



## THE UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of: )  
 ) Investigation No.:  
 WOVEN ELECTRIC BLANKETS ) 731-TA-1163 (Preliminary)  
 FROM CHINA )

Tuesday,  
 July 21, 2009

Room No. 101  
 U.S. International  
 Trade Commission  
 500 E Street, S.W.  
 Washington, D.C.

The preliminary conference commenced, pursuant to Notice, at 9:33 a.m., at the United States International Trade Commission, JOHN ASCIENZO, Acting Director of Investigations, presiding.

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1                   MR. ASCIENZO:  If not, I'd like to welcome  
2                   Mr. Ethan Rabin from the Office of the Honorable Gene  
3                   Taylor, United States Representative, 4th  
4                   Congressional District, Mississippi.

5                   MR. RABIN:  Thank you very much.  My name is  
6                   Ethan Rabin.  I work for Congressman --

7                   MR. ASCIENZO:  Could you get closer to the  
8                   microphone, please?  Sorry.

9                   MR. RABIN:  Sure.  Thank you very much.  My  
10                  name is Ethan Rabin from the Office of Congressman  
11                  Gene Taylor.

12                  Good morning, ladies and gentlemen.  I very  
13                  much appreciate the opportunity to be here this  
14                  morning on behalf of Sunbeam, their petition for  
15                  antidumping duties on unfair imports of woven electric  
16                  blankets from China.

17                  As you might know and certainly will hear  
18                  this morning, the Sunbeam plant in Waynesboro,  
19                  Mississippi, has just celebrated its fiftieth  
20                  anniversary.  It's the principal employer in  
21                  Waynesboro, Mississippi, and hundreds of hard working  
22                  families depend on it for their livelihoods.

23                  Sunbeam has invested in these people, and in  
24                  return these folks contribute to their community in  
25                  many ways, including the wonderful charity drives that

1 are supported by their time and money.

2 The plant, its production and its workers  
3 also make possible other businesses in the district  
4 and beyond, so it's no overstatement when I tell you  
5 that it would be a tragedy if this plant doesn't  
6 thrive and celebrate many more anniversaries.

7 But I am very concerned about its future  
8 because of unfair imports from China. In the last few  
9 years, the imports from China have gone up while their  
10 prices have gone down. Sunbeam has lost sales, so  
11 they've had to reduce their production and their  
12 workforce.

13 The company and the community of Waynesboro  
14 has been badly hurt. We know that this plant is able  
15 to compete -- it's been there for 50 years -- and we  
16 know of the investments that the company has made to  
17 stay competitive, but unfair competition, the type  
18 prohibited by U.S. law and international rules, is  
19 another matter.

20 The United States welcomes competition, but  
21 it must be consistent with the law. When it is not,  
22 the U.S. International Trade Commission and Department  
23 of Commerce are required to enforce the law. That is  
24 what Sunbeam and I, on behalf of Congressman Taylor,  
25 are asking for today.

1                   Sunbeam has strong evidence that imports of  
2 woven electric blankets from China are violating the  
3 U.S. antidumping law. I ask that you and your  
4 colleagues at the Commerce Department investigate  
5 fully and fairly and enforce the law as Congress  
6 intended. The Waynesboro plant and its good,  
7 dedicated people deserve nothing less.

8                   Again, thank you very much for this  
9 opportunity, and we do hope that you consider fully  
10 and fairly and enforce the laws as they are supposed  
11 to be. I can submit this for the record as well.  
12 Thank you.

13                   MR. ASCIENZO: Thank you very much, Mr.  
14 Rabin.

15                   Welcome, Mr. Bruno, and please proceed with  
16 your opening statement.

17                   MR. BRUNO: Good morning. For the record,  
18 my name is Philippe Bruno of Greenberg Traurig  
19 representing the Petitioner in this investigation,  
20 Jarden Consumer Solutions, also better known as  
21 Sunbeam. Throughout our presentation we will refer to  
22 Jarden or Sunbeam interchangeably.

23                   Sunbeam is the only company still producing  
24 woven electric blankets in the United States. As you  
25 have heard already, last week was the fiftieth

1 anniversary of Sunbeam's plant in Waynesboro,  
2 Mississippi. That's the plant that produces woven  
3 electric blankets.

4 The original factory was established in 1959  
5 and has produced woven electric blankets for the last  
6 50 years, 50 years during which this plant achieved  
7 successes, survived challenges and adapted to its  
8 ever-changing environment and competition. However,  
9 last week's celebration was bittersweet. For the  
10 first time, the survival of the plant, as well as the  
11 welfare of the Waynesboro community that supports it,  
12 are in question.

13 Unfairly traded Chinese imports are coming  
14 into the United States market in ever increasing  
15 quantities and at such dumped prices that Sunbeam can  
16 no longer compete effectively. Declining production,  
17 loss of customer accounts, negative sales revenues,  
18 declining profitability and, last but not least,  
19 declining workforce, reduced working hours, lower  
20 wages all threaten the very existence of the plant if  
21 relief is not imposed against those Chinese imports.

22 As you will hear today from our panel of  
23 witnesses, this case presents all the indicia of a  
24 classic situation of material injury and of the threat  
25 of material injury by reason of the dumped imports

1 from China.

2           Rising imports from China at prices so low  
3 that they undersell significantly the U.S. product  
4 have captured an ever-increasing share of the U.S.  
5 market. Sunbeam has lost sales and revenue during the  
6 period of investigation, trying its best to match the  
7 ever lower prices and the program incentives offered  
8 by the Chinese.

9           The impact on Sunbeam's operations has been  
10 brutal. In the small Waynesboro community in which it  
11 is the largest employer, it had to reduce its  
12 workforce and take measures to preserve employment of  
13 those remaining employees by reducing the number of  
14 shifts and working essentially on a part-time basis,  
15 two weeks per month.

16           But this has been insufficient. Faced with  
17 relentless unfair competition from the subject  
18 imports, production and sales revenues and  
19 profitability have continued to decline so much so  
20 that it is now critical for relief to be imposed.

21           This case is also about the threat the  
22 Chinese imports pose to Sunbeam for the future. Due  
23 to the seasonality of this industry and the small  
24 number of U.S. retail customers, the loss of a single  
25 customer has not only an immediate adverse impact on

1 the operation of the domestic industry, but also a  
2 long-lasting one because a lost account cannot be won  
3 back until the following year and only at the cost of  
4 additional markdown dollars to match the price  
5 incentives offered by the Chinese.

6 The rapid surge in the volume of market  
7 share of the Chinese imports and the negative effect  
8 that they have had on domestic prices show that they  
9 are a real and imminent threat to the U.S. industry as  
10 long as they continue to be sold at dumped prices.

11 For these reasons, Sunbeam respectfully  
12 requests the Commission to continue its investigation  
13 and make an affirmative preliminary determination.  
14 Thank you.

15 MR. ASCIENZO: Thank you very much.

16 Ms. Trossevin and Mr. Sierck? When you're  
17 ready.

18 MS. TROSSEVIN: Thank you. Good morning.  
19 My name is Margaret Trossevin from the law firm of  
20 Jochum, Shore & Trossevin, and it's my pleasure to  
21 appear here today on behalf of the Ad Hoc Coalition of  
22 Blanket Importers, which is comprised of three of  
23 America's most respected and successful retailers.

24 The Coalition felt it was extremely  
25 important to participate in this proceeding to assist

1 the Commission in understanding two aspects of this  
2 case that are central to its analysis: The conditions  
3 of competition and the like product.

4 As you know, the conditions of competition  
5 are the context within which the Commission's injury  
6 analysis takes place, and the like product defines the  
7 relevant U.S. industry and therefore is the very  
8 foundation of that analysis.

9 Turning first to conditions of competition,  
10 Petitioner asserts that competition in the electric  
11 blanket industry is based solely on price. In making  
12 that assertion, Petitioner exhibits a fundamental  
13 misunderstanding of retailing, which could explain why  
14 some retailers have migrated to other sources for  
15 electric blankets.

16 The retail industry is indeed highly  
17 competitive. The successful retailers, such as J.C.  
18 Penney, who is here today, are those that understand  
19 what will appeal to customers, understand the  
20 difference between a good value and low price,  
21 understand the importance of maintaining a strong  
22 brand and understand that they are not entitled to  
23 their customers' business; they have to earn it.

24 Naturally understanding that these  
25 principles are keys to their success, retailers apply

1       them when they themselves are the purchasers.  When  
2       sourcing products for their stores, retailers look for  
3       style, quality, value and a supplier with a business  
4       model that meets their needs.

5                 For example, today you will have the  
6       opportunity to compare Petitioner's product and an  
7       electric blanket produced by Biddeford.  I have no  
8       doubt that the superior quality of the Biddeford  
9       blanket will be obvious.  Petitioner, however, would  
10      have you believe that superior quality is irrelevant  
11      as if consumers don't care.

12                But of course consumers, like yourselves, do  
13      care.  So when you examine these products, ask  
14      yourself which one you would buy and why.  Then you  
15      will understand why a retail buyer such as Leslie  
16      Hearn would choose the Biddeford blanket.  You will  
17      understand that competition in this industry is driven  
18      by many factors other than price, and you will  
19      understand that the subject imports are competing on  
20      the basis of those other factors.

21                Turning to the like product, Petitioner's  
22      definition is very narrowly drawn and appears to be  
23      co-extensive with the scope of the investigation.  As  
24      our industry experts will explain, however, there is  
25      no basis to distinguish electric blankets or throws

1 based on the fabric used to make the shell. Thus, the  
2 like product should at a minimum include all electric  
3 blankets and throws such as knitted fleece electric  
4 blankets.

5 On that point, we note that although knitted  
6 blankets are nonwoven and therefore out of scope,  
7 Petitioner sells knitted fleece blankets, and knitted  
8 blankets are increasingly popular with U.S. consumers,  
9 yet Petitioner fails to make any mention of knitted  
10 electric blankets in the petition.

11 We urge the Commission to seek to clarify  
12 the reason for this rather strange omission in order  
13 to have the information necessary to make a proper  
14 like product determination. Likewise, you will also  
15 hear testimony today demonstrating, based on the  
16 Commission's standard like product factors, that  
17 electric mattress pads should also be included in the  
18 like product.

19 We appreciate the opportunity to present our  
20 views on these issues and welcome your questions and  
21 look forward to a productive discussion.

22 MR. SIERCK: Thank you. Good morning. My  
23 name is Alexander Sierck, a member of the firm of  
24 Cameron LLP. We represent Perfect Fit.

25 Perfect Fit is here today only because we

1 want to make sure that this case includes only woven  
2 electric blankets and throws and that all other  
3 electric blankets and throws, including nonwoven and  
4 knitted, as well as electric mattress pads, are  
5 outside the scope.

6           Since nonwoven and knitted electric blankets  
7 and throws and electric mattress pads do not compete  
8 directly with woven electric blankets and throws, we  
9 believe we are correct, and if counsel for Jarden will  
10 so stipulate we will end our participation at this  
11 point. Counsel?

12           MR. ALTSCHULER: If I may?

13           MR. ASCIENZO: Yes, you may.

14           MR. ALTSCHULER: Thank you, Mr. Sierck.  
15 Thank you, Mr. Chairman. For the record, I am Irwin  
16 Altschuler, also on behalf of Jarden and Sunbeam.

17           We do agree with counsel for Perfect Fit  
18 that woven electric blankets on the one hand and  
19 nonwovens and knitted on the other and also electric  
20 mattress pads do not compete directly with each other,  
21 and therefore we do stipulate that knitted electric  
22 blankets mentioned by Perfect Fit are not intended to  
23 be within the scope of this case.

24           MR. ASCIENZO: Thank you very much.

25           MR. SIERCK: Thank you.

1 MR. ASCIENZO: Petitioners may assemble when  
2 they're ready.

3 (Pause.)

4 MR. ASCIENZO: You may proceed when ready,  
5 and I ask once again that you please identify yourself  
6 before you speak for the court reporter. Thank you  
7 very much.

8 MR. ALTSCHULER: Thank you again, Mr.  
9 Chairman. Again, this is Irwin Altschuler on behalf  
10 of Jarden and Sunbeam.

11 I would just take a minute to introduce our  
12 witnesses that are sitting up here and a couple of  
13 other people on behalf of Sunbeam who are here to  
14 answers questions in the back if that's necessary.

15 Sitting to my right is Mr. Mark Sullivan.  
16 Mark is the Engineering Manager for the Waynesboro,  
17 Mississippi, plant that makes these products. To my  
18 immediate left is Stacie Pacheco. Stacie is the  
19 Senior Director of Marketing for Jarden Consumer  
20 Solutions.

21 Sitting next to Stacie is Philippe Bruno,  
22 whom you've met. Sitting next to Philippe is Patrick  
23 Wright. Patrick is a Director of Finance for Jarden  
24 Consumer Solutions. Sitting next to Patrick is Seth  
25 Kaplan, economist from the Brattle Group. Sitting

1 across from Seth is Rosa Jeong, one of our partners at  
2 Greenberg Traurig.

3 We also have available to answer questions  
4 two of the in-house counsel for Jarden Consumer  
5 Solutions, Mr. Vic Michels, who is the Senior VP  
6 Legal, and Krystal Lyerly, corporate counsel for  
7 Jarden Consumer Solutions.

8 And with those introductions, Mr. Chairman,  
9 we would ask Mr. Sullivan to provide our first witness  
10 statement.

11 MR. SULLIVAN: Good morning. My name is  
12 Mark Sullivan. I'm the Engineering Manager at the  
13 Sunbeam Jarden plant in Waynesboro, Mississippi.

14 I've been with Jarden for 22 years and at  
15 the Waynesboro plant for 11 of those years. I was  
16 made Engineering Manager about three years ago.  
17 Jarden is probably better known to everyone by its  
18 corporate and brand name, Sunbeam.

19 Sunbeam and its related companies have been  
20 making consumer electrical appliances since 1893 and  
21 electric blankets since 1921. Today, Sunbeam is the  
22 largest electric blanket manufacturer in the world,  
23 and as far as I know we're the only remaining producer  
24 of electric blankets in the United States.

25 All of our woven electric blankets are

1 produced in the Waynesboro plant. The majority of  
2 what we produce in Waynesboro is in fact woven  
3 electric blankets. Our plant occupies about 15 acres  
4 of land and has close to 400 full-time employees.  
5 During the peak packaging season we employ up to 550  
6 workers, of which approximately 150 individuals are  
7 seasonal employees.

8 We are one of the largest employers in this  
9 area of Mississippi, and we have been the cornerstone  
10 of this community for 50 years. In fact, we  
11 celebrated our fiftieth anniversary last week.

12 Without a doubt the reason we have been  
13 around for 50 years is because of the dedication of  
14 our employees who are really the salt of the earth  
15 type of people committed to their jobs and giving back  
16 to their community.

17 Over the years the employees have given away  
18 tens of thousands of dollars to the community fund,  
19 which is made up of voluntary contributions from each  
20 employee's paycheck that is then 100 percent matched  
21 by Sunbeam. Last year the community fund contributed  
22 \$25,000 to the American Cancer Society, \$5,000 to the  
23 Red Cross, \$5,000 to Rock Solid, which is a local  
24 organization focused on adolescents performing charity  
25 work for senior citizens in Waynesboro, and another

1       \$5,000 to the Domestic Abuse Center of Laurel,  
2       Mississippi. This year we have committed another  
3       \$25,000 to the American Cancer Society.

4                 Considering the fact that these people don't  
5       make a lot of money to begin with, this is a very  
6       significant accomplishment.

7                 Let me take a couple of minutes and talk to  
8       you about woven electric blanket production process.  
9       Woven electric blankets are basically composed of a  
10      fabric shell which is made of synthetic, a blend of  
11      synthetic or sometimes natural fibers, heat-producing  
12      wire, which temperature is controlled by one or more  
13      thermostats, the heating element itself or  
14      controllers.

15                Like regular blankets woven electric  
16      blankets come in several sizes such as twin, full,  
17      queen and king. We also make heated throws which are  
18      obviously smaller size than the blankets.

19                Now, while these components sound simple,  
20      the production process is much more complex and  
21      capital-intensive than just simply inserting wire into  
22      a fabric shell as some of the Commission staff have  
23      seen during a recent plant visit.

24                The manufacturing process of woven electric  
25      blankets includes five basic phases: napping, which is

1 one; two, threading; three, wire insertion; four,  
2 assembly and finishing; and then finally, packaging.

3 First, the napping phase refers to the  
4 processing of the fabric shell to give it a soft  
5 texture. Generally, we buy fabric that is only in the  
6 appropriate width suitable for the blanket size and  
7 preformed into what is called a blanket shell. The  
8 shell consists of two sheets of fabric which are  
9 manufactured to incorporate specifically into channels  
10 designed to accommodate the electric blanket's wiring.  
11 The shell is received in large size rolls which are  
12 fed to the napping machine where the fabric passes  
13 through a series of concentric rollers covered with  
14 sharp napping wire. The napping imparts a hand in  
15 soft texture to the shell fabric.

16 I'm not sure you can see this, but this is  
17 an unnapped fabric. It's unsuitable for an electric  
18 blanket. It has no hand. This is the product after  
19 it is napped, much more suitable for an electric  
20 blanket, feels soft, you know, it would feel good to  
21 your skin.

22 Second, the fabric is coated with a  
23 finishing chemical to improve the appearance of the  
24 blanket surface. Next, the wire is inserted into the  
25 blanket. At Sunbeam the wiring is done through a

1 semi-automated process which is a specially designed  
2 system designed and patented by Sunbeam. The wire in  
3 our case looks like this, and we believe that the  
4 Chinese producers may be inserting the wire manually,  
5 which could be somewhat less efficient, or  
6 significantly less efficient, I beg your pardon, than  
7 Sunbeam's process.

8 Finally, the fabric is ready for the  
9 assembly and finishing stage. A regulatory label is  
10 first applied to the shell, which you have in your  
11 hand. This regulatory label has certain information  
12 on there relative to the care and use of the blanket  
13 as well as the UL or ETL stamp, depending upon the  
14 source of the product.

15 The end of the wire are then terminated to  
16 module board or what we call a PC board, which is a  
17 portion of the electronics, and then a plastic housing  
18 is placed around the module board. So in other words  
19 this component goes in here, and the blanket is  
20 subsequently tested for wattage and performance.

21 After this, the blanket is finished by  
22 sewing the edge and trim, and it is then again tested  
23 for appropriate dielectric properties. The blanket is  
24 then placed in large boxes which are packed for  
25 inventory purposes until an order is received, and

1 when an order is received the blanket is placed with  
2 the appropriate controller, packed with instruction  
3 manual, and ready for final shipment to the customer.

4 And I've tried to mock one of these up small  
5 so it would be easy to demonstrate. This is the  
6 blanket when it is finished, much smaller than the  
7 actual size. This is the satin binding which is at  
8 the head, this is the trim. The block which you have  
9 is put into the unit, and then you plug the controller  
10 in, and this is how it operates.

11 We also internally produce the wire which is  
12 made of a copper alloy core assembly, and  
13 thermoplastic outer layers. The wire is manufactured  
14 in a proprietary process that we developed and  
15 patented. We source a very large portion of our  
16 components from U.S. sources. For example, the fabric  
17 shell comes from South Carolina where it is produced  
18 at one of the last few remaining mills of this type in  
19 the United States. This means that any adverse impact  
20 on our plant has further ripple effects on other U.S.  
21 industries that source our plant, and as a matter of  
22 fact our fabric supplier used to supply the fabric  
23 shell from a mill located in Georgia. However, the  
24 reduction in volume from loss of some of our business  
25 to China and Chinese imports led to the closure of the

1 Georgia mill.

2 Our patented wire insertion system and wire  
3 production process are just two examples of our focus  
4 on continued innovation and improvements in  
5 efficiency. Recently, however, these efforts have not  
6 been enough as we have been forced to compete with  
7 dumped Chinese imports. These imports have taken away  
8 some of our longstanding customer accounts based  
9 purely on low prices which has led to large cutbacks  
10 in production.

11 We have done our best to compete with the  
12 imports by cutting costs and becoming even more  
13 efficient. For example, earlier this year we had all  
14 the factory workers working two weeks out of a month.  
15 We reduced the shifts rather than having them take the  
16 devastating step of letting off our workers. When you  
17 think about the fact that our employees only make  
18 about \$11.85 per hour on average, you can imagine how  
19 difficult it must have been to get those wages reduced  
20 in half.

21 These sacrifices will not be enough unless  
22 we get some relief from these unfairly traded imports.  
23 As some of the Commission staff has seen, Waynesboro  
24 is far from Washington both in distance and in terms  
25 of job opportunities. Many of our employees get by

1 with the little wages they make simply because they  
2 work primarily for the benefits that they receive via  
3 medical insurance.

4 If our plant is forced to close due to  
5 unfair imports, most of our workers will not be able  
6 to find another job very easily, and certainly not one  
7 with the type of benefits that they now have. I don't  
8 mean to belabor this point, but this is the realty and  
9 threat that we have in Waynesboro, Mississippi today.

10 We run the best and the most efficient woven  
11 electric blanket plant in the world, and we believe  
12 that we can compete with anyone. On behalf of the  
13 employees and the larger community of Waynesboro, we  
14 respectfully ask the Commission help us by restoring  
15 fair competition into the U.S. marketplace.

16 Thank you very much and I'm happy to try to  
17 answer any questions that you might have.

18 MS. PACHECO: Good morning. My name is  
19 Stacie Pacheco, and I am the Senior Director Marketing  
20 at Jarden Consumer Solutions. I have been in this  
21 position since 2003, and have over 14 years experience  
22 in the consumer products industry.

23 We are here today because dumped Chinese  
24 imports through their aggressive pricing and incentive  
25 programs have taken away our sales and major

1 customers, and are severely hurting our business.  
2 Losing business is tough in any context, but there are  
3 some unique aspects of that make the loss especially  
4 devastating and recovery more difficult.

5 First of all, the woven electric blankets is  
6 an extremely seasonal business. As you can imagine,  
7 most of the products are sold and used during the  
8 colder months of the year, with sales occurring almost  
9 exclusively in the fall and winter months, and  
10 culminating during the holidays. This seasonality  
11 drives the sales process and the production cycles.

12 The sales process typically begins in  
13 November of each year with a line review with our  
14 retail customers. The line review is the official  
15 start to presenting the next seasons's recommended  
16 assortment, pricing and first look at volume in the  
17 form of a forecast.

18 The forecast takes into account various  
19 factors such as historical sales, expected foot  
20 traffic, retail foot traffic, sorry, consumer  
21 preference and trends and, of course, the weather.

22 At the end of the line review process the  
23 pricing and volume are finalized and the business for  
24 the year is awarded. This commitment and forecasted  
25 volumes forms the basis for our production planning.

1 While these commitments are not bidding in a legal  
2 sense, they form the basis for demand for the year and  
3 the terms generally do not change. Throughout the  
4 year binding orders are received through what we call  
5 purchase orders.

6 If we are not awarded the business, it is  
7 highly unlikely that we will receive any business from  
8 the retailer in that year. This means that if the  
9 business is lost to dumped Chinese in the fourth  
10 quarter or the first quarter the business is lost for  
11 the entire following year and very difficult to win  
12 back in year two.

13 Second, the vast majority of the volume is  
14 sold to a handful of large retail customers.  
15 Therefore, each customer is extremely important and  
16 losing even a single account has devastating  
17 consequences for us on employment, compensation, and  
18 ability to invest and profits. Even though customer  
19 incentive plans have been around for decades, it is  
20 important to understand that Chinese importers have  
21 created or added to the programs to further enhance  
22 the offering.

23 There are some customers that we cannot sell  
24 without engaging in a bidding war of incentive  
25 programs started by Chinese importers. The programs

1 include various discounts and promotions such as mark-  
2 down dollars or return allowance, volume rebates,  
3 cooperative advertising funds like holiday discount  
4 promotions, and safety stocks.

5 By mark-down dollars I mean that we provide  
6 funds to the retailers to support liquidating existing  
7 inventory in store at the end of this season. Safety  
8 stock refers to certain levels of inventory that the  
9 Chinese exporter carries at its risk and warehouses to  
10 support in-stock levels at the stores should the sales  
11 exceed the forecast, and this is one piece that  
12 frustrates me personally. We manufacture domestically  
13 and we do not need to carry safety stock since we do  
14 manufacture domestically. We can actually react  
15 within the season because we have assemble to order.  
16 So the request to have 20 percent safety stock just  
17 doesn't make sense when you have manufacturing in the  
18 U.S.

19 Another typical program is the buy back or  
20 the returns of unsold merchandise. This is where a  
21 manufacturer or importer buys back a certain  
22 percentage of the unsold merchandise at the end of the  
23 season from the retailers. In Jarden's case, these  
24 products are returned to our inventory where they are  
25 most often broken apart and repackaged to be resold in

1 the future.

2 The Chinese imports have been able to  
3 capture market share by not just offering low base  
4 prices, but also offering aggressive incentive  
5 programs. For example, due to the seasonal nature of  
6 the business and because forecasts are not perfect,  
7 small volumes of buy backs are a normal means of doing  
8 business to a limited extent. In recent years,  
9 however, the importers of Chinese products have  
10 offered to buy back a much larger percentage of those  
11 returns. To retain our business, we also had to  
12 increase our buy back volumes to meet the Chinese  
13 competitive practices.

14 All these programs obviously translate into  
15 additional costs that are not reflected in the base  
16 pricing of the blankets, representing discounts of up  
17 to 20 percent of the base price. This percentage may  
18 be very well higher for the Chinese imports based on  
19 what we have observed. This means that the  
20 underselling of Chinese imports is likely to be far  
21 deeper than it may seem on its face. When the  
22 discounts provided by the programs are actually added  
23 to the lower prices, the resulting net prices are far  
24 below our cost of production, and we can't complete.

25 When the Commission staff reviews the

1 pricing data reported in the questionnaire responses,  
2 we urge you to ensure that the data correctly reflects  
3 the discounts and other reductions to price offered  
4 through these programs.

5 Unless a program costs are properly netted  
6 out, the reported pricing data will not show the true  
7 extend of the underselling. You might be told that  
8 there are other factors other than price that go into  
9 the retailer's decision about its purchase of woven  
10 electric blankets, but the way that the imports from  
11 China have been sold has placed a greater premium on  
12 price than ever before. All the evidence supports  
13 this. After all, if other factors were as important  
14 why is it necessary for the imports to sell at  
15 unfairly low dumped prices?

16 As we have detailed in our petition, and the  
17 questionnaire reposes, the dumped Chinese imports have  
18 led to losses of major customer accounts. When the  
19 chinese importers entered the market they successfully  
20 targeted small and mid-sized retailers, but since 2006  
21 they have been more aggressively targeting and  
22 capturing major retail accounts by dumping and  
23 underselling.

24 The Chinese imports complete for U.S.  
25 customers first and foremost on price through low

1 based prices and incentive programs, which are simply  
2 disguised discounts. As a result, Jarden has been  
3 forced to lower its prices, limit our price increases  
4 despite rising costs, and expand the incentive  
5 programs to keep our customers which forces down our  
6 net prices.

7 With regards to the specific customer  
8 accounts that we have lost, we understand that the  
9 Chinese exporters have offered additional mark-down  
10 dollars to deplete customer inventory of Jarden  
11 products. To win back those accounts we may also be  
12 required to offer the same type of mark down to  
13 replace those Chinese imports which forces us to  
14 utilize the same tactics, adding insult to injury.

15 The loss of even one or two accounts is a  
16 significant matter in an industry like ours where the  
17 customer base consists primarily of a handful of large  
18 retail chains. Because our production is based on  
19 forecasts, a loss of one account impacts not just the  
20 production of the current year, but also the  
21 production for the following year in which we must  
22 account for the potential reduced production levels,  
23 and the loss of an account also has a domino effect on  
24 our U.S.-based suppliers and subsuppliers.

25 In addition, the unfair competition has led

1 to more uncertainties in our business as our customers  
2 delay making purchase commitments while they are lured  
3 by low priced imports.

4 Even if the customer decides to stay with  
5 Jarden, the delay in the decisionmaking processes  
6 means that Jarden must take risk to begin production.  
7 If the customer makes a late decision to award the  
8 business to a Chinese importer, we need to rearrange  
9 our production schedule in order to accommodate.

10 As Mr. Sullivan mentioned, we were working  
11 essentially in a half-time basis early this year to  
12 account for the reduction in volume. Also as Mr.  
13 Sullivan mentioned, our company is built on a culture  
14 of continuous innovation and improvement.  
15 Unfortunately, the pressure from the dumped imports  
16 have made it impossible for us to continue making the  
17 type of investments to improve our technology and  
18 processes. Just this year we had to forego or put on  
19 hold several projects that related to increased  
20 efficiencies and new product, including continued R&D  
21 which drives innovation in this category.

22 As the leader of this category, we have been  
23 at the forefront of innovations. These trends will  
24 only get worse unless the Commission acts to  
25 neutralize the unfairly traded imports. While the

1 current competition is dominated by a limited number  
2 of Chinese exporters, we understand that there is a  
3 large number of Chinese producers with idle capacity  
4 who can easily enter the market unless the rules of  
5 fair competition are enforced.

6 We have deep roots as a proud U.S. producer  
7 and are committed to our employees and the community.  
8 We did not pack up and move our manufacturing to China  
9 as so many companies have done before. We  
10 respectfully ask the Commission to help us remain in  
11 business by continuing to a full investigation. Thank  
12 you.

13 MR. KAPLAN: Good morning. I am Seth  
14 Kaplan, a principal at The Brattle Group, an economic  
15 and business consultancy. I have been asked by  
16 Petitioners, Jarden Consumer Solutions, to analyze the  
17 effects of dumped Chinese woven electric blankets on  
18 the domestic industry.

19 In conducting my analysis, I have examined  
20 the confidential Commission record, proprietary  
21 industry studies, and publicly available information.  
22 In addition, I have interviewed various Jarden  
23 marketing, financial and production employees, and I  
24 would like to present my results now.

25 I'll turn to slide 1 and I'm going to speak

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1 in five different issues. The first is an economic  
2 overview. I handed out copies earlier so hopefully  
3 people have hard copies.

4 First, the economic overview; followed by  
5 conditions of competition; injury by reason of  
6 imports, and I'll look at the industry trends in the  
7 context of the volume, price, and effects framework of  
8 the statute; injury by subject imports, and I'll look  
9 at the effect of the margin; and finally, threat of  
10 material injury.

11 So let me first go to the conditions of  
12 competition. There is five key conditions of  
13 competition I want to call your attention to. The  
14 first is that price is the key factor in retail  
15 purchasing decisions. While not the sole factor, it  
16 has become more and more important where now it is the  
17 most important factor.

18 I have had discussions with marketing  
19 individuals at Jarden and I've also looked at  
20 confidential e-mails between Jarden and its customers  
21 and it is plain to me that purchasing decisions at the  
22 end of the day are driven by price.

23 Second, a small number of large customers  
24 account for the vast majority of sales. This is a  
25 very important condition of competition because it

1 means that shipments are what economists called lumpy.  
2 Instead of many, many buyers buying a small quantity  
3 of product, you have a small number of buyers with  
4 large purchases. So the loss of any single customer  
5 has significant effects, and also it typically  
6 requires some effort to get a customer back and so the  
7 loss of a single customer is especially important.

8 Third, the industry operates on yearly  
9 supply agreements. This was discussed earlier.  
10 Commitments and discussions start in the previous year  
11 for the following year. They start in November 2008  
12 for shipments for Christmas season 2009.

13 Because the sales are seasonal and the early  
14 commitments are made, you have the situation where if  
15 you lose a particular customer it takes at least a  
16 year to regain them, and sometimes two because of all  
17 the programs that are necessary. So you have a  
18 situation where imports are particularly devastating  
19 because you have few customers and only one  
20 opportunity per year to garner their business.

21 Fourth, demand is seasonal while production  
22 is year round. I'll have a slide for this  
23 momentarily, but what happens is is that production  
24 occurs and is put in inventory, and it builds up. And  
25 then when the shipping seasons starts in late number

1 and early fall, inventories are drawn down to try to  
2 match demand with the yearly production.

3 Fifth, production requires industry-specific  
4 capital and a trained workforce. I know I was quite  
5 impressed and learned a lot on my trip visit there as  
6 I think the ITC staff did. There is 50 years of  
7 continuous technological improvements and efficiency  
8 improvements in that facility making the same product.  
9 There are a lot of capital equipment that can only be  
10 used in the production of woven electric blankets, for  
11 the wiring of woven electric blankets.

12 The wire is not purchased. The wire is made  
13 from scratch. It is drawn. Zinc is melted and its  
14 covered. It's quite a production process, and there  
15 is very specific machinery to the production of the  
16 blankets at other stages of the production process.  
17 Also, the workforce is trained for these specific  
18 needs of the production process, knowing how to use  
19 that equipment, being able to use the equipment  
20 efficiency and safely.

21 So, both of these points create issues when  
22 a domestic industry is faced with dumping. On the  
23 industry-specific capital side, there is not a lot of  
24 flexibility in taking those machines and moving them  
25 to do something else. They are designed to make this.

1           On the workforce side, you need workers that  
2           are trained in the operation of this equipment so in  
3           downturns you can't lay people off because there is  
4           not necessarily be able to get them back later, so  
5           what you see in this industry, which is different than  
6           most, is that workers are kept but their hours are  
7           reduced dramatically. Rather than layoff some people  
8           working full shifts, you have less layoffs, and there  
9           have been some, but people working half shifts.

10           Please turn to slide 4, and this is a visual  
11           showing the seasonality of demand. The black line is  
12           the production and while it is not quite as flat as  
13           this, the idea is to smooth production over the year.  
14           In the first part of the year when production is  
15           greater than shipments, you will note that inventories  
16           are being built. Then around June shipments start to  
17           exceed production. At the end of the year, if your  
18           forecast was correct, you're left with initial  
19           inventories, and the process begins again.

20           Now I want to turn to the trends in the  
21           industry and keeping in mind that these conditions of  
22           competition make the domestic industry particularly  
23           susceptible and vulnerable to dumped imports.

24           This is a graph of imports of electric  
25           blankets VHS code. This category is broader than the

1 woven electric blankets, but given the confidential  
2 nature of the information I wanted to show this  
3 because it is indicative of what is happening in the  
4 scope and affecting the industry producing the like  
5 product. You will note there were not many electric  
6 blankets from China coming in at all at the turn of  
7 the century, and there has been a steady systematic  
8 industry throughout the last seven years where when we  
9 reach the period of investigation in the shaded area  
10 you see that already imports are at a very high level  
11 and they are still increasing.

12 I spoke to the marketing people at Jarden  
13 and they produce a forecast of what they expect  
14 imports to be during 2009, and they expect them to  
15 increase. This is an industry that's used to making  
16 yearly forecasts and since there are a relatively  
17 small number of customers, you could get an idea of  
18 what's going to be happening in the market in the next  
19 year.

20 So imports have increased significantly.  
21 They increased significantly through the period of  
22 investigation, and they are expected to increase  
23 significantly in the foreseeable future.

24 The next slide looks just at the period of  
25 investigation, and we see a continual increase in

1 imports of electric blankets from China through 2009,  
2 and I am allowed to characterize trends and I will say  
3 that subject imports have been increasing throughout  
4 the period of investigation, and I would like to  
5 characterize that on the next slide.

6           These imports have increased absolutely.  
7 They've increased as a share of consumption, and they  
8 have increased as a share of production, so the first  
9 factor of the statute regarding imports, all three of  
10 the subsections have been met. Only one needs to be  
11 met, but they have been increasing and they are  
12 already at high levels.

13           Now let me turn to prices, and price trends.  
14 The Commission looks at whether there is underselling  
15 and whether there is price suppression and depression.  
16 In this case, we have alleged margins in excess of 200  
17 percent. We have very, very high margins of dumping  
18 which the Commission uses in a prelim. They use the  
19 allegations. It should be unsurprising that given  
20 these very high margins of dumping that there is  
21 underselling in the market.

22           I would ask the Commission to look carefully  
23 at underselling head to head to the retailers, and  
24 just as a note because of the seasonality, while the  
25 underselling is ubiquitous, it's almost occurring in

1 every period. Note that the third and fourth quarters  
2 are the periods of largest shipments, so that's when  
3 underselling is even more important. Sometimes the  
4 shipments are very small in the first and second  
5 quarters, but we're seeing underselling consistently  
6 throughout the period of investigation, and the  
7 products that the Commission has collected, and those  
8 products represent a significant share of both  
9 domestic production and imports. They were not cherry  
10 picked. They were selected to be nice-size categories  
11 that allow comparison of prices in head-to-head  
12 competition.

13 We see not only underselling but declining  
14 import unit values and declining prices of the  
15 imports. This has led to price depression and  
16 suppression of U.S. prices at various customers. As  
17 was noted earlier, costs have increased. In certain  
18 areas the price suppression and depression has not  
19 allowed Jarden Consumer Solutions to recover these  
20 costs, as I will discuss momentarily when we turn to  
21 the effect side, but this is kind of the classic  
22 cost/price squeeze.

23 When there is depression, price depression,  
24 we usually don't talk about that, but you could go on  
25 a customer-to-customer base and see either directly

1 suppression or depression. So the second factor is  
2 plainly met of the three-part statutory test, but the  
3 economics of it are pretty simple. Enormous margins,  
4 head to head competition at individual customers,  
5 price underselling and documentation of price being  
6 the most important factor in determining which  
7 supplier wins.

8 Please turn to the next slide which  
9 summarizes the effects on the industry. So we have  
10 those rising imports at low prices with high dumping  
11 margins. The industry indicia, while ugly, should be  
12 no surprise. First the trade data, the domestic  
13 industry's production is down, their shipments are  
14 down. The capacity is up. The industry has replaced  
15 worn equipment. This has led to an increase in  
16 efficiency and debottlenecking. The capacity increase  
17 was not intended to double the capacity of the plant,  
18 but rather make the plant more efficient. This 50-  
19 year continual process of creating efficiency,  
20 engineering tweaks to make the process better in  
21 lowering costs; that debottlenecking has increased  
22 capacity to a certain degree. However, given the  
23 production decline capacity utilization has fallen,  
24 and it would have fallen even without the increase in  
25 capacity.

1           On the financial side, the low prices and  
2 decline in shipments have caused gross profits to  
3 decline, operating income to decline, cash flow to  
4 decline, operating margins to decline, and investment  
5 decline. All of the financial factors have been  
6 harmed.

7           On the employment side, there has been a  
8 decline in workers, but I would call special attention  
9 to the number of hours worked and the decline there,  
10 and the hours per worker because the strategy, once  
11 again because of the trained workforce, is to cut  
12 hours rather than cut employees if at all possible,  
13 and the total wages are down.

14           If there is any doubt of whether the  
15 industry is injured, I ask you to pay special  
16 attention to employment. Labor itself could show  
17 injury. It's devastating what's happened to the  
18 hours, the hours per worker and the wage bill, but the  
19 trade data and the finance data also indicates  
20 strongly that there is injury. Every indicia but one  
21 is down. Not included on this industry indicia chart  
22 are the lost sales and lost revenues which were  
23 submitted in the petition and discussed here, and will  
24 be discussed in great detail in our postconference  
25 brief, but it's confidential information so I can't

1 speak to it now.

2 I'd turn your attention to page 10, and this  
3 is a map showing the location of Waynesboro and the  
4 Sunbeam products facility. Waynesboro is pretty far  
5 from most population areas, and even the smaller ones  
6 in the south. I mean, I flew into Atlanta, and then I  
7 took a flight to Meridian. Meridian has small  
8 commuter jets that has two flights a day; one leaving  
9 at 5:30 in the morning and one at 2 in the afternoon.  
10 Meridian is a little -- a little closer than Jackson.  
11 It's over an hour drive from Meridian to Waynesboro.  
12 It's well in excess of an hour and up to two to three,  
13 depending if you're coming from New Orleans or Jackson  
14 or Birmingham or Montgomery.

15 The point I want to make is that there is  
16 not a lot of employment choices in this area. The  
17 labor market is pretty small as a total, and because  
18 Sunbeam is such a large employer in the area layoffs  
19 would be very severe because of the lack of  
20 alternative opportunities.

21 This is a big employer in a small place.  
22 This is the big fish in a small pond, and I ask the  
23 Commission to pay special attention when considering  
24 the condition of competition and the special factors  
25 surrounding the use of labor and capital in this area.

1 There are not a lot of alternatives.

2 Let me turn now to injury by reason of  
3 imports, and the effects of dumping. There is very  
4 high margins alleged in this investigation. There is  
5 a high and increasing Chinese market share. The  
6 products are highly substitutable, and once again I  
7 will call your attention to and will provide evidence  
8 later of how price is the key factor, and finally,  
9 demand is inelastic.

10 I also want to note as an aside always an  
11 economist puzzles me when the respondent comes and  
12 talk about their incredibly high quality relative to  
13 the domestic product, and then the data show massive  
14 underselling and dumping. I know that in my  
15 experience higher quality products command a price  
16 premium and don't require dumping and don't require  
17 massive discounts. I think what you're seeing here is  
18 a product that's become more and more commoditized and  
19 that prices become more of an important factor.

20 In any case, combining these factors mean  
21 that when you have a high dumping margin causing  
22 prices to fall the demand shifts from the domestic  
23 product to the imported product. There is a decline  
24 in domestic demand, and page 12 is hopefully a slide  
25 maybe you thought you would ever see again, or hoped

1 you would not, the nightmare on E Street. But this is  
2 a simple version here, and what I'd like to point out  
3 is that basically demand is decreased as dumping  
4 occurs, and the dumped imports cause people to switch  
5 their product.

6 Demand shifts in, prices go from P to PD,  
7 the dumping price for the domestic producers, prices  
8 are falling, quantities go from Q to QD, quantities  
9 are falling, classic case of dumping causing a  
10 decrease in demand, and injury on both the price and  
11 quantity side. You expect to see declining revenues,  
12 you expect to see declining shipment, you would expect  
13 to see declining prices, you would expect to see  
14 declining production. Because there are fixed cost  
15 you would expect to see profits. This is what you've  
16 seen over the period of investigation. This is  
17 completely consistent with a small model of the  
18 domestic industry, the types of models the Commission  
19 uses when they do like 201 cases or 421 cases or  
20 effect studies requested by Commerce.

21 So from both a trends approach and from an  
22 effects of dumping approach you have injury by reason  
23 of imports, and this is pretty straightforward.

24 Finally, let me turn to the threat factors.  
25 This is a case where the Commission can find both

1 injury by reason of imports and threat of material  
2 injury by reason of imports. The Commission sometimes  
3 finds both in a single investigation. The facts here  
4 warrant both.

5 First, there is significant excess capacity  
6 in China. I ask you to look at your Commission  
7 questionnaires, but also the petition. There are  
8 many, many, many foreign producers of this product  
9 advertising on the Internet, saying how much they  
10 could make in China. We have documented these. China  
11 is a big country. There is massive excess capacity in  
12 the manufacturing base, and excess capacity in this  
13 product. It should be no surprise, you see it over  
14 and over again. This is, you know, an electrical  
15 appliance and a fabric put together, a lot of  
16 assembly-related issues. Chinese is the heart of  
17 this. China is the heart of this type of operation,  
18 and they have massive capacity.

19 Increasing import volumes you've seen. We  
20 would expect them to increase further. In some cases  
21 the Commission has to look forward and forecast on  
22 certain in a spot market and just follow trends. Here  
23 we have not only the trend, but we have commitments  
24 being made and evidence directly about imports coming  
25 in later in the year.

1                   We have falling average unit values. I  
2 suggest you look at the historical data, but look at  
3 prices contracted for in the future. There has been a  
4 loss of a major account where the lost sales and lost  
5 revenues from these and the increased imports  
6 associated with them are known with certainty; one,  
7 there is no speculation here for threat, and finally,  
8 there have been negative effects to develop a more  
9 derivative or advanced version of the domestic-like  
10 product, and once again for those of you that have  
11 been at the facility, you could see what this means.  
12 For those of you that haven't, you know, it's a more  
13 advanced electric blanket, a more advanced -- you  
14 know, the answer is yes, we'll present the evidence,  
15 but I encourage you to go there in the final  
16 investigation to see this.

17                   We will present evidence on the loss of  
18 investment and certain derivative or more advanced  
19 products that are threatened with either on the R&D  
20 side or the production side because of this dumping.

21                   So thank you very much. I conclude, once  
22 again my analysis shows material injury by reason of  
23 imports and threats of material injury by reason of  
24 imports.

25                   MR. ASCIENZO: Thank you very, very much for

1 that presentation, and we're going to start this  
2 morning's questioning with Mr. Kaplan, the  
3 investigator.

4 MR. JOSHUA KAPLAN: Good morning. I would  
5 like to thank the witnesses for their appearances  
6 today. I have a few questions about the product  
7 itself or, additionally, the production process  
8 involved.

9 My first question is -- I'm just looking for  
10 kind of a ball-park figure here, and perhaps more  
11 detailed information can be provided in the form of a  
12 post-conference brief, but approximately what percent  
13 of the input costs for a woven electric blanket made  
14 by your company come from the fabric shell, wiring,  
15 and controller, so those three items? If you don't  
16 have a ball park on hand, that's fine. We can see  
17 that as well.

18 Basically, I'm looking to get an idea of the  
19 cost breakdown for a blanket, at least apparently the  
20 main cost components, those being the fabric shell,  
21 the wiring, and the controller. How much of the cost  
22 of the product does each of those account for?

23 MR. ALTSCHULER: And I was just reaffirming  
24 to Mr. Sullivan that actual numbers we'll give  
25 confidentially in the brief, but, order of magnitude,

1 kind of one, two, and three, we're comfortable giving  
2 publicly.

3 MR. SULLIVAN: The shell is the most  
4 expensive, followed by the controller, followed by the  
5 wire.

6 MR. JOSHUA KAPLAN: Okay. Thank you. This  
7 was touched upon a little bit in the presentation, but  
8 perhaps you all could just reiterate or elaborate on  
9 the sizes and fabric blends that are currently  
10 produced by the company, just to list those out  
11 briefly.

12 MR. SULLIVAN: We make twins, fulls, queens,  
13 and kings. We essentially, at this point, I think,  
14 have two blends, and one of the blends is 100-percent  
15 synthetic fiber, and then we have a second blend, or  
16 blanket -- I beg your pardon -- which is a synthetic  
17 and man-made-fiber blend.

18 MR. JOSHUA KAPLAN: Thank you.

19 MS. PACHECO: And we also produce some  
20 throws as well. That's a synthetic blend.

21 MR. JOSHUA KAPLAN: Thank you. My next  
22 question is somewhat in response to a statement that  
23 has been made by some of the Respondents with respect  
24 to the quality, and I'm sure they probably are going  
25 to touch upon it later, so perhaps, at this point,

1 someone from Jarden could speak to that aspect. To  
2 what extent do you believe your product is of a higher  
3 or lower quality than the competing product, and why  
4 do you believe that that is the case?

5 MS. PACHECO: With regards to quality, we  
6 feel that our quality is the best, given our  
7 proprietary technologies and processes in our  
8 facility, with our wiring and our heat technology  
9 really being at the forefront.

10 MR. SETH KAPLAN: I would like to have Mark  
11 Sullivan explain the global and local issue on the  
12 heating as a quality point. I've got your attention.  
13 He will explain what that means, but it's really  
14 fascinating, from a technological point of view.

15 MR. SULLIVAN: First of all, let me just  
16 make a general statement. Our product, compared to  
17 the competition, heats up faster and stays hotter  
18 longer, and this is based on some thermograms that we  
19 have taken with respect to some specialized equipment.  
20 Regarding the notion of global versus local control,  
21 this piece of paper represents an electric blanket.  
22 The heating technology that we have in our product is  
23 such that if you fold this corner and put weight on  
24 it, a dog gets on it, whatever the case might be, this  
25 section of the product, and only this section of the

1 product, shuts down. The rest of the product will  
2 continue to perform as it is intended to perform and  
3 as it is designed to perform and provide the  
4 appropriate level of heat.

5 In some of the competition's product, if you  
6 do the exact same thing in the exact same conditions,  
7 then the whole product shuts down. We refer to this  
8 as "local versus global control." We have local  
9 control; some of the competition has global control.  
10 Now, you can imagine that if this condition were to  
11 take place at night when one is sleeping, and the rest  
12 of the product shut off, the user could become  
13 uncomfortable.

14 MS. PACHECO: And that's caused by our  
15 proprietary technology of our wire that the team in  
16 Waynesboro developed years ago and continued to  
17 further enhance.

18 MR. JOSHUA KAPLAN: Thank you. Kind of as a  
19 follow-on to that and to the statement that you were  
20 making regarding, I suppose, these would be safety  
21 features that are involved, have any of the electric  
22 blankets produced by Jarden been subject to a recall  
23 or any other safety issue since January 1, 2006?

24 MS. PACHECO: No, no. There have been no  
25 recalls, no mandated recalls nor self-inflicted recalls.

1                   MR. JOSHUA KAPLAN: Thank you. I would like  
2 to move on to a few questions about some demand or  
3 trade areas.

4                   According to your knowledge, what percentage  
5 -- this is, obviously, approximately -- what  
6 percentage of electric blankets imported into the  
7 United States are a woven, a knit, or another nonknit,  
8 nonwoven composition?

9                   MS. PACHECO: Just for electric blankets?

10                  MR. JOSHUA KAPLAN: Yes.

11                  MS. PACHECO: We feel that there are about  
12 60 percent wovens versus about 40 percent knitted or  
13 nonwovens.

14                  MR. JOSHUA KAPLAN: And if your company  
15 imports a particular type of electric blanket, why  
16 does it import that type of blanket versus one made  
17 using another production process?

18                  MS. PACHECO: First of all, the production  
19 process is different. We actually use equipment in  
20 our facility that could not be used on those other  
21 knits or nonwoven products or shells that would come  
22 in so we would have to invest in capital, or we would  
23 have to invest in completely different processes or  
24 modifications in the factory in order to do that.  
25 In addition, we haven't found producers of those types

1 of materials here in the U.S., in terms of the shells  
2 or the fabric, so we haven't been able to find them  
3 here, so we've had to bring those in from overseas.  
4 There is also a difference in the consumer perception  
5 of those products as well and in terms of the quality  
6 that comes in and what we're looking for. So we've  
7 found those overseas, and we've worked with some  
8 companies who have some proprietary technologies  
9 around making those textures and fabrics.

10 MR. JOSHUA KAPLAN: Thank you. Have you  
11 seen any change in customer preferences or demand for  
12 a woven versus a knit --

13 MS. PACHECO: No, not at all. I'm sorry to  
14 cut you off. Not at all. We actually have seen no  
15 cannibalization. If there has been cannibalization,  
16 it's been very small, and, in addition, it's just kind  
17 of grown the market, in a sense, where it's brought a  
18 few new consumers to the marketplace, but, by far, the  
19 wovens are the bulk of the business.

20 MR. JOSHUA KAPLAN: Thank you. I have  
21 another question. This is pertaining to demand,  
22 looking at perhaps some external factors influencing  
23 demand.

24 Do you believe that rising home heating  
25 costs or heating oil costs in the United States during

1 recent years have had an effect on demand for these  
2 blankets, the woven electric blankets?

3 MR. SETH KAPLAN: Yes. Seth Kaplan, the  
4 Brattle Group. I think there has been kind of a  
5 tension between the income effect of a recession and  
6 the cost-saving effect of trying to use an electric  
7 blanket and substituting for energy costs. I think,  
8 overall, the recession has been a bigger factor, but  
9 economic theory would tell you that there would be  
10 maybe an increase because of the energy costs as well,  
11 but I think it's been swamped by the recession effect  
12 by the decline in income.

13 MR. JOSHUA KAPLAN: It's my understanding  
14 that, based upon advertising that I've seen, that  
15 these blankets are oftentimes viewed as a substitute  
16 to perhaps heating your whole house, you would just  
17 have the blanket on overnight. So based upon that and  
18 the fact that it would cost less to turn on a blanket  
19 than it would to heat your whole house, have you seen  
20 anything following that trend?

21 MS. PACHECO: Yes, we have, and actually we  
22 do a lot of consumer research, and we talk to  
23 consumers who understand that. They understand that  
24 if I turn down my thermostat a little bit, and I turn  
25 on my electric blanket, it's going to keep me warm at

1 night and cost me less.

2 So the recession and the fact that the  
3 heating costs have risen, consumers are getting more  
4 savvy in their selections on what they purchase and  
5 how they keep themselves and their families warm at  
6 night. So we do see that there are more consumers  
7 making a decision based on energy savings costs by  
8 turning down their thermostat at night.

9 MR. JOSHUA KAPLAN: Thank you. My last  
10 question, at this point, is regarding employment.  
11 These are in general terms, of course.

12 There has been some discussion of this, but  
13 perhaps you could reiterate or elaborate upon this  
14 area. Employment levels for your company since the  
15 period we're looking at, January 1, 2006; generally,  
16 how would you characterize them, and, for any changes  
17 that have taken place, do you believe that they are  
18 solely attributable to imports of these woven electric  
19 blankets, or are there possible other factors  
20 involved?

21 MR. SULLIVAN: The employment level has  
22 trended downward. The difficulty with respect to the  
23 employees with regard to how to work them is such that  
24 with the dumping that's taking place, we're having a  
25 very difficult time generating an accurate forecast.

1 We don't know what to make, so, therefore, we really  
2 don't want to build the product, and so the number of  
3 hours that we are working is trending down.

4 Also, we are finding that some of the long-term  
5 employees who we've had to, instead of work them for  
6 basically a full-time job -- it's a part-time job --  
7 they have gone elsewhere because they can't support  
8 their families.

9 MR. JOSHUA KAPLAN: Are there any other  
10 factors that you might be able to identify, or perhaps  
11 this is speculation a little bit, that might be  
12 attributable to these changes in employment, aside  
13 from the allegedly dumped imports?

14 MS. PACHECO: We do attribute it to the  
15 dumped imports. We have lost volume due to the dumped  
16 imports.

17 MR. JOSHUA KAPLAN: Thank you. That  
18 concludes my questions at this time.

19 MR. ASCIENZO: Thank you very much. We turn  
20 to Mr. von Schrilitz, the attorney/advisor.

21 MR. VON SCHRILTZ: Good morning. Thank you  
22 all for coming here and sharing your views on what's  
23 going on in the electric blanket market. I have a few  
24 questions for you. Since so much of the data  
25 surrounding this industry is confidential, feel free

1 to respond to any of my questions in your post-  
2 conference brief.

3 First, I would like to talk a little bit  
4 about the domestic like product, and, in particular,  
5 Mr. Sullivan, you testified earlier that the largest  
6 cost component of your woven electric blankets is the  
7 shell, and you include electric blanket parts within  
8 the scope of your petition but not shells. Why did  
9 you not include fabric shells within the scope of your  
10 petition since it's the largest cost component of your  
11 electric blankets?

12 MR. ALTSCHULER: Well, we'll see if Philippe  
13 Bruno and I agree. You never know. It could be  
14 interesting.

15 When we crafted the scope, of course, we  
16 talked to Jarden a lot, and it was clear that what  
17 they were aiming to capture within the scope was  
18 electric blankets, not blankets, but electric  
19 blankets, in all of their forms, and I think, in  
20 discussions with the Department of Commerce, you'll  
21 see the way the scope finally emerged. That was  
22 really kind of what drove the discussion.  
23 So a blanket, a shell without the wire, wasn't really  
24 what we were aiming at, and then, to take it another  
25 level, what Jarden is really aiming to cover are woven

1 electric blankets, not nonwoven, of which we consider  
2 knitted to be kind of a subset, and certainly not  
3 electric mattress pads.

4 So we tried to define the scope as precisely  
5 as we could while still being sensitive to  
6 possibilities of evasion and circumvention. So those  
7 are the factors that drove us to work with the DOC to  
8 work the scope language that emerged.

9 MR. VON SCHRILTZ: Well, I'm wondering,  
10 since also you talked about how subject import  
11 competition with your product forced one of your  
12 suppliers to close one of their two mills for the  
13 production of these shells, should the Commission  
14 include fabric shells within its definition of the  
15 domestic like product pursuant to its semi-finished  
16 product analysis?

17 MR. ALTSCHULER: No. We don't think so, and  
18 we don't request that.

19 MR. VON SCHRILTZ: Could you please go  
20 through the factors in your post-conference brief for  
21 me?

22 MR. ALTSCHULER: Sure. Absolutely, we will.

23 MR. VON SCHRILTZ: Thank you. Now, with  
24 respect to conditions of competition, I'm wondering if  
25 you could explain the trend in electric blanket demand

1 between 2006 and 2008. To what extent is the trend in  
2 demand explained by the recession? To what extent is  
3 it explained by changing consumer purchasing habits,  
4 maybe substitute products? If you could address that  
5 for me, I would appreciate it.

6 MR. ALTSCHULER: I think Stacie can talk  
7 from her experience.

8 MS. PACHECO: Can you repeat the last part  
9 of your question?

10 MR. VON SCHRILTZ: Sure. I'm wondering, in  
11 your petition, in Exhibit 18, the numbers themselves  
12 are confidential, but there is a trend that's apparent  
13 in electric blanket demand, and I'm wondering if you  
14 could explain the factors that contributed to that  
15 demand trend.

16 MS. PACHECO: From 2006 to 2008, there has  
17 been a decline in demand. It's hard to say if it's  
18 recession based. We haven't really seen evidence of  
19 that, as per my response to Mr. Kaplan's earlier  
20 question about the energy savings tactic. So if the  
21 consumer is savvy enough, they are purchasing the  
22 blankets to replace some heating costs. So it depends  
23 on how savvy really the consumer is, from a recession  
24 standpoint.

25 Again, changing consumer purchasing habits

1 are also a result, we believe, from our research on  
2 whether consumers understand that piece, by turning  
3 down their thermostat and plugging in that blanket.  
4 So it's been falling because of somewhat of the  
5 recession issues, but it's been somewhat stable  
6 despite those recession issues, in that it hasn't  
7 fallen as greatly as you would have expected, given  
8 the retail price points of these products, because  
9 they are not \$10 or \$5; they are an investment,  
10 especially if you have a queen- or king-sized bed.

11 MR. VON SCHRILTZ: Thank you for that  
12 response.

13 You're arguing that subject import  
14 competition has suppressed domestic prices, preventing  
15 you from increasing your prices as much as you would  
16 like to to cover your increased costs. What factors  
17 have driven your increased costs during the period of  
18 investigation?

19 MR. ALTSCHULER: I think we're all agreeing  
20 that we would like to address that in the post-  
21 conference brief.

22 MR. VON SCHRILTZ: Excellent. I would  
23 appreciate that.

24 I was going to ask what explains the trend  
25 in your capacity. I think Mr. Kaplan addressed that a

1 little earlier.

2 Here is a question concerning some of the  
3 market share data. I'm wondering how you would  
4 explain why the market share data for the first  
5 quarter of 2008 differs from the market share data for  
6 full-year 2008. What explains that difference?

7 MR. SETH KAPLAN: The seasonality slide that  
8 I put up earlier shows that the vast majority of sales  
9 are in the second half of the year, and if you  
10 actually look at either the pricing data or the  
11 shipment data in the first quarters, you'll see that  
12 that's where they are building up production but not  
13 shipping very much. You know, it's the odd retailer  
14 that's stocking up on electric blankets in March.  
15 So, in some ways, the full-year data is much better to  
16 look here, and the quarterly data, since it's only the  
17 first quarter, and since shipments are very low, it's  
18 somewhat anomalous, and you'll see that in the  
19 financial data as well, given the pattern of  
20 production and shipments, but I think the full-year  
21 data just speak for themselves, and, further, you have  
22 information about potential shipments later in the  
23 year when you were asked about imports and production  
24 here because of the commitments.

25 So my advice would be to look at the first

1       quarters carefully because of the odd seasonality mix,  
2       and the full years really demonstrate what's going on  
3       because they include both the time when inventories  
4       are being built, and shipments are occurring in the  
5       second half of the year.

6                   MR. VON SCHRILTZ: Thank you for that  
7       response to my question.

8                   Now, I heard pretty markedly different  
9       descriptions of what determines competition in the  
10      market for electric blankets. I heard one of the  
11      Respondents, in her opening statement, claim that it's  
12      really all about quality, that retailers are looking  
13      mostly at value and quality, and price is secondary or  
14      not a very important factor. You're saying that price  
15      has recently become the most important factor.  
16      What are the factors, other than price, that consumers  
17      might consider when choosing between different  
18      electric blankets at a retail store?

19                   MS. PACHECO: I'm sorry. Can you repeat the  
20      second part of that?

21                   MR. VON SCHRILTZ: Yes. I'm wondering what  
22      factors, other than price, would consumers consider  
23      when choosing between electric blankets from different  
24      manufacturers.

25                   MR. SETH KAPLAN: There's kind of two parts

1 to that. The first is the retailer who is purchasing  
2 it who is concerned about the profits from it, and  
3 then there is the ultimate consumer.

4 MR. VON SCHRILTZ: Well, I assume that  
5 retailers would be concerned about the ultimate  
6 consumer when they are choosing among blankets.

7 MR. SETH KAPLAN: They certainly are, and  
8 they are certainly concerned about making a profit as  
9 well, and what's happened is that certainly during the  
10 period of investigation the price competition is at  
11 the forefront, and, as I say, we'll document this  
12 later, but if their allegation was correct that they  
13 have been increasing quality, you should see quality  
14 premiums for their product and rising prices if they  
15 are adding quality to the market, and what you're  
16 seeing instead are enormous dumping margins, head-to-  
17 head competition based on price at these large retail  
18 outlets, and declining prices.

19 So I think that you have two theories of  
20 what's going on. I think the evidence is consistent,  
21 with price being the key factor. Now, that's not to  
22 say these products are, you know, perfect commodities.  
23 This is not a steel ASTM kind of category, but if you  
24 look at what the buyers and the sellers say in  
25 communication, it comes down to price.

1           Given the other factors, certainly the  
2 purchasers seem to have felt they equalize to the  
3 extent that price is the bottom line for them on the  
4 retail side.

5           I'm going to turn it over to Stacie to  
6 discuss the final consumer side.

7           MS. PACHECO: If I understood your question  
8 correctly, you're asking what the other decision  
9 factors are for the consumer when they are at the  
10 shelf -- correct? -- in the retail store.

11          MR. VON SCHRILTZ: Yes, ma'am.

12          MS. PACHECO: Size, color; those are some of  
13 the key decisions. If it's pink, and I've got a brown  
14 room, maybe I don't want the pink, maybe it doesn't  
15 go. But price, and price is going to be at the  
16 threshold on whether they do purchase a category or  
17 not, in terms of the retail price.

18          MR. VON SCHRILTZ: About how many styles of  
19 blankets does Sunbeam produce in a typical year?

20          MS. PACHECO: How many styles?

21          MR. VON SCHRILTZ: Styles, colors, designs.

22          MS. PACHECO: We've got thousands of SKUs,  
23 so I've got to think about how many colors that  
24 actually equates to. There's different sizes,  
25 different colors, so I want to say we have probably 15

1 colors maybe in our assortment every year between  
2 blankets and throws and then obviously four sizes,  
3 including, then, the throws would be the fifth size.

4 MR. VON SCHRILTZ: And do you offer  
5 patterns?

6 MS. PACHECO: Yes, we do, yes. If customers  
7 have specific requests, in terms of the retailers,  
8 have specific requests, for colors, designs, patterns,  
9 prints, we accommodate those.

10 MR. VON SCHRILTZ: You were discussing, Mr.  
11 Sullivan, some of the advantages of your blankets, the  
12 fact that you offer localized control of the heating  
13 element as opposed to the global control. Do you  
14 believe that Sunbeam blankets command a price premium  
15 in the marketplace?

16 MR. SULLIVAN: With all due respect, sir, I  
17 just don't know how to answer that question. I don't  
18 know the answer.

19 MR. ALTSCHULER: Just to remind everyone,  
20 Mr. Sullivan is the engineering manager. He is the  
21 plant production guy.

22 MR. SULLIVAN: Of course. Maybe Ms. Pacheco  
23 would be better.

24 MR. ALTSCHULER: So whatever translates into  
25 a price premium that exists, or should exist, probably

1 is more for Stacie.

2 MS. PACHECO: Could you repeat the question?  
3 Sorry. I was having a sidebar.

4 MR. SETH KAPLAN: Of course. Given some of  
5 the technical advantages of Sunbeam's electric  
6 blankets, I'm wondering if Sunbeam's products command  
7 a premium in the market, or if they used to command a  
8 premium in the market.

9 MS. PACHECO: In terms of the consumer  
10 marketplace? In terms of consumers and how the  
11 consumers perceive it at shelf?

12 MR. VON SCHRILTZ: Sure.

13 MS. PACHECO: Okay. I feel that, in the  
14 last few years, as the recession has hit, and as the  
15 economy has gotten more difficult, I think consumers  
16 are looking for a value, and they are looking for the  
17 best price out there. I believe that we could command  
18 a premium in the past years because there was more  
19 disposable income, and consumers were willing to  
20 invest in that luxury of the electric blanket, but I  
21 think recent years have changed the consumer buying  
22 behaviors and buying patterns, so they are looking for  
23 that value.

24 MR. VON SCHRILTZ: I am wondering, has  
25 consider reports or any other consumer organization

1 ever done a comparative study of electric blankets  
2 from different manufacturers, and if so, what was the  
3 result of their comparison.

4 MS. PACHECO: I've been in this business  
5 since 2003, and I don't recall since at least 2003  
6 that there were any consumer reports or investigations  
7 done on the category.

8 MR. VON SCHRILTZ: I think earlier you were  
9 talking about incentive programs, how the Chinese or  
10 the importers of blankets from China have used  
11 incentive programs to further undercut your prices in  
12 the marketplace. You also mentioned though that such  
13 incentives have always existed to some extent.

14 Is it possible to quantify how much the  
15 incentive programs have increased with subject imports  
16 in the marketplace relative to previous years?

17 MS. PACHECO: We can take a look at that and  
18 provide it in the postconference brief. I wouldn't  
19 know that off the top of my head right now.

20 MR. VON SCHRILTZ: Thank you. That would be  
21 very helpful.

22 Looking at average selling prices, I'm  
23 wondering to what extent did the trend in your average  
24 selling price of 100 percent synthetic electric  
25 blankets on page 18 of the petition result from a

1 change in your product mix?

2 MR. ALTSCHULER: We'll address that in the  
3 brief too.

4 MR. VON SCHRILTZ: Thank you.

5 Now, you've testified that --

6 MR. ALTSCHULER: I'm sorry. Just to make  
7 sure we understand the question.

8 MR. VON SCHRILTZ: Yes, of course. Well,  
9 obviously the problem with average unit value data is  
10 that it's subject to changes in product mix. So while  
11 AVs --

12 MR. ALTSCHULER: Okay.

13 MR. VON SCHRILTZ: -- may go down, it could  
14 be because you're selling a higher proportion of twin  
15 blankets relative to king-sized blankets.

16 MS. PACHECO: Now, we did it by size, so  
17 what we provided in that table you have two examples  
18 of twins and one example of a queen, so it doesn't  
19 factor in or doesn't need to factor in any size  
20 comparisons because those are the absolute values for  
21 those products.

22 MR. VON SCHRILTZ: Right. And what about  
23 blends, the blends are all pretty much the same price?

24 MS. PACHECO: Well, that's why we separated  
25 out the cotton blends versus the 100 percent

1 synthetic.

2 MR. VON SCHRILTZ: Okay.

3 MS. PACHECO: So it should give you the  
4 absolute on each one of them, so we tried to take out  
5 the product mix piece of it.

6 MR. VON SCHRILTZ: I see.

7 MS. PACHECO: Okay.

8 MR. VON SCHRILTZ: All right. Thank you.

9 MS. PACHECO: So again we don't have to  
10 answer that one. Okay.

11 MR. VON SCHRILTZ: No. Sorry that wasn't  
12 obvious to me.

13 Now, in November of each year I understand  
14 you enter into negotiations with your customers for  
15 sales in the following season. Now, how often do your  
16 customers reveal the prices of your competitors during  
17 those negotiations?

18 MS. PACHECO: The process usually starts in  
19 November, and it will go -- depending on the customer,  
20 it can go as late as March, depending on the size of  
21 the customer. It all depends on, I believe, the  
22 tactics that the buyer is going to take in that  
23 negotiation or in that year, so I don't know if I  
24 could tell you a percentage or how often it happens,  
25 but it does happen often, and I would say that most

1 recently, in the last probably two to three years,  
2 it's happened more often than I can remember. Thus,  
3 the focus on price and the incentive program piece. I  
4 mean, that's usually what we go back and forth and  
5 negotiate for many rounds.

6 MR. VON SCHRILTZ: Many rounds negotiating  
7 what?

8 MS. PACHECO: The price and the incentive  
9 programs.

10 MR. VON SCHRILTZ: Thank you.

11 Now another result of the recent economic  
12 downturn has been a tremendous amount of stress on the  
13 retailers. A lot of retailers like -- I can't  
14 remember if it was Linens 'N Things or Bed, Bath and  
15 Beyond, one of those two companies went belly up, and  
16 they just liquidated their stores, and I imagine they  
17 used to sell electric blankets.

18 Have beleaguered retailers become more price  
19 sensitive do you think lately, in 2008 relative to  
20 2006 and 2007?

21 MS. PACHECO: Yes, I believe that they have,  
22 but their retail prices haven't reflected that.  
23 Retail prices have stayed stagnant, have stayed  
24 constant.

25 MR. VON SCHRILTZ: Here is a question you

1 might want to address in your postconference brief.  
2 Looking at the trends in the domestic industry  
3 beginning in period inventories and buy-back for  
4 subsequent resale between 2006 and 2008, I'd like you  
5 to explain the trends for those two factors between  
6 the first quarter of 2008 and the first quarter of  
7 2009.

8 MR. ALTSCHULER: Be glad to do that, thank  
9 you, in the brief.

10 MR. VON SCHRILTZ: Thank you.

11 Also I was wondering if you could explain  
12 why the trend in the domestic industry production  
13 differs from the trend in domestic industry commercial  
14 shipments.

15 MS. PACHECO: Just for those quarters or for  
16 the full years?

17 MR. VON SCHRILTZ: For the full period of  
18 investigation.

19 MS. PACHECO: Okay, so we'll do that as  
20 well.

21 MR. VON SCHRILTZ: Thank you.

22 And finally, I'm wondering if you could  
23 address how the seasonal nature of the electric  
24 blanket market affects producer profitability during  
25 the first half of the year compared to the second half

1 of the year.

2 MS. PACHECO: Can you repeat that one more  
3 time?

4 MR. VON SCHRILTZ: Sure. I'm wondering if  
5 you could explain how the seasonal nature of the  
6 electric blanket market affects your profitability  
7 during the first half of the year relative to the  
8 second half of the year, every year.

9 MR. WRIGHT: Now you know why I'm here.  
10 (Laughter.)

11 MR. WRIGHT: The seasonal nature of our  
12 business is that the production, as they said, the  
13 level load of production we incur all our expenses  
14 fairly evenly through the year, but we don't start to  
15 reap the rewards or the revenue until the second half.

16 MR. VON SCHRILTZ: So just to clarify, the  
17 effect on your profitability of that would be what?  
18 And feel free to address this in your post-conference  
19 brief.

20 MR. WRIGHT: On a broad spectrum the  
21 revenues don't start getting addressed -- don't start  
22 getting recognized on the income statement until the  
23 second half, until the season begins. As several  
24 others have testified, our first two quarters are  
25 basically, I think Mr. Kaplan said it, it's a rare

1 retailer who is buying electric blankets in March.

2 MR. VON SCHRILTZ: Okay, thank you for that  
3 response. I have no further questions at this time.

4 MR. ASCIENZO: Thank you very much, and we  
5 turn to Ms. Preece, the economist.

6 MS. PREECE: Thank you. I guess I have a  
7 couple of bookkeeping questions first. For the graphs  
8 we were given, I don't understand what the units are.  
9 When they say units, it's not clear to me what it is.  
10 It's just units, so if you could-- I don't need it.

11 MR. KAPLAN: The graphs were meant to be  
12 indicative of the trends, so I pulled the units away,  
13 but they were individual units, number of blankets.

14 MS. PREECE: The imports, isn't that data  
15 available, the import data?

16 MR. KAPLAN: It is, and I'll be happy to  
17 provide it but my point was the category was  
18 indicative of the product in question which we don't  
19 have data for, so rather than concentrate on numbers  
20 for a broader category I removed them so you could  
21 concentrate on the trends, but I'll be happy to  
22 provide them in the post-conference.

23 MS. PREECE: When I don't know what the  
24 numbers are, I'm always very suspicious because I  
25 always think, well, that could be from one to 25

1 coming into the country.

2 MR. KAPLAN: No, it starts at zero, zero, so  
3 it goes from zero to whatever so there is no --

4 MS. PREECE: Yes, but that doesn't that's  
5 still --

6 MR. KAPLAN: I'll be happy to provide it.

7 MS. PREECE: Yeah.

8 MR. ALTSCHULER: We want to allay any  
9 suspicions so we will ask Dr. Kaplan to provide those  
10 numbers.

11 MS. PREECE: Please, please.

12 MR. KAPLAN: Excuse my voice. I have a  
13 cold.

14 MS. PREECE: Please. I'm an economist and  
15 whenever I have a graph that doesn't have a well-  
16 labeled axis I become very suspicious.

17 MS. PACHECO: And because we had estimated  
18 out 2009, I had asked them to keep that confidential  
19 and keep that out of this setting because obviously  
20 that's based on our internal data, but we'll definite  
21 provide that in the postconference brief.

22 MS. PREECE: Great, thanks. It's just as an  
23 economist I become very unhappy about this.

24 I'd like to learn a little bit more about  
25 demand. It seems like you've done research on demand.

1 Is it regional? Is demand regional? Are there  
2 certain regions of the country where there is a lot  
3 more demand for electric blankets? Are there typical  
4 types of households that buy this? Income levels that  
5 buy this? Can you give me anything more?  
6 Particularly I'd love to have a little bit of public  
7 stuff. Who is buying this stuff?

8 MS. PACHECO: Yes. The public piece is what  
9 makes me a little nervous because it is proprietary  
10 research that we conduct, but I can give you a little  
11 bit of flavor and we can give you more color in the  
12 postconference brief.

13 In terms of regional demand, obviously when  
14 you look at electric heated blanket it's going to be  
15 in the areas of the country where you would expect it  
16 to be in terms of the demand and the need for those  
17 types of products.

18 I live in the Miami area. Not a lot are  
19 being sold in Miami, I can tell you that much. But as  
20 you get into say northern Florida where you have, when  
21 you're asking about households, when you get into  
22 households that might have a little less -- they don't  
23 want to put on their thermostat, maybe they're not  
24 insulated as well, those are some of the types of  
25 anomalies that come into play in terms of selling

1 these types of products or consumers purchasing those  
2 types of products.

3 MS. PREECE: Is there some kind of age  
4 distribution? Is this something that people become  
5 more sensitive to temperatures when they get older so  
6 they want -- more likely to buy electric blankets?

7 MS. PACHECO: No, not necessarily, and we  
8 can give you a breakout of the consumer demographics  
9 and also show you a shift over the last three years  
10 and what's happened with the demographics, and also  
11 based on our research the trends for purchasing as  
12 well as the reasons for purchasing.

13 MS. PREECE: Okay.

14 MS. PACHECO: We've got all that in recent  
15 research.

16 MS. PREECE: And also income.

17 MS. PACHECO: Sure, income.

18 MS. PREECE: Okay. Okay.

19 MS. PACHECO: We have that as well.

20 MS. PREECE: Okay. Yeah, I'm not surprised  
21 there is the kind of regional anomaly because I've  
22 lived in places like Australia where it gets cold a  
23 couple days a year and the electric blanket would make  
24 a lot of sense rather than insulating a house.

25 We've talked about electric, woven electric

1 blankets, we've talked a little bit about knitted  
2 electric blankets, and the non-woven electric blankets  
3 which is something separate, and then we've had  
4 mentioned electric mattress pads. Do you make  
5 electric mattress pads?

6 MS. PACHECO: Yes, we do. We import those  
7 in and we package them out in the U.S.

8 MS. PREECE: So you import them and you  
9 package them in the U.S. and now different is an  
10 electric mattress pad from a woven electric blanket or  
11 these other things that aren't woven electric blankets  
12 but are heating?

13 MS. PACHECO: Sure. Sure. Similar to my  
14 explanation on the non-wovens or knits from the  
15 production standpoint, it's different production  
16 processes as well as different equipment, and which we  
17 don't have either one of those in our facility in the  
18 U.S. So we would have to do some modifications in  
19 order to accommodate those products.

20 In addition, another anomaly about those two  
21 categories is that we often deal with different buyers  
22 at the retailers between the electric mattress pads  
23 versus the electric blankets and the electric throws.  
24 So we are even speaking to different groups of people  
25 who specialize in something that's fitted to the

1 mattress versus something that goes over a top of the  
2 bed or over the top of the sheet. So those are a  
3 couple of differences.

4 MS. PREECE: And is there a difference in  
5 the people who are buying these products, the ultimate  
6 consumers?

7 MS. PACHECO: We see usually younger  
8 demographic buying them, but it's a very small portion  
9 of our overall sales, very small. The bulk of our  
10 business is done in the woven electric blankets, and  
11 the bulk of what consumers are looking for and  
12 purchasing are in the woven electric blankets.

13 MS. PREECE: Okay, I'd like to, in your  
14 briefs if you can give us any more information about  
15 that as well, it would be really helpful.

16 MS. PACHECO: In terms of the consumer  
17 piece?

18 MS. PREECE: Just who's buying it, where  
19 it's going, what channels.

20 MS. PACHECO: Sure.

21 MS. PREECE: It seems like we have four  
22 categories, they are very similar in that they are  
23 electric heating bed elements, and that would be the  
24 woven electric blankets, which you include; then there  
25 is the knitted electric blankets and the non-woven

1 electric blankets which are different from this; and  
2 then these heating mattress pads, which all are -- if  
3 you go to bed, they're going to be similar. they're  
4 going to have a similar impact. So I think I want to  
5 look at that whole range of products, any information  
6 about that range so we can -- the Commission is going  
7 to have to make a decision about how the divine these  
8 things.

9 MS. PACHECO: Okay, sure, and we don't feel  
10 that they're similar, and we will lay that out for you  
11 in the postconference brief.

12 MS. PREECE: It would be very helpful.

13 MS. PACHECO: No problem.

14 MS. PREECE: To the extent you can publicly  
15 explain this, I want to know how you set prices,  
16 assuming there is no Chinese in the market, let's say  
17 this is 2003, so there is basically -- no, 2000, that  
18 was the year there was basically nothing.

19 In 2002, how did you set prices for your  
20 electric blankets?

21 MS. PACHECO: That was prior to when I was  
22 in the business, but we follow a similar process over  
23 the years and I've been at the company for 11 years.  
24 So we start with base pricing and include program. So  
25 it's base plus program.

1 MS. PREECE: Base pricing then is a price  
2 list?

3 MS. PACHECO: We do have a price list, yes.  
4 It's off of a price list, but we establish that price  
5 list off of base pricing plus program. So we start  
6 with a minimum, a minimum price that we need to have  
7 out there in the marketplace or that we're going to  
8 give to the retailers in order to cover all our costs,  
9 all our overhead, all our expenses, everything.

10 MS. PREECE: So is that a cost plus method?

11 MS. PACHECO: Yes. I knew I was going to  
12 say the wrong accounting word. I'm looking at my  
13 accountant.

14 MS. PREECE: So you basically say the cost  
15 plus X percent or --

16 MS. PACHECO: Yes, cost plus program.

17 MS. PREECE: -- X number of dollars. Okay.

18 MS. PACHECO: Yes.

19 MS. PREECE: So that's be how you would set  
20 it assuming there was no Chinese in the market.

21 MS. PACHECO: Correct.

22 MS. PREECE: That creates a different thing.

23 MS. PACHECO: Correct.

24 MS. PREECE: Okay.

25 MR. KAPLAN: But then there is the

1 negotiation.

2 MS. PREECE: Obviously.

3 MR. KAPLAN: Yes, okay.

4 MS. PREECE: Obviously, but it's going to be  
5 a big difference. if there is no Chinese in the  
6 market, each year it's going to change differently.

7 Okay, discount policy. What are mark-down  
8 dollars?

9 MS. PACHECO: Mark-down dollars is usually  
10 something that you will give an account, and you will  
11 agree upon it early in your line review process, but  
12 you give the account at the end of the year to a  
13 certain amount in order to help them liquidate their  
14 end-of-season goods. So if, for example, you have a  
15 bad economy and you're expecting to sell 1,000  
16 blankets, and the foot traffic is not there, consumers  
17 aren't buying them, you only sell 500.

18 It is now March 1st and you need to get  
19 beach towels in, or fans or whatever the counter-  
20 seasonal products are, and you give them mark-down  
21 dollars to help them sell them at 50 percent off, 75  
22 percent off, whatever. So it's covering their margin  
23 dollars and you're giving them those funds to help  
24 them liquidate those goods in the store.

25 If we take those goods back, they're going

1 to sit in inventory.

2 MS. PREECE: Okay. So when you go to make  
3 an agreement with, I don't know, let's say XYZ  
4 Corporation, they'll say, okay, we want to discuss  
5 with you mark-down dollars. Do you agree on a certain  
6 percent that would allow them -- you would cut the  
7 base price for them to make these discounts? Do you  
8 discuss the percent of the product that they could do  
9 this on? What's going on?

10 MS. PACHECO: Right. It's kind of all the  
11 above. It all depends on the retailers and it depends  
12 on what the Chinese importers have come in with in  
13 terms of incentive programs that we have to meet.

14 In the past, prior to it being so  
15 competitive with the Chinese imports, there was, you  
16 know, negotiations held early on and it was usually  
17 around a percentage. You sell through X percent, and  
18 if you still have a percentage that's left on your  
19 shelves, there is an agreement that either we'll give  
20 you mark-down dollars or we'll take returns back, and  
21 it's again dependent on the retailer and what they're  
22 trying to achieve, and as a team, as partners in  
23 having a successful season what we want to help them  
24 with, you know, based on the future as well.

25 So there is not a set formula for it. It

1 really depends on the circumstance.

2 MS. PREECE: Okay. In the brief can you  
3 give detailed --

4 MS. PACHECO: Concrete examples?

5 MS. PREECE: Examples, yes, of what mark-  
6 down dollars program might be for specific--

7 MS. PACHECO: Sure.

8 MS. PREECE: -- company, and kind of ranges  
9 that they might be in.

10 MS. PACHECO: Okay. Yes. Absolutely.

11 MS. PREECE: Now I think I have a good idea  
12 of safety stock so I won't go into that. The buy-back  
13 returns, can I have a little more detail on that?

14 You talked about a percentage of buy-backs.  
15 I mean, do you typically say, okay, we'll give you  
16 mark-down dollars for everything that's left or buy-  
17 backs for everything that's left, or are you saying,  
18 okay, we'll give it for 20 percent of what we sell to  
19 you? I don't understand that.

20 MS. PACHECO: Sure.

21 MS. PREECE: It's not clear to me.

22 MS. PACHECO: It's usually on a percentage  
23 base. So we'll say 10 percent of what's left, or what  
24 was originally bought I should say, so if they have a  
25 90 percent sell-through, or if they only have an 85

1 percent sell-through, but we agreed to the 90 percent,  
2 we'll give them 10 percent of the dollars, so 5  
3 percent they need to fund themselves in the case of  
4 mark-down dollars.

5 It's usually mark-down dollars or buy-backs.  
6 We'll do one or the other. We normally don't do both.  
7 Or there is pieces of the program we may do both, but  
8 for the most part it's one or the other, so either we  
9 give you money, you liquidate it, or we take it back  
10 and hopefully they will take it back the next season.

11 MS. PREECE: So with buy-back returns  
12 basically it's going into inventory?

13 MS. PACHECO: Yes. If we took it back, it  
14 would go back into our inventory, and then we have  
15 inventory carrying costs along with that.

16 MS. PREECE: And then next year you sell the  
17 blankets to somebody else or --

18 MS. PACHECO: Or that same retailer.

19 MS. PACHECO: Okay.

20 MS. PACHECO: It depends if we were able to  
21 keep that retailer, and that we agree on them taking  
22 back the same type of product, then we'll repackage it  
23 for them and sell it back to them, or we'll sell it to  
24 other retailers in the form of what we call excess and  
25 obsolete.

1 MS. PREECE: Okay, excess and obsolete, can  
2 I get some details about what that is?

3 MS. PACHECO: Those are goods that are  
4 leftover, that we don't have a home for, so there are  
5 third-party distributors in the marketplace that sell  
6 to places like Big Lots, Family Dollar, Dollar  
7 General, people like that that will buy the remnant  
8 inventory directly from a manufacturer.

9 MS. PACHECO: And so they are the ones who  
10 are going to be selling electric blankets in March?

11 MS. PACHECO: We wish they would buy them  
12 from us in March, but they want them in the wintertime  
13 too, unfortunately, so we're still holding onto them  
14 for six months.

15 MS. PREECE: Okay. Okay. Well, that's been  
16 very helpful. Thank you so much. That really does.

17 Cooperative advertising, is that something  
18 you were talking about?

19 MS. PACHECO: Yes.

20 MS. PREECE: Okay, can you give a little  
21 background as to what that is?

22 MS. PACHECO: Cooperative advertising costs  
23 are funds that most retailers -- I mean, this is a  
24 practice that retailers have engaged in for -- we were  
25 talking about it the other day, Irwin's father owned a

1 store or something in the -- what sixties?

2 MR. VON SCHRILTZ: Fifties.

3 MS. PACHECO: Fifties, so they've been doing  
4 it for decades, asking for manufacturers to support  
5 any advertising that they're doing on your category.  
6 So it's a percentage base usually. They'll ask for a  
7 certain percentage of funds based on your total buy to  
8 help them fund the ads that you see in Sunday,  
9 anything you see on TV, the radio, things like that or  
10 even in-store promotions, so we help fund that.

11 MS. PREECE: And basically you fund -- if  
12 they say, okay, we're going to spend \$1,000, I want  
13 you to fund 10 percent of that, or are they saying --  
14 how is that working?

15 MS. PACHECO: It's usually -- from us  
16 retailers, there is a certain percentage that's  
17 expected. It's kind of written -- any business that  
18 we deal with if we're dealing with retailer X, we know  
19 that whether we're selling toaster, or blankets, or  
20 fans, or whatever it is, that we're going to have a  
21 certain amount of funds that we need to factor in to  
22 give them for trade spending -- for advertising,  
23 sorry.

24 MS. PREECE: And that's a percentage of  
25 their?

1 MS. PACHECO: It's a percentage. It's  
2 usually a percentage base, yes, and it's kind of a  
3 well-known fact. Sometimes they will negotiate that  
4 up a bit.

5 MS. PREECE: Okay. Are there any other  
6 promotion details that you could -- that are used with  
7 these electric blankets that you can just basically  
8 list or outline?

9 MS. PACHECO: Sure, we can put those in the  
10 postconference brief; some other practices.  
11 Absolutely.

12 MS. PREECE: These kind of retail things are  
13 very complex.

14 MS. PACHECO: Yes.

15 MS. PREECE: And it's very helpful to be  
16 able to get the information out there, and people  
17 don't know, and we're basically dealing with things we  
18 don't know very well, so we need to get that kind of  
19 information.

20 MS. PACHECO: Sure. We can also give you  
21 examples of some newer tactics taken that were new to  
22 us too.

23 MS. PREECE: That would be very helpful.

24 MS. PACHECO: We will definitely share those  
25 with you as well.

1 MS. PREECE: Yes, yes, and any differences  
2 between what you see you've done and how they've  
3 changed in --

4 MS. PACHECO: Yes.

5 MS. PREECE: -- the last three years really  
6 would be helpful.

7 MS. PACHECO: Definitely.

8 MS. PREECE: So if you could say, oh, we've  
9 had to change the advertising co-op funds --

10 MS. PACHECO: Sure.

11 MR. ASCIENZO: -- 10 percent of something or  
12 other to 20 percent, anything like that, that would be  
13 really helpful to sort of flesh out what's going on  
14 with this thing.

15 MS. PACHECO: Absolutely.

16 MS. PREECE: Do you sell on multiyear  
17 contracts?

18 MS. PACHECO: Very rarely. Usually, there  
19 is a lot of discussion with us trying to explain a  
20 contract. "Contract," from a legal aspect, is just a  
21 PO. That's really the only thing we get that's  
22 binding, and that comes just a couple of months, at  
23 earliest, prior to the season starting, in terms of  
24 the sales, but there's agreements, there's vendor  
25 agreements, but not necessarily binding vendor

1 agreements.

2 MS. PREECE: Okay. If you could sort of  
3 give in the briefings the details of those, that would  
4 be really helpful, and any changes that have occurred  
5 would be really helpful.

6 What changes in costs for raw materials have  
7 you faced in the last three years?

8 MS. PACHECO: We'll cover that in the brief.

9 MS. PREECE: Okay, okay. Changes in demand  
10 since 2006 and your forecast for the next few years;  
11 can you go into that just a little bit publicly?

12 MS. PACHECO: Sure.

13 MS. PREECE: First publicly a little bit and  
14 then --

15 MS. PACHECO: Sure. I talked about it a  
16 little bit in terms of it's been somewhat fluctuating.  
17 There has been somewhat of a downward decline, but we  
18 see some stabilization going on, so we can give you  
19 more detail in that.

20 MS. PREECE: And the future?

21 MS. PACHECO: Our predictions?

22 MS. PREECE: Yes.

23 MS. PACHECO: Sure, sure. We can put that  
24 in there.

25 MS. PREECE: Are there any other sort of

1 factors that you could sort of say, "Oh, these are  
2 related to sales of these woven electric blankets,  
3 such as housing starts, sales of bedroom furniture,  
4 temperatures"?

5 MS. PACHECO: The only piece I can add to  
6 that and give you more color is probably weather  
7 predictions and weather forecasts where we do purchase  
8 and work with a weather-forecasting data company  
9 called Planalytics, and they do give us an annual  
10 prediction of what the weather is going to be on a  
11 regional basis. So we do factor that into our  
12 forecasting. It's only an element of it; it's not an  
13 overwhelming majority of where we put the goods or how  
14 many goods we put out there on the market, but it is  
15 weather based.

16 MS. PREECE: Would it be 10 percent sort of  
17 related to this kind of weather based, or would it be  
18 more than that or less than that?

19 MS. PACHECO: It's difficult to quantify  
20 because it depends on the retailer and how much they  
21 want to include it into their forecasting.

22 MS. PREECE: Okay.

23 MS. PACHECO: Some rely on it more heavily  
24 than others.

25 MS. PREECE: So you would go to the

1 retailer, and you would say, "We have these forecasts  
2 about weather, and we think that, given these  
3 forecasts about weather, your region is going to have  
4 higher demand than usual for electric blankets."

5 MS. PACHECO: Sure. We make  
6 recommendations, yes, based on that data.

7 MS. PREECE: Okay, okay, but there is  
8 nothing else that you know of that you sort of sit  
9 there, and you say, "Oh, there have been a lot of  
10 housing starts, so people are going to be --"

11 MS. PACHECO: No. We haven't looked at  
12 housing starts. Like I said earlier, we do a lot of  
13 consumer research, so I can give you some more of that  
14 information in the post-conference brief, not really  
15 looking at housing starts, maybe just the overall  
16 impact of the recession, the economy, you know, foot  
17 traffic, where they are shopping, and their buying  
18 patterns and behaviors.

19 MS. PREECE: Okay, okay. More information  
20 would be very helpful.

21 MS. PACHECO: Okay.

22 MS. PREECE: You've talked about the  
23 seasonality of demand. What are the months that  
24 people buy electric blankets?

25 MS. PACHECO: The stores are usually set

1 with the product in late August, early September, so  
2 from September until the time they take them off the  
3 shelves, which most retailers want to take it off the  
4 shelf about February-March time period, so within  
5 those months in between, for about a six-month period.

6 MS. PREECE: And would it be mostly in  
7 December?

8 MS. PACHECO: Mostly in December. November  
9 and December is the height of it. There is a lot of  
10 gift giving associated with this product category.

11 MS. PREECE: How much would you say would be  
12 gifts?

13 MS. PACHECO: I can give that to you in the  
14 post-conference brief.

15 MS. PREECE: That would be great.

16 MS. PACHECO: That's part of our data.

17 MS. PREECE: Sure, sure. And the Chinese  
18 follow the same pattern, you would believe.

19 MS. PACHECO: I would believe that they  
20 would follow the same pattern, yes, especially the  
21 seasonality of the business, without a doubt.

22 MS. PREECE: Okay. We've talked about some  
23 products that may be substitutes for woven electric  
24 blankets: knitted ones, nonwoven electric blankets,  
25 regular blankets, comforters, other bedding. I wear

1 wool socks when I go to bed, and it's cold.

2 Do the changes in prices of these affect the  
3 demand for woven blankets, woven electric blankets?

4 MS. PACHECO: I don't believe so. I don't  
5 think we've ever really spent a lot of time  
6 researching that. Our company also makes space  
7 heaters. That could be considered, I guess, a  
8 substitution, like you said wool socks. We haven't  
9 seen evidence of that.

10 MS. PREECE: Okay. Well, if you have any  
11 information about any substitutes, it would be useful  
12 to go into that.

13 Are there any differences, besides price?  
14 We've talked a little bit about quality, the U.S.  
15 versus China, but any other nonprice differences, like  
16 delivery time, service, anything like that that is, in  
17 any way, relevant in looking at the sales of these  
18 products?

19 MS. PACHECO: We would hope that our  
20 flexibility and the fact that we are here in the U.S.  
21 producing would be relevant, and has been very  
22 relevant in the past, but recent conversations over  
23 the last two years have all been price focused, price  
24 and incentive program focused.

25 MS. PREECE: That's another thing that makes

1 the incentive program so interesting is because there  
2 seems to be a substitute for price or a correlation  
3 with price. So to the extent we can get as much  
4 information and understanding of those incentive  
5 programs would be very helpful to us.

6 Okay. How long do these electric blankets  
7 last?

8 MS. PACHECO: Well, they can last forever,  
9 especially if you ask our Waynesboro engineer here,  
10 but the average life cycle of an electric blanket, we  
11 can also provide that in our information. Again,  
12 that's proprietary research, and we do have that as  
13 well.

14 MS. PREECE: Okay.

15 MS. PACHECO: We can provide that.

16 MS. PREECE: And if you have any information  
17 about whether Chinese lasts equally well, that will be  
18 useful.

19 MS. PACHECO: Okay.

20 MS. PREECE: I think that's the end of my  
21 questions, fortunately.

22 MS. PACHECO: Thank you.

23 MS. PREECE: Thank you.

24 MR. ASCIENZO: Thank you very much. We turn  
25 to Mr. Boyland, the auditor.

1                   MR. BOYLAND: Good morning. Thank you for  
2 your testimony, and I think Karl and Amelia have asked  
3 most of the questions I was going to ask, but there  
4 are a few additional questions, sort of sticking with  
5 the program incentives, which we've sort of already  
6 discussed.

7                   I think my main concern is to determine the  
8 extent to which these are reflected in the financial  
9 statements. So I would, I guess, as a general matter,  
10 when I look at the income statement, the information  
11 that was submitted, should I take it that all of the  
12 program incentives are reflected in the income  
13 statement in some form?

14                  MR. WRIGHT: In some --

15                  MR. BOYLAND: In other words, as an actual  
16 expense or as an accrual against revenue.

17                  MR. WRIGHT: Yes. Anything on the income  
18 statement is either income or expense. Some of them  
19 become expenses as they are reserved up, yes.

20                  MR. BOYLAND: Okay. For my purposes, it  
21 would be very helpful for each period because I take  
22 it that program incentives have changed in terms of  
23 the magnitude, that, over time, if I look at '06  
24 versus '08, the program incentives are clearly larger,  
25 but I don't know how large because there is no

1 separate breakout. Would it be possible, in your  
2 brief, to give me an outline? The basic program  
3 incentives you've listed are volume rebates, safety  
4 stock, marked-down dollars, returns, buybacks, and the  
5 cooperative advertising.

6 MR. WRIGHT: Yes.

7 MR. BOYLAND: I think it would be very  
8 helpful for me and the commissioners if we could see,  
9 for each period, how these have changed.

10 MR. WRIGHT: We have the detailed breakout  
11 and can provide that in the post-conference brief --

12 MR. BOYLAND: That would be very helpful.

13 MR. WRIGHT: -- and the safety stock  
14 wouldn't be considered one of the programs. Safety  
15 stock is an inventory-hold issue.

16 MR. BOYLAND: Actually, Amelia said she  
17 understood this. I didn't quite, but I know what  
18 "safety stock," in general, means, but for your  
19 purposes, does it mean essentially you're holding X  
20 percent of what a customer has said they are going to  
21 purchase?

22 MR. WRIGHT: Safety stock is when a  
23 manufacturer provides or holds on their balance sheet  
24 additional inventory for unexpected or unusual demand  
25 to be better prepared to service the customer as

1 demand --

2 MS. PACHECO: Because there is so much  
3 fluctuation during the season, and forecasts are only  
4 so good when you're talking about a seasonal-demand  
5 product. So if the sales exceed the forecasts, a lot  
6 of retailers would like assurances that you have  
7 excess inventory to supply them so their shelves are  
8 not empty.

9 It's not something we practice because we  
10 assemble to order, and we're right here in the U.S. so  
11 we can manufacture as needed. So it's a practice that  
12 is done by the Chinese importers, and I'm not sure if  
13 it was introduced by them or the retailers, but it's  
14 something we're often asked for. We don't do that.

15 MR. BOYLAND: Okay. So just to clarify,  
16 it's something that is part of the negotiations --

17 MS. PACHECO: Correct.

18 MR. BOYLAND: -- but traditionally it's not  
19 on the table.

20 MS. PACHECO: We don't need to do it.

21 MR. BOYLAND: Okay.

22 MS. PACHECO: We assemble the order. There  
23 is no need.

24 MR. BOYLAND: Okay. This is sort of another  
25 question that I believe Karl brought up: product mix.

1 As you correctly noted, if you have comparisons, and  
2 there is no real issue in terms of product mix because  
3 there is a direct comparison, the problem with the  
4 financials is I'm looking at an aggregate number, and  
5 what I would like to know is, when I look at the  
6 aggregate, was there a product mix change in total?

7 MS. PACHECO: Sure. We have that  
8 information as well, and we could provide that in the  
9 post-conference brief. We could show you, for each  
10 year -- '06, '07, '08 -- what the mix was by blend  
11 type, as well as by size.

12 MR. BOYLAND: Could you just characterize it  
13 in general?

14 MS. PACHECO: It's pretty stable.

15 MR. BOYLAND: Okay.

16 MS. PACHECO: It's pretty stable. It's not  
17 much variance from year to year.

18 MR. BOYLAND: So from my standpoint, when I  
19 unitize the values, and I see a decline in average  
20 value or a change, it's not attributable primarily to  
21 product mix but, you know, the base price changing or  
22 the program incentives.

23 MS. PACHECO: Not in terms of blend or size,  
24 but what it could be attributed to is customer mix.

25 MR. BOYLAND: Customer mix.

1 MS. PACHECO: Yes, because with loss of some  
2 customer, obviously, then things shift. So if you  
3 have more premium products at certain accounts versus  
4 more core products at other accounts, and that mix  
5 shifts, or you lose some of those customers, that's  
6 going to shift your overall AUBs, I believe you call  
7 them.

8 MR. BOYLAND: Fair enough, okay. I'm kind  
9 of skipping around here.

10 The producer questionnaire provided  
11 information on capital expenditures and R&D, and I  
12 know you've sort of given some testimony generally  
13 relating to R&D. Could you characterize, now or in a  
14 post-hearing brief, for Table 3-13 and with respect to  
15 the capital expenditures you did report, what those  
16 actually were for?

17 MS. PACHECO: Yes. We'll definitely give  
18 you those in the post-conference brief, yes.

19 MR. BOYLAND: Additionally, the R&D  
20 expenses; if you could provide a narrative of what  
21 those represent.

22 MS. PACHECO: Sure, no problem.

23 MR. ALTSCHULER: So far, I have not tempered  
24 Ms. Pacheco's interest in providing additional  
25 information by telling her that all of this is due on

1 Friday. So for the sake of disclosure, I probably  
2 should tell her that. We're going to do our best. I  
3 see our list is growing.

4 MR. BOYLAND: I appreciate that, and I  
5 actually wanted to step back for a second because I  
6 did talk to your attorneys earlier regarding just sort  
7 of supplemental information that I think the income  
8 statement is going to need for it to be more  
9 meaningful for us, and that's related to the returns,  
10 but I think, essentially, it's related to the whole  
11 program incentive, so I think I'm kind of broadening  
12 what I was originally interested in.

13 Additionally, with respect to the capital  
14 expenditures, you, I think, noted that a hold was put  
15 on projects. If you could, now or in a post-hearing,  
16 describe what projects were planned?

17 MS. PACHECO: Right. Just to give you a  
18 brief explanation on that, we've, obviously, put on  
19 hold some R&D investments, so when we were looking to  
20 further advance our technology and advance our  
21 products, we had to put those projects on hold because  
22 we just can't fund them, given where we are from a  
23 pricing standpoint and where we are from a  
24 profitability standpoint, and we could give you some  
25 examples of those projects in the post-conference

1 brief, too.

2 MR. BOYLAND: Should I take that to mean  
3 that, essentially, it is mainly R&D expenses that were  
4 put on hold, not capital expenditures, per se?

5 MR. SULLIVAN: We can clarify in the brief  
6 that there were a couple of capital projects that we  
7 didn't do.

8 MR. BOYLAND: Okay.

9 MS. PACHECO: Yes.

10 MR. ALTSCHULER: More than that, I don't  
11 think we want to say here, but we can put it in the  
12 brief.

13 MR. BOYLAND: Yes. I think that would be  
14 helpful. In addition to the cost information, which  
15 we've requested a breakdown of the raw material,  
16 direct labor, and overhead components which were not  
17 originally reported in the income statement, that's  
18 information that is pretty important, but, in addition  
19 to that, the breakouts of the primary components that  
20 make up those parts, which I think gets to what Josh  
21 was originally asking with respect to what makes up  
22 the cost of the woven electric blanket, if you could,  
23 in conjunction with the information you're going to  
24 provide to Josh, if you could tie that back to the raw  
25 material, direct labor, and overhead information that

1 you're providing in the income statement, I think that  
2 would be very helpful, and it would kill two birds  
3 with one stone.

4 In addition to that, I would like to know  
5 what percentage of those costs are fixed, what are  
6 variable. The components are pretty clear. Raw  
7 material, I'm assuming, is a variable; direct labor,  
8 based on the description, variable. The overhead  
9 component would be very useful to know, what parts of  
10 that are fixed and variable, and how your costs have  
11 been affected by lower capacity utilization. So it's  
12 kind of a big, long-winded question.

13 Actually, just sort of stepping back, big  
14 picture, the parent company of Jarden is Jarden  
15 Corporation. It's Jarden Consumer Products. Is that  
16 the business entity?

17 MS. PACHECO: Our strategic business unit is  
18 Jarden Consumer Solutions, and our parent, our holding  
19 company, is Jarden Corporation.

20 MR. BOYLAND: Jarden Corporation. Based on  
21 my basically just research, it doesn't appear that  
22 it's a public company.

23 MS. PACHECO: Yes, we are. JAH is our  
24 symbol on the New York Stock Exchange.

25 MR. BOYLAND: And you file with the SEC.

1 MS. PACHECO: Yes, Jarden does.

2 MR. BOYLAND: Okay. And the strategic  
3 business entity that's basically recognized in the  
4 sales that we're looking at is Jarden Consumer  
5 Solutions, and the financials there would include  
6 essentially everything. Is there another business  
7 unit out there, or is essentially Jarden Consumer  
8 Solutions, is that it, or are there multiple?

9 MR. WRIGHT: As far as the topic of woven  
10 electric blankets, Jarden Consumer Solutions is the  
11 only business within Jarden that recognizes any profit  
12 or expense.

13 Okay. Mr. Kaplan has suggested there are  
14 other companies outside of Jarden Consumer Solutions  
15 that are part of the Jarden Holding Company, but, as I  
16 stated, none of those recognize anything on the topic  
17 of woven electric blankets.

18 MR. BOYLAND: So essentially the business  
19 entity that I'm most concerned about is Jarden  
20 Consumer Solutions.

21 MR. WRIGHT: Jarden Consumer Solutions.

22 MR. BOYLAND: As a ball park, what  
23 percentage of that business unit's sales are woven  
24 electric blankets?

25 MR. WRIGHT: Could we provide that in the

1 post-conference brief?

2 MS. PACHECO: Yes. Jarden Corporation would  
3 have a problem if we mentioned that here.

4 MR. BOYLAND: And this sort of gets to a  
5 question that Karl brought up about the interim data  
6 and essentially its meaningfulness. In terms of  
7 recognizing revenue, costs are recognized as they are  
8 incurred. Essentially, we're only looking at the  
9 first quarter of '09. I guess, from my standpoint, is  
10 there anything you would want us to be particularly  
11 aware of, or a way of interpreting the interim data,  
12 that is not evident?

13 From my standpoint, it's probably a number  
14 that we probably need a full year's worth of data to  
15 really -- is that a fair characterization?

16 MR. WRIGHT: Yes. Particularly, in one of  
17 the questionnaires, we did a comparison of Quarter 1  
18 from '08 to '09. The first quarter is not indicative  
19 of the health of the overall year of the business.  
20 You have to see it -- I think it's been stated, and  
21 you yourself said it -- you have to see the full  
22 year's profitability.

23 MR. BOYLAND: I would rather have the  
24 company say that as opposed to me interpreting it.

25 MR. WRIGHT: Sure.

1           MR. BOYLAND: During the period in '08, was  
2 there an inventory write-off or lower cost to market,  
3 any adjustments?

4           MR. WRIGHT: Post-conference brief, please.

5           MR. BOYLAND: Okay. Sure. With respect to  
6 the benefits, the direct labor that you're going to be  
7 reporting a line item for, one question I had would be  
8 the extent to which the benefits that you referred to  
9 that are important to the workers; are those  
10 reflected, or are they going to be reflected, in the  
11 direct labor part, or should I be looking at overhead  
12 as that?

13          MR. WRIGHT: Overhead.

14          MR. BOYLAND: Overhead. Okay. I apologize  
15 for the long list of questions and the follow-up  
16 required, but I think it will really benefit the  
17 report. Thank you for your time.

18          MR. WRIGHT: We appreciate the need for the  
19 information.

20          MR. ASCIENZO: Thank you, Mr. Boyland, and  
21 we turn to Heidi Colbe, the industry analyst.

22          MS. COLBE: Thank you. I will be very, very  
23 brief before people start shooting darts at me.

24                 I had a question about the controller  
25 because it's the second-largest component of the

1 electric blanket. Do you make those in Waynesboro or  
2 no?

3 MR. SULLIVAN: We do not make controllers in  
4 Waynesboro.

5 MS. COLBE: So you purchase those or import  
6 those.

7 MR. SULLIVAN: Yes, we do.

8 MS. COLBE: Okay. In terms of the control  
9 options, then, I don't know what's out there because I  
10 haven't purchased an electric blanket, but do you have  
11 wireless? I saw the dial control. Is there digital?  
12 I guess, what is the range of the options in terms of  
13 the controller, and, price-wise, how does that make a  
14 difference to the blanket?

15 MS. PACHECO: Sure. We have multiple  
16 variations of controllers, in terms of digital read-  
17 out display versus a dial that you can see the number  
18 two wireless, and they do add cost, as what you would  
19 expect them to do. So if it looks a little bit more  
20 technically complicated, most likely it adds cost, and  
21 then we price accordingly based on what that increased  
22 cost is.

23 MS. COLBE: Okay. Now, given that that's  
24 the second-largest component of the blanket, how large  
25 is that range where you would have your basic, simple

1 dial versus the cordless option?

2 MS. PACHECO: Right. It's hard to answer  
3 that question absolutely because there are a couple of  
4 other elements that come into play when you're costing  
5 out the product. There's basically four key elements.  
6 There is the controller, the finished blanket, the  
7 packaging, and then any kind of graphics or anything  
8 like that around that, but that adds minimal cost.

9 So when you marry those things up, or the  
10 finishing techniques, I should say, too, to the  
11 blanket, when you bring all of those together, you're  
12 almost creating a menu of options, and then you're  
13 putting that menu of options together.

14 So it's hard to give you a range because it  
15 could be all the way at the low end, and then you've  
16 got different sizes. So it could be all the way at  
17 the low end of \$29.99 on a twin-size to, if you're at  
18 a department store like a Macy's or somebody like  
19 that, where it could start at -- I believe they are  
20 at, like, \$89.99, something like that. It really  
21 depends on how all of those three things come together  
22 and then the retailer margin requirements, everyday  
23 pricing, things like that.

24 MS. COLBE: Okay. For what you do in  
25 Waynesboro, where is the most value added? Is it the

1 wire production, or kind of if you could speak about  
2 what you actually do?

3 MR. SULLIVAN: We believe that the most  
4 valuable aspect of the electric blanket, and, you  
5 know, it's a little subjective, but, to some extent, I  
6 guess I will say that the most valuable aspect is the  
7 wire --

8 MS. COLBE: Okay.

9 MR. SULLIVAN: -- because the wire is an  
10 element that's known as "PTC wire." "PTC" stands for  
11 positive temperature coefficient. It is, in theory,  
12 an infinite number of thermostats that are laced  
13 within the blanket.

14 Now, you know, we could make a lot of wire,  
15 and if we weren't efficient in assembling the product,  
16 it wouldn't really matter, so we do believe that the  
17 method by which we're using to insert the wire is also  
18 a very value-added step.

19 MS. COLBE: Okay. Getting back to knit  
20 versus woven and nonwoven and mattress pads, I  
21 understand that the production process is differently  
22 certainly for handling the knit blanket versus the  
23 woven, and mattress pads are a completely different  
24 kind of base as well, but in terms of what the  
25 consumer views and the functionality of the blanket,

1       could you speak to what the difference between knit  
2       and woven, say, would be in terms of performance of  
3       the blanket, in terms of the characteristics, in terms  
4       of the price, what the consumer itself would see  
5       versus the production process?

6               MS. PACHECO: What the consumer would see is  
7       obviously different pricing. It would be a step up or  
8       a premium to a lot of the knits or the nonwovens that  
9       are out there.

10              In addition, it's a different texture hand  
11       and feel and weight of the product because it does get  
12       a lot heavier as you look at some of these knits. So  
13       that's the differences they would notice between the  
14       two.

15              MS. COLBE: So, performance-wise, would any  
16       of the characteristics of the knit, would it perform  
17       differently, hold heat better, or anything like that?

18              MS. PACHECO: I don't believe we've seen  
19       that. Actually, I think we've seen that knits don't  
20       hold the heat as well. In fact, there is a little bit  
21       of an inhibitor.

22              MR. SULLIVAN: Generally speaking, the  
23       answer is the same thing that Ms. Pacheco just said.  
24       However, you know, depending upon the weight of the  
25       goods, I guess you could insulate them enough to hold

1 the heat in, but it's generally not an issue.

2 MS. COLBE: Okay. So they are a bit more  
3 expensive, and you might get a different feel, better  
4 hand to the fabric, is kind of the basic bottom line.

5 MS. PACHECO: A different texture, yes, a  
6 different hand. Right, a different feel.

7 MR. SULLIVAN: I guess the point I was  
8 trying to make is that the heavier the product, the  
9 longer it takes to heat it up. Once it gets heated  
10 up, it stores the heat longer and vice versa.

11 MS. COLBE: I see. Okay. And my final  
12 question is just about kind of the global market.  
13 Now, Sunbeam, of course, is a global name. Now, for  
14 your electric blanket business here, are you just  
15 serving the domestic market? I'm thinking, if you're  
16 sending it to Canada, you extend that sort of sales  
17 range of months or any other parts. Could you talk  
18 about how the global market kind of fits into your  
19 business?

20 MS. PACHECO: Sure. We actually only export  
21 into two other countries, being Mexico and Canada. We  
22 don't have the global business that you would expect  
23 us to have on this business or on this category, and  
24 they follow the same seasonality as our products do as  
25 well, shipping at the same time, so it's very similar

1 to our country.

2 MS. COLBE: Okay. Thank you.

3 MS. PACHECO: You're welcome.

4 MR. ASCIENZO: Thank you very much, and we  
5 turn to George Deyman, the supervisory investigator.

6 MR. DEYMAN: I'm George Deyman, Office of  
7 Investigations. For some of the questions I'm going  
8 to ask, we may already know the answer, but I need to  
9 ask them anyway for purposes of the record. Of  
10 course, if any of your answers require divulging  
11 business-proprietary information, please so indicate,  
12 and you can answer them in your post-conference brief.

13 Mr. Altschule, in your answer to Mr.  
14 Schriltz's question during his opening statement, you  
15 said that knitted electric blankets are not intended  
16 to be in the scope of this case. What does that mean?  
17 Are they in the scope, or are they not in the scope?

18 MR. ALTSCHULER: They are not in the scope.

19 MR. DEYMAN: Would a customs import  
20 specialist be able to differentiate easily between a  
21 knitted and a woven?

22 MR. ALTSCHULER: I think so. I think that  
23 what's in the scope -- as I mentioned, what Sunbeam  
24 wanted to make sure to capture was woven electric  
25 blankets and only, so, to us, in putting the petition

1 together, knitted was a subset of nonwoven. So that's  
2 kind of what we thought was the dividing line.

3 MR. DEYMAN: Are there any producers of knit  
4 electric blankets or nonwoven electric blankets in the  
5 United States?

6 MR. ALTSCHULER: To our knowledge, no.

7 MR. DEYMAN: If you wanted to do so, would  
8 you be able to fairly quickly and easily, without a  
9 great deal of capital investment, produce knit  
10 electric blankets or nonwoven?

11 MR. ALTSCHULER: No. I think, as the  
12 Sunbeam folks testified, it would take new equipment  
13 or at least substantial modifications.

14 MR. DEYMAN: The proposed scope includes  
15 semifinished product in the form of shells of fabric  
16 to which wire has been threaded. What more needs to  
17 be done before the product becomes a finished product  
18 if one were to import the shells with wires?

19 MR. ALTSCHULER: Just so that I understand,  
20 are you saying that if you imported shells with wire,  
21 what would we have to do after that?

22 MR. DEYMAN: Right.

23 MR. ALTSCHULER: Well, the first thing is we  
24 would have to assume that the wire was a wire that we  
25 could handle, and we would assume that it would be our

1 wire. At that point, we would then have to terminate  
2 the product, we would have to test the product, and we  
3 would have to pack the product up.

4 MR. DEYMAN: Okay.

5 MR. BRUNO: If I may add to this, we would  
6 also have to -- as you saw, there was a circuit board  
7 and the plastic cover to the circuit board and so  
8 forth. All of that would have to be added after the  
9 product is imported into the United States.

10 MR. ALTSCHULER: Yes, and let me just say  
11 one additional comment. We would also, in some  
12 fashion, have to finish the edge, or edges, plural,  
13 meaning that, depending upon what the marketing group  
14 wanted, we would either have to add a binding or not,  
15 depending upon what the customer demand was.

16 MR. DEYMAN: Thank you. Do you know of any  
17 imports of semifinished woven electric blankets, or  
18 are you simply including them in the scope in order to  
19 avoid circumvention of any antidumping duty order?

20 MR. BRUNO: They are included to avoid  
21 circumvention.

22 MR. DEYMAN: I noticed a U.S. patent -- it's  
23 Patent No. 4459461 -- for something called "flocked  
24 electric blanket construction, wherein a fabric  
25 substrate woven from filament yarn is interposed

1 between, and is bonded to, layers of foam. The  
2 exposed surfaces of the foam are flocked, and the  
3 substrate includes channels woven into the fabric to  
4 receive electrical heating wires."

5 Are you familiar with this flocked electric  
6 blanket? Does anyone produce this in the United  
7 States?

8 MR. SULLIVAN: Not to my knowledge.

9 MR. DEYMAN: When did you first notice any  
10 adverse effects from the imports from China?

11 MS. PACHECO: Probably 2004-2005.

12 MR. DEYMAN: Okay. I noticed, looking at  
13 the official statistics, that, in 2006, there was a  
14 significant amount of imports of electric blankets  
15 from Hong Kong. Do you know of any producers of  
16 electric blankets in Hong Kong, woven electric  
17 blankets?

18 MS. PACHECO: Not that I know of, no, unless  
19 they are shipping them from Shenzhen to Hong Kong and  
20 shipping them out from there. I'm not sure.

21 MR. DEYMAN: Those imports have dropped off  
22 substantially, but I was just wondering whether they  
23 are probably of Chinese origin.

24 MS. PACHECO: I have no idea. We have never  
25 seen or heard of any manufacturers in Hong Kong.

1           MR. DEYMAN: Okay. Respondents sometimes  
2 contend that they are serving niche markets that are  
3 not served by the domestic industry. Is there any  
4 reason to believe that the imports from China are  
5 concentrated in certain types of woven electric  
6 blankets that perhaps you don't produce?

7           MS. PACHECO: No.

8           MR. DEYMAN: All right. I just have a few  
9 more questions.

10           You indicated that approximately 60 percent  
11 of the imports, under the official statistics, consist  
12 of woven electric blankets. On what basis did you  
13 make that assumption?

14           MS. PACHECO: Just analyzing the marketplace  
15 in terms of what retailers have on their shelves and  
16 then who are the producers in terms of the  
17 manufacturers that are bringing those products in and  
18 also what their labels say.

19           MR. DEYMAN: Do you believe that that share  
20 has changed over time in the last three or four years?

21           MS. PACHECO: Yes, and it's going to go up  
22 even higher this year.

23           MR. DEYMAN: So it would be more woven  
24 coming in.

25           MS. PACHECO: More wovens coming in in 2009.

1 Correct.

2 MR. DEYMAN: So what about in 2006? Would  
3 it have been 60 percent back then, too?

4 MS. PACHECO: I think there has been slight  
5 shifts up, based on what I've seen in the market. I  
6 think there have been slight shifts up, but I don't  
7 know for sure. You're going to see for sure in 2009,  
8 I think, a quite dramatic increase.

9 MR. ALTSCHULER: We know that the imports of  
10 wovens have gone up. I'm not sure how much more we  
11 can -- let us reserve the possibility of trying to do  
12 something more refined in the brief, if we can.

13 MR. DEYMAN: For the import data that we  
14 present in our staff report, do you recommend that we  
15 use the 60-percent figure and adjust it to the  
16 official statistics, or do you recommend that we use  
17 our questionnaire responses?

18 MR. SETH KAPLAN: I think we have right now  
19 a combination of exporter questionnaires and importer  
20 questionnaires that would be useful in establishing a  
21 trend and a lower bound, and for my purposes of  
22 analyzing the data, I looked at things all different  
23 ways. I don't think that there is an issue for  
24 reaching a conclusion based on any of the ways you  
25 could look at it, either the 60-percent way or looking

1 at a combination of exporter and importer  
2 questionnaires, but I would not use solely importer  
3 questionnaires because the data set is not complete  
4 yet.

5 I would look closely at the exporter  
6 questionnaires to try to figure out gaps and see if  
7 the exporter questionnaire is consistent with the  
8 importer questionnaires, and if it is, then you could  
9 use that as some basis, and I think we will provide  
10 you numbers of what we think the shares are from the  
11 official statistics, and I think you will have no  
12 doubt about the direction and the magnitude of the  
13 trend and maybe about the level, though it might be  
14 some uncertainty. You have the Customs data, so you  
15 know about missing data that we don't have. I hope  
16 that was helpful, I think, any way you look at it, but  
17 right now a combination of exporter and importer seems  
18 to work quite well.

19 MR. DEYMAN: All right. One last question:  
20 That 60-percent estimate; that would be 60 percent of  
21 the quantity. What about of the value; that is, other  
22 than woven electric blankets of a higher or a lower  
23 value, would the percentage be different for the  
24 value?

25 MS. PACHECO: I would have to do a little

1 bit work around that. I've got to think about that,  
2 but what's in the nonwoven/knit piece of it, the 40  
3 percent, is a combination of probably a high  
4 proportion of throws, which is a lower-priced product,  
5 and then the premium product being certain textures  
6 and fabrics.

7 So it's probably similar, but I would really  
8 just be guessing. That's a hard one because I don't  
9 really know what my competition is doing in terms of  
10 volume and values around those, so I'm sorry.

11 MR. DEYMAN: That's all right. Thanks. I  
12 have no further questions. Thank you very much.

13 MR. ASCIENZO: Thank you very much and good  
14 afternoon. We've reached that. I have a few follow-  
15 on questions, if I may.

16 I'm looking at this blanket over on the  
17 table here, and I see it's the classic off-white.  
18 Does that make up, in your estimation -- what  
19 percentage of sales are that color right there?

20 MS. PACHECO: I don't know that off the top  
21 of my head, but we have a couple of neutral colors in  
22 the line, being a tan color and what we call the  
23 "natural color." Those make up the majority of the  
24 volume, a good majority of the volume.

25 MR. ASCIENZO: Thank you. We've had some

1        comments on mark-down dollars, and, Ms. Pacheco, I  
2        believe you said a couple of times that you produce to  
3        order, and I know you're producing throughout the year  
4        so you can ship and have them on the shelves, I think  
5        you said, starting in August or September, something  
6        like that.

7                    Let's say, all of a sudden, a new fashion  
8        craze came out, or something came out, and you had to  
9        produce new ones. How long would it take, from start  
10       to finish?

11                   MS. PACHECO: Sure. It wouldn't happen in  
12       the middle of the season. A lot of the retailers now  
13       are already starting to work on their color trends,  
14       and actually we're working on our color trends for the  
15       next winter season, and that's 2010. So you're  
16       getting that up-front direction from them on what  
17       those hot colors are for the next year a good year  
18       out, depending on the retailer. So we're actually  
19       buying that fabric, and we're buying those dyed yarns  
20       early enough based on forecasts.

21                   Where we don't have as much flexibility is  
22       in the color shifts and changes as for in season, but  
23       we do have the ability to dye goods so that we can  
24       react if, say, more of that gray is selling than the  
25       off-white.

1 MR. ASCIENZO: Okay. Thank you. Thank you  
2 for that.

3 The local versus the global wiring; the way  
4 I understand it, part of the blanket will shut off so  
5 it won't overheat and cause a fire, I guess; is that  
6 covered by a patent?

7 MR. SULLIVAN: The whole notion of PTC  
8 technology was covered by a whole series of patents,  
9 and those patents, the original PTC patents -- let me  
10 back up -- the original PTC patents expired in  
11 approximately, and I'm speaking from memory here,  
12 about '97-'98, something like that, maybe '99.

13 In 1995, there was yet another patent that  
14 was issued to Sunbeam that is another derivative of  
15 the PTC wire, and obviously that patent has not  
16 expired.

17 MR. ASCIENZO: So even though the patents  
18 have expired, and the technology is there, you are the  
19 only company that produces that.

20 MR. SULLIVAN: We are the only company, to  
21 my knowledge, producing electric blankets in the  
22 United States, and I am positive that we are the  
23 largest-volume producer of that wire in the world.

24 MS. PACHECO: Nobody else is making that PTC  
25 wire. Right.

1 MR. SETH KAPLAN: There is an art to making  
2 it as well. It's my understanding that if you have  
3 the patent, you could just go ahead and --

4 MR. ASCIENZO: Well, in addition to that,  
5 even if you had the patent, and you had the capital to  
6 spend, it doesn't mean that once you bought the  
7 equipment, you could run it, or at least run it  
8 efficiently. That is something that we have, with  
9 painstaking detail over the years, perfected -- not  
10 perfect; nothing is perfect -- we've improved.

11 MR. ASCIENZO: But I think, Ms. Pacheco. I  
12 think you said that you're the only company in the  
13 world that makes that, period.

14 MS. PACHECO: Correct, correct. We have not  
15 seen it anywhere else.

16 MR. ASCIENZO: The global versus the local.

17 MS. PACHECO: Correct. Even globally, we  
18 have not seen it anywhere else.

19 MR. ASCIENZO: Returns; the blankets that  
20 are actually returned. I take it, are they  
21 essentially sold as new the next year, to the extent  
22 you can, I presume?

23 MS. PACHECO: Correct, yes, because they  
24 come back, and they have never been used. They have  
25 never been out of the package. So, yes, what we do is

1 we break them down. We take them out of the package.  
2 We put the blankets back where the blankets belong, we  
3 put the controllers back where the controllers  
4 belong, and then we repackage them, assemble to order,  
5 then, in the following year.

6 MR. ASCIENZO: Okay. So when those are on  
7 the store shelf, they are in some sort of a plastic  
8 package, I take it.

9 MS. PACHECO: Yes. Exhibit A.

10 MR. ASCIENZO: Exhibit A, yes, they are. So  
11 then when they come back, they don't sit on the shelf  
12 like that. Somebody physically opens the bag up and  
13 takes them apart.

14 MS. PACHECO: In our factory, if that's what  
15 we need to do with them, that's what we will do.  
16 Sometimes we'll put them back into inventory as is  
17 that way as that finished good. Other times, we will  
18 break them apart and put them back into their areas in  
19 the warehouse so that we can grab those goods later to  
20 rebuild them up, depending on how they need to be  
21 rebuilt.

22 What happens oftentimes in this category is  
23 that the graphics will change, so that means we have  
24 to put a new design in the front of it and a new  
25 graphic insert card. So as a result of that, we have

1 to kind of rebuild it, repackage it.

2 MR. ASCIENZO: Thank you. I've heard a lot  
3 about all of the discount programs, and there is a  
4 multitude of them -- let's put it that way -- but, in  
5 the end -- I'm an accountant by trade, so, in the end,  
6 you're looking to lower your costs and maximize your  
7 profits.

8 This is kind of a philosophical question,  
9 but has anyone ever tried to say, "Look, we're just  
10 going to lower the price up front. We're not going to  
11 get involved in these programs," or do the retailers  
12 really want the programs?

13 MS. PACHECO: Right. There are a few  
14 examples of retailers that have stripped out the  
15 program. "I just want the price, period. Strip it  
16 all out." There's a few of those, but, for the most  
17 part, the industry practices an incentive program  
18 tactic. But we have examples when Ms. Preece --  
19 right? -- was asking about detailing out some of that  
20 information, I noted that, and we'll give you some of  
21 those examples.

22 MR. ASCIENZO: Thank you. My final question  
23 is -- I believe Mr. Kaplan, among others, was talking  
24 about all of the various discounts and the fact that  
25 we need to make sure that they properly show up in the

1 questionnaire data. If you want to comment now, fine,  
2 and I'm sure you will in your post-conference briefs,  
3 but, to your knowledge, are the discounts properly  
4 showing up in the questionnaire data, or do you want  
5 to comment on that in your brief?

6 MR. ALTSCHULER: My basic answer is, for us,  
7 it's extremely hard to tell, and so we wanted to flag  
8 all of these possible reductions, ultimate reductions,  
9 to price to you. If we have anything more to say, we  
10 will say it in the brief, but it's certainly an area  
11 of concern, that there is price, and then there are a  
12 lot of things to be netted out of the price.

13 MR. SETH KAPLAN: We've been very careful to  
14 make sure we've included everything. We will give you  
15 information on what we think is going on in the  
16 market, but it gets kind of doubly tricky because, to  
17 the extent that people on the APO could look at the  
18 questionnaire, they can't communicate anything as  
19 well, but we'll do the best we can to try to provide  
20 all of that information.

21 MR. ASCIENZO: Thank you very much, and,  
22 with that, those are the end of my questions. Are  
23 there any follow-up questions? We have one, Mr.  
24 Deyman.

25 MR. DEYMAN: I have a comment rather than a

1 question. In our household, we don't own an electric  
2 blanket, but we own a Sunbeam iron, and I can tell you  
3 that it is, by far, the best iron that we've ever had,  
4 and I would think that your company should be able to  
5 obtain a price premium with the Sunbeam name for the  
6 blankets, too.

7 MS. PACHECO: What year did you buy that?

8 MR. DEYMAN: Oh, we've had that iron for  
9 seven years maybe.

10 MS. PACHECO: That's when I was on that  
11 category, so that's good to hear. Thank you. Thank  
12 you.

13 MR. ALTSCHULER: Thank you, Mr. Chairman.  
14 Thank you, everyone.

15 MR. ASCIENZO: Thank you very, very much for  
16 the presentation and all of the answers to our  
17 questions.

18 Let's see. It's twelve-eighteen by that  
19 clock in the back of the room. Let's take a -- it's  
20 twelve-seventeen -- about a 13-minute break, and we'll  
21 restart at twelve-thirty. Thank you very, very much  
22 again.

23 (Whereupon, at 12:17 p.m., a short recess  
24 was taken.)

25 //



1 as vice president at Sunbeam Products, Inc., from 1989  
2 to 1997, where I managed the heated-bedding-products  
3 division.

4 Biddeford Blankets imports woven electric  
5 blankets and other heated-bedding products from China.  
6 By way of background, Biddeford Textile, a U.S.  
7 producer in Maine of various textiles and heated-  
8 bedding products, was formerly owned by Sunbeam.  
9 Biddeford Textiles was sold to an investment group and  
10 its employees in 1997. Biddeford Textile declared  
11 bankruptcy in 2001 and was purchased in 2002 by  
12 Microlife Corporation, a well-respected, international  
13 producer and distributor of medical-device products  
14 based in Taiwan.

15 Biddeford Blankets, LLC, was formed in 2002  
16 to import and distribute woven electric blankets and  
17 other heated-bedding products in the United States.  
18 Microlife also owns Hung Kuo Electronic in China,  
19 which is known by the name Aun Gen. Aun Gen is  
20 Biddeford's sole supplier of heated-bedding products.  
21 Aun Gen also exports woven electric blankets and  
22 throws directly to major retail distributors, such as  
23 J.C. Penney's, Target, and K-Mart in the United  
24 States.

25 In today's testimony, I intend to highlight

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1 several critical issues in this investigation. The  
2 first issue concerns important differences between  
3 woven electric blankets produced by Petitioner Jarden  
4 Consumer Solutions for Sunbeam and the woven electric  
5 blankets produced and exported to the United States by  
6 Aun Gen. U.S. purchasers have favored the Aun Gen and  
7 the Biddeford woven electric blankets not because of  
8 price but because of various other factors, such as  
9 quality, brand, and customer service.

10 The second issue I would like to focus on  
11 concerns the investigation's proper domestic like  
12 product, which I understand to mean the product or  
13 products that are most likely imported products  
14 subject to the investigation. I also understand that  
15 the Commission uses the domestic like product to  
16 define domestic industry for purposes of its injury  
17 analysis.

18 The domestic like product described in  
19 Sunbeam's petition is overly narrow. The Commission  
20 should, instead, define the domestic like product, and  
21 thus corresponding domestic industry in this  
22 investigation, more broadly than the alleged by  
23 Sunbeam.

24 As Biddeford discussed in its questionnaire  
25 response, electric mattress pads and various other

1 heated-bedding products are all widely recognized as  
2 substitutes for woven electric blankets. Like woven  
3 electric blankets, all of these heated-bedding  
4 products are intended to provide enhanced heat and  
5 increased comfort to consumers. In particular,  
6 according to information available to Biddeford, West  
7 Point Stevens manufactures electric mattress pads in  
8 the United States. Therefore, domestic like product  
9 should include electric mattress pads.

10 We also believe that the domestic like  
11 product should be defined to include knitted-fleece  
12 electric blankets and throws and any other heated-  
13 bedding products that compete with woven electric  
14 blankets.

15 Finally, I will discuss the developments in  
16 Sunbeam's business model and its focus on Wal-Mart  
17 that have tended to alienate other key retail  
18 customers.

19 First, turning to nonprice differences, I  
20 have brought with me today two woven electric blankets  
21 which are representative of the woven electric  
22 blankets at issue. The first blanket was produced by  
23 Aun Gen; the second, produced by Sunbeam.

24 My colleague, Morris Hebert, is passing  
25 these woven electric blankets around for the staff to

1 see during my remarks. Let me stress at the outset  
2 that while, at first glance, these two blankets may  
3 appear similar, there are, in fact, significant  
4 differences that I will highlight and that are  
5 certainly appreciated by corporate buyers at major  
6 retail distributors, such as J.C. Penney, Target, K-  
7 Mart, and others.

8           The first difference concerns the woven  
9 material itself. As you can see, the Biddeford  
10 blanket has a tighter weave. This is because our  
11 product has more picks per inch, 32 versus 28, that  
12 produces a tighter weave. Our woven electric blankets  
13 are larger than those of Sunbeam. In the case of  
14 blankets, ours are longer and, in the case of throws,  
15 ours are wider.

16           These qualities give Biddeford's woven  
17 electric blankets more weight and value. In many  
18 cases, as you can see with the samples we have  
19 brought, we have a five-inch-wide binding whereas  
20 Sunbeam's blanket only has a three-inch-wide binding.  
21 Our nylon is satin; theirs is polyester.

22           As you can see, our blankets are sewn; that  
23 is, they are surged on three sides with the binding on  
24 top. Sunbeam's woven electric blankets are surged  
25 only on the bottom. Surging on all three sides

1 reduces the potential for unraveling.

2           The wire built into our woven electric  
3 blankets is thinner and more flexible. This fact is  
4 supported by the Electric Blanket Institute. In  
5 summary, I think our product is better looking and  
6 certainly more durable than the Sunbeam woven electric  
7 blanket.

8           We also brought with us today samples of two  
9 throws which are included in the scope of the  
10 petition. As you can see from the packaging, our  
11 throw is two inches wider than Sunbeam's. Ours has a  
12 five-year warranty. Theirs has a two-year warranty.  
13 Our controllers are different than Sunbeam's. As you  
14 can see, ours has 10 settings whereas theirs has only  
15 three settings.

16           Finally, the length of our cord is  
17 dramatically longer than theirs. This feature is  
18 important for throws, which are intended to be used on  
19 the couch or elsewhere in the house that may be far  
20 away from the nearest electrical outlet.

21           Finally, Biddeford has brought to the market  
22 innovative, new products, such as the diamond-weave  
23 blanket Morris is now holding. This design, a  
24 jacquard weave, has been very successful over the last  
25 three years. If time permits, we would be happy to

1 explain the differences between this woven electric  
2 blanket and other such blankets.

3 All of these nonprice features influence  
4 retail distributors' purchasing decisions.

5 I would like, next, to address the domestic-  
6 like-product issue. Biddeford imports and markets  
7 woven electric blankets in many sizes and colors, as  
8 well as knitted-fleece electric blankets and synthetic  
9 and blend electric mattress pads. Biddeford markets  
10 all of these heated-bedding products as a complete  
11 line on its website to retail distributors for sale  
12 and consumers.

13 Sunbeam does likewise. On its website,  
14 Sunbeam advertises several styles of what it refers to  
15 as "heated blankets," including both woven electric  
16 blankets and knitted-fleece electric blankets.  
17 Alongside both types of heated blankets, Sunbeam  
18 advertises heated mattress pads and other heated-  
19 bedding products.

20 Sunbeam refers to all of these products  
21 collectively, including electric heated mattress pads,  
22 as "warming products," and that is exactly what all of  
23 these products are, warming products.

24 Like Biddeford's heated-bedding products,  
25 Sunbeam's products are all used to provide enhanced

1 heat and increased comfort for the individual consumer  
2 most often while sleeping.

3 Let me focus, in particular, on electric  
4 mattress pads. Woven electric blankets and electric  
5 mattress pads satisfy all of the criteria considered  
6 by the Commission in making its like-product  
7 determination.

8 Woven electric blankets and electric  
9 mattress pads share a very similar physical  
10 characteristic. Like other heated-bedding products,  
11 they are used for the same purpose. They are  
12 interchangeable and can easily be substituted for one  
13 another. They are sold through the exact same  
14 channels of distribution, displayed side by side on  
15 the same retail distributors' store shelves and  
16 Internet pages, and priced essentially the same. They  
17 are produced in the same manufacturing facilities,  
18 using very similar production processes and equipment  
19 and the same production employees.

20 Producers and customers also perceive woven  
21 electric blankets and electric mattress pads as ready  
22 substitutes.

23 In addition, I am familiar with the  
24 producers of heated-bedding products in the United  
25 States, both today and in the past several decades.

1 This includes the production and sale of heated-  
2 bedding products by West Point Stevens. West Point  
3 entered the heated-bedding-products market in the  
4 United States in around 2002. Available information  
5 indicates that West Point manufactures electric  
6 mattress pads in the United States for sale to U.S.  
7 retail distributors. Therefore, West Point should be  
8 included within the domestic industry for purposes of  
9 this investigation and the Commission's injury  
10 analysis.

11 We also believe that the domestic like  
12 product should be defined to include knitted electric  
13 blankets and throws and any other heated-bedding  
14 products that compete with woven electric blankets.  
15 As the staff is aware, I believe, Biddeford submitted  
16 a letter to the Department of Commerce last Friday  
17 concerning its analysis of the industry support.

18 Finally, let me turn to developments in  
19 Sunbeam's business model and its focus on Wal-Mart  
20 that have alienated other key retail customers.

21 Over the past several years, Sunbeam has  
22 been extremely successful at expanding its business  
23 with Wal-Mart, the largest purchaser of woven electric  
24 blankets in the United States. However, this success  
25 has not come without a price. Sunbeam has limited the

1 number of brands it offers to its customers. This  
2 means that customers like J.C. Penney and Target would  
3 have to compete with Wal-Mart almost exclusively on  
4 the basis of price if they wanted to carry Sunbeam's  
5 woven electric blankets.

6 Think of it: You're sitting in your living  
7 room reading the Sunday paper. You want to buy a  
8 woven electric blanket. On the right side of the page  
9 is an ad for a twin-sized, woven electric blanket  
10 produced by Sunbeam for sale at Wal-Mart for \$29.86,  
11 and on the left side of the page is the exact same  
12 woven electric blanket produced by Sunbeam for \$32.99  
13 at Target. Which blanket would you buy?

14 That was the position Sunbeam put its  
15 customers in when Sunbeam limited its brands. That  
16 decision created an opportunity for Biddeford. As I  
17 believe you know from our questionnaire response, we  
18 offer our retail distributors three brand options:  
19 the Sealy brand, the Biddeford brand, and private  
20 labels. Now we can go to a Target or a J.C. Penney's  
21 with a product that can easily be distinguished from  
22 Sunbeam products sold at Wal-Mart, and they can  
23 compete.

24 We offer just-in-time delivery, customer  
25 support, and, in most cases, a superior product and

1 brand differentiation, speaking of which, I will now  
2 yield the floor to Leslie Hearn from J.C. Penney.  
3 Thank you. Morris and I are available to answer any  
4 questions you may have.

5 MS. HEARN: Hi. I'm Leslie Hearn, a senior  
6 buyer with J.C. Penney. Thank you, Mr. Director, and  
7 good afternoon, Commission staff.

8 I appreciate the opportunity to testify  
9 before you on this important matter. I am Leslie  
10 Hearn, senior buyer for J.C. Penney Corporation, which  
11 is the parent of J.C. Penney Purchasing Corporation.  
12 As many of you know, J.C. Penney is one of America's  
13 top retailers, providing a variety of high-quality  
14 products to American shoppers in its stores, through  
15 its catalog, and over the Internet. Fortune magazine  
16 recently named J.C. Penney as one of its most-admired  
17 general merchandisers.

18 I have been with J.C. Penney for 21 years  
19 and am currently responsible for identifying and  
20 managing suppliers of a number of home goods,  
21 including woven electric blankets. My job is to  
22 ensure that J.C. Penney has the variety and quality of  
23 product that J.C. Penney customers demand at a value  
24 that they expect.

25 I am personally involved in J.C. Penney's

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1 annual purchasing decision for woven electric  
2 blankets. In the past, I have sourced those blankets  
3 from Sunbeam, and I made the decision to switch to  
4 Biddeford. Although price is, of course, a factor in  
5 our purchasing decision, it is not, and cannot be, the  
6 primary factor driving our decision if we are to  
7 successfully compete in the consumer market.

8 I would like to explain to you my reasons  
9 for that decision, why I concluded that Biddeford was  
10 able to provide our customer with a higher-quality  
11 product at a smarter price and had a business model to  
12 service J.C. Penney's operational needs.

13 I believe that you will see that it would be  
14 a serious error to attribute J.C. Penney's decision to  
15 purchase from Biddeford to the issue of price. To put  
16 our purchasing decision regarding woven electric  
17 blankets into context, I would like to briefly talk  
18 about the unique characteristics of the market for  
19 consumer goods.

20 Consumer purchasing decisions are driven by  
21 a myriad of factors, some tangible and some  
22 intangible. Fashion trends and life styles play a  
23 major role in consumers' decisions related to  
24 purchases of apparel and home products. For example,  
25 some consumers are drawn to certain products based on

1 an appealing look, feel, and style. They can also be  
2 influenced by a brand name which they associate with  
3 attributes such as quality and reliability. Even  
4 packaging can make a product more or less appealing to  
5 a consumer.

6 Because all of these factors influence  
7 consumers' purchasing decisions, retailers pay close  
8 attention to each of them when deciding what goods to  
9 purchase for their stores. J.C. Penney is a  
10 successful retailer because we strive to ensure that  
11 the products that we offer meet customer demands for  
12 style, quality, and reliability and appeal to their  
13 innate desire to get value for their money, a good  
14 deal, regardless of whether they are paying the lowest  
15 price.

16 Thus, to understand the dynamics of the U.S.  
17 market for woven electric blankets, the Commission  
18 must take into account these tangible and intangible  
19 factors that drive consumer sales.

20 J.C. Penney has been purchasing Biddeford  
21 electric blankets since 2006. My decision, over the  
22 years, to purchase Biddeford blankets was based on the  
23 following factors.

24 First, the design of Biddeford woven  
25 electric blanket is a higher quality than Sunbeam's.

1 The shell of Biddeford's blanket has a different fiber  
2 content than the shell of the Sunbeam blanket, which  
3 results in a better hand or the nap that makes it  
4 softer to the touch.

5 Biddeford's blankets also have a tighter  
6 weave with more picks per square inch versus Sunbeam's  
7 blanket and are an inch longer in length in all sizes.  
8 The combination of the tighter weave with more picks  
9 per square inch and the larger size gives Biddeford  
10 Blanket a heavier, more luxurious weight that the  
11 customer perceives as value.

12 In addition, the electric wiring is thinner  
13 on the Biddeford woven blanket, providing a more  
14 comfortable product.

15 All of these superior features add up to a  
16 better value for our customer.

17 Second, the customer return rate for  
18 Biddeford woven electric blankets is lower than the  
19 comparable Sunbeam blanket. After analyzing J.C.  
20 Penney's data on returns, we found that customer  
21 return rates for Sunbeam woven electric blankets  
22 ranged between 36 and 54 percent higher than the  
23 Biddeford blanket.

24 Returns are lost sales, and they increase  
25 our transaction costs. They also damage customers'

1 view of the J.C. Penney brand, which could discourage  
2 them from shopping at J.C. Penney in the future. J.C.  
3 Penney, therefore, does everything that it can to  
4 minimize returns.

5 Third, Biddeford offers purchasing  
6 flexibility, allowing customers to purchase on either  
7 an FOB or a land-to-duty paid plus warehouse cost  
8 basis. Purchasing on an FOB basis allows J.C. Penney  
9 to take advantage of favorable rates that we negotiate  
10 with carriers, thereby lowering our transportation  
11 costs.

12 J.C. Penney quality assurance inspectors can  
13 also examine FOB product prior to shipment. This  
14 allows J.C. Penney to ensure high-quality products for  
15 its customers.

16 On the other hand, having the option of  
17 taking delivery from Biddeford's warehouse in the  
18 United States gives J.C. Penney more flexibility in  
19 inventory and replenishment of merchandise.

20 Fourth, Biddeford's parent company,  
21 Microlife, owns the factories that produce the  
22 electric controls in the finished woven electric  
23 blankets. This integrated structure allows for  
24 production efficiencies and quality control. J.C.  
25 Penney is able to have complete confidence in the

1 quality of Biddeford's production facilities. They  
2 are FDA approved and ISO-9001 certified. These  
3 facilities and their quality-control procedures have  
4 also been independently audited and certified.

5 In addition, J.C. Penney has itself audited  
6 Biddeford's facilities for quality, legal compliance,  
7 and CT security requirements.

8 Fifth, Biddeford holds the license for the  
9 Sealy brand trademark for woven electric blankets and  
10 offered J.C. Penney the opportunity to be the  
11 exclusive retailer for Sealy-brand blankets starting  
12 in 2009. Consumer research shows that Sealy is a very  
13 recognizable and successful brand.

14 In addition, J.C. Penney also sells Sealy-  
15 brand mattresses and mattress pads. As a result,  
16 becoming the exclusive retailer of Sealy-brand  
17 electric blankets from Biddeford gives J.C. Penney a  
18 tremendous competitive advantage. J.C. Penney can  
19 capitalize on Sealy's marketing campaigns as well as  
20 on our consumer preexisting familiarity and comfort  
21 with Sealy-brand products. Because J.C. Penney has  
22 exclusivity for the brand, we would also be able to  
23 develop our own unique packaging which advertises the  
24 J.C. Penney website and takes maximum advantage of the  
25 brand recognition.

1           Thus, our experience at J.C. Penney is  
2 consistent with Mr. Porter's testimony about  
3 competitive advantages that Biddeford has in the  
4 market. Certainly, as a buyer, you always have to  
5 take into account cost. All of these other  
6 advantages, however, played a larger role in J.C.  
7 Penney ultimately deciding to source woven electric  
8 blankets from Biddeford.

9           I would also like to touch briefly on the  
10 issue of how Petitioner has defined the like product.  
11 Petitioner has defined the universe of like products  
12 to include only woven electric blankets. However, all  
13 electric blankets, regardless of the fabric, used to  
14 make the shell are essentially the same and serve  
15 essentially the same purpose.

16           For example, J.C. Penney sells both knit and  
17 woven electric blankets side by side in the catalog  
18 and on the Internet. In fact, knit blankets have  
19 become increasingly more popular with the consumer,  
20 and, as a result, we are seeing a trend in the market  
21 of product mixes shifting to more knits and fewer  
22 wovens, even though the knits are more expensive.

23           This underscores the fact that electric  
24 blanket purchases are primarily a matter of customer  
25 preference for certain features, such as particular

1 fabrics or colors, not price.

2 For example, one customer may have a  
3 preference for the feel of a knit fleece over a woven  
4 blanket while another customer may be more interested  
5 in different features, such as the control. Also, as  
6 Mr. Porter mentioned, electric mattress pads serve the  
7 same function as an electric blanket. They are both  
8 items of bedding with a built-in heating source.

9 At J.C. Penney, we sell both electric  
10 mattress pads and electric blankets. Which product  
11 the customers purchases is, again, a matter of  
12 personal preference.

13 Thus, from a retail perspective, we would  
14 agree that all electric blankets and electric mattress  
15 pads are like product.

16 In closing, I would like to thank the  
17 Commission staff for the opportunity to tell our side  
18 of the story. I would be happy to answer any  
19 questions that you may have.

20 MR. LAYTON: I believe that concludes  
21 Respondents' direct presentation. I think we're open  
22 for questions.

23 MR. ASCIENZO: Thank you very much for that  
24 presentation. We start the afternoon's questions with  
25 Josh Kaplan, the investigator.

1                   MR. JOSHUA KAPLAN: Good afternoon. I would  
2 like to thank the witnesses for coming and testifying  
3 here. I have a few questions, first, about the  
4 product and its production methods. These are, I  
5 believe, at this point, for Mr. Porter.

6                   It was mentioned in the last presentations  
7 by the Petitioners that their woven electric blankets  
8 had a feature -- I suppose you would call it a local-  
9 wiring versus a global-wiring feature that would  
10 enable part of it to shut off. Perhaps I didn't hear  
11 this in the initial presentation, but do the Biddeford  
12 blankets have this sort of feature as well?

13                   MR. PORTER: Yes, they do. It's simply a  
14 different way that it's constructed, but we have the  
15 feature of an auto-off and/or the safety mechanism  
16 that it does shut off, yes.

17                   MR. JOSHUA KAPLAN: Just so I'm clear, the  
18 auto-off, it actually will shut off if it's tipped  
19 over.

20                   MR. PORTER: Absolutely, and this is a time-  
21 tested way to heat an electric blanket as also  
22 confirmed by the Electric Blanket Institute.

23                   MR. JOSHUA KAPLAN: Thank you. I believe  
24 we've established the various sizes that exist for  
25 these blankets. Could you talk about the Biddeford

1 blankets, the different fabric blends that are  
2 available?

3 MR. PORTER: Yes. We have four sizes  
4 available: twin, full, queen, king. In our product  
5 range, though, we have many, many, many blends, going  
6 from the knitted-fleece electric blankets down to a  
7 jacquard electric blanket, which is a woven, then  
8 several blends, which is 100-percent acrylic; a 75/25  
9 acrylic-polyester; a 50 acrylic/50 polyester; a 100-  
10 percent polyester blanket. So we have a full range of  
11 different blends for the consumer and/or our retail  
12 partners.

13 MR. JOSHUA KAPLAN: Thank you for that.  
14 Could you also, specifically for woven electric  
15 blankets, the blends for that? Could you kind of talk  
16 about that?

17 MR. PORTER: Yes. The blends for the woven  
18 electric blankets; we have a 100-percent jacquard  
19 weave, a 100-percent jacquard weave, a 100-percent  
20 acrylic, a 75 acrylic/25-percent polyester, a 50  
21 acrylic/50 polyester, and a 100-percent polyester, all  
22 woven.

23 MR. JOSHUA KAPLAN: Thank you. I asked this  
24 question to the Petitioners. I'll also ask it to you.  
25 Have any of the electric blankets produced by your

1 company been subject to any recall or any other safety  
2 issue?

3 MR. PORTER: No.

4 MR. JOSHUA KAPLAN: Thank you.

5 MR. PORTER: Mr. Kaplan, we also manufacture  
6 on woven throws different styles on the woven throws,  
7 different blends, and different patterns as well.

8 MR. JOSHUA KAPLAN: Thank you. This is  
9 moving on to a little bit more of a sales or marketing  
10 type of question for you, Mr. Porter.

11 Perhaps there was discussion of this, but,  
12 again, I may not have picked up on it. To what extent  
13 do you employ some of the practices that were  
14 mentioned by the Petitioners, those being warranty  
15 returns, markdowns, carrying of inventories in the  
16 United States? Could you perhaps just go through  
17 those different programs? I believe there was a fair  
18 amount of discussion on the Petitioners' side, and I  
19 would be interested to hear your perspective on that.

20 MR. PORTER: If I may, I'm going to start  
21 with our pricing policies and how we determine our  
22 prices. We really, based on a couple of the large  
23 retailers out there who want and request a net  
24 program, such as a couple of large customers, they  
25 want everything netted out. So we basically start out

1 with a net-net price that does not include any  
2 advertising or co-op advertising, and then if the  
3 particular retailer would like advertising, then we  
4 just, what percentage would you like? Okay?

5 That really hasn't changed in 20 years of my  
6 being in this industry. The co-op advertising  
7 percentages have really stayed the same. It hasn't  
8 really changed in 20, 25 years of how co-op  
9 advertising is administered with the customers I've  
10 dealt with.

11 As far as markdowns, only in the last couple  
12 of years has Biddeford had to do markdown money.  
13 "Markdown money" was explained earlier, but markdown  
14 money, in the last few years, has become more of a  
15 sales and marketing vehicle in this industry. Five  
16 years ago, Biddeford really did not provide markdown  
17 money. Only in the last couple of years have we had  
18 to do markdown money because, in the industry, we  
19 price our programs, and we just don't have the money  
20 to provide markdown money, and that's in our total  
21 program, when we do a net-net program.

22 However, with that being said, there are  
23 occasions in the last few years where, at the end of  
24 the season, a retailer might come to us and ask for  
25 markdown money which was not previously agreed upon,

1 and, again, in the spirit of partnership, we will do  
2 some negotiating as it relates to markdown money, and  
3 I believe, in the industry, it also happens that other  
4 people give markdown money, and we've had to come to  
5 the table to meet that demand on markdown money.

6 As it relates to buybacks, Biddeford, in the  
7 last six years I've been here, we have really not  
8 participated in buybacks in a meaningful way, where  
9 it's common in this industry to do buybacks. We have  
10 not really participated in the buybacks of products  
11 from our retailers. The simple reason: We can't  
12 afford to be taking goods back and forth because it  
13 costs a lot of money.

14 MR. JOSHUA KAPLAN: I have a question  
15 following right on that for Ms. Hearn. If you are  
16 purchasing for Biddeford, and they don't employ these  
17 buyback tactics, what does J.C. Penney do with that  
18 excess inventory?

19 MS. HEARN: First, I want to make sure that  
20 it is pretty much a retail industry standard, and  
21 different retailers do it in different ways, but it is  
22 not a new thing, the whole markdown or buyback,  
23 however your company works it. It's just a necessary  
24 thing because retailers only have so much open to buy,  
25 and to be able to bring new product in, you have to

1 get rid of what's in the store. So it's not a new  
2 thing at all. It's something that all retailers do in  
3 different ways. Sometimes one retailer may do it in  
4 different ways, depending on what the situation is.  
5 What was your original question?

6 MR. JOSHUA KAPLAN: This is, I suppose,  
7 based upon your experience at J.C. Penney. What  
8 happens with those blankets that go unsold at the end  
9 of the winter? Are they sold to some other  
10 distributor because clearly, apparently, Biddeford is  
11 not taking them back?

12 MS. HEARN: Correct. How we flow our  
13 inventory is we flow and bring it in heavy at the  
14 beginning of the season, and then we dwindle our  
15 inventory down at the end of the season, so,  
16 hopefully, we don't have that much markdown at the end  
17 of the season.

18 We do have some stores now that we're  
19 carrying year round, so we have that flexibility of  
20 moving inventory and feeding the balance of that  
21 inventory into our stores that we do carry heated year  
22 round.

23 MR. JOSHUA KAPLAN: So you sell these  
24 blankets year round, you're saying. You find demand  
25 for them even in the middle of the summer.

1 MS. HEARN: Yes, and on Internet and  
2 catalog, it's a big business for us in the spring.

3 MR. JOSHUA KAPLAN: And these are sales to  
4 people in the United States. Correct?

5 MS. HEARN: Uh-huh.

6 MR. JOSHUA KAPLAN: Thank you. This would  
7 be both for Mr. Porter and Ms. Hearn. Do you know of  
8 any other sources for these blankets, whether it be, I  
9 suppose, first and foremost, woven, but beyond that,  
10 these other products that we've been talking about,  
11 other sources besides China; other countries that  
12 perhaps you're aware of, or, in the case of Ms. Hearn,  
13 you've been approached for sales?

14 MS. HEARN: No. China and the U.S. are the  
15 only two places that I know of.

16 MR. PORTER: Yes. I'm not aware of any  
17 other places at this point in time.

18 MR. JOSHUA KAPLAN: Thank you. Mr. Porter,  
19 I realize that you're based here in the United States,  
20 but, as I understand it, you do have some familiarity  
21 with your affiliated producer in China. Would you be  
22 able to characterize at all the industry in China  
23 since 2006, broadly speaking, the industry for  
24 producing these blankets?

25 MR. PORTER: Characterized in what form?

1                   MR. JOSHUA KAPLAN: Has it been growing?  
2 shrinking? Have there been changes made?

3                   MR. PORTER: On the woven electric blankets?

4                   MR. JOSHUA KAPLAN: Woven, first and  
5 foremost, but also any comparable products.

6                   MR. PORTER: Yes. I know some manufacturers  
7 make comparable products in China. There's several  
8 manufacturers probably that make electric-heated  
9 mattress pads, electric-heated woven blankets, they  
10 could, and then needed knitted-fleece electric  
11 blankets.

12                   MR. JOSHUA KAPLAN: Are there more producers  
13 now than there were a few years ago?

14                   MR. PORTER: I wouldn't know that.

15                   MR. JOSHUA KAPLAN: Generally, to the  
16 activities of your affiliated producer in the sense  
17 that have they maintained kind of a relative level of  
18 activity and production, or are they growing and  
19 employing more workers?

20                   MR. PORTER: Our capacity has not grown in  
21 six years, five years.

22                   MR. JOSHUA KAPLAN: Thank you. Do you know  
23 of any new production technologies that they have been  
24 employing or that they are looking to employ in the  
25 future?

1           MR. PORTER: Honestly, no new technologies  
2           at this point in time.

3           MR. JOSHUA KAPLAN: Could you, perhaps to  
4           the extent that you're able, describe the production  
5           process as it exists at that facility there in China  
6           in the sense that is it heavily automated? Is there a  
7           lot of manual labor involved? Obviously, you don't  
8           work at the factory. I understand that, but to the  
9           extent that you're knowledgeable of their general  
10          practices in making one of these blankets, I would  
11          appreciate it if you could provide us with some  
12          information.

13          MR. PORTER: It's the general processes that  
14          have been described earlier. It's getting a product  
15          through the production cycle, but there is no secret  
16          technology. It's inserted by people, the wire into  
17          the blanket, during the production process.

18          MR. JOSHUA KAPLAN: So the basic steps that  
19          were mentioned earlier by Mr. Sullivan are basically  
20          the same, is what you're saying.

21          MR. PORTER: Yes.

22          MR. JOSHUA KAPLAN: Thank you. That  
23          actually concludes my questions at this time.

24          MR. PORTER: Thank you very much. We turn  
25          to Mr. von Schrittz.

1           MR. VON SCHRILTZ: Hello. Thank you for  
2 attending our conference and answering our questions.  
3 It's very helpful. I have a few questions.

4           First, for Mr. Porter, there is a lot of  
5 testimony from both you and Ms. Hearn about the  
6 superior features of your electric blankets relative  
7 to Sunbeam's electric blankets. I'm wondering, what  
8 kind of a price premium do your blankets command over  
9 Sunbeam products in the U.S. marketplace?

10          MR. PORTER: They are retailed essentially  
11 the same price, retail. The retail prices in the  
12 United States market, starting off with Wal-Mart, who  
13 is the world's largest retailer of electric blankets,  
14 starts out at \$29.86 for a twin size and will go all  
15 the way up to subject electric blankets to \$89.99  
16 twin-lead size. So the price range for an electric  
17 blanket in the United States is \$29 all the way up to  
18 \$89, twin price.

19          MR. VON SCHRILTZ: But for the comparable  
20 blankets like the ones that you just passed around,  
21 would your blanket command a premium over the Sunbeam  
22 domestic product, a price premium, in the retail  
23 market?

24          MR. PORTER: I really don't know what their  
25 prices are, so I really couldn't speak to it.

1           MR. VON SCHRILTZ: You don't know what their  
2 prices are in the retail market.

3           MR. PORTER: In the retail market, they are  
4 essentially the same.

5           MR. VON SCHRILTZ: Why wouldn't consumers be  
6 willing to pay more for your blanket if it offers  
7 superior performance and features?

8           MR. PORTER: Again, it's branding. There  
9 could be several different reasons on why our product  
10 would be priced the same or even higher, such as the  
11 brand that's included, the marketing philosophy, and  
12 the retailers.

13           MR. VON SCHRILTZ: I heard testimony earlier  
14 that you're offering three different branding  
15 possibilities, I guess. There is your Biddeford,  
16 there is the Sealy, and then there is the private  
17 label.

18           MR. PORTER: Yes.

19           MR. VON SCHRILTZ: And I also heard  
20 testimony from Ms. Hearn that the Sealy brand commands  
21 some respect among consumers. Why wouldn't that brand  
22 equity translate into higher prices for your blankets?

23           MR. PORTER: It does in that case. It does  
24 at retail in that case.

25           MR. VON SCHRILTZ: So the Sealy blankets

1 retail for more than the Sunbeam blankets.

2 MR. PORTER: Yes, sir. Absolutely.

3 MR. VON SCHRILTZ: And a question for Ms.  
4 Hearn somewhat related to that. I'm wondering, when  
5 you decided to make the switch from Sunbeam to  
6 Biddeford blankets, how much more did you pay for the  
7 Biddeford blankets over the Sunbeam blankets that were  
8 replaced?

9 MS. HEARN: I would rather not talk about  
10 that in here.

11 MR. VON SCHRILTZ: Could you respond in your  
12 post-conference brief, please?

13 MS. HEARN: Yes.

14 MR. VON SCHRILTZ: Thank you. That would be  
15 very helpful because one of the points raised by  
16 Petitioners, and it seems to make sense to me, though  
17 I'm not a retailing expert, that, all else being  
18 equal, if you have a product with superior features,  
19 you know, more picks per inch or a softer hand, or  
20 it's sewn on all three sides instead of just one side,  
21 then consumers ought to be willing to pay more for it.  
22 As a businessman, you ought to be able to command a  
23 premium, get a higher profit margin, on products that  
24 offer superior features.

25 So I just sort of want to understand how

1 that's reflected in our record, and anything you could  
2 do in your post-conference brief to help me understand  
3 the price trends, and I know that only your counsel  
4 will have access to the business-proprietary  
5 information, so also I'm asking the lawyers, too, to  
6 explain, given the allegedly superior features of at  
7 least Biddeford's blankets, and I know you can't speak  
8 for all subject imported electric blankets, what  
9 explains the price comparisons and that kind of thing?

10 Another question: About domestic like  
11 product, now you claim that there is domestic  
12 production of heated electric mattress pads. It's  
13 West Point Stevens, you say. What about knit electric  
14 blankets? Is there domestic production in knit  
15 electric blankets?

16 MR. PORTER: Not to my knowledge.

17 MR. VON SCHRILTZ: Okay. Speaking to your  
18 counsel, if you could explain to me how the Commission  
19 can define a domestic like product to include products  
20 that are not produced domestically.

21 MR. LAYTON: Well, I'm not sure you can, if  
22 that's a true statement. We don't know for sure.  
23 I've been involved in a lot of cases, and I've had  
24 clients who think they know everything in the world  
25 about an industry, and it proves that, oops, they

1 really don't. So I think, from a product standpoint,  
2 you have a like product that's a lot broader than the  
3 one that the Petitioners are offering up to you. It  
4 includes the knitted-fleece blanket, it includes the  
5 electric mattress pad, which, there, we do know, based  
6 on our information, I think we're confident that we do  
7 have a domestic manufacturer here in the United States  
8 of that electric mattress pad, which is West Point  
9 Stevens.

10 But I think you need to, if I may,  
11 respectfully suggest, inquire about this. Let's find  
12 out if anyone here in the United States is making -- I  
13 guess we should be talking about a finished,  
14 semifinished, or unassembled knitted electric blanket.

15 MR. VON SCHRILTZ: Okay. Of course, any  
16 evidence you could submit with your post-conference  
17 brief would be much appreciated on that issue.

18 MR. LAYTON: We will.

19 MR. VON SCHRILTZ: Mr. Porter, do you sell  
20 any electric blankets to Wal-Mart?

21 MR. PORTER: No, sir.

22 MR. VON SCHRILTZ: Have you approached Wal-  
23 Mart and offered to sell them electric blankets?

24 MR. PORTER: Yes, sir.

25 MR. VON SCHRILTZ: And do you have any sense

1 of why Wal-Mart hasn't ordered any electric blankets  
2 from you?

3 MR. PORTER: There could be several factors.  
4 Certainly, branding is one of the issues. I know Wal-  
5 Mart buys a tremendous amount of product from Sunbeam  
6 Corporation as a general corporation. That has been  
7 mentioned in some of the negotiations with Wal-Mart.  
8 The Sunbeam brand is certainly a factor.

9 MR. VON SCHRILTZ: Thank you for that.

10 Ms. Hearn, does J.C. Penney sell other  
11 Sunbeam products?

12 MS. HEARN: Yes.

13 MR. VON SCHRILTZ: You talked a little bit  
14 about Sealy, how you're going to become the exclusive  
15 retailer of Sealy electric blankets as of 2009, this  
16 year.

17 MS. HEARN: Yes.

18 MR. VON SCHRILTZ: Now, why wouldn't the  
19 same logic apply to Sunbeam electric blankets? Why  
20 wouldn't Sunbeam command some consumer loyalty, given  
21 that you also sell Sunbeam irons and appliances?

22 MS. HEARN: Well, Sunbeam is a good brand,  
23 but they would not give us the exclusive to Sunbeam,  
24 and us being able to have the exclusive to the Sealy  
25 brand, we feel like, is giving us a competitive edge,

1 and we can build -- that we've got customer confidence  
2 in the Sealy brand, and we can just build upon that in  
3 heated electric blankets.

4 MR. VON SCHRILTZ: Okay. Has Sunbeam  
5 attempted to win back your business since you switched  
6 to a Biddeford bedding in 2006, I think it was?

7 MS. HEARN: No. They knew I was looking at  
8 doing something different, and there was a lot of  
9 negotiating going on back in probably September of  
10 last year but not since then.

11 MR. VON SCHRILTZ: Did they contact you, or  
12 did you contact them? So last year you did talk with  
13 them a little bit about the electric blanket?

14 MS. HEARN: Oh, yeah. Every year, I relook  
15 at what is the best product for that year, so it's an  
16 annual decision.

17 MR. VON SCHRILTZ: Okay. Thank you.

18 MR. PORTER: May I add something?

19 MR. VON SCHRILTZ: Sure.

20 MR. PORTER: Many of our retail partners and  
21 customers bring up the very specific instance, as was  
22 brought up earlier, that there's not many retail  
23 accounts out there in the United States today, and  
24 some of our retail partners specifically mention,  
25 well, the Sunbeam brand is at Wal-Mart, and they know

1 they cannot compete with Wal-Mart on their business  
2 model because of their markup structure at Wal-Mart,  
3 the "low price every day" model, if you're familiar  
4 with Wal-Mart.

5 So that is a determining factor in every  
6 single negotiation and every single presentation that  
7 we do make because they ask us about the brands  
8 because nobody in the business world today wants to  
9 carry the exact same product that Wal-Mart does. So  
10 that's a very influential factor.

11 MR. LAYTON: This was part of Mr. Porter's  
12 testimony. This is a huge driver in this case. As  
13 Mr. Kaplan was mentioning, you've got limited buyers  
14 of this product at the retail-distributor level, 10,  
15 12. Okay? The big, 300-pound gorilla in the room is  
16 Wal-Mart. Sunbeam has done a fantastic job -- hats  
17 off to them -- in establishing a relationship with  
18 Wal-Mart. They are selling them a large amount of  
19 their woven electric blankets.

20 Well, that thing says "Sunbeam" on it. Is  
21 J.C. Penney going to buy a Sunbeam woven electric  
22 blanket and try to sell it in the same newspaper ads,  
23 to use that sort of hypothetical? They can't. They  
24 won't be able, given their cost structure, if I may  
25 say, be able to price and compete with Target selling

1 the exact same product. That dog won't hunt.

2 So they have got to go to other vendors,  
3 like Biddeford, to get a woven electric blanket and  
4 distinguish their product based on the brand that  
5 Biddeford will offer, the Sealy or the private label,  
6 and, fortunately, it's a darned good product that  
7 compares very favorably to the Sunbeam product.

8 MR. LOWE: If I may just add one point, my  
9 colleague just made one misstatement when he referred  
10 to Target as being the retailer that Sunbeam is  
11 selling to. He meant, as he talked about most of the  
12 time, Wal-Mart.

13 MR. VON SCHRILTZ: Thank you for that.

14 To sort of follow up on that, Ms. Hearn, you  
15 say that you do negotiate with Sunbeam every year just  
16 to see what they are offering for the next season. Is  
17 that fair to say?

18 MS. HEARN: Yes.

19 MR. VON SCHRILTZ: Do they only offer  
20 Sunbeam-branded products to you, or have they offered  
21 to produce private-label products or products under a  
22 different label?

23 MS. HEARN: I don't remember that  
24 conversation ever coming up. We would not do private  
25 brand, though, because of the liability of the heated

1 product.

2 MR. VON SCHRILTZ: So Sealy actually assumes  
3 the liability for the electric blankets sold under its  
4 brand name and made by Biddeford.

5 MS. HEARN: Yes, sir.

6 MR. PORTER: The correction: Biddeford  
7 assumes the liability, not Sealy.

8 MR. VON SCHRILTZ: Right. So, again, Ms.  
9 Hearn, would Sunbeam offer to assume liability for  
10 producing electric blankets -- have they offered to  
11 produce blankets under a different brand name perhaps  
12 for sale to J.C. Penney?

13 MS. HEARN: I don't recall any conversation  
14 about that.

15 MR. VON SCHRILTZ: Thank you. A related  
16 question about this whole local versus global shutoff  
17 feature: I'm still not entirely clear. Now, you  
18 said, Mr. Porter, that your blankets offer the auto  
19 shutoff so that if they are tipped over, or they are  
20 folded over, they shut off, but is it the localized  
21 shutoff, or does the whole blanket shut off when it's  
22 folded?

23 MR. PORTER: The whole blanket shuts off.

24 MR. VON SCHRILTZ: The whole blanket. So  
25 you don't offer the localized-shutoff feature.

1 MR. PORTER: The whole blanket shuts off.

2 MR. VON SCHRILTZ: Thank you for that  
3 clarification.

4 I have no further questions at this time.  
5 Thank you for your responses.

6 MR. ASCIENZO: Thank you very much. We turn  
7 to Ms. Preece.

8 MS. PREECE: Thank you. That's been very  
9 helpful so far, and I'm sure we'll drag some more  
10 stuff out of you.

11 You said you price net-net. I mean, how do  
12 you come up with the net-net price? I mean, is that a  
13 cost plus, or is it --

14 MR. PORTER: It would be cost plus, and then  
15 we start out with what we call "net-net," which is no  
16 advertising, no markdown money offered up front, and  
17 then if the retailer wants markdown money, then we  
18 cost plus, or plus the advertising percentage.

19 MS. PREECE: The other one was buyback, and  
20 you also don't offer the buyback.

21 MR. PORTER: We really do not offer buyback.  
22 Only in the last two or three years have I had to  
23 compete with Sunbeam to do a buyback occasionally.

24 MS. PREECE: So you have done buybacks.

25 MR. PORTER: We have done buybacks in the

1 past, yes, but not many at all. I would rather do  
2 that in post-conference brief. It's not a general way  
3 we have done business in six years.

4 MS. PREECE: Yes. I don't want the details  
5 right now. In the brief, it would be very helpful to  
6 get all of that.

7 So, for your briefs, if you can discuss  
8 those, the discounts, the promotional advertising, all  
9 of those things, how those are added to your net-net,  
10 FOB versus delivered, those kinds of things, and  
11 safety stock because that's an issue that probably is  
12 more important if it's coming in from China than if  
13 it's coming from the United States.

14 MR. PORTER: "Safety stock," in the way we  
15 define it, it's a highly seasonal business. Our  
16 retail customers and partners bring in sometimes FOB  
17 China -- okay? -- and then if it's a very cold winter,  
18 the turnaround time, if we have local stock for, let's  
19 just say, J.C. Penney's, if we have some localized  
20 stock, we can do a very quick turnaround, and that is  
21 local stock that we have because, in my experience in  
22 the last 20 years, the industry or your business can  
23 fluctuate up to 10 percent based on the weather, based  
24 on oil prices, in the critical months of the December-  
25 November selling period. So if we have some safety

1 stock, everybody wins.

2 MR. LAYTON: Excuse me. Sorry. I think the  
3 witness from Sunbeam testified that while we're a  
4 manufacturer, why do we have to bother with safety  
5 stock? In talking to Mr. Porter, and perhaps Ms.  
6 Hearn would have a comment on this, just it's common  
7 sense.

8 To react quickly to a purchase order when  
9 you don't have it in inventory; I just think that that  
10 doesn't make sense to me, and I don't think that that  
11 comports with reality. Their business model enables  
12 them to have that merchandise here in the United  
13 States in their warehouse and reacting quickly, and I  
14 think that's something that the J.C. Penney's of the  
15 world appreciate.

16 MR. PORTER: And that's another point of  
17 differentiation -- okay? -- "customer service" meaning  
18 getting product quickly to the retail shelves for the  
19 consumer for our retail partners when they need it  
20 when it's cold out, and it's no secret that electric  
21 blankets sell when it's cold.

22 MS. HEARN: I will tell you that a lot of  
23 our suppliers back us up with safety stock.

24 MS. PREECE: So safety stock is important.  
25 Have you dealt with Sunbeam where there was a

1 difficulty getting product in because they lacked  
2 safety stock? Were there any delays in shipments in  
3 the period before you started using --

4 MS. HEARN: If sales were good, were better  
5 than what we had anticipated, then we missed business.

6 MS. PREECE: So you would find that there  
7 would be problems with stocking up from the Sunbeam.

8 MS. HEARN: Yes.

9 MS. PREECE: Okay. I guess I would like to  
10 go back to Sunbeam and just have them discuss the  
11 timing it takes for the product to be available in  
12 their brief so we can deal with that issue since it  
13 does seem to be important.

14 We're getting all of this information about  
15 the different sizes of the bindings and the sewing  
16 around the edges. Are those optional components? Can  
17 you go to Sunbeam and ask for them to give you a wider  
18 binding?

19 MS. HEARN: They will adjust the binding.  
20 As far as the finish, they actually -- I think there  
21 is a set way they finish their blankets. The actual  
22 shells of the blankets are the same. It doesn't  
23 matter who they sell it to. They are not flexible on  
24 that, how it's finished.

25 MS. PREECE: Uh-huh. Have you found

1 Biddeford to be more flexible on that?

2 MS. HEARN: Yes. We've pretty much  
3 developed the blankets together.

4 MS. PREECE: Okay.

5 MR. LAYTON: I also think, and I would ask  
6 the industry experts to correct me if I'm wrong, but I  
7 think when you buy from Sunbeam, you are locked into a  
8 thicker wire, and it is quite noticeable. I was quite  
9 struck by the fact that it's completely -- you can  
10 just see it through that shell, at least of that  
11 sample right there, which we honestly believe is  
12 representative for your purposes.

13 MS. HEARN: They have one option of wiring,  
14 and that's it.

15 MS. PREECE: So, basically, with Sunbeam,  
16 you are set in the size of the blanket. The binding,  
17 they might be able to change.

18 MS. HEARN: They will work with you on the  
19 binding changes.

20 MS. PREECE: And the seams, the sewing of  
21 the edges; is that something that you've ever said,  
22 "Oh, I would really rather have --"

23 MS. HEARN: No, because they buy their  
24 shells -- I think he said earlier -- they buy their  
25 shells to specific size from the mill.

1 MS. PREECE: Uh-huh. So they can't sew the  
2 edges.

3 MS. HEARN: Right.

4 MS. PREECE: Okay. Mr. Porter, are your  
5 electric blankets sold on a contract basis usually or  
6 a spot basis?

7 MR. PORTER: As it was earlier defined, we  
8 operate in the same manner Sunbeam does. It's really  
9 purchase orders. There's no contracts. We don't have  
10 any contracts long term. It's a seasonal business  
11 reviewed every year and then reviewed the next year  
12 for the next year. It's purchase orders that we get  
13 anywhere from a month or a couple of months or even  
14 two days prior to shipment, so it's a purchase order  
15 industry.

16 MS. PREECE: Thank you.

17 Ms. Hearn, can you tell me anything about  
18 what J.C. Penney sees as the typical purchasers, their  
19 age, their household status, their income, region,  
20 anything like that? You were saying that there are  
21 some places where they sell electric blankets all of  
22 the time. Obviously, it's not Miami, but where does  
23 that occur?

24 MS. HEARN: Actually, you would be surprised  
25 at where they are. I would rather talk about that in

1 our post-conference briefing --

2 MS. PREECE: Great.

3 MS. HEARN: -- but you'll be surprised at  
4 the areas that they do sell.

5 MS. PREECE: Okay, okay. You know, if you  
6 sell them year round in Hawaii, I want to know about  
7 it.

8 Are they bought as gifts, or is this  
9 typically bought for the household? Is that something  
10 that J.C. Penney ever follows?

11 MS. HEARN: Actually, we do talk about it as  
12 gifts. I don't think they are typically a gift, but  
13 it peaks in the fourth quarter or so. I do think that  
14 they are sometimes purchased as gifts.

15 MS. PREECE: Okay. I think maybe it's  
16 within the household, which makes sense, you know.  
17 I'm cold. Well, I know where I can get --

18 MS. HEARN: Especially heated throws, too.

19 MS. PREECE: Yes, yes, so that makes sense.  
20 Can you say anything about the trends in demand over  
21 the period we're looking at, from 2006, for electric  
22 blankets and particularly the woven ones?

23 MS. HEARN: Yes. Last year was a tough year  
24 for everybody in the whole economy, so sales were down  
25 slightly. I will say, in our catalog and Internet

1 business, the knit electric blanket has had huge gains  
2 and throw, actually.

3 MS. PREECE: So the Christmas sales were  
4 down, but the Internet sales were up.

5 MS. HEARN: Since 2006 -- I think it was  
6 actually 2006 that we introduced a knit heated  
7 blanket, and we've had continual gains on that every  
8 year.

9 MR. LAYTON: Excuse me. This phenomenon of  
10 this knitted-fleece blanket or throw is not unique to  
11 J.C. Penney. I think everybody in the room in this  
12 city occasionally pops in, with themselves and their  
13 kids, to Old Navy and The Gap or all of these places,  
14 and, gosh, it seems like everything is made out of  
15 fleece these days; it's very popular.

16 So this is a new electric blanket or throw  
17 that's been introduced to the market, and these  
18 retailers, these major retailers, are not stupid.  
19 They bring this new product in at a higher price point  
20 above the woven electric blanket that my parents were  
21 buying for me back in the fifties, or at least since  
22 the sixties. It's been around a long time.

23 So now you have this new, knitted-fleece  
24 blanket or throw coming into the marketplace at a  
25 price point above the woven electric blanket, and I

1 think that you would hear testimony from them that for  
2 knitted-fleece blankets and throws, the prices have  
3 been trending down. Well, as it trends down, it comes  
4 right down on top of the woven electric blankets and  
5 pushes those prices down.

6 MR. PORTER: And I would like to make an  
7 addition to that. We have also seen, in our company,  
8 the knitted-fleece blankets and throws trending  
9 dramatically up in recent years, as far as volume  
10 goes, and it's at the expense of woven electric  
11 blankets and throws, and it's consumer preference and  
12 retailer preference.

13 MS. PREECE: So we had a discussion here  
14 about the 60 percent of the imports being woven  
15 electric blankets, and would you see that as changing  
16 between 2006 and 2008?

17 MR. PORTER: Yes. The knitted-fleece  
18 product lines have grown and trended up in unit sales.

19 MS. PREECE: So you would expect that the  
20 increasing share of imports would have been knitted  
21 and the nonwoven.

22 MR. PORTER: Knitted. I'm not familiar with  
23 any nonwoven.

24 MS. PREECE: Knitted. You don't deal with  
25 nonwoven.

1 MR. PORTER: Right, right.

2 MS. PREECE: Who does? Do you know who?

3 MR. PORTER: Well, the nonwoven; I'm not  
4 sure exactly what a nonwoven is except if it's the  
5 flocked blanket. I'm not aware of anybody in the  
6 United States or foreign producers producing a  
7 nonwoven, what we call in the industry, "flocked  
8 blanket." So I'm not aware of any sales on that at  
9 all, and then the knitted fleece, as I said, has  
10 trended up, which puts price pressures on woven  
11 electric blankets as a category, more price pressure  
12 on that, from a merchandizing standpoint.

13 MS. HEARN: Back in 2005, I did buy an  
14 electric flocked blanket from West Point. They are  
15 the only producers of that. It's what the industry  
16 knows as a "Velux blanket." That's their brand, and  
17 they are the only ones that know how to make that kind  
18 of blanket. But I did buy a heated blanket from them,  
19 and I think it was in 2005, that was flocked.

20 MS. PREECE: For yourself or for J.C.  
21 Penney's?

22 MS. HEARN: For J.C. Penney.

23 MS. PREECE: And so J.C. Penney sold that  
24 product.

25 MS. HEARN: Yes. I think it was back in

1 2005.

2 MS. PREECE: But it hasn't done it since  
3 then. It wasn't a very successful product.

4 MS. HEARN: Well, I only did it on the  
5 Internet, and, no, it's hard to market something just  
6 on the Internet, so I quit running it then.

7 MS. PREECE: Okay, okay. So you would see  
8 that as perhaps more different from the woven than the  
9 knitted were from the woven.

10 MS. HEARN: I think they are all used for  
11 the same purpose, for keeping someone warm in a bed.

12 MS. TROSSEVIN: I just briefly wanted to add  
13 one point of clarification. When she was talking  
14 about the increased popularity of the knit, I think  
15 that we would disagree with some of the testimony you  
16 heard earlier. In Penney's experience, at least, the  
17 knit sales are up, and they are taking some of the  
18 sales away from woven. In other words, it's not that  
19 our sales are going up. That's not all additional  
20 sales. That's sales coming off of the woven.

21 MR. PORTER: And I would agree with that  
22 with our company as well.

23 MS. PREECE: And this flocked product; is  
24 that growing, to any extent, that you have any  
25 knowledge of it whatsoever?

1 MS. HEARN: The flocked product; I don't  
2 want to speak for them, but I don't think they sell  
3 that heated anymore, electric.

4 MS. PREECE: Okay.

5 MR. PORTER: To the best of my knowledge,  
6 the flocked electric blanket in the industry hasn't  
7 been around since 2005 probably.

8 MS. PREECE: So that if we're looking at  
9 imports in 2006, we would be looking at woven and  
10 knitted product, and the knitted product is the  
11 higher-priced product than the woven product,  
12 typically.

13 MS. TROSSEVIN: Correct.

14 MS. PREECE: Okay, okay. Good. Thank you.

15 Again, I asked about any factors that  
16 influence demand. We've talked about temperature. Do  
17 you know of any other factors that influence demand  
18 for electric blankets, woven electric blankets, that  
19 would be helpful?

20 MS. HEARN: The only other thing that could  
21 influence it is just with the economy being the way  
22 that it is, retailers, we're keeping our open to buy  
23 very tight to where we can't afford to have  
24 merchandise sitting around for long periods of time so  
25 we're flowing merchandise in much closer to the time

1 of selling, and we're keeping it tight.

2 So I will tell you, last year, in the fourth  
3 quarter, I probably could have sold some more heated,  
4 but to keep our inventory tight, we just made the  
5 management decision to just cut it off.

6 MS. PREECE: And so that would be another  
7 reason why you would want to have the inventories in  
8 the U.S. --

9 MS. HEARN: Correct.

10 MS. PREECE: -- more important now than in  
11 the past.

12 MS. HEARN: Correct.

13 MR. PORTER: And that's what has been  
14 referred to as "safety stock."

15 Then I would like to make one additional  
16 point. On the knitted-fleece category, blankets and  
17 throws, it's a relatively new phenomenon, or a new  
18 product line, in the United States. As it is becoming  
19 more and more consumer accepted, the prices of the raw  
20 materials of the fleece product are going down because  
21 as we source and look at the fleece products, there  
22 are a ton of people we buy the raw materials from, so  
23 that is also driving the price down as well on woven  
24 electric blankets because the price of knitted is  
25 starting to come down, putting price pressure on woven

1 electric blankets as well.

2 MR. LAYTON: So when you think about demand,  
3 you're hearing two forces going on here. One is the  
4 ultimate consumer, you and I, do we want it or not,  
5 and there we've talked about the recession, cold  
6 winters. We haven't mentioned home heating oil prices  
7 affecting that ultimate customer demand.

8 Then you also have the customer of the  
9 manufacturer of the Biddefords and the Sunbeams, which  
10 are these major retail distributors, and you just  
11 heard Leslie testify, and this, we talked a little bit  
12 about in our questionnaire response; we talked about  
13 it more in terms of the limited number of retailers,  
14 the limited amount of shelf space, and even these  
15 conscious decisions, whether they had the shelf space  
16 or not, so to speak, to just restrict the number of  
17 purchases they made.

18 Yes, they could have maybe sold more woven  
19 electric blankets, but given this tremendous pressure  
20 they are under to keep their inventories and their  
21 just-in-time system as tight as possible, they are  
22 just cutting off the purchasers from these vendors.

23 MS. PREECE: You talked about acrylic versus  
24 polyester. Is there any difference between acrylic  
25 and polyester? What's the difference between the

1 blankets? I mean, obviously, there must be a reason  
2 why you have both.

3 MR. PORTER: Acrylic is really a softer  
4 hand, typically over the last 30 years, a softer hand  
5 on an acrylic product versus a polyester product.

6 MS. PREECE: So you would price an acrylic  
7 higher than a polyester.

8 MR. PORTER: Yes.

9 MS. PREECE: And it would be noticeable so  
10 that the consumer would see this, they would touch  
11 them both, and they would say, "Oh, this feels nicer."

12 MR. PORTER: Sure, they could, yes,  
13 absolutely.

14 MS. PREECE: Okay. Is that available from  
15 Sunbeam?

16 MR. PORTER: I don't believe so, not in the  
17 last few years.

18 MS. PREECE: Okay. Is there any difference  
19 between the demand for Chinese woven electric blankets  
20 than U.S. woven electric blankets in the general  
21 demand? Is there something specific about them that  
22 says, "Okay. We're going to follow a different  
23 pattern." Is it going to be bought at different times  
24 of the year or anything like that?

25 MR. PORTER: Not to my knowledge.

1 MS. PREECE: To the extent you can, I would  
2 love to have you go into specifically the differences  
3 in quality between the U.S. product and the Chinese  
4 product. To the extent you know, if you could talk  
5 about other producers in addition to -- I don't  
6 remember the producer you have, but other producers,  
7 so that would be helpful to talk about what the  
8 differences are.

9 MR. LAYTON: I'm pretty sure we're going to  
10 be unable, in my conversations with my client, to  
11 discuss much of anything, let alone specific product  
12 quality about these so-called "other Chinese  
13 producers."

14 MS. PREECE: Okay.

15 MR. LAYTON: Personally, I'm not even  
16 convinced there really are any, but they seem to think  
17 there might be one or two, but they are not showing up  
18 in the United States, to speak of, that I'm aware of.

19 MS. PREECE: Okay. The specific quality  
20 differences you talked about; I would like to have  
21 them, to any extent you can explain how they are  
22 different, why that would be superior to have a larger  
23 edging, in the briefs, I would like to have that.

24 This industry, Mr. Porter, you said some of  
25 the retailers are importers of your product. Is that

1 correct?

2 MR. PORTER: Yes. For instance, J.C. Penney  
3 is the importer of record.

4 MS. PREECE: Okay. If we collect from J.C.  
5 Penney their pricing data, including cost to the U.S.,  
6 would that be comparable to the price data we collect  
7 from firms that purchase from Sunbeam?

8 MR. PORTER: I'm not aware of Sunbeam's  
9 pricing.

10 MS. PREECE: No, not the price level but --

11 MR. PORTER: The estimated landing costs  
12 could be.

13 MS. PREECE: Could be comparable to the  
14 price that Sunbeam has for the purchasers for the  
15 price. We're going to try to collect this price data,  
16 and I want to see whether or not you think it's  
17 reasonable to say J.C. Penney's costs, including  
18 landed duty paid, are similar and comparable to what  
19 they would be paying from Sunbeam as far as being a  
20 cost, or is it not a cost? Do they have extra costs  
21 from being the importer?

22 MR. LAYTON: I think we would like to  
23 address that question in our post-conference.

24 MS. PREECE: Of course. I would love to  
25 have details, but I just want that to be answered.

1 I fear, not fear -- I'm very happy to say,  
2 my questions are done.

3 MR. ASCIENZO: Thank you very much. We turn  
4 to Mr. Boyland.

5 MR. BOYLAND: Good afternoon. I only have a  
6 couple of questions. One is just sort of a general  
7 issue of, is there an equivalent unit or basis that  
8 you can actually say the Chinese woven electric  
9 blanket generates X amount of heat per square foot?  
10 Is there basically a way of saying there is an  
11 equivalency in terms of heat generated? I mean, is  
12 that just something that doesn't exist in the  
13 industry?

14 MR. PORTER: Not to my knowledge. Mr.  
15 Sullivan mentioned about the heat-up time. You can  
16 probably measure that, but, again, it's a consumer-  
17 based item, and having spent many years in this  
18 industry, the consumer is focused on, when you plug it  
19 in, does it work, does it work consistently for a long  
20 period of time, and does it heat them to their  
21 expected heating level, and will it not be defective?

22 Ms. Hearn talked about the defective rates,  
23 and that is a point of differentiation at many  
24 retailers that they look at defective rates so when it  
25 comes back. So the consumer wants it to work when

1 they plug it in, but here is no basis that I'm aware  
2 of.

3 MR. BOYLAND: Okay. Fair enough. I guess  
4 the question was sort of the wire gauge seemed to be  
5 something you were focused on, a thinner gauge for  
6 your product versus a thicker gauge, and I'm wondering  
7 how that, you know, is basically going to --

8 MR. PORTER: It doesn't affect the heating  
9 characteristics of the wire whatsoever, no affecting  
10 of the actual heat whatsoever. It's just the  
11 construction of the heating wire.

12 MR. BOYLAND: And with respect to the  
13 defective units returned, was there a consistent  
14 problem? How would you characterize the returns?

15 MS. HEARN: It's hard to tell because the  
16 customer, we do ask them return reasons, but there's,  
17 like, two catch-alls that you can't really tell what  
18 it is. It's very hard to tell.

19 MR. BOYLAND: Okay.

20 MS. HEARN: We do dig into it and try to,  
21 but it's not like that we have customers that call or  
22 whatever. I dig as deep as I can, and it's just hard  
23 to pinpoint sometimes.

24 MR. BOYLAND: Thank you for your testimony.

25 MR. ASCIENZO: Thank you very much. Ms.

1 Colbe?

2 MS. COLBE: Back to the wire, we saw Sunbeam  
3 pass their wire around, and it's kind of a figure-  
4 eight-shaped, kind of dual wire, it seemed, and they  
5 mentioned that they had patented their technology a  
6 while back. The wire that is in the Biddeford  
7 blanket, which is thinner; is that patented? What are  
8 the characteristics of that wire?

9 MR. PORTER: No. It's what we call a "dual-  
10 wound wire." It's not patented. It's an industry  
11 standard as also quoted in the Electric Blanket  
12 Institute. It's time tested over many decades on how  
13 to heat an electric blanket, but it is not patented,  
14 and we do not have a patent on that particular wire.

15 MS. COLBE: Okay. So it's a single-wire  
16 wrap.

17 MR. PORTER: Yes, exactly.

18 MS. COLBE: The safety stock issue as well,  
19 or the replenishment stock; now, Biddeford's stock is  
20 held where? Do you have a warehouse here, or is it in  
21 China?

22 MR. PORTER: In Mundelein, Illinois, north  
23 of Chicago.

24 MS. COLBE: Okay. So I was trying to get a  
25 sense of if you place an order for replenishment, and

1 you have a domestic manufacturer who doesn't have the  
2 stock and has to produce versus time to market it if  
3 it were in China. What would the turnaround time be  
4 for a replenishment order?

5 MR. PORTER: In China or in Mundelein?

6 MS. COLBE: With the stock that you would  
7 have here, if J.C. Penney were to --

8 MR. PORTER: Turnaround time?

9 MS. HEARN: Twenty-four hours.

10 MR. PORTER: Twenty-four hours, yes.

11 MS. COLBE: Okay.

12 MR. PORTER: Twenty-four hours.

13 MS. COLBE: The estimate that imports, 60  
14 percent would be woven, 40 percent knit or other  
15 nonwoven; do you agree with that estimate?

16 MS. HEARN: I really don't know. I can't  
17 say.

18 MR. PORTER: I would have to want to answer  
19 that in post-conference brief, if that's okay.

20 MS. COLBE: Okay. And just a final  
21 question. I was looking at the import statistics or  
22 the graph. Do you happen to know -- I didn't have a  
23 chance to look this up during the break -- when  
24 blankets from China were released from quota? Was it  
25 in 2005, or were they phased out earlier? Do you

1 happen to know?

2 MR. PORTER: I don't understand the  
3 question.

4 MS. COLBE: There were quotas on imports of  
5 textiles and apparel from China up until 2005. Do you  
6 know if they were phased out in the earlier phaseout?

7 MR. PORTER: Much earlier phaseout, much  
8 earlier. It hasn't been an issue for decades.

9 MS. COLBE: Okay. Thanks. That's it.  
10 Thank you.

11 MR. ASCIENZO: Thank you very much, and we  
12 turn to Mr. Deyman.

13 MR. DEYMAN: George Deyman, Office of  
14 Investigations.

15 You mentioned earlier that these blankets  
16 are sold using purchase orders. Do you go out with  
17 bids to the various suppliers and specifications  
18 saying a certain color, a certain edge size? How does  
19 it work?

20 MS. HEARN: No. Every year, when we're  
21 starting to look at heated product, the supplier base  
22 that actually sells heated product comes in, they show  
23 us their line, they have their trend information, and  
24 I look at each one's line.

25 On the Sealy brand, because that actually is

1 our exclusive brand, we actually build that product  
2 together, but, as a rule, every year I just go out and  
3 make an appointment with all of the vendors that sell  
4 electric blankets and look at their line.

5 MR. DEYMAN: Many industries have what they  
6 call "requests for bids," and they put the  
7 specifications down and send them to a bunch of  
8 industry people who manufacture product. This  
9 industry does not have that, in particular, in the  
10 last 25 years, where they absolutely just say all of  
11 the specifications and get the bids.

12 MS. HEARN: That's usually when you're doing  
13 it under your private brand, and I don't know anybody  
14 that does electric under their private brand, so  
15 that's a difference.

16 MR. DEYMAN: And that's very helpful. Thank  
17 you.

18 For the import data that we present in our  
19 staff report, do you recommend that we use adjusted  
20 official statistics, for example, the 60-percent  
21 figure, or do you recommend that we use our  
22 questionnaire responses?

23 MR. LAYTON: Well, since we're still  
24 reviewing the questionnaire responses, we're going to  
25 reserve judgment on that in our post-conference, if

1 that's all right.

2 MR. DEYMAN: That's fine. I only have one  
3 other question.

4 The normal trade relations regular duty on  
5 woven electric blankets is a rather steep, 11.4  
6 percent. Imports of electric blankets from a number  
7 of other countries are duty free under various free-  
8 trade agreements. Given the 11.4-percent difference  
9 in the duty, why aren't there more imports from  
10 countries other than China?

11 MR. PORTER: I really wouldn't be able to  
12 answer that. I don't know.

13 MR. LAYTON: I don't think we know.

14 MS. HEARN: I really don't know either. I  
15 just know that everybody that shows me an electric,  
16 it's from China.

17 MR. DEYMAN: There are some minimal imports  
18 from other countries. Do you know of any major  
19 producers other than China?

20 MS. HEARN: I don't.

21 MR. PORTER: I'm not aware of any major  
22 producers.

23 MR. DEYMAN: All right. Thank you. I have  
24 no further questions.

25 MR. ASCIENZO: Thank you very much.

1           Let me turn to the three different labels:  
2 the Sealy, Biddeford, and then a private label. Can  
3 that be described as good, better, best, or is that a  
4 wrong way to portray them?

5           MR. PORTER: Yes. That's kind of the wrong  
6 way to portray them, on good, better, best. Sealy  
7 does have a premium versus the other brands or labels,  
8 but good, better, best refers more to product features  
9 and benefits. This is strictly a branding issue.

10          MR. ASCIENZO: And I think the Biddeford  
11 brand has accumulated value over time.

12          MR. PORTER: Absolutely. Biddeford has been  
13 around since the 1890's, so substantial brand equity  
14 there as well.

15          MR. ASCIENZO: So aside from the label, and  
16 that is worth something, the brand name, and clearly  
17 the different size and the different fabric  
18 combinations, is there any good, better, best, or no;  
19 there is a woven electric blanket.

20          MR. PORTER: There is good, better, best as  
21 it relates to featured benefits, such as the shell,  
22 such as the control, such as the binding, such as the  
23 packaging. So you do have a good, better, best story  
24 if you classify it in that regard, but, yes, a box  
25 versus a zipper vinyl bag.

1 MR. ASCIENZO: But let's say the Sealy  
2 offering; are they all packaged the same way, or are  
3 they packaged differently?

4 MR. PORTER: No.

5 MR. ASCIENZO: So let's talk about any one  
6 specific label, the Sealy label, just to pick one.  
7 Are they all packaged the same?

8 MS. HEARN: I actually worked with Biddeford  
9 to develop the packaging, how I wanted to merchandise  
10 it as a retailer.

11 MR. ASCIENZO: I'm sorry, but when I walk  
12 into J.C. Penney, and if I see a Sealy woven electric  
13 blanket, not taking into account the fact that I could  
14 be looking at a queen or a king or a twin or a full,  
15 the packaging is the same for Sealy.

16 MS. HEARN: No. It's not in the stores yet,  
17 so if we could talk about that --

18 MR. ASCIENZO: Okay. How about Biddeford?

19 MS. HEARN: I think -- well, what I've got  
20 on the catalog side is definitely a good, better, best  
21 story, telling the customer this is considered a good,  
22 as far as it's a conventional woven. It's at a better  
23 price point than a knit heated, and that would be my  
24 best. Then we have the jacquard. That would be the  
25 better.

1                   Now, that's how I chose, as a buyer, to do  
2                   the good, better, best, working hand in hand with  
3                   Biddeford. You know, in conversations with them,  
4                   that's kind of how I decided to lay it out for  
5                   Penney's.

6                   MR. ASCIENZO: Thank you. I didn't ask this  
7                   morning's panel, but do you know, when you worked with  
8                   Sunbeam, did they have a good, better, best, or is it  
9                   all the same?

10                  MS. HEARN: They do have different product  
11                  that you could consider better.

12                  MR. ASCIENZO: Thank you. Do you ever  
13                  bundle these products, combine them with other bedding  
14                  products, mattresses, or sheets or pillow cases or  
15                  anything like that?

16                  MS. HEARN: During the holiday season,  
17                  sometimes we do pull together what we call at Penney's  
18                  a "hot zone" and talk about how it's gift product, or  
19                  we'll talk about how it's an energy-savings product,  
20                  and we'll merchandise it together with knit or with  
21                  mattress pads and just talk about a common theme of  
22                  the energy savings or a common theme as gift giving.

23                  MR. ASCIENZO: I take it, that's a fairly  
24                  small percentage overall of your sales of these  
25                  products.

1 MS. HEARN: Actually, we do that during the  
2 peak season.

3 MR. ASCIENZO: Really.

4 MS. HEARN: I can't tell you what customers  
5 -- we don't ask customers, are you buying it for a  
6 gift, or are you buying it for yourself, but it is  
7 during the peak gift-giving season.

8 MR. ASCIENZO: I'm sorry. I just want to  
9 make sure that I was clear. When I say "bundle," I  
10 mean you can't just walk in and buy a woven electric  
11 blanket; you have to buy it together with some sheets.

12 MS. HEARN: Oh, packaged together?

13 MR. ASCIENZO: Yes. That's what I meant.  
14 I'm sorry.

15 MS. HEARN: No, I've never done that because  
16 you don't want the customer to use a heated mattress  
17 pad and an electric blanket together because they  
18 pretty much do the same thing.

19 MR. ASCIENZO: No, but it would be a woven  
20 electric blanket with sheets.

21 MS. HEARN: No.

22 MR. ASCIENZO: No? Okay.

23 MS. HEARN: I've never done that.

24 MR. ASCIENZO: All right. Thank you. I  
25 presume you do this, but how do you decide what

1 customers want besides the fact that one sells better  
2 than the other when it's shelf-to-shelf competition?  
3 Do you do focus groups? Would you sit down with those  
4 two blankets with customers and say, you know, "What  
5 do you think? Are you willing to pay an extra six  
6 dollars for this one or 12 for this one?"

7 MS. HEARN: J.C. Penney does do focus  
8 groups. We have not done it on electric. I do it  
9 around the office. It's amazing. We've got 4,000  
10 people in our building. It's amazing what information  
11 you can get from people if you talk to people that  
12 don't work with you, just take it around and ask them.  
13 We do that a lot, and you do get a lot of good  
14 feedback.

15 MR. PORTER: We have done focus groups.  
16 I've participated in focus groups in the past in this  
17 category, yes.

18 MR. ASCIENZO: Thank you. Do you ever take  
19 a Sunbeam blanket and go back to Sunbeam and a  
20 Biddeford blanket or go to either company and lay them  
21 out side by side and say, "This is what they are  
22 offering, and this is what you're offering"? Does it  
23 ever come down to that?

24 MS. HEARN: I have done that.

25 MR. ASCIENZO: You have done that? And then

1       there is, I take it, some give and take, mostly give,  
2       mostly take. How does it work with you, sir?

3               MR. PORTER: To go to your point and to Mr.  
4       Deyman's point as to requests for bids and the bidding  
5       process, in all my years, I have never, with a  
6       retailer, been given an exact price of my competitor.  
7       So we don't know the prices of the competitors, and,  
8       in 25 years in this industry, nobody says, "Here's  
9       your competitor's prices or Sunbeam's prices, and  
10      here's your prices." So that's never happened to us  
11     or me personally in the pricing game or negotiations  
12     that something says, "Here's their prices."

13              MR. ASCIENZO: And, Ms. Hearn, I just want  
14     to make sure I heard you correctly. Maybe I misheard  
15     you. Did you say that you actually ran out of some  
16     Sunbeam woven electric blankets at one point in time,  
17     that you sold out?

18              MS. HEARN: No. I just said that we are  
19     holding our inventory tighter than we have in the  
20     past, and, you know, if we think maybe we could sell  
21     5,000 more units, and it's the end of November, in the  
22     economy today, we just wouldn't buy more. We would be  
23     better off just being clean of inventory than taking a  
24     chance of having markdowns.

25              MR. ASCIENZO: Thank you. Thank you very

1 much. Does anyone have any follow-on questions? Yes,  
2 we do.

3 MR. JOSHUA KAPLAN: Mine was actually just a  
4 follow-on on Mr. Ascienzo's question to Mr. Porter  
5 about the focus groups, to the extent that you have  
6 that information available?

7 MR. PORTER: I would not because it's been a  
8 long time.

9 MR. JOSHUA KAPLAN: Okay. So there haven't  
10 been any recent focus groups.

11 MR. PORTER: No recent focus groups in this  
12 category.

13 MR. JOSHUA KAPLAN: Okay. Thank you.

14 MR. ASCIENZO: Thank you. I think Mr. von  
15 Schrilitz has a question or two.

16 MR. VON SCHRILTZ: Yes, I do. Thank you.  
17 Yes. I was wondering, Mr. Porter, did I hear you  
18 correctly that you feel that your company, you believe  
19 that you sell most of the Chinese electric blankets in  
20 the U.S. market or a commanding share of the Chinese  
21 electric blankets sold in the U.S. market?

22 MR. PORTER: I wouldn't know firsthand  
23 because it's very ambiguous on the scope and the  
24 tariff.

25 MR. VON SCHRILTZ: As far as woven electric

1 blankets are concerned.

2 MR. PORTER: And, again, what gets a little  
3 ambiguous for me is, shells -- let me just mention the  
4 word "shells." Shells are coming in from China, it  
5 looks like, based on my industry experience, but  
6 that's not a woven electric blanket. However, shells  
7 are only used for woven electric blankets, so it's  
8 kind of tough to read that tariff because a shell, as  
9 we know it, which is woven channels, are only used for  
10 electric blanket manufacturing. So I really wouldn't  
11 know the entire industry.

12 MR. LAYTON: As far as finished woven  
13 electric blankets, based on publicly available  
14 information that I've gotten solely from Mr. Porter  
15 here in talking to him, not based on anything seen in  
16 any responses on this record, I think he believes, in  
17 his heart of hearts, he accounts for all of the  
18 finished electric blankets coming in from China into  
19 the United States either coming out of their  
20 affiliated factory in China. Those are either direct  
21 imports where the J.C. Penney's of the world are the  
22 importer of record, or they are coming into their  
23 warehouse in Mundelein.

24 Now, what you've got in this case, and maybe  
25 Marguerite wants to speak to this as well, but my

1 understanding is that a big chunk of the publicly  
2 available import statistics are accounted for by these  
3 guys, and I'm pointing to Sunbeam because I think they  
4 are bringing in shells with wires in them. I've been  
5 told the wires may be made in the United States and  
6 may not, and if I'm wrong about that, it's what I  
7 believe. I'm sure everyone will correct me, but I'm  
8 telling you what I've been told.

9 So you've got the finished woven electric  
10 blankets that are accounted for by Biddeford and its  
11 Chinese supplier, and you've got these semifinished  
12 woven electric blankets being accounted for by Sunbeam  
13 coming in. I think that's your universe. That's my  
14 understanding, and lots of people in the room can  
15 correct me if they think I'm wrong.

16 MR. PORTER: And also in certain trade  
17 magazines, to that point, certain trade magazines in  
18 our industry have stated, and I don't know if it's  
19 wovens or the companies like Sunbeam's business, from  
20 the POI standpoint, has grown over three years versus  
21 declined. So publicly trade, and I can put this in  
22 the brief, but it's public information -- I don't know  
23 if it's true or not, but stating that Sunbeam's  
24 electric blanket business, as a company, has grown.

25 MR. LAYTON: And I suspect that's because

1 they are doing so well with Wal-Mart, if I had to  
2 guess, among other things.

3 MS. HEARN: Well, I think, as Mr. Layton  
4 mentioned earlier, we're still taking a look at all of  
5 the questionnaire responses, and I think, for some of  
6 the reasons you've already alluded to, in terms of the  
7 difficulties in terms of figuring out exactly what's  
8 in the statistics, but there do seem to be some gaps  
9 or some differences that when we look at questionnaire  
10 responses, and we look at the import statistics, not  
11 everything is matching up real well. We're still  
12 looking at that to see ourselves whether we have a  
13 sense of what might actually be going on, and we'll  
14 address that as best we can in the post-conference  
15 briefs.

16 MR. VON SCHRILTZ: Thank you. That was a  
17 more thorough answer than I was expecting.

18 Mr. Porter, you say you have a single  
19 Chinese factory that supplies all of your electric  
20 blankets.

21 MR. PORTER: Yes, sir.

22 MR. VON SCHRILTZ: Why do you suppose all of  
23 the other Chinese electric blanket factories aren't  
24 supplying the U.S. market?

25 MR. PORTER: I really don't know. I

1       couldn't answer that.

2                   MR. VON SCHRILTZ: Thank you. One last  
3 question for Ms. Hearn.

4                   You were talking about returns, and I  
5 believe you testified that returns of Biddeford  
6 blankets are significantly lower, percentage-wise,  
7 than returns of Sunbeam blankets have been. Were  
8 returns a problem for Sunbeam, or are we talking about  
9 a reduction from a small number to an even smaller  
10 number? It would be helpful, actually, in your post-  
11 conference brief, if you could supply me with some  
12 statistics.

13                   MS. HEARN: Okay. We'll give you that  
14 information.

15                   MR. VON SCHRILTZ: Thank you. I don't have  
16 any further questions. Thank you.

17                   MR. ASCIENZO: Thank you very much. It  
18 looks as if Ms. Preece has some questions.

19                   MS. PREECE: Only one. Ms. Hearn, you said  
20 you get bids from everybody on electric blankets once  
21 a year. Do you get any bids from anybody besides  
22 these guys and those guys?

23                   MS. HEARN: Yes.

24                   MS. PREECE: So there are other guys out  
25 there that give you bids.

1 MS. HEARN: Uh-huh.

2 MS. PREECE: Okay. If you can give, not  
3 necessarily now but any time, in the briefs, if you  
4 can give a list of who all are the other guys, we  
5 would love to know.

6 MS. HEARN: Sure.

7 MS. PREECE: Thank you.

8 MR. LAYTON: And that question was just  
9 limited to woven electric blankets.

10 MS. PREECE: Separating out woven electric  
11 and anything else, so if you can do it, first, woven  
12 and, second, everybody. Thank you.

13 MR. ASCIENZO: Do we have any more  
14 questions?

15 With that, we really do thank you very much  
16 for your presentation and all of the answers to our  
17 questions, and we're going to get ready for the  
18 closing remarks. Does Petitioners' counsel need more  
19 than three or four minutes, or how long do you need?  
20 Two. Okay. Well, please come up to the table when  
21 you're ready, and thank you very much to this panel  
22 once again. I'm sorry. Are you ready?

23 MR. ALTSCHULER: I am ready. Shall I?

24 MR. ASCIENZO: Yes, sir, please. Thank you.

25 MR. ALTSCHULER: Okay. Thank you. I really

1 am going to be very brief because I think, at this  
2 point, we've all heard a lot today, and I just want to  
3 return everyone's attention to the basic and most  
4 important facts of this case, and if I could get my  
5 voice back, I would do a better job.

6 The basic facts are very clear. The imports  
7 over the POI are up. The import penetration is up.  
8 There is head-to-head competition in the market.  
9 Prices are down. There is very significant  
10 underselling, and there are very significant dumping  
11 margins. All of this has resulted in lost sales.  
12 Employment is down, and really all of the indicators,  
13 based on financial data and industry performance, are  
14 down.

15 Those are the facts. We heard some  
16 testimony that Biddeford and Chinese imports have  
17 better quality, better service, customers prefer their  
18 product, so it begs two fundamental questions based on  
19 the fundamental facts: Why all of the underselling,  
20 and why the dumping?

21 Mr. von Schrilitz asked a question, I think,  
22 aimed at retail price points. We could look at it  
23 from the retail price point but, more fundamentally,  
24 from the standpoint of underselling. In this case,  
25 the questionnaire responses can be characterized

1 publicly as supporting very significant underselling.  
2 Why? If the other guy has a better product, why  
3 undersell, and why all of the dumping? It really  
4 makes no fundamental sense.

5 That was the first point the other side  
6 wanted to address. The other is the like product.  
7 I've been doing this a while. I haven't heard anybody  
8 suggest that, in the face of absolutely no evidence,  
9 that a couple of products that were mentioned are even  
10 made in the United States that they should be included  
11 in like product. To include nonwovens and knitted in  
12 the face of no evidence that they are produced in the  
13 United States doesn't make any sense to me.

14 I heard Mr. Layton say, "We've got to sort  
15 it out." Well, I think the record, at this point, is  
16 pretty clear. I suppose we can wait to see if  
17 anything else develops.

18 Now, with respect to the electric mattress  
19 pads, probably the Commission staff knows because the  
20 Commission was copied on a submission that Biddeford  
21 made to the DOC on Friday trying to convince the DOC  
22 to include electric mattress pads in the scope, and  
23 you may or may not know, because we've been here all  
24 day, that the DOC did publish its initiation today,  
25 and the scope is the woven electric blankets and

1 throws, completed, semifinished, and unassembled, just  
2 as we had been requesting.

3 So from the DOC standpoint, that effort that  
4 the other side made was not taken into account, and,  
5 as I say, the DOC did initiate, and they also left our  
6 margin allegations intact. There were no adjustments  
7 to those.

8 So, again, we have very high margins of  
9 dumping, we have significant underselling, and all of  
10 this stuff about quality just doesn't make any sense  
11 to me in terms of what we see with the pricing.

12 Just one other thing. As I was sitting  
13 there listening to the other side, some of my comrades  
14 and I did Google Biddeford, and it seems that the  
15 Consumer Product Safety Commission, on October 5,  
16 2001, did issue a notice of a significant product  
17 recall, and I don't say that that's exhaustive  
18 research but just a quick I-Phone piece of research.

19 So other things, we'll address in our brief,  
20 and we just urge the Commission and the staff to take  
21 into account the basic facts that are not in any way  
22 contradicted by the testimony because the facts are  
23 what they are. Thank you.

24 MR. ASCIENZO: Thank you, sir.

25 Mr. Lowe, when you're ready.

1                   MR. LOWE: Yes. For the record, my name is  
2 Jeffrey C. Lowe, and I am with the law firm of Mayer  
3 Brown, and I will try to be brief.

4                   Sunbeam has failed to demonstrate that there  
5 is a reasonable indication that an industry in the  
6 United States is injured by reason of imports from  
7 China of woven electric blankets. We will address  
8 more fully in our brief the statutory factors that the  
9 Commission is required to consider in evaluating  
10 injury, including the volume of subject imports, their  
11 effects on prices and the domestic like product, and  
12 their impact on domestic production of the domestic  
13 like product.

14                   What we've focused on more this morning is  
15 the conditions of competition that are distinctive to  
16 the affected industry, as well as the proper  
17 definition of the "domestic like product."

18                   As Mr. Porter discussed, and as the actual  
19 woven electric blankets that we brought with us  
20 dramatically demonstrate, that each of you were able  
21 to see and touch, there are significant nonprice  
22 differences between Biddeford's woven electric  
23 blankets and those of Sunbeam. Sunbeam has done  
24 everything it can today to brush over these nonprice  
25 differences, but they still remain.

1                   Very briefly, Biddeford's woven electric  
2 blankets have more picks per square inch than  
3 Sunbeam's, given Biddeford's web, a noticeably tighter  
4 weave and producing a heftier, more luxurious-feeling  
5 product. Biddeford's woven electric blankets are  
6 longer, and its woven electric throws are wider. They  
7 typically have a wider binding. They are better made,  
8 with the surge sewing on all three sides and the  
9 binding on the top. They have thinner, more flexible  
10 wire. Biddeford's throws have a longer warranty.  
11 Their controllers have more settings, and their cord  
12 is considerably longer than that of Sunbeam.

13                   Biddeford is more innovative and has  
14 demonstrated its commitment to produce a better  
15 product than Sunbeam.

16                   In addition, Sunbeam's focus on Wal-Mart and  
17 its insistence on limiting the number of brands it  
18 offers to its customers has forced customers, like  
19 J.C. Penney and Target, to compete with Wal-Mart  
20 almost exclusively on the basis of price if they  
21 wanted to carry Sunbeam's woven electric blankets.

22                   By contrast, Biddeford offers retail  
23 distributors three brand options that we discussed at  
24 more length earlier today.

25                   As Mr. Porter explained, these differences

1 together demonstrate why Biddeford's sales have  
2 increased over the past five years. The testimony of  
3 Ms. Hearn, J.C. Penney's buyer, underscores the  
4 recognition by major retail distributors of these  
5 nonprice differences and why customers prefer  
6 Biddeford's woven electric blankets over Sunbeam's,  
7 for reasons other than price.

8           Besides the quality and other differences  
9 highlighted by Mr. Porter, Ms. Hearn stressed the  
10 flexible advantages to J.C. Penney and other major  
11 retail distributors of being able to purchase from  
12 Biddeford on an FOB or LDP basis, as well as the  
13 better access to the additional inventory. She also  
14 stressed the retailers' ability to audit Biddeford's  
15 facilities for quality-control purposes and the  
16 increased production efficiencies resulting from  
17 Biddeford's corporate structure and the considerably  
18 lower customer return rates for Biddeford's woven  
19 electric blankets compared to Sunbeam.

20           These are all distinct, quantifiable  
21 differences that set Biddeford's woven electric  
22 blankets apart from those of Sunbeam. Retail  
23 distributor customers are aware of these differences  
24 which influence their decisions to purchase Biddeford  
25 woven electric blankets over Sunbeam.

1                   Finally, we address the issue of how the  
2 Commission should define the domestic like product.  
3 The domestic like product should include not only  
4 woven electric blankets but also electric mattress  
5 pads, which information available to Biddeford  
6 indicates are produced in the United States by West  
7 Point Stevens.

8                   We also believe that the domestic like  
9 product should be defined to include knitted-fleece  
10 electric blankets and throws and any other heated-  
11 bedding products that compete with woven electric  
12 blankets.

13                   Contrary to the testimony of Sunbeam and  
14 other interested parties here today, woven electric  
15 blankets and knitted blankets do compete with one  
16 another, and there are relatively few differences in  
17 all of the various criteria that the Commission  
18 considers in determining or defining the domestic like  
19 product.

20                   What these factors show altogether is that  
21 Sunbeam does not necessarily reflect the domestic  
22 industry because woven electric blankets do not  
23 necessarily represent the entire domestic like  
24 product. With that, I will conclude my remarks.  
25 Thank you very much.

1 MR. ASCIENZO: Thank you very much.

2 On behalf of the Commission and the staff, I  
3 want to thank the witnesses who came here today, as  
4 well as counsel, for helping us gain a better  
5 understanding of this product and the conditions of  
6 competition in this industry.

7 Before concluding, let me mention a few key  
8 dates to keep in mind. The deadline for the  
9 submission of corrections to the transcript and for  
10 briefs in the investigation is Monday, July 27th. If  
11 briefs contain business-proprietary information, a  
12 public version is due on July 28th. The Commission  
13 has tentatively scheduled its vote on the  
14 investigations for August 13th at 3:30 p.m. It will  
15 report its determination to the Secretary of Commerce  
16 on August 14th.

17 Commissioners' opinions will be transmitted  
18 to Commerce on August 21st.

19 Finally, I note that the APO release is  
20 ready, and if counsel will contact the dockets, they  
21 can pick up their APO information.

22 Thank you all very much for coming, and this  
23 conference is adjourned.

24 (Whereupon, at 2:25 p.m., the conference was  
25 concluded.)

**CERTIFICATION OF TRANSCRIPTION**

**TITLE:** Woven Electric Blankets from China  
**INVESTIGATION NO.:** 731-TA-1163  
**HEARING DATE:** July 21, 2009  
**LOCATION:** Washington, D.C.  
**NATURE OF HEARING:** Public Conference

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: July 22, 2009

SIGNED: Raymond Vetter  
Signature of the Contractor or the  
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Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Micah J. Gillett  
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I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

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Signature of Court Reporter