

Clothing Maker Out of Fashion on Wall Street

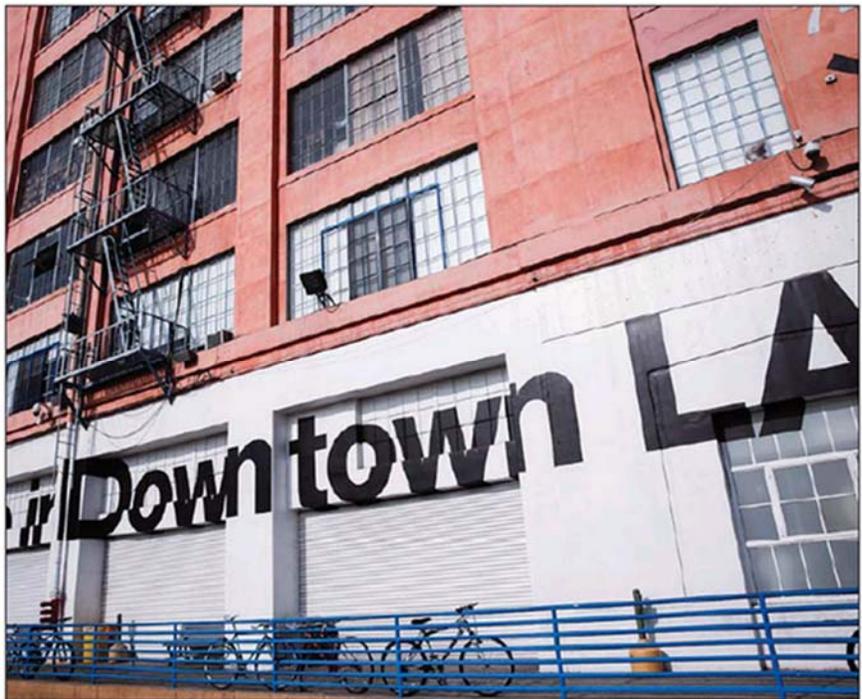
MANUFACTURING: Shares of American Apparel slide with bad credit, sales news.

By HOWARD FINE *Staff Reporter*

Already battered investors in American Apparel Inc. got hammered again last week as the struggling downtown L.A. clothing maker delivered a megadose of bad news ahead of a likely bankruptcy filing.

In a Securities and Exchange Commission filing Aug. 11, company executives said they would not meet the deadline to file their latest quarterly report because they are still in discussions with major lender Capital One Business Credit Corp. over avoiding default on a credit facility and obtaining additional loans. There's no guarantee a deal will be reached and without additional financing the company warned it does not have sufficient cash on hand to keep operating over the next 12 months.

Piling on, the company also said it expects second-quarter sales to fall 17 percent



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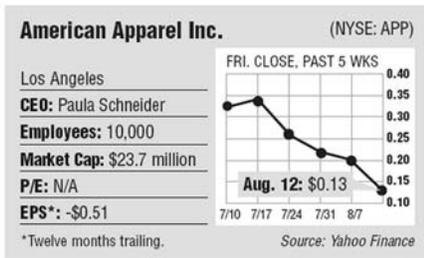
Tough Times: American Apparel's downtown L.A. HQ.

from 2014 – in part due to store closings – and its net loss for the quarter to widen to \$19 million from \$16 million. For the first half of the year, net losses are expected to double to \$46 million.

Later that same day, Moody's Investor Service downgraded American Apparel's debt to Caa3, nine lev-

els below investment grade and deep into junk bond territory. Moody's noted that the company has a \$13 million interest payment due in October.

“We believe that the likelihood of some sort of restructuring ahead of the upcoming October interest payment on



the bonds is acute,” Moody’s Vice President Charlie O’Shea said in the ratings downgrade.

Not surprisingly, a share selloff ensued, sending American Apparel’s stock plunging 38 percent to a paltry 13 cents, making the company one of the biggest percentage losers among L.A. stocks last week.

The escalating losses, debt downgrade and share plunge all indicate bankruptcy is just around the corner, said Lloyd Greif, chief executive of downtown L.A. investment bank Greif & Co.

“This is a company in a desperate, dire situation,” he said. “Right now, the only way out is a bankruptcy filing.”

For investors, the most disturbing part of American Apparel’s filing, he said, is the double-digit drop in sales. The company long known for its edgy ads has toned down

its marketing, which appears to have lessened its appeal among the coveted youth demographic.

“Their product is simply not selling,” Greif said. “Given that, there’s no way they can cut expenses fast enough to balance the bottom line – except through a bankruptcy restructuring.”

American Apparel faces several additional problems. Company founder and former Chief Executive Dov Charney, ousted from the firm last year, is feuding with the company’s new management and hedge fund operator Standard General. Worker unrest is mounting, as production workers voted to form a union that American Apparel management has so far refused to officially recognize. And the company faces litigation on several fronts.

American Apparel executives in July announced that they plan to unveil a fall line in the next couple of months. But Greif said that might never happen if the pending interest payment forces a bankruptcy filing.

There might be more bad news coming. Even if a buyer ultimately does bring the company out of bankruptcy, that buyer could face a difficult choice: moving the L.A. factory offshore and thereby taking the “American” out of American Apparel.

“The minimum wage in Los Angeles is about to go up a whopping 66 percent over the next five years,” Greif said. “There’s no way a company like American Apparel that would be reemerging from bankruptcy could handle that big an increase in labor costs.”