

# RIEGEL

*A Division of Mount Vernon Mills, Inc.*

December 8, 2010

To Our Valued Customers:

On behalf of everyone at Riegel/ Mount Vernon Mills, I would like to say 'thank you' to all of our business partners. Our survival and success are dependent on the loyalty and relationships that exist between us and our customers. We do not take this for granted and look forward to many more years of service to you.

As we prepare for 2011, we are competing in one of the most difficult periods that we have ever faced in the textile manufacturing and distribution business.

By now, I'm sure that most of you are aware of the rise in raw material costs that has dramatically affected our business. I hope that most of you are also aware that Mount Vernon Mills is one of the oldest and largest textile manufacturing companies in the world. Although we have moved production into Asia in order to remain competitive in some markets, over 90% of our products company-wide are still made right here in the United States. We purchase fiber, spin yarn, weave and finish railcar loads of cotton and polyester into millions of yards of fabric every week in our mills in Georgia, South Carolina and Texas. Our primary business is manufacturing durable performance fabrics that withstand repeated launderings for many varied textile markets. We know what it takes to make great products that perform well in difficult environments. That gives us a very unique perspective on what's happening in the fiber and yarn markets; and how these historically high costs are going to affect your business in the coming year.

In 2009, we paid between .50 and .60/# for cotton. Although those were low costs historically, the volatility was about normal, so it was fairly easy for us to give and hold costs for a year; as we have always done. In 2010, cotton prices have risen consistently and dramatically. In the third quarter, we paid over \$1.50/# for cotton and in China; cotton prices have topped \$2.00/#. These are the highest cotton prices in recorded history.

Polyester prices have also risen about 26% this year as many manufacturers have gone to higher polyester counts and 100% polyester products have increased in value relative to cotton and blends. This increase in polyester demand has also caused shortages and cost increases.

Why have cotton prices increased so much?

\*Supply and demand-World cotton supply is 3-12 million bales short of current estimated demand. China's estimated annual cotton usage is 50 million bales and their estimated crop is 30 million.

\*There is a huge emerging middle class in China and India that now has the money to purchase jeans, tee shirts, towels and sheets. The sheets and towels that are used in our markets are also secondary in production importance to larger volume, lower quality retail products. (Think Wal-Mart)

\*Most textile production has now moved to Asia. These manufacturers would prefer to service their own markets because they are more profitable than selling to the super price conscious Westerners. (Your customers)

\*The 2010 cotton crop was hurt by poor weather in many growing regions. Pakistan experienced unprecedented flooding this year which wiped out or damaged as much as 20% of their crop. India is limiting the amount of cotton that it will export to China and Pakistan in order to protect their own mills.

\*Due to inflation fears in China, banks have tightened up their lending practices, making it more difficult for mills to borrow to purchase their raw materials. Most mills in Asia are working hand to mouth and will not commit to prices for more than 24 hours to a week. No mills are agreeing to longer term contracts or honoring contracts made just a few weeks ago.

\*Speculation- Whenever a commodity experiences this instability; it always leads to market speculation.

Obviously, these cost increases have to be passed along; but you also need to be aware of the other ways that this may affect your business.

The biggest problem right now is the inability of suppliers to lock in prices for any period of time. 'Program Business' is a real problem because of pricing volatility. Cotton prices seem to go up or down at random every day as the markets max out on either the upside or the down. There is no predictability. Suppliers have not been willing to buy more fiber than needed to run mills for the short term because nobody can believe that it will keep rising every week. Contracts that we negotiated months ago are not being honored. This is a relatively new phenomenon and customers and end users are having a difficult time dealing with it. Our industry has not had a significant price increase in 10-15 years, making these circumstances that much more difficult to accept.

Because of this resistance to price increases, mills are under tremendous pressure and we are seeing and hearing evidence of products being de-speded. Some are substituting lower quality fiber and yarn, cheaper dyes and chemicals, taking production shortcuts, and doing whatever they can to stay in business. This results in shading and wash down problems, staining, pilling and linting, yellowing and graying of white goods. Some US suppliers and distributors do not have the resources or the product knowledge needed to keep their suppliers from making these changes or to catch them before they get to the customer. Many times you cannot tell if a product is not up to your standards until it's been processed a few times. By then you may have lost a customer and have another container of bad product paid for and in the warehouse.

What is Riegel doing about it?

First of all, every one of our core products was developed and originally produced in the United States. We have great Riegel brands like Permalux, Beauti Damask, Parnell, Premier, Monarch, and Ultimate; just to name a few. As we have developed our product lines over the years, our strategy has always been to offer the highest quality available at the lowest possible cost and to have the best service record in the industry. When we had to move some of our production offshore in order to remain competitive, we developed excellent partners and we have worked very closely with them to insure that quality would never be compromised. When they need a price increase, we work with them because we understand what it costs to build a consistent, high quality product.

Lowest cost is not the same as 'cheapest'. In order to insure consistent quality and excellent service, we back up our core product lines with US manufacturing. We are actually producing a higher percentage of our production domestically today than we have in years. This allows us to insure on time deliveries while managing the most chaotic supply chain dynamics in the history of the US textile business. That's the reason behind our advertising tagline 'Worry Free Linen'. We do the worrying for our customers so they don't have to. When we or one of our suppliers makes a mistake and it slips through our audit nets, we work with our customers to solve these issues quickly and professionally.

What can you do about it?

Don't be too focused on the first cost. If one supplier is significantly cheaper than the others, there's probably a very good reason. You should look for established suppliers that are financially sound. Loyalty and relationships are more important today than ever before. If there are shortages, and there will be, you want to be able to call someone that you have confidence in that will work with you. Be sure the company that you buy from is going to answer the phone when you need product quickly or you need help solving a problem. Also, we all need to be patient and keep a sense of humor because there will be problems. Unfortunately, our fiber purchasing group is telling us a solution is not in the immediate future. However, Riegel will continue to monitor our raw materials costs and adjust pricing accordingly on a quarterly basis.

In conclusion, I would like to thank you for doing business with Riegel and wish you and your family a Happy Holiday. If there is anything that we can do to help you, please call your Riegel representative.

Best regards:

A handwritten signature in cursive script that reads "Bill Jones". The signature is written in black ink and is positioned above the typed name and title.

President, Riegel Consumer Products Div.

Mount Vernon Mills, Inc.