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From: Joe Bozich, CEO, Knights Apparel

To: Universities affiliated with the Worker Rights Consortium

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Re: Update on "Above and Beyond" initiative

Let me start by stating what we are trying to achieve with this initiative. Above and Beyond is designed to use our business and our industry to bring a product to market that satisfies the need of a consumer who wants to show allegiance to his or her university and at the same time wants to buy a product that is tied to a socially responsible cause. And the social cause that the consumer will be supporting by purchasing Above and Beyond collegiate apparel is poverty and worker rights: helping workers free themselves and their families from poverty through job creation and education.

I would also say that since we first started on this project it is definitely taking longer than I had hoped to be able to bring the product to market, because we had originally wanted to have product available for back-to-school, but the reason it is taking longer is because we are really doing our due diligence on every aspect of the project to ensure long term success, and we feel it is better to take the time to do the proper due diligence up front rather than rush forward without having answers to critical questions.

I would also say that the more due diligence that is completed on this project, the more confident and excited I become regarding its potential, not only within the collegiate industry; I am also convinced that there will be demand for this product in other industries and other retail channels of distribution.

Below is an update on what our due diligence has uncovered for 5 of the key issues that are critical to the successful launch and long term sustainability of this project. They are not the only key issues, and in fact we have this project broken up into 12 key issues that need to be answered, but these 5 are as critical to the project's success as anything.

1. retail support
2. consumer support (Is there demand for apparel tied to a socially responsible cause?)
3. product offering
4. financial requirements
5. factory vs. retail demand

1. Retail support: To date we have met with over 200 different bookstores. This includes large and small independent bookstores, as well as Barnes and Noble and Follett leased bookstores. All of these bookstores have been incredibly open and transparent with us in an effort to make sure we understand the keys to retail success from product quality, price points, service and replenishment to marketing. And I have concluded after meeting with these 200+ bookstores that we can absolutely without question meet the retailers' requirements and therefore achieve a critical mass of retailers needed to support the launch of this project. In fact, the retailers' support and encouragement to make this a reality has been even greater than I had hoped for. The majority of bookstores have made it clear to me that they are willing to partner with us to make this project successful and sustainable.

2. Consumer support: While I am not worried at all about getting enough retail support to make the product available, the key to long term success is going to depend upon consumer demand. Will the consumer buy this product? We know that there is consumer demand for performance apparel and we know that there is consumer demand for environmentally responsible products, but is there demand for apparel that allows a consumer to show allegiance to his or her university and at the same time is tied to a socially responsible cause? All of our due diligence has led us to say without question the answer is yes. I want to share with you some of the information we have gathered that supports that there could be a large consumer market and demand for collegiate apparel tied to a socially responsible cause.

The first source of evidence is from Shareen Hertel from UCONN, and her research was on Public Opinion on Ethical Consumption and was published in the Journal of Political Science Quarterly. Here are some of her findings:

- Most Americans report that they are willing to spend more on goods produced ethically.

- Younger people were willing to pay more for ethically produced goods than were older people.
- Roughly 75% of the study sample said they would pay more for a garment made under better working conditions.
- A sizeable majority (62%) report that they are willing to pay at least \$5 more, and more than 1/3 of Americans report that they would be willing to spend \$10 more, for a sweater made under higher standards.
- The study was done on an imported apparel item to make sure the consumer knew they were talking about paying more for a product produced by a worker overseas and not an American apparel worker.
- 65 -70% of Americans support spending more on assistance to the poor.

And from the following sources we have additional evidence:

- "70% of incoming freshmen in 2007 said it's essential or very important to help others in difficulty" (59% in 1985)\*\*
- "74% of millennials are more likely to pay attention to a company's message when they see that the company has a deep commitment to a cause"\*\*\*\*
- "89% of millennials are likely or very likely to switch from one brand to another (price and quality being comparable) if the second brand is associated with a good cause"\*\*\*\*

\*\* UCLA national college freshman poll, 2007

\*\*\*\*2006 Cone Millennial Cause Study

All of this data supports our cause. Freedom from poverty through job creation and education is exactly the type of cause that millennials would want to be able to support through their purchasing decisions.

On top of all the research and surveys, we have actual products that are already successful in the retail market place that are tied to socially responsible causes:

- Starbucks and other Fair Trade Coffee
- Ethos Water: "Helping Children get clean water."
- Product Red, which is focused on AIDS and disease in Africa and is supported by brands like Converse and Gap apparel. Both of these companies sell the same category of products that are not tied to a socially responsible cause, suggesting that it is absolutely possible to market products tied to a social cause without implying something negative toward their other regular products.

The key is the transparency and clarity of the consumer messaging. KA has been working with a communication and advertising firm that has substantial experience in this messaging, and we will provide a future update on our messaging for review by all the stakeholders (universities, university licensing agents, bookstores, labor groups, student activists, etc.).

And last but in my opinion the most compelling evidence to support this project is from Kellie McElhaney and her research and work, which has been published, called "JUST GOOD BUSINESS." Kellie is the founder of the Center for Responsible Business at the Haas School of Business at Cal Berkeley. Kellie has shared her CSR work with companies like McDonalds, and really relevant to our project is the work she has done with Gap and Levis. And all of this data collectively tells me this project and apparel category can be successful and the consumer will support it if it is made available and brought to market. I am sharing all of this with you because while this project is very personal to me, I would not be asking for the universities' support without being able to demonstrate that we have done the proper due diligence and the facts and evidence suggest that we go forward .

3. Product offering: This is another area where taking the extra time and doing the proper due diligence by engaging and partnering with the bookstore operators up front is going to pay huge dividends in the long term success of this project. We have worked with the retailers on every aspect of the product, from fabric quality and hand feel, to fabric weight, to garment construction, size specifications and fit to graphics. And the end result is that after going back and forth with samples, after taking in all of the bookstores' input, we have ended up with a product where the retailers have now consistently said "we could sell that product just as it is, even if it were not tied to a socially responsible cause." Bookstores have told me that we could sell

the A&B t-shirt for \$18.00, because at that price, given the quality and design, it is still a value, even though it is at the higher end of prices.

4. Financial requirements: This has presented some unexpected challenges because of the global economic meltdown that has taken place since we started this project. This has played a factor in our ability to announce an actual start date. Because this is a new factory, our manufacturing partner in the DR and their financial partners have requested that Knights provide them with financing in the form of irrevocable letters of credit, so they could borrow money against our LCs to provide the new factory with the necessary working capital. We went to our board and received approval for the needed LCs to provide to the DR factory. However, recently, the DR manufacturer has come back and has said that even with our agreed upon financing, their bank was not approving, at this point in time back-to-back financing for a brand new factory. In addition to the irrevocable letters of credit, they also want us to provide a cash loan to the new factory for additional working capital. KA's board has provided tentative approval based upon getting proper documentation and a plan from the factory as to how and when the loan could be repaid. Needless to say, this whole economic situation has really complicated and made a launch of a brand new factory even more challenging than it normally would be, but we hope to have the financing agreements for the new factory completed soon. But all of the financial risk is now falling upon KA.

5. Factory demand vs. retail demand: I have said all along that I believe this will be the most critical factor to properly understand and plan for if this project is to be successful in the long term. If you look at companies that have tried similar ventures, like Just Garments and Sweat X, I believe one of the main reasons these ventures failed is because they built a factory and created a factory demand without first knowing what the retailers could provide in terms of volume. When they finally figured out what the retail demand was, and that it did not match the capacity of the factory they built, it was too late and they failed. We cannot make the same mistake and we don't have to, because unlike these previous ventures we have a retail base that is willing to be partners and share with us up front what their demand looks like on a monthly and annual basis for the product categories we are offering. And another reason we are so focused on managing order flow is not just for business reasons, but because effective management of order flow is critical in order to meet the higher labor standards the factory has agreed to implement.

So now that we have finalized the product and the retailers have agreed that the product is right, we are in the process of getting the physical garments in the hands of the bookstores, so they can provide us with projections of how much retail space they will allocate to this product; and based upon that, what quantity they will need up front; and based upon historical sell through information, how much more product they will consume on a monthly basis. When all of this data is collected from the individual bookstores and then consolidated together, it will provide us with information up front on how great the demand is and we can therefore determine the number of workers needed at the factory to best match the capacity that the retailers will provide us. With this information, we will then know up front during which months we will have unutilized capacity that we need to fill in order for the factory to run efficiently. Then the challenge becomes how we fill that unutilized capacity. If we can answer that question and know that, even with the cyclical nature of our business, we can use other parts of KA's business and/or develop other markets for this socially responsible apparel to fill the capacity not utilized by the bookstores, then I believe we can succeed where others have failed.

To summarize, we are confident about achieving the needed retail support; we are confident that we will achieve the needed consumer support, and we are confident that we have the right product. We still have work to do to know that we have the proper financing in place for the factory, and we still have data to collect to properly understand the gaps that will be there in factory capacity needs versus retail demand, but we're hopeful that we can have these questions answered, and that would allow us to still launch this project within the year. But of course we will consult with the retailers to understand, if not back-to-school then when is the most appropriate time to launch the product in their business cycle.

We will work with the WRC to keep you posted as the project proceeds.