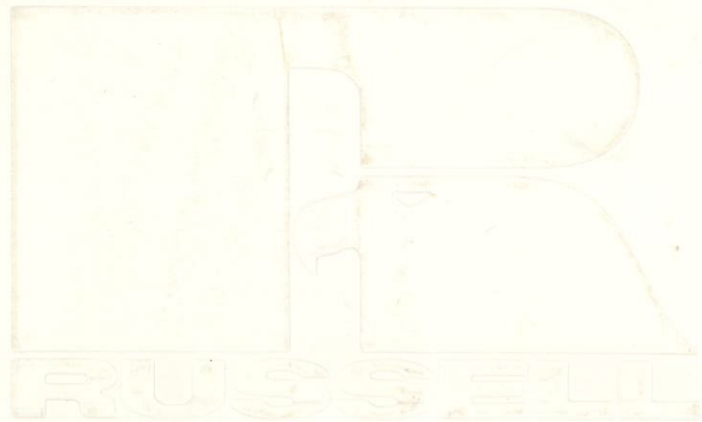
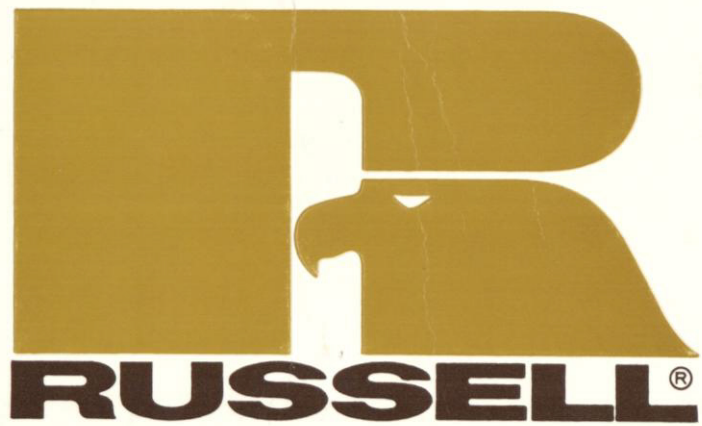


# RUSSELL CORPORATION ANNUAL REPORT

# 1976



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## RUSSELL CORPORATION

Russell Corporation is a manufacturer and marketer of athletic uniforms, knit apparel, and a comprehensive line of knit and woven fabrics. The firm operates major production facilities in the Alexander City, Alabama area, where it was founded in 1902, as well as sales offices in key cities throughout the United States.

The Company's principal operations are fully integrated vertically, from raw fibers to finished garments, and the Company benefits from a unique flexibility in its production capabilities, permitting shifting of production capacity to lines for which markets are strongest.

## FORM 10-K

Copies of Form 10-K as filed with the Securities and Exchange Commission are available without cost to stockholders of the Company by writing to:

Corporate Secretary  
Russell Corporation  
Alexander City, Alabama 35010

## ANNUAL MEETING

The annual meeting of shareholders of the corporation will be held at 10 a.m. C.D.T. on April 28, 1976, at the general offices of the Company in Alexander City, Alabama.

For Information Contact  
F. Morgan  
Alexander City, Alabama  
(205) 234-4251





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# Financial Highlights

	1976	1975	%
			Change
<b>The Year at a Glance</b>			
Net sales . . . . .	\$124,695,509	\$102,664,249	21
Income before income taxes and accounting change . . . . .	11,292,330	11,702,765	-4
Federal and state income taxes . . . . .	4,643,000	5,354,595	-13
Net income before accounting change . . . . .	6,649,330	6,348,170	5
Accounting change . . . . .	—	852,155	—
Net income . . . . .	6,649,330	7,200,325	-8
Net income per share before accounting change . . . . .	1.79	1.86	-4
Common and common equivalent shares outstanding . . . . .	3,706,828	3,417,392	8
<b>At Year End</b>			
Total assets . . . . .	\$ 90,937,650	\$ 80,382,671	13
Long-term debt . . . . .	20,948,755	22,340,194	-6
Stockholders' equity . . . . .	52,958,355	45,046,871	18
Stockholders' equity per share . . . . .	14.00	13.48	4
Employees . . . . .	5,650	5,300	7
Shareowners of record . . . . .	2,300	1,900	21

## Dividend and Market Price Information

The common stock of Russell Corporation is traded on the American Stock Exchange under the symbol RML. The range of high and low sales prices of the common stock and the dividends per share paid during each calendar quarter of the last two years are presented below:

	Dividend	Market Price		
		High	Low	Close
1976	First . . . . .	\$ .09	\$11 <sup>1</sup> / <sub>16</sub>	\$6 <sup>1</sup> / <sub>2</sub>
	Second . . . . .	.10	10 <sup>1</sup> / <sub>8</sub>	7 <sup>1</sup> / <sub>2</sub>
	Third . . . . .	.10	8 <sup>7</sup> / <sub>8</sub>	7 <sup>1</sup> / <sub>4</sub>
	Fourth . . . . .	.10	7 <sup>7</sup> / <sub>8</sub>	7
		<u>\$ .39</u>		
1975	First . . . . .	\$ .075	\$5 <sup>7</sup> / <sub>16</sub>	\$3 <sup>9</sup> / <sub>16</sub>
	Second . . . . .	.075	7 <sup>5</sup> / <sub>16</sub>	4 <sup>3</sup> / <sub>8</sub>
	Third . . . . .	.075	7 <sup>1</sup> / <sub>4</sub>	5 <sup>1</sup> / <sub>4</sub>
	Fourth . . . . .	.090	7 <sup>1</sup> / <sub>4</sub>	5 <sup>1</sup> / <sub>4</sub>
		<u>\$ .315</u>		



# To Our Shareholders:

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We are pleased to report another year of record revenues and net operating income for your Company and to advise you that the new year is off to a good start.

Markets for our products were strong throughout the year, although profit margins were squeezed by higher costs of labor and materials and by start-up costs related to new facilities placed in operation during the year.

Sales resumed their growth during 1976, after a decline in the preceding year, gaining 21% to a record \$124,695,000. Net operating income totaled \$6,649,000, up 5% over the record \$6,348,000 earned in 1975. Due to a larger number of shares outstanding this year, operating earnings per share were down about 4% to \$1.79.

In 1975, net income was increased by a one-time inventory accounting change required by the Internal Revenue Service, which added \$852,000 to earnings. Consequently, the Company reported total net income of \$7,200,000 or \$2.11 per share for that year.

Our two-year capital program, the largest in the Company's history at almost \$17 million, was generally completed during 1976 and most facilities involved are now on stream. These plant improvements and the new jobs created by expanding facilities were, in part, made possible by investment tax credits, totaling \$944,000 this year and \$466,000 in 1975. It is important that the government continues to recognize the value of investment tax credits in creating new jobs and enabling American industry to keep its plants modern and competitive.

Facilities involved in the two-year program included wood chip boilers, which have proved their value during recent fuel shortages, new wide looms, consolidation of dyeing and finishing facilities, a continuation of the modernization of yarn production facilities, and a new computerized and automated distribution center.

Unusually high start-up expenses in these facilities had a substantial impact on earnings for the year and prevented profit from keeping pace with sales

increases. Start-up costs above a normal level amounted to 15¢ per share in 1976. During 1977, however, these improvements will begin to contribute to the strength of the Company through improved productivity, lower operating costs, better quality and customer service.

The Company plans an ongoing capital program within existing facilities of approximately \$7.5 million in 1977, principally involving replacement of outdated equipment, further expansion of open end spinning production, and automation of the single knit dyeing operations. Also included is the final phase of the card room modernization, expected to be completed in the first quarter, which will further improve working conditions for our employees. If market conditions or other favorable circumstances produce opportunities requiring additional expansion or new facilities, management would be prepared to increase its capital program to accommodate these developments.

Our financial condition continued to strengthen during the year, with assets reaching \$91 million at year-end, and shareholders' equity totaling \$53 million or \$14 per share.

Your Board of Directors gave shareholders a two-for-one stock split during 1976, and increased the cash dividend rate on common stock by 11%. Dividends have grown at a compound annual rate of 18% since 1972.

We also increased the equity base of the Company with a public offering of 80,000 shares of common stock sold along with 300,000 shares issued to satisfy outstanding warrants held by long-term lenders. Proceeds were used to reduce short-term bank borrowings.

It appears that 1977 will be another excellent year for the Company, with our order backlog for the first half much better than a year ago. We expect a high level of business at least through mid-year and if the nation's economy is healthy we are optimistic about the full year. The challenges of 1977 will be to maximize production to meet market demands, and to contain rising costs.

For the longer term, we have faith in the Company



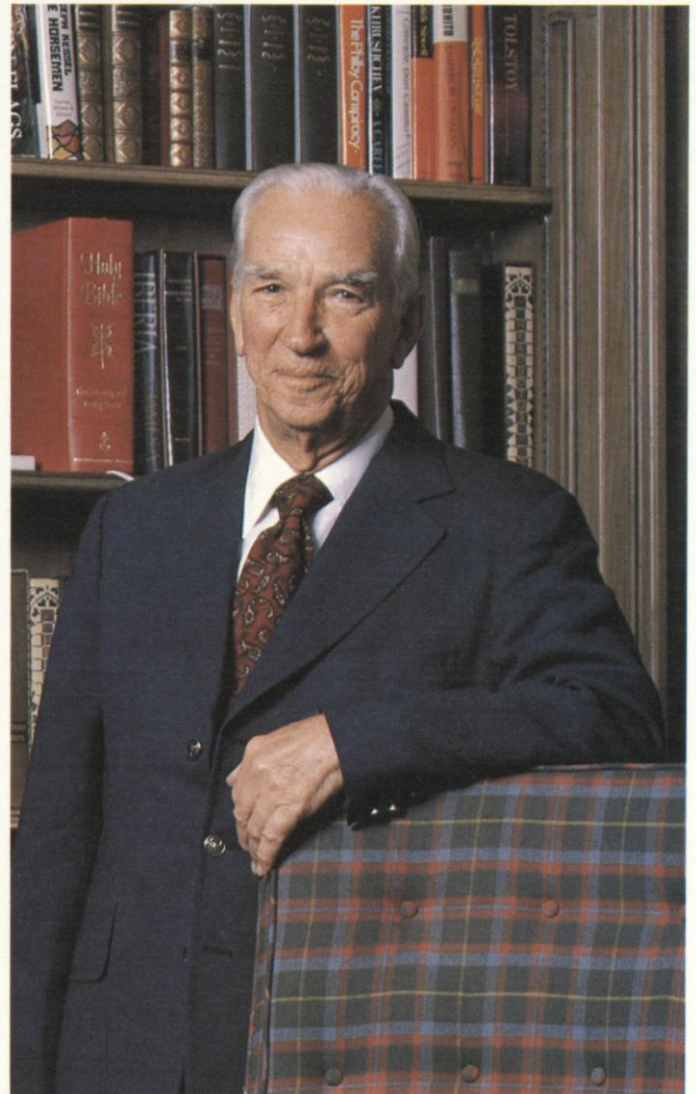


*E. C. Gwaltney, President and Chief Executive Officer*

and a commitment to maintain a technically competent organization, to manufacture high quality products, and to provide our customers with the best possible service.

We appreciate the dedication of our employees and the support and loyalty of our shareholders, and we recognize that the people of Russell are our greatest asset.

As we approach our 75th anniversary in June, we look to our past history with great pride and to the future with enthusiasm, ready to meet the



*Thomas D. Russell, Chairman*

challenges that lie ahead and confident of the continued success of your Company.

A handwritten signature in black ink that reads "E. C. Gwaltney".

E. C. Gwaltney, President and Chief Executive Officer

A handwritten signature in black ink that reads "Thos. D. Russell".

Thomas D. Russell, Chairman  
February 27, 1977



# Serving Many Markets

Russell specialized apparel was in great demand during 1976, and sales were at record levels for the year. The complete Russell product line, including athletic uniforms, knit leisurewear and knit and woven fabrics, reached ready markets responding to the upturn in the American economy.

Russell Athletic apparel was worn on hundreds of playing fields around the United States as sports teams of all ages chose Russell uniforms for football, basketball, growing soccer programs, and a number of other sports.

The majority of American professional football teams wear Russell uniforms, as do many leading college and high school teams. However, the major volume in athletic apparel is in more standard uniforms for little league, softball, track, tennis and physical education programs. Russell produces uniforms for essentially any age and size player for any recognized sport.

Russell Athletics gave emphasis this year to the adult leisure market, packaging and distributing

garments for sale in retail sporting goods outlets. Trimmed shorts, shirts and related items found immediate acceptance with dealers and customers alike. Recognizing the changing demographic proportions between school populations and the adult leisure market, the Company's athletic apparel operations will pursue this avenue of distribution aggressively in the future.

Russell knit leisurewear continued to reach strong markets through traditional wholesale channels and increasingly through such mass merchandisers as department stores, discount stores and catalog operators.

Printed and plain T-shirts continued to be the leader in knitwear during the year, and markets were stronger than ever. Innovations from the stable and responsible majority of the apparel printing industry created popular new designs and found waiting markets for a new generation of printed shirts.

A remarkable increase in demand occurred during 1976 for warm-ups, traditionally worn off the field by athletes, but now popular for jogging, tennis, and







weekend leisurewear. They proved to be comfortable lounging apparel as well, as energy concerned Americans reduced the temperature in their homes. Markets for warm-ups are expected to continue to grow during 1977, and Russell is approaching them with a variety of new styles, colors and designs.

Other popular items in the Russell knit leisurewear

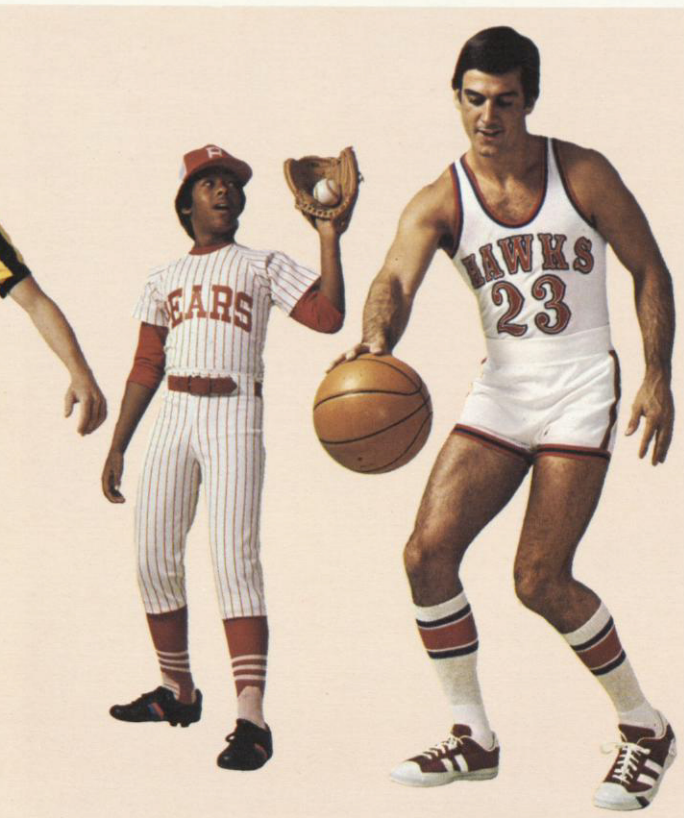
line are plain and printed sweat shirts, children's sleepwear and thermal underwear.

The Company's third major product category is a comprehensive line of knit and woven fabrics marketed to other manufacturers for further processing into men's shirts, ladies wear, children's clothing, career apparel, and to the home sewing market.

In all three lines, the high quality and styling leadership of the products have been the key to Russell's marketing success, and the Company gives high priority to advanced styling and innovative product development.

Russell's production facilities are quite flexible in their mix of end products, and capacity can be efficiently shifted from one product line to another to meet changing market demands.

The facilities are also highly integrated vertically, with the ability to begin with raw fiber and produce a finished garment, or to purchase outside materials at any stage of production if this is advantageous to the Company.





# Improving Facilities

The largest capital investment program in the Company's history, a \$17 million modernization and expansion effort undertaken in 1975, was completed during the year with new and improved facilities beginning operations in 1976 and early 1977.

The program was consistent with the Company's commitment to maintain a technologically competitive plant, to improve operating efficiency, product quality and customer service, to contain rising costs and improve employee working conditions.

Projects included in 1975-76 expenditures were a new apparel central distribution center, installation of new wide looms, new wood chip boilers, plus consolidation of knit dyeing and finishing facilities and modernization of yarn manufacturing facilities.

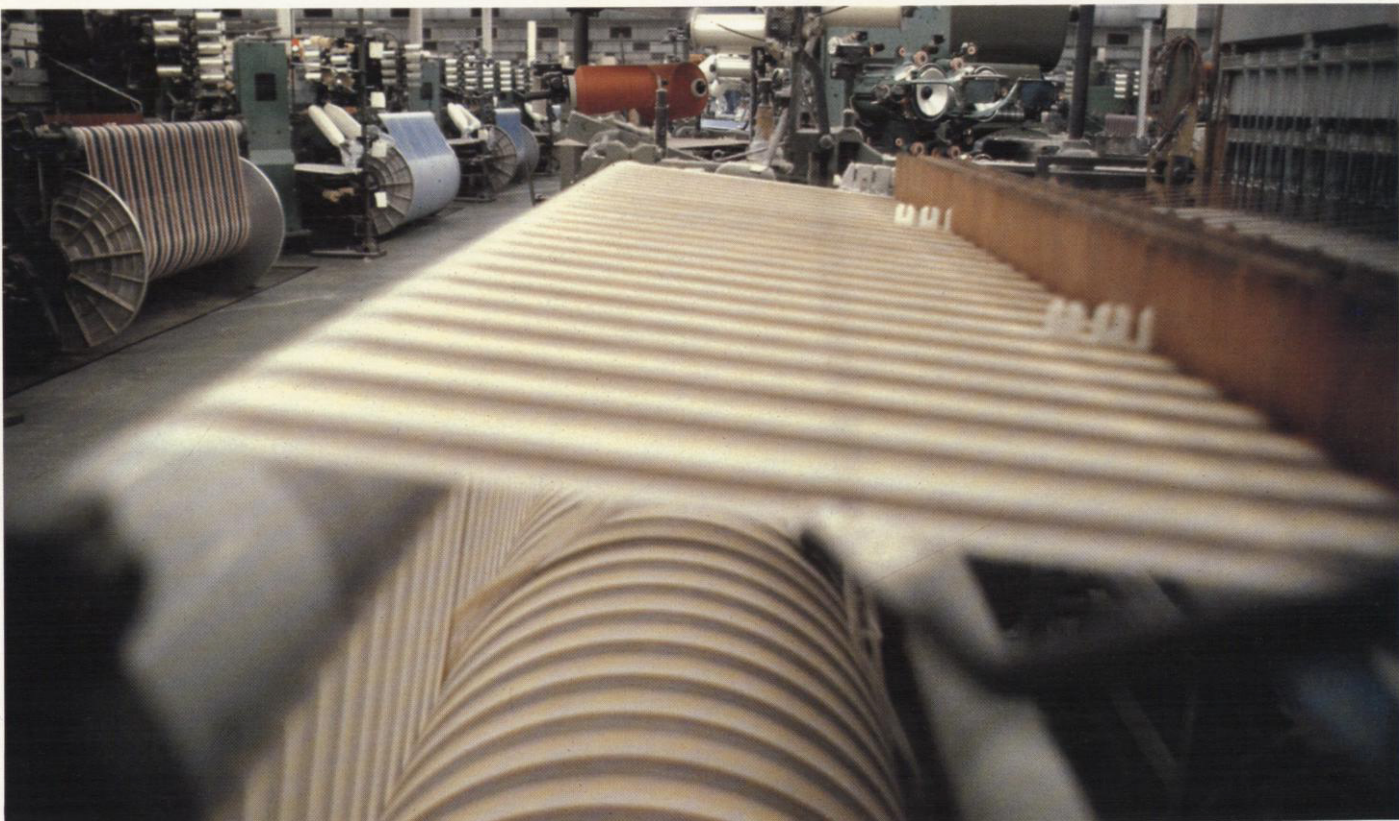
The new distribution center, now in the first stages of start-up, is highly automated, and provides computerized receiving, order handling, product movement and storage, inventory control and

shipping from a central location. Regional warehouses will continue to supplement the central facilities. Products received by the center are automatically recorded, transported on automatic conveyors to staging areas, then systematically stored for later preparation and shipping. Work schedules within the center are created automatically by the system.

The center is designed primarily to provide faster and more efficient handling of customer orders and to reduce the time span between order placement and final shipping. Secondly, it provides management better inventory control and production planning data.

Other projects completed during the year include installation of new high-speed wide looms which both increase overall weaving capacity of the plant and make possible production of wider fabric than the older equipment.

Consolidation of the Company's knit dyeing and finishing facilities completed in 1976, and installation of automated equipment which is scheduled for 1977,







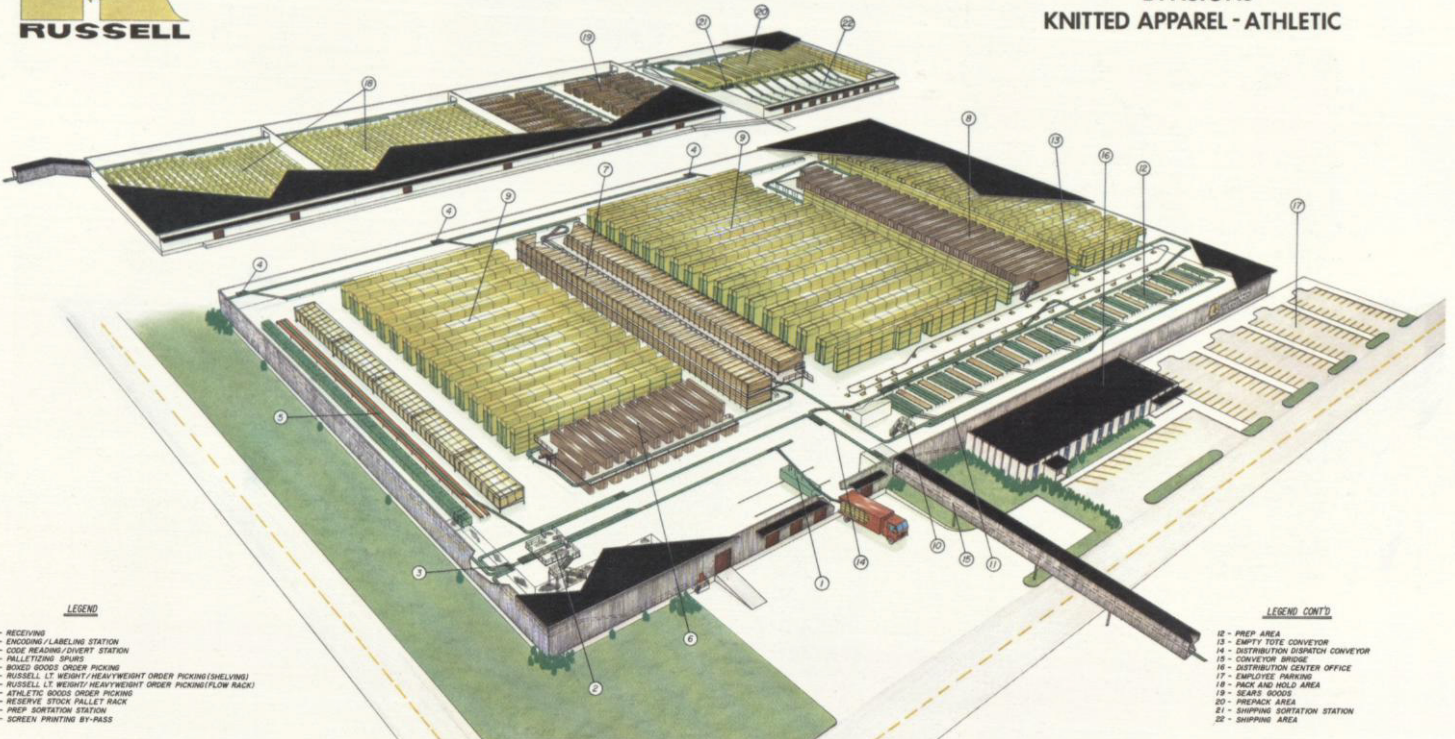
will increase productivity and reduce costs.

The new wood chip boilers, which began operations early in 1976, have proved invaluable during recent winter fuel shortages, and by mid-year will be performing as originally projected in fuel cost reductions while saving approximately 5,000,000 gallons of fuel oil annually. The facility burns waste wood products from Alabama forests, a readily available fuel.

Elements of the capital program completed last year include modernization of yarn production facilities, resulting in virtually dust free working conditions; and installation of additional open end spinning frames, increasing productive capacity by 25% while reducing costs.



### MASTER DISTRIBUTION CENTER DIVISIONS KNITTED APPAREL - ATHLETIC



**LEGEND**

- 1 - RECEIVING
- 2 - ENCODING/LABELING STATION
- 3 - CODE READING/DIVERT STATION
- 4 - PALLETIZING STATION
- 5 - BOXED GOODS ORDER PICKING
- 6 - RUSSELL LT WEIGHT/HEAVYWEIGHT ORDER PICKING(SHELVING)
- 7 - RUSSELL LT WEIGHT/HEAVYWEIGHT ORDER PICKING(FLOW RACK)
- 8 - ATHLETIC GOODS ORDER PICKING
- 9 - RESERVE STOCK PALLET RACK
- 10 - PREP SORTATION STATION
- 11 - SCREEN PRINTING BY-PASS

**LEGEND CONT'D**

- 12 - PREP AREA
- 13 - EMPTY TOTE CONVEYOR
- 14 - DISTRIBUTION DISPATCH CONVEYOR
- 15 - CONVEYOR BRIDGE
- 16 - DISTRIBUTION CENTER OFFICE
- 17 - EMPLOYEE PARKING
- 18 - PACK AND HOLD AREA
- 19 - SEARS GOODS
- 20 - PREPACK AREA
- 21 - SHIPPING SORTATION STATION
- 22 - SHIPPING AREA



# Financial Review

## Capital Program Financing

The two-year \$17 million capital expenditures program was essentially completed in 1976, with the first stages of the central distribution center start up begun shortly after the end of the year. Other projects were on stream by year-end. All of the 1976 capital expenditures and working capital needs were financed by internally generated funds, except for \$2,395,000 which was raised from the exercise of warrants and the sale of new shares of stock.

The warrants (representing 300,000 shares of stock) were exercised by major lenders of the long-term money acquired in 1971. Remaining unexercised warrants outstanding represent only 120,000 shares of stock.

The 1977 capital program of \$7,500,000 is expected to be financed from internally generated cash. The program is subject to increase if favorable opportunities for additional expansion develop during the year. Seasonal working capital requirements will continue to be financed by bank loans.

## Working Capital

Working capital, primarily inventories and accounts receivable, reached \$42,500,000 at year-end in support of higher business levels. The current ratio was a healthy 5.3 to 1 and the Company was able to pay off all bank loans again at year-end.

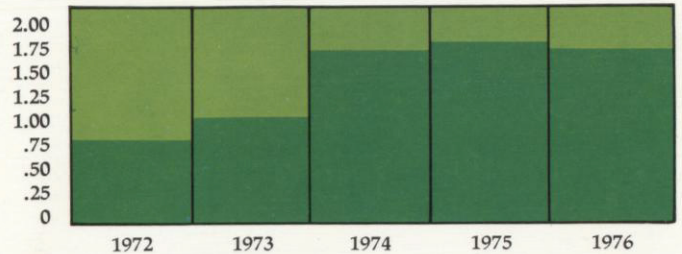
## Shareowners' Equity

Shareowners' equity per share was up by 4% in 1976 on a greater number of shares outstanding. The return on beginning equity was 14.8%, down slightly from the 1975 level, attributable principally to unusually high start-up expenses absorbed in 1976.

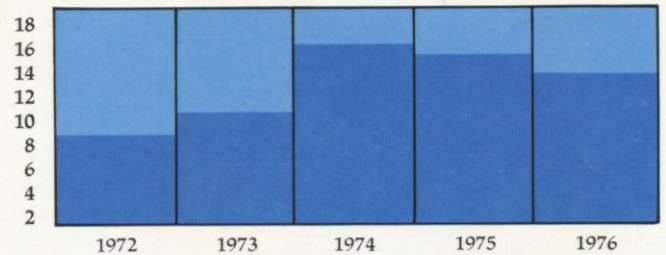
## Dividends

The dividend rate was increased by 11% in May of 1976, which followed a two-for-one stock split effective May 10, 1976. This was the fourth consecutive year of dividend increases.

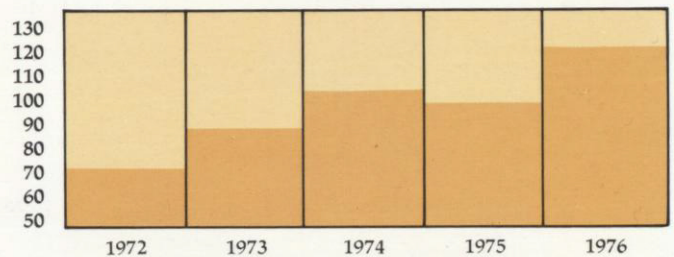
Earnings per Share (Dollars)



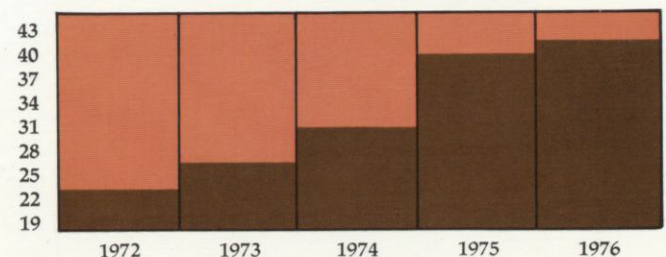
Return on Beginning Equity (%)



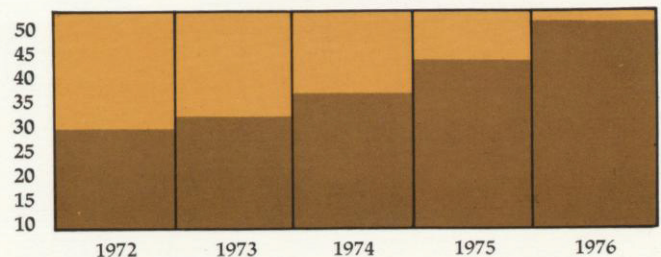
Net Sales (\$ Millions)



Working Capital (\$ Millions)



Shareholders' Equity (\$ Millions)





# Consolidated Statements of Income

Russell Corporation and Subsidiaries  
Years ended January 1, 1977, and January 3, 1976

	1976 (52 weeks)	1975 (53 weeks)
Net sales . . . . .	\$124,695,509	\$102,664,249
Cost of goods sold . . . . .	<u>96,687,309</u>	<u>76,332,077</u>
	28,008,200	26,332,172
Selling, general, and administrative expenses . . . . .	<u>14,858,541</u>	<u>12,653,107</u>
	13,149,659	13,679,065
Other deductions:		
Interest expense (Note D) . . . . .	2,472,939	2,260,086
Other—net (income) . . . . .	<u>(615,610)</u>	<u>(283,786)</u>
	<u>1,857,329</u>	<u>1,976,300</u>
<b>Income Before Income Taxes and Cumulative Effect of a Change in Inventory Costing Method . . . . .</b>	<b>11,292,330</b>	<b>11,702,765</b>
Federal and state income taxes (Notes A and B):		
Currently payable . . . . .	3,710,478	4,959,000
Deferred—net . . . . .	<u>932,522</u>	<u>395,595</u>
	<u>4,643,000</u>	<u>5,354,595</u>
<b>Income Before Cumulative Effect of a Change in Inventory Costing Method .</b>	<b>6,649,330</b>	<b>6,348,170</b>
Cumulative effect on years prior to 1975 of changing inventory costing method, less income taxes of \$832,000 (Note B) . . . . .	<u>—0—</u>	<u>852,155</u>
<b>Net income . . . . .</b>	<b><u>\$ 6,649,330</u></b>	<b><u>\$ 7,200,325</u></b>
Per share data (Notes A and F):		
Earnings per common and common equivalent share:		
Income before cumulative effect of a change in inventory costing method . . . . .	\$1.79	\$1.86
Cumulative effect on years prior to 1975 . . . . .	<u>—0—</u>	<u>.25</u>
Net income . . . . .	<u>\$1.79</u>	<u>\$2.11</u>
Pro forma amounts, assuming the new method of inventory costing is applied retroactively (Note B):		
Net income . . . . .	<u>\$ 6,649,330</u>	<u>\$ 6,348,170</u>
Net income per common and common equivalent share . . . . .	<u>\$1.79</u>	<u>\$1.86</u>

See notes to consolidated financial statements.



# Consolidated Balance Sheets

Russell Corporation and Subsidiaries  
January 1, 1977, and January 3, 1976

	January 1 1977	January 3 1976
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and temporary investments . . . . .	\$ 1,838,414	\$ 5,207,896
Trade accounts receivable, less allowance of \$1,000,000 in 1976 and 1975 (Note A) . . . . .	19,841,989	12,404,655
Inventories (Notes A and B) . . . . .	29,457,978	29,697,597
Recoverable federal income taxes and prepaid expenses (Note A) . . . . .	<u>1,348,989</u>	<u>776,995</u>
<b>Total Current Assets</b>	52,487,370	48,087,143
<b>Other Assets</b> (Note C) . . . . .	1,058,078	1,070,898
<b>Property, Plant and Equipment—at cost (Notes A, D, and G)</b>		
Land . . . . .	113,313	113,513
Buildings . . . . .	13,600,589	12,475,159
Machinery and equipment . . . . .	44,173,775	42,406,144
Construction in progress . . . . .	<u>743,643</u>	<u>3,255,667</u>
	58,631,320	58,250,483
Less allowances for depreciation and amortization . . . . .	<u>21,239,118</u>	<u>27,025,853</u>
	37,392,202	31,224,630
	<u><u>\$90,937,650</u></u>	<u><u>\$80,382,671</u></u>



	January 1 1977	January 3 1976
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses:		
Trade accounts . . . . .	\$ 4,015,008	\$ 2,830,581
Employee compensation . . . . .	2,092,913	1,702,430
Accrued expenses (Notes A and E) . . . . .	<u>1,737,932</u>	<u>899,824</u>
	7,845,853	5,432,835
Federal and state income taxes (Notes A and B) . . . . .	597,156	667,005
Current maturities of long-term debt (Note D) . . . . .	<u>1,544,800</u>	<u>1,068,500</u>
<b>Total Current Liabilities</b>	9,987,809	7,168,340
<b>Long-Term Debt and Capitalized Lease Obligations—</b>		
less current maturities and unamortized debt discount (Note D) . . . . .	20,948,755	22,340,194
<b>Deferred Liabilities</b>		
Federal and state income taxes (Notes A and B) . . . . .	5,650,897	4,617,656
Accrued retirement benefits (Note E) . . . . .	<u>1,391,834</u>	<u>1,209,610</u>
	7,042,731	5,827,266
<b>Stockholders' Equity (Notes D and F)</b>		
Common Stock, par value \$1 a share:		
Authorized: 7,000,000 shares in 1976; 3,500,000 shares in 1975		
Issued and outstanding: 3,782,144 in 1976; 1,670,700 shares in 1975 . . . . .	3,782,144	1,670,700
Paid-in capital . . . . .	7,698,808	7,148,394
Retained earnings . . . . .	<u>41,477,403</u>	<u>36,227,777</u>
	52,958,355	45,046,871
<b>Commitments (Note G)</b>		
	<u>\$90,937,650</u>	<u>\$80,382,671</u>

See notes to consolidated financial statements.



# Consolidated Statements of Changes in Financial Position

Russell Corporation and Subsidiaries

Years ended January 1, 1977, and January 3, 1976

	1976 <u>(52 weeks)</u>	1975 <u>(53 weeks)</u>
<b>Source of funds</b>		
Net income before cumulative effect of a change in inventory costing method . . . . .	\$ 6,649,330	\$ 6,348,170
Expenses not requiring outlay of working capital:		
Depreciation and amortization . . . . .	2,780,894	2,647,792
Other . . . . .	<u>1,482,433</u>	<u>717,561</u>
Total from operations, excluding cumulative effect of a change in inventory costing method . . . . .	10,912,657	9,713,523
Cumulative effect of change in inventory costing method . . . . .	—0—	852,155
Disposals of property . . . . .	10,819	186,402
Long-term borrowings . . . . .	—0—	8,200,000
Issuance of Common Stock . . . . .	<u>2,394,890</u>	<u>13,944</u>
<b>Total Source of Funds</b>	<b>13,318,366</b>	<b>18,966,024</b>
<b>Application of Funds</b>		
Increase in other assets . . . . .	3,477	344,494
Purchases of property, plant and equipment . . . . .	8,927,713	7,685,222
Reduction in long-term debt . . . . .	1,406,714	1,206,587
Dividends on Common Stock . . . . .	<u>1,399,704</u>	<u>1,051,218</u>
<b>Total Application of Funds</b>	<b>11,737,608</b>	<b>10,287,521</b>
<b>Increase in Working Capital</b>	<b>1,580,758</b>	<b>8,678,503</b>
Working capital at beginning of year . . . . .	<u>40,918,803</u>	<u>32,240,300</u>
<b>Working Capital at End of Year</b>	<b><u>\$42,499,561</u></b>	<b><u>\$40,918,803</u></b>
<b>Changes in Components of Working Capital</b>		
Increase (decrease) in current assets:		
Cash and temporary investments . . . . .	\$ (3,369,482)	\$ 4,193,874
Trade accounts receivable . . . . .	7,437,334	(2,584,647)
Inventories . . . . .	(239,619)	3,809,780
Recoverable federal income taxes and prepaid expenses . . . . .	<u>571,994</u>	<u>(229,021)</u>
<b>Increase in Current Assets</b>	<b>4,400,227</b>	<b>5,189,986</b>
Increase (decrease) in current liabilities:		
Notes payable . . . . .	—0—	(1,400,000)
Accounts payable and accrued expenses . . . . .	2,413,018	346,434
Federal and state income taxes . . . . .	(69,849)	(2,544,951)
Current maturities of long-term debt . . . . .	<u>476,300</u>	<u>110,000</u>
<b>Increase (decrease) in Current Liabilities</b>	<b><u>2,819,469</u></b>	<b><u>(3,488,517)</u></b>
<b>Increase in Working Capital</b>	<b><u>\$ 1,580,758</u></b>	<b><u>\$ 8,678,503</u></b>

See notes to consolidated financial statements.



# Consolidated Statements of Stockholders' Equity

Russell Corporation and Subsidiaries  
Years ended January 1, 1977, and January 3, 1976

	1976		1975	
	Shares	Amount	Shares	Amount
<b>Common Stock</b>				
Balance at beginning of year . . . . .	1,670,700	\$ 1,670,700	1,668,600	\$ 1,668,600
Exercise of stock options (Note F) . . . . .	32,622	32,622	2,100	2,100
Shares issued under a 100% stock distribution (Note F) . . . . .	1,698,822	1,698,822	—0—	—0—
Exercise of stock warrants (Note D) . . . . .	300,000	300,000	—0—	—0—
Stock sold in public offering . . . . .	80,000	80,000	—0—	—0—
<b>Balance at End of Year</b>	<u>3,782,144</u>	<u>\$ 3,782,144</u>	<u>1,670,700</u>	<u>\$ 1,670,700</u>
<b>Paid-In Capital</b>				
Balance at beginning of year . . . . .		\$ 7,148,394		\$ 7,123,194
Exercise of stock options (Note F) . . . . .		484,436		25,200
Transfer to Common Stock for shares issued under a 100% stock distribution (Note F) . . . . .		(1,698,822)		—0—
Exercise of stock warrants (Note D) . . . . .		1,200,000		—0—
Stock sold in public offering . . . . .		564,800		—0—
<b>Balance at End of Year</b>		<u>\$ 7,698,808</u>		<u>\$ 7,148,394</u>
<b>Retained Earnings</b>				
Balance at beginning of year . . . . .		\$36,227,777		\$30,078,670
Net income for the year . . . . .		6,649,330		7,200,325
		42,877,107		37,278,995
Cash dividends (1976—\$.39; 1975—\$.315) . . . . .		1,399,704		1,051,218
<b>Balance at End of Year</b>		<u>\$41,477,403</u>		<u>\$36,227,777</u>

See notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

Russell Corporation and Subsidiaries  
Years ended January 1, 1977, and January 3, 1976

### NOTE A—SIGNIFICANT ACCOUNTING POLICIES

**Principles of Consolidation:** The consolidated financial statements include the accounts of all subsidiaries of the Company after the elimination of intercompany accounts and transactions.

**Inventories:** Inventories of finished goods, work-in-process, and raw materials are priced at the lower of cost (principally last-in, first-out basis) or market.

The Company hedges the cost of cotton to be used in the production of textile products through the purchase of futures contracts to minimize risks from market fluctuations. As purchase contracts replace futures contracts, resulting gains are recognized in the period being protected while losses are charged to operations currently.

Inventories are summarized as follows (see Note B):

	1976	1975
Finished goods . . . . .	\$23,651,847	\$22,436,885
In process . . . . .	7,797,092	6,908,739
Raw materials and supplies . . . . .	4,800,727	4,205,313
	36,249,666	33,550,937
Less LIFO reserve . . . . .	6,791,688	3,853,340
<b>TOTALS . . . . .</b>	<u>\$29,457,978</u>	<u>\$29,697,597</u>

**Depreciation:** Provision for depreciation of the principal items of property, plant and equipment has been computed on the straight-line method at rates based on their estimated useful lives.

**Pension Plans:** The Company has noncontributory pension plans covering substantially all of its employees. The policy of the Company is to fund each year the value of benefits earned during the year and to amortize prior service liability over 40 years.

**Income Taxes:** The provision for deferred income taxes and future income tax benefits is applicable to timing differences between book and tax income, principally for depreciation, retirement benefits and bad debts (see Note B).



# Notes to Consolidated Financial Statements Cont.

Russell Corporation and Subsidiaries

Years ended January 1, 1977, and January 3, 1976

Investment tax credits (accounted for on the flow-through method) amounted to \$944,000 in 1976 and \$466,000 in 1975.

**Earnings Per Share:** Earnings per share are computed by using the average number of shares of Common Stock outstanding, plus equivalent shares (warrants and employee stock options). Earnings per common share assuming full conversion have not been reported since any difference is minimal.

**Fiscal Year:** The Company's fiscal year ends on the Saturday nearest to January 1 which periodically results in a fiscal year of 53 weeks, which occurred in 1975.

## NOTE B—CHANGES IN ACCOUNTING PRINCIPLE

Effective December 29, 1974, the Company changed its method of inventory costing for both financial reporting and tax purposes to conform with revised tax regulations. The cumulative net income effect of the change on years prior to 1975 was \$852,155 (\$.25 a share) and is taxable over a seven-year period commencing in 1975.

## NOTE C—OTHER ASSETS

Other assets include marketable securities which are carried at cost which approximates market. No gains or losses have been realized.

## NOTE D—LONG-TERM DEBT AND CAPITALIZED LEASE OBLIGATIONS

Long-term debt and capitalized lease obligations at January 1, 1977, and January 3, 1976, included the following:

	1976	1975
Notes payable to insurance companies:		
10 $\frac{1}{4}$ % notes . . . . .	\$ 7,000,000	\$ 7,000,000
9 $\frac{1}{2}$ % notes (effective rate 9 $\frac{3}{4}$ %) . . . . .	12,352,000	13,176,000
Capitalized lease obligations . . . . .	3,369,400	3,475,813
	<u>22,721,400</u>	<u>23,651,813</u>
Less:		
Current maturities . . . . .	1,544,800	1,068,500
Unamortized debt discount . . . . .	227,845	243,119
	<u>1,772,645</u>	<u>1,311,619</u>
<b>TOTALS . . . . .</b>	<b><u>\$20,948,755</u></b>	<b><u>\$22,340,194</u></b>

The 10 $\frac{1}{4}$ % notes payable to insurance companies were issued on May 28, 1975, and are repayable in semiannual payments through December 1, 1991. The interest rate on the 9 $\frac{1}{2}$ % notes will be reduced by 1/4% per annum upon the aggregate increase in stockholders' equity of \$3,000,000 resulting from any future sale of the Company's Common Stock. Subsequent to December 1, 1971, stockholders' equity has increased approximately \$2,675,000 from the sale of its Common Stock. The noteholders received warrants for the purchase of 420,000 shares of Common Stock of the Company at \$5 a share, 300,000 warrants of which were exercised during 1976

(see Note F). The remaining warrants for 120,000 shares are exercisable immediately and expire on December 1, 1991. The warrants have been recorded at their fair market value (as determined by independent investment counsel) and as a result \$305,490 was credited to paid-in capital and charged to bond discount. Costs related to the issuance of the notes payable are being amortized over the life of the notes.

Among other provisions, the notes contain restrictions on the payment of dividends, incurrence of indebtedness, liens, leases, investments, retirement of capital stock and warrants and provide that the Company must meet certain working capital requirements. At January 1, 1977, \$5,474,000 of retained earnings was available for payment of dividends.

The capitalized lease obligations relate to land, buildings, machinery and equipment financed by the issuance and sale of two series of industrial revenue bonds. The bonds mature serially in progressive annual amounts through 1987 and bear interest at various rates from 4 $\frac{3}{4}$ % to 8%. The property collateralized under the capitalized lease obligations is included in property, plant and equipment with a carrying value of approximately \$3,143,000 at January 1, 1977.

The following summarizes the maturities of long-term debt and capitalized lease obligations: 1977—\$1,544,800; 1978—\$1,550,000; 1979—\$1,560,202; 1980—\$1,570,400; 1981—\$1,580,600; 1982-1986—\$8,096,900; and after 1986—\$6,822,000.

## NOTE E—PENSION AND RETIREMENT PLANS

The total pension expense, including amortization of past service liability, amounted to \$1,463,228 and \$1,266,726 for the fiscal years 1976 and 1975, respectively. The actuarially computed value of vested benefits at July 1, 1975, the date of the latest actuarial valuation, exceeded the net assets of the pension funds, based on cost at the valuation date, by approximately \$5,510,000. Unfunded past service costs at July 1, 1975, amounted to approximately \$6,400,000.

The Company is presently making certain changes in its pension plans to conform with the Employee Retirement Income Security Act of 1974. These changes will not have a material effect on future pension costs.

The Company has also provided retirement benefits to be paid to certain individuals some of whom are not covered by the above pension plans. The estimated benefits to be paid under the terms of these contracts have been credited to accrued retirement benefits and are being amortized over periods ranging from eight to fifteen years. Charges against operations for these benefits amounted to approximately \$346,000 and \$340,000 for the fiscal years 1976 and 1975, respectively.



**NOTE F—STOCK OPTION PLAN AND STOCK DISTRIBUTION**

On April 28, 1976, the Board of Directors declared a 100% stock distribution (two-for-one stock split) in the Common Stock of the Company payable on May 18, 1976, to stockholders of record on May 10, 1976. The par value of the new shares issued totaled \$1,698,822 and has been transferred from paid-in capital to the Common Stock account. All references to shares of Common Stock and dividends and amounts per share have been adjusted for this stock distribution.

During the year ended January 1, 1977, the stockholders approved an amendment to the Certificate of Incorporation increasing the number of authorized shares of capital stock, par value \$1, from 3,500,000 shares to 7,000,000 shares of Common Stock.

Under the Company's nonqualified stock option plan options may be granted at a price which is not less than 90% of the stock's fair market value. All options are exercisable two years after the date of grant and expire 11 years after the date of grant. Options to purchase 2,000 shares at \$7.76 a share were granted during the year ended January 1, 1977. During 1976 and 1975, options were exercised for the purchase of 60,744 shares and 4,200 shares, respectively, at option prices ranging from \$5.96 to \$3.32 a share. At January 1, 1977, options to purchase 91,756 shares were outstanding and 89,756 shares are exercisable.

**NOTE G—COMMITMENTS**

The Company had commitments and options for the acquisition of new property and equipment totaling approximately \$2,235,000 at January 1, 1977, and \$5,290,000 at January 3, 1976.

The Company has an agreement with the City of Alexander City, Alabama, for the City to provide sanitary sewer service. The Company has agreed to pay \$35,300 annually in equal monthly installments, plus 75% of the monthly operating expenses of the facilities, until March 1, 1998.

Rental and lease expense for fiscal years 1976 and 1975 was \$1,016,615 and \$792,048, respectively, the majority of which was for data processing equipment.

At January 1, 1977, the Company was committed under noncancelable leases for manufacturing facilities, sales offices, and equipment, with minimum rental payments, aggregating \$3,188,870, summarized by fiscal year periods as follows: 1977—\$463,233; 1978—\$461,051; 1979—\$461,051; 1980—\$449,314; 1981—\$443,446; 1982-1986—\$672,342; 1987-1991—\$238,433.

**NOTE H—SUMMARY OF QUARTERLY RESULTS OF OPERATIONS (Unaudited)**

The following is a summary of unaudited quarterly results of operations for the year ended January 1, 1977:

	Quarter Ended			
	April 4 1976 (13 Weeks)	July 4 1976 (13 Weeks)	October 3 1976 (13 Weeks)	January 1 1977 (13 Weeks)
	(Thousands of dollars, except per share data)			
Net sales . . . .	\$29,224	\$31,100	\$32,964	\$31,407
Gross profit . . .	7,005	6,869	6,713	7,421
Net income . . . .	1,715	1,537	1,612	1,785
Net income per common and common equiva- lent share . . . .	\$ .48	\$ .43	\$ .42	\$ .46

# Accountants' Report

Board of Directors  
Russell Corporation  
Alexander City, Alabama

We have examined the consolidated balance sheets of Russell Corporation and subsidiaries as of January 1, 1977, and January 3, 1976, and the related consolidated statements of income, stockholders' 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 procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Russell Corporation and subsidiaries at January 1, 1977, and January 3, 1976, 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 consistently applied during the period subsequent to the change, with which we concur, made as of December 29, 1974, in the method of inventory costing as described in Note B to the consolidated financial statements.

Birmingham, Alabama  
February 3, 1977

*Ernst & Ernst*





# Summary of Operations and Related Statistics 1972-1976

Russell Corporation and Subsidiaries

Operations (in thousands)	1976	1975	1974	1973	1972
<b>Net Sales</b> . . . . .	\$124,695	\$102,664	\$107,290	\$ 90,980	\$ 75,014
Cost of goods sold . . . . .	96,687	76,332	81,464	71,730	59,273
Interest expense . . . . .	2,473	2,260	2,272	2,228	1,775
Income before income taxes . . . . .	11,292	11,703	11,369	6,480	5,064
Income taxes . . . . .	4,643	5,355	5,496	2,905	2,249
<b>Net income*</b> . . . . .	6,649	6,348	5,873	3,575	2,815
<b>Per Share of Common Stock (in dollars)</b>					
Net income* . . . . .	\$ 1.79	\$ 1.86	\$ 1.76	\$ 1.06	\$ .82
Cash dividends . . . . .	.39	.315	.275	.25	.20
Stockholders' equity . . . . .	14.00	13.48	11.65	10.16	9.34
<b>Financial (in thousands)</b>					
Depreciation . . . . .	\$ 2,781	\$ 2,648	\$ 2,697	\$ 2,376	\$ 2,387
Cash flow (net income plus depreciation) . . . . .	9,430	8,996	8,570	5,951	5,202
Capital expenditures . . . . .	8,928	7,685	2,726	4,641	3,685
Working capital . . . . .	42,500	40,919	32,240	27,506	24,031
Long-term debt . . . . .	20,949	22,340	15,332	16,206	13,711
Stockholders' equity . . . . .	52,958	45,047	38,870	33,915	31,175
<b>Percent</b>					
Income* before income taxes to net sales . . . . .	9.1%	11.4%	10.6%	7.1%	6.8%
Net income* to net sales . . . . .	5.3	6.2	5.5	3.9	3.8
Net income* to beginning shareholders' equity . . . . .	14.8	16.3	17.3	11.5	9.7
Number of common shares outstanding . . . . .	3,782,144	3,341,400	3,337,200	3,337,200	3,337,200
Approximate number of shareowners of record . . . . .	2,300	1,900	1,800	1,760	1,720

\*Before accounting change that added \$852,000 to net income in 1975.

## Management's Discussion and Analysis of the Summary of Operations

### 1976 Compared to 1975

Net sales in 1976 increased 21% over 1975 primarily due to substantially higher sales volume for all products and moderate price increases. Higher raw material prices, labor costs, and start-up expenses squeezed profit margins, and interest expense was up in 1976 due to higher average long-term borrowings outstanding.

Income before income taxes decreased 4% in 1976 caused principally by the higher start-up expenses associated with the Company's record two-year capital program culminating in 1976. The income tax rate (41.1% in 1976 versus 45.8% in 1975) varied because of the effect of investment tax credits which amounted to \$944,000 in 1976 and \$466,000 in 1975. The lower effective tax rate in 1976 contributed to a net income increase of 5% for the year. Earnings per share decreased because of the higher average number of common and common equivalent shares outstanding in 1976.

### 1975 Compared to 1974

Net sales were lower for the year mainly because of reduced demand resulting from the national recession which adversely affected the industry, primarily in the first three quarters of 1975. Profit margins were favorably affected by the product mix, operating improvements and some higher prices. Net income also benefited from an investment tax credit of \$466,000 in 1975 versus \$191,000 in 1974. In addition, a non-recurring item of \$852,155 (\$.25 per share) was added to 1975 net income due to an IRS ruling requiring a change in the inventory costing method.



## DIRECTORS

- Thomas D. Russell\*  
Chairman of the Board
- J. C. Alison  
Retired
- Dwight L. Carlisle, Jr.
- Newton H. DeBardeleben  
Chairman of the Board and  
Chief Executive Officer  
First National Bank  
Birmingham, Alabama
- Eugene C. Gwaltney\*
- George W. Hardy
- H. Scott Howell
- Glenn Ireland, II  
Senior Vice President  
Vulcan Materials Company  
Birmingham, Alabama
- Finis Morgan\*
- Joe W. Richardson  
Retired
- Benjamin Russell  
President  
Russell Lands, Incorporated  
Alexander City, Alabama
- John Russell Thomas  
Chairman and President  
First National Bank  
Alexander City, Alabama

## Honorary Directors

- L. M. Askew
- S. H. Bradshaw, Jr.
- R. M. Latimer

\*Executive Committee

## OFFICERS

### Corporate

- Thomas D. Russell  
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- Eugene C. Gwaltney  
President and Chief Executive Officer
- Finis Morgan  
Vice President-Finance and Treasurer
- Dwight L. Carlisle, Jr.  
Vice President  
Manufacturing
- William P. Dickson, Jr.  
Vice President  
Personnel and Industrial Relations
- Frank K. Hall, Jr.  
Vice President and General Manager  
Fabrics Division
- George W. Hardy  
Vice President and General Manager  
Athletic Division
- H. Scott Howell  
Vice President and General Manager  
Knit Apparel Division

James D. Nabors  
Secretary and Controller

C. Kyle Neighbors  
Assistant Secretary

## OPERATING VICE PRESIDENTS

### Manufacturing

- J. Franklin Foy  
Dyeing and Finishing
- Gerald D. McGill  
Spinning and Weaving
- Robert S. White  
Athletic Wear

Henry C. Willis  
Knit Apparel

### Fabrics

- Jacques G. Richard  
Fabrics Sales
- W. O. Bozeman  
Contract Sales

### Knit Apparel

Edward T. Boylan  
Knit Apparel Sales

## EXECUTIVE OFFICES

Alexander City, Alabama 35010

## PRINCIPAL OFFICES

- New York, 10036 (Fabrics)  
1114 Avenue of the Americas
- New York, 10001 (Knit Apparel)  
Suite 4621, Empire State Building
- Atlanta, 30326  
3400 Peachtree Road, N.E.
- Chicago, 60611  
Suite 3745, John Hancock Center
- Nashville, 37215  
3813 Hillsboro Road
- Los Angeles, 90015 (Knit Apparel)  
110 E. Ninth Street
- Los Angeles, 90014 (Fabrics)  
819 Santee Street
- Dallas, 75207  
3734 Apparel Mart

## TRANSFER AGENTS

- Chemical Bank  
55 Water Street  
New York, New York 10041
- First Alabama Bank of Montgomery, N.A.  
Commerce Street  
Montgomery, Alabama 36104

## REGISTRARS

- The Chase Manhattan Bank, N.A.  
1 New York Plaza  
New York, New York 10015
- Union Bank and Trust Company  
Commerce Street  
Montgomery, Alabama 36104

## AUDITORS

- Ernst & Ernst  
1800 First National-Southern  
Natural Building  
Birmingham, Alabama 35203

*An Equal Opportunity Employer*



Edward T. Boylan  
Knit Apparel Sales

**Knit Apparel**

W. O. Bozeman  
Contract Sales

Jacques C. Richard  
Fabrics Sales

**Fabrics**

Henry C. Willis  
Knit Apparel

Robert S. White  
Athletic Wear

Gerald D. McGill  
Spinning and Weaving

J. Franklin Foy  
Dyeing and Finishing

**Manufacturing**

**OPERATING VICE PRESIDENTS**

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Finis Morgan  
Vice President-Finance and Treasurer

Eugene C. Gwaltney  
President and Chief Executive Officer

Thomas D. Russell  
Chairman of the Board

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**Corporate**

\*Executive Committee

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S. H. Bradshaw, Jr.

L. M. Askew

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Retired

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Newton H. DeBardeleben

Dwight L. Carlisle, Jr.

J. C. Allison  
Retired

Thomas D. Russell\*  
Chairman of the Board

**DIRECTORS**

**AUDITORS**

Birmingham, Alabama 35203  
Natural Building  
1800 First National-Southern  
Ernst & Ernst

Montgomery, Alabama 36104  
Commerce Street  
Union Bank and Trust Company

New York, New York 10015  
1 New York Plaza  
The Chase Manhattan Bank, N.A.

**REGISTRARS**

Montgomery, Alabama 36104  
Commerce Street  
First Alabama Bank of Montgomery, N.A.

New York, New York 10041  
33 Water Street  
Chemical Bank

**TRANSFER AGENTS**

Dallas, Texas 75207  
3734 Apparel Mart

Los Angeles, 90014 (Fabrics)  
819 Santee Street

Los Angeles, 90015 (Knit Apparel)  
110 E. Ninth Street

Nashville, 37215  
3813 Hillboro Road

Chicago, 60611  
Suite 3745, John Hancock Center

Atlanta, 30320  
3400 Peachtree Road, N.E.

New York, 10001 (Knit Apparel)  
Suite 4621, Empire State Building

New York, 10036 (Fabrics)  
1114 Avenue of the Americas

**PRINCIPAL OFFICES**

Alexander City, Alabama 35010

**EXECUTIVE OFFICES**







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