

Possible Revisit to Bankruptcy Protection for American Apparel

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After officially emerging from bankruptcy in February of this year, American Apparel LLC filed for Chapter 11 bankruptcy protection on November 14, 2016 to allow for an “[orderly sale of the business](#).” The bankruptcy filing could offer the company a chance to evaluate competing offers for its assets and business if an auction process occurs.

American Apparel is a well-known, Los Angeles based clothing manufacturer, designer, and retailer geared towards young adult fashion. American Apparel last filed for bankruptcy protection in October of 2015 and discarded \$200 million in debt in an attempt to [turnaround the company](#) and improve future prospects. A group of former bondholders of the company gained ownership and led the company out of bankruptcy in February of 2016.

Despite officially exiting bankruptcy in February, American Apparel’s plan to revive the company faltered when it continued to face significant problems that existed before its filing for bankruptcy in October. The brand experienced a [drop in sales](#) while still maintaining its expensive Los Angeles manufacturing factory. American Apparel’s declining sales mirrors similar struggles faced by other apparel retailers, such as Pacific Sunwear of California Inc., Wet Seal LLC, and Quiksilver, Inc. These apparel retailers are experiencing the effects of consumers turning to online shopping, rather than opting to visit brick-and-mortar stores to shop.

In the wake of these issues, American Apparel filed for bankruptcy last Monday with an existing offer from Canadian company Gildan Activewear, Inc. Gildan, a manufacturer and marketer of branded clothing, has offered to acquire the intellectual property rights of the brand and specific assets for \$66 million in cash. Gildan has expressed interest in American Apparel’s assets of “[some wholesale inventory](#),” and distribution, manufacturing, and warehouse activities in the Los Angeles area. However, Gildan does not intend to purchase the retail stores. The [Gildan offer](#) contemplates selling American Apparel merchandise through separate apparel retailers and would not require the American Apparel physical stores to sell the product.

The bankruptcy filing will allow American Apparel to conduct an auction process for its assets and the company. This provides the opportunity for other bidders to emerge and [present competing offers](#). This may mean that a competing offer superior to Gildan’s offer will surface. The auction process provides an opportunity for bids that might include purchasing the retail business and the physical stores. American Apparel expects the daily operations of the company in the United States to continue as usual while the auction process is underway.