, the Lessee and the Mortgagee shall cause the Net Proceeds received by them or any of them from any award made in such eminent domain proceedings, to be paid to and held by the Mortgagee in a separate trust account, to be applied in one or more of the following ways as shall be directed in writing by the Lessee:

(a) To the restoration by the Lessee of the Project to substantially the same condition thereof as existed prior to the exercise of the said power of eminent domain.

(b) To the acquisition, by construction or otherwise, in the name of the County of improvements consisting of a building or buildings, facilities, machinery, equipment or other properties suitable for the Lessee's operations at the Project (which improvements shall be deemed a part of the Project and available for use and occupancy by the Lessee without the payment of any rent other than as herein provided to the same extent as if such other improvements were specifically described herein and demised hererby); provided, that such improvements shall be acquired by the County subject to no liens or encumbrances, other than Permitted Encumbrances.

(c) To payment of the principal of the Notes in inverse order of the maturity of installments thereof, provided that the Lessee shall furnish to the County and the Mortgagee a certificate of an Independent Engineer acceptable to the County and the Mortgagee stating (i) that the property forming a part of the Project that was taken by such condemnation proceedings is not essential to the Lessee's use or occupancy of the Project, or (ii) that the Project has been restored to a condition substantially equivalent to its condition prior to the taking by such condemnation proceedings or (iii) that improvements have been acquired which are suitable for the Lessee's operations at the Project as contemplated by the foregoing subsection (b) of this Section.

Unless the Lessee shall have elected to exercise its option to purchase pursuant to the provisions of Section 11.2(b) hereof within ninety days from the date of entry of a final order in any eminent domain proceedings granting condemnation, the Lessee shall direct the County and the Mortgagee in writing as to which of the ways specified in this Section the Lessee elects to have the condemnation award applied.

Any balance of the Net Proceeds of the award in such eminent domain proceedings shall be paid to the Mortgagee to be applied against the principal payments on the Notes in inverse order of their maturity. If the Notes have been fully paid all Net Proceeds shall be paid to the Lessee.

The County shall cooperate fully with the Lessee in the handling and conduct of any prospective or pending condemnation proceeding with respect to the Project or any part thereof and shall, to the extent it may lawfully do so, permit the Lessee to litigate in any such proceeding in the name and behalf of the County. In no event shall the County voluntarily settle, or consent to the settlement of, any prospective or pending condemnation proceeding with respect to the Project or any part thereof without the written consent of the Lessee. For purposes of this Section, a negotiated settlement of a proposed or pending condemnation or eminent domain proceeding shall be tantamount to a final order in a condemnation or eminent domain proceeding.

SECTION 7.3. Condemnation of Lessee-Owned Property. The Lessee shall also be entitled to the Net Proceeds of any condemnation award or portion thereof for damage to or taking of its own property not included in the Project (except for damages for the value of its leasehold estate under this Agreement which shall be disposed of pursuant to Section 7.2 hereof).

ARTICLE VIII

SPECIAL COVENANTS

SECTION 8.1. No Warranty of Condition or Suitability by the County. The County makes no warranty, either express or implied, as to the condition of the Project or that it will be suitable for the Lessee's purposes or needs.

SECTION 8.2. County's and Mortgagee's Right of Access to the Project. The Lessee agrees that the County, the Mortgagee and the duly authorized agents of each of them shall have the right at all reasonable times to enter upon the Leased Land and to examine and inspect the Project. The Lessee further agrees that the County, the Mortgagee and their or either of their duly authorized agents shall have such rights of access to the Project as may be reasonably necessary for the proper maintenance of the Project in the event of failure by the Lessee to perform its obligations under Section 6.1 hereof.

SECTION 8.3. Lessee to Maintain its Corporate Existence; Conditions under Which Exceptions Permitted. The Lessee agrees that during the Lease Term it will maintain its corporate existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it, provided, that the Lessee may, without violating the agreement contained in this Section, consolidate with or merge into a domestic corporation (i.e., a corporation organized under the laws of one of the states of the United States of America), or permit one or more domestic corporations to consolidate with or merge into it, or sell or otherwise transfer to a domestic corporation all or substantially all of its assets as an entirety and thereafter dissolve, provided that the surviving, resulting or transferee corporation, as the case may be, expressly assumes in writing all of the obligations of the Lessee herein and qualifies to do business in South Carolina.

SECTION 8.4. Qualification in South Carolina. The Lessee warrants that it is and throughout the Lease Term it will continue to be duly qualified to do business in South Carolina.

SECTION 8.5. Release of Certain Land. In addition to the rights granted by Section 11.3 hereof, the parties hereto reserve the right at any time and from time to time to amend this Agreement for the purpose of effecting the release of and removal from this Agreement and the leasehold estate created hereby (i) of any unimproved part of the Leased Land (on which neither the Building nor any Leased Equipment is situated) on which the County then proposes to construct improvements for lease to the Lessee or any subsidiary or affiliated corporation thereof under another and different lease agreement or (ii) any part (or interest in such part) of the Leased Land with respect to which the County proposes to grant an easement or convey fee title to a railroad, public utility or public body in order that railroad, utility services or roads may be provided for the Project; provided, that if at the time any such amendment is made any amount is outstanding and unpaid upon the Notes there shall be deposited with the Mortgagee the following:

(a) A copy of said amendment as executed.

(b) A resolution of the County Board (i) stating that the County is not in default under any of the provisions of the Mortgage and the Lessee is not to the knowledge of the County in default under any of the provisions of this Agreement, (ii) giving an adequate legal description of that portion (together with the interest in such portion) of the Leased Land to be released, (iii) stating the purpose for which the County desires the release, (iv) stating that the said improvements which will be so constructed will be such as will promote the continued industrial development of South Carolina and (v) requesting such release.

(c) A resolution of the board of directors of the Lessee approving such amendment and stating that the Lessee is not in default under any of the provisions of this Agreement.

(d) A copy of any agreement wherein the County agrees to construct improvements on the portion of the Lease Land so requested to be released and to lease the same; or a copy of the instrument granting the easement or conveying the title to a railroad, public utility or public body.

(e) A certificate of an Independent Engineer who is acceptable to the Mortgagee, dated not more than sixty days prior to the date of the release and stating that, in the opinion of the person signing such certificate, (i) the portion of the Leased Land so proposed to be released is necessary or desirable in order to obtain railroad, utility services or roads to benefit the Project or is not otherwise needed for the operation of the Project for the purposes for which it is intended, and (ii) the release so proposed to be made will not impair the usefulness of the Project for the purpose for which it is intended and will not destroy the means of ingress thereto and egress therefrom.

If all of the conditions of this Section 8.5 are met the Mortgagee shall release any such property from the lien of the Mortgage.

No release effected under the provisions of this Section shall entitle the Lessee to any abatement or diminution of the rents payable under Section 5.3 hereof.

SECTION 8.6. Granting of Easements. If no event of default under this Agreement shall have happened and be continuing, the Lessee may at any time or times grant easements, licenses, rights of way including the dedication of public highways) and other rights or privileges in the nature of easements with respect to any property included in the Project, free from the lien of the Mortgage, or the Lessee may release existing easements, licenses, rights of way and other rights or privileges with or without consideration, and the County agrees that it shall execute and deliver and will cause and direct the Mortgagee to execute and deliver any instrument necessary or appropriate to confirm and grant or release any such easement, license, right of way or other right or privilege upon receipt of: (i) a copy of the instrument of grant or release (ii) a written application signed by the president or a vice president of the Lessee requesting such instrument; and (iii) a certificate executed by the president or a vice president of the Lessee stating (1) that such grant or release is not detrimental to the proper conduct of the business of the Lessee, and (2) that such grant or release will not impair the effective use or interfere with the operation of the Project and will not weaken, diminish or impair the security intended to be given by or under the Mortgage. No grant or release effected under the provisions of this Section shall entitle the Lessee to any abatement or diminution of the rents payable under Section 5.3 hereof.

SECTION 8.7. Indemnification Covenants. (a) Lessee shall and agrees to indemnify and save the County and the

Mortgagee harmless against and from all claims by or on behalf of any person, firm or corporation arising from the conduct or management of, or from any work or thing done on, the Project during the Lease Term and against and from all claims arising during the Lease Term from (i) any condition of the Project, (ii) any breach or default on the part of Lessee in the performance of any of its obligations under this Agreement, (iii) any act or negligence of Lessee or of any of its agents, contractors, servants, employees or licensees, or (iv) any act or negligence of any assignee or sublessee of Lessee, or of any agents, contractors, servants, employees or licensees of any assignee or sublessee of Lessee. Lessee shall indemnify and save the County and the Mortgagee harmless from any and all costs and expenses incurred in or in connection with any such claim arising as aforesaid, or in connection with any action or proceeding brought thereon, and upon notice from the County, or the Mortgagee, Lessee shall defend them or either of them in any such action or proceeding.

(b) Notwithstanding the fact that it is the intention of the parties that the County shall not incur pecuniary liability by reason of the terms of this Agreement, or the undertakings required of the County hereunder, by reason of the issuance of the Note, by reason of the execution of the Mortgage, by reason of the performance of any act required of it by this Agreement, or by reason of the performance of any act requested of it by the Lessee, including all claims, liabilities or losses arising in connection with the violation of any statutes or regulations pertaining to the foregoing, nevertheless, if the County should incur any such pecuniary liability, then in such event the Lessee shall indemnify and hold harmless the County against all claims by or on behalf of any person, firm or corporation, arising out of the same, and all costs and expenses incurred in connection with any such claim or in connection with any action or proceeding brought thereon, and upon notice from the County, the Lessee shall defend the County in any such action or proceeding.

SECTION 8.8. Covenants of Lessee with Respect to Tax Exemption of Notes. The Authority is issuing the Notes pursuant to an election made under Section 103(b)(6)(D) of the Code. In order to insure that interest on the Notes will not become subject to Federal Income Taxes as a result of failure of the Notes to qualify as an exempt small issue under Section 103(b)(6)(A) and (D) of the Code or as a result of a violation of the capital expenditures limitation prescribed in said Section 103(b)(6)(D), the Lessee covenants with the County, the Mortgagee, and with each of the future holders of any Notes as follows:

(1) That all rights and privileges granted to the Lessee hereunder shall be exercised in such manner that the covenants made by this Section 8.8 shall be observed, and if any conflict between Section 8.8 and any other provisions in the Lease shall arise, then in such case, Section 8.8 shall control;

(2) That the Lessee will not (a) commit nor permit the commission of any act which (i) would cause the Notes not to qualify as, or not to continue to be qualified as, an exempt small issue under the provisions of Section 103(b)(6)(A) and (D) of the Code, and (ii) would cause interest on the Notes to become subject to Federal Income Taxes by virtue of the provisions of Section 103(b)(1) of the Code; nor will Lessee (b) fail to take any action necessary to be taken in order that (i) the Notes shall qualify as, and continue to be, an exempt small issue under the provisions of said Section 103(b)(6)(A) and (D) of the Code, and (ii) interest on the Notes will continue to be exempt from Federal Income Taxes by virtue of the provisions of Section 103(a)(1) of the Code, as amended;

(3) That annually, concurrent with its filing thereof with the Internal Revenue Service, the Lessee will furnish to the Trustee a true and correct copy of statements filed by the Lessee pursuant to Section

1.103-10(b)(2)(vi)(C) of the Income Tax Regulations applicable to Section 103 of the Code, together with a certificate of its chief financial officer or treasurer to the effect that cumulative Section 103(b)(6)(D) capital expenditures together with the outstanding principal amount of the Notes and the principal amount outstanding of any other similar obligations which are includible in the capital expenditures limitation prescribed by said Section 103(b)(6)(D) have not exceeded said prescribed limitation; and

(4) That it will comply with the governing regulations applicable to Section 103 of the Internal Revenue Code of 1954 to the extent that compliance therewith is necessary in order that interest on the Notes shall remain exempt from Federal Income Taxes.

Nothing herein contained shall create any obligation upon the Lessee or the County as a result of interest on any Note becoming taxable by virtue of the provisions of Section 103(b)(7) of the Code.

SECTION 8.9. Additional Notes. The County and the Lessee may hereafter negotiate one or more amendments to this Lease pertaining to an increase in the obligations of the County and the Lessee upon an undertaking of the County to refund Notes previously issued pursuant to the Note Ordinance or to provide additions or alterations for the

Project through the issuance of Additional Notes pursuant to the Note Ordinance. In such instance the Lease Term provided in Section 5.1 may be extended until the maturity date of the last maturing Additional Notes; provided that no obligation is imposed on the County by this Section to enter into any such amendment and no such amendment is permitted hereunder which would result either in the breach of the County's obligations pursuant to the Note Ordinance or in the reduction of Lessee's obligations pursuant to this Lease.

SECTION 8.10. Financial Statements of Guarantor. The Lessee agrees to furnish the Mortgagee (within 90 days after the end of each fiscal year of the Guarantor and in no event more than 10 days after receipt by the Guarantor) with a balance sheet and statements of income, retained earnings and changes in financial position showing the financial condition of the Guarantor and its consolidated subsidiaries, if any, at the close of each fiscal year, and the results of operations of the Guarantor and its consolidated subsidiaries, if any, for each fiscal year, accompanied by a certification of said accountants. The Guarantor further agrees to furnish to the Mortgagee for so long as it may hold any Notes, and, if requested in writing, to any subsequent Noteholder all financial statements which the Guarantor sends to its shareholders generally.

ARTICLE IX

ASSIGNMENT, SUBLEASING, MORTGAGING AND SELLING; REDEMPTION; RENT PREPAYMENT AND ABATEMENT

SECTION 9.1. Assignment and Subleasing. This Agreement may be assigned, and the Project may be subleased as a whole or in part, by the Lessee without the necessity of obtaining the consent of either the County or the Mortgagee, subject, however, to each of the following conditions:

(a) No assignment (other than pursuant to Section 8.3 hereof) or subleasing shall relieve the Lessee from primary liability for any of its obligations hereunder, and in the event of any such assignment or subleasing the Lessee shall continue to remain primarily liable for payment of the rents specified in Section 5.3 hereof and for performance and observance of the other agreements on its part herein provided to be performed and observed by it.

(b) The assignee or sublessee shall assume the obligations of the Lessee hereunder to the extent of the interest assigned or subleased.

(c) The Lessee shall, within thirty days after the delivery thereof, furnish or cause to be furnished to the County and to the Mortgagee a true and complete copy of each such assignment or sublease, as the case may be.

SECTION 9.2. Mortgage of Project by County. The County shall mortgage the Project by the Mortgage, and assign its interest in and pledge any moneys receivable under this Agreement pursuant to the Mortgage, to the Mortgagee as security for payment of the Notes, but each such conveyance, assignment or pledge shall be subject and subordinate to this Agreement.

SECTION 9.3. Restrictions on Sale of Project by County. The County agrees that, except as set forth in Section 9.2 hereof or other provisions of this Agreement or the Mortgage, it will not sell, convey, mortgage, encumber or otherwise dispose of any part of the Project during the Lease Term.

SECTION 9.4. Prepayment of Notes. The County, at the prior written request at any time of the Lessee and if the same are then subject to prepayment, shall forthwith take all steps that may be necessary under the applicable prepayment provisions of the Notes to effect prepayment of all or part of the Notes, as may be specified by the Lessee, on the earliest prepayment date on which such prepayment may be made under such applicable provisions.

SECTION 9.5. Prepayment of Rents. There is expressly reserved to the Lessee the right, and the Lessee is authorized and permitted, at any time it may choose, to prepay all or any part of the rents payable under Section 5.3 hereof, and the County agrees that the Mortgagee may accept such prepayment of rents when the same are tendered by the Lessee. All rents so prepaid shall be credited on the rental payments specified in Section 5.3 hereof, in the inverse order of their due dates.

SECTION 9.6. Lessee Entitled to Certain Rent Abatements If Notes Paid Prior to Maturity. If at any time the aggregate rental payments held by the Mortgagee shall be sufficient to retire the Notes in accordance with the provisions of the Notes, and to pay all fees and charges of the Mortgagee due or to become due through the date on which the Notes are retired, under circumstances not resulting in termination of the Lease Term, and if the Lessee is not at the time otherwise in default hereunder, the Lessee shall be entitled to use and occupy the Project from the date on which such aggregate moneys are in the hands of the Mortgagee to and including November 1, 1992 with no obligation to make the rental payments specified in Section 5.3 hereof during that interval (but otherwise on the terms and conditions hereof).

SECTION 9.7. Installation of Lessee's Own Machinery and Equipment. The Lessee may from time to time, in its sole discretion and at its own expense, install machinery, equipment and other personal property in the Building or on the Leased Land and which may be attached or affixed to the Building or the Leased Land. All such machinery, equipment and other personal property shall remain the sole property of the Lessee and the Lessee may remove the same from the Building or the Leased Land at any time, in its sole discretion and at its own expense; provided, that any damage to the Project resulting from any such removal shall be repaired by the Lessee at the expense of the Lessee. The Lessee may create any mortgage, encumbrance, lien or charge on any such machinery, equipment and other personal property provided that the same will not diminish or impair the security intended to be given by or under the Mortgage. Neither the County nor the Mortgagee shall have any interest in or landlord's lien on any such machinery, equipment or personal property so installed pursuant to this Section 9.7 and all such machinery, equipment and personal property shall be and remain identified as the property of the Lessee by appropriate tags or other markings.

SECTION 9.8. Reference to Notes Ineffective After Notes Paid. Upon payment in full of the Notes and all fees and charges of the Mortgagee, all references in this Agreement to the Notes and the Mortgagee shall be ineffective and the Mortgagee shall thereafter have no rights hereunder, saving and excepting those provided in Section 12.2 and those that shall have theretofore vested.

ARTICLE X

EVENTS OF DEFAULT AND REMEDIES

SECTION 10.1. Events of Default Defined. The following shall be "events of default" under this Agreement and the terms "event of default" or "default" shall mean, whenever they are used in this Agreement, any one or more of the following events:

(a) Failure by the Lessee to pay the rents required to be paid under Section 5.3 of this Agreement at the times specified therein.

(b) Failure of the Lessee to fulfill its obligation to purchase the Project as provided in Section 12.2 hereof, as a consequence of the violation by the Lessee of any of the covenants set forth in Section 8.8 hereof.

(c) Failure by the Lessee to observe and perform any covenant, condition or agreement (other than as referred to in subsections (a) and (b) of this Section) in this Agreement on the part of the Lessee to be observed or performed, for a period of thirty days after written notice, specifying such failure and requesting that it be remedied, given to the Lessee by the County or the Mortgagee, unless the County and the Mortgagee shall agree in writing to an extension of such time prior to its expiration; provided in the case of a default specified in this subsection (c) of Section 10.1, if such default be such that it can be corrected, but it cannot be corrected within the said 30-day period, it shall not constitute an event of default if corrective action is instituted by the Lessee within said 30-day period and such default is corrected within 180 days.

(d) The dissolution or liquidation of the Lessee or the filing by the Lessee of a voluntary petition in bankruptcy, or failure by the Lessee promptly to lift any execution, garnishment or attachment of such consequence as will impair the ability of the Lessee to carry on its operations at the Project, or the commission by the Lessee of any act of bankruptcy, or adjudication of the Lessee as a bankrupt, or assignment by the Lessee for the benefit of its creditors, or the entry by the Lessee into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Lessee in any proceeding for its reorganization instituted under the provisions of the general bankruptcy act, as amended, or under any similar act in any domestic or foreign jurisdiction, which may now be in effect or hereafter enacted. The term "dissolution or liquidation of the Lessee", as used in this subsection, shall not be construed to include the cessation of the corporate existence of the Lessee resulting either from a merger or consolidation of the Lessee into or with another corporation or a dissolution or liquidation of the Lessee following a transfer of all or substantially all of its assets as an entirety, provided, that the conditions permitting such actions contained in Section 8.3 hereof shall have been met.

The foregoing provisions of subsection (c) of this Section are subject to the following limitations: If by reason of force majeure the Lessee is unable in whole or in part to carry out the agreements of the Lessee on its part herein contained (other than the obligations on the part of the Lessee contained in Article V and Section 6.3, 6.4, 8.7 and 8.8 hereof to which this paragraph shall have no application), the Lessee shall not be deemed in default during the continuance of such inability. The term "force majeure" as used herein shall mean, without limitation, the following: acts of God; strikes; lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of South Carolina or any of their departments, agencies, or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquake; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery, transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the control of the Lessee, it being agreed that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Lessee, and the Lessee shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Lessee unfavorable to the Lessee.

SECTION 10.2. Remedies on Default. Whenever any event of default referred to in Section 10.1 shall have happened and be subsisting, the County may take any one or more of the following remedial steps:

(a) The County or the Mortgagee may, at its option, declare all installments of rent payable under Section 5.3 hereof for the remainder of the Lease Term to be immediately due and payable, whereupon the same shall become immediately due and payable.

(b) The County, with the prior written consent of the Mortgagee, may re-enter and take possession of the Project without terminating this Agreement, and sublease the Project for the account of the Lessee, holding the Lessee liable for the difference in the rent and other amounts payable by such sublessee in such subleasing and the rents and other amounts payable by the Lessee hereunder.

(c) The County, with the prior written consent of the Mortgagee, may terminate the Lease Term, exclude the Lessee from possession of the Project and use its best efforts to lease the Project to another for the account of the Lessee, holding the Lessee liable for all rent and other amounts payable by the Lessee hereunder.

(d) In the event any amount shall at the time be outstanding and unpaid on the Notes, the County may have access to and inspect, examine and make copies of the books and records and any and all accounts, similar data and income tax and other tax returns of the Lessee.

(e) The County may take whatever action at law or in equity may appear necessary or desirable to collect the rent and other amounts due and thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the Lessee under this Agreement.

Any amounts collected pursuant to action taken under this Section shall be paid to the Mortgagee and applied to payments on the Notes as they come due or, if the Notes have been fully paid, to the Lessee.

No action taken pursuant to this Section (including repossession of the Project or termination of the Lease Term) shall relieve the Lessee from the Lessee's obligations pursuant to Section 5.3, Section 10.2(a) and Section 12.2 hereof, all of which shall survive any such action, and the County may take whatever action at law or in equity as may appear necessary and desirable to collect the rent and other amounts then due and thereafter to become due and/or to enforce the performance and observance of any obligation, agreement or covenant of the Lessee hereunder, including the Lessee's obligation to purchase the Project under Section 12.2 hereof.

SECTION 10.3. No Remedy Exclusive. No remedy herein conferred upon or reserved to the County is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the County to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than such notice as may be herein expressly required. Such rights and remedies as are given the County hereunder shall also extend to the Mortgagee and the Mortgagee shall be deemed a third party beneficiary of all covenants and agreements herein contained.

SECTION 10.4. Agreement to Pay Attorneys' Fees and Expenses. In the event the Lessee should default under any of the provisions of this Agreement and the County or the Mortgagee should employ attorneys or incur other expenses for the collection of rent or the enforcement of performance or observance of any obligation or agreement on the part of the Lessee herein contained, the Lessee agrees that it will on demand therefor pay to the County or the Mortgagee the reasonable fee of such attorneys and such other expenses so incurred by the County or the Mortgagee.

SECTION 10.5. No Additional Waiver Implied by One Waiver. In the event any agreement contained in this Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

ARTICLE XI

OPTIONS IN FAVOR OF LESSEE

SECTION 11.1. Options to Terminate. The Lessee shall have, and is hereby granted, the following options to terminate the Lease Term and its obligations as Lessee hereunder:

(a) At any time prior to full payment of the Notes, the Lessee may terminate this Agreement by paying to the Mortgagee an amount which will be sufficient to pay and retire the Notes in accordance with their provisions (including, without limiting the generality of the foregoing, principal, prepayment premium, if any, interest to prepayment date and fees and expenses, if any, of the Mortgagee).

(b) At any time after full payment of the Notes and of any and all sums then due to the County under this Agreement, the Lessee may terminate the Lease Term by giving the County notice in writing of such termination and such termination shall forthwith become effective.

SECTION 11.2. Option to Purchase Project Prior to Payment of the Notes. The Lessee shall have, and is hereby granted the option to purchase the Project prior to the full payment of the Notes if any of the following shall have occurred:

(a) The Building or the Leased Equipment shall have been damaged or destroyed (i) to such extent that it cannot be reasonably restored within a period of four months to the condition thereof immediately preceding such damage or destruction, or (ii) to such extent that the Lessee is thereby prevented from carrying on its normal operations at the Project for a period of four months, or (iii) to such extent that the cost of restoration thereof would exceed by $100,000 the Net Proceeds of insurance carried thereon pursuant to the requirements of Section 6.4(a) hereof, plus the deductible amounts for which the Lessee is self-insured with respect to the Building.

(b) Title to, or the temporary use of, all or substantially all the Project shall have been taken under the exercise of the power of eminent domain by any governmental body or by any person, firm or corporation acting under governmental authority (including such a taking or takings as results in the Lessee being thereby prevented from carrying on its normal operation of the Project for a period of four months).

(c) As a result of any changes in the Constitution of South Carolina or the Constitution of the United States of America or of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal) entered after the contest thereof by the Lessee in good faith, this Agreement shall have become void or unenforceable or impossible of performance in accordance with the intent and purposes of the parties as expressed in this Agreement, or unreasonable burdens or excessive liabilities shall have been imposed on the County or the Lessee in respect to the Project including without limitation federal, state or other ad valorem, property, income or other taxes not being imposed on the date of this Agreement.

To exercise such option, the Lessee shall, within ninety days following the event authorizing the exercise of such option, give written notice to the County and to the Mortgagee, if the Notes shall then be unpaid, and shall specify therein the date of closing such purchase, which date shall be not less than forty-five days nor more than ninety days from the date such notice is mailed. The purchase price payable by the Lessee in the event of its exercise of the option granted in this Section shall be the sum of the following:

(1) An amount of money which, when added to the amount then held by the Mortgagee, will be sufficient to pay and retire the Notes, including without limitation, principal and all interest to accrue to the date of payment, plus

(2) An amount of money equal to the Mortgagee's fees and expenses under the Mortgage accrued and to accrue until such final payment of the Notes, plus

(3) The sum of one dollar, and any and all other sums then due to the County under this Agreement, for the Leased Land, Building and Leased Equipment.

In the event of the exercise of the option granted in this Section any Net Proceeds of insurance or condemnation shall be paid to the Lessee simultaneously with the conveyance prescribed by Section 11.4.

SECTION 11.3. Option to Purchase Unimproved Land. If no event of default under this Agreement shall have happened and be continuing, the Lessee shall have, and is hereby granted, the option to purchase any part of the Leased Land on which neither the Building nor any Leased Equipment is located, but upon which transportation or utility facilities may be located, at any time and from time to time at and for a purchase price equal to $5,000 per acre provided that it furnishes the County with the following:

(a) A notice in writing containing (i) an adequate legal description of that portion of the Leased Land with respect to which such option is to be exercised, (ii) a statement that the Lessee intends to exercise its option to purchase such portion of the Leased Land on a date stated, which shall not be less than forty-five nor more than ninety days from the date of such notice and (iii) a statement that the use to which the Lessee intends to devote such portion of the Leased Land will promote the continued industrial development of South Carolina.

(b) A certificate of an Independent Engineer who is acceptable to the Mortgagee, dated not more than ninety days prior to the date of the purchase and stating that, in the opinion of the person signing such certificate, (i) the portion of the Leased Land with respect to which the option is exercised is not needed for the operation of the Project for the purposes hereinabove stated, and (ii) the purchase will not impair the usefulness of the Building for the purpose for which it is intended, and will not destroy the means of ingress thereto and egress therefrom.

(c) An amount of money equal to the purchase price computed as provided in this Section.

The County agrees that upon receipt of the notice, certificate and money required in this Section to be furnished to it by the Lessee the County will promptly deliver such money to the Mortgagee to be applied against the principal last maturing on the Notes, and secure from the Mortgagee a release from the lien of the Mortgage of such portion of the

Leased Land with respect to which the Lessee shall have exercised the option granted to it in this Section. In the event the Lessee shall exercise the option granted to it under this Section the Lessee shall not be entitled to any abatement or diminution of the rents payable under Section 5.3 hereof, and if such option relates to Leased Land on which transportation or utility facilities are located, the County shall retain an easement to use such transportation or utility facilities to the extent necessary for the efficient operation of the Project.

SECTION 11.4. Conveyance on Exercise of Option to Purchase. At the closing of the purchase pursuant to the exercise of any option to purchase granted herein, the County will upon receipt of the purchase price deliver to the Lessee the following:

(a) If necessary, a release from the Mortgagee of the property with respect to which the option was exercised from all security instruments.

(b) Documents conveying to the Lessee a good and marketable title to the property being purchased, as such property then exists, subject to the following: (i) those liens and encumbrances (if any) to which title to said property was subject when conveyed to the County; (ii) those liens and encumbrances created by the Lessee or to the creation or suffering of which the

Lessee consented; (iii) those liens and encumbrances resulting from the failure of the Lessee to perform or observe any of the agreements on its part contained in this Agreement; (iv) Permitted Encumbrances other than the Mortgage and this Agreement; and (v) if the option is exercised pursuant to the provisions of Section 11.2(b) hereof, the rights and title of the condemning authority.

SECTION 11.5. Relative Position of Options and Mortgage. The options respectively granted to the Lessee in this Article except under Section 11.3 hereof shall be and remain prior and superior to the Mortgage and may be exercised whether or not the Lessee is in default hereunder, provided that such default will not result in nonfullfillment of any condition to the exercise of any such option.

ARTICLE XII

ADDITIONAL OBLIGATIONS OF LESSEE AND COUNTY

SECTION 12.1. Obligation to Purchase Project. The Lessee hereby agrees to purchase, and the County hereby agrees to sell, the Project for one dollar, and any and all sums then due to the County under this Agreement, at the expiration or sooner termination of the Lease Term following the payment of the Notes. At the closing of the foregoing purchase, the County will deliver to the Lessee the documents referred to in Section 11.4 hereof. The right to purchase granted in this Section shall be and remain prior and superior to the Mortgage and may be exercised whether or not the Lessee is in default hereunder provided that no such default will result in nonfulfillment of any condition to this right.

SECTION 12.2. Lessee's Obligation to Purchase Project Under Certain Circumstances. Should, subject to the proviso in the next succeeding paragraph of this Section 12.2, by reason of any actual or claimed violation of any covenant set forth in Section 8.8(2) or Section 8.8(4) (whether through act of the Lessee or circumstances not under Lessee's control or otherwise) or for any other reason (except pursuant to Section 103(b)(7) of the Code) interest on the Notes be determined by:

(i) the National Office of the Internal Revenue Service of the United States Treasury Department, or

(ii) the District Director of Internal Revenue for the District in which the lessee files the statements required by the governing regulations referred to in Section 8.8(4) hereof, or

(iii) any court of competent jurisdiction (such determination by (i), (ii), or (iii) being hereafter referred to in this Section 12.2 as the "official determination") to be subject to Federal Income Tax as a result of the failure of the Notes to qualify or maintain their qualification as an exempt small issue under 103(b)(6)(A) and (D) of the Code, or by reason of a violation (actual or claimed) of the capital expenditure limitation prescribed in Section 103(b)(6)(D) of the Code, or for any other reason (except pursuant to Section 103(b)(7) of the Code) then in any of such events, the Lessee agrees to purchase, in full discharge of all liability hereunder, the Project within thirty days after such official determination at a purchase price equal to the principal amount of all Notes then outstanding, plus accrued interest to the prepayment date and a prepayment penalty computed in the manner prescribed in Section 12.4, plus any expenses of prepayment. The obligation of the Lessee under this Section 12.2 shall survive any termination of the Lease Term.

Provided, that the Lessee may in good faith to the extent permitted by law, contest, at Lessee's expense, any such official determination, in which event, at Lessee's option, the performance of its obligation to purchase pursuant to the foregoing provisions of this Section 12.2 as a result of such official determination may be postponed for two years from the date of Lessee's receipt of written notice regarding such official determination, but in no event shall the performance of Lessee's obligation to purchase be postponed beyond the expiration of such two year period, even though any such litigation or contest shall not then be completed or terminated. If such official determination is reversed or withdrawn by competent authority within such two year period, Lessee shall be relieved of such obligation to purchase.

At the closing of any such purchase of the Project pursuant to this Section, the County shall deliver to the Lessee the documents referred to in Section 11.4. The purchase price shall be applied to the prepayment of the Notes on the earliest possible date whether or not such date is an interest payment date, and to the payment of any prepayment penalty required by Section 12.4 on account of previously paid installments of principal of the Notes.

SECTION 12.3. Obligation of Lessee Further Defined. The parties recognize that the Notes are being issued as tax free obligations by virtue of an election made under Section 103(b)(6)(D) of the Code, and that circumstances (not now contemplated or anticipated) may hereafter result in a determination as provided in Section 12.2 (which may be disputed) that interest on the Notes is subject to Federal Income Tax by reason of any circumstance described in Section 12.2. It is the intention of the parties hereto that, subject to the proviso in the second paragraph of Section 12.2, the Lessee, in the event of such a determination, shall provide each person who is a holder of a Note on the occasion as of which interest on the Notes becomes (or is determined as provided in Section 12.2 to be) taxable, by reason of any circumstance described in Section 12.2, with the relief prescribed in Section 12.2 and Section 12.4 hereof, without regard to the final outcome of any dispute, and such determination as prescribed in Section 12.2 shall be conclusive even though it might be thereafter determined by Court order, ruling or otherwise that interest on the Notes was, in fact, not subject to Federal Income Taxes.

SECTION 12.4. Computation of Additional Prepayment Penalty. In the event the Lessee is required to purchase the Project by virtue of the provisions of Section 12.2 hereof, the prepayment penalty payable shall be computed on the principal amount of Notes outstanding on the date as of which interest on the Notes becomes taxable (or is determined in accordance with Section 12.2 hereof, to be taxable) such date being hereafter referred to in this Section 12.4 as the

"Taxable Date". The prepayment penalty shall be a sum equal to six months' interest for each six months period or fraction of such six months' period between the Taxable Date and the date of prepayment or the earlier payment date of any installment of principal which shall have been paid (whether at maturity or by prepayment) subsequent to the Taxable Date and prior to the prepayment date. On the occasion of the purchase of the Project pursuant to the requirements of Section 12.2 the purchase price paid by Lessee shall include the aggregate of all penalties above prescribed so that each person who may be, or may have been the holder of any Note on the occasion when any installment thereof was paid (whether at maturity or by prepayment) prior to the redemption date but subsequent to the Taxable Date, shall receive a prepayment penalty on each such principal installment computed according to the provisions of this Section 12.4.

ARTICLE XIII

MISCELLANEOUS

SECTION 13.1. Quiet Enjoyment. The County agrees so long as the Lessee shall fully and punctually pay all of the rents and other amounts provided to be paid hereunder by the Lessee, and shall fully and punctually perform all of its other covenants and agreements hereunder, that the Lessee shall peaceably and quietly have, hold and enjoy the Project during the Lease Term.

SECTION 13.2. Surrender of Project. Except as otherwise expressly provided in this Agreement, at the expiration or sooner termination of the Lease Term, the Lessee agrees to surrender possession of the Project peaceably and promptly to the County in as good condition as at the commencement of the Lease Term, loss by fire or other casualty covered by insurance and ordinary wear, tear and obsolescence only excepted.

SECTION 13.3. Notices. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when mailed by registered mail, postage prepaid, or given when dispatched by a telegram when telegraphic notice is permitted by express provisions of this Agreement, addressed as follows: if to the County, to the Marlboro County Council, Marlboro County Courthouse, Bennettsville, South Carolina 29512; if to the Lessee, at

Post Office Box 5416, Winston-Salem, North Carolina 27103, Attention: Charles Y. Lackey; if to the Guarantor at Post Office Box 5416, Winston-Salem, North Carolina 27103, Attention: Charles Y. Lackey; if to the Mortgagee, at Wachovia Bank & Trust Company, N. A., Post Office Box 3099, Winston-Salem, North Carolina 27102, Attention: Larry H. Patterson, Senior Vice President. The County, the Lessee and the Mortgagee may, by notice given to all parties to this Agreement and the Mortgage, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 13.4. Recording and Filing. (a) This Agreement as originally executed shall be recorded prior to the recordation of the Mortgage. It shall be recorded and indexed as a miscellaneous conveyance and as a security agreement in the office of the Clerk of Court for Marlboro County, South Carolina, or in such other office as may at the time be provided by law as the proper place for the recordation thereof. The security interest of the County created herein as to the personal property, equipment and fixtures and the assignment of such security interest to the Mortgagee shall be perfected by the filing of financing statements which fully comply with the South Carolina Uniform Commercial Code--Secured Transactions in the office of the Secretary of State of South Carolina, in the City of Columbia, South Carolina and in the office of the Clerk of Court for Marlboro County. The parties further agree that all necessary continuation statements shall be filed within the time prescribed by the South Carolina Uniform Commercial Code--Secured Transactions in order to continue the security interest created by this Agreement, to the end that the rights of the Mortgagee in the Project (and in the assignment to the Mortgagee of the rents payable under this Lease Agreement) shall be fully preserved as against creditors of, or purchasers for value from, the County or the Lessee.

(b) The deed conveying the Leased Land to the County, this Agreement, its assignment to the Mortgagee, and the Mortgage may be recorded prior to the delivery of the Series 1977 Note. If subsequent to such recording the Series 1977 Note shall not be delivered on or before December 31, 1977, or such later date as the Lessee may agree upon in writing, then the said deed, this Agreement, its Assignment to the Mortgagee, and the Mortgage shall be of no force and effect and in such event the County and the Lessee do hereby mutually release and discharge each other from any and all claims of any character which either may have against the other by reason of or arising from a failure to deliver the Series 1977 Note. And the County shall transfer and reconvey to the Lessee or its designee all properties conveyed to the County by the deed and for the same consideration paid to the County by the Lessee. Both parties shall execute such further instruments as may be necessary to fully implement the provisions of this subsection (b) of Section 13.4.

SECTION 13.5. Other Instruments. (a) The Lessee covenants to deliver to the County and the Mortgagee within sixty days after the close of each fiscal year of the Lessee, a description of the Project, as of the close of such fiscal year, if not adequately described in the granting clauses of the Mortgage as then supplemented, and in the demising clauses of this Agreement as then amended. Such description shall be sufficiently detailed so as to enable counsel to render the opinion referred to in clause (4) of the next succeeding sentence. Within 30 days after delivery of such description, the Lessee covenants that it will:

(1) Prepare a supplement to the Mortgage and an amendment to this Agreement, each containing an adequate and full description of the Project;

(2) Deliver the supplement to the Mortgage to the Mortgagee and the County and the supplement to this Agreement to the County, for execution;

(3) Deliver the fully executed supplement to the Mortgage and the fully executed supplement to this

Agreement to the Mortgagee for recording and filing or re-recording or re-filing in all places required by the opinion of Counsel referred to in sub-section (a)(4) of this Section 13.5; and

(4) Deliver to the Mortgagee a written opinion of counsel (who may be counsel for the County or the Lessee) addressed to the Mortgagee that the description of the Mortgaged Property (being the property described under paragraphs I, II, III, IV and V of the Mortgage) contained in the granting clauses of the Mortgage, as supplemented, and the description of the Project contained in the demising clauses of this Agreement, as supplemented, are adequate for all purposes thereof and hereof; that the Mortgage, as supplemented, constitutes a valid first mortgage lien on, and security interest in, the interest of the County in the said Mortgaged Property, subject only to Permitted Encumbrances other than the Mortgage; that the Mortgage, as supplemented, this Agreement, as supplemented, and all financing statements, continuation statements, notices and other instruments required by applicable law have been recorded or filed or re-recorded or re-filed in such manner and in such places

required by law in order to fully preserve and protect the rights of the Mortgagee in the Project (and in the assignment to the Mortgagee of the rents payable under this Agreement) as against creditors of, or purchasers for value from, the County or the Lessee.

(b) The Lessee, the County and the Mortgagee shall execute and deliver all instruments and shall furnish all information and evidence deemed necessary or advisable by such counsel in order to enable him to render the opinion referred to in subsection (a)(4) of this Section 13.5. The Mortgagee shall file and record and re-record or cause to be filed and recorded and re-recorded all instruments required to be filed and recorded and re-recorded pursuant to the opinion of such counsel and shall continue or cause to be continued the liens of such instruments for so long as the Note shall be outstanding, except as otherwise in this Agreement required.

SECTION 13.6. Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon the County, the Lessee and their respective successors and assigns, subject, however, to the limitation contained in Sections 8.3, 9.1, 9.2 and 9.3 hereof.

SECTION 13.7. Severability. In the event any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

SECTION 13.8. Amounts Held by the Mortgagee. It is agreed by the parties hereto that any amounts held by the Mortgagee upon expiration or sooner termination of the Lease Term, as provided in this Agreement, after payment in full of the Notes and the fees, charges and expenses of the County and of the Mortgagee in accordance with the Mortgage and the provisions of this Agreement shall belong to and be paid to the Lessee by the Mortgagee as overpayment of rents.

SECTION 13.9. Amendments, Changes and Modifications. This Agreement may not be amended, changed, modified, altered or terminated without in each instance the prior written consent of the Mortgagee.

SECTION 13.10. Net Lease. This Agreement shall be deemed and construed to be a "net lease", and the Lessee shall pay absolutely net during the Lease Term the rent and all other payments required hereunder, free of any deductions, without abatement, diminutions or set-off other than those herein expressly provided.

SECTION 13.11. Execution of Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 13.12. Law Governing Construction of Agreement. This Agreement is prepared and entered into with the intention that the law of the State of South Carolina shall govern its construction.

IN WITNESS WHEREOF, Marlboro County, South Carolina, has executed this Lease Agreement by causing its name to be hereunto subscribed by the Chairman of the Marlboro County Council and the official seal of said County to be impressed hereon and attested by the Clerk of said Marlboro County Council; and Hanes Hosiery, Inc. has executed this Lease Agreement by causing its corporate name to be hereunto subscribed by its Vice-President and its corporate seal to be impressed hereon and attested by its Secretary, all being done as of the day and year first above written.

MARLBORO COUNTY, SOUTH CAROLINA

(SEAL)

By__________________________________
Chairman, Marlboro County Council

Attest:

____
Clerk, Marlboro County Council

Signed, Sealed and Delivered
in the presence of:

____

____

HANES HOSIERY, INC.

(SEAL) By ______________________________
Its ______________________________

Attest:

____
Its ______________________________

Signed, Sealed and Delivered
in the presence of:

____

____

STATE OF SOUTH CAROLINA

COUNTY OF MARLBORO

PERSONALLY appeared before me ______________________________ who being duly sworn says that he saw the seal of Marlboro County affixed to the foregoing Lease Agreement, and that he also saw ______________________________, as Chairman, and ______________________________, as Clerk of the Marlboro County Council, sign and attest the same, and that he with __________ ____________________ witnessed the execution and delivery thereof as the act and deed of the said Marlboro County.

____

SWORN to before me this

____ day of ____________, 1977.

______________________________(L.S.)
Notary Public for South Carolina
My Commission Expires:______________

STATE OF ______________________

COUNTY OF _____________________

PERSONALLY appeared before me ___________________________ who being duly sworn says that he saw the corporate seal of Hanes Hosiery, Inc. affixed to the foregoing Lease Agreement, and that he also saw ____________________________, as _______________ and _________________________, as __________ __________ of Hanes Hosiery, Inc. sign and attest the same, and that he with ______________________________ witnessed the execution and delivery thereof as the act and deed of the said Hanes Hosiery, Inc., a corporation organized under the laws of the State of North Carolina.

____

SWORN to before me this

___ day of __________, 1977.

__________________________________(L.S.)
Notary Public for _____________________.
My Commission expires:_________________.

EXHIBIT "A"

DESCRIPTION OF LEASED LAND

ATTACHED TO LEASE AGREEMENT BETWEEN MARLBORO COUNTY,

SOUTH CAROLINA AND HANES HOSIERY, INC.

DATED AS OF NOVEMBER 1, 1977

EXHIBIT "B"

DESCRIPTION OF LEASED EQUIPMENT

ATTACHED TO LEASE AGREEMENT BETWEEN MARLBORO COUNTY,

SOUTH CAROLINA, AND HANES HOSIERY, INC.

DATED AS OF NOVEMBER 1, 1977

EXHIBIT "C"

UNITED STATES OF AMERICA
STATE OF SOUTH CAROLINA
MARLBORO COUNTY
FIRST MORTGAGE INDUSTRIAL REVENUE NOTE, SERIES 1977,
(HANES HOSIERY, INC. - LESSEE)

NO. R-1 $ 2,500,000

KNOW ALL MEN BY THESE PRESENTS that Marlboro County, a body politic and corporate, and a political subdivision of the State of South Carolina (hereinafter called the "County"), for value received promises to pay, but only from the source and as hereinafter provided, to the order of Wachovia Bank & Trust Company N. A., at its principal office in the City of Winston-Salem, State of North Carolina, the sum of Two Million Five Hundred Thousand Dollars ($2,500,000) in installments as follows: $12,500 on February 1, May 1, August 1 and November 1 in each of the years 1980 to 1982, inclusive, and $58,750 on February 1, May 1, August 1 and November 1 in each of the years 1983 to 1992, inclusive; together with interest at the rate of five and five eights per centum (5-5/8%) per annum computable and payable quarterly on the principal balance from time to time outstanding on each February 1, May 1, August 1 and November 1 hereafter, commencing February 1, 1978. Principal of, prepayment penalty, if any, and interest on this Note are payable in Federal or other immediately available funds.

This Note is issued for the purpose of acquiring industrial facilities and leasing the same to Hanes Hosiery, Inc., a corporation organized under the laws of the State of North Carolina (hereinafter referred to as the "Lessee") (the land, buildings, equipment and machinery comprising such facilities being hereinafter called the "Project") and paying necessary expenses incidental thereto so as to thereby promote industry and develop trade in South Carolina. This Note is secured by a Mortgage and Security Agreement (hereinafter called the "Mortgage"), dated as of November 1, 1977, duly executed and delivered by the County to Wachovia Bank & Trust Company, N. A., Winston-Salem, North Carolina, as Mortgagee (hereinafter called "Wachovia" and sometimes referred to as "Holder") upon the Project which has been leased to the Lessee under and pursuant to a Lease Agreement between the County and the Lessee dated as of November 1, 1977 (herein referred to as the "Lease Agreement"). Under the Lease Agreement, the Lessee must pay to the County such rentals as will be fully sufficient to pay the principal of, prepayment penalty, if any, and interest on the Note as the same become due and, under the Lease Agreement it is the obligation of the Lessee to pay the cost of maintaining the Project in good repair and to keep it properly insured. Payment of the principal, interest and prepayment penalty, if any, on this Note has been unconditionally guaranteed by Hanes Corporation, a North Carolina Corporation (the Guarantor) pursuant to a Guaranty Agreement dated as of November 1, 1977 (the "Guaranty Agreement") between the Guarantor and the Mortgagee. Copies of the Mortgage, the Lease Agreement and the Guaranty Agreement are recorded in the office of the Clerk of Court for Marlboro County, South Carolina, and reference is made to the Mortgage, the Lease Agreement and the Guaranty Agreement for a description of the security, the provisions, among others, with respect to the nature and extent of the security, the charging and collection of rentals for the Project, the rights and remedies of the holder of this Note, the rights, duties and obligations of the County, the Lessee, the Guarantor and the Mortgagee, and the terms upon which this Note is issued and secured.

Additional Notes ranking equally with this Note may be issued as provided and permitted in the Lease Agreement.

This Note is subject to prepayment in the event of (a) exercise by the Lessee of its option to purchase the project as provided in Section 11.2 of the Lease Agreement, or (b) mandatory purchase of the project by the Lessee pursuant to Section 12.2 of the Lease Agreement. If prepaid in any of such events, the Note shall be subject to prepayment by the County at any time, whether or not an interest payment date, in whole and not in part, at the principal amount thereof plus accrued interest to the prepayment date and, but only in the event of a prepayment as a result of the mandatory purchase of the Project pursuant to Section 12.2 of the

Lease Agreement, a prepayment penalty of six months interest on the principal amount of the Note at the time outstanding multiplied by the number of six month periods, or fraction thereof, between the date as of which interest on the Note is (or is determined as provided in Section 12.2 of the Lease Agreement to be) taxable and the prepayment date. If it shall occur that any principal installment on the Note shall have been paid subsequent to the date as of which interest on the Note became, or was so determined to have become, taxable but prior to the prepayment of the Note from the purchase price derived from the mandatory purchase of the Project by the Lessee pursuant to Section 12.2 of the Lease Agreement, then in such event the holder hereof shall be entitled to receive from the purchase price to be paid by the Lessee pursuant to Section 12.2 of the Lease Agreement a prepayment penalty computed on such principal amounts to the date of their payment whether at maturity or by prepayment.

This Note may be prepaid on any date (whether or not such date is an interest payment date) in whole or in part (but if in part in the inverse order of the principal maturities of the Note) at the prepayment fees (expressed as percentages of the principal amount) set forth in the table below plus accrued interest to the prepayment date:

Prepayment Date (Dates Inclusive)	Prepayment Price
November 1, 1977 through October 31, 1987	103%
November 1, 1987 and thereafter	100%

In the event, Marlboro County shall default in the payment of the principal or interest when the same becomes due hereunder, the holder of this Note may, at its option, declare the entire unpaid balance hereunder immediately due and payable.

This Note is issued pursuant to the authorization of and for the purposes prescribed by Title 4, Chapter 29, Code of Laws of South Carolina, 1976, and pursuant to ordinances duly adopted by the Marlboro County Council and with the approval of the State Budget and Control Board of South Carolina. This Note, both principal and interest, is a limited obligation of the County and is payable solely out of the lease rentals, revenues and receipts (excluding amounts paid by the Lessee pursuant to Sections 5.5, 6.3, 8.7 or 10.4 of the Lease Agreement) derived from the leasing or sale of the Project, which has been financed through the issuance of the Note and leased to the Lessee.

This Note and the principal, interest, and premium, if any, payable hereunder are not and shall never constitute an indebtedness of the County within the meaning of any state constitutional provision or statutory limitation and shall never constitute nor give rise to a pecuniary liability of the County or a charge against its general credit or taxing powers.

Pursuant to the Lease Agreement, rental payments sufficient for the prompt payment when due of the principal of, premium, if any, and interest on the Note are to be paid to the Mortgagee for the account of the County and have been pledged for that purpose, and in addition the Project has been subjected to the lien of the Mortgage to secure payment of such principal, interest and premium.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required to exist, happen and be performed precedent to and in the execution and delivery of the Mortgage and the issuance of this Note do exist, have happened and have been performed in due time, form and manner as required by law; and that the issuance of this Note, together with all other obligations of the County, does not exceed or violate any constitituional or statutory limitation.

IN WITNESS WHEREOF, Marlboro County, South Carolina, has caused this Note to be executed by the Chairman of the Marlboro County Council, by his manual signature, and its corporate seal to be impressed hereon, and attested by the Clerk of the Marlboro County Council, by his manual signature, all as of the ____ day of November, 1977.

MARLBORO COUNTY, SOUTH CAROLINA

(SEAL)

BY ________________________________

Chairman, Marlboro County Council

Attest:

____

Clerk, Marlboro County Council

Exhibit "D"

GUARANTY AGREEMENT

between

HANES CORPORATION

and

WACHOVIA BANK AND TRUST COMPANY, N.A.,

Dated as of November 1, 1977

GUARANTY AGREEMENT

THIS GUARANTY AGREEMENT (the "Agreement") made and entered into as of the 1st day of November, 1977, by and between HANES CORPORATION, a corporation duly organized and existing under the laws of the State of North Carolina and duly qualified to do business in the State of South Carolina, being sometimes hereinafter referred to as the "Guarantor", and WACHOVIA BANK AND TRUST COMPANY, N.A., Winston-Salem, North Carolina, a national banking association duly organized and existing under the laws of the United States of America, its successors and assigns, hereinafter referred to as "Wachovia";

W I T N E S S E T H:

WHEREAS, Marlboro County, a public body corporate and politic duly organized and existing under the laws of the State of South Carolina (the "County"), intends to issue its Marlboro County, South Carolina First Mortgage Industrial Revenue Note, Series 1977 (Hanes Hosiery, Inc. - Lessee) in an aggregate principal amount of $2,500,000 (the "Series 1977 Note"); and

WHEREAS, the proceeds derived from the issuance of the Note are to be applied to the acquisition, construction and equipping of an industrial facility in Marlboro County, South Carolina (the "Project") for the use and benefit of Hanes Hosiery, Inc., which is a wholly owned subsidiary of the Guarantor; and

WHEREAS, the Note is to be secured by (i) a first mortgage of the Project to Wachovia as Mortgagee (the "Mortgage") and (ii) the assignment to Wachovia of the Lease of the Project by County to Hanes Hosiery, Inc. (the "Lease"); and

WHEREAS, the Guarantor is desirous that the County issue the Note and apply the proceeds as aforesaid and is willing to enter into this Guaranty Agreement in order to induce Wachovia to purchase the Note and thereby achieve interest cost savings and other savings to the Guarantor, and as an inducement to the purchase of the Note by all who shall at any time become holders of the Note; and

WHEREAS, the County may issue and sell in the future additional revenue notes of the County for the purpose of defraying the cost of providing enlargements, improvements, expansions, replacements or renewals of the Project, or for the purpose of refunding Notes issued under the Note Ordinance (the Series 1977 Note and such additional notes being herein called the "Notes");

NOW, THEREFORE, in consideration of the premises and in order to induce Wachovia to purchase the Series 1977 Note and thereby achieve interest cost savings and other savings to the Guarantor and as an inducement to the purchase of the Notes by all who shall at any time become holders of the Notes, the Guarantor does hereby subject to the terms hereof, covenant and agree with Wachovia as follows:

ARTICLE I

REPRESENTATIONS AND WARRANTIES OF THE GUARANTOR

SECTION 1.1. The Guarantor does hereby represent and warrant that:

(a) It is a corporation duly organized, existing and in good standing under the laws of the State of North Carolina and is duly qualified to do business in the State of South Carolina; it is not in default under its Articles of Incorporation; it has corporate power under its Articles of Incorporation and under the laws of North Carolina and South Carolina to enter into and perform all agreements on its part herein contained; it has been authorized to enter into this Guaranty Agreement by all necessary and proper corporate action; and the execution and delivery by it of this Guaranty Agreement and the agreements herein contained do not contravene or constitute a default under any agreement, indenture, commitment, provision of its Articles of Incorporation or By-Laws, or other requirement of law to which it is a party or by which it is or may be bound; and

(b) This Guaranty Agreement is made in furtherance of the purposes for which the Guarantor was incorporated and is necessary to promote and further the business of the Guarantor, and the assumption by the Guarantor of its obligations hereunder will result in direct financial benefits to the Guarantor.

ARTICLE II

COVENANTS AND AGREEMENTS

SECTION 2.1. The Guarantor hereby unconditionally guarantees to Wachovia and any other holder(s) at any time and from time to time of the Notes (a) the full and prompt payment of the principal of and any prepayment penalty on the Notes when and as the same shall become due, whether at the stated maturity thereof, or any accelerated maturity under the terms of the Notes and Mortgage and (b) the full and prompt payment of any interest on the Notes when and as the same shall have become finally due in accordance with the provisions thereof and of the Mortgage, and agrees to pay all expenses and charges (including court costs and attorneys' fees) paid or incurred by Wachovia in realizing upon any of the payments hereby guaranteed or in enforcing this Guaranty Agreement. All payments by the Guarantor shall be paid in lawful money of the United States of America. Unless the Notes shall have become due by acceleration or call for redemption, each and every default in payment of the principal of, prepayment penalty (if any) or interest on the Notes shall give rise to a separate cause of action hereunder, and separate suits may be brought hereunder as each cause of action arises.

SECTION 2.2. The obligations of the Guarantor under this Guaranty Agreement shall be absolute and unconditional and shall remain in full force and effect until the entire principal of, prepayment penalty (if any) and interest on the Notes shall have been paid or provided for in accordance with the Notes and Mortgage and, until such payment or provision for payment shall not be affected, modified or impaired upon the happening from time to time of any event, including, without limitation, any of the following, whether or not with notice to or the consent of the Guarantor:

(a) the compromise, settlement, release or termination of any or all of the obligations, covenants or agreements of the County under the Notes and Mortgage;

(b) the failure to give notice to the Guarantor of the occurrence of a default under the terms and provisions of this Guaranty Agreement or the Mortgage, except as specifically provided in this Guaranty Agreement or the Mortgage;

(c) the assignment or mortgaging or the purported assignment or mortgaging of all or any part of the interest of the County in the Project;

(d) the waiver of the payment, performance or observance by the County or the Guarantor of any of the obligations, covenants or agreements of either of them contained in the Notes and Mortgage or this Guaranty Agreement;

(e) the extension of the time for payment by the County of the principal of or interest or prepayment penalty on the Notes or any part thereof owing or payable on the Notes or under this

Guaranty Agreement or of the time for performance of any other obligations, covenants or agreements under or arising out of the Mortgage or this Guaranty Agreement or the extension or the renewal of either thereof;

(f) the modification or amendment (whether material or otherwise) of any obligation, covenant or agreement set forth in the Mortgage;

(g) the taking or the omission of any of the actions referred to in the Mortgage and any actions under this Guaranty Agreement;

(h) any failure, omission, delay or lack of diligence on the part of the County or Wachovia to enforce, assert, or exercise any right, power or remedy conferred on the County or Wachovia in this Guaranty Agreement or the Mortgage, or any other act or acts on the part of the County or Wachovia.

SECTION 2.5. The Guarantor hereby expressly waives notice in writing, or otherwise, from Wachovia of its acceptance and reliance on this Guaranty Agreement. The Guarantor agrees to pay all costs, expenses and fees, including all reasonable attorneys' fees, which may be incurred by Wachovia in enforcing or attempting to enforce this Guaranty hereunder, whether the same shall be enforced by suit or otherwise.

SECTION 2.6. The Guarantor agrees that it will maintain its corporate existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it; provided, that the Guarantor may, without violating the agreement contained in this Section, consolidate with or merge into a domestic corporation (i.e., a corporation organized under the laws of one of the states of the United States of America), or permit one or more domestic corporations to consolidate with or merge into it, or sell or otherwise transfer to a domestic corporation all or substantially all of its assets as an entirety and thereafter dissolve, provided that the surviving, resulting or transferee corporation, as the case may be, expressly assumes in writing all of the obligations of the Guarantor herein and qualifies to do business in South Carolina.

SECTION 2.7. This Guaranty Agreement is entered into by the Guarantor with Wachovia for the benefit of Wachovia, its successors and assigns, all of whom shall be entitled, in accordance with Section 2.4 hereof, to enforce performance and observance of this Agreement and of the guarantees and other provisions herein contained to the same extent as if they were parties signatory hereto.

SECTION 2.8. The terms of this Guaranty Agreement may be enforced as to any one or more breaches either separately or cumulatively.

ARTICLE III

NOTICE AND SERVICE OF PROCESS, PLEADINGS AND OTHER PAPERS

SECTION 3.1. For such time as any of the Notes shall be outstanding, the Guarantor shall maintain in the State of South Carolina an agent to accept and acknowledge on its behalf, service of any and all process in any suit, action or other legal proceeding brought in any such court, and agrees and consents that in any such suit, action or other legal proceeding service of process upon such agent shall be taken and held to be valid personal service upon the Guarantor and that any such service of process shall be of the same force and validity as if service were made upon it according to the laws governing the validity and the requirements of such service in such state and waives all claim of error by reason of any such service. The Guarantor may from time to time change such agent for acceptance of service provided that prior to any such change the Guarantor shall notify in writing Wachovia of the name and address of such new agent and the effective date of such change of agent. The Guarantor agrees that in the event Guarantor shall fail to maintain an agent for service of process within the State of South Carolina during the term of the Notes, or if the whereabouts of such agent shall be unknown and shall remain so after reasonable inquiry regarding the same shall have been made, the Secretary of State of South Carolina shall act as such agent for the Guarantor for the service of process in any such suit or legal proceeding. Wachovia agrees that in the event service of process is made on the agent designated by the Guarantor or upon the Secretary of State pursuant to this Guaranty Agreement, a copy of such process will be mailed by registered mail, postage prepaid, return receipt requested, to the Guarantor at its address hereinafter set forth in Section 4.4 hereof; provided, however, that failure by Wachovia to forward a copy of any such process to the Guarantor as herein provided shall not relieve the Guarantor of the performance of any of its obligations in the manner and at the times provided for herein and in the Lease Agreement.

ARTICLE IV

MISCELLANEOUS

SECTION 4.1. Except as herein permitted, no amendment, change, modification, alteration or termination of the Notes and Mortgage shall be made which would in any way increase the Guarantor's obligations under this Guaranty Agreement without obtaining the prior written consent of the Guarantor.

SECTION 4.2. The obligations of the Guarantor hereunder shall arise absolutely and unconditionally when any of the Notes shall have been issued, sold and delivered by the County.

SECTION 4.3. No remedy herein conferred upon or reserved to Wachovia hereunder is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Guaranty Agreement or now or hereafter existing at law or in equity. No delay or omission or failure of performance hereunder shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle Wachovia to exercise any remedy reserved to it in this Guaranty Agreement, it shall not be necessary to give any notice, other than such notice as may be herein expressly required. In the event any provision contained in this Guaranty Agreement should be breached by any party and thereafter duly waived by the other party so empowered to act, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder. No waiver, amendment, release or modification of this Guaranty Agreement shall be established by conduct, custom or course of dealing, but solely by an instrument in writing duly executed by the parties thereunto duly authorized by this Guaranty Agreement.

SECTION 4.4. All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when delivered, if delivered by hand, and within three (3) days of mailing, if given by mail, to the following addresses: if to the Guarantor at Post Office Box 5416, Winston-Salem, North Carolina 27103, Attention: Charles Y. Lackey; if to Wachovia, at Wachovia Bank & Trust Company, N. A., Post Office Box 3099, Winston-Salem, North Carolina 27102, Attention: Larry H. Patterson, Senior Vice President. The Guarantor and Wachovia may, by notice given to the other party to this Guaranty Agreement, designate any further or different addresses to which subsequent notices, certificates of other communications shall be sent.

SECTION 4.5. This Guaranty Agreement constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof and may be executed simultaneously in several counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

SECTION 4.6. The invalidity or unenforceability of any one or more phrases, sentences, clauses, or sections in this Guaranty Agreement contained, shall not affect the validity or enforceability of the remaining portions of this Guaranty Agreement, or any part thereof.

SECTION 4.7. This Guaranty Agreement may be amended by a written agreement signed by the parties hereto, provided that in no event shall any amendment be made without the consent of the Guarantor.

IN WITNESS WHEREOF, the Guarantor, pursuant to proper resolution duly passed, has caused this Guaranty Agreement to be executed in its name and behalf and its corporate seal to be affixed hereto and attested by its duly authorized officers as of the date first above written.

HANES CORPORATION

(SEAL)

By____________________________
Its____________________________

Attest:

____

Its____________________

Accepted this ___ day of
________, 1977, by Wachovia
Bank and Trust Company, N. A.

By____________________________

(Corporate Seal)

Attest:

____

STATE OF SOUTH CAROLINA

COUNTY OF MARLBORO

ASSIGNMENT

KNOW ALL MEN BY THESE PRESENTS that Marlboro County, a body politic and corporate and a political subdivision of the State of South Carolina, acting by and through the Marlboro County Council, in consideration of the sum of One Dollar ($1.00) to it in hand paid at and before the sealing of these presents, the receipt of which is hereby acknowledged, has assigned, transferred and set over unto WACHOVIA BANK & TRUST COMPANY N. A., its successors and assigns, as security for the payment of $2,500,000 Marlboro County First Mortgage Industrial Revenue Note, Series of 1977 (Hanes Hosiery, Inc. - Lessee):

ALL of the right, title and interest of said Marlboro County in and to the foregoing Lease Agreement, dated as of November 1, 1977, between said Marlboro County, as Lessor and Hanes Hosiery, Inc., as Lessee.

This Assignment is made pursuant to and subject to all the terms and conditions of a certain Mortgage and Security Agreement of Marlboro County to the said Wachovia Bank & Trust Company N. A., dated as of November 1, 1977, the terms of which are incorporated by this reference as fully as if the same were set forth at length herein, said Mortgage and Security Agreement being intended to be duly recorded immediately subsequent to the recording of said Lease Agreement, and this Assignment.

IN WITNESS WHEREOF, Marlboro County, South Carolina, has executed this Assignment by causing its name to be hereunto subscribed by the Chairman of the Marlboro County Council and the official seal of said County to be impressed hereon and attested by the Clerk of said Marlboro County Council all being done as of the 1st day of November, A. D., 1977.

MARLBORO COUNTY, SOUTH CAROLINA

(SEAL) By ______________________________
Chairman, Marlboro County Council

Attest:

____
Clerk, Marlboro County Council

Signed, Sealed and Delivered
in the presence of:

____

____

STATE OF SOUTH CAROLINA

COUNTY OF MARLBORO

PERSONALLY appeared before me ______________________________ who being duly sworn says that he saw the corporate seal of MARLBORO COUNTY affixed to the foregoing Assignment of Lease, and that he also saw ______________________________, as Chairman, and ______________________________, as Clerk of the Marlboro County Council sign and attest the same, and that she with ______________________________ witnessed the execution thereof as the act and deed of said Marlboro County, South Carolina.

____

SWORN to before me this

___ day of __________, 1977.

______________________________(L.S.)

Notary Public for South Carolina

My Commission Expires: _______________

MEMO: FROM

CHARLES Y. LACKEY

DATE 10/11/77

To Mr. William McInnis / Ed Vaughn

Subject

OK
10/14/77

These documents are being forwarded to you at the request of Mr. Thomas A. Hutcheson and relate to the $2,500,000 First Mortgage Industrial Revenue Note, Series 1977 (Hanes Hosiery, Inc. - Lessee).

C.Y.L.

Hanes Corporation
Condensed Statements of Consolidated Earnings
Quarter and Six-Month Periods Ended July 2, 1977 and July 3, 1976
(Subject to Year-End Audit)

Second Quarter	1977	1976
Net Sales	$ 96,565,000	$ 88,965,000
Gross Profit	39,680,000	37,254,000
As % of Sales	41%	42%
Operating Expenses and Other	32,623,000	31,543,000
Earnings Before Taxes	7,057,000	5,711,000
Provision for Income Taxes	2,695,000	2,114,000
Net Earnings	4,362,000	3,597,000
Net Earnings Per Share:		
Primary	$1.01	87c
Fully Diluted	$1.01	86c
Cash Dividends Per Share	34c	19c

Six Months	1977	1976
Net Sales	$193,091,000	$178,489,000
Gross Profit	81,873,000	77,284,000
As % of Sales	42%	43%
Operating Expenses and Other	66,686,000	62,726,000
Earnings Before Taxes	15,187,000	14,558,000
Provision for Income Taxes	5,745,000	5,384,000
Net Earnings	9,442,000	9,174,000
Net Earnings Per Share:		
Primary	$2.21	$2.25
Fully Diluted	$2.21	$2.22
Cash Dividends Per Share	68c	38c

Hanes Corporation
Condensed Statements of Financial Position
July 2, 1977 and July 3, 1976
(Subject to Year-End Audit)

Assets	1977	1976
Current Assets		
Cash and Short-Term Investments	$ 17,281,000	$ 12,292,000
Accounts Receivable	40,130,000	34,079,000
Inventories and Prepaid Expenses	95,555,000	80,204,000
Total Current Assets	152,966,000	126,575,000
Property, Plant, and Equipment (Net)	57,924,000	53,175,000
Other Assets	1,459,000	1,522,000
Total Assets	$212,349,000	$181,272,000

Liabilities and Shareowners' Equity	1977	1976
Current Liabilities		
Notes Payable and Current Portion of LTD	$ 13,865,000	$ 2,558,000
Accounts Payable and Other Accrued Expenses	29,373,000	34,976,000
Total Current Liabilities	43,238,000	37,534,000
Long-Term Debt	40,861,000	33,747,000
Other Liabilities	5,450,000	4,075,000
Shareowners' Equity	122,800,000	105,916,000
Total Liabilities and Shareowners' Equity	$212,349,000	$181,272,000

Letter to Shareholders

Dear Shareholders:

The second quarter earnings were up 21% from the second quarter of 1976. Sales for the quarter were up 9%.

Net earnings for the first six months of 1977 were up $268,000 over 1976, but earnings per share were down 4 cents because of 194,000 more average shares.

In the second quarter of 1977, earnings from women's hosiery increased 27% over the second quarter of 1976. This reversed the first quarter when 1977 earnings from women's hosiery were lower than 1976.

Below is a breakdown of second quarter sales and earnings by product group:

	Sales		Before Tax Earnings	
(In Millions)	**1977**	**1976**	**1977**	**1976**
Women's Hosiery	$60.9	$57.5	$8.8	$6.9
Knitwear Products	$26.9	$22.9	$1.6	$1.5
Foundation Garments	$ 8.8	$ 8.6	$ .3	$ .4

Earnings of Foundation Garments were down in 1977's second quarter primarily because of $225,000 more advertising expense.

Hanes Corporation has announced it will test market a cosmetic line under the name L'aura in Cincinnati and Kansas City in the fall of 1977. This test is in conjunction with our continuing efforts to discover new opportunities where the Corporation's consumer marketing and distribution capabilities can be utilized. However, I want to caution that, even under most favorable conditions, the cosmetic line would not become profitable before 1980. Because of the high risks of any such new endeavor, development will proceed very carefully. As previously reported, Hanes Corporation budgets $3 million of expenditures a year for new ventures such as cosmetics.

On June 1, 1977, Hanes Corporation purchased and retired 89,521 warrants to buy Hanes Corporation Common Stock. The company now has no warrants outstanding. Also on June 1, 1977, Hanes canceled a prior commitment to borrow $10 million from two insurance companies at an interest rate of 10⅞%. Due to improved earnings and asset utilization, the Corporation's debt requirements are less than had been anticipated earlier.

We were pleased that second quarter results pulled 1977 approximately even with 1976. Currently, retail sales of apparel are not particularly strong, but we continue to expect some earnings improvement in the second half of 1977.

Sincerely,

Robert E. Elberson

Robert E. Elberson
President and Chief Executive Officer

July 27, 1977

Hanes Corporation
Post Office Box 5416
Winston-Salem, N.C. 27103

Hanes Corporation

Hanes Corporation
First Quarterly Report 1977

Hanes Corporation

LETTER TO SHAREOWNERS

[illegible]

Hanes Corporation
Condensed Statements of Consolidated Earnings
First Quarter Ended April 2, 1977 and April 3, 1976

First Quarter	1977	1976
[illegible]	[illegible]	[illegible]

Hanes Corporation
Condensed Statements of Financial Position
April 2, 1977 and April 3, 1976

Assets	1977	1976
[illegible]	[illegible]	[illegible]
Total Current Assets	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
Total Assets	[illegible]	[illegible]

Liabilities and Shareowners' Equity	1977	1976
[illegible]	[illegible]	[illegible]
Total Current Liabilities	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]
Total Liabilities and Shareowners' Equity	[illegible]	[illegible]

Text of Mr. Elberson's Speech at The Annual Meeting:

My comments this morning will be divided into two parts. First, there will be some observations about first quarter earnings. These will be followed by a further analysis of 1976, particularly advertising and promotion expenses.

The first quarter of 1977 was the second best quarter in Hanes Corporation's history — second only to the exceptional first quarter of 1976.

Although $1 million less than budgeted, 1977 sales increased 8% over 1976. As shown in Chart 1, strong increases occurred in knitwear and foundations, but hosiery sales increased only $900,000. A $4 million increase in *Underalls* — our new panty hose and panty garment — was offset by declines in other hosiery products.

Chart 1

Sales by Product Group

First Quarter	1976	1977	Change
Women's Hosiery	$62,700,000	$63,600,000	+ 1%
Knitwear Products	$18,400,000	$21,800,000	+ 19%
Foundation Garments	$ 8,400,000	$11,100,000	+ 32%

Consumer purchases of all hosiery were down 7% to 8% in December and January*. Also, *L'eggs* sales were unusually strong in 1976 because its first quarter contained 14 selling weeks versus 13 weeks in 1977 (one week's sales = $2.5 million).

Hosiery sales were $4 million lower than budgeted, and most of the miss occurred in the more profitable *L'eggs* and *Hanes* brands. Consequently, earnings from all hosiery were actually down from 1976. As indicated in Chart 2, good earnings improvements in knitwear and foundations were not sufficient to offset the decline in hosiery and the increased costs of New Ventures development and other overhead items.

Chart 2

Before Tax Earnings by Product Group

First Quarter	1976	1977
Women's Hosiery	$9,200,000	$8,000,000
Knitwear Products	$1,300,000	$1,500,000
Foundation Garments	$ 600,000	$1,700,000
Overhead and New Ventures	($2,300,000)	($3,100,000)

The names shown in italics are trademarks of the operating units of Hanes Corporation.

*Source MRCA

We have analysed all available market data, including competitive activities, and have found nothing to indicate serious or long-term weaknesses in our hosiery programs. In fact, Hanes Corporation's hosiery sales in late March and early April have returned to higher, more normal levels.

Also contributing to the 9% decline in first quarter after-tax earnings was the decline in gross margins from 45% to 44%. This was caused by less sales of *L'eggs* and *Hanes* brands and by a higher proportion of total sales being in the traditionally lower-margin knitwear and foundation products.

There were approximately 250,000 more shares of stock outstanding in 1977 than in 1976. These caused earnings per share to decline more than absolute earnings.

Although 1977 first quarter earnings did not establish a new record, they were disappointing only when related to an exceptionally strong performance in 1976. The 1976 year was substantially better than all of management's best-laid plans. For example, return on equity reached 16%. This had not been programmed to happen until 1980.

We believe 1976 was the payoff of the efforts put into consumer marketing over the last five years. I hope each of you has had an opportunity to read the 1976 annual report. As you read the report, you will see that, in 1976, Hanes Corporation spent $59 million on advertising and promotion and plans to spend over $60 million in 1977. This equates to $14 per share.

Chart 3 shows the effect of this emphasis on advertising over the last 5 years. Since 1971, Hanes Corporation's sales have doubled, while advertising expenses have quadrupled. However, profits have increased over five-fold.

Chart 3

Sales, Advertising, Earnings

	1971	1976	Increase
Net Sales	$176,000,000	$372,000,000	2 times
Advertising & Promotion	$ 15,000,000	$ 59,000,000	4 times
Net Earnings	$ 3,500,000	$ 18,400,000	5 times

Many factors affect profits, but we believe that this historical relationship between advertising and profits is not accidental.

In 1977 we expect to spend $21 million more on advertising and promotion than we spent in 1975. Chart 4 indicates where most of this increase will occur.

Chart 4

Increased Spending on Advertising & Promotion
From 1975 (Actual) to 1977 (Estimated)

Existing Brands	
L'eggs & *L'eggs Sheer Energy*	$1,800,000
Hanes Brand Hosiery	$2,000,000
Bali Bras	$2,600,000
Hanes Underwear	$1,000,000
New Programs	
Underalls	$5,800,000
Direct Mail (Hosiery)	$2,500,000
New Product Introduction in 2nd Half of 1977	$5,500,000

These increased expenditures fall into two categories:

1. Strengthening existing brands. This means continued communication with loyal consumers and renewed efforts to get new users.
2. Introduction of new products. Note the heavier spending on new product introductions. Advertising and promotion play key roles in this effort. They are our means of telling the consumer about the product and its benefits.

At last year's annual meeting, we told you about a new product called *Underalls*. Note the spending on *Underalls* in 1976 and 1977. In 1975, *Underalls* sales were less than $1 million. In 1976, they were $9 million. In 1977, they are expected to reach $17 million.

The importance of new products and the advertising to support them is clearly demonstrated in our hosiery business. As shown in Chart 5, the total hosiery market has declined 10% since 1971. During that same period, Hanes Corporation's hosiery sales have grown 150%.

Chart 5

Women's Hosiery Total Retail Market*

	1971	1977 (est.)	Change
Dozens	117,200,000	112,700,000	−4%
Dollars	$1,514,000,000	$1,366,000,000	−10%
HANES CORPORATION HOSIERY SALES			+ 150%

*Source MRCA

Although hosiery is considered to be a rather dull, static product category, new products have played a vital part in the growth of Hanes Corporation's hosiery business. Chart 6 shows that 59% of our 1977 hosiery sales will be in products introduced since 1971. We believe this performance attests to the validity of the consumer marketing approach and to the heavy use of advertising and promotion. As indicated, we plan to continue this approach in the future.

Chart 6

Hanes Corporation Women's Hosiery Sales
(In Dollars)

Speaking of the future, Hanes Corporation's management was somewhat disappointed by the first quarter, but we were not discouraged by it. We continue to forecast that earnings for the remainder of 1977 will exceed those of 1976. Furthermore, we expect to exceed our minimum goal of 15% return on equity.

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Hanes Corporation

Annual Report 1976

Officers

Gordon Hanes
Chairman of the Board

Robert E. Elberson
President and Chief Executive Officer

Paul Fulton, Jr.
Executive Vice President

David E. Harrold
Vice President

J. Frank King
Vice President—Research and Development

John B. McKinnon
Vice President—Finance and Treasurer

Charles Y. Lackey
Secretary and General Counsel

Louise Barrier
Assistant Secretary

Directors

Gordon Hanes
Chairman of the Board

Roger S. Carlson
Senior Vice President
Crown Zellerbach Corporation
(Paper Products)

Robert E. Elberson
President & Chief Executive Officer

Robin L. Hinson
Senior Vice President,
General Trust Officer,
General Counsel & Secretary
First Union Corporation
(Banking & Finance)

Albert M. Kronick
Consultant to
Management Groups

Myles L. Mace
Professor Emeritus,
Graduate School of
Business Administration,
Harvard University

John G. Medlin, Jr.
President & Chief Executive Officer
Wachovia Corporation
& Wachovia Bank &
Trust Company, N.A.
(Banking)

Clifford W. Perry
Consultant to the Corporation

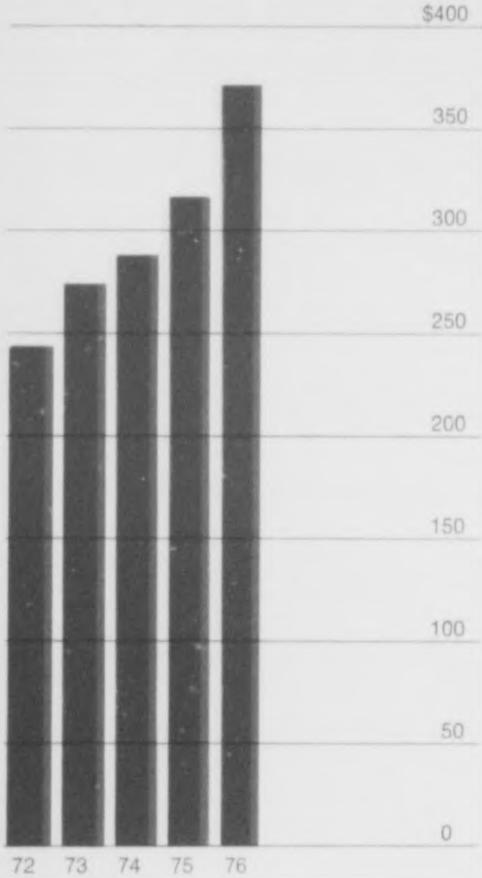
William S. Smith
R. J. Reynolds Industries, Inc.
(Tobacco, food, petroleum
products & shipping)

Financial Highlights

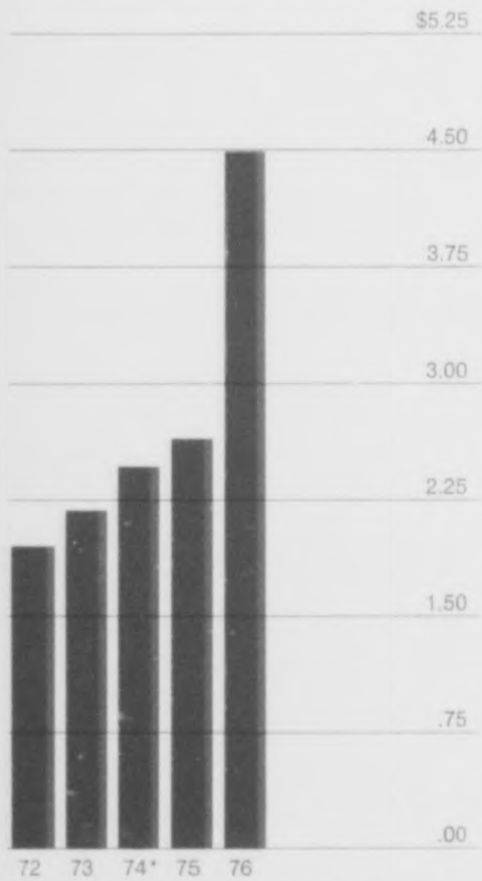
	1976	1975
Net Sales	**$372,317,000**	$314,790,000
Net Earnings	**$ 18,435,000**	$ 10,619,000
Per Share of Common Stock		
Net Earnings—Primary	**$ 4.50**	$ 2.66
—Fully Diluted	**$ 4.42**	$ 2.66
Shareowners' Equity at December 31	**$28.02**	$24.50
Cash Dividends Paid	**$ .88**	$ .70

The Annual Meeting of Shareowners will convene at 10 a.m., Tuesday, April 26, 1977 at The Community Center Theatre, 610 Coliseum Drive, Winston-Salem, North Carolina.

A copy of Hanes Corporation's Annual Report to the Securities & Exchange Commission (Form 10-K) may be obtained by writing to the Vice President-Finance, Hanes Corporation, Winston-Salem, N.C. 27103.



Net Sales
in millions



Primary Earnings Per Share
*Excluding write-off of goodwill in 1974.

To our Shareowners:

For the past three years, my letters to shareowners have emphasized the disciplined consumer marketing approach being taken at Hanes Corporation. The financial results of 1976 clearly demonstrate the validity of that approach.

Consequently, this letter is devoted more to results, rather than to strategy.

Hanes Corporation's sales and earnings for 1976 surpassed those of 1975, which were the previous high for the Corporation. Sales for the year were $372 million, an increase of 18% over 1975. Earnings in 1976 were $18.4 million, or $4.50 a share.

After adjusting for a $2.2 million write-off taken in 1975, the Corporation's net earnings in 1976 were up 44% over a year ago.

Increases in sales and earnings during 1976 resulted from three primary factors: outstanding performance by the Corporation's brands of women's hosiery; manufacturing efficiencies which significantly increased gross margins in several product areas; and strong earnings improvement in the knitwear and foundations segments of the company.

In 1976 women's hosiery accounted for 66% of the Corporation's sales and 69% of its profits. 97% of these sales were in its own brands, which increased their dollar share of the total hosiery market from 25% in 1975 to 26% in 1976. The remainder of the Corporation's sales in 1976 came from underwear and sweaters (25%) and from foundation garments (9%).

The women's hosiery industry in 1976 showed virtually no sales increase over 1975.

Within that environment, Hanes Corporation's *L'eggs* brand increased its share of the total hosiery market from 13.8% in 1975 to 14.6% in 1976 and remained the nation's largest selling hosiery brand. Much of that growth resulted from the success of a major promotional and sampling program launched to support *L'eggs Sheer Energy*. Largely because of that program, *Sheer Energy* in 1976 attained a 35.8% share of all support panty hose sales. Its success has had as great an impact on sales as did the original introduction of *L'eggs* in 1970.

The *Hanes* brand of women's hosiery continued to be the leading brand sold through department and specialty stores, and its market share is more than three times larger than its nearest competitor's.

During 1976 Hanes Corporation introduced *Underalls*, a product which combines panty hose and panty in a single garment, on a national basis. In earlier test markets, *Underalls* achieved its first year goals after only nine months.

In 1976 earnings from Hanes Corporation's knitwear and foundation segments increased approximately 50% over 1975. Even though both product groups had depressed earnings in the first half of 1975, their turnarounds strengthen our optimism about their future potential.

In the 1975 annual report, it was stated that Hanes Corporation had

The names shown in italics are trademarks of the operating units of Hanes Corporation.

set a goal of achieving a 12.5% return on equity by 1978 and the internal goal was 15% by 1980. Actual 1976 earnings exceeded both objectives and reached 16.3%. The Corporation's current goal is to maintain a return on equity of at least 15%.

Another 1978 goal was to have all three basic product lines produce at least a 12% after-tax return on assets. In 1976 the Corporation's hosiery business produced a return on assets of 20.4%, and its foundation garments business produced a 13.2% return. Return on assets from its knitwear operations was 10.1%.

Some other records set in 1976 were:

- Gross profit margin increased to 42.0%. It was 39.7% in 1975.
- Spending for advertising and promotion reached $59 million. It was $43 million in 1975 and is expected to exceed $60 million in 1977.
- Capital expenditures were $9 million and are budgeted to be $19 million in 1977.
- The dividend was increased twice to a $1.36 annual rate, which is in line with the Corporation's announced policy of paying approximately 30% of the previous year's earnings.

In order to improve planning and control within our growing enterprise, a new position of Executive Vice President was created, and Paul Fulton, formerly President of L'eggs Products was appointed to it. Due to this and other organization changes, new Presidents were appointed to head L'eggs Products, Hanes Hosiery, and The Bali Company. Each of the new Presidents was promoted from within the operating unit he now heads.

During 1976 Hanes Corporation further intensified its commitment to affirmative action in its employment, promotion, compensation and purchasing policies. Programs are now under way to insure that females, minorities and handicapped persons receive training, counseling and encouragement to seek advancement in the Corporation. Ms. Susan Johnston, who reports directly to me, has been assigned the responsibility of implementing audits and controls which will insure that these policies will continue to be executed.

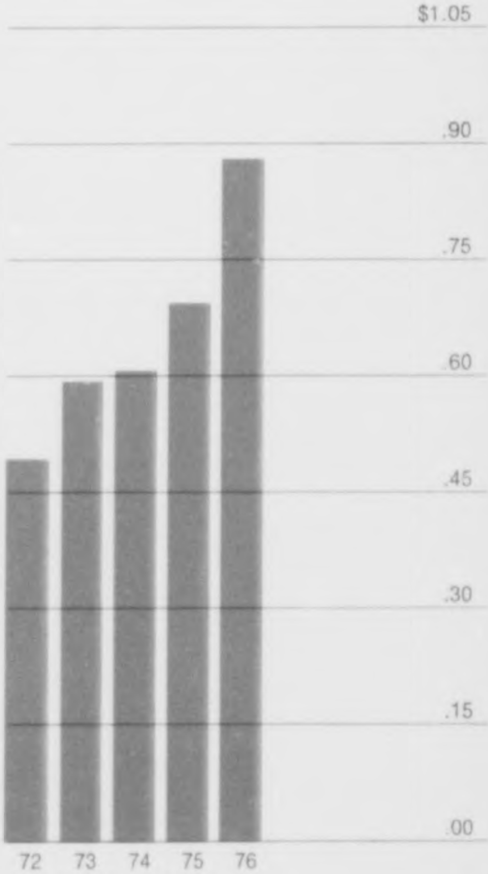
Hanes Corporation achieved record sales and earnings in the difficult economic conditions of 1975 and then exceeded even those levels in the improved business climate of 1976. This performance increases our confidence that the program begun six years ago to transform the Corporation from an apparel manufacturing company to a consumer goods marketing company was a proper undertaking. The experience of the past two years indicates Hanes Corporation can continue to operate profitably in both adverse and favorable market environments.

Sales and earnings for 1977 are not expected to grow as rapidly as they did in 1976. However, the solid earnings base of branded products, the benefits of manufacturing efficiencies achieved in 1976, and the continued employment of careful planning procedures should enable Hanes Corporation to produce sound, responsible growth for the remainder of 1977.

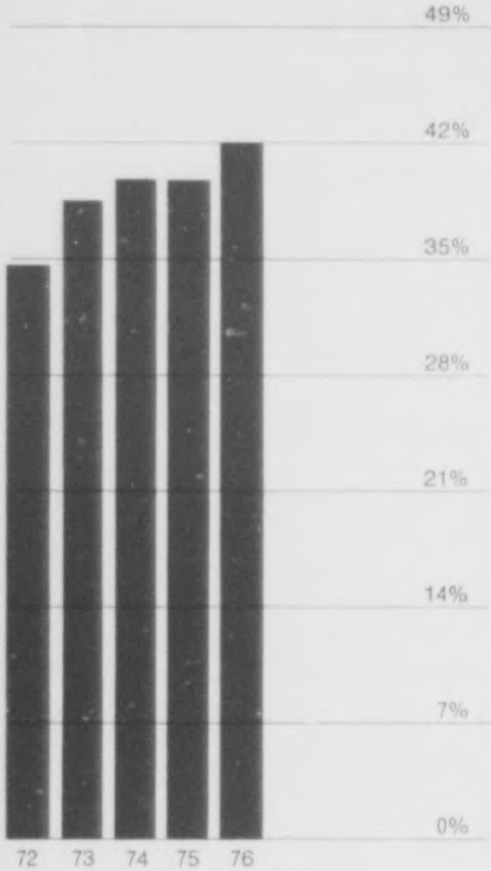
Sincerely,

Robert E. Elberson

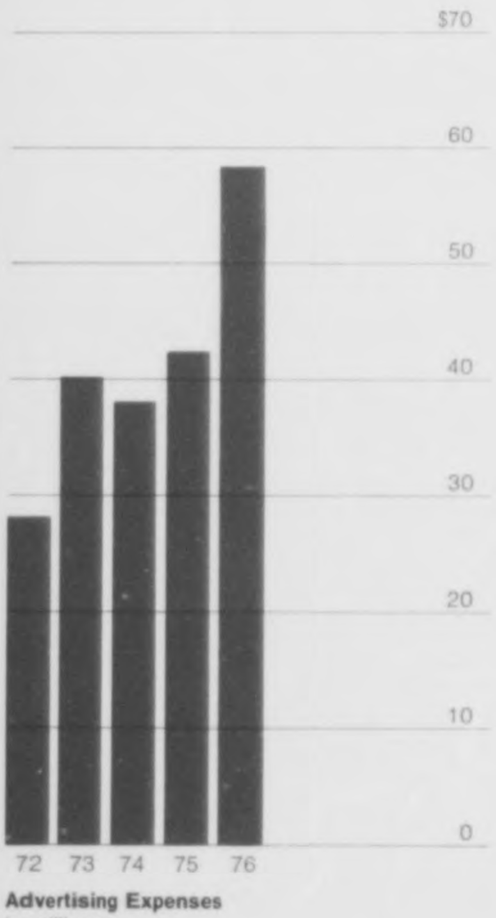
President and
Chief Executive Officer



Dividends Per Share



Gross Profit as a % of Net Sales



Advertising Expenses
in millions

Financial Review

Sales

Each of Hanes Corporation's product groups had significant sales increases in 1976:

- Women's hosiery sales in 1976 increased 17% to $247 million. This improvement was on top of a 12% increase in 1975. *L'eggs* brand sales in 1976 increased 14% to $150 million. Sales of *Hanes* brand hosiery increased 6% during the year and totaled $54 million. The introduction of *Underalls* added $9 million to the Corporation's 1976 hosiery sales.

- Knitwear product sales in 1976 increased 22% to $93 million compared to only a 6% increase in 1975. *Hanes* brand men's and boys' lightweight underwear increased 24% in 1976 while sales of a new line of T-shirts for screen printers reached $7 million. Sweater sales for the year were a record $8.6 million.

- Foundation sales in 1976 increased 14% after a 3% decline in 1975. Sales in new bra styles in 1976 approached $5 million, nearly double the 1975 level.

Comparative sales by product group: (In Millions)

Product Group	**1976**	1975	1974	1973	1972
Women's Hosiery	**$247**	$211	$188	$173	$143
Knitwear Products	**93**	76	72	73	74
Foundation Garments	**32**	28	29	30	28
Total	**$372**	$315	$289	$276	$245

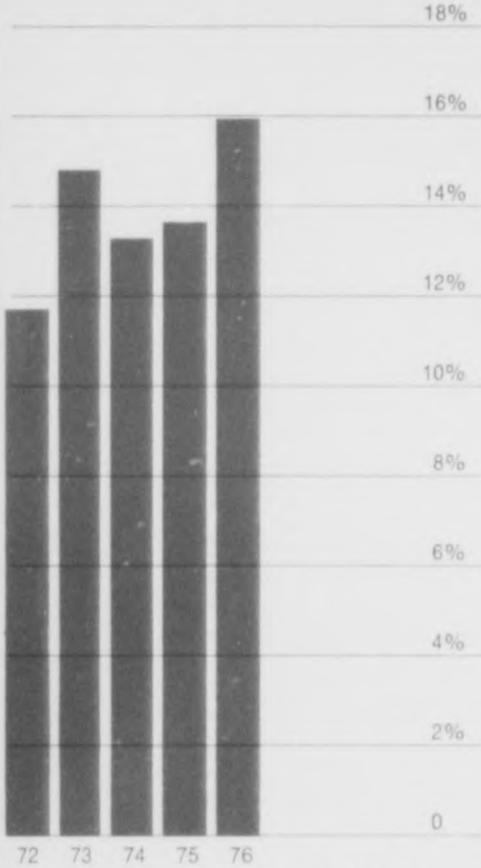
Gross Profit

Hanes Corporation's gross profit margin in 1976 was 42.0%, up from 39.7% in both 1975 and 1974. In 1976 all the Corporation's product groups absorbed wage increases and improved their gross margins. These results were accomplished by reducing costs through equipment modernization, automation, and fuller utilization of production capacity. Further implementation of these cost reduction programs in 1977 should continue to offset wage and other cost increases.

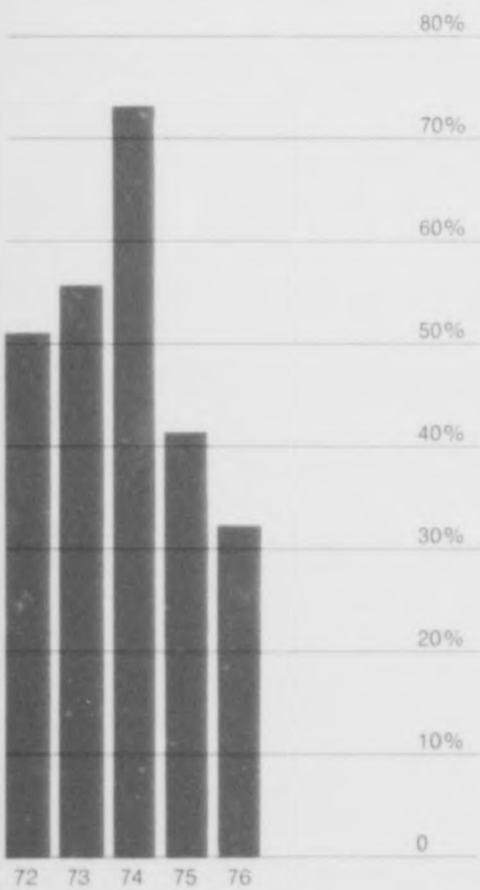
The Corporation's major increase in the cost of raw materials during 1976 was in cotton for its underwear products. Cotton increased from 53¢ a pound in 1975 to 61¢ in 1976 and is expected to increase to approximately 72¢ in 1977. To offset these higher cotton prices, Hanes Corporation on December 31, 1976 increased the prices of its lightweight underwear products by approximately 4.5%. This increase was substantially less than increases announced by major competitors.

The composition of 1976 manufacturing costs was:

	Women's Hosiery	Knitwear Products	Foundation Garments
Labor	26%	31%	22%
Materials	54	45	45
Overhead & Depreciation	20	24	33
	100%	100%	100%



Advertising Expenses as a % of Net Sales



Debt as % of Equity

Advertising and Promotion Expenses

In 1976 the Corporation's advertising and promotion expenses were $59 million, a $16 million increase over 1975 and a $21 million increase over 1974. $8 million of the 1976 increase was in media advertising.

Advertising and promotion costs for 1977 are budgeted at $61 million. Because firm commitments for advertising and promotion will be made as the year progresses, funds expended in this area can be significantly adjusted to reflect changing economic conditions and sales levels.

Selling, Distribution, Administrative and Other Expenses

The Corporation's selling, distribution and administrative expenses in 1976 increased $7 million, or 12%, compared to an 18% increase in sales. In 1975, selling, distribution and administrative expenses increased $3 million, or 5%, compared to a 9% increase in sales.

The $1 million shown as "Other Income" in 1976 included $700,000 of income from short-term cash investments and royalties. "Other" expense in 1975 included $4.4 million reserved for losses on disposal and relocation of facilities and was partially offset by $700,000 in income from short-term cash investments and royalties.

Interest and Debt

Because of lower levels of borrowings, interest paid by the Corporation in 1976 was $1.6 million, or 30%, lower than in 1975. Primarily because of lower borrowings, 1975 interest costs were $1.2 million, or 19%, below 1974. The average interest rate paid in 1976 and 1975 was 9.7%.

The Corporation's total debt at year-end 1976 was $36 million, down from $40 million at the end of 1975 and $66 million at the end of 1974. Year-end debt as a percent of equity was 32% in 1976 and 41% in 1975.

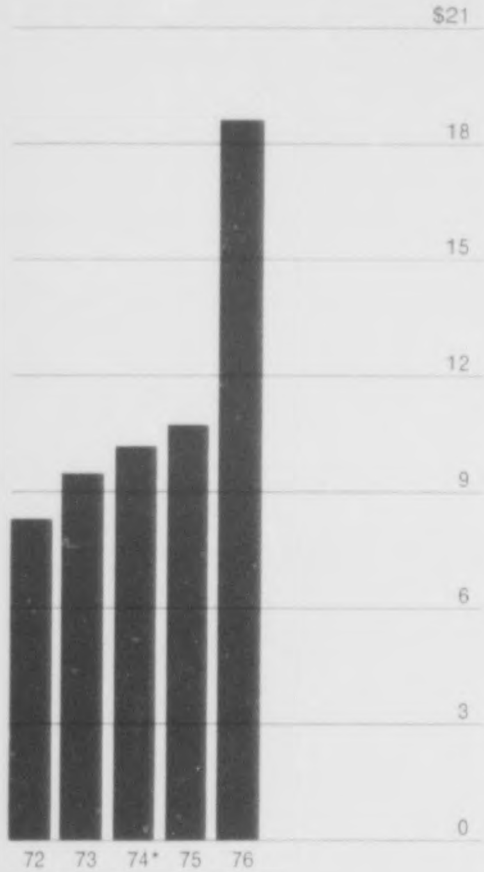
In 1976 the Corporation borrowed $10 million of a $20 million loan commitment from Prudential and Teachers insurance companies. The remaining $10 million will not be borrowed before December 31, 1977. The Corporation had no bank borrowings at the end of 1976.

The 1976 tax reform law has made it more feasible for the Corporation to use cash earned from operations in Puerto Rico ($14.5 million as of December 31, 1976) to finance its growth. The Corporation's planned capital requirements through 1979 will be adequately covered by cash in its Puerto Rican operations, $15 million of bank lines of credit, and the remaining commitment from Prudential and Teachers insurance companies.

Taxes

Hanes Corporation's effective income tax rate was 37.8% in 1976 and 33.3% in 1975. The increase in 1976 was due to an increase in earnings from U.S. operations. Tax savings from tax-exempt earnings were $3.0 million in 1976, up from $2.1 million in 1975 and $1.7 million in 1974.

Tax-exempt earnings are expected to increase in 1977 because of increased underwear and hosiery production in Puerto Rico. The Corporation's effective tax rate in 1977 is expected to remain under 40%.



Net Earnings
in millions
*Excluding write-off of goodwill in 1974.

Earnings and Return on Investment

Hanes Corporation's 1976 net earnings of $18.4 million were up 44% from 1975 earnings of $12.8 million before the reserve for disposal of facilities. The comparable 1975 increase over 1974 earnings was 26% before the 1974 write-off of goodwill.

The key ratio used by Hanes Corporation in evaluating the profitability of product groups is their after-tax operating earnings as a percent of average primary investment. Primary investment includes the total of each product group's receivables, inventories and fixed assets, less its current liabilities.

Hanes Corporation's current goal is to have each of its product groups earn a minimum of 12% after-tax return on its primary investment. Emphasis is placed on both increasing earnings and controlling assets. In 1976 the earnings of all product groups increased while their average primary assets declined.

Returns on primary investment by product group in 1976 and 1975 were:

	Women's Hosiery		Knitwear Products		Foundation Garments	
(In Millions)	**1976**	1975	**1976**	1975	**1976**	1975
After-Tax Operating Earnings	**$15.4**	$12.5	**$ 4.8**	$ 3.1	**$ 2.1**	$ 1.5
Average Primary Investment	**$75.5**	$79.5	**$47.8**	$48.4	**$16.2**	$16.9
Return on Investment	**20.4%**	15.7%	**10.1%**	6.5%	**13.2%**	8.7%

After-tax operating earnings by product group are stated before allowing for interest, corporate overhead and non-operating expenses (adjusted for taxes). These items totaled $3.9 million in 1976 and $6.5 million in 1975.

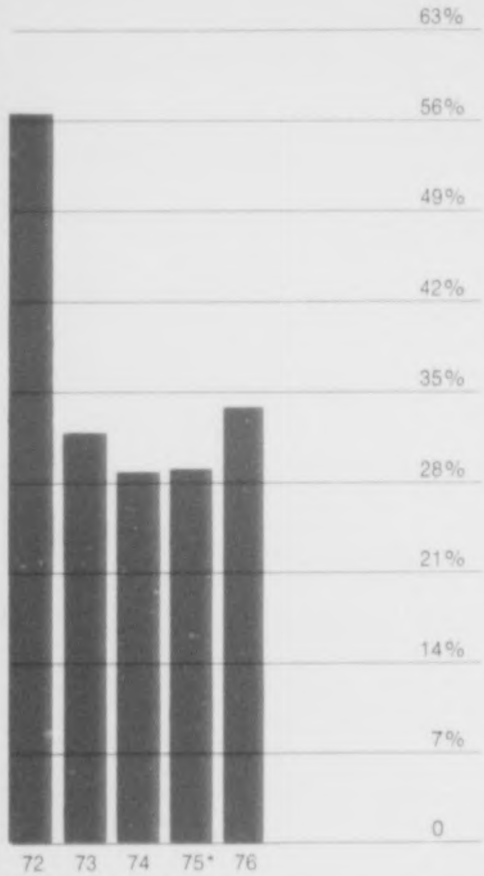
Summary of Quarterly Results of Operations

(In Millions Except Per Share Data)

	Sales		Gross Profit				Net Earnings		Earnings Per Share Primary		Earnings Per Share Fully Diluted	
Quarter	**1976**	1975	**1976**	**%**	1975	%	**1976**	1975	**1976**	1975	**1976**	1975
First	**$ 90**	$66	**$40**	**45%**	$26	39%	**$5.6**	$1.4	**$1.40**	$ .36	**$1.40**	$ .36
Second	**89**	80	**37**	**42**	32	40	**3.6**	2.4	**.87**	.60	**.86**	.60
Third	**89**	78	**36**	**40**	30	39	**4.4**	2.7*	**1.07**	.67*	**1.07**	.67*
Fourth	**104**	91	**43**	**41**	37	40	**4.8**	4.1*	**1.17**	1.02*	**1.16**	1.02*

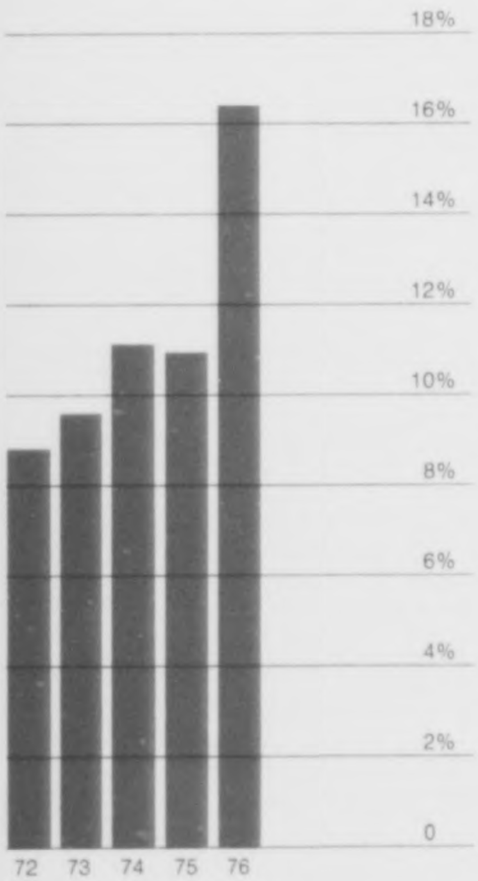
*Disposal and relocation of facilities reduced 1975 third and fourth quarter after-tax earnings by $750,000 and $1,438,000 (19¢ and 36¢ per share) respectively.

In February, 1977 Prudential Insurance Company exercised warrants to purchase 194,567 shares of Hanes Corporation Common Stock at $17.74 a share and has indicated its intention to hold these shares for investment. If these additional shares had been outstanding during all of 1976, primary earnings per share would have decreased from $4.50 to approximately $4.36 a share.



Dividends as a % of the Prior Year's Net Earnings

*Excluding write-off of goodwill in 1974.



Net Earnings as % of Equity

Receivables

The Corporation's receivables at the end of 1976 were $42 million compared to $34 million at the end of 1975. Receivables turnover was 8.9 times in 1976, down slightly from 9.2 times in 1975.

Inventories

During 1976 the Corporation's inventories increased 10% ($7 million) to $77 million, which was less than its 18% increase in sales. Inventory turns increased from 4.5 times in 1975 to 4.9 times in 1976. Inventory turns were 3.4 times in 1974.

Property, Plant and Equipment

At the end of both 1975 and 1976, the net book value of Hanes Corporation's fixed assets was $54 million. The Corporation's capital expenditures of $9 million in 1976 approximately equaled its depreciation and fixed asset retirements.

The largest fixed asset investments in 1976 were $2 million for hosiery knitting equipment and $2 million for *L'eggs* displays. The purchase of this additional knitting equipment increased the Corporation's hosiery production capacity during the year by 8%.

Since 1973 the decrease in the Corporation's fixed assets, coupled with its increase in sales, has increased sales per dollar of fixed assets—a measure of efficiency of use of assets—by 55%.

Although not entirely committed, capital expenditures for 1977 are currently budgeted at $19 million. The 1977 budget includes $4 million for new, larger *L'eggs* displays and $4 million for increased hosiery manufacturing capacity to support higher sales. In August, 1976 the Corporation began production in an underwear knitting and spinning plant in Ponce, Puerto Rico which will increase the Corporation's production capacity of underwear fabric by 20%. Included in the 1977 capital budget is $2 million for this plant.

Shareowners' Equity

In 1976 Hanes Corporation shareowners' equity increased to $113 million, or $28.02 per share. This is an increase from $98 million, or $24.50 per share, in 1975.

In 1976 return on year-end shareowners' equity was 16.3% compared to 10.9% in 1975. The goal of the Corporation is to maintain return on shareowners' equity of at least 15%.

The Marketing Approach at Hanes Corporation

The development of a Hanes Corporation product or marketing concept begins with questions: What product or desired result does the consumer not find presently available in the market place? What does the consumer find lacking or objectionable in products which are available? Where or how might the consumer wish to purchase products differently from the way they are presently offered?

Hanes Corporation products, developed to reflect the consumer's responses to questions like these, are tested first on small focus groups and modified according to consumer comments—often several times.

Products which survive focus groups are then offered to a broader range of consumers under the carefully controlled conditions of limited test markets. Again they are modified to incorporate the consumer's reactions.

This disciplined approach to the development and marketing of its products requires time and money. Not all products tested will succeed. But Hanes Corporation's financial results since adopting consumer marketing as its central business philosophy six years ago indicate it works.


Today's girl
Hanes
Under colors
SLIM-FIT
T-SHIRT
sheer
100% COTTON
Hanes
T-SHIRT
SOFT COMFORTABLE ABSORBENT
SHRINKAGE CONTROLLED
Hanes
ultra sheer pantyhose
nude heel
reinforced toe
$3.00
Bali
Alive
all-sheer
support
pantyhose
nude toe
to waist
L'eggs
Underalls
pantyhose & panties all in one.
sheer
stretch
pantyhose
$1.95

Managing the Marketing Approach at Hanes Corporation

At Hanes Corporation, management uses market research to discern consumer needs and buying habits and to anticipate shifts in markets. Research data, combined with continually updated plans and forecasts, enable management to react to changes rapidly and at a profit.

This process of decision making is reflected in Hanes Corporation's major activities in 1976 and in its plans for the year to come.

Hosiery:

While total industry sales of women's hosiery showed virtually no increase in 1976 compared to 1975, significant shifts continued to take place within this market. Sales of non-support panty hose declined 6% in 1976 and have dropped 15% in the past two years. The support, knee-high, and control top categories all increased in 1976.

Hanes Corporation's market research and forward planning helped anticipate many of these trends and implement a number of programs to react to them.

L'eggs:

L'eggs brand panty hose—the Corporation's first product developed through consumer marketing techniques—continues to be the nation's largest selling brand with a 14.6% share of total domestic hosiery sales.

Through the application of market research into the rapidly growing support panty hose area, L'eggs developed *Sheer Energy*, a lightweight support panty hose offered on the L'eggs Boutique. Research indicated some consumers resisted wearing "support" panty hose due to the term's medicinal connotations. *Sheer Energy*'s marketing program, therefore, was designed to stress the product's benefits without referring to it as a "support" garment.

In its first year of national distribution, *Sheer Energy* achieved a 31% share of the support panty hose market. When additional research indicated *Sheer Energy*'s $2.99 price created something of a barrier to trial, a national sampling program was launched and was supported by a 50% increase in media advertising. That program, combined with a special price-off promotion and the introduction of *Sheer Energy* in queensize and all-sheer versions, resulted in the product's achieving in 1976 a 35.8% share of the support panty hose market.

In 1976 L'eggs began development of products for segments of the panty hose market in which it is not currently represented. During the year, *Strong 'n Pretty* by *L'eggs* was introduced in test markets as an entry into the "around $1" market which accounts for 50% of the non-support panty hose market.

Hanes Brand:

The Corporation's *Hanes* brand hosiery continues to dominate the department and specialty store segment of women's hosiery, with a 22.4% share of that market.

In 1976 sales of *Hanes* brand hosiery to retailers were the highest in its history with shipments up 6% over 1975. During the year, *Hanes* brand had a 7.4% share of all retail hosiery sales compared to 8.2% in 1975 and 6.6% in 1974.

The *Hanes* brand continues to develop new products to expand its share of market. Sales of *Summer Sheer*, introduced in 1975 and marketed nationally in 1976, increased 10% during the year. During 1976 *Understatement*, a *Hanes* brand product combining panty hose and panty in a single garment, was test marketed in three metropolitan areas.

Underalls Brand:

Consumer research indicated that the "panty line" which appeared under clingy pants and skirts was unattractive to women. In response, the Corporation developed a new brand called *"Underalls,"* a product which combined panty and panty hose in a single garment. *Underalls* was tested in 1975 and was originally scheduled for introduction into 20% of the U.S. in the fall of 1976. Initial test results were so favorable the introduction was moved up to March, 1976. Backed by heavy media advertising, national rollout was completed in August, 1976. In the fourth quarter of 1976, *Underalls* had already become the fifth largest hosiery brand with a 2.1% share of the total hosiery market.

Other Hosiery Brands:

In addition to *L'eggs, Hanes* and *Underalls*, Hanes Corporation markets four other brands of hosiery in order to provide an entry at all price and distribution levels. *Beauty Mist* and *May Queen* brands are offered through department and specialty stores. *Today's Girl* is sold primarily through chain stores and mass merchandisers. *1st to Last* is marketed through food and drug stores.

Together, these four brands had sales in 1976 of some $23 million and accounted for about 3% of the domestic hosiery market.

Throughout this report, "market share" refers to dollar volume unless unit volume is specifically indicated. Market shares are based on data from Market Research Corporation of America and Hanes Corporation's own data.

Hanes Men's and Boys' Underwear:

The *Hanes* brand's 10.8% unit market share of men's and boys' lightweight underwear makes it the second largest selling manufacturer's brand in the nation and the largest selling brand in department stores.

Low gross margins inherent in underwear make the application of consumer marketing techniques more difficult than in other segments of the Corporation's business. Because of that difficulty, Hanes Corporation in 1975 began an extensive review of how *Hanes* brand underwear was being distributed, marketed and sold at retail. Special attention was devoted to the more than 65% of the *Hanes* brand which was then distributed to retailers through independent distributors.

The structure of that system caused difficulties in compiling accurate market data and in implementing intensive sales and marketing programs to retailers. To overcome these problems, the Corporation first initiated a comprehensive market analysis which showed *Hanes* brand products were in about 30% of all underwear outlets. Of these, 90% carried the brand's all cotton line but only about 20% carried its cotton/polyester blended line which is the industry's growth area.

Once an accurate retail profile was developed, the Corporation's knitwear sales force was expanded during 1976 from 30 to some 100 representatives as a "sales overlay" to implement an aggressive merchandising program supporting the efforts of existing distributors. The program opened 6,845 new accounts or line extensions, an increase of 84% over 1975.

Since this sales overlay was completed in August, 1976, the Corporation has launched major promotions behind *Hanes* Blue Label blended underwear and *Hanes Black Label* colored underwear products. As a result, shipment of these two products in 1976 increased 130% over their 1975 levels.

Men's Sweaters:

Sales of Hanes Corporation's *Pine State* and private label sweaters reached a record $8.6 million in 1976. This improvement came despite increased competition from sweaters imported from the Far East which increased to approximately 50% of total industry shipments during the year.

Bali Bras:

Hanes Corporation's *Bali* brand of bras and ladies' swimwear experienced a sharp earnings improvement in 1976 with profits of $2.1 million for the year compared to $1.5 million in 1975. The increase was due in part to a consolidation of Bali's administrative offices in Winston-Salem, North Carolina; the shutdown of a high cost distribution center in New Jersey; and the opening of a new processing and distribution center in Gastonia, North Carolina. These moves created overhead cost savings in excess of $500,000 for the year. A significant restructuring of its manufacturing and distribution operations enabled Bali to increase the percentage of orders shipped complete from 70% in July to 90% by year end.

The *Bali* brand enjoys a strong consumer franchise in the foundation departments of better stores, especially in the underwire segment of the bra market. In 1976 Bali continued to enlarge its underwire program by adding six new basic bras including the "T-Shirt" bra and a light, sheer series called *Bali* "Go Lightly." In 1977 Bali will emphasize efforts to increase its share of the non-wire segment of the bra industry.

New Ventures:

Hanes Corporation each year budgets some $2 million for basic consumer research and an additional $3 million on the development of new branded products. Emphasis is placed on ventures which are appropriate for mass-merchandisers and show potential for a 15% after-tax return on investment. The Corporation is especially interested in ventures which can benefit from direct-to-store delivery. Exploration of new venture opportunities is undertaken with the full realization that not all programs tested will be successful and that products which merit national rollout will take considerable time to return a profit.

The Corporation's current new venture activities include *Feet First Soxx*, a line of family socks designed for sale through food and drug stores, which was introduced into limited test markets in June, 1976. Consumer reaction to date has been favorable, but further test marketing will be required before the line's long-term viability can be assessed.

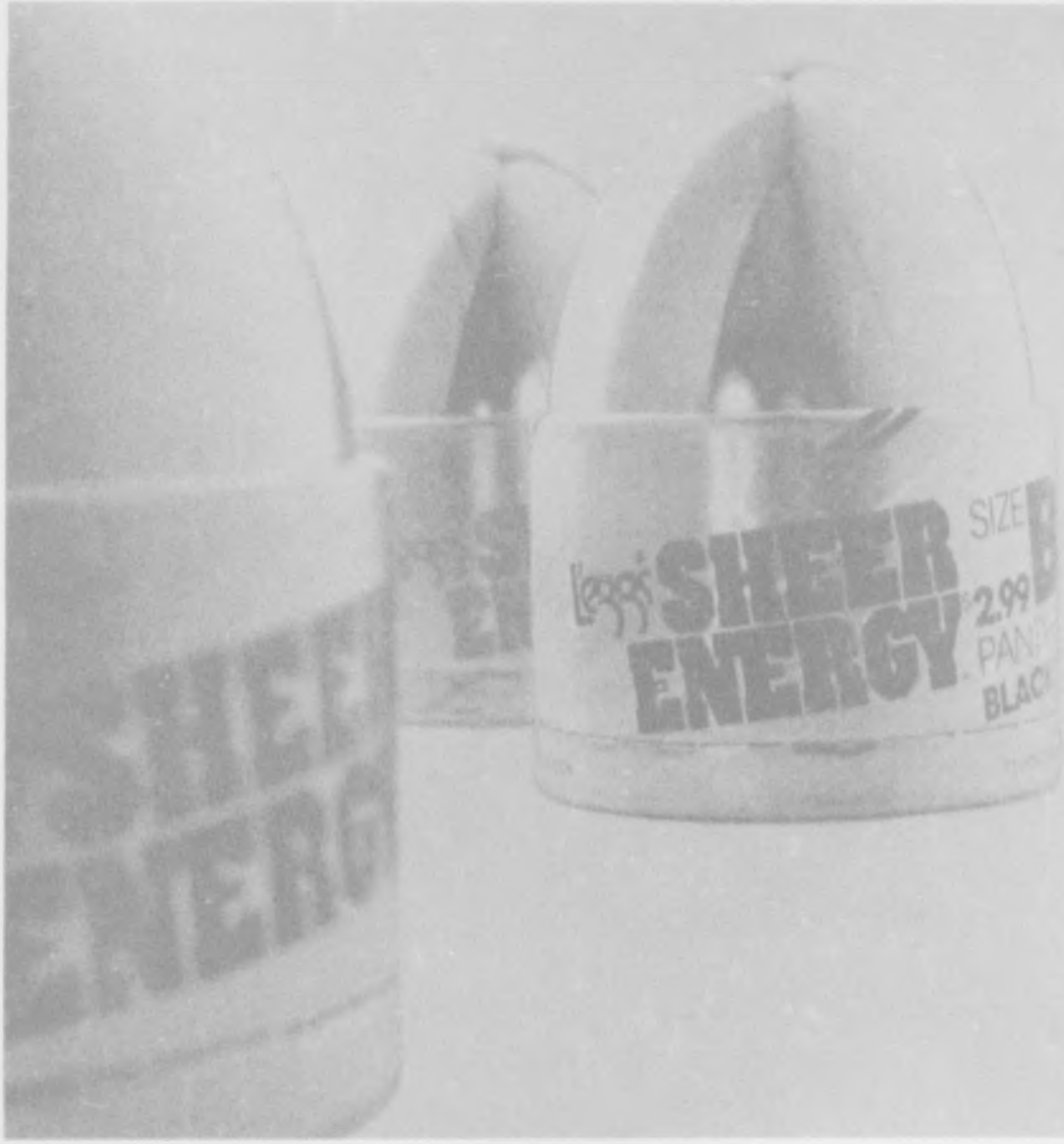
In February, 1976 Hanes Corporation introduced into test markets *U.S. Male*, a brand of men's and boys' underwear designed for sale through food and drug stores. While the product was well received by consumers who tried it, the test indicates the present marketing program will not overcome a low incidence of underwear purchases in these outlets. For the present, *U.S. Male* has been withdrawn from test markets to allow reevaluation of the marketing approach.

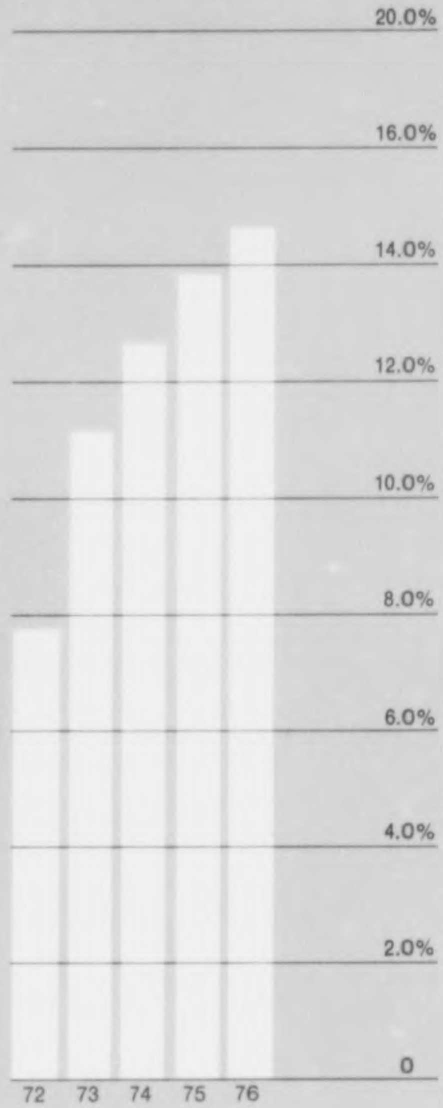
Also being reevaluated is a *L'eggs* Panties program for food and drug outlets which was withdrawn from test in early 1976.

Mail Order:

Hanes Corporation is proceeding with the orderly development of mail order sales of such products as *L'eggs* Nurse White and *Better Than Panty Hose* which are not offered through normal distribution channels. In 1976 mail order sales reached $5 million.


Shade Selection
SHEER ENERGY



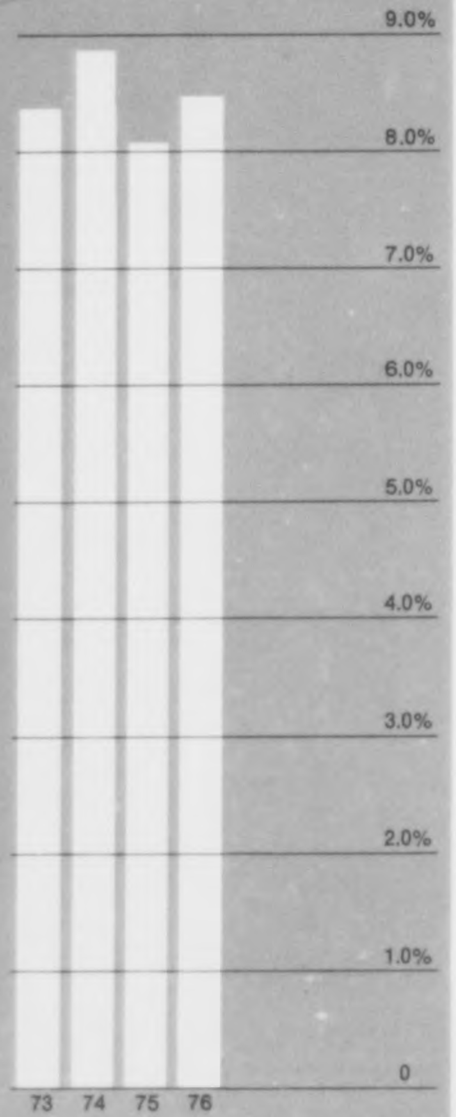


L'eggs Share of Total Hosiery Market

Hanes Corporation's *L'eggs* brand was first introduced in 1970. It is now the nation's largest selling brand of women's hosiery. *L'eggs* is sold primarily through food and drug outlets.

L'eggs Sheer Energy, introduced nationally in 1975, in 1976 had 36% of the support panty hose market.

A primary key to *L'eggs'* success is its unique direct-to-store delivery system which utilizes Hanes Corporation's own vehicles and personnel. Careful monitoring of purchase patterns at each *L'eggs* display assures that its products are consistently available in the styles, colors and sizes consumers desire.



Bali Share of the Department and Specialty Store Market

Hanes Corporation's *Bali* bras are carefully fitted garments sold in the upstairs foundation departments of better stores.

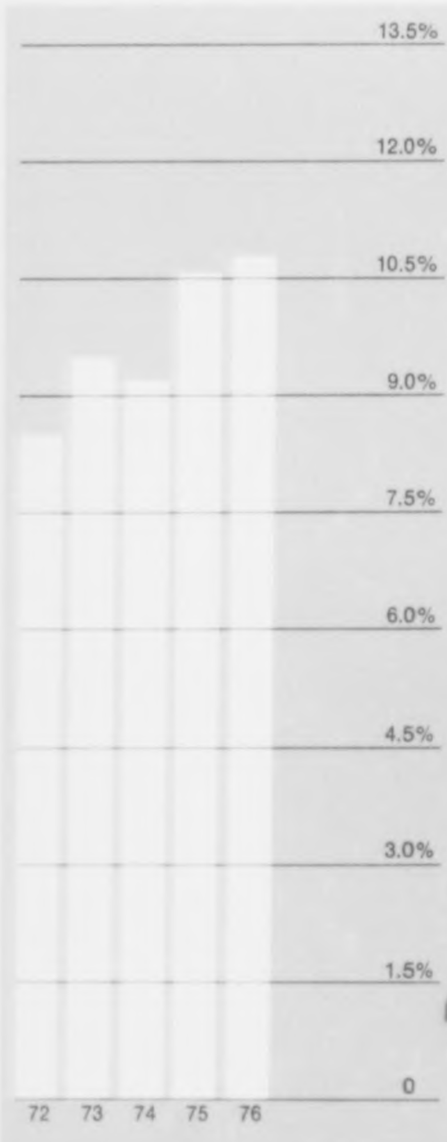
Budgeted increases in *Bali*'s media advertising for 1977 will place it among the top three advertised bra brands in the nation.

Bali swimwear, also sold through the upstairs foundation departments of better stores, offers consumers superior fashion, fit, and size flexibility.

The *Hanes* brand of men's and boys' underwear is the nation's second largest selling manufacturer's brand and the largest selling brand in department stores.

The *Hanes* brand offers a full line of all-cotton, blended, white and colored briefs and T-shirts distinctively packaged for the consumer's ease of selection.

Hanes Underwear Unit Share of Total Market




ULTRA - SHEER PANTYHOSE
Hanes

Hanes Brand Share of Total Hosiery Market

Hanes brand is the nation's largest selling brand of women's hosiery in department and specialty stores with a share of that market more than three times greater than its nearest competitor.

Hanes Corporation's *Underalls*, a product which combines panty hose and panty in a single garment, was introduced nationally in 1976. By the fourth quarter of 1976, *Underalls* had become the nation's fifth largest brand of women's hosiery.

Ten-Year Summary

Hanes Corporation and
Consolidated Subsidiaries

(In Thousands of Dollars Except for Share Amounts)	1976	1975	1974
Net sales	$372,317	$314,790	$288,765
Gross profit	156,294	124,861	114,579
As percent of sales	42.0%	39.7%	39.7%
Advertising expenses	$ 58,897	$ 42,512	$ 38,167
Selling, administrative and miscellaneous expense	64,088	61,189	54,425
Interest expense	3,684	5,241	6,448
Earnings before taxes and write-off	29,625	15,919	15,539
Write-off of goodwill	—	—	(14,275)
Earnings before income taxes and extraordinary item	$ 29,625	$ 15,919	$ 1,264
Provision for income taxes	$ 11,190	$ 5,300	$ 5,400
Effective tax rate	37.8%	33.3%	34.8% (1)
Earnings (loss) before extraordinary item	$ 18,435	$ 10,619	$ (4,136)
As percent of sales	5.0%	3.4%	3.5% (1)
Extraordinary item—net of applicable taxes	—	—	—
Net earnings (loss)	$ 18,435	$ 10,619	$ (4,136)
Primary earnings (loss) per common share			
From operations	$ 4.50	$ 2.66	$ (1.01) (2)
Extraordinary item	—	—	—
Dividend per share	$ .88	$ .70	$ .62
Price range of stock	$28½-14⅜	$16⅜-6¼	$ 10⅞-6
Price earnings ratio at year end	5.9	5.4	2.5 (1)
Current assets	$133,397	$115,076	$123,257
Current liabilities	35,580	27,763	21,594
Working capital	97,817	87,313	101,663
Receivable turnover	8.9	9.2	8.9
Inventory turnover	4.9	4.5	3.4
Plant and equipment expenditures	$ 8,669	$ 7,105	$ 6,941
Property, plant and equipment (net)	53,678	53,680	57,946
Total assets	188,384	170,274	183,008
Total asset turnover	2.0	1.8	1.6
Total funds borrowed	$ 36,442	$ 40,333	$ 66,157
Percent of total funds borrowed to equity	32.2%	41.4%	73.2%
Shareowners' equity	$113,335	$ 97,500	$ 90,330
Equity per common share	28.02	24.50	22.27
Net earnings before extraordinary item as percent of equity	16.3%	10.9%	11.2% (1)
Common and common equivalent shares (average)	4,098,495	3,998,656	4,098,003
Shareowners (at December 31)	5,679	5,952	6,100
Employees	13,774	12,745	12,381

(1) Excluding $14,275,000 write-off of goodwill.
(2) Earnings per share were $2.47 excluding $14,275,000 write-off of goodwill.

1973	1972	1971	1970	1969	1968	1967
$275,883	$244,648	$176,081	$177,138	$156,932	$145,356	$130,526
105,959	83,639	46,664	40,917	32,678	36,366	29,687
38.4%	34.2%	26.5%	23.1%	20.8%	25.0%	22.7%
$ 40,605	$ 28,369	$ 14,990	$ 10,569	$ 7,273	$ 6,935	$ 5,717
45,211	37,500	21,120	16,995	14,586	11,137	8,413
4,602	4,063	3,945	4,395	3,492	1,313	1,093
15,541	13,707	6,609	8,958	7,327	16,981	14,464
—	—	—	—	—	—	—
$ 15,541	$ 13,707	$ 6,609	$ 8,958	$ 7,327	$ 16,981	$ 14,464
$ 6,150	$ 5,470	$ 3,149	$ 4,458	$ 3,190	$ 8,699	$ 6,679
39.6%	39.9%	47.6%	49.8%	43.5%	51.2%	46.2%
$ 9,391	$ 8,237	$ 3,460	$ 4,500	$ 4,137	$ 8,282	$ 7,785
3.4%	3.4%	2.0%	2.5%	2.6%	5.7%	6.0%
—	—	—	$ 1,196	$ (1,055)	—	—
$ 9,391	$ 8,237	$ 3,460	$ 5,696	$ 3,082	$ 8,282	$ 7,785
$ 2.20	$ 1.92	$ .89	$ 1.16	$ 1.07	$ 2.13	$ 2.01
—	—	—	.31	(.27)	—	—
$ .60	$ .50	$ .50	$ .50	$ .90	$ .90	$ .90
$ 18¾-8	$22⅜-16	$23⅝-13½	$19½-9½	$44¼-14¼	$48¾-23⅛	$28⅜-19½
4.1	9.4	18.0	16.4	14.1	21.0	11.6
$109,280	$ 91,108	$ 83,417	$ 73,082	$ 72,092	$ 64,985	$ 58,581
26,995	36,457	29,880	37,684	55,618	31,257	28,066
82,285	54,651	53,537	35,398	16,474	33,728	30,515
7.8	8.3	6.8	6.1	6.1	6.6	5.5
4.0	4.5	4.3	4.5	3.7	3.8	4.5
$ 7,700	$ 8,705	$ 6,561	$ 6,092	$ 8,345	$ 7,863	$ 10,970
61,662	62,310	61,634	53,486	53,691	50,206	47,524
187,056	169,662	162,799	144,880	142,091	116,521	108,416
1.5	1.4	1.2	1.2	1.1	1.2	1.2
$ 55,045	$ 47,079	$ 54,376	$ 44,679	$ 49,054	$ 23,000	$ 19,875
56.1%	51.0%	63.1%	57.7%	67.2%	31.3%	29.0%
$ 98,089	$ 92,297	$ 86,186	$ 77,452	$ 72,990	$ 73,401	$ 68,612
23.43	21.51	20.09	19.96	18.81	18.91	17.68
9.6%	8.9%	4.0%	5.8%	5.7%	11.3%	11.3%
4,273,318	4,290,518	3,880,884	3,880,884	3,880,884	3,880,884	3,880,884
5,566	5,226	6,034	4,321	3,153	2,856	3,349
14,200	13,718	13,018	10,165	10,809	11,500	11,900

Statements of Financial Position

Hanes Corporation and
Consolidated Subsidiaries
December 31, 1976
and December 31, 1975

Assets		1976	1975
Current Assets	Cash	**$ 492,000**	$ 2,787,000
	Certificates of deposit and other short-term investments	**14,041,000**	7,981,000
	Trade accounts receivable, less allowances of $1,737,000 in 1976 and $1,812,000 in 1975	**41,752,000**	34,234,000
	Inventories—Note A:		
	Finished products	**49,016,000**	44,494,000
	Products in process	**18,728,000**	14,930,000
	Materials and supplies	**9,000,000**	10,050,000
		76,744,000	69,474,000
	Prepaid expenses	**368,000**	600,000
	Total Current Assets	**133,397,000**	115,076,000
Investments and Other Assets		**1,309,000**	1,518,000
Property, Plant and Equipment—Note A	Land	**1,251,000**	1,246,000
	Buildings	**44,129,000**	42,446,000
	Machinery and equipment	**75,815,000**	73,802,000
		121,195,000	117,494,000
	Less accumulated depreciation	**67,517,000**	63,814,000
		53,678,000	53,680,000
		$188,384,000	$170,274,000

Liabilities and Shareowners' Equity		1976	1975
Current Liabilities	Trade accounts payable	$ 16,518,000	$ 11;867,000
	Accrued expenses	11,572,000	11,020,000
	Taxes on income	5,077,000	3,976,000
	Current portion of long-term debt	2,413,000	900,000
	Total Current Liabilities	35,580,000	27,763,000
Long-Term Debt	Less portion classified as current liability—Note B	34,029,000	39,433,000
Other Liabilities	Deferred income taxes	3,913,000	3,808,000
	Deferred compensation and other liabilities	1,527,000	1,770,000
Shareowners' Equity	Common Stock, par value $1 per share: Authorized 20,000,000 shares Issued 4,044,481 shares in 1976 and 4,291,517 shares, including 312,300 shares in treasury, in 1975	4,044,000	4,292,000
	Additional paid-in capital	10,822,000	10,768,000
	Retained earnings—Note B	98,469,000	85,207,000
		113,335,000	100,267,000
	Less cost of Common Stock in treasury	—	2,767,000
	Total Shareowners' Equity	113,335,000	97,500,000
		$188,384,000	$170,274,000

See notes to financial statements.

Statements of Earnings

Hanes Corporation and
Consolidated Subsidiaries
Years ended December 31, 1976
and December 31, 1975

		1976	1975
Earnings From Operations	Net sales	**$372,317,000**	$314,790,000
	Cost of products sold	**216,023,000**	189,929,000
		156,294,000	124,861,000
	Advertising and promotion expenses	**58,897,000**	42,512,000
	Selling and administrative expenses	**64,960,000**	57,905,000
		123,857,000	100,417,000
	Earnings from operations	**32,437,000**	24,444,000
Earnings Before Income Taxes	Other income (expenses):		
	Interest expense	**(3,684,000)**	(5,241,000)
	Miscellaneous-net—Note F	**872,000**	(3,284,000)
	Earnings before income taxes	**29,625,000**	15,919,000
Income Taxes	Provision for income taxes—Note D:		
	Currently payable	**11,085,000**	7,095,000
	Deferred	**105,000**	(1,795,000)
	Total income taxes	**11,190,000**	5,300,000
Net Earnings	Net earnings	**$ 18,435,000**	$ 10,619,000
Earnings Per Share	Earnings per share—Note H:		
	Primary	**$4.50**	$2.66
	Fully diluted	**$4.42**	$2.66

Statements of Shareowners' Equity

Hanes Corporation and
Consolidated Subsidiaries
Years ended December 31, 1976
and December 31, 1975

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
Balance at January 1, 1975	$4,292,000	$10,768,000	$77,390,000	$ (2,120,000)	$ 90,330,000
Net earnings			10,619,000		10,619,000
Cash dividends—$.70 per share			(2,802,000)		(2,802,000)
Purchase of Company's Common Stock				(647,000)	(647,000)
Balance at December 31, 1975	4,292,000	10,768,000	85,207,000	(2,767,000)	97,500,000
Net earnings			18,435,000		18,435,000
Cash dividends—$.88 per share			(3,546,000)		(3,546,000)
Issuance of 65,264 shares of Common Stock upon exercise of stock options	65,000	881,000			946,000
Retirement of Common Stock in treasury	(313,000)	(827,000)	(1,627,000)	2,767,000	—
Balance at December 31, 1976	$4,044,000	$10,822,000	$98,469,000	$ —	$113,335,000

See notes to financial statements.

Statements of Changes in Financial Position

Hanes Corporation and
Consolidated Subsidiaries
Years ended December 31, 1976
and December 31, 1975

		1976	1975
Sources of Funds	Net earnings	**$18,435,000**	$ 10,619,000
	Add (deduct) items not affecting working capital in the current period:		
	Provision for depreciation	**7,986,000**	8,332,000
	Provision for loss on disposal of excess facilities	**—**	2,554,000
	Provision for deferred income taxes	**105,000**	(1,795,000)
	Amortization of debt discount and expense	**190,000**	190,000
	Funds Provided From Operations	**26,716,000**	19,900,000
	Proceeds from property items sold, less gains	**685,000**	1,289,000
	Long-term borrowings	**10,000,000**	—
	Proceeds from issuance of Common Stock	**946,000**	—
	Changes in other assets and liabilities	**(59,000)**	148,000
	Total Funds Provided	**38,288,000**	21,337,000
Uses of Funds	Cash dividends paid	**3,546,000**	2,802,000
	Additions to property, plant and equipment	**8,669,000**	7,105,000
	Reductions of long-term debt	**15,569,000**	25,133,000
	Purchase of Company's Common Stock	**—**	647,000
	Total Funds Used	**27,784,000**	35,687,000
	Increase (Decrease) in Working Capital	**$10,504,000**	$ (14,350,000)
Changes in Working Capital	Increase (decrease) in current assets:		
	Cash and short-term investments	**$ 3,765,000**	$ 4,106,000
	Trade accounts receivable	**7,518,000**	1,879,000
	Inventories	**7,270,000**	(14,311,000)
	Prepaid expenses	**(232,000)**	145,000
		18,321,000	(8,181,000)
	Increase (decrease) in current liabilities:		
	Trade accounts payable	**4,651,000**	3,921,000
	Accrued expenses	**552,000**	1,193,000
	Taxes on income	**1,101,000**	1,912,000
	Current portion of long-term debt	**1,513,000**	(857,000)
		7,817,000	6,169,000
	Increase (Decrease) in Working Capital	**$10,504,000**	$ (14,350,000)

See notes to financial statements.

Notes to Financial Statements

Note A—Summary of Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of all wholly-owned subsidiaries. Significant intercompany accounts and transactions have been eliminated. Investment in a 51%-owned company whose operation is unrelated to the Company is accounted for by the equity method.

Inventories. Inventories are stated at the lower of cost (first-in, first-out method) or market.

Property and Depreciation. Land, buildings, machinery and equipment are carried at cost. Depreciation is computed principally by the straight-line method for financial reporting and accelerated methods for tax reporting. Leasehold improvements are being amortized on a straight-line basis over the life of the leases or the useful life of the improvements, whichever is shorter.

Debt Discount and Expense. Debt discount and expense incurred in connection with the issuance of long-term debt have been deferred and are being amortized by the bonds outstanding method as charges to income over the life of the debt.

Research and Development. Research and development costs related to both present and future products are charged to operations as incurred.

Advertising and Promotion. Advertising and promotion costs are charged to operations as incurred.

Income Taxes. Deferred income taxes are provided for timing differences between financial and tax reporting principally relating to depreciable assets.

The earnings of subsidiaries, from operations and qualified investments in Puerto Rico, are not subject to United States income taxes. These earnings are not subject to Puerto Rican taxes except to the extent paid out as dividends, and then at rates to a maximum of 10%. There is no present intent to pay such dividends and no tax has been provided. The cumulative amount of undistributed Puerto Rican earnings was approximately $19,000,000 at December 31, 1976.

Investment tax credits are accounted for by the flow-through method.

Note B—Long-Term Debt

Long-term debt at December 31, 1976 and 1975 is summarized below:

	1976	1975
Bank loans (1)	$ —	$14,000,000
Insurance company notes		
8½% (2)	24,226,000	24,061,000
10⅞% (3)	10,000,000	—
Mortgage note, interest at 6⅜%, maturing in annual installments of $198,000, including interest, to 1996, collateralized by deed of trust on manufacturing and warehouse facility in Jersey City, New Jersey	2,195,000	2,251,000
Other	21,000	21,000
	36,442,000	40,333,000
Less portion classified as current liability	2,413,000	900,000
	$34,029,000	$39,433,000

(1) During 1976 the Company canceled its $34 million bank line for revolving credit and term loans and established a $15 million short-term seasonal credit line bearing interest at the prime rate. The Company had no bank borrowings as of December 31, 1976.

(2) Principal amount of $25,000,000 less unamortized discounts of $774,000 and $939,000 at December 31, 1976 and 1975, respectively. Annual payments of $2,500,000 are required from 1977 to 1986.

(3) On June 25, 1976, the Company executed an agreement with two insurance companies to issue notes totaling $20,000,000. Notes for $10,000,000 were issued in June 1976, and the remainder are to be issued in December 1977. A commitment fee of 1% per annum is payable on the unused funds. The aggregate borrowings are to be repaid in annual installments of 5% in 1979 and 1980, and 9% thereafter through 1990.

Maturities of long-term debt, net of unamortized discounts, during the five years ending December 31, 1981 are as follows: 1977—$2,413,000; 1978—$2,429,000; 1979—$2,949,000; 1980—$2,971,000; and 1981—$3,392,000.

Among other things, the agreements relating to the above long-term financing place certain restrictions upon further borrowings, leases, sale of assets and the payment of cash dividends and require a minimum amount of working capital and net worth. Retained earnings free of such restrictions at December 31, 1976 and 1975, amounted to $17,022,000 and $7,247,600, respectively.

Note C—Pension Plans

The Company and certain subsidiaries have pension plans covering all employees who qualify as to age and length of service. Total pension expense was $2,264,000 in 1976 and $1,659,000 in 1975. The increase in 1976 pension expense was primarily attributable to increased payroll costs.

The actuarially computed value of vested benefits at December 31, 1975 (the latest valuation date) exceeded the market value of the plan assets and accrued balance sheet liability by $1,900,000 and the unfunded prior service liability was approximately $8,600,000 at that date. It is the Company's policy to amortize prior service costs over a 30-year period and to fund pension costs accrued.

Note D—Income Taxes

The reasons for the difference between total tax expense and the amount computed by applying the statutory federal income tax rate of 48% to earnings before income taxes are as follows:

	1976	1975
48% of pre-tax earnings	**$14,220,000**	$ 7,641,000
State and local income taxes, net of Federal tax benefit	**832,000**	390,000
Effect of tax benefits from subsidiaries operating in Puerto Rico	**(2,969,000)**	(2,120,000)
Investment tax credit	**(546,000)**	(600,000)
Other items	**(347,000)**	(11,000)
	$11,190,000	$ 5,300,000

Under exemptions expiring from 1979 to 1999, certain subsidiaries doing business in Puerto Rico are not required to pay Puerto Rican income taxes.

Note E—Summary of Quarterly Results of Operations (Unaudited)

The summary of unaudited quarterly results of operations for the year ended December 31, 1976 is included in the Financial Review section of this Annual Report.

Note F—Other Miscellaneous Expenses

Included in other miscellaneous income and expenses for 1975 are provisions for losses of $4,441,000 ($2,188,000, or 55¢ per share, net of tax benefits) relating to disposal and relocation of facilities. These losses resulted from excess leased New York office space ($1,353,000), provision for disposition of Bali's New Jersey distribution center ($1,500,000), closing of a knitwear plant in North Carolina ($919,000), and relocation of two distribution centers ($669,000).

Note G—Capital Stock

The Company has a 1967 qualified stock option plan under which options may be granted for 200,000 shares of Common Stock. The option price is the fair market value of the shares at the date of grant. Options become exercisable in cumulative annual installments of 33⅓% commencing one year from the date of grant and expire five years after the date of grant.

The Company also has a 1974 stock option plan under which options may be granted for an additional 200,000 shares of Common Stock. The option price at which shares may be purchased shall be not less than 85% of the fair market value of such shares at the date of grant. Options become exercisable in cumulative annual installments of 33⅓% commencing one year from the date of grant and expire five years after the date of grant. Option activity for 1976 and 1975 is summarized as follows:

	1967 Plan		1974 Plan	
	Shares	Price per Share	Shares	Price per Share
Options outstanding January 1, 1975	128,967	$ 8.75 to $21.13		
Granted	—		32,150	$ 7.88
Cancelled or expired	(48,862)	$ 9.19 to $21.13	(1,450)	$ 7.88
Options outstanding December 31, 1975	80,105	$ 8.75 to $21.13	30,700	$ 7.88
Granted	57,800	$19.38	—	
Exercised	(56,166)	$ 8.75 to $21.13	(9,098)	$ 7.88
Cancelled or expired	(1,916)	$ 9.19 to $16.19	(3,168)	$ 7.88
Options outstanding December 31, 1976	79,823	$ 8.75 to $19.38	18,434	$ 7.88
Shares available for grant—				
December 31, 1975	118,360		169,300	
December 31, 1976	62,476		172,468	
Options exercisable—				
December 31, 1975	51,103		—	
December 31, 1976	13,089		1,102	

Warrants issued with the insurance company notes provide for the purchase of 284,088 shares of the Company's Common Stock at $17.74 per share, subject to adjustment, at any time up to and including March 1, 1980.

Note G—Capital Stock (Continued)

The charter of the Company authorized 200,000 shares of Preferred Stock at $100 par value and provides for the Board of Directors to fix the preferences, limitations and relative rights of these shares.

Note H—Earnings Per Share

Earnings per share are based on the weighted average number of common shares and common share equivalents outstanding. Warrants and stock options are considered common share equivalents. In 1975, both warrants and options were antidilutive.

Subsequent to December 31, 1976, one insurance company stated its intention of exercising warrants in 1977 (see Note G) for the purchase of 194,567 shares of the Company's Common Stock. If such warrants had been exercised as of January 1, 1976, primary earnings per share in 1976 would have been approximately $4.36.

Note I—General Effects of Inflation (Unaudited)

Production costs have tended to rise in line with the general price-level, but the Company has been able to maintain its gross margins both by sales price increases and implementation of manufacturing efficiencies. The Company estimates inventories could be replaced for 2% more than December 31, 1976 book values.

The impact of inflation over a number of years has resulted in the estimated replacement cost of productive plant and equipment being 62% higher than original cost. This cost could be offset in whole or in part by technological improvement and design changes which often increase the productivity and efficiency of new plant and equipment.

Reference is made to the Company's annual report on Form 10-K (a copy of which is available on request) for additional quantitative information with respect to the estimated replacement cost of inventories and plant and equipment at December 31, 1976, and the related estimated effect of such costs on cost of products sold and depreciation expense for the year then ended.

Note J—Leases

Total rental expense for all leases amounted to:	**1976**	1975
Minimum rentals	**$6,939,000**	$6,497,000
Sublease income	**(795,000)**	(893,000)
	$6,144,000	$5,604,000

The future minimum rental commitments as of December 31, 1976 for all noncancellable leases are as follows:

	Total	Real Estate	Data Processing and Other Equipment	Vehicles	Sublease Rentals
1977	$ 4,722,000	$ 2,662,000	$1,396,000	$1,339,000	$ (675,000)
1978	4,046,000	2,215,000	1,342,000	1,011,000	(522,000)
1979	3,346,000	1,947,000	1,186,000	503,000	(290,000)
1980	2,025,000	1,726,000	390,000	160,000	(251,000)
1981	1,322,000	1,519,000	—	5,000	(202,000)
1982-1986	5,015,000	5,395,000	—	—	(380,000)
1987-1991	1,166,000	1,166,000	—	—	—
	$21,642,000	$16,630,000	$4,314,000	$3,018,000	$(2,320,000)

The impact on net earnings if financing leases had been capitalized was immaterial for 1976 and 1975.

Report of Ernst & Ernst, Independent Auditors

To The Board of Directors, Hanes Corporation
Winston-Salem, North Carolina

We have examined the statements of financial position of Hanes Corporation and Consolidated Subsidiaries as of December 31, 1976 and December 31, 1975, and the related statements of earnings, shareowners' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Hanes Corporation and Consolidated Subsidiaries as of December 31, 1976 and December 31, 1975, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Winston-Salem, N.C.
February 11, 1977

Ernst & Ernst

E&E

General Offices
2000 West First Street
Post Office Box 5416
Winston-Salem, North Carolina 27103

Operating Units
L'eggs Products, Inc.
Joseph F. Neely, President

Hanes Hosiery, Inc.
Philip R. Currier, President

Hanes Knitwear
David E. Harrold, President

The Bali Company, Inc.
Terry L. Johnson, President

Pine State Knitwear Company
Lindsay Holcomb, Jr., President

Accountants
Ernst & Ernst
2015 Wachovia Building
Winston-Salem, North Carolina 27101

Transfer Agent and Registrar
Wachovia Bank & Trust
Company, N.A.
Winston-Salem, North Carolina 27102

Exchange Listing
New York Stock Exchange
(Ticker Symbol "HNS")

Stock Activity and Dividend

Hanes Corporation's Common Stock is traded on the New York Stock Exchange. A summary of price ranges and dividends by quarter as reported is shown below:

	1976		1975	
	Price Range	Dividend	Price Range	Dividend
First Quarter	**\$23⅜-14⅜**	**\$.19**	\$ 8⅞- 6¼	\$.17
Second Quarter	**28½-21¼**	**.19**	11 - 8⅛	.17
Third Quarter	**25⅛-18⅛**	**.25**	12⅝-10¼	.17
Fourth Quarter	**26½-18⅝**	**.25**	16⅜-10½	.19
Year	**28½-14⅜**	**\$.88**	16⅜- 6¼	\$.70

Hanes Corporation
Post Office Box 5416
Winston-Salem, N.C. 27103

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Hanes Corporation

Annual Report 1974

Financial Highlights	1974	1973
Net Sales	$288,765,000	$275,883,000
Earnings Before Write-off of Goodwill	$ 10,139,000	$ 9,391,000
Write-off of Goodwill	(14,275,000)	—
Net Earnings (Loss)	$ (4,136,000)	$ 9,391,000
Per-Share of Common Stock		
Earnings Before Write-off of Goodwill	$ 2.47	$ 2.20
Write-off of Goodwill	(3.48)	—
Net Earnings (Loss)	$ (1.01)	$ 2.20
Shareowners' Equity at December 31	$22.27	$23.43
Cash Dividends Paid	.62	.60

The Annual Meeting of Shareowners will convene at 10 a.m., Tuesday, April 22, 1975, in the Hanes Auditorium in Salem College's Fine Arts Center, 500 Salem Avenue, S.E., Winston-Salem, North Carolina.

A copy of Hanes Corporation's Annual Report to the Securities & Exchange Commission (Form 10-K) may be obtained by writing to the Vice President—Finance, Hanes Corporation, Winston-Salem, N.C. 27103.

To Our Shareowners:

Hanes Corporation had a record performance in 1974. Sales were the highest in its history and, at $289 million, were 5% higher than 1973. Operating earnings were also the highest in the Company's history—they were $10.1 million, which was 8% over 1973.

At the end of 1974, it was decided to write off all goodwill items from the Company's balance sheet. This write-off totalled $14,275,000 and caused the Company to report a net loss of $4,136,000 for the year. Since the goodwill items written off were not tangible assets, the write-off had no impact on the Company's general financial strength, its cash flow, or taxes paid. The write-off recognized that, in today's economy, apparel companies do not command market values higher than their net tangible assets. At the end of 1968, for example, Hanes Corporation stock was selling at 21 times earnings and at twice its book value. Now, the stock sells at 3 times 1974 operating earnings and at one-third its book value. In that context, it seemed inappropriate to continue to reflect some $14 million of goodwill on the Company's balance sheet. Consequently, the goodwill (the difference between the purchase price and net tangible assets) associated with the acquisition of The Bali Company, Inc. in 1969 and 1971 and the Pine State Knitwear Company in 1968 was written off.

Details of the year's operations are contained elsewhere in this report. However, it should be recognized that Hanes Corporation continues to be primarily a women's hosiery company, deriving 65% of its sales and an even larger percent of its profits from that one product category. 97% of all hosiery sales were made in the Company's own brands which were led by *L'eggs* and *Hanes*. As a group, Hanes Corporation's brands increased their share of the total hosiery market from 19% in 1973 to 22% in 1974 (based on dollar sales reported by Market Research Corporation of America). 20% of Hanes Corporation's sales are in men's and boys' underwear, and 8% are in bras. The Company's share of these markets remained constant in 1974.

During the year, Hanes Corporation continued its efforts to carve out a unique position in the apparel industry through the application of disciplined consumer goods marketing techniques. Some of these techniques are explained in more detail in another section of this report.

Two key financial ratios are indicative of Hanes Corporation's approach. The first is gross margin, which rose from 38.4% in 1973 to 39.7% in 1974. In spite of inflationary cost increases, the Company was able to increase its gross margins by selling more of its more profitable brands and by increasing its sales through its own distribution (versus distributor) systems.

The second key factor is the amount of advertising and promotion Hanes Corporation puts behind its apparel brands. In 1974, this figure was 13% of sales, or $38 million. This puts Hanes Corporation in the top sixty consumer advertisers in the country and is substantially higher than any other apparel manufacturer.

While total sales for the 1974 year were higher than any preceding year, they began to weaken noticeably in the final quarter. Although consumer purchases were flat or down slightly, orders from retailers and wholesalers dropped dramatically. This same pattern is continuing in 1975 and has led management to conclude that earnings from operations in 1975 will be lower than 1974. How much lower is dependent upon when sales turn back up. Obviously, if the consumer keeps buying at, or close to, her past levels (and, through December, she has), retailers must eventually run out of stock and will have to reorder. These reorders will enable the manufacturer, first, to reduce his inventories and, second, to resume more normal manufacturing levels.

In the meantime, Hanes Corporation has implemented a number of stringent cut backs in operating expenses and in production schedules. In spite of these reductions, the Company's profitability remains highly sales-sensitive. When normal sales levels are reached, previous profitability levels will return. Based upon market and economic intelligence received to date, sales resurgence is not so much a question of "if" but of "when."

The last half of 1974 and 1975 to date have been difficult times for all employees of Hanes Corporation regardless of their level of responsibility. Work schedules have gyrated widely, and there have been numerous adjustments to new ways of doing things. Throughout it all, there pervades a determination to see that the Corporation weathers the present difficulties and emerges even stronger. To this end, we welcome two new outside Directors to our Board: Roger S. Carlson, Senior Vice President of Crown Zellerbach Corporation, who has extensive experience in consumer goods marketing; and Robin L. Hinson, Senior Vice President and General Counsel of Cameron Financial Corporation, who was formerly Vice President and General Counsel of Hanes Corporation. Simultaneously, we recognize the contributions and regret the loss of Directors Betsy Blackwell and Harold Krensky, who will not be standing for re-election.

In summary, I feel every stockholder should recognize the basic strengths that led to the accomplishments of 1974. Because of these strengths, stockholders should be reassured that Hanes Corporation will emerge from the present economic situation in good condition to capitalize upon its long-term future opportunities.

Cordially,

Robert E. Elberson

President and
Chief Executive Officer

Operating Review

1974 was a year of continued application of consumer goods marketing techniques to the Company's apparel products. It was also a year of frequent adjustments of plans and strategies to a rapidly changing economic and competitive environment.

HOSIERY—In a year when total U. S. hosiery sales were stagnant, Hanes Corporation's 1974 hosiery sales were up 8% and accounted for all of the Company's sales growth. According to Market Research Corporation of America (MRCA), total U. S. consumption of hosiery in 1974 was up 3% in units but down 3% in dollars. Growth in the unit consumption of hosiery was due to increases in knee high hosiery and support pantyhose.

The overall growth in Hanes Corporation's hosiery sales came from *L'eggs*, which increased 13% and *Hanes*, which increased 6%. Sold primarily in supermarket and drug stores, *L'eggs* continues to be the largest seller in the United States; and *Hanes* is the Number 1 seller in department and specialty stores.

Most of the growth of *L'eggs* was the result of *Sheer Energy*, a light support pantyhose introduced in test market in the fall of 1972, and of *L'eggs* knee highs introduced in the spring of 1974. National rollout for *Sheer Energy* was completed with the opening of the New York market in August, 1974. National rollout of *L'eggs* knee highs was also completed in the fall of 1974. *Sheer Energy* is now the largest selling support hose in the United States and accounts for over 20% of total support sales (according to MRCA). *L'eggs* knee highs are now the largest selling brand of knee highs in drug stores and supermarkets.

The *Hanes* brand sales increased primarily because of a change in its distribution. The direct distribution to retailers of the *Hanes, Beauty Mist* and *May Queen* brands was increased from 35% to 60% of the country during 1974.

Beauty Mist, Today's Girl, 1st to Last, and *May Queen* hosiery brands had total sales of $21 million. They accounted for about 3% of total U. S. hosiery sales (MRCA figures).

The Corporation's private label hosiery sales decreased in 1974. Because private label volume gives stability to the hosiery manufacturing operation, renewed emphasis will be placed on this area in 1975.

UNDERWEAR—During the first quarter of 1974, sales of *Hanes* men's and boys' lightweight underwear were 11% higher than the first quarter of 1973. In the fourth quarter of 1974, sales were 47% behind the same quarter of 1973. The higher sales in the first quarter were caused by distributor and retail inventory buildup in anticipation of higher prices. The fourth quarter drop in sales resulted from inventories being reduced by retailers and distributors due to the high cost of money and flat consumer sales. Consumer purchases of men's lightweight underwear remained constant between 1973 and 1974, and Hanes' share of this market also remained constant at approximately 11% (MRCA figures).

Production of underwear was increased in the first part of 1974 to satisfy the increased demand. As sales decreased, inventory built rapidly. In September, production was reduced to 60% of capacity in an effort to keep inventories in line.

Although underwear sales were down slightly for all of 1974, profits were up over 1973 because of improved manufacturing efficiencies and price increases.

MEN'S SWEATERS AND KNIT SHIRTS—Demand was strong for both the *Pine State* and private label sweaters. Sales of sweaters exceeded $7 million for the first time. Sales volume of *Hanes* knit shirts increased to $4 million. Profits on both sweaters and shirts increased in 1974.

BRAS—Although total industry sales were down 7% in 1974, *Bali* sales declined only 4% (MRCA data on consumer purchases). *Bali* continued to be the largest selling bra brand in foundation departments of better stores.

Bra profits were adversely affected by the new *Sensuale* line. This lower-priced, fashion merchandise added less than expected sales volume and led to excessive inventory write-downs and manufacturing inefficiencies.

MANUFACTURING—During 1974, $4 million was spent on replacement and modernization of manufacturing equipment. This investment plus methods improvements led to improved productivity. Sales per employee increased 20% and sales per dollar of fixed assets increased 11%.

ADJUSTING PLANS—The rapidly changing economic and competitive situation caused many changes from Hanes Corporation's original 1974 plans:

When it was realized that sales were not going to increase as much as budgeted, planned expenditures for advertising and promotion were reduced $7 million.

As sales came in lower than budget, controlling inventories became a major problem. During the year, it became necessary to reduce production below normal capacity in hosiery, underwear, and bras.

Test marketing of new products scheduled for late 1974 was postponed. Economic uncertainty increased the risk associated with these new ventures and decreased the projectability of test market results.

The names shown in italics are trademarks of the operating units of Hanes Corporation.

Understanding Consumer Needs

Since its future is directly tied to the apparel industry, Hanes Corporation is developing a strong group of brand names for its products by application of disciplined consumer marketing techniques.

An effective marketing program rests upon an understanding of the ultimate consumer's specific needs. In 1974, Hanes Corporation spent more than $1.5 million researching consumer needs and identifying ones that were not being satisfactorily fulfilled. The following case history demonstrates the importance of research activities to Hanes Corporation.

- Sales of pantyhose are 34% lower in summer than in winter, and it was generally assumed that women preferred to go bare-legged during warm weather. Hanes had professional market researchers conduct in-depth interviews with several hundred women to probe the problem, and the results were surprising. Women said, in fact, they did want to continue to wear pantyhose during the summer months; but regular pantyhose were too hot and uncomfortable.

- As a result of these interviews, *Summer Sheer* was developed as an extension of the *Hanes* hosiery brand. It is a pantyhose produced by a special knitting process that provides coolness to the legs and is sheer from toe to waist. Consumer test groups said it definitely felt cooler than regular pantyhose and gave the dressed-up look they desired.

- With this qualitative information in hand, there remained the question of whether *Summer Sheer* would be purchased by large numbers of consumers. It was test marketed from May to August, 1974, in Baltimore, New Orleans, Houston, and San Diego. Television advertising introduced the product to consumers. Hosiery departments in stores were furnished with specially designed display trees decorated with cool, pastel-colored *Summer Sheer* packages.

- By late summer the results were in. Consumers had been attracted to buy. Stores had add-on business in a normally slow selling season. *Hanes* hosiery was introduced to new customers. Test market results proved that a negative consumer attitude could be turned into a positive advantage—simply by asking the consumer what she wanted and giving her a product that met her needs. *Summer Sheer* will be marketed nationally in 1975.

Consumer research has played a major role in the success of most of Hanes Corporation's branded products. The *L'eggs* hosiery program was developed after research done in 1968 showed that women would buy more of their hosiery in supermarkets if these outlets had a trusted national brand that was consistent in quality and always in stock. Because *L'eggs* fills these identified needs, it has enjoyed dramatic growth and accounted for 40% of Hanes Corporation's sales in 1974.

However, consumer needs do not remain static. Market research showed that knee high hosiery grew from 3% of the market in 1972 to 9% in 1973. Interviews with *L'eggs* users indicated that they liked knee high hosiery to wear under pants and they wanted a knee high that had a more comfortable elastic band. As a result, *L'eggs* added a knee high style with a wider, less binding elastic band. Knee highs were introduced into test markets in the spring of 1974 and now account for 25% of *L'eggs'* unit sales.


summer sheer
summer sheer

Communicating with the Consumer

The process of communicating with the consumer is a key element in Hanes Corporation's marketing approach. Knowing what the consumer wants and having the product to fill those wants are not enough. The product story must be effectively communicated to the prospective purchaser.

In 1974, Hanes Corporation spent $38 million communicating to its markets. $23 million was spent on media advertising, $12 million on sales promotion, and $3.0 million on point of sales and other materials. This total is significantly higher than that spent by most apparel companies, and the ratio of spending to sales is roughly comparable to cigarette, soap, and cosmetic companies.

The most prominent element of any communications program is advertising. Most people have seen at least one of Hanes Corporation's television commercials; the *L'eggs* girl striding, bending, stooping, dancing; the man in the elevator who exudes self-assurance because *Hanes* underwear makes him feel good "all under"; a woman wearing *Hanes* hosiery being admired by a man in the "Gentlemen Prefer *Hanes*" series; or Joe Namath's legs sporting *Beauty Mist* pantyhose.

Inside the stores, point-of-sale materials—counter cards, and display racks, such as the *L'eggs* boutique—reinforce the message of the TV commercials or magazine and newspaper ads.

The product's package is often the determining factor in the consumer's final decision to buy; so it, too, must communicate clearly and easily. In 1974 Hanes Corporation spent over $ 500,000 in design and, in some cases, redesign of product packaging to enhance consumer communication.

- The *L'eggs* egg was revolutionary in hosiery packaging because it not only reinforced the name but met other requirements of size and rigidity necessary for self-selection selling.
- Packaging of *Hanes* T-shirts, boxer shorts, and briefs was designed and color-keyed for immediate recognition.
- Vibrant colors and contemporary design help to emphasize *Hanes'* position as the highest quality of women's hosiery.
- *1st to Last* pantyhose are packaged in a small box shaped like the number "1" to reinforce the name.

Communication with the consumer is also reinforced through value-added and price-off promotions. Four pairs of *L'eggs* for $4—normally $1.39 each—has been highly successful in 1974 test markets. Purchasers of *May Queen* hosiery could buy a fold-up bicycle for half price. First prize in a *Beauty Mist* sweepstakes will be a tennis match with Bobby Riggs.

Advertising campaigns and promotions are pre-tested for effectiveness among consumers. New TV commercials are shown to focus groups to get their reaction. If results are positive, the commercials are run in test cities. Afterward, telephone calls to viewers determine the public's awareness of the commercial. Based on information from viewers, commercials are changed to improve effectiveness of their communication.

Beauty Mist had the problem of relatively low recognition by the consumer and, because of its size, a limited advertising budget. The solution was the "zany" but high-impact television commercial showing football star Joe Namath wearing and recommending *Beauty Mist* pantyhose. The commercial was shown in 1974 on the NBC Today and Tonight shows. Consumer surveys showed recognition of the *Beauty Mist* name jumped over 100% after the Namath commercial was run. A new television commercial featuring a bank robber wearing a *Beauty Mist* pantyhose mask will be run in 1975.

Communicating with the consumer is a key element in Hanes Corporation's total selling approach. In 1974, $16.5 million was spent on consumer communications.

Monitoring Consumer Reactions

The disciplined marketing approach requires not only careful attention to planning, but equal attention to control. All branded programs at Hanes Corporation are constantly monitored and adjusted to meet changes in consumers' reactions.

The following examples indicate the role played by this element of the marketing approach:

- To detect major changes in consumer attitudes toward hosiery, Hanes Corporation developed its own early warning system. Bi-weekly telephone interviews are conducted with 250 women across the United States—a total of 6,000 women each year. The interviews are expected to detect such things as changes in the frequency of hosiery purchases and changes in frequency of wearing pants or dresses. By obtaining early warning of changing forces in the market, forecasts and marketing plans can be altered.
- The need to know quickly what is being sold across retail counters has led to the development of two innovative systems. These automatically monitor retail sales and indicate reorders needed to replenish merchandise in the store. The system for *Bali* bras is called AIM (Automatic Inventory Management). It has been in operation for two years, and nearly 60% of *Bali* sales volume is on the AIM system. A similar merchandising system for *Hanes* hosiery was put into key accounts in 1974. Essentially both systems provide information on what styles, sizes, and colors consumers are buying. This helps both the retailer and Hanes Corporation make more effective use of their inventories.
- When *L'eggs* knee highs were put into test market in 1974, consumer purchases of both knee highs and regular *L'eggs* styles were monitored. If every sale of knee highs meant one less sale of regular *L'eggs*, knee highs would have been an unprofitable trade-off. Test market results, however, showed that the consumer would buy knee highs in quantity and that knee highs were approximately 60% add-on sales for the *L'eggs* brand. Consequently, *L'eggs* knee highs were rolled-out nationally in the fall of 1974.

Test marketing is an important tool for testing the initial reactions of consumers to a new product and for monitoring their continued acceptance of that product over an extended period of time. A single test will extend at least 6 to 12 months and will cost at least $500,000. However, Hanes Corporation considers such costs to be "investment spending" because the test results can be measured against predetermined goals and, if the results do not measure up, the major losses of a full-scale national introduction are avoided. In 1974, Hanes Corporation spent $2.3 million on "investment spending" projects. There are several new products currently in test market. These range from women's hosiery products to non-hosiery apparel products for both men and women.


KNEE HIGHS

Responding to Consumer Reactions

The information gathered by the monitoring process frequently leads to greater understanding of the consumer's wants and needs. As a result, individual branded programs are constantly evolving. The *Hanes* men's underwear brand is a prime example of the evolutionary improvements which result from a disciplined approach to this evolution.

The *Hanes* name has been an extremely valuable asset in men's underwear sales since the early days of the "union suit"—three quarters of a century ago. But despite style changes, manufacturing innovations, and changes in selling techniques, there had been no major increases in *Hanes'* share of the underwear market. *Hanes* had high brand loyalty—but so did its major competitors.

In 1973, research was begun to determine how a breakthrough could be achieved. It was found that, although regular *Hanes* underwear customers knew what to look and ask for, *Hanes'* packaging was not distinctive enough to attract the casual shopper. In fact, the packaging was even confusing to the regular *Hanes* user. On some packages the *Hanes* logo was too small to be noticeable; on others it was overshadowed by another name denoting a particular style or sub-brand. All of this created clutter and made the consumer's purchase decision more difficult.

Consequently by 1974, the packaging of the entire *Hanes* line was changed. All existing styles and sub-brands were put under the umbrella of the *Hanes* name. The *Hanes* logo was given prime emphasis and was placed boldly in the center of all packaging. The shape of the garment—T-shirt, athletic shirt, brief, boxer or thermal—was silhouetted through clear plastic so the product could be immediately identified. Finally, all packages were color-keyed to further speed consumer recognition—red for 100% cotton, blue for blended yarns, green for thermal, black for fashion items, and gold for special athletic shirts. After testing, the new package and coordinated display racks were ready for national introduction at year-end.

Another example of how programs are modified because of consumer reaction can be illustrated by *1st to Last* pantyhose. Introduced in 1973, the product was positioned as a durable, moderately priced pantyhose, ideal for "everyday" use by the budget-conscious shopper. In test markets, the advertising and promotion plans were comparable to other major package goods brands.

In follow-up interviews with consumers the logo, package, and point-of-sale displays were found to be too heavy and unfeminine. All of these were revised to make them lighter and more appealing while retaining the price-value image.

It was also discovered that sales of the *1st to Last* brand were highly sensitive to price-off promotions. So spending plans were revised to emphasize promotions rather than advertising. Markets opened since these 1974 revisions have shown improved consumer acceptance and sales results.


1 for $1.5
Hanes
T-SHIRT
Hanes

Financial Review

The comments in the Financial Review refer to data in this section and in the 10-Year Summary of Operations on Pages 14 and 15.

Sales

In both 1973 and 1974, growth in total sales was attributable to sales of women's hosiery, which increased 21% and 8%, respectively. *L'eggs* brand had the largest increases going from $75 million in 1972 to $103 million in 1973, and to $116 million in 1974. Comparative sales by product group are:

(In Millions)

Product Group	1974	1973	1972	1971	1970
Women's Hosiery	**$188**	$173	$143	$110	$114
Knitwear Products	**72**	73	74	66	63
Foundation Garments	**29**	30	28	—*	—*
	$289	$276	$245	$176	$177

*Prior to 1972, sales of foundation garments were not consolidated into Hanes Corporation's sales. In both 1970 and 1971, foundation sales were $25 million.

Gross Profit

Gross profit increased 8%, or $8.6 million, in 1974 and 27%, or $22.3 million, in 1973. These increases result from a combination of higher sales and higher gross margins, which rose from 34.2% in 1972 to 38.4% in 1973 and 39.7% in 1974.

Margin percentages were improved by sales mix—a larger proportion of total sales in the *L'eggs* and *Hanes* hosiery brands—by price increases on non-hosiery products, and by higher manufacturing efficiency. These improvements offset the impact of cost increases in labor, fringe benefits, and raw materials costs. For example, average cotton costs increased from 31¢ per pound in 1973 to 55¢ per pound in 1974; *L'eggs'* styrene eggs rose 250%; utility costs rose 96%.

Although most inflationary factors are expected to persist in 1975, major raw materials costs are expected to stabilize or decline. For example, once present commitments for cotton are consumed in the first half, Hanes Corporation will benefit from lower cotton prices (now 38¢ per pound).

Advertising and Promotion Expenses

1974 expenses were $38.2 million—a decline of $2.4 million from 1973. This reduction was made possible because the national rollouts of *L'eggs* and the new *Hanes* hosiery programs were completed in 1973. (In 1973, advertising and promotion costs increased $12.2 million, or 43%, over the prior year.)

Although advertising and promotion expenses are budgeted at $42 million for 1975, the general economic climate and sales performance to date dictate a conservative approach to commitments of this magnitude.

Selling, Distribution, Administrative Expenses and Other

The $9.2 million increase in 1974 and the $7.7 million increase in 1973 are primarily due to changes in distribution. During these years, the *L'eggs* hosiery brand completed its move to national distribution, and the number of markets served by *1st to Last* were increased.

Also, the *Hanes*, *Beauty Mist*, and *May Queen* hosiery brands increased their area of direct distribution from 35% of the country at the end of 1972 to approximately 60% in 1974. The costs associated with this move were more than offset by the mark-ups previously paid independent distributors to service these same areas.

The impact of inflation, particularly on payroll, freight, and gasoline, also had its effect.

Miscellaneous items included as "other" were a loss of $3,000 in 1972, income of $680,000 in 1973 and $704,000 in 1974. The income was primarily from sales of excess assets, short-term cash investments, and royalties.

Write-Off of Goodwill

$14,275,000 of goodwill—cost in excess of net assets acquired—was written off in 1974. $11,064,000 related to the acquisition of Bali and $3,059,000 to the acquisition of Pine State Knitwear Co. The remaining $152,000 was goodwill from purchase of the *Today's Girl* hosiery brand. The write-offs were taken in recognition that these units should not

Write-Off of Goodwill — Continued

currently be valued at more than their tangible book value. These write-offs remove all goodwill from Hanes Corporation's balance sheet.

Interest and Debt

Interest costs were up 40% in 1974 and 13% in 1973 due to higher interest rates and higher levels of borrowings. The average interest rate paid by Hanes Corporation increased from 7.2% in 1972 to 8.9% in 1973, and to 9.9% in 1974. Year-end debt levels increased from $47 million in 1972 to $55 million in 1973, and to $66 million in 1974. Borrowings have been increased to finance additional working capital to support increased sales.

Debt is expected to be reduced in 1975 by the reduction of inventories and by retained earnings. It was reduced by $6 million in the month of January, 1975. Interest costs are expected to decline in 1975 due to lower borrowings and to lower rates.

Taxes

The effective income tax rate decreased from 39.9% in 1972 to 39.6% in 1973, and to 34.8% before the goodwill write-off in 1974. The lower 1974 tax rate resulted primarily from tax-exempt manufacturing operations in Puerto Rico generating a larger share of earnings. The tax savings from tax-exempt earnings were $1,351,000 in 1973 and $1,666,000 in 1974. Investment tax credits were $375,000 in 1973 and $350,000 in 1974.

Earnings

Before the $14.3 million write-off of goodwill, 1974 earnings after tax were $10.1 million. This was an 8% increase over 1973. Net earnings increased 14% in 1973 over 1972. In 1973 and 1974, net earnings (before write-offs) increased because of higher sales, higher gross profit margins, and lower effective tax rates. These increases were partially offset by higher operating expenses and interest.

The $14.3 million write-off caused a $4.1 million net loss in 1974. The net loss per share was $1.01. Without the write-off, 1974 earnings per share would have been $2.47. Earnings per share were $2.20 in 1973.

During 1974 Hanes Corporation purchased 130,000 of its own shares for an average price of $8.36. The effect of these purchases was to increase 1974 earnings per share before the write-off by five cents. Hanes Corporation may continue to purchase its own shares as blocks become available.

Receivables

Receivables of $32.4 million at year-end were down from $35.3 million in 1973. Receivable turnover increased from 7.8 times to 8.9 times in 1974.

Inventories

Because sales did not materialize at expected levels, inventory turns slowed from 4.0 times in 1973 to 3.4 times in 1974. Particularly in the latter part of 1974, manufacturing was reduced to lower than optimum operating levels. Production cuts are being continued in 1975 and can be expected to result in lower inventories but also lower profits in the first half.

Much of the excess inventory is in the major selling styles of underwear, hosiery, and bras. Obsolete and non-selling inventory has been written down to realizable values. In 1974 the inventory write-downs were $1,300,000, much of which was related to the *Sensuale* bra line.

Consideration has been given to switching to a LIFO (last-in, first-out) method of valuing inventory. The change was not made in 1974 because there would have been no significant tax savings.

Property, Plant, and Equipment

In 1974 the net book value of Hanes Corporation's fixed assets was down from $61.7 million to $57.9 million. This was due to capital expenditures of $6.9 million being $1.3 million less than depreciation and to $2.5 million in disposal of assets. Although not committed, capital expenditures are currently budgeted at $8.8 million for 1975.

Shareowners' Equity

The $4.1 million loss, which included the write-off of $14.3 million of goodwill, in 1974 reduced total equity to $90.3 million, or $22.27 per share, compared to $98.1 million, or $23.43 per share, in 1973.

Ten-Year Summary

In Thousands of Dollars Except for Share Amounts

	1974	1973
Net sales	**$288,765**	$275,883
Gross profit	**114,579**	105,959
As percent of sales	**39.7%**	38.4%
Advertising expenses	**$ 38,167**	$ 40,605
Selling, distribution, administrative expenses and other	**54,425**	45,211
Interest expense	**6,448**	4,602
Earnings before taxes and write-off	**15,539**	15,541
Write-off of goodwill	**(14,275)**	—
Earnings before income taxes and extraordinary item	**$ 1,264**	$ 15,541
As percent of sales	**5.4%** (1)	5.6%
Provision for income taxes	**$ 5,400**	$ 6,150
Effective tax rate	**34.8%** (1)	39.6%
Earnings (loss) before extraordinary item	**$ (4,136)**	$ 9,391
As percent of sales	**3.5%** (1)	3.4%
Extraordinary item—net of applicable taxes	**—**	—
Net earnings (loss)	**$ (4,136)**	$ 9,391
Earnings (loss) per common share (based on average outstanding):		
From operations	**$ (1.01)** (2)	$ 2.20
Extraordinary item	**—**	—
Total	**$ (1.01)**	$ 2.20
Dividend per share	**$ .62**	$ .60
Price range of stock	**$ 10⅞-6**	$ 18¾-8
Price earnings ratio at year end	**2.5** (1)	4.1
Current assets	**$123,257**	$109,280
Current liabilities	**21,594**	26,995
Working capital	**101,663**	82,285
Receivable turnover	**8.9**	7.8
Inventory turnover	**3.4**	4.0
Plant and equipment expenditures	**$ 6,941**	$ 7,700
Plant and equipment (net)	**57,946**	61,662
Total assets	**183,008**	187,056
Total assets turnover	**1.6**	1.5
Total funds borrowed	**$ 66,157**	$ 55,045
Percent of total funds borrowed to equity	**73.2%**	56.1%
Shareowners' equity	**$ 90,330**	$ 98,089
Equity per common share	**22.27**	23.43
Net earnings before extraordinary item as percent of equity	**11.2%** (1)	9.6%
Common shares outstanding (average)	**4,098,003**	4,273,318
Shareowners (at December 31)	**6,100**	5,566
Employees	**12,381**	14,200

(1) Excluding $14,275,000 write-off of goodwill.
(2) Earnings per share were $2.47 excluding $14,275,000 write-off of goodwill.

1972	1971	1970	1969	1968	1967	1966	1965
$244,648	$176,081	$177,138	$156,932	$145,356	$130,526	$121,221	$113,483
83,639	46,664	40,917	32,678	36,366	29,687	30,747	29,003
34.2%	26.5%	23.1%	20.8%	25.0%	22.7%	25.4%	25.6%
$ 28,369	$ 14,990	$ 10,569	$ 7,273	$ 6,935	$ 5,717	$ 5,498	$ 4,916
37,500	21,120	16,995	14,586	11,137	8,413	6,275	6,274
4,063	3,945	4,395	3,492	1,313	1,093	670	429
13,707	6,609	8,958	7,327	16,981	14,464	18,304	17,384
—	—	—	—	—	—	—	—
$ 13,707	$ 6,609	$ 8,958	$ 7,327	$ 16,981	$ 14,464	$ 18,304	$ 17,384
5.6%	3.8%	5.1%	4.7%	11.7%	11.1%	15.1%	15.3%
$ 5,470	$ 3,149	$ 4,458	$ 3,190	$ 8,699	$ 6,679	$ 8,787	$ 8,263
39.9%	47.6%	49.8%	43.5%	51.2%	46.2%	48.0%	47.5%
$ 8,237	$ 3,460	$ 4,500	$ 4,137	$ 8,282	$ 7,785	$ 9,517	$ 9,121
3.4%	2.0%	2.5%	2.6%	5.7%	6.0%	7.9%	8.0%
—	—	$ 1,196	$ (1,055)	—	—	—	—
$ 8,237	$ 3,460	$ 5,696	$ 3,082	$ 8,282	$ 7,785	$ 9,517	$ 9,121
$ 1.92	$ .89	$ 1.16	$ 1.07	$ 2.13	$ 2.01	$ 2.45	$ 2.31
—	—	.31	(.27)	—	—	—	—
$ 1.92	$ .89	$ 1.47	$ .80	$ 2.13	$ 2.01	$ 2.45	$ 2.31
$ .50	$ .50	$ .50	$ .90	$ .90	$ .90	$ .90	$ .825
$22⅜-16	$22⅝-13½	$19½-9½	$44¼-14¼	$48¾-23⅛	$28⅜-19½	$31-18⅜	$ —
9.4	18.0	16.4	14.1	21.0	11.6	7.9	—
$ 90,642	$ 83,417	$ 73,082	$ 72,092	$ 64,985	$ 58,581	$ 50,296	$ 41,772
36,457	29,880	37,684	55,618	31,257	28,066	19,574	14,975
54,185	53,537	35,398	16,474	33,728	30,515	30,722	26,797
8.3	6.8	6.1	6.1	6.6	5.5	5.0	6.3
4.5	4.3	4.5	3.7	3.8	4.5	5.1	5.5
$ 8,705	$ 6,561	$ 6,092	$ 8,345	$ 7,863	$ 10,970	$ 7,378	$ 6,729
62,310	61,634	53,486	53,691	50,206	47,524	42,318	39,309
169,662	162,799	144,880	142,091	116,521	108,416	95,506	84,554
1.4	1.2	1.2	1.1	1.2	1.2	1.3	1.3
$ 47,079	$ 54,376	$ 44,679	$ 49,054	$ 23,000	$ 19,875	$ 11,750	$ 8,496
51.0%	63.1%	57.7%	67.2%	31.3%	29.0%	18.3%	14.5%
$ 92,297	$ 86,186	$ 77,452	$ 72,990	$ 73,401	$ 68,612	$ 64,320	$ 58,447
21.51	20.09	19.96	18.81	18.91	17.68	16.57	15.03
8.9%	4.0%	5.8%	5.7%	11.3%	11.3%	14.8%	15.6%
4,290,518	3,880,884	3,880,884	3,880,884	3,880,884	3,880,884	3,887,331	3,944,632
5,226	6,034	4,321	3,153	2,856	3,349	3,241	—
13,718	13,018	10,165	10,809	11,500	11,900	10,518	10,192

Statement of Financial Position

Hanes Corporation and Consolidated Subsidiaries
December 31, 1974 and December 31, 1973

Assets		1974	1973
Current Assets			
	Cash	$ 996,000	$ 1,171,000
	Certificates of deposit	5,666,000	2,872,000
	Trade accounts receivable, less allowances of $1,646,000 in 1974 and $1,621,000 in 1973	32,355,000	35,314,000
	Inventories:		
	Finished products	54,833,000	43,458,000
	Products in process	15,433,000	12,009,000
	Materials and supplies	13,519,000	14,037,000
		83,785,000	69,504,000
	Prepaid expenses	455,000	419,000
	Total Current Assets	123,257,000	109,280,000
Investments and Other Assets		1,805,000	1,047,000
Property, Plant and Equipment	Land	1,312,000	1,531,000
	Buildings	44,210,000	45,074,000
	Machinery and equipment	72,107,000	77,036,000
		117,629,000	123,641,000
	Less allowances for depreciation	59,683,000	61,979,000
		57,946,000	61,662,000
Goodwill—Note E		—	15,067,000
		$183,008,000	$187,056,000

Liabilities and Shareowners' Equity		1974	1973
Current Liabilities			
	Trade accounts payable	$ 7,946,000	$ 14,225,000
	Accrued expenses	9,827,000	9,948,000
	Taxes on income	2,064,000	2,736,000
	Current portion of long-term debt	1,757,000	86,000
	Total Current Liabilities	21,594,000	26,995,000
Long-Term Debt	less portion classified as current liability—Note B	64,400,000	54,959,000
Other Liabilities			
	Deferred income taxes	5,603,000	5,776,000
	Deferred compensation	1,081,000	1,237,000
		6,684,000	7,013,000
Shareowners' Equity			
	Common Stock, par value $1 per share: Authorized 20,000,000 shares Issued 4,291,517 shares (including 235,800 and 105,800 shares in treasury in 1974 and 1973, respectively)	4,292,000	4,292,000
	Additional paid-in capital	10,768,000	10,768,000
	Retained earnings—Note B	77,390,000	84,062,000
		92,450,000	99,122,000
	Less cost of Common Stock in treasury	2,120,000	1,033,000
	Total Shareowners' Equity	90,330,000	98,089,000
Contingencies—Note H			
		$183,008,000	$187,056,000

See notes to financial statements.

Statement of Earnings

Hanes Corporation and Consolidated Subsidiaries
Years ended December 31, 1974 and December 31, 1973

		1974	1973
Earnings From Operations	Net sales	$288,765,000	$275,883,000
	Cost of products sold	174,186,000	169,924,000
		114,579,000	105,959,000
	Advertising and promotion expenses	38,167,000	40,605,000
	Selling and administrative expenses	55,129,000	45,891,000
		93,296,000	86,496,000
	Earnings from operations	21,283,000	19,463,000
Earnings Before Income Taxes	Other income (deductions):		
	Interest expense	(6,448,000)	(4,602,000)
	Miscellaneous—net	704,000	680,000
		15,539,000	15,541,000
	Write-off of goodwill—Note E	(14,275,000)	—
	Earnings before income taxes	1,264,000	15,541,000
Income Taxes	Provision for income taxes—Note D		
	Currently payable	5,573,000	6,321,000
	Deferred (credit)	(173,000)	(171,000)
	Total income taxes	5,400,000	6,150,000
Net Earnings	Net earnings (loss)	$ (4,136,000)	$ 9,391,000
Net Earnings (Loss) Per Common Share Note G		$ (1.01)	$2.20

See notes to financial statements.

Statement of Shareowners' Equity

Hanes Corporation and Consolidated Subsidiaries
Years ended December 31, 1974 and December 31, 1973

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
Balance at January 1, 1973	$4,292,000	$10,768,000	$77,237,000	$ —	$92,297,000
Net earnings			9,391,000		9,391,000
Cash dividends—$.60 per share			(2,566,000)		(2,566,000)
Purchase of Company's Common Stock				(1,033,000)	(1,033,000)
Balance at December 31, 1973	4,292,000	10,768,000	84,062,000	(1,033,000)	98,089,000
Net loss			(4,136,000)		(4,136,000)
Cash dividends—$.62 per share			(2,536,000)		(2,536,000)
Purchase of Company's Common Stock				(1,087,000)	(1,087,000)
Balance at December 31, 1974	$4,292,000	$10,768,000	$77,390,000	$(2,120,000)	$90,330,000

See notes to financial statements.

Statement of Changes in Financial Position

Hanes Corporation and Consolidated Subsidiaries
Years ended December 31, 1974 and December 31, 1973

		1974	1973
Sources of Funds	Net earnings (loss)	**$(4,136,000)**	$ 9,391,000
	Add (deduct) items not affecting working capital in the current period:		
	Provision for depreciation	**8,197,000**	7,995,000
	Provision for deferred income taxes and deferred compensation	**(329,000)**	(66,000)
	Amortization of debt discount and expense	**191,000**	210,000
	Write-off and amortization of goodwill	**14,275,000**	60,000
	Equity in undistributed earnings of unconsolidated subsidiary	**(46,000)**	(18,000)
	Funds Provided From Operations	**18,152,000**	17,572,000
	Proceeds from disposal of property items sold, less gains	**2,460,000**	672,000
	Long-term borrowings	**11,000,000**	27,000,000
	Changes in other assets	**55,000**	293,000
	Total Funds Provided	**31,667,000**	45,537,000
Uses of Funds	Cash dividends paid	**2,536,000**	2,566,000
	Additions to property, plant and equipment	**6,941,000**	7,700,000
	Reductions of long-term debt	**1,725,000**	6,036,000
	Assets of joint venture acquired, excluding net current assets of $813,000	**—**	568,000
	Purchase of Company's Common Stock	**1,087,000**	1,033,000
	Total Funds Used	**12,289,000**	17,903,000
	Increase in Working Capital	**$19,378,000**	$27,634,000
Changes in Working Capital	Increase (decrease) in current assets:		
	Cash	**$ 2,619,000**	$(2,221,000)
	Receivables	**(2,959,000)**	5,686,000
	Inventories	**14,281,000**	14,754,000
	Prepaid expenses	**36,000**	(47,000)
		13,977,000	18,172,000
	Increase (decrease) in current liabilities:		
	Notes payable	**—**	(8,650,000)
	Trade accounts payable	**(6,279,000)**	3,471,000
	Accrued expenses	**(121,000)**	1,613,000
	Taxes on income	**(672,000)**	(1,382,000)
	Current portion of long-term debt	**1,671,000**	(4,514,000)
		(5,401,000)	(9,462,000)
	Increase in Working Capital	**$19,378,000**	$27,634,000

See notes to financial statements.

Notes to Financial Statements

Hanes Corporation and Consolidated Subsidiaries
December 31, 1974

Note A—Summary of Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of all wholly-owned subsidiaries. Significant intercompany accounts and transactions have been eliminated. Investment in a 51%-owned company whose operation is unrelated to the Company is accounted for by the equity method.

Inventories. Inventories are stated at the lower of cost (first-in, first-out method) or market.

Property and Depreciation. Land, buildings, machinery and equipment are carried at cost. Depreciation is computed principally by the straight-line method for financial reporting and accelerated methods for tax reporting. Leasehold improvements are being amortized on a straight-line basis over the life of the leases or the useful life of the improvements, whichever is shorter.

Debt Discount and Expenses. Debt discount and expenses incurred in connection with the issuance of long-term debt have been deferred and are being amortized by the bonds outstanding method as charges to income over the life of the debt.

Research and Development. Research and development costs related to both present and future products are charged to operations as incurred.

Advertising and Promotion. Advertising and promotion costs are charged to operations as incurred.

Income Taxes. Deferred income taxes are provided for timing differences between financial and tax reporting principally relating to depreciable assets and inventories.

The earnings of several subsidiaries operating in Puerto Rico are not expected to be subject to United States income taxes except to the extent paid out as dividends. There is no present intent to pay such dividends and no tax has been provided.

Investment tax credits are accounted for by the flow-through method.

Pension Plans. Pension costs are computed and accrued by the entry age normal method and include amortization of prior service costs over a 30-year period. The Company's policy is to fund pension costs accrued.

Note B—Long-Term Debt

Long-term debt at December 31	1974	1973
Bank term and revolving credit loans (1)	**$38,000,000**	$27,000,000
Insurance company notes (2)	**23,895,000**	23,729,000
Mortgage notes, interest at 6⅜%, maturing in annual installments of $198,000, including interest, to 1996, collateralized by deed of trust on manufacturing and warehouse facility in Jersey City, New Jersey	**2,303,000**	2,352,000
Note to former shareowner of Bali, 6% interest, maturing in 1975	**1,350,000**	1,350,000
Obligations under lease-purchase agreements and other	**609,000**	614,000
	66,157,000	55,045,000
Less portion classified as current liability	**1,757,000**	86,000
	$64,400,000	$54,959,000

(1) On April 24, 1973, the Company executed a credit agreement with five banks for $50,000,000 revolving credit and term loans. The initial term loans of $20,000,000 (proceeds of $15,000,000 were used to retire existing bank indebtedness) bear interest at 130% of prime rate, not to exceed 9.9% and mature in varying quarterly installments commencing June 30, 1976 to March 31, 1983, with a final payment on June 30, 1983. Revolving credit notes of $30,000,000 bearing interest at prime rate to ¼ of 1% over prime rate, may be converted to term notes on March 31,

Note B—Long-Term Debt—Continued

1977. These term notes will bear interest at ½ of 1% over prime rate and, commencing June 30, 1977, will be repayable as the initial term notes. The Company will pay commitment fees of ½ of 1% on the unused amount of the commitments until March 31, 1977 and is subject to certain required prepayments on the loans if the Company sells for cash any Common Stock or convertible securities at any time prior to June 30, 1977 or reaches specified levels of earnings thereafter.

(2) Principal amount of $25,000,000 less unamortized discounts of $1,105,000 and $1,271,000 at December 31, 1974 and 1973, respectively. Interest is 8½% with required annual prepayments of $2,500,000 from 1977 to 1986.

Maturities of long-term debt during the five years ending December 31, 1979 are as follows: 1975—$1,757,000; 1976—$1,221,000; 1977—$5,000,000; 1978—$5,801,000; and 1979—$6,438,000.

Among other things, the agreements relating to the above long-term financing place certain restrictions upon further borrowings, leases, sale of assets and the payment of cash dividends and require a minimum amount of working capital and net worth. Retained earnings free of such restrictions at December 31, 1974 and 1973 amounted to $3,000,000 and $4,690,000, respectively.

Note C—Pension Plans

The Company and certain subsidiaries have pension plans covering all employees who qualify as to age and length of service. The total pension expense was $1,337,000 in 1974 and $1,329,000 in 1973. Recently enacted pension plan legislation is not expected to have a significant effect on the cost of the plan.

Note D—Income Taxes

The reasons for the difference between total tax expense and the amount computed by applying the statutory federal income tax rate of 48% to income before income taxes are as follows:

	1974	1973
48% of pre-tax earnings	**$ 607,000**	$7,460,000
Effect of non-deductible write-off of goodwill	**6,852,000**	—
	7,459,000	7,460,000
State and local income taxes, net of Federal tax benefit	**338,000**	416,000
Effect of tax benefits from subsidiaries operating in Puerto Rico	**(1,666,000)**	(1,351,000)
Investment tax credit	**(350,000)**	(375,000)
Other items	**(381,000)**	—
	$5,400,000	$6,150,000

Under exemptions expiring from 1976 to 1989, certain subsidiaries doing business in Puerto Rico are not required to pay Puerto Rican income taxes. The cumulative amount of undistributed earnings of subsidiaries operating in Puerto Rico on which the Company has not recognized income taxes was approximately $8,600,000 at December 31, 1974.

Note E—Goodwill

Goodwill was reduced in the amount of $792,000 in 1974 to reflect adjustments relating primarily to the initial acquisition cost of a subsidiary. Management of the Company decided that the remaining goodwill had no continuing value at

Notes to Financial Statements

Note E—Goodwill—Continued

December 31, 1974 and, accordingly, charged the goodwill to current year's earnings. Previously, goodwill relating to acquisitions after October 31, 1970 was being amortized over a 40-year period in the amount of $60,000 per year. Other goodwill was not being amortized.

Note F—Capital Stock

In 1967, the Company adopted a qualified stock option plan under which options may be granted for 200,000 shares of Common Stock. The option price is the fair market value of the shares at the time the option is granted. Options become exercisable in cumulative annual installments of 33⅓% commencing one year from the date of grant and expire five years after the date of grant.

Option activity for 1974 and 1973 is summarized as follows:

	Shares	Price Per Share		
Options outstanding January 1, 1973	109,162	$10.69	to	$38.63
Granted in 1973	40,550	8.75	to	15.75
Cancelled or expired	(32,226)	11.34	to	38.63
Options outstanding December 31, 1973	117,486	8.75	to	29.56
Granted in 1974	35,455	9.19		
Cancelled or expired	(23,974)	9.19	to	29.56
Options outstanding December 31, 1974	128,967	8.75	to	21.13

At December 31, 1974 and 1973, shares available for grant under the 1967 plan were 69,498 shares and 80,979 shares, respectively, and options were exercisable for 64,019 shares and 61,248 shares, respectively.

On April 30, 1974, the shareowners approved a supplemental stock option plan under which options may be granted for an additional 200,000 shares of common stock. The option price at which shares may be purchased shall be not less than 85% of the fair market value of such shares on the date on which the option is granted. Options become exercisable in cumulative annual installments of 33⅓% commencing one year from the date of grant and expire five years after the date of grant. No options were granted under the 1974 Plan during the year ended December 31, 1974.

Warrants issued with the insurance company notes provide for the purchase of 282,971 shares of the Company's Common Stock at $17.81 per share, subject to adjustment, at any time up to and including March 1, 1980.

The charter of the Company authorized 200,000 shares of Preferred Stock at $100 par value and provides for the Board of Directors to fix the preferences, limitations and relative rights of these shares.

Note G—Earnings Per Common Share

Earnings per common share are calculated on the average shares outstanding during each year. Options and warrants outstanding have been excluded from the computation since they are anti-dilutive.

Note H—Contingencies

On March 15, 1974, a former hosiery distributor of the Company instituted an action for alleged wrongful termination and antitrust offenses seeking damages which after trebling would total $16,470,000. In addition, a competitor of the Company instituted an action on January 23, 1975 for alleged antitrust offenses and unfair competition based on acts primarily related to the Company's earlier suit against it for deceptive advertising and unfair competition. Management and legal counsel believe the ultimate resolution of such suits will result in no significant effect on the Company's financial position.

Notes to Financial Statements

Note I—Leases

Total rental expense for all leases amounted to:	1974	1973
Minimum rentals	$5,773,000	$4,785,000
Sublease income	(768,000)	(593,000)
	$5,005,000	$4,192,000

The future minimum rental commitments as of December 31, 1974 for all noncancellable leases are as follows:

	Total	Real Estate	Machinery and Equipment	Vehicles	Sublease Rentals
1975	$ 3,582,000	$ 2,276,000	$ 779,000	$1,309,000	$ (782,000)
1976	2,890,000	1,924,000	457,000	1,045,000	(536,000)
1977	2,433,000	1,656,000	409,000	762,000	(394,000)
1978	1,781,000	1,408,000	347,000	292,000	(266,000)
1979	1,368,000	1,258,000	153,000	—	(43,000)
1980 - 1984	4,140,000	4,154,000	—	—	(14,000)
1985 - 1989	2,402,000	2,402,000	—	—	—
1990 - 1994	—	—	—	—	—
	$18,596,000	$15,078,000	$2,145,000	$3,408,000	$ (2,035,000)

Accountant's Report

To the Board of Directors, Hanes Corporation

We have examined the statement of financial position of Hanes Corporation and Consolidated Subsidiaries as of December 31, 1974 and 1973, and the related statements of earnings, shareowners' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Hanes Corporation and Consolidated Subsidiaries as of December 31, 1974 and 1973, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Winston-Salem, N. C.
February 17, 1975

Ernst & Ernst

Stock Activity and Dividend

Hanes Corporation's common stock is traded on the New York Stock Exchange. A summary of price ranges, dividends and earnings per share (EPS) by quarter is shown below:

	1974			1973		
	Price Range	EPS	Dividend	Price Range	EPS	Dividend
First Quarter	10⅞-8⅝	$ .56	$.15	18¾-13	$ .49	$.15
Second Quarter	9-7⅝	.61	.15	16-11⅝	.50	.15
Third Quarter	8⅞-6	.52	.15	14¾-11⅛	.49	.15
Fourth Quarter	7⅜-6	(2.73)(1)	.17	14- 8	.72	.15
Year	10⅞-6	$(1.01)(1)	$.62	18¾- 8	$2.20	$.60

(1) Without the $14,275,000 write-off of goodwill in 1974, earnings per share would have been 78 cents in the fourth quarter, and $2.47 for the year.

Officers

Gordon Hanes
Chairman of the Board

Robert E. Elberson
President and Chief Executive Officer

Paul Fulton, Jr.
Vice President

David E. Harrold
Vice President

Jack R. Hobert
Vice President

J. Frank King
Vice President–Research and Development

John B. McKinnon
Vice President–Finance and Treasurer

William J. Nightingale
Vice President

Charles Y. Lackey
Secretary and General Counsel

Louise Barrier
Assistant Secretary

Board of Directors

Gordon Hanes
Chairman, Board of Directors

Mrs. Betsy Talbot Blackwell
Formerly, Editor-in-Chief, *Mademoiselle* Magazine
(Publishing)

Roger S. Carlson
Senior Vice President
Crown Zellerbach Corporation
(Paper Products)

Robert E. Elberson
President & Chief Executive Officer

Robin L. Hinson
Senior Vice President,
General Counsel & Secretary
Cameron Financial Corp.
(Banking & Finance)

Myles L. Mace
Professor Emeritus,
Graduate School of
Business Administration,
Harvard University

John G. Medlin, Jr.
President,
Wachovia Bank & Trust Company, N.A.
(Banking)

Clifford W. Perry
Consultant to the Corporation

William S. Smith
Vice Chairman of the Board
R. J. Reynolds Industries, Inc.
(Tobacco, food, petroleum products & shipping)

General Offices

2000 West First Street
Post Office Box 5416
Winston-Salem, North Carolina 27103

Operating Units

Hanes Hosiery, Inc.
Jack R. Hobert, President

Hanes Knitwear
David E. Harrold, President

L'eggs Products, Inc.
Paul Fulton, Jr., President

The Bali Company, Inc.
William J. Nightingale, President

Pine State Knitwear Company
Lindsay Holcomb, Jr., President

Accountants

Ernst & Ernst
2015 Wachovia Building
Winston-Salem, North Carolina 27101

Transfer Agent and Registrar

Wachovia Bank and Trust Company, N.A.
Winston-Salem, North Carolina 27102

Exchange Listing

New York Stock Exchange
(Ticker Symbol "HNS")

Hanes Corporation
Post Office Box 5416
Winston-Salem, N. C. 27103

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Hanes Corporation

Annual Report 1975

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Chairman of the Board

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Vice President

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Vice President

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Crown Zellerbach Corporation
(Paper Products)

Robert E. Elberson
President & Chief Executive Officer

Robin L. Hinson
Senior Vice President,
General Counsel & Secretary
First Union Corporation
(Banking & Finance)

Albert M. Kronick
Consultant to
Management Groups

Myles L. Mace
Professor Emeritus,
Graduate School of
Business Administration,
Harvard University

John G. Medlin, Jr.
President,
Wachovia Bank & Trust Company, N. A.
(Banking)

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Vice Chairman of the Board
R. J. Reynolds Industries, Inc.
(Tobacco, food, petroleum
products & shipping)

Financial Highlights	1975	1974
Net Sales	$314,790,000	$288,765,000
Earnings Before Write-off of Goodwill	$ 10,619,000	$ 10,139,000
Write-off of Goodwill	—	(14,275,000)
Net Earnings (Loss)	$ 10,619,000	$ (4,136,000)
Per-Share of Common Stock		
Earnings Before Write-off of Goodwill	$ 2.66	$ 2.47
Write-off of Goodwill	—	(3.48)
Net Earnings (Loss)	$ 2.66	$ (1.01)
Shareowners' Equity at December 31	$24.50	$22.67
Cash Dividends Paid	.70	.62

The Annual Meeting of Shareowners will convene at 10 a.m., Tuesday, April 27, 1976 at The Community Center Theatre, 610 Coliseum Drive, Winston-Salem, North Carolina.

A copy of Hanes Corporation's Annual Report to the Securities & Exchange Commission (Form 10-K) may be obtained by writing to the Vice President-Finance, Hanes Corporation, Winston-Salem, N.C. 27103.

To Our Shareowners:

In 1975 Hanes Corporation had the best year in its history. Sales for the year were $315 million, 9% above 1974, and for the first time exceeded $300 million. Net earnings for the year were a record $10.6 million, or $2.66 per share, after deducting $2.2 million to cover anticipated losses from disposing of facilities that did not offer an attractive return on investment. (See further detail in the Financial Section of this report.)

The 1975 performance was particularly significant because, at the end of the first six months, earnings were $1 million below the first six months of 1974.

The year's successful outcome must be attributed primarily to the *L'eggs* and *Hanes* brands of women's hosiery. Their successes are the result of the disciplined consumer marketing approach adopted by Hanes Corporation over the last five years. The *L'eggs* and *Hanes* brands provided a strong earnings base throughout the year. *L'eggs* sales, for example, increased during each quarter of 1975. Its share of market increased from 12.6% in 1974 to 13.8% in 1975. Also, the brand's consigned in-store inventory system eliminated the adverse effects of retailers' inventory drawdowns which had affected other Hanes Corporation products during the first part of the year.

The sales of *Hanes* brand hosiery showed gains in all but the first quarter of the year. Its share of market increased from 6.6% in 1974 to 8.2% in 1975. These increases came in a time when total hosiery industry had its first increase in five years—sales were up 1.5% in units and 2.4% in dollars.

The sales of both *Hanes* knitwear and *Bali* products increased in the second half of the year. As consumer purchases increased, retail inventories were depleted, and stores began to reorder.

The factors contributing to Hanes Corporation's performance in 1975 are discussed in greater detail in the body of this report. It is appropriate to point out here, however, that in 1975 the Corporation was dependent upon women's hosiery for 67% of its sales and approximately 72% of its profits. Of the Corporation's total hosiery sales, 97% was in its own brands, and these brands increased their dollar share of the total hosiery market from 22% in 1974 to 25% in 1975.

Some 24% of Hanes Corporation's sales was in men's and boys' underwear and men's casual sweaters, and 9% was in bras.

In 1975 the Corporation adopted policies of paying dividends equal to approximately 30% of earnings and maintaining debt at not more than 50% of equity. In December, 1975, the quarterly dividend was raised from 17¢ to 19¢ a share. During 1975, total debt was reduced from $66 million (73% of equity) to $40 million (41% of equity).

Within the self-imposed constraint of maintaining debt at not more than 50% of equity, Hanes Corporation has set a goal of increasing return on equity from its present 10.9% to 12.5% by 1978.

The Corporation's continued adherence to its basic consumer marketing strategy was reflected in two key areas:

In 1975, $42 million, or 13% of sales, was spent on advertising and promoting products directly to the consumer. This expenditure is in contrast to $7 million, or 5% of sales, spent in 1969. The current level of advertising and promotion expenditures continues to distinguish Hanes Corporation from conventional apparel companies and places it in the top 60 advertisers in the U.S.

Gross margin in 1975 was 39.7% compared to only 20.8% in 1969. This improvement came about by increased direct marketing to the consumer and improved manufacturing efficiencies.

The names shown in *italics* are trademarks of the operating units of Hanes Corporation.

While 1975 concluded on an upswing, its first half was hectic and uncertain. During that period Hanes Corporation's 12,700 employees reacted with understanding and patience. Their cooperation under those conditions and their outstanding performance were major factors in the Corporation's positive performance for the year.

In last year's annual report, I anticipated that 1975 earnings would be down from the previous year. Because of strong earnings from the Corporation's hosiery products throughout the year and strong recovery in other segments of its business in the second half, happily, that prediction did not come true.

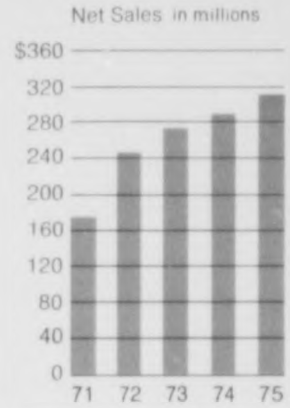
In retrospect I feel the year's favorable outcome proved the validity of the consumer marketing approach to which the Corporation is committed.

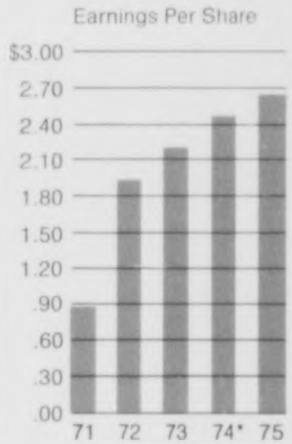
The present strength of consumer purchases, combined with the proven strength of the Corporation's branded products, provides a base for reasonable optimism about 1976. If the national economy continues to improve, Hanes Corporation's sales and earnings for 1976 should show improvement over the levels attained in 1975. Most of that improvement should occur in the first half of the year.

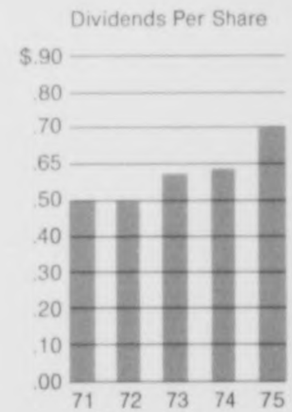
Sincerely,

Robert E. Elberson

President and
Chief Executive Officer







*Excluding write-off of goodwill in 1974.


beautymist
one pair
SIZE
en 99
H PANTY H
en 99 all SHEER
MAY QUEEN 99 all SHEER
Underalls
pantyhose & panties all in one.
with cotton crotch
NURSE WHITE
PANTYHOSE
L'eggs
Hanes
colors
T-SHIRT
Hanes
T-SHIRT
SOFT. COMFORTABLE. ABSORBENT.
RESISTS SHRINKAGE
$1.95
SIZE A B SOUTH PACIFIC
Hanes
everyday
sheer
stretch
pantyhose
Bali
Today's girl
SHEER PANTY-HOSE

Marketing at Hanes Corporation

Hanes Corporation differs from most apparel companies because of its strongly consumer-oriented approach to developing and marketing its products.

Disciplined consumer marketing is not new. Leading companies in such industries as packaged foods, detergents, and tobacco products have used it successfully for years. Although consumer marketing is not widely used in the apparel industry, Hanes Corporation has adopted this approach as its basic way of doing business.

As applied at Hanes Corporation, consumer marketing is a disciplined attempt to bring to the marketplace only products with a high potential for customer acceptance. These must be products which can be sold in volume at prices adequate to earn a satisfactory return on investment.

Hanes Corporation adopted consumer marketing as its central business philosophy based on the conviction that long-term growth in its industry must be founded on branded products which are readily recognized and accepted by consumers.

The reorientation of Hanes Corporation to a consumer marketing company required time, money, and professional personnel—

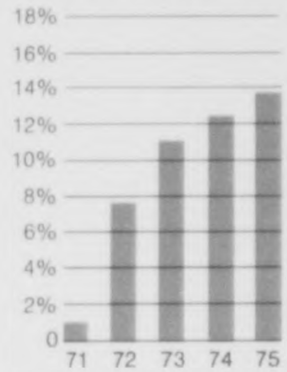
- Hanes Corporation has invested the time required—more than five years. While the Corporation has not fully reoriented all of its lines of business to the consumer marketing approach, it is well on its way.
- Hanes Corporation has invested, and continues to invest, the money required. Each year the Corporation spends nearly $3 million researching consumer needs and products to meet those needs.
- Hanes Corporation invests heavily in advertising and promotion— $42 million or 13% of sales in 1975—to attract consumers to its branded products. In 1975 approximately 31% of this amount was spent on promotions which were particularly effective in that year's economic climate.
- Hanes Corporation is run by professional managers. The Corporation's marketing functions, for instance, are staffed with qualified individuals, many of whom hold graduate degrees in marketing. Their backgrounds include years of practical experience with major companies known for leadership in applying consumer marketing techniques to branded products.

While consumer marketing techniques cannot be applied to all the Corporation's products, they are applied wherever possible. A review of 1975 activities and a look at Hanes Corporation's plans for the future indicate the effect the Corporation's reorientation to consumer marketing is having on its operations:

L'eggs: In the less than six years since its introduction, the Corporation's *L'eggs* brand—the first Hanes Corporation product to be developed according to the tenets of consumer marketing—has become the largest selling brand of women's hosiery sold in the United States. *L'eggs* accounts for 13.8% of total U.S. hosiery

The continued application of disciplined consumer marketing has made L'eggs the largest selling brand of hosiery in the United States. The unique and memorable name, package, and display are supported by heavy consumer advertising, direct-to-store distribution and consigned retail inventories. In 1975 as consumers became even more value-conscious, multi-pack and price-off promotions were also emphasized.

L'eggs Share of Total Hosiery Market



L'eggs success as a major new brand has been the result of constant analysis of consumer needs and continuing product innovation. Sheer Energy, a light support panty hose, was introduced in 1973. It now accounts for one third of all support panty hose sold in the country. L'eggs Knee highs, introduced in late 1974, now command 72% of all knee high sales. In 1975 the Corporation also began testing mail order sales of selected products including L'eggs Knee White.

dollar sales.* (Second place is held by the Corporation's *Hanes* brand which has an 8.2% market share.)

L'eggs was created for sale through food and drugstores, channels of distribution never before fully utilized by a major manufacturer of branded hosiery. Today, almost one of every four pair of women's hosiery is sold through these outlets. *L'eggs* has a 41% share of this market, more than twice the share of its nearest competitor.

As economic conditions in 1975 made consumers even more value-conscious, L'eggs emphasized price-off and multi-pack promotions. Analysis showed that two thirds of the sales resulting from these programs were to new customers or added sales to regular *L'eggs* purchasers.

When further consumer research indicated a desire for a lightweight support panty hose, *Sheer Energy* was introduced in late 1972 and was distributed nationally by late 1974. During 1975 this product's volume increased 33%. It now holds a 31% share of total support panty hose sales and accounts for one third of all *L'eggs* sales.

An interesting key to the acceptance of *Sheer Energy* is the way it is presented to the consumer. Research revealed the term "support" created negative medicinal connotations in the consumer's mind. The marketing effort expended on *Sheer Energy* was then designed to sell the product's benefit without describing it as a "support" product.

When consumers complained that the narrow band on existing brands of knee-high hose restricted their circulation, L'eggs developed and introduced its own knee-high product with a unique wide-top band to eliminate the problem. This innovation quickly established *L'eggs* as the largest selling brand of knee-high hose in the U.S. The product now accounts for 11% of *L'eggs* sales and commands a 12% share of the knee-high market.

To give the consumer further value, an unconditional guarantee was introduced in the spring of 1975. This guarantee offers the consumer replacement or full refund if she is dissatisfied with her purchase of *L'eggs* for any reason. Less than one out of every thousand pairs sold has been returned.

Hanes Brand: The application of consumer marketing techniques has yielded similar results in the performance of the *Hanes* brand of women's hosiery. This brand is sold primarily through department and specialty stores.

The *Hanes* brand share of its primary market increased from 20% in 1974 to 25% in 1975. In department and specialty stores, which account for 30% of total hosiery sales, *Hanes* brand outsells its nearest competitor by more than four to one.

Summer Sheer, an innovative lightweight panty hose, was sold nationally in

*Throughout this report, "market share" refers to dollar volume. Market shares are based on data from Market Research Corporation of America and Hanes Corporation's own data.

1975 after having been test-marketed in 1974. Its sales surpassed projections.

Hanes brand hosiery is now distributed directly, rather than through distributors, in 80% of the U.S.—a 20% increase over a year ago. This method of distribution increases the Corporation's control over the marketing of its products to retailers and improves gross profit margins.

Other Hosiery Brands: The Corporation markets *Beauty Mist* and *May Queen* hosiery through department and specialty stores; *Today's Girl* is sold through chain stores and mass merchandisers; and *1st to Last* is sold through food and drugstores.

These multiple brands give the Corporation the flexibility to meet all market levels and react to changing market conditions. Together they had 1975 sales of approximately $23 million and accounted for about 3% of total U.S. hosiery sales.

Hanes Men's and Boys' Underwear: Constraints inherent in men's and boys' underwear business—especially low gross margins—limit the opportunities for the application of consumer marketing techniques to the *Hanes* brand. Even so, opportunities which are available are being developed along with more traditional ways of increasing business.

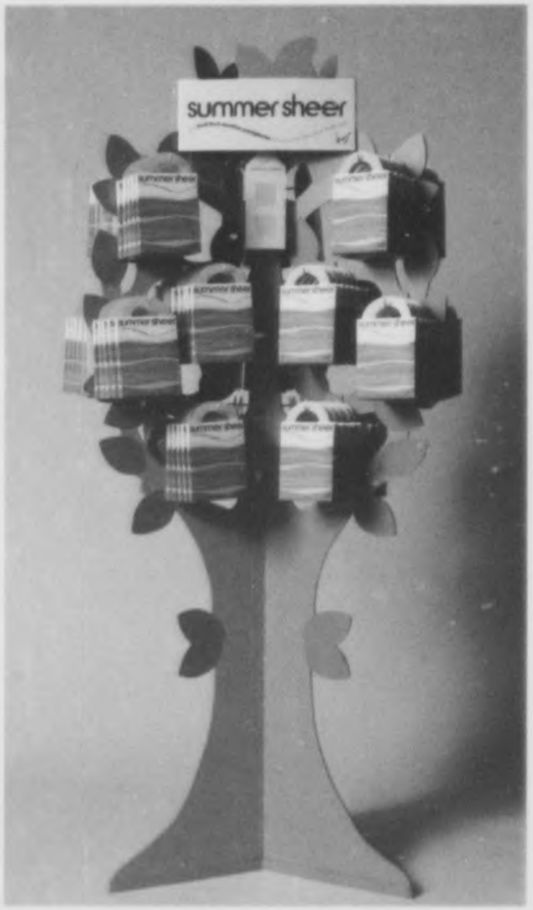
On the traditional side, a nucleus of a national sales force has been developed to assist distributors in opening new underwear accounts. In 1975 distribution of *Hanes* underwear was increased by an additional 10%, or 2,250 outlets.

On the consumer marketing front, the redesigned *Hanes* men's and boys' underwear packaging—which consolidated all underwear styles under the *Hanes* name umbrella—was distributed nationally in 1975. The new packaging is accomplishing its objective of improving brand identification.

An example of the success of the program is the 75% cotton/25% polyester *Hanes Blue Label* line. The line was introduced in 1969 under the *Pro's Choice* label. Though *Pro's Choice* was a satisfactory product, and was competitively priced in a growing market, it encountered a lack of trade enthusiasm. In 1975 the *Pro's Choice* name was discontinued. The line was brought under the *Hanes* umbrella as *Hanes Blue Label* and its distribution was increased. As a result, volume for *Blue Label* more than doubled, and the line now accounts for 7% of *Hanes* lightweight underwear sales.

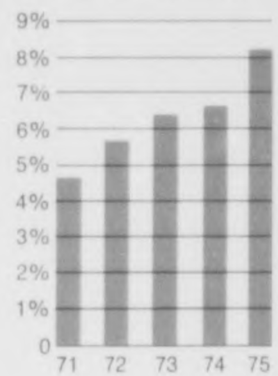
Total dollar sales of men's lightweight underwear increased 4% in 1975, and the market share of *Hanes* increased to a record of 12.9% from 11.3% in 1974. It is now the second largest selling manufacturer's brand.

Monitoring of consumer purchases of *Hanes* men's underwear indicates that during 1974 and 1975 retailers ordered from Hanes Corporation approximately $15 million less than consumers purchased. This suggests the excessive retail inventories of late 1974 and early 1975 have been significantly depleted and that retailers' orders for *Hanes* underwear should more nearly approach the

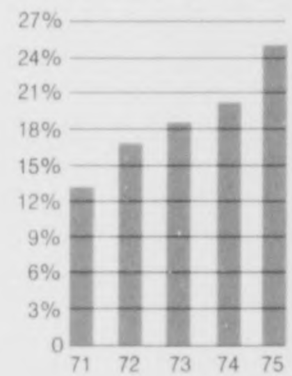


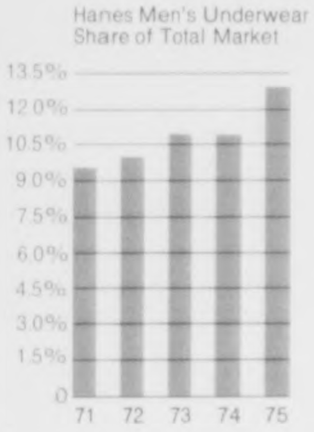
Since the restructuring of its marketing program in 1971, the Hanes brand has demonstrated continuing growth. Strong advertising support has emphasized Hanes position as the highest quality brand of women's hosiery. A new packaging system was developed to reinforce this quality image, present a consistent visual impression and facilitate the self-selection process. Continuing evaluation of consumer needs led to the introduction of Summer Sheer as an extension of the Hanes hosiery brand to meet consumer needs for cooler panty hose during the warmer months.

Hanes Brand Share of
Total Hosiery Market

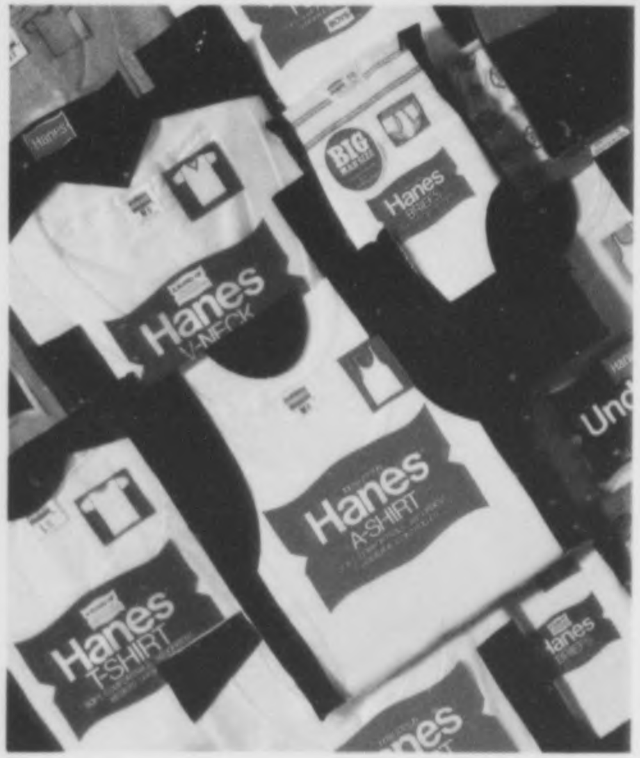


Hanes Brand Share of
Department & Specialty
Store Hosiery Market.





Over the past two years, marketing management has emphasized stronger brand identification for Hanes underwear. A new packaging system, featuring the Hanes logo, was market tested in 1974 and introduced nationally in 1975. Consumer advertising and promotion have also been used to increase brand recognition and acceptance. Hanes' share of market increased by 14% to a record level of 12.9% in 1975.



level of consumer purchases during 1976.

Men's Casualwear: Sales of both *Pine State* and private label sweaters were adversely affected during the first half of 1975 by heavy imports from the Far East and by retailers' reduction of inventories. This line of business increased in the last half of the year but the $6 million of sweater sales for the year were 14% behind 1974.

The Corporation has withdrawn from the marketing of men's fashion sport shirts under the *Hanes* label. This line of business accounted for less than 1% of the Corporation's 1975 sales. The $1.3 million of cost (before tax) associated with the discontinuance of this line was expensed in 1975.

Bali: *Bali* continues to be the largest selling bra brand in the foundation departments of department stores. It accounts for over 20% of bra sales in these outlets.

As a result of the lessons learned from the unsuccessful venture into Sensuale—a line of fashion bras that was discontinued when it did not sell as well as anticipated—Bali is concentrating on expanding styles within its traditional market segment.

The *Bali* line of swimwear enjoyed its fifth successful year. It accounts for about 10% of *Bali* sales.

New Product Development: In addition to the $3 million Hanes Corporation spends each year on basic consumer research, $3 million is invested in the development and testing of new products and programs. The criteria under which new ventures are considered are quite specific. The Corporation places particular emphasis on products or ventures which can benefit from direct-to-store delivery and promise annual sales volume of $25 million with at least an 18% after-tax return on investment.

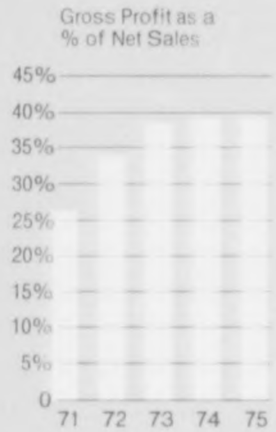
U.S. Male, a brand of men's and boys' underwear for distribution through food and drugstores, is one example of a venture resulting from this program. The Corporation introduced this brand in limited test markets in February, 1976.

L'eggs Panties, designed for sale through food and drugstores, has been in test market since late 1974. Test market data is being evaluated to determine its future.

The Corporation is allocating additional resources to expand mail order sales of its products. Items now offered through mail order include *L'eggs* Nurse White and *L'eggs* stockings not offered on the L'eggs boutique. The *Better Than Pantyhose* brand and men's underwear are also being marketed by mail order.

For department and specialty stores, the Corporation is expanding two new products developed as a result of consumer dialogue. *New Body,* a light support garment, was introduced into 10% of the U.S. in November, 1975. Underalls, a garment combining panty hose and panties, was introduced to test markets in October, 1975 and expanded to 20% of the U.S. in February, 1976.

Financial Review



The comments in the Financial Review refer to data in this section and in the Ten-Year Summary of Operations on pages 18 and 19.

Sales

In the past two years, most of the growth of Hanes Corporation's sales has come from the sales of women's hosiery which increased 8% in 1974 and 12% in 1975. *L'eggs* brand sales were up 12% in both years and reached $130 million in 1975. Sales of *Hanes* brand hosiery increased 13% in 1975 and totaled $51 million.

A 14% gain in the sales of *Hanes* brand men's and boys' lightweight underwear increased the sales of knitwear products 6% in 1975. Comparative sales by product group are:

(In Millions)

Product Group	1975	1974	1973	1972	1971
Women's Hosiery	**$211**	$188	$173	$143	$110
Knitwear Products	**76**	72	73	74	66
Foundation Garments	**28**	29	30	28	—*
Total	**$315**	$289	$276	$245	$176

*In 1971, $25 million of foundation garment sales were not consolidated into Hanes Corporation's sales.

Gross Profit

Gross profit margin in 1975 was 39.7%, the same as in the preceding year. In 1975 reductions in the cost of manufacturing and distributing hosiery offset wage increases for manufacturing employees and the higher costs of operating knitwear production facilities at less than capacity during the first half of the year.

Raw material cost did not increase from 1974 to 1975. However, prices of synthetic yarns for hosiery and cotton for underwear are expected to increase in 1976. These increases, plus anticipated wage increases, should again be offset by further improvements in hosiery manufacturing efficiencies, fewer hosiery sales through distributors, and higher levels of operations plus cost reductions in knitwear manufacturing. To offset higher cotton prices, a 6% price increase for lightweight underwear was made January 1, 1976.

Advertising and Promotion Expenses

In 1975 expenses were $42.5 million, a $4.3 million increase from 1974. Half of this increase was in promotions—primarily price-off promotions.

Advertising and promotion costs for 1976 are budgeted at $49 million. Most of the increase over 1975 is planned for advertising and promoting *L'eggs* and new products which will be introduced during the year.

Firm commitments for advertising and promotion will be made as 1976 progresses. The funds expended in this area can be significantly adjusted to reflect changing economic conditions and sales levels.

Selling, Distribution, Administrative Expenses and Other

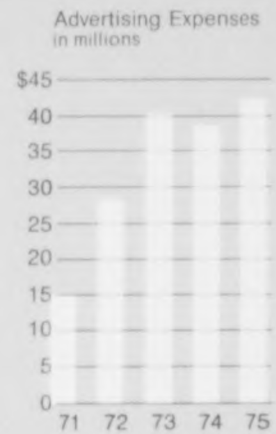
Selling, distribution, and administrative expenses increased $3 million, or 5%, in 1975. This increase was less than the 9% increase in sales. In contrast, 1974 selling, distribution, and administrative expenses increased $9 million, or 20%. The 1974 increase was due primarily to expanded direct distribution of hosiery and the impact of inflation on distribution cost.

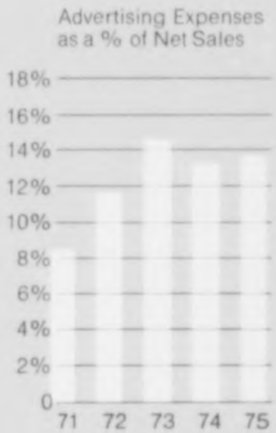
Direct distribution of *Hanes, Beauty Mist* and *May Queen* hosiery was increased from 60% to 80% of the United States in 1975.

Miscellaneous items of $3.3 million shown as "Other" include $4.4 million reserved for anticipated losses on disposal and relocation of facilities. These losses result from the Corporation's continuing program of disposing of marginal assets in order to increase return on investment.

Major items in the 1975 reserve were $1.5 million for the anticipated loss on the disposal of a Bali warehouse in New Jersey; $1.3 million for anticipated difference between cost and sublease income of excess Bali office space in New York City; $472,000 for the closedown of a knitwear plant in Winston-Salem, N.C.; $447,000 for discontinuing the Corporation's line of fashion sport shirts; and $669,000 for the relocation of Bali and hosiery distribution centers.

The $4.4 million provision for losses was partially offset by $1.1 million of income from short-term cash investments and from royalties.





Write-Off of Goodwill

In 1974, $14.3 million of goodwill—cost in excess of net assets acquired—was written off. Of that total, $11.1 million related to the acquisition of The Bali Company, Inc. and $3.1 million related to the acquisition of Pine State Knitwear Company. The write-offs were taken because the earnings of these units did not justify valuing them at more than their tangible book value. These write-offs had no impact on cash flow.

Interest and Debt

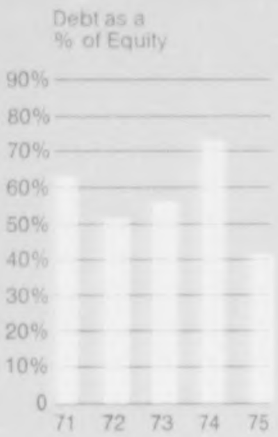
In 1975 lower levels of borrowings were the principal cause of a $1.2 million, or 19%, reduction in interest cost from 1974. For the opposite reasons, interest cost in 1974 was 40% above 1973.

The average interest rate in 1975 was 9.7%. Comparable rates for the preceding two years were 9.9% in 1974 and 8.9% in 1973.

Total debt at year-end 1975 was $40.3 million, down from $66.2 million at the end of 1974 and $55 million at the end of 1973. Year-end debt as a percent of equity was 41% in 1975, down from 73% in 1974, and was at the lowest level since 1968.

The reduction of total debt in 1975 came principally from a $14 million reduction in inventory; $8 million of earnings in excess of dividends; and $6 million higher current liabilities.

Financial Review



*Excluding write-off of goodwill in 1974.

Interest and Debt Continued

A new $20 million loan is being finalized with Prudential and Teachers insurance companies. This loan will increase to $45 million these insurance companies' commitment to Hanes Corporation. The funds from the new loan will be taken down in 1976 and used to retire bank loans and finance expected growth. The loan will have a final maturity in 15 years and a 10⅞% interest rate.

The new loan plus $20 million of revolving line of credit commitments from banks are forecast to cover Hanes Corporation's financing requirements through 1978. Debt is also forecast to be below the self-imposed maximum of 50% of equity.

Taxes

The effective income tax rate was 33.3% in 1975 and 34.8% (before the goodwill write-off) in 1974. The tax rate is down from 39.6% in 1973 because of an increase in earnings from tax-exempt Puerto Rican operations. Tax savings from tax-exempt earnings were $2.1 million in 1975, up from $1.7 million in 1974 and $1.4 million in 1973.

The effective tax rate in 1976 is forecast to remain under 40%.

Earnings and Return on Investment

In 1975 earnings of $10.6 million were up 5% from the $10.1 million of 1974 earnings before the $14.3 million goodwill write-off. The increase in 1975 earnings was primarily from the *L'eggs* brand of hosiery. Earnings (excluding the 1974 goodwill write-off) have increased each year since 1971.

In Hanes Corporation, after-tax operating earnings as a percent of average primary investment, or return on primary investment, is the key ratio used in evaluating the profitability of product groups and facilities. Operating earnings for a product group are after the effective tax rate of the product group but before allocation of interest, corporate overhead, and nonoperating charges. Primary investment is receivables, inventories and fixed assets less current liabilities.

Hanes Corporation's goal is to have each product group earning at least a 12% after-tax return on its primary assets by 1978.

Steps will be taken to reduce the assets committed to a product group that does not reach this goal.

Return on primary investment by product group in 1975 was:

(In Millions)	Women's Hosiery	Knitwear Products	Foundation Garments
After-Tax Operating Earnings	$12.5	$ 3.1	$ 1.5
Average Primary Investment	$79.5	$48.4	$16.9
Return on Investment	15.7%	6.5%	8.7%

The after-tax operating earnings by product group in 1975 were before $6.5 million (adjusted for taxes) of interest, corporate overhead, and nonoperating expenses.

Receivables

Receivables increased in proportion with sales to $34.2 million at the end of 1975 compared to $32.4 million at the end of 1974. Receivable turnover increased slightly to 9.2 times in 1975 from 8.9 times in 1974.

Inventories

During 1975 inventories were reduced by $14 million to $69.5 million. Inventory turns increased from 3.4 times in 1974 to 4.5 times in 1975.

As noted in last year's annual report, inventories increased 20% in 1974 because sales in the last half of that year did not materialize at expected levels. Inventories were brought into better balance relative to sales by reducing production in late 1974 and early 1975. Inventory levels were further reduced by increased sales as 1975 progressed. In 1976 emphasis will be placed on keeping inventory increases in proportion to sales increases.

Property, Plant, and Equipment

In 1975 the net book value of Hanes Corporation's fixed assets was $53.7 million, a decrease from $57.9 million in 1974. The decrease was due in part to capital expenditures of $7 million being $1 million less than depreciation. The remainder of the decrease came from $3 million in actual disposals and provision for loss on disposal of fixed assets.

The largest fixed-asset investment in 1975 was $2.6 million for hosiery knitting equipment to replace obsolete equipment and to increase capacity. Hosiery production capacity was increased 10% without an increase in manufacturing area.

The decrease in fixed assets coupled with the increase in sales has increased sales per dollar of fixed assets—a measure of efficiency of use of assets—by 30% since 1973.

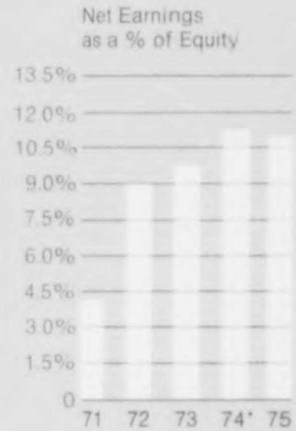
Capital expenditures for 1976 are currently budgeted for $10.7 million. Major items in the 1976 budget are $2.6 million for acquiring an existing spinning and underwear knitting plant in Puerto Rico; $1.7 million for *L'eggs* displays; and $1 million for hosiery knitting equipment.

Shareowners' Equity

In 1975 shareowners' equity increased to $97.5 million, or $24.50 per share. This is an increase from $90.3 million, or $22.27 per share, in 1974.

During 1975 Hanes Corporation purchased 76,500 shares of its own stock. Since 1973 the Corporation has purchased a total of 312,300 shares of its own stock at an average price of $8.86.

In 1975 return on year-end shareowners' equity was 10.9%, compared to 11.2% in 1974 (before the goodwill write-off), and 9.6% in 1973. The decline in return on equity in 1975 resulted from shareowners' equity increasing faster than earnings. The goal of the Corporation is to increase the return on shareowners' equity to 12.5% by 1978.



*Excluding write-off of goodwill in 1974.

Ten-Year Summary

Hanes Corporation and Consolidated Subsidiaries
In Thousands of Dollars Except for Share Amounts

	1975	1974	1973
Net sales	$ 314,790	$ 288,765	$ 275,883
Gross profit	124,861	114,579	105,959
As percent of sales	39.7%	39.7%	38.4%
Advertising expenses	$ 42,512	$ 38,167	$ 40,605
Selling, distribution, administrative expenses and other	61,189	54,425	45,211
Interest expense	5,241	6,448	4,602
Earnings before taxes and write-off	15,919	15,539	15,541
Write-off of goodwill	—	(14,275)	—
Earnings before income taxes and extraordinary item	$ 15,919	$ 1,264	$ 15,541
As percent of sales	5.1%	5.4% (1)	5.6%
Provision for income taxes	$ 5,300	$ 5,400	$ 6,150
Effective tax rate	33.3%	34.8% (1)	39.6%
Earnings (loss) before extraordinary item	$ 10,619	$ (4,136)	$ 9,391
As percent of sales	3.4%	3.5% (1)	3.4%
Extraordinary item—net of applicable taxes	—	—	—
Net earnings (loss)	$ 10,619	$ (4,136)	$ 9,391
Earnings (loss) per common share (based on average outstanding):			
From operations	$ 2.66	$ (1.01) (2)	$ 2.20
Extraordinary item	—	—	—
Total	$ 2.66	$ (1.01)	$ 2.20
Dividend per share	$ .70	$ .62	$ .60
Price range of stock	$ 16 3/8-6 1/4	$ 10 7/8-6	$ 18 3/4-8
Price earnings ratio at year end	5.4	2.5 (1)	4.1
Current assets	$ 115,076	$ 123,257	$ 109,280
Current liabilities	27,763	21,594	26,995
Working capital	87,313	101,663	82,285
Receivable turnover	9.2	8.9	7.8
Inventory turnover	4.5	3.4	4.0
Plant and equipment expenditures	$ 7,105	$ 6,941	$ 7,700
Plant and equipment (net)	53,680	57,946	61,662
Total assets	170,274	183,008	187,056
Total assets turnover	1.8	1.6	1.5
Total funds borrowed	$ 40,333	$ 66,157	$ 55,045
Percent of total funds borrowed to equity	41.4%	73.2%	56.1%
Shareowners' equity	$ 97,500	$ 90,330	$ 98,089
Equity per common share	24.50	22.27	23.43
Net earnings before extraordinary item as percent of equity	10.9%	11.2% (1)	9.6%
Common shares outstanding (average)	3,998,656	4,098,003	4,273,318
Shareowners (at December 31)	5,952	6,100	5,566
Employees	12,745	12,381	14,200

(1) Excluding $14,275,000 write-off of goodwill.
(2) Earnings per share were $2.47 excluding $14,275,000 write-off of goodwill.

1972	1971	1970	1969	1968	1967	1966
$ 244,648	$ 176,081	$ 177,138	$ 156,932	$ 145,356	$ 130,526	$ 121,221
83,639	46,664	40,917	32,678	36,366	29,687	30,747
34.2%	26.5%	23.1%	20.8%	25.0%	22.7%	25.4%
$ 28,369	$ 14,990	$ 10,569	$ 7,273	$ 6,935	$ 5,717	$ 5,498
37,500	21,120	16,995	14,586	11,137	8,413	6,275
4,063	3,945	4,395	3,492	1,313	1,093	670
13,707	6,609	8,958	7,327	16,981	14,464	18,304
—	—	—	—	—	—	—
$ 13,707	$ 6,609	$ 8,958	$ 7,327	$ 16,981	$ 14,464	$ 18,304
5.6%	3.8%	5.1%	4.7%	11.7%	11.1%	15.1%
$ 5,470	$ 3,149	$ 4,458	$ 3,190	$ 8,699	$ 6,679	$ 8,787
39.9%	47.6%	49.8%	43.5%	51.2%	46.2%	48.0%
$ 8,237	$ 3,460	$ 4,500	$ 4,137	$ 8,282	$ 7,785	$ 9,517
3.4%	2.0%	2.5%	2.6%	5.7%	6.0%	7.9%
—	—	$ 1,196	$ (1,055)	—	—	—
$ 8,237	$ 3,460	$ 5,696	$ 3,082	$ 8,282	$ 7,785	$ 9,517
$ 1.92	$ .89	$ 1.16	$ 1.07	$ 2.13	$ 2.01	$ 2.45
—	—	.31	(.27)	—	—	—
$ 1.92	$ .89	$ 1.47	$ .80	$ 2.13	$ 2.01	$ 2.45
$ .50	$ .50	$ .50	$ .90	$ .90	$ .90	$ .90
$ 22⅜-16	$ 22⅝-13½	$ 19½-9½	$ 44¼-14¼	$ 48¾-23⅛	$ 28⅜-19½	$ 31-18⅜
9.4	18.0	16.4	14.1	21.0	11.6	7.9
$ 90,642	$ 83,417	$ 73,082	$ 72,092	$ 64,985	$ 58,581	$ 50,296
36,457	29,880	37,684	55,618	31,257	28,066	19,574
54,185	53,537	35,398	16,474	33,728	30,515	30,722
8.3	6.8	6.1	6.1	6.6	5.5	5.0
4.5	4.3	4.5	3.7	3.8	4.5	5.1
$ 8,705	$ 6,561	$ 6,092	$ 8,345	$ 7,863	$ 10,970	$ 7,378
62,310	61,634	53,486	53,691	50,206	47,524	42,318
169,662	162,799	144,880	142,091	116,521	108,416	95,506
1.4	1.2	1.2	1.1	1.2	1.2	1.3
$ 47,079	$ 54,376	$ 44,679	$ 49,054	$ 23,000	$ 19,875	$ 11,750
51.0%	63.1%	57.7%	67.2%	31.3%	29.0%	18.3%
$ 92,297	$ 86,186	$ 77,452	$ 72,990	$ 73,401	$ 68,612	$ 64,320
21.51	20.09	19.96	18.81	18.91	17.68	16.57
8.9%	4.0%	5.8%	5.7%	11.3%	11.3%	14.8%
4,290,518	3,880,884	3,880,884	3,880,884	3,880,884	3,880,884	3,887,331
5,226	6,034	4,321	3,153	2,856	3,349	3,241
13,718	13,018	10,165	10,809	11,500	11,900	10,518

Statements of Financial Position

Hanes Corporation and Consolidated Subsidiaries
December 31, 1975
and December 31, 1974

Assets		1975	1974
Current Assets			
	Cash	$ 2,787,000	$ 996,000
	Certificates of deposit	7,981,000	5,666,000
	Trade accounts receivable, less allowances of $1,804,000 in 1975 and $1,646,000 in 1974	34,234,000	32,355,000
	Inventories:		
	Finished products	44,494,000	54,833,000
	Products in process	14,930,000	15,433,000
	Materials and supplies	10,050,000	13,519,000
		69,474,000	83,785,000
	Prepaid expenses	600,000	455,000
	Total Current Asssets	115,076,000	123,257,000
Investments and Other Assets		1,518,000	1,805,000
Property, Plant and Equipment			
	Land	1,246,000	1,312,000
	Buildings	42,446,000	44,210,000
	Machinery and equipment	73,802,000	72,107,000
		117,494,000	117,629,000
	Less allowances for depreciation	63,814,000	59,683,000
		53,680,000	57,946,000
		$170,274,000	$183,008,000

Liabilities and Shareowners' Equity		1975	1974
Current Liabilities			
	Trade accounts payable	$ 11,867,000	$ 7,946,000
	Accrued expenses	11,020,000	9,827,000
	Taxes on income	3,976,000	2,064,000
	Current portion of long-term debt	900,000	1,757,000
	Total Current Liabilities	27,763,000	21,594,000
Long-Term Debt	—less portion classified as current liability—Note B	39,433,000	64,400,000
Other Liabilities	Deferred income taxes	3,808,000	5,603,000
	Deferred compensation and other liabilities	1,770,000	1,081,000
Shareowners' Equity			
	Common Stock, par value $1 per share: Authorized 20,000,000 shares Issued 4,291,517 shares (including 312,300 and 235,800 shares in treasury in 1975 and 1974, respectively)	4,292,000	4,292,000
	Additional paid-in capital	10,768,000	10,768,000
	Retained earnings—Note B	85,207,000	77,390,000
		100,267,000	92,450,000
	Less cost of Common Stock in treasury	2,767,000	2,120,000
	Total Shareowners' Equity	97,500,000	90,330,000
Contingencies—Note I			
		$170,274,000	$183,008,000

See notes to financial statements.

Statement of Earnings

Hanes Corporation and Consolidated Subsidiaries
Years ended December 31, 1975 and December 31, 1974

		1975	1974
Earnings From Operations	Net sales	$314,790,000	$288,765,000
	Cost of products sold	189,929,000	174,186,000
		124,861,000	114,579,000
	Advertising and promotion expenses	42,512,000	38,167,000
	Selling and administrative expenses	57,905,000	55,129,000
		100,417,000	93,296,000
	Earnings from operations	24,444,000	21,283,000
Earnings Before Income Taxes	Other income (expenses):		
	Interest expense	(5,241,000)	(6,448,000)
	Miscellaneous—net—Note F	(3,284,000)	704,000
		15,919,000	15,539,000
	Write-off of goodwill—Note E	—	(14,275,000)
	Earnings before income taxes	15,919,000	1,264,000
Income Taxes	Provision for income taxes—Note D		
	Currently payable	7,095,000	5,573,000
	Deferred (credit)	(1,795,000)	(173,000)
	Total income taxes	5,300,000	5,400,000
Net Earnings	Net earnings (loss)	$ 10,619,000	$ (4,136,000)
Net Earnings (Loss) Per Common Share Note H		$2.66	$(1.01)

See notes to financial statements.

Statements of Shareowners' Equity

Hanes Corporation and Consolidated Subsidiaries
Years ended December 31, 1975 and December 31, 1974

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
Balance at January 1, 1974	$4,292,000	$10,768,000	$84,062,000	$(1,033,000)	$98,089,000
Net loss			(4,136,000)		(4,136,000)
Cash dividends—$.62 per share			(2,536,000)		(2,536,000)
Purchase of Company's Common Stock				(1,087,000)	(1,087,000)
Balance at December 31, 1974	4,292,000	10,768,000	77,390,000	(2,120,000)	90,330,000
Net income			10,619,000		10,619,000
Cash dividends—$.70 per share			(2,802,000)		(2,802,000)
Purchase of Company's Common Stock				(647,000)	(647,000)
Balance at December 31, 1975	$4,292,000	$10,768,000	$85,207,000	$(2,767,000)	$97,500,000

See notes to financial statements.

Statements of Changes in Financial Position

Hanes Corporation and Consolidated Subsidiaries
Years ended December 31, 1975 and December 31, 1974

		1975	1974
Sources of Funds	Net earnings (loss)	$ 10,619,000	$ (4,136,000)
	Add (deduct) items not affecting working capital in the current period:		
	Provision for depreciation	8,332,000	8,197,000
	Provision for loss on disposal of excess facilities	2,554,000	—
	Provision for deferred income taxes	(1,795,000)	(173,000)
	Amortization of debt discount and expense	190,000	191,000
	Write-off of goodwill	—	14,275,000
	Funds Provided From Operations	19,900,000	18,354,000
	Proceeds from disposal of property items sold, less gains	1,289,000	2,460,000
	Long-term borrowings	—	11,000,000
	Changes in other assets and liabilities	148,000	(147,000)
	Total Funds Provided	21,337,000	31,667,000
Uses of Funds	Cash dividends paid	2,802,000	2,536,000
	Additions to property, plant and equipment	7,105,000	6,941,000
	Reductions of long-term debt	25,133,000	1,725,000
	Purchase of Company's Common Stock	647,000	1,087,000
	Total Funds Used	35,687,000	12,289,000
	Increase (Decrease) in Working Capital	$(14,350,000)	$19,378,000
Changes in Working Capital	Increase (decrease) in current assets:		
	Cash	$ 4,106,000	$ 2,619,000
	Receivables	1,879,000	(2,959,000)
	Inventories	(14,311,000)	14,281,000
	Prepaid expenses	145,000	36,000
		(8,181,000)	13,977,000
	Increase (decrease) in current liabilities:		
	Trade accounts payable	3,921,000	(6,279,000)
	Accrued expenses	1,193,000	(121,000)
	Taxes on income	1,912,000	(672,000)
	Current portion of long-term debt	(857,000)	1,671,000
		6,169,000	(5,401,000)
	Increase (Decrease) in Working Capital	$(14,350,000)	$19,378,000

See notes to financial statements.

Notes to Financial Statements

Note A—Summary of Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of all wholly-owned subsidiaries. Significant intercompany accounts and transactions have been eliminated. Investment in a 51%-owned company whose operation is unrelated to the Company is accounted for by the equity method.

Inventories. Inventories are stated at the lower cost (first-in, first-out method) or market.

Property and Depreciation. Land, buildings, machinery and equipment are carried at cost. Depreciation is computed principally by the straight-line method for financial reporting and accelerated methods for tax reporting. Leasehold improvements are being amortized on a straight-line basis over the life of the leases or the useful life of the improvements, whichever is shorter.

Debt Discount and Expenses. Debt discount and expenses incurred in connection with the issuance of long-term debt have been deferred and are being amortized by the bonds outstanding method as charges to income over the life of the debt.

Research and Development. Research and development costs related to both present and future products are charged to operations as incurred.

Advertising and Promotion. Advertising and promotion costs are charged to operations as incurred.

Income Taxes. Deferred income taxes are provided for timing differences between financial and tax reporting principally relating to depreciable assets.

The earnings of several subsidiaries operating in Puerto Rico are not expected to be subject to United States income taxes except to the extent paid out as dividends. There is no present intent to pay such dividends and no tax has been provided.

Investment tax credits are accounted for by the flow-through method.

Pension Plans. Pension costs are computed and accrued by the entry age normal method and include amortization of prior service costs over a 30-year period. The Company's policy is to fund pension costs accrued.

Note B—Long-Term Debt

Long-term debt at December 31, 1975 and 1974 is summarized below:	1975	1974
Bank term and revolving credit loans[1]	$14,000,000	$38,000,000
Insurance company notes[2]	24,061,000	23,895,000
Mortgage note, interest at 6⅜%, maturing in annual installments of $198,000, including interest, to 1996, collateralized by deed of trust on manufacturing and warehouse facility in Jersey City, New Jersey	2,251,000	2,303,000
Note to former owner of Bali, 6% interest, maturing in 1975		1,350,000
Obligations under lease-purchase agreements and other	21,000	609,000
	40,333,000	66,157,000
Less portion classified as current liability	900,000	1,757,000
	$39,433,000	$64,400,000

Note B—Long-Term Debt —Continued

(1) During 1975 the Company reduced its $50 million bank line for revolving credit and term loans to $34 million. An additional $10 million reduction was made subsequent to year end. At December 31, 1975, term loans of $14 million were outstanding bearing interest at 130% of prime rate, not to exceed 9.9%. Borrowings of $20 million were available under revolving credit notes at interest of 1/4 of 1% over prime rate. Such borrowings are convertible to term notes on March 31, 1977 bearing interest at 1/2 of 1% over prime rate and maturing in varying quarterly installments commencing June 30, 1977 with a final payment on June 30, 1983. The Company will pay commitment fees of 1/2 of 1% on the unused amount of the commitments until March 31, 1977 and is subject to certain required prepayments on the loans if the Company sells for cash any common stock or convertible securities at any time prior to June 30, 1977 or reaches specified levels of earnings thereafter.

(2) Principal amount of $25,000,000 less unamortized discounts of $939,000 and $1,105,000 at December 31, 1975 and 1974, respectively. Interest is 8 1/2% with required annual prepayments of $2,500,000 from 1977 to 1986.

Maturities of long-term debt during the five years ending December 31, 1980 are as follows: 1976—$900,000; 1977—$3,684,000; 1978—$4,063,000; 1979—$4,067,000; and 1980—$4,447,000.

Among other things, the agreements relating to the above long-term financing place certain restrictions upon further borrowings, leases, sale of assets and the payment of cash dividends and require a minimum amount of working capital and net worth. Retained earnings free of such restrictions at December 31, 1975 and 1974, amounted to $7,247,600 and $3,000,000, respectively.

Note C—Pension Plans

The Company and certain subsidiaries have pension plans covering all employees who qualify as to age and length of service. The total pension expense was $1,659,000 in 1975 and $1,337,000 in 1974. The actuarially computed value of vested benefits at December 31, 1974 (the latest valuation date) was $20,920,000 and exceeded the market value of the plan assets and accrued balance sheet liability at that date by $2,101,000. The plans were amended on January 1, 1976, to comply with 1974 pension plan legislation; such amendments will not have a significant effect on the cost of the plans.

Note D—Income Taxes

The reasons for the difference between total tax expense and the amount computed by applying the statutory federal income tax rate of 48% to income before income taxes are as follows:

	1975	1974
48% of pre-tax earnings	$ 7,641,000	$ 607,000
Effect of non-deductible write-off of goodwill	—	6,852,000
	$ 7,641,000	7,459,000
State and local income taxes, net of Federal tax benefit	390,000	338,000
Effect of tax benefits from subsidiaries operating in Puerto Rico	(2,120,000)	(1,666,000)
Investment tax credit	(600,000)	(350,000)
Other items	(11,000)	(381,000)
	$ 5,300,000	$5,400,000

Under exemptions expiring from 1978 to 1999, certain subsidiaries doing business in Puerto Rico are not required to pay Puerto Rican income taxes. The cumulative amount of undistributed earnings of subsidiaries operating in Puerto Rico on which the Company has not recognized income taxes was approximately $13,000,000 at December 31, 1975.

Note E—1974 Goodwill Write-Off

Management of the Company decided goodwill had no continuing value as of December 31, 1974 and, accordingly, charged the goodwill ($3.48 per share) to 1974 earnings. The goodwill related primarily to the initial acquisition cost of two subsidiaries.

Note F—Other Miscellaneous Expenses

Included in other miscellaneous income and expenses are provisions for losses of $4,441,000 ($2,188,000, or 55¢ per share, net of tax benefits) relating to disposal and relocation of facilities. These losses resulted from excess leased New York office space ($1,353,000), provision for disposition of Bali's New Jersey distribution center ($1,500,000), closing of a knitwear plant in North Carolina ($919,000), and relocation of two distribution centers ($669,000).

Note G—Capital Stock

In 1967, the Company adopted a qualified stock option plan under which options may be granted for 200,000 shares of Common Stock. The option price is the fair market value of the shares at the date of grant. Options become exercisable in cumulative annual installments of 33⅓% commencing one year from the date of grant and expire five years after the date of grant.

On April 30, 1974, the shareowners approved a supplemental stock option plan under which options may be granted for an additional 200,000 shares of Common Stock. The option price at which shares may be purchased shall be not less than 85% of the fair market value of such shares at the date of grant. Options become exercisable in cumulative annual installments of 33⅓% commencing one year from the date of grant and expire five years after the date of grant.

Option activity for 1975 and 1974 is summarized as follows:

	1967 Plan		1974 Plan	
	Shares	Price Per Share	Shares	Price Per Share
Options outstanding January 1, 1974	117,486	$8.75 to $29.56		
Granted	35,455	$9.19		
Cancelled or expired	(23,974)	$9.19 to $29.56		
Options outstanding December 31, 1974	128,967	$8.75 to $21.13		
Granted			32,150	$7.88
Cancelled or expired	(48,862)	$9.19 to $21.13	(1,450)	$7.88
Options outstanding December 31, 1975	80,105	$8.75 to $21.13	30,700	$7.88
Shares available for grant—				
December 31, 1974	69,498		200,000	
December 31, 1975	118,360		169,300	
Options exercisable—				
December 31, 1974	64,019			
December 31, 1975	51,103			

Warrants issued with the insurance company notes provide for the purchase of 284,088 shares of the Company's Common Stock at $17.74 per share, subject to adjustment, at any time up to and including March 1, 1980.

The charter of the Company authorized 200,000 shares of Preferred Stock at $100 par value and provides for the Board of Directors to fix the preferences, limitations and relative rights of these shares.

Note H—Earnings Per Common Share

Earnings per common share are calculated on the average shares outstanding during each year. Options and warrants outstanding have been excluded from the computation since the options are less than 3% dilutive and the warrants are anti-dilutive.

Note I—Contingencies

On March 15, 1974, a former hosiery distributor of the Company instituted an action for alleged wrongful termination and antitrust offenses seeking damages which after trebling would total $16,470,000. Management and its general counsel believe the ultimate resolution of the suit will result in no material adverse effect on the Company's financial position and results of operations.

Notes to Financial Statements

Note J—Leases

Total rental expense for all leases amounted to:	1975	1974
Minimum rentals	$6,497,000	$5,773,000
Sublease income	(893,000)	(768,000)
	$5,604,000	$5,005,000

The future minimum rental commitments as of December 31, 1975 for all noncancellable leases are as follows:

	Total	Real Estate	Data Processing and Other Equipment	Vehicles	Sublease Rentals
1976	$ 4,068,000	$ 2,183,000	$1,230,000	$1,386,000	$ (731,000)
1977	3,736,000	1,919,000	1,183,000	1,137,000	(503,000)
1978	3,143,000	1,632,000	1,122,000	717,000	(328,000)
1979	2,608,000	1,467,000	997,000	188,000	(44,000)
1980	1,650,000	1,327,000	294,000	44,000	(15,000)
1981-1985	5,445,000	5,420,000	—	25,000	—
1986-1989	1,900,000	1,900,000	—	—	—
	$22,550,000	$15,848,000	$4,826,000	$3,497,000	$(1,621,000)

The impact on net earnings if financing leases had been capitalized was immaterial for 1975 and 1974.

Accountants' Report

To The Board of Directors, Hanes Corporation
Winston-Salem, North Carolina

We have examined the statements of financial position of Hanes Corporation and Consolidated Subsidiaries as of December 31, 1975 and 1974, and the related statements of earnings, shareowners' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Hanes Corporation and Consolidated Subsidiaries as of December 31, 1975 and 1974, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Winston-Salem, N.C.
February 16, 1976

Ernst & Ernst

Stock Activity and Dividend

Hanes Corporation's common stock is traded on the New York Stock Exchange. A summary of price ranges, dividends and earnings per share (EPS) by quarter as reported is shown below:

	1975			1974		
	Price Range	EPS	Dividend	Price Range	EPS	Dividend
First Quarter	8⅞ - 6¼	$ .36	$.17	10⅞-8⅝	$ .56	$.15
Second Quarter	11 - 8⅛	.60	.17	9 -7⅝	.61	.15
Third Quarter	12⅝-10¼	.67	.17	8⅞-6	.52	.15
Fourth Quarter	16⅜-10½	1.02	.19	7⅜-6	(2.73)(1)	.17
Year	16⅜- 6¼	2.66	$.70	10⅞-6	$(1.01)(1)	$.62

(1) Without the $14,275,000 write-off of goodwill in 1974, earnings per share would have been 78 cents in the fourth quarter, and $2.47 for the year.

General Offices

2000 West First Street
Post Office Box 5416
Winston-Salem, North Carolina 27103

Operating Units

Hanes Hosiery, Inc.
Jack R. Hobert, President

Hanes Knitwear
David E. Harrold, President

L'eggs Products, Inc.
Paul Fulton, Jr., President

The Bali Company, Inc.
Jack R. Hobert, President

Pine State Knitwear Company
Lindsay Holcomb, Jr., President

Accountants

Ernst & Ernst
2015 Wachovia Building
Winston-Salem, North Carolina 27101

Transfer Agent and Registrar

Wachovia Bank & Trust
Company, N. A.
Winston-Salem, North Carolina 27102

Exchange Listing

New York Stock Exchange
(Ticker Symbol "HNS")


beautymist
stretch pantyhose
one pair
Underalls™
pantyhose & panties all in one.
with cotton crotch
NURSE WHITE
PANTYHOSE
L'eggs
SIZE
MAY QUEEN 99 ALLSHEER
A BLEND OF
Hanes
T-SHIRT
SOFT COMFORTABLE ABSORBENT
RESISTS SHRINKAGE
Hanes
colors
T-SHIRT
Today's girl
SHEER PANTY HOSE
Bali
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SIZE A B SOUTH PACIFIC
Hanes everyday
sheer
stretch
pantyhose