STARTER CLOTHING COMPANY: A PROFILE CASE STUDY OF NOSTALGIA

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When Carl Banks became President of G-III Sports, a division of the G-III Apparel Group, his primary responsibility was to search for alternatives to broaden G-III's outwear offerings. Banks was charged to decide if the company should use highly recognized brands or instead less well-known brands in the launch of an outwear line for men. On one hand, recognized brands would likely to help G-III products get into major department stores and chain retailers. On the other hand, lesser-known brands could produce a favorable licensing agreement for G-III Sports and help the company promote a broad spectrum of products to a wide variety of consumers.

From a division standpoint, the goal for G-III Sports was to "engage the entrepreneurial spirit that got it here by constantly seeking attractive new licenses and acquisitions to expand its reach and abilities" ("About G-III," n.d., para.12). Understanding that G-III sought to alter "the landscape of how outerwear was marketed and sold in department stores in the United States," Banks had been presented with an opportunity through Iconix, the new owner of the Starter brand, to decide whether or not revitalizing a formerly well-known sports outerwear brand would be in the best interest for G-III ("About G-III," n.d., para. 2).

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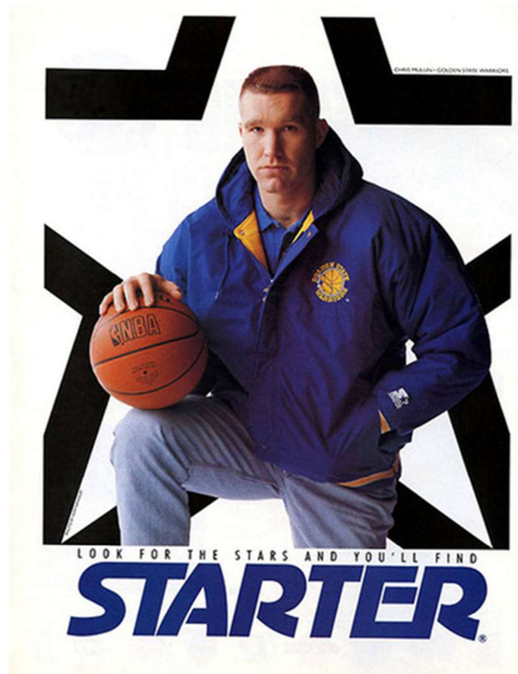
Banks and G-III needed to consider whether or not G-III would be able to capitalize on nostalgia for the Starter brand (see Exhibit 1). In order to make a sound decision, Banks needed to learn more about the history of the Starter Corporation, the sports apparel market, and the concept of nostalgia in association with apparel and athletics.

Exhibit 1. Chris Mullin, NBA player with the Golden State Warriors and Indiana Pacers

Retrieved from:
http://www.buzzfeed.com/jpmoore/25-reasons-starter-jackets-were-the-coolestthings#.pmEnKa0bK



Background

The sport apparel market experienced significant growth over the past 30 years, which allowed companies to establish brand awareness, recognition, and loyalty to their products (Mullin, Hardy, & Sutton, 2014). In 2014, sports licensing revenue reached $698 million in royalties and close to $13 billion in retail sales (Heitner, 2014). Examples of regularly purchased merchandise included jerseys, sweatshirts, jackets, headgear such as hats and headbands, and other

products such wristbands and socks. Sage and Eitzen (2013) suggested that wearable items were important opportunities for fans to declare their support for a favorite team or player.

Sport apparel companies also sought to expand the fan experience by providing a variety of options to fans including belts, sunglasses, earrings, dinnerware, barware, license plates, and even baby training toilet seats that were representative of favorite teams. For example, The NFL shop (2015) offered categories such as men's, women's, kids', collectibles, home & office, and tailgating. Seifried and Clopton (2013) and Seifried and Meyer (2010) noted that such products were produced for "fan nations" because they helped fans experience an interactional past defined by Clopton and Finch (2001) as involving reliance upon environmental cues to help the self-identification process focus on one identity. Many fans wanted to feel a personal connection with their favorite teams or "fan nation." Foster and Hyatt (2008) defined a "fan nation" as a group of fans who come together through "an imagined cohesiveness" shared with other through myths, symbols, tangible objects, and rituals (p. 269). The repeated wearing of a certain article of sport apparel helped highly-identified fans maintain a strong emotional attachment to a team, in part, because of nostalgia for their youth.

David A. Beckerman founded the Starter Clothing Company in 1971 in New Haven, Connecticut. Beckerman, a former collegiate basketball player at Southern Connecticut State University, originally planned for the Starter Company to develop uniforms for high school athletic programs (Sack & Nadim, 2002). Early on, the company created jackets for fraternities, bar and grills, and local area schools. Initially, these jackets were only available in four colors (red, blue, green, and yellow) and included the logo of the team or organization on the left chest (Sack & Nadim, 2002).

As a former college athlete, Beckerman understood the prospective emotions and loyalties of the passionate sport fan. He stated, "I always wanted to be a starter [...]. Maybe I called my company that because I never was one" (Lioz, 1997, para. 4). Beckerman believed many sport

fans would be willing to spend their money in order to represent and interact with their team(s), even if their interaction has no effect on the team's outcomes (Sack & Nadim, 2002; Sage & Eitzen, 2013; Seifried, 2011). This "fan nation" inspiration led Beckerman to promote the Starter brand to professional sport managers in an attempt to differentiate Starter from other sport apparel brands (Sack & Nadim, 2002).

In the late 1970s, Starter paid royalties of eight to ten percent to professional leagues in order to manufacture and sell replicas of the uniforms worn by professional athletes and staff. Using high quality satin and emblazoning logos onto jackets and headgear under the correct color scheme for each professional and collegiate sports teams, Starter soon became nationally popular and the preferred clothing manufacturer for sport teams and members of their "fan nations" (Smart, 1993). According to Sack and Nadim (2002), Beckerman wanted the Starter brand not only to offer team merchandise, but also to sell 'fantasy.' "Starter is about making you feel good," Beckerman said earnestly. "It's about having a dream. It's about belonging. It's about Pavlov's dog" (Lioz, 1997, para. 4). Starter was the first company able to promote its products as 'official' team merchandise (Exhibit 2).

Exhibit 2. Starter Jacket Zipper and Official Licensed Product Badge

Retrieved from https://img0.etsystatic.com/040/0/7574270/il_570xN.633823430_q1ql.jpg

Brian Jennings, Group Vice President for Consumer Products Marketing in the National Hockey League, suggested, “It would be only a slight overstatement to say that Beckerman created the licensed sports apparel industry” (personal communication, March 20, 2001; Sack & Nadim, 2002, p. 41).

Officially licensed merchandise meant that permission was granted to a specific company to use trademarked names or logos. For sports apparel, this mean creating a virtual copy of the clothing worn by professional players and coaches during games. Prior to Starter, consumers may not have been aware that “official” licensed merchandise was not the same as the uniforms used by teams. Beckerman and the Starter Company utilized this confusion to their advantage and were able to capitalize on it by obtaining licenses from major sport leagues (e.g., Major League Baseball, National Basketball Association, National Football League, National Hockey League) and over 150 colleges and universities, creating authentic products for the teams to use, and similar, but not authentic, high-quality products for members of their respective “fan nations” (Exhibit 3).

In 1986, Starter created locker room and/or warm-up t-shirts for National Basketball Association (NBA) teams, which later went for retail sale. Soon thereafter, Starter was contracted to make the pullover parkas and hats worn by National Football League (NFL) coaches and staff during their televised competitions. Both younger and older generations of fans responded with great enthusiasm and considered the jackets and hats “must haves” for fashion-conscious fans. By the end of the 1980s and beginning of the 1990s, Starter jackets retailed for as much as $150 per item. Starter’s revenue grew from $58.9 million in 1989 to $124.6 million by 1990.

Starter developed a persuasive marketing plan with the creation of the S-star logo and corresponding slogan (Exhibits 4 and 5). Starter merchandise had its own a logo on

merchandise alongside the team symbols. By "double branding," Beckerman sought to combine the company logo and slogan with the logos of the licensor to create significant brand awareness (D. Beckerman, August 25, 2000; Sack & Nadim, 2002, p. 41). Starter placed its "S and Star" logo in visible areas of clothing such as zippers, collars, jacket sleeves, and the back of baseball hats. Frequently, youth of the hip-hop generation of the early 1990s wore their hats backwards so one often saw the Starter logo before the name of the team (Sack & Nadim, 2002).

Exhibit 3. Eastbay Catalog

Retrieved from:
http://www.buzzfeed.com/jpmoore/25-reasons-starter-jackets-were-the-coolest-things#.pmEnKa0bK

In 1991, Starter secured product placement in the then popular television comedies *Seinfeld* (starring Jerry Seinfeld), *The Fresh Prince of Bel Air* (starring Will Smith), and *in Living Color* (featuring the Wayans Family) as well as in the blockbuster films *White Men Can't Jump* (starring Woody Harrelson and Wesley Snipes). This product placement, together with advertising campaigns on networks such as MTV and ESPN and in magazines contributed to the status of the brand. According to Starter's 1993 annual report, it was the goal of Starter to "translate the fans' enthusiasm for sports into a demand for sports-related products" and to increase the willingness of consumers to pay more for sport apparel branded with the Starter logo.

Exhibit 4. Starter Logo

Retrieved from: http://www.starter.com/

Exhibit 5. Starter Slogan

Retrieved from http://www.buzzfeed.com/jpmoore/25-reasons-starter-jackets-were-the-coolest-things#.pmEnKa0bK

By building of relationships with prominent sports leagues and superstars in the United States, Beckerman developed the Starter brand. With the creation of the S-star logo, Starter began to be recognized as the premier sport apparel company of the major sport leagues. The licensing deals with the NHL, NFL, and NBA increased the value of the Starter brand immediately through simple association. The visibility of brand was at a level that no other sport apparel brand had previously achieved. The term "Starter Jacket" (Exhibit 6) was almost as generic as other popular brand names such as Kleenex, Jell-O, and Xerox (Lioz, 1997).

Exhibit 6. All-Stars of Various Sport Leagues

Retrieved from
http://www.buzzfeed.com/jpmoore/25-reasons-starter-jackets-were-the-coolest-things#.pmEnKa0bK

By 1993, the widespread recognition of the Starter name allowed it to compete successfully with long-surviving sport apparel brands such as Champion Products and the Russell Corporation. Merrill Lynch and Company was hired to create a prospectus for Starter's interest in going public with the organization during the early 1990s. The prospectus showed that the company grew from net sales of roughly $800,000 in 1976 to $282.7 million by 1992. In April

1993, David Beckerman decided to take the company public on the New York Stock Exchange and changed the name of the Starter Clothing Company to the Starter Corporation (Sack & Nadim, 2002). Roughly $124.1 million in gains were produced immediately as the initial stock offer of $21.50 a share rose to $28 a share. The overall net income for Starter was $26.2 million for 1993 (Starter Annual Report, 1993).

In 1994, Starter reported its first ever loss ($4.8 million) in company history and its stock price fell to $6.62 per share at the end of the year (Sack & Nadim, 2002). Some of the downturn had to do with changes in the sports environment as both Major League Baseball and the NHL went through reduced seasons due to their respective lockouts (Annual Industry Report, 1995). In 1997, a lockout by the NBA owners and unseasonably warm weather were also problematic for the brand (Sack & Nadim, 2002). Another variable contributing to the loss included increases in royalty fees in what had become a $13.8 billion business (Annual Industry Report, 1995; Kimes, 2014). Merrill Lynch had predicted increases in royalty fees, and argued that such increases would increase costs and result in declining profit margins. Between 1990 through 1992, Starter's licensing fees increased from $11.1 million to $23.6 million, and in 1997 reached $33.8 million (Starter Annual Report, 1997).

Beckerman reported other factors contributing to the losses including late deliveries by vendors, shipping delays, and the construction of a new product distribution center in Memphis. Regarding Memphis, in 1994 Beckerman stated, "We invested more than $15 million in a distribution center… which is a state-of-the-art facility. At this time, it is partially in operation….so there's been a little frustration in terms of trying to get things up to speed as quickly as we would like" (Gaffney & Pesky, 1994, p. 62). However, Starter's loss of control of the licensed sports apparel business was the major reason for the decline. As an example, Logo 7 Inc. secured the NFL's official manufacturer license. Other companies such as Champion Products, Russell Corporation, Apex-One, The Game, and Salem Sportswear were also identified as fierce competitors (Starter Annual Report, 1994).

Competition increased for professional licenses, as professional leagues and colleges actively sought licensing deals to promote their products in order to increase the size of their "fan nations." For instance, in 1996, NFL Properties offered 400 licenses to various manufacturers for roughly 4,000 products (Bednarek & Peterson, 1996). Licensed products flooded into stores. By the second quarter of 1994, Starter was showing a loss. Others companies such as Salem Sportswear and Apex went out of business. Starter's Form 10-K from 1997 showed how expensive just the NBA license was: Starter paid the NBA a 15% royalty on apparel and 11% on other merchandise. Another $7.45 million was also committed by Starter to the NBA to assist advertising, special events, and national telecasts. Finally, Starter was required to provide all necessary apparel for nine NBA teams (e.g., socks, t-shirts, warm-ups, practice clothing, etc.).

With the decline in the financial performance of the Starter Corporation, Beckerman stepped down as company President and brought in new executives to develop novel marketing strategies. The new management implemented new strategies in order to keep the brand alive, including deals with the famous athletes Emmitt Smith and Cal Ripken, Jr. and a partnership with the department store chain J.C. Penny to "take a player to school program." However, the company continued to decline financially (Sack & Nadim, 2002, p. 41; Starter executive communication, April 4, 2001).

After the reported loss in 1997 of $36.9 million (See Appendix), Beckerman decided to take over once again as President and predicted that it would take 10 to 12 months to return the company to profit (Sack & Nadim, 2002; Starter Annual Report, 1997). However, Beckerman was unable to restore Starter's market success or eliminate its mounting losses. In late 1998, the Starter Corporation filed for Bankruptcy (Securities and Exchange Commission, 1997).

In 2004, Nike bought Starter for $43 million. Three years later, the Iconix Brand Group acquired Starter from Nike for $60 million (Nike, Inc., 2007).

What was once considered a pioneer in the professional sports league licensed apparel business was now without any licensed apparel agreements. Even though the Starter brand was not as popular as it once had been, Iconix appeared to accept that Starter could compete with large sport apparel rivals. In 2008, Iconix signed Dallas Cowboys pro-bowl quarterback Tony Romo to a 5-year endorsement deal worth $10 million (Mullen, 2008). The deal was the largest endorsement deal in NFL history at the time and was meant to bring the Starter brand back into the forefront of consumers' minds by involving themselves with the starting quarterback of the self-proclaimed "America's team." Tony Romo appeared in a few advertisements, and also in headshots on the National Broadcasting Company (NBC) and Entertainment and Sports Programming Network (ESPN) networks wearing a backwards Starter cap as he had done when he was a youth. The company experienced a slight rejuvenation from the on-camera appearances by Romo. However, the tremendous gap between Starter and other sport apparel brands (i.e., Nike, Reebok, Adidas, Puma, Under Armor, etc.) was obvious.

The question before Banks and G-III Sports was whether or not nostalgia for Starter and its former apparel products was a viable strategy to help G-III's secure placement in department stores.

Embracing Nostalgia as a Marketing Strategy

Sierra and McQuitty (2007) defined nostalgia "as a yearning for the past, or a fondness for tangible or intangible possession and activities linked with the past, that is experienced when individuals feel separated from an era to which they are attached" (p. 99). Holbrook and Schindler (1991) offered nostalgia as "a preference (general liking, positive attitude or favorable affect) towards objects (people, places or things) that were more common (popular, fashionable, or widely circulated) when they were younger (in early adulthood adolescence, in childhood, or even before birth)" (p. 330). Research indicated that nostalgia could influence

purchasing decisions; moreover, as Davis (1979) argued, nostalgia presented an opportunity to give a generation an identity among others historically. Holbrook and Schindler (2003) suggested that individuals possessed the ability to establish connections with tangible objects because of previous emotions and experiences. This occurred because an "object evokes, symbolizes, instantiates or otherwise captures some sort of lost but still-valued experiences – namely, those associated with a set of pleasurable or at least personally significant memories from the past" (Holbrook & Schnidler, 2003, p.121).

Nostalgia had been examined in the marketing and consumer behavior research. For instance, the use of nostalgia had been studied in order to determine how an organization could motivate consumers to buy certain products and services (Funk & James, 2006; Goulding, 2001; Havlena & Holak, 1991, 1998; Holbrook, 1993; Pascal, Sprott, & Muehling, 2002). Ramshaw and Gammon (2005) stated, "Heritage often seeks to remember, enliven, teach – and even create – personal and collective legacies for contemporary audiences. Its purpose is often to celebrate the achievements, courage, and strength of those who have come before" (p. 230).

Iconix's Starter updated the company website and alluded to its illustrious past. Company executives proclaimed, "Starter stands for heritage."

The legacy of the Starter brand might be forgotten considering that products were no longer as visible as they once had been. A search using the keywords "Starter Jacket" or "Starter Hat" at the EBay website yielded products with bids ranging from $10 to $150, suggesting that there was nostalgic value with these products from highly identified sports fans (Exhibits 7 and 8).

Banks needed to determine whether or not G-III Sports could use nostalgia to its advantage and begin re-building the Starter brand by displaying Starter's history to consumers. If the company could accomplish this task, then there was a chance that Starter could be commercially relevant once again. Seifried and Meyer (2010) showed the potential of such 'retro' products during

their study of Major League Baseball ballparks when they suggested that nostalgia "provides a tangible center for the sport legacy of a community to demonstrate the existence of a cultural heritage for a fan nation" (p. 64).

Exhibit 7. Vintage Chicago Bulls Starter Jacket

Retrieved from:
http://blog.craniumfitteds.com/wp-content/uploads/HLIC/240004fe49d72f13d1a39d2a60a7c472.jpg

Exhibit 8. Starter Hats

Retrieved from
http://s117.photobucket.com/user/colonskicks/media/starter%20hats/PB080022.jpg.html?t=1259500807

The Starter is Back

After significant debate, Carl Banks decided, "With a history dating back to the 70's, the convergence of sports, fashion and entertainment was created and defined by Starter, which paved the way for many brands to follow suit. The Starter jacket was a beacon of 80's and 90's fashion and we can't wait to bring it back with contemporary styling and a modern athletic fit" ("The Starter is back", 2014, para. 3). Iconix president Seth Horowitz stated, "Anything from the '80s today is seen as cool [...]. Those who remember the times strongly associate with it. For those who are too young, they're already into the snap-back hat craze" (Rovell, 2013, para. 5).

In the end, the two companies teamed up to release a new line of Starter clothing apparel in fall 2013 with jackets of NFL and NBA teams (Rovell, 2013). When he announced the agreement between the two companies and the NBA to bring back NBA Starter Jackets, Banks stated, "We are excited to work with the NBA to celebrate basketball fandom and reintroduce the iconic Starter Jacket [...]. We look forward to honoring the brand's sports heritage and fashion tradition, while also reaching a new generation" (PR Newswire, 2013, para. 2).

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Khirey Walker is a doctoral candidate in the School of Kinesiology (Sport Management concentration) at Louisiana State University. His dissertation explores the role of social control agents and how they influence and punish misconduct of organizations and individuals.

Appendix
Starter Corporation Financial Statements
(in thousands of U.S. dollars, except share data)

STARTER CORPORATION CONSOLIDATED BALANCE SHEETS

	September 30, 1998	December 31, 1997	September 30, 1997
ASSETS			
Current assets:			
Cash and cash equivalents	$ 3,612	$ 149	$ 3,824
Accounts receivable - trade, less allowance for doubtful accounts of $4,000 at September 30, 1998, $3,800 at December 31, 1997 and $3,500 at September 30, 1997	82,439	38,424	96,056
Inventories	99,401	71,940	95,227
Prepaid expenses and other assets	7,669	11,888	12,603
Current deferred income taxes			6,470
Total current assets	193,121	122,401	214,180
Plant and equipment	35,029	36,197	35,607
Less accumulated depreciation	(11,189)	(9,691)	(8,979)
Plant and equipment, net	23,840	26,506	26,628
Other assets, net	18,927	11,614	14,102
Total assets	$ 235,888	$ 160,521	$ 254,910

Appendix, cont.

STARTER CORPORATION CONSOLIDATED BALANCE SHEETS (continued)
(in thousands, except share data)

	September 30, 1998	December 31, 1997	September 30, 1997
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Notes payable to banks	$ 115,633	$ 41,624	$ 82,470
Accounts payable	15,548	16,600	18,641
Accrued commissions	3,103	1,830	3,052
Accrued licensing fees	12,383	4,788	11,579
Accrued expenses	21,127	14,482	25,215
Accrued advertising	4,019	8,181	6,394
Current portion of long-term debt	912	939	351
Total current liabilities	172,725	88,444	147,702
Long-term debt, less current portion	5,194	4,642	5,128
Total liabilities	$ 177,919	$ 93,086	$ 152,830
Stockholders' equity:			
Convertible Preferred Stock (par value $.01) 5,000,000 authorized shares	--	--	--
Common Stock (par value $.01) 50,000,000 shares authorized; issued 27,904,878 at September 30, 1998, 27,872,232 at December 31, 1997 and 27,863,070 at September 30, 1997	279	279	279
Additional paid in capital	82,861	82,774	82,743
Retained earnings (deficit)	(25,171)	(15,618)	19,058
Total stockholders' equity	57,969	67,435	102,080
Total liabilities and stockholders' equity	$ 235,888	$ 160,521	$ 254,910

Appendix, cont.

STARTER CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
September 30, 1998

General

The Company's business is seasonal with higher sales reported in the second half of the year due to the higher price points of a significant portion of the Company's products which are sold during the fall and holiday seasons. The seasonality of the Company's business also affects borrowings under the Company's Credit Facility. The amount outstanding under the Credit Facility fluctuates as a result of seasonal demands for the Company's products. Traditional quarterly fluctuations in the Company's business may vary in the future depending upon, among other things, changes in order cycles and product mix.

The Company's business is vulnerable to a number of factors beyond its control. These include: (1) player strikes, (2) owner lockouts including the present NBA lockout, (3) work stoppages, (4) the granting of additional licenses to competitors, some of which have greater financial resources and manufacturing capabilities than the Company, and (5) changes in consumer tastes and enthusiasm for spectator sports. The Company's business can also be affected by other matters which impact the retail marketplace, including increased credit and inventory exposure, consolidation and resulting decline in the number of retailers and other cyclical economic factors. The Company seeks to minimize inventory exposure by encouraging retailers to place orders five to six months in advance of the date products are scheduled to be delivered. This provides the Company with better information to purchase product for its reorder business.

The current NBA lockout is expected to have a negative impact on net sales and operating results for the foreseeable future. The Company may be exposed to excess NBA-related inventory should the lockout continue. However, the timing of the ultimate NBA settlement, and its impact on the resumption of NBA sales and inventory exposure cannot be estimated at this time.

The Company recently announced it would no longer sell authentic and replica NHL jerseys after the Company's current contract expires, because the financial requirements in the proposed new contract did not provide an adequate return on capital. As a result, the Company's NHL sales and related operating income for the second half of 1999 are expected to decline.

A substantial portion of the Company's products are manufactured through arrangements with independent contractors located in foreign countries. In addition, the Company's import operations are subject to constraints imposed by bilateral textile agreements between the United States and a number of foreign countries. The agreements impose quotas on the amount and type of goods which can be imported into the United States from these countries. The Company's operations may be adversely affected by political instability resulting in the disruption of trade from foreign countries in which the Company's contractors and suppliers are located, the imposition of additional regulations relating to imports, or duties and taxes and other charges on imports. The Company is unable to predict whether any additional regulations, duties, taxes, quotas or other charges may be imposed on the importation of its products. The assessment of any of these items could result in increases in the cost of such imports and affect the sales or profitability of the Company. In addition, the failure of one or more manufacturers to ship some or all of the Company's orders could impact the Company's ability to deliver products to its customers on time. Delays in delivery could result in missing certain retailing seasons with respect to some or all of the Company's products or could otherwise adversely affect the Company.

Appendix, cont.

This discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those set forth in such statements due to various factors. Such factors include product demand and market acceptance risks, the effect of changing economic conditions, the impact of competitive products and pricing risks associated with product development and the effect of the Company's accounting policies and other risk factors detailed above.

Results of Operations

The Company had a net loss of $36.9 million for the year ended December 31, 1997 as a result of rapid unexpected deterioration in the athletic apparel industry during 1997 and the resulting decreases in sales levels and margins. These decreases resulted in the inability of the Company to recover its fixed selling, general and administrative expenses, which had increased significantly in 1997 due to investments made in anticipation of growth in sales. In 1996 and 1997, the Company made investments and built an infrastructure to support a business that had experienced growth in the past and was expected to continue to grow. In addition to anticipated general growth arising from the industry as a whole, the Company believed that its acquisitions provided a vehicle to support further increases in its market share. The market place began to soften in the second half of 1997 and, at that time, the Company began a plan to reduce selling, general and administrative expenses. Several changes were made in the management team, including the elimination of several positions. The cost containment initiatives are expected to result in reduced costs during 1998 via reductions in the Company's workforce, reductions in unprofitable outlet store operations, more cost effective marketing initiatives and other spending reductions. The majority of these cost reductions will be realized in the second half of 1998.

For the nine-month period ended September 30, 1998, the Company was not profitable and is not expected to be profitable for the year. While the cost containment initiatives have resulted in reduced costs, continued consolidation at retail, contraction of the licensed apparel market and above average temperatures in 1998 have led to decreased sales and increased margin deterioration. The Company is continuing to evaluate strategic and financial alternatives to enhance its operations, ensure it has adequate working capital and to return the Company to profitability. However, there can be no assurance that these strategic alternatives and cost containment initiatives will result in the Company's return to profitability.

Net sales for the three and nine month periods ended September 30, 1998 decreased approximately 14.2%, or $21.3 million, and 9% or $24.3 million, respectively, as compared to the three and nine month periods ended September 30, 1997. The decreased sales are primarily attributable to reduced consumer demand for licensed apparel products, primarily insulated outerwear. Also contributing to the sales decline for the three-month period ended September 30, 1998 were decreased NBA sales due in part to the ongoing NBA lockout. These decreases were partially mitigated by improved performance and printable sales.

The gross profit margin as a percentage of net sales for the three and nine month periods ended September 30, 1998 decreased to 32.5% and 30.6% respectively, as compared to 34.2% and 31.5% for the three and nine month periods ended September 30, 1997. The decreased gross margin as a percentage of net sales was primarily attributed to reduced volume and lower wholesale prices for insulated outerwear. The decreased volume resulted in the lower absorption of overhead costs for the three and nine-month period ended September 30, 1998.

Royalty income for the three and nine month periods ended September 30, 1998 increased to $1.1 million and $2.7 million, respectively, as compared to $.8 million and $2.6

million for the three and nine month periods ended September 30, 1997, primarily as a result of increased domestic licensees.

Appendix, cont.

Selling, general and administrative expenses were $33.5 million, or 26.2%, of net sales and $80.4 million, or 32.8%, of net sales for the three and nine month periods ended September 30, 1998, respectively, as compared to $40.7 million, or 27.3%, of net sales and $86.9 million, or 32.2%, of net sales for the comparable prior year periods. Royalties as a percentage of net sales increased to 10% for the three and nine month periods ended September 30, 1998 as compared to 8.7% and 8.3% of net sales for the three and nine month periods ended September 30, 1997, respectively. The increased royalty percentage results from increased licensed sales as a percent of total sales and increased royalty rates associated with certain player identified merchandise. All other selling, general and administrative expenses declined to $20.8 million, or 16.2%, of net sales and $56.0 million or 22.8%, of net sales for the three and nine month periods ended September 30, 1998, respectively, as compared to $27.8 million, or 18.6%, of net sales and $64.4 million, or 23.9%, of net sales for the three and nine month periods ended September 30, 1997, respectively. The other selling, general and administrative decreases are primarily related to the realization of certain containment initiatives such as reduced marketing costs and salaries.

Interest expense for the three and nine month periods ended September 30, 1998 was $3.1 million and $6.8 million, respectively, up from $1.8 million and $4.3 million for the comparable prior year periods, primarily due to increased interest rates and increased average borrowings needed to finance operations.

Income tax expense for the three and nine month periods ended September 30, 1998 consisted primarily of minimum state taxes. At December 31, 1997, the Company recorded deferred tax asset valuation allowances for certain tax benefits, including those tax benefits previously recorded during the nine-month period ended September 30, 1997.

Liquidity and Capital Resources

The Company's working capital at September 30, 1998 was $20.4 million as compared to $34.0 million at December 31, 1997 as a result of the net loss. Cash used by operations for the nine-month period ended September 30, 1998 increased to $63.5 million as compared to cash used by operations of $49.7 million for the nine-month period ended September 30, 1997, primarily due to the operating loss of $9.6 million.

On March 31, 1998 the Company's Credit Facility was amended to provide for, among other items, an increase in permitted overadvances, increased advance rates and the elimination of certain financial covenants. The $130,000,000 Credit Facility provides for a seasonal increase up to a maximum $160,000,000 from April 1 through January 15 of each year; however, obligations outstanding under the Credit Facility cannot exceed $85,000,000 for a period of 30 days during the first quarter of each year. Borrowings under the Credit Facility are subject to various limitations based upon eligible receivables and inventory, as defined in the Credit Facility, of the Company and its subsidiaries. Additionally, the Credit Facility provides for permitted overadvances of $22,000,000 to fund seasonal working capital requirements from January 1 to October 15 of each year. From October 15, 1998 to December 31, 1998 the permitted overadvance decreases to $7,500,000. Under terms of the Credit Facility, the Chairman and Chief Executive Officer of the Company (the "guarantor"), who is also the majority stockholder of the Company, has guaranteed up to $22,000,000 of the Credit Facility. The guarantee may be terminated upon written notice to the banks by the guarantor. However, it is not the intent of the guarantor to terminate the guarantee during 1998. Any reduction in the guarantee will simultaneously reduce dollar for dollar the amount of any permitted overadvance. The Credit Facility, which expires on March 31, 2001, contains a covenant requiring minimum net worth of $45 million plus 50% of the Company's cumulative net income, if any, for each fiscal year ending on or after

Appendix, cont.

December 31, 1998. The covenant is to be tested annually at the end of each fiscal year of the Company. The Credit Facility further places restrictions on distributions, mergers and asset acquisitions, as defined in the Credit Facility, and requires the

Company to enter into interest rate protection arrangements satisfactory to the banks for a notional amount of $35,000,000. The Credit Facility also contains customary

events of default, as defined in the Credit Facility. The termination of the guarantee by the guarantor is an event of default under the Credit Facility.

Management expects that the Company will be able to comply with the terms of the Credit Facility throughout the remainder of 1998.

Amounts outstanding under the Credit Facility accrue interest at either the bank's base rate plus 1% or at LIBOR plus 3%, at the Company's option. The Company is required to pay a 2% fee on the face amount of each letter of credit issued under the Credit Facility and an annual fee, which can range from .375 to .5 percentage points, as defined in the Credit Facility, on the Credit Facility.

In addition, the Company was required to pay a transaction fee of 2% on the maximum available Credit Facility to the banks in connection with the amended agreement. The Credit Facility is secured by substantially all of the Company's assets.

At September 30, 1998, $115,633,000 is outstanding under the Credit Facility. Additionally, $6,931,000 has been committed under the Credit Facility for letters of credit related to vendors' orders for which the Company will become liable at the time these orders are shipped and $20,051,000 is available for additional borrowing. At November 6, 1998 availability under the Credit Facility was $14,100,000.

Cash generated from operations, together with the Company's existing Credit Facility, is expected, under current conditions, to be sufficient to finance the Company's planned operations in 1998.

Year 2000 Conversion

The Company recognizes the need to ensure that its systems, applications and hardware will recognize and process transactions for the year 2000 and beyond.

In continuing efforts to become more productive and competitive, the Company began in 1997 to replace significant portions of its software and some of its hardware so that its computer systems will function properly with respect to dates related to the year 2000 and beyond. The Company also has initiated discussions with its significant suppliers, customers and financial institutions to ensure that those parties have appropriate plans to remediate Year 2000 issues when their systems interface with the Company's systems or may otherwise impact operations. The Company is assessing the extent to which its operations are vulnerable should those organizations fail to properly remediate their computer systems.

The Company's comprehensive system conversion initiative, which encompasses Year 2000 issues, is being managed by a team of experienced internal and external professionals. The team's activities are designed to ensure that there is no adverse effect on the Company's core business operations and that transactions with customers, suppliers, financial institutions, and other third parties with which the Company has material relationship are fully supported. The initiative encompasses all business systems, including administrative, manufacturing and distribution equipment that utilize microprocessors. Project completion is expected by early 1999. While the Company believes its plans are adequate to address its Year 2000 concerns, many factors could affect its ultimate success including, but not limited to, the continued availability

Appendix, cont.

of outside resources and sufficient financing. The Company is unable to predict the effect on its results of operations, liquidity and financial condition in the event that it is unable to address its Year 2000 concerns successfully. The conversion initiative project is not expected to exceed $11.5 million in cost. This cost range is

based on management's best estimates, which were derived utilizing assumptions about future events. The results could differ materially from those anticipated subject to uncertainties regarding the availability of resources and the impact of the issue on key suppliers, customers and other third parties. Through September 30, 1998, the Company has incurred costs of $7,800,000 related to the project. Funding requirements for the conversion initiative have been incorporated into the Company's capital and operating plans, and are not expected to have a material adverse impact, at this time, on the Company's financial condition or liquidity.

The Company recognizes the need to develop a contingency plan in the event the Company's conversion initiative project is not successfully implemented. In connection therewith, the Company intends to complete a contingency plan by the end of the second quarter of 1999 which will allow its primary business operations to continue despite disruptions due to year 2000 problems. As the Company continues to evaluate the year 2000 readiness of its business systems and facilities, products and significant suppliers, vendors, customers and other third parties with which it has material relationships, it will modify and adjust its contingency plan accordingly.

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