

# Dov Charney's Fight to Finish?

**CLOTHING:** Legal, labor actions linked to ousted exec.

By CAROL LAWRENCE *Staff Reporter*

Dov Charney, the embattled American Apparel Inc. founder who lost control of the company nearly a year ago, is not waging outright war against the company's new leadership.

But he's not going quietly, either. A slew of recent actions targeting the company – from more than a dozen lawsuits and labor complaints to a union drive – all connect to Charney and his allies. They could signal to the company that the ousted founder, through his connection with employees and shareholders, can drain American Apparel's money and focus when it has little of either to spare.

Labor and legal actions against the company have been stacking up over the past few months.

The 17-year-old manufacturer's first union drive is under way, organized by many employees loyal to Charney and supported by an advocacy group that's had a long relationship with him. One of the

goals of the pro-union workers is to bring Charney back.

Thirteen complaints against American Apparel have been filed with the National Labor Relations Board since Charney's firing, all of them filed by L.A. attorney Keith Fink, who also represents Charney. Current and former employees have filed several lawsuits against the company; some of them are represented by Fink or use information from Charney in their complaints.

In his only direct action against American Apparel, Charney has filed a demand for arbitration, claiming the company owes him an estimated \$40 million because it breached his employment contract.

Through a spokeswoman, American Apparel has called the flurry of litigation baseless. And a consultant to the company called all the recent actions “a concerted effort on the part of Dov Charney to bring the company down, to the detri-

ment of the very workers he is allegedly trying to save.”

Charney declined to comment



**Charney**

for this story, but Fink, of West L.A. law firm Fink & Steinberg, denied that Charney is orchestrating the lawsuits.

“Charney has nothing to do with them other than he is a corroborating witness on certain issues in the cases,” Fink said. “Moreover, the matters are just cases – they are not strategies.”

Still, Fink implied more is coming; all the legal actions taken so far are “the tip of the iceberg.”

Since his initial ouster in June and his formal firing in December, Charney has said he intends to regain control of American Apparel.

**But if that's the case, it's a misguided scheme, said local investment banker Lloyd Greif,**

who has watched American Apparel over the years.

Greif, chief executive of downtown L.A.'s Greif & Co., said it's not unreasonable to assume Charney is pulling the strings behind the lawsuits and labor actions. But those actions are less likely to put Charney back in charge than to damage the company, which is undergoing a turnaround and already mired in debt.

"This is a strategy not for taking back a company, but for taking down a company," Greif said. "The lawyers win, but shareholders don't win and employees ultimately don't win."

### **Deep ties**

A pro-union group, calling itself the Coalition of American Apparel Factory Workers United to Save American Apparel, began forming in late February after the company began furloughing workers and cutting work hours. Early last month, about 180 workers were laid off.

Nativo Lopez, a senior adviser with Hermandad Mexicana, a Santa Ana nonprofit that is working with American Apparel employees and that's had a years-long relationship with the company and Charney, said work for the employees has fallen from 40 hours a

week to 29 since Charney was booted in December.

In March, employees began circulating cards that workers can sign to indicate support for unionization. Lopez said more than enough pro-union cards have been collected to form a collective bargaining unit.

The workers' bottom line demand is to regain 40-hour workweeks, said Lopez, who added that workers also want Charney back in charge.

"They support him because he's the personification to them of a better life and he's similarly supportive of their efforts," Lopez said. "What they know under the management there now – furloughs, intimidation, production held back and declining sales. They want (Charney) back at the helm as owner of the company to make sure they get the kind of work they knew under him."

American Apparel executives, though, have said there's no way Charney is coming back. In an April 24 memo to employees, company Chairwoman Colleen Brown wrote that Charney was fired for cause and that he had signed an agreement saying he would not return.

"We expect supporters of the old management to continue to try to disrupt the busi-

ness," Brown wrote, "but we ask everyone to focus on the job at hand to make American Apparel a strong and stable company."

### **Supporter**

Charney has attended some recent employee meetings and has said he supports the union drive, but he's also said it is the workers' movement, not his.

But his sentiments about the company, and specifically about New York hedge fund Standard General – which made a deal last summer with Charney to invest in the company and later supported his ouster – have become intertwined with the employee group's message, as seen in letters and news releases written by Hermandad Mexicana on behalf of employees.

A March 18 letter to American Apparel's board, outlining several of the group's concerns with working conditions and the new management's treatment of employees, also criticizes Standard General, contending American Apparel was in better financial shape under Charney's leadership.

"As soon as Standard General was introduced to American Apparel, the cash flow began to deteriorate," the letter states.

Last week, after American Apparel released an advertisement indicating support for immigrants' rights, Hermandad Mexicana sent a news release on employees' behalf criticizing not only the ad but the company's treatment of workers.

"This advertisement is simply part of a shameless media effort under the direction of new management to whitewash the deteriorating record of worker relations that has taken shape under the leadership of New York hedge fund Standard General," the release says.

### Legal distractions

Hermandad Mexicana's allegations of worker mistreatment are mirrored in more than a dozen complaints filed with the National Labor Relations Board by Fink, the lawyer. Many of the 13 complaints allege harassment and intimidation of pro-union employees.

Fink also represents employees who are suing the company for alleged violations of federal and state labor laws related to its recent layoffs, and a former American Apparel employee who says he was fired because he is Jewish.

In other lawsuits, not filed by Fink but using information provided by Charney, company shareholders argue the compa-

ny's board improperly kept them in the dark about Charney's ouster in advance of American Apparel's annual meeting last year.

That litigation calls for a revote of the June 2014 shareholder meeting that installed new board members and briefly preceded Charney's suspension and subsequent firing.

**'Who's going to back him and why would you back him?... He's out of institutional friends'**

LLOYD GREIF,  
Greif & Co.

The lawsuits, regardless of the facts behind them, are likely creating an enormous distraction for the company and its new leadership, said corporate governance and retail expert Judith Blumenthal, a professor at USC's Marshall School of Business and past board member at L.A. apparel maker Guess Inc.

"Simply running an ongoing concern while managing this sort of legal activity would be difficult enough," Blumenthal said. "Addressing major strate-

gic, marketing and competitive challenges while responding to a multitude of legal assaults would be a herculean task. With this activity, it's not clear how management can possibly focus attention on a business that is already in a precarious position."

Through a spokeswoman, American Apparel declined to comment about whether the legal and labor actions are affecting the company's operations.

Greif, the investment banker, said Charney shouldn't be taken lightly or underestimated, but that none of the recent actions look like they stand a good chance of returning him to the company.

If Charney wanted to return, Greif said, he would need a turnaround strategy of his own, with plans to refinance or pay off the company's massive debt, boost sales and return American Apparel to profitability. To do any of that, he would need the help of a private equity firm or other financial backer, and Greif expects there aren't many of those willing to bet on him.

"Who's going to back him and why would you back him?" Greif said. "It's not like his track record is up, up and away. It's down. He's out of institutional friends."