

POSITIVE AND EXCITING THINGS ARE HAPPENING AT QUALITY MILLS...

QUALITY MILLS PURCHASES SEWING PLANT IN DANBURY, NORTH CAROLINA

Subject to completion of a favorable environmental evaluation, Quality Mills will remodel and open a sewing plant in Danbury, North Carolina which was closed by Bassett Walker earlier this year. The expansion plans for Quality have come as a result of the merger with Russell Corporation which was previously announced.

Through a combined effort, Quality and Russell will produce a line of knit shirts utilizing the facilities and strengths of both companies. The Russell Corporation will start with raw cotton and spin the yarn and knit the fabric for the new product line, and Quality will do the dyeing and finishing and will manufacture a line of placket shirts which will be marketed by Russell. Thus, the benefits of the Russell-Quality merger will be manifest in a product line which is expected to add significantly to the volume of the combined companies.

If no adverse environmental problems are present, remodeling of the Danbury plant will begin immediately and manufacturing will commence within the next few months. Employment in the Danbury facility is expected to reach approximately 200 during 1989.

The new product line will provide a quality line of popular priced placket shirts for mass merchandisers and screen printers. In contrast to the direction being taken by some competing lines, this entire new line will be made in the U.S.A., thereby, providing jobs for American workers. Through utilization of the latest technology and a high level of automation, the new line is expected to compete favorably with imports with the added advantage of U.S.A. reliability.

RAPID PROGRESS IS BEING MADE AT QUALITY MILLS AND THIS IS THE STUFF OPPORTUNITY IS MADE OF. IF YOU HAVE FRIENDS AND NEIGHBORS WHO ARE INTERESTED IN BECOMING A PART OF A SUCCESSFUL AND EXCITING FUTURE IN THIS COMPANY, YOU MIGHT SUGGEST THAT THEY GET THEIR APPLICATION IN. WE WANT THE BEST POSSIBLE ASSOCIATES TO HELP MAKE GOOD THINGS CONTINUE TO HAPPEN IN THIS COMPANY.

"THE QUALITY MILLS - RUSSELL CORPORATION MERGER IS ONE OF THOSE RARE SITUATIONS WHERE EVERYBODY WINS!"

By John E. Woltz

"The Russell Corporation is a very strong, modern, well-managed, eighty-six year old company which, like Quality Mills, is dedicated to being a leader and a survivor in the U. S. textile and apparel business. Of all the companies in the industry, they are the best complimentary combination we could imagine for Quality Mills. Our business philosophies are similar with regard to human respect, quality of product, modern production facilities, a strong marketing orientation, and honest dealings. And both companies believe that we can still do it in America!

"While many companies around us are dismantling and closing or shrinking their U. S. operations, we are planning for substantial growth and we are working toward ways to smooth our production and provide steadier employment.

"Since the announcement of our merger, there have been many details to work out and the time is now set for shareholder approval on December 6. We are already working on plans to expand Quality Mills' production and employment.

"There is nothing to fear and much to be gained through this strengthening alliance. We will keep you posted as plans are developed."

CROSS CREEK COLLECTION WILL BE MARKETED DIRECTLY TO PRO SHOPS

For more than ten years, many at Quality Mills have worked on shirts the Company has produced for The Kimberton Company under the Pickering label. Kimberton is now sourcing some of their shirts in Hong Kong, so Quality will begin direct marketing of a special CROSS CREEK collection to the golf pro shops and will provide custom embroidery service.

A twenty-thousand square foot addition to the Distribution Center will house the new custom embroidery department and John Miller will manage the Company's Specialty Sales endeavor. Miller has had years of experience in the golf market, having managed programs for Izod and SporThomson. As long as Quality Mills was the sole shirt resource for Kimberton, the Company avoided a sales conflict in the market, but now the Company intends to protect and enlarge its share of the golf market with an aggressive sales plan.

The Company's branded sales management sees a promising opportunity to strengthen the consumer demand for the CROSS CREEK brand by making available a special CROSS CREEK collection to this important channel of distribution.



QUALITY'S EMPLOYEE STOCK OWNERSHIP TRUST VALUED AT \$4,641,000

As a result of the planned merger with Russell Corporation, Quality Mills Employee Stock Ownership Trust is valued at \$4,641,000, assuming other assets remain at current value and Quality shares are valued at the cash offering price of \$18.30 for each share.

The trustees of the plan are studying various possibilities as to the future of the plan, including the likely prospect of distributing the fund's assets to the participants.

The good news at this point is that the fund has increased in value from \$1,649,000 at year-end to \$4,641,000, based on the value assumption stated.

This benefit was provided by concerned management who wanted to share the benefits of company success over and beyond normal compensation. Through the years, some have questioned the value of this benefit and from time to time comments have been voiced as the tides of fortune have come and gone. Now the real value of this benefit will be manifest as the Company has intended.

QUALITY MILLS LEASES BUILDING ON 601 FOR SPECIALIZED CUTTING AND SEWING OPERATIONS

Quality has signed a short-term lease agreement on the 16,500 square foot Thrifti Mart building and plans are being made to temporarily utilize the facility for specialized cutting and sewing operations. Plans call for converting the facility to a highly automated three-shift operation which will perform certain repetitive, key operations on a new line of placket shirts which Russell will market. Eventually, Quality plans to build a new facility to house this and other operations which will be necessary to support a major expansion plan.

Due to the large capital cost of the highly automated cutting and sewing equipment, it will be necessary to plan for a threeshift operation. Such utilization will help in the Company's effort to structure a way to compete with low cost, imported products while providing better jobs here at home. Message From The President

MERGER NEARING **CONCLUSION/ PERFORMANCE STILL KEY TO SUCCESS**

We have had some exciting months since our last publication. The biggest news on our horizon is, of course, the recent statement of intent to merge with the Russell Corporation. addition to this fact, In our financial performance this year has exceeded that of last year significantly. Although our third quarter started off poorly from a financial performance perspective, we closed out on a satisfactory note with September's performance.

I am sure many of you have natural anxieties and personal questions regarding the impact of the merger with the Russell Corporation. Let me assure you this is the most positive thing that could have happened to us at this period in our Company's life. We have an even greater opportunity to succeed.

It is important to remember, however, that regardless of the ownership structure of a company, the guidelines by which we are all measured are individual performance and acceptable and sustained profitability levels for the corporation. Therefore, as we move towards finalizing the merger, it is extremely important that we keep our eyes on the targets that we have set for 1988 and recommit ourselves to accomplishing them.

As to the future, we plan to expand our business in both the CROSS CREEK lines and with key contract customers. Growth in both of these categories has been significant in 1988 and 1989 looks even more favorable. Also, some exciting plans are being developed for manufacturing product for Russell which will benefit our overall operations.

As we continue to seek out opportunities in existing and new markets, we must also refine our manufacturing processes. Acceptable levels of profitability and customer service can only be achieved with concurrent improvements in fabric quality, schedule compliance and lower costs through better management and increased productivity.

In closing, I would like to challenge each of you to join me and the management of Quality Mills and the Russell Corporation, as we look toward an even brighter future together, to renew your enthusiasm and commitment, to take pride in a job well done, to strive for excellence and success, both individually and corporately. Jack D. Grooms

President



MERCHANDISING

Excitement abounds in Merchandising as product styling and line development have reached a fever pitch for the fourth quarter of 1988!

The Cross Creek Spring '89 line was dynamically accepted by the market at the recent M.A.G.I.C. show held in Los Angeles, Ca. on September 16. All recent records were broken for Cross Creek at this show as customers booked their orders for January-March delivery.

Fall '89 was finalized on October 4. It will be a line which features our easy care, all-cotton fabrics in mid-weights ranging from lisle turtlenecks to interlock mock turtles and collar styles up to middle-weight pique and jersey crewnecks and over-shirts. Styling emphasis will be based on continued interest in turtlenecks, updated by interpreting into mock turtlenecks, zipper turtlenecks, and high crews. The fit is still relaxed and comfortable (not baggy or tight!) and the attitude is "weekend wear" of well-made, stylish garments that look and feel good enough to wear around the house or out to the mall. Colors reflect a return to traditional with lots of navy, ruby, forest green and a new heather gray all-cotton yarn in both light oxford and medium charcoal shades. The finished line will be presented at the sales meeting scheduled in December.

APPAREL

The Distribution Center has added two new positions to assist in assuring more accurate shipments to our customers as well as maintaining accurate inventories in the Warehouse. Outgoing shipments are being selected at random to be inspected for 100% accuracy in all respects. Package goods coming into the Warehosue are verified according to count, correct style, size and color.

Modernizations are planned in the coming year for the Distribution Center. These major changes will involve the use of conveyors, mezzanine and a warehouse computer system which will improve the ability to track inventory and provide the opportunity for better customer service.

The Newport Sewing plant has just completed a project to enclose the loading dock for staging trailers and to provide additional storage space for packaging supplies.

Newport has also added a turtleneck line to augment the continental placket line.

Positive growth is apparent in Newport - with employment level of 223 compared to 168 a year ago.



Cross Creek®

We are pleased to announce two new additions to our New York office...

Amy Cutler, as Junior Salesperson and Administrative Assistant to Bob Lombino, Vice President - Branded Sales. Amy graduated from the University of Maryland with a Liberal Arts degree.

Carolyn (Carrie) Whisten has joined the Cross Creek Division as Receptionist, phone operator and typist. Originally from Staunton, Virginia, Carrie resides in Manhattan.

CONTRACT

A new direction in mens and ladies wear has taken place through a "Sweats Program" featuring a striped crew neck and coordinating solid pants. This combination is proving to be a success in the early stages of the program.

Stripes continue to be in demand by our customers! A striped mock turtleneck is in production with great sales potential.

To take advantage of production availability for 1989, Sales is establishing contacts with new customers and are optimistic that we will be successful in broadening our customer base.

Additional machines have been installed in the Carthage Sewing plant to accomodate a new line to be produced there.

One of the local radio stations broadcasted live from the plant for three days. Employees were interviewed on the air and the Carthage Outlet Store and the Company received some excellent publicity.

Expansion, innovation, state of the art, new technology, growth opportunities - these are all words one could use to describe what is going on in the Cutting plant these days. About three months ago, we installed a brand new computerized marking system that is of the best technology to date.

The Cutting plant is also expanding in the very near future with the planned addition of a second cutting facility. Plans are under way to start up a separate cutting operation to handle the additional production which Quality Mills is about to undertake as a result of the merger with Russell Corporation. The new plant will be housed in an existing structure in the Mount Airy vicinity for the first year or two with plans to combine the new plant with the existing one into a central cutting facility



The Knitting Department is in the process of replacing all of the older Interlock knitting equipment with new Mayer Interlocks. A total of nine new machines will replace 17 older machines. These new machines will produce in five days the poundage it is now taking six days to knit. During the trial period on the new machines, we have also seen a dramatic improvement in quality of fabric produced. This move represents another step in our efforts to upgrade our equipment with the best machinery available. Plans are underway to upgrade our Rib, Jersey, and Mesh Equipment in 1989.

The Finishing Department is operating at full speed. New employees have recently been hired in this area, and with a full staff, production seems to be increasing significantly. The outlook for this continued level of production looks good for the remainder of this year and into 1989.

The Warehouse has undertaken a new approach to reduce our fabric and yarn inventories. By the end of December, we should begin to see significant results from this project.

During the first week of October, the Winding area received the first of five new winders. This is part of a renovation project in Package Dye and Winding. In Package Dye, the yarn carriers have all been standardized to give correct flow. These changes should give needed improvement to support our aggressive stripe program.

large enough to accomodate both operations. The new plant will employ an estimated 30 additional people for the first year. The operation will use the latest in automated cutting equipment as well as state-of-the-art machinery that will do several of the operations which currently must be done in the sewing plants. This additional expansion in cutting will create some good opportunities for growth and advancement for our employees as well as more work for our sewing plants.

The entire sewing room at the Hillsville plant has been rearranged in an effort to reduce bundle handling, to improve work flow and to better utilize space. The new layout has required some reassignment of employees and supervisory responsibility. Each Supervisor now specializes in fewer operations which allows the Supervisor to have better control of methods, procedures and quality standards. The mending/soil cleaning area has also been rearranged and additional equipment added or replaced to help reduce soils.

The major project completed this Summer was the replacement of the building roof allowing other internal fix-up projects to be completed.

New faces

Wayne Osborne, Carthage Plant Engineer, graduated from East Carolina University and has a Masters Degree in Education with a concentration in Industrial Education. Wayne's recent association was with Wrangler Division of VF Corporation and brings many years of apparel engineering experience.

Steve Johnson, Manager of Industrial Engineering - Textile Division, comes to Quality Mills, Inc. from Soft Care Apparel Company with experience in all levels of industrial engineering. A graduate of N.C. State with a B.S. in Industrial Engineering, Steve also completed his MBA at Western Kentucky University. The Johnsons will be relocating from Pelzer/Anderson, S.C.

Sam Lacks, Director of Planning, brings valuable years of experience in both Planning and Manufacturing positions with Blue Bell Incorporated. A graduate of VPI, he has performed responsibilities at plant and division levels. Sam and his wife will be relocating from Seminole, Oklahoma where he was General Manager of Moran Pipe and Supply, Inc.

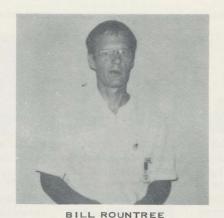
Ross Borders, Industrial Engineer, Apparel Division, will be concentrating in Shipping at the Distribution Center. A UNC-Chapel Hill graduate with a B.A. Degree in Psychology and additional computer training, Ross has nine years of Industrial Engineering experience. Most recently, he was Plant Manager for the Wrangler Jeans Division in Wilson, N.C.

Jeff Cunningham, Master Scheduler, comes to Quality Mills, Inc. from Easton, Inc. (Oxford Industries) where he was responsible for production and inventory control of woven and knit production. Prior experience in knitting, yarn and production scheduling brings valuable skills to our company growth. Jeff is re- locating from Kinston, N.C.

Horace Higgins, General Manager of Dyeing - Textile Division, is relocating with his family from Kernersville, NC.. With a double major in Textile Chemistry/Textile Technology and a Masters in Textile Technology from N.C. State, Horace has had extensive experience in technical and production dyeing - most recently as Manager of Textile Services with Sara Lee (Hanes).

Johnny Miller, General Manager, Specialty Markets, Branded Sales, is a native of Scotland and graduated from Ayr Academy. He brings extensive and detailed experience in designing and operating production facilities, custom manufacturing/embroidery operations, market analysis, customer development and sales of golfwear products in Europe and the United States. Johnny and his family will be relocating from the Atlanta area where he was associated with SporThomson as General Manager of the Golf Division.

Marshall Overby, Shift Supervisor, Knitting, brings sixteen years of supervision to Quality Mills, Inc. His most recent position was with Eco-Knit in Mt. Airy. Marshall and his family reside in the Claudeville, Va. area.



5 GALLON BLOOD DONOR

Bloodmobile

Our August blood drive at the Grace Moravian Church was a great success with 92 pints collected. We exceeded our quota of 90 pints. On behalf of the American Red Cross Blood Services and the thousands of patients who are recipients, thank you for your support.

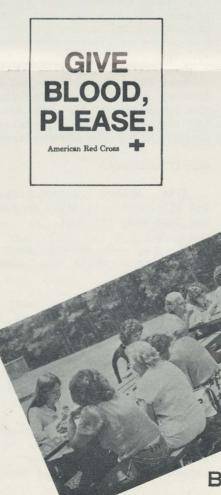
We had seven first-time donors and Quality Mills would like to congratulate them along with the following employees who received Gallon Donor Pins:

5 GALLON PIN: Bill Rountree	Cloth Plant
4 GALLON PIN: Gloria McQuinn Elaine Dillon Stuart Johnson	Cloth Plant Cloth Plant Distr. Center
3 GALLON PIN: Penny Easter Teresa McMillian Clellan Leftwich	Fr. Street Fr. Street Cloth Plant
2 GALLON PIN: Jerry Simmons Alene Gilley Rebecca Gammons Scottie Isaacs	Cloth Plant Fr. Street Cloth Plant Cloth Plant
	Distr. Center Distr. Center Distr. Center

Thanks to everyone who cared enough to give a life-saving gift.

Cloth Plant

Mabel Hayden



QUALITY ASSURANCE

Our commitment to produce quality apparel sets us apart from a large percentage of apparel manufacturers. This commitment allows us to grow and thrive in a market where others cannot find a sale for their goods.

Remember..."Quality cannot be inspected <u>in</u> or audited <u>out</u>." Quality products can only be made by a team of committed individuals who are <u>not</u> satisfied with less than the best.

Each garment that we sell tells a story about us and our company. It says that we are concerned and conscientious craftsmen that want to provide an exceptional product to every customer.

As we become part of the Russell Corporation, we want to assure that our quality continues to strive for the exceptional.

Apparel Division Quality concerns itself with extensive efforts in the Cutting, Sewing, Packaging and Warehouse. The techniques involved - in enforcing quality performance in these areas are in-process inspecting, auditing, seconds analysis and final audits.

In the sewing plants, the in-process inspection is one of the most important functions. The number of garments inspected is determined by both the degree of difficulty of an individual operation and the effect it may have on the next operation.

In-plant audits are done on a daily basis on one percent of the dozens produced with the bundles being rejected if two defects are found. The rejected bundles are returned for additional inspection.

In addition to these inspections and audits, one percent of all goods entering the Distribution Center Warehouse is audited. Auditors seek to insure that a 4% average outgoing quality level for defects is being realized. Rejected audits are returned to the respective plants for correction and inspection.

Information on quality performance is issued daily, weekly and monthly to sewing Plant Managers, Department Managers, and to various management and staff members.

BILL MILES QUALITY CONTROL

MERGER BRINGS OPPORTUNITY

This is a good opportunity for us to address the value and growth possibilities that the merger between Russell Corporation and Quality Mills means for each one of us. Russell is an outstanding Company in every sense of the word - from its predictably superior performance year after year to belief in and concern for all of the employees that make up the Company. As we have discussed, this merger is like a marriage in that we will share the strengths that each of our companies have and offer our exceptional skills to overcome each other's shortcomings. This applies not only to the markets in which we compete but also to the manufacturing expertise which we have and must continue to develop and the common philosophy that we share about the firm value and contribution that each of our employees have made and can make to the future security of all our jobs in our company.

> ED BATEMAN VICE PRESIDENT PERSONNEL





BAR-B-QUE CARTHAGE, N.C. AUGUST 1988

JUNE - SEPTEMBER

Cloth Plant

Cloth Plant

Carthage

Carthage

35 YEARS

Lynn Mooneyhan Franklin Street

30 YEARS

Edith Thomas Distribution Center Mildred Miller Distribution Center

25 YEARS

Betty Jean Hawks Johnny Lewis

20 YEARS

Beth Edwards Hillsville Pat Gatling Grace Smythers Hillsville Franklin Street Margaret Norman Dennis Edwards Cloth Plant Cloth Plant James Hall Jackie Davis Hillsville Willa Dean Nester Hillsville Kathleen Goins Cloth Plant Delane Todd Cloth Plant Frances Viars Hillsville Jeanelle Fleenor Franklin Street Peggy Crotts Franklin Street Helen Bryant Hillsville Ava Hull **Hillsville** Frances Wilmoth Franklin Street Nancy E. Childress Franklin Street Ruth McRae Pauline McHone Franklin Street

15 YEARS

Nelda Thomas Joan Parker Judy Goins Brenda Spencer Betty Wilhite Thelma Nichols Linda Gallimore Bertie Seal Raymond Collins JoAnn Sales Esther Haynes Dennie Hawks Wanda Oakley Pearlie Messenger Hermon Travis Thelma Quesenberry Ann Calloway Nancy Edwards Irene Bowman

Distribution Center Cloth Plant Franklin Street Hillsville Franklin Street Carthage Franklin Street Outlet Store Cloth Plant Franklin Street Cloth Plant Franklin Street Franklin Street Cloth Plant Cloth Plant Hillsville Franklin Street Cloth Plant

10 YEARS

Jack Grooms	Distribution Center
Darlene Beasley	Hillsville
Shirley Ashburn.	Distribution Center
Judy Wagner	Franklin Street
Michael Leftwich	Cloth Plant
Patsy Hall	Franklin Street
Delra Reed	Franklin Street
Junior Corn	Franklin Street
Bobby Dixon	Cloth Plant
Linda Leftwich	Franklin Street
Nancy Viars	Hillsville
Keiko Abernathy	Newport
Sylvia Garner	Newport
Joey Newman	Distribution Center
Kiyo Wilson	Newport
Mary Lou Mitchel	1 Cloth Plant

5 YEARS

Stuart Johnson Distribution Center Mary Ann Stump Newport Teresa Stephens.Distribution Center Tina Medley Distribution Center Darren Corn Cloth Plant Kevin Lewis Cloth Plant Hobert Redman Cloth Plant Billy Hiatt Cloth Plant Kathy Fish Carthage Shirley Harrold Franklin Street Rubye Nichols Hillsville Hillsville Peggy Hall Susan Locklear Carthage Linda Stoots Hillsville Kathy Shupe **Hillsville** Teresa Bowman Hillsville Brenda Polk Cloth Plant Shirley Newman Cloth Plant Jeanette Alley Hillsville Rachel Thomas Franklin Street Helen Montgomery Hillsville Regina Jones Franklin Street Carthage Rebecca Walters Hillsville Joyce King Janice Simmons Cloth Plant Linda Fariss Hillsville Angela Norris Carthage Paris Sales Cloth Plant

RETIREES

Cloth Plant

THELMA AKERS AND MAE WILSON

SPECIAL RECOGNITION

Quality Mills would like to Richard Collins for recognize the identification and correction of problems associated with the Cloth Plant Calender and Compactor entry spreader systems. Richard's investigation of high spreader failures drive boot revealed Fab-Con Company had that the redesigned their spreaders in 1981 and Quality Mills was using the old design spreaders with the new design spreader boot drive. We are now using one spreader type for all Calenders and Compactors where we were using three.

As a result of Richard's corrective efforts, the following benefits have been realized:

- Inventory parts reductions
- Drive boot failures reductions - Reduction in fabric damaged
- by spreaders
- Simplified spreader repairs and cleaning.



That's right, safety is no accident; your knowledge, attitudes, and actions will make all the difference. These three key points will allow you to be safe, whether at home or at work.

Step 1 is knowing how to do something correctly. Whether it's operating a machine at work or at home, make sure you know how the machine works and how you are supposed to correctly operate the machine.

Step 2 is having the proper attitude. If your mind is in the right frame of mind for doing a job, you will be safe. If you are distracted or in a bad mood, you will most likely make a mistake and have an accident.

Step 3 is the actions you take. Knowing how to do something is the first step, but you have to pay attention and physically do the job using the correct methods.

SAFETY REMINDERS

With Winter approaching, a lot of people will start to collect and burn wood for heat.

If you are sawing your own wood using a chain saw, remember to:

- 1. Think ahead; plan each cut and know where trees and limbs will fall. Watch out for others.
- 2. Know your equipment and how to use it safely and effectively.
- 3. Maintain your saw for troublefree operation.



Preston Lewis, son of Linda Lewis, Franklin Street, was on the 4x100 relay team of the Meter Masters track club of Mount Airy as they competed in regional competition in Athens, Ga. this summer.

Darrell France, son of Johnnie Mae France, Franklin Street, is attending Wake Forrest on a full football scholarship. The first college game he played, he scored a touchdown.

Becky Hill, daughter of Charles Hill, Cost Engineer, has been selected to compete in Surry county for the John Motley Morehead Scholarship at UNC-Chapel Hill. She is a Senior at North Surry High School.

> Daylight Savings Time ends Sunday. October 30th

> Set those docks back 1 hour before 2:00 am Sunday...



or you'll be the first to arrive to work Monday morning Predmont Associated Industries



MARY LANKFORD

GROWING YOUNG

Upon entering the Franklin Street plant, there is a plaque on the wall which reads, "Growing Young Is a Way of Life."

One of the employees who ojects this image at the Franklin Street plant is our "young" Mary Lankford. At the age of 72, Mary still works every day producing great quality work. Mary is listed as a part-time employee but works forty-plus hours each week which is due to her ability to perform so well on so many different jobs. When anyone needs extra help in their area, the first person they ask for is Mary, due to her performance as well as her pleasant personality. MARY KEEPS US ALL YOUNG.



Jack Brookshire

Franklin Street

Franklin Street

Franklin Street

Thelma Akers

Cloth Plant

Marion Crow

Mae Wilson

Carl Spivey

Shipping