



TAMPA BAY BANKRUPTCY CENTER, P.A.

PHONE: (813) 200-4133

TOLL FREE: (800) 965-5074

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## **American Apparel heads for Bankruptcy**

American Apparel Inc., a garment retail company that popularized the hipster, is struggling in financial deep waters. It's maverick CEO and chairman, Dov Charney owns 53% of its stock and is known to be a very hands-on leader, personally evaluating fabrics and choosing designs in his LA factory. But he is not known to be as meticulous when it comes to financial matters.

The garment manufacturer lost its auditor, Deloitte & Touche LLP when the firm quit stating that American Apparel's 2009 financial statements might not be reliable. The Federal Securities and Exchange commission requested for documents used to prepare the financial statements. An American Apparel's lawyer said the files would be submitted as requested. The company was also subpoenaed by the US Attorney's Office over the irregularities in its auditing after Deloitte & Touche quit.

Following reports of a preliminary second quarter loss, the company's shares plunged into penny stock territory. Lenders are withdrawing their support and the company might not have enough reserves to last another year. Store-wide sales figures have fallen by double digits and the company's debts amount to \$120 million as at June 30, if company figures can be believed in the first place. All these are typical signs of a company heading for bankruptcy.

What may prove to be the last nail in the coffin might be the Immigration department's raid on American Apparel's factory in Los Angeles recently that resulted in the arrest of 1,500 factory workers. It was deemed to be an inevitability according to observers. Two years ago, Charney displayed an American Apparel print advertisement that featured two Guatemalan-born employees likening the US immigration laws to an apartheid system.

The loss of the factory workers resulted in delayed order fulfillment, shortages in key products and further worsened the company's financial problems. American Apparel might now be delisted from the New York Stock Exchange Amex because it could not submit its second quarter financial statements after Deloitte & Touche's departure.

It is also desperately in need of a new funding source after it was revealed that the company might default on a \$75 million loan from Lion Capital LLP, a private equity fund based in London. But any new investor coming in would almost certainly change the entire management of the company, pushing Charney out of the hot seat of the company he built from the ground up.

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