

***EXECUTIVE SUMMARY
AND
INDEPENDENT INVESTIGATION
OCEAN SKY APPAREL***

Olocuilta, La Paz, El Salvador

February 23 and 24, 2012



EXECUTIVE SUMMARY

Fair Labor Association (FLA) requested that COVERCO conduct an evaluation of the Remediation Program, the Training Program, the change in business name of OCEAN SKY APPAREL (SV), S.A. de C.V.; and, the letter sent by the group Women Transforming to FLA on February 15, 2012. This evaluation was performed February 23 and 24, 2012.

COVERCO conducted 27 internal interviews with workers (17 women and 10 men) and 5 Administration employees (women); in addition 12 supervisors that participated in training workshops were interviewed; and interviews were conducted with Women Transforming of El Salvador and the Institute for Global Labour and Human Rights.

The companies that have had production from February 2011 to February 2012 are Adidas Group; Artic Guard; ASICS, Columbia Sportswear; Dallas Cowboys, Lucky Brand; New Balance; Nordstrom; Streetwear; and Old Navy and American Eagle, under license agreement.

The Recommendations of the verification in 2011 and the Agreement signed on October 1, 2011 between Ocean Sky and Women Transforming (MT for its acronym in Spanish) agreed on a training program covering rights and obligations, as well as other subjects identified by the parties involved that would be required in order to guarantee compliance with labor laws and an environment of trust between workers and the Factory. The training program was developed and directed by Women Transforming, and contemplated starting with supervisors and administrative personnel. During 9 Saturdays, 76 supervisors, leaders and administrative personnel participated; the training sessions were financed by OCEAN SKY, training sessions for workers are pending. A total of 100% of respondents state that training has been positive and they identify Women Transforming as the organization conducting the training.

COVERCO was able to review the legal process in El Salvador regarding the Shareholder and Partnership change from **OCEAN SKY APPAREL (SV) S.A. de C.V to OLOCUILTA APPAREL S.A. de C.V.**; in the Records of the Partnership Ledger of El Salvador, in the Notarized Affidavit dated December 16, 2011. The corporate name and equity was changed from OCEAN SKY APPAREL (S.V.), S.A. de C.V to OLOCUILTA APPAREL, S.A. de C.V. This same legal instrument named the President, Special Executor and changed the management system from Board of Directors to Single Administrator with an Alternate.

For the above reasons, it was confirmed that the liquidation of the company Ocean Sky Apparel (SV), S.A. de C.V, did not occur, there was no switch in management, and there was a legal change in shareholder capital and a change in name. In the opinion of COVERCO, based on consultation with legal experts, the process complied with legal requirements.

The verification found substantial advances in the 2011 Remediation Program. Areas where there was **compliance** are: Weekly Rest Day or Seventh Day; Payroll and Pay slip; Forced Labor; Harassment and Abuse; Personal Protective Equipment; Drinking Water with observations and recommendations from the Department

of Engineering and Environmental Sciences at UCA; Rest rooms; and Freedom of Movement; still in the **process of compliance** are: Temperature; Ironing Area and Packing; Finished Goods Warehouse (C-TPAT); and Safety and Environment Committee.

It was verified, with positive results during interviews, that there is compliance with Freedom of Association and compliance with the minimum wage applicable in El Salvador, although there is a gap with respect to the Basic Food Basket.

The complaint presented on February 15, 2012 to FLA by Women Transforming regarding massive dismissals was evaluated. COVERCO confirmed that from November 2011 to February 14, 2012, 311 work contracts were cancelled and there were 108 voluntary resignations; during that same period of time 14 workers have been hired, 8 of which are in a probationary period. Management justified the reduction in personnel as caused by low production due to decreased orders; in addition, all canceled contracts were based on a performance evaluation of 311 workers. The evaluation was carried out by Production Management and substantiated with records of daily performance.

The only **non-compliance** is with respect to knowledge of the Code of Conduct, 74% of those interviewed had no knowledge or could not identify the content of the Code of Conduct, despite the fact that on February 7 and 8, 2012, information sessions covering this subject were held during working time. A clear example of the above assessment is the result of the evaluation that identifies that 100% of interviewed workers do not remember subjects such as Freedom of Association and 74% do not know or do not remember the contents of the Company's Code of Conduct. It is recommended to strengthen this training process by applying other pedagogical tools.

The report of the independent investigation describes the findings in depth.



INVESTIGATION OF THE REMEDIATION PLAN REPORT

OCEAN SKY APPAREL, EL SALVADOR FEBRUARY 2012

Fair Labor Association (FLA) requested that COVERCO conduct an evaluation of the Remediation Plan agreed at OLOCUILTA APPAREL, previously OCEAN SKY, with FLA, as well as an investigation of the report published on January 24, 2011 by Women Transforming of El Salvador and the Institute for Global Labour and Human Rights (previously known as the "Labor Committee," "NLC").

The company began operations in El Salvador in the year 2000 as HOONS APPAREL INTERNATIONAL; in January 2008, it changed its name to OCEAN SKY APPAREL. As of February 8, 2011 the total workforce was 1,194 workers, of which 63% were women and 37% were men. With facilities that are more than 10 years old, in 2011 they were located in three plants or buildings, currently their production and administration are located in two buildings.

On December 16, 2011, the company changed its corporate name to Olocuilta Apparel, a Variable Stock Corporation; as of February 23, 2012, it has two production plants with 796 workers, of which 65% are women and 35% are men. From December 6, 2011 to February 23, 2012 there have been 419 contract terminations, 311 dismissals and 108 resignations, the majority of dismissals have been as a consequence of a reduction in production due to low orders from principal clients.

The companies that had production from February 2011 to February 2012 are Adidas Group; Artic Guard; ASICS, Columbia Sportswear; Dallas Cowboys, Lucky Brand; New Balance; Nordstrom; Streetwear; and Old Navy y American Eagle, under license.

The evaluation was conducted on February 23 and 24. COVERCO conducted 27 internal interviews (17 women and 10 men) and 5 (women) in Administration; in addition interviews were held with Women Transforming of El Salvador and the Institute for Global Labour and Human Rights.



In addition to the evaluation of the 2011 Remediation Program and the letter sent on February 15, 2012 by MT to FLA, an investigation of the Training Program and of the corporate name change from Ocean Sky to Olocuilta Apparel was conducted.

Training Program

The recommendations of the evaluations of 2011 and the Agreement signed on October 1, 2011 between Ocean Sky and Women Transforming (MT) established a training program covering rights and obligations, as well as other subjects identified by the parties involved as necessary in order to guarantee compliance with labor laws and a climate of trust between workers and the Factory.

The training program was developed and conducted by Women Transforming (MT), it was agreed that it would start with supervisors and administrative personnel. A total of 76 supervisors, leaders and administrative personnel participated in the 9 activities. The training was financed by OS, which made the investment of resources, and the subjects covered were:

1. Motivation
2. Leadership
3. Negotiation and Conflict Resolution Techniques
4. Assertive Communication
5. Occupational Health
6. Worker Obligations and prohibitions

At the outset, management agreed with Women Transforming that supervisors and leaders would receive training first, however, during a second meeting Women Transforming (MT) requested that all administrative workers receive training followed by all workers. Attendance records for the training sessions confirm that 79 of the 102 registered participants participated in the 3 scheduled activities; the remaining 23 participants attended 1 or 2 of the 3 activities.

Of those interviewed 100% state that training has been positive, and 100% identify Women Transforming as the organization that provided training.

Workers in the packing area commented that the supervisors that participated in the training shared their knowledge, and even repeated some of the motivation activities.

In addition OLOQUILTA APPAREL developed a one-time diffusion program on February 7 and 8, 2012; in those days, the factory organized 6 working groups and conducted the activities from 7:30 a.m. to 8:30 a.m., each of them lasted around 20 to 25 minutes. The content was OS-OA Code of Conduct and the topics covered were: Forced Labor, Women's Rights Policies, Hygiene and Occupational Safety, Freedom of Association, Non-discrimination, Harassment and Coercion,

Disciplinary Practices, Wages and Benefits, Hours of Work and Grievance Resolution. The following topics were also reinforced: new Tardy Arrival Procedures, Permissions, Worker ID badge colors, Lunch schedules. COVERCO considers that the time allotted for these activities is not adequate for covering all the topics described. A clear example of this is that 100% of those interviewed do not recall topics such as Freedom of Association. Therefore, it is recommended to strengthen this training process by applying other pedagogical tools.

Change in corporate name from OCEAN SKY APPAREL (SV) S.A. de C.V. to OLOCUILTA APPAREL, S.A. de C.V.

COVERCO was able to review the legal process in El Salvador regarding the Shareholder and Partnership change of **OCEAN SKY APPAREL (S.V.) S.A. de C.V. to OLOCUILTA APPAREL S.A. de C.V.**; in the Records of the Partnership Ledger of El Salvador, in a Notarial Deed dated December 16, 2011, which proceeded to change the corporate name and shareholder capital from OCEAN SKY APPAREL (S.V.), S.A. de C.V. to OLOCUILTA APPAREL, S.A. de C.V. This same legal instrument named the President, Special Executor and changed the system from Board of Directors to Single Administrator with an Alternate Administrator.

For the above reasons, it was confirmed that liquidation of the company Ocean Sky Apparel (S.V.), S.A. de C.V. did not occur, there was no switch of owners, and there was only a change in shareholder capital and a change in name. In the opinion of COVERCO, based on consultation with legal experts, the process complied with legal requirements.

Findings of the 2011 Evaluation, Remediation Plan and February 2012 Evaluation

FINDINGS 2011 EVALUATION	REMEDIATION PLAN	FINDINGS 2012 EVALUATION
<p>1. Current Minimum Wage</p> <p>100% of the interviews and records review prove that Ocean Sky Apparel complies with the current minimum wage; in El Salvador, the current minimum wage since January 2009 for workers in the Textile and Garment Maquila Industry is \$173.70. In order to cover the basic needs of the Basic Food Basket, the minimum wage would require a 77% adjustment.</p>		<p>Complies with the current Minimum Wage</p> <p>The current minimum wage for the year 2012 for Textile and Garment Maquila is \$6.25 daily, that is, \$0.781 hourly, according to Decree No. 56 published in the Official Journal on 5/6/2011. There still exists a gap between the current minimum wage and the Basic Food Basket.</p>
<p>2. Weekly Rest Day or Seventh Day</p> <p>37% of interviewees (15 interviews) expressed their discontent with respect to the non-payment of the Weekly rest day or Seventh day, primarily because of the failure by management to authorize justified late arrivals or justified absences.</p> <p>The research found some records (payroll) that indicated that this right was not paid, in fact, the Labor Code of El Salvador, establishes this right while it also limits it by stating that “the worker that does not complete a work week without a justified cause, is not entitled to the compensation”; for this reason, this labor right has a constitutional guarantee.</p> <p>Furthermore, the internal procedure established by the Factory, in the opinion of COVERCO, is vulnerable because it requires workers to request authorization of the justified cause from their supervisor. Since there is no protocol or adequate guide, it is subjective and prone to abuse of authority by those responsible for the authorization of the justified cause.</p> <p>If there is a reduction in hours worked on any day in the work week, a deduction is automatically applied to the payment of the Rest Day.</p> <p>Management stated they have not received any complaint on this matter.</p>	<p>The company has created a specific procedure regarding worker personal sheets, tardiness and follow-up of absences, all administered by the HR Department.</p> <p>The new procedure, in place since July 2011, was communicated to workers through an internal memorandum; included also in Code of Conduct and Internal Regulations training on February 8 and 9, 2012.</p> <p>Also, the new procedure includes cases in which workers do not present any proof to HR Department, who will hear worker arguments and examine the facts. HR will keep an individual record to aid the follow-up of reoccurrence without justification.</p>	<p>In Compliance</p> <p>According to the policies and procedures and interviews with Management and workers, workers present their justification for tardy arrival directly to the HR Department, even cases of absences without an official justification are accepted by the factory.</p>

<p>3. Payroll and Pay Slip</p> <p>The interviews state that workers do not adequately understand the content of the pay slip, especially when they work overtime or earned bonuses.</p> <p>The pay slip format, the size of the print and the use of two languages contributes to the inadequate interpretation.</p> <p>During the evaluation in January 2011, a considerable number of unsigned pay slips were found.</p> <p>The pay slip does not contain the necessary information to verify income and deductions.</p> <p>Management commented that they are evaluating the modification of payroll and pay slips, and expect the changes to be done by March.</p>	<p>According to the company, on 03/09/2011, the new format for the pay slip was explained to all secretaries in the department.</p> <p>During interviews, CSR and HR Departments consult with workers regarding their comprehension of the new pay slip. The workers confirm their understanding.</p> <p>In order to reinforce this point, a large poster of the new pay slip has been posted in the cafeteria, where all workers are able to read it.</p>	<p>In Compliance</p> <p>In addition, the Management has large posters next to attendance time clocks detailing the pay slip.</p> <p>100% of interviews confirm that there is a new pay slip and understand its content.</p> <p>In May 2012, the company will update the pay slip poster to include the increase in minimum wage.</p>
<p>4. Forced Labor</p> <p>During the records review, it was found that Work Contracts have a paragraph that states “Due to the nature of the work performed, your work schedule will be subject to the completion of voluntary overtime, according to the company’s needs. As long as it is required...”; this paragraph has been in effect since March 2010. Due to its language and ignorance of worker’s labor rights, it does not guarantee the freedom to decide voluntarily.</p> <p>All interviews confirmed that Work Contracts were provided to workers, but they do not recall its content.</p> <p>In addition, the interviews revealed that the mechanism used by Management through its Supervisors, requesting workers’ voluntary decision to perform overtime work through sign-up sheets and not individually, does not guarantee the Independence to make this decision. This collective procedure coerces workers to perform overtime work.</p> <p>7% of those interviewed (3 interviews) confirm that when overtime work is required they are pressured by their supervisors or group leaders.</p>	<p>Starting March 7, 2011, Ocean Sky Apparel has eliminated the following clause from the work contract: “due to the nature of the work performed, your work schedule will be, without further notice, subject to the completion of voluntary overtime, according to the company’s needs as long as it is required...” New contracts will not include this clause. In the case of existing contracts, the company will be advised by the Ministry of Labor and apply its recommendations.</p> <p>In addition, the company has eliminated the mentioned clause from work contracts for 2012.</p> <p>The HR Department continues reinforcing the policy of voluntary overtime through communication through the sound system, informing personnel that there are no</p>	<p>In Compliance</p> <p>COVERCO confirmed the elimination of the clause “subject to the completion of voluntary overtime,” from Work Contracts from 2012.</p> <p>Separately, it was verified that the Factory has not been working overtime since November 2011.</p>

<p>One interview stated that only 30 minutes are used for lunch, and the worker returns to the work station to continue working; during sensory inspection similar cases were not detected.</p>	<p>repercussions for declining to work overtime.</p> <p>On the other hand, in order to deter threats against workers, only the HR department is authorized to give warning letters to the workforce, instead of leaders and supervisors.</p>	
<p>5. Harassment and Abuse</p> <p>29% of interviewees (12 interviews) confirmed that 5 supervisors use profanity, an elevated tone of voice, harass workers to perform their work, threaten to take away their lunch time for not meeting goals and pressure workers to work overtime.</p> <p>Interviews conducted away from the factory confirm two of the 5 names.</p> <p>In January 2011, a worker used the grievance box to complain about a supervisor's abuse of authority. Management's response does not generate confidence in using the system as it states that "if you use the suggestion box, it is recommended that you be as specific as possible" because this response does not guarantee anonymity and puts the worker at risk of possible retaliation.</p>	<p>The company is committed to stopping all hostility taking action immediately providing training on May 31, 2011.</p> <p>All supervisors were informed, by senior officers of the company, to immediately halt any form of verbal harassment. The consequences of these actions have been communicated in detail to all supervisors and leaders. On March 9, 2011 all supervisors signed a commitment to stop any form of harassment in the workplace.</p> <p>In addition to continuous supervision, Ocean Sky Apparel is seeking a consultant to provide training in leadership communication skills to supervisors and leaders, followed by close vigilance of worker feedback.</p> <p>The company has strengthened its standard regarding Freedom of Association, based on the Code of Conduct, providing training to workers. Also, the company has provided orientation about the Code of Conduct, including all regulations, during the annual training of "Code of Conduct, Policies and Procedures" for workers, completed March 4, 2011. The course includes: Safety and</p>	<p>In Compliance</p> <p>During the performed interviews, there were no complaints against any of the persons named in the report by Women Transforming.</p> <p>Workers interviewed indicate that they have observed a better attitude of supervisors after supervisor training.</p> <p>Complaint of Verbal Abuse</p> <p>One interviewed worker described how a supervisor whistles to get their attention.</p> <p>The interview reveals that supervisor [name redacted] "does not respect them...he sometimes, by whistling, calls you". The worker thinks that the supervisor "should call us by our name, because we are not animals to be whistled at".</p> <p>Management informed about the Supervisor Training Program, the attendance records were reviewed, with the attendance of 102 participants from management, supervisors and leaders.</p> <p>The training is directed by Women Transforming, three groups were trained, with duration of 27 hours in three sessions.</p>

	<p>Occupational Health, Work Hours, Freedom of Association, Non-discrimination, Wages and Benefits and others. It has emphasized Union Freedom during its induction process.</p> <p>Management added, that on July 4, 2011 five supervisors have been disciplined through a written letter of reprimand for not complying with the policy of No Verbal Abuse, according to the Factory, this is a strong message to other leaders and supervisors.</p> <p>Furthermore, they stated, that one supervisor was transferred to another sewing line as a final warning and that “if we receive another complaint of verbal abuse against her” from workers, she will be “fired”.</p> <p>They also stated that management provided leadership training through an external consultant, where supervisors and leaders were trained on good practices and good communication skills as leaders.</p> <p>In addition, CSR and HR departments are conducting monthly interviews with workers to measure the effectiveness of training and obtain their comments on the behavior of their supervisors.</p>	<p>The content of the training was: Code of Conduct, Child Labor, Forced Labor, Women’s Rights, Health and Safety, Freedom of Association, Non-discrimination, Anti-coercion and Abuse, Disciplinary Practices, Wages and Benefits and Work Hours.</p> <p>In Compliance It was verified that the Factory implemented the Policy and Procedure of no retaliation against any worker that presents complaints, suggestions or opinions through legitimate channels, that is:</p> <ul style="list-style-type: none"> • Supervisor and Department Head; • The Complaint Resolution Policy; • Interviews with HR Department and Compliance Department (CSR) • Safety and Occupational Health Committee; • Directly with Management; or • With any Factory client. <p>All workers will be allowed to present their questions, suggestions and/or complaints regarding situations they feel violate Internal Rules, Code of Conduct or any other policy, without suffering retaliation.</p>
<p>6. Freedom of Association.</p> <p>There is no evidence that attempts were made to form a union at Hoons Apparel or Ocean Sky Apparel. During the 41 interviews conducted with workers regarding this issue, the results were the following:</p>		<p>Verified:</p> <p>22 interviews conducted exclusively with workers on this subject had the following results:</p>

<p>a. 100% responded that they had no knowledge of possible attempts to form a union at the Factory.</p> <p>b. 41% (17 interviews) did not know or did not want to answer whether they would face problems for forming a union.</p> <p>c. 59% (24 interviews) consider that they would face problems for forming a union.</p> <p>When the interview was broadened to discuss what they consider to be problems they could face, they expressed the following:</p> <ul style="list-style-type: none"> • Dismissals • Retaliation for organizing • Being blacklisted and being unable to find another job. <p>In addition, during the interviews it was asked if they had received training on Labor Rights, especially on this subject; 5% (2 interviews) commented that they remembered a talk about labor topics but not about Freedom of Association.</p> <p>However, Management confirmed that between March 23 and 25, 2010 training was held for all workers covering Labor Rights included in its Policies; the content was developed by Human Resources and the Compliance Department, one of the topics was Discrimination, where Freedom of Association and Collective Bargaining were covered.</p> <p>The training lasted 30 minutes in groups of 30 workers, and six groups were trained simultaneously.</p>		<p>100% responded that they had no knowledge of possible attempts to form a union at the Factory.</p> <p>100% of workers interviewed consider that “now” there would be no retaliation; going into more detail as to why they consider there would be no retaliation, the same 100% responded that it is because the training given by Women Transforming has been “good.”</p> <p>In addition to evaluating the response, it must also be taken into account that it is the perception of the interviewed workers.</p> <p>During the interviews it was also asked if they had received training on Labor Rights, 100% did not remember receiving training on this topic.</p> <p>When consulted, Management confirmed that this topic has been reinforced during Orientation.</p> <p>When consulted, Women Transforming considered that there is a substantiated fear because at other factories where [name redacted] has worked; those factories have interfered with the organization of unions.</p>
<p>7. Temperature</p> <p>During the sensory inspection performed February 8 at all three plants in the Factory, high temperatures were perceived in different production areas; environment temperature measurement tests were performed between the hours of 13:40 y 13:50 with the temperature ranging from 29.2 degrees in ventilated areas and 31.3 degrees with little or minimal ventilation,</p>	<p>The temperature has been monitored at the plants, the temperature level ranges between 28° C -32° C (82-89 Fahrenheit). CSR continues to control temperature through monitoring.</p> <div data-bbox="1010 1325 1360 1386" style="border: 1px solid black; padding: 2px; text-align: center;"> <p>Degrees- Temperature in warehouses January 2012</p> </div>	<p>Partially in Compliance</p> <p>Interviews with workers report that the temperature level has improved, but it still feels hot. According to factory records, their measurements exceed 27.5 degrees Celsius.</p> <p>In addition, we verified that in Plant 1 the</p>

<p>subsequently measurements in specific areas were defined and performed.</p> <p>The last measurements taken in June 2010 by the Technician in Occupational Hygiene from the ministry of Labor and Social Welfare recommend “Applying engineering measures in order to minimize thermal stress,” because its measurements are above the recommended level for El Salvador, which is 27.5 degrees Celsius.</p> <p>Management indicated that several years ago, in Plant 1, in the area known as C-TPAT, various openings to one of the main walls were done. This opening does in fact exist, allowing air circulation in the Plant, however, in this area there are three levels of shelving containing boxes, these are found in the areas adjacent to production areas, primarily the ironing area, preventing the free circulation of air.</p>	<table border="1" data-bbox="1008 251 1360 479"> <tr><td>B1</td><td>31°-33°</td><td>12:00 p.m.</td></tr> <tr><td>B2</td><td>28°-29°</td><td>12:00 p.m.</td></tr> <tr><td>B3</td><td>31°-33°</td><td>12:00 p.m.</td></tr> <tr><td>B1</td><td>29°-30°</td><td>03:30 p.m.</td></tr> <tr><td>B2</td><td>27°-28°</td><td>03:30 p.m.</td></tr> <tr><td>B3</td><td>29°-30°</td><td>03:30 p.m.</td></tr> </table> <table border="1" data-bbox="1008 511 1360 803"> <thead> <tr> <th colspan="3">Degrees- Temperature in warehouses November 2011</th> </tr> </thead> <tbody> <tr><td>B 1</td><td>31°-33°</td><td>12:00 p.m.</td></tr> <tr><td>B2</td><td>28°-29°</td><td>12:00 p.m.</td></tr> <tr><td>B3</td><td>31°-33°</td><td>12:00 p.m.</td></tr> <tr><td>B1</td><td>29°-30°</td><td>03:30 p.m.</td></tr> <tr><td>B2</td><td>27°-28°</td><td>03:30 p.m.</td></tr> <tr><td>B3</td><td>29°-30°</td><td>03:30 p.m.</td></tr> </tbody> </table> <p>In Plant 1, the racks obstructing air circulation were eliminated and 6 additional extractors were installed in the finishing area.</p>	B1	31°-33°	12:00 p.m.	B2	28°-29°	12:00 p.m.	B3	31°-33°	12:00 p.m.	B1	29°-30°	03:30 p.m.	B2	27°-28°	03:30 p.m.	B3	29°-30°	03:30 p.m.	Degrees- Temperature in warehouses November 2011			B 1	31°-33°	12:00 p.m.	B2	28°-29°	12:00 p.m.	B3	31°-33°	12:00 p.m.	B1	29°-30°	03:30 p.m.	B2	27°-28°	03:30 p.m.	B3	29°-30°	03:30 p.m.	<p>temperature was 29°C at 11:45 on 2/25/2012.</p> <p>Using this equipment, the factory monitors environmental temperature.</p> <p>Management added that it is renovating its facilities and will be monitoring that the temperature in each area will not be affected by the renovations.</p> <p>In Compliance The company eliminated the storage racks preventing the free flow of air in Plant 1. We also confirmed that 6 extractors were installed.</p>
B1	31°-33°	12:00 p.m.																																							
B2	28°-29°	12:00 p.m.																																							
B3	31°-33°	12:00 p.m.																																							
B1	29°-30°	03:30 p.m.																																							
B2	27°-28°	03:30 p.m.																																							
B3	29°-30°	03:30 p.m.																																							
Degrees- Temperature in warehouses November 2011																																									
B 1	31°-33°	12:00 p.m.																																							
B2	28°-29°	12:00 p.m.																																							
B3	31°-33°	12:00 p.m.																																							
B1	29°-30°	03:30 p.m.																																							
B2	27°-28°	03:30 p.m.																																							
B3	29°-30°	03:30 p.m.																																							
<p>8. Personal Protective Equipment</p> <p>During the 4 days of sensory inspections, it was demonstrated that in the stain removal booths/modules, Personal Protective Equipment is not used, only on the 9th and 10th did some workers sporadically use protective masks.</p> <p>Interviews and sensory inspection confirmed that some sewing machines do not have a needle guard; one interviewee indicated that it is because it blocks the fabric and affects the quality of the garment.</p>	<p>The company will reinstall needle guards in all sewing machines, and will continue to perform maintenance on all machines. In addition, department heads, supervisors and leaders (on a daily operational basis) will continue to remind workers about the benefits of the use of the guard and that they must not be removed.</p> <p>The Safety and Occupational Health</p>	<p>In Compliance</p> <p>During the sensory inspection on 2/24/2012 it was corroborated that personnel use protective masks and that sewing machines have needle guards.</p>																																							

	<p>Committee will continue to examine the effectiveness of the constant reminders of progressive improvements. The company has put in place a procedure in order to guarantee that all sewing machines have a needle guard. H & S Committee is corroborating the effectiveness of this new procedure.</p>	
<p>9. Drinking Water</p> <p>Water analysis will be performed by a Laboratory hired by FLA. The results of the analysis will be included in the final report.</p> <p>Additionally, the interviews reveal that workers obtain non-potable water for their personal use during the day and frequently from the sinks in the rest rooms and not from the water faucets designated for this purpose.</p> <p>24% (10 interviews) indicate their dissatisfaction with the water, they state that it has “excess chlorine, tastes bad, is bitter, has a bad smell, and is sometimes hot”.</p> <p>20% (8 interviews) indicate that in the months of May and August 2010 workers expressed their dissatisfaction with the water they consume, there was even a complaint presented by a worker in January 2011 requesting an improvement in the quality of drinking water.</p>	<p>In July 2011 Ocean Sky contracted the services of a company, an expert in Analysis of Water for Human Consumption, specifically the Department of Process Engineering and Environmental Sciences at the Central American University Jose Simeon Cañas from San Salvador (UCA) to execute a program that analyzed the water during four weeks starting 7/11/2011 and the final report was delivered on 9/22/2011.</p>	<p>In Compliance</p> <p>100% of interviews state that the water improved, 89% (24 interviews) commented that the water sometimes feels hot.</p> <p>The water is apt for consumption, according to the Consultancy Report on the Evaluation of the Quality of Water for Consumption at Ocean Sky Facilities, performed by the Department of Process Engineering and Environmental Sciences at Central American University Jose Simeon Cañas San Salvador, dated 9/22/2011 concluding: “The results obtained in all samples indicate the absence of mesophilic aerobic bacteria, and the water is considered as apt for human consumption”.</p> <p>Observations and recommendations of the Department of Engineering and Environmental Sciences at UCA</p> <p>The Physicochemical parameters, the values for Temperature “obtained from the samples vary between 27.0 and 30.0°C. at Plant I and between 26.5 and 28.5 °C. at Plant II; from the point of view of temperature, the water cannot be disqualified as apt for human consumption. As can be observed, the water in Building I is</p>

		<p>slightly cooler than the water in Building II; in both cases water is consumed at “room temperature”.</p> <p>The report recommends:</p> <p>Evaluate if the temperature at which the water is consumed is accepted by the consumer or if it is necessary to cool the water to improve the refreshing quality of the water.</p> <p>Standardize the chlorination process to prevent fluctuations in the values of free residual chlorine that can lead to values below or above those established by the Standard, increasing the risk of affecting the health of consumers.</p> <p>Establish an internal monitoring program for the quality of water that allows close vigilance of the chlorination process and an external monitoring program for microbiological parameters to control the bacterial content which can result in a danger to consumers.</p>
<p>10. Rest Rooms</p> <p>Some interviews indicated that the amount of toilet paper is limited and that the Factory does not provide more than the monthly amount. When consulted, management confirmed that several complaints had been presented during the previous year regarding this matter and that they increased the amount of toilet paper per worker; and that if more is requested, management will provide more. None of the interviews confirmed this statement.</p>	<p>According to the company, it has increased the number of rolls of toilet paper per worker since February 21, 2011. They added that if there is a need for more toilet paper, workers can go to HR to be provided with additional toilet paper.</p>	<p>In Compliance</p> <p>Interviews with workers, management and a sensory inspection of the sanitary services confirm the presence of sufficient toilet paper and the cleaning program was verified.</p>
<p>11. Ironing and Packing/Finishing Area</p> <p>The investigation considers that the flat design of the ironing tables is inadequate; and that the position of workers while ironing, the repetitive</p>	<p>The company has started testing different options that can be executed to improve the ergonomics of the ironing tables. At the end of March 2011, the ironing tables will be</p>	<p>In process of compliance</p> <p>We verified that the ironing tables continue to be flat. However, the company indicated that: in</p>

<p>movements, the physical exhaustion and the heat creates a greater propensity to health risks and accidents on the job.</p> <p>The sensory inspections confirmed that some of the workers are not using anti-stress mats; and that in the packing area, the repetitive movements by the workers are inadequate. It was also found that frequently the corridors in that area are obstructed.</p>	<p>slanting towards the workers in an effort to reduce fatigue and prevent possible physical risks.</p> <p>The Health and Safety Committee will review the effectiveness of this action in order to obtain regular feedback from workers.</p>	<p>July, interviews performed by CSR Department obtained comments after testing various angles for the ironing tables, none of the workers expressed feeling comfortable with the changes, because the iron easily slipped. After test #4, the workers accepted the change and the company is now working on the changes gradually.</p> <p>The sensory inspection confirmed that the anti-stress mats are used by the workers.</p>
<p>12. Boxed Finished Product Warehouse or C-TPAT</p> <p>The sensory inspection and interviews could confirm that several workers in this area performed work related activities improperly, with a high risk of accidents on the job, primarily when they work on the third level of shelves. In addition, it was also confirmed that they do not use their Personal Protective Equipment.</p>		<p>In process of compliance</p> <p>The Factory is in the process of remodeling; the new C-TPAT area is being relocated. The completion of the remodel is scheduled for March 2012.</p>
<p>13. Safety and Environment Committee</p> <p>The investigation confirmed that the factory has a Safety and Environment Committee functioning until February 22; it also confirmed that there is a new Committee that will take office from February 23, 2011 until February 22, 2012. The Committee will be sworn in the third week of February by the Ministry of Labor and Social Welfare.</p> <p>The factory has a Health and Safety Manual, which contains the objectives and functions of the Health and Occupational Safety Committee. During 2010-2011 they only held one meeting (July 7, 2010) during which the Committee was informed about the new legal regulations coming into effect in May 2011.</p> <p>The Committee does not comply with its important function which is set out in the Health and Safety Manual specifying that "...its sole purpose is to guarantee safety in the workplace. Avoiding unsafe actions and suggesting</p>		<p>In process of compliance</p> <p>It was verified that the Safety and Environment Committee had their scheduled meetings; on February 17 the MINTRAB (Ministry of Labor) informed of the new regulations and work related accident prevention.</p> <p>There were no interviews with any member of the Safety and Environment Committee.</p>

<p>measures to control hazardous conditions caused by machinery, equipment, tools and the environment in the workplace.”¹</p> <p>The failure to hold meetings at least once a month, the lack of periodic inspections, and the failure to develop an inspection record, is in the opinion of COVERCO, a non-compliance with worker rights and prevention with regard to Health and Safety.</p> <p>There were several non-compliances found during the investigation which can be corrected promptly with a properly functioning Safety and Environment Committee</p>		
<p>14. Code of Conduct</p> <p>In 85% of interviews (40 interviewees including supervisors), they indicated not being aware of the contents of the codes of conduct for Puma, Adidas, Columbia or PVH, much less knowing the person or communication channels that they could use if required. The sensory inspection confirmed that the FLA-affiliated companies’ Codes of Conduct were displayed in a visible area in different locations throughout the factory.</p>	<p>The company held a seminar on Work Hours, Freedom of Association, among other topics to 102 workers in three groups: 34, 30, 38 (supervisors and leaders) on three Saturdays: October 1 and 29, 2011 and November 26, 2011.</p>	<p>Non-compliance</p> <p>At present, 74% of those interviewed have no knowledge or do not identify the content of the Code of Conduct.</p> <p>In addition OLOQUILTA APPAREL developed a diffusion program on February 7 and 8, 2012, for just one time; those days, the factory organized 6 working groups and developed the activities from 7:30 a.m. to 8:30 a.m., each of them lasted around 20 to 25 minutes. The content was OS-OA Code of Conduct and the topics covered were: Forced Labor, Women’s Rights Policies, Hygiene and Occupational Safety, Freedom of Association, Non-discrimination, Harassment and Coercion, Disciplinary Practices, Wages and Benefits, Hours of Work and Grievance Resolution. The following topics were also reinforced: new Tardy Arrival Procedures, Permissions, Worker id</p>

¹ Health and Safety Manual for Partnership Ocean Sky apparel (SV) de CV

		<p>badge colors, Lunch schedules. COVERCO considers that the time for these activities is not adequate for covering all the topics described. A clear example of this is that 100% of those interviewed do not recall topics such as Freedom of Association. Therefore, it is recommended to strengthen this training process by applying other pedagogical tools.</p>
<p>15. Worker Dismissal</p> <p>The Women Transforming and Institute for Global Labor and Human Rights report mentioned that 6 workers were dismissed in May 2010 for denouncing that water was unsuitable for human consumption.</p> <p>The investigation included revision of all files for terminations in May 2010 and conducted interviews on this matter.</p> <p>20% (8 interviews) commented that in May (6 interviews) and August (2 interviews) there were layoffs of workers connected with complaints about water problems; none of the workers interviewed identified the dismissed workers by name.</p> <p>An interview was conducted outside the factory with a former worker who had indicated that she was dismissed for reporting that the water was unsafe for drinking. She told us “We saw little things coming from the water, like small red worms. I suffered stomach pain when I was drinking the water and I had headaches; the same thing happened to another worker who brought water from her home because the factory’s water made her sick.”</p> <p>The dismissal of this worker was on Monday, May 17, 2010. She commented that the personnel manager told her: “you have worked 2 years for us, but unfortunately there is a downsizing, I’m sorry but there is no more work for you”. The former worker commented that she was the only one dismissed that day and they paid her benefits at that moment. She also commented that on Friday other workers were dismissed. She believes that</p>		

<p>these layoffs were in retaliation for the comments about the water.”</p> <p>In an interview a supervisor commented that the former worker was dismissed because she was a bad worker.</p> <p>COVERCO reviewed all the termination records for May 2010 and confirmed that on May 17; only this worker was dismissed as a result of “downsizing”. It was not possible to interview the Human Resources Manager regarding this case.</p> <p>The downsizing argument is not consistent in this instance considering recruitment and withdrawals for resignation or dismissal patterns in that month. In May 2010, the factory reported a net increase of 25 production workers in relation to April 2010 (see Annex 1).</p> <p>It was not possible to interview two former workers who indicated they were dismissed for this same reason.</p> <p>16. Complaint of massive dismissal</p> <p>Women Transforming reports in their letter sent to FLA on 2/15/2012 that as a result of “Rumors fed by: massive dismissals occurring at the company”, there was a “reduction in production lines from 18 to 12 during the month of January”. And that the “dismissals have continued.”</p>	<p>Management confirmed that they have little work and that its workforce has decreased by more than 400 workers between November 2011, when they had 1196 workers, and the end of February 2012 when they have 794 workers.</p> <p>COVERCO asked, “Who decides and how is the decision made regarding who goes or continues working?”” The Production Manager responded: “I develop a plan and determine the personnel required in relation to the work planned, the plan I have is from January until June (2012).”</p> <p>How do you determine which worker is let</p>	<p>Finding</p> <p>COVERCO verified that the company has decreased its workforce from November 2011 through February 23, 2012 by 419 workers, of these 311 are contract cancellations and 108 are voluntary resignations.</p> <p>The termination of contracts was justified by Management. Management indicated that the reduction in personnel was due to decreased production caused by a decrease in orders; furthermore, all terminations were based on an evaluation of efficiencies performed by Production Management based on daily records of efficiency for each worker.</p> <p>From November 1, 2011 through February 14,</p>
---	---	--

go? “We perform time measurements and I then make a plan based on efficiency, knowledge and then decide who stays. In November we had 18 lines, now there are only 10.”

2012 only 14 people have been hired for various activities; the 8 hired workers from February 2012 are in their probationary period.

Number of workers at end of month:	
Nov.2011	1,196
Dec. 2011	1,082
Jan.2012	889
Feb.2012	794

The Production Manager indicated that the workers that were terminated were done so on the basis of their efficiency. COVERCO was only able to verify the criteria for the evaluation of efficiency. Only 5 cases were reviewed.

COVERCO verified 5 cases in which worker contracts were terminated. In 100% of these cases OA correctly paid their economic benefits.

Management commented that if they succeed in increasing production, workers that have been terminated due to decreased production will have the option to be rehired.

In 100% of interviews with workers, they expressed fear of losing their jobs.

COVERCO interviewed Women Transforming (MT) and indicated that: they have information that more than 300 workers have been terminated, and interpret this as “Ocean Sky is

		firing workers in order to hire other workers.”
<p>17. Client Withdrawal and low production (New Finding) According to the letter sent by Women Transforming (MT) dated 2/15/2012, they state to FLA that on March 10, 2011 Ocean Sky, through its Vice President Dany Goh, committed to “continue operations in El Salvador and not withdraw from the country.”</p>		<p>Finding regarding previous evaluations</p> <p>The Factory claims that it has “Little work and some brands (clients) are no longer with us, such as PUMA”, the Production Manager commented.</p> <p>Furthermore, Management indicated that currently they are only producing garments for the following brands:</p> <p>Columbia Sportswear, Adidas – Reebok and Nordstrom.</p> <p>Management stated that Perry Ellis and Puma have withdrawn their production; and that Gap Inc. has not had production either.</p> <p>100% of respondents commented about their fear of losing their job and 100% of respondents confirm that there is little work.</p>
<p>1. Coaching by Management of workers in preparation for compliance visits</p> <p>During the interviews, 37% of respondents confirmed that at least 3 supervisors informed them about the current independent assessment and recommended that they “not say anything bad about the factory because some of the Brands working at the factory may leave.”</p>		<p>Finding</p> <p>100% of interviews confirm that they had knowledge of the investigation that would be conducted the week of February 20. Workers commented that they were not pressured, or prepared for possible interviews.</p> <p>It is important to note that the anticipated communication to workers did not affect the investigation or its findings.</p>

<p>2. Freedom of Movement</p> <p>24% of respondents (10 interviewees) commented that they faced limitations when leaving the facilities at lunch time. They can only leave the premises with a permit given by the management; therefore workers bring their food or buy it in the factory cafeteria.</p> <p>COVERCO considers this rule as an obligatory measure to remain within the factory facilities during lunch time that may limit freedom of movement.</p> <p>Management responded that workers could leave the facilities as long as they request permission and the company authorizes it. Management commented that it is considering removing this restriction as of March 2011.</p>	<p>The permission to leave the premises for lunch is no longer necessary, starting February 28, 2011. Workers have been informed of this change and have in fact, had their lunch in the establishments outside the factory.</p>	<p>In Compliance</p> <p>Interviews with Management and the workforce confirm that currently the Factory allows workers to leave the premises freely for the consumption of their meals at lunch time.</p> <p>Workers state that they feel well having their lunch outside of the Factory: “... <i>leaving makes me feel well, I feel I rest more, not like when we were locked in during lunch hour.</i>”</p>
--	--	--

Guatemala, March 15, 2012, modified May 23, 2012