

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 3

(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, 2010

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)

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Delaware
(State of Incorporation)

20-3200601
(I.R.S. Employer

Identification No.)

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

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

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

Indicate by check mark whether the registrant is 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, 2010 was approximately \$60,436,830 based upon the closing price of the common stock on such date as reported by the NYSE Amex.

The number of shares of the registrant's common stock outstanding as of May 16, 2011 was 98,547,932 (5,019,616 subject to vesting).

DOCUMENTS INCORPORATED BY REFERENCE

None.

Table of Contents

TABLE OF CONTENTS

	Page
PART II	
ITEM 9A. <u>Controls and Procedures</u>	1
PART III	
ITEM 10. <u>Directors, Executive Officers and Corporate Governance</u>	1
ITEM 11. <u>Executive Compensation</u>	5
ITEM 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	18
ITEM 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	20
ITEM 14. <u>Principal Accountant Fees and Services</u>	25
PART IV	
ITEM 15. <u>Exhibits, Financial Statement Schedules</u>	27

Table of Contents

EXPLANATORY NOTE

American Apparel, Inc. s (the Company) Annual Report on Form 10-K for the year ended December 31, 2010 (the Original Filing) was filed with the Securities and Exchange Commission (the SEC) on March 31, 2011 and was amended by Amendment No. 1 filed with the SEC on May 2, 2011 (Amendment No. 1), and Amendment No. 2 filed with the SEC on May 3, 2011 (Amendment No. 2). This Amendment No. 3 on Form 10-K/A (this Amendment No. 3) is filed for the purpose of consolidating changes made by Amendment No. 1 and Amendment No. 2 into one filing, correcting a typographical error in one of the certifications thereto and making certain changes to conform to the Company s Preliminary Proxy Statement filed with the SEC on May 16, 2011. Capitalized terms used but not otherwise defined in this Amendment No. 3 have the meanings given in the Original Filing. Except as expressly set forth in Amendment No. 1, Amendment No. 2 and this Amendment No. 3, the Original Filing has not been amended, updated or otherwise modified.

Table of Contents

PART II

Item 9A. Controls and Procedures

(a) Disclosure Controls and Procedures

Under the supervision and participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as such term is defined under Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that as of December 31, 2010, our disclosure controls and procedures were ineffective due to material weaknesses existing in our internal controls over financial reporting as of December 31, 2009 (described below), which have not been fully remediated as of December 31, 2010.

Notwithstanding the material weaknesses described in this report, 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, 2010 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 a combination of deficiencies, in Internal Control over Financial Reporting (ICFR), 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. Material weaknesses would permit information required to be disclosed by the Company in the reports that it files or submits to not be recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms. As of December 31, 2010, the following material weaknesses existed:

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, and (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.

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

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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. 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.

(b) Remediation Activities

Over the course of fiscal 2010, the Company continued to take substantial measures to remediate the remaining material weaknesses, described as follows:

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. As of December 31, 2010, we have filled openings in certain key financial positions and are in the process of recruiting resources for the remaining open positions that are expected to enhance the overall technical capabilities of our resources. Additionally, we have developed and are implementing a technical training program for the accounting and finance staff in the areas of GAAP related to complex and non-routine transactions relevant to our operations. We continue to improve our corporate wide procedures to facilitate uniform application of accounting policies on a global basis.

Material weakness related to financial closing and reporting process: We continue to improve the preparation and review of account reconciliations by implementing specific procedures and internal controls, including the detailed review of our financial closing process by our internal audit group, to monitor and evaluate key accounts and assumptions behind our critical estimates. We have identified and implemented additional internal controls to strengthen account analysis within the categories of fixed assets, deferred rent, and inventory. To address inventory costing, we have transitioned the responsibility for maintaining standard costs from our production planning department to our accounting department and have enhanced production reporting in order to separately record and analyze production variances. We are implementing an enhanced workforce management system which will enable us to more accurately track direct labor to specific production runs. We continue to enhance our international cost accounting procedures for intercompany inventory transfers and inventory costing. As we continue to solidify our staffing levels we expect our internal controls over the financial closing and reporting process to strengthen and remediate this material weakness.

(c) Changes in ICFR

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, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting,

During the year ended December 31, 2010, the Company's management continued to implement the steps outlined above under Remediation Activities to improve the quality of its ICFR.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The directors and executive officers of the Company and their ages and positions with the Company as of May 2, 2011 are as follows:

Name	Age	Position
Dov Charney(1)(2)	42	Director, Chairman of the Board and Chief Executive Officer
Thomas M. Casey	53	Acting President
John J. Luttrell	56	Executive Vice President and Chief Financial Officer
Martin Bailey	51	Chief Manufacturing Officer
Martin Staff	60	Chief Business Development Officer
Adrian Kowalewski	33	Director and Executive Vice President, Corporate Strategy
Glenn A. Weinman	55	Senior Vice President, General Counsel and Secretary
Robert Greene	51	Director

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Allan Mayer	61	Director
Mark Samson	57	Director
Mark A. Thornton	45	Director

- (1) In connection with the financing transaction with Lion Capital (Americas) Inc. (described under Certain Relationships and Related Transactions herein), Mr. Charney and Lion/Hollywood L.L.C (as successor by assignment to Lion Capital (Guernsey) II Limited, 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, Lion has agreed to vote its shares of Common Stock in favor of Mr. Charney each time Mr. Charney is nominated for election to the Board of Directors, provided that Lion's obligation to so vote terminates under certain circumstances as described under Certain Relationships and Related Transactions herein.
- (2) In connection with the financing transaction with Lion Capital (Americas) Inc. (described under Certain Relationships and Related Transactions herein), the Company and Lion entered into an investment agreement, dated as of March 13, 2009 (as amended from time to time, the Investment Agreement). Pursuant to the Investment Agreement (described under Certain Relationships and Related Transactions), Lion currently has the right to designate two persons to the Board of Directors (Investor Directors) and a board observer (Board Observer). Lion's right to designate Investor Directors and a Board Observer is subject to maintaining certain minimum ownership thresholds of shares of Common Stock issuable under the Lion Warrants (as defined below). On May 12, 2010, Jacob Capps, a then-current Investor Director, resigned as a member of the Board while remaining as the Board Observer, and the Board appointed Lyndon Lea to fill the vacancy, effective upon Mr. Capps' resignation. On March 30, 2011, Mr. Capps resigned as the Board Observer and Mr. Lea and Neil Richardson, Lion's then-current Investor Directors, resigned from the Board, leaving a vacancy of two Investor Directors. See Director Vacancies below. Also, pursuant to the Investment Voting Agreement (described under Certain Relationships and Related Transactions herein), for so long as Lion has the right to designate any person or persons to the Board of Directors, Mr. Charney has agreed to vote his shares of Common Stock in favor of Lion's designees, provided that Mr. Charney's obligation to so vote terminates under certain circumstances as described under Certain Relationships and Related Transactions herein.

Director Vacancies

There are currently three vacancies on the Company's Board of Directors: one Class A director vacancy and two Class B director vacancies.

On March 30, 2011, Lyndon Lea and Neil Richardson, Lion's designated directors under the Investment Agreement and each a Class B Director, resigned as members of the Board to allow Lion flexibility in evaluating its options to optimize its investment in the Company. Lion has indicated that it will retain its ability to re-designate directors to the Board at the appropriate time in the future, pursuant to its designation rights under the Investment Agreement.

On May 2, 2011, Keith Miller, a Class A Director, resigned as a member of the Board, and as a member of each of the committees thereof on which he served, including the Audit Committee, the Nominating and Corporate Governance Committee and the Compensation Committee (for which he served as Chairman), due to business and personal time commitments.

Table of Contents

Class A Directors (Terms Expire at the 2011 Annual Meeting of Stockholders)

Robert Greene became a director of American Apparel upon consummation of the Acquisition on December 12, 2007. Mr. Greene is a bestselling author known for his books on business strategy. Since 2003, Mr. Greene has worked as a private consultant to several executives in businesses ranging from financial management to artists' agencies and film producers. He has written four books: *The 48 Laws of Power* (1998, over 900,000 copies sold in the U.S., and translated into 21 languages); *The Art of Seduction* (2001); *The 33 Strategies of War* (2006) and *The 50th Law* (2009). He has worked in New York City as an editor and writer for several magazines, including *Esquire*, and in Hollywood as a story developer and writer. He has previously resided in London, England; Paris, France; and Barcelona, Spain; he speaks several languages and has worked as a translator. Mr. Greene attended the University of California, Berkeley and the University of Wisconsin-Madison, where he received a B.A. in classical studies. The Nominating and Corporate Governance Committee and the Board of Directors believes that Mr. Greene's experience as a consultant and his research on business strategy, combined with the leadership skills and experiences of the Company's other Board members, provides the Company with the perspectives and judgment necessary to guide the Company's strategy and monitor execution.

Allan Mayer became a director of American Apparel upon consummation of the Acquisition on December 12, 2007. Since October 2006, he has been a principal partner, member of the management committee, and head of the Strategic Communications Division of 42 West LLC, a leading public relations firm. Previously, from 1997 until October 2006, Mr. Mayer was managing director and head of the entertainment practice at the nationally-known crisis communications firm Sitrick and Company. Mr. Mayer began his professional life as a journalist, working as a staff reporter for *The Wall Street Journal*; a writer, foreign correspondent and senior editor for *Newsweek*, and the founding editor (and later publisher) of *Buzz* magazine. He also served as editorial director of Arbor House Publishing Co. and senior editor of Simon & Schuster. Mr. Mayer has authored two books: *Madam Prime Minister: Margaret Thatcher and Her Rise to Power* (Newsweek Books, 1980) and *Gaston's War* (Presidio Press, 1987) and is co-author, with Michael S. Sitrick, of *Spin: How To Turn The Power of the Press to Your Advantage* (Regnery, 1998). In addition, he has written for a wide variety of national publications, ranging from *The New York Times Magazine* to *Vogue*. Mr. Mayer is a recipient of numerous professional honors, including the National Magazine Award, the Overseas Press Club Citation of Excellence, and six William Allen White Awards. Mr. Mayer serves on the board of directors of Film Independent and lectures regularly on crisis management and communications at UCLA's Anderson School of Business and USC's Annenberg School of Communication. Mr. Mayer received his B.A. from Cornell University. The Nominating and Corporate Governance Committee and the Board of Directors believes that Mr. Mayer's experience as member of management of a leading public relations firm and in a leadership position as managing director of a nationally known crisis communications firm, combined with the leadership skills and experiences of the Company's other Board members, provides the Company with the perspectives and judgment necessary to guide the Company's strategy and monitor execution.

Class B Directors (Terms Expire at the 2012 Annual Meeting of Stockholders)

Adrian Kowalewski became a director of American Apparel upon consummation of the Acquisition (as defined below) on December 12, 2007. Mr. Kowalewski was appointed Executive Vice President, Corporate Strategy in February 2011. From December 2008 to February 2011, Mr. Kowalewski served as Executive Vice President and Chief Financial Officer of the Company. From June 2006 to December 2008, he served as the Director, Corporate Finance and Development of American Apparel and its predecessor companies. From July 2003 to July 2004, he worked for Houlihan Lokey Howard & Zukin, where he participated in financial restructurings and mergers and acquisitions. From July 1999 to June 2002, Mr. Kowalewski worked in the Mergers & Acquisitions Group of CIBC World Markets in New York and London. Mr. Kowalewski also worked at Lazard Frères & Co. Mr. Kowalewski holds an A.B. with honors from Harvard University, and an M.B.A. from the University of Chicago. The Nominating and Corporate Governance Committee and the Board of Directors believes that Mr. Kowalewski's prior experience in investment banking and his experience in financial management, combined with the leadership skills and experiences of our other Board members, provides the Company with the perspectives and judgment necessary to guide the Company's strategy and monitor execution.

Class C Directors (Terms Expire at the 2013 Annual Meeting of Stockholders)

Dov Charney has served as Chairman of the Board, Chief Executive Officer and a director of American Apparel since the consummation of the Acquisition on December 12, 2007, and served as President of American Apparel from December 2007 until October 2010. Prior to the Acquisition, Mr. Charney served as founder, director, chief executive officer and president of American Apparel's predecessor companies since their formation in Columbia, South Carolina, in 1989. Mr. Charney is a graduate of Choate Rosemary Hall and attended Tufts University. Having founded Old American Apparel and its predecessor companies and having served as the Chairman and Chief Executive Officer of the Company since 2007 and as President of the Company from 2007 until October 2010, Mr. Charney provides our Board with an informed perspective on the Company and the apparel industry. Pursuant to the Investment Voting Agreement (described under "Certain Relationships and Related Transactions" herein), 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 Mr. Charney each time Mr. Charney is nominated for election to the Board of Directors, provided that Lion's obligation to so vote terminates under certain circumstances as described under "Certain Relationships and Related Transactions" herein.

Table of Contents

Mark Samson became a director of American Apparel upon consummation of the Acquisition in December 2007. Since 1999, Mr. Samson has been a managing director of Getzler Henrich and Associates LLC (Getzler Henrich), a leading corporate restructuring firm in the U.S. with a focus on middle market companies. In this capacity, he has served as interim chief executive officer, chief operating officer and/or chief restructuring officer and financial advisor for more than 80 companies. During his tenure with Getzler Henrich, Mr. Samson has provided numerous clients with guidance in operational restructuring, bankruptcy proceedings and business operation, management practices, cash flow and profitability improvements. From 1984 to 2000, Mr. Samson served as executive chairman of the board, co-president and chief executive officer of Debjon Group/Sidcor/MQM Group, a consortium of 53 vertically integrated retail businesses and convenience stores. From 1976 to 1984, Mr. Samson was marketing director for the Berden Group, the largest manufacturer of work wear and corporate uniforms in South Africa. Mr. Samson received his BBA in Economics from the University of South Africa. Mr. Samson is a member of the Turnaround Management Association and the American Bankruptcy Institute. Mr. Samson has been published in the New York Law Journal. The Nominating and Corporate Governance Committee and the Board of Directors believes that Mr. Samson's experience as a managing director of Getzler Henrich, combined with the leadership skills and experiences of our other Board members, provides the Company with the perspectives and judgment necessary to guide the Company's strategy and monitor execution.

Mark A. Thornton became a director of American Apparel upon consummation of the Acquisition in December 2007. Since January 2005, Mr. Thornton has been an independent consultant to various clients, advising them in the areas of private equity raises and project management, and also ran courses for the Harvard Negotiation Insight Initiative at Harvard Law School, and the Leadership Development Program for Wharton Business School at the University of Pennsylvania, as well as Fortune 100 companies. At various times during the period from 1997 to March 2002, Mr. Thornton worked in several capacities for JPMorgan, including serving as the chief operating officer for JPMorgan Private Bank in London from June 2001 to March 2002, specializing in operational risk management relating to the merger of JPMorgan with Robert Fleming. He oversaw core aspects of the merger and chaired numerous committees related to operational risk, new product lines and new business development. Prior to joining JPMorgan Investment Management in 1997, Mr. Thornton worked in various market risk and credit risk positions for blue chip investment banks and securities firms, including Daiwa Europe Bank plc and Australian and New Zealand Banking Group Ltd. The Nominating and Corporate Governance Committee and the Board of Directors believes that Mr. Thornton's experience in a leadership position as chief operating officer of JP Morgan Private Bank, advising clients in raising private equity, combined with the leadership skills and experiences of our other Board members, provides the Company with the perspectives and judgment necessary to guide the Company's strategy and monitor execution.

Executive Officers

In addition to our executive officers who are listed as being directors, the Company has the following executive officers:

Thomas Casey joined American Apparel as Acting President in October 2010. Mr. Casey has over 24 years experience in financial management and strategic planning. He served as Executive Vice President and Chief Financial Officer of Blockbuster Inc., a global provider of in-home rental and retail movie and game entertainment (Blockbuster), from September 2007 through August 2010. At Blockbuster, Mr. Casey was responsible for strategic planning, finance and accounting, real estate and international operations. Blockbuster filed for Chapter 11 in September 2010 to recapitalize its balance sheet and reduce its debt substantially. The recapitalization is intended to put Blockbuster in a stronger financial position as it continues to pursue its strategic plan and transform its business model. From 1999 until the commencement of his employment at Blockbuster, Mr. Casey served as Managing Director for Deutsche Bank Securities, Inc. (Deutsche Bank) where he was responsible for the bank's retail industry relationships in North America. Mr. Casey served as advisor to companies undergoing strategic change in the retail entertainment, food and drug, specialty retail, convenience store and foodservice industries. Prior to Deutsche Bank, Mr. Casey held investment banking positions with Citigroup, Merrill Lynch and Dillon Read & Co. Mr. Casey has a Bachelor of Science degree in Ocean Engineering from The U.S. Naval Academy and served as an officer on a nuclear submarine. He also received his MBA from Harvard Business School. Mr. Casey also serves on the board of directors of The Great Atlantic and Pacific Tea Company, Inc. There is no family relationship between Mr. Casey and any of the Company's directors or executive officers.

John J. Luttrell, joined American Apparel as Executive Vice President and Chief Financial Officer in February 2011. Mr. Luttrell has over 13 years of experience in the retail industry. Prior to joining the Company, Mr. Luttrell was a partner at CFOs 2 Go Partners, a management consulting firm, since 2009. From 2007 to 2008, Mr. Luttrell served as Executive Vice President and Chief Financial Officer of Old Navy, Inc. Mr. Luttrell also served as Executive Vice President and Chief Financial Officer of The Wet Seal, Inc. from 2005 to 2007. Mr. Luttrell also worked at Cost Plus, Inc., where he served as Executive Vice President and Chief Financial Officer from 2004 to 2005, Senior Vice President and Chief Financial Officer from 2001 to 2004, and Vice President and Controller from 2000 to 2001. Mr. Luttrell is a graduate of Purdue University, where he received a Bachelor of Science degree in General Management and Accounting.

Table of Contents

Martin Bailey has been the Chief Manufacturing Officer of American Apparel since the consummation of the Acquisition on December 2007. Prior to the Acquisition, Mr. Bailey had served as President of Manufacturing of Old American Apparel since 2002, overseeing operations of textile and apparel production and the planning, purchasing, sourcing, product development, quality-assurance and distribution departments, as well as nonrelated support departments. Having been in the apparel industry for over 25 years, Mr. Bailey brings to American Apparel a wealth of industry experience. He has managed manufacturing services and operations for companies such as Fruit of the Loom and Alstyle Apparel and has earned a reputation in the apparel industry for his ability to implement cost-effective programs and streamline and organize production growth. Mr. Bailey graduated from Campbellsville College with a B.S. in Business Administration.

Martin Staff joined American Apparel as Chief Business Development Officer in March 2011. Mr. Staff has over 30 years of experience in the fashion industry. Prior to joining the Company, Mr. Staff served as President and Chief Executive Officer of JA Apparel Corp. from 2003 to 2010. From 1998 to 2002 Mr. Staff served as President and Chief Executive Officer of Hugo Boss Fashions, Inc. Mr. Staff also served as President and Chief Operating Officer of Calvin Klein Fashions Inc. from 1992 to 1998 and as Senior Vice President of Retail Development and Licensing of Calvin Klein Inc. from 1987 to 1992. In addition, Mr. Staff served as Vice President of Sales and Marketing of Polo Ralph Lauren from 1980 to 1987. Mr. Staff is a graduate of Dartmouth College, where he received a Bachelor of Arts degree in English.

Glenn A. Weinman joined American Apparel as Senior Vice President, General Counsel and Secretary in February 2009. As General Counsel, Mr. Weinman oversees all aspects of American Apparel's legal matters, including business transactions and securities law compliance. Mr. Weinman was previously a partner at Dongell Lawrence Finney LLP, a California-based law firm, which he joined in 2006 and where he headed up the firm's corporate and business transactions practice. From 2005 to 2006, Mr. Weinman was an independent contractor, providing legal and human resources consulting services on various corporate and employment matters. Prior thereto, Mr. Weinman was vice president, general counsel and secretary of Inter-Con Security Systems from 2003 to 2005. In addition to his experience as an attorney in private practice with several major national law firms, Mr. Weinman has also served as general counsel for a number of companies, including Inter-Con Security Systems, Inc., a U.S. based provider of security services internationally, Luminent, Inc., a Nasdaq-listed fiber optic component manufacturer acquired by MRV Communications, and Guess?, Inc., a NYSE-listed international apparel company. At Guess?, Mr. Weinman served as vice president, general counsel and secretary from 1996 to 2000, and managed the legal, human resources, risk management, stockholder relations, and contractor compliance departments. Mr. Weinman was part of the executive team that managed the successful initial public offering of Guess? in 1996. Mr. Weinman obtained his B.A. from the University of California at Los Angeles in 1978, and his J.D. from the University of Southern California Law Center in 1981. He also received a professional designation in human resources management from the University of California at Los Angeles in 2004.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's executive officers and directors, and any beneficial owner of more than ten percent of a registered class of the Company's equity securities, to file reports (Forms 3, 4 and 5) of stock ownership and changes in ownership with the SEC and the NYSE Amex. Officers, directors and beneficial owners of more than ten percent of the Common Stock are required by SEC regulations to furnish the Company with copies of all such forms that they file.

Based solely on the Company's review of the copies of Forms 3, 4 and 5 and the amendments thereto received by it for the year ended December 31, 2010, or written representations from certain reporting persons that no Forms 5 were required to be filed by those persons, the Company believes that during the year ended December 31, 2010, all filing requirements were complied with by its executive officers, directors and beneficial owners of more than ten percent of the Common Stock, except that in November 2010, Mr. Bailey's initial Form 3 was filed, and Mr. Casey's Form 3 was filed one day late.

Code of Ethics

The policies comprising our code of ethics are set forth in the Company's Code of Ethics (the "Code of Ethics") (included as Exhibit 14.1 of the Current Report on Form 8-K (File No 001- 32697) filed December 18, 2007). These policies satisfy the SEC's requirements for a code of ethics, and apply to all directors, officers (including our principal executive officer, principal financial officer and principal accounting officer or controller) and employees. The Code of Ethics is also published on our website at investors.americanapparel.net. Stockholders may request a copy of the Code of Ethics, at no cost, by writing to us at the following address: American Apparel, Inc., Attn: General Counsel, 747 Warehouse Street, Los Angeles, California 90021.

Table of Contents

Changes to Procedures for Stockholder Nominations of Directors

There have been no material changes to the procedures by which stockholders may recommend nominees to our Board of Directors as described in our 2010 proxy statement which was filed on October 15, 2010.

Audit Committee and Audit Committee Financial Expert

The Audit Committee is a separately-designated standing committee, established in accordance with section 3(a)(58)(A) of the Exchange Act (15 U.S.C. 78(c)(58)(A)). The Audit Committee at all times is required to be composed exclusively of at least three independent directors who are financially literate as defined under NYSE Amex listing standards. NYSE Amex listing standards define financially literate as being able to read and understand fundamental financial statements, including a company's balance sheet, income statement and statement of cash flows. The Audit Committee is currently composed of two financially literate Independent Directors: Messrs. Samson and Thornton. In addition, Mr. Samson qualifies to serve as the financial expert according to the requirements of SEC Regulation S-K Items 407(d)(5)(ii) and 407(d)(5)(iii).

As a result of Mr. Miller's resignation as a director on May 2, 2011, the Audit Committee consists of two members and therefore the Company is no longer in compliance with the NYSE Amex listing standards, which require the Audit Committee to consist of at least three members. The NYSE Amex listing standards provide for a 180-day cure period for the Company to regain compliance with the audit committee composition requirements of the NYSE Amex. The Company intends to fill the vacancy on the Audit Committee as expeditiously as possible prior to October 29, 2011, the expiration of the cure period.

A copy of the current Audit Committee Charter is available on the Company's website at *investors.americanapparel.net*.

ITEM 11. EXECUTIVE COMPENSATION

Processes and Procedures for Determination of Executive and Director Compensation

The current members of the Compensation Committee are Messrs. Greene, Mayer, Miller and Thornton. The Board has determined that each member of this Committee is an Independent Director, with Mr. Miller as Chairman.

The Compensation Committee of the Board of Directors is responsible for overseeing the compensation and employee benefit plans and practices of the Company. The Compensation Committee reviews and approves, either as a committee or together with the other independent directors, the general compensation policies of the Company, oversees the administration of all of the Company's compensation and benefit plans and reviews and approves, either as a committee or together with the other independent directors, compensation of the executive officers of the Company. The Compensation Committee Charter requires that the Compensation Committee consist of no fewer than two Board members who qualify as non-employee directors within the meaning of Rule 16b-3 under the Exchange Act and outside directors within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended. At all times since its formation following the Acquisition, the Compensation Committee has consisted of at least three Board members, each of whom the Board has affirmatively determined satisfied these independence requirements.

The Compensation Committee Charter sets forth the purpose of and other matters pertaining to the Compensation Committee. The form of the current Compensation Committee Charter is available on the Company's website at *investors.americanapparel.net*.

Pursuant to its Charter, the Compensation Committee's responsibilities include the following:

review and approve, either as a committee or together with the other independent directors, the corporate goals and objectives relevant to the compensation of the Chief Executive Officer and other executive officers of the Company;

evaluate, either as a committee or together with the other independent directors, the Chief Executive Officer's performance in light of such goals and objectives;

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set, either as a committee or together with the other independent directors, executive officers' compensation levels, including base salary, annual incentive opportunities, long-term incentive opportunities and benefits;

review and approve, either as a committee or together with the other independent directors, any employment contracts or related agreements, such as severance or termination arrangements, to be made with any executive officer of the Company;

review and recommend to the Board appropriate director compensation programs and, either as a committee or together with the other independent directors, review and approve perquisites or other personal benefits to directors and recommend any changes to the Board;

review its own performance and assess the adequacy of its Charter;

review and approve the goals and objectives of and the plans underlying the Company's general compensation and other employee benefit programs, including incentive-compensation and equity-based programs;

Table of Contents

retain and terminate any compensation consultant used to assist in the evaluation of officer compensation, including to approve the consultant's fees and other retention terms;

review and discuss with management the Company's Compensation Discussion and Analysis to be included in the Company's annual proxy statement;

review and recommend for approval by the Board, or approve, the frequency that should be recommended to the Company's stockholders in connection with any stockholder advisory vote on the frequency with which the Company shall hold a stockholder advisory vote on the compensation of the Company's named executive officers;

review and recommend for approval by the Board, or approve, the frequency with which the Company should submit to the stockholders an advisory vote on the compensation of the Company's named executive officers, taking into account any prior stockholder advisory vote on the frequency with which the Company shall hold a stockholder advisory vote on compensation of the Company's named executive officers;

review the results of any stockholder advisory vote on the compensation of the Company's named executive officers and consider whether to make any adjustments to the Company's executive compensation policies and practices; and

produce a report of the Compensation Committee to be included in the Company's annual proxy statement.

Our Chief Executive Officer and Chairman of the Board recommends to the Compensation Committee salary, annual bonus, equity-based awards and long-term compensation levels for other executive officers, including the other Named Officers (as defined under "Compensation Discussion and Analysis" below). Our other executives, including the other Named Officers, do not currently have any role in determining or recommending the form or amount of compensation paid to our Named Officers and our other executives. While the Compensation Committee reviews and makes recommendations regarding compensation paid to the non-employee directors, the compensation for these directors is determined by the Board.

Equity awards to all officers subject to Section 16 of the Exchange Act are made by the Compensation Committee. As indicated above, pursuant to its charter, the Compensation Committee is authorized to retain and terminate any compensation consultant engaged to assist in the evaluation of the compensation of our officers (including all of the Named Officers).

In 2010, the Compensation Committee retained the firm of Pearl Meyer & Partners, LLC ("PM&P") as its compensation consultant to assist in the development and evaluation of compensation policies, practices and awards. Specifically, PM&P was engaged to conduct a competitive review of executive compensation and severance policies, and to assist in developing an annual incentive plan and a long-term equity incentive program to reward and retain key executives and managers.

While PM&P was engaged by and reports directly to the Compensation Committee, PM&P interacts with our management when appropriate to gather perspectives and relevant company and compensation data. In addition, PM&P may seek feedback from the Compensation Committee Chairman, other members of the Compensation Committee or Board, or the Chief Executive Officer and Chairman of the Board regarding its work prior to presenting study results or recommendations to the Compensation Committee.

PM&P has attended or participated in certain Compensation Committee meetings and provided third-party data, advice and expertise on proposed executive compensation levels, programs and plan designs. The Compensation Committee may also ask PM&P to review and provide advice related to proposals prepared by management, including evaluating the consistency of such proposals with the Compensation Committee's compensation philosophy and in comparison to programs at other companies.

COMPENSATION OF DIRECTORS

Compensation for non-employee directors will consist of annual stock grants and Board and Committee meeting fees, as described below. Employees who are also directors will receive no additional compensation for their Board service.

DIRECTOR COMPENSATION FISCAL 2010

During 2010, the sole cash compensation to our non-employee directors consisted of a total of \$178,000 in Board and Committee meeting fees paid to Messrs. Greene, Mayer, Miller, Samson and Thornton for their participation in Board, Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee meetings held during 2010. Messrs. Capps, Lea and Richardson agreed to forgo receipt of meeting fees.

Pursuant to the 2007 Performance Equity Plan approved by stockholders in conjunction with the Acquisition, our non-employee directors each received a stock grant (of fully vested shares) as described below for their Board service, and automatically will receive a stock grant for each year of service thereafter, such grant to be made at the beginning of each such year of service, equal to that number of shares of Common Stock having an aggregate market value of \$75,000 at the time of grant.

Table of Contents

On January 19, 2010, the Company issued an annual grant to each non-employee director of 21,739 shares of Common Stock, based upon the closing price per share of \$3.45, in connection with their Board service. Messrs. Capps, Lea and Richardson agreed to forgo receipt of annual grants of Common Stock having an aggregate market value of \$75,000 at the time of grant.

The table below summarizes the compensation provided by the Company to non-employee directors for the fiscal year ended December 31, 2010:

Name	Change in Pension						Total
	Fees		Non-Equity		Value and		
	Earned or		Incentive		Nonqualified		
	Paid in	Stock	Option	Plan	Compensation	All Other	
Cash	Awards	Awards	Compensation	Earnings	Compensation		
(\$)	(\$) ⁽¹⁾	(\$)	(\$)	(\$)	(\$)	(\$)	
<i>Independent Non-Employee Directors</i>							
Jacob Capps ⁽²⁾							
Robert Greene	22,000	75,000					97,000
Lyndon Lea ⁽²⁾⁽³⁾							
Allan Mayer	23,000	75,000					98,000
Keith Miller ⁽⁴⁾	44,000	75,000					119,000
Neil Richardson ⁽³⁾							
Mark Samson	42,000	75,000					117,000
Mark A. Thornton	47,000	75,000					122,000
<i>All Non-Employee Directors</i>	178,000	375,000					553,000