

AMERICAN APPAREL, INC
Form 10-K/A
May 17, 2011

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

FORM 10-K/A
Amendment No. 5

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2009

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 001-32697

American Apparel, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)
747 Warehouse Street
Los Angeles, California 90021-1106
(Address of principal executive offices) (Zip code)
Registrant's telephone number, including area code: (213) 488-0226

20-3200601
(I.R.S. Employer Identification No.)

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

Common Stock, par value \$.0001 per share
(Title of Each Class)

NYSE Amex
(Name of Each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether 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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 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

Edgar Filing: AMERICAN APPAREL, INC - Form 10-K/A

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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "accelerated filer", "large accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2009 was approximately \$258,562,875 based upon the closing price of the common stock on such date as reported by the NYSE Amex.

Common stock, \$0.0001 par value 98,547,932 shares issued (5,019,616 subject to vesting) on May 16, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report incorporates information by reference from the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders that was filed with the United States Securities and Exchange Commission (the "SEC") on October 15, 2010.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Amendment No.5 to our Annual Report on Form 10-K/A, 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 Annual Report on Form 10-K/A 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,” “in,” “estimate,” “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 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 litigation matters;
- our intellectual property rights and those of others, including actual or potential competitors;
- our personnel, consultants, and collaborators;
- operations outside the United States;
- economic and political conditions;
- overall industry and market performance;
- the impact of accounting pronouncements;
- management’s goals and plans for future operations; and
- other assumptions described in this Annual Report on Form 10-K/A 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 in this Amendment No. 5 to our Annual Report on Form 10-K/A, those contained under the heading, "Risk Factors," contained in Item 1A of American Apparel, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 which was originally filed with the SEC on March 31, 2010, as well as in other reports and documents we file with the SEC and include, without limitation, the following:

- changes in the level of consumer spending or preferences or demand for our products;
- 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;

the highly competitive and evolving nature of our business in the U.S. and internationally;

our ability to manage our growth and expansion both in the U.S. and internationally;

retailer consolidation and intensity of competition, both domestic and foreign, from other apparel providers;

technological changes in manufacturing, wholesaling, or retailing;

risks that our suppliers and 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 pronouncements or changes in interpretations of accounting principles;

changes in consumer spending patterns and overall levels of consumer spending;

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;

ability to attract customers to our stores;

seasonality and fluctuations in comparable store sales and margins;

our ability to successfully implement its strategic, operating 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;

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;

adverse changes in our credit ratings and any related impact on financing costs and structure;

- 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;

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;

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 risk that we or our officers will not be successful in defending any proceedings, lawsuits, disputes, claims or audits;

ability to effectively manage inventory and inventory reserves;

- 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; and

general economic conditions, including increases in interest rates, geopolitical events, other regulatory changes and inflation or deflation.

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 statement.

American Apparel, Inc.
ANNUAL REPORT ON FORM 10-K/A
FOR THE YEAR ENDED DECEMBER 31, 2009
TABLE OF CONTENTS

	EXPLANATORY NOTE	1
	PART II	2
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	2
Item 6.	Selected Financial Data	4
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	7
Item 7A.	Quantitative and Qualitative Disclosures and Market Risks	24
Item 8.	Financial Statements and Supplementary Data	27
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosures	61
Item 9A.	Controls and Procedures	62
	PART IV	66
Item 15.	Exhibits and Financial Statement Schedules	66

EXPLANATORY NOTE

Reference is made to the Annual Report on Form 10-K for the year ended December 31, 2009 of American Apparel, Inc. and its subsidiaries (collectively, “the Company”) filed with the Securities and Exchange Commission (the “SEC”) on March 31, 2010, as amended by Amendments No. 1, 2, 3 and 4 thereto (collectively, the “Original Filing”).

This Amendment No. 5 is being filed (i) to add a new report on internal control over financial reporting at December 31, 2009 and a new audit report on the Company's consolidated financial statements as of and for the year ended December 31, 2009 (the “2009 financials”), issued by the Company's current auditors, Marcum LLP, and (ii) to remove the notation that the 2009 financials are unaudited.

This Amendment No. 5 also reflects changes to “Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operations” to be consistent with the modifications made and reflected in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on March 31, 2011, as amended by Amendments No. 1 and 2 filed with the SEC. In addition, this Amendment No. 5 reflects changes to “Item 8. Financial Statements and Supplementary Data” only to the extent that they relate to events occurring subsequent to the Original Filing as reflected in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 filed with the SEC on March 31, 2010, as amended by Amendments No. 1, 2, 3 and 4 filed with the SEC. Except for the matters described above, the Original Filing has not been amended, updated or otherwise modified and continues to speak as of the date of the Original Filing and does not reflect events occurring after the filing of the Original Filing or update or otherwise modify any related or other disclosures, including forward-looking statements. Accordingly, this Amendment No. 5 should be read in conjunction with the Company's other filings made with the SEC subsequent to the filing of the Original Filing.

The filing of this Amendment No. 5 is not an admission that the Form 10-K filed on March 31, 2010 or Amendment No. 1, 2, 3 or 4 thereto, when filed, included any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein not misleading.

As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, new certifications by our current principal accounting officer are filed as exhibits to this Amendment.

PART II

Item 6. Selected Financial Data

The selected historical financial data presented below under the heading “Selected Statement of Operations Data” and “Per Share Data” for the year ended December 31, 2009 and the selected historical financial data presented below under the heading “Balance Sheet Data” as of December 31, 2009 have been derived from the audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K/A. The selected historical financial data presented below under the heading “Selected Statement of Operations Data” and “Per Share Data” for the years ended December 31, 2008 and 2007 and the selected historical financial data presented below under the heading “Balance Sheet Data” as of December 31, 2008 have been derived from, and are qualified by reference to, the audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K/A. The selected historical financial data presented below under the heading “Selected Statement of Operations Data” and “Per Share Data” for the years ended December 31, 2006 and 2005 and the selected historical financial data presented below under the heading “Balance Sheet Data” as of December 31, 2007, 2006 and 2005 have been derived from, and are qualified by reference to, our audited consolidated financial statements which are not included in this Annual Report on Form 10-K/A.

On December 21, 2005, Endeavor Acquisition Corp. consummated its initial public offering, and on December 18, 2006, entered into an Agreement and Plan of Reorganization, amended November 7, 2007, with American Apparel, Inc., a California corporation (“Old American Apparel”), and its affiliated companies. Endeavor Acquisition Corp. consummated the acquisition of Old American Apparel and its affiliated companies on December 12, 2007 (the “Acquisition”) and changed its name to American Apparel, Inc. The Acquisition was accounted for as a reverse merger (“Merger”) and recapitalization for financial reporting purposes. Accordingly, for accounting and financial purposes, Endeavor Acquisition Corp. was treated as the acquired company, and Old American Apparel was treated as the acquiring company. Accordingly, the historical financial information for periods and dates prior to December 12, 2007, is that of Old American Apparel, and its affiliated companies.

The data set forth below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Consolidated Financial Statements and notes included elsewhere in this Annual Report on Form 10-K/A.

Edgar Filing: AMERICAN APPAREL, INC - Form 10-K/A

	Year Ended December 31,				
	2009	2008	2007	2006	2005
(In Thousands Except Per Share Data)					
Selected Statement of Operations Data:					
Net sales	\$558,775	\$545,050	\$387,044	\$284,966	\$201,450
Gross profit (5)	\$319,912	\$294,421	\$213,368	\$145,636	\$101,688
Income from Operations	\$24,415	\$36,064	\$31,122	\$10,572	\$10,782
Net Income (Loss)	\$1,112	\$14,112	\$15,478	\$(1,606)	\$3,487
Pro forma Net Income—conversion to C Corporation for tax purposes (unaudited) (3)	n/a	n/a	\$9,457	\$257	\$3,121
Cash Distributions/Dividends Paid (1)	\$—	\$—	\$22,147	\$696	\$1,793
Per Share Data (2)					
Net Earnings (Loss) per share—basic	\$0.02	\$0.20	\$0.32	\$(0.03)	\$0.07
Net Earnings (Loss) per share—diluted	\$0.01	\$0.20	\$0.31	\$(0.03)	\$0.07
Pro forma Net Earnings per share—conversion to C Corporation for tax purposes (unaudited)—basic (3)	n/a	n/a	\$0.19	\$0.01	\$0.06
Pro forma Net Earnings per share—conversion to C Corporation for tax (unaudited) purposes—diluted (3)	n/a	n/a	\$0.19	\$0.01	\$0.06
Weighted—average number of shares—basic	71,026	69,490	48,890	48,390	48,390
Weighted—average number of shares—diluted	76,864	70,317	49,414	48,390	48,390
Dividends Paid (1)	\$—	\$—	\$0.45	\$0.01	\$0.04
Balance Sheet Data (4)					
Total Assets (5)	\$327,579	\$333,609	\$233,350	\$163,056	\$124,226
Working Capital (5)	\$121,423	\$83,069	\$2,120	\$38,559	\$40,880
Total Long Term Debt Less Current Maturities	\$71,372	\$72,328	\$10,744	\$75,546	\$65,365
Stockholders' Equity	\$157,341	\$136,412	\$61,821	\$12,973	\$14,918

- (1) Dividends paid represent cash dividends paid by Old American Apparel to its stockholders prior to becoming a public company. We do not anticipate paying any cash dividends in the foreseeable future.
- The effect of the Merger has been given retroactive application in the earnings per share (“EPS”) calculation. The common stock issued and outstanding with respect to the pre-Merger stockholders of American Apparel, Inc. has been included in the EPS calculation since the Closing date of the Merger. All of American Apparel, Inc.’s outstanding warrants (the “Endeavor Warrants”) which were issued in the initial public offering of Endeavor Acquisition Corp. and underwriter’s purchase option are reflected in the diluted EPS calculation, using the treasury stock method, commencing with the Closing date of the Merger.
- (2) As a result of the Merger, Old American Apparel was required to convert from a Subchapter S Corporation to a C Corporation as of the Closing on December 12, 2007. As a Subchapter S Corporation, U.S. federal and certain state income taxes were the responsibility of the entity’s stockholders. Accordingly, the income taxes were not reflected in the entity’s financial statements. The result of this conversion was to recognize deferred tax assets and liabilities from the expected tax consequences of temporary differences between the book and tax basis of the entity’s assets and liabilities at the date of conversion into a taxable entity. This resulted in a deferred tax benefit of \$6,205 being recognized and included in the 2007 tax (benefit).
- (3) The unaudited pro forma computation of income tax included in the Consolidated Statements of Operations presented elsewhere in this Form 10-K/A, represents the tax effects that would have been reported had Old American Apparel been subject to U.S. federal and state income taxes as a corporation for the year ended December 31, 2007. Pro forma taxes are based upon the statutory income tax rates and adjustments to income for estimated permanent differences occurring during each period. Actual rates and expenses could have differed had Old American Apparel actually been subject to U.S. federal and state income taxes for all periods presented. Therefore, the unaudited pro forma amounts for net earnings per share are for informational

purposes only and are intended to be indicative of the results of operations had Old American Apparel been subject to U.S. federal and state income taxes as a corporation for the year ended December 31, 2007.

- (4) Dov Charney, a 50% owner of Old American Apparel's common stock and 100% owner of American Apparel Canada Wholesale, Inc. and American Apparel Canada Retail, Inc.'s (collectively, the "CI Companies") common stock and current Chief Executive Office of the Company received from American Apparel, Inc. 37,258 shares of its common stock in exchange for his ownership interest in Old American Apparel and CI Companies. The other 50% owner of Old American Apparel's Common Stock, Sang Ho Lim, received \$67,903 for his ownership interest, the equivalent of 11,132 shares of common stock. Immediately prior to the closing of the Merger, American Apparel, Inc. had 19,933 shares of Common stock outstanding with a net tangible book value of \$121,589, net of \$5,494 of transaction costs. The net tangible book value consisted of cash of \$123,000, a tax liability of \$1,406 and accrued expenses of \$5. The net cash proceeds were used as follows: \$67,903 was paid to Sang Ho Lim, \$15,764 was paid to Dov Charney and Sang Ho Lim as a Company distribution to settle their estimated personal income tax liabilities as a result of Old American Apparel's subchapter S Corporation status, \$13,323 was used to repay related party and third party debt, and \$26,010 was available for working capital.
- (5) Certain amounts have been reclassified in fiscal 2008 and 2007 as disclosed in Note 3, Classification and Adjustments, in the Notes to the consolidated financial statements included elsewhere in this Form 10-K/A.
-

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion together with Part II, Item 6 "Selected Financial Data" and our consolidated financial statements and the related notes thereto included in Item 8 "Financial Statements and Supplementary Data." In addition to historical consolidated financial information, this discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Actual results could differ from these expectations as a result of factors including those described under Item 1A, "Risk Factors," "Special Note Regarding Forward-Looking Statements" and elsewhere in this Annual Report on Form 10-K/A.

Overview

We are a vertically-integrated manufacturer, distributor, and retailer of branded fashion basic apparel. We design, manufacture and sell clothing for women, men, children and pets through retail, wholesale and online distribution channels. As of December 31, 2009, we operated 281 retail stores in 20 countries. Our wholesale business is a leading supplier of T-shirts and other casual wear to screen printers and distributors. We also operate an online retail e-commerce website at www.americanapparel.com where we sell our clothing directly to consumers.

We conduct our primary manufacturing operations out of an 800,000 square foot facility in the warehouse district of downtown Los Angeles, California. The facility houses our executive offices, as well as cutting, sewing, warehousing, and distribution operations. We conduct knitting operations in Los Angeles and Garden Grove, California, which produce a majority of the fabric we use in our products. We also operate dye houses that currently provide dyeing and finishing services for nearly all of the raw fabric used in production. We operate a dyeing and finishing facility in Hawthorne, California, which provides fabric dyeing and finishing services. We operate a garment dyeing and finishing facility, acquired in December 2007 and located in South Gate, California, which is used in cutting, sewing, dyeing and finishing garments. We operate a fabric dyeing and finishing facility, acquired in May 2008 and located in Garden Grove, California, which has been expanded to including knitting and cutting and sewing operations. Because we manufacture domestically and are vertically integrated, we believe this enables us to more quickly respond to customer demand and to changing fashion trends and to closely monitor product quality. Our products are noted for their quality and fit, and together with our distinctive branding these attributes have differentiated our products in the marketplace.

We report the following four operating segments: U.S. Wholesale, U.S. Retail, Canada, and International. We believe this method of segment reporting reflects both the way our business segments are managed and the way the performance of each segment is evaluated. The U.S. Wholesale segment consists of our wholesale operations and our online consumer operations in the U.S. The U.S. Retail segment consists of our retail store operations in the United States, which were comprised of 160 retail stores as of December 31, 2009. The Canada segment consists of our retail, wholesale and online consumer operations in Canada. As of December 31, 2009, the retail operations in the Canada segment were comprised of 40 retail stores. The International segment consists of our retail, wholesale and online consumer operations outside of the United States and Canada. As of December 31, 2009, the retail operations in the International segment were comprised of 81 retail stores in the following 18 countries: the United Kingdom, Ireland, Austria, Belgium, France, Germany, Italy, the Netherlands, Spain, Sweden, Switzerland, Israel, Australia, Brazil, Mexico, Japan, South Korea, and China.

The results of the respective business segments exclude unallocated corporate expenses, which consist of our shared overhead costs. These costs are presented separately and generally include, among other things, corporate costs such as human resources, legal, finance, information technology, accounting, and executive compensation.

During the period from January 1, 2007 through December 31, 2009, we increased the number of retail stores in the U.S. Retail segment from 93 to 160, increased the number of retail stores in the Canada segment from 26 to 40 and increased the number of retail stores in the International segment from 28 to 81. The following table details, by segment, the growth in retail store count during the years ended December 31, 2009, 2008 and 2007

Stores Opened by Year

	United States	Canada	International	Total
Stores open as of December 31, 2006	93	26	28	147
2007				
Opened	13	5	20	38
Closed	(1	) (1	) (1	) (3
Stores open as of December 31, 2007	105	30	47	182
2008				
Opened	44	8	29	81
Closed	(2	) (1	) (1	) (4
Stores open as of December 31, 2008	147	37	75	259
2009				
Opened	15	4	8	27
Closed	(2	) (1	) (2	) (5
Stores open of December 31, 2009	160	40	81	281

Comparable Store Sales

The table below shows the (decrease) increase in comparable store sales for our retail stores, by quarter for the years ended December 31, 2009, 2008 and 2007, including the number of retail stores included in the comparison at the end of each period.

	For the Quarter Ended									
	March 31	June 30	September 30	December 31	Full year					
2009	(7	)%	(10	)%	(16	)%	(7	)%	(10)%
Number of Stores	169	175	200	235						
2008	36	%	23	%	24	%	11	%	22	%
Number of Stores	140	145	150	162						
2007	17	%	24	%	27	%	40	%	29	%
Number of Stores	104	119	131	138						

Executive Summary

For the year ended December 31, 2009, we reported net sales of \$558.8 million, an increase of \$13.8 million, or 2.5%, over the \$545.1 million reported for the year ended December 31, 2008. Gross margin increased to 57.3% for the year ended December 31, 2009 compared to 54.0% for the year ended December 31, 2008. The increase in gross margin was due to a favorable shift in mix from wholesale towards retail sales, as retail sales generate a higher gross margin. This increase was partially offset due to an increase in inventory costs caused by a reduction in labor efficiency in the second half of 2009 and a continued shift in production mix towards more complex retail styles. Operating expenses increased \$37.1 million, or 14.4%, to \$295.5 million for the year ended December 31, 2009 as compared to \$258.4 million for the year ended December 31, 2008. Interest expense increased \$8.7 million to \$22.6 million for the year ended December 31, 2009, as compared to \$13.9 million for the year ended December 31, 2008. Net income for the year ended December 31, 2009 decreased to \$1.1 million compared to \$14.1 million for the year ended December 31, 2008.

On December 30, 2009, our Canadian company replaced its secure revolving credit facility of C\$4.0 million with an increased revolving credit facility of C\$11.0 million from Bank of Montreal. As of December 31, 2009, C\$8.5 million was available on the facility.

During April 2009, we successfully completed the second phase of the implementation of our Enterprise Resources Planning (“ERP”) system, which included the system conversions for our sales and distribution operations and financial accounting and reporting for the U.S. Wholesale segment. Previously, in April 2008, we successfully completed the first phase of the implementation of the ERP system, which included the conversion of our systems for manufacturing and warehouse operations, inventory management and control, and wholesale operations. We expect that the modules

in the second phase of the implementation of the ERP system will enable us to better manage our distribution activities and wholesale financial reporting and further improve our ability to manage inventory levels.

On March 13, 2009, we entered into a private financing agreement with Lion Capital LLP (“Lion”) for \$80.0 million in secured second lien notes with a maturity of December 31, 2013 and detachable warrants. The majority of the financing proceeds were used to retire the existing second lien credit facility with SOF Investment, L.P. – Private IV (“SOF”). The remainder of the proceeds was used to reduce the outstanding balance under our U.S. revolving credit facility, repay a portion of a related-party note, pay fees and expenses related to the financing, and for general working capital.

Results of Operations

Year Ended December 31, 2009 compared to Year Ended December 31, 2008

(Dollars in thousands)

	For the Years Ended December 30,				
	2009	% of net sales	2008	% of net sales	
U.S. Wholesale	\$ 141,521	25.3	% \$ 162,668	29.8	%
U.S. Retail	191,325	34.2	% 168,653	30.9	%
Canada	68,983	12.3	% 67,280	12.3	%
International	156,946	28.1	% 146,449	26.9	%
Total net sales	558,775	100.0	% 545,050	100.0	%
Cost of sales	238,863	42.7	% 250,629	46.0	%
Gross profit	319,912	57.3	% 294,421	54.0	%
Selling expenses	198,518	35.5	% 184,122	33.8	%
General and administrative expenses	93,636	16.8	% 73,591	13.5	%
Retail store impairment	3,343	0.6	% 644	0.1	%
Income from operations	24,415	4.4	% 36,064	6.6	%
Interest expense	22,627	4.0	% 13,921	2.6	%
Foreign currency transaction (gain) loss	(2,920)	) (0.5	)% 621	0.1	%
Other (income) expense	(220)	) —	% 155	—	%
Income before income taxes	4,928	0.9	% 21,367	3.9	%
Income tax provision	3,816	0.7	% 7,255	1.3	%
Net income	\$ 1,112	0.2	% \$ 14,112	2.6	%

U.S. Wholesale: Total net sales for our U.S. Wholesale segment decreased \$21.2 million, or 13.0%, to \$141.5 million for the year ended December 31, 2009 as compared to \$162.7 million for the year ended December 31, 2008. Net sales to wholesale customers (excluding online consumer sales) decreased \$19.0 million, or 13.8%, to \$118.2 million for the year ended December 31, 2009 as compared to \$137.2 million for the year ended December 31, 2008. This decrease was primarily caused by difficult economic conditions for our wholesale customers, especially for private label and manufacturer customers, who significantly reduced their order volumes. Online consumer sales decreased \$2.2 million, or 8.6%, to \$23.3 million for the year ended December 31, 2009, as compared to \$25.5 million for the year ended December 31, 2008. The decrease in online consumer sales was primarily due to a significant reduction in online advertising and the cannibalization of online sales as a result of operating additional retail locations.

U.S. Retail: Net sales for the U.S. Retail segment increased \$22.6 million, or 13.4%, to \$191.3 million for the year ended December 31, 2009 as compared to \$168.7 million for the year ended December 31, 2008. The increase was primarily due to \$14.5 million of incremental net sales contributed by 15 new retail stores opened in key markets within the U.S. during 2009, and \$33.0 million of incremental net sales from the 44 new stores opened within the U.S. during 2008, for the period before their first full year of operation. The increase was partially offset by a \$24.8 million decline in comparable store sales for retail stores in the U.S. Retail segment for the year ended December 31, 2009. Since December 31, 2008, we opened 15 new retail stores in the U.S. Retail segment, while closing two and the number of stores in operation increased from 147 to 160.

Canada: Total net sales for our Canada segment increased \$1.7 million, or 2.5%, to \$69.0 million for the year ended December 31, 2009 as compared to \$67.3 million for the year ended December 31, 2008. Net sales to retail customers

increased \$3.1 million, or 5.9% to \$56.0 million for the year ended December 31, 2009 compared to \$52.9 million for the year ended December 31, 2008. The increase was primarily caused by \$3.3 million of incremental net sales contributed by the four new retail stores opened in key markets within Canada during 2009. The increase was partially offset by a \$2.4 million, or 5%, decline in same store sales for the year ended December 31, 2009. Holding foreign currency exchange rates constant to those prevailing in fiscal 2008, total revenue for 2009 would have been approximately \$73.9 million, or \$6.6 million higher when compared to 2008. Since December 31, 2008 we opened 4 new retail stores, while closing one and the number of stores in operation increased from 37 to 40.

Net sales to wholesale customers decreased \$1.3 million, or 10.2% to \$11.4 million for the year ended December 31, 2009 as compared to \$12.7 million for the year ended December 31, 2008. This decrease was primarily caused by difficult economic conditions for our wholesale customers, especially for private label and manufacturer customers, who significantly reduced their order volumes. Holding foreign currency exchange rates constant to those prevailing in fiscal 2008 total revenue for the current year would have been approximately \$72.2 million, or \$6.6 million higher when compared to 2008.

Online sales decreased \$0.1 million, or 5.9%, to \$1.6 million for the year ended December 31, 2009 as compared to \$1.7 million for the year ended December 31, 2008. Holding foreign currency exchange rates constant to those prevailing in fiscal 2008, total revenue for 2009 would have been approximately \$1.7 million, resulting in no change when compared to 2008.

International: Total net sales for the International segment increased \$10.5 million, or 7.2%, to \$156.9 million for the year ended December 31, 2009 as compared to \$146.4 million for the year ended December 31, 2008. Net sales to retail customers increased \$12.4 million, or 10.4% to \$132.1 million for the year ended December 31, 2009 as compared to \$119.7 million for the year ended December 31, 2008. The increase was primarily caused by \$6.0 million of incremental net sales contributed by the eight new retail stores opened in key markets during 2009. The increase was partially offset by a 4% decline in same store sales for the year ended December 31, 2009. Holding foreign currency exchange rates constant to those prevailing in fiscal 2008, total revenue for 2009 would have been approximately \$167.6 million, or \$21.2 million higher when compared to 2008. Since December 31, 2008, we opened 8 new retail stores, while closing two and the number of stores in operation increased from 75 to 81.

Net sales to wholesale customers decreased \$2.1 million, or 14.5%, to \$12.4 for the year ended December 31, 2009 as compared to \$14.5 million for the year ended December 31, 2008. This decrease was primarily caused by difficult economic conditions for our wholesale customers, especially for private label and manufacturer customers, who significantly reduced their order volumes. Holding foreign currency exchange rates constant to those prevailing in fiscal 2008, total revenue for the current year would have been approximately \$13.1 million, or \$1.4 million lower when compared to the same period last year.

Online net sales increased \$0.3 million, or 2.5% to \$12.5 million for the year ended December 31, 2009 as compared to \$12.2 million for the year ended December 31, 2008. Holding foreign currency exchange rates constant to those prevailing in fiscal 2008, total revenue for 2009 would have been approximately \$13.6 million, or \$1.4 million higher when compared to 2008.

Cost of sales: Cost of sales as a percentage of net sales was 42.7% and 46.0% for the years ended December 31, 2009 and 2008, respectively. Cost of sales for 2008 was impacted by \$13.2 million, or 2.4%, as a percentage of sales, in stock based compensation expense relating to the award of approximately 1.9 million shares of common stock to our manufacturing employees (the "2008 Grant") during the third quarter of 2008. On a comparative basis, excluding the impact of the 2008 Grant, our cost of sales as a percentage of net sales decreased from 43.6% for the year ended December 31, 2008 to 42.7% for the year ended December 31, 2009. Cost of sales was impacted by a shift in mix from wholesale to retail sales, as retail increased from 62.6% of total net sales in 2008 to 67.9% of total net sales in 2009. The favorable impact from the shift in mix was partially offset by the negative impact of the appreciation of the U.S. dollar versus foreign currencies for the full year 2009 relative to the full year 2008. Cost of sales was also negatively impacted by lower capacity utilization of our manufacturing facilities in the first half of 2009 due to the hiring of additional sewing operators to expand production capacity in 2010 and to replace sewing operators dismissed following the ICE inspection. These lower capacity utilization resulted in lower amount of fixed overhead loss allocation to units of inventory produced.

Selling expenses: Selling expenses together with unallocated corporate selling, advertising and promotion expenses, for the year ended December 31, 2009, increased \$14.4 million, or 7.8%, to \$198.5 million for the year ended December 31, 2009 as compared to \$184.1 million for the year ended December 31, 2008. Specifically, rent and occupancy costs increased \$18.3 million and payroll and benefit costs increased \$5.5 million. The increase in payroll costs was a result of higher staffing costs required to support the increased number of stores in operation compared to in the prior year.

Increases in rent and occupancy costs and payroll and benefit costs were partially offset by decreases in advertising, trade

show and catalog expenses. Advertising, trade show and catalog costs included in selling expenses for the year ended December 31, 2009 were \$15.4 million, or 2.8% of net sales, as compared with \$25.0 million, or 4.5% of net sales, for the year ended December 31, 2008. The decrease of \$9.6 million was mainly due to a reduction in discretionary expenses to promote new store openings and to promote our products through print publications, magazines, trade shows, catalogs and online media.

Pre-opening expenses for the U.S. Retail segment totaled \$2.3 million for the year ended December 31, 2009, associated with the opening of 15 new retail stores, as compared with \$5.8 million for the year ended December 31, 2008. Pre-opening expenses in the Canada and International segments totaled \$1.6 million for the year ended December 31, 2009, associated with the opening of 12 new retail stores, as compared with \$4.5 million for the year ended December 31, 2008. Pre-opening expenses include costs related to opening new stores such as materials, pre-opening labor and training; utilities, travel, and IT labor costs. The decrease in pre-opening expenses from the prior year was due to the larger number of stores in the process of being opened in prior year.

General and administrative expenses: General and administrative ("G&A") expenses increased \$20.4 million, or 27.7%, to \$94.0 million for the year ended December 31, 2009, as compared to \$73.6 million for the year ended December 31, 2008. G&A expenses represented 16.8% and 13.5% of total net sales for the years ended December 31, 2009 and 2008, respectively. G&A expenses increased by \$7.5 million due to higher depreciation charges, and \$4.1 million due to an increase in salaries, wages and benefits, primarily associated with an increased number of retail stores in operation during the year ended December 31, 2009 as compared to year ended December 31, 2008. An additional \$5.1 million of the increase in G&A was due to higher professional fees related to accounting and legal services, and \$1.6 million related to bonuses and director stock grants.

Retail store impairment charges: At December 31, 2009, we performed a recoverability test and an impairment test of our long lived assets at our retail stores and determined that the fair value of the assets at eighteen retail stores was less than their carrying value at December 31, 2009 based on sales performance through the date of issuance of these financial statements, and projected future cash flows over the respective remaining lease terms for these retail stores. We recorded impairment charges relating primarily to certain retail store leasehold improvements in the U.S. Retail, Canada and International segments of \$3.3 million and \$0.6 million for the years ended December 31, 2009 and 2008, respectively, to reduce the assets' carrying value to their estimated fair value.

Interest expense: The major components of interest expense for the year ended December 31, 2009 consisted of interest on our revolving line of credit, loans from our CEO and unrelated parties, capital leases and our term loans. Interest rates on our various debt facilities and capital leases ranged from 4.8% to 16.0% during the year ended December 31, 2009 and 6.2% to 21.0% during the year ended December 31, 2008. Interest expense increased \$8.7 million to \$22.6 million for the year ended December 31, 2009, as compared to \$13.9 million for the year ended December 31, 2008. Interest expense represented 4.0% and 2.6% of the total net sales for the years ended December 31, 2009 and 2008, respectively. For the year ended December 31, 2009, interest expense primarily consisted of BofA related fees and interest of \$3.9 million, Lion Credit Agreement fees and interest of \$13.8 million and SOF Credit Agreement related fees and interest of \$4.8 million. For the year ended December 31, 2008, interest expense primarily consisted of BofA Credit Agreement related fees and interest of \$2.7 million and SOF Credit Agreement related fees and interest of approximately \$10.2 million.

Foreign currency transaction gain: Foreign currency transaction gain was \$2.9 million for the year ended December 31, 2009, as compared to a loss of \$0.6 million for the year ended December 31, 2008, mainly due to an appreciation of the U.S. Dollar relative to foreign currencies used by our international subsidiaries during the year ended December 31, 2009, compared to prior periods.

Unrealized (gain) loss on change in fair value of warrants: No change in fair value of warrants was recorded for the year ended December 31, 2009.

Other (income) expense: Other income was \$0.2 million for the year ended December 31, 2009 as compared to other expense of \$0.2 million for the year ended December 31, 2008.

Income tax provision: Income taxes decreased \$3.5 million to a \$3.8 million income tax provision for the year ended December 31, 2009, as compared to a \$7.3 million income tax provision for the year ended December 31, 2008. The decrease was due to the decline in income before taxes for the year ended December 31, 2009 as compared to the year

ended December 31, 2008. The effective income tax rate for the year ended December 31, 2009 was 77.4% as compared to 34% for the year ended December 31, 2008. The significant increase in the effective income tax rate for the year ended December 31, 2009 compared to prior year was primarily due to the establishment of valuation allowances against certain foreign net operating losses and the establishment of certain liabilities related to uncertain tax positions raised in connection with certain income tax audits. We are forecasting a pre-tax loss in 2011 so it will be difficult again to gauge if the tax rate will return to percentage consistent with prior years

Edgar Filing: AMERICAN APPAREL, INC - Form 10-K/A

We file income tax returns for various states and foreign jurisdictions. Where applicable, we provide for state and foreign taxes at the applicable statutory state and country rates multiplied by pre-tax income.

Year Ended December 31, 2008 compared to Year Ended December 31, 2007

(Dollars in Thousands)

	2008		2007			
	Amount	% of Net Sales	Amount	% of Net Sales		
Net sales	\$545,050	100.0	% \$387,044	100.0	%	
Cost of sales	250,629	46.0	% 173,676	44.9	%	
Gross profit	294,421	54.0	% 213,368	55.1	%	
Operating expenses	258,357	47.4	% 182,246	47.1	%	
Income from operations	36,064	6.6	% 31,122	8.0	%	
Interest expense	13,921	2.6	% 17,541	4.5	%	
Foreign currency transaction loss (gain)	621	0.1	% (722)	(0.2))%	
Other expense (income)	155	—	% (980)	(0.3))%	
Income before income taxes	21,367	3.9	% 15,283	3.9	%	
Income tax provision (benefit)	7,255	1.3	% (195)	(0.1))%	
Net income	\$14,112	2.6	% \$15,478	4.0	%	

Pro forma Computation Related to Conversion to C Corporation for income tax purposes (unaudited) for the year ended December 31, 2007 (dollars in thousands):

Historical income before taxes		\$15,283	3.9	%
Pro forma provision for income taxes		5,826	1.5	%
Pro forma net income		\$9,457	2.4	%

Net sales:

The following table sets forth our net sales by business segment for the year ended December 31, 2008 as compared to the year ended December 31, 2007 (dollars in thousands):

	2008		2007		Change	% Change	
	Amount	% of Net Sales	Amount	% of Net Sales			
U.S. Wholesale	\$162,668	29.8	% \$144,478	37.3	% \$18,190	12.6	%
U.S. Retail	168,653	31.0	% 115,615	29.9	% 53,038	45.9	%
Canada	67,280	12.3	% 42,407	11.0	% 24,873	58.7	%
International	146,449	26.9	% 84,544	21.8	% 61,905	73.2	%
Total net sales	\$545,050	100.0	% \$387,044	100.0	% \$158,006	40.8	%

One significant factor contributing to the overall growth in net sales was the expansion of our international operations, as evidenced by the opening of 29 international retail stores with one store closing during the year ended December 31, 2008. In our Canada segment, during the year ended December 31, 2008, 8 retail stores were opened and one store was closed. Additionally, during the same period 44 retail stores were opened and one retail store was closed in our U.S. Retail business segment. Also of primary significance to the expansion of American Apparel's retail business in the U.S. was our increased focus on building brand awareness and targeted advertising campaigns as further described below;

Net sales increased \$158.0 million, or 40.8%, from \$387.0 million for the year ended December 31, 2007 to \$545.0 million for the year ended December 31, 2008.

U.S. Wholesale: Net sales for our U.S. Wholesale segment increased \$18.2 million, or 12.6%, from \$144.5 million for

the year ended December 31, 2007 to \$162.7 million for the year ended December 31, 2008. This increase was primarily due to an increase in online sales due to strategic advertising and increased brand awareness. Third party wholesale and online sales increased from \$125.8 million and \$18.7 million in 2007 to \$137.2 million and \$25.5 million in 2008, respectively. One of the primary drivers behind the increase in U.S. Wholesale sales was the ability to meet customer demands through increased stock of inventory on hand. During most of 2008, we continued to increase our production in order to meet customer demand during the peak sales season.

U.S. Retail: Net sales for our U.S. Retail segment increased \$53.0 million, or 45.9%, from \$115.6 million for the year ended December 31, 2007 to \$168.7 million for the year ended December 31, 2008. Growth was fueled by the addition of retail stores in key markets within the U.S. in 2008 which contributed incremental sales of \$30.4 million over the prior year, as well as a 20.7% increase of \$22.6 million in comparable store sales in 2008 compared to 2007. Same-store sales are calculated as the sales increase over the previous year for stores that have been open for more than twelve months. As of December 31, 2008, the number of open stores was 148, while as of December 31, 2007, the number of open stores was 105.

Canada: Net sales for our Canada segment increased \$24.9 million, or 58.7%, from \$42.4 million for the year ended December 31, 2007 to \$67.3 million for the year ended December 31, 2008. This was a result of the addition of retail stores in key markets within Canada which contributed incremental sales of \$13.8 million of the prior year, as well as a 37.7% increase of \$11.1 million in same store sales in 2008 compared to 2007. The number of open retail stores increased to 37 retail stores as of December 31, 2008 from 30 retail stores as of December 31, 2007. The increase in comparable store sales was primarily the result of increased brand awareness and higher sales volumes. Canada wholesale and online sales volume was consistent with the prior year.

International: Net sales for our International segment increased \$61.9 million, or 73.2%, from \$84.5 million for the year ended December 31, 2007 to \$146.4 million for the year ended December 31, 2008. This increase was primarily due to the net increase of 28 retail stores in the international segment which contributed incremental sales of \$61.9 million over the prior year, from 47 retail stores as of December 31, 2007 to 75 retail stores as of December 31, 2008. Comparable store sales in the International segment increased 18.3% or \$11.7 million for the year ended December 31, 2008 as compared to the year ended December 31, 2007. During 2008, we opened 29 new stores in Australia, Belgium, Brazil, China, France, Germany, Israel, Italy, Japan, Korea, Mexico, Netherlands, Spain, Switzerland and the United Kingdom. During the year ended December 31, 2008, approximately \$14.5 million and \$12.2 million of sales were generated by wholesale and online sales, respectively, compared with \$12.6 million and \$6.6 million for wholesale and online sales, respectively, for the year ended December 31, 2007.

Cost of sales: Cost of sales as a percentage of net sales was 46.0% and 44.9% for the years ended December 31, 2008 and 2007, respectively. The increase was primarily due to the recording \$12.1 million of share based compensation expense related to the stock award of approximately 1.9 million shares of common stock to manufacturing employees on August 14, 2008 and \$1.1 million of employer related payroll taxes related to the stock grant in cost of sales for the year ended December 31, 2008. The \$13.2 million of expenses related to the stock award increased our cost of sales as a percentage of net sales by 2.4%. Excluding the impact of the aforementioned expenses related to the stock award, our cost of sales as a percentage of net sales decreased from 44.3% for the year ended December 31, 2007 to 43.6% for the year ended December 31, 2008. This decrease in cost of sales as a percentage of net sales was primarily due to the change in the overall sales mix during the year ended December 31, 2008 which included a higher level of retail sales as a result of the expansion of the retail business in the U.S. Retail, Canada, and International segments which generate higher gross margins than the U.S. Wholesale segment.

To supplement our in-house production capacity in December 2007, we acquired a new garment dyeing and finishing facility in South Gate, California, which began operations in 2008. The new dyeing and finishing facility is capable of dyeing completely sewn garments and the purchase of these assets added garment dyeing capability to our production process. The new facility began production in January 2008 and will further enhance our capability for in-house quality control. This acquisition included the assumption of the lease for the facility as well as the purchase of all of the tangible personal property at the plant. Startup expenses typically associated with manufacturing at new facilities resulted in approximately \$0.9 million of charges in cost of sales, attributable largely to the fact that, at this location, we began to manufacture certain denim based new styles which are more costly to manufacture. The \$0.9 million of

additional cost of sales charges represents approximately 1.2% of the total increase in cost of sales.

To further supplement our in-house production capacity, in May 2008, we acquired an existing fabric dyeing and finishing facility in Garden Grove, California. In addition to providing substantial new dyeing capacity, the facility has available production space in which our added knitting capacity. The facility was formerly a contract dyeing vendor for our, and operations were not interrupted by the acquisition.

Gross profit: Gross profit percentage decreased from 55.1% of net sales for the year ended December 31, 2007 to 54.0%

of net sales for the year ended December 31, 2008. Gross margin was negatively impacted by the \$13.2 million of expenses from the stock award to manufacturing employees, including related employer payroll taxes of \$1.1 million. The \$13.2 million of expenses decreased our gross margin by 2.4%. Excluding the impact of the aforementioned expenses related to the stock award, our gross margin for the year ended December 31, 2008 increased from 55.1% for the year ended December 31, 2007 to 56.4% for the year ended December 31, 2008. This increase in our gross margin was primarily due to an increase in the mix of sales coming from retail sales versus wholesale, along with an increase in online consumer sales. As the price of our products have remained relatively consistent in recent history, with no immediate plan to make changes, fluctuations in gross profit are primarily impacted by our sales mix and any production variances that are allocated to cost of sales. This benefit was partially offset by the hiring of a significant number of new manufacturing employees to support increased production.

Operating expenses: The following table sets forth our operating expenses for the year ended December 31, 2008 as compared to December 31, 2007 (dollars in thousands).

	2008		2007		Change	% Change
	Amount	% of Net Sales	Amount	% of Net Sales		
Selling	\$168,516	30.9 %	\$115,602	29.9 %	\$52,914	45.8 %
Warehouse and distribution	15,606	2.9 %	10,663	2.8 %	4,943	46.4 %
General and administrative	74,235	13.6 %	55,981	14.5 %	18,254	32.6 %
Total operating expenses	\$258,357	47.4 %	\$182,246	47.1 %	\$76,111	41.8 %

Operating expenses: Operating expenses increased from \$182.2 million for the year ended December 31, 2007 to \$258.4 million for the year ended December 31, 2008, an increase of \$76.1 million or 41.8%. Operating expenses include:

Selling expenses: Selling expenses together with unallocated corporate selling, advertising and promotion expenses, for the year ended December 31, 2008, were \$168.5 million, which represented 30.9% of net sales, as compared to \$115.6 million for the year ended December 31, 2007, which represented 29.9% of net sales. Increases in selling expenses are due to the increase in worldwide retail store locations as well as the strategic promotional advertising of our products throughout all of its segments.

Advertising costs attributable as selling expenses for the year ended December 31, 2008 were \$18.4 million, representing 3.4% of net sales, compared with \$12.7 million, or 3.3% of net sales, for the year ended December 31, 2007. Advertising costs increased \$5.7 million mainly due to expenses incurred to promote new store openings and to promote our brand and products, primarily online, but also through print media.

The number of open stores increased from 182 as of December 31, 2007 to 260 as of December 31, 2008, resulting in an increase in rent and occupancy costs of \$19.4 million during the year ended December 31, 2008 compared to the prior year. Payroll costs increased from \$48.4 million for the year ended December 31, 2007 to \$69.3 million for the year ended December 31, 2008, for an increase of \$20.9 million. This increase in payroll costs was a result of increased staffing levels to support the increased number of stores and higher sales volumes at existing stores. We also increased compensation to certain valued employees, as we believe that we must provide competitive compensation opportunities to attract, motivate and retain qualified employees.

Costs related to preparing for opening new stores include materials, pre-opening labor and training, utilities, travel, rent and IT labor and costs. Pre-opening costs for the U.S. Retail segment were \$5.8 million for the year ended December 31, 2008 compared to \$1.3 million for the year ended December 31, 2007. The Canadian segment had a total of \$0.5 million in pre-opening expenses for the year ended December 31, 2008 compared to no pre-opening expenses for the year ended December 31, 2007. There was a total of \$4.0 million in pre-opening expenses in the International segment for the year ended December 31, 2008 compared to \$3.9 million for the year ended December 31, 2007.

Warehouse and distribution expenses: Warehouse and distribution expenses for the year ended December 31, 2008 were \$15.6 million as compared to \$10.7 million for the year ended December 31, 2007, an increase of \$4.9 million or

46.4%. These expenses represented 2.9% and 2.8%, respectively, of the total net sales for the years ended December 31, 2008 and 2007. The increase in warehouse and distribution expense is attributable to increases of \$4.1 million in staffing expenses necessary to support increased volume and sales growth, primarily in the retail business. General and administrative expenses: General and administrative expenses for the year ended December 31, 2008 were \$74.2 million, as compared to \$56.0 million for the year ended December 31, 2007, an increase of \$18.2 million or 32.6%. General and administrative expenses represented 13.6% and 14.5% of total net sales for the years ended December 31, 2008

and 2007, respectively.

General and administrative expenses increased by approximately \$7.5 million due to an increase in corporate overhead and \$13.4 million due to growth in the administrative structure required to support the growth in our retail business in the U.S. Retail, Canada and International segments. The total number of retail stores increased from 182 opened stores at December 31, 2007 to 260 opened stores at December 31, 2008.

Corporate overhead expenses for the year ended December 31, 2008 increased to \$37.2 million, as compared to \$29.7 million for the year ended December 31, 2007, an increase of \$7.5 million. The increase in corporate overhead expenses was the result of additional expenses for higher salaries and payroll related expenses and professional fees due to increased staffing and the regulatory environment of operating as a public company in 2008. Of the \$7.5 million increase in corporate expenses, professional and consulting fees increased by \$5.8 million and the remaining \$1.7 million increase was primarily due to an increase in information technology and web development expenses. Professional and consulting fees were \$12.3 million and \$6.5 million for the years ended December 31, 2008 and 2007, respectively. The \$5.8 million increase in professional and consulting fees primarily related to an increase of \$2.5 million in accounting fees directly related to public company reporting and compliance requirements, \$1.9 million in legal fees and \$1.4 million in consulting fees related to review work required under the Sarbanes-Oxley Act of 2002 and other initiatives.

Interest expense: The major components of interest expense for the year ended December 31, 2008, consisted of interest on the outstanding revolving credit facility, loans from related and unrelated parties and the term loan facility with SOF. We used proceeds from the exercise of the warrants in the first quarter of 2008 to reduce the level of debt outstanding. The reduction in the level of debt resulted in a \$3.6 million decrease in interest expense from \$17.5 million for the year ended December 31, 2007 to \$13.9 million for the year ended December 31, 2008. Interest rates on debt ranged from 6% to 21% during the year ended December 31, 2008, compared to 4.6% to 24% for the year ended December 31, 2007. Interest expense represented 2.6% and 4.5% of the total net sales for the years ended December 31, 2008 and 2007, respectively. The net decrease in interest expense was also attributable to the decreased LIBOR rate in the year ended December 31, 2008. Interest expense also included approximately \$0.5 million of loan fees, relating to renegotiating the terms of our Credit Agreement.

Other expense (income): Other expense was \$0.2 million for the year ended December 31, 2008 as compared to other income of \$1.0 million for the year ended December 31, 2007. The increase in other (income) expense is attributable to tariff charges assessed and prior uncollected receivables. Other expense represented 0.0% of the total net sales for the year ended December 31, 2008 as compared to other income which represented (0.3%) of the total net sales for the year ended December 31, 2007.

Income tax provision (benefit): Income tax provision increased from \$0.2 million benefit for the year ended December 31, 2007 to \$7.3 million expense for the year ended December 31, 2008.

Prior to July 1, 2004, Old American Apparel operated as a C corporation under U.S. tax law. Effective July 1, 2004, the stockholders elected to be taxed under Subchapter S of the Internal Revenue Code (the "S Corporation Election"). During the period of the S Corporation Election, federal income taxes and certain state taxes were the responsibility of Old American Apparel's stockholders. The S Corporation Election terminated with the consummation of the Acquisition on December 12, 2007. As a result of the change of Old American Apparel's S corporation status for U.S. tax purposes to the C corporation status on December 12, 2007, the deferred tax assets and liabilities were adjusted to reflect the change in federal and state tax rates applicable to C corporations.

We file income tax returns for various states and foreign jurisdictions. Where applicable, we provide for state and foreign taxes at the applicable statutory state and country rates multiplied by pre-tax income.

Net income: Our net income for the year ended December 31, 2008 decreased by approximately \$1.4 million to \$14.1 million compared to \$15.5 million for the year ended December 31, 2007 as a result of the various factors described above.

Liquidity and Capital Resources

Over the past years, our growth has been funded through a combination of borrowings from related and unrelated parties, bank debt and lease financing, and proceeds from the exercise of warrants. Our principal liquidity requirements are for working capital and capital expenditures. We fund our liquidity requirements primarily through cash on hand, cash flow from operations, if any, and borrowings from revolving credit facilities, related party notes from our CEO and term loans under the Lion Credit Agreement. We generate cash primarily through the sale of our products manufactured by us at our retail stores and through our wholesale operations. Primary uses of cash are for the purchase of raw materials, payment to our manufacturing employees and retail employees, retail store opening costs and the payment of rent for retail stores. We believe that cash on hand, future funds from operations and borrowing from revolving credit facilities will be sufficient to fund our cash requirements for the next twelve months. There is no assurance, however, that we will be able to generate sufficient cash flow or that we will be able to maintain our ability to borrow under our revolving credit facilities.

As of December 31, 2009, we had (i) approximately \$9.0 million in cash, (ii) \$41.2 million available and \$6.3 million outstanding under the BofA Credit Agreement, and (iii) \$65.6 million of borrowings outstanding under the Lion Credit Agreement, net of discount, and including accrued paid-in-kind interest of \$6.1 million. See “Debt Agreements” below for an overview of the BofA Credit Agreement, the Lion Credit Agreement and our other debt agreements. Cash Flow Overview for the years ended December 31, 2009, 2008 and 2007 is as follows (dollars in thousands):

	2009	2008	2007
Net cash provided by (used in):			
Operating activities	\$45,203	\$18,886	\$(6,496)
Investing activities	(20,889)	(69,865)	(22,737)
Financing activities	(25,471)	41,171	44,530
Effect of foreign exchange rate changes on cash	(1,165)	1,884	215
Net (decrease) increase in cash	\$(2,322)	\$(7,924)	\$15,512

Cash Flow Overview

Year Ended December 31, 2009

For the year ended December 31, 2009, cash provided by operations was \$45.2 million. This was a result of net income of \$1.1 million, non-cash expenses of \$47.3 million (primarily depreciation and amortization, stock-based compensation, deferred income taxes, deferred rent expense and bad debt recovery) an increase in accrued expenses and other liabilities of \$13.9 million and a decrease in inventory of \$9.5 million, offset by the decrease in accounts payable of \$10.3 million and a decrease in income tax payable of \$9.9 million. The decrease in inventory levels during 2009 included a reduction in raw material purchases and moderated production in order to maintain lower levels of inventory in response to the declining economic environment and a projected decrease in demand from wholesale customers.

For the year ended December 31, 2009, we used \$20.9 million of cash in investing activities. This was primarily a result of increased investment in property and equipment of \$4.6 million for the U.S. wholesale, \$11.2 million for the U.S. Retail, \$1.4 million in the Canada segment and \$3.7 million in the International segment.

For year ended December 31, 2009, cash used in financing activities was \$25.5 million. This was primarily the result of using available cash and our new financing received from Lion to pay down our revolving credit facility and our previous term note and notes payable.

Year Ended December 31, 2008

For the year ended December 31, 2008, cash provided by operations was \$18.9 million. This was a result of income from operations before non-cash expenses (primarily depreciation and amortization, stock-based compensation, deferred income taxes, deferred rent expense and bad debt recovery) of \$39.6 million, an increase in accounts payable and accrued expenses of \$21.4 million and an increase in income taxes payable of \$2.1 million, offset by the increase in inventory of \$48.1 million, increase in trade and other receivables of \$0.8 million and an increase in prepaid expenses and other current assets of \$0.4 million. The increase in inventory levels during 2008 included raw material purchases and production of product to support our growth in the U.S. Wholesale segment and continued expansion of

the retail business in U.S. Retail, Canada and International segments.

For the year ended December 31, 2008, our used \$69.9 million of cash in investing activities. This was primarily a

result of increased investment in property and equipment for the U.S. wholesale segment by approximately \$13.9 million and an increased investment in property and equipment of \$29.5 million for the U.S. Retail, \$4.7 million in the Canada segment and \$18.3 million in the International segment. In addition, we acquired all of the assets of a fabric dyeing and finishing plant for \$3.5 million.

For year ended December 31, 2008, cash provided by financing activities was \$41.2 million. This was primarily the result of our principal capital requirements to fund working capital needs and to finance opening of new retail stores, as well as to finance purchase of new manufacturing and information systems equipment to support higher production levels and growth in online operations. Proceeds from exercise of warrants amounted to \$65.6 million offset by the \$10.0 million repurchase of treasury shares and \$5.2 million to satisfy the applicable income tax withholding obligations in connection with the net share settlement of some of the Endeavor Warrants which is deemed to be a repurchase by our of its common stock. Other financing activities included receipt of a \$2.5 million loan from Dov Charney, offset by debt repayments and financing costs.

Year Ended December 31, 2007

For the year ended December 31, 2007, cash used in operations was \$(6.5) million. This was a result of income from operations before non-cash expenses (primarily depreciation and amortization, deferred income taxes, deferred rent expense and bad debt recovery) of \$(24.7) million, and an increase in income taxes payable of \$3.8 million, offset by the increase in inventory of \$22.2 million, decrease in receivables of \$0.5 million, increase in prepaid expenses and other current assets of \$2.3 million, and decrease in accounts payable and accrued expenses of \$8.4 million. Cash used in operations was primarily used to reduce obligations to trade and other vendors. Cash used in operations was also used to finance an increase in inventory production levels during the first two quarters of 2007 through raw material purchases to support American Apparel's peak selling season that generally occurs from the months of May through September, as well as a related increase in production selling and administrative staff payroll.

For the year ended December 31, 2007, we used \$22.7 million of cash in investing activities. This was partially a result of increased investment in property and equipment for the U.S. wholesale segment by approximately \$5.3 million and an increased investment in property and equipment of \$17.6 million for the U.S. retail and other segments. In 2007, we invested in new cutting, sewing, information systems equipment required to support the increased production levels experienced during 2007. Increase in investment in property and equipment for the retail segment was due to the 38 new retail stores that were opened in the year ended December 31, 2007.

For year ended December 31, 2007, cash from financing activities was \$44.5 million. This was primarily the result of \$123 million cash acquired in the Acquisition, the buyout of Sang Ho Lim, the other stockholder of Old American Apparel prior to the Acquisition, of \$67.9 million, decreases to the line of credit pursuant to the BofA Credit Agreement of \$2.7 million, increases to the term loans and notes payable pursuant to the SOF Credit Agreement of \$58.2 million offset by payments to term loans notes, payable and capital leases of \$41.9 million, and distributions and advances to stockholders of \$21.6 million. American Apparel's principal capital requirements were to fund working capital needs and to finance opening of new retail stores, as well as to finance purchases of new manufacturing and information systems equipment to support higher production levels and growth in online operations.

Debt Agreements

Revolving Credit Facilities:

On July 2, 2007, we replaced our, then existing, credit facility with an increased revolving credit facility (the "BofA Agreement") of \$75 million from Bank of America, N.A (the "Bank"). Availability under the BofA Agreement, which is secured by substantially all of our assets, is calculated by a formula referencing the amounts of accounts receivable and inventory that we maintain at any given time. The BofA Agreement also imposes certain restrictions on us regarding capital expenditures and limits our ability to, among other things, incur additional indebtedness, dispose of assets, make repayments of indebtedness or amendments of debt instruments, pay distributions, create liens on assets and enter into sale and leaseback transactions, investments, loans or advances and acquisitions.

Borrowings under the BofA Agreement are subject to certain advance provisions established by the Bank and are collateralized by substantially all of our assets. Interest under the agreement is at LIBOR (0.25% at December 31, 2009) plus 4.5% or the Bank's prime rate (which rate can in no event be lower than LIBOR plus 4.5% per annum)

(3.25% at December 31, 2009) plus 2.5%, at our option. In addition, the BofA Agreement requires us to maintain certain amounts of unused availability under the revolving credit facility. The BofA Agreement will mature on July 2, 2012. Net available borrowing capacity, reflecting outstanding letters of credit of approximately \$9.4 million and outstanding borrowings of \$6.2 million at December 31, 2009, was approximately \$41.2 million as determined based on our levels of inventory and amount of account

receivables.

On December 30, 2009, our Canadian Companies replaced their secured revolving credit facility of C\$4.0 million from Toronto Dominion Bank, with an increased revolving credit facility (the "BofM Agreement") of C\$11.0 million from Bank of Montreal (the "Canadian Bank"). The revolving credit facility is secured by movable hypothecs on all present and future movable property of our Canadian Companies. Borrowings under the BofM Agreement are subject to certain advance provisions established by the Canadian Bank. Interest under the agreement is at the Bank's prime rate (2.25% at December 31, 2009) plus 2%. The credit facility matures on December 30, 2012, and our available borrowing capacity at December 31, 2009 was C\$8.5 million.

Long-term debt and capital lease obligations:

On March 13, 2009, we entered into agreement with Lion Capital, LLC ("Lion" and the "Lion Agreement", respectively), who provided us with term loans in an aggregate principal amount equal to \$80.0 million, of which \$5.0 million constituted a fee paid by us to Lion in accordance with the Lion Agreement. The term loans under the Lion Agreement mature on December 31, 2013 and bear interest at a rate of 15% per annum, payable quarterly in arrears. The Lion Agreement is subordinated to the BofA Agreement and contains customary representations and warranties, events of default, affirmative covenants and negative covenants (which impose restrictions and limitations on, among other things, dividends, investments, asset sales, capital expenditures and the ability of us to incur additional debt and liens) and a total leverage ratio financial maintenance covenant. We are permitted to prepay the loans in whole or in part at any time at our option, with no prepayment penalty.

Approximately \$51.3 million of the proceeds of the loans made under the Lion Agreement were used by us to repay in full all outstanding principal and interest due under the SOF Credit Agreement. The remaining proceeds were used to repay \$3.3 million of loans we owed to our CEO (see Note 13 to the consolidated financial statements contained elsewhere herein), to pay fees and expenses of \$4.3 million that were capitalized as deferred financing costs and included in other assets in the condensed consolidated balance sheet as of December 31, 2009, and to reduce the outstanding revolver balance under the BofA Credit Agreement by \$16.0 million. Accordingly, \$16.0 million of the revolver balance under the BofA Credit Agreement outstanding has been refinanced on a long-term basis and as of December 31, 2008 was reclassified to long-term debt.

In connection with the loans under the Lion Credit Agreement, we issued the Lion Warrant. We allocated the cash received from the Lion Credit Agreement between debt and warrants based on their relative fair values. The relative fair value of the debt under the Lion Credit Agreement was approximately \$56.0 million, based on a net present value of future cash flows using a discount rate of 21.6% determined by comparable financial instruments. The Lion Warrant was recorded as a debt discount and a credit to stockholders' equity at its relative fair value of approximately \$18.7 million. At December 31, 2009, the debt, net of unamortized discount and excluding interest paid-in-kind of \$6.1 million, totaled approximately \$59.7 million, and will be accreted up to the \$80.0 million par value of the loan using the effective interest method over the term of the Lion Credit Agreement. The Lion Warrant may be exercised by Lion by paying the exercise price in cash, pursuant to "cashless exercise" of the warrant or by a combination of the two methods. The Lion Warrant contains certain anti-dilution protections in favor of Lion providing for proportional adjustment of the warrant price and, under certain circumstances, the number of shares of the Company's common stock issuable upon exercise of the Lion Warrant, in connection with, among other things, stock dividends, subdivisions and combinations and the issuance of additional equity securities of the Company at less than fair market value.

As of December 31, 2009, we had outstanding approximately \$65.6 million of second lien debt, net of discount and including accrued paid-in-kind interest, payable to Lion, and we were in compliance with all covenants and restrictions under the Lion Credit Agreement.

We lease certain equipment under capital lease arrangements expiring at various times through September 2013. The assets and liabilities under capital leases are recorded at the lower of the present values of the minimum lease payments or the fair values of the assets.

Related-party Debt:

As of December 31, 2009, we had outstanding approximately \$4.4 million of related party long-term debt payable to our CEO. The notes provide for interest at an annual rate of 6%, payable in kind, and are due in December 2012 and

January 2013. One of the notes is subordinated to the Canadian revolving credit facility.

The following is an overview of our total debt as of December 31, 2009 (dollars in thousands):

Description of Debt	Lender Name	Stated Interest Rate	December 31, 2009	Covenant Violations
Revolving credit facility	Bank of America, N.A.	(LIBOR + 4.5%)	\$ 6,249	No
Revolving credit facility (Canada)	Bank of Montreal	4.25%	—	No
Term loan from private investment firm	Lion Capital LLP	15.0%	65,593	No
Other			501	N/A
Capital lease obligations	48 individual leases ranging between \$1-\$764	From 6.1% to 19.3%	2,927	N/A
Subordinated notes payable to related parties		6.0%	4,355	N/A
Cash overdraft			3,741	N/A
Total debt			\$ 83,366	

Financial Covenants

Our credit agreements impose certain restrictions regarding capital expenditures and limit our ability to: incur additional indebtedness, dispose of assets, make repayment of indebtedness or amendments of debt instruments, pay distributions, create liens on assets and enter into sale and leaseback transactions, investments, loans or advances and acquisitions.

The BofA Credit Agreement limits our domestic subsidiaries from incurring capital expenditures of more than approximately \$18.8 million, and the Lion Credit Agreement limits us from incurring capital expenditures of more than \$27.5 million, respectively, for the year ended December 31, 2009. The BofA Credit Agreement imposes a minimum excess availability covenant, which requires us to maintain minimum excess availability of 10% of our net availability under the credit agreement. The Lion Credit Agreement contains a total debt to consolidated EBITDA ratio financial covenant, as further described within the Lion Credit Agreement, which must be maintained at a level of no more than 2.20:1.00 for the quarters ended June 30, 2009, September 30, 2009, and December 31, 2009. The maximum ratio for future quarters is described further in the credit agreement and decreases successively from the 2.20:1.00 level. Additionally, the BofA Credit Agreement and Lion Credit Agreement contain cross-default provisions, whereby an event of default occurring under one of the credit agreements would cause an event of default under the other credit agreement.

The Bank of Montreal credit facility contains a fixed charge coverage ratio, tested at the end of each month, which measures the ratio of EBITDA less cash income taxes paid, dividends paid and unfinanced capital expenditures divided by interest expense plus scheduled principal payments of long term debt, debt under capital leases, dividends, and shareholder loans and advances, for our Canadian subsidiaries, of not less than 1.25:1.00. The Bank of Montreal credit facility also restricts our Canadian subsidiaries from entering into operating leases which would lead to payments under such leases totaling more than C\$8.5 million in any fiscal year, and imposes a minimum excess availability covenant which requires our Canadian subsidiaries to maintain at all times minimum excess availability of 5% of the revolving credit commitment under the credit facility.

As of December 31, 2009, we were in compliance with all covenants and restrictions under our credit facilities. We anticipate that based on our current operating plan for the next twelve months, we will remain in compliance with the covenants under the BofA Credit Agreement, Lion Credit Agreement and the Bank of Montreal credit facility. However, we can provide no assurances that we will maintain compliance with such covenants.

We were in compliance with the covenants under the Lion Credit Agreement as of December 31, 2009 and we anticipate that based on information currently available, we will be in compliance with the same covenants as of March 31, 2010. On March 31, 2010, the Company entered into a Second Amendment to the Lion Credit Agreement, which, among other things, increased the maximum permitted ratio Total Debt to Consolidated EBITDA (as defined in the Lion Credit Agreement) for the four quarter period ending March 31, 2010 from 1.75:1.00 to 2.00:1.00 and for

the four quarter period ending June 30, 2010 from 1.70:1.00 to 1.90:1.00. The Second Amendment will enable the Company to make additional capital investments.

Future Capital Requirements

We had cash on hand of \$9.0 million at December 31, 2009. We are limited to \$18.8 million in capital expenditures, excluding non-cash property and equipment acquisitions, for fiscal 2010 for our U.S. operations, as set by restrictions in the BofA Credit Agreement, and \$27.5 million in capital expenditures as set by restrictions in the Lion Credit Agreement. Capital expenditures are primarily necessary to fund the opening of new stores and the remodeling of existing stores, and the purchase of manufacturing equipment, distribution center equipment and computer hardware and software.

Off-Balance Sheet Arrangements and Contractual Obligations

Our material off-balance sheet contractual commitments are operating lease obligations and letters of credit. These items were excluded from the balance sheet in accordance with GAAP.

Operating lease commitments consist principally of leases for our retail stores, manufacturing facilities, main distribution center and corporate office. These leases frequently include options which permit us to extend the terms beyond the initial fixed lease term. With respect to most of those leases, we intend to renegotiate the leases as they expire. Issued and outstanding letters of credit were \$9.4 million at December 31, 2009, and were related primarily to workers' compensation insurance and rent deposits. We also have capital lease obligations which consist principally of leases for our manufacturing equipment.

Contractual Obligations Summary

The following table summarizes our contractual commitments as of December 31, 2009, which relate to future minimum payments due under non-cancelable licenses, leases, revolving credit facility, long-term debt and advertising commitments. Future minimum rental payment on operating lease obligations presented below do not include any related property insurance, taxes, maintenance or other related costs required by operating leases. Operating lease rent expenses, including the related real estate taxes and maintenance costs, are included in the cost of sales and general and administrative expenses in our consolidated financial statements and amounted to approximately \$79.3 million for the year ended December 31, 2009.

Contractual Obligations	Total	Payments due by period			
		Less than 1 year	1-3 years	4-5 years	More than 5 years
Long term debt, including interest	\$ 110,648	\$9,839	\$21,600	\$78,911	\$298
Current debt, including interest	6,972	6,972	—	—	—
Capital lease obligations, including interest	3,183	2079	927	177	—
Operating lease obligations	460,033	67,610	126,432	114,095	151,896
Advertising commitments	3,567	3,567	—	—	—
Self insurance reserves	11,714	4,807	4,211	1,748	948
Total contractual obligations	\$596,117	\$94,874	\$153,170	\$194,931	\$153,142

We had approximately \$5.2 million of total gross unrecognized tax benefits, including interest. The timing of any payments which could result from these unrecognized tax benefits will depend on a number of factors, and accordingly the amount and timing of any future payments cannot be reasonably estimated. We do not expect a significant tax payment related to these benefits within the next year. Therefore, these amounts are not included in the table above.

Seasonality

We experience seasonality in our operations. Historically, sales during the second and third fiscal quarters have generally been the highest, with sales during the first fiscal quarter the lowest. This reflects the combined impact of the seasonality of our wholesale and retail sales channels. Generally, our retail sales channel has not experienced the same pronounced sales seasonality as other retailers.

Inflation

Inflation affects the cost of raw materials, goods and services used in our operations. In recent years, inflation has been modest. However, high oil costs can affect the cost of all raw materials and components. The competitive environment limits the ability of American Apparel to recover higher costs resulting from inflation by raising prices. Although we cannot precisely determine the effects of inflation on its business, we believe that the effects on revenues and operating results have not been significant. We seek to mitigate the adverse effects of inflation primarily through improved productivity and strategic buying initiatives. We do not believe that inflation has had a material impact on our results of operations for the periods presented, except with respect to payroll-related costs and other costs arising from or related to government imposed regulations.

Critical Accounting Estimates and Policies

Complete descriptions of our significant accounting policies are outlined in Note 3 of the Notes to consolidated financial statements included elsewhere in this Annual Report on Form 10-K/A. The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

Our critical accounting estimates and policies include:

- revenue recognition
- sales returns and other allowances;
- allowance for doubtful accounts;
- inventory valuation, obsolescence;
- valuation and recoverability of long-lived intangible assets including the values assigned to acquired intangible assets, goodwill, and property and equipment;
- income taxes;
- foreign currency;
- accruals for the outcome of current litigation.
- self insurance liabilities

In general, estimates are based on historical experience, on information from third party professionals and on various other sources and assumptions that are believed to be reasonable under the facts and circumstances at the time such estimates are made. On a continual basis, management reviews its estimates utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such reviews, and if deemed appropriate, those estimates are adjusted accordingly. Actual results may vary from these estimates and assumptions under different and/or future circumstances. Our management considers an accounting estimate to be critical if:

- it requires assumptions to be made that were uncertain at the time the estimate was made; and
- changes in the estimate, or the use of different estimating methods that could have been selected, could have a material impact on our consolidated results of operations or financial condition.

Revenue Recognition

We recognize product sales when title and risk of loss have transferred to the customer, there is persuasive evidence of an arrangement, the sales price is fixed or determinable and collectability is reasonably assured. Wholesale product sales are recorded at the time the product is either picked up by or shipped to the customer. Online product sales are recorded at the time the products are received by the customers. Retail store sales are recorded as revenue upon the sale of product to retail customers. Our net sales represent gross sales invoiced to customers, less certain related charges for discounts, returns, and other promotional allowances and are recorded net of sales or value added tax. Allowances provided for these items are presented in the consolidated financial statements primarily as reductions to sales and cost of sales (see “Sales Returns and Allowances” discussed below for further information).

We recognize revenues from gift cards, gift certificates and store credits as they are redeemed for product. Prior to redemption, we maintain an unearned revenue liability for gift cards, gift certificates and store credits until we are released from such liability, as we do not currently have sufficient historical evidence to recognize gift card breakage. Our gift cards, gift certificates and store credits do not have expiration dates.

Sales Returns and Allowances

We analyze sales returns in order to make reasonable and reliable estimates of product returns for our wholesale, online product sales and retail store sales based upon historical experience. We also monitor the buying patterns of the end-users of our products based on sales data received by our retail outlets. Estimates for sales returns are based on a variety of factors including actual returns based on expected return data communicated to it by customers.

Accordingly, we believe that its historical returns analysis is an accurate basis for its allowance for sales returns. As with any set of assumptions and estimates, there is a range of reasonably likely amounts that may be calculated for our allowance for sales returns above. However, we believe that there would be no significant difference in the amounts reported using other reasonable assumptions than what was used to arrive at the allowance. We regularly review the factors that influence our estimates and, if necessary, make adjustments when we believe that actual product returns and credits may differ from established reserves. Actual experience may be significantly different than our estimates due to various factors, including, but not limited to, changes in sales volume based on

consumer demand and competitive conditions. If actual or expected future returns and claims are significantly greater or lower than the allowance for sales returns established, we would record a reduction or increase to net revenues in the period in which it made such determination.

Trade Receivables and Allowance for Doubtful Accounts

Accounts receivable primarily consists of trade receivables, including amounts due from credit card companies, net of allowances. On a periodic basis, we evaluate our trade receivables and establish an allowance for doubtful accounts based on our history of past bad debt expense, collections and current credit conditions.

We perform on-going credit evaluations of our customers and adjust credit limits based upon payment history and the customer's current credit worthiness, as determined by our review of their current credit information. Collections and payments from customers are continuously monitored. We maintain an allowance for doubtful accounts, which is based upon historical experience as well as specific customer collection issues that have been identified. While such bad debt expenses have historically been within expectations and allowances established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventories

Inventories are stated at the lower of cost or market. Cost is primarily determined on the first-in, first-out ("FIFO") method. We identify potential excess and slow-moving inventories by evaluating turn rates, inventory levels and other factors. Excess quantities are identified through evaluation of inventory aging, review of inventory turns and historical sales experiences. At times however, we will purposefully engage in inventory build up at a rate that outpaces sales. This is typically done during the first and second quarters in anticipation of the peak selling season which occurs during the summer months of the second and third quarters each year. At such times, we will consider the timing of inventory buildup in order to determine whether the buildup warrants additional reserves for inventory obsolescence. If the inventory buildup occurs in advance of the selling season, management maintains the existing reserve for excess and slow-moving inventory until the peak selling season has passed and the accumulated sales data provides a better basis for an update of our management's estimate of this provision.

We have evaluated the current level of inventories considering historical sales and other factors and, based on this evaluation, have recorded adjustments to cost of goods sold to adjust inventories to net realizable value. These adjustments are estimates, which could vary significantly, either favorably or unfavorably, from actual requirements if future economic conditions, customer demand or competition differ from expectations. Other significant estimates include the allocation of variable and fixed production overheads. While variable production overheads are allocated to each unit of production on the basis of actual use of production facilities, the allocation of fixed production overhead to the costs of conversion is based on the normal capacity of our production facilities, and recognizes abnormal idle facility expenses as current period charges. Certain costs, including categories of indirect materials, indirect labor and other indirect manufacturing costs which are included in the overhead pools are estimated. We determine our normal capacity based upon the amount of direct labor minutes in a reporting period.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of Accounting Standards Update ("ASC 350"), "Intangibles—Goodwill and Other". The goodwill impairment model is a two-step process. The first step compares the fair value of a reporting unit that has goodwill assigned to its carrying value. We estimate the fair value of a reporting unit by using a discounted cash flow model. If the fair value of the reporting unit is determined to be less than its carrying value, a second step is performed to compute the amount of goodwill impairment, if any. Step two allocates the fair value of the reporting unit to the reporting unit's net assets other than goodwill. The excess of the fair value of the reporting unit over the amounts assigned to its net assets other than goodwill is considered the implied fair value of the reporting unit's goodwill. The implied fair value of the reporting unit's goodwill is then compared to the carrying value of its goodwill. Any shortfall represents the amount of goodwill impairment. We completed the annual impairment test of our goodwill as of December 31, 2009 and 2008

and determined that there was not impairment as the fair value of the reporting unit, to which goodwill was assigned, substantially exceeded the carrying value of the reporting unit.

Long-Lived Assets

We follow the provisions of ASC 360 “Property, Plant and Equipment”, which requires evaluation of the need for an impairment charge relating to long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The estimated future undiscounted cash flows associated with the asset would be compared to the asset’s carrying amount to determine if a write down to a new depreciable basis is required. If required, an impairment charge is recorded based on an estimate of future discounted cash flows.

We consider the following to be some examples of important indicators that may trigger an impairment review:

(i) significant under-performance or losses of retail stores relative to expected historical or projected future operating results; (ii) significant changes in the manner or use of the assets or in our overall strategy with respect to the manner or use of the acquired assets or changes in our overall business strategy; (iii) significant negative industry or economic trends; (iv) increased competitive pressures; (v) a significant decline in American Apparel’s stock price for a sustained period of time; and (vi) regulatory changes.

We evaluate acquired assets and our retail stores for potential impairment indicators at least annually and more frequently upon the occurrence of certain events. Judgment regarding the existence of impairment indicators is based on market conditions and operational performance of the acquired businesses. Future events could cause us to conclude that impairment indicators exist, and therefore long lived assets could be impaired. Such evaluations are significantly impacted by estimates of future revenues, costs and expenses and other factors. A significant change in cash flows in the future could result in an impairment of long lived assets. During the years ended December 31, 2009, 2008 and 2007 we recorded an impairment charge in the amount of \$3.3 million, \$0.6 million and \$0.3 million related to underperforming retail stores located in each of the U.S. Retail, Canada and International segments.

Income Taxes

We record the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in our accompanying consolidated balance sheets, as well as tax credit carrybacks and carryforwards. We periodically review the recoverability of deferred tax assets recorded on our balance sheet and provide valuation allowances as management deems necessary. Management makes judgments as to the interpretation of the tax laws that might be challenged upon an audit and cause changes to previous estimates of tax liability. In addition, we operate within multiple taxing jurisdictions and are subject to audit in these jurisdictions. In management’s opinion, adequate provisions for income taxes have been made for all years. If actual taxable income by tax jurisdiction varies from estimates, additional allowances or reversals of reserves may be necessary.

Foreign Currency

In preparing our consolidated financial statements, the financial statements of the foreign subsidiaries are translated from the functional currency, generally the local currency, into U.S. Dollars. This process results in exchange rate gains and losses, which, under the relevant accounting guidance, are included as a separate component of stockholders’ equity under the caption “Accumulated other Comprehensive Income.”

Under the relevant accounting guidance, the functional currency of each foreign subsidiary is determined based on management’s judgment and involves consideration of all relevant economic facts and circumstances affecting the subsidiary. Generally, the currency in which the subsidiary transacts a majority of its transactions, including billings, financing, payroll and other expenditures, would be considered the functional currency, but any dependency upon the parent and the nature of the subsidiary’s operations must also be considered.

If a subsidiary’s functional currency is deemed to be the local currency, then any gain or loss associated with the translation of that subsidiary’s financial statements is included in accumulated other comprehensive income. However, if the functional currency is deemed to be the U.S. Dollar, then any gain or loss associated with the re-measurement of these financial statements from the local currency to the functional currency would be included within the statement of operations. If we dispose of subsidiaries, then any cumulative translation gains or losses would be recorded into our statement of operations. If we determine that there has been a change in the functional currency of a subsidiary to the U.S. Dollar, any translation gains or losses arising after the date of change would be included within the statement of operations.

Based on an assessment of the factors discussed above, we consider the relevant subsidiary’s local currency to be the functional currency for each of our foreign subsidiaries.

Contingencies

We are subject to proceedings, lawsuits and other claims related to various matters. We assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. Management determines the amount of reserves needed, if any, for each individual issue based on its knowledge and experience and discussions with legal counsel. The required reserves may change in the future due to new developments in each matter, the ultimate resolution of each matter or changes in approach, such as a change in settlement strategy, in dealing with these matters. We currently do not believe, based upon information available at this time, that these matters will have a material adverse effect on our consolidated financial position, results of operations or cash flows. However, there is no assurance that such matters will not materially and adversely affect the Company's business, financial position, and results of operations or cash flows. See Note 16 and 21 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K/A.

Self insurance liabilities

We maintain self-insurance programs for our estimated commercial general liability risk and our estimated workers' compensation liability risk related to our manufacturing and retail operations in the United States. In addition, starting in October 2008, we have a self-insurance program for a portion of our employee medical benefits covering all employees in the United States. Under these programs, we maintain insurance coverage for losses in excess of specified per-occurrence amounts. Estimated costs under the workers' compensation program, including incurred but not reported claims, are recorded as expense based upon historical experience, trends of paid and incurred claims, and other actuarial assumptions. If actual claims trends under these programs, including the severity or frequency of claims, differ from our estimates, our financial results may be significantly impacted. Our estimated self-insurance liabilities are classified in our balance sheet as accrued expenses or other long-term liabilities based upon whether they are expected to be paid during or beyond our normal operating cycle of 12 months from the date of our consolidated financial statements. As of December 31, 2009 and 2008, our self-insurance liabilities totaled \$11.7 million and \$8.4 million, respectively.

Accounting Pronouncements-Newly Issued

See Note 3 to the consolidated financial statements contained elsewhere in this Annual Report on Form 10-K/A.

Item 7A. Quantitative and Qualitative Disclosures about Market Risks (amounts in thousands)

Our exposure to market risk is limited to interest rate risk associated with our credit facilities and foreign currency exchange risk associated with our foreign operations.

Interest Rate Risk

Based on our interest rate exposure on variable rate borrowings at December 31, 2009, a 1% increase in average interest rates on our borrowings would increase future interest expense by approximately \$5k per month. We determined this amount based on approximately \$6.2 million of variable rate borrowings at December 31, 2009. We are currently not using any interest rate collars or hedges to manage or reduce interest rate risk. As a result, any increase in interest rates on the variable rate borrowings would increase interest expense and reduce net income.

Foreign Currency Risk

The majority of our operating activities are conducted in U.S. dollars. Approximately 40.4% of our net sales for the year ended December 31, 2009 were denominated in other currencies such as Euros, British Pounds Sterling or Canadian Dollars. Nearly all of our production costs and material costs are denominated in U.S. dollars although the majority of the yarn is sourced from outside the United States. If the U.S. dollar were to appreciate by 10% against other currencies it could have a significant adverse impact on our earnings. Since an appreciated U.S. dollar makes goods produced in the United States relatively more expensive to overseas customers, other things being equal, we would have to lower our retail margin in order to maintain sales volume overseas. A lower retail margin overseas would adversely affect net income assuming sales volume remains the same. The functional currencies of our foreign operations consist of the Canadian dollar for Canadian subsidiaries, the pound Sterling for U.K. subsidiaries, the Euro for subsidiaries in Continental Europe, the Yen for the Japanese subsidiary, the Won for the South Korea subsidiary, and local currencies for any of the foreign subsidiaries not mentioned.

American Apparel, Inc.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE

	Page
Consolidated Financial Statements	
Report of Independent Registered Public Accounting Firm	26
Consolidated Balance Sheets as of December 31, 2009 and 2008	27
Consolidated Statements of Operations For the Years ended December 31, 2009, 2008 and 2007	28
Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) For the Years Ended December 31, 2009, 2008 and 2007	29
Consolidated Statements of Cash Flows For the Years Ended December 31, 2009, 2008 and 2007	30
Notes to Consolidated Financial Statements For the Years Ended December 31, 2009, 2008 and 2007	32
Financial Statement Schedule	
Schedule II—Valuation and Qualifying Accounts	58

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the
Board of Directors and Stockholders of
American Apparel, Inc.

We have audited the accompanying consolidated balance sheets of American Apparel, Inc. and Subsidiaries (the “Company”) as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders’ equity and comprehensive income (loss) and cash flows for the years ended December 31, 2009, 2008 and 2007. Our audits also included the financial statement schedule as of and for the years listed in the index at Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Apparel, Inc. and its Subsidiaries as of December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for the years ended December 31, 2009, 2008 and 2007 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 31, 2011, expressed an adverse opinion on the effectiveness of the Company’s internal control over financial reporting because of the existence of material weaknesses.

/s/ Marcum LLP

Marcum LLP

New York, NY

March 31, 2011, except for Note 22 which is May 16, 2011.

Item 8. Financial Statements and Supplementary Data

American Apparel, Inc. and Subsidiaries
 Consolidated Balance Sheets
 (Amounts in Thousands, except par value)

	December 31,	
	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash	\$9,046	\$11,368
Trade accounts receivable, net of allowances of \$1,763 and \$1,441 at December 31, 2009 and 2008, respectively	16,907	16,439
Prepaid expenses and other current assets	9,994	5,369
Inventories	141,235	148,154
Income taxes receivable	4,494	604
Deferred income taxes	4,627	3,935
Total current assets	186,303	185,869
PROPERTY AND EQUIPMENT, net	103,310	112,408
DEFERRED INCOME TAXES	12,033	10,137
OTHER ASSETS, net	25,933	25,195
TOTAL ASSETS	\$327,579	\$333,609
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Cash overdraft	\$3,741	\$2,413
Revolving credit facilities and current portion of long-term debt	6,346	34,318
Accounts payable	19,705	32,731
Accrued expenses	30,573	22,140
Income taxes payable	2,608	8,582
Current portion of capital lease obligations	1907	2,616
Total current liabilities	64,880	102,800
LONG-TERM DEBT, net of unamortized discount of \$20,537 at December 31, 2009 and none at December 31, 2008	65,997	67,050
SUBORDINATED NOTES PAYABLE TO RELATED PARTY	4,355	3,292
CAPITAL LEASE OBLIGATIONS, net of current portion	1,020	1986
DEFERRED RENT	22,052	16,011
OTHER LONG-TERM LIABILITIES	11,934	6,058
TOTAL LIABILITIES	170,238	197,197
COMMITMENTS AND CONTINGENCIES (Note 18)		
STOCKHOLDERS' EQUITY		
Preferred stock, \$.0001 par value, authorized 1,000 shares; none issued	—	—
Common stock, \$.0001 par value, authorized 120,000 shares; 72,467 shares issued and 71,033 shares outstanding at December 31, 2009 and 72,221 shares issued and 70,787 shares outstanding at December 31, 2008	7	7
Additional paid-in capital	150,449	131,252
Accumulated other comprehensive loss	(2,083	) (2,703
Retained earnings	19,012	17,900
	167,385	146,456
Less: Treasury stock, 1,434 shares at cost	(10,044	) (10,044
TOTAL STOCKHOLDERS' EQUITY	157,341	136,412

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$327,579	\$333,609
--	-----------	-----------

See accompanying notes to consolidated financial statements.

American Apparel, Inc. and Subsidiaries
Consolidated Statements of Operations
(Amounts in Thousands, except per share amounts)

	Years ended December 31,		
	2009	2008	2007
Net sales	\$558,775	\$545,050	\$387,044
Cost of sales (including share-based compensation of \$12,102 for the year ended December 31, 2008)	238,863	250,629	173,676
Gross profit	319,912	294,421	213,368
Operating expenses (including share-based compensation of \$525, \$530 and \$0 for the years ended December 31, 2009, 2008 and 2007, respectively, and related party charges of \$622, \$619 and \$6,111 for the years ended December 31, 2009, 2008 and 2007, respectively)	295,497	258,357	182,246
Income from operations	24,415	36,064	31,122
Interest expense (including related party interest expense of \$271, \$346 and \$1,633 for the years ended December 31, 2009, 2008 and 2007, respectively)	22,627	13,921	17,541
Foreign currency transaction (gain) loss	(2,920)	) 621	(722)
Other (income) expense	(220)	) 155	(980)
Income before income taxes	4,928	21,367	15,283
Income tax provision (benefit)	3,816	7,255	(195)
Net income	\$1,112	\$14,112	\$15,478
Basic earnings per share	\$0.02	\$0.20	\$0.32
Diluted earnings per share	\$0.01	\$0.20	\$0.31
Weighted average basic shares outstanding	71,026	69,490	48,890
Weighted average diluted shares outstanding	76,864	70,317	49,414
PRO FORMA COMPUTATION RELATED TO CONVERSION TO C CORPORATION FOR INCOME TAX PURPOSES (unaudited):			
Historical income before income taxes			\$15,283
Pro forma provision for income taxes			5,826
Pro forma net income			\$9,457
Pro forma Basic Earnings per share			\$0.19
Pro forma Diluted Earnings per share			\$0.19
See accompanying notes to consolidated financial statements.			

American Apparel, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)
(Amounts in Thousands)

	Number of Common Shares	Par Value Amount	Treasury Stock	Additional Paid-in Capital	Due from Stockholders	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders Equity	Comprehensive Income (Loss)
BALANCE, January 1, 2007	48,390	\$5	\$—	\$6,197	\$ (553)	\$ 361	\$6,963	\$ 12,973	
Outstanding shares of the Registrant at time of reverse merger dated December 12, 2007	19,933	2	—	121,587	—	—	—	121,589	
Buy out of Sang Ho Lim	(11,132)	(1)	—	(67,902)	—	—	—	(67,903)	
Repayment of stockholders advances	—	—	—	—	553	—	—	553	
Distributions to stockholders	—	—	—	(15,764)	—	—	(6,383)	(22,147)	
Reclass deferred merger costs	—	—	—	(1,003)	—	—	—	(1,003)	
Imputed interest on stockholder loans	—	—	—	577	—	—	—	577	
Capitalization of undistributed S Corporation earnings	—	—	—	12,270	—	—	(12,270)	—	
Exercise of warrants	200	—	—	1,200	—	—	—	1,200	
Cashless exercise of underwriters unit purchase options	204	—	—	—	—	—	—	—	
Net income	—	—	—	—	—	—	15,478	15,478	\$ 15,478
Foreign currency translation, net of tax	—	—	—	—	—	504	—	504	504
BALANCE, December 31, 2007	57,595	6	—	57,162	—	865	3,788	61,821	\$ 15,982
Exercise of Warrants	13,521	1	—	65,617	—	—	—	65,618	

Edgar Filing: AMERICAN APPAREL, INC - Form 10-K/A

Purchase of treasury stock	—	—	(10,044)	—	—	—	—	(10,044)	
Issuance of common stock for stock-based compensation, net of payroll tax withholding	1,105	—	—	7,452	—	—	—	7,452	
Issuance of warrants	—	—	—	1,021	—	—	—	1,021	
Net income	—	—	—	—	—	—	14,112	14,112	\$ 14,112
Foreign currency translation, net of tax	—	—	—	—	—	(3,568)	—	(3,568)	(3,568)
BALANCE, December 31, 2008	72,221	7	(10,044)	131,252	—	(2,703)	17,900	136,412	\$ 10,544
Issuance of common stock for stock-based compensation	246	—	—	525	—	—	—	525	
Issuance of warrants	—	—	—	18,672	—	—	—	18,672	
Net income	—	—	—	—	—	—	1,112	1,112	\$ 1,112
Foreign currency translation, net of tax	—	—	—	—	—	620	—	620	620
BALANCE, December 31, 2009	72,467	\$7	\$(10,044)	\$150,449	\$—	\$(2,083)	\$19,012	\$157,341	\$1,732

See accompanying notes to consolidated financial statements.

American Apparel, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Amounts in Thousands)

	For the Years ended December 31,		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$559,089	\$544,062	\$386,931
Cash paid to suppliers, employees and others	(488,858)	(501,469)	(373,653)
Income taxes paid	(16,901)	(11,351)	(3,247)
Interest paid, net of capitalized interest	(8,609)	(12,194)	(17,533)
Other	482	(162)	1,006
Net cash provided by (used in) operating activities	45,203	18,886	(6,496)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(20,889)	(66,365)	(21,137)
Purchase of net assets under business acquisition	—	(3,500)	(1,600)
Net cash used in investing activities	(20,889)	(69,865)	(22,737)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash overdraft from financial institution	1,307	(288)	(1,212)
(Repayment) borrowings under revolving credit facility, net	(43,590)	1,381	(2,659)
Deferred financing costs paid	(5,003)	(4,139)	(1,630)
Distribution to stockholders, net	—	—	(21,594)
Proceeds from exercise of warrants	—	65,619	1,200
Purchase of treasury stock	—	(10,044)	—
Repurchase of common stock for payment of payroll statutory tax withholding on stock-based compensation	—	(5,174)	—
Cash acquired in reverse Merger	—	—	123,000
Buy out of Sang Ho Lim	—	—	(67,903)
Payment of merger-related costs	—	—	(1,003)
Borrowings of subordinated notes payable to related party	4,000	2,500	4,732
Repayments under subordinated notes payable to related party	(3,250)	(4,580)	(7,164)
Borrowings under notes payable to unrelated parties	—	966	2,118
Repayment under notes payable to unrelated parties	—	(1,336)	(8,288)
Repayment of subordinated note payable to unrelated party	—	—	(14,201)
Borrowings under term loans and notes payable, net of \$5,000 discount	75,074	—	51,386
Repayment of term loans and notes payable	(51,183)	—	(8,685)
Repayment of capital lease obligations	(2,826)	(3,734)	(3,567)
Net cash (used in) provided by financing activities	(25,471)	41,171	44,530
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	(1,165)	1,884	215
NET (DECREASE) INCREASE IN CASH	(2,322)	(7,924)	15,512
CASH, beginning of period	11,368	19,292	3,780
CASH, end of period	\$9,046	\$11,368	\$19,292
See accompanying notes to consolidated financial statements.			

American Apparel, Inc. and Subsidiaries
Consolidated Statements of Cash Flows—(Continued)
(Amounts in Thousands)

	Years ended December 31,		
	2009	2008	2007
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Net income	\$1,112	\$14,112	\$15,478
Depreciation and amortization of property and equipment and other assets	28,151	20,844	13,306
Amortization of debt discount and deferred financing costs	7,713	1,030	583
Loss on disposal of property and equipment	246	—	—
Foreign currency transaction (gain) loss	(2,920)	) 621	(722)
Allowance for inventory shrinkage and obsolescence	1,184	1,731	
Imputed interest on stockholder loans	—	—	577
Accrued interest – paid in kind	6,312	—	—
Retail store impairment charges	3,343	644	252
Stock-based compensation expense	525	12,625	—
Bad debt expense (recovery)	572	598	(313)
Deferred income taxes	(3,704)	) (6,212)	) (6,913)
Deferred rent	5,908	7,746	2,594
Changes in cash due to changes in operating assets and liabilities:			
Trade accounts receivables	(258)	) (816)	) (499)
Inventories	9,485	(48,092)	) (21,621)
Prepaid expenses and other current assets	(4,874)	) (376)	) (2,298)
Other assets	(1,246)	) (9,083)	) (2,297)
Accounts payable	(10,297)	) 15,197	(16,893)
Accrued expenses and other liabilities	13,853	6,196	8,503
Income taxes receivable/payable	(9,902)	) 2,121	3,767
Net cash provided by (used in) operating activities	\$45,203	\$18,886	\$(6,496)
NON-CASH INVESTING AND FINANCING ACTIVITIES			
Property and equipment acquired under a capital lease	\$1,151	\$1,092	\$4,614
Property and equipment acquired and included in accounts payable	\$764	\$2,285	\$1,058
Liabilities assumed under Endeavor Acquisition	\$—	\$—	\$1,411
Reclassification of advances to stockholders	\$—	\$—	\$553
Issuance of common stock	\$525	\$12,625	\$—
Issuance of warrants to lender	\$18,672	\$1,021	\$—
See accompanying notes to consolidated financial statements.			

American Apparel, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Amounts and Shares in Thousands, except per share amounts)

For the Years Ended December 31, 2009, 2008 and 2007

1. Organization and Business

American Apparel, Inc. and its subsidiaries (collectively, “the Company”) is a vertically-integrated manufacturer, distributor, and retailer of branded fashion basic apparel. The Company sells its products through the wholesale distribution channel supplying t-shirts and other casual wear to distributors and screen printers, as well as direct to customers through its retail stores located in the United States and internationally. In addition, the Company operates an online retail e-commerce website. At December 31, 2009, the Company operated a total of 281 retail stores in the United States, Canada and 18 other countries.

American Apparel, Inc. (the “Registrant”) was incorporated in Delaware on July 22, 2005 as Endeavor Acquisition Corporation, a blank check company formed to serve as a vehicle for the acquisition of an operating business. The Registration Statement for the Registrant’s initial public offering (“Offering”) was declared effective December 15, 2005. The Registrant consummated the Offering on December 21, 2005 and received net proceeds of approximately \$113,500. In January 2006, the underwriter exercised the overallotment option generating an additional \$8,840 of net proceeds. Substantially all of the net proceeds of the Offering were intended to be generally applied toward consummating a business combination with an operating company. American Apparel (defined below) was subsequently identified as this operating company.

On December 18, 2006, the Registrant entered into an agreement and plan of reorganization (“Agreement”) by which it ultimately acquired American Apparel. On November 6, 2007, the Registrant entered into an amended Acquisition Agreement (“Amended Agreement”) with American Apparel whereby American Apparel, Inc. (“AA”), American Apparel Canada Wholesale Inc. and American Apparel Canada Retail Inc. (collectively “CI Companies”) became wholly owned subsidiaries of the Registrant. Upon the completion of the merger with AA and CI Companies on December 12, 2007, the Registrant changed its name to American Apparel, Inc. AA and CI Companies are collectively referred to as “American Apparel” and the consolidated entity, including the Registrant, is collectively referred to as the “Company.” For accounting purposes, this business combination (“Merger”) has been treated as a reverse merger. See Note 22 - Subsequent Events on relevant information occurring subsequent to the original filing.

2. Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of American Apparel, Inc. and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated upon consolidation.

3. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The most significant estimates include: revenue recognition; sales returns and allowances; allowance for doubtful accounts; inventory valuation and obsolescence; valuation and recoverability of long-lived assets, including the values assigned to property and equipment, intangible assets and goodwill; contingencies, including accruals for the outcome of current litigation and self-insurance liabilities; income taxes; and foreign currency.

On a regular basis, management reviews its estimates utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such reviews, and if deemed appropriate, those

estimates are adjusted accordingly. Actual results could differ from those estimates.

Classification and Adjustments

During 2009, the Company corrected the presentation of certain accounts and transactions in its historical financial statements as of December 31, 2008 and for the two years ended December 31, 2008, as follows:

Workers' compensation reserves—Prior to this change, the Company's workers' compensation reserves were reported as current liabilities. However, due to the long-term nature of workers' compensation claims, which can extend over a period of years, the Company determined that the portion of reserves related to these claims that are expected to be paid beyond the Company's normal operating cycle, or 12 months after the date of the consolidated financial statements, should be classified as long-term liabilities. As a result, the Company reclassified \$5,181 of workers' compensation reserves from accrued expenses, as previously reported, to other long-term liabilities on the consolidated balance sheet as of December 31, 2008. The Company also reclassified the \$2,078 of deferred income tax asset balances related to the accrued workers' compensation reserves from current deferred income tax assets to noncurrent deferred income tax assets on the consolidated balance sheet as of December 31, 2008. These reclassifications had no effect on the Company's previously reported operating income, net income or cash flows, and the balance sheet reclassifications were not material to any previously reported consolidated financial statements.

Current portion of deferred rent liability—Prior to the change, the Company's entire deferred rent liability was classified as a long-term liability. However, the portion of deferred rent which is due within the 12 months from the date of the consolidated financial statements should be classified as a short-term obligation. As a result, \$1,032 of deferred rent liability was reclassified from deferred rent in non-current liabilities, as previously reported, to accrued expenses on the consolidated balance sheet as of December 31, 2008. This reclassification also resulted in a reclassification of \$385 from a noncurrent deferred income tax asset to a current deferred income tax asset. These reclassifications did not impact the Company's previously reported operating income, net income or cash flows, and the balance sheet reclassifications were not material to any previously reported consolidated financial statements.

Foreign income taxes—The Company reclassified income tax payments expected to be received by certain international subsidiaries from the respective countries' taxing authority. These amounts had previously been netted against income taxes payable related to other federal, state, and international taxes as of December 31, 2008. As a result, \$604 has been reclassified from income taxes payable to income taxes receivable on the consolidated balance sheet as of December 31, 2008. This reclassification had no effect on the Company's previously reported operating income, net income or cash flows, and it is not considered material to any previously reported consolidated financial statements.

Unrecognized tax benefits—Prior to the change, the Company recognized the unrecognized tax benefits as a current income tax payable. However, the Company has reclassified \$877 from current income taxes payable, as previously reported, to other long-term liabilities on the consolidated balance sheet as of December 31, 2008. This change had no effect on the Company's previously reported operating income, net income or cash flows, and it is not considered material to any previously reported consolidated financial statements.

Operating and investing cash flows—The Company previously did not exclude the unpaid capital expenditures recorded in accounts payable from its cash flows related to the changes in accounts payable or its capital expenditures. The Company reclassified the reported consolidated statements of cash flows for the years ended December 31, 2009 and 2008 to reflect an increase of \$2,285 and \$(1,058), respectively, in cash provided by (used in) operating activities and cash used in investing activities, respectively. This reclassification had no effect on the Company's previously reported operating income or net income and consolidated balance sheets and it is not considered material to any previously reported consolidated financial statements.

Manufacturing salaries—The Company reclassified its previously reported consolidated statement of operations for the year ended December 31, 2008 and 2007 to reflect a reclassification of \$4,694 and \$2,105, respectively, of operating expenses to cost of sales. This reclassified certain costs charged to general and administrative accounts which consisted of activities to support the manufacturing operations of the Company. This reclassification had no effect on the Company's previously reported operating income or net income and consolidated balance sheets and it is not considered material to any previously reported consolidated financial statements.

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

The following table presents the effects of these reclassifications on the Company's previously reported consolidated balance sheet, statement of operations and statement of cash flows as of December 31, 2008, for the year ended December 31, 2008 and for the years ended December 31, 2008 and 2007, respectively:

	As of December 31, 2008		
	As Reported	Reclassifications	As Revised
Assets			
Income taxes receivable	\$—	\$ 604	\$604
Deferred income taxes—current	\$5,628	\$ (1,693)	\$3,935
Total current assets	\$186,958	\$ (1,089)	\$185,869
Deferred income taxes—noncurrent	\$8,444	\$ 1,693	\$10,137
Total Assets	\$333,005	\$ 604	\$333,609
Liabilities and Stockholders' Equity			
Accrued expenses	\$26,289	\$ (4,149)	\$22,140
Income taxes payable	\$8,855	\$ (273)	\$8,582
Total current liabilities	\$107,222	\$ (4,422)	\$102,800
Deferred rent—long-term	\$17,043	\$ (1,032)	\$16,011
Other long-term liabilities	\$—	\$ 6,058	\$6,058
Total Liabilities	\$196,593	\$ 604	\$197,197
Total Liabilities and Stockholders' Equity	\$333,005	\$ 604	\$333,609
Year ended December 31, 2008			
	As Reported	Reclassifications	As Revised
Statement of Operations			
Cost of sales	\$245,935	\$ 4,694	\$250,629
Gross profit	\$299,115	\$ (4,694)	\$294,421
Operating expenses	\$263,051	\$ (4,694)	\$258,357
Statement of Cash Flows			
Cash provided by (used in) operating activities:			
Cash paid to suppliers, employees and others	\$(499,184)	\$ (2,285)	\$(501,469)
Amortization of debt discount and deferred financing costs	\$—	\$ 1,030	\$1,030
Accounts payable	\$17,482	\$ (2,285)	\$15,197
Other assets	\$(8,053)	\$ (1,030)	\$(9,083)
Net cash provided by (used in) operating activities	\$21,171	\$ (2,285)	\$18,886
Cash used in investing activities:			
Capital expenditures	\$(68,650)	\$ 2,285	\$(66,365)
Net cash used in investing activities	\$(72,150)	\$ 2,285	\$(69,865)
Year ended December 31, 2007			
	As Reported	Reclassifications	As Revised
Statement of Operations			
Cost of sales	\$171,571	\$ 2,105	\$173,676
Gross profit	\$215,473	\$ (2,105)	\$213,368
Operating expenses	\$184,351	\$ (2,105)	\$182,246
Statement of Cash Flows			
Cash provided by (used in) operating activities:			
Cash paid to suppliers, employees and others	\$(372,595)	\$ (1,058)	\$(373,653)
Amortization of debt discount and deferred financing costs	\$—	\$ 583	\$583
Accounts payable	\$(15,835)	\$ (1,058)	\$(16,893)
Other assets	\$(1,714)	\$ (583)	\$(2,297)
Net cash provided by (used in) operating activities	\$(5,438)	\$ (1,058)	\$(6,496)
Cash used in investing activities:			
Capital expenditures	\$(22,195)	\$ 1,058	\$(21,137)

Net cash used in investing activities	\$ (23,795)	\$ 1,058	\$ (22,737)
---------------------------------------	--------------	----------	--------------

Concentration of Credit Risk

Financial instruments which potentially subject the Company to credit risk consist primarily of cash (the amounts of which may, at times, exceed Federal Deposit Insurance Corporation limits on insurable amounts) and trade accounts receivable (including credit card receivables), relating substantially to the Company's U.S. Wholesale segment. The Company mitigates its risk by investing through major financial institutions. The Company had approximately \$7,500 and \$7,675 held in foreign banks at December 31, 2009, and 2008, respectively.

The Company performs on-going credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current credit worthiness, as determined by the review of their current credit information. The Company also maintains an insurance policy for certain customers based on a customer's credit rating and established limits. Collections and payments from customers are continuously monitored. As of December 31, 2009, two customers accounted for 24.7% (16.4% and 8.3%) of the Company's total accounts receivables and 33.6% (22.4% and 11.2%) of the Company's U.S. Wholesale segment accounts receivables. The Company maintains an allowance for doubtful accounts, which is based upon historical experience and specific customer collection issues that have been identified. While bad debt expenses have historically been within expectations and allowances established, the Company cannot guarantee that it will continue to experience the same credit loss rates that it has in the past.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets of companies acquired. Goodwill and other intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of Accounting Standards Codification ("ASC") ASC 350 – Intangibles – Goodwill and Other Intangible Assets. The Company's annual impairment test date is December 31. The goodwill impairment model is a two-step process. The first step compares the fair value of a reporting unit that has goodwill assigned to its carrying value. The Company estimates the fair value of a reporting unit by using a discounted cash flow model. If the fair value of the reporting unit is determined to be less than its carrying value, a second step is performed to compute the amount of goodwill impairment, if any. Step two allocates the fair value of the reporting unit to the reporting unit's net assets other than goodwill. The excess of the fair value of the reporting unit over the amounts assigned to its net assets other than goodwill is considered the implied fair value of the reporting unit's goodwill. The implied fair value of the reporting unit's goodwill is then compared to the carrying value of its goodwill. Any shortfall represents the amount of goodwill impairment. The Company has not had any goodwill impairment.

Other intangible assets consist of deferred financing costs (amortized over the term of the applicable debt facility) and key money, broker and finder fees and lease rights (amortized over the life of the respective lease).

Impairment of Long-Lived Assets

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write down to a new depreciable basis is required. If required, an impairment charge is measured by the difference between the carrying value and the estimated fair value of the assets, with such estimated fair values generally determined using the discounted future cash flows of the assets using a rate that approximates the Company's weighted average cost of capital. The Company considers the following to be some examples of important indicators that may trigger an impairment review:

(i) significant under-performance or losses of retail stores relative to expected historical or projected future operating results; (ii) significant changes in the manner or use of the assets or in our overall strategy with respect to the manner or use of the acquired assets or changes in the Company's overall business strategy; (iii) significant negative industry or economic trends; (iv) increased competitive pressures; (v) a significant decline in American Apparel's stock price for a sustained period of time; and (vi) regulatory changes. The Company evaluates acquired assets and its retail stores for potential impairment indicators at least annually and more frequently upon the occurrence of such events.

The key assumptions used in management's estimates of projected cash flow at its retail stores deal largely with forecasts of sales levels, gross margins, and payroll costs. These forecasts are typically based on historical trends and take into account recent developments as well as management's plans and intentions. Any difficulty manufacturing or sourcing product on a cost effective basis would significantly impact the projected future cash flows of the Company's

retail stores and potentially lead to an impairment charge for long-lived assets. Other factors, such as increased competition or a decrease in the desirability of the Company's products, could lead to lower projected sales levels, which would adversely impact cash flows.

A significant change in cash flows in the future could result in an impairment of long lived assets. For the years ended December 31, 2009, 2008 and 2007, the Company recognized impairment charges of \$3,343, \$644 and \$252, respectively, on assets to be held and used. The impairment charges, which primarily related to leasehold improvements and key money of

certain U.S. and International retail stores, are included in operating expenses in the accompanying consolidated statements of operations.

Fair Value Measurements

The Company's financial instruments are primarily composed of cash, accounts receivable (including credit card receivables), accounts payable, revolving credit borrowings, term loan, related party debt and foreign currency forward exchange contracts. The fair value of cash and cash equivalents, accounts receivable, accounts payable and revolving credit borrowings closely approximates their carrying value due to their short maturities. The fair value of the term note is estimated using a discounted cash flow analysis (see Note 12). It is not however, practical to determine the fair value of the subordinated notes payable to our CEO due to their related party nature.

The valuation techniques required by ASC 820—"Fair Value Measurements and Disclosures", are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect internal market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related asset or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of assets or liabilities.

ASC 820 requires the use of observable market inputs (quoted market prices) when measuring fair value and requires Level 1 quoted price to be used to measure fair value whenever possible.

The fair value of indefinite-lived assets, which consists exclusively of goodwill, is measured on a non-recurring basis in connection with the Company's annual goodwill impairment test. The fair value of the reporting unit to which goodwill has been assigned, is determined using a projected discounted cash flow analysis based on unobservable inputs including gross profit, discount rate, working capital requirements, capital expenditures, depreciation and terminal value assumptions and are classified within Level 3 of the valuation hierarchy. The Company completed the annual impairment test of its goodwill as of December 31, 2009 and 2008 and determined that there was not impairment as the fair value of the reporting unit, to which goodwill was assigned, substantially exceeded the carrying value of the reporting unit.

Web Site Development

The Company capitalizes applicable costs incurred during the application and infrastructure website development stage and expenses costs incurred during the planning and operating stage. As of December 31, 2009 and 2008, the Company had capitalized website development costs of \$423 and \$697, respectively, which are included in property and equipment in the accompanying consolidated balance sheets.

Self-insurance accruals

The Company self-insures a significant portion of expected losses under workers' compensation and healthcare benefits programs. Estimated costs under the workers' compensation program, including incurred but not reported claims, are recorded as expense based upon historical experience, trends of paid and incurred claims, and other actuarial assumptions. If actual claims trends under these programs, including the severity or frequency of claims, differ from our estimates, our financial results may be significantly impacted. Our estimated self-insurance liabilities are classified in our balance sheet as accrued expenses or other long-term liabilities based upon whether they are expected to be paid during or beyond our normal operating cycle of 12 months from the date of our consolidated financial statements. Estimated costs under the healthcare program are based on estimated losses for claims incurred, but not paid at the end of the period. Funding is made directly to the providers and/or claimants by the insurance company.

Income Taxes

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company estimates the degree to which tax assets and credit carryforwards will result in a benefit based on expected profitability by tax jurisdiction. A valuation allowance for such tax assets and loss carryforwards is provided when it is determined that such amounts will more likely than not go unrealized. If it becomes more

likely than not that a tax asset will be realized, any related valuation allowance of such assets would be reversed. Management makes judgments as to the interpretation of the tax laws that might be challenged upon an audit and cause changes to previous estimates of tax liability. In addition, the Company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. In management's opinion, adequate provisions for income taxes have been made for all years. If actual taxable income by tax jurisdiction varies from estimates, additional allowances or reversals of reserves may be necessary.

The Company's foreign domiciled subsidiaries are subject to foreign income taxes on earnings in their respective jurisdictions. The Company elected to have their foreign subsidiaries, except for its subsidiaries in Brazil, Canada, China, Spain, Italy and Ireland, consolidated in the Company's U.S. federal income tax return. The Company will generally be eligible to receive tax credits on its U.S. federal income tax return for most of the foreign taxes paid. The Company accounts for uncertain tax positions in accordance with ASC 740—"Income Taxes", and gross unrecognized tax benefits at December 31, 2009 and December 31, 2008 are included in other long-term liabilities in the accompanying consolidated balance sheets. The Company accrues interest and penalties, if incurred, on unrecognized tax benefits as components of the income tax provision in the accompanying consolidated statements of operations. As a result of the Merger, AA was required to convert from a Subchapter S Corporation to a C Corporation as of the Closing on December 12, 2007. As a Subchapter S Corporation, U.S. federal and certain state income taxes were the responsibility of the Company's stockholders and these income taxes are not reflected in the Company's 2007 financial statements. As a result of the conversion, the Company recognized deferred tax assets and liabilities from the expected tax consequences of temporary differences between the book and tax basis of our assets and liabilities at the date of conversion into a C Corporation. This resulted in a deferred tax benefit of \$6,205 being recognized and recorded as a component of the income tax benefit for the fiscal year ended December 31, 2007 in the accompanying consolidated statement of income.

The unaudited pro forma computation of income tax included in the consolidated statements of operations, represents the tax effects that would have been reported had the Company been subject to U.S. federal and state income taxes as a corporation for the year ended December 31, 2007. Pro forma taxes are based upon the statutory income tax rates and adjustments to income for estimated permanent differences occurring during each period. Actual rates and expenses could have differed had the Company actually been subject to U.S. federal and state income taxes for all periods presented. Therefore, the unaudited pro forma amounts are for informational purposes only and are intended to be indicative of the results of operations had the Company been subject to U.S. federal and state income taxes as a corporation for the year ended December 31, 2007.

Contingencies

Certain conditions may exist as of the date the consolidated financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, and an estimate of the range of possible losses, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed. Management does not believe, based upon information available at this time, that these matters will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows. However, there is no assurance that such matters will not materially and adversely affect the Company's business, financial position, and results of operations or cash flows.

Revenue Recognition

The Company recognizes product sales when title and risk of loss have transferred to the customer, there is persuasive evidence of an arrangement, the sales price is fixed or determinable and collectability is reasonably assured.

Wholesale product sales are recorded at the time the product is either picked up by or shipped to the customer. Online product sales are recorded at the time the product is received by the customer. Retail store sales are recorded as revenue upon the sale of product to retail

customers. The Company's net sales represent gross sales invoiced to customers, less certain related charges for discounts, returns, and other promotional allowances, and are recorded net of sales or value added tax. Allowances provided for these items are presented in the consolidated financial statements primarily as reductions to sales and cost of sales (see "Sales Returns and Other Allowances" discussed below for further information).

The Company recognizes revenue from gift cards, gift certificates and store credits as they are redeemed for product. Prior to redemption, the Company maintains an unearned revenue liability for gift cards, gift certificates and store credits until the Company is released from such liability and does not reduce such liability for breakage as the Company's gift cards, gift certificates and store credits do not have expiration dates and the Company does not have sufficient historical evidence to estimate breakage. The unearned revenue for gift cards, gift certificates and store credits are recorded in accrued expenses in the accompanying consolidated balance sheets in the amount of \$4,387 and \$2,672 at December 31, 2009 and 2008, respectively.

Sales Returns and Allowances

The Company analyzes sales returns in accordance with ASC 605 – "Revenue Recognition." The Company is able to make reasonable and reliable estimates of product returns for its wholesale, online product sales and retail store sales based on the Company's past history. The Company also monitors the buying patterns of the end-users of its products based on sales data received by its retail outlets. Estimates for sales returns are based on a variety of factors including actual returns and expected return data communicated to it by customers. Accordingly, the Company believes that its historical returns analysis is an accurate basis for its allowance for sales returns. Actual results could differ from those estimates.

Shipping and Handling Costs

The company incurs shipping and handling costs in its operations and accounts for such costs in accordance with ASC 605 – "Revenue Recognition". These costs consist primarily of freight expenses incurred for third-party shippers to transport products to its retail stores and distribution centers and to its wholesale and online retail customers. These costs are included in cost of sales and amounts billed to customers for shipping are included in net sales in the accompanying consolidated statements of operations.

Deferred Rent, Rent Expense and Tenant Allowances

The Company occupies its retail stores and combined corporate office, manufacturing, and distribution center under operating leases generally with terms of one to ten years. Some leases contain renewal options for periods ranging from five to fifteen years under substantially the same terms and conditions as the original leases. Many of the store leases require payment of a specified minimum rent, a contingent rent based on a percentage of the store's net sales in excess of a specified threshold, plus defined escalating rent provisions. The Company recognizes its minimum rent expense on a straight-line basis over the term of the lease (including probable lease renewals), plus the construction period prior to occupancy of the retail location, using a mid-month convention. Also included in rent expense are payments of real estate taxes, insurance and certain common area and maintenance costs in addition to the future minimum operating lease payments. Certain lease agreements provide for the Company to receive lease inducements or tenant allowances from landlords to assist in the financing of certain property. These inducements are recorded as a component of deferred rent and amortized as a reduction of rent expense over the term of the related lease.

Advertising, Promotion and Catalog

The Company expenses the production costs of advertising the first time the advertising takes place. Advertising expenses for the years ended December 31, 2009, 2008 and 2007 amounted to \$10,547, \$18,392 and \$12,765, respectively, and are included in operating expenses in the accompanying consolidated statements of operations. The Company has cooperative advertising arrangements with certain vendors in its U.S. wholesale segment. For the years ended December 31, 2009, 2008 and 2007, cooperative advertising expenses were \$285, \$258, and \$377, respectively.

Pre-Opening Costs

The Company expenses as incurred all retail store start-up and organization costs, including travel, training, recruiting, salaries and other operating costs.

Share-Based Compensation

The Company accounts for its share-based compensation in accordance with ASC 718 – "Compensation – Stock Compensation." Accordingly, the Company recognizes compensation expense equal to the fair value of vested stock

awards at the time of the grant as the awards generally do not require a service period.

Foreign Currency Forward Exchange Contracts

The Company follows the provisions of ASC 820, as amended, which require the recognition of derivative instruments in the balance sheet as either an asset or liability measured at its fair value. Changes in the fair value of derivatives are to be recorded each period in comprehensive income, if the derivative is designated and effective as part of a hedge accounting transactions, or in earnings if the derivative does not qualify for hedge accounting. The Company's foreign currency forward exchange contracts do not qualify for hedge accounting and, accordingly, adjustments to fair value are recorded in foreign currency transactions (gain) loss in the consolidated statements of operations.

The Company enters into forward contracts to mitigate the cash and statement of operations impact of fluctuations in foreign currencies. At December 31, 2009 the Company did not hold any forward exchange contracts. At December 31, 2008, the Company held forward exchange contracts to purchase an aggregate notional amount of U.S. \$1,700 to hedge forecasted purchases of inventory in U.S. dollars. At December 31, 2008, the fair value of the forward contracts, based on quoted market rates (level 1 in the fair value hierarchy), was \$110 and is included in prepaid expenses and other current assets on the accompanying consolidated balance sheets.

Preferred stock

At December 31, 2009, 2008 and 2007, the Company was authorized to issue 1,000 shares of preferred stock with a par value of \$0.0001 with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors. There were no shares issued or outstanding at December 31, 2009, 2008 or 2007. Shares may be issued in one or more series.

Earnings per Share

The Company presents earnings per share ("EPS") in accordance with ASC 260 – "Earnings per Share". ASC 260 requires dual presentation of basic and diluted EPS. Basic EPS includes no dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS includes the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

The effect of the Merger has been given retroactive application in the EPS calculation (see Note 1, Organization and Business). The common stock issued and outstanding with respect to the pre-Merger stockholders of the Registrant has been included in the EPS calculation since the closing date of the Merger. All of the Registrant's outstanding warrants which were issued in the initial public offering of Endeavor Acquisition Corp. and underwriter's purchase option are reflected in the diluted EPS calculation, using the treasury stock method, commencing with the closing date of the Merger.

The impact of one million shares of common stock underlying the SOF Warrant (see Note 11) is excluded from the EPS calculation because the effect would be anti-dilutive.

The Company's net income for the periods presented in the accompanying consolidated statement of operations is available to the common stockholders. The following provides a reconciliation of weighted average shares outstanding used in calculating EPS for the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
Weighted average shares outstanding used in basic EPS	71,026	69,490	48,890
Dilutive effect of warrants and underwriters purchase option	5,838	827	524
Weighted average shares outstanding for diluted EPS	76,864	70,317	49,414

For the year ended December 31, 2009, the Company had 1,000 and 16,000 shares of common stock underlying the SOF Investments, L.P. – Private IV and Lion Warrants (as defined in Note 17), respectively.

See Note 22 - Subsequent Events on relevant information occurring subsequent to the original filing.

Comprehensive Income

In accordance with ASC 220 – "Comprehensive Income", the Company is required to display comprehensive income and its components as part of its complete set of financial statements. Comprehensive income represents the change in stockholders' equity resulting from transactions other than stockholder investments and distributions. Included in

accumulated other comprehensive loss are changes in equity that are excluded from the Company's net income, specifically, unrealized gains and

losses on foreign currency translation adjustments.

A reconciliation of comprehensive income for the years ended December 31, 2009, 2008 and 2007 is as follows:

	2009	2008	2007
Net income, as reported	\$1,112	\$14,112	\$15,478
Foreign currency translation adjustments, net of tax	620	(3,568)	) 504
Comprehensive income	\$1,732	\$10,544	\$15,982

Accounting Standards Updates

In June 2009, the Financial Accounting Standards Board (FASB) issued its final Statement of Financial Accounting Standards (SFAS) No. 168 – The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162. SFAS No. 168 made the FASB Accounting Standards Codification (the “Codification”) the single source of U.S. GAAP used by nongovernmental entities in the preparation of financial statements, except for rules and interpretive releases of the SEC under authority of federal securities laws, which are sources of authoritative accounting guidance for SEC registrants. The Codification is meant to simplify user access to all authoritative accounting guidance by reorganizing U.S. GAAP pronouncements into roughly 90 accounting topics within a consistent structure; its purpose is not to create new accounting and reporting guidance. The Codification supersedes all existing non-SEC accounting and reporting standards and was effective for the Company beginning in 2009. Following SFAS No. 168, FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead, it will issue Accounting Standards Updates. The FASB will not consider Accounting Standards Updates (“ASC”) as authoritative in their own right; these updates will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification. In the description of Accounting Standards Updates that follows, references in “*italic*” relate to Codification Topics and Subtopics, and their descriptive titles, as appropriate.

4. Completed Merger

Upon the Merger, Dov Charney, a 50% owner of AA’s Common Stock and 100% owner of CI Companies’ common stock and current Chief Executive Office of the Company received from the Registrant 37,258 shares of its common stock in exchange for his ownership interest in AA and CI Companies. The other 50% owner of AA’s Common Stock, Sang Ho Lim, received \$67,903 for his ownership interest, the equivalent of 11,132 shares of common stock.

Immediately prior to the closing of the Merger (“the Closing”), the Registrant had 19,933 shares of Common stock outstanding with a net tangible book value of \$121,589, net of \$5,494 of transaction costs. The net tangible book value consisted of cash of \$123,000, a tax liability of \$1,406 and accrued expenses of \$5. The net cash proceeds were used as follows: \$67,903 was paid to Sang Ho Lim, \$15,764 was paid to Dov Charney and Sang Ho Lim as a Company distribution to settle their estimated personal income tax liabilities as a result of AA’s subchapter S Corporation status, \$13,323 was used to repay related party and third party debt, and \$26,010 was available for working capital.

At the Closing, 8,064 shares of the Company’s common stock issued to Dov Charney were placed in escrow until the later of (a) December 12, 2008, the date of the first anniversary of the Closing and (b) the thirtieth day after the date that the Company files its Annual Report on Form 10-K for the year ended December 31, 2007 (which report was filed March 17, 2008), as a fund for the payment of indemnification claims that may be made by the Company as a result of any breaches of AA’s covenants, representations and warranties in the Agreement and certain lawsuits to which AA is a party. The Company’s right to bring a claim for indemnification expired on December 12, 2008 and those shares are no longer subject to the escrow.

Pursuant to the Agreement, the Company and Dov Charney entered into a registration rights agreement to provide Dov Charney certain rights relating to the registration of shares of the Company’s common stock that he received in connection with the Merger. Under the registration rights agreement, Dov Charney is afforded both demand and piggyback registration rights.

Basis of Presentation and Accounting Treatment of the Merger

The Merger has been accounted for as a “reverse merger” and recapitalization, since the majority stockholder of American Apparel owns a majority of the outstanding shares of the common stock of the Company immediately following the completion of the Merger. American Apparel was the accounting acquirer and, consequently, the Merger was treated as a recapitalization of American Apparel. Accordingly, the assets and liabilities and the historical operations that are reflected in these consolidated financial statements are those of American Apparel and are recorded at the historical cost basis of American

Apparel. The Registrant's assets and liabilities are consolidated as of December 12, 2007 and are recorded at their net tangible book value; the Registrant's results of operations are consolidated with American Apparel commencing December 12, 2007.

Additionally, AA and CI Companies were under common control since each of the entities' inception. In conjunction with the Merger, the two entities were consolidated in a manner similar to a pooling of interests. Accordingly, AA and CI Companies were consolidated retroactively to the earliest period presented, using the historical cost basis of each entity.

In the consolidated statement of stockholders' equity and comprehensive income (loss), in addition to reflecting the common control merger retroactive to the earliest period presented, the recapitalization of the number of shares of common stock attributable to the American Apparel stockholders is also reflected retroactive to the earliest period presented. Accordingly, the number of shares presented as outstanding as of the earliest period presented (January 1, 2007) total 48,390, consisting of the 37,258 issued to Dov Charney, and the 11,132 equivalent number of shares assigned to Sang Ho Lim. Sang Ho Lim's shares were determined by dividing the \$67,903 (\$121,589/19,933) he received in cash by the \$6.10 net tangible book value per share of the Registrant as of the Closing. These shares were also used to calculate the Company's earnings (loss) per share for all periods prior to the Merger.

5. Business Acquisitions

On December 1, 2007 the Company entered into an agreement with an unrelated third party to assume a lease and purchase all of the assets of a garment sewing, dyeing and finishing plant. Purchase of these assets added garment dyeing capability to the Company's production process. The purchase included the assumption of the lease for the facility as well as the purchase of all of the tangible personal property at the plant. The Company accounted for this acquisition under the purchase method of accounting. Under the purchase method the total purchase price has been allocated to the tangible assets acquired, based upon their estimated fair values. These consolidated financial statements include the results of operations of this business since December 1, 2007.

The purchase price of the garment sewing, dyeing and finishing equipment amounted to \$1,600. The Company made payments totaling \$1,600 to the unrelated third party during December 2007.

On May 9, 2008 the Company completed an asset acquisition with an unrelated third party to assume a lease and purchase all of the assets of a fabric dyeing and finishing plant. The purchase included the assumption of the lease for the facility as well as the purchase of all of the tangible personal property at the plant. The Company paid \$3,500 for the assumption of the lease and purchase of machinery and equipment. The asset acquisition was accounted for under the purchase method of accounting. The cost to acquire these assets was allocated to the respective assets and liabilities acquired based on their estimated fair values at the closing date.

At December 31, 2008, the allocation of the cost to acquire these assets was as follows:

Property and equipment	\$2,918
Goodwill	956
Total assets acquired	3,874
Total liabilities assumed	374
Net assets acquired	\$3,500

Pro-forma financial information is not provided for these acquisitions as their impact was not material individually or in the aggregate to the Company's consolidated statements of operations.

6. Inventories

The components of inventories at December 31 are as follows:

	2009	2008
Raw materials	\$19,506	\$41,648
Work in process	1,475	1,450
Finished goods	120,254	105,056
	\$141,235	\$148,154

Inventories are stated at the lower of cost or market. Cost is primarily determined on the first-in, first-out (FIFO) method.

The cost elements of inventories include materials, labor and overhead. For the years ended December 31, 2009, 2008 and 2007, no one supplier provided more than 10% of the Company's raw material purchases.

The Company identifies potentially excess and slow-moving inventories by evaluating turn rates, inventory levels and other factors. Excess quantities are identified through evaluation of inventory aging, review of inventory turns and historical sales experiences. The Company provides lower of cost or market reserves for such identified excess and slow-moving inventories. At December 31, 2009 and 2008, the Company had a lower of cost or market reserve for excess and slow-moving inventories of \$3,116 and \$2,498, respectively.

The Company establishes a reserve for inventory shrinkage for each of its retail locations. The reserve is based on the historical results of physical inventory cycle counts. The Company has a reserve for inventory shrinkage in the amount of \$1,686 and \$1,120 at December 31, 2009 and 2008, respectively.

7. Property and Equipment

The components of property and equipment at December 31 are as follows:

	2009	2008	Depreciation and Amortization Period (Years)
Machinery and equipment	\$41,231	\$38,556	5-7 years
Furniture and fixtures	34,356	28,408	5 years
Computers and software	24,627	19,520	3-5 years
Automobiles and light trucks	1,221	1,176	3 years
Leasehold improvements	82,565	72,840	Shorter of the life of lease or useful life
Buildings	557	2,550	25 years
Construction in progress	1933	3,861	
	186,490	166,911	
Accumulated depreciation and amortization	(83,180)	(54,503)	
Total	\$103,310	\$112,408	

Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets. The costs of normal maintenance and repairs are charged to expense in the year incurred. Expenditures which significantly improve or extend the life of an asset are capitalized and depreciated over the asset's remaining useful life. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the estimated useful lives of the related assets or the lease term. Upon sale or disposition, the related cost and accumulated depreciation are removed from the Company's financial statements and the resulting gain or loss, if any, is reflected in income from operations. Property plant and equipment acquired are recorded as construction in progress until placed in-service, at which time the asset is reclassified to the appropriate asset category and depreciation commences.

For the years ended December 31, 2009, 2008, and 2007 depreciation and amortization expense relating to property and equipment (including capitalized leases) was \$28,151, \$20,197 and \$13,033, respectively. At December 31, 2009 and 2008, property and equipment includes \$12,167 and \$11,370, for machinery and equipment held under capital leases, respectively. Accumulated amortization for these capital leases at December 31, 2009 and 2008 was \$11,639 and \$6,921, respectively.

The Company identified indicators of impairment present at certain retail stores within its U.S. Retail and International segments, specifically, the significant under-performance or loss of retail stores relative to expected historical or projected future operating results. Accordingly, the Company performed a recoverability test and an impairment test on these stores and determined, based on key assumptions used in the estimates of projected cash flow at these retail stores mainly with forecasts of sales levels, gross margins, and payroll costs. These forecasts were based on historical trends and take into account recent developments as well as the Company's plans and intentions. As such, the results of an undiscounted cash flow and discounted cash flow analysis (level 3 in the fair value hierarchy), respectively, that the fair value of the assets at 19 retail stores was less than their carrying value at December 31, 2009.

The Company recorded an impairment charge relating primarily to certain retail store leasehold improvements in the U.S. Retail and International segments of \$3,343, \$644 and \$252 for the years ended December 31, 2009, 2008 and 2007, respectively, as a component of operating expenses in the consolidated statements of operations to reduce the assets carrying value to their estimated fair value.

See Note 22 - Subsequent Events on relevant information occurring subsequent to the original filing.

8. Goodwill, Intangible Assets and Other Assets

Goodwill of \$1,906 is assigned to the U.S. wholesale segment and is related to the acquisition of American Apparel Dyeing & Finishing, Inc. on June 2, 2005 and American Apparel Garment and Dyeing, Inc. on May 9, 2008. The carrying amount of goodwill was not impaired during the years ended December 31, 2009 and 2008.

The net carrying amounts of definite and indefinite lived intangible assets and other assets at December 31 are as follows:

	2009	2008
Deferred financing costs	\$7,431	\$5,058
Broker and finder fees	1,763	1,656
Lease rights	2,372	1,774
Key money store leases	2,216	2,736
Gross amortizable intangible assets	13,782	11,224
Accumulated amortization	(3,476)	(1,138)
Total net amortizable intangible assets	10,306	10,086
Goodwill	1906	1906
Workers compensation deposit	1,364	314
Other	1,443	1,605
Lease security deposits	10,914	11,284
Total	\$25,933	\$25,195

Deferred financing costs represent costs incurred in connection with the issuance of certain indebtedness and were capitalized as deferred costs and are being amortized over the term of the related indebtedness. The Company incurred related amortization expense of \$5,054, \$1,030 and \$583 for the years ended December 31, 2009, 2008 and 2007, respectively, which is recorded to interest expense.

Lease rights are costs incurred to acquire the right to lease a specific property. A majority of our lease rights are related to premiums paid to landlords. Lease rights are recorded at cost and are amortized over the term of the respective leases. Property lease terms are generally for ten years.

Key money is the amount of funds paid to a landlord or tenant to acquire the rights of tenancy under a commercial property lease for a certain property. Key money represents the “right to lease” with an automatic right of renewal. This right can be subsequently sold by the Company or can be recovered should the landlord refuse to allow the automatic right of renewal to be exercised. Key money is amortized over the respective lease terms.

Aggregate amortization expense of intangible assets and other assets (excluding deferred financing costs) is included in operating expenses in the consolidated statements of operations for the years ended December 31, 2009, 2008 and 2007 and was approximately \$1,100, \$647 and \$273, respectively.

As of December 31, 2009, estimated amortization expense of deferred financing costs, broker and finder fees, lease rights and key money for each of the five succeeding years is as follows:

	Amount
2010	\$2,643
2011	2,553
2012	1,872
2013	1,365
2014	373

9. Accrued Expenses

The components of accrued expenses at December 31 are as follows:

	2009	2008
Accrued compensation, bonuses and related taxes	\$7,604	\$5,571
Workers' compensation and other self-insurance reserves	4,807	3,252
Sales, value and property taxes	2,603	2,494
Gift cards / store credits	4,387	2,672
Other	11,172	8,151
Total	\$30,573	\$22,140

10. Revolving Credit Facilities and Current Portion of Long-Term Debt

Revolving credit facilities and current portion of long-term debt at December 31 consists of the following:

	2009	2008
Revolving credit facility, maturing July 2012 (a)	\$6,249	\$49,401
Revolving credit facility, due on demand (b)	—	409
Current portion of long-term debt (see Note 11)	97	482
Amounts refinanced on long-term basis (a)	—	(15,974)
Total revolving credit facilities and current portion of long-term debt	\$6,346	\$34,318

The Company incurred interest charges of \$22,627, \$13,921 and \$17,541 for the years ended December 31, 2009 and 2008, and 2007 respectively, for all outstanding borrowings and \$701 was capitalized to leasehold improvements under construction at the Company's retail stores for the year ended December 31, 2009. The interest charges subject to capitalization for the years ended December 31, 2008 and 2007 was not significant.

See Note 22 - Subsequent Events on relevant information occurring subsequent to the original filing.

The Company has a revolving credit facility of \$75,000 with Bank of America, N.A. (“BofA” and the “BofA Credit Agreement”) subject to certain advance restrictions based on eligible inventory and accountsreceivable. The BofA Credit Agreement was to expire on March 21, 2009, the date thirty days prior to the April 20, 2009 maturity date of the loan agreement with SOF Investments, L.P. – Private IV (“SOF” and the “SOF Credit Agreement”), as discussed in Note 11, unless the SOF Credit Agreement was refinanced on terms acceptable to BofA. On March 13, 2009, the SOF Credit Agreement was refinanced with Lion Capital (Guernsey) II Limited (“Lion”). In connection with this refinancing, the BofA Credit Agreement was amended (the “Ninth Amendment”) to, among other things: (i) consent to the Lion Credit Agreement, (ii) permit certain repayments of promissory notes to our CEO and (iii) fix the maturity date at July 2, 2012. Borrowings under the BofA Credit Agreement are subject to certain advance provisions established by BofA and are collateralized by substantially all of the Company’s assets.

(a) Interest under the BoA Credit agreement is at the London Interbank Offered Rate (“LIBOR”) (0.25% at December 31, 2009) plus 4.5% or BofA’s prime rate (which rate can in no event be lower than LIBOR plus 4.5% per annum and was 3.25% at December 31, 2009) plus 2.5%, at the Company’s option. At December 31, 2009 and 2008, the Company had \$9,381 and \$9,360, respectively, of outstanding letters of credit secured against the BofA Credit Agreement. Available borrowing capacity at December 31, 2009 and 2008 was \$41,200 and \$12,142, respectively.

Significant covenants included in the BofA Credit Agreement, as amended, include limiting the Company’s capital expenditures for the combined U.S. Wholesale and U.S. Retail segments to \$18,834 for fiscal 2009. The Company’s actual capital expenditures for the combined U.S. Wholesale and U.S. Retail segments were \$15,742. The Company was in compliance with all required covenants at December 31, 2009.

Among other provisions, the BofA Credit Agreement contains certain subjective acceleration clauses and requires that the Company maintain an arrangement similar to a traditional lockbox, and is therefore classified as a current liability. On March 13, 2009, the Company entered into the Lion Credit Agreement (see Note 11). Approximately \$15,974 of the proceeds of the loans made under the Lion Credit Agreement was used by the Company to reduce the outstanding revolver balance under the BofA Credit Agreement. Accordingly, \$15,974 of the revolver balance under the BofA Credit Agreement outstanding as of December 31, 2008 was reclassified to long-term debt.

(b) As of December 31, 2009, American Apparel Canada Wholesale Inc. and American Apparel Canada Retail Inc. (collectively the “CI Companies”), wholly owned subsidiaries of the Company, had a line of credit with Bank of Montreal (the “Bank of Montreal Credit Agreement”), that provided for borrowings up to C\$11,000 due on demand with a fixed maturity date at December 30, 2012, bearing interest at the bank’s prime rate (2.25% at December 31, 2009) plus 2.00% per annum payable monthly. This line of credit is secured by moveable hypothecs, which provide for a charge on the CI Companies’ accounts receivable, inventory and certain other moveable assets and by certain sections the Bank Act of Canada on inventory. Available borrowing capacity at December 31, 2009 was C\$11,000.

The credit agreement contains various covenants which require the CI Companies to maintain certain financial ratios and commitments as defined by the bank. The Company was in compliance with all required covenants at December 31, 2009.

11. Long-Term Debt

The components of long-term debt at December 31 are as follows:

	2009	2008
--	------	------

Edgar Filing: AMERICAN APPAREL, INC - Form 10-K/A

Long-term debt with Lion including accrued interest paid-in-kind of \$6,130 and net of unamortized discount of \$20,537 (a)(b)	\$65,593	\$—
Long-term debt with SOF, retired March 2009 (a)	—	51,000
Revolving credit facility portion refinanced on a long-term basis (b)	—	15,974
Other	501	558
Total long-term debt	66,094	67,532
Less current portion of debt	97	482
Long-term debt, net of current portion	\$65,997	\$67,050

See Note 22 - Subsequent Events on relevant information occurring subsequent to the original filing.

As of December 31, 2008, the Company had a term loan agreement with SOF in the amount of \$51,000. Indebtedness under the SOF Credit Agreement bore interest at 16% per annum, payable monthly and was to mature on April 20, 2009. The SOF loan was fully repaid on March 13, 2009 from the proceeds of a term loan with Lion. As a result of the early extinguishment of the SOF term loan, the Company wrote off \$1,112 of unamortized deferred financing costs, which was included as a component of interest expense in the accompanying consolidated statement of operations. The outstanding term loan balance of \$51,000 at December 31, 2008 was reflected as a long-term liability in the accompanying consolidated balance sheet, as amounts were refinanced on a long-term basis.

- (a) The covenants included in the SOF Credit Agreement were substantially similar to the covenants included in the BofA Credit Agreement (see footnote (a) in Note 10). The Company amended the SOF Credit Agreement nine times, most recently on December 19, 2008 to extend the maturity date of the loan. In connection with the ninth amendment, the Company paid SOF a fee of \$2,550, which was capitalized as a deferred financing cost and fully amortized during the first quarter of 2009, and issued to SOF a warrant (the "SOF Warrant") to purchase 1,000 shares of Company common stock at an initial exercise price of \$3.00 per share, subject to adjustments in certain circumstances. As a result of the issuance of the Lion Warrant, the exercise price of the SOF Warrant was adjusted to \$2.816 per share (see Note 17).

- (b) On March 13, 2009, the Company entered into an \$80,000 term loan with Lion (the "Lion Credit Agreement"). Pursuant to the Lion Credit Agreement, Lion made term loans to the Company in an aggregate principal amount equal to \$80,000, of which \$5,000 of such loans constituted a fee paid by the Company to Lion in connection with the Lion Credit Agreement. The term loans under the Lion Credit Agreement mature on December 31, 2013 and bear interest at a rate of 15% per annum, payable quarterly in arrears. At the Company's option, accrued interest may be paid (i) entirely in cash, (ii) paid half in cash and half in kind, or (iii) entirely in kind. The Company's obligations under the Lion Credit Agreement are secured by a second lien on substantially all of the assets of the Company. The Lion Credit Agreement is subordinated to the BofA Credit Agreement and contains customary representations and warranties, events of default, affirmative covenants and negative covenants (which impose restrictions and limitations on, among other things, dividends, investments, asset sales, capital expenditures and the ability of the Company to incur additional debt and liens) and a total leverage ratio financial maintenance covenant. The Company is permitted to prepay the loans in whole or in part at any time at its option, with no prepayment penalty. At March 31, 2009 and December 31, 2009, the Company paid all accrued interest on this loan in cash while on June 30, 2009 and September 30, 2009, the Company paid all accrued interest in kind on this loan in the amount of \$2,992 and \$3,138, respectively. At December 31, 2009, the Company was in compliance with all required covenants under the Lion Credit Agreement.

Approximately \$51,294 of the proceeds of the loans made under the Lion Credit Agreement was used by the Company to repay in full all outstanding principal and interest due under the SOF Credit Agreement. The remaining proceeds were used to repay \$3,250 of loans owed by the Company to its CEO, to pay fees and expenses of \$4,276 that were capitalized as deferred financing costs and included in other assets in the accompanying consolidated balance sheet, and to reduce the outstanding revolver balance under the BofA Credit Agreement by \$15,974. Accordingly, \$15,974 of the revolver balance under the BofA Credit Agreement outstanding has been refinanced on a long-term basis and as of December 31, 2008 was reclassified to long-term debt.

In connection with the loans under the Lion Credit Agreement, the Company issued the Lion Warrant (see Note 17). The Company allocated the cash received from the Lion Credit Agreement between debt and warrants based on their relative fair values. The relative fair value of the debt under the Lion Credit Agreement was approximately \$56,328, based on a net present value of future cash flows using a discount rate of 21.6% determined by comparable financial instruments. The Lion Warrant was recorded as a debt discount and a

credit to stockholders' equity at its relative fair value of approximately \$18,672. At December 31, 2009, the debt, net of unamortized discount and excluding interest paid-in-kind of \$6,130, totaled approximately \$59,463, and will be accreted up to the \$80,000 par value of the loan using the effective interest method over the term of the Lion Credit Agreement. The Lion Warrant may be exercised by Lion by paying the exercise price in cash, pursuant to "cashless exercise" of the warrant or by a combination of the two methods. The Lion Warrant contains certain anti-dilution protections in favor of Lion providing for proportional adjustment of the warrant price and, under certain circumstances, the number of shares of the Company's common stock issuable upon exercise of the Lion Warrant, in connection with, among other things, stock dividends, subdivisions and combinations and the issuance of additional equity securities of the Company at less than fair market value.

We were in compliance with the covenants under the Lion Credit Agreement as of December 31, 2009 and we anticipate that based on information currently available, we will be in compliance with the same covenants as of March 31, 2010. On March 31, 2010, the Company entered into a Second Amendment to the Lion Credit Agreement, which, among other things, increased the maximum permitted ratio Total Debt to Consolidated EBITDA (as defined in the Lion Credit Agreement) for the four quarter period ending March 31, 2010 from 1.75:1.00 to 2.00:1.00 and for the four quarter period ending June 30, 2010 from 1.70:1.00 to 1.90:1.00. The Second Amendment will enable the Company to make additional capital investments.

12. Fair Value of Financial Instruments

The fair value of the term loans with Lion is measured on a recurring basis, in accordance with ASC 820 – “Fair Value Measurements and Disclosures”, with fair value determined using a discounted cash flow analysis and a yield rate that was estimated using yield rates for publicly traded debt instruments of comparable companies with similar features. The carrying amount and fair value of the Company’s term loans with Lion is presented below as of December 31, 2009:

	Carrying Amount	Fair Value
Long-term debt, net of discount of \$20,537 and including interest paid-in-kind of \$6,130 (level 2 in the fair value hierarchy)	\$ 65,593	\$ 79,889

Non-financial assets recorded at fair value on a non-recurring basis, relating to property and equipment, are discussed in Notes 3 and 7.

13. Subordinated Notes Payable to Related Party

At December 31, 2009 and 2008, the Company had outstanding loans payable to its CEO of \$4,355 and \$3,292, respectively. These loans bear interest at 6% and are due at various dates between December 2012 and January 2013. On February 10, 2009, our CEO loaned the Company an additional \$4,000 in exchange for a promissory note. In connection with the Lion Credit Agreement entered into during March 2009, the Company repaid \$3,250 of the outstanding loans payable to its CEO. For the years ended December 31, 2009, 2008 and 2007 interest expense related to these loans was \$271, \$346 and \$277, respectively.

See Note 22 - Subsequent Events on relevant information occurring subsequent to the original filing, specifically on the conversion of these notes to equity.

14. Capital Lease Obligations

The Company leases certain equipment under capital lease arrangements expiring at various times through 2013. The assets and liabilities under capital leases are recorded at the lower of the present values of the minimum lease payments or the fair values of the assets. The interest rates pertaining to these capital leases range from 6.1% to 19.3% (average interest rate is 11.2%).

Minimum future payments under these capital leases at December 31, 2009 are:

Year Ending December 31	
2010	\$2,079
2011	568
2012	359
2013	177
Total future minimum lease payments	3,183
Less: amount representing interest	(256)
Net minimum lease payments	2,927
Current portion	1907
Long-term portion	\$1,020

See Note 22 - Subsequent Events on relevant information occurring subsequent to the original filing.

15. Income Taxes

For financial reporting purposes, income before income taxes includes the following components for the years ended December 31, 2009, 2008 and 2007

	2009	2008	2007
United States	\$(4,237)	\$4,610	\$968
Foreign	9,165	16,757	14,315
	\$4,928	\$21,367	\$15,283

Income tax provision for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Current:			
Federal	\$(88)	\$2,198	\$92
State	2,219	1,500	641
Foreign	5,642	7,192	5,985
	7,773	10,890	6,718
Deferred:			
Federal	(3,406)	(2,579)	(5,619)
State	(197)	(987)	(1,231)
Foreign	(354)	(69)	(63)
	(3,957)	(3,635)	(6,913)
Income tax provision (benefit)	\$3,816	\$7,255	\$(195)

The following is a reconciliation of taxes at the U.S. federal statutory rate and the effective tax rate for the years ended December 31:

	2009	2008	2007
Taxes at the statutory federal tax rate of 35%	\$1,725	\$7,478	\$5,349
Reduced federal tax rate for S Corporations	—	—	(5,124)
State tax, net of federal benefit	482	(7,817)	(3,467)
Change in valuation allowance	1,598	8,132	3,765
Change in tax rates due to conversion to C Corporation	—	980	(6,205)
Federal general business tax credits	(1,937)	(829)	—
Domestic production deduction	130	(495)	—
Foreign taxes	482	(266)	5,461
Uncertain tax positions	1,436	—	—
Other	(100)	72	26
Total income tax provision (benefit)	\$3,816	\$7,255	\$(195)

As a result of the Merger, the Company was required to change from a Subchapter S Corporation to a C Corporation as of the Closing on December 12, 2007. Accordingly the Company was required to recognize deferred tax assets and liabilities from the expected tax consequences of temporary differences between the book and tax basis of the Company's assets and liabilities

at the date of the Merger. This resulted in a one-time deferred tax benefit of \$6,205 being recognized during the year ended December 31, 2007. Upon filing the 2007 tax returns during 2008 the Company determined the deferred tax asset recorded at December 31, 2007 should have been \$5,225, resulting in an adjustment to the current provision for income taxes aggregating \$980 for the year ended December 31, 2008.

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

Deferred tax assets and liabilities consist of the following as of December 31:

	2009	2008
Deferred tax assets:		
Allowance for doubtful accounts	\$695	\$563
Deferred rent	8,611	6,675
Accrued workers' compensation	3,901	2,980
Inventories	6,682	3,788
Accrued liabilities	3,451	620
Federal and California tax credits	20,979	18,859
Foreign currency translation loss	1,139	1948
Foreign tax credits	2,740	—
Other	1941	702
Total gross deferred tax assets	50,139	36,135
Less, valuation allowance	(20,457)	(18,859)
Net deferred tax assets	29,682	17,276
Deferred tax liabilities:		
Prepaid expenses	(3,170)	(1,580)
Fixed assets	(9,852)	(1,576)
Other	—	(48)
Total gross deferred tax liabilities	(13,022)	(3,204)
Net deferred tax assets and liabilities	\$16,660	\$14,072

At December 31, 2009, the Company has state net operating loss carryforwards of \$686 expiring in 2018 and foreign net operating loss carryforwards of \$3,229 with expiration dates starting in 2013 (certain foreign loss carryforwards do not expire). At December 31, 2009, the Company has available California state tax credit carryforwards of \$19,675 that may be utilized to offset future California tax liabilities arising in designated enterprise zone areas. The California state tax credits do not expire. The Company currently provides tax benefit for the California state tax credits as they are utilized. Management has determined that it is more likely than not that the tax credits will be unrealized due to the Company's ability to generate substantial credits in excess of credits utilized on an annual basis. Therefore, the Company has provided valuation allowances of \$19,675 and \$18,859 against the unused California credit carryforwards for the years ended December 31, 2009 and December 31, 2008, respectively.

On January 1, 2007, the Company adopted ASC 740-10 related to the accounting for uncertain tax positions and as a result of the adoption, the Company did not recognize any additional liabilities.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2009	2008	2007
Gross unrecognized tax benefits at January 1	\$937	\$611	\$—
Increases for tax positions in prior periods	4,052	—	—
Increases for tax positions in current period	385	326	611
Decreases for tax positions in current period	(236)	—	—
Gross unrecognized tax benefits at December 31	\$5,138	\$937	\$611

Included in the balance of unrecognized tax benefits at December 31, 2009, 2008 and 2007 are \$1,195, \$0 and \$0, respectively, of tax benefits that, if recognized, would affect the effective tax rate.

The Company's uncertain tax positions are related to tax years that remain subject to examination by the relevant taxing authorities. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the calendar years ended December 31, 2006 through December 31, 2009. During 2008 the Company concluded an Internal Revenue Service audit of the 2005 calendar year tax return. There was no material impact to the Company as a result of the audit. The Company concluded an audit during 2009 in Germany for 2004 through 2007.

The audit resulted in a tax charge of \$117 recorded in the provision for income taxes for the year ended December 31, 2009. The Company is being audited by the

Canadian Revenue Agency (“CRA”) for the years ended December 31, 2005 through December 31, 2007. In connection with the audit, the CRA issued a proposed adjustment disallowing certain management fees. The Company is being audited by the California Franchise Tax Board for the years ended December 31, 2007 and 2008. Until formal resolutions are reached between the Company and tax authorities, the determination of a possible audit settlement range with respect to the impact on unrecognized tax benefits is not practicable. The Company and its subsidiaries’ state and foreign tax returns are open to audit under similar statute of limitations for the calendar years ended December 31, 2005 through December 31, 2009. It should be noted that through December 12, 2007, the Company was taxed as an S corporation in the United States and thereafter is taxed as a C corporation in the United States. The gross unrecognized tax benefits at December 31, 2009 and 2008 are included in other long-term liabilities. The classification of current or noncurrent is dependent on the time period in which the Company expects the underlying issues to be resolved or the statute of limitations to expire. The Company accrues interest on unrecognized tax benefits as a component of income tax expense. Penalties, if incurred, would be recognized as a component of income tax expense. During 2009, the Company accrued \$521 of interest and \$155 of penalties which are included in the accrued liabilities associated with unrecognized tax benefits. No accrual of interest and penalties was made for 2008. The Company does not provide for U.S. Federal income taxes on the undistributed earnings (\$12,318 at December 31, 2009) of its controlled foreign corporations which are considered permanently invested outside of the U.S. See Note 22 - Subsequent Events on relevant information occurring subsequent to the original filing.

16. Related Party Transactions

See “Note 13 – Subordinated Notes Payable to Related Party” for a description of the loans made by the Chief Executive Officer to the Company.

Agreements between our CEO and Lion

In connection with the Lion Credit Agreement and the Investment Agreement, dated March 13, 2009 (as amended, the “Investment Agreement”), our CEO and Lion entered into a voting agreement, dated as of March 13, 2009 (the “Investment Voting Agreement”). Pursuant to the Investment Voting Agreement, for so long as Lion has the right to designate any person or persons to the Board of Directors, our CEO has agreed to vote his shares of common stock in favor of Lion’s designees, provided that our CEO’s obligation to so vote terminates if he owns less than 6,000 shares of common stock (which number will be adjusted appropriately to take into account any stock split, reverse stock split or similar transaction). In addition, pursuant to the Investment Voting Agreement, for so long as Lion has the right to designate any person or persons to the Board of Directors, Lion has agreed to vote its shares of common stock in favor of our CEO, provided that Lion’s obligation to so vote terminates if either (i) our CEO beneficially owns less than 27,900 shares of common stock (which number will be adjusted appropriately to take into account any stock split, reverse stock split or similar transaction) or (ii) (A) our CEO is no longer employed on a full-time basis by the Company or any subsidiary of the Company and (B) our CEO is in material breach of the non-competition and non-solicitation covenants contained in the Acquisition Agreement (as defined below), as extended by a letter agreement, dated March 13, 2009, between our CEO and Lion.

In connection with the Lion Credit Agreement and the Investment Agreement, our CEO also agreed to extend the lock-up agreement, dated as of December 12, 2007, pursuant to which our CEO agreed not to make certain transfers of the 37,258 shares of common stock that he received pursuant to the Amended and Restated Agreement and Plan of Reorganization, dated as of November 7, 2007 (as it may be hereafter amended, supplemented or modified from time to time, the “Acquisition Agreement”), by and among the Company, American Apparel (USA), LLC (f/k/a AAI Acquisition LLC), a California limited liability company, American Apparel, Inc., a California corporation, American Apparel, LLC, a California limited liability company, the CI Companies, our CEO, each of the stockholders of the CI Companies (with respect to certain provisions of the Acquisition Agreement) and Sang Ho Lim (with respect to certain provisions of the Acquisition Agreement) from December 12, 2010 to December 31, 2013 (the “Extension Period”). However, the Extension Period will terminate upon the earliest to occur of the following events (the “Trigger Events”): (i) (A) Lion and its affiliates beneficially own less than 4,000 shares of Common Stock issued or issuable upon exercise of the Lion Warrant and (B) the loans made pursuant to the Lion Credit Agreement have been repaid in full, (ii) our CEO’s employment is terminated by the Company “without cause” or (iii) our CEO terminates his

employment with the Company for “good reason” (the terms “without cause” and “good reason” having the respective meanings set forth in his employment agreement, dated as of December 12, 2007, as it may be hereafter amended, supplemented or modified from time to time, between our CEO and the Company). Notwithstanding the foregoing, during the Extension Period, in addition to any other transfers permitted prior to the Extension Period, our CEO will have the right to transfer, in a single transaction or in multiple transactions from time to time, a number of shares of common stock otherwise subject to the lock-up agreement not to exceed 25% of the total number of shares of common stock in which our CEO has a legal or beneficial interest as of December 12, 2010.

In connection with the Lion Credit Agreement and the Investment Agreement, our CEO also entered into a letter agreement, dated March 13, 2009, with the Company and Lion to extend, with respect to our CEO only, the time period applicable to the non-competition and non-solicitation covenants contained in Section 5.27(a) of the Acquisition Agreement from December 12, 2011 to December 31, 2013, provided that such extension period will terminate upon the earliest to occur of the Trigger Events described above.

On October 28, 2009, the Company entered into a letter agreement among the Company, our CEO, and Lion, under which the Company and Lion agreed that notwithstanding restrictions on our CEO's ability to transfer shares of the Company's common stock that are subject to the lock-up agreement, dated December 12, 2007, our CEO has the right to pledge his right, title and interest in, to and under, in a single transaction or in multiple transactions, at any time and from time to time, an aggregate of up to 5,000 of such shares.

See Note 22 - Subsequent Events on the conversion of these notes to equity.

Personal Guarantees by the Company's CEO

The CEO of the Company has personally guaranteed the obligations of American Apparel under various property leases, including:

- New York store at 712 Broadway, New York, NY for up to approximately \$820 in aggregate obligations;
- New York store at 183 E. Houston St., New York, NY for up to approximately \$420 in aggregate obligations;
- New York store at 1090 Third Ave., New York, NY for up to approximately \$202 in aggregate obligations;
- Chicago store at 1563 N. Milwaukee Ave., Chicago, IL for up to approximately \$16 in aggregate obligations; and
- Los Angeles store at 6922 Hollywood Blvd., Los Angeles, CA for up to approximately \$1,800 in aggregate obligations (equally and jointly guaranteed by the Company and our CEO).

Lease Agreement Between the Company and a Related Party

In December 2005, the Company entered into an operating lease, which commenced on November 15, 2006, for its knitting facility with a related company ("American Central Plaza, LLC"), which is partially owned by the CEO and the Chief Manufacturing Officer ("CMO") of the Company. The Company's CEO holds an 18.75% ownership interest in American Central Plaza, LLC, while the CMO holds a 6.25% interest. The remaining members of American Central Plaza, LLC are not affiliated with the Company. The lease expires in November 2011, with a five year extension, at the option of the Company. Rent expense related to this lease was \$622, \$619 and \$598 for the years ended December 31, 2009, 2008 and 2007, respectively.

Payments to Morris Charney

Morris Charney, father of our CEO ("Mr. M. Charney"), serves as Sole Director, President, Secretary and Treasurer of American Apparel Canada Wholesale Inc. and Sole Director, President and Secretary of American Apparel Canada Retail Inc. Day to day operations of these two Canadian subsidiaries are handled by other employees of these subsidiaries, none of whom performs any policy making functions for the Company. Management of American Apparel sets the policies for American Apparel and its subsidiaries as a whole. Mr. M. Charney provided the initial funding for the founding of American Apparel, Inc., a California corporation ("Old American Apparel"), in 1998, as well as subsequent additional financing. Such amounts were repaid by the Company during 2007. In February 2008, Mr. M. Charney was paid a onetime discretionary bonus of C\$1,000 out of the bonus pool that had been set up under the Acquisition Agreement in recognition of Mr. M. Charney providing of initial funding for the founding of Old American Apparel. Mr. M. Charney does not perform any policy making functions for the Company or any of its subsidiaries. Instead, Mr. M. Charney only provides architectural consulting services primarily for stores located in Canada and, in limited cases, in the U.S. Mr. M. Charney was paid architectural consulting fees amounting to C\$192, C\$199 and C\$146 for the years ended December 31, 2009, 2008 and 2007, respectively.

Bonus and other Payments to the CEO

The Company's employment agreement with our CEO provides for the payment of a target bonus of 150% of his annual base salary subject to certain terms and conditions. In April 2009, the Compensation Committee of the Board of Directors, after consultations with its retained compensation consultants, determined that it would be appropriate to award the CEO a discretionary bonus of \$1,125, which was equal to the target level of 150% of his 2008 annual base salary, for his services for the year ended December 31, 2008. No bonus was accrued at December 31, 2008. Prior to the date that the Compensation Committee approved such bonus, the CEO advised the Compensation Committee that,

in light of the Company's stock price performance in 2008, he would prefer that the Compensation Committee reduce his proposed 2008 bonus to \$250 for his service for the year ended December 31, 2008. This bonus was recorded in operating expenses in the accompanying consolidated statement of operations for the year ended December 31, 2009. During the year ended December 31, 2009, the

Company accrued and expensed \$1,124, related to the bonus that the CEO has earned for his services provided during the year ended December 31, 2009. During the year ended December 31, 2007, the Company paid management fees to the CEO of \$5,302.

See Note 22 - Subsequent Events on relevant information occurring subsequent to the original filing.

17. Share-Based Compensation and Warrants

On December 12, 2007, the stockholders approved the 2007 Performance Equity Plan (as amended, the "2007 Plan"). The 2007 Plan authorizes the granting of a variety of incentive awards, the exercise or vesting of which would allow up to an aggregate of 11,000 shares of the Company's common stock to be acquired by the holders of such awards. The purpose of the 2007 Plan is to enable the Company to offer its employees, officers, directors and consultants whose past, present and/or potential contributions to the Company has been, are or will be important to the success of the Company, an opportunity to acquire a proprietary interest in the Company. The 2007 Plan provides for various types of incentive awards including, but not limited to: incentive stock options, non-qualifying stock options, reload stock options, restricted stock and stock appreciation rights. The 2007 Plan enables the compensation committee to exercise its discretion to determine virtually all terms of each grant, which allows the Company to respond to changes in compensation practices, tax laws, accounting regulations and the size and diversity of its business.

Director Grants

Each of the Company's non-employee directors are entitled to automatically receive a stock grant under the 2007 Plan for each year of Board service, such grant to be made at the beginning of each such year of service, each annual stock grant equal to the number of shares of the Company's common stock having an aggregate market value of \$75 at the time of grant.

The first annual stock grant was approved by the Board of Directors on February 6, 2008, subject to the filing and effectiveness of a registration statement on Form S-8, which was filed on April 17, 2008. Pursuant to the Board authorization for the first annual stock grant; however, the number of shares awarded to each non-employee director was to be determined using the highest closing price per share of common stock as of December 12, 2007, February 6, 2008 or April 17, 2008. Consequently, the Company granted to each non-employee director approximately five shares of common stock, based upon the highest stock price being \$15.60 on December 12, 2007. The compensation expense associated with the share awards of approximately \$432 representing the grant date fair value on February 6, 2008 is reflected in operating expenses for the year ended December 31, 2008 in the consolidated statement of operations.

Such shares were issued upon filing of the registration statement on April 17, 2008.

On January 12, 2009, the Company issued the second annual stock grant to each non-employee director of approximately 35 shares of common stock, based upon the closing price of \$2.13 per share. The expense of approximately \$525 associated with the second annual grant is reflected in operating expenses for the year ended December 31, 2009 in the accompanying consolidated statement of operations.

See Note 22 - Subsequent Events on relevant information occurring subsequent to the original filing.

Stock Awards to Employees

Pursuant to the Amended Acquisition Agreement, up to 2,710 shares of common stock may be issued to employees subsequent to the filing of the Form S-8 filed in April 2008. On August 14, 2008, 1,851 shares of common stock were awarded to eligible manufacturing employees. As of December 31, 2008, the Company estimates there are an additional 859 shares of common stock that may be awarded to eligible employees.

On August 14, 2008, 1,851 shares of the Company's common stock (fully vested and not subject to any restrictions or conditions) having an aggregate value of \$12,102 were awarded to eligible manufacturing employees and included in cost of sales for the year ended December 31, 2008. Of the \$12,102, approximately \$5,174 was withheld for the payment of employment and withholding taxes and 1,058 shares with an aggregate value of \$6,922 were issued to employees and cash in the amount of \$6 was paid to employees in lieu of the issuance of fractional shares. The net share settlement is deemed to be a repurchase by the Company of its common stock. The value of the stock award was determined based upon the August 14, 2008 closing price per share of \$6.54. During the year ended December 31,

2009, the Company did not grant any stock awards under the 2007 Plan, other than to non-employee directors. As of December 31, 2009, 9,149 shares of the Company's common stock are available for future grants under the 2007 Plan. On February 16, 2010 the Company granted an additional 407 shares to employees under the 2007 Plan. See Note 22 - Subsequent Events on relevant information occurring subsequent to the original filing.

Accounting for Warrant

On December 21, 2005, the Registrant sold 15,000 units (“Units”) in the Offering at \$8.00 per Unit. On January 5, 2006, the Registrant sold an additional 1,161 Units pursuant to the underwriters’ over-allotment option. Each Unit consisted of one share of the Company’s common stock, and one redeemable common stock purchase warrant (the “Endeavor Warrant”). On February 6, 2008, the Company called for redemption of all of its issued and outstanding Endeavor Warrants. Prior to the redemption date of March 7, 2008, 16,153 of the 16,165 Endeavor Warrants outstanding at December 31, 2007 were exercised, generating net proceeds to the Company of \$65,619. The remaining 12 Endeavor Warrants were redeemed by the Company at a price of \$0.01 per Endeavor Warrant, where a portion of the Endeavor Warrants were exercised on a cashless basis. The Company issued 13,521 shares of common stock in connection with the redemption of the Endeavor Warrants.

On December 19, 2008, the Company entered into the Ninth Amendment with SOF to extend the maturity date of the SOF Credit Agreement from January 18, 2009 to April 20, 2009 (see Notes 10 and 11). In conjunction with this extension, the Company issued to SOF the SOF Warrant to purchase 1,000 shares of common stock for an initial exercise price of \$3.00 per share, which exercise price is subject to adjustment under certain circumstances. As a result of the issuance of the Lion Warrant, the exercise price of the SOF Warrant was adjusted to \$2.816 per share. The SOF Warrant has a five year term and expires on December 19, 2013. The fair value of the SOF Warrant on the date of issuance of \$1,021 was determined under the Black-Scholes option pricing model. The calculation was based on a contractual term of five years, interest rate of 1.35%, volatility of 59.5% and no dividends. In accordance with the provisions of ASC 815 – “Financial Instruments”, the relative fair value assigned to the SOF Warrant of approximately \$1,021 was recorded as permanent equity in additional paid-in capital in the stockholders’ equity section of the consolidated balance sheet. The \$1,112 million of unamortized cost related to the SOF Warrant was fully recognized as a component of interest expense during the year ended December 31, 2009.

On March 13, 2009, the Company entered into the Investment Agreement with Lion and, pursuant thereto, issued the Lion Warrant, which is exercisable at any time during its term, to purchase an aggregate of 16,000 shares of Common Stock at an exercise price of \$2.00 per share, subject to adjustment under certain circumstances. The Lion Warrant may be exercised by Lion by paying the exercise price in cash, pursuant to “cashless exercise” of the Lion Warrant or by a combination of the two methods. The Lion Warrant contains certain anti-dilution protections in favor of Lion providing for proportional adjustment of the warrant price and, under certain circumstances, the number of shares of Common Stock issuable upon exercise of the Lion Warrant, in connection with, among other things, stock dividends, subdivisions and combinations and the issuance of additional equity securities of the Company at less than fair market value. On an as-converted basis, the shares of Common Stock issuable upon exercise of the Lion Warrant would represent approximately 18% of the outstanding shares of Common Stock. The fair value of the Lion Warrant on the date of issuance of \$21,520 was determined under the Black-Scholes option pricing model. The calculation was based on a contractual term of seven years, interest rate of 2.5%, volatility of 56.5% and no dividends. In accordance with the provisions of ASC 815, the relative fair value assigned to the Lion Warrant of approximately \$18,672 was recorded as permanent equity in additional paid-in capital in the stockholders’ equity section of the consolidated balance sheet. The cost related to the Lion Warrant was recorded as a discount to the related debt and will be recognized as interest expense using the effective interest method over the term of the Lion Credit Agreement. See Note 22 - Subsequent Events on relevant information occurring subsequent to the original filing.

Stock Repurchases

On May 23, 2008, the Company Board of Directors authorized a common stock repurchase program that allows the Company to repurchase up to an aggregate of \$25,000 of the Company’s outstanding common stock through open market and privately negotiated transactions based on prevailing market conditions and other factors. At December 31, 2009 and 2008, the Company had repurchased 1,434 shares of the Company’s common stock for \$10,001 at a weighted average price of \$6.98 per share, plus brokerage commissions of \$43, leaving \$14,999 remaining under the program. All of the shares repurchased have been recorded as treasury stock.

See Note 22 - Subsequent Events on relevant information occurring subsequent to the original filing.

18. Commitments and Contingencies

Operating Leases

The Company conducts retail operations under operating leases, which expire at various dates through September 2022. The Company's primary manufacturing facilities and executive offices are currently under a long-term lease which expires on

July 31, 2019. Future minimum rental payments (excluding real estate tax and maintenance costs) for retail locations and other leases that have initial or non-cancelable lease terms in excess of one year at December 31, 2009 are as follows:

	Amount
2010	\$67,610
2011	64,893
2012	61,539
2013	59,381
2014	54,714
Thereafter	151,896
Total	\$460,033

Operating lease rent expense (including real estate taxes and maintenance costs) and leases on a month to month basis were approximately \$79,293, \$59,205, and \$38,171 for the years ended December 31, 2009, 2008 and 2007, respectively. The Company did not incur any significant contingent rent during the same periods. Rent expense is allocated to cost of sales (for production-related activities) and operating expenses (primarily for retail stores) in the accompanying consolidated statements of operations.

Sales Tax

The Company sells its products through its wholesale business, retail stores and the internet. The Company operates these channels separately and accounts for sales and use tax accordingly. The Company is periodically audited by state taxing authorities and it is possible they may disagree with the Company's method of assessing and remitting these taxes. The Company believes that it properly assesses and remits all applicable state sales taxes in the applicable jurisdictions and has accrued approximately \$1,371 and \$930 as of December 31, 2009 and 2008, respectively, for state sales tax contingencies that require recognition under ASC 450 – "Contingencies".

Advertising

At December 31, 2009, the Company had approximately \$3,567 in open advertising commitments, which primarily relate to print advertisements in various newspapers and magazines during the remainder of 2010.

U.S. Immigration and Customs Enforcement

On January 3, 2008, representatives of U.S. Immigration and Customs Enforcement ("ICE") conducted an inspection to determine the Company's compliance with Section 274A of the Immigration and Nationality Act.

On June 24, 2009, ICE notified the Company that it was unable to verify the employment eligibility of approximately 200 current employees because of discrepancies in these employees' records. Additionally, ICE notified the Company that another approximately 1,600 current employees appeared not to be authorized to work in the United States and appeared to have obtained employment by providing, on Form I-9, documentation which ICE believes, based on its proprietary databases, to be suspect and not valid. ICE's notification provided no indication that the Company knowingly or intentionally hired unauthorized aliens and no criminal charges have been filed against the Company or any current employees.

The Company terminated the employment of those persons identified by ICE who were not able to resolve the discrepancies in their work records, or present valid identification and employment eligibility documents. In the fourth quarter of 2009, as a result of the inspection, the Company was fined by ICE for an amount that was deemed immaterial, and the amount was accrued in the accompanying consolidated balance sheet as of December 31, 2009. It is the Company's policy to fully comply with its obligations to establish the employment eligibility of prospective employees under immigration laws.

See Note 22 - Subsequent Events on relevant information occurring subsequent to the original filing.

19. Workers' Compensation and Other Self-Insurance Reserves

The Company uses a combination of third-party insurance and/or self-insurance for a number of risks including workers' compensation, medical benefits provided to employees, and general liability claims. General liability costs relate primarily to

litigation that arises from store operations. Self-insurance reserves include estimates of both filed claims carried at their expected ultimate settlement value and claims incurred but not yet reported. The Company's estimated claim amounts are discounted using a rate of 5% with a duration that approximates the duration of the Company's self-insurance reserve portfolio. The Company's liability reflected on the consolidated balance sheets represents an estimate of the ultimate cost of claims incurred as of the balance sheet dates. In estimating this liability, the Company utilizes loss development factors based on Company-specific data to project the future development of incurred losses. Loss estimates are adjusted based upon actual claim settlements and reported claims. These projections are subject to a high degree of variability based upon future inflation rates, litigation trends, legal interpretations, benefit level changes and claim settlement patterns. Although the Company does not expect the amounts ultimately paid to differ significantly from its estimates, self-insurance reserves could be affected if future claim experience differs significantly from the historical trends and the assumptions applied.

The workers' compensation liability is based on estimate of losses for claims incurred, but not paid at the end of the period. Funding is made directly to the providers and/or claimants by the insurance company. To guarantee performance under the workers' compensation program, as of December 31, 2009 and 2008, the Company has issued standby letters of credit under the BofA Credit Agreement in the aggregate amount of \$7,125 and \$7,190, respectively, with two insurance companies being the beneficiaries. At December 31, 2009, the Company recorded a total reserve of \$9,953, of which, \$3,046 is included in accrued expenses and \$6,907 is included in other long-term liabilities on the accompanying consolidated balance sheets. At December 31, 2008, the Company recorded a total reserve of \$7,433, of which, \$2,252 is included in accrued expenses and \$5,181 is included in other long term liabilities on the accompanying consolidated balance sheets. These reserves for potential losses on existing claims are believed to be for potential losses which are probable and reasonably estimable. The increase in the workers' compensation reserve is a result of the increase in claims.

The medical benefit liability is based on estimated losses for claims incurred, but not paid at the end of the period. Funding is made directly to the providers and/or claimants by the insurance company. At December 31, 2009 and 2008, the Company's total reserve of \$1,761 and \$491 was included in accrued expenses in the accompanying consolidated balance sheets.

20. Business Segment and Geographic Area Information

The Company reports the following four operating segments: U.S. Wholesale, U.S. Retail, Canada, and International. All of the Company's sales fall into one of these reportable segments. The Company believes this method of segment reporting reflects both the way its business segments are managed and the way the performance of each segment is evaluated. The U.S. Wholesale segment consists of the Company's wholesale operations in the U.S. of sales of undecorated apparel products to distributors and third party screen printers, as well as the Company's online consumer sales to U.S. customers. The U.S. Retail segment consists of the Company's retail operations in the U.S., which was comprised of 160 retail stores operating in the U.S., as of December 31, 2009. The Canada segment includes retail, wholesale and online consumer operations in Canada.

As of December 31, 2009, the retail operations in the Canada segment were comprised of 40 retail stores. The International segment includes retail, wholesale and online consumer operations outside of the U.S. and Canada. As of December 31, 2009, the retail operations in the International segment were comprised of 81 retail stores operating outside of the U.S. and Canada in 18 countries. All of the Company's retail stores sell the Company's apparel products directly to consumers.

The Company's management evaluates performance based on a number of factors; however, the primary measures of performance are net sales and income or loss from operations of each business segment, as these are the key performance indicators reviewed by management. Operating income or loss for each segment does not include unallocated corporate general and administrative expenses, interest expense and other miscellaneous income/expense items. Corporate general and administrative expenses include, but are not limited to: human resources, legal, finance, information technology, accounting, executive compensation and various other corporate level expenses. Such unallocated expenses remain within corporate.

In the fourth quarter of 2008, the Company implemented and recorded a full year impact from changes to its intercompany transfer pricing policy. Intercompany charges related to transfer pricing are eliminated in consolidation from cost of sales of the Canada and International segments and were \$5,306 and \$15,750, respectively, for the year ended December 31, 2008, while intercompany sales eliminated in consolidation from the U.S. wholesale segment amounted to \$21,056 for the same period. The accounting policies of all operating segments are the same as those described in the summary of significant accounting policies.

Edgar Filing: AMERICAN APPAREL, INC - Form 10-K/A

The following table represents key financial information of the Company's reportable segments before unallocated corporate expenses:

	For the Year ended December 31, 2009				
	U.S. Wholesale	U.S. Retail	Canada	International	Consolidated
Net sales to external customers	\$ 141,521	\$ 191,325	\$ 68,983	\$ 156,946	\$ 558,775
Gross profit	36,214	136,424	43,242	104,032	319,912
Income from segment operations	15,541	17,340	13,999	15,312	62,192
Depreciation and amortization	8,992	11,286	1,083	6,790	28,151
Capital expenditures	4,558	11,184	1,392	3,755	20,889
Deferred rent expense	357	3,541	413	1,597	5,908
	For the Year ended December 31, 2008				
	U.S. Wholesale	U.S. Retail	Canada	International	Consolidated
Net sales to external customers	\$ 162,668	\$ 168,653	\$ 67,280	\$ 146,449	\$ 545,050
Gross profit	21,144	127,936	45,378	99,963	294,421
Income from segment operations	(36)	33,483	16,060	23,735	73,242
Depreciation and amortization	7,141	6,974	2,409	4,320	20,844
Capital expenditures (including business acquisition)	17,386	29,515	4,701	18,263	69,865
Deferred rent expense	262	4,042	321	3,121	7,746
	Year ended December 31, 2007				
	U.S. Wholesale	U.S. Retail	Canada	International	Consolidated
Net sales to external customers	\$ 144,478	\$ 115,615	\$ 42,407	\$ 84,544	\$ 387,044
Gross profit	40,148	88,833	27,141	59,351	215,473
Income from segment operations	19,743	24,756	1,522	14,795	60,816
Depreciation and amortization	4,927	4,395	1,983	2,001	13,306
Capital expenditures (including business acquisition)	5,185	8,429	1,984	7,139	22,737
Deferred (benefit) rent expense	(155)	2,030	180	539	2,594

Reconciliation of reportable segments combined income from operations for the years ended December 31, 2009, 2008 and 2007 to the consolidated income before income taxes is as follows:

	2009	2008	2007
Consolidated income from operations of reportable segments	\$ 62,192	\$ 73,242	\$ 60,816
Corporate expenses	(37,777)	(37,178)	(29,694)
Interest expense	(22,627)	(13,921)	(17,541)
Other income (expense)	220	(155)	980
Foreign currency gain (loss)	2,920	(621)	722
Consolidated income before income taxes	\$ 4,928	\$ 21,367	\$ 15,283

Net sales by each reportable segment's class of customer and geographic location of customer for the years ended December 31, 2009, 2008 and 2007 consist of the following:

	Years Ended December 31,		
	2009	2008	2007
U.S. Wholesale			
Wholesale	\$ 118,241	\$ 137,185	\$ 125,609
Online consumer	23,280	25,483	18,869
Total	\$ 141,521	\$ 162,668	\$ 144,478
U.S. Retail	\$ 191,325	\$ 168,653	\$ 115,615
Canada			
Wholesale	\$ 11,442	\$ 12,708	\$ 11,335
Retail	55,971	52,872	30,068
Online consumer	1,570	1,700	1,004
Total	\$ 68,983	\$ 67,280	\$ 42,407
International			
Wholesale	\$ 12,368	\$ 14,510	\$ 12,631
Retail	132,092	119,749	65,297
Online consumer	12,486	12,190	6,616
Total	\$ 156,946	\$ 146,449	\$ 84,544
Consolidated			
Wholesale	\$ 142,051	\$ 164,403	\$ 149,575
Retail	379,388	341,274	210,980
Online consumer	37,336	39,373	26,489
Total	\$ 558,775	\$ 545,050	\$ 387,044
Net sales by geographic location of customer:			
United States	\$ 332,846	\$ 331,322	\$ 260,093
Canada	68,983	67,280	42,407
Europe (excluding United Kingdom)	81,252	74,297	45,100
United Kingdom	34,214	35,653	17,647
Korea	9,443	10,453	9,186
Japan	14,122	14,909	9,840
Australia	9,105	5,901	420
Other foreign countries	8,810	5,235	2,351
Total Consolidated Net Sales	\$ 558,775	\$ 545,050	\$ 387,044

Long-lived assets—property and equipment, net by geographic location, is summarized as follows as of December 31:

	2009	2008
United States	\$71,451	\$79,286
Canada	8,767	7,251
Europe (excluding the United Kingdom)	9,987	12,682
United Kingdom	6,292	6,439
Korea	632	703
Japan	2,827	3,278
Australia	1,299	1,021
Other foreign countries	2055	1,748
Total consolidated long-lived assets	\$103,310	\$112,408

Identifiable assets by reportable segment:

US Wholesale	\$134,038	\$178,060
US Retail	92,555	98,947
Canada	29,981	17,112
International	71,005	39,490
Total	\$327,579	\$333,609

Foreign subsidiaries accounted for the following percentages of total assets and total liabilities as of December 31:

	2009	2008		
Total Assets	30.8	% 15.1	%	
Total Liabilities	17.1	% 14.5	%	

21. Litigation

The Company is subject to various claims and contingencies in the ordinary course of its business, including those related to litigation, business transactions, employee-related matters and taxes, and others. When the Company is aware of a claim or potential claim, it assesses the likelihood of any loss or exposure. If it is probable that a loss will result and the amount of the loss can be reasonably estimated, the Company will record a liability for the loss. In addition to the estimated loss, the recorded liability includes probable and estimable legal costs associated with the claim or potential claim. We currently do not believe, based upon information available at this time, that these matters will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

However, there is no assurance that such matters will not materially and adversely affect the Company's business, financial position, and results of operations or cash flows.

On or about September 19, 2005, Ms. Mary Nelson, an independent contractor in the sales department at American Apparel, commenced a suit in a case (*Mary Nelson v. American Apparel, Inc., et al.*, filed in Superior Court of the State of California for the County of Los Angeles, Central District), wherein she alleges she was wrongfully terminated, was subjected to harassment and discrimination based upon her gender and other claims related to her tenure at the Company. The Company denies all of Ms. Nelson's allegations of wrongdoing. Ms. Nelson is seeking unspecified monetary damages and costs. The trial has been stayed, and the Court of Appeal of the State of California has reversed the Superior Court's denial of the Company's motion to compel arbitration pursuant to an agreement among the parties. On January 14, 2009, the California Supreme Court denied a petition filed by Ms. Nelson, requesting the California Supreme Court to review the California Appellate Court order compelling Ms. Nelson to arbitrate the Company's claims against her for breaches of a settlement agreement. Ms. Nelson has now exhausted all of her appeals. In May 2009, Ms. Nelson filed a

Demand for Arbitration before JAMS (Judicial Arbitration and Mediation Services), whereby she asserts the following causes of action: Breach of Agreement, Breach of Contract, Failure to Pay Settlement Monies, Fraud in the Inducement, and Disparagement. On August 28, 2009, the Company filed its answer and counterclaims for breach of

contract against Ms. Nelson. The insurance carrier for the Company's directors' and officers' insurance policy has asserted that it is not obligated to provide coverage for this proceeding. The Company intends to aggressively defend any allegations of wrongdoing.

On February 7, 2006, Sylvia Hsu, a former employee of the Company, filed a Charge of Discrimination with the Los Angeles District Office of the Equal Employment Opportunity Commission ("EEOC") (Hsu v. American Apparel: Charge No. 480- 2006-00418), alleging that she was subjected to sexual harassment by a co-worker and constructively discharged as a

result of the sexual harassment and a hostile working environment. The EEOC's investigation of this charge is ongoing. On March 9, 2007, the EEOC expanded the scope of its investigation to other employees of the Company who may have been sexually harassed. In February 2008, the EEOC requested to speak with certain managers, supervisors and other employees of the Company in connection with its investigation. Approximately half of these interviews have been concluded, with the second half to be conducted at a future time to be determined. Given the broad scope of the EEOC's investigation, it is impossible to predict with any degree of accuracy how this matter will develop, how it will be resolved, what remedies or relief, if any, will be sought or what the impact might be on the Company. The Company intends to aggressively defend any allegations of wrongdoing.

On March 31, 2008, Woody Allen filed suit against the Company, in the United States District Court for the Southern District of New York, for the alleged unauthorized use of his image. Through his suit, Mr. Allen sought monetary damages in an amount he believed to be in excess of \$10 million, disgorgement of any profits the Company may have realized as a result of its alleged unauthorized use of Mr. Allen's image, exemplary damages, and attorneys' fees and costs. On May 18, 2009, the Company, through its insurance carrier, agreed to a settlement with Mr. Allen prior to the commencement of the trial. The monetary amount that the Company contributed to the overall settlement was deemed immaterial and was recorded as a component of operating expenses in the accompanying consolidated statement of operations during the year ended December 31, 2009.

On November 5, 2009, Guillermo Ruiz, a former employee of the Company, filed suit against the Company on behalf of putative classes of current and former non-exempt California employees (Guillermo Ruiz, on behalf of himself and all others similarly situated v. American Apparel, Inc., Case Number BC425487) in the Superior Court of the State of California for the County of Los Angeles, alleging the Company failed to pay certain wages due for hours worked, to provide meal and rest periods or compensation in lieu thereof and to pay wages due upon termination to certain of its employees. The complaint further alleges that the Company failed to comply with certain itemized employee wage statement provisions and unfair competition law. The plaintiff is seeking compensatory damages and economic and/or special damages in an unspecified amount; premium pay, wages and penalties; injunctive relief and restitution; and reimbursement for attorneys' fees, interest and the costs of the suit. On December 22, 2009, the parties filed a written stipulation with the Court setting forth the parties' agreement to stay this matter for approximately six months, during which the parties will mediate Plaintiff's claims. In the event mediation is unsuccessful, the parties have agreed to submit this matter to binding arbitration. The Company does not have insurance coverage for this matter. Should the matter be decided against the Company, the Company could not only incur substantial liability but also experience an increase in similar suits and suffer reputational harm. The Company is unable to predict the financial outcome of this matter at this time, and any views formed as to the viability of this claim or the financial exposure in which it could result may change from time to time as the matter proceeds through its course. No assurance can be made that this matter either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, which could have a material adverse effect upon our financial condition and results of operations.

The Company is currently engaged in other employment-related claims and other matters incidental to the Company's business. Management believes that all such claims against the Company are without merit or not material, and the Company intends to vigorously dispute the validity of the plaintiffs' claims. While the ultimate resolution of such claims cannot be determined, based on information at this time, the Company believes the amount, and ultimate liability, if any, with respect to these actions will not materially affect the Company's business, financial position, results of operations, or cash flows. The Company cannot assure you, however, that such actions will not have a material adverse effect on the Company's consolidated results of operations, financial position or cash flows. See Note 22 - Subsequent Events on relevant information occurring subsequent to the original filing.

22. Subsequent Events

Effective July 22, 2010, Deloitte & Touche LLP ("Deloitte") resigned as the independent registered public accounting firm for the Company and requested that the Company provide Deloitte with the additional information Deloitte believed was necessary to review before the Company and Deloitte could reach any conclusions as to the reliability of the previously issued consolidated financial statements for the year ended December 31, 2009 and the auditors' report thereon. On July 26, 2010, the Audit Committee of the Company engaged Marcum LLP ("Marcum") as the Company's independent auditors to audit the Company's financial statements for the fiscal year ending December 31, 2010.

On December 15, 2010, the Audit Committee of the Company received notice from Deloitte stating that Deloitte had concluded that Deloitte's report on the Company's previously issued consolidated financial statements as of and for the year ended December 31, 2009 (the "2009 financials"), including Deloitte's report on internal control over financial reporting at December 31, 2009, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 (such reports, collectively, the "Deloitte Reports"), originally issued on March 31, 2010 (the "original issuance date") should not be relied upon or associated with the 2009 financials.

In connection with the Company's Annual Meeting of Stockholders held on December 10, 2010, the Audit Committee and management formally engaged Marcum LLP to reaudit the 2009 financials.

In connection with such reaudit, the Company has evaluated events that occurred subsequent to December 31, 2009 and through the date the financial statements were issued. ASC 855 distinguishes two types of subsequent events. The first type ("recognized subsequent events") consists of events or transactions that provide additional evidence about conditions existing as of December 31, 2009, but are unknown until a subsequent period. These financial statements reflect recognized subsequent events through March 31, 2010, the original issuance date. The second type ("nonrecognized subsequent events") consists of events that provide evidence about conditions that did not exist as of December 31, 2009, but arose before issuance of these financial statements. Recognized subsequent events result in adjustment to the financial statements. Nonrecognized subsequent events require entities to evaluate the completeness of their financial statement disclosures, but do not require adjustment to the financial statements. Management concluded that the items below required disclosure in these financial statements in addition to those already disclosed as nonrecognized subsequent events. Such evaluation of these nonrecognized subsequent events was made through May 16, 2011, the date these financial statements were reissued.

Going Concern, Liquidity and Management's Plan

As of March 31, 2011, the Company had approximately \$6,214 (unaudited) in cash, \$1,602 (unaudited) of availability for additional borrowings and \$58,490 (unaudited) outstanding on a \$75,000 revolving credit facility under the BofA Credit Agreement (as defined in Note 10), \$1,576 (unaudited) of availability for additional borrowings and \$4,232 (unaudited) outstanding on a C\$11,000 revolving credit facility under the Bank of Montreal Credit Agreement (as defined in Note 10), and \$82,336 (unaudited) (including paid-in-kind interest of \$3,749 (unaudited) and net of discount \$19,977 (unaudited)) of term loans outstanding under the Lion Credit Agreement (as defined in Note 11). As of April 30, 2011, the Company had approximately \$8,000 (unaudited) of cash, approximately \$8,900 (unaudited) of availability for additional borrowings and \$46,100 (unaudited) outstanding on the credit facility under the BofA Credit Agreement and \$1,400 (unaudited) of availability for additional borrowings and \$4,000 (unaudited) outstanding on the credit facility under the Bank of Montreal Credit Agreement. As May 10, 2011, the Company had approximately \$5,941 (unaudited) available for borrowing under the BofA Credit Agreement and \$1,481 (unaudited) available under the Bank of Montreal Credit Agreement.

As more fully described below, on April 26, 2011 the Company sold 15,777 shares (unaudited) of Common Stock to a group of investors, at a price of \$0.90 per share, for the aggregate cash purchase price of approximately \$14,200 (unaudited), of which \$5,000 (unaudited) went to satisfy and meet the availability requirement of the amendment to the BofA Credit Agreement. The investors also received the right to purchase up to an additional 27,443 shares (unaudited) at the same price within 180 days, subject to shareholder approval and subject to certain anti-dilution and other adjustments. This transaction improved the liquidity position of the Company by approximately \$8,000 (unaudited).

The Company incurred a loss from operations of \$13,091 (unaudited) for the three months ended March 31, 2011, compared to a loss from operations of \$50,053 for the year ended December 31, 2010. The current operating plan indicates that losses from operations may be incurred for all of fiscal 2011. Consequently, the Company may not have sufficient liquidity necessary to sustain operations for the next twelve months and this raises substantial doubt that the Company will be able to continue as a going concern.

Management is in the process of executing a plan to improve the operating performance and the financial position of the Company. This plan includes optimizing production levels at the Company's manufacturing facilities including raw material purchases and labor; streamlining the Company's logistics operations; merchandise price rationalization in the Company's wholesale and retail channels; renegotiating the terms of a number of the Company's retail real estate leases, including possible store closures; improving merchandise allocation procedures and rationalizing staffing levels. In addition, the Company continues to develop other initiatives intended to either increase sales, reduce costs or improve liquidity. Although management's plan reflects improvements in these trends, there can be no assurance that management's plan to improve the operating performance and the financial position of the Company will be successful. The Company continues to evaluate other alternative sources of capital for ongoing cash needs, however, there can be no assurance the Company will be successful in those efforts.

The report of independent registered public accounting firm related to the Company's consolidated financial statements for the year ended December 31, 2010 contained a "going concern" explanatory paragraph that reads as follows:

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has incurred a substantial loss from operations and had negative cash flow from operations for the year ended December 31, 2010. As a result of noncompliance with certain loan covenants, debt with carrying value of approximately \$138.0 million at December 31, 2010, could be declared immediately due and payable. Notwithstanding the foregoing, the Company has minimal availability for additional borrowings from its existing credit facilities, which could result in the Company not having sufficient liquidity or minimum cash levels to operate its business. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plan in regard to these matters is also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

The accompanying consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability of assets or the amounts of liabilities that may result should the Company be unable to continue as a going concern.

Property and Equipment

The Company recorded an impairment charge relating primarily to certain retail store leasehold improvements and key money in the U.S. Retail and International segments of \$650 (unaudited) and \$8,597 for the three months ended March 31, 2011 and the year ended December 31, 2010, respectively, as a component of operating expenses to reduce the assets carrying value to their estimated fair value.

On January 11, 2011, the Company entered an agreement to sell and simultaneously lease back all of the Company's unencumbered manufacturing equipment, for a term of 48 months and an interest rate of 14.8%. The sale price of the manufacturing equipment was \$3,100 (unaudited). The Company has an option, exercisable during the fourth year of the lease term, to repurchase the manufacturing equipment for \$310 (unaudited). The transaction is accounted for as a financing transaction and is recorded in the consolidated financial statements as a capital lease.

Revolving Credit Facilities and Current Portion of Long-Term Debt

At March 31, 2011 and December 31, 2010, the Company had \$7,409 (unaudited) and \$8,583, respectively, of outstanding letters of credit secured against the BofA Credit Agreement. Available borrowing capacity at March 31, 2011 and December 31, 2010 was \$1,602 (unaudited) and \$4,915, respectively.

Among other provisions, the BofA Credit Agreement contains certain subjective acceleration clauses and requires that the Company maintain an arrangement similar to a traditional lockbox, and the liability is therefore classified as a current liability in the consolidated balance sheets. Additionally, the BofA Credit Agreement and Lion Credit Agreement contain cross-default provisions, whereby an event of default occurring under one of the credit agreements would cause an event of default under the other credit agreement.

On April 26, 2011, the Company entered into an amendment under the BofA Credit Agreement, which among other things, waived the requirement to furnish its 2010 audited financial statements without a “going concern” or like qualification. The amendment also required the Company to, among other things, i) receive new equity contribution in excess of \$10,500(unaudited); ii) revises the financial covenant requiring minimum excess availability to increase the required excess availability by \$5,000 (unaudited) to an amount not less than the greater of \$12,500 (unaudited) and 15% of the lesser of the borrowing base and the revolving credit ceiling; and (iii) create an Office of Special Programs to create and implement a plan to improve

the operating performance and financial condition of the Company as described in the amendment. As of April 26, 2011, the Company is in compliance with the terms of the BofA Credit Agreement.

The Bank of Montreal Credit Agreement contains a fixed charge coverage ratio, tested at the end of each month, which measures the ratio of EBITDA less cash income taxes paid, dividends paid and unfinanced capital expenditures divided by interest expense plus scheduled principal payments of long term debt, debt under capital leases, dividends, and stockholder loans and advances, for the Company's Canadian subsidiaries. The ratio must be not less 1.25:1.00. The Bank of Montreal Credit Agreement also restricts the Company's Canadian subsidiaries from entering into operating leases which would lead to payments under such leases totaling more than C\$8,500 in any fiscal year, and imposes a minimum excess availability covenant which requires the Company's Canadian subsidiaries to maintain at all times minimum excess availability of 5% of the revolving credit commitment under the facility.

The Bank of Montreal Credit Agreement also contains covenants which require the Company to furnish audited financial statements of its Canadian subsidiaries without a going concern or like qualification.

On May 9, 2011, the Company entered into a waiver agreement with the Bank of Montreal, which waived the requirement to furnish the fiscal 2010 audited financial statements of the Company's Canadian operations without a "going concern" or like qualification.

Additionally, the Lion Credit Agreement contains cross-default provisions with the Bank of Montreal Credit Agreement, whereby an event of default occurring under the Bank of Montreal Credit Agreement would cause an event of default under the Lion Credit Agreement.

Long-Term Debt

Significant covenants in the Lion Credit Agreement include annual limitation of the Company's capital expenditures to \$27,500 for fiscal 2011. Other covenants under the Lion Credit Agreement have been modified over time in connection with amendments as described below.

On June 23, 2010, the Company entered into an amendment to the Lion Credit Agreement, which among other things, (i) replaced the Total Debt to Consolidated EBITDA financial covenant with a minimum Consolidated EBITDA financial covenant, tested on a monthly basis, and (ii) increased the interest rate payable under the Lion Credit Agreement from 15% to 17% per annum for the period from June 21, 2010 through the date that the Company delivers financial statements to Lion for the three months ended September 30, 2010, and thereafter from the time financial statements for any Fiscal Quarters (as defined in the Lion Credit Agreement) demonstrate that the ratio of Total Debt to Consolidated EBITDA as at the end of such Fiscal Quarter exceeds certain specified ratios until the Company delivers financial statements to Lion for the next Fiscal Quarter.

On February 18, 2011, the Company entered into an amendment to the Lion Credit Agreement, which among other things, (i) redefined the monthly minimum Consolidated EBITDA financial covenant calculation to include limited fees and charges of professional services, (ii) established new monthly minimum Consolidated EBITDA amounts, and (iii) increased the interest rate payable from 17% to 18% if the total debt to Consolidated EBITDA ratio is greater than 4.00:1.00 for any four consecutive Fiscal Quarters or if Consolidated EBITDA for any twelve consecutive Fiscal Month period is negative. As of March 31, 2011, the Company did not meet these ratios and the interest rate increased from 17% to 18%. The amendment also required that the Lion Warrant be amended. In connection with the amendment, the Company paid Lion a fee of \$994, which was recorded as a loss on extinguishment of debt as described below.

In accordance with ASC 470, the Company evaluated the change in cash flows in connection with the amendment to the Lion Credit Agreement. The Company determined that there was a greater than 10% change between the present values of the existing debt and the amended debt causing an extinguishment of debt. The Company recorded the modified debt and related warrant at its fair value and recognized a loss of \$3,114 (unaudited) on extinguishment of existing debt. This loss on extinguishment was determined by calculating the difference of the net carrying amount of the Lion debt of \$92,627 (unaudited) (which includes principal, paid-in-kind interest, original fair value of Lion Warrant originally recorded in equity, unamortized discount and unamortized deferred financing cost) and the fair value of the modified debt of \$95,741 (unaudited) (which includes fair value of modified debt, fair value of modified Lion Warrant and amendment related fees). The variance between the carrying net amount of the existing debt of \$99,394 (unaudited) and the fair value of the modified debt of \$78,587 (unaudited) was recorded as a discount to the modified debt and will be recognized as interest expense using the effective interest method over the remaining term of the Lion Credit Agreement.

The Lion Credit Agreement contains certain cross-default provisions by which noncompliance with covenants under the BofA Credit Agreement, the Bank of Montreal Credit Agreement and certain other existing and potential agreements also constitutes an event of default under the Lion Credit Agreement.

On April 26, 2011, the Company entered into a waiver agreement and an amendment under the Lion Credit Agreement, which, among other things, (i) waived the requirement to furnish the Company's 2010 audited financial statements without a "going concern" or like qualification and (ii) required the Company to take certain measures to prevent the dilution of Lion's existing Warrant. As of May 10, 2011, the Company is in compliance with the covenants under the Lion Credit Agreement (unaudited).

Subordinated Notes Payable to Related Party

On March 24, 2011, the Company and its CEO, Mr. Charney, entered into, and closed the transactions under, a purchase agreement pursuant to which (i) Mr. Charney purchased from the Company an aggregate of 1,801 shares of Common Stock at a price of \$1.11 per share, for aggregate cash consideration of approximately \$2,000 (unaudited) in cash and (ii) the cancellation of three promissory notes issued by two subsidiaries of the Company to Mr. Charney, which as of March 24, 2011 had an aggregate book value of approximately \$4,700 (unaudited), including principal and accrued and unpaid interest outstanding in exchange for an issuance by the Company of an aggregate of 4,223 shares of the Company's Common Stock at a price of \$1.11 per share with 50% of such shares issuable to Mr. Charney only if prior to March 24, 2014, the closing sale price of Common Stock exceeds \$3.50 for 30 consecutive trading days or there is a change of control of the Company, as defined in the purchase agreement.

Income Taxes

The Company incurred a substantial loss from operations for the year ended December 31, 2010 and also incurred a loss for the three months ended March 31, 2011. Based primarily upon recent history of cumulative losses, the Company determined that it is more likely than not that it will not realize benefits from the deferred tax assets in certain jurisdictions. The Company will not record income tax benefits in the consolidated financial statements until it is determined that it is more likely than not that the Company will generate sufficient taxable income in the respective jurisdictions to realize the deferred income tax assets. As a result of the analysis, the Company determined that a full valuation allowance against the net deferred tax assets in certain jurisdictions, primarily in the U.S., and partially in certain foreign jurisdictions is required. At December 31, 2010, the Company had recorded valuation allowances against its deferred tax assets in the amount of \$51,979.

Share-Based Compensation and Warrants

Director Grants

Each of the Company's non-employee directors are entitled to automatically receive a stock grant under the 2007 Plan for each year of Board service, such grant to be made at the beginning of each such year of service, each annual stock grant equal to the number of shares of the Company's common stock having an aggregate market value of \$75 at the time of grant.

On January 19, 2010, the Company issued the annual stock grant to each non-employee director of approximately 22 shares of common stock, based upon the closing price of \$3.45 per share. Messrs. Capps and Richardson each agreed to forgo receipt of annual stock grant having an aggregate market value of \$75 at the time of grant.

For the three months ended March 31, 2011, a \$75 (unaudited) cash award was paid to five non-employee directors in lieu of the annual stock grant and is reflected in operating expenses in the consolidated statements of operations.

Stock Options and Awards to Employees

On February 16, 2010, Compensation Committee awarded 515 shares of the Company's common stock (fully vested and not subject to any restrictions or conditions), having an aggregate value of \$1,400, to eligible employees in all operating segments of the Company. Charges for the award are included in cost of sales and in operating expenses in the statement of operations for the three months ended March 31, 2010. Of the \$1,400, approximately \$500 was withheld for the payment of employee tax withholding and employee portion of payroll taxes and 303 shares with an aggregate value of \$851 were issued to employees. Cash in the amount of \$50 was paid to employees in lieu of the issuance of shares in certain foreign jurisdictions including Japan, Korea, Israel and Sweden where local regulations made it impracticable to award shares to employees. The net share settlement is deemed to be a repurchase by the Company of its common stock. The value of the stock award was

determined based upon the February 16, 2010 closing price per share of \$2.80.

On October 7, 2010, the Board of Directors approved the grant of 1,000 stock options and 500 restricted shares to Mr. Thomas M. Casey, acting President ("Mr. Casey"). However, the restricted shares were not issued to Mr. Casey due to unavailable authorized shares under the 2007 Plan. There is a mutual agreement between Mr. Casey and the Company that these shares will be issued as they become available and will be recorded in accrued expenses until there is a measurement date. The vesting period for the options and restricted shares occurs in four equal installments on each of January 1, 2011, 2012, 2013 and 2014. The options and restricted shares expire on the tenth anniversary of issuance. The fair value of the stock options of \$773 was determined under the Black-Scholes option pricing model. The calculation was based on the exercise price of \$1.75, an expected term of 6.25 years using the simplified method, interest rate of 1.08%, volatility of 85.76% and no dividends. The fair value of the restricted shares of \$580 was determined based upon the October 7, 2010 closing price per share of \$1.16. Total stock compensation recognizes for Mr. Casey's stock options and restricted shares was \$422. The total future compensation cost related to these unvested share-based awards that are expected to vest was \$932 as of March 31, 2011, which will be recognized over the next 3 years.

On November 26, 2010, the Board of Directors of the Company approved the grant of 6,533 restricted shares of Common Stock, representing approximately 8.6% of the outstanding shares of Common Stock, to executive and non-executive management employees and certain consultants to the Company. With respect to each award of restricted shares of Common Stock, 20% of the shares vested upon grant and 20% of the shares will vest on each of the four anniversaries following the grant date. The Company paid the withholding and payroll taxes due with respect to the vested portion of the share grants on behalf of the employees that received the grants, and recognized compensation expense in the fourth quarter of 2010 of approximately \$3,600 related to the grants, of which \$2,093 related to stock compensation and \$1,500 related to payroll taxes. Charges for the pro rata vesting are included in the cost of sales and operating expenses in the consolidated statement of operations. The value of the stock award was determined based upon the November 26, 2010 closing price per share of \$1.53.

On February 3, 2011, the Board of Directors approved the grant of 700 stock options (unaudited) and 350 restricted shares (unaudited) to Mr. John Luttrell, Executive Vice President and Chief Financial Officer ("Mr. Luttrell"). There is a mutual agreement between Mr. Luttrell and the Company that these shares and stock options will be issued as they become available and will be recorded in accrued expenses until there is a measurement date. The vesting period for the options and restricted shares occurs in four equal installments on each of the grant date and each January 1, 2012, 2013 and 2014. The options expire on the tenth anniversary of issuance.

On March 21, 2011, the Board of Directors approved the grant of restricted shares having a value of \$600 (unaudited) to Mr. Martin Staff, Chief Business Development Officer ("Mr. Staff"), each year over the next three years. There is a mutual agreement between Mr. Staff and the Company that these shares will be issued as they become available and will be recorded in accrued expenses until there is a measurement date. The restricted shares will vest in full on March 21 in the year following the year such shares are granted.

Accounting for Warrants

On December 19, 2008, the Company entered into the Ninth Amendment with SOF to extend the maturity date of the SOF Credit Agreement from January 18, 2009 to April 20, 2009. In conjunction with this extension, the Company issued to SOF the SOF Warrant to purchase 1,000 shares of common stock for an exercise price of \$3.00 per share, which exercise price is subject to adjustment under certain circumstances. As a result of the issuance of the Lion Warrant on February 18, 2011, the exercise price of the SOF Warrant was adjusted to \$2.739 per share. The sale of common stock to a group of investors on April 26, 2011 (as discussed below), resulted in a further reduction to the exercise price of the SOF Warrant to \$2.151 per share. The SOF Warrant has a five year term and expires on

December 19, 2013. Commencing June 30, 2010 the Company recorded the SOF Warrant as a liability since the warrants met the classification requirements for liability accounting in accordance with ASC 815, Contracts in Entity's Own Equity ("ASC 815"). The Company believes that recognizing the liability at the effective date of ASC 815 would not have been material to the consolidated financial statements of preceding periods. The fair value of the SOF Warrant was estimated using the Binomial Lattice option valuation model. The Company expects an impact to the consolidated statements of operations when it records an adjustment to fair value of the SOF Warrant at the end of each quarterly reporting period going forward.

As of March 31, 2011 and December 31, 2010, the value of the SOF Warrant was estimated to be \$303 (unaudited) and \$993, respectively, and was recorded in the consolidated balance sheet. The calculation was based on a contractual remaining term of 2.75 years, interest rate of 0.80%, volatility of 105.2% and no dividends.

On February 18, 2011, the Company entered into an amendment to the Lion Credit Agreement, which required that the Lion Warrant be amended to among other things, extend the term of the Lion Warrant to February 18, 2018 and to reduce the exercise price of the Lion Warrant to \$1.11, as such price may be adjusted from time to time pursuant to the adjustments specified in the Lion Warrant or the Lion Credit Agreement. The effectiveness of the amendment to the Lion Warrant will be subject to the approval by the Company's stockholders. Furthermore, in the event of any issuance and sale of common or preferred stock of the Company or any debt for equity exchange or conversion completed by the Company, in each case either definitively agreed or consummated within 180 days after the effective date of the amendment, the amendment requires the Company to issue to Lion a new warrant to purchase at an exercise price of \$1.11, as such price may be adjusted from time to time pursuant to the adjustments specified in the warrant or the Lion Credit Agreement, a number of shares sufficient to preserve its fully-diluted beneficial ownership giving effect to the stock issuance or debt for equity exchange or conversion, as applicable. The amendment also requires such new warrant and the Lion Warrant to be adjusted, if the shares issued in such stock issuance or debt for equity exchange or conversion are issued at a price less than \$1.11, to the lowest issuance price in such stock issuance or debt for equity exchange. These provisions expire in August 2011. Upon the effective date of the amendment, the fair value of the existing Lion Warrant was reclassified from stockholders equity to a liability in accordance with ASC 815. The fair value of the Lion Warrant was estimated using the Binomial Lattice option valuation model.

On March 24, 2011, in connection with the sale of common stock to the Company's CEO, Dov Charney, and in accordance with the amendment to the Lion Credit Agreement, the Company issued Lion a new warrant expiring in 2018 to purchase an aggregate of 760 shares of common stock (unaudited) at an exercise price of \$1.11 per share, as such price may be adjusted from time to time pursuant to the adjustments specified in the warrant and the Lion Credit Agreement. Upon the issuance of the New Lion Warrant, the fair value of the warrant of approximately \$800 (unaudited) was recorded as a liability in accordance with ASC 815.

As of March 31, 2011, the value of the Lion Warrants was estimated to be \$14,750 (unaudited) and was recorded as a liability in the consolidated balance sheet using the Binomial Lattice option valuation model.

On April 26, 2011, in connection with the sale of Common Stock to a group of investors as described below, the Company entered into a waiver agreement and an amendment to the Lion Credit Agreement which (i) extended the period of the prior amendment, whereby the exercise price may be adjusted or new warrants are required to be issued in certain events, from 180 days to 365 days and reduced the exercise price of such new warrants from \$1.11 to the lesser of \$0.90 and the lowest issued price in the stock issuance or debt for equity exchange or conversion, as applicable, (ii) requires additional new warrants and adjustments in the exercise price for certain stock issuances or debt for equity conversions or exchanges at less than \$1.00 per share after 365 days and prior to repayment of obligation under the Lion Credit Agreement, (iii) reduced the exercise price of the existing warrants from \$1.11 to \$1.00 per share as a result of the transaction under the April 26, 2011 purchase agreement with the investors and (iv) required the Company to issue to Lion a new warrant to purchase an aggregate of 3,063 shares (unaudited) of common stock at an exercise price of \$1.00 per share, as such price may be adjusted from time to time pursuant to the adjustments specified in the warrant and Lion Credit Agreement.

Sale of Treasury Stock to the Company's CEO

On November 26, 2010, the Board of Directors authorized the sale of 1,130 treasury shares of its common stock, par value \$.0001 per share, at approximately \$1.48 per share, for a total cost of \$1,650 to Dov Charney. Such shares were issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

Sale of Common Stock to the Company's CEO

On March 24, 2011, the Company entered into, and closed the transactions under, a purchase agreement pursuant to which (i) Mr. Charney purchased an aggregate of 1,802 shares (unaudited) of the Company's Common Stock at a price of \$1.11 per share for approximately \$2,000 (unaudited) and (ii) the three promissory notes issued by two subsidiaries of the Company to Mr. Charney, which as of March 24, 2011 had an aggregate of approximately \$4,700 (unaudited) book value, were canceled in exchange for an issuance of an aggregate balance of 4,223 shares of the Company's Common Stock to Mr. Charney at a price of \$1.11 per share with 50% of such shares issuable to Mr. Charney only if prior to March 24, 2014, the closing sale price of Common Stock exceeds \$3.50 for 30 consecutive trading days or there is a change of control of the Company.

Sale of Common Stock to a Group of Investors

On April 26, 2011 the Company entered into a purchase and investment agreement with a group of investors and sold approximately 15,777 shares (unaudited) of Common Stock at a price of \$0.90 per share for the aggregate cash purchase price of approximately \$14,200 (unaudited). The agreement gives the investors the right to purchase up to an aggregate of

approximately 27,433 additional shares (unaudited) of Common Stock at that price for a 180-day period, in each case subject to certain topping up and anti-dilution adjustments for additional issuances for cash of Common Stock (or securities exercisable, exchangeable or convertible for Common Stock), prior to the one-year anniversary of the closing date of the transaction, as described in the purchase and investment agreement.

The investors were also granted one demand registration right with respect to the purchased shares and one additional demand registration right if their right to purchase additional shares is exercised, in each case exercisable after the four-month anniversary of the closing date of the transaction.

In connection with the purchase agreement with the group of investors on April 26, 2011, the Company, entered into a purchase agreement with Mr. Charney, which among other things (i) allows Mr. Charney to purchase from the Company 778 shares (unaudited) of Common Stock at \$0.90 per share, (ii) the Company grants to Mr. Charney a right to purchase up to 1,556 additional shares of Common Stock on substantially the same terms as purchase agreement with the group of investors dated April 26, 2011 and (iii) as a condition to the investors purchasing the shares, the Company provides Mr. Charney with certain anti-dilution rights. The anti-dilution rights provide that the Mr. Charney has a right to receive from the Company, subject to the satisfaction of certain average volume weighted closing price targets, and other terms and conditions set forth in the agreement, up to approximately 38,000 shares (unaudited) of Common Stock comprised of (i) up to approximately 12,700 shares (unaudited) of Common Stock as anti-dilution protection with respect to the initial purchase of shares by the group of investors per the agreement dated April 26, 2011, and (ii) in proportion to the exercise of the purchase right by the same group of investors, an additional up to approximately 25,300 shares (unaudited) of Common Stock as anti-dilution protection. Any shares issued to Mr. Dov Charney related to anti-dilution rights will be compensatory on date issued.

Each of the shares associated with the anti-dilution provision are issuable in three equal installments, one per each measurement period set forth below, subject to meeting the applicable average volume weighted closing price for 60 consecutive trading days, calculated as set forth in the purchase agreement with the Mr. Charney (“VWAP ”), as follows: (i) for the measurement period from April 16, 2012 to and including April 15, 2013, if the VWAP of the Common Stock during a period of 60 consecutive trading days exceeds \$3.25 per share; (ii) for the measurement period from but not including April 16, 2013 to and including April 15, 2014, if the VWAP of the 3 Common Stock during a period of 60 consecutive trading days exceeds \$4.25 per share; and (iii) for the measurement period from but not including April 16, 2014 to and including April 15, 2015, the VWAP of the Common Stock during a period of 60 consecutive trading days exceeds \$5.25 per share.

Pursuant to the purchase and investment agreement, the Company agreed to seek stockholder and NYSE Amex approvals to increase the number of authorized shares by a number sufficient to include the shares issuable pursuant to the purchase agreements with the group of investors and Mr. Charney. In connection with the purchase agreement with the group of investors, Mr. Charney entered into a voting agreement with the investors, dated as of April 26, 2011.

A summary of the potential stock issuances under various options, warrants and other agreements that could have a dilutive effect on the shares outstanding as of March 31, 2011 are as follows (unaudited):

SOF Warrant	1,000
Lion Warrant	16,760
Stock issuance to Investors on April 26, 2011	15,800
Purchase Option - Investors	27,400
Lion Warrant - Issued April 26, 2011	3,200
Contingent Shares - Mr. Charney	2,111
Purchase Option - Mr. Charney	2,334

Edgar Filing: AMERICAN APPAREL, INC - Form 10-K/A

Employee Options & Restricted Shares	4,467
Contingent Shares Issuable to Mr. Charney in connection with April 26, 2011 purchase agreement	38,000
	108,648

Receipt of NYSE Amex LLC Letter Relating to Audit Committee Composition Non-Compliance

On May 6, 2011 the Company received a letter from the NYSE Amex LLC (the "Exchange") stating that the Company is not in compliance with Section 803 (B)(2)(a) of the NYSE Amex Company Guide because its audit committee is comprised of two independent directors rather than the requisite three directors following Keith Miller's resignation. On May 2, 2011, Mr. Miller resigned from the Company's Board of Directors and the Committees thereof on which he served, including the audit committee, the nominating and corporate governance committee and the compensation committee, due to business and personal time commitments. The letter from the Exchange confirmed that the Company has until October 31, 2011 to regain compliance with the Exchange's audit committee composition requirement. The Company intends to fill the vacancy on the audit committee as expeditiously as possible prior to the expiration of the cure period.

Litigation

The Company is subject to various claims and contingencies in the ordinary course of its business, including those related to litigation, business transactions, employee-related matters and taxes, and others. When the Company is aware of a claim or potential claim, it assesses the likelihood of any loss or exposure. If it is probable that a loss will result and the amount of the loss can be reasonably estimated, the Company will record a liability for the loss. In addition to the estimated loss, the recorded liability includes probable and estimable legal costs associated with the claim or potential claim. There is no assurance that such matters will not materially and adversely affect the Company's business, financial position, and results of operations or cash flows.

On or about September 19, 2005, Ms. Mary Nelson, an independent contractor in the sales department at American Apparel, commenced a lawsuit (Mary Nelson v. American Apparel, Inc., et al., Case No. BC333028 filed in Superior Court of the State of California for the County of Los Angeles, Central District) (the "Nelson Action") wherein she alleges she was wrongfully terminated, was subjected to harassment and discrimination based upon her gender and other claims related to her tenure at the Company. The parties are engaged in ongoing arbitration of this suit. Until arbitration proceedings are final, the ultimate costs could change. The insurance carrier for the Company has asserted that it is not obligated to provide coverage for this proceeding. The Company has accrued an estimate for this loss contingency in its consolidated balance sheets as of December 31, 2010 and March 31, 2011. The Company may have an exposure to loss in excess of the amounts accrued, however, an estimate of such potential loss cannot be made at this time, and no assurance can be made that this matter either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, larger than the Company's estimate, which could have a material adverse effect upon the Company's financial condition and results of operations.

On February 7, 2006, Sylvia Hsu, a former employee of the Company, filed a Charge of Discrimination with the Los Angeles District Office of the Equal Employment Opportunity Commission ("EEOC") (Hsu v. American Apparel: Charge No. 480- 2006-00418), alleging that she was subjected to sexual harassment by a co-worker and constructively discharged as a result of the sexual harassment and a hostile working environment. On March 9, 2007, the EEOC expanded the scope of its investigation to other employees of the Company who may have been sexually harassed. On August 9, 2010, the EEOC issued a written determination finding that reasonable cause exists to believe the Company discriminated against Ms. Hsu and women, as a class, on the basis of their female gender, by subjecting them to sexual harassment. No finding was made on the issue of Ms. Hsu's alleged constructive discharge. In its August 19, 2010 written determination, the EEOC has invited the parties to engage in informal conciliation. If the parties are unable to reach a settlement which is acceptable to the EEOC, the EEOC will advise the parties of the court enforcement alternatives available to Ms. Hsu, aggrieved persons, and the EEOC. The insurance carrier for the Company has asserted that it is not obligated to provide coverage for this proceeding. The Company has not recorded a provision for this matter and intends to work cooperatively with the EEOC to resolve the claim in a manner acceptable to all parties. The Company does not at this time believe that any settlement will involve the payment of

damages in an amount that would be material to and adversely affect the Company's business, financial position, and results of operations and cash flows.

On November 5, 2009, Guillermo Ruiz, a former employee of the Company, filed suit against the Company on behalf of putative classes of all current and former non-exempt California employees (Guillermo Ruiz, on behalf of himself and all others similarly situated v. American Apparel, Inc., Case Number BC425487) in the Superior Court of the State of California for the County of Los Angeles, alleging the Company failed to pay certain wages due for hours worked, to provide meal and rest periods or compensation in lieu thereof and to pay wages due upon termination to certain of its employees. The complaint further alleges that the Company failed to comply with certain itemized employee wage statement provisions and unfair competition law. The plaintiff is seeking compensatory damages and economic and/or special damages in an unspecified amount; premium pay, wages and penalties; injunctive relief and restitution; and reimbursement for attorneys' fees, interest and the costs of the suit. The parties are engaged in ongoing settlement discussions jointly with Antonio Partida (the case described

below) in an effort to reach a global settlement of all claims asserted in both of these actions. No assurances can be made that a settlement can be reached. If a settlement is not reached, then Plaintiff's claims will be adjudicated through the arbitration process. The Company does not have insurance coverage for this matter. Should the matter be decided against the Company, the Company could not only incur substantial liability but also experience an increase in similar suits and suffer reputational harm. The Company has accrued an estimate for this loss contingency in its consolidated balance sheets as of December 31, 2010 and March 31, 2011. The Company may have an exposure to loss in excess of the amounts accrued, however, an estimate of such potential loss cannot be made at this time. Moreover, no assurance can be made that this matter either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, larger than the Company's estimate, which could have a material adverse effect upon the Company's financial condition and results of operations.

On June 21, 2010, Antonio Partida, a former employee of the Company, filed suit against the Company on behalf of putative classes of current and former non-exempt California employees (Antonio Partida, on behalf of himself and all others similarly situated v. American Apparel (USA), LLC, Case No. 30-2010-00382719-CU-OE-CXC) in the Superior Court of the State of California for the County of Orange, alleging the Company failed to pay certain wages for hours worked, to provide meal and rest periods or compensation in lieu thereof, and to pay wages due upon separation. The complaint further alleges that the Company failed to timely pay wages, unlawfully deducted wages and failed to comply with certain itemized employee wage statement provisions and unfair competition law. The plaintiff is seeking compensatory damages and economic and/or special damages in an unspecified amount, premium pay, wages and penalties, injunctive relief and restitution, and reimbursement of attorneys' fees, interest and the costs of the suit. The parties are engaged in ongoing settlement discussions jointly with Guillermo Ruiz (the case described above) in an effort to reach a global settlement of all claims asserted in both of these actions. No assurances can be made that a settlement can be reached. If a settlement is not reached, then Plaintiff's claims will be adjudicated through the arbitration process. There is no known insurance coverage for this matter. Should the matter be decided against the Company, the Company could not only incur substantial liability but also experience an increase in similar suits and suffer reputational harm. The Company has accrued an estimate for this loss contingency in its consolidated balance sheets as of December 31, 2010 and March 31, 2011. The Company may have an exposure to loss in excess of the amounts accrued, however, an estimate of such potential loss cannot be made at this time. Moreover, no assurance can be made that this matter either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, larger than the Company's estimate, which could have a material adverse effect upon the Company's financial condition and results of operations.

On or about December 2, 2010, Emilie Truong, a former employee of the Company, filed suit against the Company on behalf of putative classes of current and former non-exempt California employees (Emilie Truong, individually and on behalf of all others similarly situated v. American Apparel, Inc. and American Apparel LLC, Case No. BC450505) in the Superior Court of the State of California for the County of Los Angeles, alleging the Company failed to timely provide final paychecks upon separation. Plaintiff is seeking unspecified premium wages, attorneys' fees and costs, disgorgement of profits, and an injunction against the alleged unlawful practices. Plaintiff's claims will be adjudicated through the arbitration. There is no known insurance coverage for this matter. Should the matter be decided against the Company, the Company could not only incur substantial liability, but also experience an increase in similar suits and suffer reputational harm. The Company is unable to predict the financial outcome of these matters at this time, and any views formed as to the viability of these claims or the financial exposure which could result may change from time to time as the matters proceed through their course. However, no assurance can be made that these matters, either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, which could have a material adverse effect upon the Company's financial condition and results of operations.

On or about February 9, 2011, Jessica Heupel, a former retail employee filed suit on behalf of putative classes of current and former non-exempt California employees (Jessica Heupel, individually and on behalf of all others

similarly situated v. American Apparel Retail, Inc., Case No. 37-2011-00085578-CU-OE-CTL) in the San Diego Superior Court of the State of California, alleging the Company failed to pay certain wages for hours worked, to provide meal and rest periods or compensation in lieu thereof, and to pay wages due upon separation. The plaintiff is seeking monetary damages as follows: (1) for alleged meal and rest period violations; (2) for alleged failure to timely pay final wages, as well as for punitive damages for the same; and (3) unspecified damages for unpaid minimum wage and overtime. In addition, Plaintiff seeks premium pay, wages and penalties, injunctive relief and restitution, and reimbursement of attorneys' fees, interest and the costs of the suit. Plaintiff's claims will be adjudicated through the arbitration. There is no known insurance coverage for this matter. Should the matter be decided against the Company, the Company could not only incur substantial liability, but also experience an increase in similar suits and suffer reputational harm. The Company is unable to predict the financial outcome of these matters at this time, and any views formed as to the viability of these claims or the financial exposure which could result may change from time to time as the matters proceed through their course. However, no assurance can be made that these matters, either individually or together with the potential for similar suits and reputational harm, will not result in a material financial

exposure, which could have a material adverse effect upon the Company's financial condition and results of operations.

Two shareholder derivative lawsuits, entitled Nikolai Grigoriev v. Dov Charney, et al., Case No. CV106576 GAF (JCx) (the "Grigoriev Action") and Andrew Smukler v. Dov Charney, et al., Case No. CV107518 RSWL (FFMx) (the "Smukler Action"), were filed in the United States District Court for the Central District of California on September 2, 2010 and October 7, 2010, respectively, and four shareholder derivative lawsuits, entitled John L. Smith v. Dov Charney, et al., Case No. BC 443763 (the "Smith Action"), Lisa Kim v. Dov Charney, et al., Case No. BC 443902 (the "Kim Action"), Teresa Lankford v. Dov Charney, et al., Case No. BC 445094 (the "Lankford Action"), and Wesley Norris v. Dov Charney, et al., Case No. BC 447890 (the "Norris Action") were filed in the Superior Court of the State of California, County of Los Angeles on August 16, 2010, September 3, 2010, September 7, 2010, and October 21, 2010, respectively, by persons identifying themselves as American Apparel shareholders and purporting to act on behalf of American Apparel, naming American Apparel as a nominal defendant and certain current and former officers, directors, and executives of the Company as defendants. Plaintiffs in the Grigoriev Action, Smukler Action, Smith Action, Kim Action, and Norris Action allege causes of action for breach of fiduciary duty arising out of (i) the Company's alleged failure to maintain adequate accounting and internal control policies and procedures; and (ii) the Company's alleged violation of state and federal immigration laws in connection with the previously disclosed termination of over 1,500 employees following an Immigration and Customs Enforcement inspection. The Lankford Action alleges seven causes of action for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets also arising out of (i) the Company's alleged failure to maintain adequate accounting and internal control policies and procedures; and (ii) the Company's alleged violation of state and federal immigration laws in connection with the previously disclosed termination of over 1,500 employees following an Immigration and Customs Enforcement inspection. On November 4, 2010, the four lawsuits filed in the Superior Court of the State of California were consolidated for all purposes into a case entitled In re American Apparel, Inc. Shareholder Derivative Litigation, Lead Case No. BC 443763 (the "State Derivative Action"). On November 12, 2010, the two lawsuits filed in the United States District Court for the Central District of California were consolidated for all purposes into a case entitled In re American Apparel, Inc. Shareholder Derivative Litigation, Lead Case No. CV106576 (the "Federal Derivative Action"). Plaintiffs in the Federal Derivative Action must file a consolidated amended complaint by May 31, 2011. On April 12, 2011, the Court issued an order staying the State Derivative Action on the grounds that the case is duplicative of the Federal Derivative Action, as well as the putative securities class action currently pending in the U.S. District Court for the Central District of California (see below). Plaintiffs in each of the derivative cases seek damages on behalf of the Company in an unspecified amount, as well as equitable and injunctive relief. The Company does not maintain any exposure to loss in connection with these shareholder derivative lawsuits. The lawsuits do not assert any claims against the Company. The Company's status as a "Nominal Defendant" in the actions reflects the fact that the lawsuits are maintained by the named plaintiffs on behalf of American Apparel and that plaintiffs seek damages on behalf of the Company.

Four putative class action lawsuits, entitled Anthony Andrade v. American Apparel, et al., Case No. CV106352 MMM (RCx), Douglas Ormsby v. American Apparel, et al., Case No. CV106513 MMM (RCx), James Costa v. American Apparel, et al., Case No. CV106516 MMM (RCx), and Wesley Childs v. American Apparel, et al., Case No. CV106680 GW (JCGx), were filed in the United States District Court for the Central District of California on August 25, 2010, August 31, 2010, August 31, 2010, and September 8, 2010, respectively, against the Company and certain of its officers and executives on behalf of American Apparel shareholders who purchased the Company's common stock between December 19, 2006 and August 17, 2010. On December 3, 2010, the four lawsuits were consolidated for all purposes into a case entitled In re American Apparel, Inc. Shareholder Litigation, Lead Case No. CV106352 (the "Federal Securities Action"). On March 14, 2011, the United States District Court appointed the firm of Barroway Topaz, LLP to serve as lead counsel and Mr. Charles Rendelman to serve as lead plaintiff. On April 29, 2011, Mr. Rendelman filed an Amended Class Action Complaint against the Company, certain of its officers, and Lion, alleging two causes of action for violations of Section 10(b) and 20(a) of the 1934 Act, and Rules 10b-5

promulgated under Section 10(b), arising out of alleged misrepresentations contained in its press releases, public filings with the SEC, and other public statements relating to (i) the adequacy of its internal and financial control policies and procedures; (ii) its employment practices; and (iii) the effect that the dismissal of over 1,500 employees following an Immigration and Customs Enforcement inspection would have on the Company. Discovery is stayed in the Federal Securities Action, as well as in the Federal Derivative Action, pending resolution of any forthcoming motions to dismiss the Federal Securities Action. Plaintiffs seek damages in an unspecified amount, reasonable attorneys fees and costs, and equitable relief as the Court may deem proper. The Company is unable to predict the financial outcome of these matters at this time, and any views formed as to the viability of these claims or the financial exposure which could result may change from time to time as the matters proceed through their course. However, no assurance can be made that these matters, either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, which could have a material adverse effect upon the Company's financial condition and results of operations.

In August 2010, the Company received a subpoena from the United States Attorney's Office for the Central District of California for documents relating to an official criminal investigation being conducted by the Federal Bureau of Investigation into the change in the Company's registered independent accounting firm and the Company's financial reporting and internal controls. The Company has also received a subpoena from the SEC for documents relating to its investigation surrounding the change in the Company's registered independent accounting firm and the Company's financial reporting and internal controls. The Company intends to cooperate fully with these subpoenas and investigations.

On May 9, 2011, the Company received a subpoena from the United States Attorney's Office for the Central District of California for documents relating to a complaint filed by a former employee with the Occupational Safety & Health Administration in November 2010 that contains allegations regarding, inter alia, the Company's policies with respect to and accounting of foreign currency transactions and transfer pricing. The Company intends to fully cooperate with this subpoena.

On February 17, 2011, the Company filed complaints in arbitration against five former employees seeking: (1) declaratory relief that the arbitration, confidentiality, severance and bonus agreements signed by the former employees are valid and enforceable; (2) damages in the event the former employees or anyone of them breaches their confidentiality agreements, as threatened; (3) attorneys' fees and costs incurred to compel the suit into arbitration; (4) declaratory relief that the former employees' claims of sexual harassment and sexual assault are false and without merit; and (5) declaratory relief that the former employees have attempted to engage in abuse of process for the purpose of extorting from the Company and Dov Charney money solely to avoid public shame and economic loss. On March 4, 2011, one such former employee filed suit against American Apparel, Dov Charney, and the members of the Board of Directors of American Apparel in the Supreme Court of New York, County of Kings, Case No. 5018-11. The suit alleges sexual harassment, gender discrimination, retaliation, negligent hiring and supervision, intentional and negligent infliction of emotional distress, fraud and unpaid wages, and seeks, among other things, an award of compensatory damages, exemplary damages, attorneys' fees and costs, all in an amount of at least \$250,000. On March 23, 2011, three of the other former employees filed a consolidated suit against American Apparel and Dov Charney in the Los Angeles Superior Court for the State of California, Case No. BC457920. Such action alleges sexual harassment, failure to prevent harassment and discrimination, intentional infliction of emotional distress, assault and battery, and a declaratory judgment that the confidentiality and arbitration agreements signed by plaintiffs are unenforceable. Such action seeks monetary damages, various forms of injunctive relief, and attorneys' fees and costs. The remaining plaintiffs seek only a declaratory judgment that the confidentiality and arbitration agreements they signed are unenforceable. On April 27, 2011, three of the former employees filed suit against the Company, Dov Charney and a Company employee in the Los Angeles Superior Court, State of California, Case No. BC460331, asserting claims for Impersonation through Internet or Electronic Means, Intentional Infliction of Emotional Distress, Defamation, Invasion of Privacy/False Light, and Invasion of Privacy/Appropriation of Likeness. Such action seeks monetary damages, injunctive relief and attorneys' fees and costs. The Company believes that each of the above described actions are covered by insurance, subject to a deductible, and is awaiting confirmation of coverage from its carriers. The Company does not believe that any of these claims will exceed the amount of the Company's available insurance, although the views formed as to the viability of these claims or the financial exposure which could result may change from time to time as the matters proceed through their course.

The Company is currently engaged in other employment-related claims and other matters incidental to the Company's business. Management believes that all such claims against the Company are without merit or not material, and the Company intends to vigorously dispute the validity of the plaintiffs' claims. While the ultimate resolution of such claims cannot be determined, based on information at this time, the Company believes the amount, and ultimate liability, if any, with respect to these actions will not materially affect the Company's business, financial position, results of operations, or cash flows. The Company cannot assure you, however, that such actions will not have a

material adverse effect on the Company's consolidated results of operations, financial position or cash flows.

Schedule II
American Apparel, Inc. and Subsidiaries
Valuation and Qualifying Accounts

Description	Balance at Beginning of Year	Charged to costs and Expenses	Deductions (recoveries)	Other	Balance at End of Year
Allowance for trade accounts receivable:					
For the year ended December 31, 2009	\$1,441	\$572	\$(220)	\$(30) ¹	\$1,763
For the year ended December 31, 2008	\$1,876	\$598	\$—	\$(1,033) ¹	\$1,441
For the year ended December 31, 2007	\$2,189	\$—	\$(313)	\$—	\$1,876

¹ Foreign exchange rate fluctuation

Supplementary Financial Information

The following quarterly data are derived from the Company's consolidated statements of operations.

QUARTERLY INFORMATION (unaudited)

(Amounts in thousands except per share amounts)

	Quarter Ended December 31, 2009	Quarter Ended September 30, 2009	Quarter Ended June 30, 2009	Quarter Ended March 31, 2009	Year Ended December 31, 2009
Fiscal 2009					
Net sales	\$ 158,111	\$ 150,319	\$ 136,061	\$ 114,284	\$ 558,775
Gross profit	\$ 87,016	\$ 87,285	\$ 80,214	\$ 65,397	\$ 319,912
Net income (loss)	\$ 3,049	\$ 4,160	\$ 4,462	\$ (10,559)	) \$ 1,112
Earnings (loss) per share-basic	\$ 0.04	\$ 0.06	\$ 0.06	\$ (0.15)	) \$ 0.02
Earnings (loss) per share-diluted	\$ 0.04	\$ 0.05	\$ 0.06	\$ (0.15)	) \$ 0.01
	Quarter Ended December 31, 2008	Quarter Ended September 30, 2008	Quarter Ended June 30, 2008	Quarter Ended March 31, 2008	Year Ended December 31, 2008
Fiscal 2008					
Net sales	\$ 145,644	\$ 154,801	\$ 132,971	\$ 111,634	\$ 545,050
Gross profit	\$ 79,410	\$ 76,076	\$ 77,956	\$ 60,979	\$ 294,421
Net income	\$ 3,884	\$ 2,333	\$ 6,791	\$ 1,104	\$ 14,112
Earnings per share-basic	\$ 0.05	\$ 0.03	\$ 0.10	\$ 0.02	\$ 0.20
Earnings per share-diluted	\$ 0.05	\$ 0.03	\$ 0.10	\$ 0.02	\$ 0.20

Seasonality

The Company experiences seasonality in its operations. Historically, sales during the second and third fiscal quarters have generally been the highest, with sales during the first fiscal quarter the lowest. This reflects the combined impact of the seasonality of the wholesale and retail segments. Generally, the Company's retail segment has not experienced the same pronounced sales seasonality as other retailers.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures
On April 3, 2009, the Company's audit committee dismissed Marcum LLP ("Marcum"), formerly Marcum & Kliegman LLP, as the Company's independent registered public accounting firm. The decision to change independent registered public accounting firms was not the result of any disagreement between the Company and Marcum on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedure. The audit reports of Marcum with respect to the consolidated financial statements as of and for the fiscal years ended December 31, 2008 and 2007 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty or audit scope.

On April 3, 2009, the Company's audit committee engaged Deloitte & Touche LLP ("D&T") as its independent registered public accounting firm to audit its financial statements for the year ended December 31, 2009. During the Company's two most recent years ended December 31, 2008 and subsequent interim period through April 3, 2009, the Company did not consult with D&T with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's consolidated financial statements or any other matters or reportable events as set forth in Items 304 (a) (2) (i) and (ii) of Regulation S-K.

Effective July 22, 2010, D&T resigned as the independent registered public accounting firm of the Company. D&T served as the Company's independent registered public accounting firm since April 3, 2009.

During the period from April 3, 2009 through July 22, 2010, the Company had no disagreements with D&T on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure that, if not resolved to D&T's satisfaction, would have caused D&T to make reference to the subject matter thereof in connection with its report on the Company's consolidated financial statements for the year ended December 31, 2009.

D&T's audit report dated March 31, 2010 (which was included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, filed with the SEC on March 31, 2010 (the "2009 Form 10-K") on the Company's consolidated financial statements as of, and for the year ended, December 31, 2009 did not contain an adverse opinion or a disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope, or accounting principles.

During the period from April 3, 2009 through July 22, 2010, there were no "reportable events" (as defined in Item 304(a)(1)(v) of Regulation S-K), except that (i) in D&T's report dated March 31, 2010 (which was included in the 2009 Form 10-K) on the Company's internal control over financial reporting as of December 31, 2009, D&T identified material weaknesses in internal control over financial reporting related to the control environment and to the financial closing and reporting process, which are further described under Item 9A in the Company's 2009 Form 10-K, and advised that the Company has not maintained effective internal control over financial reporting as of December 31, 2009; and (ii) D&T advised the Company that certain information had come to D&T's attention, that if further investigated might materially impact the reliability of either its previously issued audit report or the underlying consolidated financial statements for the year ended December 31, 2009 included in the Company's 2009 Form 10-K. D&T requested that the Company provide D&T with the additional information D&T believed was necessary to review before the Company and D&T could reach any conclusions as to the reliability of the previously issued consolidated financial statements for the year ended December 31, 2009 and auditors' report thereon.

The Audit Committee of the Board of Directors of the Company discussed each of these matters with D&T. The Company authorized D&T to respond fully to the inquiries of the Company's successor accountants concerning each of these matters.

On July 26, 2010, the Audit Committee engaged Marcum as the Company's independent auditors to audit the Company's financial statements. During the fiscal years ended December 31, 2008 and 2009, and the subsequent interim period from January 1, 2010 through July 26, 2010, the Company has not, and no one on the Company's behalf

has, consulted with Marcum on any of the matters or events set forth in Item 304(a)(2) of Regulation S-K, except that (i) Marcum audited the Company's consolidated financial statements as of, and for the year ended, December 31, 2008, (ii) Marcum expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting as described in the Company's Amendment No. 1 to Current Report on Form 8-K/A filed with the SEC on April 10, 2009, (iii) the Company discussed certain matters with Marcum as described in the Company's Current Report on Form 8-K filed with the SEC on July 23, 2009, (iv) Marcum reissued its auditors' report, dated August 12, 2009, in conjunction with the Company's Amendment No. 1 to its Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on August 13, 2009, and the 2009 Form 10-K, (v) Marcum performed related auditing, review and updating procedures during the time period that Marcum was terminated as the Company's independent registered public accounting firm, effective April 3, 2009, and the date that Marcum was reappointed on July 26, 2010.

On December 10, 2010, at the Company's 2010 Annual Meeting of Stockholders, Marcum was ratified as the Company's independent auditors for the fiscal year ending December 31, 2010. In connection with the ratification, the Audit Committee and management also formally engaged Marcum to begin to reaudit the fiscal year ending December 31, 2009.

Since July 2010, the Company has responded to a series of information requests from D&T to provide the additional information sought by D&T and has met with representatives of D&T to discuss the information and respond to additional questions from time to time.

On December 15, 2010, the Audit Committee of the Company received notice from D&T stating that D&T had concluded that D&T's report on the Company's previously issued consolidated financial statements as of and for the year ended December 31, 2009 (the "2009 financials"), including D&T's report on internal control over financial reporting at December 31, 2009, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 (such reports, collectively, the "D&T Reports") should not be relied upon or associated with the 2009 financials.

D&T explained that its conclusion was based on the significance of the declines in operations and gross margin in the Company's February 2010 monthly financial statement, combined with the January 2010 monthly financial statements, the Company's issuance of revised projections in early May 2010 which reflected a significant decrease in the Company's 2010 projections, and D&T's disagreement with the Company's conclusion that the results shown in the February 2010 monthly financial statements would not have required a revision to the Company's projections as of the date of the 10-K filing and the issuance of D&T's reports. D&T further indicated that their decision considered their inability to perform additional audit procedures, their resignation as registered public accountants and their professional judgment that they are no longer willing to rely on management's representations due to D&T's belief that management withheld from D&T the February 2010 monthly financial statements until after the filing of the 2009 10-K and made related misrepresentations. The Audit Committee has discussed the matters disclosed herein with D&T.

The Audit Committee and the Company's management are currently evaluating these matters. The Audit Committee of the Company has commenced an investigation into the assertions that management withheld the February 2010 monthly financial statements and related misrepresentations. Management disagrees with D&T's assertions and does not believe that the February 2010 monthly financial statements were withheld.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report on Form 10-K, we performed an evaluation under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, of the design and effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934 as amended (the “Exchange Act”). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded, as of the end of the period covered by this Annual Report that our disclosure controls and procedures were not effective due to material weaknesses in internal control over financial reporting as discussed in Management’s Report on Internal Control Over Financial Reporting referred to below.

Notwithstanding the material weaknesses described in Management’s Report on Internal Control Over Financial Reporting, our management has concluded that our consolidated financial statements for the periods covered by and included in this Annual Report are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) and fairly present, in all material respects, our financial position, results of operations and cash flows for each of the periods presented herein.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as is defined in the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP. Internal control over financial reporting includes maintaining records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of the assets of the Company; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements in accordance with GAAP; providing reasonable assurance that receipts and expenditures of the Company are made only in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of Company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, our management concluded that our internal control over financial reporting was not effective at December 31, 2009 because of the material weaknesses described below.

Based on the COSO criteria, management identified control deficiencies that constitute material weaknesses. A “material weakness” is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is more than a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses were identified: Material weakness related to the control environment. We concluded that, in certain instances, we did not maintain an adequate control environment that fully emphasized the establishment of, adherence to, or adequate communication regarding appropriate internal control over financial reporting. Specifically, we concluded that we did not have adequate controls in the following areas for the purposes of establishing, maintaining and communicating our control environment: (i) a sufficient number of adequately trained accounting personnel in our foreign subsidiaries with appropriate expertise in GAAP, (ii) a sufficient number of trained accounting personnel with expertise in GAAP to ensure complex material and/or non-routine transactions are properly reflected in our consolidated financial statements and (iii) a process to adequately capture and communicate relevant changes in contractual arrangements that have a financial impact. Consequently, we may not anticipate and identify accounting issues, or other risks critical

to financial reporting, that could materially impact our consolidated financial statements.

Material weakness related to financial closing and reporting process. We concluded that we did not perform adequate independent review and maintain effective controls over the preparation of financial statements in the following respects: preparation of the consolidated financial statements and related notes thereto, account analyses, account summaries and account reconciliations prepared in the areas of inventory and related inventory reserves, fixed assets, deferred rent, cost of sales and certain other accounts. Specifically related to inventory, we determined that certain merchandise inventory costs were not accurately analyzed and recorded by our foreign subsidiaries resulting in a material reduction in inventory and an increase in cost of sales. We also identified deficiencies in (i) our inventory costing related to our retail segment that was offset by adjustments in our transfer pricing (ii) our identification and evaluation of manufacturing variances resulting from out-of-date standard costs and recent changes in the manufacturing process and (iii) the timely completion of our evaluation of excess and obsolete inventory reserves. These deficiencies in our internal controls over the financial closing and reporting process increase the likelihood of potential material errors to the consolidated financial statements.

Remediation of Previously Identified Material Weakness & Other Remediation Activities

While we implemented certain controls to remediate deficiencies in our internal controls over financial reporting during 2009, certain material weaknesses identified as of December 31, 2008 still remain to be remediated. Our material weaknesses as of December 31, 2009 represent continuing material weaknesses identified as of December 31, 2008. The following describes the remediation activities performed during 2009 for the partially remediated material weaknesses in the control environment and financial closing and reporting process, as well as, the completed remediation of the material weakness over the inadequate financial information systems as disclosed in the quarterly report on Form 10-Q for the quarter ended September 30, 2009.

Material weakness related to the control environment.

We filled certain key financial reporting positions at our international subsidiaries as well as our corporate headquarters which has helped to strengthen our internal and external financial reporting teams. These additional resources enhance our technical GAAP capabilities and are addressing weaknesses in financial closing and reporting processes by improving our internal controls related to review procedures, strengthening our segregation of duties as well as enhancing our ability to account for and report on complex material and/or non-routine transactions.

Material weakness related to financial closing and reporting process.

Over the course of 2009, we continued to deploy additional modules and functionality of our integrated ERP system at our manufacturing facilities. We also continued to enhance the existing functionality and reporting capabilities of the inventory and manufacturing modules of the same integrated ERP system. Deployment of this ERP system has already substantially improved the inventory and cost accounting systems and related internal controls. It is expected that deployment of new functionality, as well as, enhancement of existing functionality will significantly address the remaining deficiencies related to inventory closing and reporting processes.

During the fourth quarter of 2009, we deployed a sophisticated information system for financial consolidation and reporting. We expect that the deployment of this information system will substantially improve our financial reporting process and internal controls related to reporting of inventory, fixed assets and certain other key accounts. It is expected that the controls implemented in the context of deployment of this new information system will require time to reach full operating effectiveness which is anticipated during the first half of 2010.

We have also implemented or improved internal controls related to inventory estimates for (i) shrinkage (ii) excess and obsolete inventory and (iii) fixed asset impairment. We have also implemented internal controls around the capitalization of interest expense for store build outs, implemented additional expense accruals control to account for gift card liabilities and other company expenses, and implemented additional controls around reclassification entries at the corporate level in order to help ensure proper presentation of certain financial accounts and balances.

Inadequate Financial Information Systems.

We identified systems and applications that impact financial reporting and have taken actions to safeguard financial reporting information assets, as well as, to help ensure the integrity of financial information used in the preparation of financial reports. We adopted an Information Technology framework, documented key information technology controls and addressed control weaknesses that could potentially impact financial reporting. In addition, we implemented a number of new policies, procedures, and controls in the areas of information security, change

management, operations and end-user computing. The implementation of an integrated ERP system for our U.S. operations as of the second quarter of 2009 increased timeliness and accuracy of our financial information. We have reviewed our personnel and information systems for foreign operations and have added professional staff resources for review and control over financial reporting by our foreign operations.

We have placed substantial mitigating controls around our manual consolidation process, and we are in the process of implementing a high-level replacement system for those manual processes to further improve controls and to reduce the time required to produce its financial statements and regulatory filings. In addition, we have identified and implemented additional review controls over financial reporting to validate information derived from its information systems and ultimately reported in our financial statements.

Changes in Internal Controls over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the most recent fiscal quarter ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting, except for the implementation and deployment of a sophisticated information system for financial consolidation and reporting as discussed above in Remediation of Previously Identified Material Weakness & Other Remediation Activities.

Management's Plan to Remediate Material Weaknesses

We have developed plans for 2010 to continue to remediate the outstanding material weaknesses described above in Management's Report on Internal Control Over Financial Reporting. We are committed to remediating these material weaknesses and estimate that the material weaknesses will be remediated by the end of 2010. We do not anticipate incurring substantial costs in connection with the remediation efforts, with the exception of hiring additional technically qualified resources in our domestic and international finance departments. The following describes our remediation plans for 2010:

Material weakness related to the control environment: We have identified a number of additional resources necessary to improve the overall domestic and international financial accounting and reporting departments. We are in process of recruiting resources for some of these key financial positions that are expected to enhance the overall technical capabilities of our resources. Additionally, we are evaluating appropriate training for existing personnel in the areas of GAAP and the development of corporate wide procedures to facilitate uniform application of accounting policies on a global basis. We will take necessary steps to improve the process of evaluating, identifying and communicating changes in contractual arrangements to ensure the potential financial statement impact of such changes is considered on a timely basis.

Material weakness related to financial closing and reporting process: During 2010, we will continue to improve the preparation and review of account reconciliations by developing specific procedures to monitor and evaluate the key accounts. Additionally, we will provide additional training to our personnel to strengthen their GAAP knowledge and ability to identify potential errors in the underlying business processes. To address inventory costing, we are in the process of (i) transitioning responsibility for maintaining and establishing standard costs from our production planning department to our accounting department (ii) enhancing production reporting capabilities in order to separately record and analyze key production variances (iii) developing automated capabilities to capture direct labor to specific production runs and (iv) enhancing our international cost accounting procedures for intercompany inventory transfers and costing.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the
Board of Directors and Stockholders
of American Apparel, Inc.

We have audited American Apparel, Inc. and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in "Management's Report on Internal Control Over financial Reporting":

Material weakness related to the control environment. The Company did not maintain an adequate control environment that fully emphasized the establishment of, adherence to, or adequate communication regarding appropriate internal control over financial reporting. Specifically, the Company did not have adequate controls in the following areas for the purposes of establishing, maintaining and communicating its control environment; (i) a sufficient number of adequately trained accounting personnel in its foreign subsidiaries with appropriate expertise in

GAAP, (ii) a sufficient number of trained accounting personnel with expertise in GAAP to ensure complex material and/or non-routine transactions are properly reflected in the Company's consolidated financial statements and (iii) a process to adequately capture and communicate relevant changes in contractual arrangements that have a financial impact.

Material weakness related to financial closing and reporting process. The Company did not perform adequate independent reviews and maintain effective controls over the preparation of financial statements in the following respects: preparation of the consolidated financial statements and related notes thereto, account analyses, account summaries and account reconciliations prepared in the areas of inventory and related inventory reserves, cost of sales and certain other accounts. Specifically related to inventory, it was determined that certain merchandise inventory costs were not accurately analyzed and recorded by the Company's foreign subsidiaries resulting in a material reduction in inventory and an increase in cost of sales. Deficiencies were also noted in (i) the Company's inventory costing related to its retail segment that was offset by adjustments in transfer pricing, (ii) the Company's identification and evaluation of manufacturing variances resulting from out-of-date standard costs and recent changes in the manufacturing process and (iii) the timely completion of the Company's evaluation of excess and obsolete inventory.

These material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audit of the Company's fiscal December 31, 2009 consolidated financial statements and financial statement schedule, and this report does not affect our report thereon dated March 31, 2011, except for Note 22 which is May 16, 2011.

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2009 and 2008 and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows and the related financial statement schedule for the years ended December 31, 2009, 2008 and 2007 of the Company and our report dated March 31, 2011, except for Note 22 which is May 16, 2011, expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Marcum LLP
Marcum LLP
New York, NY
March 31, 2011

PART IV

Item 15. Exhibits, Financial Statement Schedules

- (a) Documents filed as part of this Annual Report on Form 10-K/A:
1. Financial Statements: See “Index to Consolidated Financial Statements” in Part II, Item 8 of this Form 10-K/A.
 2. Financial Statement Schedule: The following consolidated financial statement schedule of American Apparel, Inc. and its subsidiaries is included in Part II, Item 8:

Schedule II—Valuation and Qualifying Accounts

Schedules other than those listed above are omitted because of an absence of the conditions under which they are required or because the required information is shown in the consolidated financial statements and/or notes thereto.

- (b) Exhibits: The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this Annual Report on Form 10-K/A.

In reviewing the agreements included as exhibits to this Annual Report on Form 10-K/A, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about our or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about our may be found elsewhere in this Annual Report on Form 10-K/A and in our other public filings, which are available without charge through the SEC’s website at <http://www.sec.gov>.

Exhibit No.	Description
2.1	Acquisition Agreement, dated as of December 18, 2006 and amended and restated on November 7, 2007, by and among the Registrant, AAI Acquisition LLC, American Apparel, Inc., a California corporation, American Apparel, LLC, each of American Apparel Canada Wholesale Inc. and American Apparel Canada Retail Inc. (together the “CI companies”), Dov Charney, Sam Lim, and the stockholders of each of the CI companies (included as Annex A of the Definitive Proxy Statement (File No. 001-32697) filed November 28, 2007 and incorporated by reference herein)
3.1	Amended and Restated Certificate of Incorporation of the Registrant (included as Exhibit 3.1 of the Current Report on Form 8-K (File No. 001-32697) filed December 18, 2007 and incorporated by reference herein)
3.2	Bylaws of the Registrant (included as Exhibit 3.1 of the Current Report on Form 8-K (File No. 001-32697) filed November 9, 2007 and incorporated by reference herein)
3.3	Certificate of Amendment to Certificate of Formation of American Apparel (USA), LLC (included as Exhibit 3.3 to Form 10-K (File No 001-32697) filed March 17, 2008 and incorporated by reference herein)
4.1	Specimen Common Stock Certificate (included as Exhibit 4.2 of the Current Report on Form 8-K (File No. 001-32697) filed December 18, 2007 and incorporated by reference herein)
4.2	Registration Rights Agreement, dated December 12, 2007, by and among the Registrant and the stockholders listed on the signature page therein (included as Annex H of the Definitive Proxy Statement (File No. 001-32697) filed November 28, 2007 and incorporated by reference herein)
4.3	Voting Agreement, dated December 12, 2007, between the Registrant and the Stockholders listed on the signature page therein (included as Annex E of the Definitive Proxy Statement (File No. 001-32697), filed November 28, 2007 and incorporated by reference herein)
4.4	Lock-Up Agreement, dated December 12, 2007, between the Registrant and Dov Charney (included as Annex D of the Definitive Proxy Statement (File No. 001-32697), filed November 28, 2007 and incorporated by reference herein)
4.5	Letter Agreement Re: Extension of Lock-Up Agreement, dated March 13, 2009, among Dov Charney, Lion Capital (Guernsey) II Limited and the Registrant (included as Exhibit 10.5 of the Current Report on Form 8-K (File No 001-32697) filed March 16, 2009 and incorporated by reference herein)
4.6	Warrants to Purchase Shares of Common Stock of the Registrant, dated December 19, 2008, issued to SOF Investments, L.P.—Private IV (included as Exhibit 10.2 of the Current Report on Form 8-K (File No. 001-32697) filed December 19, 2008 and incorporated by reference herein)
4.7	Warrants to Purchase Shares of Common Stock of the Registrant, dated March 13, 2009, issued to Lion Capital (Guernsey) II Limited (included as Exhibit 10.3 of the Current Report on Form 8-K (File No 001-32697) filed March 13, 2009 and incorporated by reference herein)
4.8	Investment Agreement, dated March 13, 2009, between the Registrant and Lion Capital (Guernsey) II Limited (included as Exhibit 10.2 of the Current Report on Form 8-K (File No 001-32697) filed March

16, 2009 and incorporated by reference herein)

4.9 Investment Voting Agreement, dated March 13, 2009, between the Registrant and Lion Capital (Guernsey) II Limited (included as Exhibit 10.4 of the Current Report on Form 8-K (File No 001-32697) filed March 16, 2009 and incorporated by reference herein)

10.1+ Employment Agreement, dated December 12, 2007, between the Registrant, American Apparel, LLC and Dov Charney (included as Annex J of the Definitive Proxy Statement (File No. 001-32697) filed November 28, 2007 and incorporated by reference herein)

Exhibit No.	Description
10.2	Escrow Agreement, dated July 2, 2007, by and among the Registrant, Dov Charney and Continental Stock Transfer & Trust Company (included as Annex G of the Definitive Proxy Statement (File No. 001-32697) filed November 28, 2007 and incorporated by reference herein)
10.3+	Registrant's 2007 Performance Incentive Equity Plan (included as Annex C of the Definitive Proxy Statement (File No. 001-32697) filed November 28, 2007 and incorporated by reference herein)
10.4+	First Amendment to the 2007 Performance Equity Plan (included as Exhibit 10.1 of Current Report on Form 8-K (File No. 001-32697) filed October 30, 2008 and incorporated by reference herein)
10.5	Credit Agreement, dated as of July 2, 2007 (the "BofA Credit Agreement"), among American Apparel (USA), LLC ("AAUSA" and f/k/a AAI Acquisition LLC (successor by merger to American Apparel, Inc.)), the other borrowers thereto, the facility guarantors party thereto, Bank of America, N.A. (successor by merger to LaSalle Bank National Association) as issuing bank, the other lenders thereto, Bank of America, N.A. (successor by merger of LaSalle Business Credit, LLC, as agent for LaSalle Bank Midwest National Association, acting through its division, LaSalle Retail Finance) as administrative agent and collateral agent, and Wells Fargo Retail, Finance, LLC as the collateral monitoring agent. (included as Exhibit 10.8 of the Current Report on Form 8-K (File No. 001-32697) filed December 18, 2007 and incorporated by reference herein)
10.6	First Amendment to Credit Agreement, dated October 11, 2007, amending the BofA Credit Agreement (included as Exhibit 10.9 of the Current Report on Form 8-K (File No. 001-32697) filed December 18, 2007 and incorporated by reference herein)
10.7	Second Amendment and Waiver to Credit Agreement, dated November 26, 2007, amending the BofA Credit Agreement (included as Exhibit 10.10 of the Current Report on Form 8-K (File No. 001-32697) filed December 18, 2007 and incorporated by reference herein)
10.8	Third Amendment to Credit Agreement, dated December 12, 2007, amending the BofA Credit Agreement (included as Exhibit 10.7 of Amendment No. 1 to the Annual Report on Form 10-K/A (File No. 001-32697) filed March 28, 2008 and incorporated by reference herein)
10.9	Waiver to Credit Agreement, dated February 29, 2008, waiving certain provisions in BofA Credit Agreement (included as Exhibit 10.8 of Amendment No. 1 to the Annual Report on Form 10-K/A (File No. 001-32697) filed March 28, 2008 and incorporated by reference herein)
10.10	Waiver to Credit Agreement, dated May 16, 2008, waiving certain provisions in BofA Credit Agreement (included as Exhibit 10.28 of Quarterly Report on Form 10-Q (File No. 001-32697) filed May 16, 2008 and incorporated by reference herein)
10.11	Waiver to Credit Agreement, dated as of June 5, 2008, amending the BofA Credit Agreement (included as Exhibit 10.1 of Current Report on Form 8-K (File No. 001-32697) filed June 9, 2008 and incorporated by reference herein)
10.12	Fourth Amendment to Credit Agreement, dated June 20, 2008, amending the BofA Credit Agreement (included as Exhibit 10.1 of Current Report on Form 8-K (File No. 001-32697) filed June 24, 2008 and incorporated by reference herein)

- 10.13 Fifth Amendment to Credit Agreement, dated as of December 19, 2008, amending the BofA Credit Agreement (included as Exhibit 10.1 of Current Report on Form 8-K (File No. 001-32697) filed December 19, 2008 and incorporated by reference herein)
- 10.14 Sixth Amendment to Credit Agreement, dated as of March 13, 2009, amending the BofA Credit Agreement (included as Exhibit 10.7 of Current Report on Form 8-K (File No. 001-32697) filed March 16, 2009 and incorporated by reference herein)
-

Exhibit No.	Description
10.15	Seventh Amendment to Credit Agreement, dated as of December 30, 2009, amending the BofA Credit Agreement (included as Exhibit 10.2 of the Current Report on Form 8-K (File No. 001-32697) filed January 6, 2010 and incorporated by reference herein
10.16	Credit Agreement, dated as of January 18, 2007 (the “SOF Agreement”), among AAUSA, the Facility Guarantors, and SOF Investments, L.P.—Private IV (“SOF”) (included as Exhibit 10.11 of the Current Report on Form 8-K (File No. 001-32697) filed December 18, 2007 and incorporated by reference herein)
10.17	Amendment No. 1 and Waiver to Credit Agreement of AAUSA, dated as of July 2, 2007, amending the SOF Agreement, among AAUSA, the Facility Guarantors, and SOF (included as Exhibit 10.12 of the Current Report on Form 8-K (File No. 001-32697) filed December 18, 2007 and incorporated by reference herein)
10.18	Amendment No. 2 and Waiver to Credit Agreement of AAUSA, dated as of November 9, 2007, amending the SOF Agreement, among AAI, the Facility Guarantors, and SOF (included as Exhibit 10.13 of the Current Report on Form 8-K (File No. 001-32697) filed December 18, 2007 and incorporated by reference herein)
10.19	Amendment No. 3 and Waiver to Credit Agreement of AAUSA, dated as of November 28, 2007, amending the SOF Agreement, among AAI, the Facility Guarantors, and SOF (included as Exhibit 10.14 of the Current Report on Form 8-K (File No. 001-32697) filed December 18, 2007 and incorporated by reference herein)
10.20	Amendment No. 4 and Waiver to Credit Agreement of AAUSA, dated as of December 12, 2007, amending the SOF Agreement, among AAI, the Facility Guarantors, and SOF (included as Exhibit 10.13 of Amendment No. 1 to the Annual Report on Form 10-K/A (File No. 001-32697) filed March 28, 2008 and incorporated by reference herein)
10.21	Amendment No. 5 and Waiver to Credit Agreement of AAUSA, dated as of February 29, 2008, amending the SOF Agreement, among American Apparel (USA), LLC, the Facility Guarantors, and SOF (included as Exhibit 10.14 of Amendment No. 1 to the Annual Report on Form 10-K/A (File No. 001-32697) filed March 28, 2008 and incorporated by reference herein)
10.22	Amendment No. 6 and Waiver to Credit Agreement of AAUSA, dated as of May 16, 2008, amending the SOF Agreement, among American Apparel (USA), LLC, the Facility Guarantors, and SOF (included as Exhibit 10.27 of Quarterly Report on Form 10-Q (File No. 001-32697) filed May 16, 2008 and incorporated by reference herein)
10.23	Amendment No. 7 to Credit Agreement of AAUSA, dated as of June 20, 2008, amending the SOF Agreement, among American Apparel (USA), LLC, the Facility Guarantors, and SOF (included as Exhibit 10.2 of Current Report on Form 8-K (File No. 001-32697) filed June 24, 2008 and incorporated by reference herein)
10.24	Amendment No. 8 to Credit Agreement of AAUSA, dated as of November 7, 2008, amending the SOF Agreement, among American Apparel (USA), LLC, the Facility Guarantors, and SOF (included as Exhibit 10.23 of Annual Report on Form 10-K (File No. 001-32697) filed March 16, 2009 and

incorporated by reference herein)

10.25 Amendment No. 9 to Credit Agreement of AAUSA, dated as of December 19, 2008, amending the SOF Agreement, among American Apparel (USA), LLC, the Facility Guarantors, and SOF (included as Exhibit 10.3 of Current Report on Form 8-K (File No. 001-32697) filed December 19, 2008 and incorporated by reference herein)

10.26 Lease, dated June 9, 2004, by and between Titan Real Estate Investment Group, Inc., and Textile Unlimited Corp., E&J Textile Group, Inc., and Johnester Knitting, Inc. (jointly and severally) (included as Exhibit 10.15 of the Current Report on Form 8-K (File No. 001-32697) filed December 18, 2007 and incorporated by reference herein)

Edgar Filing: AMERICAN APPAREL, INC - Form 10-K/A

Exhibit No.	Description
10.27	Assignment of Lessee's Interest in Lease and Assumption Agreement, dated as of June 2, 2005, by and between Textile Unlimited Corp., E&J Textile Group, Inc., and Johnester Knitting, Inc. (jointly and severally) and American Apparel Dyeing and Finishing, Inc. (included as Exhibit 10.16 of the Current Report on Form 8-K (File No. 001-32697) filed December 18, 2007 and incorporated by reference herein)
10.28	Lease, dated December 13, 2005, by and between American Central Plaza and AAI (included as Exhibit 10.17 of the Current Report on Form 8-K (File No. 001-32697) filed December 18, 2007 and incorporated by reference herein)
10.29	Lease Amendment, effective as of November 15, 2006, by and between American Central Plaza and AAI (included as Exhibit 10.18 of the Current Report on Form 8-K (File No. 001-32697) filed December 18, 2007 and incorporated by reference herein)
10.30	Lease Amendment, effective as of March 22, 2007, by and between American Central Plaza and AAI (included as Exhibit 10.19 of the Current Report on Form 8-K (File No. 001-32697) filed December 18, 2007 and incorporated by reference herein)
10.31	Credit facilities agreement, dated December 3, 2007, among The Toronto-Dominion Bank and American Apparel Canada Wholesale Inc./American Apparel Canada Grossiste Inc. and Les Boutiques American Apparel Canada Inc./American Apparel Canada Retail Inc. (included as Exhibit 10.20 of Amendment No. 1 to the Annual Report on Form 10-K/A (File No. 001-32697) filed March 28, 2008 and incorporated by reference herein)
10.32	Lease, dated as of January 1, 2004, by and between Alameda Produce Market, Inc. and AAI (included as Exhibit 10.21 of the Current Report on Form 8-K (File No. 001-32697) filed December 18, 2007 and incorporated by reference herein)
10.33	Lease, dated as of May 12, 2004, by and between Alameda Produce Market, Inc. and AAI (included as Exhibit 10.22 of the Current Report on Form 8-K (File No. 001-32697) filed December 18, 2007 and incorporated by reference herein)
10.34+	Employment Agreement, dated as of October 26, 2006, between the Registrant and Joyce E. Crucillo (included as Exhibit 10.23 of Amendment No. 1 to the Annual Report on Form 10-K/A (File No. 001-32697) filed March 28, 2008 and incorporated by reference herein)
10.35+	First Amendment to Employment Agreement, dated as of March 11, 2009, among the Registrant, AAUSA and Joyce E. Crucillo
10.36	Asset Purchase Agreement, dated as of December 1, 2007, by and between PNS Apparel, Inc., Blue Man Group, Inc., Allen S. Yi and American Apparel, Inc. (included as Exhibit 10.24 of Amendment No. 1 to the Annual Report on Form 10-K/A (File No. 001-32697) filed March 28, 2008 and incorporated by reference herein)
10.37	Promissory Note, dated December 11, 2007, between American Apparel Canada Wholesale Inc. and Dov Charney (included as Exhibit 10.26 of Amendment No. 1 to the Annual Report on Form 10-K/A (File No. 001-32697) filed March 28, 2008 and incorporated by reference herein)

- 10.38+ Executive Services Agreement, dated May 12, 2008, by and between Tatum, LLC and the Registrant (included as Exhibit 10.1 of Current Report on Form 8-K (File No. 001-32697) filed May 22, 2008 and incorporated by reference herein)
- 10.39+ Severance Agreement and Release, dated May 22, 2008, by and between the Registrant, AAUSA and all of its subsidiaries and Ken Cieply, former Chief Financial Officer (included as Exhibit 10.5 of Quarterly Report on Form 10-Q (File No. 001-32697) filed August 15, 2008 and incorporated by reference herein)
-

Edgar Filing: AMERICAN APPAREL, INC - Form 10-K/A

Exhibit No.	Description
10.40	Promissory Note, dated December 19, 2008, between AAUSA, as maker, and Dov Charney, as payee (included as Exhibit 10.4 of Current Report on Form 8-K (File No. 001-32697) filed December 19, 2008 and incorporated by reference herein)
10.41+	Employment Agreement, dated January 27, 2009, by and between Glenn A. Weinman and the Registrant (included as Exhibit 10.1 of Current Report on Form 8-K (File No. 001-32697) filed February 2, 2009 and incorporated by reference herein)
10.42	Promissory Note, dated February 10, 2009, between AAUSA, as maker, and Dov Charney, as payee (included as Exhibit 10.1 of Current Report on Form 8-K (File No. 001-32697) filed February 12, 2009 and incorporated by reference herein)
10.43	Credit Agreement, dated as of March 13, 2009, among our, certain subsidiaries of our, the facility guarantors party thereto, Lion Capital (Guernsey) II Limited, as initial lender, other lenders from time to time party thereto and Lion Capital LLP, as the administrative agent and the collateral agent (included as Exhibit 10.1 of the Current Report on Form 8-K (File No 001-32697) filed March 13, 2009 and incorporated by reference herein)
10.44	Letter Agreement Re: Extension of Non-Competition and Non-Solicitation Covenants in Section 5.27(a) of the Merger Agreement, dated March 13, 2009, among Dov Charney, Lion Capital (Guernsey) II Limited and the Registrant (included as Exhibit 10.6 of the Current Report on Form 8-K (File No 001-32697) filed March 16, 2009 and incorporated by reference herein)
10.45	Amendment and Agreement, dated as of April 10, 2009, by and between the Registrant and Lion/Hollywood L.L.C. (included as Exhibit 10.1 of Current Report on Form 8-K (File No 001-32697) filed April 16, 2009 and incorporated by reference herein)
10.46	Agreement to Terminate Voting Agreement, entered into as of April 14, 2009, by and among the Registrant, Jonathan J. Ledecy, Cullen Equities UK Limited, Jay H. Nussbaum, Kerry Kennedy, Robert B. Hersov, Edward J. Mathias, Richard Y. Roberts and Dov Charney (included as Exhibit 10.2 of Current Report on Form 8-K (File No 001-32697) filed April 16, 2009 and incorporated by reference herein)
10.47	Second Amendment and Agreement, dated as of June 17, 2009, by and between the Registrant and Lion/Hollywood L.L.C. (included as Exhibit 10.1 of Current Report on Form 8-K (File No 001-32697) filed June 19, 2009 and incorporated by reference herein)
10.48	Third Amendment and Agreement, dated as of August 18, 2009, by and between the Registrant and Lion/Hollywood L.L.C. (included as Exhibit 10.1 of Current Report on Form 8-K (File No 001-32697) filed August 20, 2009 and incorporated by reference herein)
10.49	Waiver to Credit Agreement, dated as of September 30, 2009, among the Registrant, the facility guarantors from time to time party thereto, Wilmington Trust FSB, as the administrative agent and the collateral agent, Lion Capital (Americas) Inc., as a lender, Lion/Hollywood L.L.C., as a lender, and other lenders from time to time party thereto (included as Exhibit 10.1 of Current Report on Form 8-K (File No. 001-32697) filed October 6, 2009 and incorporated by reference herein)

Edgar Filing: AMERICAN APPAREL, INC - Form 10-K/A

- 10.50 Letter Agreement Re: Pledging of Restricted Securities, dated October 28, 2009, among Dov Charney, Lion/Hollywood L.L.C. and the Registrant (included as Exhibit 10.1 of Current Report on Form 8-K (File No. 001-32697) filed November 3, 2009 and incorporated by reference herein)
- 10.51+ American Apparel, Inc. Incentive Compensation Plan (included as Appendix A of the Revised Definitive Proxy Statement (No. 001-32697), filed September 11, 2009 and incorporated by reference herein)
-

Exhibit No.	Description
10.52	Credit Agreement, dated as of December 30, 2009, between American Apparel Canada Wholesale Inc. and American Apparel Canada Retail Inc. and Bank of Montreal (included as Exhibit 10.1 of Current Report on Form 8-K (File No. 001-32697) filed January 6, 2010 and incorporated by reference herein)
10.53	First Amendment to Credit Agreement, dated as of December 30, 2009, among American Apparel, Inc., the facility guarantors from time to time party thereto, Wilmington Trust FSB, as the administrative agent and collateral agent, Lion Capital (Americas) Inc., as a lender, Lion/Hollywood L.L.C., as a lender, and other lenders from time to time party thereto (included as Exhibit 10.3 of Current Report on Form 8-K (File No. 001-32697) filed January 6, 2010 and incorporated by reference herein)
10.54	Second Amendment to Credit Agreement, dated as of March 31, 2010, among American Apparel, Inc., the facility guarantors from time to time party thereto, Wilmington Trust FSB, as the administrative agent and collateral agent, Lion Capital (Americas) Inc., as a lender, Lion/Hollywood L.L.C., as a lender, and other lenders from time to time party thereto
10.55	Lease, dated as of July 30, 2009, by and between Alameda Produce Market, LLC and AAI
14.1	Registrant's Code of Ethics (included as Exhibit 14.1 of the Current Report for 8-K (File No. 001-32697) filed December 18, 2007 and incorporated by reference herein)
16.1	Letter of Marcum & Kliegman LLP, dated April 10, 2009 (included as Exhibit 16.1 of the Amendment No. 1 to Current Report on 8-K/A (File No. 001-32697) filed April 10, 2009 and incorporated by reference herein)
21.1	List of Subsidiaries
23.1*	Consent of Marcum LLP
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith.

+ Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERICAN APPAREL, INC.

May 16, 2011

By: /s/ DOV CHARNEY
Dov Charney
Chief Executive Officer
(Principal Executive Officer)
