

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE



Russell Corporation 1978 Annual Report



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.S.T. on April 25, 1979, at the general offices of the Company in Alexander City, Alabama.

For Information Contact:

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Vice President-Finance
(205) 234-4251

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



Financial Highlights

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The Year at a Glance	1978	1977	% Change
Net sales	\$176,448,314	\$146,346,996	21
Income before income taxes	25,537,565	18,893,283	35
Federal and state income taxes	11,492,000	8,634,000	33
Net income	14,045,565	10,259,283	37
Net income per share	2.41	1.77	36
Common and common equivalent shares outstanding	5,837,003	5,797,422	1
At Year End			
Total assets	\$124,880,031	\$105,455,247	18
Long-term debt	21,694,104	20,064,030	8
Stockholders' equity	72,521,912	60,610,763	20
Stockholders' equity per share	12.87	10.81	19
Employees	6,500	6,090	7
Shareowners of record	2,100	2,300	-9

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
1978	First	\$.10	\$13 ¹ / ₂	\$ 9 ¹ / ₄
	Second .....	.10	15 ⁷ / ₈	10 ⁷ / ₁₆
	Third .....	.12	19	14 ³ / ₄
	Fourth .....	.12	17 ³ / ₈	10 ⁷ / ₈
		\$.44		\$12³/₄
1977	First	\$.067	\$ 5 ⁷ / ₈	\$ 5 ¹ / ₈
	Second .....	.073	6 ⁷ / ₁₆	5 ³ / ₈
	Third .....	.080	7 ³ / ₁₆	6 ³ / ₈
	Fourth .....	.080	10 ¹¹ / ₁₆	6 ¹¹ / ₁₆
	Special (12/15) .....	.067		
	\$.367		\$10³/₈	

To Our Shareholders:

Russell Corporation had a very rewarding year in 1978 as sales and earnings reached the highest levels in the Company's history.

Net sales for the year ended December 30, 1978, rose 21 percent to \$176,448,000. Net income for the year totaled \$14,046,000, for a 37 percent advance over 1977. On a per share basis, earnings reached \$2.41, up from \$1.77 in the corresponding period a year ago.

Net sales were up in most product lines due to strong market demand. Profits increased with the higher sales volume, and improved productivity, realized from our past modernization programs.

With current record results and prospects for future growth, your Board of Directors voted at mid-year to split the common stock three-for-two, and concurrently raised the quarterly cash dividend for the sixth consecutive year. The 20 percent higher dividend brought the quarterly rate to \$.12 per share, or \$.48 per share annually.

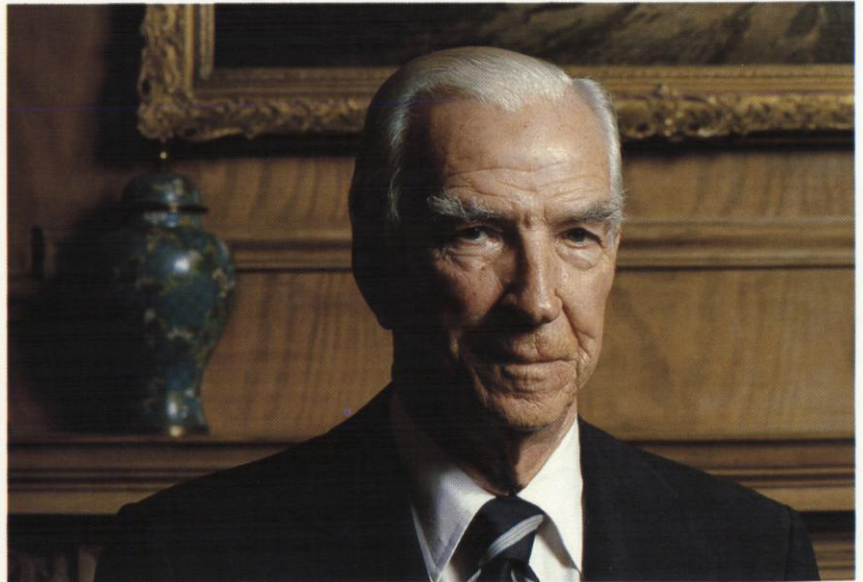
Other highlights of the year include:

- ...Completion of the year's \$12.4 million capital improvement program which included additional loom replacement, new knitting and dyeing equipment, a new computer center, and new sewing capacity.
- ...Beginning of a projected two-year \$33 million capital program for further plant modernization.

As a manufacturer and marketer of specialized products for the sports segment of the leisure and recreational markets, our products include both uniforms for athletic teams and individual attire for sports and recreational activities of all kinds. The markets for these products have mushroomed as the nation's emphasis on physical fitness, sports participation, and a generally more casual lifestyle have developed.



E. C. Gwaltney



Thomas D. Russell

The benefits of physical fitness and proper exercise programs have gained the outspoken support of the medical community, educators, the news media and the Federal government. Combined with the increased availability of free time, these endorsements have resulted in massive new interest in physical fitness for all Americans.

Joggers are probably the most obvious example, exercising on even the busiest streets and roads in the most inclement weather. Enthusiasm for tennis is another national phenomenon. Across the country people are leaving their TV sets to take up a variety of athletic and exercise programs.

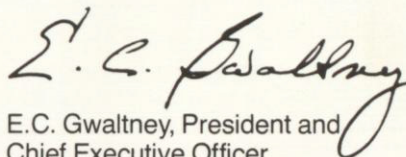
Russell provides the clothing for most of these physical activities for men, women and children. This emphasis on leisure programs has also been in part responsible for changes in basic casual attire, with athletic type garments once reserved for the playing field now popular as casual and weekend clothing. Warm-ups, t-shirts and other sports apparel are now common in most leisure settings.

Athletic and leisure apparel are almost immune to the volatile style changes which afflict other types of apparel manufacture, and thus provide a much more stable business for our Company. Additionally, the vertical integration of Russell's manufacturing operations enables the Company to shift its product mix on relatively short notice to meet changing market demands and consumer preferences.

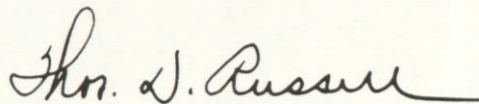
For a number of important reasons, we are optimistic about the long range future growth of Russell:

- ...our markets are expanding
- ...our operations are flexible
- ...our production facilities are modern and efficient
- ...our finances are strong
- ...our management and staff are preparing for the challenges ahead

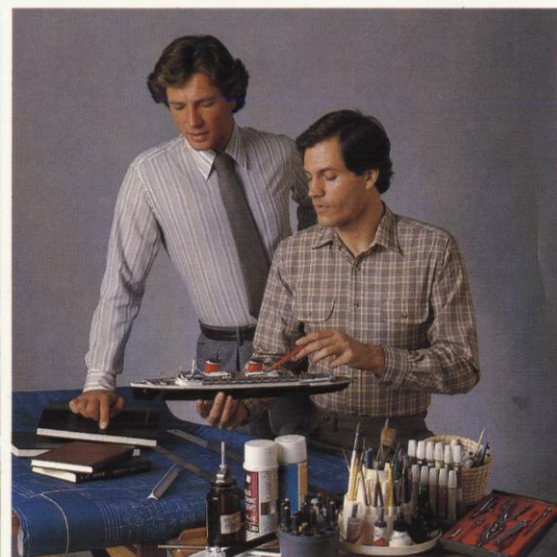
We look forward to the future with confidence, and continue to appreciate the loyalty of our shareholders and the dedication of our employees.



E.C. Gwaltney, President and
Chief Executive Officer



Thomas D. Russell, Chairman
February 27, 1979



The Growing Leisure Market

Russell has over the years responded to the increasing demand for athletic and leisure apparel and has, in fact, been a leader in developing new products, new styling, and new fabrics for such apparel. The Company's development efforts have produced a wider selection of available products for this growing market and have contributed to Russell's strong position in the industry.

Since the Company was founded in 1902, its emphasis has been on serving its markets with products appealing to customers, products of high quality, and products that were innovative for their time. Russell began manufacturing athletic wear in 1936 and certain leisure wear products even earlier than that.

Today the Company is the country's largest maker of custom sports attire, producing uniforms for virtually every major sport played in America — from little leagues to professional teams and for every age and both sexes. Additionally, the



Company produces a large volume of athletic apparel in stock volume for sale to the individual sports market.

Uniforms are manufactured from single, double, and warp knit fabrics made in Russell plants, supplemented with specialized woven fabrics, trim, and accessories purchased from outside suppliers. The Company's objective is to produce athletic apparel that meets high standards of proper fit, comfort, durability, function, and appearance. Its innovation in the use of new fabrics and new designs has improved the fundamental uniform.

Growing participation in sports, plus the addition of scholastic athletic programs for women and the rapid increase in popularity of such sports as soccer and running, have contributed to the expansion of this market, and Russell has met the challenge with expanded and improved production efficiency.

Russell also clothes the individual seeking exercise and a more active lifestyle, manufacturing a variety of knit leisure wear ideal for tennis, bicycling, camping, boating, hiking, and other physical participation activities.

These casual wear lines include warm-ups, sweat shirts, knit sports shirts, and the increasingly popular American t-shirt in all its colors and with all of the logos, phrases, and designs. Both fleeced and lightweight sportswear products are available. The Company also manufactures a full line of thermal underwear for the sportsman and the outdoor worker, and is a major manufacturer of children's sleepwear.

Russell also designs, manufactures, and markets a comprehensive line of quality woven and knit fabrics for sale to other apparel manufacturers. These reach the final market in the form of men's, women's, and children's clothing, as well as career apparel.

Fabrics are made of cotton, man-made fibers, or blends of the two and are available in a wide variety of colors, patterns, and construction depending on fashion trends and consumer demands. The Company maintains a styling staff in New York to provide recommendations on fabric design and styling trends.

Russell products are marketed through several methods most appropriate for each customer, including regional sales offices, area warehouses, and independent sales representatives. Depending on the particular product, orders are placed with the Company by department store chains, mail order houses, sporting goods stores, discount chains, screen printers, and wholesale distributors who supply individual retailers.



Facilities and Capital Program

Throughout its history and particularly in recent years, Russell has given a high priority to maintaining technological leadership within its industry by maintaining modern and efficient manufacturing facilities.

This commitment was again emphasized in 1978 as the Company continued to make major capital investments in the improvement of its plants. The 1978 capital program represented a cost of \$12.4 million and completed a two-year program of \$20.5 million. Substantially, all of that capital was generated from internal funds with small industrial revenue bond issues accounting for the remainder.

Major improvements in 1978 included completion of another phase of the loom replacement program, with 40 percent of all old weaving equipment now replaced with modern wide looms. The Company also expanded a sewing plant, completed one phase of modernization in dyeing and finishing facilities, and opened a new computer center. New high speed

spinning equipment with cost-saving automatic features was installed, and a number of other related improvements were made. At the Habersham Mills facility, which was acquired in 1977, modernization was accomplished and new equipment added to expand spinning capacity and further improve the quality of the yarn produced.

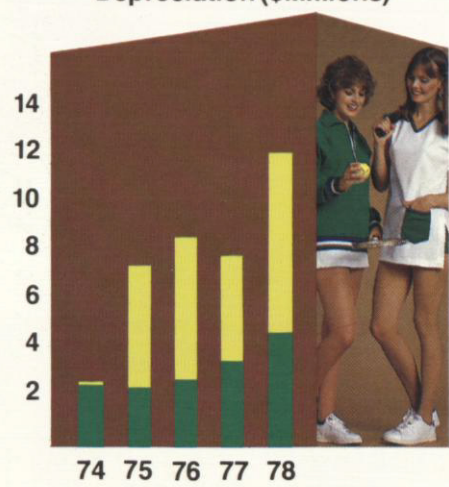
Modernization of the overall facilities will continue in the current year and into 1980, under a new \$33 million capital program part of which is currently under way. The funds necessary to complete this program will be secured through long-term financing and internally generated cash.

The current program includes additional loom replacement, completion of the modernization project in dyeing and finishing, completion of a modern, new sewing plant to replace one of the two main facilities at Alexander City. New knitting and finishing equipment will be installed at an existing plant in a nearby town, and sewing capacity will be increased in that location. Emphasis continues on replacing

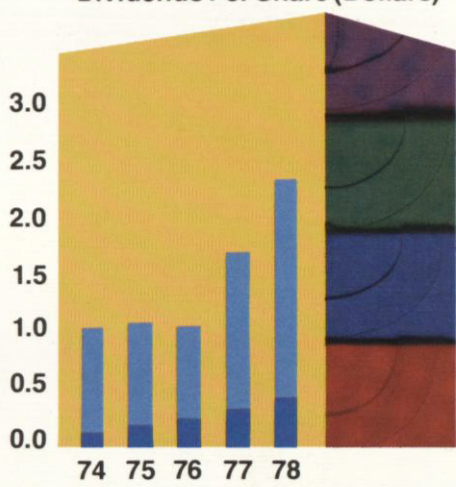
outdated equipment with new, more productive, more advanced machines capable of more efficient production and better quality.

In the future, Russell management will continue to recognize its responsibility to operate an up-to-date plant, technologically competitive not only within the domestic industry but in world markets as well. A substantial portion of the Company's profits will be committed to maintaining a modern, efficient manufacturing facility.

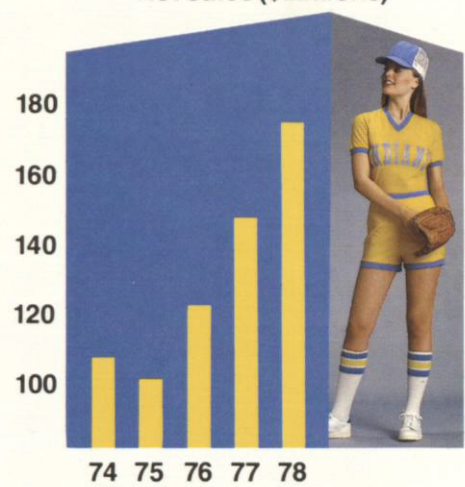
Capital Expenditures and Depreciation (\$Millions)



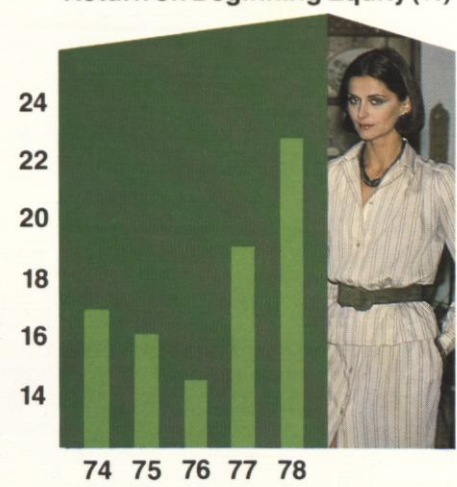
**Earnings Per Share (Dollars)
Dividends Per Share (Dollars)**



Net Sales (\$Millions)



Return on Beginning Equity (%)



Consolidated Balance Sheets

Russell Corporation and Subsidiaries
December 30, 1978, and December 31, 1977

	<u>1978</u>	<u>1977</u>
ASSETS		
Current Assets		
Cash and temporary investments	\$ 2,139,774	\$ 1,745,574
Trade accounts receivable, less allowances of \$1,200,000 in 1978, and \$1,000,000 in 1977 – Note A	31,877,058	23,795,498
Inventories – Notes A and I	37,707,764	35,229,238
Prepaid expenses and future income tax benefits – Note A	331,021	315,520
Total Current Assets	72,055,617	61,085,830
Other Assets – Notes B and C	2,508,091	1,648,883
Property, Plant and Equipment – at cost – Notes A, C, G and I		
Land	549,781	193,100
Buildings	17,190,101	15,249,089
Machinery and equipment	64,775,412	54,612,254
Construction in progress	920,042	1,135,190
	83,435,336	71,189,633
Less allowances for depreciation and amortization	33,119,013	28,469,099
	50,316,323	42,720,534
	<u>\$124,880,031</u>	<u>\$105,455,247</u>

	<u>1978</u>	<u>1977</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks – unsecured	\$ 7,650,000	\$ 2,100,000
Accounts payable and accrued expenses:		
Trade accounts	4,514,743	5,128,612
Employee compensation	2,289,221	2,652,995
Accrued expenses – Notes A and D	1,190,628	356,816
	<u>7,994,592</u>	<u>8,138,423</u>
Federal and state income taxes – Note A	3,820,167	4,573,867
Current maturities of long-term debt – Note C	1,585,200	1,585,078
	<u>21,049,959</u>	<u>16,397,368</u>
Long-Term Debt and Capitalized Lease Obligations –		
less current maturities and unamortized debt		
discount – Note C	21,694,104	20,064,030
Deferred Liabilities		
Federal and state income taxes – Note A	7,813,607	6,791,111
Accrued retirement benefits – Note D	1,800,449	1,591,975
	<u>9,614,056</u>	<u>8,383,086</u>
Stockholders' Equity – Notes A, C, E and F		
Common Stock par value \$1 a share –		
authorized 7,000,000 shares; issued		
and outstanding; 1978 – 5,751,068 shares;		
1977 – 3,803,744 shares	5,751,068	3,803,744
Paid-in capital	6,454,712	7,869,783
Retained earnings	61,231,079	49,660,274
Treasury stock	(914,947)	(723,038)
	<u>72,521,912</u>	<u>60,610,763</u>
Commitments – Note G		
	<u>\$124,880,031</u>	<u>\$105,455,247</u>

See notes to consolidated financial statements

Consolidated Statements Of Income

Russell Corporation and Subsidiaries

Years ended December 30, 1978, and December 31, 1977

	<u>1978</u>	<u>1977</u>
Net sales	\$176,448,314	\$146,346,996
Cost of goods sold	127,118,716	<u>107,307,247</u>
	49,329,598	39,039,749
Selling, general and administrative expenses	21,514,701	<u>18,305,993</u>
	27,814,897	20,733,756
Other deductions:		
Interest expense	2,896,435	2,413,928
Other — net (income)	(619,103)	<u>(573,455)</u>
	2,277,332	<u>1,840,473</u>
Income Before Income Taxes	25,537,565	18,893,283
Federal and state income taxes:		
Currently payable	10,558,066	7,558,848
Deferred — net	933,934	<u>1,075,152</u>
	11,492,000	<u>8,634,000</u>
Net Income	\$ 14,045,565	<u>\$ 10,259,283</u>
Net income per common and common equivalent share — Notes A and E	\$2.41	<u>\$1.77</u>

See notes to consolidated financial statements

Consolidated Statements Of Changes In Financial Position

Russell Corporation and Subsidiaries

Years Ended December 30, 1978, and December 31, 1977

	<u>1978</u>	<u>1977</u>
Source of Funds		
From operations:		
Net income	\$14,045,565	\$10,259,283
Items not requiring outlay of working capital:		
Depreciation and amortization	4,783,619	3,660,286
Other	<u>1,595,667</u>	<u>1,419,517</u>
Total from Operations	20,424,851	15,339,086
Issuance of Common Stock	167,556	113,413
Disposals of property	84,284	101,541
Long-term borrowings	<u>3,200,000</u>	<u>710,078</u>
	23,876,691	16,264,118
Application of Funds		
Purchases of property, plant and equipment	12,427,947	8,144,781
Reduction in long-term debt	1,585,200	1,610,078
Dividends on Common Stock	2,474,760	2,076,412
Increase in other assets	879,679	584,178
Cost of reacquired Common Stock for treasury	191,909	723,038
Cost of acquisition of subsidiary, less net current assets acquired — Note F	<u>- 0 -</u>	<u>936,730</u>
	<u>17,559,495</u>	<u>14,075,217</u>
Increase in Working Capital	6,317,196	2,188,901
Working capital at beginning of year	<u>44,688,462</u>	<u>42,499,561</u>
Working Capital at End of Year	<u>\$51,005,658</u>	<u>\$44,688,462</u>
Changes in Components of Working Capital		
Increase (decrease) in current assets:		
Cash and temporary investments	\$ 394,200	\$ (92,840)
Trade accounts receivable	8,081,560	3,953,509
Inventories	2,478,526	5,771,260
Prepaid expenses and future income tax benefits	<u>15,501</u>	<u>(1,033,469)</u>
	10,969,787	8,598,460
Increase (decrease) in current liabilities:		
Notes payable	5,550,000	2,100,000
Accounts payable and accrued expenses	(143,831)	292,570
Federal and state income taxes	(753,700)	3,976,711
Current maturities of long-term debt	<u>122</u>	<u>40,278</u>
	<u>4,652,591</u>	<u>6,409,559</u>
Increase in Working Capital	<u>\$ 6,317,196</u>	<u>\$ 2,188,901</u>

See notes to consolidated financial statements

12 Consolidated Statements Of Stockholders' Equity

Russell Corporation and Subsidiaries
Years ended December 30, 1978, and December 31, 1977

	1978		1977	
	Shares	Amount	Shares	Amount
Common Stock				
Balance at beginning of year	3,803,744	\$ 3,803,744	3,782,144	\$ 3,782,144
Exercise of stock options — Note E	32,650	32,650	21,600	21,600
Shares issued under a 50% stock distribution — Note E	1,914,674	1,914,674	—0—	—0—
Balance at End of Year	<u>5,751,068</u>	<u>\$ 5,751,068</u>	<u>3,803,744</u>	<u>\$ 3,803,744</u>
Paid-In Capital				
Balance at beginning of year		\$ 7,869,783		\$ 7,698,808
Exercise of stock options — Note E		499,603		170,975
Transfer to Common Stock for shares issued under a 50% stock distribution — Note E		(1,914,674)		—0—
Balance at End of Year		<u>\$ 6,454,712</u>		<u>\$ 7,869,783</u>
Retained Earnings				
Balance at beginning of year		\$49,660,274		\$41,477,403
Net income for the year		14,045,565		10,259,283
		63,705,839		51,736,686
Cash dividends (1978 — \$.44; 1977 — \$.37)		2,474,760		2,076,412
Balance at End of Year		<u>\$61,231,079</u>		<u>\$49,660,274</u>
Treasury Stock				
Balance at beginning of year	66,100	\$ 723,038	—0—	\$ —0—
Shares reacquired during the year — at cost	11,123	191,909	66,100	723,038
Shares issued under a 50% stock distribution — Note E	38,611	—0—	—0—	—0—
Balance at End of Year	<u>115,834</u>	<u>\$ 914,947</u>	<u>66,100</u>	<u>\$ 723,038</u>

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:

	Dec. 30, 1978	Dec. 31, 1977
Finished goods	\$31,553,290	\$28,699,271
In process	10,008,245	9,220,111
Raw materials and supplies	6,691,779	5,859,906
	<u>48,253,314</u>	<u>43,779,288</u>
Less LIFO reserve	10,545,550	8,550,050
TOTALS	<u>\$37,707,764</u>	<u>\$35,229,238</u>

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.

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 past 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 \$1,132,000 in 1978 and \$701,000 in 1977. The investment tax credit has been increased in 1978 by \$103,000 due to the establishment by the Company of an Employee Stock Ownership Plan. This amount has been contributed by the Company to a trust for investment in Common Stock of the Company for the benefit of eligible employees.

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 – OTHER ASSETS

Other assets include marketable securities (\$686,850 in 1978 and \$606,342 in 1977) which are carried at cost which approximates market. No material gains or losses have been realized.

NOTE C – LONG-TERM DEBT AND CAPITALIZED LEASE OBLIGATIONS

Long-term debt and capitalized lease obligations at December 30, 1978 and December 31, 1977, include the following:

	1978	1977
Notes payable to insurance companies:		
10¼% notes	\$ 6,068,000	\$ 6,534,000
9½% notes (effective rate 9¾%)	10,704,000	11,528,000
Capitalized lease obligations	6,704,600	3,799,678
	<u>23,476,600</u>	<u>21,861,678</u>
Less:		
Current maturities	1,585,200	1,585,078
Unamortized debt discount	197,296	212,570
	<u>1,782,496</u>	<u>1,797,648</u>
TOTALS	<u>\$21,694,104</u>	<u>\$20,064,030</u>

The 10¼% notes payable to insurance companies were issued on May 28, 1975, and are repayable in semiannual payments through December 1, 1991. Two note holders have warrants for the purchase of 180,000 shares of Common Stock at \$3.33 a share which are exercisable immediately and expire on December 1, 1991. The original warrants were 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 30, 1978, \$12,160,211 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 various industrial revenue bonds. The bonds mature serially in progressive annual amounts through 1988 and bear interest at rates from 4% to 8%. The property collateralized under the capitalized lease obligations is included

Notes To Consolidated Financial Statements

Russell Corporation and Subsidiaries

in property, plant and equipment with a net carrying value of approximately \$6,409,000 at December 30, 1978. Undisbursed proceeds from several bond issues amounted to \$1,298,368 and are included in other assets at December 30, 1978.

The following summarizes the maturities of long-term debt and capitalized lease obligations: 1979 — \$1,585,200; 1980 — \$1,715,400; 1981 — \$1,908,100; 1982 — \$1,923,300; 1983 — \$1,933,500; 1984-1988 — \$10,542,600; and after 1988 — \$3,872,000.

NOTE D — PENSION AND RETIREMENT PLANS

The total pension expense, including amortization of past service liability, amounted to \$2,197,248 and \$1,834,776 for the fiscal years 1978 and 1977, respectively. The actuarially computed value of vested benefits at January 1, 1978, the date of the latest actuarial valuation, exceeded the net assets of the pension funds, based on cost at the valuation date, by approximately \$2,216,000. Unfunded past service costs at January 1, 1978, amounted to approximately \$9,545,000.

The Company has made certain changes in its pension plans to conform with the Employee Retirement Income Security Act of 1974, and added the employees of Habersham Mills, a wholly-owned subsidiary of the Company. 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 \$323,681 and \$337,000 for the fiscal years 1978 and 1977, respectively.

NOTE E — STOCK OPTION PLAN AND STOCK DISTRIBUTION

On June 13, 1978, the Board of Directors of the Company declared a 50% stock dividend to be accounted for as a three-for-two stock split. The stock dividend was paid July 17, 1978, to stockholders of record on June 26, 1978. The par value of the new shares issued totaled \$1,914,674 and has been transferred from paid-in capital to Common Stock. All references to shares of Common Stock, dividends and amounts per share have been adjusted for this stock dividend.

During 1978, the Company adopted a new nonqualified stock option plan under which an additional 300,000 shares of Common Stock have been reserved for issuance to eligible employees.

The provisions of the new stock option plan are essentially the same as the existing plan. Options under this plan 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 date of grant and expire 11 years after the date of grant. Options to purchase 97,300 shares at \$10.46 a share and 52,500 shares ranging from \$5.10 to \$6.23 a share were

granted during the years ended December 30, 1978 and December 31, 1977, respectively. During 1978 and 1977, options were exercised for the purchase of 45,475 shares and 32,400 shares, respectively, at option prices ranging from \$2.21 to \$3.97 a share.

NOTE F — 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 2, 1977, is not disclosed because it is not material.

NOTE G — COMMITMENTS

The Company had commitments for the acquisition of property and equipment totaling approximately \$4,209,000 at December 30, 1978, and \$1,548,000 at December 31, 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 30, 1978, the Company was committed under noncancellable operating leases (mainly for data processing equipment) with initial or remaining terms of one year or more for manufacturing facilities, sales offices, and equipment, with minimum rental payments aggregating \$4,684,721, summarized by fiscal year periods as follows: 1979 — \$1,042,713; 1980 — \$988,505; 1981 — \$957,062; 1982 — \$800,879; 1983 — \$485,457; 1984 and thereafter — \$410,105.

Rental and lease expenses for fiscal years 1978 and 1977 were \$1,326,263 and \$1,239,223, 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 30, 1978, and December 31, 1977:

Year ended December 30, 1978:

	Quarter Ended			
	April 2 1978 (13 Weeks)	July 2 1978 (13 Weeks)	October 1 1978 (13 Weeks)	December 30 1978 (13 Weeks)
	(Thousands of dollars, except per share data)			
Net sales	\$42,063	\$44,186	\$47,000	\$43,200
Gross profit	11,479	13,049	12,908	11,894
Net income	3,186	3,727	3,649	3,484
Net income per common and common equivalent share	\$.55	\$.64	\$.62	\$.60

Year ended December 31, 1977:

	Quarter Ended			
	April 3 1977 (13 Weeks)	July 3 1977 (13 Weeks)	October 2 1977 (13 Weeks)	December 31 1977 (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	\$.38	\$.44	\$.48	\$.47

NOTE 1 — REPLACEMENT COST INFORMATION (UNAUDITED)

In compliance with the rules of the Securities and Exchange Commission, the Company has included in its annual report on Form 10-K unaudited replacement cost information. As indicated therein, the estimated replacement cost of productive capacity, inventories and depreciation would be greater than the amounts appearing in the consolidated financial statements which are based on historical costs. However, the replacement cost information has been determined based on subjective assumptions and estimates that have inherent limitations; therefore, the Company believes that replacement cost information is of limited, if any, value.

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 30, 1978, and December 31, 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 30, 1978, and December 31, 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 30, 1979

Ernst & Ernst

E&E

Summary Of Operations And Related Statistics 1974-1978

Russell Corporation and Subsidiaries

Operations (in thousands)	1978	1977	1976	1975	1974
Net Sales	\$176,448	\$146,347	\$124,695	\$102,664	\$107,290
Cost of goods sold	127,119	107,307	96,687	76,332	81,464
Interest expense	2,896	2,414	2,473	2,260	2,272
Income before income taxes	25,538	18,893	11,292	11,703	11,369
Income taxes	11,492	8,634	4,643	5,355	5,496
Net income*	14,046	10,259	6,649	6,348	5,873
Per Share of Common Stock (in dollars)					
Net income*	\$ 2.41	\$ 1.77	\$ 1.19	\$ 1.24	\$ 1.17
Cash dividends .....	.44	.367	.26	.21	.183
Stockholders' equity	12.87	10.81	9.33	8.99	7.76
Financial (in thousands)					
Depreciation	\$ 4,784	\$ 3,660	\$ 2,781	\$ 2,648	\$ 2,697
Cash flow (net income plus depreciation)	18,830	13,919	9,430	8,996	8,570
Capital expenditures	12,428	8,145	8,928	7,685	2,726
Working capital	51,006	44,689	42,500	40,919	32,240
Long-term debt	21,694	20,064	20,949	22,340	15,332
Stockholders' equity	72,522	60,611	52,958	45,047	38,870
Percent					
Income* before income taxes to net sales	14.5%	12.9%	9.1%	11.4%	10.6%
Net income* to net sales	8.0	7.0	5.3	6.2	5.5
Net income* to beginning shareholders' equity	23.2	19.4	14.8	16.3	17.3
Number of common shares outstanding	5,751,068	5,705,616	5,673,216	5,012,100	5,005,800
Approximate number of shareowners of record	2,100	2,300	2,300	1,900	1,800

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

Management's Discussion and Analysis of the Summary of Operations 1978 Compared to 1977

Sales volumes, in response to strong demands for sports and leisure garments, were higher in both units and dollars for most of the Company's products. That demand, plus improved production efficiencies and better prices contributed to higher profit margins. Interest expense was up 20% in 1978 due to higher average short-term borrowings outstanding at increased rates.

The effective income tax rate decreased by .7% to 45% because the investment tax credits were \$1,132,000 in 1978 and \$701,000 in 1977. Net income increased 37% while earnings per share increased 36% on slightly more common and common equivalent shares outstanding.

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.





DIRECTORS

Thomas D. Russell*
Chairman of the Board

J. C. Alison
Retired

Dwight L. Carlisle, Jr.
Newton H. DeBardleben
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

Crawford T. Johnson, III
President
Coca-Cola Bottling Company United, Inc.
Birmingham, Alabama

Finis Morgan*

Benjamin Russell
President
Russell Lands, Incorporated
Alexander City, Alabama

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

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

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

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.
Joe W. Richardson

*Executive Committee

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 (Knit Apparel)
Suite 3746, John Hancock Center

Chicago, 60606 (Fabrics)
300 West Adams Street

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

