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TARRANT APPAREL GROUP
Form 10-K/A
January 31, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A
AMENDMENT NO. 1

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

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: 0-26006

TARRANT APPAREL GROUP
(Exact name of registrant as specified in its charter)

CALIFORNIA
(State or other jurisdiction
of incorporation or organization)

95-4181026
(I.R.S. Employer
Identification Number)

3151 EAST WASHINGTON BOULEVARD
LOS ANGELES, CALIFORNIA 90023
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (323) 780-8250

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

NONE

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

COMMON STOCK

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 registration is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark 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

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statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer [X]

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

The aggregate market value of the Common Stock held by non-affiliates of the Registrant is approximately \$51,515,376 based upon the closing price of the Common Stock on June 30, 2005.

Number of shares of Common Stock of the Registrant outstanding as of March 30, 2006: 30,543,763.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the 2006 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

EXPLANATORY NOTE

We are filing this Annual Report on Form 10-K/A for the year ended December 31, 2005 (the "Amended Annual Report"), to amend our Annual Report on Form 10-K for the year ended December 31, 2005 (the "Original Annual Report"), which was originally filed with the Securities and Exchange Commission (the "SEC") on March 31, 2006. The Company is filing this Amended Annual Report in response to comments received from the SEC. The following Items amend the Original Annual Report, as permitted by the rules and regulations of the SEC. Unless otherwise stated, all information contained in this Amended Annual Report is as of March 31, 2006. All capitalized terms used herein but not otherwise defined shall have the meanings ascribed to them in the Original Annual Report.

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PART II

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read together with the Consolidated Financial Statements of Tarrant Apparel Group and the "Notes to Consolidated Financial Statements" included elsewhere in this Form 10-K. This discussion summarizes the significant factors affecting the consolidated operating results, financial condition and liquidity and cash flows of Tarrant

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Apparel Group for the fiscal years ended December 31, 2003, 2004 and 2005. Except for historical information, the matters discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations are forward looking statements that involve risks and uncertainties and are based upon judgments concerning various factors that are beyond our control. See "Cautionary Statement Regarding Forward-Looking Statements" and "Item 1A. Risk Factors."

OVERVIEW

Tarrant Apparel Group is a design and sourcing provider of private label and private brand casual apparel serving mass merchandisers, department stores, branded wholesalers and specialty chains located primarily in the United States. Our private brands include American Rag Cie, No! Jeans, Alain Weiz, Gear 7, Souvenir by Cynthia Rowley and brands associated with Jessica Simpson, which include "JS by Jessica Simpson", "Princy by Jessica Simpson" and "Sweet Kisses by Jessica Simpson."

We generate revenues from the sale of apparel merchandise to our customers that we have manufactured by third party contract manufacturers located outside of the United States. Revenues and net income (loss) for the years ended December 31, 2003, 2004 and 2005 were as follows (dollars in thousands):

REVENUES AND NET LOSS:	2003	2004	2005
	-----	-----	-----
Net sales	\$ 320,423	\$ 155,453	\$ 214,648
Net income (loss)	\$ (35,885)	\$(104,677)	\$ 993

Cash flows for the years ended December 31, 2003, 2004 and 2005 were as follows (dollars in thousands):

CASH FLOWS:	2003	2004	2005
	-----	-----	-----
Net cash provided by (used in)			
operating activities	\$ 9,935	\$ 12,168	\$(12,900)
Net cash provided by (used in)			
investing activities	\$ (1,504)	\$ 1,250	\$ 3,555
Net cash provided by (used in)			
financing activities	\$ (6,295)	\$(15,552)	\$ 9,772

SIGNIFICANT DEVELOPMENTS IN 2005

PRIVATE LABEL

Private label business has been our core competency for over twenty years, and involves a one to one relationship with a large, centrally controlled retailer with whom we can develop product lines that fit with the characteristics of their particular customer. Private label sales in 2005 were \$159.6 million compared to \$133.8 million in 2004.

The success of our private brands collections has created new opportunities within the private label business to add value in the development and marketing of new initiatives for Sears, Mothers Work, Avenue, Chico's, and other retailers. These initiatives were launched during 2005, and are on track to be significant growth areas for 2006.

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PRIVATE BRANDS

We launched our private brands initiative in 2003, pursuant to which we acquire ownership of or license rights to a brand name and sell apparel products under this brand, generally to a single retail company within a geographic region. Private brands sales in 2005 were \$55.0 million compared to \$21.7 million in 2004. At December 31, 2005, we owned or licensed rights to the following private brands:

- o AMERICAN RAG CIE: During the first quarter of 2005, we extended our agreement with Macy's Merchandising Group for six years, pursuant to which we exclusively distribute our American Rag Cie brand through Macy's Merchandising Group's national Department Store organization of more than 500 stores. Net sales of American Rag Cie branded apparel totaled \$21.8 million in 2005.
- o ALAIN WEIZ: We continue to sell Alan Weiz apparel exclusively to Dillard's Department Stores. Net sales of Alain Weiz branded apparel totaled \$5.3 million in 2005.
- o SOUVENIR BY CYNTHIA ROWLEY: We are in discussions with retailers to identify a potential distribution alliance for the 2006 fall or holiday season for Souvenir by Cynthia Rowley.
- o GEAR 7: During the fourth quarter of 2005, K-Mart discontinued sales of Gear 7 products, which resulted in a decline in sales for this brand in the fourth quarter of 2005. Net sales of Gear 7 branded apparel totaled \$14.4 million in 2005. We do not anticipate sales of Gear 7 branded apparel in 2006.
- o JESSICA SIMPSON brands: The JS by Jessica Simpson brand was originally launched as a denim line with Charming Shoppes. However, Charming Shoppes informed us that they would not go forward with the line, resulting in reduced sales for this brand in the fourth quarter of 2005. Net sales of JS by Jessica Simpson and Princy by Jessica Simpson, which is the department store and better specialty store brand, totaled \$12.6 million in 2005. In March 2006, we became involved in a dispute with the licensor of the Jessica Simpson brands over our continued rights to these brands. Accordingly, we do not anticipate sales of Jessica Simpson branded apparel after the first quarter of 2006 unless and until we successfully resolve our dispute with the licensor.
- o HOUSE OF DEREON BY TINA KNOWLES: We began shipping products for the House of Dereon by Tina Knowles brand in the fourth quarter of 2005, resulting in net sales of \$309,000 in 2005. In March 2006, we terminated our license agreement for this brand, and sold our remaining inventory to the licensor. Prior to December 31, 2005, we had written off the capitalized balance of \$1.2 million related to the agreement and recognized a loss accordingly in 2005. The loss was classified as royalty expense on our consolidated statements of operations.

INTERNAL REVENUE SERVICE AUDIT

In January 2004, the Internal Revenue Service completed its examination of our Federal income tax returns for the years ended December 31, 1996 through

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2001. The IRS has proposed adjustments to

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increase our income tax payable for the six years under examination. This adjustment would also result in additional state taxes and interest. In addition, in July 2004, the IRS initiated an examination of our Federal income tax return for the year ended December 31, 2002. In March 2005, the IRS proposed an adjustment to our taxable income of approximately \$6 million related to similar issues identified in their audit of the 1996 through 2001 federal income tax returns. The proposed adjustments to our 2002 federal income tax return would not result in additional tax due for that year due to the tax loss reported in the 2002 federal return. However, it could reduce the amount of net operating losses available to offset taxes due from the preceding tax years. We believe that we have meritorious defenses to and intend to vigorously contest the proposed adjustments made to our federal income tax returns for the years ended 1996 through 2002. If the proposed adjustments are upheld through the administrative and legal process, they could have a material impact on our earnings and cash flow. We believe we have provided adequate reserves for any reasonably foreseeable outcome related to these matters on the consolidated balance sheets included in the Consolidated Financial Statements under the caption "Income Taxes". The maximum amount of loss in excess of the amount accrued in the financial statements is \$7.7 million. We do not believe that the adjustments, if any, arising from the IRS examination, will result in an additional income tax liability beyond what is recorded in the accompanying consolidated balance sheets.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. We are required to make assumptions about matters, which are highly uncertain at the time of the estimate. Different estimates we could reasonably have used or changes in the estimates that are reasonably likely to occur could have a material effect on our financial condition or result of operations. Estimates and assumptions about future events and their effects cannot be determined with certainty. On an ongoing basis, we evaluate estimates, including those related to returns, discounts, bad debts, inventories, intangible assets, income taxes, and contingencies and litigation. We base our estimates on historical experience and on various assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as our operating environment changes. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and will not be known for prolonged period of time.

Management believes our financial statements are fairly stated in accordance with accounting principles generally accepted in the United States of America and provide a meaningful presentation of our financial condition and results of operations.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements. For a further discussion on the application of these and other accounting policies, see Note 1 of the "Notes to Consolidated Financial

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Statements."

ACCOUNTS RECEIVABLE--ALLOWANCE FOR RETURNS, DISCOUNTS AND BAD DEBTS

We evaluate the collectibility of accounts receivable and chargebacks (disputes from the customer) based upon a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligations (such as in the case of bankruptcy filings or substantial downgrading of credit sources), a specific reserve for bad debts is taken against amounts due to reduce the net recognized receivable to the amount reasonably expected to be collected. For all other

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customers, we recognize reserves for bad debts and chargebacks based on our historical collection experience. If collection experience deteriorates (for example, due to an unexpected material adverse change in a major customer's ability to meet its financial obligations to us), the estimates of the recoverability of amounts due us could be reduced by a material amount.

As of December 31, 2005, the balance in the allowance for returns, discounts and bad debts reserves was \$3.0 million, compared to \$2.4 million at December 31, 2004.

INVENTORY

Our inventories are valued at the lower of cost or market. Under certain market conditions, we use estimates and judgments regarding the valuation of inventory to properly value inventory. Inventory adjustments are made for the difference between the cost of the inventory and the estimated market value and charged to operations in the period in which the facts that give rise to the adjustments become known.

VALUATION OF LONG-LIVED AND INTANGIBLE ASSETS AND GOODWILL

We assess the impairment of identifiable intangibles, long-lived assets and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review include, but are not limited to, the following:

- o a significant underperformance relative to expected historical or projected future operating results;
- o a significant change in the manner of the use of the acquired asset or the strategy for the overall business; or
- o a significant negative industry or economic trend.

Effective January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." According to this statement, goodwill and other intangible assets with indefinite lives are no longer subject to amortization, but rather an annual assessment of impairment applied on a fair-value-based test.

We utilized the discounted cash flow methodology to estimate fair value. At December 31, 2005, we have a goodwill balance of \$8.6 million, and a net property and equipment balance of \$1.7 million, as compared to a goodwill balance of \$8.6 million and a net property and equipment balance of \$1.9 million at December 31, 2004. Our net property and equipment balance at December 31,

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2004 reflects the disposal of our Mexico fixed assets of \$123.3 million in the fourth quarter of 2004. During the year ended December 31, 2005, we did not recognize any impairment related to goodwill and property and equipment.

We assess the carrying value of long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." In 2004, we evaluated the long-lived assets in Mexico for recoverability and concluded that the book value of the asset group was significantly higher than the expected future cash flows and that impairment had occurred. Accordingly, we recognized a non-cash impairment loss of approximately \$78 million in the second quarter of 2004. The impairment charge was the difference between the carrying value and fair value of the impaired assets. Our determination of fair value was determined based on independent appraisals of the property and equipment obtained in June 2004.

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FOREIGN CURRENCY TRANSLATION

Assets and liabilities of our Mexico and Hong Kong subsidiaries are translated at the rate of exchange in effect on the balance sheet date; income and expenses are translated at the average rates of exchange prevailing during the respective periods. The functional currency in which we transact business in Hong Kong is the Hong Kong dollar and in Mexico is the peso.

Foreign currency gains and losses resulting from translation of assets and liabilities are included in other comprehensive income (loss). Transaction gains or losses, other than inter-company debt deemed to be of a long-term nature, are included in net income (loss) in the period in which they occur.

REVENUE RECOGNITION

Revenue is recognized at the point of shipment for all merchandise sold based on FOB shipping point. For merchandise shipped on landed duty paid ("LDP") terms, revenue is recognized at the point of either leaving Customs for direct shipments or at the point of leaving our warehouse where title is transferred, net of an estimate of returned merchandise and discounts. Customers are allowed the rights of return or non-acceptance only upon receipt of damaged products or goods with quality different from shipment samples. We do not undertake any after-sale warranty or any form of price protection.

We often arrange, on behalf of manufacturers, for the purchase of fabric from a single supplier. We have the fabric shipped directly to the cutting factory and invoice the factory for the fabric. Generally, the factories pay us for the fabric with offsets against the price of the finished goods.

INCOME TAXES

As part of the process of preparing our consolidated financial statements, management is required to estimate income taxes in each of the jurisdictions in which we operate. The process involves estimating actual current tax expense along with assessing temporary differences resulting from differing treatment of items for book and tax purposes. These timing differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheets. Management records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. Management has considered future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance. Increases in the valuation allowance result in additional expense to be reflected within

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the tax provision in the consolidated statement of operations.

In addition, accruals are also estimated for ongoing audits regarding U.S. Federal tax issues that are currently unresolved, based on our estimate of whether, and the extent to which, additional taxes will be due. We routinely monitor the potential impact of these situations and believe that amounts are properly accrued for. If we ultimately determine that payment of these amounts is unnecessary, we will reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We will record an additional charge in our provision for taxes in any period we determine that the original estimate of a tax liability is less than we expect the ultimate assessment to be. See Note 10 of the "Notes to Consolidated Financial Statements" for a discussion of current tax matters.

DEBT COVENANTS

Our debt agreements require certain covenants including a minimum level of net worth as discussed in Note 8 of the "Notes to Consolidated Financial Statements." If our results of operations erode and we are not able to obtain waivers from the lenders, the debt would be in default and callable by our lenders. In addition, due to cross-default provisions in our debt agreements, substantially all of our

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long-term debt would become due in full if any of the debt is in default. In anticipation of us not being able to meet the required covenants due to various reasons, we either negotiate for changes in the relative covenants or an advance waiver or reclassify the relevant debt as current. We also believe that our lenders would provide waivers if necessary. However, our expectations of future operating results and continued compliance with other debt covenants cannot be assured and our lenders' actions are not controllable by us. If projections of future operating results are not achieved and the debt is placed in default, we would be required to reduce our expenses, including by curtailing operations, and to raise capital through the sale of assets, issuance of equity or otherwise, any of which could have a material adverse effect on our financial condition and results of operations.

NEW ACCOUNTING PRONOUNCEMENTS

For a description of recent accounting pronouncements including the respective expected dates of adoption and effects on results of operations and financial condition, see Note 1 of the "Notes to Consolidated Financial Statements."

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain items in our consolidated statements of income as a percentage of net sales:

	YEARS ENDED DECEMBER 31,		
	2003	2004	2005
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales	90.0	86.5	79.1

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Gross profit	10.0	13.5	20.9
Selling and distribution expenses	3.5	6.0	5.0
General and administration expenses	9.9	20.6	12.5
Royalty Expenses	0.1	0.4	1.7
Impairment charges	7.0	50.2	--
Cumulative translation loss	--	14.7	--
Income (loss) from operations	(10.5)	(78.4)	1.7
Interest expense	(1.7)	(1.8)	(2.2)
Interest income	0.1	0.2	1.0
Minority interest	1.0	9.9	0.0
Interest in income of equity method investee	0.0	0.5	0.3
Other income	1.5	4.1	0.1
Other expense	(0.3)	(0.3)	(0.0)
Income (loss) before provision for income taxes	(9.9)	(65.8)	0.9
Provision for income taxes	(1.3)	(1.5)	(0.4)
Net Income (loss)	(11.2)%	(67.3)%	0.5%

COMPARISON OF 2005 TO 2004

Net sales increased by \$59.2 million, or 38.1%, from \$155.5 million in 2004 to \$214.6 million in 2005. The increase in net sales was primarily due to increased sales of private brands, which was \$55.0

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million in 2005 compared to \$21.7 million in 2004. Gear 7, JS by Jessica Simpson and Princy by Jessica Simpson recorded significant sales contributions in 2005, as compared to sales of \$1.2 million for these brands in 2004. We expect sales of these brands to decline significantly in 2006 due to the discontinuance of the Gear 7 line by K-Mart, the dispute over our continued rights to the Jessica Simpson line and the discontinuation of House of Dereon. Private label sales in 2005 were \$159.6 million compared to \$133.8 million in 2004, with the increase resulting primarily from increased sales in 2005 to Wal-Mart, Chico's, Mothers Work and Macy's Merchandising Group.

Gross profit consists of net sales less product costs, direct labor, manufacturing overhead, duty, quota, freight in, and brokerage. Gross profit for 2005 was \$44.9 million, or 20.9% of net sales, compared to \$21.0 million, or 13.5 % of net sales, for 2004, representing an increase of \$23.9 million or 114.1%. The increase in gross profit for 2005 occurred primarily because of an increase in sales volume and gross margin. The improvement in gross margin is primarily attributable to the change of relative product mix in favor of the higher margin private brands business as compared to private label as well as improved margins in the private label business due to expansion of our business to include more knitwear and woven tops at better margins using private brand product developments.

Selling and distribution expenses increased by \$1.4 million, or 15.5%, from \$9.3 million in 2004 to \$10.7 million in 2005. As a percentage of net sales, these variable expenses decreased from 6.0% in 2004 to 5.0% in 2005 due

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to the significant increase in sales volume during 2005.

General and administrative expenses decreased by \$5.2 million, or 16.3%, from \$32.1 million in 2004 to \$26.9 million in 2005. The decrease was primarily due to the depreciation and amortization of our Mexico assets of \$6.8 million and \$1.1 million of severance paid to the Mexican workers in 2004 as compared to no such expense in 2005 after disposition of our fixed assets in Mexico in late 2004. As a percentage of net sales, these expenses decreased from 20.6% in 2004 to 12.5% in 2005.

Royalty and marketing allowance expenses increased by \$3.1 million, or 505.8%, to \$3.7 million in 2005 from \$605,000 in 2004. The increase was primarily due to increased sales under the licensed Alain Weiz and Jessica Simpson brands and a write-off of the remaining balance of \$1.2 million of prepaid royalty on House of Dereon in 2005 as a result of termination of our agreement to design, market and sell House of Dereon by Tina Knowles branded apparel in March 2006. See Note 11 of the "Notes to Consolidated Financial Statements." As a percentage of net sales, these expenses increased to 1.7% in 2005 from 0.4% in 2004.

Impairment charges were \$78.0 million in 2004 or (50.2)% of net sales, compared to no such expense in 2005. The expense in 2004 was the impairment of long-lived assets of our Mexico operations due to our decision to sell the manufacturing operations in Mexico. See Note 5 and Note 7 of the "Notes to Consolidated Financial Statements."

Cumulative translation loss attributable to liquidated Mexico operations was \$22.8 million in 2004, or (14.7)% of net sales, compared to no such expense in 2005. We incurred this charge upon the sale of our fixed assets in Mexico in the fourth quarter of 2004.

Income from operations was \$3.6 million in 2005, or 1.7% of net sales, compared to loss from operation of \$121.8 million in 2004, or (78.4)% of net sales, due to the factors described above.

Interest expense increased by \$1.7 million, or 61.9%, from \$2.9 million in 2004 to \$4.6 million in 2005. As a percentage of net sales, this expense increased to 2.2% in 2005 from 1.8% in 2004. The increase was primarily due to an interest expense of \$1.3 million in 2005 related to interest payments to holders of convertible debentures and amortization of debt discount arising from issuing convertible

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debentures, compared to no such expense in 2004. Interest income increased by \$1.7 million, or 451.3% from \$378,000 in 2004 to \$2.1 million in 2005. The increase was primarily due to the interest earned from the notes receivable related to the sale of our fixed assets in Mexico of \$1.9 million in 2005, compared to no such income in 2004. Other income decreased by \$6.0 million, or 94.4%, from \$6.4 million in 2004 to \$354,000 in 2005, due primarily to \$5.5 million of lease income received for the lease of our facilities and equipment in Mexico in 2004, compared to no such income in 2005 due to the sale of our Mexico operations in the fourth quarter of 2004. Other expenses were \$529,000 in 2004 compared to \$1,000 in 2005.

In 2005, we allocated \$75,000 of profit to minority interest, which consisted of profit shared with the minority partner in the PBG7, LLC. Loss allocated to minority interests in 2004 was \$15.3 million, representing \$471,000 attributed to the minority shareholder in United Apparel Ventures, LLC, for its

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49.9% share in the loss and \$14.8 million attributed to the minority shareholder in Tarrant Mexico for its 25% share in the loss.

Income before provision for income taxes was \$1.9 million in 2005 and loss before provision for income taxes was \$102.3 million in 2004, representing 0.9% and (65.8)% of net sales, respectively. The increase in income before provision for income taxes was due to the factors discussed above.

Provision for income taxes was \$927,000 in 2005 compared to \$2.3 million in 2004, representing (0.4)% and (1.5)% of net sales, respectively.

Net income was \$1.0 million in 2005 as compared to net loss of \$104.7 million in 2004, representing 0.5% and (67.3)% of net sales, respectively. Included in the \$104.7 million loss in 2004 were charges of \$78.0 million for the impairment of long-lived assets and \$22.8 million of cumulative translation loss attributable to liquidated Mexico operations. There were no such charges in 2005.

COMPARISON OF 2004 TO 2003

Net sales decreased by \$165.0 million, or 51.5%, from \$320.4 million in 2003 to \$155.5 million in 2004. The decrease in net sales was largely attributable to a decrease in Mexican sourced sales from \$139.1 million in 2003 to \$19.5 million in 2004. Several of our larger customers for Mexico produced jeans wear refused to place orders with us following the restructuring of our Mexico operations and resulting labor unrest in Mexico, which resulted in a decline in revenue of approximately \$75 million from sales of Mexico-produced merchandise during 2004 as compared to 2003. Additionally, in 2004 we experienced a decline in sales to certain customers of Mexico-sourced merchandise that was unrelated to the labor unrest. In 2004, we also experienced a reduction of sales of fabric to Mexican manufacturers of approximately \$17 million. We also experienced a reduction of sales from our import operations in the Far East of approximately \$40 million, due in part to several of our larger customers reducing their back-to-school and holiday order placements.

Gross profit for 2004 was \$21.0 million, or 13.5% of net sales, compared to \$32.0 million, or 10.0 % of net sales, for 2003, representing a decrease of \$11.0 million or 34.5%. The decrease in gross profit for 2004 was primarily due to the substantial decrease in sales volume. The lower gross profit, especially in the fourth quarter, was primarily due to unplanned air freight costs and higher quota costs in some categories coupled with additional inventory markdowns. The increase in gross profit as a percentage of net sales for 2004 when compared to 2003 was primarily because of an inventory write-down of \$11 million and severance payments to Mexican workers of approximately \$2.5 million included in cost of goods sold in 2003. Excluding the inventory write-down and severance payments in 2003, gross profit as a percentage of net sales for 2003 was 14.2% compared to 13.5% for 2004.

Selling and distribution expenses decreased by \$2.0 million, or 18%, from \$11.3 million in 2003 to \$9.3 million in 2004. As a percentage of net sales, these variable expenses increased from 3.5% in 2003 to 6.0% in 2004 due to the significant decline in sales during 2004.

General and administrative expenses increased by \$317,000, or 1.0%, from \$31.8 million in 2003 to \$32.1 million in 2004. As a percentage of net sales, these expenses increased from 9.9% in 2003 to 20.6% in 2004 due to significant decline in sales during 2004. This increase was partly caused by the

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reclassification of \$3.2 million of depreciation of our Mexican facilities from cost of goods sold in the fourth quarter of 2003, compared to \$6.8 million of depreciation and \$1.1 million of severance payments to Mexican workers in 2004.

Royalty and marketing allowance expenses increased by \$363,000, or 149.5%, to \$605,000 in 2004 from \$242,000 in 2003. As a percentage of net sales, these expenses increased to 0.4% in 2004 from 0.1% in 2003.

Impairment charges were \$78.0 million in 2004 or (50.2)% of net sales, compared to \$22.3 million in 2003 or (7.0)% of net sales. The expense in 2004 was the impairment of long-lived assets of our Mexico operations due to our decision to sell the manufacturing operations in Mexico. The expense in 2003 included \$19.5 million of the impairment of our goodwill and intangible assets and \$2.8 million of write-off of prepaid expenses due to our decision to cease directly operating a substantial majority of our equipment and fixed assets in Mexico commencing in the third quarter of 2003. See Note 5 and Note 7 of the "Notes to Consolidated Financial Statements."

Cumulative translation loss attributable to liquidated Mexico operations was \$22.8 million in 2004, or (14.7)% of net sales, compared to no such expense in 2003. As discussed above, we incurred this charge upon the sale of our fixed assets in Mexico in the fourth quarter of 2004.

Loss from operations was \$121.8 million in 2004, or (78.4)% of net sales, compared to \$33.6 million in 2003, or (10.5)% of net sales, due to the factors described above.

Interest expense decreased by \$2.7 million, or 49.0%, from \$5.6 million in 2003 to \$2.9 million in 2004. This decrease in interest expense was a result of a decrease of the amount we financed under our main credit facility in 2004. Interest income was \$378,000 in 2004 compared to \$425,000 in 2003. Other income increased by \$1.6 million, or 33.1%, from \$4.8 million in 2003 to \$6.4 million in 2004, due to \$3.7 million of lease income received for our facilities and equipment in Mexico in 2003, compared to \$5.5 million in 2004. Other expenses decreased from \$1.2 million in 2003 to \$529,000 in 2004.

Loss allocated to minority interests in 2004 was \$15.3 million, representing \$471,000 attributed to the minority shareholder in United Apparel Ventures, LLC, for its 49.9% share in the loss and \$14.8 million attributed to the minority shareholder in Tarrant Mexico for its 25% share in the loss. Loss allocated to minority interests in 2003 was \$3.5 million, representing the minority partner's share of profit in UAV of \$3.5 million, offset by \$7.0 million attributed to the minority shareholder in Tarrant Mexico for its 25% share in the loss including \$4.4 million for its share in the special write-down on goodwill and inventory of Tarrant Mexico.

Loss before provision for income taxes was \$102.3 million in 2004 and \$31.8 million in 2003, representing (65.8)% and (9.9)% of net sales, respectively. The increase in loss before provision for income taxes was due to the factors discussed above.

Provision for income taxes was \$2.3 million in 2004 versus \$4.1 million in 2003, representing (1.5)% and (1.3)% of net sales, respectively.

Loss after taxes and cumulative effect of accounting change was \$104.7 million in 2004 and \$35.9 million in 2003, representing (67.3)% and (11.2)% of net sales, respectively. Included in the \$104.7 million loss in 2004 were

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charges of \$78.0 million for the impairment of long-lived assets and \$22.8 million of cumulative translation loss attributable to liquidated Mexico operations. Included in the \$35.9 million loss in 2003 were non-cash charges of \$22.3 million for the impairment of assets and an inventory write-down of \$11 million.

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain items in our consolidated statements of income in millions of dollars and as a percentage of net sales:

	QUARTER ENDED							
	MAR. 31 2004	JUN. 30 2004	SEP. 30 2004	DEC. 31 2004	MAR. 31 2005	JUN. 30 2005	SEP. 30 2005	DEC. 31 2005
Net Sales	\$ 42.2	\$ 38.5	\$ 38.1	\$ 36.7	\$ 44.8	\$ 50.5	\$ 69.6	\$ 78.0
Gross profit	7.5	5.3	4.1	4.1	8.9	11.5	14.5	14.5
Operating income (loss)	(6.0)	(84.6)	(3.6)	(27.6)	0.2	1.5	3.0	3.0
Net income (loss)	(3.0)	(68.6)	(4.0)	(29.1)	(0.1)	0.9	1.7	1.7

	QUARTER ENDED							
	MAR. 31 2004	JUN. 30 2004	SEP. 30 2004	DEC. 31 2004	MAR. 31 2005	JUN. 30 2005	SEP. 30 2005	DEC. 31 2005
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Gross profit	17.8	13.7	10.9	11.1	20.0	22.7	20.0	20.0
Operating income (loss)	(14.1)	(219.8)	(9.5)	(75.2)	0.5	2.8	4.0	4.0
Net income (loss)	(7.1)	(178.1)	(10.5)	(79.3)	(0.2)	1.7	2.0	2.0

As is typical for us, quarterly net sales fluctuated significantly because our customers typically place bulk orders with us, and a change in the number of orders shipped in any one period may have a material effect on the net sales for that period.

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity requirements arise from the funding of our working capital needs, principally inventory, finished goods shipments-in-transit, work-in-process and accounts receivable, including receivables from our contract manufacturers that relate primarily to fabric we purchase for use by those manufacturers. Our primary sources for working capital and capital expenditures are cash flow from operations, borrowings under our bank and other credit facilities, issuance of long-term debt, sales of equity and debt securities, and vendor financing. In the near term, we expect that our operations and borrowings

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under bank and other credit facilities will provide sufficient cash to fund our operating expenses, capital expenditures and interest payments on our debt. In the long-term, we expect to use internally generated funds and external sources to satisfy our debt and other long-term liabilities.

Our liquidity is dependent, in part, on customers paying on time. Any abnormal chargebacks or returns may affect our source of short-term funding. Any changes in credit terms given to major customers may have an impact on our cash flow. Suppliers' credit is another major source of short-term financing and any adverse changes in their terms will have negative impact on our cash flow.

Other principal factors that could affect the availability of our internally generated funds include:

- o deterioration of sales due to weakness in the markets in which we sell our products;
- o decreases in market prices for our products;
- o increases in costs of raw materials; and
- o changes in our working capital requirements.

Principal factors that could affect our ability to obtain cash from external sources include:

- o financial covenants contained in our current or future bank and debt facilities; and
- o volatility in the market price of our common stock or in the stock markets in general.

The disposition of our Mexico operations in 2004 enabled us to return to the business model that was profitable prior to implementation of our vertically integrated manufacturing operations that required major capital expenditures and substantial working capital. The lease and subsequent sale of our Mexican facilities significantly reduced our working capital requirements due to fewer employees and the elimination of fixed overhead. Investment in inventory also was substantially reduced as we no longer need to purchase raw materials, such as cotton, at commencement of the manufacturing process and carry the costs of such materials until finished goods are shipped to our customers. Reduced working capital and capital expenditures in Mexico has resulted in a corresponding reduction of outstanding indebtedness and interest payments. Furthermore, we no longer need to accept orders with low or negative margins to fill production capacity in slow seasons, which should improve margins and allow us to source production in the best locations worldwide.

Certain of our private brands product lines are generally associated with higher selling, general and administrative expenses, due to significant design, development, and marketing costs compared to our private label business.

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Cash flows for the years ended December 31, 2003, 2004 and 2005 were as follows (dollars in thousands):

CASH FLOWS:	2003	2004	2005
	-----	-----	-----
Net cash provided by (used in)			

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operating activities	\$ 9,935	\$ 12,168	\$ (12,900)
Net cash provided by (used in)			
investing activities	\$ (1,504)	\$ 1,250	\$ 3,555
Net cash provided by (used in)			
financing activities	\$ (6,295)	\$ (15,552)	\$ 9,772

Net cash used in operating activities was \$12.9 million in 2005, as compared to net cash provided by operating activities in 2004 of \$12.2 million and \$9.9 million in 2003. Net cash used in operating activities in 2005 resulted primarily from a net income of \$1.0 million, reduced by increases of \$16.8 million in accounts receivable and \$8.5 million in inventory, partially offset by depreciation and amortization of \$2.1 million and an increase of \$9.2 million in accounts payable. The increase in accounts receivable, inventory and accounts payable in 2005 was primarily due to increase in sales volume.

During 2005, net cash provided by investing activities was \$3.6 million, as compared to net cash provided by investing activities of \$1.3 million in 2004 and net cash used in investing activities of \$1.5 million in 2003. Cash provided by investing activities in 2005 included approximately \$2.5 million of collection of advances from our Chairman and \$1.2 million of collection on notes receivable.

During 2005, net cash provided by financing activities was \$9.8 million as compared to net cash used in financing activities of \$15.6 million in 2004 and \$6.3 million in 2003. Net cash provided by financing activities in 2005 included \$13.9 million net proceeds from our credit facilities and offset by \$4.1 million net repayment of our short-term bank borrowings.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

Following is a summary of our contractual obligations and commercial commitments available to us as of December 31, 2005 (in millions):

CONTRACTUAL OBLIGATIONS	PAYMENTS DUE BY PERIOD				
	Total	Less than 1 year	Between 2-3 years	Between 4-5 years	5 years
Long-term debt (1)	\$ 36.3	\$ 36.1	\$ 0.2	\$ --	\$ --
Convertible debentures, net	\$ 6.9	\$ --	\$ 6.9	\$ --	\$ --
Operating leases	\$ 6.8	\$ 1.2	\$ 1.3	\$ 1.2	\$ --
Minimum royalties	\$ 17.2	\$ 4.9	\$ 5.5	\$ 2.2	\$ --
Purchase commitment	\$ 45.4	\$ 5.4	\$ 10.0	\$ 10.0	\$ --
Total Contractual Cash Obligations	\$ 112.6	\$ 47.6	\$ 23.9	\$ 13.4	\$ --

- (1) Excludes interest on long-term debt obligations. Based on outstanding borrowings as of December 31, 2005, and assuming all such indebtedness remained outstanding during 2006 and the interest rates remained unchanged, we estimate that our interest cost on long-term debt would be approximately \$3.4 million.

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OTHER COMMERCIAL COMMITMENTS AVAILABLE TO US	TOTAL AMOUNTS COMMITTED TO US	AMOUNT OF COMMITMENT EXPIRATION		
		Less than 1 year	Between 2-3 years	Between 4-5 years
Lines of credit	\$ 61.9	\$ 61.9	--	--
Letters of credit (within lines of credit)	\$ 16.9	\$ 16.9	--	--
Total Commercial Commitments	\$ 61.9	\$ 61.9	--	--

On June 13, 2002, we entered into a letter of credit facility of \$25 million with UPS Capital Global Trade Finance Corporation ("UPS"). Under this facility, we may arrange for the issuance of letters of credit and acceptances. The facility is collateralized by the shares and debentures of all of our subsidiaries in Hong Kong. In addition to the guarantees provided by Tarrant Apparel Group and our subsidiaries, Fashion Resource (TCL) Inc. and Tarrant Luxembourg Sarl, Gerard Guez, our Chairman, also signed a guarantee of \$5 million in favor of UPS to secure this facility. This facility bore interest at 10.25% per annum at December 31, 2005. Under this facility, we were subject to certain restrictive covenants, including that we maintain a specified tangible net worth, fixed charge ratio, and leverage ratio. On June 27, 2005, we amended the letter of credit facility with UPS to extend the expiration date of the facility from June 30, 2005 to August 31, 2005 and to reduce the tangible net worth requirement at June 30, 2005. On August 31, 2005, we amended the letter of credit facility with UPS to further extend the expiration date of the facility to October 31, 2005, immediately reduce the maximum amount of borrowings to \$14.5 million on September 1, 2005 and further reduced the maximum amount of borrowing to \$14.0 million on October 1, 2005. On October 31, 2005, we further amended the letter of credit facility with UPS to extend the expiration date of the facility to January 31, 2006 and amend the interest rate to "prime rate" plus 3%. The facility amendment also provided for reduction in the maximum amount of borrowings to \$13.5 million commencing on November 1, 2005, to \$13.0 million commencing on December 1, 2005, and to \$12.5 million commencing on January 1, 2006. Additionally, Gerard Guez, our Chairman, pledged to UPS 4.6 million shares of our common stock held by Mr. Guez to secure the obligations under the credit facility. On January 27, 2006, we further amended the letter of credit facility with UPS to extend the expiration date of the facility from January 31, 2006 to July 31, 2006. The amendment provides for reduction of the maximum amount of borrowings under the facility to \$12.0 million commencing on April 1, 2006, \$11.5 million commencing on May 1, 2006, \$11.0 million commencing on June 1, 2006 and to \$10.5 million commencing on July 1, 2006. Under the amended letter of credit facility, we are subject to restrictive financial covenants of maintaining tangible net worth of \$25 million as of December 31, 2005 and the last day of each fiscal quarter thereafter. There is also a provision capping maximum capital expenditures per quarter of \$800,000. As of December 31, 2005, we were in compliance with the covenants. As of December 31, 2005, \$9.2 million was outstanding under this facility with UPS and an additional \$2.5 million was available for future borrowings. In addition, \$1.3 million of open letters of credit was outstanding as of December 31, 2005.

On December 31, 2004, our Hong Kong subsidiaries entered into a new loan agreement with UPS pursuant to which UPS made a \$5 million term loan, the proceeds of which were used to repay \$5 million of indebtedness owed to UPS under the letter of credit of facility. The principal amount of this loan is due and payable in 24 equal monthly installments of approximately \$208,333 each, plus interest equivalent to the "prime rate" plus 2% commencing on February 1, 2005. This facility bore interest at 9.25% per annum at December 31, 2005. On

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June 27, 2005, we amended the loan agreement with UPS to reduce the tangible net worth requirement at June 30, 2005. Under the amended loan agreement, we are subject to restrictive financial covenants of maintaining tangible net worth of \$25 million at December 31, 2005 and the last day of each fiscal quarter thereafter. There is also a provision capping maximum capital expenditure per quarter at \$800,000. As of December 31, 2005, we were in compliance with the

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covenants. As of December 31, 2005, \$2.7 million was outstanding. The obligations under the loan agreement are collateralized by the same security interests and guarantees provided under our letter of credit facility with UPS. Additionally, the term loan is secured by two promissory notes payable to Tarrant Luxembourg Sarl in the amounts of \$2,550,000 and \$1,360,000 and a pledge by Gerard Guez, our Chairman, of 4.6 million shares of our common stock.

Since March 2003, DBS Bank (Hong Kong) Limited (formerly known as Dao Heng Bank) has made available a letter of credit facility of up to HKD 20 million (equivalent to US \$2.6 million) to our subsidiaries in Hong Kong. This is a demand facility and is secured by the pledge of our office property, which is owned by Gerard Guez, our Chairman and Todd Kay, our Vice Chairman, and by our guarantee. The letter of credit facility was increased to HKD 30 million (equivalent to US\$3.9 million) in June 2004. As of December 31, 2005, \$2.9 million was outstanding under this facility. In addition, \$1.1 million of open letters of credit was outstanding and \$0 was available for future borrowings as of December 31, 2005. In October 2005, a tax loan for HKD 6.233 million (equivalent to US \$804,000) was also made available to our Hong Kong subsidiaries. As of December 31, 2005, \$675,000 was outstanding under this tax loan.

On October 1, 2004, we amended and restated our previously existing debt facility with GMAC Commercial Credit, LLC ("GMAC") by entering into a new factoring agreement with GMAC. The amended and restated agreement (the factoring agreement) extended the expiration date of the facility to September 30, 2007 and added as parties our subsidiaries Private Brands, Inc and No! Jeans, Inc. In addition, in connection with the factoring agreement, our indirect majority-owned subsidiary PBG7, LLC entered into a separate factoring agreement with GMAC. Pursuant to the terms of the factoring agreement, we and our subsidiaries agree to assign and sell to GMAC, as factor, all accounts which arise from our sale of merchandise or rendition of service created on a going forward basis. At our request, GMAC, in its discretion, may make advances to us up to the lesser of (a) up to 90% of our accounts on which GMAC has the risk of loss and (b) \$40 million, minus in each case, any amount owed by us to GMAC. Pursuant to the terms of the PBG7 factoring agreement, PBG7 agreed to assign and sell to GMAC, as factor, all accounts, which arise from PBG7's sale of merchandise or rendition of services created on a going-forward basis. At PBG7's request, GMAC, in its discretion, may make advances to PBG7 up to the lesser of (a) up to 90% of PBG7's accounts on which GMAC has the risk of loss, and (b) \$5 million minus in each case, any amounts owed to GMAC by PBG7. The facility bears interest at 7.385% per annum and the facility under PBG7, LLC bears interest at 7.75% per annum at December 31, 2005. Restrictive covenants under the revised facility include a limit on quarterly capital expenses of \$800,000 and tangible net worth of \$25 million at December 31, 2005 and at the end of each fiscal quarter thereafter. As of December 31, 2005, we were in compliance with the covenants. A total of \$30.6 million was outstanding with respect to receivables factored under the GMAC facility at December 31, 2005.

In May 2005, we amended our factoring agreement with GMAC to permit our subsidiaries party thereto and us, to borrow up to the lesser of \$3 million

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or fifty percent (50%) of the value of eligible inventory. In connection with this amendment, we granted GMAC a lien on certain of our inventory located in the United States. On January 23, 2006, we further amended our factoring agreement with GMAC to increase the amount we may borrow against inventory to the lesser of \$5 million or 50% of the value of eligible inventory. The \$5 million limit will be reduced to \$4 million on April 1, 2006 and will be further reduced to \$3 million on July 1, 2006. The maximum borrowing availability under the factoring agreement, based on the borrowing base formula remains at \$40 million. A total of \$3.0 million was outstanding under the GMAC facility at December 31, 2005 with respect to collateralized inventory.

The credit facility with GMAC and the credit facility with UPS carry cross-default clauses. A breach of a financial covenant set by GMAC or UPS constitutes an event of default under the other credit

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facility, entitling both financial institutions to demand payment in full of all outstanding amounts under their respective debt and credit facilities.

The amount we can borrow under the factoring facility with GMAC is determined based on a defined borrowing base formula related to eligible accounts receivable. A significant decrease in eligible accounts receivable due to the aging of receivables, can have an adverse effect on our borrowing capabilities under our credit facility, which may adversely affect the adequacy of our working capital. In addition, we have typically experienced seasonal fluctuations in sales volume. These seasonal fluctuations result in sales volume decreases in the first and fourth quarters of each year due to the seasonal fluctuations experienced by the majority of our customers. During these quarters, borrowing availability under our credit facility may decrease as a result of decrease in eligible accounts receivables generated from our sales.

On December 14, 2004, we completed a \$10 million financing through the issuance of 6% Secured Convertible Debentures ("Debentures") and warrants to purchase up to 1,250,000 shares of our common stock. Prior to maturity, the investors may convert the Debentures into shares of our common stock at a price of \$2.00 per share. The warrants have a term of five years and an exercise price of \$2.50 per share. The Debentures bear interest at a rate of 6% per annum and have a term of three years. We may elect to pay interest on the Debentures in shares of our common stock if certain conditions are met, including a minimum market price and trading volume for our common stock. The Debentures contain customary events of default and permit the holders thereof to accelerate the maturity if the full principal amount together with interest and other amounts owing upon the occurrence of such events of default. The Debentures are secured by a subordinated lien on certain of our accounts receivable and related assets. The placement agent in the financing, received compensation for its services in the amount of \$620,000 in cash and issuance of five year warrants to purchase up to 200,000 shares of our common stock at an exercise price of \$2.50 per share.

In June 2005, holders of our Debentures converted an aggregate of \$2.3 million of Debentures into 1,133,687 shares of our common stock. In August 2005, holders of our Debentures converted an aggregate of \$820,000 of Debentures into 410,000 shares of our common stock. The Debentures were converted at the option of the holders at a price of \$2.00 per share. Debt discount of \$248,000 related to the intrinsic value of the conversion option of \$804,000 was expensed upon the conversion. Of the \$620,000 financing cost paid to the placement agent, \$191,000 was expensed upon the conversion. The intrinsic value of the conversion option, and the value of the warrant amortized in 2005 was \$474,000. Total deferred financing cost amortized in 2005 was \$189,000. Total interest paid to

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the holders of the Debentures in 2005 was \$539,000. As of December 31, 2005, \$6.0 million, net of \$0.9 million of debt discount, remained outstanding under the Debentures.

On February 14, 2005, we borrowed \$5 million from Max Azria, which amount bore interest at the rate of 4% per annum and was payable in weekly installments of \$250,000 beginning on February 28, 2005. In early August 2005, we repaid the remaining balance of this loan in its entirety. On January 19, 2006, we borrowed an additional \$4 million from Max Azria, which amount bears interest at the rate of 5.5% per annum and is payable in weekly installments of \$200,000 beginning on March 1, 2006. This is an unsecured loan.

We had three equipment loans outstanding at December 31, 2005 totaling \$83,000. One of these equipment loans bears interest at 6% payable in installments through 2009, the second loan bears interest at 15.8% payable in installments through 2007, and the third loan bears interest at 6.15% payable in installments through 2007.

During 2000, we financed equipment purchases for a manufacturing facility with certain vendors. A total of \$16.9 million was financed with five-year promissory notes, which bear interest ranging from

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7.0% to 7.5%, and were payable in semiannual payments commencing in February 2000. All remaining balances under these notes were paid off in February 2005. A portion of the debt was denominated in Euros. Unrealized transaction (loss) gain associated with the debt denominated in Euros totaled \$(561,000), \$367,000 and \$0 for the years ended December 31, 2003, 2004 and 2005, respectively. These amounts were recorded in other income (expense) in the accompanying consolidated statements of operations.

From time to time, we open letters of credit under an uncommitted line of credit from Aurora Capital Associates who issues these letters of credit out of Israeli Discount Bank. As of December 31, 2005, \$1.0 million was outstanding under this facility and \$7.1 million of letters of credit were open under this arrangement. We pay a commission of 2.25% on all letters of credits issued under this arrangement.

The effective interest rates on short-term bank borrowing as of December 31, 2004 and 2005 were 5.7% and 7.8%, respectively.

We have financed our operations from our cash flow from operations, borrowings under our bank and other credit facilities, issuance of long-term debt (including debt to or arranged by vendors of equipment purchased for our Mexican twill and production facility), and sales of equity and debt securities. Our short-term funding relies very heavily on our major customers, banks and suppliers. From time to time, we have had temporary over-advances from our banks. Any withdrawal of support from these parties will have serious consequences on our liquidity.

From time to time in the past, we borrowed funds from, and advanced funds to, certain officers and principal shareholders, including Gerard Guez and Todd Kay. See disclosure under "-Related Party Transactions" below.

The Internal Revenue Service has proposed adjustments to our Federal income tax returns to increase our income tax payable for the years ended December 31, 1996 through 2001. This adjustment would also result in additional state taxes and interest. In addition, in July 2004, the IRS initiated an

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examination of our Federal income tax return for the year ended December 31, 2002. In March 2005, the IRS proposed an adjustment to our taxable income of approximately \$6 million related to similar issues identified in their audit of the 1996 through 2001 federal income tax returns. We believe that we have meritorious defenses to and intend to vigorously contest the proposed adjustments made to our federal income tax returns for the years ended 1996 through 2002. We believe that we have meritorious defenses to and intend to vigorously contest the proposed adjustments. If the proposed adjustments are upheld through the administrative and legal process, they could have a material impact on our earnings and, in particular, cash flow. We may not have an adequate cash reserve to pay the final adjustments resulting from the IRS examination. As a result, we may be required to arrange for payments over time or raise additional capital in order to meet these obligations. We believe we have provided adequate reserves for any reasonably foreseeable outcome related to these matters on the consolidated balance sheets included in the consolidated financial statements under the caption "Income Taxes." The maximum amount of loss in excess of the amount accrued in the financial statements is \$7.7 million. We do not believe that the adjustments, if any, arising from the IRS examination, will result in an additional income tax liability beyond what is recorded in the accompanying consolidated balance sheets.

We may seek to finance future capital investment programs through various methods, including, but not limited to, borrowings under our bank credit facilities, issuance of long-term debt, sales of equity securities, leases and long-term financing provided by the sellers of facilities or the suppliers of certain equipment used in such facilities. To date, there is no plan for any major capital expenditure.

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We do not believe that the moderate levels of inflation in the United States in the last three years have had a significant effect on net sales or profitability.

RELATED PARTY TRANSACTIONS

We lease our principal offices and warehouse located in Los Angeles, California from GET and office space in Hong Kong from Lynx International Limited. GET and Lynx International Limited are each owned by Gerard Guez, our Chairman of the Board of Directors, and Todd Kay, our Vice Chairman of the Board of Directors. We believe, at the time the leases were entered into, the rents on these properties were comparable to then prevailing market rents. Our Los Angeles offices and warehouse is leased on a month to month basis. On January 1, 2006, we entered into a one year lease agreement with Lynx International Limited for our office space in Hong Kong. We paid \$1,330,000 in each of 2003 and 2004, and \$1,019,000 in 2005 in rent for office and warehouse facilities at these locations.

In February 2004, our Hong Kong subsidiary entered into a 50/50 joint venture with Auto Enterprises Limited, an unrelated third party, to source products for Seven Licensing Company, LLC and our private brands subsidiary in mainland China. On May 31, 2004, after realizing an accumulated loss from the venture of approximately \$200,000 (our share being half), we sold our interest for \$1 to Asia Trading Limited, a company owned by Jacqueline Rose, wife of Gerard Guez. The venture owed us \$221,000 as of December 31, 2004. This amount was repaid in the first quarter of 2005.

On October 16, 2003, we leased to affiliates of Mr. Kamel Nacif, a shareholder at the time of the transaction, for a substantial portion of our

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manufacturing facilities and operations in Mexico including real estate and equipment. We leased our twill mill in Tlaxcala, Mexico, and our sewing plant in Ajalpan, Mexico, for a period of 6 years and for an annual rental fee of \$11 million. In connection with this lease transaction, we also entered into a management services agreement pursuant to which Mr. Nacif's affiliates agreed to manage the operation of our remaining facilities in Mexico in exchange for the use of such facilities. The term of the management services agreement was also for a period of 6 years. In 2004, \$5.5 million of lease income was recorded in other income. We agreed to purchase annually, six million yards of fabric manufactured at the facilities leased and/or operated by Mr. Nacif's affiliates at market prices to be negotiated. We purchased \$3.6 million and \$5.3 million of fabric under this agreement in 2003 and 2004, respectively.

In August 2004, we entered into a purchase and sale agreement to sell to Mr. Nacif's affiliates, substantially all of our assets and real property in Mexico, including the equipment and facilities we previously leased to Mr. Nacif's affiliates. Upon completion of this transaction in the fourth quarter of 2004, we entered into a purchase commitment agreement with Mr. Nacif's affiliates to replace our previous purchase commitment agreement. Pursuant the purchase commitment agreement we agreed to purchase \$5 million of fabric manufactured at the facilities we sold to Mr. Nacif's affiliates annually over the ten-year term of the agreement, at negotiated market prices. See Note 5 of the "Notes to Consolidated Financial Statements". In 2005, we purchased \$6.4 million of fabric, of which \$2.4 million was paid in cash and \$4.0 million was offset against the notes receivable principal and accrued interest on the note receivable from the affiliates of Mr. Kamel Nacif. Net amount due from Mr. Kamel Nacif and his affiliates was \$236,000 as of December 31, 2005.

From time to time in the past we had advanced funds to, Mr. Guez. These were net advances to Mr. Guez or payments paid on his behalf before the enactment of the Sarbanes-Oxley Act in 2002. The promissory note documenting these advances contains a provision that the entire amount together with accrued interest is immediately due and payable upon our written demand. The greatest outstanding balance of such advances to Mr. Guez during 2005 was approximately \$4,766,000. At December 31, 2005, the entire balance due from Mr. Guez totaling \$2.3 million was reflected as a reduction of

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shareholders' equity. All advances to, and borrowings from, Mr. Guez bore interest at the rate of 7.75% during the period. Total interest paid by Mr. Guez was \$374,000, \$370,000 and \$209,000 for the years ended December 31, 2003, 2004 and 2005, respectively. Mr. Guez paid expenses on our behalf of approximately \$400,000 and \$397,000 for the years ended December 31, 2004 and 2005, respectively, which amounts were applied to reduce accrued interest and principal on Mr. Guez's loan. These amounts included fuel and related expenses incurred by 477 Aviation, LLC, a company owned by Mr. Guez, when our executives used this company's aircraft for business purposes. Since the enactment of the Sarbanes-Oxley Act in 2002, no further personal loans (or amendments to existing loans) have been or will be made to officers or directors of Tarrant.

On July 1, 2001, we formed an entity to jointly market, share certain risks and achieve economies of scale with Azteca Production International, Inc. ("Azteca"), called United Apparel Ventures, LLC ("UAV"). Azteca is owned by the brothers of Gerard Guez, our Chairman. This entity was created to coordinate the production of apparel for a single customer of our branded business. UAV is owned 50.1% by Tag Mex, Inc., our wholly owned subsidiary, and 49.9% by Azteca. Results of the operation of UAV have been consolidated into our results since July 2001 with the minority partner's share of all gains and losses eliminated

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through the minority interest line in our financial statements. Due to the restructuring of our Mexico operations, we discontinued manufacturing for UAV customers in the second quarter of 2004. Two and one half percent of gross sales as management fees were paid in 2003 and 2004 to each of the members of UAV, per the operating agreement. We purchased \$37.1 million, \$11.5 million and \$135,000 of finished goods and service from Azteca and its affiliates for the years ended December 31, 2003, 2004 and 2005, respectively. Our total sales of fabric and service to Azteca in 2003, 2004 and 2005 were \$9.9 million, \$1.0 million and \$88,000, respectively.

Since June 2003, UAV had been selling to Seven Licensing Company, LLC ("Seven Licensing"), jeans wear bearing the brand "Seven7", which is ultimately purchased by Express. Seven Licensing is beneficially owned by Gerard Guez. In the third quarter of 2004, in order to strengthen our own private brand business, we decided to discontinue sourcing for Seven7. Total sales to Seven Licensing in the year ended December 31, 2003, 2004 and 2005 were \$8.1 million, \$2.6 million and \$0, respectively.

At December 31, 2005, Messrs. Guez and Kay beneficially owned 590,000 and 1,003,500 shares, respectively, of common stock of Tag-It Pacific, Inc. ("Tag-It"), collectively representing 8.7% of Tag-It Pacific's common stock at December 31, 2005. Tag-It is a provider of brand identity programs to manufacturers and retailers of apparel and accessories. Tag-It assumed the responsibility for managing and sourcing all trim and packaging used in connection with products manufactured by or on our behalf in Mexico. We believe that the terms of this arrangement, which is subject to the acceptance of our customers, are no less favorable to us than could be obtained from unaffiliated third parties. Due to the restructuring of our Mexico operations, Tag-It no longer manages our trim and packaging requirements. We purchased \$16.8 million, \$1.0 million and \$450,000 of trim from Tag-It during the years ended December 31, 2003, 2004 and 2005. We sold to Tag-It \$1.5 million from our trim and fabric inventory for the year ended December 31, 2003. In the past, we guaranteed the indebtedness of Tag-It for the purchase of trim on our behalf. See Note 8 of the "Notes to Consolidated Financial Statements."

We believe that each of the transactions described above has been entered into on terms no less favorable to us than could have been obtained from unaffiliated third parties. We have adopted a policy that any transactions between us and any of our affiliates or related parties, including our executive officers, directors, the family members of those individuals and any of their affiliates, must (i) be approved by a majority of the members of the Board of Directors and by a majority of the disinterested members of the Board of Directors and (ii) be on terms no less favorable to us than could be obtained from unaffiliated third parties.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

FOREIGN CURRENCY RISK. Our earnings are affected by fluctuations in the value of the U.S. dollar as compared to foreign currencies as a result of doing business in Mexico as well as certain debt denominated in Euro. As a result, we bear the risk of exchange rate gains and losses that may result in the future as a result of this financing. At times we use forward exchange contracts to reduce the effect of fluctuations of foreign currencies on purchases and commitments. These short-term assets and commitments are principally related to trade payables positions and fixed asset purchase obligations. We do not utilize derivative financial instruments for trading or other speculative purposes. We actively evaluate the creditworthiness of the financial institutions that are

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counter parties to derivative financial instruments, and we do not expect any counter parties to fail to meet their obligations.

INTEREST RATE RISK. Because our obligations under our various credit agreements bear interest at floating rates (primarily prime rates), we are sensitive to changes in prevailing interest rates. Any major increase or decrease in market interest rates that affect our financial instruments would have a material impact on earning or cash flows during the next fiscal year. As of December 31, 2005, we had \$7.1 million of fixed-rate borrowings and \$49.1 million of variable-rate borrowings outstanding. A one percentage point increase in interest rates would result in an annualized increase to interest expense of approximately \$0.5 million on our variable-rate borrowings.

Our interest expense is sensitive to changes in the general level of U.S. interest rates. In this regard, changes in U.S. interest rates affect interest paid on our debt. A majority of our credit facilities are at variable rates.

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF CONTROLS AND PROCEDURES

Members of the company's management, including our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures, as defined by paragraph (e) of Exchange Act Rules 13a-15 or 15d-15, as of December 31, 2005, the end of the period covered by this report. Members of the Company's management, including our Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the further quarter of 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

CHANGES IN CONTROLS AND PROCEDURES

During the fourth quarter of 2005, there were no changes in our internal control over financial accounting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Schedule. Reference is made to the Index to Financial Statements and Schedule on page F-1 for a list of financial statements and the financial statement schedule filed as part of this report. All other schedules are omitted because they are not applicable or the required information is shown in the Company's financial statements or the related notes thereto.

(b) Exhibits. See the Exhibit Index attached to this Form 10-K annual report.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TARRANT APPAREL GROUP

By: /S/ GERARD GUEZ

Gerard Guez
Chairman of the Board

POWER OF ATTORNEY

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/S/ GERARD GUEZ ----- Gerard Guez	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	January 31, 2007
* ----- Todd Kay	Vice Chairman of the Board of Directors	January 31, 2007
/S/ CORAZON REYES ----- Corazon Reyes	Chief Financial Officer, Treasurer and Director (Principal Financial and Accounting Officer)	January 31, 2007
* ----- Milton Koffman	Director	January 31, 2007
* ----- Stephane Farouze	Director	January 31, 2007
* ----- Mitchell Simbal	Director	January 31, 2007
* ----- Joseph Mizrachi	Director	January 31, 2007
* ----- Simon Mani	Director	January 31, 2007

* By: /S/ CORAZON REYES

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Corazon Reyes, As Attorney-In-Fact

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TARRANT APPAREL GROUP

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION

3.1	Restated Articles of Incorporation. (1)
3.1.1	Certificate of Amendment of Restated Articles of Incorporation. (7)
3.1.2	Certificate of Amendment of Restated Articles of Incorporation. (7)
3.1.3	Certificate of Amendment of Restated Articles of Incorporation. (14)
3.2	Restated Bylaws. (1)
4.1	Specimen of Common Stock Certificate. (2)
4.2	Rights Agreement dated as of November 21, 2003, between Tarrant Apparel Group and Computershare Trust Company, as Rights Agent, including the Form of Rights Certificate and the Summary of Rights to Purchase Preferred Stock, attached thereto as Exhibits B and C, respectively. (13)
4.3	Certificate of Determination of Preferences, Rights and Limitations of Series B Preferred Stock. (15)
4.4	Form of 6% Secured Convertible Debenture. (22)
10.1	Tarrant Apparel Group Employee Incentive Plan.* (19)
10.2	Services Agreement dated as of October 1, 1994, by and between the Company and Lynx International Limited. (1)
10.3	Indemnification Agreement dated as of March 14, 1995, by and among Tarrant Apparel Group, Gerard Guez and Todd Kay. (2)
10.4	Employment Agreement effective January 1, 1998, by and between Tarrant Apparel Group and Gerard Guez.* (4)
10.4.1	First amendment to Employment Agreement dated as of January 10, 2000 by and between Gerard Guez and Tarrant Apparel Group.* (6)
10.4.2	Second Amendment to Employment Agreement dated April 1, 2003 between Tarrant Apparel Group and Gerard Guez.* (10)
10.4.3	Third Amendment to Employment Agreement, effective as of April 1, 2004, between Tarrant Apparel Group and Gerard Guez.* (20)
10.5	Employment Agreement effective January 1, 1998, by and between Tarrant Apparel Group and Todd Kay.* (4)

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- 10.5.1 First Amendment to Employment Agreement dated as of January 10, 2000 by and between Todd Kay and Tarrant Apparel Group.* (6)
- 10.5.2 Second Amendment to Employment Agreement dated April 1, 2003 between Tarrant Apparel Group and Todd Kay.* (10)

EX-1

EXHIBIT

NUMBER	DESCRIPTION
10.5.3	Third Amendment to Employment Agreement, effective as of April 1, 2004, between Tarrant Apparel Group and Todd Kay.* (20)
10.6	Buying Agency Agreement executed as of April 4, 1995, by Azteca Production International, Inc. and Tarrant Company Ltd., with Tarrant Apparel Group acknowledging as to certain matters. (2)
10.7	Form of Indemnification Agreement with directors and certain executive officers. (3)
10.8	Factoring Agreement dated as of September 29, 2004 by and among GMAC Commercial Finance LLC and Tarrant Apparel Group, Fashion Resource (TCL), Inc., TAG Mex, Inc., United Apparel Ventures, LLC, Private Brands, Inc. and NO! Jeans, Inc. (20)
10.8.1	First Amendment Factoring Agreement dated as of May 9, 2005 by and among GMAC Commercial Finance LLC and Tarrant Apparel Group, Fashion Resource (TCL), Inc., TAG Mex, Inc., United Apparel Ventures, LLC, Private Brands, Inc. and NO! Jeans, Inc. (25)
10.8.2	Inventory Security Agreement by and among GMAC Commercial Finance LLC and Tarrant Apparel Group, Fashion Resource (TCL), Inc., TAG Mex, Inc., United Apparel Ventures, LLC, Private Brands, Inc. and NO! Jeans, Inc. (25)
10.9	Promissory note dated February 28, 2001 in the amount of US \$4,119,545.06 to pay to the order of Standard Chartered Bank (5)
10.10	Amended and Restated Limited Liability Company Operating Agreement of United Apparel Ventures, dated as of October 1, 2002, between Azteca Production International, Inc. and Tag Mex, Inc. (9)
10.11	Guaranty Agreement dated as of May 30, 2002 by and between UPS Capital Global Trade Finance Corporation and Tarrant Apparel Group and Fashion Resource (TCL), Inc. (7)
10.11.1	Conditional Consent Agreement dated December 31, 2002, between UPS Capital Global Trade Finance Corporation and Fashion Resource (TCL), Inc. (8)
10.12	Guaranty Agreement dated as of May 30, 2002 by and between UPS Capital Global Trade Finance Corporation and Gerard Guez. (7)
10.13	Syndicated Letter of Credit Facility dated June 13, 2002 by and between Tarrant Company Limited, Marble Limited and Trade Link Holdings Limited as Borrowers and UPS Capital Global Trade Finance Corporation as Agent and Issuer and Certain Banks and Financial Institutions as Banks. (7)

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- 10.13.1 Charge Over Shares dated June 13, 2002 by Fashion Resource (TCL), Inc. in favor of UPS Capital Global Trade Finance Corporation. (7)
- 10.13.2 Syndicated Composite Guarantee and Debenture dated June 13, 2002 between Tarrant Company Limited, Marble Limited and Trade link Holdings Limited and UPS Capital Global Trade Finance Corporation. (7)
- 10.13.3 Charge Over Shares dated February 26, 2003, between Machrima Luxembourg International Sarl and UPS Global Trade Finance Corporation. (9)
- 10.13.4 Fourth Deed of Variation to Syndicated Letter of Credit Facility dated June 18, 2003 among Tarrant Company Limited, Marble Limited and Trade Link Holdings Limited and UPS Capital Global Trade Finance Corporation. (10)

EX-2

EXHIBIT
NUMBER

DESCRIPTION

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- 10.13.5 Letter Agreement dated September 1, 2003, among Tarrant Company Limited, Marble Limited, Trade Link Holdings Limited and UPS Capital Global Trade Finance Corporation. (12)
 - 10.13.6 Fifth Deed of Variation to Syndicated Letter of Credit Facility dated December 23, 2003 among Tarrant Company Limited, Marble Limited and Trade Link Holdings Limited and UPS Capital Global Trade Finance Corporation. (17)
 - 10.13.7 Sixth Deed of Variation to Syndicated Letter of Credit Facility dated March 17, 2004 among Tarrant Company Limited, Marble Limited and Trade Link Holdings Limited and UPS Capital Global Trade Finance Corporation. (18)
 - 10.13.8 Seventh Deed of Variation to Syndicated Letter of Credit Facility dated May 5, 2004 among Tarrant Company Limited, Marble Limited and Trade Link Holdings Limited and UPS Capital Global Trade Finance Corporation. (19)
 - 10.13.9 Eighth Deed of Variation to Syndicated Letter of Credit Facility effective as of May 10, 2004 among Tarrant Company Limited, Marble Limited and Trade Link Holdings Limited and UPS Capital Global Trade Finance Corporation. (19)
 - 10.13.10 Ninth Deed of Variation to Syndicated Letter of Credit Facility effective as of September 30, 2004 among Tarrant Company Limited, Marble Limited and Trade Link Holdings Limited and UPS Capital Global Trade Finance Corporation. (20)
 - 10.13.11 Tenth Deed of Variation to Syndicated Letter of Credit Facility effective as of December 31, 2004 among Tarrant Company Limited, Marble Limited and Trade Link Holdings Limited and UPS Capital Global Trade Finance Corporation. (23)
 - 10.13.12 Loan Agreement dated December 31, 2004 by and among Tarrant Company Limited, Marble Limited and Trade Link Holdings Limited and UPS Capital Global Trade Finance Corporation. (23)

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- 10.13.13 Amendment Agreement to Syndicated Composite Guarantee and Debenture dated December 31, 2004, by and among Tarrant Company Limited, Marble Limited and Trade Link Holdings Limited and UPS Capital Global Trade Finance Corporation. (23)
- 10.13.14 Guaranty and Security Agreement dated December 31, 2004 by and among Tarrant Apparel Group, Fashion Resource (TCL), Inc. and UPS Capital Global Trade Finance Corporation. (23)
- 10.13.15 Guaranty and Security Agreement dated December 31, 2004 by and between Tarrant Luxembourg Sarl and UPS Capital Global Trade Finance Corporation. (23)
- 10.13.16 Amendment Agreement to Charge Over Shares dated December 31, 2004 by and between Tarrant Luxembourg Sarl and UPS Capital Global Trade Finance Corporation. (23)
- 10.13.17 Eleventh Deed of Variation to Syndicated Letter of Credit Facility among Tarrant Company Limited, Marble Limited and Trade Link Holdings Limited and UPS Capital Global Trade Finance Corporation. (25)
- 10.13.18 Twelfth Deed of Variation to Syndicated Letter of Credit Facility effective as of June 27, 2005 among Tarrant Company Limited, Marble Limited and Trade Link Holdings Limited and UPS Capital Global Trade Finance Corporation. (25)
- 10.13.19 First Deed of Variation to Loan Agreement effective as of June 27, 2005 among Tarrant Company Limited, Marble Limited and Trade Link Holdings Limited and UPS Capital Global Trade Finance Corporation. (25)

EX-3

EXHIBIT

NUMBER DESCRIPTION

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- 10.13.20 Second Deed of Variation to Loan Agreement effective as of July 29, 2005 among Tarrant Company Limited, Marble Limited and Trade Link Holdings Limited and UPS Capital Global Trade Finance Corporation. (26)
 - 10.13.21 Thirteenth Deed of Variation to Syndicated Letter of Credit Facility effective as of July 29, 2005 among Tarrant Company Limited, Marble Limited and Trade Link Holdings Limited and UPS Capital Global Trade Finance Corporation. (26)
 - 10.13.22 Fourteenth Deed of Variation to Syndicated Letter of Credit Facility effective as of August 31, 2005 among Tarrant Company Limited, Marble Limited and Trade Link Holdings Limited and UPS Capital Global Trade Finance Corporation. (26)
 - 10.13.23 Fifteenth Deed of Variation to Syndicated Letter of Credit Facility effective as of October 31, 2005 among Tarrant Company Limited, Marble Limited and Trade Link Holdings Limited and UPS Capital Global Trade Finance Corporation. (27)
 - 10.14 Assignment of Promissory Note by Tarrant Apparel Group to Tarrant Company Limited and to Trade Link Holdings Company dated December 26, 2001. (7)

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- 10.15 Exclusive Distribution Agreement dated April 1, 2003, between Federated Merchandising Group, an unincorporated division of Federated Department Stores, and Private Brands, Inc. (9)
- 10.15.1 Amendment No. 1 to Exclusive Distribution Agreement dated as of June 22, 2004, between Federated Merchandising Group, an unincorporated division of Federated Department Stores, and Private Brands, Inc. (19)
- 10.15.2 Amendment No. 2 to Exclusive Distribution Agreement dated as of March 7, 2005, between Macy's Merchandising Group, LLC and Private Brands, Inc. (24)
- 10.15.3 Trademark Sublicense Agreement dated as of March 3, 2005, between Macy's Merchandising Group, LLC and Private Brands, Inc. (24)
- 10.16 Unconditional Guaranty of Performance dated April 1, 2003, by Tarrant Apparel Group. (9)
- 10.17 Promissory Note dated May 31, 2003 made by Gerard Guez in favor of Tarrant Apparel Group. (10)
- 10.18 Indemnification Agreement dated April 10, 2003 between Tarrant Apparel Group and Seven Licensing Company, LLC. (10)
- 10.19 Registration Rights Agreement dated October 17, 2003, by and among Tarrant Apparel Group and Sanders Morris Harris Inc. as agent and attorney-in-fact for the Purchasers identified therein. (11)
- 10.20 Common Stock Purchase Warrant dated October 17, 2003, by and between Tarrant Apparel Group and Sanders Morris Harris Inc. (11)
- 10.21 Employment Agreement, effective as of September 1, 2003, between the Company and Barry Aved. (12)
- 10.22 Employment Agreement, dated September 16, 2005, between Tarrant Company Limited and Henry Chu. (26)
- 10.23 Common Stock Purchase Warrant dated January 26, 2004 between Tarrant Apparel Group and Sanders Morris Harris Inc. (16)
- 10.24 Agreement for Purchase of Assets dated August 13, 2004 among Tarrant Mexico S. de R.L. de C.V., Acabados Y Cortes Textiles S.A. de C.V. and Construcciones Solticio S.A. de C.V. (20)

EX-4

EXHIBIT NUMBER	DESCRIPTION
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10.24.1	Amendment No. 1 to Agreement for Purchase of Assets dated October 29, 2004 among Tarrant Mexico S. de R.L. de C.V., Acabados Y Cortes Textiles S.A. de C.V. and Construcciones Solticio S.A. de C.V. (20)
10.25	Termination Agreement dated August 13, 2004 among Tarrant Mexico, S. de R.L. de C.V., Inmobiliaria Cuadros, S.A., de C.V. and Acabados y Cortes Textiles S.A. de C.V. (20)

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- 10.26 Securities Purchase Agreement dated December 6, 2004, by and between Tarrant Apparel Group and the investors listed on the signature pages thereto. (21)
- 10.27 Registration Rights Agreement dated December 14, 2004, by and among Tarrant Apparel Group and the investors listed on the signature pages thereto. (22)
- 10.28 Security Agreement dated December 14, 2004, by and among Tarrant Apparel Group and the investors listed on the signature pages thereto. (22)
- 10.29 Intercreditor Agreement dated December 14, 2004 by and among Tarrant Apparel Group, GMAC Commercial Finance, LLC, UPS Capital Global Trade Finance Corporation and T.R. Winston & Company, LLC. (22)
- 10.30 Common Stock Purchase Warrant dated December 14, 2004 issued by Tarrant Apparel Group in favor of T.R. Winston & Company, LLC. (22)
- 10.31 Form of Common Stock Purchase Warrant. (22)
- 10.32 Promissory Note in the principal amount of \$5,000,000 dated as of February 15, 2005, issued by Tarrant Apparel Group in favor of Max Azria. (24)
- 10.33 Tenancy Agreement, dated July 1, 2005, between Tarrant Company Limited and Lynx International Limited. (26)
- 14.1 Code of Ethical Conduct. (17)
- 21.1 Subsidiaries. (27)
- 23.1 Consent of Singer Lewak Greenbaum & Goldstein LLP. (27)
- 23.2 Consent of Grant Thornton LLP. (27)
- 31.1 Certificate of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as amended.
- 31.2 Certificate of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934, as amended.
- 32.1 Certificate of Chief Executive Officer pursuant to Rule 13a-14(b) under the Securities and Exchange Act of 1934, as amended.
- 32.2 Certificate of Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities and Exchange Act of 1934, as amended.

* Management contract or compensatory plan or arrangement.

- (1) Filed as an exhibit to the Company's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on May 4, 1995 (File No. 33-91874).
- (2) Filed as an exhibit to Amendment No. 1 to Registration Statement on Form S-1 filed with the Securities and Exchange Commission on July 15, 1995.
- (3) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.

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- (4) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
- (5) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ending December 31, 2000.
- (6) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ending March 31, 2001.
- (7) Filed as an exhibit to the Company's Quarterly Report on Form 10Q for the quarter ending June 30, 2002.
- (8) Filed as an exhibit to the Company's Annual Report on Form 10K for the year ending December 31, 2002.
- (9) Filed as an exhibit to the Company's Quarterly Report on Form 10Q for the quarter ending March 31, 2003.
- (10) Filed as an exhibit to the Company's Quarterly Report on Form 10Q for the quarter ending June 30, 2003.
- (11) Filed as an exhibit to the Company's Current Report on Form 8-K dated October 16, 2003.
- (12) Filed as an exhibit to the Company's Quarterly Report on Form 10Q for the quarter ending September 30, 2003.
- (13) Filed as an exhibit to the Company's Current Report on Form 8-K dated November 12, 2003.
- (14) Filed as an exhibit to the Company's Current Report on Form 8-K dated December 4, 2003.
- (15) Filed as an exhibit to the Company's Amendment to Current Report on Form 8-K/A, filed December 12, 2003.
- (16) Filed as an exhibit to the Company's Current Report on Form 8-K dated January 23, 2004.
- (17) Filed as an exhibit to the Company's Annual Report on Form 10-K for year ending December 31, 2003.
- (18) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ending March 31, 2004.
- (19) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ending June 30, 2004.
- (20) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 2004.
- (21) Filed as an exhibit to the Company's Current Report on Form 8-K dated December 6, 2004.
- (22) Filed as an exhibit to the Company's Current Report on Form 8-K dated December 14, 2004.

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- (23) Filed as an exhibit to the Company's Annual Report on Form 10-K for the year ending December 31, 2004.
- (24) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ending March 31, 2005.
- (25) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ending June 30, 2005.
- (26) Filed as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ending September 30, 2005.
- (27) Previously filed on Form 10-K for the year ended December 31, 2005.

EX-6