

AMERICAN APPAREL, INC
Form 10-K/A
August 13, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2008

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 Number 001-32697

American Apparel, Inc.

(Exact name of registrant as specified in its charter)

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Delaware
(State of Incorporation)

20-3200601
(I.R.S. Employer Identification No.)

747 Warehouse Street

Los Angeles, California 90021-1106

(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (213) 488-0226

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$.0001 per share
(Title of Each Class)

NYSE Amex
(Name of Each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2008 was approximately \$463,614,047 based upon the closing price of the common stock on such date as reported by the American Stock Exchange (now the NYSE Amex).

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The number of shares of the registrant's common stock outstanding as of March 12, 2009 was 71,033,757.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report incorporates information by reference from the registrant's definitive Proxy Statement for its Annual Meeting of Stockholders that was filed with the SEC on April 29, 2009.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Amendment No.1 to our Annual Report on Form 10-K/A for the year ended December 31, 2008, 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 Amendment No.1 to our Annual Report on Form 10-K 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, expects, believes, plans, estimate, potential, or 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, potential, opportunity, believe, comfortable, expect, anticipate, current, intention, estimate, position, assume, outlook, continue, remain, maintain, sustain, seek, achieve, and similar expressions.

Any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business, our 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:

future financial condition and operating results;

our ability to remain in compliance with financial covenants under our financing arrangements;

our plan to make continued investments in advertising and marketing;

our growth, expansion and acquisition prospects and strategies, the success of such strategies, and the benefits we believe can be derived from such strategies;

the outcome of litigation matters;

our intellectual property rights and those of others, including actual or potential competitors;

our personnel, consultants, and collaborators;

operations outside the United States;

economic and political conditions;

overall industry and market performance;

the impact of accounting pronouncements;

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management's goals and plans for future operations; and

other assumptions described in this Amendment No.1 to our Annual Report on Form 10-K 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 from those expressed in or implied by the forward-looking statements and future results could differ materially from historical performance. Such assumptions, events, risks, uncertainties and other factors include, among others, those described in this Amendment No.1 to our Annual Report on Form 10-K/A, those contained under the heading, "Risk Factors," contained in Item 1A of American Apparel, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008 which was originally filed with the United States Securities and Exchange Commission (the "SEC") on March 16, 2009, as well as in other reports and documents we file with the SEC and include, without limitation, the following:

changes in the level of consumer spending or preferences or demand for our products;

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consequences of our significant indebtedness, including our ability to comply with our debt agreements and generate cash flow to service our debt;

disruptions in the global financial markets;

increasing competition;

our ability to hire and retain key personnel and our relationship with our employees;

suitable store locations and our ability to attract customers to our stores;

effectively carrying out and managing our growth strategy;

failure to maintain the value and image of our brand and protect our intellectual property rights;

fluctuations in comparable store sales and margins;

seasonality;

costs of materials and labor;

location of our facilities in the same geographic area;

manufacturing, supply or distribution difficulties or disruptions;

risks of financial nonperformance by customers;

investigations, enforcement actions and litigation;

compliance with or changes in laws and regulations;

costs as a result of operating as a public company;

material weaknesses in internal controls;

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interest rate and foreign currency risks;

loss of U.S. import protections or changes in duties, tariffs and quotas and other risks associated with international business;

our ability to upgrade our information technology infrastructure and other risks associated with the systems that operate our online retail operations; and

general economic and industry conditions, including worsening U.S. and foreign economic conditions and turmoil in the financial markets.

All forward-looking statements included in this document are made as of the date hereof, based on information available to American Apparel, Inc. as of the date hereof, and American Apparel, Inc. assumes no obligation to update any forward-looking statement.

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American Apparel, Inc.

ANNUAL REPORT ON FORM 10-K/A

FOR THE YEAR ENDED DECEMBER 31, 2008

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EXPLANATORY NOTE REGARDING RESTATEMENT

This Amendment No.1 to our Annual Report on Form 10-K for the year ended December 31, 2008, (this Amendment,) amends our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, (the Original Filing,) that was filed with the SEC on March 16, 2009, to reflect reclassified amounts and revised disclosure of the Company's consolidated financial statements for the fiscal year ended December 31, 2008.

On July 23, 2009, the Company announced that the Audit Committee of the Board of Directors determined that the Company will need to restate its previously issued consolidated financial statements for the year ended December 31, 2008 in order to reclassify its revolving credit facility as a current liability. As a result, the Company determined that because of the pending restatement the annual consolidated financial statements for Company's fiscal year ended December 31, 2008 should no longer be relied upon.

Management reviewed the accounting for the classification of the revolving line of credit under the credit agreement entered into on July 2, 2007 (the BofA Credit Agreement), including the application of Emerging Issues Task Force (EITF) 95-22, Balance Sheet Classification of Borrowings Outstanding under Revolving Credit Agreements That Include both a Subjective Acceleration Clause and a Lock-Box Arrangement and Statement of Financial Accounting Standards No. 6, Classification of Short-Term Obligations Expected to Be Refinanced. Management and the Audit Committee of the Board of Directors has concluded that a portion of the outstanding revolving line of credit balance as of December 31, 2008 should be classified as a current liability. As a result, we are restating our historical consolidated balance sheet as of December 31, 2008. See Note 20 in the Notes to Consolidated Financial Statements included in this Amendment for a discussion of the corrections and a reconciliation of amounts previously reported to those shown herein. Management and the Audit Committee have discussed these matters with Marcum LLP, the Company's independent registered public accounting firm through April 2, 2009.

The Amendment does not set forth the Original Filing in its entirety and includes only the Items affected by the change in classification of the revolving credit facility to a current liability. The following portions of the Original Filing are being amended by the Amendment:

Part II, Item 6	Selected Financial Data
Part II, Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations
Part II, Item 8	Financial Statements and Supplementary Data
Part II, Item 9A	Controls and Procedures
Part IV, Item 15	Exhibits and Financial Statement Schedules

As required by Rule 12b-15 promulgated under the Securities and Exchange Act of 1934, as amended, this Amendment includes currently dated certifications from the Company's Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, as well as the currently dated consent of our independent registered public accounting firm. The certifications of the company's Chief Executive Officer and Chief Financial Officer are attached to the Amendment as Exhibits 31.1, 31.2, 32.1 and 32.2. The consent of our independent public accounting firm is attached to the Amendment as Exhibit 23. The changes we have made are a result of and reflect the reclassification described herein.

No other information in the original Filing has been amended or modified hereby, except for the amended or restated information described above, this Amendment has not been updated since the date of the Original Filing. Events occurring after the date of the Original Filing or other disclosures necessary to reflect subsequent events have been or will be addressed in other reports filed with the SEC subsequent to the date of the Original Filing.

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The following table summarizes certain selected consolidated financial data, which should be read in conjunction with our consolidated financial statements and Notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Amendment. Historical results are not necessarily indicative of the results to be expected in the future. The information presented in the following tables has been adjusted to reflect the restatement of our financial results, which is more fully described in the Explanatory Note Regarding Restatement immediately preceding Part II, Item 6 and in Note 20, Restatement of Previously Issued Consolidated Balance Sheet in the Notes to Consolidated Financial Statements of this Amendment.

On December 21, 2005, Endeavor Acquisition Corp. consummated its initial public offering, and on December 18, 2006, entered into an Agreement and Plan of Reorganization, amended November 7, 2007, with American Apparel, Inc., a California corporation (Old American Apparel), and its affiliated companies. Endeavor Acquisition Corp. consummated the acquisition of Old American Apparel and its affiliated companies on December 12, 2007 (the Acquisition) and changed its name to American Apparel, Inc. The Acquisition was accounted for as a reverse merger and recapitalization for financial reporting purposes. Accordingly, for accounting and financial purposes, Endeavor Acquisition Corp. was treated as the acquired company, and Old American Apparel was treated as the acquiring company. Accordingly, the historical financial information for periods and dates prior to December 12, 2007, is that of Old American Apparel, and its affiliated companies.

Other than as included in this Amendment, we have not amended our previously-filed Annual Report on Form 10-K for the period affected by this restatement. The financial information that has been previously filed or otherwise reported for the period is superseded by the information in this Amendment, and the financial information contained in such previously-filed reports should no longer be relied upon.

	Year Ended December 31,				
	2008 (5)	2007	2006	2005	2004 (unaudited)
	(In Thousands Except Per Share Data)				
Selected Statement of Operations Data:					
Net sales	\$ 545,050	\$ 387,044	\$ 284,966	\$ 201,450	\$ 133,824
Gross profit	\$ 299,115	\$ 215,473	\$ 145,636	\$ 101,688	\$ 56,334
Income from Operations	\$ 36,064	\$ 31,122	\$ 10,572	\$ 10,782	\$ 9,477
Net Income (Loss)	\$ 14,112	\$ 15,478	\$ (1,606)	\$ 3,487	\$ 6,223
Pro forma Net Income conversion to C Corporation for tax purposes (unaudited)	n/a	\$ 9,457	\$ 257	\$ 3,121	\$ 5,727
Cash Distributions/Dividends Paid (1)	\$	\$ 22,147	\$ 696	\$ 1,793	\$ 1,906
Per Share Data (2)					
Net Earnings (Loss) per share basic	.20	.32	(.03)	.07	.13
Net Earnings (Loss) per share diluted	.20	.31	(.03)	.07	.13
Pro forma Net Earnings per share conversion to C Corporation for tax purposes (unaudited) basic (3)	n/a	.19	.01	.06	.12
Pro forma Net Earnings per share conversion to C Corporation for tax (unaudited) purposes diluted (3)	n/a	.19	.01	.06	.12
Weighted average number of shares basic	69,490	48,890	48,390	48,390	48,390
Weighted average number of shares diluted	70,317	49,414	48,390	48,390	48,390
Dividends Paid (1)	\$.00	\$.45	\$.01	\$.04	\$.04
Balance Sheet Data (4)					
Total Assets	\$ 333,005	\$ 233,350	\$ 163,056	\$ 124,226	\$ 90,367
Working Capital	\$ 79,736	\$ 2,120	\$ 38,559	\$ 40,880	\$ 20,164
Total Long Term Debt Less Current Maturities	\$ 72,328	\$ 10,744	\$ 75,546	\$ 65,365	\$ 2,703
Stockholders' Equity	\$ 136,412	\$ 61,821	\$ 12,973	\$ 14,918	\$ 13,339

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- (1) Dividends paid represent cash dividends paid by Old American Apparel to its stockholders prior to becoming a public company. The Company does not anticipate paying any cash dividends in the foreseeable future.
- (2) See Note 3 (Earnings per share) for an explanation of how earnings per share is calculated.
- (3) See Note 3 (Income Taxes) for an explanation of the pro forma presentation.
- (4) See Note 2 (Completed Merger) for an explanation of the impact of the reverse merger with Endeavor Acquisition Corp.
- (5) Certain amounts have been reclassified as discussed in Note 20, Restatement of Previously Issued Consolidated Balance Sheet in the Notes to Consolidated Financial Statements included elsewhere herein.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion and analysis set forth below in this Item 7 has been amended to reflect the reclassification as described in the Explanatory Note Regarding Restatement in this Amendment and in Note 20 of the Notes to Consolidated Financial Statements included elsewhere in this Amendment. For this reason, the data set forth in this section may not be comparable to discussions and data in our previously filed Annual Reports. Refer to Note 20 for additional information including the impact of the restatement for the restated period included in this filing.

You should read the following discussion together with Part II, Item 6 Selected Financial Data and our audited consolidated financial statements and the related notes thereto included in Item 8 Financial Statements and Supplementary Data. In addition to historical consolidated financial information, this discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Actual results could differ from these expectations as a result of factors including those described under Item 1A, Risk Factors, Special Note Regarding Forward-Looking Statements and elsewhere in this Amendment or in the Original Filing.

Background

American Apparel, Inc., a Delaware corporation, was incorporated in Delaware on July 22, 2005 as Endeavor Acquisition Corp., a blank check company formed to acquire an operating business. On December 21, 2005, Endeavor Acquisition Corp. consummated its initial public offering, and on December 18, 2006, entered into an Agreement and Plan of Reorganization, amended November 6, 2007, with Old American Apparel and its affiliated companies. Endeavor Acquisition Corp. consummated the acquisition of Old American Apparel and its affiliated companies on December 12, 2007 (the Acquisition) and changed its name to American Apparel, Inc. Pursuant to the Acquisition, Old American Apparel merged with and into AAI Acquisition LLC, a Delaware limited liability company and a wholly owned subsidiary of Endeavor Acquisition Corp. 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 as a reverse merger and recapitalization of Old American Apparel. Accordingly, for accounting and financial reporting purposes, Endeavor Acquisition Corp. was treated as the acquired company, and Old American Apparel was treated as the acquiring company. The historical financial information and the historical description of our business, for periods and dates prior to December 12, 2007, is that of Old American Apparel and its affiliated companies. (See Note 2 to the Consolidated Financial Statements for further details.)

Overview

The Company designs, manufactures and sells fashion apparel for women, men, children and pets. The Company sells its products through its retail stores and through its wholesale operations, which include online consumer operations, throughout the U.S. and internationally. American Apparel's revenue is driven by its ability to design and market desirable products by identifying new business opportunities, securing new distribution channels, and renewing and revitalizing existing distribution channels.

Nature of Operations

American Apparel is a vertically-integrated manufacturer, distributor, and retailer of branded fashion basic apparel. As of December 31, 2008, American Apparel operated 260 retail stores in 19 countries. American Apparel also operates a leading wholesale business that supplies t-shirts and other casual wear to distributors and screen printers.

American Apparel conducts its primary manufacturing operations out of an 800,000 square foot facility in the warehouse district of downtown Los Angeles, California. The facility houses its executive offices, as well as the Company's cutting, sewing, warehousing, and distribution operations. In addition, the Company operates

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knitting facilities in Los Angeles and Garden Grove, California, where it makes about one third of the fabric the Company uses in manufacturing. The Company also does most of its dyeing and finishing in-house. Company owned dye houses dye approximately 80% of the raw fabric the Company uses in its manufacturing operations. To supplement the Company's in-house production capacity in December 2007, the Company acquired a new sewing, dyeing, and finishing facility in South Gate, California, which began operations in 2008. This facility has capacity for sewing, dyeing and finishing garments. In May 2008, the Company acquired the facility in Garden Grove, California, which has knitting, dyeing and sewing capacity and began operations in June 2008.

Because the Company's manufacturing process is domestic and vertically integrated, the Company is able to quickly respond to customer demand, react quickly to changing fashion trends, and closely monitor quality. The Company's products are noted for their quality and fit, and the Company's distinctive branding has differentiated it in the marketplace.

The business reporting segments of the Company are U.S. Wholesale, U.S. Retail, Canada, and International. The Company believes this method of segment reporting reflects both the way its business segments are managed and the way each segment's performance is evaluated. The U.S. Wholesale segment includes the Company's wholesale operations in the U.S. and its online consumer operations in the U.S. The U.S. Retail segment includes the Company's retail operations in the U.S. The Canada business segment includes retail, wholesale, and online operations in Canada. The International segment includes retail, wholesale, and online operations outside of the U.S. and Canada. The results of the respective business segments exclude corporate expenses, which consist of the shared overhead costs of the Company. These costs are presented separately and generally include, among other things, the following corporate costs: information technology, human resources, accounting and finance, executive compensation and legal. In the fourth quarter of 2008, the Company implemented and recorded a full year impact from changes to its intercompany transfer pricing policy which will significantly reduce the overall effective tax rate on our international earnings. While the application of our updated intercompany transfer pricing policy did not change our revenue or operating performance on a consolidated basis, it impacted the allocation of operating profit amongst our U.S. Wholesale, Canada and International segments in 2008 when compared to prior years. Financial information about each segment, together with certain geographical information, for the fiscal years ended December 31, 2008, 2007 and 2006 are included under Note 18 to the Consolidated Financial Statements contained herein.

As of December 31, 2008, the U.S. Retail segment consisted of 148 retail stores in the United States and the U.S. Wholesale segment consisted of wholesale operations and online operations. As of December 31, 2008, the Canada segment consisted of 37 stores along with wholesale operations while the International segment consisted of 75 retail stores in 17 countries, online storefronts, and 12 overseas wholesale operations. The International segment consisted of the Company's business in the United Kingdom, Austria, Belgium, France, Germany, Italy, the Netherlands, Spain, Sweden, Switzerland, Israel, Australia, Brazil, Mexico, Japan, South Korea and China.

In 2008, 29.8% of American Apparel's net revenue was generated from U.S. Wholesale operations, 31.0% from U.S. Retail operations, 12.3% from Canada operations and 26.9% from International operations. In 2007, 37.3% of American Apparel's net revenue was generated from U.S. Wholesale operations, 29.9% from U.S. Retail operations, 11.0% from Canada operations and 21.8% from International operations. In 2006, 44.8% of American Apparel's net revenue was generated from U.S. Wholesale operations, 28.2% from U.S. Retail operations, 10.7% from Canada operations and 16.3% from International operations. Total net revenues for 2008, 2007 and 2006 were \$545 million, \$387 million and \$285 million, respectively, and total net earnings (loss) for 2008, 2007, and 2006 were \$14.1 million, \$15.5 million, and (\$1.6) million respectively.

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During the period from January 1, 2006 through December 31, 2008, American Apparel increased its U.S.-based retail stores from 66 to 148, increased its Canada based stores from 20 to 37 and increased its International stores from 17 to 75 in 17 countries. The following tables detail the growth in retail store activity during the years ended December 31, 2008, 2007 and 2006.

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
Retail Stores U.S. Retail Segment			
Open at beginning of the period	105	93	66
Opened during the period	44	13	29
Closed during the period	(1)	(1)	(2)
Open at end of the period	148	105	93

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
Retail Stores Canada Segment			
Open at beginning of the period	30	26	20
Opened during the period	8	5	6
Closed during the period	(1)	(1)	0
Open at end of the period	37	30	26

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
Retail Stores International Retail Segment (excluding Canada)			
Open at beginning of the period	47	28	17
Opened during the period	29	20	11
Closed during the period	(1)	(1)	0
Open at end of the period	75	47	28

Comparable Store Sales

Comparable store sales are defined as the percentage change in sales for stores that have been open for more than twelve months. The table below shows the comparable store sales of American Apparel, by quarter for the years ended December 31, 2008, 2007 and 2006, including the number of stores included in the comparison at the end of each period and the increase from the prior comparable period.

	March 31	For the Quarter Ended			Year to date
		June 30	September 30	December 31	
2006	16%	0%	3%	5%	5%
Number of Stores	43	50	64	83	
2007	17%	24%	27%	40%	29%
Number of Stores	104	119	131	138	
2008	36%	23%	24%	11%	22%
Number of Stores	140	145	149	162	

Executive Summary

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For the year ended December 31, 2008, the Company reported net sales of \$545.0 million, an increase of \$158.0 million, or 40.8%, over the \$387.0 million reported for the year ended December 31, 2007. The increase in net sales was primarily the result of expansion in the U.S. Wholesale and U.S. Retail distribution channels, the Canada retail distribution channel and the International retail distribution channel, as the Company added new store locations and expanded its product offering in existing stores. The Company selects new store locations

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based upon consideration of a number of factors, including projected sales potential, financial requirements of the prospective lease agreement, co-tenancy, as well as ancillary benefits such as increase in brand recognition. Since the beginning of 2007, the Company has been expanding its fabric offerings which facilitated introduction of new styles across the wholesale and retail distribution channels. As many as thirty new styles were added to the retail distribution channel of which the most notable was the addition of denim products. Comparable store sales increased 22% for the year ended December 31, 2008 as compared to the year ended December 31, 2007.

Gross margin for the Company decreased to 54.9% in the year ended December 31, 2008 compared to 55.7% for the year ended December 31, 2007. The decrease in gross profit was primarily the result of recording \$12.1 million of share based compensation expense related to the stock award of approximately 1.9 million shares of common stock to manufacturing employees on August 14, 2008 and \$1.1 million of employer related payroll taxes related to the stock award in cost of sales. The \$13.2 million of expenses related to the stock award reduced our gross profit percentage by 2.4%. Excluding the impact of the aforementioned expenses related to the stock award, our gross profit percentage increased to 57.3% in the year ended December 31, 2008 from 55.7% for the year ended December 31, 2007. This increase in gross profit percentage was primarily attributable to an increase in the sales mix during 2008 which included a higher amount of retail sales from the expansion of the U.S. Retail, Canada and International segments which generate higher gross margins than the Company's U.S. Wholesale segment. The gross margin was also favorably impacted from a reduction in inventory reserves of \$1.7 million which increased the gross margin by 0.3% during the year ended December 31, 2008. The reduction in the inventory reserve was primarily the result of the opening of seven new closeout stores in key markets and expansion of certain existing closeout stores to increase inventory selection. Popular styles among the Company's slow-moving stock were actively merchandized in these closeout stores which specialize in selling certain inventory at discounted prices, resulting in higher inventory turnover of potentially slow-moving inventory.

During the year ended December 31, 2008, the Company hired a significant number of new manufacturing employees to support the anticipated increase in demand for the Company's products throughout the remainder of the year and in the future. Related to this activity, the Company incurred additional recruiting and training costs. Based on the Company's prior experience with hiring new employees, it is expected that the productivity of new employees reaches a normalized level within 90-120 days of the date of hire. Typically, gross margins in the U.S. wholesale segment have been negatively impacted during periods where the Company has undergone an increased level of hiring.

As of April 1, 2008, the Company successfully completed the first phase of the implementation of an Enterprise Resources Planning (ERP) system. This first phase included the conversion of the Company's systems for manufacturing and warehouse operations, inventory management and control and wholesale operations. Direct costs incurred in the implementation during the year ended December 31, 2008 were \$2.2 million. In addition, certain indirect costs and inefficiencies related to the changeover of various system components had a minor negative impact upon the results of operations in 2008. Nonetheless, going forward, the improvements in operating information and control systems are expected to be substantial. Since April 1, 2008, the Company has entered the second phase of the implementation, which will include the financial accounting and control systems for the Company's U.S. Wholesale operations. The second phase is scheduled to be completed in the second quarter of 2009.

The Company's net income for the year ended December 31, 2008 decreased to \$14.1 million compared to