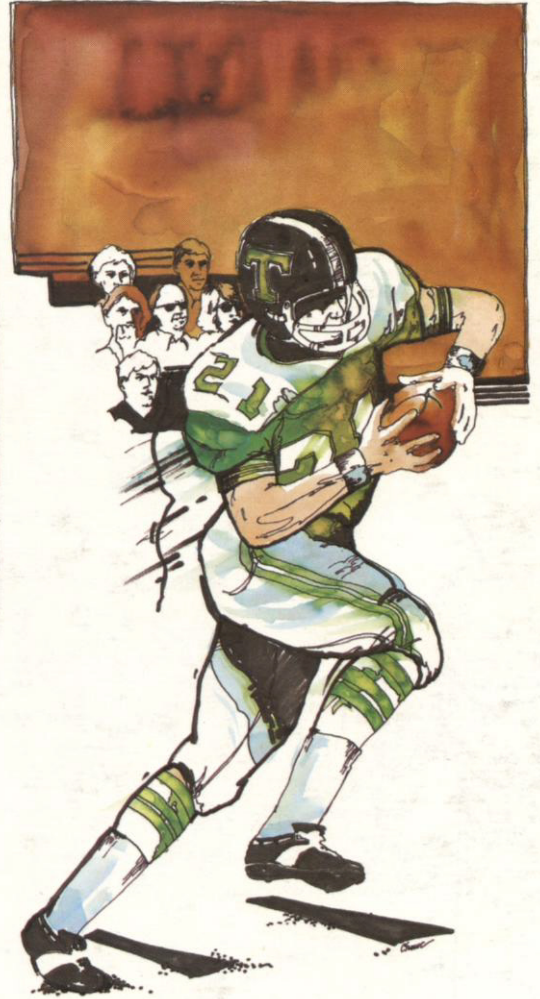


Russell Corporation 1977 Annual Report



RUSSELL[®]
75th Anniversary 1902-1977

RUSSELL CORPORATION

Russell Corporation is a manufacturer and marketer of specialized products for the sports segments of the leisure and recreation market. This includes uniforms for amateur and professional athletic teams as well as individual attire for sports and recreational activities of all kinds. Russell's principal markets include such rapidly growing sports as soccer, football, baseball, basketball, hockey, tennis, jogging, softball and other team and individual athletics. The Company also has a fabrics division which produces a wide range of woven fabrics for the fashion apparel markets of men's, women's and children's wear, and for career apparel and home sewing. Founded in 1902, the Company is based in Alexander City, Alabama.

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 26, 1978, at the general offices of the Company in Alexander City, Alabama.

For Information Contact:

Finis Morgan
Vice President-Finance
(205) 234-4251

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Directors, Officers, Offices, Transfer Agents, Registrars and Auditors	Inside Back Cover

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CORPORATION FILE



75TH ANNIVERSARY
1902 - 1977

REPRODUCED FROM THE
ORIGINAL OF THE
LIFE COLLECTION



15TH ANNIVERSARY
1902 - 1917

Financial Highlights

	1977	1976	%
The Year at a Glance			Change
Netsales.....	\$146,346,996	\$124,695,509	17
Income before income taxes.....	18,893,283	11,292,330	67
Federal and state income taxes.....	8,634,000	4,643,000	86
Net income.....	10,259,283	6,649,330	54
Net income per share.....	2.65	1.79	48
Common and common equivalent shares outstanding.....	3,864,948	3,706,828	4
At Year End			
Total assets.....	\$105,455,247	\$ 90,937,650	16
Long-term debt.....	20,064,030	20,948,755	-4
Stockholders' equity.....	60,610,763	52,958,355	14
Stockholders' equity per share.....	16.22	14.00	16
Employees.....	6,090	5,650	8
Shareowners of record.....	2,300	2,300	-

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:

		Market Price			
		Dividend	High	Low	Close
1977	First.....	\$.10	\$ 8 $\frac{3}{4}$	\$ 7 $\frac{5}{8}$	
	Second.....	.11	9 $\frac{5}{8}$	8	
	Third.....	.12	10 $\frac{3}{4}$	9 $\frac{1}{2}$	
	Fourth.....	.12	16	10	
	Special (12/15)10			
		\$.55			\15\frac{1}{2}$
1976	First.....	\$.09	\$11 $\frac{1}{16}$	\$6 $\frac{1}{2}$	
	Second.....	.10	10 $\frac{1}{8}$	7 $\frac{1}{2}$	
	Third.....	.10	8 $\frac{7}{8}$	7 $\frac{1}{4}$	
	Fourth.....	.10	7 $\frac{7}{8}$	7	
		\$.39			\7\frac{5}{8}$

To Our Shareholders:

The year 1977 represented another of record performance for your Company, with net income up substantially over the previous year. Early results of the current year are also quite encouraging.

Markets for our products were strong throughout the year, and profits increased due to higher sales volume, improved prices, better productivity, a favorable product mix in sales for the year, and positive contributions from plant modernization accomplished over recent years.

Revenues increased by 17% to an all-time high of \$146,347,000, and net income grew by 54%, to a record \$10,260,000. This amounted to \$2.65 per share compared with \$1.79 per share in fiscal 1976.

We completed another phase of our continuing plant modernization program this year, consummating our two-year \$17 million program. With the exception of a small amount of industrial revenue bond financing, this investment was made from internally generated funds.

A new capital program, involving an investment of approximately \$10 million, has been launched in early 1978. This includes the third phase of our loom replacement project, new knitting equipment, new dyeing equipment, a new sewing plant, a new computer center, and other related facilities. This investment will give us expanded production capacity, greater efficiency, and energy savings. It will also be financed from internal cash and a relatively small industrial revenue bond issue.

Our financial condition continued to strengthen during the year, with assets reaching \$105 million at year end, and shareholders' equity totaling \$60 million or \$16.22 per share.

Your Board of Directors increased the cash dividend three times during 1977, for a total increase of 41% over the prior year, including a special dividend of \$.10 per share.

We made one acquisition during 1977, purchasing the stock of Habersham Mills, a manufacturer of cotton-plyed yarns, in a cash transaction. We feel that over the long term, this acquisition will add strength to our position in the industry.

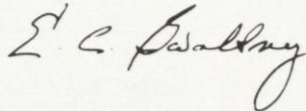


With the ever increasing interest among the consumer in sports and leisure activities, there will be a solid growth market for our products for the foreseeable future. Based upon the current demand for our products, we expect 1978 to be another year of opportunity for sound growth.

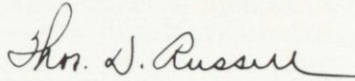
For the longer term, we have strong faith in the Company, and a continuing commitment to maintain a technically competent organization, to manufacture high quality products, and to provide our customers with the best possible service. As evidenced by our new capital program, we have a commitment to maintain a modern production facility and to keep abreast of world-wide technology in our manufacturing processes.

The Company celebrated its 75th anniversary during the year, with activities centered around a commemorative luncheon at which Alabama Governor George Wallace and United States Senator Jim Allen were principal speakers.

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



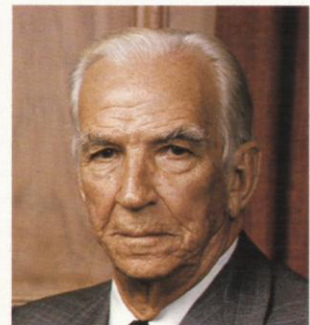
E. C. Gwaltney, President and Chief Executive Officer



Thomas D. Russell, Chairman
February 27, 1978



E. C. Gwaltney



Thomas D. Russell

Serving The Leisure Market

Russell leisure apparel of all types was in major demand throughout 1977, and sales of athletic uniforms and other leisure apparel again set new records for the year.

As the American enthusiasm for sports and recreation continues to mushroom, the market for Russell leisure products grows rapidly. For example, in the three years from 1973 to 1976, it is estimated that Americans playing tennis grew by 45 per cent, to 30 million, and joggers increased by 31 per cent to 10 million. Obviously these totals will be even higher when 1977 data is available.

Russell athletic apparel was worn on hundreds of playing fields throughout the United States, as professional, college, and high school teams chose Russell uniforms for football, basketball, baseball, and growing soccer programs, and for a number of other sports as well.

An even larger volume of Russell leisure products was bought by little league, softball, track, tennis and other amateur athletic programs, and by public school physical education departments. These more standard uniforms are popular with all ages of participants.

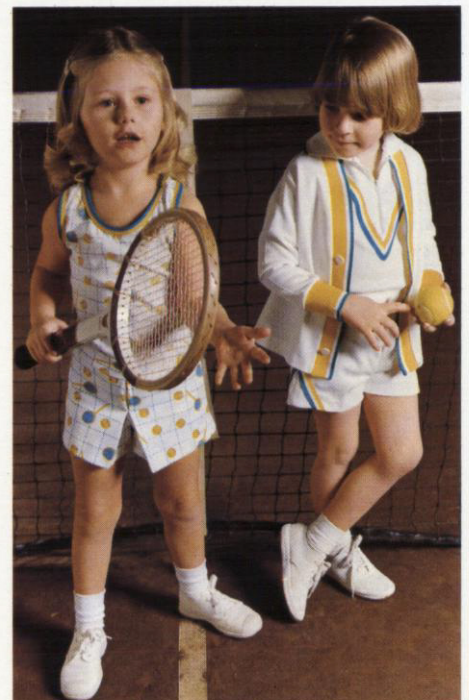
Off the playing fields, Americans in ever greater numbers bought Russell leisure apparel to jog, hike, hunt, fish, camp, boat, or bicycle, pursuits in which more than 200 million people found pleasure in 1977.

To make Russell products more accessible to the individual buyer, Russell last year began packaging and distributing garments for sale in retail sporting goods outlets. Customers readily accepted these trimmed shorts, shirts, and ever-more popular warmups.

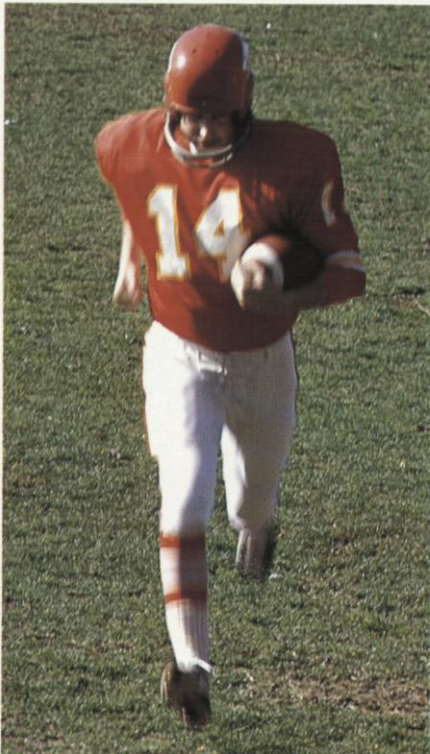
Once worn only by athletes waiting to play, warmups are now favorite garments for jogging, tennis, boating and weekend leisurewear. This market continued to grow in 1977 and demand in early 1978 is already strong.

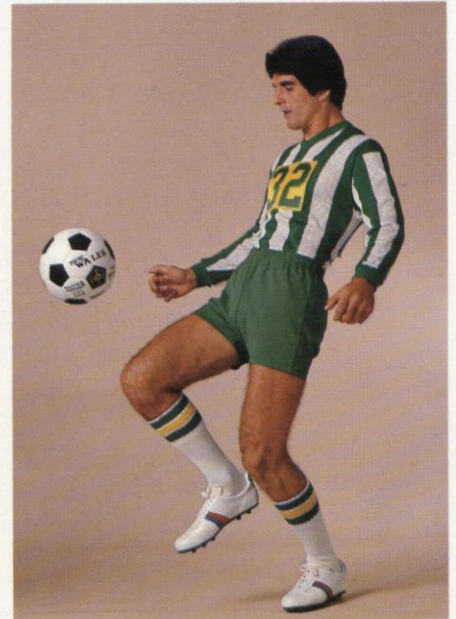
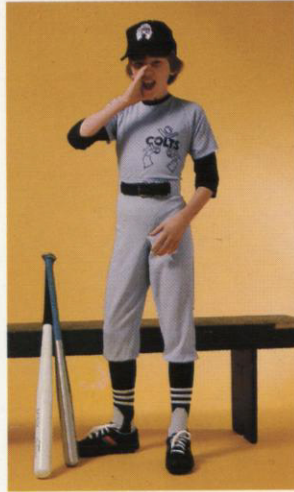
The Company continues to approach the leisure market with a wide variety of styles and colors, with innovative design and use of materials, and with advanced styling of its garments. Russell quality and fresh new designs are keys to its success.

The Company's fabrics division continued to serve its various markets during 1977 with high quality woven and knit fabrics in innovative construction, designs and patterns.



Some Russell fabrics are used in the Company's own apparel manufacturing operations, but most are sold to other apparel producers for men's, women's and children's wear and career apparel. In addition, fabrics are sold directly to the home sewing market.





Improving Facilities

Final phases of the Company's \$17 million plant modernization program were completed during the year and plans developed for a new \$10 million program to be undertaken during 1978.

Included will be the third phase of the loom program, in which old looms have been replaced with new, wider and more productive models.

Other major improvements will include the replacement of a sewing plant built several decades ago, with a modern one, with better working conditions, better material flow and lower labor costs. New dyeing equipment to be installed under the program will reduce consumption of water to one-fourth of present usage, with resulting savings in heat and power costs.

Although overall energy costs have risen sharply due to rates which in some cases have

more than doubled in five years, the Company's positive energy conservation program has effectively reduced the amount of energy consumed in relation to the volume of goods produced. A reduction of 12% in total BTU's of energy consumed per pound of product has been achieved comparing 1977 with 1972. Installation of the Company's innovative wood-chip boiler has further reduced consumption of traditional fuels by approximately 6,000,000 gallons of fuel oil annually, resulting in substantial cost savings.

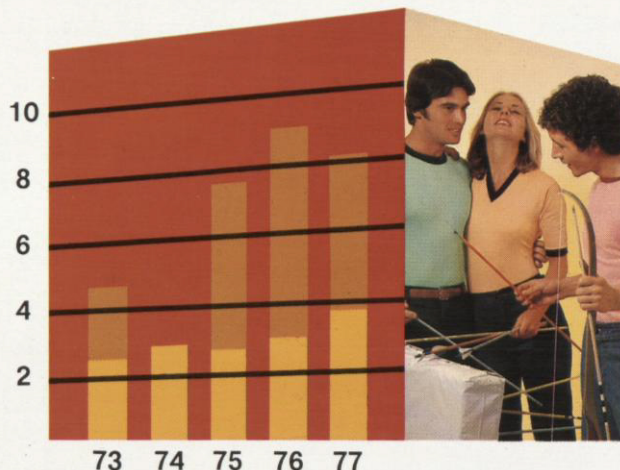
Overall, the new capital program will give the Company increased production capacity in certain critical areas, and will enable it to capitalize further on the expanding markets for its products. In addition, it will produce greater efficiency and energy savings.

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

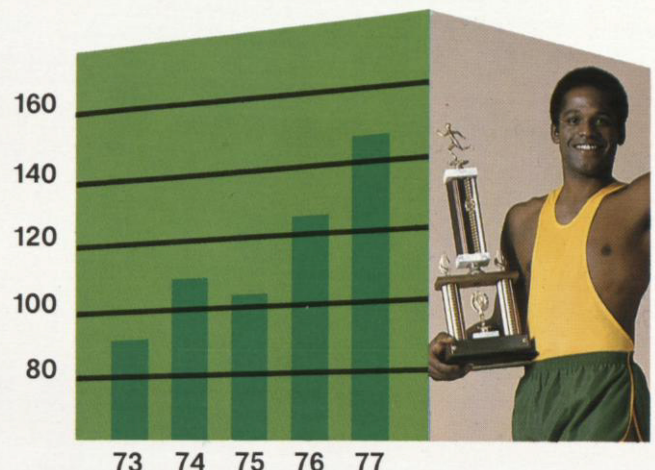


Waste wood boiler.

Capital Expenditures and Depreciation (\$Millions)



Net Sales (\$Millions)



Financial Review

Capital Program Financing

The 1977 capital expenditures program of \$8.1 million was financed by internally generated cash except for \$600,000 of industrial revenue bonds issued to pay for machinery and equipment in a new sewing plant. The 1978 capital program, currently estimated at \$10 million, consists primarily of continuation of the modernization and expansion efforts and a new computer center building. The effort will again be financed from internally generated cash except for another \$2 million of industrial revenue bonds.

The long-term debt to capital employed ratio was a healthy 25% at year end.

Working Capital

Working capital was up to \$44.7 million, mainly in inventory and receivables, in support of higher sales levels. The current ratio was strong at 3.7. Bank loans were used to finance peak working capital needs, a practice that is expected to be followed in 1978.

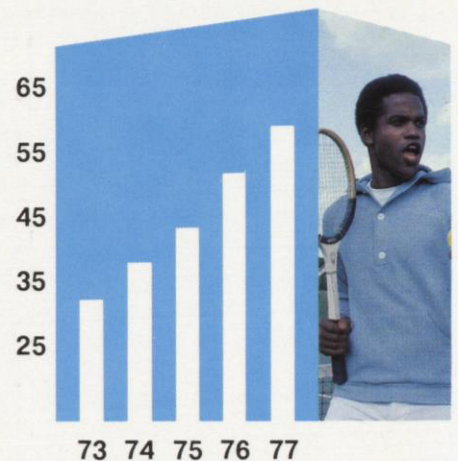
Dividends

The dividend rate was increased in 1977 for the fifth consecutive year. Dividends have grown at a compound annual growth rate of 22% since 1972 with an annual rate of \$.60 per share at the end of 1977. After the increases, the percent of income paid in dividends remained at about 20%, enabling the Company to reinvest earnings in the modernization and expansion program and to repay debt.

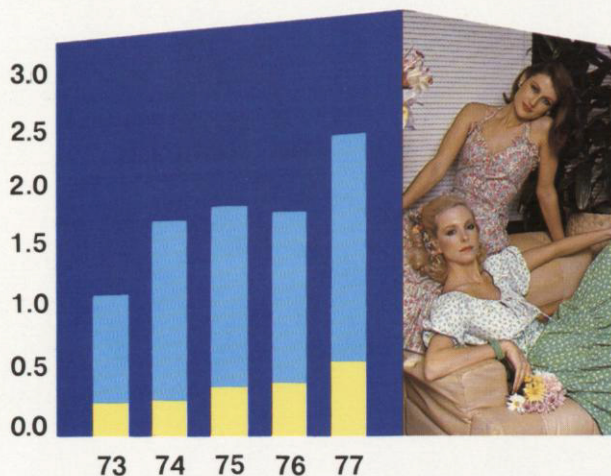
Shareowners' Equity

The book value per share, which has grown at a compounded annual rate of almost 12% over the past five years, reached \$16.22 at the end of 1977. The return on beginning equity was 19.4% in 1977, reflecting the record earnings of that year.

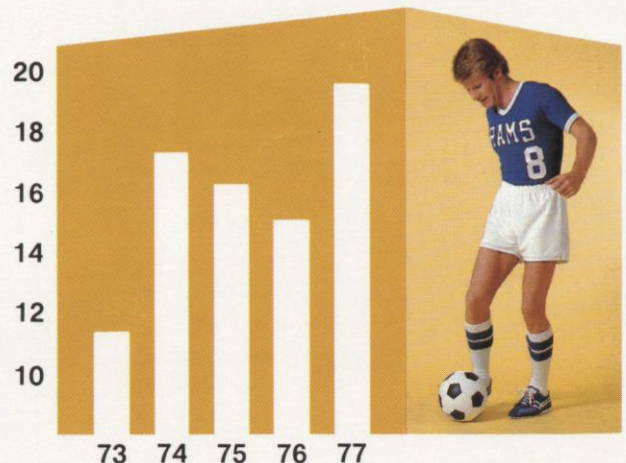
Shareowners' Equity (\$Millions)



Earnings Per Share (Dollars) Dividends Per Share (Dollars)



Return on Beginning Equity (%)



Consolidated Statements Of Income

Russell Corporation and Subsidiaries
 Years ended December 31, 1977, and January 1, 1977

	<u>1977</u>	<u>1976</u>
Net sales	\$146,346,996	\$124,695,509
Cost of goods sold	<u>107,307,247</u>	<u>96,687,309</u>
	39,039,749	28,008,200
Selling, general and administrative expenses	<u>18,305,993</u>	<u>14,858,541</u>
	20,733,756	13,149,659
Other deductions:		
Interest expense	2,413,928	2,472,939
Other—net (income)	<u>(573,455)</u>	<u>(615,610)</u>
	<u>1,840,473</u>	<u>1,857,329</u>
Income Before Income Taxes	18,893,283	11,292,330
Federal and state income taxes:		
Currently payable	7,558,848	3,710,478
Deferred—net	<u>1,075,152</u>	<u>932,522</u>
	<u>8,634,000</u>	<u>4,643,000</u>
Net Income	<u>\$ 10,259,283</u>	<u>\$ 6,649,330</u>
Net income per common and common equivalent share (Notes A and F)	<u>\$2.65</u>	<u>\$1.79</u>

See notes to consolidated financial statements.

Consolidated Balance Sheets

Russell Corporation and Subsidiaries
December 31, 1977, and January 1, 1977

	<u>1977</u>	<u>1976</u>
ASSETS		
Current Assets		
Cash and temporary investments	\$ 1,745,574	\$ 1,838,414
Trade accounts receivable, less allowances of \$1,000,000 (Note A)	23,795,498	19,841,989
Inventories (Note A)	35,229,238	29,457,978
Prepaid expenses and recoverable federal income taxes (Note A)	315,520	1,348,989
Total Current Assets	61,085,830	52,487,370
Other Assets (Notes C and D)	1,648,883	1,058,078
Property, Plant and Equipment—at cost (Notes A, D, and G)		
Land	193,100	113,313
Buildings	15,249,089	13,600,589
Machinery and equipment	54,612,254	44,173,775
Construction in progress	1,135,190	743,643
	71,189,633	58,631,320
Less allowances for depreciation and amortization	28,469,099	21,239,118
	42,720,534	37,392,202
	<u>\$105,455,247</u>	<u>\$90,937,650</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities

Notes payable to banks—unsecured	\$ 2,100,000	\$ -0-
Accounts payable and accrued expenses:		
Trade accounts	5,128,612	4,015,008
Employee compensation	2,652,995	2,092,913
Accrued expenses (Notes A and E)	356,816	1,737,932
	<u>8,138,423</u>	<u>7,845,853</u>
Federal and state income taxes (Note A)	4,573,867	597,156
Current maturities of long-term debt (Note D)	<u>1,585,078</u>	<u>1,544,800</u>

Total Current Liabilities

16,397,368 9,987,809

Long-Term Debt and Capitalized Lease Obligations—

less current maturities and unamortized debt discount (Note D)	20,064,030	20,948,755
---	------------	------------

Deferred Liabilities

Federal and state income taxes (Note A)	6,791,111	5,650,897
Accrued retirement benefits (Note E)	<u>1,591,975</u>	<u>1,391,834</u>

8,383,086 7,042,731

Stockholders' Equity (Notes A, B, D, and F)

Common Stock, par value \$1 a share— Authorized: 7,000,000 shares; issued and outstanding 1977—3,803,744 shares, 1976—3,782,144 shares	3,803,744	3,782,144
Paid-in capital	7,869,783	7,698,808
Retained earnings	49,660,274	41,477,403
Treasury stock	<u>(723,038)</u>	<u>-0-</u>

60,610,763 52,958,355

Commitments (Note G)

\$105,455,247 \$90,937,650

See notes to consolidated financial statements.

Consolidated Statements Of Changes In Financial Position

Russell Corporation and Subsidiaries
Years ended December 31, 1977, and January 1, 1977

	1977	1976
Source of Funds		
From operations:		
Net income	\$10,259,283	\$ 6,649,330
Items not requiring outlay of working capital:		
Depreciation and amortization	3,660,286	2,780,894
Other	1,419,517	1,482,433
Total from Operations	15,339,086	10,912,657
Issuance of Common Stock	113,413	2,394,890
Disposals of property	101,541	10,819
Long-term borrowings	710,078	—0—
	16,264,118	13,318,366
Application of Funds		
Purchases of property, plant and equipment	8,144,781	8,927,713
Reduction in long-term debt	1,610,078	1,406,714
Dividends on Common Stock	2,076,412	1,399,704
Increase in other assets	584,178	3,477
Cost of reacquired Common Stock for treasury	723,038	—0—
Cost of acquisition of subsidiary, less net current assets acquired (Note B)	936,730	—0—
	14,075,217	11,737,608
Increase in Working Capital	2,188,901	1,580,758
Working capital at beginning of year	42,499,561	40,918,803
Working Capital at End of Year	\$44,688,462	\$42,499,561
Changes in Components of Working Capital		
Increase (decrease) in current assets:		
Cash and temporary investments	\$ (92,840)	\$(3,369,482)
Trade accounts receivable	3,953,509	7,437,334
Inventories	5,771,260	(239,619)
Prepaid expenses and recoverable federal income taxes	(1,033,469)	571,994
	8,598,460	4,400,227
Increase (decrease) in current liabilities:		
Notes payable	2,100,000	—0—
Accounts payable and accrued expenses	292,570	2,413,018
Federal and state income taxes	3,976,711	(69,849)
Current maturities of long-term debt	40,278	476,300
	6,409,559	2,819,469
Increase in Working Capital	\$ 2,188,901	\$ 1,580,758

See notes to consolidated financial statements.

Consolidated Statements Of Stockholders' Equity

Russell Corporation and Subsidiaries
Years ended December 31, 1977, and January 1, 1977

	1977		1976	
	Shares	Amount	Shares	Amount
Common Stock				
Balance at beginning of year	3,782,144	\$ 3,782,144	1,670,700	\$ 1,670,700
Exercise of stock options (Note F)	21,600	21,600	32,622	32,622
Shares issued under a 100% stock distribution (Note F)	—0—	—0—	1,698,822	1,698,822
Exercise of stock warrants (Note D)	—0—	—0—	300,000	300,000
Stock sold in public offering	—0—	—0—	80,000	80,000
Balance at End of Year	3,803,744	\$ 3,803,744	3,782,144	\$ 3,782,144
Paid-In Capital				
Balance at beginning of year		\$ 7,698,808		\$ 7,148,394
Exercise of stock options (Note F)		170,975		484,436
Transfer to Common Stock for shares issued under a 100% stock distribution (Note F)		—0—		(1,698,822)
Exercise of stock warrants (Note D)		—0—		1,200,000
Stock sold in public offering		—0—		564,800
Balance at End of Year		\$ 7,869,783		\$ 7,698,808
Retained Earnings				
Balance at beginning of year		\$41,477,403		\$36,227,777
Net income for the year		10,259,283		6,649,330
		51,736,686		42,877,107
Cash dividends (1977—\$.55; 1976—\$.39)		2,076,412		1,399,704
Balance at End of Year		\$49,660,274		\$41,477,403
Treasury Stock				
Balance at beginning of year	—0—	\$ —0—	—0—	\$ —0—
Shares reacquired during the year—at cost	66,100	723,038	—0—	—0—
Balance at End of Year	66,100	\$ 723,038	—0—	\$ —0—

See notes to consolidated financial statements.

Notes To Consolidated Financial Statements

Russell Corporation and Subsidiaries

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. The Company is a vertically integrated manufacturer of textile products which is considered a single business segment.

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:

	December 31, 1977	January, 1, 1977
Finished goods	\$28,699,271	\$23,651,847
In process	9,220,111	7,797,092
Raw materials and supplies	5,859,906	4,800,727
	43,779,288	36,249,666
Less LIFO reserve	8,550,050	6,791,688
TOTALS	\$35,229,238	\$29,457,978

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

Notes To Consolidated Financial Statements

Russell Corporation and Subsidiaries

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.

Investment tax credits (accounted for on the flow-through method) amounted to \$701,000 in 1977 and \$944,000 in 1976.

Leases: The Company presently accounts for leases entered into prior to January 1, 1977, in accordance with generally accepted accounting principles established prior to the issuance of Statement of Financial Accounting Standards No. 13, "Accounting for Leases". By 1981, the Company will have to restate its financial statements to reflect the accounting for these leases in accordance with the Statement. If the Company had adopted the provisions of the aforementioned Statement as of January 4, 1976, the effect on the Company's consolidated financial statements as of and for the years ended December 31, 1977, and January 1, 1977, would have been insignificant.

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.

NOTE B—ACQUISITION OF HABERSHAM MILLS

On December 2, 1977, the Company purchased for cash all of the outstanding capital stock of Habersham Mills. The acquisition was accounted for as a purchase and, accordingly, the results of operations of Habersham Mills have been included with those of the Company since the date of acquisition. Pro forma information, as if the companies had been combined effective January 4, 1976, is not disclosed because it is not material.

NOTE C—OTHER ASSETS

Other assets include marketable securities (\$606,342 in 1977 and \$589,315 in 1976) which are carried at cost which approximates market. No material gains or losses have been realized.

NOTE D—LONG-TERM DEBT AND CAPITALIZED LEASE OBLIGATIONS

Long-term debt and capitalized lease obligations at December 31, 1977, and January 1, 1977, included the following:

	1977	1976
Notes payable to insurance companies:		
10¼% notes	\$ 6,534,000	\$ 7,000,000
9½% notes (effective rate 9¾%)	11,528,000	12,352,000
Capitalized lease obligations	3,799,678	3,369,400
	<u>21,861,678</u>	<u>22,721,400</u>
Less:		
Current maturities	1,585,078	1,544,800
Unamortized debt discount	212,570	227,845
	<u>1,797,648</u>	<u>1,772,645</u>
TOTALS	<u>\$20,064,030</u>	<u>\$20,948,755</u>

The 10¼% notes payable to insurance companies were issued on May 28, 1975, and are repayable in semiannual payments through December 1, 1991. 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 December 31, 1977, \$7,804,097 of retained earnings was unrestricted for payment of dividends.

The capitalized lease obligations relate to land, buildings, machinery and equipment financed by the issuance and sale of five series of industrial revenue bonds. The bonds mature serially in progressive annual amounts through 1987 and bear interest at various rates from 4% to 8%. The property collateralized under the capitalized lease obligations is included in property, plant and equipment with a net carrying value of approximately \$3,744,000 at December 31, 1977. A portion of the proceeds from one of the bond issues has not yet been disbursed and is being held in trust by a bank. These undisbursed proceeds amounted to approximately \$392,000 and are included in other assets at December 31, 1977.

The following summarizes the maturities of long-term debt and capitalized lease obligations:

1978—\$1,585,078; 1979—\$1,585,200; 1980—\$1,715,400; 1981—\$1,700,600; 1982—\$1,715,800; 1983-1987—\$8,401,100; and after 1987—\$5,162,000.

NOTE E—PENSION AND RETIREMENT PLANS

The total pension expense, including amortization of past service liability, amounted to \$1,834,776 and \$1,463,228 for the fiscal years 1977 and 1976, respectively. The actuarially computed value of vested benefits at January 1, 1977, the date of the latest actuarial valuation, exceeded the net assets of the pension funds, based on cost at the valuation date, by approximately \$2,755,000. Unfunded past service costs at January 1, 1977, amounted to approximately \$9,344,000.

The Company has made certain changes in its pension plans to conform with the Employee Retirement Income Security Act of 1974. These changes did not have a material effect on 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 \$337,000 and \$346,000 for the fiscal years 1977 and 1976, 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 to 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 35,500 shares at prices ranging from \$7.65 to \$9.34 a share and 2,000 shares at \$7.76 a share were granted during the years ended December 31, 1977, and January 1, 1977, respectively. During 1977 and 1976, options were exercised for the purchase of 21,600 shares and 60,744 shares, respectively, at option prices ranging from \$3.32 to \$5.96 a share.

NOTE G—COMMITMENTS

The Company had commitments and options for the acquisition of property and equipment totaling approximately \$1,548,000 at December 31, 1977, and \$2,235,000 at January 1, 1977.

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.

At December 31, 1977, the Company was committed under noncancellable operating leases with initial or remaining terms of one year or more for manufacturing facilities, sales offices, and equipment, with minimum rental payments aggregating \$3,622,958, summarized by fiscal year periods as follows: 1978—\$822,501; 1979—\$821,301; 1980—\$654,700; 1981—\$487,390; 1982—\$336,779; 1983 and thereafter—\$500,287.

Rental and lease expenses for fiscal years 1977 and 1976 were \$1,239,223 and \$1,016,615, respectively, the majority of which was for data processing equipment.

NOTE H—SUMMARY OF QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of unaudited quarterly results of operations for the years ended December 31, 1977, and January 1, 1977:

Year ended December 31, 1977:

	Quarter Ended			
	April 3	July 3	October 2	December 31
	1977	1977	1977	1977
	(13 Weeks)	(13 Weeks)	(13 Weeks)	(13 Weeks)
(Thousands of dollars, except per share data)				
Net sales	\$32,089	\$36,510	\$39,289	\$38,459
Gross profit	8,503	9,828	9,911	10,798
Net income	2,181	2,542	2,813	2,723
Net income per common and common equivalent share	\$.57	\$.66	\$.72	\$.70

Year ended January 1, 1977:

	Quarter Ended			
	April 4	July 4	October 3	January 1
	1976	1976	1976	1977
	(13 Weeks)	(13 Weeks)	(13 Weeks)	(13 Weeks)
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 equivalent 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 December 31, 1977, and January 1, 1977, 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 auditing 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 December 31, 1977, and January 1, 1977, 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.

Birmingham, Alabama
January 25, 1978

Ernst & Ernst
E&E

Summary Of Operations And Related Statistics 1973-1977

Russell Corporation and Subsidiaries

Operations (in thousands)	1977	1976	1975	1974	1973
Net Sales	\$146,347	\$124,695	\$102,664	\$107,290	\$ 90,980
Cost of goods sold	107,307	96,687	76,332	81,464	71,730
Interest expense	2,414	2,473	2,260	2,272	2,228
Income before income taxes	18,893	11,292	11,703	11,369	6,480
Income taxes	8,634	4,643	5,355	5,496	2,905
Net income*	10,260	6,649	6,348	5,873	3,575
Per Share of Common Stock (in dollars)					
Net income*	\$ 2.65	\$ 1.79	\$ 1.86	\$ 1.76	\$ 1.06
Cash dividends55	.39	.315	.275	.25
Stockholders' equity	16.22	14.00	13.48	11.65	10.16
Financial (in thousands)					
Depreciation	\$ 3,660	\$ 2,781	\$ 2,648	\$ 2,697	\$ 2,376
Cash flow (net income plus depreciation)	13,920	9,430	8,996	8,570	5,951
Capital expenditures	8,145	8,928	7,685	2,726	4,641
Working capital	44,689	42,500	40,919	32,240	27,506
Long-term debt	20,064	20,949	22,340	15,332	16,206
Stockholders' equity	60,611	52,958	45,047	38,870	33,915
Percent					
Income* before income taxes to net sales	12.9%	9.1%	11.4%	10.6%	7.1%
Net income* to net sales	7.0	5.3	6.2	5.5	3.9
Net income* to beginning shareholders' equity	19.4	14.8	16.3	17.3	11.5
Number of common shares outstanding	3,803,744	3,782,144	3,341,400	3,337,200	3,337,200
Approximate number of shareowners of record	2,300	2,300	1,900	1,800	1,760

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

Management's Discussion and Analysis of the Summary of Operations 1977 Compared to 1976

Higher volumes, a better product mix and improved prices contributed to the higher sales dollars in 1977. Profit margins were effected for the same reasons and by the improved efficiencies attributable to the plant modernization programs completed in recent years.

The effective income tax rate increased to 45.7% in 1977 due to investment tax credits of \$701,000 versus \$944,000 in 1976. While net income was up 54.3% in 1977, earnings per share were up only 48% because of a 4.3% increase in common and common equivalent shares outstanding.

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 due principally to the higher start-up expenses associated with the Company's 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.





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 R. Thomas
Chairman and President
First National Bank
Alexander City, Alabama

*Executive Committee

CORPORATE OFFICERS

Thomas D. Russell
Chairman of the Board

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

OPERATING SUBSIDIARY

Habersham Mills
Habersham, Georgia 30544

Marion W. Stribling
President

Honorary Directors

L. M. Askew
S. H. Bradshaw, Jr.

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, 30328
333 Sandy Springs Circle, N.E.

Chicago, 60611
Suite 3746, 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

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