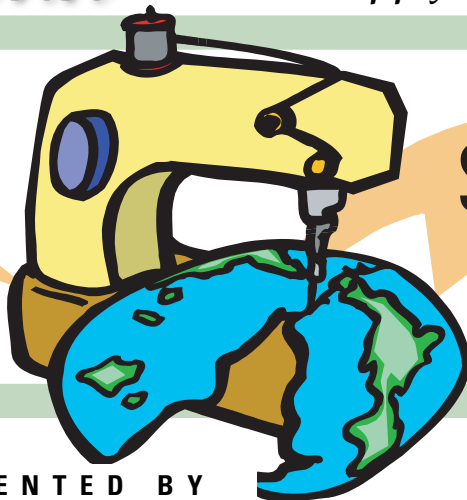


The
Global
Market
Jolt



How to
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Friday, August 12, 2005, 7:30 - 9 a.m. • Downtown Marriott - Salon E • OR Summer Market

E V E N T T R A N S C R I P T

KATHY SWANTKO (Moderator) – Good morning, I'm Kathy Swantko, president of FabricLink. I'd like to welcome you to FabricLink's fifth in a series of Panel Discussions held at the Outdoor Retailer Show. These Panels are comprised of industry leaders, who discuss issues and topics important to the supply chain for the performance market. The Panels encourage interaction and explore ways on how to succeed in this dynamic market. The Panels also help to build a sense of community within our industry.

You can download the pdf files of our previous Panels from the FabricLink.com and TheTechnicalCenter.com web sites.

Today's Panel is presented by FabricLink and the Outdoor Retailer Summer Market, and is sponsored by 15 industry businesses. We wish to thank all of our sponsors for their contributions and proactive support of our industry.

Many of our sponsors have provided promotional gifts for your "goodie" bags, including socks, wristbands, and other items.

The title of today's Panel is: "**The Global Market Jolt –How to Survive It and Thrive**". The Panel will discuss:

- The impact of world market changes on supply chain relationships; and how to develop the vision to not only survive but to thrive.
- We will also look at current trends in performance products; and, how to work together to create innovative products that meet consumer desires....and sell.

I'd like to begin by introducing our Panel of experts. You'll also find brief bios of everyone in the Agenda Brochure.

- Representing the U.S. Government is **James Leonard III**, deputy assistant secretary of textiles and apparel for the US Department of Commerce. Just an aside about Jim Leonard –he is a former employee of Burlington Industries for 34 years.

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- Representing the raw materials suppliers is **John Mitchell**, vice president of business development for Outlast Technologies.
- Representing fibers and yarns is **James Morelli**, vice president for American Fibers and Yarns Company.
- Representing product development is **David Parkes**, president of Concept III International.
- Representing fabric and manufacturing is **Kenneth Shelton**, textile development leader for W.L. Gore.



The first question covering Global Market Issues and Changing Relationships is: How is global trade changing the relationships within the supply chain for the performance market? And, over the next five years, how do you see the nature of the supply chain evolving?

JAMES MORELLI – When we look at the Global Supply Chain, we're affected like everybody else. We're a domestic producer. We worry about how products get specified. The supply chain, as we see it evolving, really comes into a couple of different arenas. One is: We start with customer orders. And customer orders in most of our businesses is the known quantity. And then there's the opportunistic side. Supply chains, we believe will continue to be split between the known stuff that can be sourced to Asia, or can be sourced outside the country, and can be driven by price and cost, as long as the quality is at the level of expectations. The opportunistic side needs a very quick response. And, we believe that the domestic suppliers will be able to supply that very quickly with a high quality. We also believe that, from a supply chain standpoint, it's hard, but we also try to ask for a premium for that extra service for companies to meet those opportunities. That's the way we see the supply chain on a global basis continuing to develop. Commodity stuff, or stuff that we know about with known demand, will continue to get sourced, based on price. If that price equation changes, that demand or that sourcing will switch, on the opportunistic side, chances are that whoever has the quickest delivery, or the quickest response time, will be the way that they will attack that opportunity.

DAVID PARKES – The first dynamic that I see is that there will be increased verticality overseas. I'm going to take a slightly different tact to Jim, because my business in 1997 was 100% domestic, and today, fortunately or unfortunately –however you look at it, is 85% overseas, and it's 70% vertical –meaning that I'm involved from the yarn, all the way through to the textile knitting, weaving, finishing, through to the garment production. And, if I've had any success it's been because of total verticality. And, this will increase. The links in the vertical chain will decrease. I think verticality will become smoother and smoother, to the point that five years from now, there will be fewer, if any, links in the supply chain from the textile product right through to the retailer. It is working, whether you like to be in Asia every 10 weeks, which I normally am. Whether you like being on the phone, at 11:30PM at night, which is crazy, talking to China or Taiwan. This is unfortunately the nature of how one element of our industry is going. And, it's not only in the commodity area, but it's also drifting more and more into the technical areas as well. So, the brief answer is verticality and reducing the links in the supply chain.

JOHN MITCHELL – Good morning. I think I'll have to agree with both people here. What we're seeing, coming from a technology standpoint, we're constantly trying to find ways of introducing things that are expensive. And, what I'm seeing is that verticality is very important. But, you can also do it on the domestic side, and it's all about partnerships. It's all about throwing down those barriers of operating separately as separate companies. I think if you all partner together. If you've got the fiber, the spinner, the fabric mill, the end-use customer –everybody working together as one partnership, you can make better pricing, you can bring things quicker to market. So, there is still some use here domestically, but you really have to be creative with it. We've had some recent success doing this here domestically. So, I really agree with both Jim and David on this.

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DAVID PARKES – I'd just like to make one more comment here. John and Jim, I agree with you both. But I use the phrase, "The Chinese will not be denied!" –meaning that production out of Central America, domestic production, production out of Canada, can obviously help with quick turns and can help in season –it's an element –but the Asian are not going to be denied! They will find a way around that to a large degree.

JOHN MITCHELL – I agree with that too. But, I think there's an issue with us, in that I see that a lot of the developments of the new technologies are here domestically, and we have to find ways to really protect that investment. So, we're being very careful about it, in who we're partnering with, and how we're moving forward with the new technology.

KENNETH SHELTON – I kind of agree with John as far as the partnership. I think that going forward, whether you're doing business in the US or whether you're doing business in Asia, you have to look for strategic partnerships, because it's not only price, it's also volume. And if you don't have both aspects of the equation, then you're going to suffer. Thinking about how the technology has shifted from the US into Taiwan, mostly for the performance market –now there is a shift from Taiwan into China. So, now all of the Taiwanese manufacturers are actually shifting their technology into China, trying to build that up. So, now you have continued supply being done in China, so you have to be very versatile.

KATHY SWANTKO (Moderator) – ***CAFTA (Central America Free Trade Agreement) was just signed into law by President Bush a few weeks ago. How will CAFTA affect the performance market and its suppliers? What opportunities and disadvantages does it bring, and what changes will it have on how products are brought to market?***

JAMES LEONARD III – Those of you that followed the CAFTA –I'll use the word battle –certainly saw how difficult it was to get CAFTA through Congress. It passed originally in the Senate by about nine votes, and in the House by two votes. It's sort of difficult for me --I'm a numbers guy --and when you have 435 people voting on an issue, and if the margin of victory or defeat is only one or two votes, it is really incomprehensible. And, it shows just how complex the trade-related issues are. I am very genuine when I say that I think that CAFTA will be good for the domestic textile industry. There were some companies and some trade associations that were very much opposed to CAFTA. I think that their opposition was somewhat displaced. I was speaking in South Carolina recently with one of the folks that opposed CAFTA,. And he said, "Well, the Secretary of Commerce had made the point that CAFTA opens the Central American markets for all US products, and this guy was saying that Central America is about the size of New Haven, and it's not really much of a market for the US textile industry". But, from a textile perspective it's not about New Haven. That's where many of the customers or potential customers for the US textile industry are. We tried to negotiate the agreement in such a manner that it would give the Central American countries an incentive to buy US raw materials, yarns, and fabrics, represented by the people at this table. But, there were some exceptions to the rule. Some of the domestic industry guys said, "Jim, you say we got 90% of what we asked for, but we want told you we wanted 100% of what we asked for, and we didn't want there to be any exceptions." But, we ended up with an agreement that I think in fact is going to be good for the industry. But, they're going to have to work at it. It's not something that's going to come to them. We've got to do what a couple of the people at the table have already said, you've got to have a value-added product. You've got to have a differentiated product. You've got to have speed to market. You've got to have something that's either quicker, or you can deliver it before China can get into that particular part of the business. I also spend a lot of time in China, dealing with the Chinese government. And, they are in fact going to be not an eight hundred pound gorilla, but a twelve hundred pound gorilla. But, this is an incredible industry in this country, and we can still do a lot, and I think that CAFTA will give us the opportunity for the labor-intensive part of your business –cut, assemble, etc. –that's going to be done there. But, you will still have the ability to supply, I think, a significant volume of the raw materials.

KATHY SWANTKO (Moderator) – ***Jim, do you have a comment from the supplier side.***

JAMES MORELLI – From the supply side, we participate in the South American and Central American markets. A series of our customers in the US have relationships, whether they're formalized alliances or formalized joint ventures, to do exactly what Jim articulated. And, that's for the labor-intensive side of this thing, or the commodity side of that business, let's just run it. They buy yarn in the Sates, they ship it down, they get the duty draw-back, if the country is not part of the CAFTA region, and they service that market very quickly. So, the turn-around is pretty exciting.

The other thing that I would not want to overlook for companies down there is that they have

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major investments from a technology side. So, they are not just a manufacturing arm. But, the companies that we've dealt with down there have significant technology development arms, of which they don't mind playing the second fiddle. They will follow a brand. They will follow a company that is successful. They will support the heck out of them. And, I think that's an important criteria. I will reiterate one thing here, which is finding our hook or finding our edge. If our hook is only one bullet –if it's speed, if it's technology, if it's this, or if it's that –our encouragement or the way we try to drive our business is that we better find three hooks. Three hooks is a true edge. One hook is that you've bought yourself a little bit of time. That's the way we look at it.

KENNETH SHELTON – I'm not as optimistic as these two guys about CAFTA. I kind of agree with what David said that "the Chinese will not be denied". I read an article the other day that CAFTA was going to revitalize the US textile industry, and I didn't necessarily agree with that. I think that it will be good for maybe the labor-intensive aspects. But, if you talk about the labor-intensive part of garment assembly, there is no way that South America or Central America can compete with China. And, I just think that in order for us to get serious about this trade deficit and how China is overtaking the US, then there needs to be something like what I read in the article. For instance, if the President got all of the leaders of all the US companies together and said, "Why is it that you guys are all building factories or building mills in China and Taiwan? What can we do as a government to help insure that we keep some of these businesses in the US? Until that happens, we can have CAFTA or anything else, I just don't think it's going to help.

DAVID PARKES – I think that enough has been said. But, I think that CAFTA is four or five years too late. It could help, but NAFTA in our industry was not a success. In general, what everyone has said, I totally agree with. But, for CAFTA to work though, everything is going to have to work perfectly, because the twelve hundred pound gorilla is in place, and as I said before, they're not going to be denied. And, unfortunately, the track record in Central America for retailers and manufacturers has not been good. And, this needs to be overcome. The other point is that, with exceptions, the success in Central America has been with Chinese companies. Those are the companies that have been able to put this together, and use their philosophy to drive business in Central America. American companies have not been particularly successful. And, it's going to need a whole new attitude to doing business for this to succeed. I'd like to see it succeed. But, being very practical, I think it's too late, and if it's going to work it's going to require a lot of energy. And, I'm involved in that arena, but it's going to require a lot of working together.

KENNETH SHELTON – One more thing --We were in Central America last year looking at factories, and they were all run by Taiwanese investors.

KATHY SWANTKO (Moderator) – *The performance market is driven by price, like any other market. But, what differentiates the outdoor market is that it's also very much driven by ideas and innovation. How is global trade changing the process for developing new products? And, what does this mean to suppliers looking to remain competitive?*

DAVID PARKES – I'll step up, and then I'll be quiet for a few minutes. I have the reputation of being this way. (Laughter)

JAMES MORELLI – You've extended your reputation.

DAVID PARKES – I've talked about verticality. And, one important reason for verticality in this industry, and the brands that we are referring to here, because we're talking, in my opinion, about the brands paying more attention to the marketing of their brands, if they are going to differentiate themselves from the rest of the industry. Things are far more competitive today than they ever have been. And, the greatest brand in the world is facing that competition. And, they have to be faster, and smarter, and more innovative. But however they attack those things, there are people coming at them from all sides with similar product at lower prices. And the only way that this industry will do well, and we will succeed is by the brands paying more attention to positioning themselves, and differentiating themselves from the rest of the business --from all the competition that is out there. And, I could give many examples but I won't. But, I believe that one of the reasons that companies are becoming more vertical is that they need to pay more attention to their marketing, their branding, to running their business ---and less time to concerning themselves with production. So, out of verticality in Asia, there is coming this greater focus by the successful companies on positioning themselves well, and being able to achieve the premium and making the consumer aware that we are different. We are better. We are for more value. This is the only way, in my mind, that the message is going to get through is by the brands presenting themselves strongly through retail, through the media, and educating the consumer that we are different and better than the, excuse me, the Old Navy --whatever.

JAMES LEONARD III – One of the areas of my responsibilities is sponsoring trade shows for the textile and apparel industry, not in the US. So, we are involved in about a dozen trade shows a year that are all international. Ten or fifteen years ago, they were all about yarns and fabrics and apparel. And today, we have a very difficult time to get a US apparel company, or a US yarn or fabric company for that matter, to participate in a trade show internationally. But, where we are having success somewhat is in the home furnishings area, but certainly in the technical textile area. TechTextil is a major international trade show that we are heavily involved in, and we are getting more and more US companies that make the technical textile products ---some of these are branded, but some of these are not branded. But they are value-added products. They are differentiated products. And, as more and more of the world is able to buy these kinds of products that have well known brands --US brands, or even some of the non-branded stuff that are involved in the more technical textile area --we are

seeing more US companies get involved, and doing very well at a number of these trade shows internationally.

JAMES MORELLI – A couple of quick comments: First, and we've heard it a couple of times, is brand. Brand development is obviously extremely important. What we find from retailers, and we do call on retailers, which is always an interesting proposition --- yarn people talking to retailers --- because they always ask, "What the heck do I want to talk to you about?" But, what we find is the identity of the consumer to a brand means that it has a certain value proposition. I'm going to pay a price, and I'm going to get a certain product. The challenge for all of these brands is to continuously upgrade that value proposition, whether it's design or performance. In this arena, the problem is that generically everybody has got the same performance. So, customer confusion is our largest challenge in this business. It's customer confusion, because everything looks the same. So, the stuff coming in from China, which may or may not be the same quality, looks the same as something that's made domestically, which may involve millions of dollars in investments to create a value-added product. So, in marketing, which we've talked about a little bit, which is a big switch for this industry, the cost is always important. So, how you develop that brand, how you develop that performance value-chain for the consumer, and how they buy into that, will dictate the success of a product

KATHY SWANTKO (Moderator) – *The Berry Amendment requires the US Department of Defense to buy US made products first, before they are sourced elsewhere. Are enough domestic performance fabric businesses taking advantage of this opportunity?*

JAMES LEONARD III – Berry, in my opinion, is very important for the domestic textile and apparel industry. Actually, my office spends a tremendous amount of time defending Berry, which we think we shouldn't have to do. But, we end up doing it because the Department of Defense has budget issues just like everybody else. And, they're always looking to buy the cheapest product to be able to service their requirements. And, so we're constantly trying to defend Berry when sometimes the DOD is trying to introduce legislation to weaken Berry. And, we've been successful in doing that. But, the concern that we have is the lack of supply of these wide range of products. One of the arguments that the Defense Department makes, particularly in the electronics area, is that there are no computers made in the United States anymore, or very little. So, how can we require the military to buy US made computers? So, we're constantly working with US companies, working with the defense supply agencies, to help them find and identify US companies. We recently had a situation where the last major producer of acrylic fiber, quit making acrylic fiber. So, you've got to scramble to try to figure out ways to get around that. So, we work very closely with the domestic trade associations, and a number of US companies to help them to work very closely with the military, so that there will in fact be suppliers out there for those products, because if they're not out there, then military is going to be able to say we can't buy what we need, so we're going to have to get it from the Chinas of the world. So, it's a constant battle for us, and I implore you, if you're making related products that have military applications that you make sure that the folks at the Defense Department and defense supply agencies know about it.

JAMES MORELLI – Oh God, please tell us how to do that! (Laughter) We participate, or we try very hard to participate. We have a core business for knitted goods for the DOD. We look at it as there are three fundamental chains on the military side. One is the technical side --- you have to have the fabric. It has to perform correctly, and all those kind of things. Then, there is the supply chain side --- where is the stuff knitted and all of that. And, those generally for us are the easier ones. The political side --- the political food chain is one that we struggle with a little bit. And, it is a problem for us, anyway, but we're a couple of steps removed. But, it is great business, if you can participate. Again, it still comes back to, and I think Jim said it right, is that we can't always think that its military, so we can charge a premium across the board. Because they are under budget constraints, we have to find a way, and put some product development resources to the military side, which continues to give them a better product at a better price or cost to help them with their budget side. So, we have to feed both sides of the arena.

KENNETH SHELTON – I think one thing to add is that the W.L. Gore side of me says that there are far too many people in the military, because we have substantial business in the military. I think one of the things that makes it difficult for domestic suppliers to get leeway into the military side is that it is so spec-driven. And, those of us that are in the business try to protect it fiercely. So, I think there is opportunity, but because it is so spec-driven, it's very tight, and it's very hard to get into that business.

JAMES LEONARD III – I went to Philadelphia a number of months ago, and met with the defense supply folks up there. And, they told us that they had today more vendors or potential vendors in the textile and apparel area than they have ever had before. And, the reason is exactly what Ken said is that as US companies have lost their domestic business, and they want to stay in business, then they want to deal with the military. It's not easy dealing with the military --- the forms, the specs, etc., etc., etc. A lot of those companies won't survive. But, for those companies that do, and are able to make a value-added technical product at a reasonable price, it is good business. The days of the \$600 toilet seats are gone. So, you've still got to be somewhat competitive. But, there are folks in that defense supply chain who are very much interested in buying and working with US companies. We've just got to make sure that they're out there. And, I'm not the one that you need to deal with, if you want to deal with the military. But, if you need help in getting pointed in the right direction, let me know. And, I point you in the direction that you need to go in trying to deal with the military.

DAVID PARKES – We need help in being pointed in that direction. This to my mind is a very exciting question, and one full of

opportunities for this industry. And the reason being, this industry whether it be soft goods or hard goods, it's all about innovation. Everything that we discuss in these halls is new products –new yarns, new finishes, new constructions. That's what makes this industry different. That's what we're talking about when we say brand differentiation, and trying to get added value for our product. So, this industry is all about innovation. The government is looking for innovative products. The War Against Terror is unfortunately going to be about innovation. So that, in my mind, presents a great opportunity to us as an industry and suppliers to be given the opportunity to show the government what we have. I believe the government is fascinated by a lot of things coming out of these halls. But, Jim, I would challenge you –why not have a two-day convention where all the technical people, or whatever element of the industry, have the opportunity to present their product, where the technical people from the government visit? You mentioned TechTextil, which is a great show, and it's very technical, and I know a lot of the government people go there, and the highly technical people are there. But, give this industry an opportunity to have a two-day seminar somewhere where we can show the people that are doing the research, and ultimately presenting product for decisions –give this industry a chance to take that business to the next level, which will obviously assist domestic production. In domestic production, there are problems caused by many things. And the government is certainly a part of what has happened over the past several years. So, finding the resources may also become part of your problem. But, I think it's a great opportunity for us domestically –supplying product to the government. Let's have a weekend seminar where the heads can all get together.

JAMES LEONARD III – Kathy, I would suggest that for your next seminar that you have someone from not only from DOD, but from DPSE, to come in and talk about these things. Let me give you an example of the connection. We are working with developing a marker system for textile and apparel products. The initial effort was to be able to mark a yarn or a fabric that went to the Caribbean to be made into apparel, and comes back to the states duty free. We know that there is a tremendous amount of fraud going on there. A lot of the stuff that comes from those Chinese plants in the CBI are using Chinese fabric. Secretary Evans, the last Secretary of Commerce, called me one day from his car. This was a couple of years ago when Elizabeth Dole was running for Senate from North Carolina, and she had told the secretary that she had heard that there was some technology that could determine the country of origin for a textile/apparel product. To make a long story short, we ended up working with the department of energy. We got involved with Oakridge National Labs. These are the guys that develop the smart bomb and battlefield ID's, and they are actually working on a project to be able to put a marker on a textile or apparel product. So, there is a tremendous amount of interest in the whole area of high tech, and I would be happy to work with Kathy to get the right people from DPSE or DOD, either to have a separate seminar, or certainly to participate in one of these seminars that you have twice a year.

DAVID PARKES – Thanks, Jim.

JAMES LEONARD III – I think it's an incredible opportunity. Look, you're not talking about actual volumes. But, you look at every time you see on TV or in the paper, a picture of a soldier in Iraq, you don't see anything but textile products and weapons. And, these are high tech textile products. And, there is the potential in that market for the folks in this room.

KENNETH SHELTON – But, I would caution that there is only so much business to go around. If you are going to base your growth or the viability of your business on getting military business, then you're already in trouble.

JAMES LEONARD III – No, it's not going to be sort of the silver bullet. But, there is the potential there for folks that want to get involved in that market.

KATHY SWANTKO (Moderator) – *Many are concerned about the textile practices in China, which are being called unfair. These include potential currency manipulation, government subsidies, which allow Chinese businesses to dump undervalued exports, not respecting intellectual property rights (IPR). Some say that China also has an advantage because their environmental, worker protection, and health standards are not as stringent as those in the US and in Europe. Many are asking why isn't more action being taken to enforce "fair trade practices" rather than only focusing on establishing "free trade practices"? Panel? Any Comments?*

JAMES LEONARD III – Yeah, that will come to me eventually, but go ahead, Jim. (Laughter)

JAMES MORELLI – You know, this industry is experiencing something that's happened for 25 years in this country. We're a product of this industry from the standpoint that our home furnishings business has eroded about 60% to 70% over the last three years. So, we're one of the ones that gets the opportunity to experience this firsthand. And, we always thought that because of our design, and our closeness, and our delivery, and all of those things that it wouldn't happen to us. So, we kind of talked our way into that. But, what we find is that the total economic picture –and I think that David articulated the verticality ---our home furnishings business doesn't go away because another fiber is coming in and it's going to the weaver. It's not even going away because another fabric is coming in, and going to a furniture manufacturer. It's because the furniture is coming in DONE! So, that verticality is a testimonial to David's point. All of these specialty industries, which we are in a performance industry like this, will be attacked –slowly, but surely methodically. And, while free trade is on the docket, fair trade is not necessarily on the docket yet. I will say, though, that a number of our customers have put plants over in Asia. But, the difference today, versus even a year ago, is that the plants that they're putting on the Asia side is to service the expected demand coming out of China, not to make product there and ship it here. So, you're getting a few data points.

We need three to make a trend. But, we only have a couple. But we have a couple of data points that suggest that there is that domestic demand in China will generate additional business. And then the question comes up –how will that domestic demand be serviced?. So, there is some bad news, and good news. And then, there's the latest data point where the currency has just moved a little bit, on the Chinese side. It's very positive for all of us from a domestic manufacturing standpoint, because just from that little move, we know from our business in dealing with retailers, has generated a series of closed-door conferences that are now playing the "what ifs" –what if that currency moves 10%? What if that currency moves 15%? –not even getting to the 40% that we can say is the differential. If that currency moves 15%, that whole value chain or supply chain value starts to take on a whole different look, because it drives the predictability out of the supply chain for the retailer, which the effects their profits.

KATHY SWANTKO (Moderator) – *Jim, do you have any comments on this?*

JAMES LEONARD III – Yes, a couple of points. On the currency issue, I have a very easy answer to the currency question. I am not allowed to talk about currency. That's the realm of the US Treasury. So, they did recently revalue by about 2%, which is a very small number relative to 40%. But, for the margins that exist today in China, it is not a tiny number. It's going to take a whole lot more than 2% to make much of a difference. So, I just don't know what's going to happen there.

On the intellectual property side of the equation, that's probably the number one confrontational issue between the US government and the Chinese government. We are putting a tremendous amount of pressure on the Chinese government to deal with the IPR issue. The problem is not the Chinese government. The problem is in the province where the brother-in-law of the governor is the guy who is copying the product and shipping it over here. So, I do believe honestly at the very high levels of the Chinese government that they are serious about trying to deal with the IPR issue. It's just trying to change three thousand years of culture, and it's not going to happen overnight. We, physically have people on the ground that the commerce department employs, who are working with companies in China on IPR issues. The Secretary just announce a couple of weeks ago that he is going to have an IPR coordinator within the department of commerce, who will work with other agencies. There are people in this room, who have major problems with China, who are knocking off their products. We're working closely with those folks. We're not trying to tell China how to run their legal system. We're trying to get them to run their legal system in a transparent and reasonable manner. If they're going to be a market oriented economy, which they are not today, then they need to do a much better job on the IPR issue. On things like subsidies and environmental areas, we're also spending a lot of time dealing with those kinds of things –trying to educate China, trying to get them to do a better job. And again, we're not going to solve these problems overnight. And, they are real problems. But, we are working very hard to try to deal with those. And, we are in fact making progress.

KATHY SWANTKO (Moderator) – *I'm going to pose one more question on the trade issue, and then we'll go into other topics. And, Jim Morelli touched on this briefly. But, what about China's potential as a consumer nation? During a recent trip to China, I noticed that when you change the yuan to dollars, the price of better apparel was comparable to the cost of the same items being sold in the US. With a large and growing middle class with money to spend, how do you assess the opportunities for selling goods into China? And, how do you go about tapping into this market? Jim Leonard do you have any suggestions on that?*

JAMES LEONARD III – I do know that there are number of US textile and apparel companies who are getting involved in China –certainly at the moment to export back to the US. But, a major portion of their long-term goal is to make product to be able to sell tot the three-, four-, or five-hundred million people, who can afford to buy those kinds of products. If you go the Beijing's and Shanghai's of the world, you think that you're not in Salt Lake City, but rather in New York, Chicago, San Francisco, or L.A., and the prices are comparable. I messed up a dress shirt recently in China, and went to one of the shopping malls to buy a dress shirt, and it was about 90 bucks to buy a dress shirt. Well, I didn't buy one. (Laughter) So, there is a tremendous potential there. Just like India. India is another example of –they say that there is a population in India greater than the population of the United States that has a per capita income greater than that of the United States. So, we really do think that these are potential markets, and for people who positioning themselves there to take advantage of these markets, I think that they are doing the right thing.

DAVID PARKES – I believe the opportunities exist. The challenge is to set up the right distribution –working with the right agents –making sure that you are working with people you can trust, etc. I was recently in Russia, and one of the products that I'm involved with is polyester fleece. And, obviously it gets pretty cold in Russia for six months of the year. So naturally, I was thinking what a great opportunity!! And, I made a lot of inquiries, and the opportunity is there as Jim was saying in India and China, but the challenge is finding the right route, and the right agencies –people that you may have to pay off. It's very complex, but it's a great opportunity. But, I think from my standpoint, it's something that I'm looking at. And, if I can make positive progress over the next two years, that's great. But, I don't look at it as being the salvation of my business. But, there certainly is a future, if you can work out the network. Again, branding, I believe, is going to become very important –just as we know that the Chinese are trying to buy brands. Brands are important over there.

KATHY SWANTKO (Moderator) – *I'm going to switch gears right now, and move into current trends in performance products. So, what are the important trends that you see in performance fabrics for the outdoor market? What fabrications are hot now or will be? And, since this is the Summer Show, let's look at fabrics which multi-task, are lightweight, breathable,*

durable, promote thermo-regulation, and are sustainable. And, I know that John, with all of the technology that Outlast is involved in that he is on the cutting-edge of new developments there.

JOHN MITCHELL – I think that probably everybody here is as educated as I am in what all of these technologies are today. I think a more important issue is how things are crossing over, and really paying attention to that. When I'm walking the show here, I've never seen so much fashion before. And, I think that's really key to the success. Having an open mind for technology, but really just keeping in mind –what is it that the consumer is looking for?. Basically, everybody is the same. We're all consumers. And, we start everyday by trying to figure out what we're going to wear. This is all apparel business. When we choose something to wear, we want to look good. That's basically the first decision of the day, and it's going to make or break your day. So, even thinking about performance and technology, what's that vehicle that's carrying the technology, that's also important. And, I can see that trend is taking place here. People are really keeping that in mind. And, I think that's really where the success is.

The other part of it is really keeping an open mind to technology, and what's out there. And, not just saying that okay, well this is too expensive, because the consumer wants technology. That's what they are looking for. The consumer wants to know that they're on the cutting edge –that they are part of today's culture of what's going on. And, so they're looking for technology. And there's a lot of second guessing. There's a lot of confusion and hesitation. I see a lot of fear in people when it comes to making the right decision. So, if you just have some courage, and say, You know this is an important technology. This does work. This is what the consumer is looking for. I'm going to put this into our shirt. I'm going to put this into our pants." The companies that I see are really successful today are the people that are doing that kind of stuff. We've conducted several consumer polls at mainstream. I'm talking department store business. And, this is one of the biggest concerns with people today –performance in their clothing. So, there are all of these factors that go into it. It's not just the specific technology. And, it's like I said in the beginning, we all know what these current technologies are –stain release, wrinkle - resistant, anti-microbial of all different sorts. And, that's the important part is to use the technology. And, yes it's going to add on some price, and that's the reality of all this. As we're sitting here today, talking about all these different issues of dealing globally with all of the different suppliers, it's really the bottom line. It's all about price. And so, how do you get the technology into fabric and into apparel today with these technologies that you're going to have to pay for? And, like I said earlier, it's all about partnership, because it's important to have the technology. It's important to pay attention to fashion. People want to look good, they want to feel good. But, it's also part of just trying to make it happen, and not just turning your head and saying, "I can't pay for that." The consumer will pay for it. They will pay a little bit extra, if you market the product right. There's so much to this topic, because I'm just starting to say the lack of marketing –the lack of retail training. And, being so involved with very cutting edge technology –a technology that difficult to understand. Even when we do get someone to use it, at the development stage, the design stage, the merchandising stage, everything seems to stop. And, we really need to work with sales people. We need to work with retail associates –people down on the floor, because there been companies that have used the technology that I'm involved with, and I'm sure that it happens with others too. But, you'll walk into a store, and you'll talk to an employee of that store, and ask them something about the technology. And, they're just lost. And, there's this big hole with lack of training at retail, and lack of marketing. We did some business with a very large outer-wear company. And, I knew that these garments were at retail, and they were being introduced. And, I walked into my local shop in Portsmouth, New Hampshire –Putnam's, which carries everything. I knew that this product was going to be in there. And, I walked around and around, and I couldn't find my own goods. There were no signs. There were no hangtags. This company had decided that that they didn't want to put a hangtag with this technology. And, you're not going to have any success that way. You have to educate the consumer. You have to let them know that these technologies are in your apparel. There was nothing on these garments to let the consumer know what technology was in these goods. But, the jacket was \$20 more than the jacket right next to it that looked very similar. There are all of these pieces to the puzzle that we're not doing very well, I think. So, there's this topic of technology that we're dealing with, and we're looking at this show with all the different technologies. And, it doesn't just stop right there. You have to have the mind that –yes, we can build a partnership. We can use this technology, because we'll find a way to make it happen. There are just all kinds of ways to be creative to make something happen –to make it affordable, to make it something you can actually use. And then, you have to really make the effort to work with these suppliers to get the training for your sales force, to get the training for retail. These are the big issues that are missing, because what it all comes down to is that people are going to buy it if it's the right item. And, the trend here is that I'm seeing a lot more fashion –what I call fashion –things that are really appealing to the eye, appealing to the hand. But, they have all of this great performance tied to it. It's what everybody is looking for, even outside of this business. It's what they are looking for in the mainstream. There's a lot of room for success still going forward.

DAVID PARKES – There's practicality to this issue. This industry is all about innovation. And, I'll humbly say that if you come to booth 3989, we'll introduce you to 90% of the textile innovations that are out there today. There are a lot of them, okay. But, the practicality is two points: 1. When we come to the industry with a technology, we need to have our act together. We need to show that it works. We need to be in a position to impress the brands, so that they pick up on these things. And, we need to have the opportunity to get them out into the marketplace, before the next retail tiers take advantage of them. In the other retail tiers, I'm referring with respect to the Target's, the Kohl's –the mass retailers. It used to be that those retailers had no interest in technology, because the consumer really didn't know what wickability was all about, until a few years ago. Well, that's changed today. All of those mass retailers are here at the show. They're looking at things. They're learning about

what's going on, because they're getting into these technologies. And, obviously their reach is broader than most of the brands here. So, our responsibility, in my case as a technical textile resource, is to make sure that when we come to the market, the product is proven. It is impressive. The brands can pick it up, and they can establish these products in this industry for two or three years before the big guys have the opportunity to mass merchandise the products. We are being approached by these big guys. They're into it. And this industry is suffering as a result. I mentioned Old Navy. Recently, anyone in the apparel business knows the impact that Old Navy had on fleece about eight years ago. So, the practicality is, when we come to the market, make sure that it works. Prove that it works. And then, the brands, as John said, will jump into it.

(Marshall) One more thought is that in this industry here, people can get so caught up in the minutia. It's just really something how people can bring things to these extreme lengths as to how a product actually works. And, they miss the bigger picture. And, it's so much easier to deal with the Kohl's and the J.C. Penney's these days. It's very easy. So, you really have to fight yourself, and to not sell-out and go in that direction. The loyalty is really with this industry, and it's where you really initially need to go to really drive your business. But, when you're dealing with these performances, There are just so many people. And, I said earlier that the big "F" word is fear. And, people that I see are just holding back so much, instead of really being as creative as they could be in bringing these technologies forward. And, it's something that I really think that people are going to have to make a conscious effort on.

KENNETH SHELTON – I just had a couple of things. I think that years ago, we created technology, and then struggled to find ways to make it fashionable. And, now I think that the consumer want us to take fashion and make it functional or performance-driven. And, I was talking to a young lady last week, who was from the snow-boarding industry, and she said that she goes to Premiere Vision. And, I said, "Why are you going to Premier Vision, because it's so fashion-driven." And, she said that was where she gets her ideas. So, what that tells me is that the consumer wants to take these new colors —these new fashionable items, and figure out how can you guys make these functional. And, we have to listen to the consumer. I think one of the panelists mentioned "wickability". I think everything is driven off of wicking. We want this to wick. And, the consumer is telling us, "Well, I'm still wet." And, we think that if a fabric is constantly wicking, it's constantly being wet out. So, now, it's "I'm okay if I'm wet. I just want to know how fast I can dry. I want the fastest drying thing out there!" John mentioned the retail arena. Years ago, when I was with Carter's, our primary consumers were mothers and grandmothers buying children's wear. So, you say "how much difference is that? What do they want to know about the fabric?" Well, they would come into the retail stores, and they would ask the sales associates, "Why should I buy this fabric over this fabric? What's the difference between this pique and this interlock?" And, the sales associates didn't know. They didn't have a clue. So, what we started to do was we started to hold classes, and gave them at least a little bit of information on what they could tell the consumer when they came in, on why they should buy this —what are they looking for. If you want this kind of performance, you should buy this over this. And, it made a big difference. Just educating people at the smallest level, even at the retail stores. It really matters.

(Marshall) And, then there's one thing that we didn't even really mention —this whole new wave of environmentally friendly fabrics and fibers that are going on. And, one thing to remember about that, because some of these do have an added price or it might be a little difficult to deal with. But it's really something that's important for our future. One thing to keep in mind for the consumer when we're trying to sell these products is that people want to feel good about their decisions. They want to know that they're on the cutting edge of what's new and what's hot —that they're into today's culture. And, that makes them feel good. But, they also want to feel good about their decision beyond looking in the mirror when they get home; and saying yeah, this was the right color or this was the right plaid. They can know inside them that, "okay, what I've bought is an environmentally friendly product. I'm continuing to help the planet." These are big decisions, and it's something when you're using these products, people feel good about that decision, which is important to keep in mind.

KATHY SWANTKO (Moderator) – *We're going to conclude here with the last topic –anticipating consumer needs and delivering. The importance of getting feedback and ideas from consumers is something we've talked about. But, getting quality feedback isn't easy. One suggestion might be that maybe manufacturers should offer consumers some sort of a discount if they trade in their old garments in order for the manufacturers to learn how the garments worked, and get ideas that way. I'd like the panel to address how best to get feedback and direction, and learn about what consumers want in their performance apparel.*

JAMES MORELLI – It's always a big issue —trying to get true consumer feedback to say —What did you like about the product? —What didn't you like about the product?. What are your desires that you want the product to do? It's always been a struggle in any industry, not just this industry. And, the reality is that in a lot of ways the consumers don't always know what they want. They don't know until the next new idea comes up, and they decide, "Oh, I really need that." Most of us didn't really know that we needed an iPod, until the iPod came out. Years ago, we didn't know we needed a Sony Walkman, until the Walkman came out. So, that is the opportunity from the last question —how do you take technology, and drive consumer convenience? Getting consumer feedback is a very difficult one. But, the companies that are very good at it have formalized new product introduction processes, which take into account customer feedback, but also tap the imagination of internal and some external resources. And then, how do you cost effectively —not just bring something out —but how do you cost effectively bring those to the marketplace. This in turn could translate very nicely, without passing all of those costs through

the food chain—but work with your supply chain to create some margin for the initial introduction. And then, work your way through the normal product lifecycle. The people that do it—do it very well. So, once you do it, and once you are successful at doing it, it becomes core competency. And, it's a typical learning curve—new product introduction, and formalize the introduction process is absolutely critical in these markets, if we are going to stay ahead on that performance value decision that the consumer has to make.

DAVID PARKES – We're always told, listen to your customers, your customer will tell you what you need to do. So, I would think that a great idea, which various brands do, is be in the key retail stores in the spring and in the fall for a weekend. Put your rep in there, or put a technical person in there, and spend three days. Have a presentation of your product, and let the customers come over and talk to you about the fabrics or the garments. And, see what they have to say. See what they're looking for. So, listen to your customer. Get in front of them. Get into the store, and work it!

KATHY SWANTKO (Moderator) – *I know Gore is very consumer-based. Do you have anything to add?*

KENNETH SHELTON – I'm not sure how best to get the feedback. Probably the most important thing I could offer would be to just know who your consumer is. Know who your true consumer is. I remember my days at Nike when we first started introducing Tiger Woods polos. We really didn't know who the target consumer was. We thought we knew. We thought maybe it was kids. We thought maybe it was the 45 to 50 year old. So, we made polos, and they didn't sell. And, we didn't know why. So, then, we thought well maybe it's these kids from 25 to 30 year old. And, it didn't match up, because we were producing \$40 and \$50 polos, and Tiger was wearing Rolex watches, and it just didn't match up. So, we really didn't know who the consumer was. And, it took about two years before we figured out who the true consumer was. We could have gotten all of the feedback in the world, but it wouldn't have meant anything, because we really didn't know who the true consumer was. So, I think that's the most important thing—know who your true consumer is!!

(KATHY SWANTKO (Moderator)) – *I want to stop here, and open it up for questions for the Panel. Please give your name and your company name, before your question or comment.*

(Phyllis Friedman, Fiber Visions) *In terms of understanding the consumer, how effective do you think focus groups are?*

JAMES MORELLI – I'll share a couple of thoughts. We don't provide focus groups, but we work with a lot of retailers and we know they do focus groups. And, they depend on them. In the retailers that we deal with, I would say about 30% of them say focus groups work, so it's better than nothing. So, focus groups work, and so it's just deciding how you're going to get to that. And, usually the retailers have the infra-structure to support something like that. But, even with that infra-structure, it's about 30% of the time that it helps you.

KENNETH SHELTON – I think that Gore does focus groups. I'm really not on that end of things, but I think that we have done that. I could talk about some of my days at Carter's, we did a lot of focus groups with mothers, mothers-to-be, grandmothers. And, what we found is that sometimes you're all over the place with focus groups. Sometimes they're honest. It sometimes depends on what kind of mood they're in that day. If something happened to them on the way to school that day. If the kids in the back seat did something that made them mad. You could have a focus group one day, and a focus group the next day with the same group, and you get totally different varying information. So, it kind depends on the emotion, and what they're feeling. So, it's very difficult to take a focus group, and get valid information. And, take that to turn it into a 20% growth rate in your business. But, I do think it helps. I'm just not sure to what extent.

KATHY SWANTKO (Moderator) – *John, did you have a comment?*

(Marshall) Yes, I think that my personal experience is that's the reason the company I'm with is still around today is because of focus groups. You're all consumers, so you know what's best. And, you really have to work hard to not continually use your own personal opinions on what people want. And, there have been several times that we spent an awful lot of money on focus groups. And, it's always been in partnership with a customer or a retailer of ours that we're involved with, and then partnering with them to set something up. But, it's always been extremely enlightening for us. And, it's always given us information that we just didn't expect at all. So, for us, it's been extremely important. And, I think that we're still around because of that.

KATHY SWANTKO (Moderator) – Next question.

(Steve Crook, Shaw International) *Jim, is CAFTA yarn forward, or can you spin your own yarn in Central America, and go forward from there? Also, do you think this will affect the Berry Amendment in producing for the military in Central America or the Caribbean Basin?*

JAMES LEONARD III – The basic rule of origin in the CAFTA Agreement, as in most every trade agreement we have, is yarn forward. That means that any apparel or non-apparel product that gets the duty-free, quota-free advantage, the yarns, the fabrics, and the end-use products must be made, not in the U.S., but in the region. For example, in NAFTA, the yarn-forward rule requires that the yarns, the fabrics, and the products must be made in the U.S., Mexico, or Canada. The yarn-forward rule for CAFTA means the yarns, the fabrics, and the end-use item must be made in one of the seven countries. So, the yarn can be spun. The fabric can be knit or woven. And, the garment can be made, not just in the U.S., but also in the seven

countries. And, there are a few exceptions to that, which amount to less than 10% of the total level of trade that we're currently getting from the other six countries

In terms of Berry, it will not have an impact on Berry. Berry requires that the product be made in the U.S., not in an FTA country that we have, but in the U.S. itself.

(Roly of Roly Designs) You talked about verticality. What does this mean for start-ups and businesses, who can't come in necessarily vertically?

DAVID PARKES – Yeah, it makes it very tough. We work with every level –the largest to the smallest. And, we're very sensitive to the smallest, which is not true of everyone in the industry. And, a small company is normally not in a position to be vertical. Our business is actually driven by the textile, even though we are vertical. We believe the textile drives the business, not the garments. So, we have a lot of connections with other companies, not just our vertical partners, where we can find product for people in smaller quantities, so that a start-up can get started. In most vertical operations there are minimums that they just cannot meet. So, you need to be working with friendly suppliers, which we certainly consider ourselves, who are prepared to search Canada, the U.S., and Central America. And, we have the connections, so that start-ups can start, and then become vertical. That's how we address that issue.

KATHY SWANTKO (Moderator) – *Any other questions?*

(Mark Lazarus, Laztech Consultants) I don't know if it's really a question or just a comment. Jim, you mentioned in your talk about the military having a hard time finding computers that were manufactured in the U.S. How could that not be a wake-up call for Congress to say that they are giving away all manufacturing in our country, and yet the passed CAFTA anyway?

JAMES LEONARD III – Fortunately, I'm not a member of Congress. (Laughter) Not trying to pass the buck, but the government can't tell people how to run their business. I think the government's job is to try to provide an environment where companies can succeed. And, we've seen an exodus of the apparel industry in this country, because of the labor-intensiveness of that area, and the weight-structure of many third world countries. Certainly for the textile industry –although there has been somewhat of an exodus there –the textile industry is much more capital-intensive, and certainly less labor-intensive. What we tried to do with CAFTA and NAFTA, and many of our other FTA's is to provide a platform where the low-wage cut-and-sew operations in the third world countries would have some incentives to use the yarns and fabrics that are still made in the U.S. from a capital-intensive industry. I think we've been somewhat successful there. There have been some comments made about the fact that NAFTA wasn't much of a success. I think that NAFTA was a success early on, and then we had the financial crisis of the late 90's, which basically made so many inputs from those countries that had their currency devaluation, which made them much more competitive. And, that's something that we can't deal with. We can't tell a country how to deal with its currency. What we're trying to do is to create an environment, so that at least for the textile folks, they will have a market in Mexico, Central America, the Caribbean, etc. to be able to sell their yarns and fabrics. That's probably not a satisfactory answer.

(Lazarus) Statistically speaking, how many textile jobs have been lost in the U. S. just this year?

JAMES LEONARD III – Surely, probably tens of thousands. I know that at one time in the mid 70's there were about two and a half million textile and apparel workers in the states. And, that number today is about 600,000, with most of those being in the textile area, and very few in apparel.

KENNETH SHELTON – You talk about a wake-up call. If you think about what ITT did. They bought Cone, and they bought Burlington out of bankruptcy. They didn't buy those to re-invest in the U.S. What did they do? They ran to China to build a plant. So, that's just how it is. So, to me that's a wake-up call.

JAMES LEONARD III – *They still do have a presence in the U.S. It's small, but it's still there.*

KATHY SWANTKO (Moderator) – *Any other questions? Yes.*

(Name Inaudible, Outdoor Industry Assoc.) My question is to Jim Leonard about the China Safeguard issue, and the trade talks next week in San Francisco. A lot of the smaller manufacturers are being impacted very negatively by the quotas so quickly, and the categories being embargoed now. Do you see next week, any agreement being reached next week on the current embargo? How would you recommend that the small manufacturers deal with the pending requests for safeguards that are now pending before CITA?

JAMES LEONARD III – I got this close to getting away from having to deal with China Safeguards. We are going to be talking with the Chinese next week about the whole Safeguard process. Part of China's agreement and commitment when they joined the WTO was to have this Safeguard process in place. When most quotas went away –and that was the big global jolt at the end of last year. I spent a lot of time in china over the last couple of years trying to strongly advise them that they need to grow at some reasonable rate, rather than an incredibly rapid rate. Because if they grew at the rapid rate, then they were going to force us to impose some of those Safeguard quotas. They chose to do that. So, earlier this year, we put some quotas in place. We self-initiated three. We put several more in place. We've got seven that are pending at the moment. China's responsibility as part of the WTO commitment was to regulate and control their exports. They chose either intentionally or

non-intentionally not to do that. So, we had quotas that filled in a couple of months. There were a number of people who got caught up in that, primarily the smaller guys, who didn't have the ability nor the knowledge to control that situation. I can't tell you how many phone calls I get every day from members of Congress, representing their constituency, saying "My guy is a special case. His underwear landed the day the quota closed, and I want you to let that out of embargo." And my response is, "I'm sorry." I can't answer your specific question in term of what are we going to do about it. Certainly, the product coverage, the growth rates, the base lines will be major components of the Safeguard discussions next week, and possibly after that. One of the things that the Chinese want is terms of their being willing to pay for having a possibly longer agreement is some relief for 2005. So, it will be on the table. What we're going to do about it, I do not know at this point. That will be part of the negotiations. For those of you, who keep up with it, you see that the Chinese and the Europeans cut a deal. Those categories had filled in a month, particularly sweaters. The EU announced last week that they were going to give some relief, or at least raise the embargo on some of the sweaters. That will be a topic of conversation with the Chinese. I just don't know what the final outcome will be. We have two days scheduled with them next week. It would be wonderful if we could conclude that. I've probably been involved in 10 or 15 negotiations with the Chinese, primarily as an advisor. And, normally they take a couple of sessions or rounds to get to the end of the day. So, stay tuned. Everybody is interested in what's going to happen, not only from the domestic guys that want these quotas in place, but also from the importers who have gotten caught up in this.

KENNETH SHELTON – I have a question relating to this. How do we control the Chinese government controlling their exports when, I think probably everyone in here knows themselves or someone else who said, "Don't ship those goods to me. Hold them until this date, and then ship everything that I have on order." And, it's coming from the U.S. side. How do we control that aspect, when we're part of the problem ourselves?

JAMES LEONARD III – We, the U.S. government, cannot tell China how to operate their international trade. When we put the first three Safeguards in place a year and a half ago, we strongly recommended to the Chinese that they re-implement a visa system –for two reasons: 1. To be able to count what was being exported, and 2. To have some level of control. The Chinese refused to do that, because they said to us, "We don't think that you have the right to impose these Safeguards. And therefore, if we re-instituted the visa system, we would be admitting that you have the right to do that. And therefore, we're not going to do it. Well, for those first three, it was not a big problem. The quotas filled before the end of the year, but not too much before the end of the year. We put the socks quota in place in October. It filled in May. The three self-initiated ones that we did, filled in a couple of months. The Chinese are now coming to us and saying, "Hey, let's talk about some sort of control system." So, again, we can't tell them what to do. But, I think it is in their best interest, as well as the best interest of the U.S. importer to have some sort of control mechanism to keep this stuff from embargoing in 2-months, 4-months, 6-months, whatever it is. One of the things that I'm hoping will come out of this negotiation is that the Chinese will agree to have some sort of system. Now, part of the problem is, I don't know who is in charge in China anymore. Even if they have some system, it will probably not be perfect. But, it will be better than what we don't have today.

JAMES MORELLI – I'd just like to make two quick comments. One is that the mass, large retailers are supportive of the Chinese economy, okay? Let's not overlook that. There is a supply-demand curve here that always applies. So, they are in. For those of us, and we belong to a lobbying group and going for the Chinese Safeguards and all of that stuff. If you're in business, and you're relying on the government to protect us, it's fundamentally against our culture. So, you'd better find a better mouse trap. That's the world. That's what we live in. It's a free economy. We believe in it. It's not necessarily fair. It hasn't been fair since the Japanese took over our electronics manufacturing. It hasn't been fair for 25 years. But, that's what we believe in. And, our opinion is, we have to find a way to deal with it, or you're going to go away. Those are your two choices. If you wait for the government to support you, or protect you, you're in trouble.

(Unidentified Attendee Question) *The textile industry went from the U.S. to Mexico, then from Mexico to the Far East, and from the Far East now to China. Where next –from China to where?*

KENNETH SHELTON – I think it's going to follow where the best price is. I mean, look at the apparel industry years ago. Now, you can't find American workers who want to work in apparel. So, it went where there was the labor. So, it's going to follow wherever the best price is. And, price drives it, that's my opinion. If it's not china, and somewhere else appears in the next five years, that's where it will shift to. It will constantly shift.

JAMES MORELLI – On the mass level, the reason why we, American manufacturer, let's say at the fundamental level invest into Asia is because that's where the demand will be. They have the people. It's a matter of numbers. That demand will come. There will be an equalization. The question is –how many casualties along the way? It's all about demand. I agree with price and all of that. But, where is the demand? And then, the rest of us manufacturers will follow that demand.

KATHY SWANTKO (Moderator) – Well, on that comment, we going to close. If you have any further questions for the Panel, I'm sure that they will be willing to stay around a few minutes to answer those questions. I want to thank the members of the Panel for giving the time and sharing their experience and insights.

I also want to thank Ann Stables of Stables, Inc., for providing the PR communications and PR that we had at this Industry Panel event. We think that this type of interaction is important for building a sense of community within our industry, and for

helping us to survive and thrive during this "Global Market Jolt".

The transcripts of today's Panel will be available on the FabricLink and The Technical Center web sites, and you can also download the previous Panel transcripts as well. I want to thank you all for coming. It was a full house and we appreciate it. And, if you were one of those random prize winners, check with Ann Stables to claim your gift. Thank you all for coming. Have a great show, and we'll see you in January at our next Industry Panel. Thanks.

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