

Additional Stock Float Sinking Fashion Company

CLOTHING: Price plunges after American Apparel's dilutive share offering.

By JONATHAN POLAKOFF *Staff Reporter*

Shareholders think last week's stock offering by American Apparel shows the downtown L.A. fashion company is hanging on by a thread.

The offering was an effort to address a number of challenges, including a cash crunch, a possible delisting from the New York Stock Exchange and creditors who might have already hired bankers in anticipation of reorganization negotiations.

American Apparel on March 26 priced 61 million shares at 50 cents. The company said it will use some of the proceeds to make \$13.5 million in interest payments due April 15.

The dilutive offer sent American Apparel shares plummeting 32 percent to close at 51 cents for the week ended March 26 – the company's lowest close since going public in 2007. Shares closed at 75 cents March 24, the day before the offering was announced.

The offering showed the company was desperate for financing and couldn't find institutional lenders, said Lloyd Greif, chief executive at downtown investment bank Greif & Co.

"Nobody wanted to take the risk and lend American Apparel the money," Greif said, "so the

company floated an equity offering to unsophisticated retail investors in a fire sale instead."

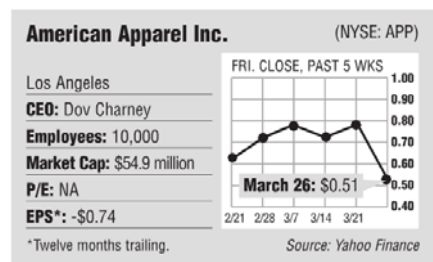
It was just the latest sign of distress at the company, known for its racy advertisements on local billboards and in magazines, as well as the controversial figure of Chief Executive Dov Charney. The company has not been profitable on an annual basis since 2009.

Sales picked up slightly last year, but the company's losses widened as it had a problematic move into a new distribution center in La Mirada. Some shipments from the center were delayed, causing retail stores to run out of certain items.

The company recently delayed filing its annual report to address its financing issues. The company last week said that it expected to lose \$107 million this year, compared with last year's loss of \$37 million. Revenue is expected to rise 3 percent to \$635 million for the year.

But the real problem is debt. The company had \$250 million in debt and just \$4.9 million in cash as of Sept. 30, according to its most recent quarterly report.

American Apparel was warned in February that it would be delisted from the New York Stock Exchange if it did not



comply with certain requirements. The exchange said the company would need to send a letter detailing its turnaround efforts by March 21. Another stipulation was that it make the interest payments due April 15.

A delisting would effectively cut American Apparel off from the kinds of financing deals it arranged last week and lead to further problems paying back obligations. Bankruptcy could follow.

Creditors have apparently begun planning for that outcome. Businesses owed some \$206 million by the company have hired L.A. investment bank Houlihan Lokey and another firm to help with restructuring plans, according to a Bloomberg News report.

Greif said he's certain that Charney's time as head of the company is coming to an end.

"Dov Charney will lose control," he said. "This is a fait accompli."