

AMERICAN APPAREL, INC  
Form 10-Q  
February 01, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended September 30, 2015

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 No. 001-32697

American Apparel, Inc.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization) 20-3200601  
(I.R.S. Employer  
Identification No.)

747 Warehouse Street, Los Angeles, California 90021  
(Address of Principal Executive Offices) (Zip Code)  
Registrant's Telephone Number, including area code: (213) 488-0226

Indicate by checkmark whether the 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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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 "large accelerated filer" and "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At January 22, 2016, the Registrant had issued and outstanding 182,837,753 and 182,568,764 shares of its common stock, respectively.

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Unless the context requires otherwise, all references in this Quarterly Report on Form 10-Q to the "Company," "Registrant," "we," and "our," refer to American Apparel, Inc., a Delaware corporation, together with its 100% owned subsidiary, American Apparel (USA) LLC, and its other direct and indirect subsidiaries.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q, including the documents incorporated by reference herein, contains forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. All statements in this Quarterly Report on Form 10-Q other than statements of historical fact are "forward-looking statements" for purposes of these provisions. Statements that include the use of terminology such as "may," "will," "expect," "believe," "plan," "estimate," "potential," "continue," or the negative thereof or other and similar expressions are forward-looking statements. In addition, in some cases, you can identify forward-looking statements by words or phrases such as "trend," "opportunity," "comfortable," "anticipate," "current," "intention," "position," "assume," "outlook," "remain," "maintain," "sustain," "seek," "achieve," and similar expressions. Any statements that refer to projections of our future financial performance, anticipated growth and trends in our business, goals, strategies, focuses and plans, and other characterizations of future events or circumstances, including statements expressing general expectations or beliefs, whether positive or negative, about future operating results or the development of our products and any statement of assumptions underlying any of the foregoing are forward-looking statements. Forward-looking statements in this report may include, without limitation, statements about:

- our Chapter 11 Cases and our proposed restructuring transactions in the Chapter 11 Cases, including the execution of our restructuring Plan (as defined below);
- our future financial condition, results of operations, plans and prospects, expectations, operating improvements and cost savings, and the timing of any of the foregoing;
- our ability to make debt payments to remain in compliance with financial covenants under financing arrangements, and to obtain appropriate court approval, waivers or amendments with respect to any noncompliance or other actions under such arrangements;
- liquidity and projected cash flows;
- consequences of the termination of Dov Charney ("Mr. Charney"), our former chief executive officer, including any litigation or regulatory investigations, any alleged actions of Mr. Charney, or any impact on our sales or brand related thereto;
- ability to hire and/or retain qualified employees, including executive officers;
- growth, expansion and acquisition prospects and strategies, the success of such strategies, and the benefits we believe can be derived from such strategies;
- plans to make continued investments in advertising and marketing;
- the outcome of investigations, enforcement actions and litigation matters, including exposure that could exceed expectations;
- intellectual property rights and those of others, including actual or potential competitors, our personnel, consultants, and collaborators;
- trends in raw material costs and other costs both in the industry and specific to us;
- the supply of raw materials and the effects of supply shortages on our financial condition, results of operations, and cash flows;
- economic and political conditions;
- currency fluctuations and the impact thereof;
- overall industry and market performance;
- operations outside the U.S.;
- the impact of accounting pronouncements;
- ability to improve efficiency and control costs at our production and supply chain facilities; and
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other assumptions described in this Quarterly Report on Form 10-Q underlying or relating to any forward-looking statements.

The forward-looking statements in this report speak only as of the date of this report and caution should be taken not to place undue reliance on any such forward-looking statements, which are qualified in their entirety by this cautionary statement. Forward-looking statements are subject to numerous assumptions, events, risks, uncertainties and other factors, including those that may be outside of our control and that change over time. As a result, actual results and/or the timing of events could differ materially

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from those expressed in or implied by the forward-looking statements and future results could differ materially from historical performance and those expressed in or implied by the forward-looking statements. Such assumptions, events, risks, uncertainties and other factors are found in "Item 1A. Risk Factors" in Part II and elsewhere in this Quarterly Report on Form 10-Q, the Annual Report on Form 10-K for the year ended December 31, 2014, as amended, our Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, and other reports and documents we file with the Securities and Exchange Commission (the "SEC") and include, without limitation, the following:

- our ability to operate and reorganize under the Chapter 11 Cases, including obtaining Bankruptcy Court approval with respect to motions filed in the Chapter 11 Cases from time to time, complying with the terms and restrictions of the DIP Credit Agreement or other financing arrangements, and consummating the Plan;
- our liquidity and ability to continue as a going concern;
- ability to generate or obtain from external sources sufficient liquidity for operations and debt service;
- consequences of the termination of Mr. Charney, our former chief executive officer, including any litigation or regulatory investigations, any alleged actions of Mr. Charney, or any impact on our sales or brand related thereto;
- changes in key personnel, our ability to hire and retain key personnel, and our relationship with our employees;
- voting control by our directors, lenders and other affiliates, including Standard General Group and Mr. Charney;
- ability to successfully implement our strategic, operating, financial and personnel initiatives;
- ability to maintain the value and image of our brand and protect our intellectual property rights;
- general economic conditions, geopolitical events, other regulatory changes, and inflation or deflation;
- disruptions in the global financial markets;
- the highly competitive and evolving nature of our industry in the U.S. and internationally;
- risks associated with fluctuations and trends of consumer apparel spending in the U.S.;
- changes in consumer preferences or demand for our products;
- our ability to attract customers to our retail and online stores;
- loss or reduction in sales to wholesale or retail customers or financial nonperformance by our wholesale customers;
- seasonality and fluctuations in comparable store sales and wholesale net sales and associated margins;
- ability to improve manufacturing efficiency at our production facilities;
- changes in the price of materials and labor, including increases in the price of raw materials in the global market and minimum wages;
- ability to pass on the added cost of raw materials and labor to customers;
- ability to effectively manage inventory levels;
- risks that our suppliers or distributors may not timely produce or deliver products;
- ability to renew leases on economic terms;
- risks associated with our facilities being concentrated in one geographic area;
- ability to identify new store locations and the availability of store locations at appropriate terms; ability to negotiate new store leases effectively; and ability to open new stores and expand internationally;
- adverse changes in our credit ratings and any related impact on financial costs and structure;
- continued compliance with U.S. and foreign government regulations and legislation, including environmental, immigration, labor, and occupational health and safety laws and regulations;
- loss of U.S. import protections or changes in duties, tariffs and quotas, risks associated with our foreign operations and supply sources such as market disruption, changes in import and export laws, and currency restrictions and exchange rate fluctuations;
- litigation and other inquiries and investigations, including the risks that we, our officers or directors in cases where indemnification applies, will not be successful in defending any proceedings, lawsuits, disputes, claims or audits, and

that exposure could exceed expectations or insurance coverage;  
• tax assessments by domestic or foreign governmental authorities, including import or export duties on our products  
• and the applicable rates for any such taxes or duties;  
• the adoption of new accounting standards or changes in interpretations of accounting principles;  
• adverse weather conditions or natural disaster, including those which may be related to climate change;  
• technological changes in manufacturing, wholesaling, or retailing;

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the risk, including costs and timely delivery issues associated therewith, that information technology systems changes may disrupt our supply chain or operations and could impact cash flow and liquidity, and ability to upgrade information technology infrastructure and other risks associated with the systems that operate our online retail operations; and

the risk of failure to protect the integrity and security of our information systems and customers' information.

All forward-looking statements included in this document are made as of the date hereof, based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statements.



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## PART I-FINANCIAL INFORMATION

## Item 1. Financial Statements (unaudited)

## American Apparel, Inc. and Subsidiaries

## Consolidated Balance Sheets

(in thousands)

	September 30, 2015 (unaudited)	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash	\$13,372	\$8,343
Trade accounts receivable (net of allowances \$401; \$458)	20,625	25,298
Prepaid expenses and other current assets	19,157	16,442
Inventories, net	107,223	147,578
Income taxes receivable and prepaid income taxes	751	648
Deferred income taxes, net of valuation allowance	709	681
Total current assets	161,837	198,990
Property and equipment, net	31,592	49,317
Deferred income taxes, net of valuation allowance	2,623	2,194
Other assets, net	48,445	43,888
<b>TOTAL ASSETS</b>	<b>\$244,497</b>	<b>\$294,389</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Cash overdraft	\$0	\$5,714
Revolving credit facilities and current portion of long-term debt	56,968	34,312
Accounts payable	37,042	35,554
Accrued expenses and other current liabilities	67,954	61,369
Fair value of warrant liability	724	19,239
Income taxes payable	1,753	2,063
Deferred income tax liability, current	1,213	1,045
Current portion of capital lease obligations	2,596	2,978
Total current liabilities	168,250	162,274
Long-term debt (net of unamortized discount \$5,373; \$5,965)	235,930	217,388
Capital lease obligations, net of current portion	126	1,982
Deferred tax liability	188	200
Deferred rent, net of current portion	11,606	13,346
Other long-term liabilities	16,073	14,715
<b>TOTAL LIABILITIES</b>	<b>432,173</b>	<b>409,905</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock, \$0.0001 par value per-share: authorized 1,000 shares; none issued	0	0
Common stock, \$0.0001 par value per-share: authorized 230,000 shares; Issued 182,838; 176,566, Outstanding 182,569; 176,194	18	18
Additional paid-in capital	221,311	218,779
Accumulated other comprehensive loss	(10,273)	(6,915)
Accumulated deficit	(396,575)	(325,241)
Less: Treasury stock, 304 shares at cost	(2,157)	(2,157)

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TOTAL STOCKHOLDERS' DEFICIT	(187,676	) (115,516	)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$244,497	\$294,389	

See accompanying notes to condensed consolidated financial statements.

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American Apparel, Inc. and Subsidiaries  
 Consolidated Statements of Operations and Comprehensive Loss  
 (in thousands, except per share amounts)  
 (unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net sales	\$126,052	\$155,869	\$384,709	\$455,362
Cost of sales	72,394	73,330	222,043	218,462
Gross profit	53,658	82,539	162,666	236,900
Selling and distribution expenses	42,812	52,640	133,714	159,145
General and administrative expenses (including related party charges of \$155; \$155; \$466; \$537)	29,909	38,785	80,763	90,829
Retail store impairment	1,203	1,193	4,381	1,921
Loss from operations	(20,266 )	(10,079 )	(56,192 )	(14,995 )
Interest expense	10,349	9,858	30,597	29,916
Foreign currency transaction loss	463	616	1,167	748
Unrealized gain on change in fair value of warrants	(6,594 )	(1,785 )	(18,515 )	(6,250 )
Loss (gain) on extinguishment of debt	362	(171 )	362	(171 )
Other expense (income)	251	(57 )	140	(5 )
Loss before income taxes	(25,097 )	(18,540 )	(69,943 )	(39,233 )
Income tax provision	463	644	1,391	1,622
Net loss	\$(25,560 )	\$(19,184 )	\$(71,334 )	\$(40,855 )
Basic and diluted net loss per-share <sup>(a)</sup>	\$(0.14 )	\$(0.11 )	\$(0.40 )	\$(0.27 )
Weighted-average basic and diluted shares outstanding <sup>(a)</sup>	182,231	173,769	178,804	153,354
Net loss (from above)	\$(25,560 )	\$(19,184 )	\$(71,334 )	\$(40,855 )
Other comprehensive loss items:				
Foreign currency translation	(1,208 )	(1,919 )	(3,358 )	(1,517 )
Other comprehensive loss, net of tax	(1,208 )	(1,919 )	(3,358 )	(1,517 )
Comprehensive loss	\$(26,768 )	\$(21,103 )	\$(74,692 )	\$(42,372 )

(a) The dilutive impact of incremental shares is excluded from the net loss per share in accordance with U.S. generally accepted accounting principles ("GAAP")

See accompanying notes to condensed consolidated financial statements.

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American Apparel, Inc. and Subsidiaries  
 Consolidated Statements of Cash Flows  
 (in thousands)  
 (unaudited)

	Nine Months Ended September 30,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$388,925	\$450,079
Cash paid to suppliers, employees and others	(387,749	) (427,640
Income taxes paid	(1,749	) (1,335
Interest paid	(16,692	) (17,852
Other	57	55
Net cash (used in) provided by operating activities	(17,208	) 3,307
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(2,500	) (8,675
Proceeds from sale of fixed assets	0	52
Restricted cash	93	219
Net cash used in investing activities	(2,407	) (8,404
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash overdraft	(5,714	) (102
Payments of prior revolving credit facilities, net	(34,299	) (16,965
Borrowings under current revolving credit facilities, net	56,968	0
Borrowings (payments) of term loans and notes payable	14,753	(57
Payments of debt issuance costs	(4,993	) (2,099
Proceeds from issuance of common stock, net	1,998	28,446
Payment of payroll statutory tax withholding on share-based compensation associated with issuance of common stock	(35	) (414
Payments of capital lease obligations	(2,232	) (1,932
Net cash provided by financing activities	26,446	6,877
Effect of foreign exchange rate on cash	(1,802	) (1,067
Net increase in cash	5,029	713
Cash, beginning of period	8,343	8,676
Cash, end of period	\$13,372	\$9,389

See accompanying notes to condensed consolidated financial statements.

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American Apparel, Inc. and Subsidiaries  
 Consolidated Statements of Cash Flows (continued)  
 (in thousands)  
 (unaudited)

	Nine Months Ended September 30,	
	2015	2014
<b>RECONCILIATION OF NET LOSS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>		
Net loss	\$(71,334	) \$(40,855 )
Depreciation and amortization of property and equipment, and other assets	15,163	19,822
Retail store impairment	4,381	1,921
Loss on disposal of property and equipment	197	48
Share-based compensation expense	561	3,764
Unrealized gain on change in fair value of warrants	(18,515	) (6,250 )
Amortization of debt discount and deferred financing costs	4,958	1,893
Loss (gain) on extinguishment of debt	362	(171 )
Accrued interest paid-in-kind	3,225	3,129
Foreign currency transaction loss	1,167	748
Allowance for inventory shrinkage and obsolescence	5,351	1,719
Bad debt expense	504	635
Deferred income taxes	(391	) (24 )
Deferred rent	(703	) (3,661 )
Changes in cash due to changes in operating assets and liabilities:		
Trade accounts receivables	3,713	(5,918 )
Prepaid expenses and other current assets	(3,061	) 2
Inventories	32,611	15,161
Other assets	(4,922	) 115
Accounts payable	1,781	(3,181 )
Accrued expenses and other liabilities	8,192	14,098
Income taxes receivable / payable	(448	) 312
Net cash (used in) provided by operating activities	\$(17,208	) \$3,307
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Property and equipment acquired, and included in accounts payable	\$80	\$471

See accompanying notes to condensed consolidated financial statements.

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American Apparel, Inc. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements  
(in thousands, except per share amounts)  
(unaudited)

Note 1. Organization and Business

American Apparel, Inc. including its subsidiaries (collectively the "Company") is a manufacturer, distributor, and retailer of branded fashion basic apparel products and designs. The Company manufactures and sells clothing and accessories for women, men, children and babies. The Company sells its products through the wholesale distribution channel supplying t-shirts and other casual wear to distributors and screen printers, as well as directly to customers through its retail stores located in the U.S. and internationally. In addition, the Company operates an online retail e-commerce website. At September 30, 2015, the Company operated a total of 227 retail stores in 19 countries including the U.S. and Canada.

Recent Developments - As of September 30, 2015, the Company had \$13,372 in cash, \$56,968 outstanding on the Wilmington Trust Credit Facility (as defined below) and \$3,032 of availability for additional borrowings as of such date.

As of September 30, 2015, the Company had \$211,817 aggregate principal amount of senior secured notes (the "Notes") outstanding. On April 14, 2015, the Company paid \$13,803 in interest on the Notes. The Company did not make the scheduled interest payment on the Notes due on October 15, 2015, which was approximately \$13,900. On October 5, 2015, American Apparel, Inc. and certain of its domestic subsidiaries (the "Debtors") filed voluntary petitions in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") seeking relief under Chapter 11 of the United States Code (the "Bankruptcy Code"). The cases are being administered under the caption "In re American Apparel, Inc., et al.," Case Nos. 15-12055 (BLS) (the "Chapter 11 Cases"). The Debtors continue to operate their businesses and manage their properties as debtors-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. The Company's foreign subsidiaries were not part the Chapter 11 cases. The Company's common stock has been delisted from the NYSE MKT LLC.

The Chapter 11 Cases were filed in response to the Company's continuing losses and negative cash flows from operations and debt. The Company plans to continue implementing its strategic plan, which is focused on improving product selection, cost-cutting measures, improving supply chain efficiencies, SKU rationalization, and maximizing retail, e-commerce and wholesale opportunities.

On October 4, 2015, the Company entered into a Restructuring Support Agreement with the syndicate of lenders of the revolving credit facility, which are also the majority holders of the Notes ("the Supporting Parties"). Under the terms of the Restructuring Support Agreement, the holders of the Notes will be entitled to receive on a pro rata basis, 100% of the equity interest in the reorganized Company after the conclusion of the Chapter 11 Cases, subject to certain exceptions and additional equity interests being issued or reserved under the Equity Commitment Agreement (described below). The Company also entered into an Equity Commitment Agreement on October 4, 2015 (the "Equity Commitment Agreement"), which provides for the Supporting Parties to acquire equity interests in the Company of at least \$10,000 and up to \$40,000 after conclusion of the Chapter 11 Cases.

On October 6, 2015, the Company obtained approval from the Bankruptcy Court of the Debtor-in-Possession Credit Agreement ("DIP Credit Agreement") between the Company and the Supporting Parties. The DIP Credit Agreement provides for a senior secured, super-priority delayed draw term loan and consists of approximately \$90,000 for the purposes of (i) refinancing in full the borrowings outstanding under the Wilmington Trust Credit Facility (as defined in Note 6) and (ii) providing additional funding of \$30,000, which carries a commitment fee of 2%. On the effective date of the Plan (as defined below), the DIP Credit Agreement will convert to an Exit Term Loan Facility (the "Exit Term Loan Facility") providing for an additional \$30,000 in financing, which carries a commitment fee of 2%. The facility is secured by a first priority senior lien on substantially all assets of the Company. Wilmington Trust, National Association ("Wilmington Trust") will continue to act as administrative agent for both the DIP Credit Agreement and the Exit Term Loan Facility. See Note 6.

On October 15, 2015, the Debtors filed with the Bankruptcy Court a proposed disclosure statement (the "Disclosure Statement"), including a Joint Plan of Reorganization by the Debtors and the Debtors in Possession (as amended and supplemented from time to time, including the Plan Amendments described below, the "Plan"). On the Effective Date (defined below) of the Plan, the Company's current outstanding common stock, any preferred stock purchase rights and any options, warrants or any other equity interests will be extinguished with no consideration. In addition, holders of general unsecured claims against the Debtors will receive a distribution equal to their pro rata share of (i) units in a litigation trust established for the benefit of the general unsecured creditors and (ii) for each voting class that accepts the Plan, cash distribution provided under the Plan which shall be paid in semi-annual installments for one year from the Effective Date of the Plan. On January 11, 2016, the Company obtained approval of all voting classes to accept the Plan.

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In addition, on January 11, 2016, the Debtors, the Official Committee of Unsecured Creditors (the "Creditors' Committee") and the Supporting Parties reached an agreement on key terms of an amended plan of reorganization (the "Plan Amendments"). The Plan Amendments provide for (i) an increase to the funding of the litigation trust, (ii) an increase to the cash distribution provided under the Plan, which is now available to all unsecured creditors, regardless of whether any voting class accepts or rejects the Plan, and (iii) a waiver from the Supporting Parties of their rights to receive the cash distribution for their general unsecured claims, further increasing the recoveries to the general unsecured creditors. Finally, the Plan Amendments provide for a commitment of \$40,000 in additional exit capital through an asset-based credit facility from either a third party lender or the Supporting Parties. This additional commitment will be in addition to the \$40,000 of new capital previously contemplated by the Equity Commitment Agreement and the Exit Term Loan Facility discussed above.

The accompanying condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability of assets or the amounts of liabilities that may result from the Plan or should the Company be unable to continue as a going concern. The Company's ability to continue as a going concern is contingent upon the consummation of its Plan and its ability to comply with the financial and other covenants contained in the Restructuring Support Agreement, the DIP Credit Agreement and the Equity Commitment Agreement.

On January 27, 2016 (the "Confirmation Date"), the Bankruptcy Court entered an order (the "Confirmation Order") confirming the Plan. The Company plans to emerge from the Chapter 11 Cases after satisfying the remaining conditions to effectiveness contemplated under the Plan (defined in the Plan as the "Effective Date"). See Part II, Item 5 of this Quarterly Report on Form 10-Q.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The condensed consolidated financial statements include the accounts of American Apparel, Inc. and its 100% owned subsidiaries. The condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information and are presented in accordance with the requirements of Form 10-Q and Rule 10-01 of Regulation S-X. All intercompany balances and transactions have been eliminated upon consolidation.

The financial data of the Company included herein is unaudited. The condensed consolidated financial statements do not contain certain information that was included in the annual financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Readers are urged to review the Company's Annual Report on Form 10-K for the year ended December 31, 2014 as well as other publicly filed documents for more complete descriptions and discussions. In the opinion of management, the condensed consolidated financial statements included herein contain all adjustments, including normal recurring adjustments, considered necessary to present fairly the Company's financial position, the results of operations, and cash flows for the periods presented. The operating results and cash flows of the interim periods presented herein are not necessarily indicative of the results to be expected for any other interim period or the full year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The most significant estimates include: revenue recognition, inventory valuation and obsolescence; valuation and recoverability of long-lived assets, including the values assigned to goodwill, intangible assets, and property and equipment; fair value calculations, including derivative liabilities; contingencies, including accruals for the outcome of current litigation and assessments and self-insurance; and income taxes, including uncertain income tax positions and recoverability of deferred income taxes and any limitations as to net operating losses. Actual results could differ from those estimates.

Concentration of Credit Risk



Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash (the amounts of which may, at times, exceed Federal Deposit Insurance Corporation limits on insurable amounts) and trade accounts receivable (including credit card receivables) relating substantially to the Company's U.S. Wholesale segment. Cash is managed within established guidelines, and the Company mitigates its risk by investing through major financial institutions. The Company had \$7,769 and \$6,361 held in foreign banks at September 30, 2015 and December 31, 2014, respectively.

Concentration of credit risk with respect to trade accounts receivable is limited by performing on-going credit evaluations of its customers and adjusting credit limits based upon payment history and the customer's current credit worthiness. The Company also maintains an insurance policy for certain customers based on a customer's credit rating and established limits. Collections and

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payments from customers are continuously monitored. Three customers in the Company's U.S. Wholesale segment combined accounted for 36.3% of its total trade accounts receivable as of September 30, 2015. One customer in the Company's U.S. Wholesale segment combined accounted for 16.6% of its total trade accounts receivable as of December 31, 2014. The Company maintains an allowance for doubtful accounts which is based upon historical experience and specific customer collection issues that have been identified. While bad debt expenses have historically been within expectations and allowances established, the Company cannot guarantee that it will continue to experience the same credit loss rates that it has in the past.

### Fair Value Measurements

The financial instruments recorded in the condensed consolidated balance sheets include cash, trade accounts receivable (including credit card receivables), accounts payable, revolving credit facilities, senior secured notes, term loans and warrants. Due to their short-term maturity, the carrying values of cash, trade accounts receivables, and accounts payable approximate their fair market values. In addition, the carrying amount of the revolving credit facility from Capital One approximates its fair value because of the variable market interest rate charged to the Company.

The Company employs a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date using the exit price.

Accordingly, when market observable data is not readily available, the Company's own assumptions are used to reflect those that market participants would be presumed to use in pricing the asset or liability at the measurement date.

Assets and liabilities recorded on the consolidated balance sheets at fair value are categorized based on the level of judgment associated with inputs used to measure their fair value and the level of market price observability, as follows:

Level 1 – Unadjusted quoted prices are available in active markets for identical assets or liabilities as of the reporting date.

Level 2 – Pricing inputs are other than unadjusted quoted prices in active markets, which are based on the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in non-active markets; or
- Either directly or indirectly observable inputs as of the reporting date.

Level 3 – Pricing inputs are unobservable and significant to the overall fair value measurement, and the determination of fair value requires significant management judgment or estimation. The valuation policies and procedures underlying are determined by the Company's accounting and finance team and are approved by the Chief Financial Officer.

In certain cases, inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Thus, a Level 3 fair value measurement may include inputs that are observable (Level 1 or Level 2) and unobservable (Level 3). The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the asset or liability.

The Company uses prices and inputs that are current as of the measurement date, including during periods of market disruption. In periods of market disruption, the ability to observe prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2, or from Level 2 to Level 3. The Company recognizes transfers between levels at either the actual date of the event or a change in circumstances that caused the transfer.

During the three and nine months ended September 30, 2015, there were no transfers between Levels 1, 2, and 3 of the fair value hierarchy.

### Summary of Significant Valuation Techniques

#### Level 2 Measurements:

Senior secured notes: Estimated based on quoted prices for identical senior secured notes in non-active market.

#### Level 3 Measurements:

Term loans: Estimated using a projected discounted cash flow analysis based on unobservable inputs including principal and interest payments and discount rate. A yield rate was estimated using yields rates for publicly traded debt instruments of comparable companies with similar features. An increase or decrease in the stock price and the discount rate assumption can significantly decrease or increase the fair value of term loans. See Note 8.

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Warrants: Estimated using the Binomial Lattice option valuation model. Significant observable and unobservable inputs include stock price, exercise price, annual risk free rate, term, and expected volatility. An increase or decrease in these inputs could significantly increase or decrease the fair value of the warrant. See Notes 8 and 11.

Indefinite-lived assets - goodwill: Estimated using a projected discounted cash flow analysis based on unobservable inputs including gross profit, discount rate, working capital requirements, capital expenditures, depreciation and terminal value assumptions. An increase or decrease in the discount rate assumption and/or the terminal value assumption, in isolation, can have a significant effect on the fair value of the reporting unit.

Retail stores: Estimated using a projected discounted cash flow analysis based on unobservable inputs including gross profit and discount rate. The key assumptions used in the estimates of projected cash flows were sales, gross margins, and payroll costs. These forecasts were based on historical trends and take into account recent developments, as well as the Company's plans and intentions. An increase or decrease in the discount rate assumption and/or projected cash flows, in isolation, can significantly decrease or increase the fair value of the assets, which would have an effect on the impairment recorded.

Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial reporting basis and the respective tax basis of its assets and liabilities, and are measured using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company estimates the degree to which tax assets and credit carryforwards will result in a benefit based on expected profitability by tax jurisdiction. A valuation allowance for such tax assets and loss carryforwards is provided when it is determined that such amounts will more likely than not go unrealized. Significant weight is given to evidence that can be objectively verified. The determination to record a valuation allowance is based on the recent history of cumulative losses and current operating performance and includes an assessment of the degree to which any losses are driven by items that are unusual in nature or incurred to improve future profitability. In addition, the Company reviews changes in near-term market conditions and any other factors arising during the period which may impact its future operating results. If it becomes more likely than not that a tax asset will be realized, any related valuation allowance of such assets would be reversed.

Management makes judgments as to the interpretation of the tax laws that might be challenged upon an audit and cause changes to previous estimates of tax liability. In addition, the Company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. Management believes that adequate provisions have been made for all years, but the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income tax in the period such resolution occurs.

The Company's foreign domiciled subsidiaries are subject to foreign income taxes on earnings in their respective jurisdictions. The Company elected to have its foreign subsidiaries, except for its subsidiaries in Brazil, Canada, China, Ireland, Italy, South Korea, and Spain, consolidated in the Company's U.S. federal income tax return. The Company is generally eligible to receive tax credits on its U.S. federal income tax return for most of the foreign taxes paid by the Company's subsidiaries included in the U.S. federal income tax return.

For financial statement purposes, the Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. Once this threshold has been met, the Company's measurement of its expected tax benefits is recognized in its financial statements. Gross unrecognized tax benefits are included in current liabilities in the consolidated balance sheets, and interest and penalties on unrecognized tax benefits are recorded in the income tax provision in the consolidated statements of operations.

Recently Issued Accounting Standards

On November 20, 2015, the Financial Accounting Standards Board ("FASB") issued a new standard that requires entities to present deferred tax assets and liabilities as non-current in a classified balance sheet. The new standard simplifies the current guidance which requires entities to separately present deferred tax assets and liabilities as current and non-current. The new standard will be effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company is in the process of evaluating the impact of adoption on its

condensed consolidated financial statements.

On August 18, 2015, the FASB issued a new standard that clarifies presentation and measurement of debt issuance costs incurred in connection with line of credit arrangements. The Company adopted the new standard which became effective upon issuance. The adoption of the new standard did not have any impact on the Company's consolidated financial statements.

On August 12, 2015, the FASB issued a new standard that defers the effective date of its revenue standard issued in May 2014 by one year for all entities and permits early adoption on a limited basis. The standard will be effective for fiscal years and interim

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periods within those fiscal years, beginning after December 15, 2017. The Company is in the process of evaluating the impact of adoption on the Company's consolidated financial statements.

On July 22, 2015, the FASB issued a new standard that requires entities to measure most inventory "at the lower of cost and net realizable value," thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. The new standard will not apply to inventories that are measured by using either the last-in, first-out (LIFO) method or the retail inventory method. The new standard will be effective for fiscal years beginning after December 15, 2016, and interim periods in fiscal years beginning after December 15, 2016. The Company is in the process of evaluating the impact of adoption on its condensed consolidated financial statements. In April 2015, the FASB issued a new standard that requires an entity to determine whether a cloud computing arrangement contains a software license. If the arrangement contains a software license, the entity would account for the fees related to the software license element in a manner consistent with how the acquisition of other software licenses is accounted for. If the arrangement does not contain a software license, the customer would account for the arrangement as a service contract. The new standard will be effective for fiscal years beginning after December 15, 2015, and interim periods in fiscal years beginning after December 15, 2016. The Company is in the process of evaluating the impact of adoption on its condensed consolidated financial statements.

In April 2015, the FASB issued a new standard on simplifying the presentation of debt issuance costs. The new standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this new standard. The new standard will be effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company is in the process of evaluating the impact of adoption on its condensed consolidated financial statements.

Other recently issued accounting standards are not expected to have a material effect on the Company's condensed consolidated financial statements.

### Note 3. Inventories

The components of inventories are as follows:

	September 30, 2015	December 31, 2014
Raw materials	\$21,237	\$17,738
Work in process	3,463	2,805
Finished goods	96,607	135,813
	121,307	156,356
Less reserve for inventory shrinkage and obsolescence	(14,084	) (8,778
Total, net of reserves	\$107,223	\$147,578

Inventories consist of material, labor, and overhead, and are stated at the lower of cost or market. Cost is primarily determined on the first-in, first-out (FIFO) method. No supplier provided more than 10% of the Company's raw material purchases as of September 30, 2015 and December 31, 2014.

The Company identifies potentially excess and slow-moving inventories by evaluating turn rates, inventory levels and other factors and records lower of cost or market reserves for such identified excess and slow-moving inventories. The Company also establishes reserves for inventory shrinkage for each of its retail locations and warehouse based on the historical results of physical inventory cycle counts.

As part of its valuation analysis of inventory, the Company identified certain slow-moving finished goods and raw materials inventory for additional reserves of \$5,131 during the third quarter of 2015. As a result, the Company increased its lower of cost or market reserve for excess and slow-moving inventories to \$12,210 at September 30, 2015 from \$6,684 at December 31, 2014, respectively. Inventory shrinkage reserves were \$1,874 and \$2,094 as of September 30, 2015 and December 31, 2014, respectively.

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## Note 4. Property and Equipment

Depreciation and amortization expense relating to property and equipment (including capitalized leases) is recorded in cost of sales and general and administrative expenses in the consolidated statements of operations. Depreciation and amortization expenses were \$4,436 and \$6,404 for the three months ended September 30, 2015 and 2014, respectively, and \$15,163 and \$19,822 for the nine months ended September 30, 2015 and 2014, respectively.

Based on its retail store impairment analysis, the Company recorded impairment charges of \$1,203 and \$1,193 for the three months ended September 30, 2015 and 2014, respectively, and \$4,381 and \$1,921 for the nine months ended September 30, 2015 and 2014, respectively.

## Note 5. Accrued Expenses and Other Current Liabilities

The components of accrued expenses and other current liabilities are as follows:

	September 30, 2015	December 31, 2014
Compensation and related taxes	\$12,024	\$13,026
Accrued interest	14,308	5,932
Workers' compensation and other self-insurance reserves (Note 14)	7,349	6,760
Taxes and duties	6,495	6,102
Gift cards and store credits	7,328	8,462
Loss contingencies	1,059	2,360
Deferred revenue	658	962
Deferred rent	4,099	3,422
Other	14,634	14,343
Total accrued expenses and other current liabilities	\$67,954	\$61,369

## Note 6. Revolving Credit Facilities and Current Portion of Long-Term Debt

The following table presents revolving credit facilities and current portion of long-term debt:

	Lender	Expiration	September 30, 2015	December 31, 2014
Revolving credit facility <sup>(a)</sup>	Wilmington Trust	April 4, 2018	\$56,968	\$0
Revolving credit facility	Capital One	August 17, 2018	0	34,299
Current portion of long-term debt			0	13
Total			\$56,968	\$34,312

(a) Includes accrued interest paid in-kind of \$20 at September 30, 2015.

The Company incurred interest expense of \$10,349 and \$9,858 for the three months ended September 30, 2015 and 2014, respectively, and \$30,597 and \$29,916 for the nine months ended September 30, 2015 and 2014, respectively, for all outstanding borrowings. None of the interest is subject to capitalization for the three and nine months ended September 30, 2015 and 2014.

## Debtor-in-Possession Credit Agreement

On October 5, 2015, the Company filed voluntary petitions in the United States Bankruptcy Court for the District of Delaware seeking relief under Chapter 11 of the Bankruptcy Code. See Note 1.

On October 6, 2015, the Company obtained approval from the Bankruptcy Court of the DIP Credit Agreement between the Company and the Supporting Parties. The DIP Credit Agreement provides for a senior secured, super-priority delayed draw term loan and consists of approximately \$90,000 for the purposes of (i) refinancing in full the borrowings outstanding under the Wilmington Trust Credit Facility and (ii) providing additional funding of \$30,000, which carries a commitment fee of 2%. The DIP Credit Agreement bears interest at 7.0% for Eurodollar rate loans and 6.0% for base rate loans. Subject to certain conditions, the maturity date of the DIP Credit Agreement is the earlier to occur of April 5, 2016 or the Effective Date of the Plan.

On the Effective Date of the Plan, the DIP Credit Agreement will convert to an Exit Term Loan Facility providing for an additional \$30,000 in financing, which carries a commitment fee of 2%. The facility bears interest at the LIBOR based rate plus 10.0% and matures four years after conversion. The facility is secured by a first priority senior lien on substantially all assets of the Company.





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Wilmington Trust will continue to act as administrative agent for both the DIP Credit Agreement and the Exit Term Loan Facility. See Note 1.

On January 11, 2016, the Company, the Creditors' Committee and the Supporting Parties reached an agreement on key terms of the Plan which includes a commitment of \$40,000 in additional exit capital through an asset-based credit facility from either a third party lender or the Supporting Parties. This additional commitment will be in addition to the \$40,000 of new capital previously contemplated by the Equity Commitment Agreement and the Exit Term Loan Facility. See Note 1.

Revolving Credit Facility - Wilmington Trust

On October 5, 2015, the Wilmington Trust Credit Facility was replaced by the DIP Credit Agreement.

On August 17, 2015, Capital One assigned its rights and obligations as a lender to a syndicate of lenders that included certain of the Company's existing creditors, including funds associated with Standard General L.P., Monarch Alternative Capital L.P., Coliseum Capital LLC and Goldman Sachs Asset Management, L.P., and was replaced by Wilmington Trust as administrative agent. Additionally, on August 17, 2015, the Capital One Credit Facility was amended pursuant to an amended and restated credit agreement among the Company, the new syndicate of lenders and Wilmington Trust (the "Wilmington Trust Credit Facility"). In connection with such amendment, the syndicate of lenders received certain amendment and closing fees and reimbursement of closing expenses.

The Wilmington Trust Credit Facility provided for a \$90,000 asset-based revolving credit facility and was scheduled to mature on April 4, 2018, subject to a January 15, 2018 maturity in limited circumstances. Borrowings under the Wilmington Trust Credit Facility were subject to specified borrowing base requirements not to exceed \$60,000. Amounts repaid under the Wilmington Trust Credit Facility could not be re-borrowed.

Borrowings under the Capital One Credit Facility continued under the Wilmington Trust Credit Facility and bore interest at a LIBOR based rate plus 5.0% or a rate based on the prime rate plus 4.0%. New borrowings under the Wilmington Trust Credit Facility bore interest at a LIBOR based rate plus 7.0% or a rate based on the prime rate plus 6.0%, and was subject to specified borrowing requirements and covenants. The Company recorded a loss of \$362 on extinguishment of the Capital One Credit Facility.

The Wilmington Trust Credit Facility was secured by a lien on substantially all of the assets of the Company's and its domestic subsidiaries, subject to some restrictions. Among other provisions, the Wilmington Trust Credit Facility required that the Company maintain a lockbox arrangement and contained certain subjective acceleration clauses. In addition, the Wilmington Trust Credit Facility may have, at its discretion, adjusted the advance restrictions and criteria for eligible inventory and accounts receivable. The Wilmington Trust Credit Facility contained cross-default provisions whereby an event of default under the indenture governing the Notes or other indebtedness, in each case of an amount greater than a specified threshold, would have caused an event of default under the Wilmington Trust Credit Facility. If an event of default occurred and was continuing under the Wilmington Trust Credit Facility, the Wilmington Trust Credit Facility may have, among other things, terminated the obligations of the lenders to make loans, and the obligation of the letter of credit issuer to make letter of credit extensions, and required the Company to repay all outstanding amounts.

On August 17, 2015, the Company also entered into amendments to the indenture agreement governing the Notes and the Standard General Loan Agreement to permit the Company to enter into the Wilmington Trust Credit Facility. See Note 7.

As of September 30, 2015, the Company was not in compliance with the minimum fixed charge coverage ratio and the minimum adjusted EBITDA covenants under the Wilmington Trust Credit Facility. For the July 1, 2015 through September 30, 2015 covenant reference period, its fixed charge coverage ratio (as defined in the Wilmington Trust Credit Facility) was (0.43) to 1.00 as compared with the covenant minimum of 1.27 to 1.00, and its adjusted EBITDA (as defined in the Wilmington Trust Credit Facility) was \$(5,056) as compared with the covenant minimum of \$25,071.

Additionally, the commencement of the Chapter 11 Cases as described in Note 1 constitutes an event of default and all commitments under the Wilmington Trust Credit Facility were terminated and all loans (including accrued interest and all other amounts outstanding under this facility) became immediately due and payable. As a result of the filing of the Chapter 11 Cases, the Company believes that the ability of the Debtors' creditors to seek remedies to enforce their

respective rights against the Debtors under this and other agreements are stayed and creditor rights of enforcement against the Debtors are subject to the applicable provisions of the Bankruptcy Code and certain contractual agreements.

**Revolving Credit Facility - Capital One**

On August 17, 2015, the Company replaced the Capital One Credit Facility with the Wilmington Trust Credit Facility.

The covenant violations existing at June 30, 2015 were waived under the Wilmington Trust Credit Facility.

The Company was party to a credit agreement, maturing on April 4, 2018, with Capital One, and other lenders party thereto, that provided the Company with a \$50,000 asset-backed revolving credit facility. Interest rates on borrowings under the Capital One Credit Facility were equal to LIBOR plus 5.0% or the bank's prime rate plus 4.0% at the Company's option and was subject to specified borrowing requirements and covenants.

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On March 25, 2015, the Company entered into the Six Amendment which (i) waived any defaults under the Capital One Credit Facility due to the failure to meet the obligation to maintain the maximum leverage ratio and minimum adjusted EBITDA required for the measurement periods ended December 31, 2014, as defined in the credit agreement, (ii) waived the obligation to maintain the minimum fixed charge coverage ratios, maximum leverage ratios and minimum adjusted EBITDA required for the twelve months ended March 31, 2015, (iii) included provisions to permit the Company to enter into the Standard General Credit Agreement (as defined in Note 7), (iv) reset financial covenants relating to maintaining minimum fixed charge coverage ratios, maximum leverage ratios and minimum adjusted EBITDA and (v) permitted the Company to borrow \$15,000 under the Standard General Credit Agreement.

## Note 7. Long-Term Debt

Long-term debt consists of the following:

	September 30, 2015	December 31, 2014
Senior Secured Notes due 2020 <sup>(a)</sup>	\$211,817	\$208,084
Standard General Loan Agreement <sup>(b)</sup>	9,113	9,049
Standard General Credit Agreement	15,000	0
Other	0	268
Total long-term debt	235,930	217,401
Current portion of debt	0	(13
Long-term debt, net of current portion	\$235,930	\$217,388

(a) Includes accrued interest paid in-kind of \$10,438 and \$7,233 and net of unamortized discount of \$4,621 and \$5,149 at September 30, 2015 and December 31, 2014, respectively.

(b) Net of unamortized discount of \$752 and \$816 at September 30, 2015 and December 31, 2014, respectively.

## Bankruptcy Filing and Support Agreement

On October 5, 2015, the Company filed voluntary petitions in the United States Bankruptcy Court for the District of Delaware seeking relief under Chapter 11 of the Bankruptcy Code. See Note 1.

The commencement of the Chapter 11 Cases constitutes an event of default under the indenture, dated April 4, 2013, that governs the Notes as well as the Standard General Credit Agreement and the Standard General Loan Agreement. As a result of the filing of the Chapter 11 Cases, all commitments under the various facilities were terminated and all loans (with accrued interest thereon) and all other amounts outstanding under such facilities became immediately due and payable.

As a result of the filing of the Chapter 11 Cases, the Company believes that the ability of the Debtors' creditors to seek remedies to enforce their respective rights against the Debtors under these and other agreements are stayed and creditor rights of enforcement against the Debtors are subject to the applicable provisions of the Bankruptcy Code and certain contractual agreements.

On October 4, 2015, the Company entered into a Restructuring Support Agreement with the syndicate of lenders of the Wilmington Trust Credit Facility, which are also the majority holders of the Notes. Under the terms of the Restructuring Support Agreement, the holders of the Notes will be entitled to receive on a pro rata basis, 100% of the equity interest in the reorganized Company after the conclusion of the Chapter 11 Cases, subject to certain exceptions and additional equity interests being issued or reserved under the Equity Commitment Agreement. See Note 1.

## Senior Secured Notes due 2020

The Company has outstanding Notes issued at 97% of the \$206,000 par value on April 4, 2013. The Notes mature on April 15, 2020 and bear interest at 15% per annum, of which 2% is payable in-kind until April 14, 2018 and in cash on subsequent interest dates. On April 14, 2015, the Company paid \$13,803 in interest on the Notes. The Company did not make the scheduled interest payment on the Notes due on October 15, 2015, which was approximately \$13,900. The Notes are guaranteed, jointly and severally, on a senior secured basis by the Company's existing and future domestic subsidiaries. The Notes and the related guarantees are secured by a first-priority lien on the Company's and its domestic subsidiaries' assets (other than the Credit Facility Priority Collateral, as defined below, subject to some

exceptions and permitted liens). The Notes and the related guarantees also are secured by a second-priority lien on all of Company's and its domestic subsidiaries' cash, trade accounts receivable, inventory and certain other assets (collectively, the "Credit Facility Priority Collateral"), subject to certain exceptions and permitted liens. The Notes and the guarantees, respectively, rank equal in right of payment with the Company's and its domestic subsidiaries' senior indebtedness, including indebtedness under the Capital One Credit Facility, before giving effect to collateral arrangements.

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The Notes impose certain limitations on the ability of the Company and its domestic subsidiaries to, among other things, and subject to a number of important qualifications and exceptions, incur additional indebtedness or issue disqualified capital stock or preferred stock (with respect to restricted subsidiaries), grant liens, make payments in respect of their capital stock or certain indebtedness, enter into transactions with affiliates, create dividend or other payment restrictions affecting subsidiaries, merge or consolidate with any other person, sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its assets or adopt a plan of liquidation. The Company must annually report to the trustee on compliance with such limitations. The Notes also contain cross-default provisions whereby a payment default or acceleration of any indebtedness in an aggregate amount greater than a specified threshold would cause an event of default with respect to the Notes.

On August 17, 2015, the Company also entered into an amendment to the indenture agreement governing the Notes to permit the Company to enter into the Wilmington Trust Credit Facility. See Note 6.

As of September 30, 2015, the Company was in compliance with the covenants of the Indenture. The commencement of the Chapter 11 Cases on October 5, 2015 constituted an event of default under the Indenture.

**Standard General Loan Agreement**

On July 16, 2014, Lion Capital LLP ("Lion") assigned its rights and obligations as a lender to an entity affiliated with Standard General (the "Standard General Loan Agreement"). On September 8, 2014, the Company entered into an amendment of the Standard General Loan Agreement to lower the applicable interest rate to 17%, extend the maturity to April 15, 2021, and make certain other technical amendments. The principal amount of the term loan is \$9,865. Interest under the loan agreement is payable quarterly in cash or, to the extent permitted by the Company's other debt agreements, in-kind.

The Standard General Loan Agreement contains cross-default provisions whereby a payment default or acceleration of any indebtedness in an aggregate amount greater than a specified threshold would cause an event of default.

On August 17, 2015, in connection with the Wilmington Trust Credit Facility, the Company entered into the Third Amendment to the Standard General Loan Agreement, which amends certain provision of the Standard General Loan Agreement to permit the transaction contemplated by the Wilmington Trust Credit Facility and provides for the payment of consent fees and certain releases and equity registration rights in favor of Standard General.

**Standard General Credit Agreement**

On March 25, 2015, as contemplated by the Standstill Agreement, one of the Company's subsidiaries borrowed \$15,000 under an unsecured credit agreement with Standard General (the "Standard General Credit Agreement"). The Standard General Credit Agreement is guaranteed by the Company, bears interest at 14% per annum, and will mature on October 15, 2020. Interest under the credit agreement is payable quarterly in cash or, to the extent permitted by the Company's other debt agreements, in-kind.

The Standard General Credit Agreement contains customary defaults, including cross events of default with respect to defaults under the Notes and the Standard General Loan Agreement and cross acceleration to other indebtedness above a threshold amount.

If the Company experiences certain change of control events, the Company is required to offer to prepay the Standard General Credit Agreement at 101% of the outstanding principal amount plus accrued and unpaid interest on the date of the prepayment. The Company will be required to prepay loans under the Standard General Credit Agreement to the extent necessary to avoid the loan being characterized as an "applicable high yield discount obligation" within the meaning of the Internal Revenue Code by June 30, 2020.

Additionally, under the Restructuring Support Agreement discussed above, Standard General agreed to waive any defaults under this credit agreement (other than defaults arising from the Company's subsidiary's failure to pay principal and interest as they become due) necessary to implement treatment of this credit agreement under the Plan contemplated under the Restructuring Support Agreement and to make reasonable modifications to this credit agreement so long as the Company does not take any action that materially adversely affects the rights of Standard General under this credit agreement and the Plan provides for the reinstatement of Standard General's claims under this credit agreement.

Note 8. Fair Value of Financial Instruments

The Company's financial instruments at fair value are measured on a recurring basis. Related unrealized gains or losses are recognized in unrealized gain on change in fair value of warrants in the consolidated statements of operations. For additional disclosures regarding methods and assumptions used in estimating fair values of these financial instruments, see Note 2.

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The following tables present carrying amounts and fair values of the Company's financial instruments as of September 30, 2015 and December 31, 2014, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. The Company did not have any assets or liabilities categorized as Level 1 as of September 30, 2015.

		September 30, 2015	
		Carrying Amount	Fair Value
Senior Secured Notes due 2020	Level 2 Liability	\$211,817	\$163,099
Standard General Loan Agreement	Level 3 Liability	9,113	8,795
Standard General Credit Agreement	Level 3 Liability	15,000	13,590
Lion Warrant	Level 3 Liability (a)		724
		\$235,930	\$186,208
		December 31, 2014	
		Carrying Amount	Fair Value
Senior Secured Notes due 2020	Level 2 Liability	\$208,084	\$211,538
Standard General Loan Agreement	Level 3 Liability	9,049	8,868
Lion Warrant	Level 3 Liability (a)		19,239
		\$217,133	\$239,645

(a) No cost is associated with these liabilities (see Note 11).

The following table presents a summary of changes in fair value of the Lion Warrant (Level 3 financial liabilities), which are marked to market on a recurring basis:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Beginning balance	\$7,318	\$16,489	\$19,239	\$20,954
Adjustments included in earnings <sup>(a)</sup>	(6,594)	(1,785)	(18,515)	(6,250)
Balance at September 30	\$724	\$14,704	\$724	\$14,704

(a) The amount of total gains or losses for the period attributable to the change in unrealized gains or losses relating to liabilities held at the reporting date. The unrealized gains are recorded in unrealized gain on change in fair value of warrants in the consolidated statements of operations.

At September 30, 2015, the Company did not have any nonrecurring fair value measurements of nonfinancial assets or nonfinancial liabilities.

#### Note 9. Income Taxes

Income taxes for the three and nine months ended September 30, 2015 and 2014 were computed using an effective tax rate estimated to be applicable for the full fiscal year, which is subject to ongoing review and evaluation by management.

The Company incurred losses from operations for the three and nine months ended September 30, 2015 and 2014. Based upon these results and the recent history of cumulative losses for the prior three years, as well as trends in the Company's performance projected through 2015, the Company's management believes that it is more likely than not deferred tax assets in certain jurisdictions are not fully realizable. Accordingly, the Company will not record any income tax benefits in the condensed consolidated financial statements until it is determined that the Company will generate sufficient taxable income in the respective jurisdictions to realize the deferred income tax assets. As a result of the analysis, the Company determined that a full valuation allowance against the net deferred tax assets in certain jurisdictions, primarily in the U.S., and partial valuation allowances in certain foreign jurisdictions, is required.

The Company is subject to U.S. federal income tax as well as income tax in multiple state and foreign jurisdictions.

Tax years that remain subject to examination by the Internal Revenue Service are 2012 through 2014. The Company's

state and foreign tax returns are open to audit for the calendar years 2010 through 2014.



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Note 10. Related Party Transactions

Personal Guarantees by Mr. Charney

As of September 30, 2015, Mr. Charney personally guaranteed the Company's obligations under two property leases aggregating \$3,984.

Lease Agreement between the Company and a Related Party

The Company has an operating lease expiring in November 2016 for its knitting facility with American Central Plaza LLC, which is partially owned by Mr. Charney and Marty Bailey, the Company's Chief Manufacturing Officer. Mr. Charney holds an 18.75% ownership interest in American Central Plaza LLC while Mr. Bailey holds a 6.25% interest. The remaining members of American Central Plaza LLC are not affiliated with the Company. Rent expenses (including property taxes and insurance payments) related to this lease were \$155 for both the three months ended September 30, 2015 and 2014, respectively, and \$466 for both the nine months ended September 30, 2015 and 2014.

Agreements between Mr. Charney and Standard General

As of September 30, 2015, Mr. Charney owned 40.8% of the Company's outstanding common stock, and Mr. Charney and Standard General collectively controlled the right to vote such common stock as described below.

On June 25, 2014, Mr. Charney entered into a letter agreement with Standard General in which, if Standard General was able to acquire at least 10% of the Company's outstanding shares, Standard General would loan Mr. Charney the funds needed for him to purchase those acquired shares from Standard General (the "SG-Charney Loan"). Between June 26, 2014 and June 27, 2014, Standard General acquired 27,351 of the Company's outstanding shares, and Mr. Charney purchased those shares at a price of \$0.715 per share using the proceeds from the SG-Charney Loan.

According to Mr. Charney's Schedule 13D/A, dated June 25, 2014, the loan bears interest at 10% per annum, payable in-kind and matures on July 15, 2019, with no prepayment penalty. The loan is collateralized by the newly acquired shares as well as by Mr. Charney's original shares of the Company's outstanding common stock.

According to Mr. Charney's Schedule 13D/A, dated June 25, 2014, on July 9, 2014, Mr. Charney and Standard General, on behalf of one or more of its funds, entered into a cooperation agreement, which provides, among other things, that neither Mr. Charney nor Standard General will vote the common stock owned by Mr. Charney except in a manner approved by the parties in writing, except that, notwithstanding the terms of the Standstill Agreement, Mr. Charney may vote certain of his shares in favor of his own election to the Board and may vote all of such shares pursuant to the Investment Voting Agreement, dated March 13, 2009. In the Standstill Agreement, however, Mr. Charney agreed not to serve as a director, officer, or employee of the Company. In addition, Mr. Charney agreed to enter into warrant agreements with Standard General that would give Standard General the right exercisable, on or prior to July 15, 2017, to purchase from Mr. Charney 32,072 shares (consisting of the 27,351 shares purchased by using the proceeds from the SG-Charney Loan and 10% of Mr. Charney's 47,209 original shares).

Warrants held by Lion

See Note 11 for a description of the warrants issued by the Company to Lion.

Loans held by Standard General

See Note 7 for a description of the Standard General Loan Agreement assigned to Standard General on July 16, 2014 and Standard General Credit Agreement between the Company and Standard General in March 2015.

Note 11. Stockholders' Deficit

On October 5, 2015, the Debtors filed voluntary petitions seeking relief under Chapter 11 of the Bankruptcy Code. In connection with the Restructuring Support Agreement entered into on October 4, 2015, the Supporting Parties will receive on a pro rata basis, 100% of the equity interest in the reorganized Company after the conclusion of the Chapter 11 cases. In addition, on the Effective Date of the Plan, the Company's current outstanding common stock, any preferred stock purchase rights and any options, warrants or any other equity interests will be extinguished with no consideration. See Note 1.

Rights Plan

On December 21, 2014, the Board adopted a stockholders rights plan, as amended (the "Rights Plan"). Under the Rights Plan, the Company declared a dividend of one preferred share purchase right for each share of its common stock held by shareholders of record as of January 2, 2015. Each right entitles the registered holder to purchase from the Company a unit consisting of one ten-thousandth of a share (a "Unit") of Series B Junior Participating Preferred

Stock, par value \$0.0001 per share, at a purchase price of \$3.25 per Unit, subject to adjustment.

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## At-The-Market Offering

On May 11, 2015, the Company commenced a \$10,000 "at-the-market" offering program. Under the program, the Company offered and sold shares of its common stock having an aggregate gross sales price of up to \$10,000 (but in no event more than 15,000 shares). As of September 30, 2015, the Company had issued 4,121 shares of its common stock for net proceeds of \$1,998. The Company used the net proceeds generated through the program for working capital and general corporate purposes.

## Common Stock Warrants

Lion-held warrants (the "Lion Warrants") contain certain anti-dilution protections in favor of Lion providing for proportional adjustment of the warrant price and, under certain circumstances, the number of shares of the Company's common stock issuable upon exercise of the Lion Warrants, in connection with, among other things, stock dividends, subdivisions and combinations and the issuance of additional equity securities at less than fair market value, as well as providing for the issuance of additional warrants to Lion in the event of certain equity sales or debt for equity exchanges.

As a result of the at-the-market offering program, Lion received the right to purchase an additional 12 shares of the Company's common stock with an adjusted exercise price of all of the Lion Warrants at \$0.66. Such adjustments were required by the terms of the existing Lion warrants.

As of September 30, 2015, the fair value of the 24,523 Lion Warrants, estimated using the Binomial Lattice option valuation model was \$724 and was recorded as a current liability in the consolidated balance sheets. The calculation assumed a stock price of \$0.11, exercise price of \$0.66, volatility of 67.20%, annual risk free interest rate of 1.75%, a contractual remaining term of 6.5 years and no dividends. These warrants will expire on February 18, 2022.

The following table presents a summary of common stock warrants activity as of September 30, 2015:

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Contractual Life (in years)
Outstanding - January 1, 2015	24,511	\$0.66	7.2
Issued <sup>(a)</sup>	24,523	\$0.66	6.5
Forfeited <sup>(a)</sup>	(24,511	) \$0.66	
Expired	0		
Outstanding - September 30, 2015	24,523	\$0.66	6.5
Fair value - September 30, 2015	\$724		

(a) Issued and forfeited warrants represent repriced shares.

## Earnings Per Share

The Company presents earnings per share ("EPS") utilizing a dual presentation of basic and diluted EPS. Basic EPS excludes dilution and reflects net loss divided by the weighted-average shares of common stock outstanding for the period presented. Diluted EPS includes the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

The Company had common stock under various options, warrants and other agreements at September 30, 2015 and December 31, 2014. The effects of 33,462 and 39,627 shares at September 30, 2015 and 2014, respectively, were excluded from the calculation of net loss per share for three and nine months ended September 30, 2015 and 2014 because their impact would have been anti-dilutive.

A summary of the potential stock issuances under various options, warrants and other agreements that could have a dilutive effect on the shares outstanding are as follows:

	September 30,	
	2015	2014
Lion warrants	24,523	24,511
Shares issuable to Mr. Charney based on market conditions <sup>(a)</sup>	6,806	13,611
Employee options and restricted stock units	2,133	1,505
	33,462	39,627

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(a) Charney Anti-Dilution Rights pursuant to the April 26, 2011 Investor Purchase Agreement, of which each 6,805 expired unexercised on April 15, 2015 and 2014 (Note 12).

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## Note 12. Share-Based Compensation

On October 5, 2015, the Debtors filed voluntary petitions seeking relief under Chapter 11 of the Bankruptcy Code. In connection with the Restructuring Support Agreement entered into on October 4, 2015, the Supporting Parties will receive on a pro rata basis, 100% of the equity interest in the reorganized Company after the conclusion of the Chapter 11 cases. In addition, on the Effective Date of the Plan, the Company's current outstanding common stock, any preferred stock purchase rights and any options, warrants or any other equity interests will be extinguished with no consideration. See Note 1.

The American Apparel, Inc. 2011 Omnibus Stock Incentive Plan (the "2011 Plan") authorized the granting of a variety of incentive awards, the exercise or vesting of which would allow up to an aggregate of 17,500 shares of the Company's common stock to be acquired by the holders of such awards and authorized up to 3,000 shares that might be awarded to any one participant during any calendar year. The purpose of the 2011 Plan was to provide an incentive to selected employees, directors, independent contractors, and consultants of the Company or its affiliates, and provided that the Company might grant options, stock appreciation rights, restricted stock, and other stock-based and cash-based awards. As of September 30, 2015, there were 9,408 shares available for future grants under the 2011 Plan. The Company had identified a clerical discrepancy in its records pertaining to the total historic number of shares issued in connection with grants of common stock to employees under its stock incentive plans, which resulted in an immaterial adjustment to issued and outstanding shares in the second quarter of 2015.

Restricted Share Awards - The following table presents a summary of the restricted share awards activity as of September 30, 2015:

	Shares (in thousands)	Weighted-Average Grant Date Fair Value Per Share	Weighted-Average Remaining Vesting Period (in years)
Non-vested - January 1, 2015	103	\$1.17	0.3
Granted	578	\$0.36	
Vested	(673	) \$0.47	
Forfeited	(8	) \$1.88	
Non-vested - September 30, 2015	0	0	0.0

On January 2, 2015, the Company issued quarterly stock grants to six directors for services performed ranging from approximately 10 to 19 shares each based on grant date fair value of \$1.05 per share. On April 2, 2015, the Company issued quarterly stock grants to six directors for services performed ranging from approximately 15 to 29 shares each based on the grant date fair value of \$0.69 per share. On July 10, 2015, the Company issued quarterly stock grants to six directors for services performed ranging from approximately 16 to 38 shares each based on the grant date fair value of \$0.52 per share. On September 30, 2015, the Company issued quarterly stock grants to five directors for services performed of approximately 63 shares each based on the grant fair value of \$0.16 per share.

Vesting of the restricted share awards is immediate in the case of members of the Board. Share-based compensation is recognized over the vesting period based on the grant-date fair value.

Restricted Stock Units - The following table presents a summary of the restricted stock units activity as of September 30, 2015:

	Shares (in thousands)	Weighted-Average Grant Date Fair Value Per Share	Weighted-Average Remaining Vesting Period (in years)
Non-vested - January 1, 2015	0	\$0.00	0.0
Granted	1,237	\$0.70	
Vested	(191	) \$0.71	
Forfeited	0	\$0.00	
Non-vested - September 30, 2015	1,046		1.6

In 2015, the Company granted 1,237 shares of restricted stock units to certain employees under the 2011 Plan. These awards will vest, subject to each employee's continued service, over three years, with one-third of the total number of shares subject to each award vesting on the first anniversary of the date of grant. In addition, the Company granted a one-time award of restricted stock units for 150 shares of common stock each to three senior management in recognition of their services to the Company, which vested on April 15, 2015. The fair value of the restricted share grant was determined based on the market price on the date of grant. Share-based compensation is recognized over the vesting period based on the grant-date fair value.

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Stock Option Awards - The following table presents a summary of the stock option activity as of September 30, 2015:

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Contractual Remaining Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding - January 1, 2015	0	\$ 0.00	0.0	
Granted	1,087	\$ 0.70		
Exercised	0	\$ 0.00		
Forfeited	0	\$ 0.00		
Expired	0	\$ 0.00		
Outstanding - September 30, 2015	1,087	\$ 0.70	9.5	\$0
Vested - September 30, 2015	41	\$ 0.71	9.5	\$0
Non-vested - September 30, 2015	1,046	\$ 0.70	9.5	\$0

In 2015, the Company awarded stock options for 1,087 shares of its common stock to certain employees under the 2011 Plan. These awards will vest, subject to each employee's continued service, over three years, with one-third of the total number of shares subject to each award vesting on the first anniversary of the date of grant, and remain exercisable for ten years from the date of grant. The fair value of the stock option awards is estimated using the Black-Scholes option pricing model at the grant date.

The fair value of stock options granted during the nine months ended September 30, 2015 was \$400. The calculation assumed a stock price of \$0.70, exercise price of \$0.70, volatility of 61.28%, annual risk free interest rate of 0.93%, expected option life of six years and no dividends.

Share-Based Compensation Expense - The Company recorded share-based compensation expenses of \$147 and \$1,106 for the three months ended September 30, 2015 and 2014, respectively, and \$561 and \$3,764 for the nine months ended September 30, 2015 and 2014, respectively, related to its share-based compensation awards that are expected to vest. No amounts have been capitalized. As of September 30, 2015, unrecorded compensation cost related to non-vested awards was \$946, which is expected to be recognized within a year.

Mr. Charney Anti-Dilution Rights - On December 16, 2014, the Board terminated Dov Charney for cause in accordance with the terms of his employment agreement. Despite the termination, the unexercised anti-dilution rights remain exercisable under the 2011 Investor Purchase Agreement but are immediately vested. The remaining unrecognized compensation cost of \$233 was recognized as of December 31, 2014. The Company determined that the issuing requirements for the first and second measurement periods were not met and each 6,805 anti-dilution rights expired unexercised on April 15, 2015 and 2014.

#### Note 13. Commitments and Contingencies

##### Operating Leases

The Company conducts retail operations under operating leases that expire at various dates through 2034. The Company's primary manufacturing facilities and executive offices are currently under a long-term lease that expires on July 31, 2019. The rent expenses (including real estate taxes and common area maintenance costs) were \$18,601 and \$18,271 for the three months ended September 30, 2015 and 2014, respectively, and \$52,331 and \$55,611 for the nine months ended September 30, 2015 and 2014. The Company did not incur any significant contingent rent during these periods. Rent expense is allocated to cost of sales for production-related activities, selling expenses for retail stores, and the remainder to general and administrative expenses in the consolidated statements of operations.

##### Real Estate Matter

On July 27, 2015, the Company entered into a second amendment to the lease agreement for its headquarters and manufacturing facility in Los Angeles, California, resolving certain alleged breaches under the lease agreement with the landlord. Under the terms of the amendment, the Company will vacate one of the leased buildings (an under-utilized building not occupied by any manufacturing or distribution operations) by April 1, 2016, which, assuming timely payments, would result in a fifty percent, or \$2,100, reduction in annual base rent starting on April 1, 2016. Additionally, the amendment reduces certain rent, fees, interest and reimbursements incurred primarily from the first half of 2014 from \$2,995 to \$1,800, which will be paid in eleven monthly installments from April 1, 2016

through February 1, 2017.

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Advertising

The Company had approximately \$414 in open advertising commitments at September 30, 2015, which were primarily allocated among print advertisements in newspapers, magazines and outdoor advertising. The majority of these commitments were paid in 2015.

Note 14. Workers' Compensation and Other Self-Insurance Reserves

The Company uses a combination of third-party insurance and self-insurance for a number of risks including workers' compensation, medical benefits provided to employees, and general liability claims. General liability primarily relates to litigation that arises from store operations.

Estimating liability is a difficult process as many factors can ultimately affect the final settlement of a claim and, therefore, the reserve required. Changes in future inflation rates, litigation trends, legal interpretations, benefit levels, and settlement patterns, among other factors, can impact ultimate claim costs. The Company estimates liability by utilizing loss development factors based on its specific data to project the future development of incurred losses. Loss estimates are adjusted based upon actual claim settlements and reported claims. Although the Company does not expect ultimate claim costs to significantly differ from its estimates, self-insurance reserves could be affected if actual developed claims fluctuate considerably from the historical trends and the assumptions applied. The Company's estimated claims are discounted using a rate of 1.55% with a duration that approximates the duration of its self-insurance reserve portfolio. The undiscounted liabilities were \$22,379 and \$20,409 as of September 30, 2015 and December 31, 2014, respectively.

The workers' compensation liability is based on an estimate of losses for claims incurred but not paid at the end of the period. Funding is made directly to the providers and/or claimants by the insurance company. To guarantee performance under the workers' compensation program, the Company issued standby letters of credit of \$300 in favor of insurance companies' beneficiaries as of both September 30, 2015 and December 31, 2014, and cash deposits of \$21,053 and \$16,124 in favor of insurance company beneficiaries as of September 30, 2015 and December 31, 2014, respectively. At September 30, 2015, the Company recorded a total reserve of \$21,428, of which \$5,832 is included in accrued expenses and \$15,596 is included in other long-term liabilities on the consolidated balance sheets. At December 31, 2014, the Company recorded a total reserve of \$19,560, of which \$5,321 is included in accrued expenses and \$14,239 is included in other long-term liabilities on the consolidated balance sheets.

The Company self-insures its health insurance benefit obligations while the claims are administered through a third party administrator. The medical benefit liability is based on estimated losses for claims incurred but not paid at the end of the period. Funding is made directly to the providers and/or claimants by the insurance company. The Company's total reserve of \$1,517 and \$1,439 was included in accrued expenses in the consolidated balance sheets at September 30, 2015 and December 31, 2014, respectively.

Note 15. Business Segment and Geographic Area Information

The Company reports the following four operating segments based on the management approach: U.S. Wholesale, U.S. Retail, Canada, and International. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of the Company's reportable segments.

The U.S. Wholesale segment consists of the Company's wholesale operations of undecorated apparel products sold to distributors and third party screen printers in the U.S. as well as its online consumer sales. The Retail segment consists of the Company's retail operations in the U.S., which comprised 130 retail stores as of September 30, 2015. The Canada segment includes wholesale, retail, and online consumer operations in Canada. As of September 30, 2015, the retail operations in the Canada segment comprised 30 retail stores. The International segment includes wholesale, retail, and online consumer operations outside of the U.S. and Canada. As of September 30, 2015, the retail operations in the International segment comprised 67 retail stores operating in 17 countries outside the U.S. and Canada. All of the Company's retail stores sell its apparel products directly to consumers.

The Company evaluates performance of its operating segments primarily based on net sales and operating income or loss from operations. Operating income or loss for each segment does not include corporate general and administrative expenses, interest expense and other miscellaneous income/expense items. Corporate general and administrative expenses include, but are not limited to, human resources, legal, finance, information technology, accounting, executive compensation and various other corporate level expenses.



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The following tables present key financial information of the Company's reportable segments before unallocated corporate expenses:

	Three Months Ended September 30, 2015					
	U.S. Wholesale	U.S. Retail	Canada	International	Consolidated	
Wholesale net sales	\$37,197	\$0	\$2,380	\$1,594	\$41,171	
Retail net sales	0	39,842	8,008	26,357	74,207	
Online consumer net sales	7,257	0	436	2,981	10,674	
Total net sales to external customers	44,454	39,842	10,824	30,932	126,052	
Gross profit	5,176	24,754	5,920	17,808	53,658	
(Loss) income from segment operations	(4,746	) (702	) 1,355	(1,075	) (5,168	)
Depreciation and amortization	2,019	1,610	157	650	4,436	
Capital expenditures	316	96	50	96	558	
Retail store impairment	0	211	60	932	1,203	
Deferred rent (benefit) expense	(57	) (782	) 264	(129	) (704	)

	Three Months Ended September 30, 2014					
	U.S. Wholesale	U.S. Retail	Canada	International	Consolidated	
Wholesale net sales	\$41,179	\$0	\$2,699	\$3,007	\$46,885	
Retail net sales	0	50,277	9,957	35,588	95,822	
Online consumer net sales	8,797	0	558	3,807	13,162	
Total net sales to external customers	49,976	50,277	13,214	42,402	155,869	
Gross profit	13,761	32,722	7,343	28,713	82,539	
Income (loss) from segment operations	7,178	2,235	1,316	(937	) 9,792	)
Depreciation and amortization	2,132	2,807	414	1,051	6,404	
Capital expenditures	(24	) 1,024	160	428	1,588	)
Retail store impairment	0	581	114	498	1,193	
Deferred rent benefit	(15	) (284	) (56	) (165	) (520	)

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	Nine Months Ended September 30, 2015				
	U.S. Wholesale	U.S. Retail	Canada	International	Consolidated
Wholesale net sales	\$119,608	\$0	\$6,105	\$4,866	\$130,579
Retail net sales	0	117,787	22,232	75,394	215,413
Online consumer net sales	26,188	0	1,997	10,532	38,717
Total net sales to external customers	145,796	117,787	30,334	90,792	384,709
Gross profit	26,805	70,826	14,058	50,977	162,666
Income (loss) from segment operations	5,367	(10,095)	(685)	(5,855)	(11,268)
Depreciation and amortization	6,252	5,860	655	2,396	15,163
Capital expenditures	1,329	320	569	282	2,500
Retail store impairment	0	1,900	282	2,199	4,381
Deferred rent (benefit) expense	(74)	(198)	185	(616)	(703)

	Nine Months Ended September 30, 2014				
	U.S. Wholesale	U.S. Retail	Canada	International	Consolidated
Wholesale net sales	\$128,361	\$0	\$7,434	\$7,007	\$142,802
Retail net sales	0	141,712	27,137	100,800	269,649
Online consumer net sales	28,606	0	2,120	12,185	42,911
Total net sales to external customers	156,967	141,712	36,691	119,992	455,362
Gross profit	47,122	91,521	20,003	78,254	236,900
Income (loss) from segment operations	26,045	(560)	1,912	1,714	29,111
Depreciation and amortization	6,497	8,972	1,269	3,084	19,822
Capital expenditures	2,133	3,496	353	2,693	8,675
Retail store impairment	0	696	114	1,111	1,921
Deferred rent benefit	(415)	(2,636)	(155)	(455)	(3,661)
Reconciliation of reportable segments combined income (loss) from operations to the consolidated loss before income taxes is as follows:					

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Consolidated income (loss) from operations of reportable segments	\$ (5,168)	\$ 9,792	\$ (11,268)	\$ 29,111
Unallocated corporate expenses	(15,098)	(19,871)	(44,924)	(44,106)
Interest expense	(10,349)	(9,858)	(30,597)	(29,916)
Foreign currency transaction loss	(463)	(616)	(1,167)	(748)
Unrealized gain on change in fair value of warrants	6,594	1,785	18,515	6,250
(Loss) gain on extinguishment of debt	(362)	171	(362)	171
Other (expense) income	(251)	57	(140)	5
Consolidated loss before income taxes	\$ (25,097)	\$ (18,540)	\$ (69,943)	\$ (39,233)

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Net sales by geographic location of customers are as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
United States	\$84,296	\$100,253	\$263,583	\$298,679
Europe (excluding the United Kingdom)	12,245	17,440	34,854	50,105
Canada	10,824	13,214	30,334	36,691
United Kingdom	7,967	11,158	23,558	31,527
South Korea	3,906	4,287	11,095	9,867
Japan	2,192	3,203	6,731	10,266
China	1,963	2,262	5,841	6,002
Australia	1,377	2,306	4,804	6,891
Other foreign countries	1,282	1,746	3,909	5,334
Total consolidated net sales	\$126,052	\$155,869	\$384,709	\$455,362

## Note 16. Litigation

The Company is subject to various claims and contingencies in the ordinary course of business that arise from litigation, business transactions, operations, employee-related matters, or taxes. The Company establishes reserves when it believes a loss is probable and is able to estimate its potential exposure. For loss contingencies believed to be reasonably possible, the Company also discloses the nature of the loss contingency and an estimate of the possible loss or range of loss, or a statement that such an estimate cannot be made. Insurance may cover a portion of such losses; however, certain matters could arise for which we do not have insurance coverage or for which insurance provides only partial coverage. These matters could have a material negative effect on the Company's business, financial position, results of operations, or cash flows. In all cases, the Company vigorously defends itself unless a reasonable settlement appears appropriate. On January 27, 2016, the Bankruptcy Court entered the Confirmation Order confirming the Plan. Under the Plan, the Company's financial responsibility for the following claims will be discharged and/or permanently enjoined, subject to ongoing obligations to indemnify certain parties named as co-defendants in some of the listed litigation.

## SEC Investigation

On February 5, 2015, the Company learned that the Securities and Exchange Commission had issued a formal order of investigation to determine whether, during Mr. Charney's tenure as CEO of the Company, there were any violations of federal securities laws. The SEC's investigation is a non-public, fact-finding inquiry to determine whether any violations of law have occurred. The Company intends to cooperate fully with the SEC in its investigation.

## Shareholder Litigation

In 2010, two shareholder derivative lawsuits were filed in the United States District Court for the Central District of California (the "Court") that were subsequently consolidated for all purposes into a case entitled *In re American Apparel, Inc. Shareholder Derivative Litigation*, Lead Case No. CV106576 (the "First Derivative Action"). Plaintiffs in the First Derivative Action alleged a cause of action for breach of fiduciary duty arising out of (i) the Company's alleged failure to maintain adequate accounting and internal control policies and procedures; (ii) the Company's alleged violation of state and federal immigration laws in connection with the previously disclosed termination of employees following an Immigration and Customs Enforcement inspection; and (iii) the Company's alleged failure to implement controls sufficient to prevent a sexually hostile and discriminatory work environment. The Company does not maintain any direct exposure to loss in connection with these shareholder derivative lawsuits. The Company's status as a "Nominal Defendant" in the actions reflects that the lawsuits are purportedly maintained by the named plaintiffs on behalf of American Apparel and that plaintiffs seek damages on the Company's behalf. The Company filed a motion to dismiss the First Derivative Action which was granted with leave to amend on July 31, 2012. Plaintiffs did not amend the complaint and subsequently filed a motion to dismiss each of their claims, with prejudice, for the stated purpose of taking an immediate appeal of the Court's July 31, 2012 order. On October 16, 2012, the Court granted the plaintiffs' motion to dismiss and entered judgment accordingly. On November 12, 2012, plaintiffs filed a Notice of Appeal to the Ninth Circuit Court of Appeals where the case is currently pending.

In 2010, four shareholder derivative lawsuits were filed in the Superior Court of the State of California for the County of Los Angeles (the "Superior Court") which were subsequently consolidated for all purposes into a case entitled In re American Apparel, Inc. Shareholder Derivative Litigation, Lead Case No. BC 443763 (the "State Derivative Action"). Three of the matters comprising the State Derivative Action alleged causes of action for breach of fiduciary duty arising out of (i) the Company's alleged failure to maintain adequate accounting and internal control policies and procedures; and (ii) the Company's alleged violation of state and

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federal immigration laws in connection with the previously disclosed termination of employees following an Immigration and Customs Enforcement inspection. The fourth matter alleges seven causes of action for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets also arising out of the same allegations. On April 12, 2011, the Superior Court issued an order granting a stay (which currently remains in place) of the State Derivative Action on the grounds that, among other reasons, the case is duplicative of the First Derivative Action.

In July 2014, two shareholder derivative lawsuits were filed in the Court that were subsequently consolidated for all purposes into a case entitled *In re American Apparel, Inc. 2014 Shareholder Derivative Litigation*, Lead Case No. CV1405230 (the "Second Derivative Action," and together with the First Derivative Action, the "Federal Derivative Actions"). Plaintiffs in the Second Derivative Action alleged similar causes of action for breach of fiduciary duty by failing to (i) maintain adequate internal control and exercise proper oversight over Mr. Charney, whose alleged misconduct and mismanagement has purportedly harmed the Company's operations and financial condition, (ii) ensure Mr. Charney's suspension as CEO did not trigger material defaults under two of the Company's credit agreements, and (iii) prevent Mr. Charney from increasing his ownership percentage of the Company. The Second Derivative Action primarily seeks to recover damages and reform corporate governance and internal procedures. The Company does not maintain any direct exposure to loss in connection with these shareholder derivative lawsuits. The Company's status as a "Nominal Defendant" in the actions reflects that the lawsuits are purportedly maintained by the named plaintiffs on behalf of American Apparel and that plaintiffs seek damages on the Company's behalf. On April 28, 2015, the Court granted the Company's motion to dismiss, with leave to amend. On July 17, 2015, the Court dismissed the action, without prejudice, for failure to prosecute and to comply with court rules and orders. A Notice of Appeal to the Ninth Circuit Court of Appeals was filed on August 17, 2015.

Both the Federal Derivative Actions and State Derivative Action are covered under the Company's Directors and Officers Liability insurance policy, subject to a deductible and a reservation of rights. Should the above matters (i.e., the Federal Derivative Actions or the State Derivative Action) ultimately be decided against the Company in an amount that exceeds the Company's insurance coverage, or if liability is imposed on grounds that fall outside the scope of the Company's Directors and Officers Liability insurance coverage, the Company could not only incur a substantial liability, but also experience an increase in similar suits and suffer reputational harm. The Company is unable to predict the financial outcome of these matters at this time, and any views formed as to the viability of these claims or the financial exposure which could result may change from time to time as the matters proceed through their course. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the consolidated financial statements. However, no assurance can be made that these matters, either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, which could have a material adverse effect on the Company's financial condition, results of operations, or cash flows. On April 21, 2015, former employee and purported shareholder Jan Willem Hubner and purported shareholder Eric Ribner filed suit against Company directors and the Company in the Court (Case No. 15-2965). This matter was filed as a related case with respect to *In re American Apparel, Inc. 2014 Derivative Shareholder Litigation*. The lawsuit alleges the following counts: (1) violation of Section 14(a) of the Securities Exchange Act and Rule 14a-9 promulgated thereunder; (2) violation of Section 20(a) of the Securities Exchange Act; (3) breach of the duty of disclosure/candor; and (4) aiding and abetting breaches of the duty of disclosure/candor. Both of plaintiffs' claims are premised on the ground that American Apparel's April 28, 2014, Proxy Statement (Schedule 14-A) issued in advance of the Company's 2014 Annual Meeting contained misrepresentations and omissions. On May 1, 2015, plaintiffs filed a motion for preliminary injunction seeking relief substantially similar to that sought by the complaint itself (the "Motion"). On June 8, 2015, the Court denied the Motion. On June 18, 2015, plaintiffs stipulated to dismissal of this action, with prejudice. On June 26, 2015, plaintiffs filed a Notice of Appeal. The Company believes that all such claims are without merit and intends to vigorously dispute the validity of these claims on appeal. On July 28, 2015, defendants filed a motion to dismiss the appeal for lack of jurisdiction (the "Motion to Dismiss"). On November 19, 2015, the Ninth Circuit denied the Motion to Dismiss, without prejudice to renewing arguments in the answering brief. The Company is unable to predict the financial outcome of this matter at this time, and any views formed as to the viability of these claims or the financial exposure which could result may change from time to time as the matter

proceeds through its course. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the consolidated financial statements. However, no assurance can be made that this matter together with the potential for reputational harm, will not result in a material financial exposure, which could have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

On April 30, 2015, former employee and purported shareholder Eliana Gil Rodriguez filed a putative class action lawsuit against Company directors, a former Company officer, and Standard General L.P. in the Delaware Chancery Court (Case No. 10944). The lawsuit alleges breach of fiduciary duty claims in connection with the Company's 2014 annual meeting, its secondary offering, the Standstill Agreement, the 2014 adoption of a rights plan, and certain amendments to the bylaws against the former and current Company directors and the named former Company officer. In addition, the lawsuit alleges that Standard General aided and abetted the alleged breaches of fiduciary duty. Plaintiff seeks declaratory relief and requests that the Court order a revote of the Class A directors. On September 18, 2015, the Court granted plaintiff's voluntary dismissal of this action without prejudice.



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## Employment Matters

On April 16, 2015, former employees Carlos Hirschberg, Cesar Antonio Palma Cordero, and Dominga Valencia filed a putative class action lawsuit against the Company in the United States District Court for the Central District of California (Case No. 2:15-CV-02827), asserting: (i) violation of the WARN Act (29 U.S.C. § 2101 et seq.); (ii) violation of the California WARN Act (Labor Code §1400 et seq.), and (iii) unfair business practices under California Business and Professions Code §17200 et seq.). The judge in this matter has since dismissed Mr. Hirschberg as a plaintiff. The Company believes that all such claims are without merit and intends to vigorously dispute the validity of these claims. This matter is currently stayed with respect to the Company, pursuant to the automatic stay effected by its bankruptcy filing on October 5, 2015. The Company is unable to predict the financial outcome of this matter at this time, and any views formed as to the viability of these claims or the financial exposure which could result may change from time to time as the matter proceeds through its course. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the consolidated financial statements. However, no assurance can be made that this matter together with the potential for reputational harm, will not result in a material financial exposure, which could have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

On April 20, 2015, former employee David Nisenbaum filed a lawsuit against the Company in Los Angeles Superior Court (Case No. BC579342) asserting: (1) religious discrimination in violation of the California Fair Employment and Housing Act (FEHA); (2) failure to prevent discrimination in violation of FEHA; (3) retaliation in violation of FEHA; (4) wrongful termination in violation of public policy; (5) violation of Labor Code § 1102.5; (6) violation of Labor Code § 1198.5; (7) intentional infliction of emotional distress; and (8) violation of California Business & Professions Code §§ 17200 et seq. On August 11, 2015, the parties stipulated to arbitration. The Company believes that all such claims are without merit and intends to vigorously dispute the validity of these claims. This matter is currently stayed with respect to the Company, pursuant to the automatic stay effected by its bankruptcy filing on October 5, 2015. The Company is unable to predict the financial outcome of this matter at this time, and any views formed as to the viability of these claims or the financial liability which could result may change from time to time as the matter proceeds through its course. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the consolidated financial statements. However, no assurance can be made that this matter together with the potential for reputational harm, will not result in a material financial liability, which could have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

On or about June 23, 2014, Mr. Charney submitted a demand in arbitration against the Company in connection with his suspension, which had been stayed pending the determination of the Suitability Committee in the Internal Investigation. As a result of Mr. Charney's termination for cause, such stay is no longer in effect. On March 26, 2015, Mr. Charney submitted correspondence to the arbitration body requesting a reinstatement of his demand for arbitration. Mr. Charney has indicated that he intends to seek damages of up to \$35 million in connection with claims allegedly arising from his termination for cause. Arbitration has been scheduled for February 2017. The Company believes that all such claims are without merit and intends to vigorously dispute the validity of these claims. This matter is currently stayed with respect to the Company, pursuant to the automatic stay effected by its bankruptcy filing on October 5, 2015. The Company is unable to predict the financial outcome of this matter at this time, and any views formed as to the viability of these claims or the financial liability which could result may change from time to time as the matter proceeds through its course. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the consolidated financial statements. However, no assurance can be made that this matter together with the potential for reputational harm, will not result in a material financial liability, which could have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

On May 12, 2015, Mr. Charney filed a lawsuit against the Company and a Company director in the Superior Court of the State of California for the County of Los Angeles, asserting: (1) defamation; and (2) false light. Mr. Charney alleges that he was defamed and painted in a false light in an April 2015 letter written by the Company director and disseminated to American Apparel employees that states that Mr. Charney was terminated for cause and agreed that he would not return to the Company if he was found not to be suitable pursuant to an independent investigation conducted by the Board. Mr. Charney seeks damages in excess of \$20 million. On June 19, 2015, the Company filed

an anti-SLAPP Motion seeking to strike the Complaint. On September 30, 2015, the Court granted the anti-SLAPP Motion, effectively dismissing claims as to the Company. On November 20, 2015, Mr. Charney filed a notice of appeal with the California Court of Appeal. The Company believes that all such claims are without merit and intends to vigorously dispute the validity of these claims. This matter is currently stayed with respect to the Company, pursuant to the automatic stay effected by its bankruptcy filing on October 5, 2015. The Company is unable to predict the financial outcome of this matter at this time, and any views formed as to the viability of these claims or the financial liability which could result may change from time to time as the matter proceeds through its course. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the consolidated financial statements. However, no assurance can be made that this matter together with the potential for reputational harm, will not result in a material financial liability, which could have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

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On June 4, 2015, Mr. Charney filed a lawsuit against the Company in Delaware Chancery Court (Case No. 11098-CB) asserting counts for: (1) advancement; and (2) fees on fees. Mr. Charney seeks indemnification for fees and expenses incurred in the lawsuit captioned American Apparel, Inc. v. Dov Charney, Case No. 11033-CB, also filed in Delaware Chancery Court, alleging counts for: (1) breach of contract; and (2) breach of the implied covenant of good faith and fair dealing (the "Breach of Contract Action"). The Breach of Contract Action alleges that Mr. Charney violated a Nomination, Standstill and Support Agreement entered into on July 9, 2014, by, among other things, seeking the removal of members of the Board elected at the Company's 2014 annual meeting or by instigating, encouraging, joining, acting in concert with and assisting third parties seeking such removal, and by disparaging the Company by making negative comments about the Company at employee meetings and to the media. The Court entered judgment dismissing Mr. Charney's action for advancement and fees on fees, with prejudice, on September 25, 2015.

On June 19, 2015, Mr. Charney filed a lawsuit against the Company and a Company director in the Superior Court of the State of California for the County of Los Angeles (Case No. BC585664), asserting: (1) defamation; (2) false light; (3) intentional interference with actual economic relations; (4) intentional interference with prospective economic relations; and (5) violation of Business & Professions Code §§ 17200 et seq. Mr. Charney alleges that he was defamed by the Company director who Mr. Charney alleges told a large shareholder that he was being investigated for matters "criminal" in nature. Mr. Charney seeks damages in excess of \$30 million. On August 13, 2015, the Company filed a motion seeking to strike the complaint. The motion was set for hearing on November 2, 2015. However, this matter is currently stayed with respect to the Company, pursuant to the automatic stay effected by its bankruptcy filing on October 5, 2015. The Company believes that all such claims are without merit and intends to vigorously dispute the validity of these claims. The Company is unable to predict the financial outcome of this matter at this time, and any views formed as to the viability of these claims or the financial liability which could result may change from time to time as the matter proceeds through its course. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the consolidated financial statements. However, no assurance can be made that this matter together with the potential for reputational harm, will not result in a material financial liability, which could have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

On June 24, 2015, Mr. Charney filed a lawsuit against the Company, Standard General, L.P. (and certain of its funds), Company directors and a former Company officer in the Superior Court of the State of California for the County of Los Angeles (Case No. BC586119), asserting: (1) violation of California Corporations Code § 25401; (2) intentional misrepresentation; (3) negligent misrepresentation; (4) breach of fiduciary duty; (5) fraud in the inducement/rescission; (6) conspiracy; (7) intentional infliction of emotional distress; (8) negligent infliction of emotional distress; and (9) declaratory relief. Mr. Charney alleges that certain Company officers and directors engaged in fraud and conspiracy to induce Mr. Charney to dilute his equity in the Company such that defendant parties could control the Company. Mr. Charney seeks damages in excess of \$100 million. On July 29, 2015, defendants, Standard General, L.P., Standard General Master Fund L.P., and P Standard General Ltd., filed a motion to stay on the ground of inconvenient forum. The Company filed a notice of joinder to the motion this same day. On December 22, 2015, the Court granted the motion in part and stayed the matter in its entirety until all appeals are exhausted, dismissal or final judgment is entered in any case initiated in Delaware, involving all the same issues and parties, or further order of the court. On January 14, 2016, Mr. Charney filed a notice of appeal. The Company believes that Mr. Charney's claims in his June 4, 2015 lawsuit are without merit and intends to vigorously dispute the validity of these claims. The Company is unable to predict the financial outcome of this matter at this time, and any views formed as to the viability of these claims or the financial liability which could result may change from time to time as the matter proceeds through its course. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the consolidated financial statements. However, no assurance can be made that this matter together with the potential for reputational harm, will not result in a material financial liability, which could have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

In the first three quarters of 2015, a number of unfair labor practices charges were filed against the Company with the National Labor Relations Board alleging violations of the National Labor Relations Act. All of the unfair labor practice charges that were filed have since been dismissed. Nine of these charges have been appealed and remain pending. The Company believes that all such charges are without merit and intends to vigorously dispute the validity

of these charges. The Company is unable to predict the outcome of the nine charges at this time, and any views formed as to the viability of these charges or the financial liability, if any, which could result may change from time to time as the matters proceed through their course. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the consolidated financial statements. However, no assurance can be made that these charges together with the potential for reputational harm, will not result in a material financial liability, which could have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

In addition, the Company is currently engaged in other employment-related claims incidental to its business. The Company believes that all such claims are without merit or not material and intends to vigorously dispute the validity of these claims. These matters are currently stayed with respect to the Company, pursuant to the automatic stay effected by the Company's bankruptcy filing on October 5, 2015. While the final resolution of such claims cannot be determined based on information at this time, the Company believes, but cannot provide assurance that, the amount and ultimate liability, if any, with respect to these actions will

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not materially affect its business, financial position, results of operations, or cash flows. Should any of these matters be decided against the Company, it could not only incur liability but also experience an increase in similar suits and suffer reputational harm.

Other Matters

On April 2, 2015, a purported customer of the Company filed a putative class action, (in San Diego Superior Court (Case No. 37-2015-00011243), for violations of California Civil Code §1747.08 relating to the Company's alleged practices for collecting e-mail addresses in connection with credit card transactions at its retail stores. This matter is currently stayed with respect to the Company, pursuant to the automatic stay effected by its bankruptcy filing on October 5, 2015. The Company intends to aggressively defend against this matter. The Company is unable to predict the financial outcome of this matter at this time, and any views formed as to the viability of these claims or the financial liability which could result may change from time to time as the matter proceeds through its course.

Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the consolidated financial statements. However, no assurance can be made that this matter together with the potential for reputational harm, will not result in a material financial liability, which could have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

Note 17. Condensed Consolidating Financial Information

On October 5, 2015, the Debtors filed voluntary petitions seeking relief under Chapter 11 of the Bankruptcy Code. In connection with the Restructuring Support Agreement entered into on October 4, 2015, the Supporting Parties and other holders of the Notes will be entitled to receive on a pro rata basis, 100% of the equity interest in the reorganized Company after the conclusion of the Chapter 11 Cases, subject to certain exceptions and additional equity interests being issued or reserved under the Equity Commitment Agreement. The Company's current outstanding common stock, any preferred stock purchase rights and any options, warrants or any other equity interests will be extinguished with no consideration. See Note 1.

The Notes, which constitute debt obligations of American Apparel Inc. (the "Parent"), are fully and unconditionally guaranteed, jointly and severally, by the Parent's existing and future 100% owned direct and indirect domestic subsidiaries. The Notes are subject to customary automatic release provisions, including the satisfaction and discharge, or defeasance, or full payment of the principal, premium, if any, accrued and unpaid interests. In certain circumstances, the Notes are subject to the sale or substantial disposition of the subsidiary guarantor's assets. No guarantor subsidiaries are less than 100% owned, directly or indirectly, by the Parent.

The following presents the Parent's condensed consolidating balance sheets as of September 30, 2015 and December 31, 2014 and its condensed consolidating statements of operations for the three and nine months ended September 30, 2015 and 2014, condensed consolidating statements of cash flows for the nine months ended September 30, 2015 and 2014, the Parent's material guarantor subsidiaries and the non-guarantor subsidiaries, and the elimination entries necessary to present the Company's financial statements on a consolidated basis. This condensed consolidating financial information should be read in conjunction with the Company's consolidated financial statements.

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## Condensed Consolidating Balance Sheets

September 30, 2015

(in thousands)

(unaudited)

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination Entries	Consolidated
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash	\$0	\$5,333	\$ 8,039	\$0	\$13,372
Trade accounts receivable, net	0	17,057	3,568	0	20,625
Intercompany accounts receivable, net	219,640	(234,914 )	15,274	0	0
Inventories, net	0	86,632	20,591	0	107,223
Other current assets	451	15,084	5,082	0	20,617
Total current assets	220,091	(110,808 )	52,554	0	161,837
Property and equipment, net	0	26,526	5,066	0	31,592
Investments in subsidiaries	(170,138 )	13,733	0	156,405	0
Other assets, net	10,443	31,317	9,308	0	51,068
<b>TOTAL ASSETS</b>	<b>\$60,396</b>	<b>\$(39,232 )</b>	<b>\$ 66,928</b>	<b>\$156,405</b>	<b>\$244,497</b>
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT)</b>					
<b>EQUITY</b>					
<b>CURRENT LIABILITIES</b>					
Revolving credit facilities and current portion of long-term debt	\$0	\$56,968	\$ 0	\$0	\$56,968
Accounts payable	0	34,118	2,924	0	37,042
Accrued expenses and other current liabilities	25,930	26,961	15,063	0	67,954
Fair value of warrant liability	724	0	0	0	724
Other current liabilities	0	3,787	1,775	0	5,562
Total current liabilities	26,654	121,834	19,762	0	168,250
Long-term debt, net	220,930	0	15,000	0	235,930
Other long-term liabilities	488	23,902	3,603	0	27,993
<b>TOTAL LIABILITIES</b>	<b>248,072</b>	<b>145,736</b>	<b>38,365</b>	<b>0</b>	<b>432,173</b>
<b>STOCKHOLDERS' (DEFICIT) EQUITY</b>					
Common stock	18	100	493	(593 )	18
Additional paid-in capital	221,311	6,727	8,164	(14,891 )	221,311
Accumulated other comprehensive (loss) income	(10,273 )	(2,536 )	(6,452 )	8,988	(10,273 )
(Accumulated deficit) retained earnings	(396,575 )	(189,259 )	26,358	162,901	(396,575 )
Less: Treasury stock	(2,157 )	0	0	0	(2,157 )
<b>TOTAL STOCKHOLDERS' (DEFICIT)</b> <b>EQUITY</b>	<b>(187,676 )</b>	<b>(184,968 )</b>	<b>28,563</b>	<b>156,405</b>	<b>(187,676 )</b>
<b>TOTAL LIABILITIES AND</b> <b>STOCKHOLDERS' (DEFICIT) EQUITY</b>	<b>\$60,396</b>	<b>\$(39,232 )</b>	<b>\$ 66,928</b>	<b>\$156,405</b>	<b>\$244,497</b>

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Condensed Consolidating Balance Sheets  
December 31, 2014  
(in thousands)

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination Entries	Consolidated
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash	\$0	\$1,370	\$ 6,973	\$0	\$8,343
Trade accounts receivable, net	0	19,422	5,876	0	25,298
Intercompany accounts receivable, net	240,989	(229,956 )	(11,033 )	0	0
Inventories, net	0	116,335	31,137	106	147,578
Other current assets	90	11,290	6,391	0	17,771
Total current assets	241,079	(81,539 )	39,344	106	198,990
Property and equipment, net	0	38,932	10,385	0	49,317
Investments in subsidiaries	(115,109 )	15,874	0	99,235	0
Other assets, net	8,861	27,463	9,758	0	46,082
<b>TOTAL ASSETS</b>	<b>\$134,831</b>	<b>\$730</b>	<b>\$ 59,487</b>	<b>\$99,341</b>	<b>\$294,389</b>
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT)</b>					
<b>EQUITY</b>					
<b>CURRENT LIABILITIES</b>					
Revolving credit facilities and current portion of long-term debt	\$0	\$34,299	\$ 13	\$0	\$34,312
Accounts payable	0	32,508	3,046	0	35,554
Accrued expenses and other current liabilities	13,498	31,855	16,016	0	61,369
Fair value of warrant liability	19,239	0	0	0	19,239
Other current liabilities	0	9,762	2,038	0	11,800
Total current liabilities	32,737	108,424	21,113	0	162,274
Long-term debt, net	217,133	0	255	0	217,388
Other long-term liabilities	477	25,431	4,335	0	30,243
<b>TOTAL LIABILITIES</b>	<b>250,347</b>	<b>133,855</b>	<b>25,703</b>	<b>0</b>	<b>409,905</b>
<b>STOCKHOLDERS' (DEFICIT) EQUITY</b>					
Common stock	18	100	494	(594 )	18
Additional paid-in capital	218,779	6,726	7,967	(14,693 )	218,779
Accumulated other comprehensive (loss) income	(6,915 )	(2,493 )	(4,136 )	6,629	(6,915 )
(Accumulated deficit) retained earnings	(325,241 )	(137,458 )	29,459	107,999	(325,241 )
Less: Treasury stock	(2,157 )	0	0	0	(2,157 )
<b>TOTAL STOCKHOLDERS' (DEFICIT)</b> <b>EQUITY</b>	<b>(115,516 )</b>	<b>(133,125 )</b>	<b>33,784</b>	<b>99,341</b>	<b>(115,516 )</b>
<b>TOTAL LIABILITIES AND</b> <b>STOCKHOLDERS' (DEFICIT) EQUITY</b>	<b>\$134,831</b>	<b>\$730</b>	<b>\$ 59,487</b>	<b>\$99,341</b>	<b>\$294,389</b>





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Condensed Consolidating Statement of Operations and Comprehensive (Loss) Income  
 For the Three Months Ended September 30, 2015  
 (in thousands)  
 (unaudited)

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination Entries	Consolidated
Net sales	\$0	\$95,718	\$ 41,755	\$(11,421 )	\$ 126,052
Cost of sales	0	67,152	16,813	(11,571 )	72,394
Gross profit	0	28,566	24,942	150	53,658
Selling and distribution expenses	0	25,600	17,212	0	42,812
General and administrative expenses	7,523	14,873	7,439	74	29,909
Retail store impairment	0	208	995	0	1,203
(Loss) income from operations	(7,523 )	(12,115 )	(704 )	76	(20,266 )
Interest and other expenses	2,907	1,961	493	(530 )	4,831
Equity in loss (earnings) of subsidiaries	15,130	1,299	0	(16,429 )	0
(Loss) income before income taxes	(25,560 )	(15,375 )	(1,197 )	17,035	(25,097 )
Income tax (benefit) provision	0	(17 )	480	0	463
Net (loss) income	\$(25,560 )	\$(15,358 )	\$ (1,677 )	\$ 17,035	\$(25,560 )
Other comprehensive (loss) income, net of tax	(1,208 )	826	(605 )	(221 )	(1,208 )
Comprehensive (loss) income	\$(26,768 )	\$(14,532 )	\$ (2,282 )	\$ 16,814	\$(26,768 )

Condensed Consolidating Statement of Operations and Comprehensive (Loss) Income  
 For the Three Months Ended September 30, 2014  
 (in thousands)  
 (unaudited)

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination Entries	Consolidated
Net sales	\$0	\$ 110,401	\$ 55,621	\$(10,153 )	\$ 155,869
Cost of sales	0	67,669	15,550	(9,889 )	73,330
Gross profit	0	42,732	40,071	(264 )	82,539
Selling and distribution expenses	0	30,202	22,438	0	52,640
General and administrative expenses	10,101	12,274	16,401	9	38,785
Retail store impairment	0	580	613	0	1,193
(Loss) income from operations	(10,101 )	(324 )	619	(273 )	(10,079 )
Interest and other expenses	7,236	1,220	5	0	8,461
Equity in (earnings) loss of subsidiaries	1,847	53	0	(1,900 )	0
(Loss) income before income taxes	(19,184 )	(1,597 )	614	1,627	(18,540 )
Income tax provision	0	109	535	0	644
Net (loss) income	\$(19,184 )	\$(1,706 )	\$ 79	\$ 1,627	\$(19,184 )
Other comprehensive income (loss), net of tax	(1,919 )	(1,479 )	(2,269 )	3,748	(1,919 )
Comprehensive (loss) income	\$(21,103 )	\$(3,185 )	\$ (2,190 )	\$ 5,375	\$(21,103 )



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Condensed Consolidating Statement of Operations and Comprehensive (Loss) Income  
 For the Nine Months Ended September 30, 2015  
 (in thousands)  
 (unaudited)

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination Entries	Consolidated
Net sales	\$0	\$284,623	\$ 121,126	\$(21,040 )	\$384,709
Cost of sales	0	201,653	41,391	(21,001 )	222,043
Gross profit	0	82,970	79,735	(39 )	162,666
Selling and distribution expenses	0	80,774	52,940	0	133,714
General and administrative expenses	11,637	44,560	24,451	115	80,763
Retail store impairment	0	1,897	2,484	0	4,381
Loss from operations	(11,637 )	(44,261 )	(140 )	(154 )	(56,192 )
Interest and other expenses	9,111	5,010	723	(1,093 )	13,751
Equity in loss (earnings) of subsidiaries	50,586	2,288	0	(52,874 )	0
(Loss) income before income taxes	(71,334 )	(51,559 )	(863 )	53,813	(69,943 )
Income tax provision	0	242	1,149	0	1,391
Net (loss) income	\$(71,334 )	\$(51,801 )	\$ (2,012 )	\$53,813	\$(71,334 )
Other comprehensive (loss) income, net of tax	(3,358 )	(43 )	(2,316 )	2,359	(3,358 )
Comprehensive (loss) income	\$(74,692 )	\$(51,844 )	\$ (4,328 )	\$56,172	\$(74,692 )

Condensed Consolidating Statement of Operations and Comprehensive (Loss) Income  
 For the Nine Months Ended September 30, 2014  
 (in thousands)  
 (unaudited)

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination Entries	Consolidated
Net sales	\$0	\$333,156	\$ 156,683	\$(34,477 )	\$455,362
Cost of sales	0	199,593	53,131	(34,262 )	218,462
Gross profit	0	133,563	103,552	(215 )	236,900
Selling and distribution expenses	0	91,851	67,294	0	159,145
General and administrative expenses	10,986	46,476	33,367	0	90,829
Retail store impairment	0	695	1,226	0	1,921
(Loss) income from operations	(10,986 )	(5,459 )	1,665	(215 )	(14,995 )
Interest and other expenses	20,518	3,774	(54 )	0	24,238
Equity in loss (earnings) of subsidiaries	9,351	(200 )	0	(9,151 )	0
(Loss) income before income taxes	(40,855 )	(9,033 )	1,719	8,936	(39,233 )
Income tax provision	0	154	1,468	0	1,622
Net (loss) income	\$(40,855 )	\$(9,187 )	\$ 251	\$8,936	\$(40,855 )
Other comprehensive (loss) income, net of tax	(1,517 )	(1,139 )	(1,888 )	3,027	(1,517 )
Comprehensive (loss) income	\$(42,372 )	\$(10,326 )	\$ (1,637 )	\$11,963	\$(42,372 )



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Condensed Consolidating Statement of Cash Flows  
 For the Nine Months Ended September 30, 2015  
 (in thousands)  
 (unaudited)

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination Entries	Consolidated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net cash (used in) provided by operating activities	\$(21,284 )	\$(10,236 )	\$ 14,312	\$0	\$(17,208 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Capital expenditures	0	(1,649 )	(851 )	0	(2,500 )
Restricted cash	0	(54 )	147	0	93
Net cash used in investing activities	0	(1,703 )	(704 )	0	(2,407 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Cash overdraft	0	(5,714 )	0	0	(5,714 )
Payments of prior revolving credit facilities, net	0	(34,299 )	0	0	(34,299 )
Borrowings under current revolving credit facilities, net	0	56,968	0	0	56,968
Borrowings of term loans and notes payable	0	0	14,753	0	14,753
Payments of debt issuance costs	(4,993 )	0	0	0	(4,993 )
Proceeds from issuance of common stock	1,998	0	0	0	1,998
Payment of payroll statutory tax withholding on share-based compensation associated with issuance of common stock	(35 )	0	0	0	(35 )
Payments of capital lease obligations	0	(2,185 )	(47 )	0	(2,232 )
Advances from (to) affiliates	24,314	1,132	(25,446 )	0	0
Net cash provided by (used in) financing activities	21,284	15,902	(10,740 )	0	26,446
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	0	0	(1,802 )	0	(1,802 )
NET INCREASE IN CASH	0	3,963	1,066	0	5,029
Cash, beginning of period	0	1,370	6,973	0	8,343
Cash, end of period	\$0	\$5,333	\$ 8,039	\$0	\$13,372
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>					
Property and equipment acquired, and included in accounts payable	\$0	\$73	\$ 7	\$0	\$80

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Condensed Consolidating Statement of Cash Flows  
For the Nine Months Ended September 30, 2014  
(in thousands)  
(unaudited)

	Parent	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Elimination Entries	Consolidated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net cash (used in) provided by operating activities	\$9,600	\$(18,005 )	\$ 11,712	\$0	\$3,307
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Capital expenditures	0	(5,629 )	(3,046 )	0	(8,675 )
Proceeds from sale of fixed assets	0	0	52	0	52
Restricted cash	0	0	219	0	219
Net cash used in investing activities	0	(5,629 )	(2,775 )	0	(8,404 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Cash overdraft	0	(102 )	0	0	(102 )
Repayments under revolving credit facilities, net	0	(16,532 )	(433 )	0	(16,965 )
Repayments of term loans and notes payable	0	(47 )	(10 )	0	(57 )
Net proceeds from issuance of common stock	28,446	0	0	0	28,446
Payment of payroll statutory tax withholding on share-based compensation associated with issuance of common stock	(414 )	0	0	0	(414 )
Payments of debt issuance costs	(1,745 )	(354 )	0	0	(2,099 )
Repayments of capital lease obligations	0	(1,885 )	(47 )	0	(1,932 )
Advances (to) from affiliates	(35,887 )	43,118	(7,231 )	0	0
Net cash provided by (used in) financing activities	(9,600 )	24,198	(7,721 )	0	6,877
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH	0	0	(1,067 )	0	(1,067 )
NET INCREASE IN CASH	0	564	149	0	713
Cash, beginning of period	0	512	8,164	0	8,676
Cash, end of period	\$0	\$1,076	\$ 8,313	\$0	\$9,389
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>					
Property and equipment acquired, and included in accounts payable	\$0	\$217	\$ 254	\$0	\$471



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

(All U.S. dollar and share amounts in Item 2 are presented in thousands, except for per share items and unless otherwise specified.)

## OVERVIEW

## A. General

We are a manufacturer, distributor, and retailer of branded fashion basic apparel and accessories for women, men, children and babies. We are based in downtown Los Angeles, California. We also operate a leading wholesale business that supplies high quality T-shirts and other casual wear to distributors and screen printers. In 2003, we opened our first retail store in Los Angeles, California. As of September 30, 2015, we had approximately 8,000 employees and operated 227 retail stores in 19 countries: the U.S., Canada, the U.K., Australia, Austria, Belgium, China, France, Germany, Ireland, Israel, Italy, Japan, Mexico, Netherlands, South Korea, Spain, Sweden, and Switzerland. We currently operate 19 e-commerce stores in 10 languages that serve customers from over 49 countries worldwide at [www.americanapparel.com](http://www.americanapparel.com).

We conduct our primary apparel manufacturing operations out of an 800,000 square-foot facility in the warehouse district of downtown Los Angeles, California. The following table presents non-retail facilities located in the U.S.

Location	Purpose
Los Angeles, California	Headquarters, wholesale and web sales operations, hosiery knitting, cutting and sewing of garments and warehousing
Los Angeles, California	Fabric knitting
Hawthorne, California	Fabric dyeing and finishing
South Gate, California	Cutting, sewing, garment dyeing and finishing
Garden Grove, California	Fabric knitting, fabric dyeing and finishing, cutting and sewing of garments
La Mirada, California	Distribution Center

Because we manufacture domestically and are vertically integrated, we believe this enables us to more quickly respond to customer demand and changing fashion trends and to closely monitor product quality. Our products are noted for quality and fit, and together with our distinctive branding, these attributes have differentiated our products in the marketplace. "American Apparel®" is a registered trademark of American Apparel (USA) LLC.

We experience seasonality in our operations; sales during the third and fourth fiscal quarters have generally been the highest while sales during the first fiscal quarter have been the lowest. This reflects the combined impact of the seasonality of our wholesale and retail channels. Generally, our retail segment has not experienced the same pronounced sales seasonality as other retailers.

The following table presents, by segment, the change in retail store count during the three and nine months ended September 30, 2015 and 2014.

	U.S. Retail	Canada	International	Total
Three Months Ended September 30, 2015				
Open at June 30, 2015	133	30	74	237
Opened	0	0	0	0
Closed	(3	) 0	(7	) (10
Open at September 30, 2015	130	30	67	227
Three Months Ended September 30, 2014				
Open at June 30, 2014	137	31	79	247
Opened	1	0	0	1
Closed	0	0	(3	) (3
Open at September 30, 2014	138	31	76	245



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	U.S. Retail	Canada	International	Total
Nine Months Ended September 30, 2015				
Open at December 31, 2014	136	31	75	242
Opened	0	1	1	2
Closed	(6	) (2	) (9	) (17
Open at September 30, 2015	130	30	67	227
Nine Months Ended September 30, 2014				
Open at December 31, 2013	139	32	77	248
Opened	3	0	3	6
Closed	(4	) (1	) (4	) (9
Open at September 30, 2014	138	31	76	245

**B. Comparable Store Sales**

The following table presents the changes in comparable store sales for our retail and online stores during the three and nine months ended September 30, 2015 and 2014, and the number of retail stores included in the comparison at the end of each period. Comparable store sales are defined as the percentage change in sales for stores that have been open for more than twelve full months. Remodeled and expanded stores are excluded from the determination of comparable stores during the following twelve months if the remodel or expansion results in a change of greater than 20% of selling square footage. Closed stores are excluded from the base of comparable stores following their last full month of operation.

In calculating constant currency amounts, we convert the results of our foreign operations during the three and nine months ended September 30, 2015 and 2014 by using the weighted-average foreign exchange rate for the current comparable periods to achieve a consistent basis for comparison.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Comparable store sales <sup>(a)</sup>	(14	)%	(7	)%
Number of stores in comparison	219	230	225	233

(a) Comparable store sales results include the impact of online store sales.

**C. Executive Summary**

As of September 30, 2015, we had \$13,372 in cash, \$56,968 outstanding on the Wilmington Trust Credit Facility and \$3,032 of availability for additional borrowings as of such date.

As of September 30, 2015, we had \$211,817 aggregate principal amount of the Notes outstanding. On April 14, 2015, we paid \$13,803 in interest on the Notes. We did not make the scheduled interest payment on the Notes due on October 15, 2015, which was approximately \$13,900.

**Bankruptcy Filing and Restructuring**

On October 5, 2015, our domestic subsidiaries filed voluntary petitions in the Bankruptcy Court seeking relief under the Bankruptcy Code. The cases are being administered under the caption "In re American Apparel, Inc., et al.," Case Nos. 15-12055 (BLS). We continue to operate our businesses and manage our properties as debtors-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. Our foreign subsidiaries were not part the Chapter 11 cases. Our common stock has been delisted from the NYSE MKT LLC.

The Chapter 11 Cases were filed in response to our continuing losses and negative cash flows from operations and debt. We plan to continue implementing our strategic plan, which is focused on improving product selection, cost-cutting measures, improving supply chain efficiencies, SKU rationalization, maximizing retail, e-commerce and wholesale opportunities.

On October 4, 2015, we entered into a Restructuring Support Agreement with the syndicate of lenders of the revolving credit facility, which are also the majority holders of the Notes. Under the terms of the Restructuring Support Agreement, the holders of the Notes will be entitled to receive on a pro rata basis, 100% of the equity interest in the reorganized company after the conclusion of the Chapter 11 Cases, subject to certain exceptions and additional equity interests being issued or reserved under the Equity

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Commitment Agreement. We also entered into an Equity Commitment Agreement on October 4, 2015, which provides for the Supporting Parties to acquire equity interests in us of at least \$10,000 and up to \$40,000 after conclusion of the Chapter 11 cases.

On October 6, 2015, we obtained approval from the Bankruptcy Court of the DIP Credit Agreement between us and the Supporting Parties. The DIP Credit Agreement provides for a senior secured, super-priority delayed draw term loan and consists of approximately \$90,000 for the purposes of (i) refinancing in full the borrowings outstanding under the Wilmington Trust Credit Facility and (ii) providing additional funding of \$30,000, which carries a commitment fee of 2%. On the Effective Date of the Plan, the DIP Credit Agreement will convert to an Exit Term Loan Facility providing for an additional \$30,000 in financing, which carries a commitment fee of 2%. The facility is secured by a first priority senior lien on substantially all of our assets. Wilmington Trust shall continue to act as administrative agent for both the DIP Credit Agreement and the Exit Term Loan Facility.

On October 15, 2015, we filed with the Bankruptcy Court the Disclosure Statement, including a Joint Plan of Reorganization by the Debtors and the Debtors in Possession. If the restructuring transactions contemplated by the Plan are consummated, our current outstanding common stock, any preferred stock purchase rights and any options, warrants or any other equity interests will be extinguished with no consideration. In addition, holders of general unsecured claims against us will receive a distribution equal to their pro rata share of (i) units in a litigation trust established for their benefit and (ii) for each voting class that accepts the Plan, cash distribution provided under the Plan which shall be paid in semi-annual installments for one year from the effective date of the Plan. On January 11, 2016, we obtained approval of all voting classes to accept the Plan.

In addition, on January 11, 2016, we reached an agreement with the Creditors' Committee and the Supporting Parties on key terms of the Plan Amendments. The Plan Amendments provide for (i) an increase to the funding of the litigation trust, (ii) an increase to the cash distribution provided under the Plan, which is now available to all unsecured creditors, regardless of whether any voting class accepts or rejects the Plan, and (iii) a waiver from the Supporting Parties of their rights to receive the cash distribution for their general unsecured claims, further increasing the recoveries to the general unsecured creditors. Finally, the Plan Amendments provide for a commitment of \$40,000 in additional exit capital through an asset-based credit facility from either a third party lender or the Supporting Parties. This additional commitment will be in addition to the \$40,000 of new capital previously contemplated by the Equity Commitment Agreement and the Exit Term Loan Facility discussed above.

Our results of operations do not include any adjustments to reflect the possible future effects on the recoverability of assets or the amounts of liabilities that may result from the Plan or should we be unable to continue as a going concern. Our ability to continue as a going concern is contingent upon the consummation of our Plan and our ability to comply with the financial and other covenants contained in the Restructuring Support Agreement, the DIP Credit Agreement and the Equity Commitment Agreement.

On January 27, 2016, the Bankruptcy Court entered the Confirmation Order confirming the Plan. See Part II, Item 5 of this Quarterly Report on Form 10-Q.

Summary of Financial Results

Net sales for the three months ended September 30, 2015 decreased \$29,817, or 19.1%, from the corresponding period in 2014. The decrease was made up of a 14% decline in comparable store sales, an approximately \$6,800 impact from foreign exchange related to the strengthening of the U.S. dollar, and an approximately \$4,300 impact from store closings. Negatively impacting comparable store sales during the quarter was the lack of new style introductions for the fall and winter selling seasons.

Gross profit as a percentage of sales was 42.6% and 53.0% for the three months ended September 30, 2015 and 2014, respectively. Excluding the effect of the additional inventory reserves in the third quarter described below, gross profit as a percentage of net sales was 46.6% and 53.5% for the three months ended September 30, 2015 and 2014, respectively. The decrease was related to the foreign exchange impact of the strengthening U.S. dollar and higher costs of production, including an increase in workers compensation and health benefit costs.

Operating expenses include selling and distribution and general and administrative expenses. Operating expenses for the three months ended September 30, 2015 decreased \$18,704, or 20.5%, from the corresponding period in 2014. Excluding the effects of the significant events described below, operating expenses decreased \$13,622, or 17.6% from the corresponding period in 2014. The decrease was primarily due to lower payroll costs from our cost reduction efforts and reduced depreciation expenses and professional fees.

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Loss from operations was \$20,266 for the three months ended September 30, 2015 as compared to a loss from operations of \$10,079 for the three months ended September 30, 2014. Excluding the effects of the significant events described below, our loss from operations would have been \$6,086 for the three months ended September 30, 2015. The effects of the lower gross margins were offset by decreases in operating expenses all discussed above. Net loss for the three months ended September 30, 2015 was \$25,560 as compared to a net loss of \$19,184 for the three months ended September 30, 2014. The decrease was mainly a result of the change in fair value of warrants of \$4,809 offset by an increase in loss from operations of \$10,187. See Results of Operations for the three months ended September 30, 2015 for further details.

## Significant Events

The table below summarizes the impact to our earnings of certain costs, which we consider to be significant and presents gross profit, operating expenses, and (loss) income from operations on an as-adjusted basis, together with the reconciliation to the mostly directly comparable GAAP measure:

	Three months ended September 30,					
	2015	% of Net Sales		2014	% of Net Sales	
Gross profit	\$53,658	42.6	%	\$82,539	53.0	%
Additional inventory reserves	5,131			0		
Customs settlements and contingencies	0			836		
Gross profit - adjusted (Non-GAAP)	\$58,789	46.6	%	\$83,375	53.5	%
Operating expenses	\$72,721	57.7	%	\$91,425	58.7	%
Customs settlements and contingencies	0			(5,711)	)	
Litigation and professional fees	(8,106)	)		(5,263)	)	
Employment settlements and severance	(779)	)		(3,087)	)	
Lease termination cost	(164)	)		(70)	)	
Operating expenses - adjusted (Non-GAAP)	\$63,672	50.5	%	\$77,294	49.6	%
Loss from operations	\$(20,266)	) (16.1	)%	\$(10,079)	) (6.5	)%
Additional inventory reserves	5,131			0		
Customs settlements and contingencies	0			6,547		
Litigation and professional fees	8,106			5,263		
Employment settlements and severance	779			3,087		
Lease termination cost	164			70		
(Loss) income from operations - adjusted (Non-GAAP)	\$(6,086)	) (4.8	)%	\$4,888	3.1	%

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	Nine months ended September 30,					
	2015	% of Net Sales		2014	% of Net Sales	
Gross profit	\$162,666	42.3	%	\$236,900	52.0	%
Sales of slow moving inventory	9,755			0		
Additional inventory reserves	5,131			0		
Customs settlements and contingencies	287			836		
Gross profit - adjusted (Non-GAAP)	\$177,839	47.4	%	\$237,736	52.2	%
Operating expenses	\$214,477	55.8	%	249,974	54.9	%
Customs settlements and contingencies	0			(5,711)	)	
Litigation and professional fees	(13,161)	)		(6,619)	)	
Employment settlements and severance	(1,225)	)		(5,815)	)	
Lease amendment	(2,070)	)		0		
Lease termination cost	(342)	)		(831)	)	
Operating expenses - adjusted (Non-GAAP)	\$197,679	51.4	%	\$230,998	50.9	%
Loss from operations	\$(56,192)	) (14.6	)%	\$(14,995)	) (3.3	)%
Sales of slow moving inventory	9,755			0		
Additional inventory reserves	5,131			0		
Customs settlements and contingencies	287			6,547		
Litigation and professional fees	13,161			6,619		
Employment settlements and severance	1,225			5,815		
Lease amendment	2,070			0		
Lease termination cost	342			831		
(Loss) income from operations - adjusted (Non-GAAP)	\$(24,221)	) (6.3	)%	\$4,817	0.9	%

Sales of slow moving inventory - During the first half of 2015, management undertook a global plan to sell slow moving inventory through a graduated sales discount program. This program is a part of management's strategic shift to change our inventory profile and actively reduce inventory levels to improve store merchandising, working capital and liquidity. As a result, we implemented an initiative to accelerate the sale of slow-moving inventory through our retail and online sales channels, as well as through certain off-price channels. The program resulted in a significant reduction of slow moving inventory at positive gross margins. There was minimal activity under this program during the third quarter.

Additional inventory reserves - In late 2014, management undertook a strategic shift to change its inventory profile and actively reduce inventory levels and implemented an initiative to accelerate the sale of slow moving inventory. As part of this process, management conducted a style-by-style review of inventory and identified certain slow moving finished goods and raw materials inventories that required additional reserves as a result of the decision to accelerate sales of those items. During the third quarter of 2015, we recorded additional reserves of \$5,131 against cost of sales in our consolidated statements of operations.

Customs settlements and contingencies - As previously disclosed, we have been subject to, and have recorded charges related to, customs and similar audit settlements and contingencies in certain jurisdictions.

Litigation and professional fees - During 2015, we incurred additional legal and consulting costs related to the termination of Mr. Charney, other additional litigation costs related to various claims and lawsuits, and additional consulting costs relating to our turnaround strategy.

Employment settlements and severance - In 2011, an industrial accident at our facility in Orange County, California resulted in a fatality to one of our employees, and in accordance with law, a mandatory criminal investigation was initiated. In addition, we had previously disclosed employment-related claims and experienced unusually high

employee severance costs during 2014.

Lease amendment - On July 27, 2015, we entered into a second amendment to the lease agreement for our headquarters and manufacturing facility in Los Angeles, California, resolving certain alleged breaches under the lease agreement with the landlord. See Note 13 of Notes to the Condensed Consolidated Financial Statements.

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D. Critical Accounting Policies and Estimates

As discussed in Part II, Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended December 31, 2014, we consider our most critical accounting policies and estimates to include:

- revenue recognition;
- inventory valuation and obsolescence;
- valuation and recoverability of long-lived assets, including the values assigned to goodwill, intangible assets, and property and equipment;
- fair value calculations including derivative liabilities;
- contingencies, including accruals for the outcome of current litigation and assessments and self-insurance; and
- income taxes, including uncertain income tax positions and recoverability of deferred income taxes and any limitations as to net operating losses.

In general, estimates are based on historical experience, information from third party professionals and various other sources, and assumptions that are believed to be reasonable under the facts and circumstances at the time such estimates are made. On a continual basis, management reviews its estimates utilizing currently available information, changes in facts and circumstances, historical experience, and reasonable assumptions. After such reviews, and if deemed appropriate, those estimates are adjusted accordingly. Actual results may vary from these estimates and assumptions. Our management considers an accounting estimate to be critical if:

- it requires assumptions to be made that were uncertain at the time the estimate was made; and
- changes in the estimate, or the use of different estimating methods that could have been selected, could have a material impact on our consolidated results of operations or financial condition.

**RESULTS OF OPERATIONS**

The results of operations of the interim periods are not necessarily indicative of results for the entire year.



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Three Months Ended September 30, 2015 compared to Three Months Ended September 30, 2014

The following table presents our results of operations from the unaudited consolidated statements of operations in U.S. dollars and as a percentage of net sales for the periods indicated:

	Three Months Ended September 30,					
	2015	% of net sales	2014	% of net sales		
U.S. Wholesale	\$44,454	35.3	% \$49,976	32.0		%
U.S. Retail	39,842	31.6	% 50,277	32.2		%
Canada	10,824	8.6	% 13,214	8.5		%
International	30,932	24.5	% 42,402	27.3		%
Total net sales	126,052	100.0	% 155,869	100.0		%
Cost of sales	72,394	57.4	% 73,330	47.0		%
Gross profit	53,658	42.6	% 82,539	53.0		%
Selling and distribution expenses	42,812	34.0	% 52,640	33.8		%
General and administrative expenses	29,909	23.7	% 38,785	24.9		%
Retail store impairment	1,203	1.0	% 1,193	0.8		%
Loss from operations	(20,266 )	(16.1 )%	(10,079 )	(6.5 )%		
Interest expense	10,349		9,858			
Foreign currency transaction loss <sup>(a)</sup>	463		616			
Unrealized gain on change in fair value of warrants <sup>(b)</sup>	(6,594 )		(1,785 )			
Loss (gain) on extinguishment of debt	362		(171 )			
Other expense (income)	251		(57 )			
Loss before income tax	(25,097 )		(18,540 )			
Income tax provision	463		644			
Net loss	\$(25,560 )		\$(19,184 )			

(a) Related to the exchange rate fluctuations of the U.S. dollar relative to functional currencies used by our subsidiaries.

(b) Mark-to-market adjustments associated with our warrants.

(1) U.S. Wholesale

U.S. Wholesale net sales for the three months ended September 30, 2015, excluding online consumer net sales, decreased \$3,982, or 9.7%, as compared to the corresponding period in 2014 mainly due to lower sales volume from existing customers.

Online consumer net sales for the three months ended September 30, 2015 decreased \$1,540, or 17.5%, from the corresponding period in 2014 mainly due to lower sales order volume.

(2) U.S. Retail

U.S. Retail net sales for the three months ended September 30, 2015 decreased \$10,435, or 20.8%, from the corresponding period in 2014 mainly due to a decrease of approximately \$8,700 in comparable store sales. Net sales also decreased approximately \$1,800 due to the closure of six stores, offset by increases of approximately \$90 from two new stores.

(3) Canada

Canada net sales for the three months ended September 30, 2015 decreased \$2,390, or 18.1%, from the corresponding period in 2014. The decrease was mainly due to lower sales of approximately \$200 in all channels and the unfavorable impact of foreign currency exchange rate changes of approximately \$2,200.

Retail net sales for the three months ended September 30, 2015 decreased \$1,949, or 19.6%, from the corresponding period in 2014 mainly due to the unfavorable impact of foreign currency exchange rate change of approximately \$1,600. Additionally, the decrease was due to lower comparable store sales of \$200 and lower sales of approximately \$1,000 from the closure of three retail stores, offset by increases of approximately \$900 from two new stores.

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Wholesale net sales for the three months ended September 30, 2015 decreased \$319, or 11.8%, from the corresponding period in 2014 mainly due to the unfavorable impact of foreign currency exchange rate changes of approximately \$500.

Online consumer net sales for the three months ended September 30, 2015 decreased \$122, or 21.9%, from the corresponding period in 2014 mainly due to the unfavorable impact of foreign currency exchange rate changes of approximately \$100.

(4) International

International net sales for the three months ended September 30, 2015 decreased \$11,470, or 27.1%, from the corresponding period in 2014 mainly due to lower sales of approximately \$6,900 in all channels and the unfavorable impact of foreign currency exchange rate changes of approximately \$4,600.

Retail net sales for the three months ended September 30, 2015 decreased by \$9,231, or 25.9%, from the corresponding period in 2014. The decrease was due to lower comparable store sales of approximately \$3,700 and lower sales of approximately \$1,500 for the closure of ten retail stores. In addition, the unfavorable impact of foreign currency exchange rate changes contributed to the sales decrease of approximately \$3,900.

Wholesale net sales for the three months ended September 30, 2015 decreased \$1,413, or 47.0%, from the corresponding period in 2014 mainly due to lower sales order volume of approximately \$800 in the Continental Europe. The unfavorable impact of foreign currency exchange rate changes was approximately \$300.

Online consumer net sales for the three months ended September 30, 2015 decreased \$826, or 21.7%, from the corresponding period in 2014 mainly due to lower sales order volume in the U.K. and Japan, slightly offset by higher sales order volume in South Korea and China. The unfavorable impact of foreign currency exchange rate changes was approximately \$400.

(5) Gross Profit

Gross profit for the three months ended September 30, 2015 decreased to \$53,658 from \$82,539 in the corresponding period in 2014 due primarily to the \$29,817 decrease in sales. Excluding the effect of the additional inventory reserves described above, gross profit as a percentage of net sales for the three months ended September 30, 2015 decreased to 46.6% as compared with 53.5% in the corresponding period in 2014 as a result of the negative effects of foreign currency exchange rate changes and higher costs of production, including an increase in workers compensation and health benefit costs.

(6) Selling and distribution expenses

Selling and distribution expenses for the three months ended September 30, 2015 decreased \$9,828, or 18.7%, from the corresponding period in 2014. The decrease was due to lower payroll costs of approximately \$3,000, shipping costs of approximately \$1,600, supplies of approximately \$700, advertising costs of approximately \$700, and rent costs of approximately \$400, all primarily as a result of our cost reduction efforts. In addition, the impact of foreign currency exchange rate changes contributed to the expense decrease of approximately \$2,800.

(7) General and administrative expenses

General and administrative expenses for the three months ended September 30, 2015 decreased \$8,876, or 22.9%, from the corresponding period in 2014. Excluding the effects of the significant events discussed above, general and administrative expenses decreased \$3,794 or 15.4% from the corresponding period in 2014. The decrease was primarily due to lower depreciation expenses of \$1,700 resulting from the impairment of assets and closed stores in 2015 and 2014, lower professional fees of approximately \$800 and lower claims and penalty charges of approximately \$1,500, offset by higher payroll expenses of approximately \$1,100. In addition, the impact of foreign currency exchange rate changes contributed to the expense decrease of approximately \$800.

(8) Loss from operations

Loss from operations was \$20,266 for the three months ended September 30, 2015 as compared to a loss from operations of \$10,079 for the three months ended September 30, 2014. Excluding the effects of the significant events described above, loss from operations was \$6,086 and income from operations was \$4,888 for the three months ended September 30, 2015 and 2014, respectively. Lower sales were offset by decreases in operating expenses as discussed

above.

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Nine Months Ended September 30, 2015 compared to Nine Months Ended September 30, 2014

The following table presents our results of operations from the unaudited consolidated statements of operations in U.S. dollars and as a percentage of net sales for the periods indicated:

	Nine Months Ended September 30,					
	2015	% of net sales	2014	% of net sales		
U.S. Wholesale	\$ 145,796	37.9	% \$ 156,967	34.4	%	
U.S. Retail	117,787	30.6	% 141,712	31.1	%	
Canada	30,334	7.9	% 36,691	8.1	%	
International	90,792	23.6	% 119,992	26.4	%	
Total net sales	384,709	100.0	% 455,362	100.0	%	
Cost of sales	222,043	57.7	% 218,462	48.0	%	
Gross profit	162,666	42.3	% 236,900	52.0	%	
Selling and distribution expenses	133,714	34.8	% 159,145	34.9	%	
General and administrative expenses	80,763	21.0	% 90,829	19.9	%	
Retail store impairment	4,381	1.1	% 1,921	0.4	%	
Loss from operations	(56,192 )	(14.6 )	% (14,995 )	(3.3 )	%	
Interest expense	30,597		29,916			
Foreign currency transaction loss <sup>(a)</sup>	1,167		748			
Unrealized gain on change in fair value of warrants <sup>(b)</sup>	(18,515 )		(6,250 )			
Loss (gain) on extinguishment of debt	362		(171 )			
Other expense (income)	140		(5 )			
Loss before income tax	(69,943 )		(39,233 )			
Income tax provision	1,391		1,622			
Net loss	\$(71,334 )		\$(40,855 )			

(a) Related to the exchange rate fluctuations of the U.S. dollar relative to functional currencies used by our subsidiaries.

(b) Mark-to-market adjustments associated with our warrants.

(1) U.S. Wholesale

U.S. Wholesale net sales for the nine months ended September 30, 2015, excluding online consumer net sales, decreased \$8,753, or 6.8%, as compared to the corresponding period in 2014 mainly due to lower sales volume to existing customers. For the nine months ended September 30, 2014, we added a significant new distributor and had higher sales volume from its initial stock order.

Online consumer net sales for the nine months ended September 30, 2015 decreased \$2,418, or 8.5%, from the corresponding period in 2014 mainly due to lower sales order volume.

(2) U.S. Retail

U.S. Retail net sales for the nine months ended September 30, 2015 decreased \$23,925, or 16.9%, from the corresponding period in 2014 mainly due to a decrease of approximately \$19,800 in comparable store sales, in part as a result of the global strategic discounting program described above. Net sales also decreased approximately \$4,800 due to the closure of ten stores, offset by increases of approximately \$700 from four new stores added since the beginning of January 2014.

(3) Canada

Canada net sales for the nine months ended September 30, 2015 decreased \$6,357, or 17.3%, from the corresponding period in 2014 mainly due to the unfavorable impact of foreign currency exchange rate changes of approximately \$4,600 and lower sales of approximately \$1,800 in the retail and wholesale channels.

Retail net sales for the nine months ended September 30, 2015 decreased \$4,905, or 18.1%, from the corresponding period in 2014 mainly due to the unfavorable impact of foreign currency exchange rate changes of approximately \$3,400. Additionally, the decrease was due to lower comparable store sales of approximately \$300, lower sales of approximately \$2,800 from the closure of four retail stores, and lower sales of approximately \$500 from flea market, offset by increases of approximately \$2,100 from two new stores added since the beginning of January 2014.

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Wholesale net sales for the nine months ended September 30, 2015 decreased \$1,329, or 17.9%, from the corresponding period in 2014 mainly due to the unfavorable impact of foreign currency exchange rate changes of approximately \$900.

Online consumer net sales for the nine months ended September 30, 2015 decreased \$123, or 5.8%, from the corresponding period in 2014 mainly due to the unfavorable impact of foreign currency exchange rate changes of approximately \$300.

(4) International

International net sales for the nine months ended September 30, 2015 decreased \$29,200, or 24.3%, from the corresponding period in 2014 mainly due to lower sales of approximately \$15,800 in the retail and wholesale channels and the unfavorable impact of foreign currency exchange rate changes of approximately \$13,400.

Retail net sales for the nine months ended September 30, 2015 decreased by \$25,406, or 25.2%, from the corresponding period in 2014. The decrease was due to lower comparable store sales of approximately \$9,800 and lower sales of approximately \$3,900 for the closure of ten retail stores. In addition, the unfavorable impact of foreign currency exchange rate changes contributed to the sales decrease of approximately \$11,100.

Wholesale net sales for the nine months ended September 30, 2015 decreased \$2,141, or 30.6%, from the corresponding period in 2014 mainly due to lower sales volume of approximately \$1,000 in the Continental Europe and the unfavorable impact of foreign currency exchange rate changes of approximately \$800.

Online consumer net sales for the nine months ended September 30, 2015 decreased \$1,653, or 13.6%, from the corresponding period in 2014 mainly due to the unfavorable impact of foreign currency exchange rate changes of approximately \$1,500.

(5) Gross Profit

Gross profit for the nine months ended September 30, 2015 decreased to \$162,666 from \$236,900 in the corresponding period in 2014 due to the global strategic discounting program described above, as well as lower sales volume. Excluding the effects of the significant events, including the additional inventory reserves, described above, gross profit as a percentage of net sales for the nine months ended September 30, 2015 would have been 47.4% as compared with 52.2% in the corresponding period in 2014. The decrease in gross margins was primarily due to higher costs of production, including an increase in workers compensation and health insurance costs, as well as the negative effects of foreign currency exchange rates changes.

(6) Selling and distribution expenses

Selling and distribution expenses for the nine months ended September 30, 2015 decreased \$25,431, or 16.0%, from the corresponding period in 2014. The decrease was due to lower payroll costs of approximately \$6,200, shipping costs of approximately \$4,200, supplies of approximately \$2,300, rent costs of approximately \$1,800, travel costs of approximately \$1,100, advertising costs of approximately \$900, all primarily as a result of our cost reduction efforts. In addition, the impact of foreign currency exchange rate changes contributed to the expense decrease of approximately \$8,200.

(7) General and administrative expenses

General and administrative expenses for the nine months ended September 30, 2015 decreased \$10,066, or 11.1%, from the corresponding period in 2014. Excluding the effects of the significant events discussed above, general and administrative expenses decreased \$7,888, or 11.0% from the corresponding period in 2014. The decrease was primarily due to lower depreciation expenses of \$3,700 resulting from the impairment of assets and closed stores in 2015 and 2014 and professional fees of approximately \$2,800, offset by higher payroll expenses of approximately \$1,300. In addition, the impact of foreign currency exchange rate changes contributed to the expense decrease of approximately \$2,700.

(8) Loss from operations

Loss from operations was \$56,192 for the nine months ended September 30, 2015 as compared to \$14,995 for the nine months ended September 30, 2014. Excluding the effects of the significant events described above, loss from operations was \$24,221 and income from operations was \$4,817 for the nine months ended September 30, 2015 and

2014, respectively. Lower sales were offset by decreases in operating expenses as discussed above.

(9) Income tax provision

Although we incurred a loss before income tax on a consolidated basis, some of our foreign domiciled subsidiaries reported income before income tax and will be taxable on a stand-alone reporting basis in their respective foreign jurisdictions. As a result, we recorded a provision for income tax expense for the nine months ended September 30, 2015 and 2014. There were no charges or benefits recorded to income tax expense for valuation allowances.



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LIQUIDITY AND CAPITAL RESOURCES

Over the past years, our operations have been funded through a combination of borrowings from related and unrelated parties, banks and other debt, lease financing, and proceeds from the exercise of purchase rights and issuance of common stock. We continue to develop initiatives intended to increase sales, reduce costs and improve working capital and liquidity. We have utilized various programs to reduce costs such as payroll and related costs associated with manufacturing and administrative overhead, and have limited capital expenditures. In addition, we continue to seek and implement productivity improvements from our distribution center, inventory reductions, other labor cost reductions, and consolidation of administrative and manufacturing functions. Efforts to identify additional ways to reduce costs and improve productivity are ongoing. As we continued to implement the turnaround plan in 2015, we incurred and will continue to incur additional costs, such as sales discounts and write-downs, on the sale and disposal of slow-moving inventory and the closure of non-performing stores.

Our principal liquidity requirements are for operations, working capital, interest payments, and capital expenditures. We fund liquidity requirements primarily through cash on hand, cash flow from operations, and borrowings under our credit facilities. Our DIP Credit Agreement contains covenants requiring us to meet specified financial ratios and targets. Our inability to achieve compliance with such covenants or to obtain a waiver of compliance would negatively impact the availability of credit under our credit facilities. See "Liquidity, Going Concern and Recent Developments" below.

Liquidity, Going Concern and Recent Developments

On May 11, 2015, we commenced a \$10,000 "at-the-market" offering program. Under the program, we offered and sold shares of our common stock having an aggregate gross sales price of up to \$10,000 (but in no event more than 15,000 shares). As of September 30, 2015, we had issued 4,121 shares of our common stock for net proceeds of \$1,998. We used the net proceeds generated through the program for working capital and general corporate purposes. As of September 30, 2015, we had \$13,372 in cash, \$56,968 outstanding on our credit facility with Wilmington Trust and \$3,032 of availability for additional borrowings as of such date. As of September 30, 2015, we had \$211,817 aggregate principal amount of the Notes outstanding. On April 14, 2015, we paid \$13,803 on the Notes. We did not make the scheduled interest payment on the Notes due on October 15, 2015, which was approximately \$13,900.

On August 17, 2015, Capital One assigned its rights and obligations as a lender to a syndicate of lenders that included certain of our existing creditors, including funds associated with Standard General L.P., Monarch Alternative Capital L.P., Coliseum Capital LLC and Goldman Sachs Asset Management, L.P., and was replaced by Wilmington Trust as administrative agent. Additionally, on August 17, 2015, the Capital One Credit Facility was amended pursuant to an amended and restated credit agreement among us, the new syndicate of lenders and Wilmington Trust. In connection with such amendment, the syndicate of lenders received certain amendment and closing fees and reimbursement of closing expenses. The covenant violations existing at June 30, 2015 were waived under the Wilmington Trust Credit Facility.

The Wilmington Trust Credit Facility provided for a \$90,000 asset-based revolving credit facility and was scheduled to mature on April 4, 2018, subject to a January 15, 2018 maturity in limited circumstances. Borrowings under the Wilmington Trust Credit Facility were subject to specified borrowing base requirements not to exceed \$60,000. Amounts repaid under the Wilmington Trust Credit Facility could not be re-borrowed.

Borrowings outstanding under the Capital One Credit Facility as of the date of assignment continued under the Wilmington Trust Credit Facility and bore interest at a LIBOR based rate plus 5.00% or a rate based on the prime rate plus 4.00%. New borrowings under the Wilmington Trust Credit Facility bore interest at a LIBOR based rate plus 7.00% or a rate based on the prime rate plus 6.00%.

On August 17, 2015, we also entered into amendments to the indenture agreement governing the Notes and the Standard General Loan Agreement to permit us to enter into the Wilmington Trust Credit Facility. See Note 7 of Notes to the Condensed Consolidated Financial Statements.

On October 5, 2015, we filed voluntary petitions in the United States Bankruptcy Court for the District of Delaware seeking relief under Chapter 11 of the Bankruptcy Code. See Note 1 of Notes to the Condensed Consolidated Financial Statements.

On October 4, 2015, we entered into a Restructuring Support Agreement with the syndicate of lenders of the revolving credit facility, which are also the majority holders of the Notes. Under the terms of the Restructuring Support Agreement, the holders of the Notes will be entitled to receive on a pro rata basis, 100% of the equity interest in the reorganized company after the conclusion of the Chapter 11 Cases, subject to certain exceptions and additional equity interests being issued or reserved under the Equity Commitment Agreement. We also entered into an Equity Commitment Agreement on October 4, 2015, which provides for the Supporting Parties to acquire equity interests in us of at least \$10,000 and up to \$40,000 after conclusion of the Chapter 11 cases.

On October 6, 2015, we obtained approval from the Bankruptcy Court of the DIP Credit Agreement between us and the Supporting Parties. The DIP Credit Agreement provides for a senior secured, super-priority delayed draw term loan and consists of

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approximately \$90,000 for the purposes of (i) refinancing in full the borrowings outstanding under the Wilmington Trust Credit Facility and (ii) providing additional funding of \$30,000, which carries a commitment fee of 2%. The DIP Credit Agreement bears interest at 7.0% for Eurodollar rate loans and 6.0% for base rate loans. Subject to certain conditions, the maturity date of the DIP Credit Agreement is the earlier to occur of April 5, 2016 or the Effective Date of the Plan.

On the Effective Date of the Plan, the DIP Credit Agreement will convert to an Exit Term Loan Facility providing for an additional \$30,000 in financing, which carries a commitment fee of 2%. The facility bears interest at the LIBOR based rate plus 10.0% and matures four years after conversion. The facility is secured by a first priority senior lien on substantially all of our assets. Wilmington Trust will continue to act as administrative agent for both the DIP Credit Agreement and the Exit Term Loan Facility.

On January 11, 2016, we reached an agreement with the Creditors' Committee and the Supporting Parties on key terms of an amended Plan which includes a commitment of \$40,000 in additional exit capital through an asset-based credit facility from either a third party lender or the Supporting Parties. This additional commitment will be in addition to the \$40,000 of new capital previously contemplated by the Equity Commitment Agreement and the Exit Term Loan Facility. See Note 1 of Notes to the Condensed Consolidated Financial Statements.

## A. Cash Flow

	Nine Months Ended September 30,	
	2015	2014
Net cash (used in) provided by:		
Operating activities	\$(17,208	) \$3,307
Investing activities	(2,407	) (8,404
Financing activities	26,446	6,877
Effect of foreign exchange rate on cash	(1,802	) (1,067
Net increase in cash	\$5,029	\$713

Nine Months Ended September 30, 2015 compared to Nine Months Ended September 30, 2014

Cash used in operating activities was \$17,208 as compared with cash provided by operating activities of \$3,307 for the nine months ended September 30, 2015 and 2014, respectively. The decrease was due to the decline in revenue and margins offset by declines in operating costs as discussed in Results of Operations and also better working capital management.

Cash used in investing activities decreased for the nine months ended September 30, 2015 from the corresponding period in 2014 mainly due to our ongoing efforts to control capital expenditures.

Cash provided by financing activities increased for the nine months ended September 30, 2015 from the corresponding period in 2014. During the third quarter of 2015, we refinanced the Capital One Credit Facility with the Wilmington Trust Credit Facility, which increased the available borrowings by approximately \$15,000. In March 2015, one of our subsidiaries borrowed \$15,000 under the Standard General Credit Agreement. See Note 7 of Notes to the Condensed Consolidated Financial Statements. Additionally, in May 2015, we commenced a \$10,000 "at-the-market" offering program. Net proceeds from sales of our common stock under such "at-the-market" offering program through September 30, 2015 were \$1,998. In 2014, we completed a public offering for net proceeds of \$28,446.

## B. Debt

The following is an overview of our total debt as of September 30, 2015:

Description of Debt	Lender	Interest Rate	September 30, 2015	Covenant Violations
Revolving Credit Facility	Wilmington Trust	(1)	\$56,968	Yes (3)
Senior Secured Notes		15.0%	211,817	No
Long-term debt with Standard General Credit agreement	Standard General	17.0%	9,113	No
	Standard General	14.0%	15,000	No
Capital lease obligations	(2)	0.4% ~ 24.1%	2,722	N/A

Total

\$295,620

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- (1) LIBOR plus 5.0% to 7% or the bank's prime rate plus 4.0% to 6%.  
(2) 29 individual capital leases ranging from \$1 to \$1,433.

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(3) See Financial Covenants - Wilmington Trust Credit Facility below.

For additional disclosure regarding debt, see Notes 6, 7 and 13 of Notes to the Condensed Consolidated Financial Statements.

**Bankruptcy Filing**

On October 5, 2015, we filed voluntary petitions in the United States Bankruptcy Court for the District of Delaware seeking relief under Chapter 11 of the Bankruptcy Code. See Note 1 of Notes to the Condensed Consolidated Financial Statements.

The commencement of the Chapter 11 Cases constitutes an event of default under the indenture, dated April 4, 2013, that governs the Senior Secured Notes as well as the Wilmington Trust Credit Facility, the Standard General Credit Agreement and the Standard General Loan Agreement. As a result of the filing of the Chapter 11 Cases, all commitments under the various facilities were terminated and all loans (with accrued interest thereon) and all other amounts outstanding under such facilities became immediately due and payable.

As a result of the filing of the Chapter 11 Cases, we believe that the ability of our creditors to seek remedies to enforce their respective rights against us under these and other agreements are stayed and creditor rights of enforcement against us are subject to the applicable provisions of the Bankruptcy Code and certain contractual agreements.

**Financial Covenants**

**Wilmington Trust Credit Facility** - We were required to maintain minimum adjusted earnings and minimum fixed charge coverage ratios, both determined at the end of each fiscal quarter. We were also required not to exceed certain maximum leverage ratios, determined at the end of each fiscal quarter, starting with the quarter ended December 31, 2015. In addition, our domestic subsidiaries were subject to limitations on capital expenditures.

Among other provisions, the Wilmington Trust Credit Facility required that we maintain a lockbox arrangement and contained certain subjective acceleration clauses. In addition, the Wilmington Trust Credit Facility may have, at its discretion, adjusted the advance restrictions and criteria for eligible inventory and accounts receivable. The Wilmington Trust Credit Facility contained cross-default provisions whereby an event of default under the indenture governing the Notes or other indebtedness, in each case of an amount greater than a specified threshold, would have caused an event of default under the Wilmington Trust Credit Facility. If an event of default occurred and continued under the Wilmington Trust Credit Facility, the Wilmington Trust Credit Facility may have, among other things, terminated the obligations of the lenders to make loans, and the obligation of the letter of credit issuer to make letter of credit extensions, and required us to repay all outstanding amounts.

As of September 30, 2015, we were not in compliance with the minimum fixed charge coverage ratio and the minimum adjusted EBITDA covenants under the Wilmington Trust Credit Facility. For the July 1, 2015 through September 30, 2015 covenant reference period, our fixed charge coverage ratio was (0.43) to 1.00 as compared with the covenant minimum of 1.27 to 1.00, and our adjusted EBITDA was \$(5,056) as compared with the covenant minimum of \$25,071.

Additionally, the commencement of the Chapter 11 Cases as described in Note 1 constituted an event of default and all commitments under the Wilmington Trust Credit Facility were terminated and all loans (including accrued interest and all other amounts outstanding under this facility) became immediately due and payable. As a result of the filing of the Chapter 11 Cases, we believe that the ability of our creditors to seek remedies to enforce their respective rights against us under these and other agreements are stayed and creditor rights of enforcement against us are subject to the applicable provisions of the Bankruptcy Code and certain contractual agreements.

**Senior Secured Notes** - The Indenture governing our Notes imposes certain limitations on our ability to, among other things and subject to a number of important qualifications and exceptions, incur additional indebtedness or issue disqualified capital stock or preferred stock (with respect to restricted subsidiaries), grant liens, make payments in respect of our capital stock or certain indebtedness, enter into transactions with affiliates, create dividend and other payment restrictions affecting subsidiaries, merge or consolidate with any other person, sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our assets or adopt a plan of liquidation. We must annually report to the trustee on compliance with such limitations. The Indenture also contains cross-default provisions whereby a payment default or acceleration of any indebtedness in an aggregate amount greater than a specified threshold would cause an event of default with respect to the Notes. As of September 30, 2015, we were in

compliance with the covenants in the Notes Indenture. The commencement of the Chapter 11 Cases on October 5, 2015 constituted an event of default under the Indenture.

On August 17, 2015, we entered into an amendment to the indenture agreement governing the Notes to permit us to enter into the Wilmington Trust Credit Facility.

Standard General Loan Agreement - The Standard General Loan Agreement incorporates by reference several of the covenants contained in the Indenture governing our Notes, including covenants restricting our ability to incur additional indebtedness or issue disqualified capital stock or preferred stock (with respect to restricted subsidiaries), grant liens, make payments in respect of our capital stock or certain indebtedness, enter into transactions with affiliates, create dividend and other payment restrictions

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affecting subsidiaries, merge or consolidate with any other person, sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our assets or adopt a plan of liquidation. As of September 30, 2015, we were in compliance with the covenants of the Standard General Loan Agreement.

Standard General Credit Agreement - The Standard General Credit Agreement contains customary defaults, including cross event of default to the Notes and the Standard General Loan Agreement and cross acceleration to other indebtedness above a threshold amount. If we experience certain change of control events, we are required to offer to prepay the Standard General Credit Agreement at 101% of the outstanding principal amount plus accrued and unpaid interest on the date of the prepayment. We will be required to prepay loans under the Standard General Credit Agreement to the extent necessary to avoid the loan being characterized as an "applicable high yield discount obligation" within the meaning of the Internal Revenue Code, by the first interest payment date following the fifth anniversary of closing.

### OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

Our material off-balance sheet contractual commitments are mainly operating lease obligations and letters of credit. Operating lease commitments mainly consist of leases for our retail stores, manufacturing facilities, main distribution centers, and corporate office. These leases frequently include options which permit us to extend the terms beyond the initial fixed lease term. As appropriate, we intend to negotiate lease renewals as the leases approach expiration. We also have capital lease obligations which consist of our manufacturing equipment leases.

Issued and outstanding letters of credit were \$1,080 at September 30, 2015, related primarily to workers' compensation insurance and store leases.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in our market risk during the three and nine months ended September 30, 2015. For additional information, see Item 7A. Quantitative and Qualitative Disclosures About Market Risk in Part II of our Annual Report on Form 10-K for the year ended December 31, 2014.

### Item 4. Controls and Procedures

#### 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. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of the end of the quarter covered by this Quarterly Report on Form 10-Q.

#### Changes in Internal Control over Financial Reporting

We regularly review our system of internal control over financial reporting to ensure we maintain an effective internal control environment. As we expand globally, we are increasingly dependent on information systems to operate our website, process transactions, respond to customer inquiries, manage inventory and production, purchase, sell and ship goods on a timely basis and maintain cost-efficient operations. In connection with the process of upgrading our information technology infrastructure and resulting business process changes, we continue to create and enhance the design and documentation of our internal control processes to ensure effective controls over financial reporting.

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) other than discussed above during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Our process for evaluating controls and procedures is continuous and encompasses constant improvement of the design and effectiveness of established controls and procedures and the remediation of any deficiencies which may be identified during this process.

## PART II-OTHER INFORMATION

### Item 1. Legal Proceedings

For a discussion of legal matters, see Note 16 of Notes to the Condensed Consolidated Financial Statements in Part I.

Item 1. Financial Statements of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

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Our business involves various risks and uncertainties in addition to the normal risks of business, some of which are discussed "Special Note Regarding Forward-Looking Statements" under Part I of this report and our other filings with the SEC, as well as the other information in this report and such other filings. It should be noted that our business may be adversely affected by a downturn in general economic conditions and other forces beyond our control. In addition, other risks and uncertainties not presently known or that we currently believe to be immaterial may also adversely affect our business. Any such risks or uncertainties, or any of the following risks or uncertainties, that develop into actual events could result in a material and adverse effect on our business, financial condition, results of operations, or liquidity.

During the nine months ended September 30, 2015, there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, except for the changes and additions described below. Please refer to our Annual Report on Form 10-K for the year-ended December 31, 2014 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 for a list of our other risk factors.

As a result of the commencement of the Chapter 11 Cases, we are subject to the risks and uncertainties associated with bankruptcy proceedings.

For the duration of the Chapter 11 Cases, our operations and our ability to execute our business strategy will be subject to the risks and uncertainties associated with bankruptcy. These risks include:

- our ability to continue as a going concern;
- our ability to obtain Bankruptcy Court approval with respect to motions filed in the Chapter 11 Cases from time to time;
- our ability to comply with the terms and restrictions of the DIP Credit Agreement;
- our ability to confirm and consummate the Plan or another Chapter 11 plan; and
- our ability to fund and execute our business plan.

These risks and uncertainties could adversely affect our relationships with our vendors and employees, as well as with customers, which in turn could adversely affect our operations and financial condition. Also, transactions outside the ordinary course of business are subject to the prior approval of the Bankruptcy Court, which may limit our ability to respond timely to certain events or take advantage of opportunities. In addition, while the Chapter 11 Cases continue, our senior management will be required to spend a significant amount of time and effort focusing on the cases, which may materially adversely affect the conduct of our business, and, as a result, our financial condition and results of operations. Because of the risks and uncertainties associated with the Chapter 11 Cases, we cannot predict or quantify the ultimate impact that events occurring during the Chapter 11 reorganization process may have on our business, financial condition and results of operations, and there is no certainty as to our ability to continue as a going concern. On January 27, 2016, the Bankruptcy Court entered the Confirmation Order confirming the Plan. See Part II, Item 5 of this Quarterly Report on Form 10-Q.

If the Plan is consummated, our existing common stock and other equity interests will be extinguished without any consideration.

Trading in our securities during the pendency of the Chapter 11 Cases is highly speculative and poses substantial risks. Trading prices for our securities may bear little or no relationship to the actual recovery, if any, by holders of our securities in the Chapter 11 Cases. At the Effective Date of the Plan, our common stock and other equity interests will be extinguished and the holders will not receive any consideration. On January 27, 2016, the Bankruptcy Court entered the Confirmation Order confirming the Plan. See Part II, Item 5 of this Quarterly Report on Form 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.



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Item 5. Other Information

Confirmation of the Plan

As previously disclosed, on October 5, 2015, the Company and certain of its domestic subsidiaries filed voluntary petitions in the United States Bankruptcy Court for the District of Delaware seeking relief under Chapter 11 of Title 11 of the United States Code. The cases are being administered under the caption "In re American Apparel, Inc., et al.," Case No. 15-12055 (BLS).

On January 27, 2016, the Bankruptcy Court entered an order confirming the Debtors' First Amended Joint Plan of Reorganization. A copy of the Confirmation Order is filed as Exhibit 2.1 to this Quarterly Report on Form 10-Q and is incorporated herein by reference. The Debtors plan to emerge from the Chapter 11 Cases after satisfying the remaining conditions to effectiveness contemplated under the Plan.

On the Effective Date, as a result of the Plan becoming effective, all of the Company's existing common stock and any other equity interests will be canceled without consideration and have no value.

A copy of the Debtors' most recent Monthly Operating Report filed with the Bankruptcy Court containing information as to the assets and liabilities of the Company was filed with the Securities and Exchange Commission on a Current Report on Form 8-K on January 15, 2016 and is incorporated herein by reference.

The material terms of the Plan are as follows:

On the Effective Date of the Plan, the DIP Credit Agreement will convert into the Exit Term Loan Facility and the lenders under the DIP Credit Agreement will become lenders under the Exit Term Loan Facility, each holding their respective pro rata share of the loans thereunder, in full and final satisfaction of the DIP Credit Agreement. The Exit Term Loan Facility will provide, subject to certain conditions, (i) term loans converted on a dollar-for-dollar basis from the loans under the DIP Financing and (ii) an additional incremental term loan in the principal amount of \$30 million, which term loans will mature four years after the closing date of the Exit Term Loan Facility. In addition, the Company shall have received a commitment for a credit facility senior to the Exit Term Loan Facility in an amount equal to at least \$40 million.

Holders of the Notes will be entitled to receive, on a pro rata basis, 100% of the equity membership interests in the reorganized American Apparel, LLC after the conclusion of the Chapter 11 Cases (the "Reorganized Company"), subject to certain additional equity interests being issued or reserved under the Equity Commitment Agreement; provided, however, that the Debtors, upon the request of the Requisite Supporting Parties (as defined in the Plan), shall provide an alternative distribution to any holder of a Pre-petition Note Secured Claim (as defined in the Plan) that is not a Supporting Party in cash in an amount equal to such holder's Pre-petition Note Secured Claim, to be paid on or promptly after the Effective Date of the Plan.

Holders of general unsecured claims against the Debtors will receive a distribution equal to their pro rata share of units in a litigation trust and \$2.5 million in cash.

On the Effective Date of the Plan, pursuant to the Equity Commitment Agreement, the Supporting Parties will fund in cash a \$10 million equity investment in the Reorganized Company. Certain other holders of equity interests in the Reorganized Company that are not Supporting Parties will also have the right to acquire additional equity interests in the Reorganized Company on the same terms within 30 days of the effective date of the Plan.

A management incentive plan will be established pursuant to which the Reorganized Company may distribute to certain members of management interests for, or options to purchase such memberships, up to an amount equal to 8% of the equity ownership interests of the Reorganized Company, on a fully diluted basis.

The Company's outstanding common stock, par value \$0.0001 per share ("Common Stock"), together with the associated preferred stock purchase rights and any options, warrants or other rights with respect thereto, or any other instruments evidencing an ownership interest in the Company, and the rights of any entity to purchase or demand the issuance of any of the foregoing, will be extinguished and the holders of the Common Stock and any such other interest therein will not receive any consideration.

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## Item 6. Exhibits

Exhibit No.	Description
2.1*	Confirmation Order, as entered by the Bankruptcy Court on January 27, 2016
31.1*	Certification of Registrant's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Registrant's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1#	Certification of Registrant's Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. This certification is being furnished solely to accompany this Quarterly Report on Form 10-Q and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company.
32.2#	Certification of Registrant's Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. This certification is being furnished solely to accompany this Quarterly Report on Form 10-Q and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith.

# Furnished herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 1, 2016

AMERICAN APPAREL, INC.

Signature	Title	Date
/s/ PAULA SCHNEIDER Paula Schneider	Chief Executive Officer	February 1, 2016
/s/ HASSAN NATHA Hassan N. Natha	Executive Vice President and Chief Financial Officer	February 1, 2016