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TARRANT APPAREL GROUP
Form 10-K/A
May 15, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 1 TO
FORM 10-K/A

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the fiscal year ended December 31, 2002

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 0-26430

TARRANT APPAREL GROUP
(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction
of incorporation or organization)

95-4181026
(I.R.S. Employer
Identification Number)

3151 East Washington Boulevard
Los Angeles, California 90023
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (323) 780-8250

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

As of June 28, 2002, the aggregate market value of the Common Stock held by non-affiliates of the Registrant was approximately \$38,126,931 based

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upon the closing price of the Common Stock on that date.

Number of shares of Common Stock of the Registrant outstanding as of March 15, 2003: 15,846,315.

DOCUMENTS INCORPORATED BY REFERENCE

None

AMENDMENT NO. 1 TO THE ANNUAL REPORT ON FORM 10-K FILED BY TARRANT APPAREL GROUP ON APRIL 1, 2003

The following amends the Annual Report on Form 10-K filed by Tarrant Apparel Group on April 1, 2003, as permitted by the rules and regulations promulgated by the Securities and Exchange Commission. Item 15 of the Form 10-K is hereby amended in its entirety as set forth herein.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Financial Statements and Schedule. Reference is made to the Index to Financial Statements and Schedule on page F-1 for a list of financial statements and the financial statement schedule filed as part of this report. All other schedules are omitted because they are not applicable or the required information is shown in the Company's financial statements or the related notes thereto.

(b) Reports on Form 8-K filed: None.

(c) Exhibits. The following exhibits are filed as part of this report.

EXHIBIT NUMBER	DESCRIPTION
3.1	Restated Articles of Incorporation of the Company(1)
3.1.1	Certificate of Amendment of Restated Articles of Incorporation. (26)
3.1.2	Certificate of Amendment of Restated Articles of Incorporation. (26)
3.1.3	Certificate of Determination of Preferences, Rights and Limitations of Series A Preferred Stock of Tarrant Apparel Group. (28)
3.2	Restated Bylaws of the Company (1)
4.1	Specimen of Common Stock Certificate (2)
10.1	Note in the principal amount of \$2,600,000 dated March 15, 1995 in favor of Imperial Bank (1)
10.2	General Security Agreement dated March 15, 1995 by and between the Company and Imperial Bank (1)

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- 10.3 Factoring Agreement effective as of September 28, 1993, as amended, by and between the Company and NationsBanc Commercial Corporation (1)
- 10.4 1995 Stock Option Plan dated as of May 1, 1995 (1)
- 10.5 Letter Agreement dated February 17, 1995 between Tarrant Company Limited and The Hongkong and Shanghai Banking Corporation Limited (1)

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EXHIBIT NUMBER	DESCRIPTION
10.6	Letter dated April 18, 1995 from The Hongkong and Shanghai Banking Corporation Limited to Tarrant Company Limited regarding the release of certain security interest (1)
10.7	Commercial Lease dated January 1, 1994 and GET and the Company (1)
10.8	Tenancy Agreement dated July 15, 1994 between Lynx International Limited and Tarrant Company Limited as amended by that certain Supplementary Tenancy Agreement dated December 30, 1994 and that certain Second Supplementary Tenancy Agreement dated December 31, 1994 (1)
10.9	Lease Agreement dated June 10, 1994, between Yip Sik Kin and Tarrant Company Limited (translated from Chinese) (1)
10.10	Tenancy Contract effective as of December 24, 1994, between Khalifa Muhairi and Tarrant Trading Co. Ltd. (1)
10.11	Agreement dated as of June 1, 1995, by and among Pret-A-Porter, the Company, French Designers, Inc., Bernard Aidan, Gerard Guez and Todd Kay (5)
10.12	Services Agreement dated as of April 1, 1995, by and between F.I.S., Inc. and the Company (2)
10.13	Services Agreement dated as of October 1, 1994, by and between the Company and GET (1)
10.14	Services Agreement dated as of October 1, 1994, by and between the Company and Lynx International Limited (1)
10.15	Indemnification Agreement dated as of March 14, 1995, by and among the Company, Gerard Guez and Todd Kay (2)
10.16	Promissory Note in the initial principal amount of \$2 million dated February 8, 1996, by Gerard Guez in favor of the Company (2)
10.17	Promissory Note in the initial principal amount of \$1 million dated February 8, 1995, by Todd Kay in favor of the Company (2)
10.18	Promissory Note in the principal amount of \$1,334,566.71 dated December 31, 1994, by P.I.S., Inc. in favor of the Company (2)

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- 10.19 Release dated as of June 1, 1995, by and between the Company and certain other parties signatory thereto (2)
- 10.20 Option Agreement dated as of July 28, 1995, by and among Limited Direct Associates, L.P., Gerard Guez, Todd Kay and the Company (5)
- 10.21 Registration Rights Agreement dated as of July 28, 1995, by and among the Company and Limited Direct Associates, L.P.(5)

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EXHIBIT NUMBER -----	DESCRIPTION -----
10.22	Reorganization and Tax Indemnification Agreement dated as of June 13, 1995, by and among the Company and its shareholders (5)
10.23	Employment Agreement January 1, 1995, by and between the Company and Gerard Guez (2)
10.23.1	Employment Agreement effective January 1, 1998, by and between the Company and Gerard Guez (13)
10.23.2	First amendment to Employment Agreement dated as of January 10, 2000 by and between Gerard Guez and the Company (21)
10.24	Agreement dated as of January 1, 1995, by and between the Company and Todd Kay (1)
10.24.1	Employment Agreement effective January 1, 1998, by and between the Company and Todd Kay (13)
10.24.2	First Amendment to Employment Agreement dated as of January 10, 2000 by and between Todd Kay and the Company
10.25	Employment Agreement dated as of January 1, 1994, by and between the Company and Jimmy Esebag, as amended, by that certain Amendment No. 1 dated as of June 1, 1995 (2)
10.26	Employment Agreement dated as of November 18, 1994, by and between the Company and Mark B. Kristof (1)
10.27	Employment Agreement dated as July 5, 1994, by and between the Company and Bradley R. Kenson (1)
10.28	License Agreement dated January 1, 1994, by and between the Company and GET (1)
10.29	Assignment dates as of June 1, 1995 with respect to the GET! trademark, executed by GET in favor of the Company (2)
10.30	Amendment No. 1 to Commercial Lease dated as of April 1, 1995 by and between GET and the Company (2)
10.31	Lease and Services Agreement dated as of June 1, 1995, by and between Tarrant Company Limited and French Designers, Inc. (2)

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- 10.32 Note in the principal amount of \$2,600,000 dated May 15, 1995, by the Company in favor of Imperial Bank (2)
- 10.33 Letter Agreement dated May 17, 1995, by and between Tarrant Company Limited and The Hongkong and Shanghai Banking Corporation Limited (2)
- 10.34 Buying Agency Agreement executed as of December 19, 1992, between P.I.S., Inc. and Tarrant Company Ltd. (2)

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EXHIBIT NUMBER -----	DESCRIPTION -----
10.35	Buying Agency Agreement executed as of April 4, 1995, by Azteca Production International, Inc. and Tarrant Company Ltd., with the Company acknowledging as to certain matters (2)
10.36	Tripartite Agreement Assignment of Factoring Proceeds (Advances) executed and delivered June 6, 1995, by the Company, and accepted and agreed to by The Hongkong and Shanghai Banking Corporation Limited and NationsBanc Commercial Corporation (2)
10.36.1	Amendment to Three Party Special Deposit Account Agreement (8)
10.37	Security Agreement (Guaranty of Tarrant Co. Ltd. Debt) entered into as of June 6, 1995, by and between the Hongkong and Shanghai Banking Corporation Limited and the Company (2)
10.38	Security Agreement (Tarrant Co. Ltd. Draft Acceptance) entered into as of June 6, 1995, by and between The Hongkong and Shanghai Banking Corporation Limited and the Company (2)
10.39	Agreement dated March 14, 1995, by and among Tarrant Company Limited, Cheung Shing Hong Holding Ltd., Yip Sik Kin and Lam Kin Fong (3)
10.40	Agreement dated March 17, 1995, by and among Tarrant Company Limited, Cheung Shing Hong Holding Ltd., Yip Sik Kin and Lam Kin Fong (3)
10.41	Underwriting Agreement dated as of July 24, 1995, by and among the Company, Gerard Guez, Todd Kay and Prudential Securities Incorporated (5)
10.42	Letter agreement dated August 10, 1995, by and among the Company and NationsBanc Commercial Corporation (4)
10.42.1	Amendment dated June 9, 1997 to Factoring Agreement effective as of September 28, 1993, as amended, by and between the Company and NationsBanc Commercial Corporation (8)
10.43	Letter agreement dated January 30, 1996, by and between Tarrant Company Limited and The Hongkong Shanghai Banking Corporation

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Limited (5)

- 10.43.1 Letter agreement dated May 28, 1996, by and between Tarrant Company Limited and The Hongkong and Shanghai Banking Corporation Limited (8)
- 10.43.2 Letter agreement dated April 16, 1998, by and between Tarrant Company Limited and The Hongkong and Shanghai Banking Corporation Limited (11)
- 10.44 Promissory Note in the principal amount of \$3 million dated March 25, 1996, by GET in favor of the Company (6)
- 10.45 Deed of Trust dated March 25, 1996 by and Between GET and the Company (6)

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EXHIBIT NUMBER	DESCRIPTION
10.46	Guaranty, Pledge & Security Agreement entered into as of March 25, 1996, by and between Gerard Guez and the Company (6)
10.47	Guaranty, Pledge & Security Agreement entered into as of March 25, 1996, by and between Todd Kay and the Company (6)
10.48	Letter agreement dated February 22, 1996, by and between Tarrant Company Limited and Standard Chartered Bank (7)
10.49	Letter agreement dated March 8, 1996, by and between Tarrant Company Limited and Standard Chartered Bank (7)
10.50	Guarantee Agreement entered into as of August 30, 1996, by and between Standard Chartered Bank and the Company (7)
10.51	Letter of Undertaking entered into as of August 30, 1996, by and between Standard Chartered Bank and the Company (7)
10.52	Intercreditor Agreement entered into as of November 1, 1996, between The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and Tarrant Company Limited (7)
10.53	Security Agreement entered into as of November 1, 1996, by and between Standard Chartered Bank and the Company (7)
10.53.1	Termination Agreement dated as of March 29, 2002, by and between Standard Chartered Bank and Tarrant Apparel Group (25)
10.54	Amendment to Security Agreement (Guaranty of Tarrant Co. Ltd. Debt) entered into as of November 1, 1996, between The Hongkong and Shanghai Banking Corporation Limited and the Company (7)
10.55	Agreement dated January 29, 1997 by and among Tarrant Company Limited, Cheung Shing Hong Holding Ltd., Yip Sik Kin and Lam Kin Fong (7)

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10.56	Form of Indemnification Agreement with directors and certain executive officers (8)
10.57	Special Deposit Account Agreement (8)
10.58	Accounts Receivable Financing Agreement dated June 13, 1997, by between the Company and The CIT GroupCommercial Services, Inc. (8)
10.58.1	Letter Agreement dated October 1, 1997 regarding Accounts Receivable Financing Agreement, by and between the Company and The CIT GroupCommercial Service., Inc. (13)
10.59*	Asset Purchase Agreement dated February 18, 1998, by and between Marble Limited and MGI International Limited (10)

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EXHIBIT NUMBER -----	DESCRIPTION -----
10.60*	Asset Purchase Agreement dated February 18, 1998, by and between the Company and Marshall Gobuty International U.S.A., Inc. (10)
10.61	Employment Agreement dated February 23, 1998, by and between the Company and Marshall Gobuty (10)
10.62	Noncompetition Agreement dated February 23, 1998, by and between Marshall Gobuty International U.S.A., Inc. and Marshall Gobuty, on the one hand, and the Company, on the other hand (10)
10.63	Noncompetition Agreement dated February 23, 1998, by and between MGI International Limited and Marshall Gobuty, on the one hand, and the Company, on the other hand (10)
10.64	Loan Agreement dated as of July 1, 1998, between the Company and Standard Chartered Bank (12)
10.65	Partnership Interest Purchase Agreement dated as of July 2, 1998, among Rocky Acquisition, LLC, the Company, Limited Direct Associates, L.P., Rocky Apparel, Inc., and Gabriel Manufacturing Company (13)
10.66	Escrow Agreement made as of July 2, 1998, by and among the Company, Gabriel Manufacturing Company and Rocky Apparel, Inc. (13)
10.67	Facility Development Agreement dated as of December 2, 1998, by and between Tarrant Mexico, S. de R.L. de C.V. and Tex Transas, S.A. de C.V. (13)
10.67.1	Letter of Intent to Purchase Twill Mill dated August 30, 2002. (27)
10.68+	Agreement for Purchase of Assets dated as of February 22, 1999, by and among Tarrant Mexico, S. de R.L. de C.V., Jamil Textil, S.A. de C.V., Inmobiliaria Cuadros, S.A. de C.V., Kamel Nacif and Irma Benavides Montes De Oca (13)

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- 10.68.1 Final Agreement for Purchase of Assets dated as of April 18, 1999, by and among Tarrant Mexico, S. de R.L. de C.V., Jamil Textil, S.A. de C.V., Inmobiliaria Cuadros, S.A. de C.V., Kamel Nacif and Irma Benavides Montes De Oca (15)
- 10.69 Agreement for Purchase of Assets effective as of the twenty-third day of March, 1999, by and among CMG, Inc., Charles Ghailian, CHAZZZ Acquisition, L.L.C. and the Company (14)
- 10.70 Employment Agreement effective as of the twenty-third day of March, 1999, by and between Charles Ghailian and the Company to pay CMG Inc. (14)
- 10.71 Non-Negotiable Promissory Note dated March 23, 1999 to pay CMG Inc. (14)
- 10.71.1 Non-Negotiable Promissory Note dated February 14, 2000 to pay CMG Inc. (20)

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EXHIBIT NUMBER -----	DESCRIPTION -----
10.72	Escrow Agreement, by and among the Company, Tarrant Mexico, S. de R.L. de C.V. and Jamil Textil, S.A. de C.V. dated as of April 1, 1999 (14)
10.72.1	Final Escrow Agreement dated as of May 24, 1999, by and among Tarrant Apparel Group, Tarrant Mexico, S. de R.L. de C.V., Jamil Textil, S.A. de C.V., Inmobiliaria Cuadros, S.A. de C.V., Kamel Nacif and Irma Benavides Montes De Oca (15)
10.73	Employment Agreement dated as of April 1, 1999 by and between Kamel Nacif and Tarrant Mexico, S. de R.L. de C.V. (14)
10.73.1	Amendment to Employment Agreement entered into August 7, 2000 by and between Tarrant Mexico, S. de R.L. de C.V. and Kamel Nacif (20)
10.74	Agreement for Purchase of Stock dated as of August 1, 1999, by and among Tag Mex, Inc., NO! Jeans, Inc., Antonio Haddad Haddad, Tarrant Apparel Group and the shareholders of Industrial Exportadora Famian, S.A. de C.V. and Coordinados Elite, S.A, de C.V.* (15)
10.75	Noncompetition Agreement dated as of August 1, 1999, by and among Tag Mex, Inc., NO! Jeans, Inc., Antonio Haddad, Tarrant Apparel Group and the shareholders of Industrial Exportadora Famian, S.A. de C.V. and Coordinados Elite, S.A, de C.V. (16)
10.77	Loan Agreement dated September 1, 1999 by and between General Electric Capital Corporation and Tarrant Apparel Group (16)
10.77.1	Amendment No. 1 to Loan Agreement dated September 12, 1999 by and between General Electric Capital Corporation and Tarrant Apparel

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Group (16)

- 10.77.2 Modification Agreement entered into as of June 7, 2002, by and between General Electric Capital Corporation and Tarrant Apparel Group. (26)
- 10.78 Promissory Note dated September 1, 1999 to pay to the order of General Electric Capital Corporation the loan amount referred to in Exhibit 10.77 (16)
- 10.79 Corporate Guaranty dated September 1, 1999 by Tarrant Mexico, S. de R.L. de C.V. in connection with loan agreement referred to in Exhibit 10.77 (16)
- 10.79.1 Amendment No. 1 to Corporate Guaranty dated September 12, 1999 by Tarrant Mexico, S. de R.L. de C.V. in connection with loan agreement referred to in Exhibit 10.77 (16)
- 10.80 Master Security Agreement made as of September 1, 1999 by and between General Electric Capital Corporation and Tarrant Mexico, S. de R.L. de C.V. in connection with loan agreement referred to in Exhibit 10.77 (16)
- 10.80.1 Amendment No. 1 to Master Security Agreement made as of September 12, 1999 by and between General Electric Capital Corporation and Tarrant Mexico, S. de R.L. de C.V. in connection with loan agreement referred to in Exhibit 10.77 (16)

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EXHIBIT NUMBER -----	DESCRIPTION -----
10.81	Loan Agreement dated December 30, 1999 by and between Standard Chartered Bank and Tarrant Apparel Group (17)
10.82	Factoring Agreement dated November 24, 1999 by and between MTB Bank and Rocky Apparel, LLC. (17)
10.83	Machinery and Equipment Agreement dated November 17, 1999 by and between Tarrant Mexico, S. de R.L. de C.V and Banc of America Leasing & Capital, L.L.C. (17)
10.84	Employment Agreement dated as of August 1, 1999 by and between Industrial Exportadora Famian, S.A. de C.V. and Antonio Haddad Haddad (17)
10.85	Employment Agreement dated as of August 1, 1999 by and between Industrial Exportadora Famian, S.A. de C.V. and Mario Alberto Haddad Yunes (17)
10.86	Employment Agreement dated as of August 1, 1999 by and between Industrial Exportadora Famian, S.A. de C.V. and Marco Antonio Haddad Yunes (17)
10.87	Employment Agreement dated as of August 1, 1999 by and between

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Industrial Exportadora Famian, S.A. de C.V. and Miguel Angel Haddad Yunes (17)

- 10.88 Non-Negotiable Promissory Note dated August 1, 1999 to pay to the order of Antonio Haddad Haddad (17)
- 10.89 Stock Pledge Agreement dated August 1, 1999 by and between TAG MEX, INC. and those individuals whose names appear on the signature page (17)
- 10.90 Revolving Credit, Factoring and Security Agreement dated January 21, 2000 by and between Tarrant Apparel Group, Tag Mex, Inc., and GMAC Commercial Credit LLC (17)
- 10.90.1 First Amendment to Revolving Credit, factoring and security agreement dated January 21, 2000 by and between Tarrant Apparel Group, Tag Mex, Inc. and GMAC Commercial Credit LLC (20)
- 10.90.2 Second Amendment to Revolving Credit, factoring and security agreement dated January 21, 2000 by and between Tarrant Apparel Group, Tag Mex, Inc. and GMAC Commercial Credit LLC (20)
- 10.90.3 Third Amendment to Revolving Credit, factoring and security agreement dated January 21, 2000 by and between Tarrant Apparel Group, Tag Mex, Inc. and GMA Commercial Credit LLC (20)
- 10.90.4 Letter agreement dated June 29,2001 by and between the Company and GMAC Commercial Credit (22)
- 10.90.5 Waiver agreement dated November 2001 by and between Tarrant Apparel Group And GMAC Commercial Credit (24)

EXHIBIT NUMBER -----	DESCRIPTION -----
10.90.6	Letter Amendment dated March 2002 by and between Tarrant Apparel Group, Tag Mex, Inc., Fashion Resource (TCL), Inc., United Apparel Ventures, LLC and GMAC Commercial Credit, LLC. Reference is made to Revolving Credit, Factoring and Security Agreement dated January 21, 2000. (25)
10.90.7	Letter Amendment dated January 24, 2003 between Tarrant Apparel Group, Tag Mex, Inc., Fashion Resource (TCL), Inc., United Apparel Ventures, LLC and GMAC Commercial Credit, LLC. Reference is made to Revolving Credit, Factoring and Security Agreement dated January 21, 2000. (29)
10.90.8	Waiver dated November 13, 2002 between Tarrant Apparel Group, Tag Mex, Inc., Fashion Resource (TCL), Inc., United Apparel Ventures, LLC and GMAC Commercial Credit, LLC. Reference is made to Revolving Credit, Factoring and Security Agreement dated January 21, 2000. (29)
10.91	Agreement for Purchase of Assets dated April 12, 2000, by and among

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Harvest Wear, Inc., a California corporation (HW), Mapa Trading, LTD, a Hong Kong corporation (Mapa), Needletex, Inc., a California corporation (Needletex), Patrick Bensimon (the Shareholder), Jane Doe International LLC, (formally Needletex, LLC) a Delaware limited liability company (the Purchaser) (19)

- 10.92 Amendment No. 1 to Facility Development Agreement dated as of March 30, 2000, by and between Tarrant Mexico, S. de R.L. de C.V. and Tex Transas, S.A. de C.V. (18)

- 10.93 Equipment Purchase Agreement dated as of October 16, 2000, by and between Tarrant Mexico, S. de R.L. de C.V. and Tex Transas, S.A. de C.V. (18)

- 10.94 Secured Promissory Note dated October 5, 2000 in the principal amount of U.S. \$47,702,128 of Tex Transas, S.A. de C.V. (18)

- 10.94.1 Amended Secured Promissory Note dated October 5, 2000 in the principal amount of U.S. \$47,702,128 of Tex Transas, S.A. de C.V (Amended and Restated as of December 18, 2001). (29)

- 10.94.2 Amendment No. 2 to Secured Promissory Note dated January 2, 2002 between Trans Textil International, S.A. de C.V. and Tarrant Company Limited and Trade Link Holdings Company. (29)

- 10.95 Equipment Lease dated as of October 16, 2000, by and between Tarrant Mexico, S. de R.L. de C.V. and Tex Transas, S.A. de C.V. (18)

- 10.96 Production Agreement dated as of October 16, 2000, by and between Tag Mex, Inc. and Tex Transas, S.A. de C.V. (18)

- 10.97 Pledge Security Agreement dated as of October 16, 2000, by and between Tarrant Mexico, S. de R.L. de C.V. and Tex Transas, S.A. de C.V. (18)

EXHIBIT NUMBER -----	DESCRIPTION -----
10.98	Promissory note dated February 28, 2001 in the amount of US \$4,119,545.06 to pay to the order of Standard Chartered Bank (20)
10.99	Stock repurchase agreement entered into July 10, 2000 by and among Tarrant Apparel Group and Gabriel Manufacturing Company (20)
10.99.1	Consulting Agreement effective as of October 9, 2001 by and between Gabriel Zeitounti and the Company (23)
10.100	Agreement for Purchase of Assets dated August 1, 2000 by and among Tarrant Mexico, S. de R.L. de C.V., Confecciones Jamil, S.A.de R.L. de C. and Inmobiliaria Cuadros, S.A. de C.V. (21)
10.101	Limited Liability Company Operating Agreement of United Apparel Ventures, LLC effective as of July 1,2001 (23)

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- 10.101.1 Amendment to Operating Agreement dated as of October 23, 2001 by and among Azteca Production International, Inc. ("Azteca") and "TAG MEX". (25)
- 10.101.2 Second amendment to Operating Agreement dated as of January 2, 2002 by and among Azteca Production International, Inc. ("Azteca") and "TAG MEX". (25)
- 10.101.3 Third Amendment to Operating Agreement dated as of July 5, 2002, by and between Azteca Production International, Inc, and TAG Mex, Inc. (26)
- 10.102 Employment Agreement effective January 1, 2002 by and between Eddie Yuen and the Company (24)
- 10.103 Employment Agreement effective January 7, 2002 by and between Patrick Chow and the Company (24)
- 10.103.1 First Amendment to Employment Agreement dated January 2, 2003, between Patrick Chow and the Company. (29)
- 10.104 Security Agreement entered in to as of April 9, 2001, by and between Banco Nacional De Comercio Exterior, Industrial Exportadora Famian S.A. and Tarrant Apparel Group (24)
- 10.105 Guaranty Agreement dated as of May 30, 2002 by and between UPS Capital Global Trade Finance Corporation and Tarrant Apparel Group and Fashion Resource (TCL), Inc. (26)
- 10.105.1 Conditional Consent Agreement dated December 31, 2002, between UPS Capital Global Trade Finance Corporation and Fashion Resource (TCL), Inc. (29)
- 10.106 Guaranty Agreement dated as of May 30, 2002 by and between UPS Capital Global Trade Finance Corporation and Gerard Guez. (26)

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EXHIBIT NUMBER -----	DESCRIPTION -----
10.107	Syndicated Letter of Credit Facility dated June 13, 2002 by and between Tarrant Company Limited, Marble Limited and Trade Link Holdings Limited as Borrowers and UPS Capital Global Trade Finance Corporation as Agent and Issuer and Certain Banks and Financial Institutions as Banks. (26)
10.107.1	Charge Over Shares dated June 13, 2002 by Fashion Resource (TCL), Inc. in favor of UPS Capital Global Trade Finance Corporation. (26)
10.107.2	Syndicated Composite Guarantee and Debenture dated June 13, 2002 between Tarrant Company Limited, Marble Limited and Trade link Holdings Limited and UPS Capital Global Trade Finance Corporation. (26)

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- 10.108 Assignment of Promissory Note by Tarrant Apparel Group to Tarrant Company Limited and to Trade Link Holdings Company dated December 26, 2001. (26)
- 10.110 Assignment of Promissory Note for full settlement of indebtedness issued by Tex Transas, S.A. de C.V. due to Tarrant Company Limited, Trade Link Holdings Limited dated December 26, 2001. (26)
- 10.111 Promissory Note dated July 1, 2002 by Tarrant Apparel Group in favor of Todd Kay. (26)
- 10.111.1 Amendment to Promissory Note dated January 2, 2003, between Todd Kay and the Company. (29)
- 10.112 Agreement for Purchase of Assets and Stock dated December 31, 2002, by and among the Registrant, Tarrant Mexico, S. de R.L. de C.V., Machrima Luxembourg International, Sarl, Trans Textil International, S.A. de C.V., Inmobiliaria Cuadros, S.A. de C.V., Rosa Lisette Nacif Benavides, Gazi Nacif Borge, Jorge Miguel Echevarria Vazquez, and Kamel Nacif Borge.+ (28)
- 23.1 Consent of Ernst & Young LLP
- 24 Power of Attorney. (29)
- 99.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Confidential treatment has been requested for portions of this document.

+ All schedules and or exhibits have been omitted. Any omitted schedule or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request.

- (1) Filed as an exhibit to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on May 4, 1995 (File No. 33-91874).
- (2) Filed as an exhibit to Amendment No. 1 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on July 15, 1995.
- (3) Filed as an exhibit to Amendment No. 2 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on July 11, 1995.

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- (4) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995.
- (5) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 30, 1995.
- (6) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.

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- (7) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.
- (8) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.
- (9) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997.
- (10) Filed as exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.
- (11) Filed as exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998.
- (12) Filed as exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.
- (13) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- (14) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.
- (15) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999.
- (16) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.
- (17) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1999.
- (18) Filed as an exhibit on Form 8K 10/21/2000.
- (19) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.
- (20) Filed as an exhibit to the Company's Annual Report on Form 10K for the year ending December 31, 2000.
- (21) Filed as an exhibit to the Company's Quarterly Report on Form 10Q for the quarter ending March 31, 2001.
- (22) Filed as an exhibit to the Company's Quarterly Report on Form 10Q for the quarter ending June 30, 2001.
- (23) Filed as an exhibit to the Company's Quarterly Report on Form 10Q for the quarter ending September 30, 2001.
- (24) Filed as an exhibit to the Company's Annual Report on Form 10K for the year ending December 31, 2001.
- (25) Filed as an exhibit to the Company's Quarterly Report on Form 10Q for the quarter ending March 31, 2002.
- (26) Filed as an exhibit to the Company's Quarterly Report on Form 10Q for the quarter ending June 30, 2002.
- (27) Filed as an exhibit to the Company's Quarterly Report on Form 10Q for the quarter ending September 30, 2002.

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- (28) Filed as an exhibit to the Company's Current Report on Form 8K dated December 31, 2002 and filed on January 15, 2003.
- (29) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Tarrant Apparel Group

We have audited the accompanying consolidated balance sheets of Tarrant Apparel Group and subsidiaries as of December 31, 2001 and 2002, and the related

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consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tarrant Apparel Group and subsidiaries at December 31, 2001 and 2002 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule when considered in relation to the basic financial statements, taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 6 to the consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142.

/S/ ERNST & YOUNG LLP

Los Angeles, California
March 14, 2003

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TARRANT APPAREL GROUP

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	2001	2002
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,524,447	\$ 1,388,482
Accounts receivable, net	58,576,654	65,287,902
Due from affiliates	2,064,923	10,269,251
Due from officers	87,456	456,500

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Inventory	50,600,584	44,782,154
Temporary quota	369,849	--
Current portion of note receivable-- related party	3,468,490	--
Prepaid expenses and other receivables	6,274,330	5,135,672
Income taxes receivable	692,868	280,200
	-----	-----
Total current assets	123,659,601	127,600,161
Property and equipment, net	90,173,451	159,998,629
Permanent quota, net	73,978	--
Note receivable--related party, less current portion	41,430,564	--
Other assets	3,932,146	2,539,040
Excess of cost over fair value of net assets acquired, net	29,196,886	28,064,019
	-----	-----
Total assets	\$ 288,466,626	\$ 318,201,849
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term bank borrowings	\$ 22,085,349	\$ 29,326,924
Accounts payable	31,560,131	39,142,350
Accrued expenses	9,648,389	12,566,475
Income taxes	7,177,324	12,640,388
Deferred tax liabilities	514,913	--
Due to shareholders	2,307,687	486,875
Current portion of long-term obligations ..	25,256,628	21,706,502
	-----	-----
Total current liabilities	98,550,421	115,869,514
Long-term obligations	63,993,808	55,903,976
Deferred tax liabilities	--	407,751
Minority interest in UAV	757,927	3,205,167
Minority interest in Tarrant Mexico	--	21,654,538
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, 2,000,000 shares authorized; none (2001) and 100,000 shares (2002) issued and outstanding	--	8,820,573
Common stock, no par value, 20,000,000 shares authorized; 15,840,815 shares (2001) and 15,846,315 shares (2002) issued and outstanding	69,341,090	69,368,239
Contributed capital	1,434,259	1,434,259
Retained earnings	62,958,375	56,873,094
Notes receivable from shareholders	(12,118,773)	(5,601,804)
Accumulated other comprehensive income (loss)	3,549,519	(9,733,458)
	-----	-----
Total shareholders' equity	125,164,470	121,160,903
	-----	-----
Total liabilities and shareholders' equity ...	\$ 288,466,626	\$ 318,201,849
	=====	=====

See accompanying notes.

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TARRANT APPAREL GROUP

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2000	2001	2002
Net sales	\$395,169,020	\$330,253,548	\$347,390,930
Cost of sales	332,333,227	277,525,010	302,082,144
Gross profit	62,835,793	52,728,538	45,308,786
Selling and distribution expenses .	17,580,135	14,345,356	10,757,029
General and administrative expenses	40,326,636	33,136,008	30,082,061
Amortization of excess of cost over fair value of net assets acquired	2,840,505	3,317,428	--
Income from operations	2,088,517	1,929,746	4,469,696
Interest expense	(9,849,502)	(7,807,918)	(5,443,995)
Interest income	1,294,909	3,255,843	4,748,144
Minority interest	1,312,651	(412,022)	(4,580,766)
Other income	1,350,367	1,853,066	2,647,975
Other expense	(193,359)	(855,994)	(2,004,073)
Loss before provision for income taxes and cumulative effect of accounting change	(3,996,417)	(2,037,279)	(163,019)
Provision (credit) for income taxes	(1,478,675)	851,977	1,051,018
Loss before cumulative effect of accounting change	\$ (2,517,742)	\$ (2,889,256)	\$ (1,214,037)
Cumulative effect of accounting change	--	--	(4,871,244)
Net loss	\$ (2,517,742)	\$ (2,889,256)	\$ (6,085,281)
Net loss per share - Basic and Diluted:			
Before cumulative effect of accounting change	\$ (0.16)	\$ (0.18)	\$ (0.08)
Cumulative effect of accounting change	--	--	(0.30)
After cumulative effect of accounting change	\$ (0.16)	\$ (0.18)	\$ (0.38)
Weighted average shares outstanding:			
Basic and Diluted	15,814,693	15,824,750	15,834,122

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See accompanying notes.

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TARRANT APPAREL GROUP

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Preferred Stock	Common Stock	Contributed Capital	Accumulated Other Retained Earnings	Notes Comprehensive Income (Loss)
	-----	-----	-----	-----	-----
Balance at December 31, 1999	\$ --	\$69,595,141	\$ 1,434,259	\$68,365,373	\$ 8,698
Net loss	--	--	--	(2,517,742)	--
Currency translation	--	--	--	--	(727,702)
Comprehensive loss	--	--	--	--	--
Exercise of stock options	--	198,000	--	--	--
Repurchase of shares	--	(518,525)	--	--	--
Income tax benefit from exercise of stock options	--	28,067	--	--	--
Advances to shareholders, net	--	--	--	--	--
	-----	-----	-----	-----	-----
Balance at December 31, 2000	--	69,302,683	1,434,259	65,847,631	(719,004)
Net loss	--	--	--	(2,889,256)	--
Currency translation	--	--	--	--	4,268,523
Comprehensive income	--	--	--	--	--
Exercise of stock options	--	33,750	--	--	--
Income tax benefit from exercise of stock options	--	4,657	--	--	--
Advances to shareholders, net	--	--	--	--	--
	-----	-----	-----	-----	-----
Balance at December 31, 2001	--	69,341,090	1,434,259	62,958,375	3,549,519
Net loss	--	--	--	(6,085,281)	--
Currency translation	--	--	--	--	(13,282,977)
Comprehensive loss	--	--	--	--	--
Exercise of stock options	--	24,135	--	--	--
Income tax benefit from exercise of stock options	--	3,014	--	--	--
Issuance of preferred stock	8,820,573	--	--	--	--
Repayment from share-					

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holders, net	--	--	--	--	--
	-----	-----	-----	-----	-----
Balance at December 31, 2002	\$ 8,820,573	\$69,368,239	\$ 1,434,259	\$56,873,094	\$ (9,733,458)
	=====	=====	=====	=====	=====

See accompanying notes

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TARRANT APPAREL GROUP
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2000	2001	2002
	-----	-----	-----
Operating activities:			
Net loss	\$ (2,517,742)	\$ (2,889,256)	\$ (6,085,281)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Deferred taxes	(553,087)	1,273,305	(107,162)
Depreciation and amortization	12,580,992	14,564,623	10,130,132
Accrued interest on note receivable	--	--	(4,452,490)
Cumulative effect of accounting change	--	--	4,871,244
(Gain) loss on sale of fixed assets	(10,202)	26,861	5,291
Unrealized (gain) loss on foreign currency	(411,811)	(103,705)	1,014,696
Minority interest	(1,312,650)	757,927	4,426,080
Gain on legal settlement	--	--	(473,041)
Provision for returns and discounts	1,127,089	1,830,841	453,167
Changes in operating assets and liabilities:			
Accounts receivable	3,485,045	5,902,995	(7,141,536)
Due from affiliates	(2,058,234)	(2,102,811)	(10,746,255)
Inventory	445,238	10,474,030	5,818,431
Temporary quota	4,293,572	(142,221)	369,849
Prepaid expenses and other receivables ..	(4,837,206)	1,385,875	1,551,324
Accounts payable	1,301,541	2,343,419	7,646,926
Accrued expenses and income tax payable ..	7,806,018	(3,270,616)	8,211,770
	-----	-----	-----
Net cash provided by operating activities	19,338,563	30,051,267	15,493,145
Investing activities:			
Purchase of fixed assets	(18,883,236)	(3,918,602)	(2,984,547)
Acquisitions, net of cash	(2,734,828)	(6,750,391)	(2,355,954)
Purchase of permanent quota	(221,934)	--	--
Collection on note receivable	766,150	2,036,924	--
(Increase) decrease in other assets	(7,173,379)	(594,660)	509,524
Advances to shareholders/officers	(3,194,640)	(6,218,458)	(1,008,591)
Repayments of advances from shareholders/officers	--	--	169,991
	-----	-----	-----

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Net cash used in investing activities	(31,441,867)	(15,445,187)	(5,669,577)
Financing activities:			
Short-term bank borrowings, net	(11,359,688)	(16,927,528)	7,241,576
Proceeds from long-term obligations	36,746,378	52,894,023	198,551,201
Payment of long-term obligations and bank borrowings	(9,608,034)	(40,376,783)	(211,894,730)
Repayments to shareholders/officers	(39,321,130)	(11,543,640)	(2,359,847)
Borrowings from shareholders/officers	37,029,219	--	--
Repurchase of shares	(518,525)	--	--
Exercise of stock options including related tax benefit	226,067	38,407	27,149
	-----	-----	-----
Net cash provided by (used in) financing activities	13,194,287	(15,915,521)	(8,434,651)
Effect of changes in foreign currency	(681,197)	184,591	(1,524,882)
	-----	-----	-----
Increase (decrease) in cash and cash equivalents	409,786	(1,124,850)	(135,965)
Cash and cash equivalents at beginning of year	2,239,511	2,649,297	1,524,447
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 2,649,297	\$ 1,524,447	\$ 1,388,482
	=====	=====	=====

See accompanying notes

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TARRANT APPAREL GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND BASIS OF CONSOLIDATION

The accompanying financial statements consist of the consolidation of Tarrant Apparel Group, a California corporation (formerly "Fashion Resource, Inc.") (the "Parent Company" or the "Company"), and its wholly owned Subsidiaries located primarily in the U.S., Mexico, and Asia. The Company owns 51% of Jane Doe International, LLC ("JDI"), and 50.1% of United Apparel Ventures ("UAV"). The Company consolidates both of these entities and reflects the minority interests in earnings (losses) of the ventures in the accompanying financial statements. All inter-company amounts are eliminated in consolidation.

The Company serves both specialty retail and mass merchandise store chains by designing, merchandising and contracting for the manufacture, manufacturing directly and selling of casual, moderately priced apparel, for women, men and children under private label. The Company also sources apparel and operates its own vertically integrated manufacturing facilities.

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REVENUE RECOGNITION

Revenue is recognized at the point of shipment for all merchandise sold based on FOB shipping point. For merchandise shipped on landed duty paid (LDP) terms, revenue is recognized at the point of either leaving Customs for direct shipments or at the point of leaving our warehouse where title is transferred.

SHIPPING AND HANDLING COSTS

Freight charges are included in selling and distribution expenses in the statement of operations and amounted to \$3,022,000, \$2,509,000 and \$2,136,000 for the years ended December 31, 2000, 2001 and 2002, respectively.

CASH AND CASH EQUIVALENTS

Cash equivalents consist of highly liquid investments with an original maturity of three months or less when purchased.

ACCOUNTS RECEIVABLE--ALLOWANCE FOR RETURNS, DISCOUNTS AND BAD DEBTS

The Company evaluates the collectibility of accounts receivable and chargebacks (disputes from the customer) based upon a combination of factors. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations (such as in the case of bankruptcy filings or substantial downgrading of credit sources), a specific reserve for bad debts is taken against amounts due to reduce the net recognized receivable to the amount reasonably expected to be collected. For all other customers, the Company recognizes reserves for bad debts and chargebacks based on its historical collection experience. If collection experience deteriorates (for example, due to an unexpected material adverse change in a major customer's ability to meet its financial obligations to us), the estimates of the recoverability of amounts due the Company could be reduced by a material amount.

INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out) or market.

COST OF SALES

Cost of sales includes costs related to product costs, direct labor, manufacturing overhead, duty, quota, freight in, brokerage and warehousing.

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TARRANT APPAREL GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses include expenses related to samples, travel and entertainment, salaries, rent and other office expenses, professional fees, freight out and selling commissions incurred in the sales process.

GENERAL AND ADMINISTRATIVE EXPENSES

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General and administrative expenses include expenses related to research and product development, travel and entertainment, salaries, rent and other office expenses, depreciation, professional fees and bank charges.

PRODUCT DESIGN, ADVERTISING AND SALES PROMOTION COSTS

Product design, advertising and sales promotion costs are expensed as incurred. Product design, advertising and sales promotion costs included in operating expenses in the accompanying statements of operations (excluding the costs of manufacturing samples) amounted to approximately \$1,931,000, \$1,621,000 and \$1,340,000 in 2000, 2001 and 2002, respectively.

QUOTA

The Company purchases quota rights to be used in the importation of its products from certain foreign countries. The effect of quota transactions is accounted for as a product cost.

Permanent quota entitlements were principally obtained through free allocations by the Hong Kong Government pursuant to an import restraint between Hong Kong and the United States and are renewable on an annual basis, based upon the prior year utilization. Permanent quota entitlements acquired from outside parties are amortized over three years on a straight-line basis, and amounted to \$418,000, net of amortization of \$1.8 million at December 31, 2000, \$74,000, net of amortization of \$2.1 million at December 31, 2001 and \$0, net of amortization of \$2.2 million at December 31, 2002.

Temporary quota represents quota rights acquired from other permanent quota entitlement holders on a temporary basis. Temporary quota has a maximum life of twelve months. The cost of temporary quota purchased for use in the current year has been assigned to inventory purchases while the cost of temporary quota acquired for usage in the year following the balance sheet date is recorded as a current asset.

PROPERTY AND EQUIPMENT

Property and equipment is recorded at cost. Additions and betterments are capitalized while repair and maintenance costs are charged to operations as incurred. Depreciation of property and equipment is provided for by the straight-line method over their estimated useful lives. Leasehold improvements are amortized using the straight-line method over the lesser of their estimated useful lives or the term of the lease. Upon retirement or disposal of property and equipment, the cost and related accumulated depreciation are eliminated from the accounts and any gain or loss is reflected in the statements of operations. Repair and maintenance costs are charged to expense as incurred. The estimated useful lives of the assets are as follows:

Buildings	35 to 40 years
Equipment	7 to 15 years
Furniture and Fixtures	5 to 7 years
Vehicles	5 years
Leasehold Improvements	Term of lease

INTANGIBLES

The excess of cost over fair value of net assets acquired was amortized over five to thirty years through December 31, 2001. Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." According to

TARRANT APPAREL GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

this statement, goodwill and other intangible assets with indefinite lives are no longer subject to amortization, but rather an annual assessment of impairment applied on a fair-value-based test. The Company adopted SFAS No. 142 in fiscal 2002 and performed its first annual assessment of impairment, which resulted in an impairment loss of \$4.9 million.

IMPAIRMENT OF LONG-LIVED ASSETS

The carrying value of long-lived assets are reviewed when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If it is determined that an impairment loss has occurred based on the lowest level of identifiable expected future cash flow, then a loss is recognized in the statement of operations using a fair value based model.

DEFERRED FINANCING COST

Included in the other assets are deferred financing costs of \$949,000 and \$638,000 at December 31, 2001 and 2002, respectively. These costs of obtaining financing are being amortized as interest expense over the term of the related debt.

INCOME TAXES

The Company utilizes SFAS No. 109, "Accounting for Income Taxes", which prescribes the use of the liability method to compute the differences between the tax basis of assets and liabilities and the related financial reporting amounts using currently enacted tax laws and rates.

The Company's Hong Kong corporate affiliates are taxed at an effective Hong Kong rate of 16%. No domestic tax provision has been provided for \$48.7 million of un-remitted retained earnings of these Hong Kong corporations, as the Company intends to maintain these amounts in Hong Kong on a permanent basis in support of its working capital requirements.

NET LOSS PER SHARE

Net loss per share has been computed in accordance with SFAS No. 128, "Earnings Per Share". All options have been excluded from the computation in 2000, 2001 and 2002 as the impact would be anti-dilutive.

FOREIGN CURRENCY TRANSLATION

Assets and liabilities of the Mexico and Hong Kong subsidiaries are translated at the rate of exchange in effect on the balance sheet date; income and expenses are translated at the average rates of exchange prevailing during the year. The functional currencies in which the Company transacts business are the Hong Kong dollar and the peso in Mexico.

Foreign currency gains and losses resulting from translation of assets and liabilities are included in other comprehensive income (loss). Transaction gains or losses, other than inter-company debt deemed to be of a long-term nature, are

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included in net income (loss) in the period in which they occur. At December 31, 2002, the Hong Kong subsidiaries have retained earnings of \$67.2 million and an inter-company receivable due from Tarrant Apparel Group of \$19.8 million.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. Considerable judgment is required in estimating fair values. Accordingly, the estimates may not be indicative of the amounts that the Company could realize in a current market exchange. The carrying amounts of cash and cash equivalents, receivables and accounts payable approximate fair values. The carrying amounts of the Company's variable rate borrowings under the various short-term borrowings and long-term debt arrangements approximate fair value.

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TARRANT APPAREL GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (CONTINUED)

CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially expose the Company to concentration of credit risk consist primarily of cash equivalents, trade accounts receivable and amounts due from factor.

The Company's products are primarily sold to mass merchandisers and specialty retail stores. These customers can be significantly affected by changes in economic, competitive or other factors. The Company makes substantial sales to a relatively few, large customers. In order to minimize the risk of loss, the Company assigns certain of its domestic accounts receivable to a factor without recourse or requires letters of credit from its customers prior to the shipment of goods. For non-factored receivables, account-monitoring procedures are utilized to minimize the risk of loss. Collateral is generally not required. The following table presents the percentage of net sales concentrated with certain customers. Customer A represents a group of customers under common ownership.

	2000	2001	2002
Customer A.....	44.2%	22.8%	22.6%
Customer B (formerly part of A in 2000).....	--	20.5%	17.6%
Customer C.....	9.1	12.2%	9.7%
Customer D.....	--	7.8%	17.4%

The Company maintains demand deposits with several major banks. At times, cash balances may be in excess of Federal Deposit Insurance Corporation or equivalent foreign insurance limits.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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EMPLOYEE STOCK OPTIONS

The Company accounts for employee stock options using the intrinsic value method rather than the alternative fair-value accounting method. Under the intrinsic-value method, if the exercise price of the employee's stock options equals the market price of the underlying stock on the date of the grant, no compensation expense is recognized. No compensation cost is reflected in net income related to our stock option plans for the periods presented.

Pro forma information regarding net income and earnings per share is required by Statement 148, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: weighted-average risk-free interest rate of 6% for 2000 and 2001, and 4% for 2002; dividend yields of 0% for 2000, 2001 and 2002; weighted-average volatility factors of the expected market price of the Company's Common Stock of 1.28 for 2000, 1.22 for 2001, and 0.65 for 2002; and a weighted-average expected life of the option of four years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, in the management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

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TARRANT APPAREL GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

	2000 -----	2001 -----	2002 -----
Pro forma net loss	\$ (7,445,975)	\$ (7,035,501)	\$ (9,519,060)
Pro forma compensation expense, net of tax	\$ (4,928,233)	\$ (4,146,245)	\$ (3,433,779)
Net loss as reported	\$ (2,517,742)	\$ (2,889,256)	\$ (6,085,281)
Pro forma loss per share			
Basic	\$ (0.47)	\$ (0.44)	\$ (0.60)
Diluted	\$ (0.47)	\$ (0.44)	\$ (0.60)
Net loss per share			
Basic	\$ (0.16)	\$ (0.18)	\$ (0.38)
Diluted	\$ (0.16)	\$ (0.18)	\$ (0.38)

IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement addresses the financial accounting and reporting for the impairment and disposal of long-lived assets. It supercedes and addresses significant issues relating to the implementation of SFAS No. 121, "Accounting for the Impairment of Disposal of Long-Lived Assets and For Long-Lived Assets to Be Disposed Of". SFAS No. 144 retains many of the fundamental provisions of SFAS No. 121 and establishes a single accounting model, based on the framework established in SFAS No. 121, for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired. The Company adopted this standard as of the beginning of fiscal 2002. The application of SFAS No. 144 did not have a material impact on the Company's results of operations or financial position.

In June 2002, the FASB approved SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity." The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The impact on future financial statements will depend on future exit or disposal activities.

In the current year, the Company adopted the provisions of SFAS No. 148 "Accounting for Stock-Based Compensation--Transition and Disclosure", which amends SFAS No. 123, "Accounting for Stock-Based Compensation" and Accounting Principles Board Opinion 28, "Interim Financial Reporting," to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock based compensation and the effect of the method used on reported results. The Company has adopted the disclosure provisions of SFAS No. 148, which require expanded disclosure regarding stock-based compensation in the accounting policies footnote to the consolidated financial statements. The expanded disclosure will be required in our quarterly financial reports beginning in the first quarter of 2003.

CURRENCY RATE HEDGING

The Company manufactures in a number of countries throughout the world, including Hong Kong and Mexico, and, as a result, is exposed to movements in foreign currency exchange rates. Periodically the Company will enter into various currency rate hedges. The primary purpose of the Company's foreign currency hedging activities is to manage the volatility associated with foreign currency purchases of materials and equipment in the normal course of business. The Company utilizes forward exchange contracts with maturities of one to three months. The Company enters into certain foreign currency derivative instruments that do not meet hedge accounting criteria. These primarily are intended to protect against exposure related to financing transactions (equipment) and income from international operations. The net impact of the related gains and losses was not material.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current year presentation.

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TARRANT APPAREL GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

2. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	DECEMBER 31,	
	2001	2002
U.S. trade accounts receivable	\$ 41,266,134	\$ 42,979,762
Foreign trade accounts receivable	17,846,606	16,445,868
Due from factor	1,507,089	4,176,598
Other receivables	4,123,073	6,002,295
Allowance for returns, discounts and bad debts	(6,166,248)	(4,316,621)
	\$ 58,576,654	\$ 65,287,902

The Debt Facility includes a factoring arrangement whereby the Company factors with GMAC accounts receivables from customers with debt ratings below BBB. The Company does not receive advances against these receivables, and is paid only upon collection of proceeds. For this credit insurance arrangement, the Company pays the factor a commission of 60 basis points.

3. INVENTORY

Inventory consists of the following:

	DECEMBER 31,	
	2001	2002
Raw materials, fabric and trim accessories	\$16,708,651	\$12,451,447
Raw cotton	2,096,792	1,017,963
Work-in-process	7,735,827	9,948,700
Finished goods shipments-in-transit	3,706,735	4,877,002
Finished goods	20,352,579	16,487,042
	\$50,600,584	\$44,782,154

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	DECEMBER 31,	
	2001	2002
Land	\$ 1,443,744	\$ 1,285,267
Buildings	14,798,596	61,697,034
Equipment	89,427,176	120,270,968
Furniture and fixtures	2,442,717	2,428,858

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Leasehold improvements	11,719,752	10,657,364
Vehicles	1,246,800	1,099,538
	-----	-----
	121,078,785	197,439,029
Less accumulated depreciation and amortization	(30,905,334)	(37,440,400)
	-----	-----
	\$ 90,173,451	\$ 159,998,629
	=====	=====

Depreciation expense, including amortization of assets recorded under capital leases, totaled \$9,352,087, \$10,903,237 and \$10,056,154 for the years ended December 31, 2000, 2001 and 2002, respectively.

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TARRANT APPAREL GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS- (CONTINUED)

5. ACQUISITIONS

TWILL MILL

On December 2, 1998, the Company contracted to acquire a fully operational facility being constructed in Puebla, Mexico by Tex Transas, S.A. de C.V. ("Tex Transas"). Construction of this facility commenced in the third quarter of 1998, and it was anticipated that the Company would take possession of this facility in fiscal 2000. On October 16, 2000, the Company revised its agreement regarding the fully operational facility to extend its option to purchase the facility.

On December 31, 2002, the Company acquired certain assets of this twill mill located in Puebla, Mexico from Tex Transas and Inmobiliaria Cuadros, S.A. de C.V. ("Cuadros"), both of which are affiliated with Kamel Nacif. The price paid for the asset acquisition consisted of 100,000 shares (the Shares) of Series A Preferred Stock of the Company valued at \$8.8 million, a 25% equity stake in Tarrant's wholly-owned subsidiary, Tarrant Mexico S. de R.L. de C.V., the cancellation of approximately \$56.9 million of certain notes and accounts receivables due from the sellers and their affiliates and a cash payment of \$500. The acquisition of the twill mill has been accounted for as the acquisition of a discrete operating asset. Therefore no amounts were recorded as goodwill, but were allocated to either the assets acquired or the consideration paid based on independent valuations received by the Company.

On December 31, 2002, the Company recorded \$4.5 million of interest income, which represented accrued interest on one of the canceled notes receivable. The interest was recorded as the cash was collected. Pursuant to the terms of the purchase agreement, interest was accrued through December 31, 2002 as part of the purchase price.

UNITED APPAREL VENTURES

On July 1, 2001, the Company formed an entity to jointly market, share certain risks and achieve economics of scale with Azteca Production International, Inc. ("Azteca"), a corporation owned by the brothers of Gerard Guez, the Chairman of

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the Company, called United Apparel Ventures, LLC ("UAV"). This entity was created to coordinate the production of apparel for a single customer of the Company's branded business. UAV is owned 50.1% by Tag Mex, Inc., a wholly owned subsidiary of the Company, and 49.9% by Azteca. The results of UAV have been consolidated into the Company's results commencing in July 2001 with the minority partner's share of earnings (losses) provided for in the Company's financial statements. Since October 2002, both parties have contributed the Express relationship and future orders into the entity.

AJALPAN

On March 29, 2001, the Company completed the acquisition of a sewing facility located in Ajalpan Mexico from Confecciones Jamil, S.A. de C.V, which is majority owned by Kamel Nacif, a principal shareholder of the Company. This facility, which was newly constructed during 1999 and commenced operations in 2000, was used by the Company for production during 2000 and 2001. The results of Ajalpan have been consolidated into the Company's results commencing on March 29, 2001.

The Company paid \$11 million for this operating facility. This entire amount had been paid in cash and the transfer of certain receivables of the Company to the seller. The assets acquired include land, buildings and all equipment. This transfer has been accounted for as a purchase and the purchase price has been allocated based on the fair market value of assets acquired and liabilities assumed. The excess of cost over fair value of net assets acquired was \$4.7 million. Included in the SFAS No. 142 charge was a \$1.7 million impairment loss related to Ajalpan.

EXCLUSIVE PRODUCTION AGREEMENT

On June 28, 2000, the Company signed an exclusive production agreement with Manufactures Cheja ("Cheja") through February 2002. The Company has agreed on a new contract to extend the agreement for an additional quantity of 6.4 million units beginning April 1, 2002, which was amended on November 8, 2002, for the manufacturing of 5.7 million units through September 30, 2004. The Company has unrecovered advances to Cheja of approximately \$2.9 million related to the production agreement to be recouped out of future production.

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TARRANT APPAREL GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

JANE DOE

On April 12, 2000, the Company formed a new company, Jane Doe International, LLC ("JDI"). This company was formed for the purpose of purchasing the assets of Needletex, Inc., owner of the Jane Doe brand. JDI is owned 51% by Fashion Resource (TCL), Inc., a subsidiary of the Company, and 49% by Needletex, Inc. In March 2001, the Company converted JDI from an operating company to a licensing company and entered into two licenses in regard to the use of the Jane Doe trademark. The licensing activities on this trademark have been largely dormant in 2002 pending the outcome of the litigation with Patrick Bensimon. See Note 9 for the discussion of this litigation. Included in the SFAS No. 142 charge was a \$3.2 million impairment loss related to JDI.

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6. GOODWILL - ADOPTION OF STATEMENT NO. 142

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 142 "Goodwill and Other Intangible Assets," which establishes financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, Intangible Assets. The Company adopted SFAS No. 142 beginning with the first quarter of 2002. SFAS No. 142 requires that goodwill and intangible assets that have indefinite useful lives not be amortized but, instead, tested at least annually for impairment while intangible assets that have finite useful lives continue to be amortized over their respective useful lives. Accordingly, the Company ceased amortization of all goodwill.

SFAS No. 142 requires that goodwill and other intangibles be tested for impairment using a two-step process. The first step is to determine the fair value of the reporting unit, which may be calculated using a discounted cash flow methodology, and compare this value to its carrying value. If the fair value exceeds the carrying value, no further work is required and no impairment loss would be recognized. The second step is an allocation of the fair value of the reporting unit to all of the reporting unit's assets and liabilities under a hypothetical purchase price allocation. Based on the evaluation performed to adopt SFAS No. 142 along with continuing difficulties being experienced in the industry, the Company recorded a non-cash charge of \$4.9 million to reduce the carrying value of goodwill to the estimated fair value. This charge is non-operational in nature and is reported as a cumulative effect of an accounting change in the accompanying consolidated statement of operations. The Company utilized the discounted cash flow methodology to estimate fair value. The following table presents the results of the Company on a comparable basis:

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TARRANT APPAREL GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

	YEAR ENDED DECEMBER 31,		
	2000	2001	2002
Reported net loss	\$ (2,517,742)	\$ (2,889,256)	\$ (1,214,037)
Goodwill amortization, net of tax .	1,789,518	2,089,980	--
	(728,224)	(799,276)	(1,214,037)
Adjusted net loss before cumulative effect of accounting change	(728,224)	(799,276)	(1,214,037)
Cumulative effect of accounting change	--	--	(4,871,244)
Adjusted net loss	\$ (728,224)	\$ (799,276)	\$ (6,085,281)
Basic and diluted earnings per common share:			
Reported loss before cumulative effect of accounting change	\$ (0.16)	\$ (0.18)	\$ (0.08)
Goodwill amortization, net of taxes	0.11	0.13	--

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Adjusted loss before cumulative effect of accounting change	(0.05)	(0.05)	(0.08)
Cumulative effect of accounting change	--	--	(0.30)
Adjusted net loss	\$ (0.05)	\$ (0.05)	\$ (0.38)

The following table displays the change in the gross carrying amount of goodwill by business units at the end of December 31, 2002:

	TOTAL	JANE DOE	TARRANT MEXICO - AJALPAN	TARRANT MEXICO - FAMIAN	TA
Balance as of December 31, 2001	\$29,196,886	\$1,904,529	\$4,427,843	\$7,260,134	
Additional purchase price	3,050,000	--	--	2,550,000	
Additional liabilities assumed	1,428,588	1,428,588	--	--	
Impairment losses	(4,871,244)	(3,182,779)	(1,688,465)	--	
Foreign currency translation	(740,211)	--	--	(740,211)	
Balance as of December 31, 2002	\$28,064,019	\$ 150,338	\$2,739,378	\$9,069,923	

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TARRANT APPAREL GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

7. DEBT

Debt consists of the following:

	2001	2002
Short-term bank borrowings:		
Import trade bills payable	\$ 4,521,675	\$ 5,686,327
Bank direct acceptances	13,838,270	11,272,375
Other Hong Kong credit facilities	361,108	6,206,103
Other Mexican credit facilities	1,282,593	4,968,309
Uncleared checks	2,081,703	1,193,810
	\$ 22,085,349	\$ 29,326,924
	=====	=====

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Long-term debt:

Vendor financing	\$ 11,043,449	\$ 7,257,683
Equipment financing	13,931,997	9,682,290
Debt facility	62,863,990	58,193,505
Other debt (including capital leases)	1,411,000	2,477,000
	-----	-----
	89,250,436	77,610,478
Less current portion	(25,256,628)	(21,706,502)
	-----	-----
	\$ 63,993,808	\$ 55,903,976
	=====	=====

IMPORT TRADE BILLS PAYABLE

On June 13, 2002, the Company entered into a letter of credit facility of \$25 million with UPS Capital Global Trade Finance Corporation ("UPS") to replace the credit facility of The Hong Kong and Shanghai Banking Corporation Limited in Hong Kong. Under this facility, the Company may arrange for the issuance of letters of credit and acceptances. The facility is a one-year facility subject to renewal on its anniversary and is collateralized by the shares and debentures of all of the Company's subsidiaries in Hong Kong, as well as the Company's permanent quota holdings in Hong Kong. In addition to the guarantees provided by Tarrant Apparel Group and Fashion Resource (TCL) Inc and Machrima Luxembourg SARL, a new holding company the Company set up during 2002. Mr. Gerard Guez, the Company's chairman, also signed a guarantee of \$5 million in favor of UPS to secure this facility. This facility is also subject to certain restrictive covenants, including no two consecutive quarterly losses, aggregate net worth of \$105 million and \$109 million at the end of 2002 and 2003, respectively; interest cover of 1.5 times, fixed charge ratio of 1.25 to 1 and leverage ratio of 2.1 to 1 in 2002 and 1.6 to 1 in 2003. As of December 31, 2002, \$24.2 million, of which \$12.9 million were letters of credits, was outstanding under this facility. The Company was in violation of the fixed charge ratio covenant and a waiver has been obtained at a fee of \$5,000.

OTHER MEXICAN CREDIT FACILITIES

As of December 31, 2002, Grupo Famian had a short-term advance from Banco Bilbao Vizcaya amounting to \$298,000. This subsidiary also had a credit facility with Banco Nacional de Comercio Exterior SNC the Company guaranteed. This facility provided for a \$10 million credit line based on purchase orders and is restricted by certain covenants. As of December 31, 2002, the outstanding amount was \$4.7 million. After the merger of Grupo Famian into Tarrant Mexico, the bank has agreed that Tarrant Mexico was to repay the outstanding amount of \$4.7 million by \$523,000 per month starting March 26, 2003.

VENDOR FINANCING

During 2000, the Company financed equipment purchases for the new manufacturing facility with certain vendors of the related equipment. A total of \$16.9 million was financed with five-year promissory notes, which bear interest ranging from 7.0% to 7.5%, and are payable in semiannual payments commencing in February 2000. Of this amount, \$7.3 million was outstanding as of December 31, 2002. Of the \$7.3 million, \$4.6 million is denominated in

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

the Euro. The remainder is payable in U.S. dollars. The Company has covered its exchange risks by forward exchange contracts.

From time to time, the Company opens letters of credit under an uncommitted credit arrangement with Aurora Capital Associates who issues these credits through Israeli Discount Bank. As of December 31, 2002, \$2.3 million are open in letters of credit under this arrangement.

An unrealized gain of \$412,000 and \$104,000 and an unrealized loss of \$1.0 million was recorded at December 31, 2000, 2001 and 2002, respectively, related to this fluctuation and is recorded in other income in the accompanying financial statements. In addition, during the year ended December 31, 2000, the Company entered into a hedge contract for Euros related to this debt.

Annual maturities for the long term debt and capital lease obligations are \$21,706,502 (2003), \$10,834,036 (2004), \$45,025,284 (2005), \$12,854 (2006), \$13,647 (2007) and \$18,155 (thereafter). The weighted average interest rate on short-term bank borrowing as of December 31, 2002 and 2001 were 4.1% and 6.7%, respectively.

EQUIPMENT FINANCING

The Company has two equipment loans with the initial borrowings of \$16.25 million and \$5.2 million from GE Capital Leasing ("GE Capital") and Bank of America Leasing ("BOA"), respectively. The leases are secured by equipment located in Puebla and Tlaxcala, Mexico. The amounts outstanding as of December 31, 2002 were \$7.1 million due to GE Capital and \$2.4 million due to BOA. Interest accrues at a rate of 2 1/2% over LIBOR. The loan from GE Capital will mature in the year 2005 and the loan from BOA in the year 2004. The GE Capital facilities are subject to covenants on Tangible Net Worth (\$30 million), leverage ratio of not more than two times and no losses for two consecutive quarters. The Company was in violation of the covenant on consecutive quarterly losses and obtained a waiver from the bank on March 28, 2002 for a fee of \$10,000 and acceleration by \$25,000 of monthly repayment of principal. The Company has reclassified the GE Capital obligation as a current liability because of the potential that it may violate one of the covenants in the first quarter of 2003. The BOA facility is subject to a financial benchmark on interest coverage (3 to 1) and a leverage ratio of not more than 2 times.

The Debt Facility with GMAC and the credit facilities with GE Capital, UPS and BOA all carry cross-default clauses. A breach of a financial covenant set by GMAC, UPS or GE Capital constitutes an event of default, entitling these banks to demand payment in full of all outstanding amounts under their respective debt and credit facilities. Similarly, if the Company breaches a financial benchmark set by BOA, the bank can accelerate repayment of all outstanding principal amount to become six equal monthly installments.

DEBT FACILITY

On January 21, 2000, the Company entered into a new revolving credit, factoring and security agreement (the "Debt Facility") with a syndicate of lending institutions. The Debt Facility initially provided a revolving facility of \$105.0 million, including a letter of credit facility not to exceed \$20.0 million, and matures on January 31, 2005. The Debt Facility provides for interest at LIBOR plus the LIBOR rate margin determined by the Total Leverage Ratio (as defined). The Debt Facility is collateralized by receivables, intangibles, inventory and various other specified non-equipment assets of the Company. In addition, the facility is subject to various financial covenants

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with quarterly targets, including provisions for tangible net worth of not less than \$98.5 million subject to adjustment for the fluctuation of the exchange rate of the Mexican peso at December 31, 2000 or that of the preceding year-end fixed charge ratio of 1.1 to 1, and interest coverage ratios of 3.2 to 1, leverage ratio of not more than 1.6 to 1 at year-end and prohibits the payment of dividends. On March 2, 2001, the Company entered into an amendment of our Debt Facility with GMAC, who solely assumed the facility in 2000. This amendment reduced the \$105.0 million facility to \$90.0 million. The over-advance line of \$25 million was converted to a term facility to be repaid by monthly installments of \$500,000 before August 2001 and \$687,500 thereafter. A total of \$58 million was outstanding under the Debt Facility at December 31, 2002.

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TARRANT APPAREL GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

As of December 31, 2002, the Company was in violation of covenants on interest coverage, total leverage ratio and fixed charge under the Debt Facility. The Company received a waiver from GMAC with respect to its violation of these covenants, and also received a waiver from GMAC with respect to compliance at March 31, 2003 with all financial covenants under the Debt Facility. The Company paid GMAC \$45,000 for this waiver. The Company and GMAC have agreed to set new financial covenants for the remainder of fiscal 2003 based on the Company's projections before May 1, 2003.

Within the Debt Facility, the credit agreement with GMAC provides for a factoring arrangement whereby the Company factor with GMAC accounts receivables from customers with debt ratings below BBB. The Company did not receive advances against these receivables, and was paid only upon collection of proceeds. For this credit insurance arrangement, the Company pays the factor a commission of 60 basis points.

8. INCOME TAXES

The provision (credit) for domestic and foreign income taxes is as follows:

	YEAR ENDED DECEMBER 31,		
	2000	2001	2002
	-----	-----	-----
Current:			
Federal	\$ (4,661,591)	\$ (1,272,918)	\$ (307,684)
State	6,503	1,079	293,055
Foreign	3,729,499	850,511	1,162,798
	-----	-----	-----
	(925,589)	(421,328)	1,148,169
Deferred:			
Federal	(346,982)	999,201	--
State	(197,513)	232,821	--
Foreign	(8,591)	41,283	(97,151)
	-----	-----	-----
	(553,086)	1,273,305	(97,151)
	-----	-----	-----

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Total	\$ (1,478,675)	\$ 851,977	\$ 1,051,018
	=====	=====	=====

The source of income (loss) before the provision for taxes and cumulative effect of accounting change is as follows:

	YEAR ENDED DECEMBER 31,		
	2000	2001	2002
Federal	\$ (18,125,699)	\$ (8,582,448)	\$ (11,061,937)
Foreign	14,129,282	6,545,169	10,898,918
	-----	-----	-----
Total	\$ (3,996,417)	\$ (2,037,279)	\$ (163,019)
	=====	=====	=====

Foreign deferred income taxes result primarily from temporary differences in the recognition of bad debt and depreciation expenses for tax and financial reporting purposes. The resulting foreign deferred income tax liability amounted to approximately \$48,000, \$89,000 and \$0 at December 31, 2000, 2001 and 2002 respectively.

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TARRANT APPAREL GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

A reconciliation of the statutory federal income tax provision (benefit) to the reported tax provision (benefit) on income is as follows:

	YEAR ENDED DECEMBER 31,		
	2000	2001	2002
Income tax (benefit) based on			
federal statutory rate	\$ (1,358,782)	\$ (713,048)	\$ (1,761,992)
State income taxes, net of federal			
benefit	(122,246)	152,035	190,486
Effect of foreign income taxes	(324,219)	1,494,708	1,162,798
Increase in valuation allowance			
and other	326,572	(81,718)	1,459,726
	-----	-----	-----
	\$ (1,478,675)	\$ 851,977	\$ 1,051,018
	=====	=====	=====

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the

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deferred tax assets (liabilities) are as follows:

	DECEMBER 31,	
	2001	2002
Deferred tax assets:		
Provision for doubtful accounts and unissued credits	\$ 1,238,401	\$ 835,980
Provision for other reserves	976,597	2,608,101
Net operating loss carry forward	--	850,326
Deferred compensation and benefits	231,245	238,232
State taxes	1,960	--
Total deferred tax assets	2,448,203	4,532,639
Deferred tax liabilities:		
Unrealized gain	(583,100)	(80,858)
Valuation allowance for deferred tax assets	(2,380,016)	(4,859,532)
Net deferred tax liabilities	\$ (514,913)	\$ (407,751)

The Company has ongoing tax audits related to Federal tax returns. Management believes adequate reserves have been provided for potential claims.

9. COMMITMENTS AND CONTINGENCIES

The Company has entered into various non-cancelable operating lease agreements, principally for executive office, warehousing facilities and production facilities with unexpired terms in excess of one year. Certain of these leases provided for scheduled rent increases. The Company records rent expense on a straight-line basis over the term of the lease. The future minimum lease payments under these non-cancelable operating leases are as follows:

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TARRANT APPAREL GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

	RELATED PARTY	OTHER
2003	\$2,180,217	\$ 950,949
2004	1,208,974	601,801
2005	898,366	428,691
2006	925,317	356,840
2007	953,076	356,840
Thereafter	2,938,808	952,573

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Total future minimum lease payments	\$9,104,758	\$3,647,694
	=====	=====

Several of the operating leases contain provisions for additional rent based upon increases in the operating costs, as defined, per the agreement. Total rent expense under the operating leases amounted to approximately \$2,548,000, \$2,968,000 and \$3,166,000 for 2000, 2001 and 2002, respectively.

The Company had open letters of credit of \$17,778,561 and \$15,458,189 as of December 31, 2001 and 2002, respectively.

The Company has two employment contracts dated January 1, 1998 with two executives providing for base compensation and other incentives. Commitments under these agreements for base compensation amount to \$1,000,000 for each of the two executives annually through December 31, 2002. Each contract also provides for annual bonuses of up to \$2,000,000 for each executive and vesting of stock options based on attaining specified performance criteria. Effective January 10, 2000, these contracts were amended reducing the base salary to \$500,000 for each of the two executives and extending the term of the agreements to March 31, 2003.

On April 1, 1999, the Company entered into a three-year employment agreement with Mr. Nacif, pursuant to which Mr. Nacif initially was entitled to receive (i) an annual base salary of \$1 million, (ii) reimbursement of all reasonable and documented business expenses, (iii) participation in all plans sponsored by the Company for employees in general and (iv) the right (the "Option") for ten years to purchase up to 500,000 shares of the Company's Common Stock at an exercise price of \$25 per share. The Option vested in three equal installments on April 1, 2000, 2001 and 2002. In the event the Company terminates Mr. Nacif's employment without cause (as defined), the Company shall remain obligated to pay Mr. Nacif an amount equal to his base salary for the remainder of the stated term. In the event Mr. Nacif's employment is terminated for any other reason (including death, disability, resignation or termination with cause), neither party shall have any further obligation to the other, except that the Company shall pay to Mr. Nacif, or his estate, all reimbursable expenses and such compensation as is due prorated through the date of termination. As of January 1, 2000, the Company and Mr. Nacif amended Mr. Nacif's employment agreement to reduce his annual salary from \$1 million to \$250,000 starting in 2000.

The Company entered into a consulting agreement with Gabe Zeitouni, the former President of the Company's Rocky division, through December 31, 2002. Under the terms of this agreement, Mr. Zeitouni was paid \$140,000 through December 2002. In conjunction with this consulting agreement, Mr. Zeitouni's Put Option Agreement of July 10, 2000 was amended. As of December 31, 2002, the Company advanced approximately \$1.1 million to Mr. Zeitouni. The Company has also changed the time frame of Mr. Zeitouni's right to require the Company to purchase 80,890 of shares at \$18.54 to be the three-month period commencing on January 1, 2003 and ending on March 31, 2003. Mr. Zeitouni exercised his right in February 2003. The cost of the Put Option (excess of \$18.54 over the current market value of the Company's stock) is being amortized over the consulting period.

In connection with the establishment of JDI (see Note 5), JDI entered into an employment agreement with Bensimon, which provided for the payment of a salary to Bensimon and a bonus tied to the new company's sales performance. The existing lenders to Needletex, Inc. agreed to the asset transfer in return for, among other things, the confirmation of Bensimon's continuing guaranty of the loan obligations, the assumption of the loan obligations by JDI and a guaranty of those obligations by the Company. The Company received an express indemnity by Needletex, Inc. and Bensimon to reimburse us for all amounts we paid to those

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lenders for the account of Needletex and Bensimon. Thereafter a dispute arose as to

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TARRANT APPAREL GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

whether Bensimon had performed in accordance with his terms of employment set forth in the Employment Agreement. When an amicable resolution of this dispute could not be achieved, Bensimon commenced an arbitration proceeding against his employer (JDI), Fashion Resource (TCL), Inc., the managing member of Jane Doe International and the Company. The Company and other respondents contested and vigorously opposed the matter.

On January 21, 2003, after a hearing, the arbitration panel issued an interim award in favor of Bensimon awarding him \$1,425,655 for salary and bonus plus interest accrued thereon and legal fees and costs to be determined. The Company has accrued an additional \$1.3 million reserve for litigation in 2002 in addition to the previously recorded accrual of \$315,000 included in accrued liabilities.

The Company is involved from time to time in routine legal matters incidental to its business. In the opinion of the Company's management, resolution of such matters will not have a material effect on its financial position or results of operations.

10. EQUITY

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation", requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, when the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The Company's Employee Incentive Plan, formerly the 1995 Stock Option Plan, as amended and restated in May 1999 (the "Plan") and amended in 2002, has authorized the grant of both incentive and non-qualified stock options to officers, employees, directors and consultants of the Company for up to 5,100,000 shares (as adjusted for a stock split effective May 1998) of the Company's Common Stock. The exercise price of incentive options must be equal to 100% of fair market value of common stock on the date of grant and the exercise price of non-qualified options must not be less than the par value of a share of Common Stock on the date of grant. The Plan was also amended to expand the types of awards, which may be granted pursuant thereto to include stock appreciation rights, restricted stock and other performance-based benefits.

In October 1998, the Company granted 1,000,000 non-qualified stock options not under the Plan. The options were granted to the Chairman and President of the Company at \$13.50 per share, the closing sales price of the Common Stock on the day of the grant. The options expire in 2008 and vest over four years, subject

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to certain performance criteria. In May 2002, the Company granted 3,000,000 non-qualified stock options not under the Plan. The options were granted to the Chairman, President of the Company and Mr. Kamel Nacif at \$5.50 per share, the closing sales price of the Common Stock on the day of the grant. The options expire in 2012 and vest over three years, subject to certain performance criteria.

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TARRANT APPAREL GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

A summary of the Company's stock option activity, and related information for the years ended December 31 follows:

	2000		2001		2002
	-----	WEIGHTED AVERAGE EXERCISE PRICE	-----	WEIGHTED AVERAGE EXERCISE PRICE	-----
	OPTIONS	-----	OPTIONS	-----	OPTIONS
	-----	-----	-----	-----	-----
Options outstanding at beginning of year	2,876,737	\$14.43	2,697,487	\$14.29	3,520,737
Granted	95,750	9.61	955,000	5.18	3,004,000
Exercised	(20,000)	4.28	(8,500)	3.97	(5,500)
Forfeited	(255,000)	13.99	(123,250)	12.65	(142,750)
	-----	-----	-----	-----	-----
Options outstanding at end of year	2,697,487	\$14.29	3,520,737	\$11.90	6,376,487
	=====	=====	=====	=====	=====
Exercisable at end of year	1,631,220		2,173,587		3,535,487
Weighted average per option fair value of options granted during the year		\$ 7.88		\$ 3.89	

The following table summarizes information about stock options outstanding at December 31, 2002:

	Options Outstanding			Options Exercisable	
	-----	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	-----	Weighted Average Exercise Price
Exercise Price	Number Outstanding	-----	-----	Number Exercisable	-----
	-----	-----	-----	-----	-----

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\$ 3.00 - 5.09	968,112	7.4	\$ 4.89	576,362	\$ 4.82
5.50	3,004,000	9.4	5.50	750,000	5.50
5.55 - 9.97	718,000	5.4	7.17	602,000	7.39
13.50 - 15.50	1,026,000	5.7	13.51	1,022,250	13.51
18.44 - 18.54	116,875	5.5	18.53	41,875	18.49
25.00	500,000	6.3	25.00	500,000	25.00
33.13 - 39.97	41,500	6.2	39.31	41,500	39.31
45.50	2,000	6.3	45.50	1,500	45.50

\$ 3.00 - 45.50	6,376,487	7.7	\$ 8.89	3,535,487	\$11.35
=====					

11. PREFERRED STOCK

In connection with the twill mill acquisition, the Company issued 100,000 Series A Preferred Shares ("Preferred Shares"). The Preferred Shares accrue dividends at an annual rate of 7% of the initial stated value of \$88.20 per share and have no voting rights. The Shares issued will become convertible into three million shares of common stock if the Company's common shareholders approve the conversion at the 2003 annual meeting. If the Company's shareholders do not approve the issuance of the conversion shares at the next shareholder meeting, the Company will then have the right to redeem any or all of the Preferred Shares for a price equal to the stated value plus all accrued and unpaid dividends.

The Company granted the holder of the shares of common stock issuable upon conversion of the Preferred Shares "piggyback" registration rights, which provide such holder the right, under certain circumstances, to have such shares registered for resale under the Securities Act of 1933. In the event of a liquidation, dissolution or winding-up of the

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TARRANT APPAREL GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Company, the Preferred Shares will be entitled to receive, prior to any distribution on the common stock, a distribution equal to the initial stated value of the Preferred Shares plus all accrued and unpaid dividends.

12. SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION

	2000	2001	2002
	-----	-----	-----
Cash paid for interest	\$ 8,685,000	\$ 4,473,000	\$ 2,361,000
	=====	=====	=====
Cash paid (refunded) for income taxes	\$ 3,861,000	\$ (2,554,000)	\$ (5,086,000)
	=====	=====	=====

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During 2000, in a non-cash transaction, the Company sold certain equipment and other assets to a related party at net book value. The purchase price of such assets, together with \$12.5 million previously advanced is represented by a \$48.0 million note receivable. In addition, during 2001 the Company transferred \$5.5 million in receivables to the seller in connection with the purchase of Ajalpan. In 2002, the Company acquired certain assets of a twill mill located in Puebla, Mexico. Included in the consideration paid were 100,000 shares of Series A Preferred Stock valued at \$8.8 million, a 25% equity stake in Tarrant's wholly-owned subsidiary, Tarrant Mexico and the cancellation of approximately \$56.9 million of certain notes and accounts receivables due from the sellers and their affiliates. These non-cash transactions have been excluded from the respective statements of cash flows.

13. RELATED-PARTY TRANSACTIONS

Related-party transactions, consisting primarily of purchases and sales of finished goods and raw materials, are as follows:

	2000	2001	2002
	-----	-----	-----
Sales to related parties	\$ 4,069,000	\$ 8,340,000	\$ 4,864,000
Purchases from related parties	\$20,972,000	\$32,095,000	\$76,231,000

As of December 31, 2001 and 2002, related party affiliates were indebted to the Company in the amounts of \$14.2 million and \$15.9 million, respectively. These include amounts due from principal shareholders of the Company of \$12.1 million and \$5.6 million at December 31, 2001 and 2002, respectively, which have been shown as reductions to shareholders' equity in the accompanying financial statements. Total interest paid by related party affiliates and the Chairman and President were \$70,000 and \$368,000 for the years ended December 31, 2001 and 2002, respectively. During 2001, Kamel Nacif advanced the Company a total of \$18.1 million for working capital purposes. Such advances were short-term and paid back by the Company within 30 days of the advance. No amounts were due to Mr. Nacif at December 31, 2002.

From time to time, the Company has borrowed funds from, and advanced funds to, certain officers and principal shareholders, including Messrs. Guez and Kay. The maximum amount of such borrowings from Mr. Kay during 2002 was \$2,317,000. The maximum amount of such advances to Mr. Guez during 2002 was approximately \$4,923,000. As of December 31, 2002, the Company was indebted to Mr. Kay in the amount of \$487,000. Mr. Guez had an outstanding advance from the Company of \$4,879,000 as of December 31, 2002. As of December 31, 2001, the Company was indebted to Mr. Kay in the amount of \$2,308,000. Mr. Guez had an outstanding advance from the Company of \$4,116,000 as of December 31, 2001. As of December 31, 2001 and 2002, Mr. Kamel Nacif was indebted to the Company for \$8.0 million and \$723,000, respectively. All advances to, and borrowings from, Mr. Guez and Mr. Kay in 2002 bore interest at the rate of 7.75%. All existing loans to officers and directors before July 30, 2002 are grandfathered under the Sarbanes-Oxley Act of 2002. No further personal loans will be made to officers and directors in compliance with the Sarbanes-Oxley Act.

Under lease agreements entered into between the Company and two entities owned by the Chairman and President, the Company paid \$1,299,000 in 2000, \$1,299,000 in 2001 and \$1,330,000 for rent for office and warehouse facilities. In addition during 2000 and 2001, the Company leased an airplane from 477 Aviation LLC for the purpose of transporting employees of the Company. 477 Aviation LLC is wholly owned by the Company's principal shareholder. Lease payments

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TARRANT APPAREL GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

amounted to \$705,000 for the year ended December 31, 2000. The Company did not lease the plane in 2001 and 2002. The Company reimbursed the principal shareholder fuel and related expenses whenever the Company's executives used the aircraft for business purposes.

Under lease agreements entered into between the Company and the former owners of Grupo Famian, the Company paid \$136,000 in 2000, \$832,000 in 2001 and \$843,000 in 2002 for rent for sewing and washing facilities in Tehuacan, Mexico.

In 1998, a California limited liability company owned by the Chairman and President of the Company purchased 2,300,000 shares of the Common Stock of Tag-It Pacific, Inc. ("Tag-It") (or approximately 37% of such Common Stock then outstanding). Tag-It is a provider of brand identity programs to manufacturers and retailers of apparel and accessories. Tag-It assumed the responsibility for managing and sourcing all trim and packaging used in connection with products manufactured by or on behalf of the Company in Mexico. This arrangement is terminable by either the Company or Tag-It at any time. The Company believes that the terms of this arrangement, which is subject to the acceptance of the Company's customers, are no less favorable to the Company than could be obtained from unaffiliated third parties. The Company purchased \$20.9 million, \$17.9 million and \$23.9 million of trim inventory from Tag-it for the years ended December 31, 2000, 2001 and 2002, respectively. As of December 31, 2001 and 2002, there were \$556,000 million and \$4.4 million of outstanding invoices in Accounts Payable, respectively.

The Company purchased \$5.8 million and \$37.0 million of finished goods from Azteca for the years ended December 31, 2001 and 2002, respectively. Total sales of fabric from the Company to Azteca in 2002 were \$2.9 million. Two and one half percent of gross sales as management fees were paid in 2002 to each of the members of UAV, per the operating agreement.

The Company purchased \$8.5 million and \$12.3 million of fabric from Trans Textil in 2001 and 2002. As of December 31, 2001 and 2002, there was \$2.5 million and \$7.0 million outstanding invoices in Accounts Payable, respectively.

As of December 31, 2000, Aris Industries, Inc. ("Aris") owed the Company approximately \$5.8 million for goods manufactured and shipped by the Company. On February 12, 2001, Aris and the Company entered into an agreement under which Aris issued to the Company 1.5 million shares of its common stock and undertook to repay either \$2.5 million in cash or its equivalent in common stock to the Company on December 31, 2001 in full satisfaction of the debt. As of February 20, 2002, Aris had issued the Company an aggregate of 8,117,647 shares of its common stock including the 1.5 million shares previously issued in full satisfaction of this debt. On March 27, 2002, the Company sold this stock to an unrelated third party for an aggregate of \$1,785,882. As of December 31, 2002, Messrs. Guez and Kay jointly owned approximately 7% of the outstanding shares of Aris.

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TARRANT APPAREL GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

14. OPERATIONS BY GEOGRAPHIC AREAS

The Company operates primarily in one industry segment, the design, manufacturing and importation of private label, moderately priced, casual apparel. Information about the Company's operations in the United States and Asia is presented below. Inter-company revenues and assets have been eliminated to arrive at the consolidated amounts.

	UNITED STATES	ASIA	MEXICO	ADJUSTMENTS AND ELIMINATIONS	TOTAL
	-----	-----	-----	-----	-----
2000					
Sales	\$ 368,308,000	\$ 16,874,000	\$ 9,987,000	\$ --	\$ 395,169,000
Inter-company sales	47,632,000	107,860,000	84,664,000	(240,156,000)	
	-----	-----	-----	-----	-----
Total revenue	\$ 415,940,000	\$ 124,734,000	\$ 94,651,000	\$ (240,156,000)	\$ 395,169,000
	=====	=====	=====	=====	=====
Income (loss) from operations	\$ (8,131,000)	\$ 8,217,000	\$ 2,003,000	\$ --	\$ 2,089,000
	=====	=====	=====	=====	=====
Total assets	\$ 245,165,000	\$ 97,246,000	\$ 159,971,000	\$ (194,290,000)	\$ 308,092,000
	=====	=====	=====	=====	=====
2001					
Sales	\$ 312,587,000	\$ 5,952,000	\$ 11,714,000	\$ --	\$ 330,253,000
Inter-company sales	12,341,000	86,291,000	77,062,000	(175,694,000)	
	-----	-----	-----	-----	-----
Total revenue	\$ 324,928,000	\$ 92,243,000	\$ 88,776,000	\$ (175,694,000)	\$ 330,253,000
	=====	=====	=====	=====	=====
Income (loss) from operations	\$ 5,364,000	\$ 5,369,000	\$ (8,803,000)	\$ --	\$ 1,930,000
	=====	=====	=====	=====	=====
Total assets	\$ 176,178,000	\$ 97,175,000	\$ 121,188,000	\$ (106,074,000)	\$ 288,467,000
	=====	=====	=====	=====	=====
2002					
Sales	\$ 332,877,000	\$ 3,943,000	\$ 10,571,000	\$ --	\$ 347,391,000
Inter-company sales	14,474,000	90,830,000	82,531,000	(187,835,000)	
	-----	-----	-----	-----	-----
Total revenue	\$ 347,351,000	\$ 94,773,000	\$ 93,102,000	\$ (187,835,000)	\$ 347,391,000
	=====	=====	=====	=====	=====
Income (loss) from					

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operations	\$ 6,916,000	\$ 4,950,000	\$ (7,396,000)	\$ --	\$ 4,470,000
	=====	=====	=====	=====	=====
Total assets	\$ 185,086,000	\$ 107,266,000	\$ 202,741,000	\$ (176,891,000)	\$ 318,202,000
	=====	=====	=====	=====	=====

15. EMPLOYEE BENEFIT PLANS

On August 1, 1992, Tarrant Hong Kong established a defined contribution retirement plan covering all of its Hong Kong employees whose period of service exceeds 12 months. Plan assets are monitored by a third-party investment manager and are segregated from those of Tarrant Hong Kong. Participants may contribute up to 5% of their salary to the plan. The Company makes annual matching contributions. Costs of the plan charged to operations for 2000, 2001 and 2002 amounted to approximately \$119,000, \$155,000 and \$149,000 respectively.

On July 1, 1994, the Company established a defined contribution retirement plan covering all of its U.S. employees whose period of service exceeds 12 months. Plan assets are monitored by a third-party investment manager and are segregated from those of the Company. Participants may contribute from 1% to 15% of their pre-tax compensation up to effective limitations specified by the Internal Revenue Service. The Company's contributions to the plan are based on a 50% (100% effective July 1, 1995) matching of participants' contributions, not to exceed 6% (5% effective July 1, 1995) of the participants' annual compensation. In addition, the Company may also make a discretionary annual contribution to the plan. Costs of the plan charged to operations for 2000, 2001 and 2002 amounted to approximately \$257,000, \$289,000 and \$249,000 respectively.

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TARRANT APPAREL GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

On December 27, 1995, the Company established a deferred compensation plan for executive officers. Participants may contribute a specific portion of their salary to such plan. The Company does not contribute to the Plan.

On December 20, 1996, the Compensation Committee of the Company's Board of Directors established the Incentive Compensation Plan, which provides for both discretionary bonuses and bonus amounts upon achieving certain earnings thresholds for certain members of management. The adoption of this plan received shareholder approval at the 1997 annual meeting.

16. OTHER INCOME AND EXPENSE

Other income and expense consists of the following:

	2000	2001	2002
	-----	-----	-----
Rental income	\$ 71,576	\$ 586,305	\$ 495,754
Unrealized gain on foreign currency	441,811	103,705	--
Realized gain on foreign currency	--	--	1,123,076

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Royalty income	--	180,833	62,166
Sales of damaged goods and samples	--	192,680	--
Gain on legal settlement	--	--	473,041
Other items	836,980	789,543	493,938
	-----	-----	-----
Total other income	\$ 1,350,367	\$ 1,853,066	\$ 2,647,975
	=====	=====	=====
Royalty expense	\$ --	\$ 500,000	\$ 655,691
Unrealized loss on foreign currency	--	--	1,014,696
Other items	193,359	355,994	333,686
	-----	-----	-----
Total other expense	\$ 193,359	\$ 855,994	\$ 2,004,073
	=====	=====	=====

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TARRANT APPAREL GROUP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

17. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the quarterly results of operations for the years ended December 31, 2001 and 2002:

	QUARTER ENDED				YEAR
	MAR. 31 (2)	JUN. 30	SEP. 30	DEC. 31 (1)	ENDED DEC. 31
	-----				-----
	(In thousands, except per share data)				
2001					
Net sales	\$ 84,330	\$ 96,126	\$ 78,175	\$ 71,622	\$ 330,25
Gross profit	14,419	15,814	10,071	12,424	52,72
Operating income (loss)	891	3,300	(3,349)	1,088	1,93
Net income (loss)	\$ 446	\$ 1,706	\$ (4,229)	\$ (812)	\$ (2,88
Net income (loss) per common share:					
Basic	\$.03	\$.11	\$ (.27)	\$ (0.05)	\$ (0.1
Diluted	\$.03	\$.11	\$ (.27)	\$ (0.05)	\$ (0.1
Weighted average shares outstanding:					
Basic	15,822	15,832	15,824	15,831	15,82
Diluted	15,825	15,905	15,824	15,831	15,82
2002					
Net sales	\$ 65,164	\$ 95,307	\$ 94,328	\$ 92,592	\$ 347,39
Gross profit	8,419	14,424	14,230	8,236	45,30
Operating income (loss)	(831)	4,780	3,626	(3,105)	4,47
Income (loss) before cumulative effect of accounting change	\$ (1,726)	\$ 1,302	\$ 1,127	\$ (1,917)	\$ (1,21
Net income (loss)	\$ (6,597)	\$ 1,302	\$ 1,127	\$ (1,917)	\$ (6,08
Income (loss) per share before cumulative effect of accounting					

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change:										
Basic	\$	(.11)	\$.08	\$.07	\$	(0.12)	\$	(0.0)
Diluted	\$	(.11)	\$.08	\$.07	\$	(0.12)	\$	(0.0)
Net income (loss) per common share:										
Basic	\$	(.41)	\$.08	\$.07	\$	(0.12)	\$	(0.3)
Diluted	\$	(.41)	\$.08	\$.07	\$	(0.12)	\$	(0.3)
Weighted average shares outstanding:										
Basic		15,832		15,832		15,836		15,836		15,83
Diluted		15,832		16,099		15,931		15,836		15,83

18. CONSOLIDATED STATEMENTS OF CASH FLOWS

Advances to officers and shareholders for the 2000, 2001 and 2002 periods have been reclassified in the accompanying statements of cash flows. Consequently, "Net cash provided by operating activities" for 2000 has changed from \$14,863,469 to \$19,338,563. "Net cash used in investing activities" for the 2000, 2001 and 2002 periods has changed from \$(28,247,227), \$(9,226,729) and \$(4,830,977) respectively, to \$(31,441,867), \$(15,445,187) and \$(5,669,577) respectively. Additionally, "Net cash provided by (used in) financing activities" for the 2000, 2001 and 2002 periods has changed from \$14,474,741, \$(22,133,979), and \$(9,273,251) respectively, to \$13,194,287, \$(15,915,521) and \$(8,434,651) respectively.

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SCHEDULE II

TARRANT APPAREL GROUP

VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Additions Charged to Other Accounts	Deductions	Balance at End of Year
	-----	-----	-----	-----	-----
For the year ended December 31, 2000					
Allowance for returns and discounts.....	\$2,868,658	\$1,024,082	\$ --	\$ --	\$3,892,740
Allowance for bad debt.	\$ 339,660	\$ 103,007	\$ --	\$ --	\$ 442,667
	=====	=====	=====	=====	=====
For the year ended December 31, 2001					
Allowance for returns and discounts.....	\$3,892,740	\$ --	\$ (758,754)	\$ (452,385)	\$2,681,601
Allowance for bad debt.	\$ 442,667	\$2,283,226	\$ 758,754	\$ --	\$3,484,647

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	=====	=====	=====	=====	=====
For the year ended					
December 31, 2002					
Allowance for returns					
and discounts.....	\$2,681,601	\$ 453,167	\$ --	\$ --	\$3,134,768
Allowance for bad debt.	\$3,484,647	\$ --	\$ --	\$ (2,302,794)	\$1,181,853
	=====	=====	=====	=====	=====

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TARRANT APPAREL GROUP

By: /s/ Gerard Guez

Gerard Guez
Chairman of the Board

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
-----	-----	----
/S/ GERARD GUEZ	Chief Executive Officer and	May 15, 2003
-----	Chairman of the Board of Directors	
Gerard Guez		
*	President and Vice Chairman of the	May 15, 2003
-----	Board of Directors	
Todd Kay		
*	Chief Financial Officer, Treasurer	May 15, 2003
-----	and Director (Principal Financial	
Patrick Chow	and Accounting Officer)	
	Director	

Larry Russ		
	Director	

Stephane Farouze		
*	Director	May 15, 2003

Mitchell Simbal		
*	Director	May 15, 2003

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Barry Aved
* Director May 15, 2003

Joseph Mizrachi
* Director May 15, 2003

Milton Koffman
* By: /s/ Gerard Guez

Gerard Guez
Attorney-In-Fact

Certification of CEO Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Gerard Guez, certify that:

1. I have reviewed this annual report on Form 10-K of Tarrant Apparel Group;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

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a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Gerard Guez

Gerard Guez
Chief Executive Officer

Certification of CFO Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Patrick Chow, certify that:

1. I have reviewed this annual report on Form 10-K of Tarrant Apparel Group;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation

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as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

/s/ Patrick Chow

Patrick Chow
Chief Financial Officer