

AMERICAN APPAREL, INC  
Form 10-Q  
November 10, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended September 30, 2014

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 No. 001-32697

American Apparel, Inc.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization) 20-3200601  
(I.R.S. Employer  
Identification No.)

747 Warehouse Street, Los Angeles, California 90021  
(Address of Principal Executive Offices) (Zip Code)  
Registrant's Telephone Number, including area code: (213) 488-0226

Indicate by checkmark 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer" and "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At November 3, 2014, the Registrant had issued and outstanding 175,799,554 and 174,780,864 shares of its common stock, respectively.

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Unless the context requires otherwise, all references in this report to the "Company," "Registrant," "we," "our," and "us" refer to American Apparel, Inc., a Delaware corporation, together with its 100% owned subsidiary, American Apparel (USA) LLC, and its other direct and indirect subsidiaries.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q, including the documents incorporated by reference herein, contains forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. All statements in this Quarterly Report on Form 10-Q other than statements of historical fact are "forward-looking statements" for purposes of these provisions. Statements that include the use of terminology such as "may," "will," "expect," "believe," "plan," "estimate," "potential," "continue," or the negative thereof or other and similar expressions are forward-looking statements. In addition, in some cases, you can identify forward-looking statements by words or phrases such as "trend," "potential," "opportunity," "comfortable," "anticipate," "current," "intention," "position," "assume," "outlook," "remain," "maintain," "sustain," "seek," "achieve," and similar expressions.

Any statements that refer to projections of our future financial performance, anticipated growth and trends in our business, goals, strategies, focuses and plans, and other characterizations of future events or circumstances, including statements expressing general expectations or beliefs, whether positive or negative, about future operating results or the development of our products and any statement of assumptions underlying any of the foregoing are forward-looking statements. Forward-looking statements in this report may include, without limitation, statements about:

- consequences of the suspension and possible termination of our chief executive officer, including the pending internal investigation related thereto, any litigation or regulatory investigations or any impact on our sales or brand, and any future determinations that may be made with respect thereto;
- ability to hire and/or retain qualified employees, including at the chief executive officer and other executive levels;
- future financial condition, results of operations, plans and prospects, expectations, goals and strategies for future growth, operating improvements and cost savings, and the timing of any of the foregoing;
- growth, expansion and acquisition prospects and strategies, the success of such strategies and the benefits we believe can be derived from such strategies;
- ability to make debt service payments and remain in compliance with financial covenants under financing arrangements and obtain appropriate waivers or amendments with respect to any noncompliance;
- liquidity and projected cash flows;
- plans to make continued investments in advertising and marketing;
- the outcome of investigations, enforcement actions and litigation matters, including exposure, which could exceed expectations;
- intellectual property rights and those of others, including actual or potential competitors, our personnel, consultants, and collaborators;
- trends in raw material costs and other costs both in the industry, and specific to us;
- the supply of raw materials and the effects of supply shortages on our financial condition, results of operations, and cash flows;
- economic and political conditions;
- overall industry and market performance;
- operations outside the U.S.;
- the impact of accounting pronouncements;
- ability to maintain compliance with the listing requirements of NYSE MKT LLC;
- ability to improve efficiency and control costs at our production and supply chain facilities; and
- other assumptions described in this Quarterly Report on Form 10-Q underlying or relating to any forward-looking statements.

The forward-looking statements in this report speak only as of the date of this report and caution should be taken not to place undue reliance on any such forward-looking statements, which are qualified in their entirety by this cautionary statement. Forward-looking statements are subject to numerous assumptions, events, risks, uncertainties and other factors, including those that may be outside of our control and that change over time. As a result, actual results and/or the timing of events could differ materially from those expressed in or implied by the forward-looking statements and future results could differ materially from historical performance and those expressed in or implied by the forward-looking statements. Such assumptions, events, risks, uncertainties

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and other factors are found in Item IA. Risk Factors in Part II and elsewhere in this Quarterly Report on Form 10-Q, and the Annual Report on Form 10-K for the year ended December 31, 2013, and other reports and documents we file with the Securities and Exchange Commission (the "SEC") and include, without limitation, the following:

- suspension and possible termination of our chief executive officer and consequences related thereto, including the pending internal investigation related thereto, any litigation or regulatory investigations or any impact on our sales or brand, and any future determinations that may be made with respect thereto;
- changes in key personnel, our ability to hire and retain key personnel, and our relationship with our employees;
- voting control by our executive officers, directors, lenders and other affiliates;
- ability to successfully implement our strategic, operating, financial and personnel initiatives;
- ability to effectively carry out and manage our strategy including growth and expansion in the U.S. and internationally;
- ability to maintain the value and image of our brand and protect our intellectual property rights;
- general economic conditions, geopolitical events, other regulatory changes, and inflation or deflation;
- disruptions in the global financial markets;
- the highly competitive and evolving nature of our business in the U.S. and internationally;
- risks associated with consumer apparel spending in the U.S.;
- loss or reduction in sales to wholesale or retail customers or financial nonperformance by our wholesale customers;
- seasonality and fluctuations in comparable store sales and wholesale net sales and associated margins;
- ability to improve manufacturing efficiency at our production facilities;
- ability to pass on the added cost of raw materials and labor to customers;
- changes in the price of raw materials in the global market and labor costs including increases in minimum wages;
- ability to effectively manage inventory levels;
- ability to effectively operate our distribution facility located in La Mirada, California without unanticipated costs;
- risks that our suppliers or distributors may not timely produce or deliver products;
- ability to renew leases on economic terms;
- ability to identify store locations and the availability of store locations at appropriate terms; ability to negotiate new leases effectively; and ability to open new stores and expand internationally;
- ability to generate or obtain from external sources sufficient liquidity for operations and debt service;
- consequences of our significant indebtedness including our relationship with lenders; ability to comply with debt agreements; ability to generate sufficient cash flow to serve our debt; and the risk of acceleration of borrowings thereunder as a result of noncompliance;
- adverse changes in our credit ratings and any related impact on financial costs and structure;
- continued compliance with U.S. and foreign government regulations and legislation; and regulatory environments including environmental, immigration, labor, and occupational health and safety laws and regulations;
- loss of U.S. import protections; changes in duties, tariffs and quotas; other risks associated with our foreign operations and supply sources under market disruption; changes in import and export laws; currency restrictions and exchange rate fluctuations;
- litigation and other inquiries and investigations, including the risks that we, our officers, or directors in cases where indemnification applies, will not be successful in defending any proceedings, lawsuits, disputes, claims or audits, and that exposure could exceed expectations or insurance coverage;
- tax assessments by domestic or foreign governmental authorities, including import or export duties on our products and the applicable rates for any such taxes or duties;
- ability to maintain compliance with the exchange rules of the NYSE MKT LLC;
- the adoption of new accounting standards or changes in interpretations of accounting principles;

adverse weather conditions or natural disaster, including those which may be related to climate change;  
technological changes in manufacturing, wholesaling, or retailing;  
the risk, including costs and timely delivery issues associated therewith, that information technology systems changes may disrupt our supply chain or operations and could impact cash flow and liquidity, and ability to upgrade information technology infrastructure and other risks associated with the systems that operate our online retail operations; and  
the risk of failure to protect the integrity and security of our information systems and our customers' information.

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All forward-looking statements included in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statements.

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## PART I-FINANCIAL INFORMATION

## Item 1. Financial Statements (unaudited)

## American Apparel, Inc. and Subsidiaries

## Consolidated Balance Sheets

(in thousands, except per share amounts)

	September 30, 2014 (unaudited)	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash	\$9,389	\$8,676
Trade accounts receivable (net of allowances \$2,583; \$2,229)	26,776	20,701
Prepaid expenses and other current assets	15,534	15,636
Inventories, net	150,960	169,378
Income taxes receivable and prepaid income taxes	679	306
Deferred income taxes, net of valuation allowance	582	599
Total current assets	203,920	215,296
Property and equipment, net	55,291	69,303
Deferred income taxes, net of valuation allowance	2,362	2,426
Other assets, net	45,616	46,727
<b>TOTAL ASSETS</b>	<b>\$307,189</b>	<b>\$333,752</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Cash overdraft	\$3,891	\$3,993
Revolving credit facilities and current portion of long-term debt	27,060	44,042
Accounts payable	33,868	38,290
Accrued expenses and other current liabilities	61,464	50,018
Fair value of warrant liability	14,704	20,954
Income taxes payable	2,365	1,742
Deferred income tax liability, current	1,227	1,241
Current portion of capital lease obligations	2,951	1,709
Total current liabilities	147,530	161,989
Long-term debt (net of unamortized discount \$6,148; \$5,779)	216,160	213,468
Capital lease obligations, net of current portion	2,708	5,453
Deferred tax liability	521	536
Deferred rent, net of current portion	14,165	18,225
Other long-term liabilities	13,696	11,485
<b>TOTAL LIABILITIES</b>	<b>394,780</b>	<b>411,156</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock, \$0.0001 par value per-share: authorized 1,000 shares; none issued	0	0
Common stock, \$0.0001 par value per-share: authorized 230,000 shares; Issued 175,806; 113,469, Outstanding 174,712; 111,330	18	11
Additional paid-in capital	217,650	185,472
Accumulated other comprehensive loss	(5,823	) (4,306
Accumulated deficit	(297,279	) (256,424
Less: Treasury stock, 304 shares at cost	(2,157	) (2,157

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TOTAL STOCKHOLDERS' DEFICIT	(87,591	) (77,404	)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$307,189	\$333,752	

See accompanying condensed notes to consolidated financial statements.

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American Apparel, Inc. and Subsidiaries  
Consolidated Statements of Operations and Comprehensive Loss  
(in thousands, except per share amounts)  
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net sales	\$ 155,869	\$ 164,543	\$ 455,362	\$ 464,839
Cost of sales	73,330	79,903	218,462	223,461
Gross profit	82,539	84,640	236,900	241,378
Selling and distribution expenses	52,640	63,982	159,145	177,235
General and administrative expenses (including related party charges of \$155; \$181, \$537; \$625)	38,785	24,918	90,829	80,716
Retail store impairment	1,193	233	1,921	311
Loss from operations	(10,079)	(4,493)	(14,995)	(16,884)
Interest expense	9,858	10,121	29,916	29,555
Foreign currency transaction loss (gain)	616	(449)	748	422
Unrealized (gain) loss on change in fair value of warrants	(1,785)	(12,922)	(6,250)	5,225
(Gain) loss on extinguishment of debt	(171)	0	(171)	32,101
Other (income) expense	(57)	58	(5)	42
Loss before income taxes	(18,540)	(1,301)	(39,233)	(84,229)
Income tax provision	644	212	1,622	1,299
Net loss	\$(19,184)	\$(1,513)	\$(40,855)	\$(85,528)
Basic and diluted net loss per-share <sup>(a)</sup>	\$(0.11)	\$(0.01)	\$(0.27)	\$(0.78)
Weighted-average basic and diluted shares outstanding <sup>(a)</sup>	173,769	110,354	153,354	110,172
Net loss (from above)	\$(19,184)	\$(1,513)	\$(40,855)	\$(85,528)
Other comprehensive (loss) income items:				
Foreign currency translation	(1,919)	1,445	(1,517)	(785)
Other comprehensive (loss) income, net of tax	(1,919)	1,445	(1,517)	(785)
Comprehensive loss	\$(21,103)	\$(68)	\$(42,372)	\$(86,313)

(a) The dilutive impact of incremental shares is excluded from loss position in accordance with U.S. generally accepted accounting principles ("GAAP")

See accompanying condensed notes to consolidated financial statements.

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American Apparel, Inc. and Subsidiaries  
 Consolidated Statements of Cash Flows  
 (in thousands)  
 (unaudited)

	Nine Months Ended September 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$450,079	\$465,468
Cash paid to suppliers, employees and others	(427,640	) (466,499
Income taxes paid	(1,335	) (2,082
Interest paid	(17,852	) (5,726
Other	55	35
Net cash provided by (used in) operating activities	3,307	(8,804
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(8,675	) (18,907
Proceeds from sale of fixed assets	52	30
Restricted cash	219	1,594
Net cash used in investing activities	(8,404	) (17,283
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash overdraft	(102	) 2,812
Repayments of expired revolving credit facilities, net	0	(28,513
(Repayments) borrowings under current revolving credit facilities, net	(16,965	) 28,713
Repayments of term loans and notes payable	(57	) (25,463
Repayment of Lion term loan	0	(144,149
Issuance of Senior Secured Notes	0	199,820
Payments of debt issuance costs	(2,099	) (11,880
Net proceeds from issuance of common stock	28,446	0
Payment of payroll statutory tax withholding on share-based compensation associated with issuance of common stock	(414	) (2,133
Repayments of capital lease obligations	(1,932	) (773
Net cash provided by financing activities	6,877	18,434
Effect of foreign exchange rate on cash	(1,067	) (287
Net increase (decrease) in cash	713	(7,940
Cash, beginning of period	8,676	12,853
Cash, end of period	\$9,389	\$4,913

See accompanying condensed notes to consolidated financial statements.

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American Apparel, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows (continued)  
(in thousands)  
(unaudited)

Nine Months Ended September 30,  
2014