

AMERICAN APPAREL, INC
Form DEF 14A
October 29, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

American Apparel, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Commission File No. 001-32697

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

October 29, 2008

Dear Stockholder:

We are pleased to invite you to the annual meeting of stockholders to be held on November 20, 2008 at 2:00 p.m., Pacific Time, at the headquarters of American Apparel, Inc. at 747 Warehouse Street, Los Angeles, California 90021.

The matters to be considered and voted upon at the annual meeting are described in the 2008 Notice of Annual Meeting of Stockholders and the Proxy Statement that accompany this letter. It is very important that your shares be represented and voted at the Annual Meeting. Please read the attached Proxy Statement and vote your shares using the telephone or Internet voting systems, or by signing and dating the paper copy of the proxy card and returning it promptly.

Thank you for your continued support of American Apparel.

Sincerely,

/s/ Dov Charney

Dov Charney

Chairman of the Board

AMERICAN APPAREL, INC.

747 Warehouse Street

Los Angeles, California 90021

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be held on November 20, 2008

Time and Date: 2:00 p.m., Pacific Time, on Friday, November 20, 2008

Place: American Apparel, Inc. headquarters located at 747 Warehouse Street, Los Angeles, California 90021

- Items of Business:**
1. To reelect Messrs. Greene, Miller, and Mayer to the Board of Directors, each to serve for a term of three years and until his successor is duly elected and qualified, or such director's earlier death, resignation or removal.
 2. To ratify the appointment of Marcum & Kliegman LLP as our independent auditors for the fiscal year ending December 31, 2008.
 3. To approve the amendment to the Company's 2007 Performance Equity Plan to (i) increase the number of shares of Common Stock reserved for issuance thereunder by 3,290,000 shares and (ii) to increase the maximum number of shares of Common Stock that may be granted as awards thereunder to any one individual in any one calendar year from 200,000 to 2,500,000.
 4. To consider and transact such other business as may properly come before the annual meeting.

The Board of Directors recommends that you vote **FOR** the reelection of each nominee for the Board of Directors, **FOR** the ratification of Marcum & Kliegman LLP as our independent auditors for the fiscal year ending December 31, 2008 and **FOR** the approval of the amendment to our 2007 Performance Equity Plan.

Adjournments and Postponements: Any action on the items of business described above may be considered at the annual meeting at the time and on the date specified above or at any time and date to which the annual meeting may be properly adjourned or postponed.

Record Date: You are entitled to notice of and to vote at this annual meeting and adjournment or postponement thereof only if you were an American Apparel, Inc. stockholder as of the close of business on October 17, 2008.

Voting: Your vote is very important. Whether or not you plan to attend the annual meeting, we encourage you to read this proxy statement and vote as soon as possible. You may submit your proxy for the annual meeting by using the telephone or Internet voting systems or by completing, signing, dating and returning your proxy card in the pre-addressed envelope provided. For specific instructions on how to vote your shares, please refer to the section entitled **Questions and Answers about the Proxy Materials and Annual Meeting** beginning on page 1 of this proxy statement and the instructions on the proxy card.

Admission: Please note that space limitations make it necessary to limit attendance to stockholders and one guest. If your shares are held by a broker, bank or other nominee and you wish to attend the annual meeting, you must obtain a letter from the broker, bank or other nominee confirming your beneficial ownership of the shares as of the record date and bring it to the annual meeting. Admission to the annual meeting will be on a first-come, first-served basis. Cameras and recording devices will not be permitted at the annual meeting.

The annual meeting will begin promptly at 2:00 p.m., Pacific Time.

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Registration will begin at 1:30 p.m., Pacific Time.

BY ORDER OF THE BOARD OF DIRECTORS,

Dov Charney

Chairman of the Board

AMERICAN APPAREL, INC.

747 Warehouse Street

Los Angeles, California 90021

PROXY STATEMENT

FOR ANNUAL MEETING OF STOCKHOLDERS

To be held on November 20, 2008

This proxy statement (this Proxy Statement) is being furnished commencing on or about October 31, 2008 in connection with the solicitation by the Board of Directors (the Board of Directors or the Board) of American Apparel, Inc. (the Company or American Apparel) of proxies in the enclosed form for use at the 2008 annual meeting of stockholders (the Annual Meeting) to be held at 747 Warehouse Street, Los Angeles, California, on Thursday, November 20, 2008, at 2:00 p.m., Pacific Time, and any adjournments or postponements thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders.

QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND ANNUAL MEETING

Q: Why am I receiving these materials?

A: The Board of Directors is providing these proxy materials to you in connection with the Annual Meeting, which will take place on November 20, 2008. As a stockholder of record as of the close of business on October 17, 2008, you are invited to attend the Annual Meeting and are entitled to and requested to vote on the items of business described in this Proxy Statement.

Q: What information is contained in this Proxy Statement?

A: The information included in this Proxy Statement relates to the proposals to be voted on at the Annual Meeting, the voting process, the compensation of directors and most highly paid executive officers, and certain other required information.

Q: How do I obtain the Company's Annual Report on Form 10-K?

A: A copy of the Company's 2007 Annual Report on Form 10-K, and Amendments No. 1 and 2 thereto, is enclosed.

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Stockholders may request another free copy of the 2007 Annual Report on Form 10-K, and Amendments No. 1 and 2 thereto from:

American Apparel, Inc.

Attn: Investor Relations

747 Warehouse Street

Los Angeles, California 90021

(213) 488-0226

Any stockholder may also obtain, without charge, copies of the Company's Annual Report on Form 10-K, and Amendments No. 1 and 2 thereto, from the SEC's website at www.sec.gov or via the Company's website at <http://investors.americanapparel.net>. By referring to our website we do not intend to incorporate by reference the website or any portion of the website into this Proxy Statement.

Q: What may I vote on by proxy?

A: (1) The reelection of each of three directors to serve on the Board of Directors, each to serve for a term of three years and until his successor is duly elected and qualified, or such director's earlier death, resignation or removal. This proposal is referred to as Proposal 1.

- (2) The ratification of our independent auditors for the year ending December 31, 2008. This proposal is referred to as Proposal 2.
- (3) The approval of the amendment to the Company's 2007 Performance Equity Plan to (i) increase the number of shares of Common Stock reserved for issuance thereunder by 3,290,000 shares and (ii) to increase the maximum number of shares of Common Stock that may be granted as awards thereunder to any one individual in any one calendar year from 200,000 to 2,500,000. This proposal is referred to as Proposal 3.
- (4) Such other business as may properly come before the Annual Meeting.
- The stockholders of the Company have no dissenter's or appraisal rights in connection with any of the proposals described herein.

Q: How does the Board recommend I vote on the proposals?

A: The Board recommends a vote **FOR** the reelection of each of Messrs. Robert Greene, Keith Miller, and Allan Mayer to the Board of Directors, each to serve for a term of three years and until his successor is duly elected and qualified, or such director's earlier death, resignation or removal.

The Board recommends a vote **FOR** the ratification of Marcum & Kliegman LLP as our independent auditors for the year ending December 31, 2008.

The Board recommends a vote **FOR** the approval of the amendment to our 2007 Performance Equity Plan.

Q: Who is entitled to vote?

A: Stockholders as of the close of business on October 17, 2008 (the Record Date) are entitled to vote at the Annual Meeting.

Q: How many shares can vote?

A: As of the Record Date, October 17, 2008, 70,784,591 shares of common stock (the Common Stock) of the Company, the only voting securities of the Company, were issued and outstanding. Every record holder of Common Stock is entitled to one vote for each share held.

Q: How do I vote?

A: You are eligible to vote at the Annual Meeting using one of the following methods:

Voting in Person. To vote in person, you must attend the Annual Meeting and follow the procedures for voting announced at the Annual Meeting. Please note that if your shares are held by a broker or other nominee you must present a signed proxy from such broker or nominee in order to be able to vote at the Annual Meeting;

Voting by Mail. To vote by mail, simply mark the enclosed proxy card, date and sign it, and return it in the postage-paid envelope provided;

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Voting by Telephone. To vote by telephone, call the toll-free number on the enclosed proxy card; or

Voting by Internet. To vote via the Internet, use the website indicated on the enclosed proxy card.

The Internet and telephone voting procedures are designed to authenticate your identity, to allow you to vote your shares and to confirm that your voting instructions have been properly recorded. Specific instructions are set forth on the enclosed proxy card. In order to be timely processed, an Internet or telephone vote must be received by 11:59 p.m. Eastern Time on November 19, 2008. Regardless of the method you choose, your vote is important. Please vote by following the specific instructions on your proxy card.

You have the right to revoke your proxy and change your vote at any time before the final vote at the Annual Meeting by:

Notifying the Corporate Secretary of the Company in writing at:
American Apparel, Inc.

Attn: Joyce Crucillo, Corporate Secretary

747 Warehouse Street

Los Angeles, California 90021

(213) 488-0226

Voting in person. Please note that your attendance at the Annual Meeting will not automatically revoke your proxy unless you vote again at the Annual Meeting; or

Returning a later-dated proxy card.

Q: What if my shares are held in street name?

A: If you hold your shares in street name through a broker or other nominee, under the rules of the NYSE Alternext U.S. (formerly the American Stock Exchange), which are currently the former rules of the American Stock Exchange, in effect at the time this Proxy Statement was printed, even if your broker does not receive instructions from you, your broker may be permitted to vote your shares on the election of directors, the ratification of the appointment of Marcum & Kliegman LLP as the Company's independent auditors and the approval of the amendment to our 2007 Performance Equity Plan. Thus, if you do not give your broker or nominee specific instructions, your shares may nevertheless be voted on those matters and will be counted for purposes of determining the outcome of such proposals. If, however, your broker or nominee indicates on the proxy that it does not have discretionary power to vote shares on a particular proposal, then those shares, which we refer to in this Proxy Statement as broker non-votes with respect to such proposal, will still be considered present at the meeting for quorum purposes but will not be counted as entitled to vote or as voting for purposes of determining the outcome of such proposal, although such shares are still considered outstanding shares of Common Stock. See What is required to approve each proposal? below.

Q: What shares are included on the proxy card(s)?

A: The shares on your proxy card(s) represent ALL of your shares. If you do not vote by proxy card(s), vote by Internet, telephone or in person at the Annual Meeting, your shares will not be voted.

Q: What does it mean if I get more than one proxy card?

A: If your shares are registered differently and are in more than one account, you will receive more than one proxy card. If you intend to vote by return mail, sign and return all proxy cards to ensure that all your shares are voted. We encourage you to have all accounts registered in the same name and address (whenever possible). You can accomplish this by contacting our transfer agent:

Continental Stock Transfer & Trust Company

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17 Battery Place

New York, NY 10004

(212) 509-4000 extension 206

<http://www.continentalstock.com>

cstmail@continentalstock.com

Q: How may I obtain a separate set of voting materials?

A: If you share an address with another stockholder, you may receive only one set of proxy materials (including our 2007 Annual Report on Form 10-K, as amended, and this proxy statement) unless you have provided contrary instructions. If you would like to receive a separate set of proxy materials now or in the future, you may write or call us to request a separate copy of these materials at:
American Apparel, Inc.

Attn: Investor Relations

747 Warehouse Street

Los Angeles, California 90021

(213) 488-0226

Similarly, if you share an address with another stockholder and have received multiple copies of our proxy materials, you may write or call us at the above address and phone number to request delivery of a single copy of these materials in the future.

Q: What is a quorum?

A: A quorum is a majority of the outstanding shares entitled to vote, present in person or represented by proxy. For the purposes of determining a quorum, shares held by brokers or nominees will be treated as present. Abstentions and broker non-votes will also be treated as present for the purpose of determining a quorum.

Q: What is required to approve each proposal?

A: A quorum must have been established in order to consider any matter.

For Proposal 1, directors are elected by a plurality of votes cast. Therefore, the three candidates for director receiving the most votes will become directors of the Company. Stockholders may not cumulate their votes. Any broker non-votes and any proxies marked **Withhold** with respect to the election of one or more directors will not count as votes cast with respect to the director or directors indicated.

Proposal 2, the ratification of our independent auditors, requires the affirmative for vote of a majority of those shares present in person or represented by proxy and entitled to vote on this proposal at the Annual Meeting. Any broker non-votes with respect to this proposal will not count as shares entitled to vote on this proposal and therefore will be disregarded for purposes of determining the outcome of the vote on this proposal. Any abstentions with respect to this proposal will count as votes against this proposal.

Proposal 3, the approval of the amendment to our 2007 Performance Equity Plan, requires the affirmative for vote of a majority of those shares present in person or represented by proxy and entitled to vote on this proposal at the Annual Meeting. Any broker non-votes with respect to this proposal will not count as shares entitled to vote on this proposal and therefore will be disregarded for purposes of determining the outcome of the vote on this proposal. Any abstentions with respect to this proposal will count as votes against this proposal.

Under the terms of a voting agreement, described more fully under **Directors and Executive Officers** herein, all of the parties to the voting agreement have agreed to vote their shares of Common Stock (constituting 57.7% of the outstanding shares of Common Stock and voting power of the Company as of the Record Date) in favor of the reelection of Messrs. Greene, Miller and Mayer to the Board of Directors. Their collective votes would reelect Messrs. Greene, Miller and Mayer without further affirmative votes from other stockholders. In addition, Dov Charney, the beneficial owner of approximately 52.6% of the outstanding shares of Common Stock and voting power of the Company as of the Record Date, has informed the Company that he intends to vote in favor of Proposals 1, 2 and 3, and his vote is sufficient to approve such proposals without further affirmative votes from other stockholders.

Q: How will voting on any other business be conducted?

A: Although we do not know of any business to be considered at the Annual Meeting other than the proposals described in this Proxy Statement, if any other business is presented at the Annual Meeting, your signed proxy card will give authority to each of Dov Charney, our Chairman and Chief Executive Officer, Joyce Crucillo, our General Counsel and Corporate Secretary and Adrian Kowalewski, our Director of Corporate Finance and Development, to vote on such matters at their discretion.

Q: What is the deadline to propose actions for consideration at next year's annual meeting of stockholders or to nominate individuals to serve as directors?

A: You may submit proposals, including director nominations, for consideration at future stockholder meetings as follows:
Stockholder Proposals: For a stockholder proposal to be considered for inclusion in the Company's proxy statement for the annual meeting next year, the written proposal must be delivered to or mailed and received by the Corporate Secretary of the Company at our principal executive offices no later than July 1, 2009. If the date of next year's annual meeting is moved more than 30 days before or after the anniversary date of the Annual Meeting, the deadline for inclusion of proposals in our proxy statement is instead a reasonable time before we begin to print and mail our proxy materials. Such proposals also will need to comply with SEC regulations under Rule 14a-8 regarding the inclusion of stockholder proposals in company-sponsored proxy materials. Proposals should be addressed to:

American Apparel, Inc.

Attn: Joyce Crucillo, Corporate Secretary

747 Warehouse Street

Los Angeles, California 90021

(213) 488-0226

For a stockholder proposal that is not intended to be included in the Company's proxy statement under Rule 14a-8, the stockholder must deliver a proxy statement and form of proxy to holders of a sufficient number of shares of Common Stock to approve that proposal, provide the information required by the bylaws of the Company (the Bylaws) and give timely notice to the Corporate Secretary of the Company in accordance with the Bylaws, which, in general, require that the notice be received by the Corporate Secretary of the Company:

Not earlier than the close of business on the 90th day prior to the meeting; and

Not later than the close of business on the 60th day prior to the meeting.

If less than 70 days notice or prior public disclosure of the date of next year's annual meeting is given or made to stockholders, then notice of a stockholder proposal that is not intended to be included in the Company's proxy statement under Rule 14a-8 must be received no later than the close of business on the tenth day following the date on which notice of the date of such annual meeting is mailed to the stockholders or the date on which public disclosure of the date of such annual meeting is made, whichever is first.

Nomination of Director Candidates: You may propose director candidates for consideration by the Board's Nominating and Corporate Governance Committee in accordance with the procedures set forth in the Bylaws, as summarized under the caption "Corporate Governance and Board Matters - Consideration of Director Nominees - Stockholder Nominees" herein.

Copy of Bylaw Provisions: You may contact the Company's Corporate Secretary at our principal executive offices for a copy of the relevant Bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates.

Q: How is the Company soliciting proxies for the Annual Meeting?

A: This solicitation is made by mail on behalf of the Board of Directors. Costs of the solicitation will be borne by the Company. Further solicitation of proxies may be made by telephone, telegraph, facsimile or personal interview by the directors, officers and employees of the Company and its affiliates, who will not receive additional compensation for the solicitation. The Company will reimburse banks, brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to stockholders.

Q: How can I find the voting results of the Annual Meeting?

A: We intend to announce preliminary voting results at the Annual Meeting and publish final results in our Annual Report on Form 10-K for the year ending on December 31, 2008.

Q: How may I communicate with the Company's Board or the non-management directors on the Company's Board?

A: You may communicate with the Board by submitting an e-mail to the Company's Board at *bod@americanapparel.net*. All directors have access to this e-mail address.

PROPOSAL 1: ELECTION OF CLASS A DIRECTORS

(Item 1 on Proxy Card)

Pursuant to the Company's Amended and Restated Certificate of Incorporation, the Board of Directors is divided into three classes of directors serving staggered terms (Classes A, B and C). One class of directors is elected at each annual meeting of stockholders for a three-year term and will hold office until their successors shall have been elected and qualified, or until their earlier death, resignation or removal. The Bylaws authorize a Board of Directors consisting of not less than one or more than nine directors. The Board of Directors currently consists of nine members: Messrs. Dov Charney, Robert Greene, Mark D. Klein, Adrian Kowalewski, Allan Mayer, Keith Miller, Mark Samson, Mortimer Singer and Mark A. Thornton. For biographical information on the Board members, see Directors under Directors and Executive Officers herein. Under the terms of the voting agreement described more fully under Directors and Executive Officers herein, the designees to American Apparel's Board of Directors through and including the election of directors at the annual meeting of stockholders in 2010 are as follows:

in the class to stand for reelection in 2008 (Class A) Messrs. Greene, Miller and Mayer.

in the class to stand for reelection in 2009 (Class B) Messrs. Kowalewski, Klein and Singer.

in the class to stand for reelection in 2010 (Class C) Messrs. Charney, Samson and Thornton.

At the Annual Meeting, three Class A directors are to be elected to serve for a term to expire at the 2011 annual meeting of stockholders. The nominees for these positions are Messrs. Greene, Miller and Mayer (the Class A Nominees). Messrs. Greene, Miller and Mayer are standing for re-election to the Board. All three individuals currently meet the criteria to qualify as independent directors according to SEC regulations and NYSE Alternext U.S. listing standards.

Each of the Class A Nominees has consented to being named in this Proxy Statement and has agreed to serve as a member of the Board of Directors if elected. Information regarding the Class A Nominees and the continuing directors whose terms expire in 2009 and 2010 is set forth under the heading Directors and Executive Officers herein.

The Class A Nominees will be elected by a plurality of the votes cast at the Annual Meeting according to the Company's Amended and Restated Certificate of Incorporation, its Bylaws and in compliance with the listing requirements of NYSE Alternext U.S. If any of the Class A Nominees is unable to serve, which is not anticipated, the persons named as proxies intend to vote for such other person or persons as the Board of Directors may designate. In no event will the shares represented by the proxies be voted for more than three nominees for Class A directors at the Annual Meeting. **Unless instructed to the contrary in the proxy, the shares represented by the proxies will be voted FOR the election of the Class A Nominees named above.**

Under the terms of a voting agreement, described more fully under Directors and Executive Officers herein, all of the parties to the voting agreement have agreed to vote their shares of Common Stock (constituting approximately 57.7% of the outstanding shares of Common Stock and voting power of the Company as of the Record Date) in favor of the reelection of Messrs. Greene, Miller and Mayer to the Board of Directors. Their collective votes are sufficient to reelect Messrs. Greene, Miller and Mayer without further affirmative votes from other stockholders.

Any broker non-votes and any proxies marked Withhold with respect to the election of one or more directors will not count as votes cast with respect to the director or directors indicated.

The Board of Directors unanimously recommends a vote FOR each of the Class A Nominees.

**PROPOSAL 2: RATIFICATION OF APPOINTMENT OF
INDEPENDENT AUDITORS**

(Item 2 on Proxy Card)

The Audit Committee has selected the firm of Marcum & Kliegman LLP (M&K) to act as the Company's independent auditors for the fiscal year ending December 31, 2008, and recommends that the stockholders vote in favor of such appointment.

Although stockholder approval of the selection of M&K as our independent auditors is not required by our Bylaws or otherwise, the Board of Directors believes it appropriate as a matter of policy to request that stockholders ratify the selection of the Company's independent registered public accounting firm. In the event the stockholders do not ratify the appointment of M&K, the Audit Committee will reconsider its appointment. In addition, even if the stockholders ratify the appointment of M&K, the Audit Committee may in its discretion appoint a different independent public accounting firm at any time if the Audit Committee determines that a change is in the best interests of the Company and its stockholders.

Representatives of M&K are expected to be present at the Annual Meeting to respond to appropriate questions and to make a statement if such representatives so desire.

The affirmative vote of a majority of shares present in person or represented by proxy at the Annual Meeting and entitled to vote is required to ratify the selection of M&K as our independent auditors for the fiscal year ending December 31, 2008. **Unless instructed to the contrary in the proxy, the shares represented by the proxies will be voted FOR the proposal to ratify the selection of Marcum & Kliegman LLP to serve as independent auditors for the Company for the fiscal year ending December 31, 2008.**

Dov Charney, the beneficial owner of approximately 52.6% of the outstanding shares of Common Stock and voting power of the Company as of the Record Date, has informed the Company that he intends to vote in favor of this proposal, and his vote is sufficient to approve this proposal without further affirmative votes from other stockholders. For more information on shares owned by Dov Charney and other directors and executive officers of the Company, see Beneficial Ownership of Shares herein.

Any broker non-votes with respect to this proposal will not count as shares entitled to vote on this proposal and therefore will be disregarded for purposes of determining the outcome of the vote on this proposal. Any abstentions with respect to this proposal will count as votes **AGAINST** this proposal.

The Board of Directors unanimously recommends a vote FOR the ratification of Marcum & Kliegman LLP for the fiscal year ending December 31, 2008.

RELATIONSHIP WITH INDEPENDENT AUDITORS
Principal Accounting Firm Fees

Aggregate fees billed to us for the fiscal years ended December 31, 2007 and 2006 by Marcum & Kliegman LLP (M&K), our independent auditors during such periods, are as follows, with respect to Old American Apparel (as defined below under Corporate Governance and Board Matters) and the predecessor of the current Company, Endeavor Acquisition Corp.:

	2007	2006
	(in thousands)	
Old American Apparel		
Audit fees (1)	\$ 59	\$ 1,197
Audit related fees (2)	1,837	
Tax fees (3)	8	
All other fees (4)		
Total	\$ 1,904	\$ 1,197
American Apparel, Inc. (formerly known as Endeavor Acquisition Corp.)		
Audit fees (1)	\$ 1,163	\$ 65
Audit related fees (2)	17	
Tax fees (3)		4
All other fees (4)		
Total	\$ 1,180	\$ 69

- (1) Audit fees consist of fees for professional services rendered for the audit of the Company's consolidated financial statements included in Form 10-K, the review of financial statements included in Form 10-Qs and for services that are normally provided by the auditor in connection with statutory and regulatory filings or engagements.
- (2) Audit related fees consist of fees for services related to employee benefit plans, due diligence and other procedures performed on behalf of the Company relating to the Acquisition (as defined below under Corporate Governance and Board Matters) consummated on December 12, 2007 and assurance and similar services that are reasonably related to the performance of the audit or review of the Company's financial statements and internal controls that are not reported under Audit fees.
- (3) Tax fees consist of fees for tax compliance.
- (4) All other fees consist of fees for any services not included in the first three categories.

In accordance with Section 10A(i) of the Securities Exchange Act of 1934 as amended (the Exchange Act), before the Company engages its independent accountant to render audit or non-audit services, the engagement will be approved by our Audit Committee.

The Audit Committee considered whether the provision of non-audit services provided by M&K during 2007 was compatible with maintaining M&K's independence. In addition to retaining M&K to audit and review our consolidated financial statements for 2007, M&K performed tax services in 2007 and the Company retained other accounting firms to provide advisory services in 2007. M&K did not provide any advisory services to the Company in 2007. The Company understands the need for its independent auditors to maintain objectivity and independence in its audit of the Company's financial statements.

The Audit Committee utilizes a policy pursuant to which the audit, audit-related, and permissible non-audit services to be performed by the independent auditor are pre-approved prior to the engagement to perform such services. Pre-approval is generally provided annually, and any pre-approval is detailed as to the particular service or category of services and is generally limited by a maximum fee amount. The independent

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auditor and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditor in accordance with this pre-approval, and the fees for the services performed to date.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee assists the Board in fulfilling its responsibilities for general oversight of the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the Company's system of internal control over financial reporting and the qualifications, independence and performance of the Company's internal audit function and independent auditor. Management is responsible for the financial reporting process, including the Company's system of internal control over financial reporting, and for the preparation of the Company's consolidated financial statements in accordance with generally accepted accounting principles. The Company's independent auditor is responsible for performing an independent audit of the Company's financial statements and expressing an opinion as to the conformity of the Company's audited financial statements with generally accepted accounting principles.

The Audit Committee has reviewed and discussed with management the Company's audited financial statements. In addition, we have discussed with M&K its independence from management and the Company, including matters required to be discussed by Statement on Auditing Standards No. 61, as amended, pertaining to communications with audit committees. We have also received the written disclosures and the letter from M&K required by Independence Standards Board Standard No. 1, as amended (Independence Discussions with Audit Committees).

The Audit Committee has met with M&K, with and without management present, to discuss the overall scope of its audit, the results of its examinations, its evaluations, if any, of the Company's internal control over financial reporting, and the overall quality of the Company's financial reporting.

Based on the reviews and discussions referred to above, we recommended to the Board of Directors, and the Board of Directors has approved, that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 for filing with the SEC.

By the Audit Committee,

Mark D. Klein, Chairman

Mark Samson

Mark A. Thornton

**PROPOSAL 3: APPROVAL OF AMENDMENT TO THE
2007 PERFORMANCE EQUITY PLAN**

(Item 3 on Proxy Card)

The Company's 2007 Performance Equity Plan was adopted by the Board and approved by the Company's stockholders, effective as of December 12, 2007. This plan provides a means to promote the interests of the Company and its stockholders by providing the Company's officers, employees, Non-Employee Directors and consultants with appropriate incentives and rewards to encourage them to enter into and continue in our employ or service and to acquire a proprietary interest in our long-term success.

Based on the recommendations of an independent compensation consultant, the Board of Directors approved the amendment to the 2007 Performance Equity Plan on October 27, 2008, subject to, and effective upon, approval by the Company's stockholders. The amendment submitted for approval by the stockholders will (i) increase the number of shares of Common Stock reserved for issuance under the plan by 3,290,000 shares, which would increase the maximum number of shares reserved for issuance from 7,710,000 to 11,000,000 and (ii) increase the number of shares of Common Stock that may be granted as awards to any one participant in any one calendar year from 200,000 to 2,500,000.

If the Company's stockholders do not approve the amendment, the amendment will not become effective. **The Board of Directors unanimously recommends that stockholders approve the proposed amendments to the plan.**

Summary of Proposed Plan Amendments

Increase the Maximum Number of Shares Issuable Under the Plan

The plan amendment increases the maximum total number of shares of Common Stock that may be issued under the plan by 3,290,000 shares (from 7,710,000 to 11,000,000), subject to adjustment to reflect stock splits and similar events. Prior to the proposed plan amendment, 7,710,000 shares of Common Stock were authorized under the plan, of which 5,825,812 remained available for grant as of September 30, 2008. If the stockholders approve the amendment, a total of 11,000,000 shares of Common Stock will be authorized under the plan and 9,115,812 shares will be available for future grants, subject to adjustment to reflect stock splits and similar events.

The purpose of the amendment is to provide the Company with sufficient shares for grants under the Plan. Based on advice provided by an independent compensation consultant, the increased number of shares available under the plan is within the range of equity plans of similarly situated companies. Based on such advice, the Board of Directors believes that this number represents a reasonable level of potential equity dilution and will enable the Company to make equity awards that will adequately incentivize its employees, including its officers, which is an important component of the Company's overall compensation program.

Increase the Individual Award Limits

Prior to the proposed plan amendment, the plan provides that the maximum number of shares of Common Stock that can be granted as awards under the plan to any one participant in any calendar year is 200,000. To provide the Company with more flexibility regarding the size of awards to be granted under the plan, the proposed plan amendment provides that the Company cannot grant to any one participant in any one calendar year awards of more than 2,500,000 shares of Common Stock in the aggregate.

Summary of Remaining Material Provisions of the Plan

The 2007 Performance Equity Plan, including the proposed amendment, is printed in full and attached to this Proxy Statement as Appendix A and is incorporated herein by reference. The following summary of the proposed amended plan is qualified in its entirety by reference to the full text of the proposed amended plan.

Purpose of the Plan

The purpose of the plan is to enable the Company to offer its employees, officers, directors and consultants whose past, present and/or potential contributions to the Company have been, are or will be important to the success of the Company, an opportunity to acquire a proprietary interest in the Company. The various types of incentive awards that may be provided under the plan will enable the Company to respond to changes in compensation practices, tax laws, accounting regulations and the size and diversity of its business.

Administration

The plan may be administered by the Board of Directors or the Compensation Committee. Currently, the Compensation Committee administers the plan. Subject to the provisions of the plan, the Compensation Committee determines, among other things, the persons to whom from time to time awards may be granted, the specific type of awards to be granted, the number of shares subject to each award, share prices, any restrictions or limitations on the awards, and any vesting, exchange, deferral, surrender, cancellation, acceleration, termination, exercise or forfeiture provisions related to the awards.

Stock Subject to the Plan

Shares of Common Stock that are subject to awards that are forfeited or terminated will be available for future award grants under the plan. If a holder pays the exercise price of a stock option by surrendering any previously owned shares of Common Stock or arranges to have the appropriate number of shares otherwise issuable upon exercise withheld to cover the withholding tax liability associated with the stock option exercise, then in the Board's or the Compensation Committee's discretion, the number of shares available under the plan may be increased by the lesser of (i) the number of such surrendered shares and shares used to pay taxes and (ii) the number of shares purchased under the stock option.

In the event of any merger, reorganization, consolidation, stock split or reverse split or other extraordinary or unusual event that results in a change in the shares of Common Stock as a whole, the Board or Compensation Committee may determine whether the change requires an equitable adjustment to the terms of the award or the aggregate number of shares reserved for issuance under the plan.

Eligibility

The Company may grant awards under the plan to employees, officers, directors and consultants who are deemed to have rendered, or to be able to render, significant services to the Company and who are deemed to have contributed, or to have the potential to contribute, to the Company's success.

Types of Awards

The plan allows the Board or Compensation Committee to make awards of incentive stock options, non-qualified stock options, restricted stock, stock appreciation rights, deferred stock, stock reload options and other stock-based awards. Subject to the limits discussed earlier, the Board or Compensation Committee has the discretionary authority to determine the amount and terms of awards granted under the plan.

Change of Control Provisions

Unless otherwise provided in the award agreement, in general, if any person is or becomes the beneficial owner of 50% or more of the Company's outstanding voting securities in one or more transactions, and the Company's Board does not authorize or approve the acquisition, then the vesting periods with respect to awards granted and outstanding under the plan will be accelerated and will immediately vest, and each participant of an award will have the immediate right to purchase and receive all shares of the Common Stock subject to the award in accordance with the terms set forth in the plan and in the corresponding award agreements.

Unless otherwise provided in the award agreement, in general, in the event of an acquisition of substantially all of the Company's assets or at least 50% of the combined voting power of the Company's then outstanding securities in one or more transactions, including by way of merger or reorganization, which has been approved by the Board, the Board or Compensation Committee may (i) accelerate the vesting of any and all awards granted and outstanding under the plan or (ii) require any award holder to relinquish the award to the Company upon payment by the Company of cash equal to the fair market value of the award or \$0.01 per share for awards that are out-of-the money.

Non-Competition and Non-Solicitation Provisions

In general, if a holder's employment with the Company is terminated for any reason and within 12 months after such termination, the holder either (i) accepts employment with any competitor of, or otherwise engages in competition with, the Company; (ii) solicits any of the Company's customers or employees to do business with or render services to the holder or any business with which the holder becomes affiliated; or (iii) uses or discloses to anyone outside the Company any of the Company's confidential information or material in violation of the Company's policies or any agreement between the Company and the holder, the Board or the Compensation Committee may require the holder to return to the Company the economic value of any award that was realized or obtained by the holder at any time during the 12-month period prior to the holder's termination.

Term and Amendments

Unless earlier terminated by the Board, the plan shall continue to remain effective until no further awards may be granted and all awards granted under the plan are no longer outstanding. Notwithstanding the foregoing, grants of incentive stock options may be made only until ten years following December 12, 2007. The Board may at any time, and from time to time, amend the plan, provided that no amendment will be made that would impair the rights of a holder under any agreement entered into pursuant to the plan without the holder's consent.

Federal Income Tax Consequences

The following summary is intended as a general guide to the United States federal income tax consequences relating to the issuance of restricted stock and the grant and exercise of stock options granted under the Plan. This summary does not attempt to describe all possible federal or other tax consequences of such grants or tax consequences based on particular circumstances. The information contained in this section is based on present law and regulations, which are subject to being changed prospectively or retroactively.

Incentive Stock Options. In general, an optionee recognizes no taxable income as the result of the grant or exercise of an incentive stock option qualifying under Section 422 of the Internal Revenue Code (unless the optionee is subject to the alternative minimum tax). Optionees who neither dispose of their shares acquired upon the exercise of an incentive stock option (ISO shares) within two years after the stock option grant date nor within one year after the exercise date normally will recognize a long-term capital gain or loss equal to the difference, if any, between the sale price and the amount paid for the ISO shares. If an optionee disposes of the ISO shares within two years after the stock option grant date or within one year after the exercise date (each a disqualifying disposition), the optionee will realize ordinary income at the time of the disposition in an amount equal to the excess, if any, of the fair market value of the ISO shares at the time of exercise (or, if less, the amount realized on such disqualifying disposition) over the exercise price of the ISO shares being purchased. Any additional gain will be capital gain, taxed at a rate that depends upon the amount of time the ISO shares were held by the optionee. A capital gain will be long-term if the optionee's holding period is more than 12 months. The Company will be entitled to a deduction in connection with the disposition of the ISO shares only to the extent that the optionee recognizes ordinary income on a disqualifying disposition of the ISO shares, and except to the extent such deduction is limited by applicable provisions of the Internal Revenue Code.

Nonstatutory Stock Options. An optionee generally recognizes no taxable income as the result of the grant of a nonstatutory stock option. Upon the exercise of a nonstatutory stock option, the optionee normally recognizes ordinary income equal to the difference between the stock option exercise price and the fair market value of the shares on the exercise date. If the optionee is an employee of ours, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of stock acquired by the exercise of a nonstatutory stock option, any subsequent gain or loss, generally based on the difference between the sale price and the fair market value on the exercise date, will be taxed as capital gain or loss. A capital gain or loss will be long-term if the optionee's holding period is more than 12 months. The Company generally should be entitled to a deduction equal to the amount of ordinary income recognized by the optionee as a result of the exercise of a nonstatutory stock option, except to the extent such deduction is limited by applicable provisions of the Internal Revenue Code.

Restricted stock. In general, unless an individual makes a timely election under Section 83(b) of the Internal Revenue Code, an individual will recognize ordinary income in an amount equal to the excess of the fair market value of the restricted stock on the date of vesting of the shares over the purchase price, if any, paid for the shares. Any further gain or loss from the subsequent sale of such restricted stock constitutes capital gain or loss. If the individual makes a timely election under Section 83(b), the individual is taxed, at ordinary income rates, on the excess of the fair market value of the restricted stock on the date of grant over the purchase price, if any, paid for the shares, and any further gain or loss on the subsequent sale of the stock constitutes a capital gain or loss.

Tax Treatment of Awards to Non-Employee Directors and to Employees Outside the United States. The grant and exercise of options and awards under the plan to Non-Employee Directors and to employees outside the United States may be taxed on a different basis.

Future Equity Grants

It is not possible to determine specific amounts and types of awards that may be awarded in the future under the plan because the grant of awards under the plan is discretionary.

Prior Equity Grants and Equity Compensation Plan Information

No stock options have been granted under the plan. As of September 30, 2008, the only awards that have been granted under the plan have been shares of Common Stock.

Recommendation and Vote Required

Approval of the amendment to the 2007 Performance Equity Plan will require the affirmative vote of the holders of a majority of the outstanding shares of the Company's common stock represented in person or by proxy and entitled to vote at the meeting.

The Board of Directors unanimously recommends a vote FOR the approval of the amendment to the 2007 Performance Equity Plan.

CORPORATE GOVERNANCE AND BOARD MATTERS

American Apparel, Inc., a Delaware corporation, was incorporated in Delaware on July 22, 2005 as Endeavor Acquisition Corp. (Endeavor), a blank check company formed to effect a merger, capital stock exchange, asset acquisition or other similar business combination with an operating business. On December 21, 2005, Endeavor consummated its initial public offering, and on December 18, 2006 entered into an Agreement and Plan of Reorganization with American Apparel, Inc., a California corporation (Old American Apparel), its affiliated companies and the stockholders thereof. The Agreement and Plan of Reorganization was subsequently amended and restated as of November 7, 2007 (as amended, the Acquisition Agreement). Endeavor consummated the acquisition of Old American Apparel and its affiliated companies (the Acquisition) on December 12, 2007 (the Closing) and changed its name to American Apparel, Inc. Pursuant to the Acquisition Agreement, Old American Apparel merged with and into AAI Acquisition LLC, a Delaware limited liability company and a wholly owned subsidiary of Endeavor. AAI Acquisition LLC survived the Acquisition as a wholly owned subsidiary of the Company and changed its name to American Apparel (USA), LLC.

The Acquisition was accounted for under the purchase method of accounting as a reverse merger. Under this method of accounting, for accounting and financial reporting purposes, Endeavor was treated as the acquired company, and Old American Apparel was treated as the acquiring company. In December 2007, in conjunction with the Acquisition, Dov Charney received 37,258,065 shares of Common Stock in exchange for his 50% ownership interest in Old American Apparel and his 100% ownership interest in Old American Apparel's Canadian affiliates, and the other 50% owner of Old American Apparel, Sang Ho Lim, was paid \$67.9 million for his ownership interest.

At the Closing and pursuant to the Acquisition Agreement, Dov Charney and the founders and inside pre-Acquisition stockholders (the Inside Stockholders) of Endeavor entered into a voting agreement (the Voting Agreement) providing that, with respect to the nine-member Board of Directors of the Company provided for in the Acquisition Agreement, all of the parties to the Voting Agreement would vote their shares of Common Stock (constituting a controlling interest) in favor of four nominees designated by Dov Charney, four designated by the Inside Stockholders of Endeavor and one mutually designated by Dov Charney and the Inside Stockholders, through and including the election of directors at the annual meeting of stockholders of the Company to be held in 2010. See Directors and Executive Officers herein.

Director Independence

The Board is composed of nine directors, seven of whom qualify as independent directors as defined under the applicable listing standards of the NYSE Alternext U.S. In establishing independence, the Board affirmatively determines that each director does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In addition, the Board has determined that the following categories of persons would not be considered independent: (1) a director who is, or during the past three years was, employed by the Company, other than prior employment as an interim executive officer (provided the interim employment did not last longer than one year); (2) a director who accepted or has an immediate family member who accepted any compensation from the company in excess of \$100,000 during any period of twelve consecutive months within the three years preceding the determination of independence (unless such compensation falls under exceptions provided for under the NYSE Alternext U.S. rules); (3) a director who is an immediate family member of an individual who is, or at any time during the past three years was, employed by the company as an executive officer; (4) a director who is an executive officer, partner or a controlling shareholder, or has an immediate family member who is an executive officer, partner or a controlling shareholder, of an organization to which the Company made, or from which the Company received, payments (other than those arising solely from investments in the Company's securities or payments under non-discretionary charitable contribution matching programs) which, in any of the past three fiscal years, exceeds or exceeded the greater of \$200,000, or 5% of the other organization's consolidated gross revenues; (5) a director who is, or has an immediate family member who is, employed as an executive officer of another entity where at

any time during the most recent three fiscal years any of the Company's executive officers serve on the compensation committee of such other entity; and (6) a director who is, or has an immediate family member who is, a current partner of the Company's outside auditor, or was a partner or employee of the Company's outside auditor who worked on the Company's audit at any time during any of the past three years.

Applying these standards, the Board determined that the following directors qualify as independent: Messrs. Greene, Klein, Mayer, Miller, Samson, Singer and Thornton (the Independent Directors). Each of the members of each of the committees of the Board is an Independent Director, and, in the case of members of the Audit Committee (Messrs. Klein, Samson and Thornton, with Mr. Klein as Chairman), each also meets the additional criteria for independence of audit committee members set forth in Rule 10A-3 under the Securities Exchange Act of 1934. In addition, the Board has determined that each of the members of the Audit Committee is financially literate and that Mr. Samson meets the definition of an audit committee financial expert, as set forth in Items 407(d)(5)(ii) and 407(d)(5)(iii) of Regulation S-K. A brief description of Mr. Samson's background and experience can be found under Directors and Executive Officers below.

In addition, applying these standards, the Board has also determined that former directors Messrs. Jay H. Nussbaum, Kerry Kennedy, Robert B. Hersov, Edward J. Mathias and Richard Y. Roberts were independent directors at the time they served prior to the consummation of the Acquisition.

Effective December 21, 2005, Endeavor, the Registrant prior to the Acquisition, established an Audit Committee of the Board of Directors, which consisted of Edward J. Mathias, as chairman, Jay H. Nussbaum and Richard Y. Roberts, each of whom was an independent director under NYSE Alternext U.S. listing standards. In addition, the Board determined that each of such members of the Audit Committee was financially literate, with Edward J. Mathias qualifying as the Audit Committee financial expert, as set forth in Items 407(d)(5)(ii) and 407(d)(5)(iii) of Regulation S-K.

Board Structure and Committee Composition

The Board of Directors presently has the following three committees: (1) an Audit Committee, (2) a Compensation Committee, which was established after the consummation of the Acquisition, and (3) a Nominating and Corporate Govern