

BEFORE THE UTAH ATTORNEY GENERAL

In the Matter of the Investigation of CASCADE YARNS, INC.	<b>ASSURANCE OF VOLUNTARY COMPLIANCE:</b> Black Sheep Wool Company
	Date: March 26, 2005

WHEREAS, under authority of the Utah Antitrust Act, §76-10-911, et seq., Utah Code Ann., the Utah Attorney General has conducted an investigation into possible collusion and group boycott in the retail sale of yarn in Salt Lake City, Utah; and

WHEREAS, Black Sheep Wool Company has cooperated in the investigation; and

WHEREAS, Black Sheep has agreed to resolve the investigation as set forth further below; and

WHEREAS, the Attorney General has authority to bring a civil action seeking an injunction and civil penalties under the Utah Antitrust Act and, in lieu of bringing a civil action against Black Sheep, has elected to accept this Assurance of Voluntary Compliance:

NOW THEREFORE, the Attorney General makes the following findings resulting from its investigation:

**FINDINGS**

1. Cascade Yarns, Inc., of Tukwila, Washington, manufactures and imports yarn which is sold to consumers through independent retail stores. In the Salt Lake City area,

Cascade yarns have been sold by the Wool Cabin, Black Sheep Wool Company, and Sherri's Lace Place.

2. Sherri's has been a seller of Cascade yarn for five years and Black Sheep for four and a half years. Wool Cabin has been a retail dealer for longer than five years.

3. Traditional yarn retailers, such as Black Sheep and Wool Cabin sell yarn at 100% markup from the wholesale price. Seasonal sales and closeouts may result in discounts of 10-45%. Students taking knitting classes at the retail dealer's store may be offered a discount of 10% on the purchase of yarn at the store.

4. In June, 2004, the owner of Wool Cabin visited Sherri's Lace Place to determine whether Sherri's carried Cascade yarn. The Wool Cabin owner found the yarn was being sold with, what the Wool Cabin owner believed were, discount yarns. The owner of the Wool Cabin contacted Cascade to complain. Cascade's representative told the Wool Cabin that if the Wool Cabin were to place a sufficiently large order for Cascade yarn, Cascade would terminate Sherri's as a retail outlet. Wool Cabin did not, at that time, place a sufficiently large order to cause the termination of Sherri's.

5. Sometime in the Summer of 2004 Alison Barlow of the Wool Cabin contacted the president of Black Sheep, Vonnie Wildfoerster, complaining that Sherri's was selling Cascade yarn in close proximity to the Wool Cabin. At the time of this call, Wool Cabin and Black Sheep Wool Company were horizontal competitors for the sale of yarn and accessories.

6. In September 2004, Sherri's placed an advertisement in the newspaper offering a

20% discount on all purchases at Sherri's, including yarn.

7. Wool Cabin's Barlow sent a copy of Sherri's advertisement to the sales department at Cascade. She then called Jean Dunbabin, an owner of Cascade, to complain that Sherri's was pricing yarn at less than Wool Cabin's price and also was distributing coupons for additional discounts off the retail price.

8. On September 16, 2004, Black Sheep's Wildfoerster complained to Cascade's sales representative for Utah, Clifton Langin, about Sherri's sales practices. Wildfoerster told Langin she would cancel an order she had placed for Cascade yarn unless Cascade quit providing yarn to Sherri's.

9. The next day, Langin went to Sherri's retail store and told Sherri's that Cascade no longer would supply the store with yarn. Langin explained that the termination was the result of competitors complaining about the low retail prices being charged by Sherri's. He explained further that the complaining competitors purchase significantly more yarn than Sherri's.

10. The following week, Cascade's sales office called Wildfoerster to say Cascade would quit providing yarn to Sherri's.

11. In October, Sherri's attempted to order a supply of yarn from Cascade and was refused.

12. Cascade originally made Sherri's a retail outlet knowing Sherri's was a craft store and did not focus on yarn sales. During the entire time Sherri's was a retail seller of Cascade yarn, Cascade knew the variety of Cascade yarn colors being sold, the volume of yarn stocked

and sold, and the location of Sherri's retail store in relation to Black Sheep and the Wool Cabin.

13. Cascade has never notified its retail outlets in Salt Lake that discounting was prohibited, coupons were not permitted, or what retail price retail stores were expected to charge.

#### AGREEMENT

1. Black Sheep shall not engage in any conduct relating the sale of yarn or other retail products in Utah in violation of the Utah Antitrust Act.

2. Black Sheep will comply with the Utah Antitrust Act in its dealings with suppliers of the products it sells and in its dealings with competing retail outlets.

3. In particular, Black Sheep will not discuss with any competitor any of the following:

A. The prices Black Sheep currently charges or will charge for its products, either at retail sale, at discount, or by bid, or the prices the competitor charges or should charge;

B. Threats or plans to cease to purchase, suspend purchases from, or otherwise to restrict any manufacturer's sale of yarn products to any retail outlet;

C. The manner in which Black Sheep conducts its business with respect to competitive practices such as advertising, promotions, display, bids, hours of operation, or wages paid;

D. Making any joint complaints to suppliers of Black Sheep or any of its

competitors regarding the practices of any other competitor;

- E. Any of Black Sheep's opinions about the conduct of a competitor such as its location, its prices, the manner of its display, its advertising, or any other matter that might affect competition between them.

4. The prohibitions of this Assurance of Voluntary Compliance do not prohibit membership or participation in the Salt Lake Knitting Guild or other membership associations that may involve regular meetings; newsletters; presentations to exchange information on knitting techniques, methods, designs, materials and resources; or discussions of programs and events related to knitting. Communications are permitted on matters that relate to industry-wide concerns such as reducing theft, referring customers to other retailers for products not in stock or for answers to knitting questions, sources of yarn and knitting materials, and identifying sales representatives for manufacturers. Such association efforts may not, however, include any discussions about how the retail stores compete with each other, the retailers' hours of operation, employee wages, prices charged for knitting products, advertising not directly related to the association's permitted activities (such as whether a retail store will advertise or the timing or content of advertisements), promotions to be run by any particular seller of knitting products (as opposed to promotions by the Knitting Guild or other association), discussions or agreements regarding the amount of discount offered by each retail store on the Knitting Guild's "Shop Night," or discussions or agreements regarding any conduct prohibited by the antitrust laws including allocating markets or customers, bid rigging, price fixing, or group boycotts.

5. Black Sheep will not ask any of its suppliers, either individually or in conjunction with other retail dealers, to terminate or refuse to supply products or services to any of Black Sheep's competitors and it will not organize or join any attempted boycott aimed at any competitors.

6. Black Sheep will not report to any of its suppliers actions or conduct of any of its competitors or in any manner attempt to influence the ability of a competitor to receive products or services from any of its suppliers.

7. Black Sheep will not refuse to order or purchase, or threaten to refuse to order or purchase, or limit or threaten to limit purchase of, any products from any supplier based on a request that the supplier cease providing products to a competitor.

8. Black Sheep is prohibited from encouraging, suggesting, advising, pressuring, inducing, or otherwise attempting to secure any person to engage in any action that would be prohibited by this Assurance of Voluntary Compliance if done by Black Sheep.

9. Evidence of a violation of this Assurance of Voluntary Compliance by Black Sheep shall constitute prima facie proof of violation of the Utah Antitrust Act in any civil action or proceeding hereafter commenced by the Attorney General.

10. Black Sheep agrees to cooperate fully and promptly with the Attorney General with regard to any proceeding, including any investigation, litigation, meeting, interview, deposition, hearing, trial, or appellate proceeding initiated by or against the Attorney General that relates to or arises out of the matters described in this Assurance. Cooperation shall include,

without limitation, voluntary production of all documents or other evidence reasonably requested by the Attorney General and having officers, employees, and agents of the company provide truthful testimony voluntarily in any proceeding requested by the Attorney General.

11. If Black Sheep complies with its obligations set forth in this Assurance, the Attorney General agrees that it will not commence a civil action against Black Sheep or its current and former officers, employees, and agents for any act regarding the conduct described above.

12. Black Sheep acknowledges that this document is a public record and the Attorney General may make public statements or announcements to the press about this settlement.

DATED: this 26 day of March, 2005.

MARK L. SHURTLEFF  
ATTORNEY GENERAL  
State of Utah

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Assistant Attorney General

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Vonnie Wildfoerster

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