GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

Textiles and Apparel Monitor

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Introduction

Welcome to the third issue of the *Textiles and Apparel Monitor* from Great American Group Advisory & Valuation Services ("GA"). This publication will provide you with market value and industry trends for a variety of textile and apparel products. The enclosed information represents a composite of GA's industry expertise, well-respected industry publications, liquidation and appraisal experience, and contact with industry personnel. Due to the commodity nature of certain textile products, as well as the commodity nature of inputs used in synthetic fiber production, timely reporting is necessary to understand an ever-changing marketplace. GA strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole.

The *Textiles and Apparel Monitor* relates information covering most textile and apparel products, including industry trends, market pricing, and their relation to the valuation process. GA provides our customer base with a concise document highlighting the textiles and apparel industry. Please feel free to utilize our contact information shown in this and all *Textiles and Apparel Monitor* issues. GA welcomes the opportunity to make our expertise available to you in every possible way.

Trends in Recovery Values

In the second quarter, year-over-year Net Orderly Liquidation Values ("NOLVs") were mixed, and ranged from up three percentage points to down two and a half percentage points, as the direction of the change depends on inventory mix and the nature of a company's business or products.

Trend Tracker	
NOLVs:	Mixed
Sales Trends:	Increasing
Gross Margin:	Mixed
Inventory:	Increasing
Pricing:	Increasing

Recovery values fluctuate, as a company's position with regard to price increases, cost increases, and margin can vary drastically. The ability for companies to pass along price increases quickly and effectively is variable, and this plays directly into margin trends and NOLVs. Sales have generally increased due to rising selling prices.

With cotton prices falling substantially in July and August from their all time high in March, and other synthetic fibers leveling off or decreasing slightly (as commodities such oil or inputs such as terephthalic acid and ethylene glycol decline), there are potential effects to underlying collateral values that GA has yet to witness.

GA internally tracks recovery ranges for cotton fabrics and apparel, greige goods, specialty textiles, synthetic fibers such as nylon and polyester, and a wide variety of apparel in all price points, but we are mindful to adhere to your request for a simple reference document. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer.

ABOUT GREAT AMERICAN GROUP

Great American Group is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale and industrial clients, as well as lenders, capital providers, private equity investors and professional services firms. In addition to the *Textiles and Apparel Monitor*, GA also provides clients with industry expertise in the form of monitors for the metals, building products, food, automotive, and chemicals industries, among many others.

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EXPERIENCE

GA has been involved in the liquidation of select industrial manufactures and wholesalers such as Atlas Textiles, Garment Services, Seatco, and Textile Alliance, store locations for Jo-Ann Fabrics, Hancock Fabrics, and A.C. Moore, and numerous apparel retail stores such as Kids Mart, Clothestime, Mervyns, and Eddie Bauer. GA has worked with and appraised numerous companies within the apparel and textiles industry, including industry leaders within each category. While our appraisal clients remain confidential, GA's extensive list of appraisal experience includes:

- One of the world's largest integrated producers of synthetic fibers, with annual net sales exceeding $3.0 billion.
- A wholesale distributor of imprintable apparel, including t-shirts, fleece apparel, sports shirts, headwear, and athletic wear, with net sales exceeding $700 million annually.
- An industry leader in textile and chemical products, which include denim, dyed fabrics, and flame retardant fabrics for use in apparel and home furnishings.
- One of the U.S.'s foremost producers of retail fabrics, specialty fabrics, and craft products, manufacturing goods in a wide variety of synthetic fibers.
- One of the world's leading manufacturers of performance synthetic fabrics, offering over 480 styles of synthetic fabric in varying weights and textures.

GA also maintains appraisal experience involving more regionalized and specialized companies, allowing for the utmost depth in our valuations:

- Textile spinning mills producing fabric for the apparel, automotive, and home textile industries.
- Distributors of fabrics for furniture, apparel, and other applications.
- Manufacturers and distributors of apparel, rugs, and other woven fabric products.
- Manufacturers and distributors of polyester, nylon, and acrylic fibers and specialty fabrics for various industries.
- Manufacturers of performance synthetic fabrics.
- Retailers of textile products and apparel.

In addition to our vast liquidation and appraisal experience, GA maintains contacts within the Textile and Apparel industry that we utilize for insight and perspective on recovery values.

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OVERVIEW

The textile market continues to exhibit moderate growth in the face of a stagnant U.S. economy. Promising signs have largely been the result of exorbitant raw material pricing rather than surges in consumer demand. While in previous *Textile Monitors* the rate of textile production mirrored overall U.S. industrial production, recent results point to the textile industry outperforming overall U.S. manufacturing. According to the Federal Reserve's Industrial Production and Capacity Utilization Index, industrial production of textiles exhibited an 8.6% increase for July 2011 versus 2010, while overall U.S. production increased 3.7% for the same period. However, the Federal Reserve's production index is price- rather than unit-based, which leads to somewhat saccharine indicators for the textile industry.

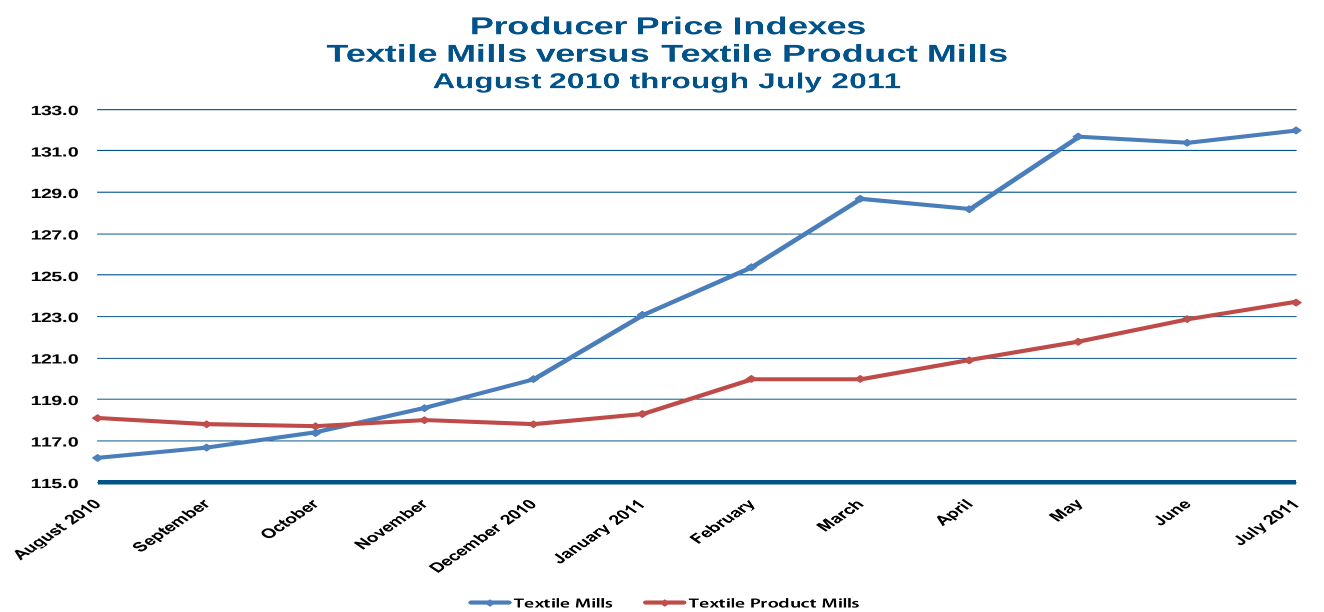
Textile production has increased each of the last four months, posting gains of 4.4%, 0.8%, 1.6%, and 0.7%, respectively, from April 2011 to July 2011 after a 3.9% decrease in March. Textile and product mills have followed a similar trajectory, increasing 5.7% in July 2011 compared to 2010 and posting gains each of the past four months.

Production capacity has also gained momentum in recent months, rising from 64.9% in March 2011 to 68.3% in July 2011. Since 2001, production capacity for textiles and apparel has fallen approximately 30% and 60%, respectively, while recent reports suggest that production potential will increase in both segments over the course of 2011. Despite the positive picture painted by production numbers, the industry has major challenges to confront in the coming months.

While cotton prices have fallen recently, a number of other factors have combined to increase the price of fibers and yarn in recent months. In addition to the volatile pricing for key feedstocks, the global utilization rate of certain intermediate chemicals has impacted pricing. As these intermediates are in high demand, global supply has been restricted. Substantial wage increases in China, coupled with factory capacity, have also impacted fiber prices in 2010 and through the second quarter of 2011, although prices are now stable or decreasing slightly.

If cotton prices continue to decline, there is concern that farmers will be forced to switch to more profitable crops such as corn and biofuel, which would result in lower cotton inventory stocks and, ultimately, higher pricing. It remains to be seen whether this will come to fruition. In the meantime, apparel pricing remains high, as garments produced when cotton pricing was at an all-time high are just reaching the stores now due to the industry's six-month lag time.

The following figure illustrates the producer price index, which denotes the selling prices received by domestic producers for their output, for textile mills versus textile product mills. Textile mills include a variety of processes such as yarn spinning; primary textile products manufacturing; intermediate yarn processes such as carding, combing, texturing, twisting; fabric and thread weaving and braiding; and production of nonwoven fabrics and textile finishing for both cotton and synthetic fibers. Textile product mills include carpet and rug mills; curtain and drapery mills; various household textile product mills; canvases; cordage mills; and other downstream textile processes and products:



RECENT APPRAISAL TRENDS

TEXTILES

Within the textile industry (including domestic fabric and yarn manufacturers, as well as distributors of imported textile products), recoveries are largely dependent on the inventory mix of a given company, as the percentages of raw materials, finished goods, and work-in-process impact the overall blended rate of recovery. On the whole, GA saw mixed results ranging from up three percentage points to down two and a half percentage points in June 2011 as compared to 2010, as the direction of the change depends on inventory mix and the nature of a company's business or products.

As mentioned, cotton prices have fallen substantially from their all time high, and other synthetic fibers have leveled off or decreased due to falling input costs. However, there are potential effects to underlying collateral values that GA has yet to observe, and gross recoveries could decrease in the future based upon the volatility in the market.

As cotton prices dropped drastically quite quickly, yarn spinners, and integrated textile and apparel producers may be exposed to high levels of raw material cotton and yarn on hand. These effects can be seen in raw material recoveries; when market prices fall and the cost of inventory is high, recovery values decline, although this is largely dependent on a company's costing methodology. Similarly, margins for these yarn spinners and traders can take a substantial hit if pricing to customers is immediately reflective of market swings.

While raw material prices for polyester and nylon, as well as input chemicals such as terephthalic acid and ethylene glycol, seem to be leveling out, GA has found that gross margin has been strained, resulting in gross recovery decreases of as much as five points on finished goods. Raw material recoveries were quite stable, and the spread between market price or acquisition cost compared to the cost of inventory was substantial in many cases, though generally still higher despite some costs decreasing or leveling out. GA understands that, in other cases, this trend is often mitigated by prices leveling out or updated standard costs, or through revaluations of inventory.

As many manufacturing companies update standards in December, the spread between market price and inventory cost should be lower in many cases, leading to less severe fluctuations in recoveries. As always, GA recommends that lenders monitor these trends both in terms of raw material recovery rates and how these same trends affect gross margins, and thus finished goods recoveries.

GA will continue to monitor the industry, reporting and analyzing these trends as they develop.

APPAREL

Fluctuations in recoveries across the apparel industry (including manufacturers, wholesalers, and distributors) have were generally stable or increasing up to two percentage points from June 2010 to 2011. Rising costs in the industry continued through the end of 2010 into the first quarter of 2011, and perhaps later depending on the fiber in question. Throughout that period, GA witnessed a wide array of results, in terms of companies passing along price increases, and not suffering margin reductions.

In GA's experience, most apparel companies were successful in being able to keep gross margin levels relatively stable. However, with more recently decreasing costs, especially cotton, apparel companies have already capitalized, keeping prices to consumers stable and potentially recouping any earlier losses endured during the end of 2010 and the first quarter of 2011. Both textile producers and apparel producers have been fighting for increased pricing to customers, often coming at a significant delay and impacting gross margins. There is an opportunity, if current downward trends in raw materials costs prevail, to recoup earlier losses and keep prices high. This is evident in industry news, as most experts believe apparel prices will remain high well into 2012, reflecting prior run-ups in cost of raw materials.

GA continues to recommend that lenders look to the most recent months and, going forward, to monitor how price increases are being handled by retailers across the industry, especially into the all important holiday season.

GA has observed that although overall consumer demand on the whole has seen modest increases, levels of slow-moving and aged inventory have been mixed. GA recommends that lenders continue to monitor levels of slow-moving inventory as a percentage of total available inventories, as high levels of slow-moving inventory may offset potential gains in recovery rates resulting from strong sales performance, especially if purchased previously at inflated prices.

MONITORING POINTS

Monitoring Point	Impact
Monitor current input costs such as cotton, polyester, and nylon versus the current cost of inventory.	Depending on the cost methodology of a company, including the frequency with which it updates standards, the spread between the cost of inventory and current market prices can lead to large swings in the value of the underlying collateral. Specifically, if commodity prices continue to decline, inventory at cost could be overvalued.
Monitor gross margin and pricing to customers.	Increases in pricing can often take a quarter or longer to implement, while rising input costs take effect almost immediately. This lag leads to compression in gross margin and lower recovery values for finished goods, although falling prices for commodities (such as cotton) leave opportunity for companies to regain any lost margin.
Monitor downstream and upstream activity, as well as production capacity and export demand.	While rising market prices have been largely attributed to export demand, other market factors, such as poor retail activity, low production levels, and an uptick in overseas inventories, would put downward pricing pressures on inputs.
Monitor weeks of supply and inventory aging.	Despite increased production and upticks in consumer demand, companies may continue to carry inventory with high weeks of supply, which would maintain minimal demand.

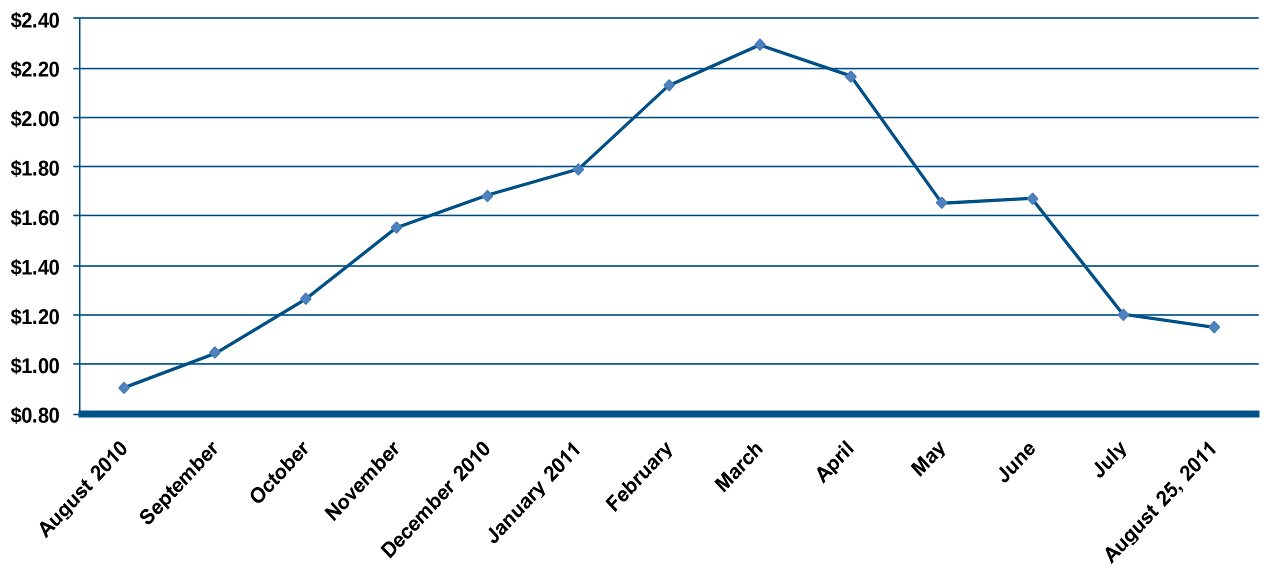
PRICING TRENDS

COTTON

As noted in the previous Textiles Monitor, cotton prices began a fall toward historical levels in the second quarter, as unimpressive domestic demand failed to keep values buoyant. The Cotlook "A" index has fallen by nearly half since reaching a high in March, declining to below $1.20 per pound for much of August 2011. To make matters worse for the domestic industry, inclement weather has deteriorated the quality of cotton emanating from the U.S.'s top growing regions. Droughts in Texas, combined with high temperatures, have worked to create some of the worst growing conditions in the past 100 years. According to the USDA, over 60% of Texas' cotton crops have been deemed "poor" or "very poor." Over half of the 4.53 million acres planted in the High Plains region of Texas have been abandoned, the highest rate in history. On the other end of the spectrum, tropical storms are threatening to destroy nearly a quarter of crops in Georgia and South Carolina, although many view these reports as alarmist in nature.

While the poor growing conditions will hurt cotton production, tight supplies may resurrect cotton prices that have been on a downward path since the beginning of March, when cotton traded at almost $2.20 per pound. Furthermore, low supplies from Pakistan continue to cause tightness on the market, as flooding reduced the county's production by nearly 10%. However, the International Cotton Advisory Committee recently revised its estimate of global production to an 8% increase, based largely on gains from record-high producing countries India and Australia. The Cotlook index represents the average of the five cheapest quotations for principal upland cottons traded on the international market:

Monthly Average Cotlook "A" Index Pricing Trend
August 2010 through August 25, 2011[1]
Dollars per Pound



Note:
(1) Monthly averages for April and May are unavailable.

PRICING TRENDS

SYNTHETIC FIBERS

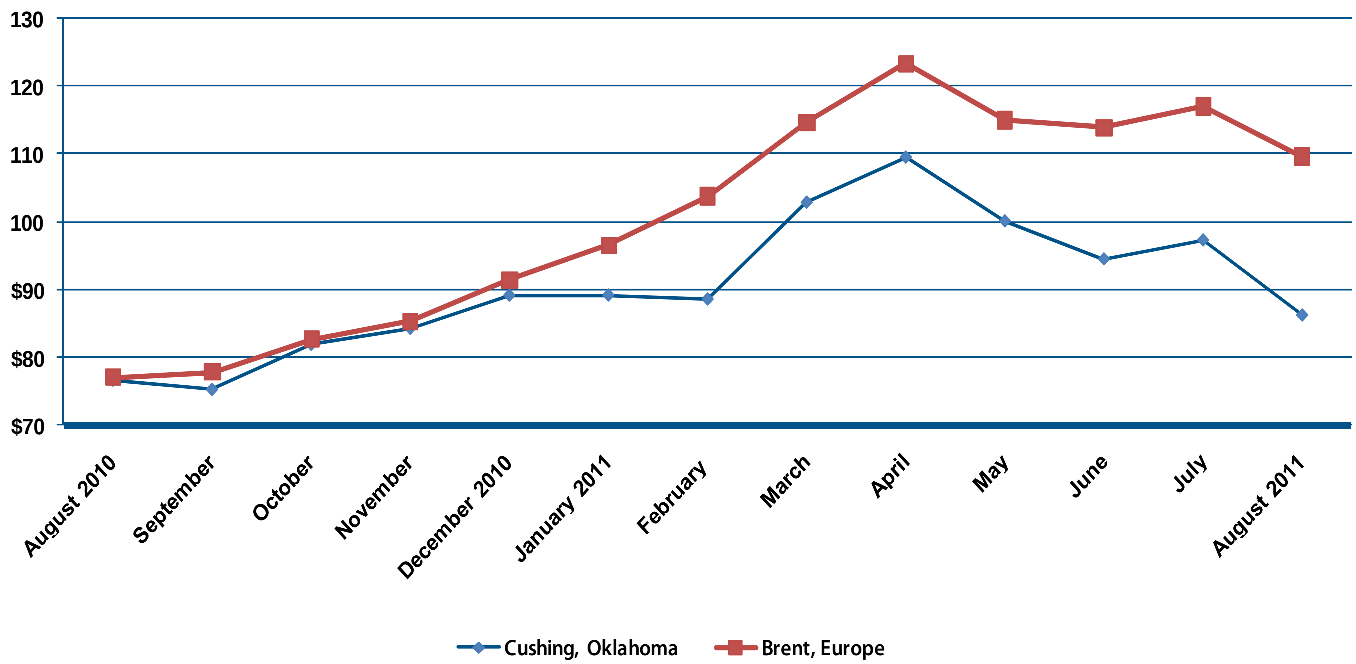
Synthetic fibers such as polyester and nylon experienced increased pricing in the first quarter of 2011 before leveling or decreasing slightly. As these fibers are normally monitored at the chip level, market prices are not typically tracked and vary widely based on inputs. Polyester's major inputs are purified terephthalic acid, paraxylene, and monoethylene glycol, which may be traced to crude oil derivatives. While crude oil pricing continued to fall in August, it remains well above historical levels.

Polyester is often used as a low-cost alternative to cotton; as such, demand increased in response to the cotton shortage. Asia remains the top consumer of polyester fibers. In China alone, polyester staple fiber prices have risen by up to 19% since the beginning of 2011, coinciding with the global rise in cotton prices in the early part of the year. While cotton prices have since fallen, a number of other factors have also combined to increase the price of polyester fiber and yarn in recent months. In addition to the volatile pricing for key feedstocks, the global utilization rate of certain intermediate chemicals that are used in polyester production, particularly paraxylene and PTA, has also impacted pricing. As these intermediates are in high demand, global supply has been restricted. Substantial wage increases in China, coupled with factory capacity, have also impacted fiber prices in 2010 and through the second quarter of 2011, although prices are now stable or decreasing slightly.

Nylon 6,6 prices have risen nearly 20% over the past year, due in large part to demand from the rebounding automotive sector. Low butadiene feedstock inventory levels have served to further price inflation.

Market prices for nylon fibers are most impacted by benzene, polyamide, and caprolactum. Many of these intermediates are dependent upon benzene prices, which have been elevated in recent months due to petroleum costs, which, despite having fallen recently, remain above historical levels. Additionally, benzene producers typically hold off production until the premium for benzene reaches $100 to $120 per metric ton over toluene; in recent weeks, the spread has been almost negligible, with benzene being sold below toluene on some markets.

Crude Oil Monthly Spot Prices
August 2010 through August 2011
$ per Barrel



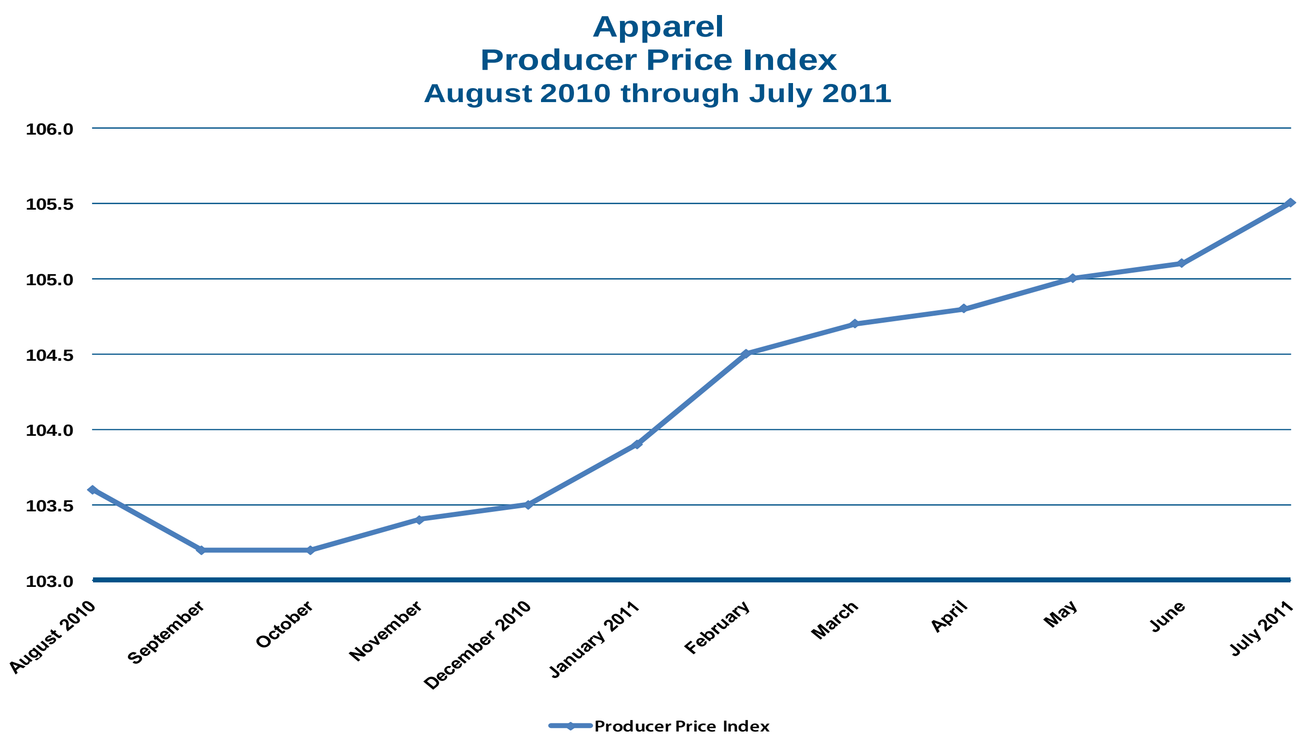
PRICING TRENDS

APPAREL

While cotton costs have recently declined, many industry experts believe that apparel producers and retailers will continue to face pricing challenges in the coming year. On August 31, cotton for December delivery was listed at $1.04 per pound on the ICE NY Futures US Exchange, falling from the record high of $2.27 per pound experienced in March. Cotton prices are expected to continue to fall over the next year as production increases aid in replenishing stocks. However, due to the six-month lead-times that most companies utilize, apparel made when prices were high is just hitting the shelves now. As such, garment prices are expected to remain high well into the spring of 2012. Certain garments, such a t-shirts and other casual items, are more impacted by cotton price increases, as raw material costs represent a greater percentage of their total cost.

A number of other inflationary factors may also impact apparel prices in the coming months. These include factory capacity overseas, transportation costs, and double-digit wage increases in China, Central America, and Vietnam. Another key concern is that the falling cotton prices will push farmers to switch to more profitable crops such as corn and biofuel, which would result in lower cotton inventory stocks and, ultimately, higher pricing.

Retail clothing companies are currently faced with the dilemma of developing ticket prices for the coming year. Retailers have reported that they are unsure how the recent price hikes have impacted sales, as the results of back-to-school shopping are not yet available. The situation remains compounded by continued economic worries and high unemployment rates, which limit consumer spending.



TEXTILES AND APPAREL REFERENCE SHEET

Pricing trend changes for the second quarter 2011 versus the first quarter 2011 are as follows:

	% Change
Cotton	(44%)
Paraxylene	(10%)
Feedstocks	
Oil	(10%)
Natural Gas	0%