

AMERICAN APPAREL, INC
Form DEF 14A
May 20, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

American Apparel, Inc.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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May 20, 2011

Dear Fellow Stockholder:

We are pleased to invite you to the 2011 Annual Meeting of Stockholders of American Apparel, Inc., to be held on June 21, 2011, at 2:00 p.m., Pacific Time, at the headquarters of American Apparel, Inc. at 747 Warehouse Street, Los Angeles, California 90021.

The matters to be considered and voted upon at the Annual Meeting are described in the Notice of Annual Meeting of Stockholders and the Proxy Statement that accompany this letter.

This year we are mailing full sets of proxy materials to our stockholders. In the future, we expect to take advantage of the Securities and Exchange Commission rule allowing companies to furnish proxy materials to their stockholders via the Internet.

It is very important that your shares be represented and voted at the Annual Meeting. Please read the attached Proxy Statement and vote your shares as soon as possible by using the telephone or Internet voting systems, or by completing, signing and dating the proxy card and returning it promptly.

Thank you for your continued support of American Apparel.

Sincerely,

/s/ Dov Charney

Dov Charney
Chairman of the Board

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AMERICAN APPAREL, INC.

747 Warehouse Street

Los Angeles, California 90021

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To be held on June 21, 2011

Time and Date:

2:00 p.m., Pacific Time, on Tuesday, June 21, 2011

Place:

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

Items of Business:

1. To elect Robert Greene and Allan Mayer to the Board of Directors, each to serve for a term of three years and until his successor is duly elected and qualified, or such director's earlier death, resignation or removal.
2. To ratify the appointment of Marcum LLP as our independent auditors for the fiscal year ending December 31, 2011.
3. To approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of our common stock that we may issue.
4. To conduct an advisory vote on executive compensation.
5. To conduct an advisory vote on the frequency of holding future advisory votes on executive compensation.
6. To approve (i) the reduction of the exercise price of the existing warrants issued to an affiliate of Lion Capital LLP, (ii) the issuance of one or more additional warrants to an affiliate of Lion Capital LLP and (iii) the reduction of the exercise price of any such additional warrants, in each case as contemplated by our credit agreement with Lion Capital

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LLP and as such exercise price may be further adjusted pursuant to the warrants and such credit agreement, and the issuance of shares of our common stock upon exercise of the warrants.

7. To approve the American Apparel, Inc. 2011 Omnibus Stock Incentive Plan.

8. To approve the potential issuance to certain investors of up to 27,443,173 shares of our common stock upon the exercise of purchase rights under that certain Purchase and Investment Agreement, dated as of April 21, 2011, by and among American Apparel, Inc. and the investors signatory thereto, and such additional shares as may be issued pursuant to topping-up and anti-dilution adjustments under that agreement.

9. To approve the potential issuance to Dov Charney of up to 40,313,316 shares of our common stock pursuant to that certain Purchase Agreement, dated as of April 27, 2011, by and between American Apparel, Inc. and Dov Charney, and such additional shares as may be issued pursuant to topping-up and anti-dilution adjustments under that agreement.

10. To consider and transact such other business as may properly come before the Annual Meeting.

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Board of Directors Recommendation: A majority of the Board of Directors recommends that you vote **FOR** the election of each nominee for the Board of Directors, **FOR** Items 2, 3, 4, 6, 7, 8 and 9 and, with respect to Item 5, for the option of **once every three years** as the preferred frequency for advisory votes on executive compensation.

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

Record Date: You are entitled to notice of and to vote at the Annual Meeting and any adjournment or postponement thereof only if you were a holder of record of shares of American Apparel, Inc. common stock as of the close of business on the Record Date. If your shares are held in an account at a brokerage firm, bank or similar organization, that organization is considered the record holder for purposes of voting at the Annual Meeting and will provide you with instructions on how you can direct that organization to vote your shares.

Voting: Your vote is very important. Whether or not you plan to attend the Annual Meeting, we encourage you to read the accompanying Proxy Statement and our 2010 Annual Report on Form 10-K, as amended, and vote as soon as possible. You may submit your proxy for the Annual Meeting by using the telephone or Internet voting system or by completing, signing, dating and returning your proxy card. You also may vote by attending the Annual Meeting in person. For specific instructions on how to vote your shares, please refer to the section entitled **Questions and Answers about the Proxy Materials and Annual Meeting** beginning on page 1 of the accompanying Proxy Statement.

Admission: Space limitations make it necessary to limit attendance at the Annual Meeting to stockholders and one guest. If your shares are held in an account at a brokerage firm, bank or similar organization and you wish to attend the Annual Meeting, you must obtain a letter from that brokerage firm, bank or similar organization confirming your beneficial ownership of the shares as of the record date and bring it to the Annual Meeting. Admission to the Annual Meeting will be on a first-come, first-served basis. Cameras and recording devices will not be permitted at the Annual Meeting.

The Annual Meeting will begin promptly at 2:00 p.m., Pacific Time.

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

Sincerely,

/s/ Glenn A. Weinman
Glenn A. Weinman
Senior Vice President, General Counsel and Secretary

Los Angeles, California

May 20, 2011

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDERS MEETING TO BE HELD ON JUNE 21, 2011: The Proxy Statement and Annual Report to stockholders will be available at <http://www.cstproxy.com/americanapparel/2011>.

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AMERICAN APPAREL, INC.

747 Warehouse Street

Los Angeles, California 90021

PROXY STATEMENT

FOR 2011 ANNUAL MEETING OF STOCKHOLDERS

To be held on June 21, 2011

QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND ANNUAL MEETING

Q: Why am I receiving these materials?

A: This proxy statement (this Proxy Statement), together with our Annual Report on Form 10-K for the year ended December 31, 2010, as amended (our Annual Report), is being mailed to stockholders commencing on or about May 20, 2011 in connection with the solicitation by the Board of Directors (the Board of Directors or the Board) of American Apparel, Inc. (the Company or American Apparel) of proxies for use at the 2011 Annual Meeting of Stockholders and any adjournments or postponements thereof (the Annual Meeting) to be held at the Company's headquarters located at 747 Warehouse Street, Los Angeles, California 90021, on Tuesday, June 21, 2011, at 2:00 p.m., Pacific Time, for the purposes set forth in this Proxy Statement and in the accompanying Notice of Annual Meeting of Stockholders.

Q: I share an address with another stockholder, and we received only one copy of the Proxy Statement. How may I obtain a separate copy of the Proxy Statement?

A: The Company has adopted a procedure called householding, which the SEC has approved. Under this procedure, the Company may deliver a single copy of the Proxy Statement and our Annual Report to stockholders who share the same address unless the Company has received contrary instructions from one or more of the stockholders. This procedure reduces the Company's printing costs, mailing costs and fees. If you would like to receive a separate copy of the Proxy Statement and our Annual Report, please submit your request to:
American Apparel, Inc.

Attn: Investor Relations

747 Warehouse Street

Los Angeles, California 90021

(213) 488-0226

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Similarly, if you share an address with another stockholder and received multiple copies of the Proxy Statement and our Annual Report, you may write or call us at the above address and phone number to make arrangements to receive a single copy of the Proxy Statement and our Annual Report at the shared address in the future.

In addition, if you share the same address with another stockholder and request a printed copy of the Proxy Statement and our Annual Report, you may write or call us at the above address to request that a separate copy of the Proxy Statement and our Annual Report be delivered to each stockholder at the shared address.

Stockholders who hold shares in an account at a brokerage firm, bank or similar organization may contact their brokerage firm, bank or other similar organization to request information about householding.

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

A: If your shares are registered differently and are in more than one account, you may receive more than one proxy card. Please follow the voting instructions on the proxy cards or voting instruction forms, as

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applicable, and vote all proxy cards or voting instruction forms you receive, as applicable, to ensure that all of your shares are voted. We encourage you to have all accounts registered in the same name and address whenever possible. You can accomplish this by contacting our transfer agent at:

Continental Stock Transfer & Trust Company

17 Battery Place

New York, NY 10004

(212) 509-4000, extension 241

continentalstock.com

proxy@continentalstock.com

Q: How can I get electronic access to the 2011 Annual Meeting materials?

A: This Proxy Statement and our Annual Report are also available without charge on the Company's website at investors.americanapparel.net and the SEC's website at sec.gov. By referring to our website, we do not incorporate the website or any portion of the website by reference into this Proxy Statement.

Q: How can I receive my proxy materials electronically in the future?

A: The proxy card or voting instruction form contains instructions on how you can elect to receive future proxy materials electronically by e-mail. Choosing to receive future proxy materials by e-mail will save the Company the cost of printing and mailing documents to you and will reduce the impact of the Company's annual meetings on the environment. If you choose to receive future proxy materials by e-mail, you will receive an e-mail message next year with instructions containing a link to those materials and a link to the proxy voting website. Your election to receive proxy materials by e-mail will remain in effect until you terminate it.

Q: What items will be voted on at the Annual Meeting?

- A: (1) The election of each of Messrs. Robert Greene and Allan Mayer to the Board of Directors, each to serve for a term of three years and until his successor is duly elected and qualified, or such director's earlier death, resignation or removal. This proposal is referred to as Proposal 1.
- (2) The ratification of the appointment of Marcum LLP as our independent auditors for the fiscal year ending December 31, 2011. This proposal is referred to as Proposal 2.
- (3) The approval of an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of the Company's common stock (Common Stock) that we may issue. This proposal is referred to as Proposal 3.
- (4) An advisory vote on executive compensation. This proposal is referred to as Proposal 4.
- (5) An advisory vote on the frequency of holding future advisory votes on executive compensation. This proposal is referred to as Proposal 5.
- (6) The approval of (i) the reduction of the exercise price of the existing warrants issued to an affiliate of Lion Capital LLP, (ii) the issuance of one or more additional warrants to an affiliate of Lion Capital LLP and (iii) reduction of the exercise price of any such additional warrants, in each case as contemplated by our credit agreement with Lion Capital LLP and as such exercise price may be further adjusted pursuant to the

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warrants and such credit agreement, and the issuance of shares of Common Stock upon exercise of the warrants. This proposal is referred to as Proposal 6.

(7) The approval of the American Apparel, Inc. 2011 Omnibus Stock Incentive Plan. This proposal is referred to as Proposal 7.

(8) The approval of the potential issuance to certain investors of up to 27,443,173 shares of Common Stock upon the exercise of purchase rights under that certain Purchase and Investment Agreement, dated as of

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April 21, 2011, by and among the Company and the investors signatory thereto (the Investor Purchase Agreement), and such additional shares as may be issued pursuant to topping-up and anti-dilution adjustments under the Investor Purchase Agreement. This proposal is referred to as Proposal 8.

(9) The approval of the potential issuance to Dov Charney of up to 40,313,316 shares of Common Stock pursuant to that certain Purchase Agreement, dated as of April 27, 2011, by and between the Company and Dov Charney (the Charney Purchase Agreement), and such additional shares as may be issued pursuant to topping-up and anti-dilution adjustments under the Charney Purchase Agreement. This proposal is referred to as Proposal 9.

(10) Such other business as may properly come before the Annual Meeting.

The stockholders of the Company have no dissenters or appraisal rights in connection with any of the proposals to be voted on at the Annual Meeting.

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

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

A majority of the Board recommends a vote FOR the ratification of Marcum LLP as our independent auditors for the year ending December 31, 2011.

A majority of the Board recommends a vote FOR the amendment to our Amended and Restated Certificate of Incorporation to increase the number of shares of Common Stock that we may issue.

A majority of the Board recommends a vote FOR the approval, on an advisory basis, of executive compensation.

A majority of the Board recommends a vote for the frequency of holding future advisory votes or executive compensation once every three years.

A majority of the Board recommends a vote FOR the approval of the reduction of the exercise price of the existing warrant issued to an affiliate of Lion Capital LLP and the issuance of one or more additional warrants to an affiliate of Lion Capital LLP and the reduction of the exercise price of any such additional warrants, in each case as contemplated by our credit agreement with Lion Capital LLP and as such exercise price may be further adjusted pursuant to the warrants, and the issuance of shares of Common Stock upon exercise of the warrants.

A majority of the Board recommends a vote FOR the approval of the American Apparel, Inc. 2011 Omnibus Stock Incentive Plan.

A majority of the Board recommends a vote FOR the approval of the potential issuance to certain investors of up to 27,443,173 shares of Common Stock upon the exercise of purchase rights under the Investor Purchase Agreement, and such additional shares as may be issued pursuant to topping-up and anti-dilution adjustments under the Investor Purchase Agreement.

A majority of the Board recommends a vote FOR the approval of the potential issuance to Dov Charney of up to 40,313,316 shares of Common Stock pursuant to the Charney Purchase Agreement, and such additional shares as may be issued pursuant to topping-up and anti-dilution adjustments under the Charney Purchase Agreement.

Q: If the Company's stockholders approve Proposals 8 and 9, what is the potential dilution to the Company's public stockholders?

A:

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Assuming (i) issuance in full of the approximately 27.4 million shares of Common Stock certain investors have a right to purchase under the Investor Purchase Agreement (as described in Proposal 8), (ii) issuance in

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full of the approximately 42.4 million shares of Common Stock issuable to Mr. Charney or that Mr. Charney has a right to purchase or receive under the Charney Purchase Agreement (as described in Proposal 9) and the March Purchase Agreement (as defined below), (iii) exercise in full of new warrants issued to Lion/Hollywood L.L.C. as a result of such issuances to the investors and Mr. Charney described above, (iv) exercise in full of Lion/Hollywood L.L.C.'s and SOF Investments, L.P. Private IV's existing warrants to purchase a total of 20.9 million shares of Common Stock, (v) exercise in full by management of currently outstanding options to purchase, and full vesting of restricted stock awards with respect to, a total of 2,550,000 shares of Common Stock and (vi) no other issuances of Common Stock or securities convertible, exercisable or exchangeable for Common Stock, the percentage ownership of stockholders (other than Mr. Charney, the investors and holders of outstanding warrants described in Proposals 8 and 9 and not including management options in such percentage) would be reduced from 38.4% as of the closing of the issuance of shares to such investors on April 26, 2011 (or 45.7% as of the Record Date prior to giving effect to such closing) to 18.4%. See the table in Proposal 9 for more information regarding potential dilution to the Company's public stockholders. To the extent that additional shares of Common Stock or securities convertible, exercisable or exchangeable for Common Stock are issued (including pursuant to a New Issuance (as defined in Proposal 8) and related topping-up and anti-dilution adjustments under the Investor Purchase Agreement, the Charney Purchase Agreement, Lion/Hollywood L.L.C.'s warrants and the credit agreement with Lion Capital LLP), the Company's public stockholders would experience further dilution. The Company is not currently contemplating any New Issuances, however, as previously disclosed, the Company is in the process of seeking additional financing, to the extent available, and may enter into new financings as opportunities arise and as the Company deems advisable, and any such financing may include such a New Issuance.

Q: What is the difference between the closing price of the Common Stock as of the trading day immediately preceding the respective dates of the Investor Purchase Agreement and the Charney Purchase Agreement described in Proposals 8 and 9 and the sales price of the Common Stock under such agreements?

A: The sales prices under both the Investor Purchase Agreement and the Charney Purchase Agreement were \$0.90 per share. As of the trading day immediately preceding the respective dates of the Investor Purchase Agreement and the Charney Purchase Agreement, the closing price of the Common Stock was \$1.21 per share and \$1.58 per share, respectively, and, as a result, the respective sales prices under the Investor Purchase Agreement and the Charney Purchase Agreement were at a discount to the then current market price of approximately 25.6% and 43.0%, respectively.

Q: Who is entitled to vote?

A: Only holders of record of Common Stock as of the close of business on April 25, 2011 (the Record Date) are entitled to vote at the Annual Meeting.

If your shares are held in an account at a brokerage firm, bank or similar organization, that organization is considered the record holder for purposes of voting at the Annual Meeting and will provide you with instructions on how to direct that organization to vote your shares. See "What if my shares are held in an account at a brokerage firm, bank or similar organization?" below.

Q: How many shares can vote?

A: As of the Record Date, 82,771,426 shares of Common Stock, the only outstanding voting securities of the Company, were issued and outstanding. Each record holder of Common Stock is entitled to one vote for each share held.

Q: How do I vote?

A: There are four ways to vote:

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Voting in Person. To vote in person, you must attend the Annual Meeting and follow the procedures for voting announced at the Annual Meeting. If your shares are held in an account at a brokerage firm, bank or similar organization, you must present a signed proxy from that organization in order to be able to vote at the Annual Meeting.

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Voting by Internet. You may vote by proxy over the Internet by following the instructions provided in the proxy card or voting instruction form, as applicable.

Voting by Telephone. You may vote by proxy by calling the toll free number found on the proxy card or voting instruction form, as applicable.

Voting by Mail. You may vote by proxy by mail by following the instructions on the proxy card or voting instruction form, as applicable.

Q: Can I change my vote after I have voted?

A: You may revoke your proxy and change your vote at any time before the final vote at the Annual Meeting by voting again by proxy as described above (only your latest, properly completed proxy submitted, whether by mail, telephone or the Internet, prior to the Annual Meeting will be counted) or by attending the Annual Meeting and voting in person. However, your attendance at the Annual Meeting will not automatically revoke your proxy unless you vote again at the Annual Meeting or specifically request in writing that your prior proxy be revoked by delivering to the Company's Secretary at 747 Warehouse Street, Los Angeles, California 90021 a written notice of revocation prior to the Annual Meeting.

Q: What if my shares are held in an account at a brokerage firm, bank or similar organization?

A: If your shares are held in an account at a brokerage firm, bank or similar organization, then you are the beneficial owner of shares held in street name.

The organization holding your account is considered the record holder for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct that organization on how to vote the shares held in your account, and that organization will provide you with instructions on how to do so. You will receive a voting instruction form from your brokerage firm, bank or similar organization instead of a proxy card, and you should follow the instructions on the voting instruction form.

If you do not provide the organization that holds your shares with specific voting instructions, under the rules of the NYSE Amex LLC (the NYSE Amex) in effect as of the date of this Proxy Statement, that organization generally may vote on routine matters but cannot vote on non-routine matters. Non-routine matters include Proposals 1, 3, 4, 5, 6, 7, 8 and 9. If the organization that holds your shares does not receive instructions from you on how to vote your shares on a non-routine matter, that organization will inform the inspector of elections that it does not have the authority to vote on that matter with respect to your shares. This is generally referred to as a broker non-vote. A broker non-vote will have the effects described under [What is a quorum?](#) and [What is required to approve each proposal?](#) below.

Q: What is a quorum?

A: A quorum is a majority of the outstanding shares entitled to vote, present in person or represented by proxy. Abstentions and broker non-votes will be counted for purposes of determining whether a quorum is present.

Q: What is required to approve each proposal?

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

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

Proposal 2, the ratification of our independent auditors, requires the affirmative "for" vote of a majority of those shares present in person or represented by proxy and entitled to vote on this proposal at the Annual

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

Proposal 3, the approval of an amendment to the Company's Amended and Restated Certificate of Incorporation to increase the number of authorized shares the Company may issue, requires the affirmative for vote of a majority of outstanding shares entitled to vote on this proposal at the Annual Meeting. Any abstentions and broker non-votes with respect to this proposal will count as votes against this proposal.

Proposal 4, the approval, on an advisory basis, of the Company's executive compensation, requires the affirmative for vote of a majority of those shares present in person or represented by proxy and entitled to vote on this proposal at the Annual Meeting. Any abstentions with respect to this proposal will count as votes against this proposal. Any broker non-votes with respect to this proposal will not count as shares entitled to vote on this proposal and therefore will be disregarded for purposes of determining the outcome of the vote on this proposal.

Proposal 5, an advisory vote on whether an advisory vote on the frequency of holding future advisory votes on executive compensation should be held annually, every two years, or every three years, will be voted upon by a plurality of the votes cast. Therefore, the time frame receiving the most votes will be considered the frequency advised by the Stockholders. Any abstentions and broker non-votes with respect to this proposal will not count as votes cast and therefore will be disregarded for the purposes of determining the outcome of this proposal.

Proposal 6, the approval of the reduction of the exercise price of the existing warrant issued to an affiliate of Lion Capital LLP and the issuance of one or more additional warrants to an affiliate of Lion Capital LLP and the reduction of the exercise price of any such additional warrants, in each case as contemplated by our credit agreement with Lion Capital LLP and as such exercise price may be further adjusted pursuant to the warrants and such credit agreement, and the issuance of shares of Common Stock upon exercise of the warrants, requires the affirmative for vote of a majority of those shares present in person or represented by proxy and entitled to vote on this proposal at the Annual Meeting. Any abstentions with respect to this proposal will count as votes against this proposal. Any broker non-votes with respect to this proposal will not count as shares entitled to vote on this proposal and therefore will be disregarded for purposes of determining the outcome of the vote on this proposal.

Proposal 7, the approval of the 2011 Omnibus Stock Incentive Plan, requires the affirmative for vote of a majority of those shares present in person or represented by proxy and entitled to vote on this proposal at the Annual Meeting. Any abstentions with respect to this proposal will count as votes against this proposal. Any broker non-votes with respect to this proposal will not count as shares entitled to vote on this proposal and therefore will be disregarded for purposes of determining the outcome of the vote on this proposal.

Proposal 8, the approval of the potential issuance to certain investors of up to 27,443,173 shares of Common Stock upon the exercise of purchase rights under the Investor Purchase Agreement, requires the affirmative for vote of a majority of those shares present in person or represented by proxy and entitled to vote on this proposal at the Annual Meeting. Any abstentions with respect to this proposal will count as votes against this proposal. Any broker non-votes with respect to this proposal will not count as shares entitled to vote on this proposal and therefore will be disregarded for purposes of determining the outcome of the vote on this proposal.

Proposal 9, the approval of the potential issuance to Dov Charney of up to 40,313,316 shares of Common Stock pursuant to the Charney Purchase Agreement, requires the affirmative for vote of a majority of those shares present in person or represented by proxy and entitled to vote on this proposal at the Annual Meeting. Any abstentions with respect to this proposal will count as votes against this proposal. Any broker non-votes with respect to this proposal will not count as shares entitled to vote on this proposal and therefore will be disregarded for purposes of determining the outcome of the vote on this proposal.

Dov Charney, the beneficial owner of approximately 54.3% of the outstanding shares of Common Stock and voting power of the Company as of the Record Date, has informed the Company that he intends to vote in

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favor of the election of Messrs. Greene and Mayer to the Board of Directors. Mr. Charney's vote is sufficient to elect Messrs. Greene and Mayer without further affirmative votes from the other stockholders. For more information on shares owned by Mr. Charney and other directors and executive officers of the Company, see "Beneficial Ownership of Shares" herein.

In addition, Mr. Charney has informed the Company that he intends to vote in favor of Proposals 1, 2, 3, 4, 6, 7, 8 and 9 and, for the frequency of holding on advisory vote on executive compensation once every three years for Proposal 5, and his vote is sufficient to approve such proposals without further affirmative votes from the other stockholders.

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

A: Although we do not know of any business to be considered at the Annual Meeting other than the proposals described in this Proxy Statement, if any other business is presented at the Annual Meeting, your signed proxy or your authenticated Internet or telephone proxy, will give authority to each of Dov Charney, our Chairman and Chief Executive Officer, Thomas M. Casey, our Acting President, John J. Luttrell, our Executive Vice President and Chief Financial Officer, and Glenn A. Weinman, our Senior Vice President, General Counsel and Secretary, to vote on such matters at his discretion.

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

A: You may submit proposals, including director nominations, for consideration at future stockholder meetings as follows:
Stockholder Proposals: For a stockholder proposal to be considered for inclusion in the Company's proxy statement for the 2012 Annual Meeting of Stockholders, the written proposal must be delivered to or mailed and received by the Secretary of the Company at our principal executive offices no later than January 21, 2012. If the date of the 2012 Annual Meeting of Stockholders is moved more than 30 days before or after the anniversary date of the Annual Meeting, the deadline for inclusion of proposals in our proxy statement instead will be a reasonable time before we begin to print and mail our proxy materials. Such proposals also will need to comply with Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), regarding the inclusion of stockholder proposals in company-sponsored proxy materials. Proposals should be addressed to:

American Apparel, Inc.

Attn: Glenn A. Weinman, Secretary

747 Warehouse Street

Los Angeles, California 90021

(213) 488-0226

For a stockholder proposal that is not intended to be included in the Company's proxy statement for the 2012 Annual Meeting of Stockholders under Rule 14a-8 under the Exchange Act, written notice of the proposal, which notice must include the information required by the Company's bylaws (the "Bylaws"), must be received by the Company's Secretary:

Not earlier than the close of business on the 90th day prior to the 2012 Annual Meeting of Stockholders; and

Not later than the close of business on the 60th day prior to the 2012 Annual Meeting of Stockholders.

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If less than 70 days notice or prior public disclosure of the date of the 2012 Annual Meeting of Stockholders is given or made to stockholders, then notice of a stockholder proposal that is not intended to be included in the Company's proxy statement under Rule 14a-8 under the Exchange Act must be received no later than the close of business on the tenth day following the date on which notice of the date of the 2012 Annual

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Meeting of Stockholders is mailed to the stockholders or the date on which public disclosure of the date of the 2012 Annual Meeting of Stockholders is made, whichever is first.

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

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

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

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

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

A: We intend to announce preliminary voting results at the Annual Meeting and will publish final results in our Current Report on Form 8-K within four business days after the Annual Meeting.

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

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

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PROPOSAL 1: ELECTION OF CLASS A DIRECTORS

Pursuant to the Company's Amended and Restated Certificate of Incorporation, the Board of Directors is divided into three classes of directors serving staggered terms (Classes A, B and C). One class of directors is elected at each annual meeting of stockholders for a three-year term, and those directors will hold office until their successors have been duly elected and qualified, or until their earlier death, resignation or removal. The Bylaws authorize a Board of Directors consisting of not less than one or more than nine directors. The Board of Directors currently consists of six members: Messrs. Dov Charney, Robert Greene, Adrian Kowalewski, Allan Mayer, Mark Samson and Mark A. Thornton. We currently have three vacancies on the Board of Directors. See "Directors and Executive Officers" herein.

The terms of Messrs. Greene and Mayer will expire at the Annual Meeting. After careful consideration of the specific experience, qualifications, attributes and skills of each director and director nominee, the Board has nominated Robert Greene and Allan Mayer (the "Class A Nominees") for reelection at the Annual Meeting. Messrs. Greene and Mayer currently meet the criteria to qualify as independent directors according to SEC regulations and NYSE Amex listing standards. As previously announced, Keith Miller resigned from the Board of Directors on May 2, 2011 and the Company has decided not to appoint an additional Class A director at this time.

If elected, each of the Class A Nominees will serve for a term of three years and until his successor is duly elected and qualified at the 2014 Annual Meeting of Stockholders, or such director's earlier death, resignation or removal.

Each of the Class A Nominees has consented to being named in this Proxy Statement and has agreed to serve as a member of the Board of Directors if elected. If any of the Class A Nominees is unable to serve, which is not anticipated, the persons named as proxies intend to vote for such other person or persons as the Board of Directors may designate in accordance with the Investment Agreement and the 2009 Investment Voting Agreement (as defined below). In no event will the shares represented by the proxies be voted for more than two nominees for Class A directors at the Annual Meeting.

The names and certain information concerning each of the Class A Nominee's experience, qualifications, attributes and skills are set forth below, and the names and certain information regarding the continuing directors whose terms expire in 2012 and 2013 are set forth under the heading "Directors and Executive Officers" herein.

Robert Greene became a director of American Apparel upon consummation of the Acquisition (as defined under "Corporate Governance and Board Matters" below) on December 12, 2007. Mr. Greene is a bestselling author known for his books on business strategy. Since 2003, Mr. Greene has worked as a private consultant to several executives in businesses ranging from financial management to artists' agencies and film producers. He has written four books: *The 48 Laws of Power* (1998, over 900,000 copies sold in the U.S., and translated into 21 languages); *The Art of Seduction* (2001); *The 33 Strategies of War* (2006); and *The 50th Law* (2009). He has worked in New York City as an editor and writer for several magazines, including *Esquire*, and in Hollywood as a story developer and writer. He has previously resided in London, England; Paris, France; and Barcelona, Spain; he speaks several languages and has worked as a translator. Mr. Greene attended the University of California, Berkeley and the University of Wisconsin-Madison, where he received a B.A. in classical studies. The Nominating and Corporate Governance Committee and the Board of Directors believes that Mr. Greene's experience as a consultant and his research on business strategy, combined with the leadership skills and experiences of the Company's other Board members, provides the Company with the perspectives and judgment necessary to guide the Company's strategy and monitor execution.

Allan Mayer became a director of American Apparel upon consummation of the Acquisition on December 12, 2007. Since October 2006, he has been a principal partner, member of the management committee, and head of the Strategic Communications Division of 42 West LLC, a leading public relations firm. Previously,

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from 1997 until October 2006, Mr. Mayer was managing director and head of the entertainment practice at the nationally-known crisis communications firm Sitrick and Company. Mr. Mayer began his professional life as a journalist, working as a staff reporter for *The Wall Street Journal*; a writer, foreign correspondent and senior editor for *Newsweek*; and the founding editor (and later publisher) of *Buzz* magazine. He also served as editorial director of Arbor House Publishing Co. and senior editor of Simon & Schuster. Mr. Mayer has authored two books *Madam Prime Minister: Margaret Thatcher and Her Rise to Power* (Newsweek Books, 1980) and *Gaston's War* (Presidio Press, 1987) and is co-author, with Michael S. Sitrick, of *Spin: How To Turn The Power of the Press to Your Advantage* (Regnery, 1998). In addition, he has written for a wide variety of national publications, ranging from *The New York Times Magazine* to *Vogue*. Mr. Mayer is a recipient of numerous professional honors, including the National Magazine Award, the Overseas Press Club Citation of Excellence, and six William Allen White Awards. Mr. Mayer serves on the board of directors of Film Independent and lectures regularly on crisis management and communications at UCLA's Anderson School of Business and USC's Annenberg School of Communication. Mr. Mayer received his B.A. from Cornell University. The Nominating and Corporate Governance Committee and the Board of Directors believes that Mr. Mayer's experience as member of management of a leading public relations firm and in a leadership position as managing director of a nationally known crisis communications firm, combined with the leadership skills and experiences of the Company's other Board members, provides the Company with the perspectives and judgment necessary to guide the Company's strategy and monitor execution.

Vote Required

The Class A Nominees will be elected by a plurality of the votes cast at the Annual Meeting.

Dov Charney, the beneficial owner of approximately 54.3% of the outstanding shares of Common Stock and voting power of the Company as of the Record Date, has informed the Company that he intends to vote in favor of the election of Messrs. Greene and Mayer. Mr. Charney's vote is sufficient to elect Messrs. Greene and Mayer without further affirmative votes from the other stockholders. For more information on shares owned by Mr. Charney and other directors and executive officers of the Company, see "Beneficial Ownership of Shares" herein.

Any broker non-votes and any proxies marked "Withhold" with respect to the election of one or more directors will not count as votes cast with respect to the director or directors indicated and therefore will be disregarded for purposes of determining the outcome of the election of the Class A Nominees.

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

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PROPOSAL 2: RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Audit Committee has selected the firm of Marcum LLP (formerly Marcum & Kleigman LLP, Marcum) to act as the Company's independent auditors for the fiscal year ending December 31, 2011, and recommends that the stockholders vote in favor of such appointment.

Change in Accountants in 2009

Effective April 3, 2009, the Audit Committee of the Board of Directors (the Audit Committee) of the Company appointed Deloitte and Touche LLP (Deloitte) as the Company's independent registered public accounting firm for the year ending December 31, 2009, and dismissed Marcum as the Company's independent registered public accounting firm. On April 6, 2009, Deloitte accepted the engagement as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2009. Except as described below, Marcum did not perform any audit or review services for the Company subsequent to the issuance of its audit report dated March 16, 2009 (which was included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (2008 Annual Report)), with respect to the Company's financial statements for the year ended December 31, 2008. As described below, the change in independent registered public accounting firms was not the result of any disagreement with Marcum. During the years ended December 31, 2008 and December 31, 2007, and during the subsequent interim period from January 1, 2009 through April 3, 2009, the Company had no disagreements with Marcum on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure that, if not resolved to Marcum's satisfaction, would have caused Marcum to make reference to the subject matter thereof in connection with its report on the Company's consolidated financial statements for either of such years. Marcum's audit report dated March 16, 2009 (which was included in the 2008 Annual Report) on the Company's consolidated financial statements as of, and for the years ended, December 31, 2008 and December 31, 2007, did not contain an adverse opinion or a disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope, or accounting principles.

During the years ended December 31, 2008 and December 31, 2007, and during the subsequent interim period from January 1, 2009 through April 3, 2009, there were no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K), except that (i) in Marcum's report dated March 16, 2009 (which was included in the 2008 Annual Report) on the Company's internal control over financial reporting as of December 31, 2008, Marcum expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting due to the existence of the material weaknesses identified and described in Management's Report on Internal Control Over Financial Reporting under Item 9A in the Annual Report on Form 10-K for the year ended December 31, 2008; and (ii) Marcum discussed with the Audit Committee the existence of the material weaknesses in the Company's internal control over financial reporting identified and described in Internal Control Over Financial Reporting under Item 9A in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on March 17, 2008. In accordance with Item 304(a)(3) of Regulation S-K, the Company provided Marcum with a copy of the disclosures it made in the Company's Amendment No. 1 to Current Report on Form 8-K filed on April 10, 2009 (the April 2009 Current Report) prior to the time the April 2009 Current Report was filed with the SEC. The Company requested that Marcum furnish a letter addressed to the SEC stating whether or not it agrees with the statements made herein. A copy of Marcum's letter dated April 10, 2009 was filed as Exhibit 16.1 to the April 2009 Current Report.

During the years ended December 31, 2008 and December 31, 2007, and during the subsequent interim period from January 1, 2009 through April 3, 2009, respectively, neither the Company nor anyone acting on its behalf has consulted with Deloitte on any of the matters or events set forth in Item 304(a)(2) of Regulation S-K.

Change in Accountants in 2010

Effective July 22, 2010, Deloitte resigned as the Company's independent registered public accounting firm. During the period from April 3, 2009 through July 22, 2010, the Company had no disagreements with Deloitte on

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any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure that, if not resolved to Deloitte's satisfaction, would have caused Deloitte to make reference to the subject matter thereof in connection with its report on the Company's consolidated financial statements for the year ended December 31, 2009.

Deloitte's audit report dated March 31, 2010 (which was included in the Annual Report) on the Company's consolidated financial statements as of, and for the year ended, December 31, 2009 did not contain an adverse opinion or a disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope, or accounting principles.

During the period from April 3, 2009 through July 22, 2010, there were no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K), except that (i) in Deloitte's report dated March 31, 2010 (which was included in the Annual Report) on the Company's internal control over financial reporting as of December 31, 2009, Deloitte identified material weaknesses in internal control over financial reporting related to the control environment and to the financial closing and reporting process, which are further described under Item 9A in the Annual Report, and advised that the Company had not maintained effective internal control over financial reporting as of December 31, 2009; and (ii) Deloitte advised the Company that certain information had come to Deloitte's attention, that if further investigated may materially impact the reliability of either its previously issued audit report or the underlying consolidated financial statements for the year ended December 31, 2009 included in the Annual Report. Deloitte requested that the Company provide Deloitte with the additional information Deloitte believed was necessary to review before the Company and Deloitte could reach any conclusions as to the reliability of the previously issued consolidated financial statements for the year ended December 31, 2009 and auditors' report thereon. On December 15, 2010, the Audit Committee of the Company received notice from Deloitte stating that Deloitte had concluded that Deloitte's report on the Company's previously issued consolidated financial statements as of and for the year ended December 31, 2009, including Deloitte's report on internal control over financial reporting at December 31, 2009, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, should not be relied on or associated with the Company's consolidated financial statements as of and for the year ended December 31, 2009. The Audit Committee of the Board of Directors of the Company discussed each of these matters with Deloitte. The Company authorized Deloitte to respond fully to the inquiries of the Company's successor accountants concerning each of these matters.

In accordance with Item 304(a)(3) of Regulation S-K, the Company provided Deloitte with a copy of the disclosures it made in the Company's Current Report on Form 8-K filed on July 28, 2010 (the July 2010 Current Report) prior to the time the July 2010 Current Report was filed with the SEC. The Company requested that Deloitte furnish a letter addressed to the SEC stating whether or not it agrees with the statements made herein. A copy of Deloitte's letter dated July 28, 2010 was filed as Exhibit 16.1 to the July 2010 Current Report.

On July 26, 2010, the Audit Committee engaged Marcum as the Company's independent auditors to audit the Company's financial statements. During the fiscal years ended December 31, 2008 and 2009, and the subsequent interim period from January 1, 2010 through July 26, 2010, the Company has not, and no one on the Company's behalf had, consulted with Marcum on any of the matters or events set forth in Item 304(a)(2) of Regulation S-K, except that (i) Marcum audited the Company's consolidated financial statements as of, and for the year ended, December 31, 2008, (ii) Marcum expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting as described in the Company's Amendment No. 1 to Current Report on Form 8-K/A filed with the SEC on April 10, 2009, (iii) the Company discussed certain matters with Marcum as described in the Company's Current Report on Form 8-K filed with the SEC on July 23, 2009, (iv) Marcum reissued its auditors' report, dated August 12, 2009, in conjunction with the Company's Amendment No. 1 to its Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on August 13, 2009, and the 2009 Form 10-K, (v) Marcum issued a consent for the incorporation by reference of its auditors' report in the Company's Form S-8, filed with the SEC on November 24, 2009, (vi) Marcum issued a consent for the incorporation by reference of its auditors' report in the Company's Form S-8, filed with the SEC

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on April 17, 2008 and (vii) Marcum performed related auditing, review and updating procedures during the time period that Marcum was terminated as the Company's independent registered public accounting firm, effective April 3, 2009, and the date that Marcum was reappointed on July 26, 2010.

In accordance with Item 304(a)(2)(ii)(D) of Regulation S-K, the Company requested that Marcum review the disclosure required by Item 304(a) of Regulation S-K before the July 2010 Current Report was filed with the SEC and provided Marcum the opportunity to furnish the Company with a letter addressed to the SEC containing any new information, clarification of the Company's expression of its views, or the respect in which it does not agree with the statements made by the Company. No such letter was provided by Marcum.

Although stockholder ratification of the selection of Marcum as the Company's independent auditors is not required by the Company's Bylaws or otherwise, the Board of Directors believes it appropriate as a matter of policy to request that stockholders ratify the selection of the Company's independent registered public accounting firm. In the event the stockholders do not ratify the appointment of Marcum, the Audit Committee will reconsider its appointment. In addition, even if the stockholders ratify the appointment of Marcum, the Audit Committee may in its discretion appoint a different independent public accounting firm at any time if the Audit Committee determines that a change is in the best interests of the Company and its stockholders. Representatives of Marcum are expected to be present at the Annual Meeting to respond to appropriate questions and to make a statement if such representatives so desire.

Vote Required

The affirmative vote of a majority of shares present in person or represented by proxy at the Annual Meeting and entitled to vote on this Proposal 2 is required to ratify the selection of Marcum as the Company's independent auditors for the fiscal year ending December 31, 2011. Unless instructed to the contrary in the proxy, the shares represented by the proxies will be voted FOR this Proposal 2.

Dov Charney, the beneficial owner of approximately 54.3% of the outstanding shares of Common Stock and voting power of the Company as of the Record Date, has informed the Company that he intends to vote in favor of this Proposal 2, and his vote is sufficient to approve this Proposal 2 without further affirmative votes from the other stockholders. For more information on shares owned by Mr. Charney and other directors and executive officers of the Company, see Beneficial Ownership of Shares herein.

Any abstentions with respect to this Proposal 2 will count as votes AGAINST this Proposal 2. Any broker non-votes with respect to this Proposal 2 will not count as shares entitled to vote on this proposal and therefore will be disregarded for purposes of determining the outcome of the vote on this Proposal 2.

A majority of the Board of Directors recommends a vote FOR this Proposal 2.

Table of Contents**RELATIONSHIP WITH INDEPENDENT AUDITORS****Principal Accounting Firm Fees**

As described in Proposal 2 of this Proxy Statement, effective July 22, 2010, Deloitte resigned as the independent registered public accounting firm for the Company. Deloitte served as the Company's independent registered public accounting firm since April 3, 2009. On July 26, 2010, the Audit Committee engaged Marcum as the Company's independent auditors to audit the Company's financial statements for the fiscal year ending December 31, 2010. Marcum had previously served as the Company's independent registered public accounting firm through April 3, 2009.

In connection with the Company's Annual Meeting of Stockholders held on December 10, 2010, the Audit Committee and management formally engaged Marcum to reaudit the Company's financial statements for the fiscal year ending December 31, 2009.

Aggregate fees billed to us for the fiscal years ended December 31, 2010 and 2009 by the Company's current and former independent auditors are as follows.

	2010	2009
	(in thousands)	
Deloitte & Touche LLP(1)		
Audit fees(3)	\$ 203	\$ 3,033
Audit-related fees(4)		
Tax fees(5)		35
All other fees(6)		5
	\$ 203	\$ 3,073
Marcum LLP (formerly known as Marcum & Kleigman LLP)(2)		
Audit fees(3)	\$ 4,240	\$ 152
Audit-related fees(4)	291	
Tax fees(5)		
All other fees(6)		
	\$ 4,531	\$ 152

- (1) Deloitte served as the Company's independent auditors from April 3, 2009 to July 22, 2010.
- (2) Marcum, the Company's current independent auditors since July 26, 2010, also served as the Company's independent auditors through April 3, 2009. The audit fees for 2010 consist of fees for the reaudit of the 2009 consolidated financial statements.
- (3) Audit fees consist of fees for professional services rendered by the principal accountant for the audit of the Company's annual financial statements included in Form 10-Ks, the review of financial statements included in Form 10-Qs and for services that are normally provided by the auditor in connection with statutory and regulatory filings or engagements for those fiscal years.
- (4) Audit-related fees consist of fees for assurance and related activities by the principal accountant that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported as audit fees.
- (5) Tax fees consist of fees for professional services rendered by the principal accountant for tax compliance, tax advice and tax planning. Deloitte reviewed the Company's tax provision work papers, and all documentation supporting each uncertain tax position that we recognized in 2009.
- (6) All other fees consist of fees for any products and services provided by the principal accountant not included in the first three categories.

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In accordance with Section 10A(i) of the Exchange Act, before the Company engages its independent accountant to render audit or non-audit services, the engagement is approved by the Company's Audit Committee. All of the Company's independent auditor's fees were pre-approved by the Audit Committee in 2010. The Audit Committee utilizes a policy pursuant to which the audit, audit-related, and permissible non-audit services to be performed by the independent auditor are pre-approved prior to the engagement to perform such services. Pre-approval is generally provided annually, and any pre-approval is detailed as to the particular service or category of services and is generally limited by a maximum fee amount. The independent auditor and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditor in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee considered whether the provision of non-audit services provided by Deloitte and Marcum as described above was compatible with maintaining such accountant's independence, and believes that the provision of these services is consistent with maintaining such accountant's independence.

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REPORT OF THE AUDIT COMMITTEE

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

The Audit Committee reviewed and discussed with management the Company's audited financial statements as of and for the fiscal year ended December 31, 2010. In addition, the Audit Committee discussed with Marcum the matters with respect to the audit of such financial statements required to be discussed by Statement on Auditing Standards No. 61, as amended and adopted by the Public Company Accounting Oversight Board in Rule 3200T, pertaining to communications with audit committees. The Audit Committee also received the written disclosures and the letter from Marcum required by applicable requirements of the Public Company Accounting Oversight Board regarding Marcum's communications with the Audit Committee concerning independence and discussed with Marcum its independence.

The Audit Committee met with Marcum, with and without management present, to discuss the overall scope of its audit, the results of its examinations, its evaluations, if any, of the Company's internal control over financial reporting, and the overall quality of the Company's financial reporting, in each case for fiscal year 2010.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 for filing with the SEC.

By the Audit Committee,

Mark Samson, Chairman
Mark A. Thornton

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**PROPOSAL 3: AMENDMENT TO THE AMENDED AND RESTATED CERTIFICATE OF
INCORPORATION TO INCREASE THE AUTHORIZED NUMBER OF SHARES OF COMMON STOCK**

As of the Record Date, 82,771,426 shares of Common Stock were issued and outstanding. In addition, 15,776,506 shares of Common Stock were issued on April 26, 2011 pursuant to the Investor Purchase Agreement and an aggregate of 20,309,859 shares of Common Stock are reserved for issuance upon exercise of outstanding warrants and upon exercise of options outstanding under the Company's stock option plans. In addition, there are 1,000,000 authorized shares of preferred stock. As of the Record Date, no shares of preferred stock were outstanding.

The Company is seeking stockholder approval of an amendment to the Company's Amended and Restated Certificate of Incorporation (the Charter) to increase the number of authorized shares of the Common Stock from 120,000,000 to 230,000,000. If the amendment is approved by the Company's stockholders, Article Fourth of the Company's Amended and Restated Certificate of Incorporation will read as set forth in Annex A hereto.

The Company's Board of Directors approved this amendment to the Company's Charter on April 20, 2011. In connection with the transactions contemplated by the Investor Purchase Agreement and the Charney Purchase Agreement (together, the Purchase Agreements), the Company agreed to include this proposal in this Proxy Statement in order to have sufficient authorized shares to issue the Contingent Shares issuable under the March Purchase Agreement (as such terms are defined below), the shares of Common Stock issuable pursuant to the Purchase Agreements and under the warrants issued or issuable to Lion as a result of the issuance of such Contingent Shares and such shares under the Purchase Agreements. In addition, the Board of Directors believes it is advisable to increase the number of authorized shares of Common Stock in order to give the Company greater flexibility in considering and planning future business needs. The purposes for which additional authorized stock could be issued include, but are not limited to, funding of the Company's capital needs, issuances upon exercise of warrants, conversion of debt to equity, corporate growth and grants under employee stock plans.

Moreover, at the Annual Meeting, we are asking for stockholder approval of, among other things, (i) a proposal to approve the Warrant Exercise Price Reset Proposal; (ii) a proposal to adopt the American Apparel, Inc. 2011 Omnibus Stock Incentive Plan, under which 10,000,000 shares of Common Stock would be available for issuance upon the exercise of stock options, as restricted stock or as other stock awards; (iii) a proposal to approve the potential issuance of up to 27,443,173 shares of Common Stock to certain investors upon the exercise of purchase rights under the Investor Purchase Agreement; and (iv) a proposal to approve the potential issuance to Dov Charney of up to 40,313,316 shares of Common Stock pursuant to the Charney Purchase Agreement (See Proposals 6, 7, 8 and 9, respectively). Approval of this Proposal 3 will provide us with more flexibility to issue options and stock awards under the American Apparel, Inc. 2011 Omnibus Stock Incentive Plan and with the ability to issue shares under the transactions contemplated by the Purchase Agreements and the related Lion Warrants.

Without the approval of this proposal, the Company would not have any additional authorized shares available to issue, whether pursuant to the 2011 Omnibus Incentive Plan, the transactions contemplated by the Purchase Agreements, upon exercise of the warrants issued or issuable to Lion as a result of the transactions under the Purchase Agreements, or otherwise. In addition, failure to receive stockholder approval of this proposal would constitute an event of default under the Company's credit agreement with Lion Capital.

The additional authorized Common Stock would be part of the Company's current class of Common Stock and, if and when issued, would have the same rights and privileges as the Company's presently issued and outstanding Common Stock. However, the issuance of additional shares of Common Stock may, among other things, have a dilutive effect on the earnings per share and on the equity and voting power of existing stockholders and may adversely affect the market price for the Common Stock.

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If this proposal is approved, we will file an amendment to the Amended and Restated Certificate of Incorporation with the Delaware Secretary of State as soon as practicable after the Annual Meeting to effect the increase in the authorized shares of the Company's Common Stock.

Vote Required

The affirmative vote of a majority of outstanding shares entitled to vote at the Annual Meeting is required for the adoption of this proposal.

Dov Charney, the beneficial owner of approximately 54.3% of the outstanding shares of Common Stock and voting power of the Company as of the Record Date, has informed the Company that he intends to vote in favor of this Proposal 3, and his vote is sufficient to approve this Proposal 3 without further affirmative votes from the other stockholders. For more information on shares owned by Mr. Charney and other directors and executive officers of the Company, see [Beneficial Ownership of Shares](#) herein.

Any abstentions and broker non-votes with respect to this Proposal 3 will count as votes AGAINST this Proposal 3.

A majority of the Board of Directors recommends a vote FOR this Proposal 3.

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PROPOSAL 4: ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act added Section 14A to the Exchange Act, which requires that we provide the Company's stockholders with the opportunity to vote to approve, on a nonbinding, advisory basis, the compensation of the Company's named executive officers as disclosed in this proxy statement in accordance with the compensation disclosure rules of the SEC.

This vote is advisory, which means that the vote on executive compensation is not binding on the Company, the Company's Board of Directors or the Compensation Committee of the Board of Directors. The vote on this resolution is not intended to address any specific element of compensation, but rather relates to the overall compensation of the Company's named executive officers, as described in this proxy statement in accordance with the compensation disclosure rules of the SEC.

Accordingly, we ask the Company's stockholders to vote on the following resolution at the Annual Meeting:

RESOLVED, that the Company's stockholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Company's Proxy Statement for the 2011 Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the SEC, including the Compensation Discussion and Analysis, the Summary Compensation Table and the other related tables and disclosure.

Vote Required

The affirmative vote of a majority of shares present in person or represented by proxy at the Annual Meeting and entitled to vote on this Proposal 4 is required to approve this Proposal 4.

Dov Charney, the beneficial owner of approximately 54.3% of the outstanding shares of Common Stock and voting power of the Company as of the Record Date, has informed the Company that he intends to vote in favor of this Proposal 4, and his vote is sufficient to approve this Proposal 4 without further affirmative votes from the other stockholders. For more information on shares owned by Mr. Charney and other directors and executive officers of the Company, see "Beneficial Ownership of Shares" herein.

Any abstentions with respect to this Proposal 4 will count as votes AGAINST this Proposal 4. Any broker non-votes with respect to this Proposal 4 will not count as shares entitled to vote on this proposal and therefore will be disregarded for purposes of determining the outcome of the vote on this Proposal 4.

A majority of the Board of Directors recommends a vote FOR this Proposal 4.

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PROPOSAL 5: ADVISORY VOTE ON THE FREQUENCY OF AN

ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act added Section 14A to the Exchange Act, which requires that we provide the Company's stockholders with the opportunity to vote, on a non-binding, advisory basis, for their preference as to how frequently to vote on future advisory votes on the compensation of the Company's named executive officers as disclosed in accordance with the compensation disclosure rules of the SEC. Stockholders may indicate whether they would prefer that we conduct future advisory votes on executive compensation once every one, two, or three years. Stockholders also may abstain from casting a vote on this proposal.

The Board of Directors has determined that an advisory vote on executive compensation that occurs once every three years is the most appropriate alternative for the Company and therefore the Board of Directors recommends that you vote for a three-year interval for the advisory vote on executive compensation. In determining to recommend that stockholders vote for a frequency of once every three years, the Board of Directors considered how an advisory vote at this frequency will provide the Company's stockholders with sufficient time to evaluate the effectiveness of the Company's overall compensation philosophy, policies and practices in the context of the Company's long-term business results for the corresponding period, while avoiding over-emphasis on short term variations in compensation and business results. An advisory vote occurring once every three years will also permit the Company's stockholders to observe and evaluate the impact of any changes to the Company's executive compensation policies and practices which have occurred since the last advisory vote on executive compensation, including changes made in response to the outcome of a prior advisory vote on executive compensation.

This vote is advisory, which means that the vote on executive compensation is not binding on the Company, the Board of Directors or the Compensation Committee of the Board of Directors.

The proxy card provides stockholders with the opportunity to choose among four options (holding the vote every one, two or three years, or abstain from voting) and, therefore, stockholders will not be voting to approve or disapprove the recommendation of the Board of Directors.

Vote Required

The advisory preference of stockholders with respect to how frequently to hold future advisory votes on executive compensation will be determined by a plurality of the votes cast as the Annual Meeting.

Dov Charney, the beneficial owner of approximately 54.3% of the outstanding shares of Common Stock and voting power of the Company as of the Record Date, has informed the Company that he intends to vote for the option of once every three years as the advised frequency for advisory votes on executive compensation. Mr. Charney's vote is sufficient to determine the advised frequency for advisory votes on executive compensation without further affirmative votes from the other stockholders. For more information on shares owned by Mr. Charney and other directors and executive officers of the Company, see "Beneficial Ownership of Shares" herein.

Any abstentions and broker non-votes with respect to this Proposal 5 will not count as votes cast with respect to the advised frequency for advisory votes on executive compensation and therefore will be disregarded for purposes of determining the outcome of this Proposal 5.

A majority of the Board of Directors recommends that you vote for the option of ONCE EVERY THREE YEARS as the preferred frequency for advisory votes on executive compensation.

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PROPOSAL 6: APPROVAL OF WARRANT EXERCISE PRICE RESET PROPOSAL

Description of the Warrant Exercise Price Reset Proposal and Certain Transactions with Lion

The Company is party to a Credit Agreement, dated as of March 13, 2009 (as amended, modified or waived, the Lion Credit Agreement), among the Company, certain subsidiaries of the Company as facility guarantors, Wilmington Trust FSB, in its capacity as administrative agent and in its capacity as collateral agent thereunder, Lion Capital (Americas) Inc., as a lender, and Lion/Hollywood L.L.C. (Lion), as a lender, and the other lenders from time to time party thereto. In connection with such transaction, on March 13, 2009, the Company issued to Lion a seven-year warrant (the 2009 Lion Warrant), which is exercisable at any time during its term, to purchase an aggregate of 16,000,000 shares of Common Stock at an initial exercise price of \$2.00 per share, which exercise price was subsequently reduced to \$1.00 per share as more fully described herein, subject to further adjustment under certain circumstances.

On February 18, 2011, the Company entered into a Fifth Amendment (the Fifth Amendment) to the Lion Credit Agreement, and on April 26, 2011, the Company entered into a Waiver and Sixth Amendment to the Lion Credit Agreement (the Sixth Amendment and, together with the Fifth Amendment, the Lion Credit Agreement Amendments). Pursuant to the Lion Credit Agreement, as amended by the Lion Credit Agreement Amendments, the Company agreed, among other things:

to enter into (i) an amendment to the 2009 Lion Warrant to, among other things, reduce the exercise price of the 2009 Lion Warrant to \$1.11, as such adjusted exercise price may be further adjusted pursuant to the following bullet point, and as such adjusted exercise price would have been further adjusted pursuant to the 2009 Lion Warrant if such adjusted exercise price had been in effect as of the date of the Fifth Amendment, and (ii) a further amendment in connection with the transactions under the Purchase Agreements to further reduce such adjusted exercise price to \$1.00, and as further adjusted thereafter from time to time in accordance with the 2009 Lion Warrant and the Lion Credit Agreement (the 2009 Lion Warrant Amendments); and

simultaneously with any issuance and sale of Common Stock or preferred stock of the Company or any security convertible, exercisable or exchangeable for Common Stock or preferred stock of the Company (in each case, subject to some exceptions) and/or any debt-for-equity exchange or conversion completed by the Company in respect of the Company's existing indebtedness, in each case, either definitively agreed or consummated (provided that solely in the case of an issuance or sale of any security convertible, exercisable or exchangeable for Common Stock or preferred stock of the Company, New Lion Warrants (as defined below) will be issued only at the time and to the extent that such security is in fact converted, exercised or exchanged rather than upon definitive agreement or consummation of such issuance or sale),

after the date of the Fifth Amendment and prior to the earlier of 365 days after the date of the Sixth Amendment and the repayment of all obligations under the Lion Credit Agreement, (1) to issue and grant to Lion a warrant (including the March 2011 Lion Warrant, the April 2011 Lion Warrant (each as defined below) and any additional warrants required to be issued to Lion pursuant to the Lion Credit Agreement, the New Lion Warrants and, together with the 2009 Lion Warrant, the Lion Warrants) to purchase at an initial exercise price of \$0.90 (or such lower price to which the exercise price for the existing Lion Warrants shall have been or are entitled to be adjusted) that number of shares of Common Stock as are sufficient such that Lion's percentage beneficial ownership of the Common Stock as represented by the Lion Warrants immediately after such equity sale or debt exchange, calculated on a fully-diluted basis assuming the exercise, exchange and conversion of all securities exercisable, exchangeable or convertible for Common Stock, is at least equal to such percentage as calculated immediately prior to such equity sale or debt exchange, and (2) subject to receiving the stockholder approval in respect to the 2009 Lion Warrant contemplated in this Proposal 6, to reduce the exercise price of the Lion Warrants to the lowest issued price (as defined below) for such equity sale or debt exchange; and

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on or after the 365th day after the date of the Sixth Amendment and prior to the repayment of all obligations under the Lion Credit Agreement, for an issued price lower than the then exercise price of the Lion Warrants, (1) to issue and grant to Lion a New Lion Warrant to purchase at such lowest issued price that number of shares of Common Stock as are sufficient such that Lion's percentage beneficial ownership of the Common Stock as represented by the Lion Warrants immediately after such equity sale or debt exchange, calculated on a fully-diluted basis assuming the exercise, exchange and conversion of all securities exercisable, exchangeable or convertible for Common Stock, is at least equal to such percentage as calculated immediately prior to such equity sale or debt exchange, and (2) if the net cash proceeds of such equity sale or debt exchange (and any other equity sale or debt exchange within a three month period thereof) are at least \$5.0 million, subject to receiving the stockholder approval for the 2009 Lion Warrant contemplated in this Proposal 6, to reduce the exercise price of the existing Lion Warrants to the lowest issued price for such equity sale or debt exchange.

Notwithstanding the foregoing, with respect to transactions contemplated by the Purchase Agreements, the Company agreed in the Sixth Amendment (i) to issue and grant to Lion a New Lion Warrant to purchase at an initial exercise price of \$1.00 that number of shares of Common Stock as are sufficient such that Lion's percentage beneficial ownership of the Common Stock as represented by the Lion Warrants immediately after such equity sale or debt exchange, calculated on a fully-diluted basis assuming the exercise, exchange and conversion of all securities exercisable, exchangeable or convertible for Common Stock, is at least equal to such percentage as calculated immediately prior to such equity sale or debt exchange, and (ii) subject to receiving the stockholder approval for the 2009 Lion Warrant contemplated in this Proposal 6, to reduce the exercise price of the existing Lion Warrants to \$1.00.

On March 24, 2011, in connection with (i) the issuance of an aggregate of 1,801,802 shares of Common Stock to Mr. Charney in exchange for aggregate cash consideration of approximately \$2.0 million and (ii) the cancellation for and conversion into 4,223,194 shares of Common Stock of the promissory notes owed by certain subsidiaries of the Company to Mr. Charney (2,111,597 of which shares were issued to Mr. Charney at the closing of such conversion and 2,111,597 of which shares are issuable to Mr. Charney only if certain conditions are met (the Contingent Shares)), the Company, in accordance with the Fifth Amendment, issued to Lion a warrant (the March 2011 Lion Warrant), which expires in 2018 and is exercisable at any time during its term, to purchase an aggregate of 759,809 shares of Common Stock at an exercise price of \$1.11 per share, which exercise price was subsequently reduced to \$1.00 per share pursuant to an amendment thereto, dated April 26, 2011 (the March 2011 Lion Warrant Amendment), and in accordance with the Sixth Amendment, in connection with the issuance of shares under the Investor Purchase Agreement, subject to adjustment under certain circumstances.

On April 26, 2011, in connection with the issuance of an aggregate of 15,776,506 shares of Common Stock to the several investors pursuant to the Investor Purchase Agreement, the Company, in accordance with the Sixth Amendment, issued to Lion a warrant (the April 2011 Lion Warrant), which expires in 2018 and is exercisable at any time during its term (subject to cash settlement in certain circumstances in the event that the Company does not have sufficient authorized shares to permit issuance of shares upon such exercise), to purchase an aggregate of 3,063,101 shares of Common Stock at an exercise price of \$1.00 per share, subject to adjustment under certain circumstances.

On March 24, 2011 and April 26, 2011, the Company and Lion also entered into the 2009 Lion Warrant Amendments.

In addition, if and to the extent that any Contingent Shares are issued to Mr. Charney as described above, any shares are issued to Mr. Charney pursuant to the Charney Purchase Agreement as described in Proposal 9 below or any additional shares are issued pursuant to the Investor Purchase Agreement as described in Proposal 8

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below, the Lion Credit Agreement will require the Company to issue to Lion additional New Warrants to purchase shares of Common Stock as described above and in the Lion Credit Agreement.

The issuance or potential issuance of the New Lion Warrants, the adjustments to the exercise prices of the Lion Warrants described above (including pursuant to the Fifth Amendment, the Sixth Amendment, the 2009 Lion Warrant Amendments and the March 2011 Lion Warrant Amendment), as such exercise prices may be further adjusted pursuant to the Lion Warrants as described below and the Lion Credit Agreement, and the issuance of shares of Common Stock upon exercise of the Lion Warrants at such adjusted exercise prices collectively are referred to as the Warrant Exercise Price Reset Proposal.

The foregoing descriptions of the Lion Credit Agreement, the Fifth Amendment, the Sixth Amendment, the Lion Warrants, the 2009 Lion Warrant Amendments and the March 2011 Lion Warrant Amendment do not purport to be complete and are qualified in their entirety by reference to the Current Reports on Form 8-K filed by the Company with the SEC on March 13, 2009, February 22, 2011, March 28, 2011, and April 28, 2011 and the documents filed as exhibits to such Current Reports.

Description of the Lion Warrants Anti-Dilution Adjustments

The Existing Lion Warrant contains, and any New Lion Warrant would contain, certain anti-dilution provisions which adjust the exercise price of such Lion Warrant and the number of shares of Common Stock for which such Lion Warrant is exercisable upon the occurrence of certain events. These events include if the Company takes the following actions (the Adjustment Events):

sells or issues additional shares of Common Stock without consideration or at a price per share that is lower than the closing price per share of the Common Stock on the last trading day immediately preceding the earlier of the date of announcement of such sale or issuance and the date on which the price for such sale or issuance is agreed or fixed; or

takes a record of the holders of its Common Stock for the purpose of entitling them to receive a distribution of, or in any manner (whether directly or by assumption in a merger in which the Company is the surviving corporation) issues or sells any evidences of indebtedness, shares of capital stock or other securities which are or may be at any time convertible into or exchangeable for additional shares of Common Stock, or any warrant, option or other right to subscribe for or purchase any additional shares of Common Stock or any such convertible security (collectively, Common Stock Equivalents), whether or not the rights to exchange or convert thereunder are immediately exercisable, and the price per share for which the Common Stock is issuable upon such conversion or exchange (including such price as it may thereafter be amended or adjusted) is less than the closing price per share of the Common Stock on the last trading day immediately preceding the earliest of such record date, the date of the announcement of such sale or issuance and the date on which the price of such sale or issuance (or amendment or adjustment, as applicable) is agreed or fixed, or if, after any such issuance of Common Stock Equivalents, the price per share for which additional shares of Common Stock may be issuable will be amended and adjusted, and the price so amended or adjusted will be less than the closing price per share of the Common Stock on the last trading day immediately preceding the date of such amendment or adjustment.

The Adjustment Events are subject to some exceptions in which an adjustment is not required, such as (i) for securities issued upon the exercise or conversion of exercisable or convertible securities outstanding as of the date of issuance of the Existing Lion Warrant, including the warrant held by SOF Investments, L.P. Private IV to purchase 1,000,000 shares of Common Stock issued in December 2008, (ii) for issuances or grants pursuant to the Company's stock option plans, employee stock purchase plans or employment agreements if the price or exercise price per share is equal to or greater than the closing price of the Common Stock on the date of such issuance or grant, and (iii) for issuances of securities pursuant to other Lion Warrants.

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Upon the occurrence of an Adjustment Event, both the number of shares of Common Stock for which each Lion Warrant is exercisable and the exercise price of each Lion Warrant will be adjusted as follows (the Adjustments):

Adjustment of Number of Shares of Common Stock

		Number of shares of Common Stock outstanding immediately after such sale or issuance
Number of shares of Common Stock for which such Lion Warrant is exercisable immediately after such sale or issuance	=	Number of shares of Common Stock for which such Lion Warrant is exercisable immediately prior to such sale or issuance
	x	Number of shares of Common Stock which the aggregate consideration received for such sale or issuance would purchase at such per share market value plus number of shares of Common Stock outstanding immediately prior to such sale or issuance

Adjustment of Exercise Price

		Number of shares of Common Stock issuable upon exercise of such Lion Warrant immediately before the preceding adjustment to the number of shares
Exercise price of such Lion Warrant immediately after such sale or issuance	=	Exercise price of such Lion Warrant immediately prior to such sale or issuance
	x	New number of shares of Common Stock issuable upon exercise of such Lion Warrant determined in accordance with the preceding adjustment to the number of shares

Stockholder Approval

The NYSE Amex Company Guide requires stockholder approval for the sale, issuance, or potential issuance by an issuer, other than in a public offering, of common stock (or securities convertible into common stock) equal to 20% or more of the presently outstanding stock for a price that is less than the greater of book or market value of the stock, as well as for any such issuance to a company's officers, directors, employees, or consultants, or an affiliated entity of such a person, in a private placement at a price less than the market value of the stock. The Company is subject to NYSE Amex rules because its Common Stock is listed on NYSE Amex.

The issuance of the Existing Lion Warrant did not require stockholder approval because the exercise price was in excess of the greater of book or market value of the Common Stock at the time of the closing of the Lion transaction. Stockholder approval of the Warrant Exercise Price Reset Proposal is necessary because, as described in more detail above, the price at which such Common Stock would be issued upon the exercise of the Lion Warrants, after giving effect to the adjustments contemplated by the Warrant Exercise Price Reset Proposal and any further Adjustments as described above, could be below the greater of book or market value of the Common Stock as of the closing of the respective Lion transactions described above, and the number of shares of Common Stock issued upon the exercise of the Lion Warrants could be in excess of 20% of the outstanding

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shares (not taking into account the shares issuable upon exercise of the Lion Warrants) as of the closing of the Lion transactions described above, which could cause the adjustments contemplated by the Warrant Exercise Price Reset Proposal and any further adjustments and the issuance of shares upon the exercise of the Lion Warrants to require stockholder approval under the rules of the NYSE Amex as described above.

In the Lion Credit Agreement, the Company agreed that if it determined, in consultation with the required lenders under the Lion Credit Agreement, that stockholder approval of the Warrant Exercise Price Reset Proposal was required, it would seek approval of the Warrant Exercise Price Reset Proposal at the Annual Meeting and use reasonable best efforts to solicit from the Company's stockholders proxies in favor of such approval. Accordingly, the Company is seeking stockholder approval of the Warrant Exercise Price Reset Proposal to permit it to comply with its obligations under the Lion Credit Agreement. Approval of this Proposal 6 would give the Company greater flexibility to obtain future financing and permit the Company to issue additional securities that would constitute an Adjustment Event if such issuance were to cause the exercise price to be adjusted pursuant to the Adjustments to a price that is less than the greater of book or market value, as applicable, of the Common Stock.

Effect of Approval of this Proposal on Current Stockholders

The total number of shares of Common Stock currently issuable upon exercise of the Lion Warrants is 19,822,910, representing approximately 16.8% of the outstanding shares of Common Stock (after giving effect to the issuance of such shares) as of April 26, 2011. As of April 26, 2011, the Lion Warrants had not been exercised and, accordingly, no shares of Common Stock have been issued under the Lion Warrants.

The exercise price of the 2009 Lion Warrant, before giving effect to any adjustments contemplated by the Warrant Exercise Price Reset Proposal, is \$2.00. If the exercise price of the 2009 Lion Warrant is reduced to \$1.00, then the Company would receive \$16,000,000 less in proceeds from the exercise of the 2009 Lion Warrant, even though the same number of shares (16,000,000) would be issued to Lion upon exercise of the 2009 Lion Warrant.

For more information regarding the possible effects of exercise of the Lion Warrants on the Company's stockholders, see the table set forth in Proposal 9 herein.

Vote Required

The affirmative vote of a majority of shares present in person or represented by proxy at the Annual Meeting and entitled to vote on this Proposal 6 is required to approve the Warrant Exercise Price Reset Proposal.

Dov Charney, the beneficial owner of approximately 54.3% of the outstanding shares of Common Stock and voting power of the Company as of the Record Date, has informed the Company that he intends to vote in favor of this Proposal 6, and his vote is sufficient to approve this Proposal 6 without further affirmative votes from the other stockholders. Pursuant to the 2011 Warrant Voting Agreement (defined below), Mr. Charney has agreed to vote, with respect to all of the shares of Common Stock that he at such time owns or controls the voting of, in favor of the Warrant Exercise Price Reset Proposal (see "Certain Relationships and Related Transactions" herein). For more information on shares owned by Mr. Charney and other directors and executive officers of the Company, see "Beneficial Ownership of Shares" herein.

Any abstentions with respect to this Proposal 6 will count as votes AGAINST this Proposal 6. Any broker non-votes with respect to this Proposal 6 will not count as shares entitled to vote on this proposal and therefore will be disregarded for purposes of determining the outcome of the vote on this Proposal 6.

A majority of the Board of Directors recommends a vote FOR this Proposal 6.

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PROPOSAL 7: APPROVAL OF THE AMERICAN APPAREL, INC.

2011 OMNIBUS STOCK INCENTIVE PLAN

Background

On March 30, 2011 the Board of Directors adopted the American Apparel, Inc. 2011 Omnibus Stock Incentive Plan (the "2011 Plan"), as set forth herein, subject to the approval of the stockholders of the Company, and in connection with such adoption provided that from and after the Effective Date of the Plan, any and all shares that would otherwise become available for issuance under the terms of the Company's 2007 Performance Equity Plan (the "2007 Plan") by reason of the expiration, cancellation, forfeiture or termination of an outstanding award under such plan shall again be available for grant under the 2011 Plan as of the date of such expiration, cancellation, forfeiture or termination.

The purposes of the 2011 Plan are to provide an incentive to selected employees, directors, independent contractors, and consultants of the Company or its affiliates, in order to motivate such persons to faithfully and diligently perform their responsibilities and to attract and retain competent and dedicated persons whose efforts will result in the long-term growth and profitability of the Company.

The Company may grant incentive and non-qualified stock options, stock appreciation rights, restricted stock, deferred stock, performance stock, other stock-based awards and other cash-based awards, or collectively, awards, to its employees, directors, independent contractors, and consultants, and those of its affiliates. No awards under the 2011 Plan have been made or committed to be made as of the date of this proxy statement.

Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), generally provides that publicly held companies may not deduct compensation paid to certain top executive officers to the extent such compensation exceeds \$1 million per officer in any year. However, pursuant to regulations issued by the Treasury Department, certain limited exceptions to Section 162(m) apply with respect to performance-based compensation. Options granted under the 2011 Plan are intended to constitute qualified performance-based compensation eligible for such exceptions.

The following is a summary of the material provisions of the 2011 Plan and is qualified in its entirety by reference to the complete text of the 2011 Plan, a copy of which is attached to this proxy statement as Annex B.

Stock Subject to the 2011 Plan

The Company has reserved a maximum of 10,000,000 shares for the 2011 Plan. To the extent that (x) a stock option or stock appreciation right expires or is otherwise terminated without being exercised, (y) any shares subject to any award of restricted stock, deferred stock, performance stock or other stock based award are forfeited, or (z) an award issued under the 2007 Plan, expires, or is cancelled, forfeited or terminated, such shares will again be available for issuance in connection with future awards granted under the 2011 Plan.

To the extent required to comply with the requirements of Section 162(m) of the Code, the aggregate number of shares subject to awards (other than cash-based awards) awarded to any one participant during any calendar year may not exceed 1,500,000 shares. All shares reserved for issuance under the 2011 Plan may be made subject to awards of incentive stock options.

In the event of any (i) merger, consolidation, reclassification, recapitalization, spin-off, spin-out, repurchase or other reorganization or corporate transaction or event, (ii) dividend (whether in the form of cash, Common Stock or other property), stock split or reverse stock split, (iii) combination or exchange of shares, (iv) other change in corporate structure or (v) declaration of a special dividend (including a cash dividend) or other distribution, an equitable substitution or proportionate adjustment will be made in the aggregate number of shares reserved for issuance under the 2011 Plan and the maximum number of shares that may be subject to awards; the

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kind, number and exercise price subject to outstanding options and stock appreciation rights; and the kind, number and purchase price of shares subject to outstanding restricted stock, deferred stock, performance stock or other stock-based awards granted, in each case as may be determined by the administrator of the 2011 Plan, in its sole discretion.

Administration

The 2011 Plan will be administered by the Board of Directors of the Company or by a compensation committee (*Committee*) composed of two or more members of the Board of Directors, all of whom will be non-employee directors within the meaning of Rule 16b-3(b)(3) of the Exchange Act, and outside directors within the meaning of Section 162(m) of the Code (the *administrator*). In connection with the administration of the 2011 Plan, the administrator will have full and final authority and discretion as follows:

to select the employees and other persons who will be granted awards;

to determine the type of award to be granted;

to determine the number of shares covered by each award;

to determine the terms and conditions of each award and award agreement;

subject to section 409A of the Code, to permit a participant to defer receipt of all of part of the cash or shares payable under an award;

to determine fair market value;

to reduce the exercise price of options or stock appreciation rights by amending such award or canceling such award and granting a new award; and

to interpret the 2011 Plan and make all determinations necessary or advisable for the administration of the 2011 Plan.

Eligibility

All of the Company's employees, officers, directors and consultants are eligible to receive incentive awards under the 2011 Plan if selected by the Board of Directors or the Committee.

Types of Awards

The 2011 Plan permits the administrator to grant the following types of awards.

Stock Options. Stock options granted under the 2011 Plan may be incentive stock options intended to qualify under the provisions of Code Section 422 (*ISOs*) or nonqualified stock options (*NSOs*) which do not so qualify. Subject to the 2011 Plan, the administrator determines the number of shares to be covered by each stock option and the conditions and limitations applicable to the exercise of the stock option. The administrator determines the exercise price of Common Stock that is subject to a stock option on the date the stock option is granted. The exercise price may not be less than the fair market value of the Common Stock on the date of grant. The term of stock options will be determined by the administrator, but may not exceed ten years from the date of grant, provided that the term of an ISO granted to a ten percent holder may not exceed five years from the date of grant.

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Stock Appreciation Rights. Stock appreciation rights (SARs) granted under the 2011 Plan may either be alone or in conjunction with all or part of any option under the 2011 Plan. An SAR granted under the 2011 Plan entitles its holder to receive, at the time of exercise, an amount per share equal to the excess of the fair market value (at the date of exercise) of a share of Common Stock over per share grant price. Subject to the 2011 Plan, the administrator determines the number of shares to be covered by each SAR, the grant price thereof and the

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conditions and limitations applicable to the exercise thereof. The grant price may not be less than the fair market value of the Common Stock on the date of grant.

Restricted Stock. Restricted shares of Common Stock may be granted under the 2011 Plan, subject to such terms and conditions, including forfeiture and vesting provisions, and restrictions against sale, transfer or other disposition, as the administrator may determine to be appropriate at the time of making the award. In addition, the administrator may direct that share certificates representing restricted stock be inscribed with a legend as to the restrictions on sale, transfer or other disposition, and may direct that the certificates, along with a stock power signed in blank by the recipient, be delivered to and held by us until such restrictions lapse. The recipient will generally have the rights of a stockholder of Company with respect to the grant of restricted stock

Deferred Stock. The right to receive shares of Common Stock upon expiration of the restricted period may be granted under the 2011 Plan, subject to such terms and conditions as the administrator may determine to be appropriate at the time of making the award. A recipient of deferred stock generally will not have the rights of a stockholder; provided, however, that, subject to Section 409A of the Code, an amount equal to dividends declared during the restricted period may be paid to the recipient at the same time as dividends are paid to Company stockholders generally.

Performance Stock. Shares of Common Stock that are subject to restrictions that lapse upon the attainment of specified performance objectives may be granted under the 2011 Plan, subject to such terms and conditions as the administrator may determine to be appropriate at the time of making the award. The performance goal(s) to which performance stock relates may be based on one or more of the following business criteria: earnings (including, without limitation, gross margin, earnings before taxes (EBT), earnings before interest and taxes (EBIT), earnings before interest, taxes, depreciation and amortization (EBITDA), net earnings, earnings per share, net sales or return on sales, total stockholder return, net revenue per employee, revenue growth, net income (before or after taxes), operating income, return on operating revenue, operating profit, return on capital, return on equity, return on assets or net assets, return on investment, cash flow, working capital, number of stores, comparable-store sales growth, earnings growth, gross revenue or revenue by pre-defined business segment, stock price (absolute or peer-group comparative), ratio of operating expenses to operating revenues, market share, overhead or other expense reduction, inventory targets, growth in stockholder value relative to various indices, including, without limitation, the S&P 500 Index or the Russell 2000 Index, implementation of Company policy, development of long-term business goals or strategic plans for the Company, cost targets, customer satisfaction or employee satisfaction goals, goals relating to merger synergies, management of employment practices and employee benefits, or supervision of litigation and information technology, and goals relating to acquisitions or divestitures, affiliates or joint ventures or the exercise of specific areas of management responsibility. Such performance goals may relate to the performance of the Company, a business unit, product line, or any combination thereof. Performance goals may also include such objective or subjective personal performance goals as the Committee may, from time to time, establish. The Committee (or its designee, as applicable) shall have the sole discretion to determine whether, or to what extent, performance goals are achieved. Each of the performance goals will be determined in accordance with generally accepted accounting principles, as applicable; provided that the Committee will have the authority to make equitable adjustments to the performance goals in recognition of unusual or non-recurring events affecting the Company, in response to changes in applicable laws or regulations, to account for items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business or related to a change in accounting principles, or to take into account other extraordinary items and events, except to the extent that doing so would cause an award intended to be exempt from Section 162(m) of the Code to fail to be exempt.

Other Stock or Cash-Based Awards. The administrator is authorized to grant other stock-based awards or other cash-based awards, as deemed by the administrator to be consistent with the purposes of the 2011 Plan. With respect to other cash-based awards intended to qualify as performance based compensation under Section 162(m) of the Code, the maximum value of the aggregate payment that any participant may receive with respect to any such other cash-based award that is an annual incentive award is \$4,000,000.

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Transferability

Awards are not transferable other than by will or by the laws of descent and distribution. Restricted stock awards are not transferable during the restriction period.

Termination of Employment/Relationship

Awards granted under the 2011 Plan that have not vested will generally terminate immediately upon the participant's termination of employment or service with the Company or any of its subsidiaries for any reason.

Change of Control

In the event of a change in control of the Company, each outstanding award will be assumed or an equivalent award substituted by the successor corporation or a parent or subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the award, the participant will fully vest in and have the right to exercise all of his or her outstanding options and stock appreciation rights, all restrictions on restricted stock, deferred stock, performance stock, other cash-based awards and other stock-based awards will lapse, and, with respect to awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met.

Amendment of the 2011 Plan

The Board of Directors may amend alter or terminate the 2011 Plan, but no amendment, alteration, or termination may be made that would impair the rights of a participant under any award without such participant's consent. Additionally no such amendment may be made without the approval of Company stockholders that would, (i) increase the total number of shares, (ii) materially increase benefits provided under the 2011 Plan, (iii) materially alter the eligibility provisions of the 2011 Plan, or (iv) extend the maximum option term. Unless the Board of Directors determines otherwise, stockholder approval will be obtained for any amendment that would require such approval in order to satisfy the requirements of Sections 162(m) or 422 of the Code or Rule 16b-3, any rules of the stock exchange on which the Common Stock is traded or other applicable law.

On the Record Date, the closing price of the Common Stock on the NYSE Amex was \$1.58 per share.

Non-Competition

If a participant's employment with the Company or a subsidiary is terminated for any reason whatsoever, and within 12 months after the date of such termination, the participant either (i) accepts employment with any competitor of, or otherwise engages in competition with, the Company or any of its subsidiaries, (ii) solicits any customers or employees of the Company or any subsidiary to do business with or render services to the participant or any business with which the participant becomes affiliated or to which the participant renders services or (iii) discloses to anyone outside the Company or uses any confidential information or material of the Company or any subsidiary in violation of the Company's policies or any agreement between the participant and the Company or any Subsidiary, the Committee may require such participant to return to the Company the economic value of any shares of Common Stock that was realized or obtained by such participant at any time during the period beginning on the date that is six months prior to the date such participant's employment with the Company is terminated.

The Committee may, if a participant's employment with the Company or any subsidiary is terminated for cause, annul any award granted to such participant and may require such participant to return to the Company the economic value of any shares of Common Stock that was realized or obtained by such participant at any time

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during the period beginning on that date that is six months prior to the date such participant's employment with the Company is terminated.

Tax Treatment

The following is a brief description of the federal income tax consequences, under existing law, with respect to awards that may be granted under the 2011 Plan.

Incentive Stock Options. An optionee will not realize any taxable income upon the grant or the exercise of an Incentive Stock Option. However, the amount by which the fair market value of the shares covered by the Incentive Stock Option (on the date of exercise) exceeds the option price paid will be an item of tax preference to which the alternative minimum tax may apply, depending on each optionee's individual circumstances. If the optionee does not dispose of the Company's shares acquired by exercising an Incentive Stock Option within two years from the date of the grant of the Incentive Stock Option and within one year after the shares are transferred to the optionee, when the optionee later sells or otherwise disposes of the shares, any amount realized by the optionee in excess of the option price will be taxed as a long-term capital gain and any loss will be recognized as a long-term capital loss. Company generally will not be entitled to an income tax deduction with respect to the grant or exercise of an Incentive Stock Option.

If any shares of Common Stock acquired upon exercise of an Incentive Stock Option are resold or disposed of before the expiration of the prescribed holding periods, the optionee would realize ordinary income, instead of capital gain. The amount of the ordinary income realized would be equal to the lesser of (i) the excess of the fair market value of the stock on the exercise date over the option price; or (ii) in the case of a taxable sale or exchange, the amount of the gain realized. Any additional gain would be either long-term or short-term capital gain, depending on whether the applicable capital gain holding period has been satisfied. In the event of a premature disposition of shares of stock acquired by exercising an Incentive Stock Option, we would be entitled to a deduction equal to the amount of ordinary income realized by the optionee.

Non-Qualified Options. An optionee will not realize any taxable income upon the grant of a Non-Qualified Option. At the time the optionee exercises the Non-Qualified Option, the amount by which the fair market value at the time of exercise of the shares covered by the Non-Qualified Option exceeds the option price paid upon exercise will constitute ordinary income to the optionee in the year of such exercise. Company will be entitled to a corresponding income tax deduction in the year of exercise equal to the ordinary income recognized by the optionee. If the optionee thereafter sells such shares, the difference between any amount realized on the sale and the fair market value of the shares at the time of exercise will be taxed to the optionee as capital gain or loss, short-or long-term depending on the length of time the stock was held by the optionee before sale.

Stock Appreciation Rights. A participant realizes no taxable income and Company is not entitled to a deduction when a stock appreciation right is granted. Upon exercising a stock appreciation right, a participant will realize ordinary income in an amount equal to the fair market value of the shares received minus any amount paid for the shares, and Company will be entitled to a corresponding deduction. A participant's tax basis in the shares received upon exercise of a stock appreciation right will be equal to the fair market value of such shares on the exercise date, and the participant's holding period for such shares will begin at that time. Upon sale of the shares received upon exercise of a stock appreciation right, the participant will realize short-term or long-term capital gain or loss, depending upon whether the shares have been held for more than one year. The amount of such gain or loss will be equal to the difference between the amount realized in connection with the sale of the shares, and the participant's tax basis in such shares.

Restricted Stock. A recipient of restricted stock generally will not recognize any taxable income until the shares of restricted stock become freely transferable or are no longer subject to a substantial risk of forfeiture. At that time, the excess of the fair market value of the restricted stock over the amount, if any, paid for the restricted

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stock is taxable to the recipient as ordinary income. If a recipient of restricted stock subsequently sells the shares, he or she generally will realize capital gain or loss in the year of such sale in an amount equal to the difference between the net proceeds from the sale and the price paid for the stock, if any, plus the amount previously included in income as ordinary income with respect to such restricted shares.

A recipient has the opportunity, within certain limits, to fix the amount and timing of the taxable income attributable to a grant of restricted stock. Section 83(b) of the Code permits a recipient of restricted stock, which is not yet required to be included in taxable income, to elect, within 30 days of the award of restricted stock, to include in income immediately the difference between the fair market value of the shares of restricted stock at the date of the award and the amount paid for the restricted stock, if any. The election permits the recipient of restricted stock to fix the amount of income that must be recognized by virtue of the restricted stock grant. Company will be entitled to a deduction in the year the recipient is required (or elects) to recognize income by virtue of receipt of restricted stock, equal to the amount of taxable income recognized by the recipient.

Other Types of Awards. With respect to other awards under the 2011 Plan, generally when the participant receives payment with respect to an award, the amount of cash and fair market value of any other property received will be ordinary income to the participant, and Company generally will be entitled to a tax deduction in the same amount.

Section 162(m) of the Code. Section 162(m) of the Code precludes a public corporation from taking a deduction for annual compensation in excess of \$1.0 million paid to its chief executive officer or any of its four other highest-paid officers (other than the chief financial officer). However, compensation that qualifies under Section 162(m) of the Code as performance-based is specifically exempt from the deduction limit. Based on Section 162(m) of the Code and the regulations thereunder, the Company's ability to deduct compensation income generated in connection with the exercise of stock options or stock appreciation rights granted under the 2011 Plan should not be limited by Section 162(m) of the Code. Further, the Company believes that compensation income generated in connection with performance stock granted under the 2011 Plan should not be limited by Section 162(m) of the Code. The 2011 Plan has been designed to provide flexibility with respect to whether restricted stock awards or other awards will qualify as performance-based compensation under Section 162(m) of the Code and, therefore, be exempt from the deduction limit. If the vesting restrictions relating to any such award are based solely upon the satisfaction of one of the performance goals set forth in the 2011 Plan, then Company believes that the compensation expense relating to such an award will be deductible by us if the awards become vested. However, compensation expense deductions relating to such awards will be subject to the Section 162(m) deduction limitation if such awards become vested based upon any other criteria set forth in such award.

Certain Awards Deferring or Accelerating the Receipt of Compensation. Section 409A of the Internal Revenue Code, enacted as part of the American Jobs Creation Act of 2004, imposes certain new requirements applicable to nonqualified deferred compensation plans. If a nonqualified deferred compensation plan subject to Section 409A fails to meet, or is not operated in accordance with, these new requirements, then all compensation deferred under the plan may become immediately taxable. Deferred stock awards and certain other awards which may be granted under the plan may constitute deferred compensation subject to the Section 409A requirements. It is Company's intention that any award agreement governing awards subject to Section 409A will comply with these new rules.

New Plan Benefits

It is not possible to determine at this time the future awards that will be granted under the 2011 Plan if it is approved by stockholders, and no awards have been granted thereunder.

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Vote Required

The affirmative vote of a majority of shares present in person or represented by proxy at the Annual Meeting and entitled to vote on this Proposal 7 is required to approve the 2011 Plan.

Dov Charney, the beneficial owner of approximately 54.3% of the outstanding shares of Common Stock and voting power of the Company as of the Record Date, has informed the Company that he intends to vote in favor of this Proposal 7, and his vote is sufficient to approve this Proposal 7 without further affirmative votes from the other stockholders. For more information on shares owned by Mr. Charney and other directors and executive officers of the Company, see [Beneficial Ownership of Shares](#) herein.

Any abstentions with respect to this Proposal 7 will count as votes AGAINST this Proposal 7. Any broker non-votes with respect to this Proposal 7 will not count as shares entitled to vote on this proposal and therefore will be disregarded for purposes of determining the outcome of the vote on this Proposal 7.

A majority of the Board of Directors recommends a vote FOR this Proposal 7.

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PROPOSAL 8: APPROVAL OF THE POTENTIAL ISSUANCE TO CERTAIN INVESTORS OF UP TO

27,443,173 SHARES OF COMMON STOCK IN CONNECTION WITH THE INVESTOR PURCHASE RIGHT CONTEMPLATED BY THE INVESTOR PURCHASE AGREEMENT AND SUCH ADDITIONAL SHARES AS MAY BE ISSUED PURSUANT TO TOPPING-UP AND ANTI-DILUTION ADJUSTMENTS UNDER THE INVESTOR PURCHASE AGREEMENT

The Board of Directors is seeking the approval of the Company's stockholders of the potential issuance to certain investors of up to 27,443,173 shares of Common Stock upon the maximum exercise of the Investor Purchase Right (as defined below) and such additional shares as may be issued pursuant to topping-up and anti-dilution adjustments under the Investor Purchase Agreement, as described below.

Pursuant to the Investor Purchase Agreement, (i) the purchasers listed therein (the Purchasers) purchased from the Company 15,776,506 shares of Common Stock (such shares, the Investor Initial Shares), at a price of \$0.90 per share (the Per Share Price), for the aggregate cash purchase price of \$14,198,856, and (ii) the Purchasers have the right to purchase up to an aggregate of 27,443,173 additional shares of Common Stock (such right, the Investor Purchase Right and, such shares, the Investor Purchase Right Shares) at the Per Share Price for a 180-day period after the Closing Date (as defined below), in each case subject to certain topping-up and anti-dilution adjustments for additional issuances for cash of Common Stock (or securities exercisable, exchangeable or convertible for Common Stock), prior to the one-year anniversary of the Closing Date, including reduction of the Per Share Price to the lowest-issued price for such issuances made at a price below the Per Share Price, subject to some exceptions, as described below and in the Investor Purchase Agreement. The Investor Initial Shares and the Investor Purchase Right Shares (if exercised in full), represent approximately 15% and 22%, respectively, of the Company's issued and outstanding shares of Common Stock as of the Closing Date after giving effect to such respective transactions under the Investor Purchase Agreement but not the Charney Purchase Agreement or any other issuances of shares or exercise of outstanding warrants. The closing of the purchase of the Investor Initial Shares occurred on April 26, 2011 (the Closing Date).

Pursuant to the Investor Purchase Agreement, the Company agreed to seek stockholder approval of the potential issuance to certain investors of shares contemplated by the Investor Purchase Right.

Investor Topping-Up and Anti-Dilution Adjustments

In the event that the Company issues, prior to April 26, 2012 (the one-year anniversary of the Closing Date), for cash additional shares of Common Stock (or securities exercisable, exchangeable or convertible for Common Stock), other than the Exempt Transactions as defined below (a New Issuance):

the number of shares of Common Stock for which the Investor Purchase Right is exercisable will be increased by a number of shares of Common Stock sufficient to offset any reduction in the Purchasers' percentage beneficial ownership of the Common Stock as a result of such New Issuance (assuming full exercise of the Investor Purchase Right and, if the New Issuance is after the initial 180-day expiration of the Investor Purchase Right, the Investor Purchase Right will again become exercisable but only for such additional shares and only until April 26, 2012);

if such New Issuance is prior to any exercise of the Investor Purchase Right and the issue price in such New Issuance (the New Issuance Price) is less than the original \$0.90 purchase price (or the then purchase price as adjusted by these anti-dilution adjustments), the purchase price of the Investor Purchase Right will be reduced to the lower New Issuance Price; and

if the New Issuance Price is less than the original \$0.90 purchase price (or the then purchase price as adjusted by these anti-dilution adjustments), then the Company is required to issue to the Purchasers additional shares to top-up the number of Investor Initial Shares that the Purchasers purchased on the Closing Date to the number of shares of Common Stock that the Purchasers would have purchased for their investment on the Closing Date had the purchase price been the lower New Issuance Price (for

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example, if the New Issuance Price were \$0.75, the Purchasers would receive in the aggregate pursuant to this provision 3,155,302 additional shares of Common Stock).

The foregoing topping-up and anti-dilution adjustments do not apply to the following issuances of shares of Common Stock (or securities exercisable, exchangeable or convertible for Common Stock):

issuances (including pursuant to topping-up and anti-dilution adjustments) under the Investor Purchase Agreement and the Charney Purchase Agreement;