GLOBAL TEXTILE PRICING UPDATE, October 2011

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There has been much discussion of late concerning the future direction in the pricing of healthcare and image apparel textile products. This is an exceedingly complex subject, fully dependent on ever changing global conditions, encompassing both supply and demand equations. This update will discuss the following topics:

- Cotton prices
- Polyester prices
- Global price supports
- Inflationary pressures
- Currency valuation
- Potential hazards
- Global economic conditions

Cotton Prices:

It is well documented that cotton prices have dropped on the futures exchanges since peaking in March 2011. It is, however, important to note that, at this time, cotton prices on the commodity exchanges still represent an increase of over 20 percent from a year ago. Additionally, these lower-priced cotton futures reflect fabrics that will be shipped at the very end of 2011. This lower priced cotton will not work its way into the system in the form of finished garments until late spring of 2012. Our company took long term positions for fabrics at higher prices in order to ensure total continuity of product to our customers throughout the cotton crisis. Uninterrupted availability of product for our customers was our priority and it will take time for these higher price positions to work their way out of our system.

Polyester Prices:

Polyester is a very unique subject. Over the last two months, polyester prices have actually risen despite lower costs of petroleum per barrel. The reason that polyester has increased is the derivatives from petroleum used to manufacture polyester are in very short supply. One of the major producers of this byproduct was a particular mill in China. This mill has been closed down by the Chinese government for environmental reasons. This mill had enormous capacity and the rippling effect of this closure is being felt throughout Asia and other parts of the world.

Global Price Supports:

There is an interesting price event taking place now in both China and Pakistan. These governments are setting a price floor for cotton. China is planning on setting a price of about $1.20 per pound and Pakistan is planning to set its price at about $1.10 per pound. What this means is no matter what price you see cotton at on the commodity exchanges, cotton will not move into or out of China at less than $1.20 per pound. The Chinese government will guarantee this price protection to their domestic farmers. Pakistan, acting in the same manner, is focusing in at a slightly lower price than China. With these global maneuvers, cotton is finding a new benchmark price and that price will be somewhere between $1.10 and $1.20 per pound. We firmly believe longer term cotton prices will not fall below these levels. Remember, this floor still reflects nearly an 80 to 90 percent increase over cotton prices in 2009.

Inflationary Issues:

Inflationary issues are still rampant. Costs of labor, power, water, chemicals and transportation are all significantly rising. Also, new environmental regulations going into effect around the world are impacting costs, as plants must modernize to be in compliance with newly established codes. Although cotton prices are down, much, if not all of this decrease will be lost in this inflationary spiral for both fabrics and finished garments.

Currency Valuation:

While there has not been any dramatic change, particularly in the Chinese RMB to the U.S. dollar, most experts agree that change is coming. The recent situation in the U.S. with the debt ceiling and the Chinese uneasiness with the U.S. monetary system may, in fact, give incentive to the Chinese government to speed up their currency devaluation against the U.S. dollar. Where the currency is presently holding at about 6.5 RMB to the dollar, most experts think by the beginning of 2012 it may be as low as 6.2 RMB to the U.S. dollar. Change in currency to this extent would represent an additional cost of almost 5 percent that will spread throughout Asia and the Middle East.

Potential Hazards:

In discussing all of the above scenarios, particularly with the price of cotton, there are still hazards that exist around the world that could influence final pricing. It has already been well noted that Pakistan has had some major flooding issues in certain regions of their country and they are expecting some shortfall to their fall crop. China has also had some weather related issues affecting its crop yield. In the U.S., the flooding earlier in the year on the Mississippi River prevented certain areas from being able to plant cotton and the drought in West Texas will certainly affect the fall harvest. Also, in the polyester scenario, there is uneasiness in the petroleum market in view of the events in Libya.

Many of the big financial firms, such as Goldman Sachs, are predicting increases in petroleum prices in 2012. Some of Wall Street feels we could see oil back in the $110 to $120 per barrel range sometime next year. While much of this is pure speculation, it is something of which everyone must be aware. Currently polyester prices are higher due to the supply issues for the derivatives used to produce polyester. However, one thing we can absolutely be assured is increases in petroleum prices per barrel will always work their way into higher polyester prices.

Global Economic Conditions:

In addition to everything mentioned, another area to consider is the global demand for cotton, polyester and apparel in general. It is evident that the worldwide economy is slowing down again and the demand for products may not be as great as they were a year ago. Once again, this is a guess as to what economic activity will be like six months or a year from now.

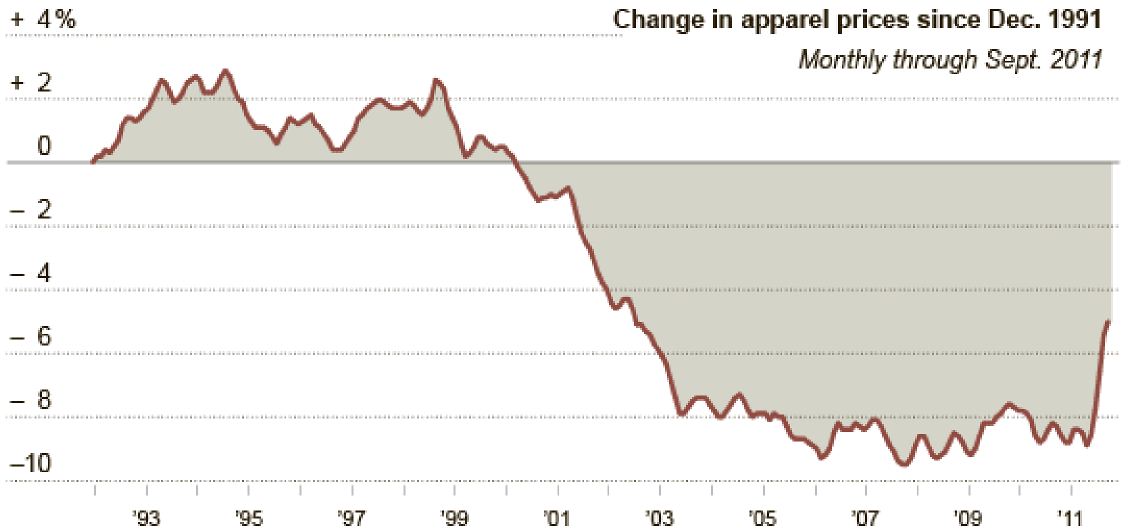
We have great uncertainty on many fronts. Some raw materials may be going down, other raw materials may be going up; inflationary pressures are strong and continuing; global economic activity remains questionable. What we all need to understand is that the great deflation in the apparel industry over the past 20 years has come to an end. For the last 20 years you could watch cotton on exchanges hovering between $.60 per pound to $.80 per pound. Today we are looking at benchmarks around $1.10 per pound and possibly higher. This is the new "normal" impacting fabric prices.

In Summary:

Even though you are reading about the drop in cotton prices, everyone must be aware of all of the issues affecting pricing. A key factor to also keep in mind is the increase in costs borne by manufacturers throughout 2010 and 2011. Those increases were so drastic that manufacturers have not been able to recoup these higher costs. As such, while some may be looking for some type of deflationary pressure to take place in the apparel industry, manufacturers still must play catch up based upon the new norms of costs recently established.

Fabric Prices: The New Normal

	Jan 2010	Oct 2010	Mar 2011	Sept 2011
Fabric Price	$1.30	$1.72	$2.01	$1.60
% Net Increase (from Jan 2010)		32.30%	54.60%	27.70%


Change in apparel prices since Dec. 1991
Monthly through Sept. 2011
+ 4%
+ 2
0
– 2
– 4
– 6
– 8
–10
'93
'95
'97
'99
'01
'03
'05
'07
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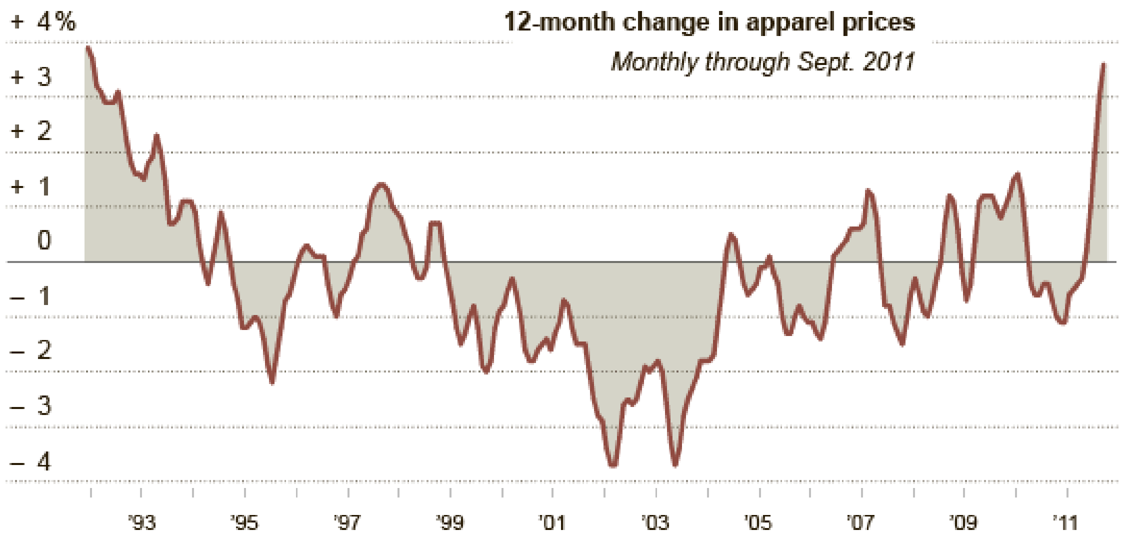
12-month change in apparel prices
Monthly through Sept. 2011
+ 4%
+ 3
+ 2
+ 1
0
– 1
– 2
– 3
– 4
'93
'95
'97
'99
'01
'03
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'07
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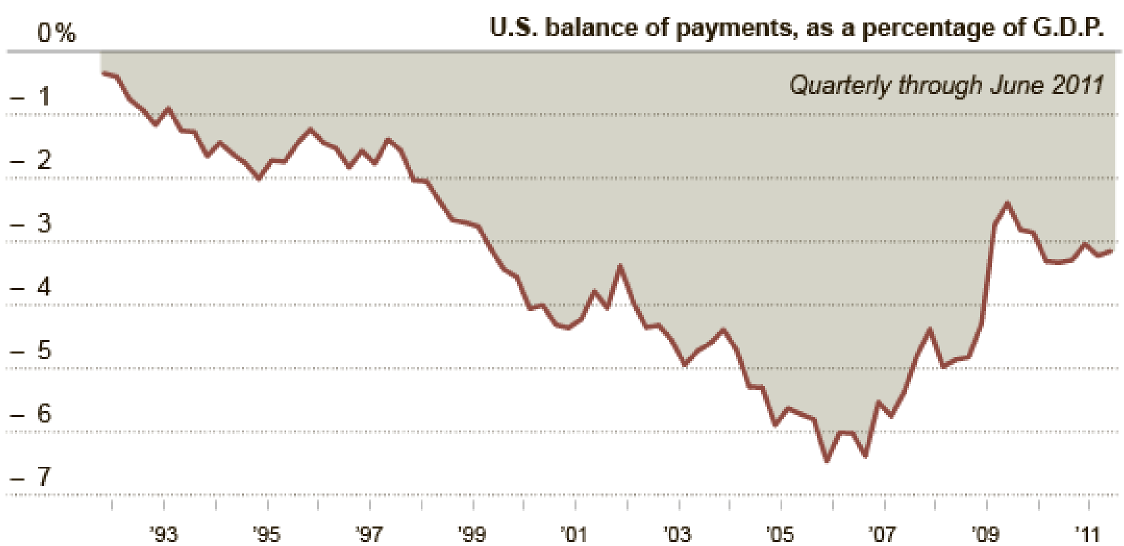
U.S. balance of payments, as a percentage of G.D.P.
Quarterly through June 2011
0%
– 1
– 2
– 3
– 4
– 5
– 6
– 7
'93
'95
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'99
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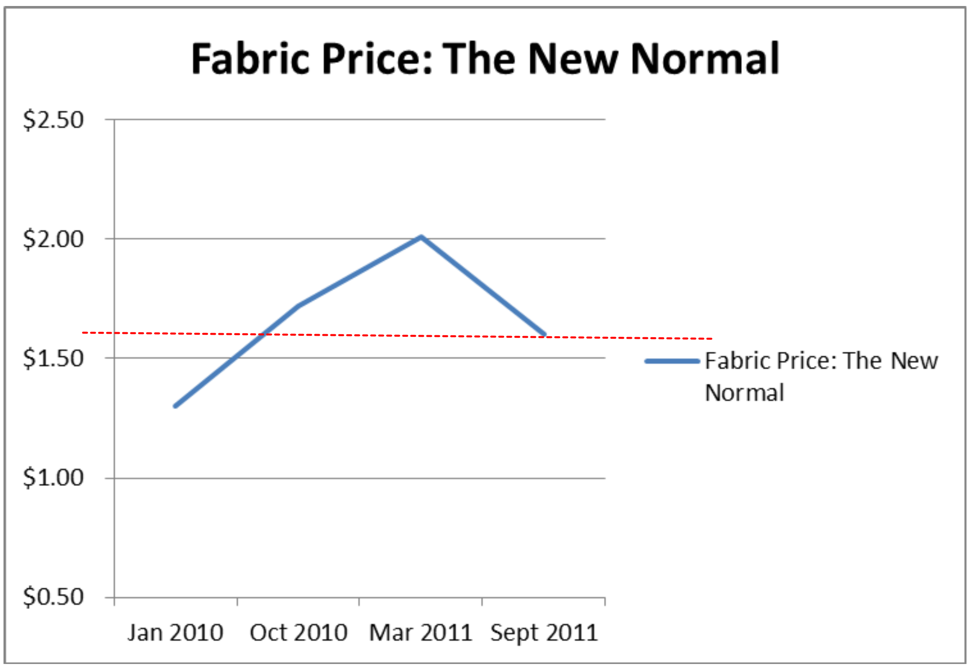
As an example, we have a very large use fabric that was purchased at the beginning of 2010 at $1.30 per yard. In October 2010, when the crisis first hit, this fabric jumped to $1.72 per yard or an increase of 32.3 percent. When the cotton crisis was at its worst in March of 2011, the price further increased to $2.01 per yard or an increase over 2010 of 54.6 percent. Today the fabric is being bought at $1.66 per yard and is stabilizing there. While it is absolutely true prices are coming down, the reality is the price has risen over two years from $1.30 to $1.66 for a net increase of 27.7 percent. In products manufactured from this fabric, the fabric itself can be 70 percent of the total cost of the product. Thus, over the two years, fabric alone will increase costs just under 20 percent for these types of garments.



There is neither vendor nor customer that welcomes the idea of increased costs, particularly when it is as dramatic as what has taken place during the last two years. The truth here is that new benchmarks for costs have been set and, while we may not like it, it is time to accept it and move forward.

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