

AMERICAN APPAREL, INC
Form 10-Q
August 14, 2012
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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 quarterly period ended June 30, 2012

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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The number of shares of the registrant's common stock issued and outstanding as of August 1, 2012 was approximately 109,827,752 and 106,162,962.

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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 wholly 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,” “expects,” “believes,” “plans,” “estimates,” “potential,” or “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,” “believe,” “comfortable,” “expect,” “anticipate,” “current,” “intention,” “position,” “assume,” “outlook,” “continue,” “remain,” “maintain,” “sustain,” “seek,” “achieve,” and similar expressions. Any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business, our 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:

- future financial condition and operating results;
- our ability to remain in compliance with financial covenants under our financing arrangements;
- our ability to extend, renew or refinance our existing debt;
- our liquidity, operating results and projected cash flows;
- our plan to make continued investments in advertising and marketing;
 - our growth, expansion and acquisition prospects and strategies, the success of such strategies, and the benefits we believe can be derived from such strategies;
- the outcome of investigations, enforcement actions and litigation matters, including exposure, which could exceed expectations;
- our intellectual property rights and those of others, including actual or potential competitors, our personnel, consultants, and collaborators;
- operations outside the United States;
- trends in raw material costs and other costs both in the industry, and specific to the Company;
- the supply of raw materials and the effects of supply shortages on our financial condition, and results of operations;
- economic and political conditions;
- overall industry and market performance;
- the impact of accounting pronouncements;
- our ability to improve manufacturing efficiency at our production facilities;
- management's goals and plans for future operations; 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. Such assumptions, events, risks, uncertainties and other factors include, among others, those described

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under Part II, Item IA and elsewhere in this report and in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 (filed with the United States Securities and Exchange Commission (the "SEC") on March 14, 2012) as well as in other reports and documents we file with the SEC and include, without limitation, the following:

- our ability to generate or obtain from external sources sufficient liquidity for operations and debt service;
- changes in the level of consumer spending or preferences or demand for our products;
- our liquidity, operating results and projected cash flows;
- disruptions in the global financial markets;
- consequences of our significant indebtedness, including our ability to comply with our debt agreements and generate cash flow to service our debt;
- our ability to maintain compliance with the exchange rules of the NYSE MKT, LLC.;
- the highly competitive and evolving nature of our business in the U.S. and internationally;
- our ability to effectively carry out and manage our strategy, including growth and expansion both in the U.S. and internationally;
- loss of U.S. import protections or changes in duties, tariffs and quotas, and other risks associated with international business;
- intensity of competition, both domestic and foreign;
- technological changes in manufacturing, wholesaling, or retailing;
- risks that our suppliers or distributors may not timely produce or deliver our products;
- loss or reduction in sales to our wholesale or retail customers or financial nonperformance by our wholesale customers;
- the adoption of new accounting standards or changes in interpretations of accounting principles;
- our ability to pass on the added cost of raw materials to our wholesale and retail customers;
- the availability of store locations at appropriate terms and our ability to identify and negotiate new store locations effectively and to open new stores and expand internationally;
- our ability to attract customers to our stores;
- seasonality and fluctuations in comparable store sales and margins;
- our ability to successfully implement our strategic, operating, financial and personnel initiatives;
- our ability to maintain the value and image of our brand and protect our intellectual property rights;
- changes in the cost of materials and labor, including increases in the price of raw materials in the global market;
- our ability to improve manufacturing efficiency at our production facilities;
- location of our facilities in the same geographic area;
- our relationships with our lenders and our ability to comply with the terms of our existing debt facilities;
- risks associated with our foreign operations and foreign supply sources, such as disruption of markets, changes in import and export laws, currency restrictions, and currency exchange rate fluctuations;
- adverse changes in our credit ratings and any related impact on financial costs and structure;
- continued compliance with U.S. and foreign government regulations, legislation, and regulatory environments, including environmental, immigration, labor, and occupational health and safety laws and regulations;
- the risk that information technology systems changes may disrupt our supply chain or operations and our ability to upgrade our information technology infrastructure, and other risks associated with the systems that operate our online retail operations;
- litigation and other inquiries, and investigations, including the risks that we or our officers will not be successful in defending any proceedings, lawsuits, disputes, claims or audits, and that exposure could exceed expectations or insurance coverages;
- our ability to effectively manage inventory levels;
 - changes in key personnel, our ability to hire and retain key personnel, and our relationship with our employees;

- material weaknesses in internal controls;
- costs as a result of operating as a public company;
- general economic conditions, including increases in interest rates, geopolitical events, other regulatory changes and inflation or deflation;
- disruptions due to severe weather or climate change; and
- disruptions due to earthquakes, flooding, tsunamis or other natural disasters.

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.

PART I-FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

American Apparel, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Amounts and shares in thousands, except per share amounts)

| | June 30, 2012 | December 31, 2011* |
|---|------------------|-----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$7,777 | \$10,293 |
| Trade accounts receivable, net of allowances of \$2,226 and \$2,195 at June 30, 2012 and December 31, 2011, respectively | 23,123 | 20,939 |
| Prepaid expenses and other current assets | 10,149 | 7,631 |
| Inventories, net | 180,944 | 185,764 |
| Restricted cash | 5,918 | — |
| Income taxes receivable and prepaid income taxes | 2,041 | 5,955 |
| Deferred income taxes, net of valuation allowance of \$12,003 at both June 30, 2012 and December 31, 2011 | 84 | 148 |
| Total current assets | 230,036 | 230,730 |
| PROPERTY AND EQUIPMENT, net | 63,893 | 67,438 |
| DEFERRED INCOME TAXES, net of valuation allowance of \$61,770 at both June 30, 2012 and December 31, 2011 | 1,500 | 1,529 |
| OTHER ASSETS, net | 31,291 | 25,024 |
| TOTAL ASSETS | \$326,720 | \$324,721 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Cash overdraft | \$2,512 | \$1,921 |
| Revolving credit facilities and current portion of long-term debt | 74,848 | 50,375 |
| Accounts payable | 34,433 | 33,920 |
| Accrued expenses and other current liabilities | 37,578 | 43,725 |
| Fair value of warrant liability | 15,143 | 9,633 |
| Income taxes payable | 781 | 2,445 |
| Deferred income tax liability, current | 58 | 150 |
| Current portion of capital lease obligations | 1,046 | 1,181 |
| Total current liabilities | 166,399 | 143,350 |
| LONG-TERM DEBT, net of unamortized discount of \$31,945 and \$20,183 at June 30, 2012 and December 31, 2011, respectively | 96,051 | 97,142 |
| CAPITAL LEASE OBLIGATIONS, net of current portion | 1,288 | 1,726 |
| DEFERRED TAX LIABILITY | 98 | 96 |
| DEFERRED RENT, net of current portion | 21,731 | 22,231 |
| OTHER LONG-TERM LIABILITIES | 12,236 | 12,046 |
| TOTAL LIABILITIES | 297,803 | 276,591 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, \$0.0001 par value per share, authorized 1,000 shares; none issued | — | — |
| Common stock, \$0.0001 par value per share, authorized 230,000 shares; 109,657 shares issued and 105,993 shares outstanding at June | 11 | 11 |

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30, 2012 and 108,870 shares issued and 105,588 shares outstanding at
December 31, 2011

| | | | |
|--------------------------------------|----------|----------|---|
| Additional paid-in capital | 170,887 | 166,486 | |
| Accumulated other comprehensive loss | (3,807 |) (3,356 |) |
| Accumulated deficit | (136,017 |) | |