

# AMERICAN APPAREL, INC

## FORM 10-K (Annual Report)

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Address	747 WAREHOUSE STREET LOS ANGELES, CA 90021
Telephone	213-488-0226
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 10-K**

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(Mark One)

**Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2014**

OR

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period \_\_\_\_\_ to \_\_\_\_\_**

Commission File Number 001-32697

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**American Apparel, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State of Incorporation)

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

**747 Warehouse Street  
Los Angeles, California 90021-1106**  
(Address of principal executive offices)

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

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

**Common Stock, par value \$0.0001 per share**  
(Title of Each Class)

**NYSE MKT**  
(Name of Each Exchange on Which Registered)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant at June 30, 2014 was \$85,370,030 (which represents 94,855,589 shares of common stock held by non-affiliates multiplied by \$0.90, the closing sales price on the NYSE MKT LLC for such date).

At March 13, 2015, the Registrant had issued and outstanding 176,566,222 and 176,260,566 shares of its common stock, respectively.

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**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information from the Registrant's definitive proxy statement for the 2015 Annual Meeting of Stockholders (the "2015 Proxy Statement"), to be filed within 120 days of the end of the fiscal year ended December 31, 2014, is incorporated by reference into Part III hereof. Except with respect to the information specifically incorporated by reference in Part III of this Form 10-K, the 2015 Proxy Statement is not deemed to be filed as part of this Form 10-K.

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including the documents incorporated by reference herein, contains forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. All statements in this Annual Report on Form 10-K other than statements of historical fact are "forward-looking statements" for purposes of these provisions. Statements that include the use of terminology such as "may," "will," "expect," "believe," "plan," "estimate," "potential," "continue," or the negative thereof or other and similar expressions are forward-looking statements. In addition, in some cases, you can identify forward-looking statements by words or phrases such as "trend," "opportunity," "comfortable," "anticipate," "current," "intention," "position," "assume," "outlook," "remain," "maintain," "sustain," "seek," "achieve," and similar expressions.

Any statements that refer to projections of our future financial performance, anticipated growth and trends in our business, goals, strategies, focuses and plans, and other characterizations of future events or circumstances, including statements expressing general expectations or beliefs, whether positive or negative, about future operating results or the development of our products and any statement of assumptions underlying any of the foregoing are forward-looking statements. Forward-looking statements in this report may include, without limitation, statements about:

- consequences of the termination of Dov Charney, our former chief executive officer (or the internal investigation related thereto), including any litigation or regulatory investigations, or any impact on our sales or brand related thereto;
- ability to hire and/or retain qualified employees, including executive officers;
- our future financial condition, results of operations, plans and prospects, expectations, operating improvements and cost savings, and the timing of any of the foregoing;
- growth, expansion and acquisition prospects and strategies, the success of such strategies, and the benefits we believe can be derived from such strategies;
- our ability to make debt payments; ability to remain in compliance with financial covenants under financing arrangements; and ability to obtain appropriate waivers or amendments with respect to any noncompliance;
- liquidity and projected cash flows;
- plans to make continued investments in advertising and marketing;
- the outcome of investigations, enforcement actions and litigation matters, including exposure that could exceed expectations;
- intellectual property rights and those of others, including actual or potential competitors, our personnel, consultants, and collaborators;
- trends in raw material costs and other costs both in the industry and specific to us;
- the supply of raw materials and the effects of supply shortages on our financial condition, results of operations, and cash flows;
- economic and political conditions;
- currency fluctuations and the impact thereof;
- overall industry and market performance;
- operations outside the U.S.;
- the impact of accounting pronouncements;
- ability to maintain compliance with the listing requirements of NYSE MKT LLC;
- ability to improve efficiency and control costs at our production and supply chain facilities; and
- other assumptions described in this Annual Report on Form 10-K underlying or relating to any forward-looking statements.

The forward-looking statements in this report speak only as of the date of this report and caution should be taken not to place undue reliance on any such forward-looking statements, which are qualified in their entirety by this cautionary statement. Forward-looking statements are subject to numerous assumptions, events, risks, uncertainties and other factors, including those that may be outside of our control and that change over time. As a result, actual results and/or the timing of events could differ materially from those expressed in or implied by the forward-looking statements and future results could differ materially from historical performance and those expressed in or implied by the forward-looking statements. Such assumptions, events, risks, uncertainties and other factors are found in "Item 1A. Risk Factors" in Part I and elsewhere in this Annual Report on Form 10-K and other reports and documents we file with the Securities and Exchange Commission (the "SEC") and include, without limitation, the following:

- consequences of the termination of Dov Charney, our former chief executive officer (or the internal investigation related thereto), including any litigation or regulatory investigations, or any impact on our sales or brand related thereto;
  - changes in key personnel, our ability to hire and retain key personnel, and our relationship with our employees;
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- voting control by our directors, lenders and other affiliates, including Standard General and Dov Charney;
- ability to successfully implement our strategic, operating, financial and personnel initiatives;
- ability to effectively carry out and manage our strategy;
- ability to maintain the value and image of our brand and protect our intellectual property rights;
- general economic conditions, geopolitical events, other regulatory changes, and inflation or deflation;
- disruptions in the global financial markets;
- the highly competitive and evolving nature of our industry in the U.S. and internationally;
- risks associated with fluctuations and trends of consumer apparel spending in the U.S.;
- changes in consumer preferences or demand for our products;
- our ability to attract customers to our retail and online stores;
- loss or reduction in sales to wholesale or retail customers or financial nonperformance by our wholesale customers;
- seasonality and fluctuations in comparable store sales and wholesale net sales and associated margins;
- ability to improve manufacturing efficiency at our production facilities;
- changes in the price of materials and labor, including increases in the price of raw materials in the global market and minimum wages;
- ability to pass on the added cost of raw materials and labor to customers;
- ability to effectively manage inventory levels;
- risks that our suppliers or distributors may not timely produce or deliver products;
- ability to renew leases on economic terms;
- risks associated with our facilities being concentrated in one geographic area;
- ability to identify new store locations and the availability of store locations at appropriate terms; ability to negotiate new store leases effectively; and ability to open new stores and expand internationally;
- ability to generate or obtain from external sources sufficient liquidity for operations and debt service;
- consequences of our significant indebtedness, including our relationships with lenders, ability to comply with debt agreements, ability to generate cash flow to service our debt, and the risk of acceleration of borrowings thereunder as a result of noncompliance;
- adverse changes in our credit ratings and any related impact on financial costs and structure;
- continued compliance with U.S. and foreign government regulations and legislation, including environmental, immigration, labor, and occupational health and safety laws and regulations;
- loss of U.S. import protections or changes in duties, tariffs and quotas, risks associated with our foreign operations and supply sources such as market disruption, changes in import and export laws, and currency restrictions and exchange rate fluctuations;
- litigation and other inquiries and investigations, including the risks that we, our officers or directors in cases where indemnification applies, will not be successful in defending any proceedings, lawsuits, disputes, claims or audits, and that exposure could exceed expectations or insurance coverage;
- tax assessments by domestic or foreign governmental authorities, including import or export duties on our products and the applicable rates for any such taxes or duties;
- ability to maintain compliance with the exchange rules of the NYSE MKT LLC;
- the adoption of new accounting standards or changes in interpretations of accounting principles;
- adverse weather conditions or natural disaster, including those which may be related to climate change;
- technological changes in manufacturing, wholesaling, or retailing;
- the risk, including costs and timely delivery issues associated therewith, that information technology systems changes may disrupt our supply chain or operations and could impact cash flow and liquidity, and ability to upgrade information technology infrastructure and other risks associated with the systems that operate our online retail operations; and
- the risk of failure to protect the integrity and security of our information systems and customers' information.

All forward-looking statements included in this document are made based on information available to us as of the date hereof, and we assume no obligation to update any forward-looking statements.

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## PART I

### Item 1. Business

Unless the context requires otherwise, all references in the Annual Report on Form 10-K to the "Company," "Registrant," "we," "us," and "our" refer to American Apparel, Inc., a Delaware Corporation, together with its direct and indirect subsidiaries on a consolidated basis.

#### Overview

We are a vertically-integrated manufacturer, distributor, and retailer of branded fashion basic apparel and accessories for women, men, children and babies. We are based in downtown Los Angeles, California. As of March 13, 2015, we had approximately 10,000 employees and operated 239 retail stores in 20 countries. We operate a global e-commerce site that serves over 50 countries worldwide at [www.americanapparel.com](http://www.americanapparel.com).

We operate a leading wholesale business that supplies high quality T-shirts and other casual wear to distributors and screen printers. We were founded in 1998. In 2003, we opened our first retail store in Los Angeles, California. In 2004, we began our online retail operations and opened our first retail stores in Canada and Europe. Since 2005, we have opened stores in Asia, Australia, Israel, Latin America, and have further expanded throughout the U.S., Canada, and Europe. All of our retail stores sell our apparel products directly to consumers.

Because we manufacture domestically and are vertically integrated, we believe this enables us to more quickly respond to customer demand and changing fashion trends and to closely monitor product quality. Our products are noted for quality and fit, and together with our distinctive branding, these attributes have differentiated our products in the marketplace.

All of our trademarks, service marks, and certain other trademarks have been either registered or the subject of pending trademark applications with the U.S. Patent and Trademark Office and the registries of many foreign countries, and/or are protected by common law. In the U.S., we are the registered owner of the "American Apparel<sup>®</sup>," "Classic Girl<sup>®</sup>," "Standard American<sup>®</sup>," "Classic Baby<sup>®</sup>," and "Sustainable Edition<sup>®</sup>" trademarks, among others. We have licensed certain logos and designs from third-parties for use in products featuring those logos and designs, but there is no material licensed intellectual property.

#### Core Business Strengths

We have relied on various core business strengths that have contributed to our past success and will contribute to our future growth.

##### *Quality*

We pride ourselves on our quality fabrics and quality garment construction. We have an active quality control department that oversees our in-house knitting facilities, outside knitting contractors who work under our strict specifications, and cutting, sewing, dyeing and finishing facilities in the Los Angeles area. Because cutting and sewing operations are conducted mostly in-house, we believe we have the ability to exercise greater control over clothing manufacturing than competitors who use contract sewing facilities.

##### *Design Vision*

Our design vision and aesthetic are intended to appeal to young and metropolitan adults by providing them with a core line of iconic and timeless styles that are offered year-round in a wide variety of colors at reasonable prices. Since our founding, we have operated with the belief that there is a large potential market among young adults for well-designed and high-quality fashion essentials.

##### *Speed to Market*

With our manufacturing and other business processes centered in downtown Los Angeles, California, our vertically-integrated business model allows us to play a role in originating and defining new and innovative trends in fashion while enabling us to quickly respond to market and customer demand for classic styles and new products. Our wholesale operations are able to fulfill orders of any size with quick turn-around, which allows us to capture business. The ability to swiftly respond to the market means that our retail operations can deliver on-trend apparel in a timely manner and maximize sales of popular styles by replenishing product that would have otherwise sold out.

##### *Advertising and Branding*

We attract customers through internally-developed, edgy, high-impact, and visual advertising campaigns, which use print, outdoor, in-store, and electronic communication vehicles. These advertising campaigns communicate a distinct brand image that differentiates us from our competitors and seek to establish a connection with our customers. Retail stores are an important part



of our branding and convey a modern and internationalist lifestyle. At various times, we have also drawn attention to the "Made in USA" nature of our products and the "Sweatshop Free" environment in which our garments are produced.

#### *Broad Appeal*

While our marketing and products initially targeted young, metropolitan adults in the U.S., the clean, simple styles and quality of our garments create a product that appeals to various demographics around the world. We believe that our product appeal has been augmented by, and should continue to benefit from, the growing trends toward casual attire and higher quality apparel.

#### **Business Strategy**

Throughout 2014 and into early 2015, we have brought on a new board of directors and hired new senior management including Paula Schneider, Chief Executive Officer ("CEO"), Hassan Natha, Chief Financial Officer ("CFO"), and Chelsea Grayson, General Counsel as well as other additions to the management team. Together, our new board of directors and new management team are focused on implementing a turnaround strategy and enhancing our corporate governance policies and practices. We have started implementing additional operational and financial processes and disciplines to improve liquidity and profitability. To that end, we have added new members to our executive team in the areas of planning and forecasting, operations, marketing and e-commerce. We have also added members to our legal and human resources departments and have introduced a new code of ethics which we ask all of our new and current employees to read. We believe that a strong operational and financial discipline along with a robust corporate governance structure is an important element of our long-term business strategy.

In addition to enhancing and ensuring compliance with our corporate governance policies, over the next year, we will also be focused on strengthening business fundamentals to create a stable platform for future growth. We believe the following elements enhance our core business strengths and will contribute to the success of our business strategy.

#### *Merchandising*

As we have expanded beyond our original product offering of T-shirts, we have increased the variety of products available to our customers such as denim, shoes, sweaters, jackets and accessories. We recently embarked on a study of our current merchandise offerings and are analyzing which categories contribute the most to the value of our company and brand. We intend to streamline our assortment so that we can focus on making those items that our customers really want. By deepening our focus on these core products, we believe we can assure better availability of popular items during peak demand and improve the in-store experience of our customers.

Additionally, a more streamlined offering will also give us improved capacity to experiment with new style introductions, produce short runs of these new styles at lower incremental costs, and conduct robust testing of market acceptance for these new designs. We intend to continue to judiciously introduce new merchandise to complement our existing products in order to attract new customers and increase the frequency of customer visits and the size of customer purchases.

#### *Retail Stores Strategy*

Our long-term growth strategy and the success of our business depend in part on an effective management of our global retail stores portfolio and the operation of these stores in a cost-efficient manner. Although we have always actively monitored store performance, we have recently begun a more formal study of our retail stores portfolio in order to identify underperforming stores that should be exited, unfavorable store leases that should be discontinued or renegotiated, as well as stores or geographical areas that will benefit from further investments. We believe that this study will enhance our long-term growth strategy to judiciously open new stores in desirable locations on favorable terms that meet our financial targets. Over the long term, we plan to expand our presence in the U.S. and increase our store footprint in markets throughout Europe and Asia.

We evaluate potential store sites based on traffic patterns, co-tenancies, average sales per square foot achieved by neighboring stores, lease economics, store contribution margin projections, demographic characteristics and other factors considered important regarding the specific location.

#### *Online Sales Strategy*

Our online store presence represents a growth opportunity with the potential to increase not only online sales but also in-store sales. Improvements to the online shopping experience have contributed to our financial growth. In order to remain competitive, we intend to continue refining our online stores with improved functionality, personalized offers, increased service levels and visually optimized content. In 2014, we enhanced the functionality of our online stores in Korea, Mexico and Brazil. We continue to open new online stores in additional countries and in late 2014, launched a new online store in China. We also intend to invest in targeted marketing and advertisement that will enhance our online presence. We have recently brought on new senior management whose responsibility will be to focus on this strategically important aspect of our business.

### *Wholesale Sales Strategy*

Growth in the wholesale sales channel is an important part of our business strategy. We are developing a plan to identify further growth opportunities in the U.S. and international markets. In order to grow in this channel, we may have to develop new products, continue to be focused on being cost efficient, invest in sales development resources and activities and improve our marketing efforts.

### *Planning and Forecasting*

We believe that a strong production planning process that is aligned with our merchandising calendar will increase the efficiency of our manufacturing activities as well as ensuring that we get the right products to our customers at the right time.

In early 2015, we invested in new leadership to enhance our production planning and demand forecasting capabilities through the development of formal roles and responsibilities for assortment planning and purchasing. Additionally, we are implementing a merchandising calendar for our Fall 2015 season which will ensure a balanced assortment of our product offerings, set deadlines for product development milestones and enable lead time for materials purchasing and production planning, thus reducing the need for unnecessary overtime. We believe that these improvements are key to our near-term strategy of strengthening our business fundamentals.

### *In-Sourced Manufacturing Capabilities*

We believe that having certain elements of our production process in-house affords us the opportunity to exert higher quality control while simultaneously lowering production costs. We also believe that our vertically integrated manufacturing capabilities can be used to our competitive advantage. We intend to leverage our in-sourced production facilities to increase the speed of new product introductions to market, react more swiftly than our competitors to changing trends and quickly ramp up production to capitalize on our best sellers.

### *Distribution Logistics*

Our distribution center located in La Mirada, California is fully operational and contributing to more efficient and effective processing of orders and offers an improved distribution platform to scale our wholesale, retail and online order fulfillment. Our centralized distribution facility has had a positive impact on our operating expenses and cost of sales. We continue to evaluate our current shipping and replenishment activities in order to further reduce freight costs. We also intend to expand our distribution logistics strategy to a more global level. To that end, we have invested in new logistics management who will focus on ensuring that we not only distribute our products in a cost efficient manner, but that we also comply with local import regulations. We believe that this will allow us to operate more effectively in our existing markets as well as enter new markets with less risk of disruption to our business operations.

### *Information Systems Infrastructure*

An efficient and effective information systems infrastructure is an important element of our business strategy, and to that end, we are conducting an in-depth analysis of our current systems. We believe this study will identify the systems that we will need to invest in to support our future long-term growth.

### *Cost Reduction and Improved Liquidity*

The success of our future growth strategy will depend in part on our ability to create a stable operating platform. To that end, we continue to focus on driving cost efficiencies throughout our operations and seek new avenues to improve our liquidity situation.

### *Execution of the Strategy*

The execution of our business strategy and internal initiatives may cause material additional costs. Any store expansion initiatives will require the opening of new retail locations and additional retail personnel. Investments in additional sales personnel to service new geographic territories will also be necessary to grow our wholesale distribution channel. Both of these initiatives will increase our occupancy and payroll expenses. New merchandise introductions will also require expenditures to design new products in existing and new categories as well as incremental manufacturing costs associated with new products.

To support these and other initiatives, ongoing infrastructure investments may be required. In the intermediate term, this may include expenditures for machinery and equipment, upgraded information systems and additions to our management team. In order to reduce the impact of these additional costs, we will continue to identify ways to improve the efficiency of our current manufacturing operations and enhance other operating processes.

### **Brand, Advertising, and Marketing**

Our advertising and direct marketing initiatives have been developed to elevate brand awareness, facilitate customer acquisition and retention, and support key growth strategies. Our in-house design and marketing team works to create edgy, high-impact, provocative ads which are produced year-round and are sometimes featured in leading national and local lifestyle publications,

on billboards and online. While the primary intent of this advertising is to support our retail and online e-commerce operations, the wholesale business also benefits from the greater overall brand awareness generated by this advertising. For our wholesale operations, we annually participate in industry trade shows to expand and enhance customer relationships, exhibit product offerings, print product catalogs, and share new promotions with customers.

### **Competition**

We operate in the highly competitive apparel industry which is characterized by rapid shifts in fashion, consumer demand, and competitive pressures, resulting in both price and demand volatility.

Our wholesale operations compete on quality, fashion, pricing, and availability of merchandise. Our primary competitors are Gildan Activewear, HanesBrands, Russell Athletic, and Fruit of the Loom. Many of these companies have greater name recognition than us in the wholesale market. They are also larger and well-capitalized companies with broad distribution networks.

Our retail operations compete on store location, customer service, and the breadth, quality, fit, style, pricing, and availability of merchandise. Some of our competitors are larger and well-capitalized companies which have broad distribution networks. Companies that operate in this space include, but are not limited to, The Gap, Urban Outfitters, H&M, Uniqlo, and Forever 21. Reputation for the fit and quality of our garments as well as the broad variety of colors and styles are the principal means by which we compete with others.

Along with the competitive factors noted above, other key competitive factors for our online e-commerce operations include social media acceptance, advertising response rates, merchandise delivery, web site design, and web site availability. Our online e-commerce operations compete against numerous web sites, many of which may have a greater volume of web traffic and greater financial, marketing and other resources.

### **Employees**

As of December 31, 2014, we employed a work force of approximately 10,000 employees worldwide. We view our employees as long-term investments and adhere to a philosophy of providing employees with good working conditions in a technology-driven environment, which allows us to attain improved efficiency while promoting employee loyalty. We provide a compensation structure and benefits package for manufacturing employees that include above-market wages, company-subsidized health insurance, free massage, free parking as well as other benefits. We also provide for a well-lit working environment that is properly ventilated and heated or cooled. We believe these factors are key elements in achieving our desire to be an "employer of choice" in the Los Angeles area. None of our employees are covered by a collective bargaining agreement. We believe that our relations with our employees are excellent. We make diligent efforts to comply with all employment and labor regulations, including immigration laws, in the many jurisdictions in which we conduct operations.

### **Information Technology**

We are committed to utilizing technology to enhance our competitive position. Our information systems provide data for production, merchandising, distribution, retail stores and financial systems. Our core business systems consist of purchased and internally developed software and are accessed over a company-wide network providing corporate employees with access to key business applications. We dedicate a significant portion of information technology resources to web services, which include the operation of our corporate website at [www.americanapparel.net](http://www.americanapparel.net) and our online retail site at [www.americanapparel.com](http://www.americanapparel.com).

### **Regulation**

We are subject to various environmental and occupational health and safety laws and regulations. Because we monitor, control and manage environmental issues, we believe we are in compliance in all material respects with the regulatory requirements of those jurisdictions in which our facilities are located. In line with our commitment to the environment as well as to the health and safety of our employees, we will continue to make expenditures to comply with these requirements and do not believe that compliance will have a material adverse effect on our business. See "Current environmental laws, or laws enacted in the future, may harm our business" in "Item 1A. Risk Factors" in Part I.

### **Available Information**

We make available, free of charge, on our internet website, [www.americanapparel.net](http://www.americanapparel.net) - *Investor Relations*, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements, and amendments to such reports (the "SEC Reports") filed with or furnished to the SEC pursuant to federal securities laws, as soon as reasonably practicable after each SEC Report is filed with or furnished to the SEC. References herein to our corporate website, [www.americanapparel.net](http://www.americanapparel.net), and our online retail website, [www.americanapparel.com](http://www.americanapparel.com), are not intended to function as hyperlinks and the information on our websites is not and should not be considered part of this report and is not incorporated by reference in this document. In addition, copies of our SEC Reports are available at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can obtain information on the operation of the public reference facilities by calling the SEC

at 1-800-SEC-0330. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that makes available reports, proxy statements and other information regarding American Apparel that we file electronically with it.

#### **Item 1A. Risk Factors**

Our business involves various risks and uncertainties in addition to the normal risks of business, some of which are discussed in this section. It should be noted that our business may be adversely affected by a downturn in general economic conditions and other forces beyond our control. In addition, other risks and uncertainties not presently known or that we currently believe to be immaterial may also adversely affect our business. Any such risks or uncertainties, or any of the following risks or uncertainties, that develop into actual events could result in a material and adverse effect on our business, financial condition, results of operations, or liquidity.

The information discussed below should be considered carefully with the other information contained in this Annual Report on Form 10-K and the other documents and materials filed by us with the SEC, as well as news releases and other information publicly disseminated by us from time to time.

#### **Risks Related to the Company's Business**

***Turnover of our key executives and Board of Directors (the "Board") and difficulty of recruiting and retaining key employees could have a material adverse impact on our business.***

We experienced a significant amount of executive-level turnover in 2014, which has had and could continue to have a negative impact on our ability to retain key executives and employees and could have a material negative impact on our operations. We recently appointed newly hired executives as CEO, CFO, and General Counsel, among others, and seven of the nine members of the Board, including our current Chair of the Board, were appointed since July 2014. We cannot provide assurance that we will effectively manage this or any other management transition, which may impact our ability to retain our remaining key executives and employees and which could harm our business and operations to the extent there is customer or employee uncertainty regarding the prospects of our business.

***The termination of Dov Charney as our chief executive officer could have a material adverse impact on our business.***

On June 18, 2014, the Board voted to replace Dov Charney as Chairman of the Board, suspended him and notified him of its intent to terminate his employment as our Chairman and CEO for cause. In connection with the Nomination, Standstill and Support Agreement, dated July 9, 2014 (the "Standstill and Support Agreement"), the Board formed a new special committee (the "Suitability Committee") for the purpose of overseeing the investigation into alleged misconduct by Mr. Charney (the "Internal Investigation"). Based on the findings of the Internal Investigations in December 2014, the Suitability Committee determined that it would be inappropriate for Mr. Charney to be reinstated as our CEO or serve as an officer or employee of us or any of our subsidiaries, and the Board terminated Mr. Charney for cause under his employment agreement.

There can be no assurance that Mr. Charney's termination and any transition in management arising from his termination will not have a material adverse impact on our business or our ability to hire and retain employees and executive officers. In addition, as a result of the findings of the Internal Investigation and/or the determination to terminate Mr. Charney for cause, we may incur liability as a result of litigation and regulatory investigations, which could have a material adverse impact on our business.

***We depend on key personnel, and our ability to grow and compete will be harmed if we do not retain the continued services of such personnel or we fail to identify, hire and retain additional qualified personnel.***

We depend on the efforts and skills of our management team and other key personnel, and the loss of services of one or more members of this team, many of whom have substantial experience in the apparel industry, could have an adverse effect on our business. Our senior officers closely supervise all aspects of our business, in particular the design and production of merchandise and the operation of our stores.

If we are unable to hire and retain qualified management or if any member of our management leaves, such departure could adversely affect our operations and ability to design new products and to maintain and grow the distribution channels for our products. In addition, the Board's decision to terminate Mr. Charney as our CEO and to not reinstate Mr. Charney in another capacity could result in departure of other key employees.

Our ability to anticipate and effectively respond to changing fashion trends depends in part on our ability to attract and retain key personnel in our design, merchandising and marketing areas, and other functions. In addition, if we experience material growth, we will need to attract and retain additional qualified personnel. The market for qualified and talented design and marketing personnel in the apparel industry is intensely competitive, and we cannot be sure that we will be able to attract and retain a sufficient number of qualified personnel in future periods. If we are unable to attract or retain qualified personnel as needed, our growth will be hampered and our operating results could be materially adversely affected.

***Litigation exposure could exceed expectations and have a material adverse effect on our financial condition and results of operations.***

We are subject to regulatory inquiries, investigations, claims and suits, including, among others, consolidated shareholder derivative actions, wage and hour suits, and numerous employment related claims and suits. In addition, on or about June 23, 2014, Mr. Charney submitted a demand in arbitration against us in connection with his suspension, which had been stayed pending the determination of the Suitability Committee in the Internal Investigation. As a result of Mr. Charney's termination for cause, such stay is no longer in effect and we recently have received correspondence indicating that he intends to reinstate his demand for arbitration. Additionally, Mr. Charney may seek to file additional lawsuits against us arising from his termination for cause.

In the event that any current or future inquiries, investigations, claims or suits are decided against us, we may incur substantial liability, experience an increase in similar suits or suffer reputational harm. We are unable to predict the outcome that could result from these matters at this time and any views we form as to the viability of these claims or the financial exposure in which they could result could change from time to time as the matters proceed through their course or as facts are established. No assurance can be made that these matters will not result in material financial exposure, which together with the potential for similar suits and reputational harm, could have a material adverse effect upon our financial condition and results of operations. See "Note 18 of Notes to Consolidated Financial Statements" in Item 8, Part II.

***Increases in the number and magnitude of personal injury claims could adversely affect our operating results.***

We face inherent business risk from exposure to personal injury or occupational claims and claims from outside parties resulting from our operations. Accidents at our manufacturing facilities have resulted, in some cases, in serious injuries and loss of life. For example, in the first quarter of 2015, an industrial accident at our dyeing facility in Hawthorne, California resulted in injuries to one of our employees. We could experience material personal injury or occupational claims and investigations arising from this accident and future accidents and we may incur significant costs to defend such claims and investigations.

***If we fail to maintain the value and image of our brand, our sales are likely to decline.***

Our success depends on the value and image of our brand. Our name is integral to our business as well as to the implementation of our strategies for expanding our business. Maintaining, promoting and positioning our brand depend largely on the success of our marketing and merchandising efforts and our ability to provide a consistent, high quality customer experience. Our brand could be adversely affected if we fail to achieve these objectives or if our public image or reputation or those of our senior personnel were to be tarnished by negative publicity. Any of these events, including the publicity surrounding the termination of Mr. Charney as our CEO, the results of the Internal Investigation and any litigation or regulatory investigations relating thereto, could adversely impact our image and result in decreases in sales.

***Our failure to adequately protect our trademarks and other intellectual property rights could diminish the value of our brand and reduce demand for our merchandise.***

Our trademarks and service marks, and certain other intellectual property, have been registered, or are the subject of pending applications with the U.S. Patent and Trademark Office and with the registries of many foreign countries and/or are protected by common law. Our products are noted for their quality and fit, and our edgy, distinctive branding has differentiated us in the marketplace. As such, the trademark and variations thereon are valuable assets that are critical to our success. We intend to continue to vigorously protect our trademark and brand against infringement, but we may not be successful in doing so. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent as do the laws of the U.S. The unauthorized reproduction or other misappropriation of our trademark would diminish the value of our brand, which could reduce demand for our products or the prices at which we can sell our products.

***We have substantial indebtedness, which could have adverse consequences to us, and we may not be able to generate sufficient cash flow to fund our liquidity needs, including servicing our indebtedness.***

We currently have substantial indebtedness. Our level of indebtedness has important consequences to us and to you and your investment. For example, our level of indebtedness may:

- require us to dedicate a substantial portion of cash flow from operations to pay interest and principal on debt, which would reduce the funds available to use for operations, investments, future business opportunities and other general corporate purposes;
- make it more difficult for us to satisfy debt obligations, and any failure to comply with such obligations, including financial and other restrictive covenants, could result in an event of default or an inability to borrow under the agreements governing such indebtedness;
- in the case of a default or an event of default, as applicable, lead to, among other things, cross-defaults with other indebtedness, an acceleration of indebtedness or foreclosure on the assets securing indebtedness, which could have a material adverse effect on our business or financial condition;
- limit our ability to obtain additional financing or to sell assets or equity to raise funds, if needed, for working capital, capital expenditures, expansion plans and other investments, which may limit our ability to implement business strategies;
- result in higher interest expense if interest rates increase on our floating rate borrowings;

- place us at a competitive disadvantage relative to others in the industry, as it is not common for companies involved in the retail apparel business to operate with such high leverage;
- heighten our vulnerability to downturns in our business, the retail industry or in the general economy and limit our flexibility in planning for or reacting to changes in our business, the retail industry or in the general economy; or
- reduce our ability to carry out our plans to expand store base, product offerings and sales channels.

Our ability to service indebtedness is dependent on cash from internal operations sufficient to make required payments on such indebtedness, which is, to a significant extent, subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control, some of which factors are further described in this "Risk Factors" section. We are permitted by the terms of our indebtedness, including our senior secured notes and the Capital One Credit Facility (as defined in Note 1 of Notes to Consolidated Financial Statements in Item 8, Part II), to incur additional indebtedness, subject to the restrictions therein. We have experienced negative cash flows from operating activities in the past, and our business may not generate sufficient cash flow from operations to enable us to service indebtedness or to fund other liquidity needs. The inability to access sufficient liquidity could have a material adverse effect on us and we may need to take various actions, which also could have material adverse consequences to us, including seeking to refinance all or a portion of indebtedness, seeking additional debt or equity financing or reducing or delaying capital expenditures, strategic acquisitions or investments, and we may not be able to do so on commercially reasonable terms or at all.

***The terms of our indebtedness contain various covenants that may limit our business activities, and our failure to comply with these covenants could have material adverse consequences to us.***

The terms of our indebtedness contain, and our future indebtedness may contain, various restrictive covenants that limit our management's discretion in operating our business. In particular, these agreements include, or may include, covenants relating to limitations on:

- dividends on, and redemptions and repurchases of capital stock;
- payments on subordinated debt;
- liens and sale-leaseback transactions;
- loans and investments;
- debt and hedging arrangements;
- mergers, acquisitions and asset sales;
- transactions with affiliates;
- disposals of assets;
- changes in business activities conducted by us and our subsidiaries; and
- capital expenditures, including to fund future store openings.

We have amended the Capital One Credit Facility from time to time in order to waive certain obligations relating to, among other things, financial ratio covenants including the third amendment dated November 14, 2013 and the fifth amendment dated March 25, 2014. As of December 31, 2014, we were not in compliance with the financial covenants under the Capital One Credit Facility. We obtained a waiver of such noncompliance in connection with the sixth amendment to the Capital One Credit Facility on March 25, 2015; however, there can be no assurance that we will maintain compliance therewith going forward and we may need to obtain further amendments to avoid an event of default under the facility.

Under the indenture governing our senior secured notes, a special interest trigger event occurred as of December 31, 2013 because our consolidated total net leverage ratio, as calculated under the indenture, exceeded 4.50 to 1.00. As a result, interest on the senior secured notes now accrues at a rate of 15% annum, with the interest in excess of 13% per annum payable in-kind for any interest payment date prior to April 15, 2018 and in cash for any interest payment date thereafter. The additional 2% per annum of interest accrues retroactively from the issue date of the senior secured notes. Similarly, because of the special interest trigger event, the interest rate on the Lion Loan Agreement (as defined in Note 1 of Notes to Consolidated Financial Statements in Item 8, Part II) also increased from 18% to 20% per annum with the additional 2% payable retroactively from the date of the loan agreement. On July 16, 2014, Lion assigned its rights and obligations as a lender under the Lion Loan Agreement to an entity affiliated with Standard General Group ("Standard General" and such agreement, subsequent to the assignment, the "Standard General Loan Agreement"). On September 8, 2014, we entered into an amendment of the Standard General Loan Agreement to lower the applicable interest rate to 17%, extend the maturity to April 15, 2021, and make certain other technical amendments, including to remove a provision that specified that Mr. Charney not being the CEO of the Company would constitute an event of default. Interest under the Standard General Loan Agreement is payable in cash or, to the extent permitted by our other debt agreements, in-kind. We are currently paying the interest in cash as the terms of our other debt agreements do not currently permit payment in-kind. On March 25, 2015, one of our subsidiaries borrowed \$15,000 under an unsecured credit agreement with Standard General, dated as of March 25, 2015 (the "Standard General Credit Agreement"). The Standard General Credit Agreement is guaranteed by us, bears interest at 14% per annum, and will mature on October 15, 2020. The proceeds of such loan are intended to provide additional liquidity to us as contemplated by the Standstill and Support Agreement.

Our credit agreements contain, and any future credit agreements or loan agreements may contain, certain financial and maintenance covenants, including covenants relating to our capital expenditures, fixed charge coverage, borrowing availability and leverage, some of which may be tied to consolidated EBITDA, in each case as defined in the applicable debt agreements. Such restrictive and other covenants could limit our ability to respond to market conditions, to provide for unanticipated capital requirements or to take advantage of business or acquisition opportunities.

Our failure to comply with the various covenants under our indebtedness could have material adverse consequences to us. Such failure may result in our being unable to borrow under our revolving credit facility, which we utilize to access our working capital, and as a result may adversely affect our ability to finance our operations or pursue our expansion plans. Our debt agreements contain cross-default or cross-acceleration provisions by which non-compliance with covenants, or the acceleration of other indebtedness of at least a specified outstanding principal amount, could also constitute an event of default under such debt agreements. Accordingly, such a failure could result in the acceleration of all of our outstanding debt, and may adversely affect our ability to obtain financing that may be necessary to effectively operate our business and grow the business going forward. In addition, substantially all of our assets are used to secure indebtedness, including loans under our credit agreements, our senior secured notes and certain equipment leasing agreements. In the event of a default on these agreements, substantially all of our assets could be subject to liquidation by the creditors, which liquidation could result in no assets being left for the stockholders after the creditors receive their required payment. In such an event, we would be required to seek alternative sources of liquidity, and there can be no assurance that any alternative source of liquidity would be available on terms acceptable to us, or at all.

***Fluctuations in our results of operations from quarter to quarter could have a disproportionate effect on our overall financial condition and results of operations.***

We experience seasonal fluctuations in revenues and operating income. Historically, sales during the third and fourth fiscal quarters have generally been the highest while sales during the first fiscal quarter have been the lowest. Any factors that harm our third or fourth quarter operating results, including adverse weather or unfavorable economic conditions, could have a disproportionate effect on our results of operations for the entire fiscal year.

In order to prepare for our peak selling season, we must produce and keep in stock more merchandise than we would carry at other times of the year. Any unanticipated decrease in demand for our products during our peak selling season could require us to sell excess inventory at a substantial markdown, which could reduce our net sales and gross profit.

A variety of factors affect comparable store sales, including fashion trends, competition, current economic conditions, pricing, inflation, the timing of release of new merchandise and promotional events, changes in our merchandise mix, the success of marketing programs, timing and level of markdowns and weather conditions. These factors may cause our comparable store sales results to differ materially from prior periods and from our expectations.

***Our plans to expand our product offerings and sales channels might not be successful, and implementation of these plans might divert our operational, managerial and administrative resources, which could impact our competitive position.***

Our ability to grow our existing brand and develop or identify new growth opportunities depends in part on our ability to appropriately identify, develop and effectively execute strategies and initiatives. Failure to effectively identify, develop and execute strategies and initiatives may lead to increased operating costs without offsetting benefits and could have a material adverse effect on our results of operations. These plans involve various risks discussed elsewhere in these risk factors, including:

- implementation of these plans may be delayed or may not be successful;
- if our expanded product offerings and sales channels fail to maintain and enhance our distinctive brand identity, our brand image may be diminished and our sales may decrease;
- implementation of these plans may divert management's attention from other aspects of our business and place a strain on our management, operational and financial resources, as well as our information systems.

In addition, our ability to successfully carry out our plans to expand our product offerings may be affected by, among other things, economic and competitive conditions, changes in consumer spending patterns and consumer preferences, and fashion trends. Our expansion plans could be delayed or abandoned, could cost more than anticipated and could divert resources from other areas of our business, any of which could impact our competitive position and reduce our revenue and profitability.

***Our ability to attract customers to our stores depends heavily on the success of the shopping areas in which they are located.***

In order to generate consumer traffic, we locate many of our stores in prominent locations within successful shopping areas. Net sales at these stores are partly dependent on the volume of traffic in those shopping areas. Our stores benefit from the ability of a shopping area's other tenants to generate consumer traffic in the vicinity of our stores and the continuing popularity of the shopping areas. We cannot control the availability or cost of appropriate locations within existing or new shopping areas, competition with other retailers for prominent locations or the success of individual shopping areas. Other factors beyond our control that impact consumer traffic include economic conditions nationally or in a particular area, severe weather, competition from internet

retailers, changes in consumer demographics in a particular market, the closing or decline in popularity of other stores in the shopping areas where our stores are located, deterioration in the financial conditions of the operators of the shopping areas or developers and consumer spending levels. Furthermore, in pursuing our growth strategy, we will be competing with other retailers for prominent locations within the same successful shopping areas. If we are unable to secure prime store locations or unable to renew store leases on acceptable terms as they expire from time to time, we may not be able to continue to attract the number or quality of customers needed to sustain our projected revenues. All these factors may have a material adverse effect on our financial condition and results of operations.

***Our business strategy relies in part on the opening of new stores, the remodeling of existing stores and expanding our business internationally, which may strain our resources, adversely impact the performance of our existing stores, and delay or prevent successful penetration into international markets.***

Our business strategy depends in part on opening new retail stores, both domestically and internationally, renewal of existing store leases on terms that meet our financial targets, remodeling existing stores in a timely manner, and cost-efficient operation of these stores. Successful implementation of this portion of our strategy depends on a number of factors including, but not limited to, our ability to:

- identify and obtain suitable store locations and negotiate acceptable leases for these locations;
- complete store design and remodeling projects on time and on budget;
- manage and expand our infrastructure to accommodate growth;
- generate sufficient operating cash flows or secure adequate capital on commercially reasonable terms to fund expansion and remain in compliance with the relevant covenants in our credit facilities, which may limit our ability to fund such expansion;
- manage inventory effectively to meet the needs of new and existing stores on a timely basis;
- avoid construction delays and cost overruns in connection with the build-out of new stores;
- hire, train and retain qualified store managers and sales people.
- gain acceptance from foreign customers;
- manage foreign exchange rate risks effectively;
- address existing and changing legal, regulatory and political environments in target foreign markets; and
- manage international growth, if any, in a manner that does not unduly strain our financial, operating and management resources.

Any expansion of our store base and remodeling of existing stores may not result in an increase in our revenues even though they increase our costs. New stores may place increased demands on our existing financial, operational, managerial and administrative resources, which could cause us to operate less effectively. Further, our ability to fund expansion and other capital expenditures will depend on sufficient cash from internal operations (after taking into account our debt service obligations and subject to the covenants in debt agreements) or financing subject to general economic, legislative, regulatory and other factors that are beyond our control and which financing may not be available on commercially reasonable terms or at all.

Our ability to obtain real estate to open new stores in desirable locations depends upon the availability of real estate that meets our criteria, which includes projected foot traffic, square footage, customer demographics and whether we are able to negotiate lease terms that meet our operating budget. In addition, we must be able to effectively renew our existing store leases from time to time. Failure to secure real estate in desirable locations on economically beneficial terms or to renew leases on existing store locations on economically beneficial terms could have a material adverse effect on our results of operations.

We anticipate that we will incur significant costs related to starting up and maintaining additional foreign operations. Costs may include, and will not be limited to, setting up foreign offices and hiring experienced management. These increased demands may cause us to operate our business less effectively, which in turn could cause deterioration in the performance of our stores. In addition, our ability to conduct business in international markets may be affected by legal, regulatory, political and economic risks.

***Significant fluctuations in exchange rates between the U.S. dollar and foreign currencies may adversely affect our revenues, operating income, net income, earnings per share, and cash flows.***

We face exposure to adverse movements in foreign currency exchange rates as a result of our international operations. These exposures may change over time, and they could have a material adverse impact on our financial results and cash flows. An increase in the value of the U.S. dollar relative to foreign currencies could make our products more expensive and therefore potentially less competitive in foreign markets. Lowering our price in local currency may result in lower revenue. Conversely, a decrease in the value of the U.S. dollar relative to foreign currencies could increase operating expenses.

***Because we utilize foreign suppliers and sell into foreign markets, we are subject to numerous risks associated with international business that could increase our costs or disrupt the supply of our products, resulting in a negative impact on our business and financial condition.***

Our international operations subject us to risks, including:



- economic and political instability;
- restrictive actions by foreign governments;
- greater difficulty enforcing intellectual property rights and weaker laws protecting intellectual property rights;
- changes in import duties or import or export restrictions;
- fluctuations in currency exchange rates, which could negatively affect profit margins;
- timely shipping of product;
- complications complying with the laws and policies of the United States affecting the exportation of goods, including duties, quotas, and taxes; and
- complications complying with trade and foreign tax laws.

These and other factors beyond our control could disrupt the supply of our products, influence the ability of our suppliers to export our products cost-effectively or at all, inhibit our suppliers' ability to procure certain materials and increase our expenses, any of which could harm our business, financial condition and results of operations.

***Cost increases in, or shortages of, the materials or labor used to manufacture our products could negatively impact our business and financial condition.***

The manufacture of our products is labor intensive and utilizes raw materials supplied by third parties. An important part of our branding and marketing is that our products are made in the U.S. The Federal Trade Commission has stated that for a product to be called "Made in USA," or claimed to be of domestic origin without qualifications or limits on the claim, the product must be "all or virtually all" made in the U.S. The term "U.S." includes the 50 states, the District of Columbia, and the U.S. territories and possessions. "All or virtually all" means that all significant parts and processing that go into the product must be of U.S. origin. That is, the product should contain no, or negligible, foreign content. We meet the Federal Trade Commission's "Made in USA" standard and from the knitting process to the final sewing of a garment, all of the processes are conducted in the U.S., either directly by us in our knitting, manufacturing, dyeing and finishing facilities located in Los Angeles or through commission knitters, dyers and sewers in the Los Angeles metropolitan area and other regions in the U.S. If the cost of labor materially increases, our financial results could be materially adversely affected and our ability to compete against companies with lower labor costs could be hampered. Material increases in labor costs in the U.S. could also force us to move all or a portion of our manufacturing overseas, which could adversely affect our brand identity.

Similarly, increases in the prices of raw materials or the prices we pay to the suppliers of the raw materials used in the manufacturing of our products, and shortages in such materials, could have a material adverse effect on our financial condition and results of operations. For example, the price of yarn and the cost of certain related fabrics has historically fluctuated. Such shortages may result in an increase in our manufacturing costs and could result in a material adverse effect on our financial condition and results of operations, and we are unable to predict whether we will be able to successfully pass on the added cost of raw materials to our wholesale and retail customers. In addition, increases in the cost of, or shortages in, our raw material inputs could adversely affect our ability to compete. Further, we could be forced to seek to offset any increased raw material costs by relocating all or a portion of our manufacturing overseas to locations with lower labor costs.

***Our manufacturing operations are located and will be located in higher-cost geographic locations, placing us at a possible disadvantage to competitors that have a higher percentage of their manufacturing operations overseas.***

Despite the general industry-wide migration of manufacturing operations to lower-cost locations, such as Central America, the Caribbean Basin and Asia, our textile manufacturing operations are still located in the U.S., which is a higher-cost location relative to these offshore locations. In addition, our competitors generally source or produce a greater portion of their textiles from foreign sources with lower costs than us. Our competitors' lower costs of production may allow them to offer their products at lower prices. This could force us to lower our margins or to compete more vigorously with non-price competitive strategies to preserve our margins and sales volume.

***Our reliance on operational facilities located in the same vicinity makes our business susceptible to local and regional disruptions or adverse conditions.***

We conduct all of our manufacturing operations in the Los Angeles metropolitan area. Among other facilities in the area, our 800,000 square foot facility in downtown Los Angeles houses executive offices as well as cutting and sewing operations. Our distribution operations are located in La Mirada, California. As a result of geographic concentration, our operations are susceptible to local and regional factors, such as accidents, system failures, economic and weather conditions, natural disasters, and demographic and population changes, and other unforeseen events and circumstances.

Southern California is particularly susceptible to earthquakes. Any significant interruption in the operation of any of these facilities could reduce our ability to receive and process orders and provide products and services to our stores and customers, which could result in lost sales, canceled sales and a loss of loyalty to our brand. In addition, if there were a major earthquake, we may have to cease operations for a significant period due to possible damage to our factory or inability to deliver products to our distribution center.

***Unionization of employees at our facilities could result in increased risk of work stoppages and high labor costs.***

Our employees are not party to any collective bargaining agreement or union. If employees at our manufacturing or distribution facilities were to unionize, our relationship with our employees could be adversely affected. We would also face an increased risk of work stoppages and higher labor costs. One non-union organization that purports to represent the rights of some of our current and former employees has communicated demands to us that are purportedly made on behalf of such current and former employees. We understand that one related group has solicited support with an intention to attempt to be recognized by us as a union. If employees at our manufacturing or distribution facilities were to unionize, or otherwise make collective demands on us, it could adversely affect our relationship with our employees, increase the risk of work stoppages and increase our labor costs and legal fees. Such employee actions could also have a material adverse impact on our operating costs and financial condition and could force us to take actions such as raising prices on our products, curtailing operations and/or relocating all or a portion of our operations overseas.

***A disruption in our information technology infrastructure may interrupt our operations.***

We depend on information systems to operate our website, process transactions, respond to customer inquiries, manage inventory and production, purchase, sell and ship goods on a timely basis and maintain cost-efficient operations. We may experience operational problems with our information systems as a result of system failures, viruses, computer "hackers" or other causes.

Any material disruption or slowdown of our systems could cause information, including data related to customer orders, to be lost or delayed, delays in the delivery of merchandise to our stores and customers or lost sales.

Moreover, we may not be successful in developing or acquiring technology that is competitive and responsive to the needs of our customers and might lack sufficient resources to make the necessary investments in technology to compete with our competitors. Accordingly, if changes in technology cause our information systems to become obsolete, or if our information systems are inadequate to handle our growth, we could lose customers.

***A failure in our online retail operations could significantly disrupt our business and lead to reduced sales and reputational damage.***

Our online retail operations accounted for approximately 10% of net sales for the year ended December 31, 2014 and are subject to numerous risks that could have a material adverse effect on our operational results. Risks to online revenue include, but are not limited to, the following:

- changes in consumer preferences and buying trends relating to internet usage;
- changes in required technology interfaces;
- website downtime;
- difficulty in recreating the in-store experience on our website; and
- risks related to the failure of the systems that operate the web sites and their related support systems, including computer viruses, theft of customer information, telecommunication failures and electronic break-ins and similar disruptions.

Our failure to successfully respond to these risks and uncertainties could reduce Internet sales and damage our brand's reputation.

***Failure to protect the integrity and security of our information systems and our customers' information could materially adversely affect our results of operations, damage our reputation and expose us to litigation.***

Our operations, including sales through our e-commerce website and retail stores, involve the collection, storage and transmission of customers' credit card information and personal identification data, as well as employee information and non-public company data. The costs associated with maintaining the security of such information, including increased investments in technology, the costs of compliance with consumer protection laws, and costs resulting from consumer fraud or a malicious breach of our information systems, could materially adversely affect our results of operations. If the security of the customer data stored on our servers or transmitted by our network is breached, our reputation could be materially adversely affected, which could negatively impact our sales results, and we could be subject to litigation. To date, we have not experienced a significant security breach.

***We rely heavily on immigrant labor, and changes in immigration laws or enforcement actions or investigations under such laws could materially adversely affect our labor force, manufacturing capabilities, operations and financial results.***

We rely heavily on immigrant labor. Adverse changes to existing laws and regulations applicable to employment of immigrants, enforcement requirements or practices under those laws and regulations, and inspections or investigations by immigration authorities or the prospects or rumors of any of the foregoing, even if no violations exist, could negatively impact the availability and cost of personnel and labor to us. As a result, we could experience very substantial turnover of employees on short or no notice, which could result in manufacturing and other delays. We may also have difficulty attracting or hiring new employees in a timely manner, resulting in further delays. These delays could materially adversely affect our revenues and costs and our ability to compete. If we are not able to continue to attract and retain sufficient employees, our manufacturing capabilities, operations and financial results would be adversely affected.

***We are subject to customs, advertising, consumer protection, privacy, zoning and occupancy, and labor and employment laws that could require us to modify our current business practices and incur increased costs.***

We are subject to numerous regulations, including customs, advertising, consumer protection and privacy, zoning and occupancy laws and ordinances that regulate the operation of retail stores and warehouse facilities and/or govern the importation, promotion and sale of merchandise. If these regulations were to change or were violated, we could be subject to litigations, fines and penalties and experience increased costs of certain goods and delays in shipments of goods, which would hurt our business and results of operations.

We are also subject to numerous federal and state labor laws, such as minimum wage laws and other laws relating to employee benefits. If these laws were to change, we may incur additional wage and benefit costs, which could adversely affect our profitability. We are currently defending several wage and hour suits. Should these matters be decided against us, we could incur substantial liability, experience an increase in similar suits, and suffer reputational harm. We are unable to predict the financial outcome of these matters at this time, but no assurance can be made that these matters will not result in material financial exposure. See "Note 18 of Notes to Consolidated Financial Statements" in Item 8, Part II for a more detailed discussion of our pending litigation.

Legal requirements are frequently changed and subject to interpretation, and we are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations. We may be required to make significant expenditures or modify our business practices to comply with existing or future laws and regulations, which may increase our costs and materially limit our ability to operate our business.

***We are currently being audited by government tax agencies regarding our operating activities in previous periods which may result in an assessment of a material amount, the payment of which may adversely impact our financial conditions and operations.***

As of December 31, 2014, we are being audited by government agencies in various jurisdictions in regards to sales, VAT, income, and other taxes and customs duties for certain previous years. For example, in connection with one such audit, the German customs audited the import records of our German subsidiary for the years 2009 through 2011 and issued retroactive punitive duty assessments on our imports. The German authorities demanded, and we paid, in connection with such assessments, \$5,183 in 2014.

Although we believe that we properly assess and remit all required sales, VAT, income, and other taxes and customs duties in applicable jurisdictions, no assurance can be made that these matters will not have a material adverse effect on our financial condition and results of operations.

***Third party failure to deliver merchandise to stores and customers could result in lost sales or reduced demand for our merchandise.***

The efficient operation of our stores and wholesale business depends on the timely receipt of merchandise from our distribution centers. Independent third party transportation companies deliver a substantial portion of our merchandise to our stores. These shippers may not continue to ship our products at current pricing or terms. These shippers may employ personnel represented by labor unions. Disruptions in the delivery of merchandise or work stoppages by employees or contractors of these third parties could delay the timely receipt of merchandise, which could result in canceled sales, a loss of loyalty to our brand and excess inventory. There can be no assurance that such stoppages or disruptions will not occur in the future. Any failure by these third parties to respond adequately to our distribution needs would disrupt our operations and could have a material adverse effect on our financial condition and results of operations.

Timely receipt of merchandise by our stores and our customers may also be affected by factors such as inclement weather, natural disasters and acts of terrorism. We may respond by increasing markdowns or initiating marketing promotions, which would decrease our gross profits and net income.

***We have potential exposure to credit risks on our wholesale sales.***

We are exposed to the risk of financial non-performance by our customers, primarily in our wholesale business. Sales to wholesale customers represented approximately 31% of our net sales for the year ended December 31, 2014. Our extension of credit involves considerable use of judgment and is based on an evaluation of each customer's financial condition and payment history. We monitor our credit risk exposure by periodically obtaining credit reports and updated financials of our customers. One customer in our U.S. wholesale business accounted for 16.6% of our total trade accounts receivable as of December 31, 2014. We maintain an allowance for doubtful accounts for potential credit losses based upon historical trends and other available information. However, delays in collecting or the inability to collect on sales to significant customers or a group of customers could have a material adverse effect on our results of operations.

### **Risks Related to the Company's Stock**

***Our stock price may be volatile.***

Our stock price may fluctuate substantially as a result of quarter to quarter variations in our actual or anticipated financial results or the financial results of other companies in the retail and apparel industries. In addition, the stock market has experienced price and volume fluctuations that have affected the market price of many retail and other stocks and that have often been unrelated or disproportionate to the operating performance of these companies. Failure to meet the expectations of investors, security analysts or credit rating agencies in one or more future periods could reduce the market price of our common stock and cause our credit ratings to decline. In addition, the fluctuation of our stock price also could cause us to fail to meet listing standards on the NYSE MKT if our stock price trades at a low price per share for a substantial period of time and we fail to effect a reverse split of our shares.

***If we are unable to maintain the listing of our common stock on the NYSE MKT or any other securities exchange, it may be more difficult for you to sell your securities.***

Our common stock is currently traded on the NYSE MKT. We are currently in compliance with the continued listing standards of the NYSE MKT; however, in the past we have failed to meet such standards. We are subject to periodic review by NYSE MKT and no assurance can be given that we will continue to meet the listing requirements of NYSE MKT in the future. If for any reason the NYSE MKT should delist our common stock, and we are unable to obtain listing on another national securities exchange, we could face significant material adverse consequences, including:

- a limited availability of market quotations for our securities;
- a limited amount of news and analyst coverage;
- a decreased ability to issue additional securities or obtain additional financing in the future; and
- a determination that the common stock is a "penny stock," if the securities sell for a substantial period of time at a low price per share which would require brokers trading in the common stock to adhere to more stringent rules, possibly resulting in a reduced level of trading activity in the secondary trading market for the common stock.

***Voting control by our directors, lenders and other affiliates, including Standard General and Dov Charney, may limit your ability to influence the outcome of director elections and other matters requiring stockholder approval.***

In connection with the Standstill and Support Agreement, five directors resigned from the Board, effective as of August 2, 2014, and five new directors were appointed to the Board, three of whom were designated by Standard General and two of whom were appointed by the mutual agreement of Standard General and us. The Standstill and Support Agreement provides Standard General and Mr. Charney with specified rights with respect to the appointment of their mutually agreed designees to the Board and the nomination of such designees for election at our annual meeting of stockholders, subject to specified limitations, including that Mr. Charney will not serve as a member of our Board or be nominated by us or Standard General as a Board member. In 2014, Lion exercised its right to designate two members to our Board, whose appointments were effective as of September 15, 2014 and January 13, 2015, respectively. On March 6, 2015, a member appointed by Lion resigned from the Board, and, on March 24, 2015, the Board elected a member designated by Lion to fill that vacancy.

As of March 13, 2015, Mr. Charney owned approximately 42% of our outstanding common stock and Mr. Charney and Standard General collectively controlled the right to vote such common stock. On July 9, 2014, Mr. Charney and Standard General, on behalf of one or more of its funds, entered into a cooperation agreement (the "Cooperation Agreement"), which provides among other things that neither Mr. Charney nor Standard General will vote the common stock owned by Mr. Charney except in a manner approved by the parties in writing, except that, notwithstanding the terms of the Standstill and Support Agreement, Mr. Charney may vote certain of his shares in favor of his own election to the Board and may vote all of such shares pursuant to the Investment Voting Agreement (defined below). In addition, according to Mr. Charney's Schedule 13D/A, dated June 25, 2014, Mr. Charney agreed to enter into warrant agreements with Standard General that would give Standard General the right, exercisable on or prior to July 15, 2017, to purchase from Mr. Charney shares representing approximately 18.4% of our currently outstanding common stock (consisting of the 27,351,407 shares purchased by Mr. Charney from Standard General using the proceeds of a loan from Standard General and 10% of Mr. Charney's 47,209,407 original shares which original shares also are pledged as security for such loan, which shares are further referenced in the Cooperation Agreement).

As of March 13, 2015, Lion owned warrants to acquire 24.5 million shares, or approximately 14%, of our outstanding common stock. Mr. Charney and Lion have the right to acquire additional beneficial ownership under certain circumstances. In addition, Mr. Charney and Lion are parties to an investment agreement pursuant to which Lion has the right to designate up to two directors on the Board and a board observer (or, if we increase our board size to 12, up to three directors and no board observers), subject to maintaining certain minimum ownership thresholds of common stock or shares of common stock issuable under Lion's warrants.

Mr. Charney and Lion also are parties to an investment voting agreement, dated March 13, 2009 (the "Investment Voting Agreement") which provides that, for so long as Lion has the right to designate any person or persons to the Board, Mr. Charney will vote his shares of common stock in favor of Lion's designees, and Lion will vote its shares of common stock in favor of Mr. Charney and each other designee of Mr. Charney, in each case subject to Mr. Charney maintaining certain minimum ownership thresholds of common stock.

This concentration of share ownership, agreements allowing Standard General and Lion to appoint members to the Board, and voting agreements between Mr. Charney and Standard General and Mr. Charney and Lion, may adversely affect the trading price for the common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. Also, some or all of our significant stockholders, if they were to act together, would be able to control our management and affairs and matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership may have the effect of facilitating, delaying or preventing a change of control, including a merger, consolidation or other business combination involving us, or encouraging or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, depending on the desires of our significant stockholders. Among other things, such actions may prevent our stockholders from realizing a premium over the current market price for their shares of common stock. Our significant stockholders may also have interests that differ from yours and may vote their shares of common stock in a way with which you disagree and which may be adverse to your interests. Furthermore, Standard General and its affiliates could be our sole lender under our revolving credit facility if it acquires our revolving credit facility.

***Our adoption of a stockholders rights plan may delay or make it more difficult for a third party to acquire us, even if doing so may be beneficial to our stockholders.***

On December 21, 2014, our Board adopted a stockholders rights plan (the "Rights Plan"). Under the Rights Plan, we declared a dividend of one preferred share purchase right for each share of our common stock held by shareholders of record as of January 2, 2015. Each right entitles the registered holder to purchase from us a unit consisting of one ten-thousandth of a share (a "Unit") of Series B Junior Participating Preferred Stock, par value \$0.0001 per share, at a purchase price of \$3.25 per Unit, subject to adjustment. The Rights Plan was implemented by us to protect our stockholders from a threat of creeping control and provide the Board and our stockholders with adequate time to properly assess any take-over bid without undue pressure. However, the Rights Plan may have the effect of delaying, deterring or preventing acquisitions that would otherwise have provided value to our stockholders and may not be effective in preventing an acquirer from ultimately acquiring control over us.

### **Risks Related to the Company's Industry**

***We operate in the highly competitive retail and apparel industries and our market share may be adversely impacted at any time by the significant number of competitors in our industries that may compete more effectively than we can.***

The apparel industry is characterized by rapid shifts in fashion, consumer demand, and competitive pressures, resulting in both price and demand volatility. The retail apparel industry - specifically, the imprintable apparel market - is fragmented and highly competitive. Prices of certain products we manufacture are determined based on market conditions including the price of raw materials. There can be no assurance that we will be able to compete successfully in the future.

We compete with national and local department stores, specialty and discount store chains, independent retail stores, and internet businesses that market similar lines of merchandise. Many of these competitors have greater name recognition and are better capitalized than us, which may enable them to adapt to changes in customer requirements more quickly, devote greater resources to the marketing and sale of their products, generate greater national brand recognition, or adopt more aggressive pricing policies than we can.

We also face competition in European, Asian and Canadian markets from established regional and national chains. Our success in these markets depends on determining a sustainable profit formula to build brand loyalty and gain market share in these challenging retail environments. If our international business is not successful, our results of operations could be adversely affected.

The wholesale business competes with numerous wholesale companies based on the quality, fashion, availability, and price of wholesale product offerings. Many of these companies have greater name recognition and greater financial and other resources than us. If we cannot successfully compete with these companies, our business and results of operations could be adversely affected.

***Purchases of retail apparel merchandise are generally discretionary and economic conditions may cause a decline in consumer spending which could adversely affect our business and financial performance.***

Our operations and performance depend significantly on worldwide economic conditions and their impact on levels of consumer spending, particularly in discretionary areas such as fashion apparel. Our business and financial performance, including sales and the collection of accounts receivable, may be adversely affected by, among other things, any future decrease in economic activity in the markets we serve, increased unemployment levels, higher fuel and energy costs, rising interest rates, adverse conditions in the housing markets, financial market volatility, recession, decreased access to credit, reduced consumer confidence in future economic and political conditions, acts of terrorism, consumer perceptions of personal well-being and security, and other macroeconomic factors affecting consumer spending behavior. A decrease in consumer discretionary spending as a result of macroeconomic conditions may decrease the demand for our products. In addition, reduced consumer spending may cause us to lower prices or drive us to offer additional products at promotional prices, any of which would have a negative impact on gross profit.

Our ability to meet customers' demands depends, in part, on our ability to obtain timely and adequate delivery of materials, parts and components from our suppliers. Global financial conditions may materially and adversely affect the ability of our suppliers to obtain financing for significant purchases and operations. If certain key suppliers were to become capacity constrained or insolvent as a result of a financial crisis, it could result in a reduction or interruption in supplies or a significant increase in the price of supplies and adversely impact consumer purchases and our financial results. As a consequence, our operating results for a particular period are difficult to predict, and prior results are not necessarily indicative of results to be expected in future periods. Any of the foregoing effects could have a material adverse effect on our business, financial condition, and results of operations.

***If we are unable to gauge fashion trends and react to changing consumer preferences in a timely manner, our sales will decrease.***

Our success is largely dependent upon our ability to gauge the fashion tastes of our customers and to provide merchandise that satisfies customer demand in a timely manner. The retail apparel business fluctuates according to changes in consumer preferences, which are dictated, in part, by fashion and season. To the extent we misjudge the market for our merchandise or the products suitable for our market, our sales will be adversely affected. Merchandise misjudgments could have a material adverse effect on our brand image.

Fluctuations in the apparel retail market affect the level of inventory owned by apparel retailers since merchandise must be manufactured in advance of the season and frequently before fashion trends are evidenced by customer purchases. In addition, the cyclical nature of the retail apparel business requires us to carry a significant amount of inventory, especially prior to peak selling seasons when we build up our inventory levels. As a result, we will be vulnerable to demand pricing shifts, suboptimal selection and timing of merchandise production. If sales do not meet expectations, excess inventory may lower planned margins.

***Elimination or scaling back of U.S. import protections would weaken an important barrier to the entry of foreign competitors who produce their merchandise in lower labor cost locations. This could place us at a disadvantage to those competitors.***

Our products are subject to foreign competition. Foreign competitors often have significant labor cost advantages, which can enable them to sell their products at relatively lower prices. However, foreign competitors have faced significant U.S. government import restrictions in the form of tariffs and quotas. The extent of import protection afforded to domestic apparel producers has been, and is likely to remain, subject to political considerations, and is therefore unpredictable. Given the number of foreign low cost producers, the substantial elimination or scaling back of the import protections that protect domestic apparel producers could have a material adverse effect on our business, financial condition and results of operation.

***Current environmental laws, or laws enacted in the future, may harm our business.***

We are subject to federal, state and local laws, regulations and ordinances that govern activities or operations that may have adverse environmental effects (such as emissions to air, discharges to water, and the generation, handling, storage and disposal of solid and hazardous wastes). We are also subject to laws, regulations and ordinances that impose liability for the costs of clean up or other remediation of contaminated property, including damages from spills, disposals or other releases of hazardous substances or wastes, in certain circumstances without regard to fault. Certain of our operations routinely involve the handling of chemicals and wastes, some of which are or may become regulated as hazardous substances. Our product design and procurement operations must comply with new and future requirements relating to the materials composition of our products. If we fail to comply with the rules and regulations regarding the use and sale of such regulated substances, we could be subject to liability. The costs and timing of costs under environmental laws are difficult to predict.

As is the case with manufacturers in general, if a release of hazardous substances occurs on or from our properties or any associated offsite disposal locations, or if contamination from prior activities is discovered at any of our properties, we may be held liable. The amount of such liability could be material.

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

We conduct our primary apparel manufacturing operations out of an 800,000 square-foot facility in the warehouse district of downtown Los Angeles, California. The following table presents non-retail facilities. Each of our domestic properties is used in connection with all of our operating segments. Our foreign offices are solely used in connection with our Canada and International segments, respectively.

Location	Purpose
Los Angeles, California	Headquarters, wholesale and web sales operations, hosiery knitting, cutting and sewing of garments and warehousing
Los Angeles, California	Fabric knitting
Hawthorne, California	Fabric dyeing and finishing
South Gate, California	Cutting, sewing, garment dyeing and finishing
Garden Grove, California	Fabric knitting, fabric dyeing and finishing, cutting and sewing of garments
La Mirada, California	Distribution Center
Montreal, Quebec	Offices and warehousing
London, England	Offices
Tokyo, Japan	Offices
Seoul, South Korea	Offices
Beijing, China	Offices
Berlin, Germany	Offices
Düsseldorf, Germany	Offices

All of our retail stores are leased, and lease terms are typically five to ten years with renewal options for an additional five to ten years. Most of these leases provide for base rent as well as maintenance and common area charges, real estate taxes, and certain other expenses. These retail stores are well maintained, adequately meet our needs, and are being utilized for their intended purposes. Selling space of opened stores sometimes changes due to store renovations that modify space utilization, use of staircases, the configuration of cash registers, and other factors. As of December 31, 2014, we operated seven concession locations among our retail operations.

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The following tables present our existing retail stores by geographic region as of December 31, 2014 :

**Domestic Locations ( 136 )**

<b>Arizona (2)</b>
Scottsdale
Tucson

<b>California (36)</b>	
Arcadia	Manhattan Beach
Berkeley	Palo Alto
Claremont	Rancho Cucamonga
Commerce	San Diego—
Costa Mesa	Fashion Valley
Gilroy	Hillcrest
Huntington Beach	Pacific Beach
Irvine Spectrum	San Francisco—
Los Angeles—	China Gate
Beverly	Haight Ashbury
Canoga Park	Union Street
Downtown	Santa Barbara
Echo Park	Santa Clara
Factory Store	Santa Cruz
Hollywood	Santa Monica—
Little Tokyo	Main Street
Los Feliz	Third Street Promenade
Melrose	Studio City
Westwood Village	Venice
West Hollywood	
Malibu	

<b>Colorado (2)</b>
Boulder
Denver

<b>Connecticut (2)</b>
New Haven
South Norwalk

<b>District of Columbia (2)</b>
Georgetown
Lincoln Square

<b>Florida (7)</b>
Boca Raton
Miami Beach—
Lincoln Road
Sunset Drive
Washington Ave.
Orlando
St. Augustine
Wellington

<b>Georgia (3)</b>
Atlanta—
Lenox Mall
Little Five Points
Atlantic Station

<b>Hawaii (1)</b>
Honolulu

<b>Illinois (6)</b>
Chicago—
Belmont & Clark
Gold Coast
State St.
Wicker Park
Evanston
Schaumburg

<b>Louisiana (1)</b>
New Orleans

<b>Maryland (4)</b>
Annapolis
Baltimore
Bethesda
Silver Spring

<b>Massachusetts (3)</b>
Boston—
Back Bay
Newbury Street
Cambridge

<b>Michigan (3)</b>
Ann Arbor
East Lansing
Royal Oak

<b>Minnesota (2)</b>
Bloomington
Minneapolis

<b>Missouri (1)</b>
Kansas City

<b>Nevada (3)</b>
Las Vegas—
Boca Park
Miracle Mile
Premium Outlets

<b>New Jersey (4)</b>
Cherry Hill
Edison
Hoboken
Paramus



**Domestic Locations ( 136 ) (cont'd.)**

<b><i>New York (24)</i></b>
Brooklyn—
Bond Street
Carroll Gardens
Court Street
Nassau Avenue
Park Slope
Williamsburg
Central Valley
Garden City
Manhattan—
Chelsea
Columbia University
Columbus Circle
FIT
Flatiron
Gramercy Park
Harlem
Hell’s Kitchen
Lower Broadway
Lower East Side
Noho
Soho
Tribeca
Upper East Side
Upper West Side
White Plains

<b><i>North Carolina (1)</i></b>
Charlotte—
SouthPark Mall

<b><i>Ohio (3)</i></b>
Cincinnati
Cleveland
Columbus

<b><i>Pennsylvania (4)</i></b>
King of Prussia
Philadelphia—
Sansom Common
Walnut Street
Pittsburgh

<b><i>South Carolina (1)</i></b>
Charleston

<b><i>Tennessee (2)</i></b>
Memphis
Nashville

<b><i>Texas (7)</i></b>
Austin—
Congress Ave
Guadalupe Street
Dallas—
Mockingbird
NorthPark Center
Houston
Round Rock
San Antonio

<b><i>Utah (1)</i></b>
Salt Lake City

<b><i>Vermont (1)</i></b>
Burlington

<b><i>Virginia (1)</i></b>
Richmond

<b><i>Oregon (4)</i></b>
Eugene
Portland—
Hawthorne Blvd.
Stark Street
Bridgeport Road

<b><i>Wisconsin (2)</i></b>
Madison
Milwaukee

<b><i>Washington (3)</i></b>
Seattle—
Capitol Hill
Downtown Seattle
University Way

Canada ( 31 )

<b>Alberta (4)</b>
Calgary— 17th Avenue Market Mall
Edmonton— 82nd Avenue West Edmonton Mall

<b>British Columbia (6)</b>
Burnaby
Kelowna
Vancouver— Granville South Granville West 4th Street Victoria

<b>Manitoba (1)</b>
Winnipeg

<b>Nova Scotia (1)</b>
Halifax

<b>Ontario (12)</b>
Kingston
London
Ottawa
Thornhill
Toronto— Bloor Street Queen Street Sherway Gardens Yonge & Dundas Yonge & Eglinton Yorkdale Shopping Centre Vaughan Waterloo

<b>Quebec (6)</b>
Laval
Montreal— Cours Mont-Royal Mont-Royal Est St-Denis Ste-Catherine West Pointe-Claire

<b>Saskatchewan (1)</b>
Saskatoon

**International Locations ( 75 )**

**Europe (55)**

<b>Austria (1)</b>
Vienna

<b>Belgium (1)</b>
Antwerp

<b>France (12)</b>
Aix-en-Provence
Lyon
Paris—
Marais
Vielle du Temple
Beaurepaire
Avenue Victor Hugo
Saint-Germain
Saint-Honore (2)
Galeries Lafayette
La Defense
Toulouse

<b>Germany (9)</b>
Berlin—
Bayreuther Strasse
Münzstrasse
Düsseldorf
Frankfurt
Hamburg
Köln
Munich
Oberhausen
Stuttgart

<b>Ireland (1)</b>
Dublin

<b>Italy (2)</b>
Milan
Rome

<b>Netherlands (3)</b>
Amsterdam—
Bijenkorf
Noordermarkt
Utrechtsestraat

<b>United Kingdom (21)</b>
Birmingham
Brighton
Bristol
Glasgow
Leeds
Liverpool
London—
Camden High Street
Carnaby Street
Covent Garden
Kensington High Street
King's Cross
Oxford Street
Portobello Road
Selfridges
Shoreditch
Stratford
Westfield
Manchester—
Manchester
Picadilly
Selfridges
Nottingham

<b>Spain (1)</b>
Barcelona

<b>Sweden (2)</b>
Stockholm—
Götgatan
Kungsgatan

<b>Switzerland (2)</b>
Zurich—
Josefstrasse
Rennweg

**Asia (12)**

<b>China (3)</b>
Beijing—
Nali Mall
PVG
Joy City

<b>Japan (4)</b>
Osaka
Tokyo—
Daikanyama
Shibuya (2)

<b>South Korea (5)</b>
Busan
Seoul—
Chungdam
Hong Dae
Kangnam
Myung-dong

**Other International (8)**

<b>Israel (1)</b>
Tel Aviv

<b>Mexico (1)</b>
Mexico City

<b>Brazil (1)</b>
São Paulo

<b>Australia (5)</b>
Adelaide
Melbourne
Myer Melbourne
Myer Sydney
Sydney

**Item 3. Legal Proceedings**

We are, from time to time, subject to various claims and contingencies in the ordinary course of business that arise from litigation, business transactions, employee-related matters, or taxes. We establish reserves when we believe a loss is probable and are able to estimate its potential exposure. For a discussion of our reserving methods, see "Critical Accounting Estimates and Policies" in Part II, Item 7 and "Note 1 of Notes to Consolidated Financial Statements" in Item 8, Part II.

For loss contingencies believed to be reasonably possible, we also disclose the nature of the loss contingency and an estimate of the possible loss or range of loss, or a statement that such an estimate cannot be made. Insurance may cover a portion of such losses; however, certain matters could arise for which we do not have insurance coverage or for which insurance provides only partial coverage. These matters could have a material negative effect on our business, financial position, results of operations, or cash flows. In all cases, we vigorously defend ourselves unless a reasonable settlement appears appropriate.

For a discussion of legal matters, see "Note 18 of Notes to Consolidated Financial Statements" in Item 8, Part II, which is incorporated herein by reference.

There are no environmental proceedings arising under federal, state, or local laws or regulations to be discussed.

**Item 4. Mine Safety Disclosures**

Not applicable.

**PART II**

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

**Market Information**

The following table presents the high and low sales price per share on the NYSE MKT (symbol: APP) since January 2013.

	Common Stock	
	High	Low
<u>2014</u>		
	Fourth Quarter \$	\$ 1.20 0.50
	Third Quarter	1.30 0.72
	Second Quarter	1.00 0.46
	First Quarter	1.45 0.46
<u>2013</u>		
Fourth Quarter	\$	\$ 1.52 1.01
Third Quarter		2.09 1.23
Second Quarter		2.20 1.76
First Quarter		2.40 1.00

**Holders**

As of March 13, 2015 , there were 1,049 registered holders of record of our common stock.

**Dividends**

As a public company, we have not paid any cash dividends since the public offerings of our common stock. We intend to continue to retain earnings for use in the operation and expansion of our business and therefore do not anticipate paying any cash dividends in the foreseeable future. In addition, restrictions imposed by our debt agreements significantly restrict us from making dividends or distributions to stockholders.

**Authorization of Common Stock**

On March 13, 2015 , the Company had 230 million authorized shares of common stock with par value of \$0.0001 per share.

**Securities Authorized for Issuance Under Equity Compensation Plans**

See "Note 14 of Notes to Consolidated Financial Statements" in Item 8.

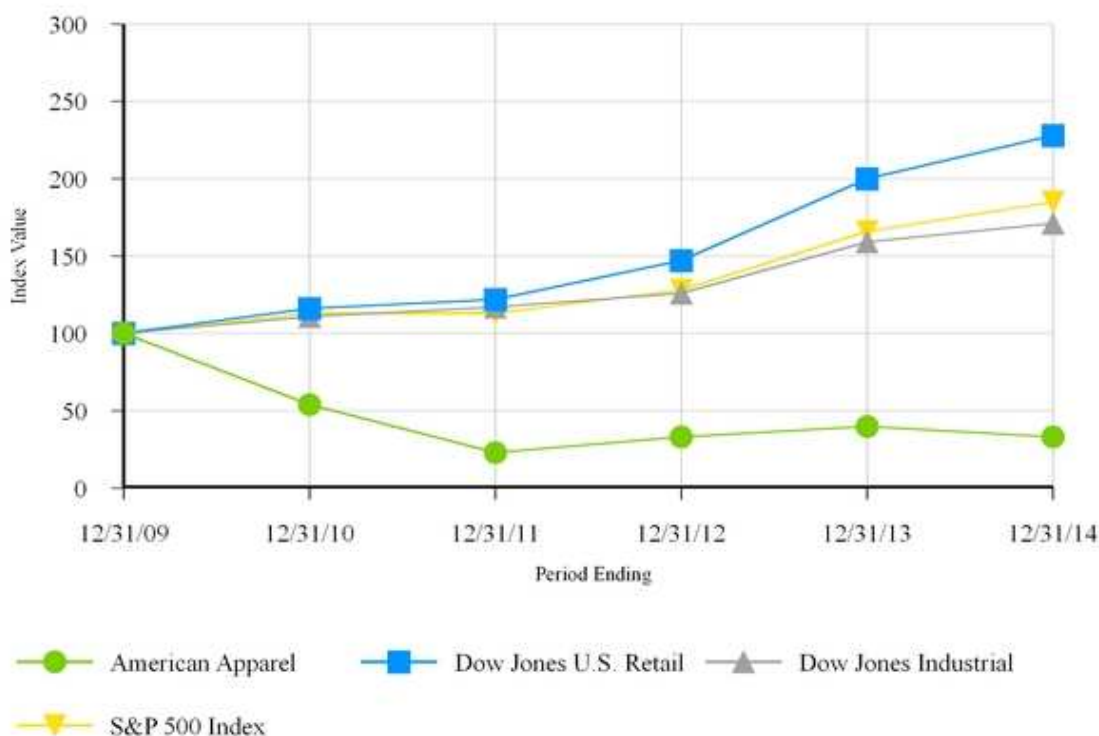
**Recent Sales of Unregistered Securities**

None.

**Performance Graph**

The following graph compares the cumulative total shareholder returns on our common stock with the cumulative total return on the companies comprising the Dow Jones Industrial Average, the Dow Jones U.S. Retail Index, and the Standard and Poor's 500 Composite Stock Price Index ("S&P 500 Index") over the last five years. The graph assumes that \$100 was invested on December 31, 2009 in each of our common stock, the Dow Jones Industrial Average, the Dow Jones U.S. Retail Index, and the S&P 500 Index, assuming reinvestment of all dividends, if any, paid on the securities. We have not paid any cash dividends and, therefore, the cumulative total return calculation for us is based solely upon stock price appreciation and not upon reinvestment of cash dividends. The stock price performance shown on the graph is not necessarily indicative of future price performance.

**Comparative Five-Year Cumulative Total Returns**



	2009	2010	2011	2012	2013	2014
American Apparel	\$ 100	\$ 54	\$ 23	\$ 33	\$ 40	\$ 33
Dow Jones U.S. Retail	100	116	122	147	200	228
Dow Jones Industrial	100	111	117	126	159	171
S&P 500 Index	100	113	113	128	166	185

**Item 6. Selected Financial Data**

The following selected financial data presented are derived from, and are qualified by reference to, our audited consolidated financial statements. The selected financial data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and notes thereto contained elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands, except per share data)				
<b>Consolidated Statements of Operations Data:</b>					
Net sales	\$ 608,891	\$ 633,941	\$ 617,310	\$ 547,336	\$ 532,989
Gross profit	\$ 309,135	\$ 320,885	\$ 327,383	\$ 294,900	\$ 279,909
(Loss) income from operations	\$ (27,583)	\$ (29,295)	\$ 962	\$ (23,293)	\$ (50,053)
Net loss	\$ (68,817)	\$ (106,298)	\$ (37,272)	\$ (39,314)	\$ (86,315)
<b>Per Share Data:</b>					
Net loss per common share - basic and diluted	\$ (0.43)	\$ (0.96)	\$ (0.35)	\$ (0.42)	\$ (1.21)
Weighted-average basic and diluted shares outstanding <sup>(a)</sup>	158,844	110,326	105,980	92,599	71,626

	December 31,				
	2014	2013	2012	2011	2010
	(in thousands)				
<b>Consolidated Balance Sheets Data:</b>					
Inventories, net	\$ 147,578	\$ 169,378	\$ 174,229	\$ 185,764	\$ 178,052
Total assets	\$ 294,389	\$ 333,752	\$ 328,212	\$ 324,721	\$ 327,950
Working capital <sup>(b)</sup>	\$ 55,955	\$ 74,261	\$ 80,022	\$ 97,013	\$ 3,379
Long-term debt, net of current portion <sup>(c)</sup>	\$ 219,370	\$ 218,921	\$ 112,856	\$ 98,868	\$ 5,597
Stockholders' (deficit) equity	\$ (115,516)	\$ (77,404)	\$ 22,084	\$ 48,130	\$ 75,024

(a) The dilutive impact of incremental shares is excluded from loss position in accordance with U.S. generally accepted accounting principles ("GAAP").

(b) Excludes fair value of warrants of \$19,239 , \$20,954 , \$17,241 , \$9,633 , and \$993 as of December 31, 2014 , 2013 , 2012 , 2011 and 2010, respectively.

(c) Includes capital leases.

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

You should read the following discussion together with "Item 6. Selected Financial Data" and our audited consolidated financial statements and the related notes thereto included in "Item 8. Financial Statements and Supplementary Data." In addition to historical consolidated financial information, this discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Actual results could differ from these expectations as a result of factors including those described under "Item 1A. Risk Factors" and "Special Note Regarding Forward-Looking Statements" in Part I and elsewhere in this Annual Report on Form 10-K. In addition, all dollar and share amounts in Item 7 are presented in thousands, except for per share items and unless otherwise specified.

### OVERVIEW

#### A. General

We are a vertically-integrated manufacturer, distributor, and retailer of branded fashion basic apparel and accessories for women, men, children and babies. We are based in downtown Los Angeles, California. We also operate a leading wholesale business that supplies high quality T-shirts and other casual wear to distributors and screen printers. In 2003, we opened our first retail store in Los Angeles, California. As of March 13, 2015, we had approximately 10,000 employees and operated 239 retail stores in 20 countries, including the U.S., Canada, the U.K., Australia, Austria, Belgium, Brazil, China, France, Germany, Ireland, Israel, Italy, Japan, Mexico, the Netherlands, South Korea Spain, Sweden, and Switzerland. We currently operate 13 e-commerce stores in eight languages that serve customers from over 50 countries worldwide at [www.americanapparel.com](http://www.americanapparel.com).

Because we manufacture domestically and are vertically integrated, we believe this enables us to more quickly respond to customer demand and changing fashion trends and to closely monitor product quality. Our products are noted for quality and fit, and together with our distinctive branding, these attributes have differentiated our products in the marketplace.

We have four operating segments; U.S. Wholesale, U.S. Retail, Canada, and International. The U.S. Wholesale segment consists of our wholesale operations of undecorated apparel products sold to distributors and third party screen printers in the U.S. as well as our online consumer sales in the U.S. The U.S. Retail segment consists of our retail operations in the U.S., which comprised 136 retail stores as of December 31, 2014. The Canada segment includes wholesale, retail and online consumer operations in Canada. As of December 31, 2014, the retail operations in the Canada segment comprised 31 retail stores. The International segment includes wholesale, retail, and online consumer operations outside of the U.S. and Canada. As of December 31, 2014, the retail operations in the International segment comprised 75 retail stores operating in 18 countries outside the U.S. and Canada.

The following table presents, by segment, the change in retail store count during the years ended December 31, 2014, 2013 and 2012:

	U.S. Retail	Canada	International	Total
<b>2014</b>				
Open at December 31, 2013	139	32	77	248
Opened	3	0	3	6
Closed	(6)	(1)	(5)	(12)
Open at December 31, 2014	<u>136</u>	<u>31</u>	<u>75</u>	<u>242</u>
<b>2013</b>				
Open at December 31, 2012	140	35	76	251
Opened	3	0	6	9
Closed	(4)	(3)	(5)	(12)
Open at December 31, 2013	<u>139</u>	<u>32</u>	<u>77</u>	<u>248</u>
<b>2012</b>				
Open at December 31, 2011	143	37	69	249
Opened	1	0	9	10
Closed	(4)	(2)	(2)	(8)
Open at December 31, 2012	<u>140</u>	<u>35</u>	<u>76</u>	<u>251</u>

#### B. Comparable Store Sales

The table below shows the change in comparable store sales for our retail and online stores, by quarter, for the years ended December 31, 2014, 2013, and 2012, and the number of retail stores included in the comparison at the end of each period. Comparable store sales are defined as the percentage change in sales for stores that have been open for more than twelve full months. Remodeled and expanded stores are excluded from the determination of comparable stores during the following twelve months if the remodel or expansion results in a change of greater than 20% of selling square footage. Closed stores are excluded from the base of comparable stores following their last full month of operation.

In calculating constant currency amounts, we convert the results of our foreign operations during the current and the prior year comparable period by using the weighted-average foreign exchange rate for the current comparable period to achieve a consistent basis for comparison.

	For the Quarter Ended				
	March 31	June 30	September 30	December 31	Full Year
2014 <sup>(a)</sup>	(5)%	(6)%	(7)%	(7)%	(6)%
Number of Stores	236	233	230	229	
2013 <sup>(a)</sup>	8%	7%	2%	(3)%	3%
Number of Stores	238	237	237	235	
2012 <sup>(a)</sup>	14%	16%	20%	11%	15%
Number of Stores	243	244	242	238	

(a) Comparable store sales results include the impact of online store sales and has been adjusted to exclude impact of extra leap-year day in 2012.

### C. Executive Summary

#### *Recent Developments*

On December 16, 2014, the Board appointed Paula Schneider as CEO, effective January 5, 2015. This appointment followed the termination of Dov Charney, former President and CEO, for cause in accordance with the terms of his employment agreement. Scott Brubaker, who served as Interim CEO since September 29, 2014, continued in the post until Ms. Schneider joined us. Additionally, on September 29, 2014, the Board appointed Hassan Natha as CFO, and John Luttrell resigned as Interim CEO and CFO.

On July 7, 2014, we received a notice from Lion asserting an event of default and an acceleration of the maturity of the loans and other outstanding obligations under the Lion Loan Agreement as a result of the suspension of Dov Charney as CEO by the Board. On July 14, 2014, Lion issued a notice rescinding the notice of acceleration. On July 16, 2014, Lion assigned its rights and obligations as a lender under the Lion Loan Agreement to an entity affiliated with Standard General. Standard General waived any default under the Standard General Loan Agreement that may have resulted or that might result from Mr. Charney not being the CEO.

On September 8, 2014, we and Standard General entered into an amendment of the Standard General Loan Agreement to lower the applicable interest rate to 17%, extend the maturity to April 15, 2021, and make certain other technical amendments, including to remove a provision that specified that Mr. Charney not being the CEO would constitute an event of default.

On March 25, 2015, we entered into the Sixth Amendment to the Capital One Credit Facility ("the Sixth Amendment") which (i) waived any defaults under the Capital One Credit Facility due to the failure to meet the obligation to maintain the maximum leverage ratio and minimum adjusted EBITDA required for the measurement periods ended December 31, 2014, as defined in the credit agreement, (ii) waived the obligation to maintain the minimum fixed charge coverage ratio, maximum leverage ratio and minimum adjusted EBITDA required for the twelve months ending March 31, 2015, (iii) included provisions to permit us to enter into the Standard General Credit Agreement, (iv) reset financial covenants relating to maintaining minimum fixed charge coverage ratios, maximum leverage ratios and minimum adjusted EBITDA and (v) permitted us to borrow \$15,000 under the Standard General Credit Agreement.

On March 25, 2015, one of our subsidiaries borrowed \$15,000 under the Standard General Credit Agreement. The Standard General Credit Agreement is guaranteed by us, bears interest at 14% per annum, and will mature on October 15, 2020.

In connection with the Standstill and Support Agreement among us, Standard General and Mr. Charney, five directors including Mr. Charney resigned from the Board effective as of August 2, 2014, and five new directors were appointed to the Board, three of whom were designated by Standard General and two of whom were appointed by the mutual agreement of Standard General and us. In addition, Lion exercised its rights to designate two members to our Board, whose appointments were effective as of September 15, 2014 and January 13, 2015, respectively. On March 6, 2015, a member appointed by Lion resigned from the Board, and on March 24, 2015, the Board elected a member designated by Lion to fill that vacancy.

In 2012, German customs audited the import records of our German subsidiary for the years 2009 through 2011 and issued retroactive punitive duty assessments on certain containers of goods imported. The German customs imposed a substantially higher tariff rate than the original rate that we had paid on the imports, more than doubling the amount of the tariff that we would have to pay. The assessments of additional retaliatory duty originated from a trade dispute. Despite the ongoing appeals of the assessment, the German authorities demanded, and we paid, in connection with such assessment, \$4,390 in the third quarter of 2014 and the



final balance of \$85 in the fourth quarter of 2014. We recorded the duty portion of \$79 in cost of sales and the retaliatory duties, interest and penalties of \$5,104 in general and administrative expenses in our consolidated statements of operations.

### ***Summary of Financial Results***

Net sales for the year ended December 31, 2014 decreased \$25,050, or 4.0%, from the year ended December 31, 2013 due to lower sales at our U.S. Retail, Canada and International segments, partly offset by an increase in the U.S. Wholesale segment.

Gross profits as a percentage of sales were 50.8% and 50.6% for the year ended December 31, 2014 and 2013, respectively. Excluding the effects of the significant events described below, gross profits as a percentage of net sales increased slightly to 52.2% and 51.1% for the year ended December 31, 2014 and 2013, respectively. The increase was mainly due to a reduction in freight costs associated with the completion of our transition to the La Mirada distribution center in late 2013.

Operating expenses for the year ended December 31, 2014 decreased \$14,660, or 4.2%, from the year ended December 31, 2013. Excluding the effects of the significant events discussed below, operating expenses for the year ended December 31, 2014 decreased \$27,616 from the year ended December 31, 2013. The decrease was primarily due to lower payroll from our cost reduction efforts and reduced expenditures on advertising and promotional activities.

Loss from operations was \$27,583 for the year ended December 31, 2014 as compared to \$29,295 for the year ended December 31, 2013. Excluding the effects of the significant events discussed below, our operating results for the year ended December 31, 2014 would have been an income from operations of \$6,838 as compared with a loss from operations of \$13,482 for the year ended December 31, 2013. Lower operating expenses as discussed above were offset by lower sales volume and higher retail store impairments.

Net loss for the year ended December 31, 2014 was \$68,817 as compared to \$106,298 for the year ended December 31, 2013. The improvement was mainly due to the \$1,712 reduction in loss from operations due to the significant events discussed below, the change of \$5,428 in fair value of warrants between periods, and the \$32,101 loss on the extinguishment of debt in 2013. See Results of Operations for further details.

Cash used in operating activities for the year ended December 31, 2014 was \$5,212 compared to \$12,723 for the year ended December 31, 2013 from the corresponding period in 2013. The decrease was mainly due to decreased inventory levels and improved operating income excluding certain significant costs discussed below. The decrease was partially offset by an increase in interest payments and payments related to the significant costs.

### **Significant Events**

The table below summarizes the impact to our earnings of certain costs which we consider to be significant and presents gross profit, operating expenses, and income from operations on an as-adjusted basis, together with the reconciliation to the mostly directly comparable GAAP measure:

	Year Ended December 31,			
	2014	% of Net Sales	2013	% of Net Sales
Gross profit	\$ 309,135	50.8 %	\$ 320,885	50.6 %
Changes to supply chain operations	0		3,027	
Additional inventory reserves	4,525		0	
Customs settlements and contingencies	4,154		0	
Gross profit - adjusted (Non-GAAP)	<u>\$ 317,814</u>	<u>52.2 %</u>	<u>\$ 323,912</u>	<u>51.1 %</u>
Operating expenses	\$ 333,980	54.9 %	\$ 348,640	55.0 %
Changes to supply chain operations	0		(11,847)	
Customs settlements and contingencies	(8,341)		0	
Internal investigation	(10,376)		0	
Employment settlements and severance	(7,025)		(939)	
Operating expenses - adjusted (Non-GAAP)	<u>\$ 308,238</u>	<u>50.6 %</u>	<u>\$ 335,854</u>	<u>53.0 %</u>
Loss from operations	\$ (27,583)	(4.5)%	\$ (29,295)	(4.6)%
Changes to supply chain operations	0		14,874	
Additional inventory reserves	4,525		0	
Customs settlements and contingencies	12,495		0	
Internal investigation	10,376		0	
Employment settlements and severance	7,025		939	
Income (loss) from operations - adjusted (Non-GAAP)	<u>\$ 6,838</u>	<u>1.1 %</u>	<u>\$ (13,482)</u>	<u>(2.1)%</u>

*Changes to Supply Chain Operations* - In 2013, the transition to our new distribution center in La Mirada, California resulted in significant incremental costs (primarily labor). The issues surrounding the transition primarily related to improper design and integration and inadequate training and staffing. These issues caused processing inefficiencies that required us to employ additional staffing in order to meet customer demand. The transition was successfully completed during the fourth quarter of 2013. The center is now fully operational and labor costs have been reduced.

*Additional inventory reserves* - In late 2014, new management undertook a strategic shift to change its inventory profile and actively reduce inventory levels to improve store merchandising, working capital and liquidity. As a result, we implemented an initiative to accelerate the sale of slow-moving inventory through our retail and online sales channels, as well as through certain off-price channels. As part of this process, management conducted a style-by-style review of inventory and identified certain slow-moving, second quality finished goods and raw materials inventories that required additional reserves as a result of the decision to accelerate sales of those items. Based on our analysis of the quantities on hand as well as the estimated recovery on these items, we significantly increased our excess and obsolescence reserve by \$4,525 through a charge against cost of sales in our consolidated statements of operations.

*Customs settlements and contingencies* - In 2012, German authorities audited the import records of our German subsidiary for the years 2009 through 2011 and issued retroactive punitive duty assessments on certain containers of goods imported. Despite ongoing appeals of the assessment, the German authorities demanded, and we paid, the outstanding balance of approximately \$4,500 in the latter half of 2014. We recorded the duty portion of \$79 in cost of sales and the retaliatory duties, interest and penalties of \$5,104 in general and administrative expenses in our consolidated statements of operations. Additionally, during the fourth quarter of 2014, we wrote off approximately \$3,300 in duty receivables to cost of sales in our consolidated statements of operations. These duty receivables related to changes in transfer costs for products sold to our European subsidiaries. We are also subject to, and have recorded charges related to, customs and similar audit settlements and contingencies in other jurisdictions.

*Internal Investigation* - On June 18, 2014, the Board voted to replace Mr. Charney as Chairman of the Board, suspended him as our President and CEO and notified him of its intent to terminate his employment for cause. In connection with the Standstill and Support Agreement, the Board formed the Internal Investigation which ultimately concluded with his termination for cause on December 16, 2014. The suspension, internal investigation, and termination have resulted in substantial legal and consulting fees.

*Employment Settlements and Severance* - In 2011, an industrial accident at our facility in Orange County, California resulted in a fatality to one of our employees, and in accordance with law, a mandatory criminal investigation was initiated. On August 19, 2014, a settlement of all claims related to the criminal investigation, pursuant to which the Company paid \$1,000, was approved.

by the California Superior Court in Orange County. In addition, we had previously disclosed employment-related claims and experienced unusually high employee severance costs during 2014. See Note 15 and 18 of Notes to Consolidated Financial Statements in Item 8.

### ***Management's Plan***

Throughout 2014 and into early 2015, we have brought on a new board of directors and hired on new senior management, including our CEO, CFO and General Counsel, as well as other additions to the management team. Together, our new board of directors and new management team are focused on implementing a turnaround strategy and enhancing our corporate governance policies and practices. We have started implementing additional operational and financial processes and disciplines to improve liquidity and profitability. To that end, we have added new members to our executive team in the areas of planning and forecasting, operations, marketing and e-commerce. Additionally, we continue to drive productivity from our distribution center, reduce inventory, reduce labor costs, and consolidate our administrative and manufacturing functions. We have also added members to our legal and human resources departments and have introduced a new code of ethics which we ask all of our new and current employees to read. We believe that a strong operational and financial discipline, along with a robust corporate governance structure, is an important element of our long-term business strategy.

Although we have made progress under these programs, we operate in a rapidly evolving and often unpredictable business environment that may change the timing or amount of expected future cash receipts and expenditures. Our cash flows are dependent upon meeting future sales growth projections and reducing certain expenses. Accordingly, there can be no assurance that our planned improvements will be successful.

### **D. Critical Accounting Estimates and Policies**

The preparation of our consolidated financial statements requires judgment and estimates that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amount of revenues and expenses during the reporting period.

In general, estimates are based on historical experience, information from third party professionals and various other sources, and assumptions that are believed to be reasonable under the facts and circumstances at the time such estimates are made. On a continual basis, management reviews its estimates utilizing currently available information, changes in facts and circumstances, historical experience, and reasonable assumptions. After such reviews, and if deemed appropriate, those estimates are adjusted accordingly. Actual results may vary from these estimates and assumptions. Our management considers an accounting estimate to be critical if:

- it requires assumptions to be made that were uncertain at the time the estimate was made; and
- changes in the estimate, or the use of different estimating methods that could have been selected, could have a material impact on our consolidated results of operations or financial condition.

We consider our most critical accounting policies and estimates to include:

- revenue recognition;
- inventory valuation and obsolescence;
- valuation and recoverability of long-lived assets, including the values assigned to goodwill, intangible assets, and property and equipment;
- fair value calculations including derivative liabilities;
- contingencies, including accruals for the outcome of current litigation and assessments and self-insurance
- income taxes, including uncertain income tax positions and recoverability of deferred income taxes and any limitations as to net operating losses.

Complete descriptions of our significant accounting policies are outlined in Note 2 of Notes to Consolidated Financial Statements in Item 8.

## RESULTS OF OPERATIONS

## Year Ended December 31, 2014 compared to Year Ended December 31, 2013

(in thousands)

	Year Ended December 31,			
	2014	% of net sales	2013	% of net sales
U.S. Wholesale	\$ 208,969	34.3 %	\$ 201,251	31.8 %
U.S. Retail	191,442	31.4 %	205,011	32.3 %
Canada	51,544	8.5 %	60,134	9.5 %
International	156,936	25.8 %	167,545	26.4 %
Total net sales	608,891	100.0 %	633,941	100.0 %
Cost of sales	299,756	49.2 %	313,056	49.4 %
Gross profit	309,135	50.8 %	320,885	50.6 %
Selling and distribution expenses	212,557	34.9 %	241,683	38.1 %
General and administrative expenses	121,423	19.9 %	106,957	16.9 %
Retail store impairment	2,738	0.4 %	1,540	0.2 %
Loss from operations	(27,583)	(4.5)%	(29,295)	(4.6)%
Interest expense	39,853		39,286	
Foreign currency transaction loss <sup>(a)</sup>	1,479		1	
Unrealized (gain) loss on change in fair value of warrants <sup>(b)</sup>	(1,715)		3,713	
(Gain) loss on extinguishment of debt	(171)		32,101	
Other (income) expense	(371)		131	
Loss before income tax	(66,658)		(104,527)	
Income tax provision	2,159		1,771	
Net loss	\$ (68,817)		\$ (106,298)	

(a) Related to the exchange rate fluctuations of the U.S. Dollar relative to functional currencies used by our subsidiaries.

(b) Mark-to-market adjustments associated with our warrants .

**(1) U.S. Wholesale**

U.S. Wholesale net sales for the year ended December 31, 2014 , excluding online consumer net sales, increased by \$8,113 or 5.1% , from the year ended December 31, 2013 mainly due to a significant new distributor that we added during the second quarter of 2014. We continue our focus on increasing our customer base by targeting direct sales, particularly sales to third-party screen printers. Online consumer net sales for the year ended December 31, 2014 decreased \$395 , or 1.0% , from the year ended December 31, 2013 mainly due to lower sales order volume. We continue our focus on targeted online advertising and promotional efforts.

**(2) U.S. Retail**

U.S. Retail net sales for the year ended December 31, 2014 decreased \$13,569 , or 6.6% , from the year ended December 31, 2013 mainly due to a decrease of approximately \$14,000 in comparable store sales as a result of lower store foot traffic. Net sales decreased approximately \$4,800 due to the closure of six stores in 2014, offset by an increase of approximately \$1,100 from two new stores added since the beginning of January 2013.

**(3) Canada**

Canada net sales for the year ended December 31, 2014 decreased \$8,590 , or 14.3% , from the year ended December 31, 2013 mainly due to approximately \$4,900 in lower sales, primarily in the retail and wholesale channels, and the unfavorable impact of foreign currency exchange rate changes of approximately \$3,700.

Retail net sales for the year ended December 31, 2014 decreased \$7,076 , or 15.7% , from the year ended December 31, 2013 due to \$4,300 lower sales resulting from the closure of one retail store and approximately \$1,700 from lower comparable store sales due to lower store foot traffic. Additionally, the impact of foreign currency exchange rate changes contributed to the sales decrease of approximately \$2,800.

Wholesale net sales for the year ended December 31, 2014 decreased \$1,868 , or 15.4% , from the year ended December 31, 2013 . The decrease was largely due to lower sales orders resulting from a tightening focus on higher margin customers and lingering effects of order fulfillment delays associated with transition issues at the La Mirada distribution center. In addition, the impact of foreign currency exchange rate changes contributed to the sales decrease of approximately \$700.

Online consumer net sales for the year ended December 31, 2014 increased \$354 , or 12.3% , from the year ended December 31, 2013 mainly due to email advertising campaign, as well as improvements to the online store rolled out in the second half of 2013. This increase in sales was partially offset by the impact of foreign currency exchange rate changes of approximately \$200.

**(4) International**

International net sales for the year ended December 31, 2014 decreased \$10,609 , or 6.3% , from the year ended December 31, 2013 due to approximately \$10,500 lower sales in all three sales channels and the unfavorable impact of foreign currency exchange rate changes of approximately \$100.

Retail net sales for the year ended December 31, 2014 decreased \$10,404 , or 7.4% , from the year ended December 31, 2013 . The decrease was due to lower comparable store sales of approximately \$10,500 and lower sales of approximately \$1,400 for the closure of five retail stores in 2014. The decrease was offset by approximately \$200 higher sales due to seven new stores added since the beginning of January 2013 and the unfavorable impact of foreign currency exchange rate changes of approximately \$400.

Wholesale net sales for the year ended December 31, 2014 were flat as compared to the year ended December 31, 2013 . The favorable impact of foreign currency exchange rate changes was approximately \$100.

Online consumer net sales for the year ended December 31, 2014 decreased \$154 , or 0.9% , from the year ended December 31, 2013 mainly due to lower sales order volume in Japan and Continental Europe, offset by higher sales order volume in Korea and the favorable impact of foreign currency exchange rate changes of approximately \$200.

**(5) Gross profit**

Gross profit for the year ended December 31, 2014 decreased to \$309,135 from \$320,885 for the year ended December 31, 2013 due to lower retail sales volume at our U.S. Retail, Canada and International segments, offset by higher sales at our U.S. Wholesale segment. Excluding the effects of the significant events described above, gross profit as a percentage of net sales for the year ended December 31, 2014 slightly increased to 52.2% from 51.1% . The increase was mainly due to a decrease in freight costs associated with the completion of our transition to our La Mirada facility, offset by lower sales at our retail store operations.

**(6) Selling and distribution expenses**

Selling and distribution expenses for the year ended December 31, 2014 decreased \$29,126 , or 12.1% , from the year ended December 31, 2013. Excluding the effects of the changes to our supply chain operations discussed above, selling and distribution expenses decreased \$17,279 , or 7.5% from the year ended December 31, 2013 due primarily to lower selling related payroll costs of approximately \$9,000, lower advertising costs of approximately \$4,600 and lower travel and entertainment expenses of \$1,400, all primarily as a result of our cost reduction efforts.

**(7) General and administrative expenses**

General and administrative expenses for the year ended December 31, 2014 increased \$14,466 , or 13.5% , from the year ended December 31, 2013 . Excluding the effects of customs settlements and contingencies, the internal investigation, and employment settlements and severance discussed above, general and administrative expenses decreased \$10,337 , or 9.8% from the year ended December 31, 2013. The decrease was primarily due to \$3,600 in lower share based compensation expense relating to the expiration and forfeiture of certain market based and performance based share awards and decreases in salaries and wages of approximately \$3,800 and miscellaneous expenses such as travel, repair, and bank fees.

**(8) Loss from operations**

Loss from operations was \$27,583 for the year ended December 31, 2014 as compared to \$29,295 for the year ended December 31, 2013. Excluding the effects of the significant events described above, our operating results for the year ended December 31, 2014 would have been an income from operations of \$6,838 as compared with a loss from operations of \$13,482 for the year ended December 31, 2013. Lower sales volume and higher retail store impairments were offset by decreases in our operating expenses as discussed above.

**(9) Income tax provision**

The provision for income tax for the year ended December 31, 2014 increased to \$2,159 as compared to \$1,771 for the year ended December 31, 2013 . Although we incurred a loss from operations on a consolidated basis for the years ended December 31, 2014 and 2013, some of our foreign domiciled subsidiaries reported income from operations and are taxed on a stand-alone reporting basis. In 2014 and 2013, we recorded valuation allowances against a majority of our deferred tax assets, including 100% of the U.S. deferred tax assets and certain foreign deferred tax assets. We recognized no tax benefits on our loss before income taxes in 2014 and 2013. See Note 11 of Notes to Consolidated Financial Statements in Item 8.

## Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

(in thousands)

	For the Year Ended December 31,			
	2013	% of net sales	2012	% of net sales
U.S. Wholesale	\$ 201,251	31.7 %	\$ 185,355	30.0%
U.S. Retail	205,011	32.3 %	198,886	32.2%
Canada	60,134	9.5 %	63,669	10.3%
International	167,545	26.4 %	169,400	27.5%
Total net sales	633,941	100.0 %	617,310	100.0%
Cost of sales	313,056	49.4 %	289,927	47.0%
Gross profit	320,885	50.6 %	327,383	53.0%
Selling and distribution expenses	241,683	38.1 %	227,447	36.8%
General and administrative expenses	106,957	16.9 %	97,327	15.8%
Retail store impairment	1,540	0.2 %	1,647	0.3%
(Loss) income from operations	(29,295)	(4.6)%	962	0.2%
Interest expense	39,286		41,559	
Foreign currency transaction loss <sup>(a)</sup>	1		120	
Unrealized loss on change in fair value of warrants <sup>(b)</sup>	3,713		4,126	
Loss (gain) on extinguishment of debt	32,101		(11,588)	
Other expense	131		204	
Loss before income tax	(104,527)		(33,459)	
Income tax provision	1,771		3,813	
Net loss	\$ (106,298)		\$ (37,272)	

(a) Related to the exchange rate fluctuations of the U.S. Dollar relative to functional currencies used by our subsidiaries.

(b) Mark-to-market adjustments associated with our warrants.

**(1) U.S. Wholesale**

U.S. Wholesale net sales, excluding online consumer net sales, increased \$10,071, or 6.7%, to \$159,682 for the year ended December 31, 2013 as compared to \$149,611 for the year ended December 31, 2012 due to higher sales order volume. This increase was attributed to the continued strength of our existing and new product offerings. Additionally, in early 2013, we released an expanded wholesale catalog, and as new styles were added, released quarterly updates to the catalog. We continue our focus on increasing our customer base by targeting direct sales, particularly sales to third party screen printers.

Online consumer net sales increased \$5,825 or 16.3%, to \$41,569 for the year ended December 31, 2013 as compared to \$35,744 for the year ended December 31, 2012 primarily due to certain targeted promotional efforts and improved merchandising of the web store and as a result of the implementation of a new e-commerce platform in late 2012, which improved web store functionality.

**(2) U.S. Retail**

U.S. Retail net sales increased \$6,125, or 3.1%, to \$205,011 for the year ended December 31, 2013 as compared to \$198,886 for the year ended December 31, 2012. Net sales growth was generated by the continued strength of our product offerings and targeted strategic promotions, which contributed to a 3%, or \$5,270, increase in our comparable store sales. Additionally, new stores contributed \$4,037 in net sales. These increases were partially offset by \$2,035 of lower warehouse sales in 2013 as compared to 2012 and a decrease of \$1,861 as a result of store closures.

**(3) Canada**

Canada net sales decreased \$3,535, or 5.6%, to \$60,134 for the year ended December 31, 2013 as compared to \$63,669 for the year ended December 31, 2012 due primarily to lower sales in the retail sales channel as a result of store closures. Additionally, the impact of foreign currency changes contributed to the sales decrease: holding foreign currency exchange rates constant to those prevailing in the comparable period in 2012, total revenue for the current period would have been approximately \$61,948, or 2.7% lower when compared to 2012.

Retail net sales decreased by \$3,336, or 6.9%, to \$45,163 in 2013 as compared to \$48,499 in 2012 due to \$1,140 lower sales as a result of the closure of three stores and the negative impact of foreign currency fluctuation. Holding foreign currency exchange rates constant to those prevailing in fiscal 2012, retail sales for 2013 would have been approximately \$46,526, or 4.1% lower when compared to 2012.

Wholesale net sales decreased \$914, or 7.0%, to \$12,092 in 2013 as compared to \$13,006 in 2012, largely as a result of foreign currency fluctuation and lower sales volume from smaller customers. Holding foreign currency exchange rates constant to those prevailing in the comparable period in 2012, total wholesale net sales for the Canada segment for 2013 would have been approximately \$12,457, or 4.2% lower when compared to 2012.

Online consumer net sales increased \$715, or 33.0%, to \$2,879 in 2013 as compared to \$2,164 to 2012. This increase was primarily a result of targeted promotion efforts and email advertising campaigns. Holding foreign currency exchange rates constant to those prevailing in the comparable period in 2012, total revenue for the Canada segment for 2013 would have been approximately \$2,965, or 37.1% higher when compared to 2012.

**(4) International**

International net sales decreased \$1,855, or 1.1%, to \$167,545 for the year ended December 31, 2013 as compared to \$169,400 for the year ended December 31, 2012 as a result of the negative impact of foreign currency fluctuation. Holding foreign currency exchange rates constant to those prevailing in the comparable period in 2012, total revenue for the International segment for 2013 would have been approximately \$170,084, or 0.4% higher when compared to 2012.

Retail net sales decreased \$221, or 0.2%, to \$141,517 for the year ended December 31, 2013 as compared to \$141,738 for the year ended December 31, 2012 as a result of the negative impact of foreign currency fluctuation. Holding foreign currency exchange rates constant to those prevailing in the comparable period in 2012, retail sales for 2013 would have been approximately \$143,601, or 1.3% higher when compared to the same period last year. Higher sales of \$1,274 from new stores were partially offset by \$610 of lower sales from store closures.

Wholesale net sales decreased \$1,385, or 13.5%, to \$8,893 in 2013 as compared to \$10,278 in 2012, primarily as a result of a decrease in wholesale sales in the U.K. Holding foreign currency exchange rates constant to those prevailing in the comparable period in 2012, sales for the current period would have been approximately \$8,741, or 15.0% lower during 2013 when compared to 2012.

Online consumer net sales decreased \$249, or 1.4%, to \$17,135 in 2013 as compared to \$17,384 in 2012, primarily as a result of changes in foreign currency exchange rates. Holding foreign currency exchange rates constant to those prevailing in the comparable period in 2012, sales for the current period would have been approximately \$17,742, or 2.1% higher when compared to 2012.

**(5) Gross profit**

Gross profit for the year ended December 31, 2013 was 50.6% compared to 53.0% for the year ended December 31, 2012. The decrease in gross profit was due to higher distribution costs and promotions associated with our retail operation and increased production costs associated with our manufacturing operation.

**(6) Selling expenses:**

Selling expenses increased \$14,236 , or 6.3% , to \$241,683 for the year ended December 31, 2013 as compared to \$227,447 for the year ended December 31, 2012. As a percentage of sales, selling expenses increased to 38.1% in 2013 from 36.8% in 2012.

The increase in selling expenses was primarily due to approximately \$11,847 higher distribution labor and rent costs at our U.S. Wholesale operations associated with the changes to our supply chain operations as discussed above. This was partially offset by \$5,996 lower payroll and rent costs at our Canadian operations as a result of the closure of our warehouse in Montreal, Canada. Additionally, we incurred higher rent expense of \$2,827 at our U.S. Retail and International segments primarily related to new stores and lease renewals, higher travel and related expenses of \$964 as we completed our RFID implementation and make other store improvements, and higher supplies expenses of \$2,760 associated with our RFID implementation activities. The increases were partly offset by lower advertising and marketing expenses of \$2,300.

**(7) General and administrative expenses**

General and administrative expenses increased \$9,630 , or 9.9% , to \$106,957 for the year ended December 31, 2013 as compared to \$97,327 for the year ended December 31, 2012. As a percentage of sales, general and administrative expenses increased to 16.9% in 2013 from 15.8% in 2012. The increase in general and administrative expenses was primarily due to higher computer software licensing related costs of \$3,109 associated with the recent improvements to our online store stores and other software upgrades, higher equipment lease expenses of \$3,181 and higher depreciation and amortization expenses of \$2,584 consistent with increased capital expenditures.

**(8) Interest expense**

Interest expense decreased \$2,273 to \$39,286 for the year ended December 31, 2013 from \$41,559 for the year ended December 31, 2012, primarily due to lower average interest rates on our outstanding debt. Interest expense for the year ended December 31, 2013 relates primarily to interest on our Notes and our credit agreement with Lion that was terminated in April 2013 (the "Lion Credit Agreement").

**(9) Loss (gain) on extinguishment of debt**

During the year ended December 31, 2013, we recorded a loss on extinguishment of debt of \$32,101 relating to the termination of our credit agreements with Crystal and Lion in April 2013. During the year ended December 31, 2012, we recorded a gain on extinguishment of debt pertaining to an amendment to the Lion Credit Agreement of approximately \$11,588. See Note 7 of Notes to Consolidated Financial Statements.

**(10) Income tax provision**

The provision for income tax decreased to \$1,771 for the year ended December 31, 2013 as compared to \$3,813 for the year ended December 31, 2012. Although we incurred a loss from operations on a consolidated basis for the year ended December 31, 2013, some of our foreign domiciled subsidiaries reported income from operations and are taxed on a stand-alone reporting basis. In 2013 and 2012, we recorded valuation allowances against a majority of our deferred tax assets, including 100% of the U.S. deferred tax assets and certain foreign deferred tax assets. We recognized no tax benefits on our loss before income taxes in 2013 and 2012. See Note 11 of Notes to Consolidated Financial Statements in Item 8.

**LIQUIDITY AND CAPITAL RESOURCES**

Over the past years, our operations have been funded through a combination of borrowings from related and unrelated parties, bank and other debt, lease financing, and proceeds from the exercise of purchase rights and issuance of common stock. We continue to develop initiatives intended to increase sales, reduce costs or improve working capital and liquidity. Beginning with the fourth quarter of 2013, we instituted various programs to reduce costs such as payroll and related costs associated with manufacturing and administrative overhead. We also limited capital expenditures starting the first quarter of 2014. In addition, we continue to drive productivity improvements from our new distribution center, retail stores, inventory reductions, other labor cost reductions, and consolidation of administrative and manufacturing functions. Efforts to identify additional ways to reduce costs and improve productivity are ongoing. As we implement the turnaround plan in 2015, we expect to incur additional costs, such as sales discounts and write-downs, on the sale and disposal of slow-moving inventory and the closure of non-performing stores.

Our principal liquidity requirements are for operations, working capital interest payments, and capital expenditures. We fund liquidity requirements primarily through cash on hand, cash flow from operations, and borrowings under our credit facilities. Our credit agreements contain covenants requiring us to meet specified targets for measures related to earnings, capital expenditures, and minimum fixed charge coverage ratio and maximum leverage ratio requirements. Our inability to achieve such targets or to obtain a waiver of compliance would negatively impact the availability of credit under our credit facilities or result in an event of default.

**Recent Developments**

As of December 31, 2014, we had \$8,343 in cash, \$34,299 outstanding on our \$50,000 asset-backed revolving credit facility with Capital One and \$13,146 of availability for additional borrowings under the Capital One Credit Facility. As of March 13, 2015, we had \$5,837 availability for additional borrowings under the Capital One Credit Facility. The scheduled interest payment on the Notes due on April 15, 2015 is approximately \$13,900.

On March 25, 2015, we entered into the Sixth Amendment to the Capital One Credit Facility ("the Sixth Amendment") which (i) waived any defaults under the Capital One Credit Facility due to the failure to meet the obligation to maintain the maximum leverage ratio and minimum adjusted EBITDA required for the measurement periods ended December 31, 2014, as defined in the credit agreement, (ii) waived the obligation to maintain the minimum fixed charge coverage ratio, maximum leverage ratio and minimum adjusted EBITDA required for the twelve months ending March 31, 2015, (iii) included provisions to permit us to enter into the Standard General Credit Agreement, (iv) reset financial covenants relating to maintaining minimum fixed charge coverage ratios, maximum leverage ratios and minimum adjusted EBITDA and (v) permitted us to borrow \$15,000 under the Standard General Credit Agreement.

As of December 31, 2014, we were not in compliance with the maximum leverage ratio and the minimum adjusted EBITDA covenants under the Capital One Credit Facility. For the April 1, 2014 through December 31, 2014 covenant reference period, the maximum leverage ratio was 6.70 to 1.00 as compared with the covenant maximum of 5.10 to 1.00 and the minimum adjusted EBITDA was \$38,186 as compared with the covenant minimum of \$41,124. However, these covenant violations were waived by the Sixth Amendment. For the year ended December 31, 2014, we were required to maintain a minimum fixed charge coverage ratio of not less than 1.00 to 1.00 and a maximum capital expenditure of not more than \$8,000. We were in compliance with these covenants at December 31, 2014.

On March 25, 2015, one of our subsidiaries borrowed \$15,000 under the Standard General Credit Agreement. The Standard General Credit Agreement is guaranteed by us, bears interest at 14% per annum, and will mature on October 15, 2020. The proceeds of such loan are intended to provide additional liquidity to us as contemplated by the Standstill and Support Agreement.



We believe that we have sufficient financing commitments to make the April 15, 2015 interest payment as well as meet other funding requirements for the next twelve months.

**A. Cash Flow**

	2014	2013	2012
Net cash (used in) provided by:			
Operating activities	\$ (5,212)	\$ (12,723)	\$ 23,589
Investing activities	(9,583)	(25,147)	(24,853)
Financing activities	15,552	34,228	4,214
Effect of foreign exchange rate changes on cash	(1,090)	(535)	(390)
Net (decrease) increase in cash	<u>\$ (333)</u>	<u>\$ (4,177)</u>	<u>\$ 2,560</u>

***Year Ended December 31, 2014 compared to Year Ended December 31, 2013***

Cash used in operating activities decreased for the year ended December 31, 2014 from the corresponding period in 2013. The decrease was mainly due to decreased inventory levels and improved operating income excluding certain significant costs discussed in *Results of Operations*. The decrease was partially offset by approximately \$15,500 increase in interest payments, primarily on our Notes, and payments related to the significant costs discussed in *Results of Operations*. The scheduled interest payments on our Notes in April and October 2015 will be approximately \$13,900 per pay period.

Cash used in investing activities decreased for the year ended December 31, 2014 from the corresponding period in 2013, mainly due to our ongoing efforts to reduce capital expenditures.

Cash provided by financing activities decreased for the year ended December 31, 2014 from the corresponding period in 2013. In March 2014, we completed a public offering of approximately 61,645 shares of our common stock at \$0.50 per share for net proceeds of \$28,435. During the year ended December 31, 2014, we repaid a net amount of \$9,709 borrowed under the Capital One Credit Facility. On April 4, 2013, we issued the Notes for aggregate net proceeds of \$199,820 and entered into a new asset-backed revolving credit agreement with Capital One. The net proceeds of the Notes, together with borrowings under the new credit facility, were used to repay and terminate the outstanding amounts with Lion of \$144,149 and with Crystal Financial LLP of \$66,411.

***Year Ended December 31, 2013 compared to Year Ended December 31, 2012***

Cash used in operating activities was \$12,723 as compared with cash provided by operating activities of \$23,589 as a result of a decrease in our gross profit percentage, the impact to our cost of sales and operating expenses from the transition to our new distribution facility, and higher computer software and store supply expenses as we continue to improve both our online and retail stores. These were offset by a decrease in working capital requirements of \$7,811.

The decrease in working capital requirements was primarily due to a \$11,764 increase in accrued expenses as a result of accrued interest related to the Notes and timing of deferred revenue related to recent promotional activities. Additionally, inventory decreased \$3,715 as a result of our efforts to reduce inventory levels. These decreases in working capital requirements were offset by a \$6,063 increase in prepaid expenses related primarily to higher prepaid software maintenance fees and higher prepaid store supplies. Additionally, other assets increased \$4,393 due primarily to an increase in deferred financing costs related to our April 2013 refinancing and higher deposits related to our workers compensation program.

Cash used in investing activities increased mainly due to capital expenditures as we continue to make improvements to our existing stores and open new stores, investments in equipment and software for our new distribution center, and continuing investments in our manufacturing equipment, software and website development. During this period, six new retail stores were opened in the International segment.

Cash provided by financing activities increased mainly due to issuance of the Notes and borrowings from our Capital One and Bank of Montreal revolving credit facilities. The net proceeds from the offering of the Notes, together with borrowings under the new credit facility, were used to repay and terminate the outstanding amounts with Lion Capital and Crystal Financial.

**B. Debt**

The following is an overview of our total debt as of December 31, 2014:

Description of Debt	Lender	Interest Rate	December 31, 2014	Covenant Violations
Revolving credit facility	Capital One	(a)	\$ 34,299	Yes
Senior Secured Notes		15.0%	208,084	No
Standard General Loan Agreement	Standard General	17.0%	9,049	No
Capital lease obligations	(b)	0.4% ~ 24.1%	4,960	N/A
Other			268	N/A
Cash overdraft			5,714	N/A
<b>Total</b>			<b>\$ 262,374</b>	

(a) LIBOR plus 5.0% or the bank's prime rate plus 4.0% at our option according to the Fifth Amendment.

(b) 31 individual leases ranging between from \$2 to \$2,402.

For additional disclosures regarding our debts, see Note 7 and Note 8 of Notes to Consolidated Financial Statements in Item 8.

**Financial Covenants**

**Capital One Credit Facility** - In March 2014, we entered into the Fifth Amendment to the Capital One Credit Facility ("the "Fifth Amendment"), which waived the obligation to maintain the minimum fixed charge coverage and maximum leverage ratios for the three months ended December 31, 2013 and March 31, 2014. Under the Fifth Amendment, we are subject to specified borrowing requirements and covenants including minimum fixed charge coverage ratios, maximum leverage ratios, and maximum capital expenditures and minimum adjusted EBITDA.

On March 25, 2015, we entered into the Sixth Amendment which (i) waived any defaults under the Capital One Credit Facility due to the failure to meet the obligation to maintain the maximum leverage ratio and minimum adjusted EBITDA required for the measurement periods ended December 31, 2014, as defined in the credit agreement, (ii) waived the obligation to maintain the minimum fixed charge coverage ratio, maximum leverage ratio and minimum adjusted EBITDA required for the twelve months ending March 31, 2015, (iii) included provisions to permit us to enter into the Standard General Credit Agreement, (iv) reset financial covenants relating to maintaining minimum fixed charge coverage ratios, maximum leverage ratios and minimum adjusted EBITDA and (v) permitted us to borrow \$15,000 under the Standard General Credit Agreement.

As of December 31, 2014, we were not in compliance with the maximum leverage ratio and the minimum adjusted EBITDA covenants under the Capital One Credit Facility. For the April 1, 2014 through December 31, 2014 covenant reference period, the maximum leverage ratio was 6.70 to 1.00 as compared with the covenant maximum of 5.10 to 1.00 and the minimum adjusted EBITDA was \$38,186 as compared with the covenant minimum of \$41,124 . However, these covenant violations were waived by the Sixth Amendment. For the year ended December 31, 2014, we were required to maintain a minimum fixed charge coverage ratio of not less than 1.00 to 1.00 and a maximum capital expenditure of not more than \$8,000 . We were in compliance with these covenants at December 31, 2014.

The Capital One Credit Facility is secured by a lien on substantially all of the assets of our domestic subsidiaries and equity interests in certain of foreign subsidiaries, subject to some restrictions. It requires that we maintain a lockbox arrangement and contains certain subjective acceleration clauses. In addition, Capital One may adjust the advance restriction and criteria for eligible inventory and accounts receivable at its discretion. The Capital One Credit Facility contains cross-default provisions whereby an event of default under the Indenture governing the Notes or other indebtedness, in each case of an amount greater than a specified threshold, would cause an event of default under the Capital One Credit Facility. As of December 31, 2014 , we had \$1,080 of outstanding letters of credit secured against the Capital One Credit Facility.

**Senior Secured Notes** - The Indenture governing our Notes imposes certain limitations on our ability to, among other things and subject to a number of important qualifications and exceptions, incur additional indebtedness or issue disqualified capital stock or preferred stock (with respect to restricted subsidiaries), grant liens, make payments in respect of our capital stock or certain indebtedness, enter into transactions with affiliates, create dividend and other payment restrictions affecting subsidiaries, merge or consolidate with any other person, sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our assets or adopt a plan of liquidation. We must annually report to the trustee on compliance with such limitations. The Indenture also contains cross-default provisions whereby a payment default or acceleration of any indebtedness in an aggregate amount greater than a specified threshold would cause an event of default with respect to the Notes. We were in compliance with the required covenants at December 31, 2014 .

**Standard General Loan Agreement** - The Standard General Loan Agreement contains the same restrictive covenants as Lion Loan Agreement, which incorporated by reference several of the covenants contained in the Indenture governing our Notes, including covenants restricting our ability to incur additional indebtedness or issue disqualified capital stock or preferred stock (with respect to restricted subsidiaries), grant liens, make payments in respect of our capital stock or certain indebtedness, enter into transactions with affiliates, create dividend and other payment restrictions affecting subsidiaries, merge or consolidate with any other person, sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of our assets or adopt a plan of liquidation. As of December 31, 2014, we were in compliance with the required covenants of the Standard General Loan Agreement.

**Standard General Credit Agreement** - The Standard General Credit Agreement contains customary defaults, including cross event of default to the Notes and the Standard General Loan Agreement and cross acceleration to other indebtedness above a threshold amount. If we experience certain change of control events, we are required to offer to prepay the Standard General Credit Agreement at 101% of the outstanding principal amount plus accrued and unpaid interest on the date of the prepayment. We will be required to prepay loans under the Standard General Credit Agreement to the extent necessary to avoid the loan being characterized as an "applicable high yield discount obligation" within the meaning of the Internal Revenue Code, by the first interest payment date following the fifth anniversary of closing.

## OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

Our material off-balance sheet contractual commitments are mainly operating lease obligations and letters of credit.

Operating lease commitments mainly consist of leases for our retail stores, manufacturing facilities, main distribution centers, and corporate office. These leases frequently include options which permit us to extend the terms beyond the initial fixed lease term. As appropriate, we intend to negotiate lease renewals as the leases approach expiration. We also have capital lease obligations, which consist of our manufacturing equipment leases.

Issued and outstanding letters of credit were \$1,080 at December 31, 2014, related primarily to workers' compensation insurance and store leases.

### Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2014, which relate to future minimum payments due under non-cancelable licenses, leases, revolving credit facilities, long-term debt and advertising commitments. Future minimum rental payment on operating lease obligations presented below do not include any related property insurance, taxes, maintenance or other related costs required by operating leases.

Contractual Obligations	Total	Payments due by period			
		Less than 1 year	1-3 years	4-5 years	More than 5 years
Current debt	\$ 34,312	\$ 34,312	\$ 0	\$ 0	\$ 0
Long-term debt <sup>(a)</sup>	217,388	0	0	0	217,388
Capital lease obligations, including interest	5,385	3,328	2,057	0	0
Operating lease obligations	247,317	63,007	93,676	43,945	46,689
Advertising commitments	1,283	1,283	0	0	0
Self-insurance reserves	22,071	6,989	7,745	4,047	3,290
Total contractual obligations	\$ 527,756	\$ 108,919	\$ 103,478	\$ 47,992	\$ 267,367

(a) Excludes unamortized discount of \$5,965 at December 31, 2014 and estimates of future cash and paid-in-kind interest of \$7,233 related to the Notes and Standard General Loan Agreement.

(b) The table excludes liabilities of \$477 related to uncertainty in tax settlement as we are unable to reasonably estimate the timing and amount of related future payments.

### Item 7A. Quantitative and Qualitative Disclosures about Market Risks

We are subject to various market risk exposures such as interest rate risk associated with our credit facilities, foreign currency exchange rate risk associated with our foreign operations, and inflation. Adverse changes to these risks may occur due to changes in the liquidity of a market, or to changes in market perceptions of creditworthiness and risk tolerance. The following disclosure reflects estimates of future performance and economic conditions. Actual results may differ.

#### Interest Rate Risk

Based on our interest rate exposure on variable rate borrowings at December 31, 2014, a 1% increase in average interest rate on our borrowings would increase future interest expense by approximately \$29 per month. We determined this amount based on \$34,299 of variable rate borrowings at December 31, 2014. We are currently not using any interest rate collars or hedges to manage

or reduce interest rate risk. As a result, any increase in interest rates on the variable rate borrowings would increase interest expense and reduce net income. Our primary exposure to variable interest rates is through the effect of fluctuations in LIBOR on the interest rate under the Capital One Credit Agreement.

***Foreign Currency Exchange Rate Risk***

The majority of our operating activities are conducted in U.S. dollars. Approximately 34.2% of our net sales for the year ended December 31, 2014 were denominated in foreign currencies. Nearly all of our production costs and material costs are denominated in U.S. dollars although the majority of the yarn is sourced from outside the U.S. If the U.S. dollar were to appreciate by 10% against other currencies it could have a significant adverse impact on our earnings. Since an appreciated U.S. dollar makes goods produced in the U.S. relatively more expensive to overseas customers, other things being equal, we would have to lower our retail margin in order to maintain sales volume overseas. A lower retail margin overseas would adversely affect net income assuming sales volume remains the same. Functional currencies of our foreign operations consist of the Canadian dollar for operations in Canada, the Australian dollar for operations in Australia, the pound Sterling for operations in the U.K., the Euro for operations in the European Union, the Franc for operations in Switzerland, the New Israeli Shekel for operations in Israel, the Yen for the operations in Japan, the Won for operations in South Korea, the Renminbi for operations in China, the Real for operations in Brazil and the Peso for operations in Mexico.

***Commodity Price Risk***

Our major market risk exposure is the commodity pricing of cotton in the cost of yarn and fabric used in our manufacturing processes. In addition, high oil costs can affect the cost of all raw materials and components. The competitive environment can limit our ability to recover cost increases by raising prices. Although we cannot precisely determine the effects of changes in cotton prices on our business, we believe that the effects on revenues and operating results have not been significant, except for the impact of the dramatic increase in yarn prices in 2010 and part of 2011. We are unable to predict if we will be able to successfully pass on the added cost of any future raw material cost increases by further increasing the price of our products to our wholesale and retail customers.

**Item 8. Financial Statements and Supplementary Data**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Audit Committee of the  
Board of Directors and Stockholders of  
American Apparel, Inc.

We have audited the accompanying consolidated balance sheets of American Apparel, Inc. and Subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements operations and comprehensive loss, stockholders' deficit and cash flows for the years ended December 31, 2014, 2013, and 2012. Our audits also included the financial statement schedule as of and for the years listed in the index at Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Apparel, Inc. and Subsidiaries as of December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for the years ended December 31, 2014, 2013, and 2012 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), American Apparel, Inc. and Subsidiaries internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992 and our report dated March 25, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Marcum LLP

Marcum LLP  
Melville, NY  
March 25, 2015

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING**

To the Audit Committee of the  
Board of Directors and Shareholders of  
American Apparel, Inc.

We have audited American Apparel, Inc. and Subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 1992. The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management Annual Report on Internal Control over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that degree of compliance with the policies or procedures may deteriorate.

In our opinion, American Apparel, Inc. and Subsidiaries' maintained, in all material aspects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 1992.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2014 and 2013 and the related consolidated statements of operations and comprehensive loss, shareholders' deficit, and cash flows and the related financial statement schedule for the years ended December 31, 2014, 2013, and 2012 of the Company and our report dated March 25, 2015 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Marcum LLP

Marcum LLP  
Melville, NY  
March 25, 2015

**American Apparel, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
(in thousands, except per share amounts)

	December 31,	
	2014	2013
<b>ASSETS</b>		
Current assets:		
Cash	\$ 8,343	\$ 8,676
Trade accounts receivable (net of allowances \$458; \$2,229)	25,298	20,701
Prepaid expenses and other current assets	16,442	15,636
Inventories, net	147,578	169,378
Income taxes receivable and prepaid income taxes	648	306
Deferred income taxes, net of valuation allowance	681	599
Total current assets	198,990	215,296
Property and equipment, net	49,317	69,303
Deferred income taxes, net of valuation allowance	2,194	2,426
Other assets, net	43,888	46,727
<b>TOTAL ASSETS</b>	<b>\$ 294,389</b>	<b>\$ 333,752</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Cash overdraft	\$ 5,714	\$ 3,993
Revolving credit facilities and current portion of long-term debt	34,312	44,042
Accounts payable	35,554	38,290
Accrued expenses and other current liabilities	61,369	50,018
Fair value of warrant liability	19,239	20,954
Income taxes payable	2,063	1,742
Deferred income tax liability, current	1,045	1,241
Current portion of capital lease obligations	2,978	1,709
Total current liabilities	162,274	161,989
Long-term debt (net of unamortized discount of \$5,149; \$5,779)	217,388	213,468
Capital lease obligations, net of current portion	1,982	5,453
Deferred tax liability	200	536
Deferred rent, net of current portion	13,346	18,225
Other long-term liabilities	14,715	11,485
<b>TOTAL LIABILITIES</b>	<b>409,905</b>	<b>411,156</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock, \$0.0001 par value per-share, authorized 1,000 shares; none issued	0	0
Common stock, \$0.0001 par value per-share, authorized 230,000 shares; Issued 176,566; 113,469; Outstanding 176,194; 111,330;	18	11
Additional paid-in capital	218,779	185,472
Accumulated other comprehensive loss	(6,915)	(4,306)
Accumulated deficit	(325,241)	(256,424)
Less: Treasury stock, 304 shares at cost	(2,157)	(2,157)
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>(115,516)</b>	<b>(77,404)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 294,389</b>	<b>\$ 333,752</b>

*See accompanying notes to consolidated financial statements.*



**American Apparel, Inc. and Subsidiaries**  
**Consolidated Statements of Operations and Comprehensive Loss**  
(in thousands, except per share amounts)

	Year Ended December 31,		
	2014	2013	2012
Net sales	\$ 608,891	\$ 633,941	\$ 617,310
Cost of sales	299,756	313,056	289,927
Gross profit	309,135	320,885	327,383
Selling and distribution expenses	212,557	241,683	227,447
General and administrative expenses (including related party charges of \$787; \$1,016; \$1,090)	121,423	106,957	97,327
Retail store impairment	2,738	1,540	1,647
(Loss) income from operations	(27,583)	(29,295)	962
Interest expense	39,853	39,286	41,559
Foreign currency transaction loss	1,479	1	120
Unrealized (gain) loss on change in fair value of warrants	(1,715)	3,713	4,126
(Gain) loss on extinguishment of debt	(171)	32,101	(11,588)
Other (income) expense	(371)	131	204
Loss before income taxes	(66,658)	(104,527)	(33,459)
Income tax provision	2,159	1,771	3,813
Net loss	\$ (68,817)	\$ (106,298)	\$ (37,272)
Basic and diluted loss per-share <sup>(a)</sup>	\$ (0.43)	\$ (0.96)	\$ (0.35)
Weighted-average basic and diluted shares outstanding <sup>(a)</sup>	158,844	110,326	105,980
Net loss (from above)	\$ (68,817)	\$ (106,298)	\$ (37,272)
Other comprehensive (loss) income item:			
Foreign currency translation	(2,609)	(1,581)	631
Other comprehensive (loss) income, net of tax	(2,609)	(1,581)	631
Comprehensive loss	\$ (71,426)	\$ (107,879)	\$ (36,641)

(a) The dilutive impact of incremental shares is excluded from loss position in accordance with U.S. generally accepted accounting principles ("GAAP").

*See accompanying notes to consolidated financial statements.*

**American Apparel, Inc. and Subsidiaries**  
**Consolidated Statements of Stockholders' (Deficit) Equity**  
(in thousands)

	Number of Common Shares Issued	Par Value	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity (Deficit)
Balance as of January 1, 2012	108,870	\$ 11	\$ (2,157)	\$ 166,486	\$ (3,356)	\$ (112,854)	\$ 48,130
Share-based compensation, net	1,241	0	0	10,595	0	0	10,595
Net loss	0	0	0	0	0	(37,272)	(37,272)
Foreign currency translation	0	0	0	0	631	0	631
Balance as of December 31, 2012	110,111	11	(2,157)	177,081	(2,725)	(150,126)	22,084
Share-based compensation, net	3,358	0	0	8,391	0	0	8,391
Net loss	0	0	0	0	0	(106,298)	(106,298)
Foreign currency translation	0	0	0	0	(1,581)	0	(1,581)
Balance as of December 31, 2013	113,469	11	(2,157)	185,472	(4,306)	(256,424)	(77,404)
Public offering	61,645	6	0	28,435	0	0	28,441
Share-based compensation, net	752	0	0	4,299	0	0	4,299
Stock options exercised	700	1	0	573	0	0	574
Net loss	0	0	0	0	0	(68,817)	(68,817)
Foreign currency translation	0	0	0	0	(2,609)	0	(2,609)
Balance as of December 31, 2014	176,566	\$ 18	\$ (2,157)	\$ 218,779	\$ (6,915)	\$ (325,241)	\$ (115,516)

*See accompanying notes to consolidated financial statements.*

**American Apparel, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(in thousands)

	Year Ended December 31,		
	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 604,796	\$ 636,049	\$ 615,342
Cash paid to suppliers, employees and others	(575,124)	(627,910)	(580,685)
Income taxes paid	(2,055)	(2,033)	(10)
Interest paid	(33,250)	(18,948)	(10,954)
Other	421	119	(104)
Net cash (used in) provided by operating activities	<u>(5,212)</u>	<u>(12,723)</u>	<u>23,589</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures	(9,818)	(27,054)	(21,607)
Proceeds from sale of fixed assets	21	173	474
Restricted cash	214	1,734	(3,720)
Net cash used in investing activities	<u>(9,583)</u>	<u>(25,147)</u>	<u>(24,853)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash overdraft	1,720	3,993	(1,921)
Repayments of expired revolving credit facilities, net	0	(28,513)	(48,324)
(Repayments) borrowings under current revolving credit facilities, net	(9,709)	39,794	28,451
(Repayments) borrowings of term loans and notes payable	(60)	(20,466)	29,987
Repayment of Lion term loan	0	(144,149)	0
Issuance of Senior Secured Notes	0	199,820	0
Payments of debt issuance costs	(2,102)	(11,909)	(5,226)
Net proceeds from issuance of common stock	28,435	0	0
Proceeds from stock option exercise	573	0	0
Payment of payroll statutory tax withholding on share-based compensation associated with issuance of common stock	(646)	(2,623)	(393)
Proceeds from equipment lease financing	0	0	4,533
Repayment of capital lease obligations	(2,659)	(1,719)	(2,893)
Net cash provided by financing activities	<u>15,552</u>	<u>34,228</u>	<u>4,214</u>
Effect of foreign exchange rate on cash	(1,090)	(535)	(390)
Net (decrease) increase in cash	<u>(333)</u>	<u>(4,177)</u>	<u>2,560</u>
Cash, beginning of period	8,676	12,853	10,293
Cash, end of period	<u>\$ 8,343</u>	<u>\$ 8,676</u>	<u>\$ 12,853</u>

*See accompanying notes to consolidated financial statements.*

	Year Ended December 31,		
	2014	2013	2012
<b>RECONCILIATION OF NET LOSS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>			
Net loss	\$ (68,817)	\$ (106,298)	\$ (37,272)
Depreciation and amortization of property and equipment and other assets	25,897	26,076	22,989
Retail store impairment	2,738	1,540	1,647
Loss on disposal of property and equipment	52	241	102
Share-based compensation expense	4,317	8,451	10,580
Unrealized (gain) loss on change in fair value of warrants	(1,715)	3,713	4,126
Amortization of debt discount and deferred financing costs	2,546	4,325	10,261
(Gain) loss on extinguishment of debt	(171)	32,101	(11,588)
Accrued interest paid-in-kind	4,189	9,949	20,344
Foreign currency transaction loss	1,479	1	120
Allowance for inventory shrinkage and obsolescence	6,049	116	(1,331)
Bad debt expense	1,563	1,512	99
Deferred income taxes	(574)	(168)	154
Deferred rent	(4,316)	(2,093)	(895)
Changes in cash due to changes in operating assets and liabilities:			
Trade accounts receivables	(5,658)	596	(2,067)
Inventories	12,682	3,715	13,949
Prepaid expenses and other current assets	(1,210)	(6,063)	(1,829)
Other assets	381	(4,393)	(8,455)
Accounts payable	(1,078)	2,287	1,779
Accrued expenses and other liabilities	16,344	11,764	(4,223)
Income taxes receivable / payable	90	(95)	5,099
Net cash (used in) provided by operating activities	<u>\$ (5,212)</u>	<u>\$ (12,723)</u>	<u>\$ 23,589</u>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>			
Property and equipment acquired and included in accounts payable	\$ 195	\$ 1,576	\$ 3,778
Property and equipment acquired under capital lease	\$ 434	\$ 4,213	\$ 0
Standard General Loan Agreement assigned from Lion	\$ 9,865	\$ 0	\$ 0
Lion Loan Agreement assigned to Standard General	\$ (9,865)	\$ 0	\$ 0

*See accompanying notes to consolidated financial statements.*

**American Apparel, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
(in thousands, except per share amounts)

**Note 1. Organization and Business**

American Apparel, Inc. and its subsidiaries (collectively the "Company") is a vertically-integrated manufacturer, distributor, and retailer of branded fashion basic apparel products and designs. The Company manufactures and sells clothing and accessories for women, men, children and babies. The Company sells its products through the wholesale distribution channel supplying t-shirts and other casual wear to distributors and screen printers, as well as direct to customers through its retail stores located in the U.S. and internationally. In addition, the Company operates an online retail e-commerce website. At December 31, 2014, the Company operated a total of 242 retail stores in 20 countries including the U.S. and Canada.

***Company Highlights***

***Recent Developments*** - On December 16, 2014, the Board of Directors (the "Board") appointed Paula Schneider as Chief Executive Officer ("CEO") of the Company, effective January 5, 2015. This appointment followed the termination of Dov Charney, former President and CEO, for cause in accordance with the terms of his employment agreement. Scott Brubaker, who served as Interim CEO since September 29, 2014, continued in the post until Ms. Schneider joined the Company. Additionally, on September 29, 2014, the Board appointed Hassan Natha as Chief Financial Officer ("CFO"), and John Luttrell resigned as Interim CEO and CFO of the Company.

On July 7, 2014, the Company received a notice from Lion Capital LLP ("Lion") asserting an event of default and an acceleration of the maturity of the loans and other outstanding obligations under the loan agreement (the "Lion Loan Agreement") as a result of the suspension of Dov Charney as CEO of the Company by the Board. On July 14, 2014, Lion issued a notice rescinding the notice of acceleration. On July 16, 2014, Lion assigned its rights and obligations as a lender under the Lion Loan Agreement to an entity affiliated with Standard General Group ("Standard General" and such agreement, subsequent to the assignment, the "Standard General Loan Agreement"). Standard General has waived any default under the Standard General Loan Agreement that may have resulted or that might result from Mr. Charney not being the CEO of the Company.

On September 8, 2014, the Company and Standard General entered into an amendment of the Standard General Loan Agreement to lower the applicable interest rate to 17%, extend the maturity to April 15, 2021, and make certain other technical amendments, including to remove a provision that specified that Mr. Charney not being the CEO of the Company would constitute an event of default. See Note 8.

In connection with the Nomination, Standstill and Support Agreement, dated July 9, 2014, (the "Standstill and Support Agreement") among the Company, Standard General and Mr. Charney, five directors including Mr. Charney resigned from the Company's Board effective as of August 2, 2014, and five new directors were appointed to the Board, three of whom were designated by Standard General and two of whom were appointed by the mutual agreement of Standard General and the Company. In addition, Lion exercised its rights to designate two members to the Board, whose appointments were effective as of September 15, 2014 and January 13, 2015, respectively.

In 2012, the German authorities audited the import records of the Company's German subsidiary for the years 2009 through 2011 and issued retroactive punitive duty assessments on certain containers of goods imported. The German customs imposed a substantially higher tariff rate than the original rate that the Company had paid on the imports, more than doubling the amount of the tariff that the Company would have to pay. The assessments of additional retaliatory duty originated from a trade dispute. Despite the ongoing appeals of the assessment, the German authorities demanded, and the Company paid, in connection with such assessment, \$4,390 in the third quarter of 2014 and the final balance of \$85 in the fourth quarter of 2014. The Company recorded the duty portion of \$79 in cost of sales and the retaliatory duties, interest and penalties of \$5,104 in general and administrative expenses in its consolidated statements of operations.

***Liquidity*** - As of December 31, 2014, the Company had \$8,343 in cash, \$34,299 outstanding on a \$50,000 asset-backed revolving credit facility with Capital One Business Credit Corp. ("Capital One" and such facility the "Capital One Credit Facility") and \$13,146 of availability for additional borrowings. On March 13, 2015, the Company had \$5,837 of availability for additional borrowings under the Capital One Credit Facility.

In March 2014, the Company entered into the Fifth Amendment to the Capital One Credit Facility ("the "Fifth Amendment") which waived the obligation to maintain the minimum fixed charge coverage and maximum leverage ratios for the three months ended December 31, 2013 and March 31, 2014. Based on the Fifth Amendment, the interest rates on borrowings under the Capital One Credit Facility are equal to LIBOR plus 5.0% or the bank's prime rate plus 4.0% at the Company's option and are subject to specified borrowing requirements and covenants. In addition, the Fifth Amendment reset the minimum fixed charge coverage ratios, maximum leverage ratios, maximum capital expenditures and minimum adjusted EBITDA.

On March 25, 2015, the Company entered into the Sixth Amendment to the Capital One Credit Facility ("the Sixth Amendment") which (i) waived any defaults under the Capital One Credit Facility due to the failure to meet the obligation to maintain the maximum leverage ratio and minimum adjusted EBITDA required for the measurement periods ended December 31, 2014, as defined in the credit agreement, (ii) waived the obligation to maintain the minimum fixed charge coverage ratios, maximum leverage ratios and minimum adjusted EBITDA required for the twelve months ending March 31, 2015, (iii) included provisions to permit the Company to enter into the Standard General Credit Agreement (as defined below), (iv) reset financial covenants relating to maintaining minimum fixed charge coverage ratios, maximum leverage ratios and minimum adjusted EBITDA and (v) permitted the Company to borrow \$15,000 under the Standard General Credit Agreement.

As of December 31, 2014, the Company was not in compliance with the maximum leverage ratio and the minimum adjusted EBITDA covenants under the Capital One Credit Facility. For the April 1, 2014 through December 31, 2014 covenant reference period, the maximum leverage ratio was 6.70 to 1.00 as compared with the covenant maximum of 5.10 to 1.00 and the minimum adjusted EBITDA was \$38,186 as compared with the covenant minimum of \$41,124 . However, these covenant violations were waived by the Sixth Amendment. For the year ended December 31, 2014, the Company was required to maintain a minimum fixed charge coverage ratio of not less than 1.00 to 1.00 and a maximum capital expenditure of not more than \$8,000 . We were in compliance with these covenants at December 31, 2014.

On March 25, 2015, one of the Company's subsidiaries borrowed \$15,000 under an unsecured credit agreement with Standard General, dated as of March 25, 2015 (the "Standard General Credit Agreement"). The Standard General Credit Agreement is guaranteed by the Company, bears interest at 14% per annum, and will mature on October 15, 2020. The proceeds of such loan are intended to provide additional liquidity to the Company as contemplated by the Standstill and Support Agreement.

***Management's Plan*** - Throughout 2014 and into early 2015, the Company brought on a new board of directors and hired on new senior management, including CEO, CFO, and General Counsel, as well as other additions to the management team. Together, the new board of directors and new management team are focused on implementing a turnaround strategy and enhancing the Company's corporate governance policies and practices. The Company has started implementing additional operational and financial processes and disciplines to improve liquidity and profitability. To that end, new members to the executive team in the areas of planning and forecasting, operations, marketing and e-commerce were added. The Company continues to drive productivity from its distribution center, reduce inventory, reduce labor costs, and consolidate its administrative and manufacturing functions. Additionally, new members were added to the legal and human resources departments and the Company has introduced a new code of ethics which all new and current employees are asked to read. Management believes that a strong operational and financial discipline, along with a robust corporate governance structure, is an important element of the Company's long-term business strategy.

Although the Company has made progress under these programs, the Company operates in a rapidly evolving and often unpredictable business environment that may change the timing or amount of expected future cash receipts and expenditures. The Company's cash flows are dependent upon meeting future sales growth projections and reducing certain expenses. Accordingly, there can be no assurance that the Company's planned improvements will be successful.

## **Note 2. Summary of Significant Accounting Policies**

### ***Principles of Consolidation and Basis of Presentation***

The consolidated financial statements include the accounts of American Apparel, Inc. and its 100% owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation. Certain prior year amounts have been reclassified to confirm to the current period presentation.

### ***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The most significant estimates include: revenue recognition, inventory valuation and obsolescence; valuation and recoverability of long-lived assets, including the values assigned to goodwill, intangible assets, and property and equipment; fair value calculations, including derivative liabilities; contingencies, including accruals for the outcome of current litigation and assessments and self-insurance; and income taxes, including uncertain income tax positions and recoverability of deferred income taxes and any limitations as to net operating losses ("NOL"). Actual results could differ from those estimates.

### ***Concentration of Credit Risk***

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash (the amounts of which may, at times, exceed Federal Deposit Insurance Corporation limits on insurable amounts) and trade accounts receivable (including credit card receivables) relating substantially to the Company's U.S. Wholesale segment. Cash is managed within established guidelines, and the Company mitigates its risk by investing through major financial institutions. The Company had \$6,361 and \$7,374 held in foreign banks at December 31, 2014, and 2013, respectively.

Concentration of credit risk with respect to trade accounts receivable is limited by performing on-going credit evaluations of its customers and adjusting credit limits based upon payment history and the customer's current credit worthiness. The Company also maintains an insurance policy for certain customers based on a customer's credit rating and established limits. Collections and payments from customers are continuously monitored. One customer in the Company's U.S. Wholesale segment accounted for 16.6% and 14.2% of its total trade accounts receivable as of December 31, 2014 and 2013, respectively. The Company maintains an allowance for doubtful accounts which is based upon historical experience and specific customer collection issues that have been identified. While bad debt expenses have historically been within expectations and allowances established, the Company cannot guarantee that it will continue to experience the same credit loss rates that it has in the past.

### ***Trade Accounts Receivable and Allowance for Doubtful Accounts***

Trade accounts receivable is primarily receivable from customers including amounts due from credit card companies, net of allowances. On a periodic basis, the Company evaluates its trade accounts receivable and establishes an allowance for doubtful accounts.

The Company performs on-going credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current credit worthiness, as determined by its review of current credit information. Payments from customers are continuously monitored. The Company maintains an allowance for doubtful accounts, which is based upon historical experience as well as specific customer collection issues that have been identified. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

### ***Inventories***

Inventories consist of material, labor, and overhead, and are stated at the lower of cost or market. Cost is primarily determined on the first-in, first-out (FIFO) method. No supplier provided more than 10% of the Company's raw material purchases as of December 31, 2014 and 2013.

The Company identifies potentially excess and slow-moving inventories by evaluating turn rates, inventory levels and other factors and records lower of cost or market reserves for such identified excess and slow-moving inventories. The Company also establishes reserves for inventory shrinkage for each of its retail locations and warehouse based on the historical results of physical inventory cycle counts.

### ***Fair Value Measurements***

The financial instruments recorded in the consolidated balance sheets include cash, trade accounts receivable (including credit card receivables), accounts payable, revolving credit facilities, senior secured notes, term loans and warrants. Due to their short-term maturity, the carrying values of cash, trade accounts receivables, and accounts payable approximate their fair market values. In addition, the carrying amount of the revolving credit facility from Capital One approximates its fair value because of the variable market interest rate charged to the Company.

The Company employs a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date using the exit price. Accordingly, when market observable data is not readily available, the Company's own assumptions are used to reflect those that market participants would be presumed to use in pricing the asset or liability at the measurement date. Assets and liabilities recorded on the consolidated balance sheets at fair value are categorized based on the level of judgment associated with inputs used to measure their fair value and the level of market price observability, as follows:

Level 1 – Unadjusted quoted prices are available in active markets for identical assets or liabilities as of the reporting date.

Level 2 – Pricing inputs are other than unadjusted quoted prices in active markets, which are based on the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in non-active markets; or
- Either directly or indirectly observable inputs as of the reporting date.

Level 3 – Pricing inputs are unobservable and significant to the overall fair value measurement, and the determination of fair value requires significant management judgment or estimation. The valuation policies and procedures underlying are determined by the Company's accounting and finance team and are approved by the CFO.

In certain cases, inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. Thus, a Level 3 fair value measurement may include inputs that are observable (Level 1 or Level 2) and unobservable (Level 3). The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the asset or liability.

The Company uses prices and inputs that are current as of the measurement date, including during periods of market disruption. In periods of market disruption, the ability to observe prices and inputs may be reduced for many instruments. This condition could cause an instrument to be reclassified from Level 1 to Level 2, or from Level 2 to Level 3. The Company recognizes transfers between levels at either the actual date of the event or a change in circumstances that caused the transfer.

As of December 31, 2014, there were no transfers between Levels 1, 2 and 3 of the fair value hierarchy.

### **Summary of Significant Valuation Techniques**

#### ***Level 2 Measurements:***

Senior secured notes : Estimated based on quoted prices for identical senior secured notes in non-active market.

#### ***Level 3 Measurements:***

Term loans : Estimated using a projected discounted cash flow analysis based on unobservable inputs including principal and interest payments and discount rate. A yield rate was estimated using yields rates for publicly traded debt instruments of comparable companies with similar features. An increase or decrease in the stock price and the discount rate assumption can significantly decrease or increase the fair value of term loans. See Note 9.

Warrants : Estimated using the Binomial Lattice option valuation model. Significant observable and unobservable inputs include stock price, exercise price, annual risk free rate, term, and expected volatility. An increase or decrease in these inputs could significantly increase or decrease the fair value of the warrant. See Notes 9 and 13.

Indefinite-lived assets - goodwill: Estimated using a projected discounted cash flow analysis based on unobservable inputs including gross profit, discount rate, working capital requirements, capital expenditures, depreciation and terminal value assumptions. An increase or decrease in the discount rate assumption and/or the terminal value assumption, in isolation, can have a significant effect on the fair value of the reporting unit. See *Goodwill and Other Intangible Assets* below.

Retail stores - leasehold improvements: Estimated using a projected discounted cash flow analysis based on unobservable inputs including gross profit and discount rate. The key assumptions used in the estimates of projected cash flows were sales, gross margins, and payroll costs. These forecasts were based on historical trends and take into account recent developments as well as the Company's plans and intentions. An increase or decrease in the discount rate assumption and/or projected cash flows, in isolation, can significantly decrease or increase the fair value of the assets, which would have an effect on the impairment recorded. See *Impairment of Long-Lived Assets* below.

#### ***Website Development***

The Company capitalizes applicable costs incurred during the application and website infrastructure development stage while expensing costs incurred during the planning and operating stage. The carrying values of the Company's capitalized website development costs were \$2,445 and \$2,805 as of December 31, 2014 and 2013, respectively, and were included in property and equipment in the accompanying consolidated balance sheets.

#### ***Goodwill and Other Intangible Assets***

Goodwill and other intangible assets arise as a result of business acquisitions and consist of the excess of the cost of the acquisitions over the tangible and intangible assets acquired and liabilities assumed and identifiable intangible assets acquired.

The Company annually evaluates goodwill and other intangible assets for impairment. The Company also reviews its goodwill and other intangible assets for impairment whenever events or changes in circumstances indicate that it is more likely than not the carrying amount of goodwill may exceed its implied fair value. The Company quantitatively determines whether, more likely than not, the fair value exceeds the carrying amount of a reporting unit. There are numerous assumptions and estimates underlying the quantitative assessments including future earnings, long-term strategies, and the Company's annual planning and forecasts. If these planned initiatives do not accomplish the targeted objectives, the assumptions and estimates underlying the quantitative assessments could be adversely affected and have a material effect upon the Company's financial condition and results of operations. As of December 31, 2014 and 2013, goodwill and other intangible impairment assessments indicated that there was no impairment.



Other intangible assets consist of deferred financing costs, key money, broker and finder fees, and lease rights. See Note 5.

### ***Impairment of Long-Lived Assets***

The Company assesses long-lived assets or asset groups for recoverability on a quarterly basis and when events or changes in circumstances indicate that their carrying amount may not be recoverable. The Company considers the following indicators, among others, that may trigger an impairment: (i) loss from operations or income from operations significantly below historical or projected future operating results; (ii) significant changes in the manner or use of the assets or in its overall strategy with respect to the manner or use of the acquired assets or changes in its overall business strategy; (iii) significant negative industry or economic trends; (iv) increased competitive pressures; (v) a significant decline in the Company's stock price for a sustained period of time; and (vi) regulatory changes.

The Company evaluates the performance of its stores to determine impairment of its long-lived assets at retail stores. New stores less than 12 months are excluded from the analysis because of lack of historical financial results or trends. Each new store needs between 12 months and 24 months to mature and begin generating positive cash flows. For purposes of this evaluation, long-lived assets subject to store impairments include leasehold improvements as well as certain intangible assets such as broker and finder fees, lease rights, key money on store leases, and any other non-transferable assets. All intangible assets are subject to impairment analysis if they are non-refundable in nature.

If the Company identifies an indicator of impairment, it assesses recoverability by comparing, per store, the carrying amount of the store assets to the estimated future undiscounted cash flows associated with the store. An impairment loss is recognized when the carrying amount is not recoverable and is measured as the excess of carrying value over fair value. Such estimated fair values are generally determined by using the discounted future cash flows using a rate that approximates the Company's weighted average cost of capital.

The key assumptions used in management's estimates of projected cash flow at its retail stores deal largely with forecasts of sales levels, gross margins, and payroll costs. These forecasts are typically based on historical trends and take into account recent developments as well as management's plans and intentions. Any material change in manufacturing costs or raw material costs could significantly impact projected future cash flows of retail stores, and these factors are considered in evaluating impairment. Other factors, such as increased competition or a decrease in the desirability of the Company's products, could lead to lower projected sales levels which would adversely impact cash flows. A significant change in cash flows in the future could result in an impairment of long lived assets.

The Company identified indicators of impairment at some retail stores in its U.S. Retail, Canada, and International segments. The Company performed a recoverability test on these stores and recorded impairment charges, as applicable, of \$2,738 , \$1,540 and \$1,647 for the years ended December 31, 2014 , 2013 , and 2012 , respectively.

### ***Self-Insurance Liabilities***

The Company self-insures a significant portion of expected losses under workers' compensation and health care benefits programs. Estimated costs under the workers' compensation program, including incurred but not reported claims, are recorded as expense based upon historical experience, trends of paid and incurred claims, and other actuarial assumptions. If actual claim trends under these programs, including the severity or frequency of claims, differ from the Company's estimates, its financial results may be significantly impacted.

The Company's estimated self-insurance liabilities are classified in its balance sheets as accrued expenses or other long-term liabilities based upon whether they are expected to be paid during or beyond the Company's normal operating cycle of 12 months from the date of its consolidated financial statements. Estimated costs under the Company's health care program are based on estimated losses for claims incurred but not paid at the end of the period. Funding is made directly to the providers and/or claimants by the insurance company.

### ***Income Taxes***

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial reporting basis and the respective tax basis of its assets and liabilities, and are measured using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company estimates the degree to which tax assets and credit carryforwards will result in a benefit based on expected profitability by tax jurisdiction. A valuation allowance for such tax assets and loss carryforwards is provided when it is determined that such amounts will more likely than not go unrealized. Significant weight is given to evidence that can be objectively verified. The determination to record a valuation allowance is based on the recent history of cumulative losses and current operating performance and includes an assessment of the degree to which any losses are driven by items that are unusual in nature or incurred to improve future profitability. In addition, the Company reviews changes in near-term market conditions and any other factors arising during the period which may impact its future operating results. If it becomes more likely than not that a tax asset will be realized, any related valuation allowance of such assets would be reversed. The Company recorded a valuation allowance against deferred tax assets of \$143,062 and \$120,694 for the years ended December 31, 2014 and 2013 .

Management makes judgments as to the interpretation of the tax laws that might be challenged upon an audit and cause changes to previous estimates of tax liability. In addition, the Company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. Management believes that adequate provisions have been made for all years, but the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income tax in the period such resolution occurs.

The Company's foreign domiciled subsidiaries are subject to foreign income taxes on earnings in their respective jurisdictions. The Company elected to have its foreign subsidiaries, except for its subsidiaries in Brazil, Canada, China, Ireland, Italy, South Korea, and Spain, consolidated in the Company's U.S. federal income tax return. The Company is generally eligible to receive tax credits on its U.S. federal income tax return for most of the foreign taxes paid by the Company's subsidiaries included in the U.S. federal income tax return.

For financial statement purposes, the Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. Once this threshold has been met, the Company's measurement of its expected tax benefits is recognized in its financial statements. Gross unrecognized tax benefits are included in current liabilities in the consolidated balance sheets, and interest and penalties on unrecognized tax benefits are recorded in the income tax provision in the consolidated statements of operations.

### ***Contingencies***

Certain conditions may exist at the date the consolidated financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings or governmental assessments that are pending against the Company or unasserted claims that may result in such proceedings, the Company evaluates the perceived merits of these matters as well as the merits of the amount of relief sought or expected to be sought.

The Company establishes reserves when it believes a loss is probable and is able to estimate its potential exposure. For loss contingencies believed to be reasonably possible, the Company also discloses the nature of the loss contingency and an estimate of the possible loss or range of loss, or a statement that such an estimate cannot be made. Insurance may cover a portion of such losses; however, certain matters could arise for which we do not have insurance coverage or for which insurance provides only partial coverage. These matters could have a material negative effect on our business, financial position, results of operations, or cash flows. See Notes 15 and 18.

### ***Revenue Recognition***

The Company recognizes revenue when all of the following criteria are met: (i) title and risk of loss have transferred to the customer, (ii) there is persuasive evidence of an arrangement, (iii) the sales price is fixed or determinable, and (iv) collectability is reasonably assured. Wholesale product sales are recorded at the time the product is either picked up by or shipped to the customer. Online sales are recorded at the time the product is received by the customer. Retail store sales are recorded upon the sale of product to retail customers. The Company's net sales represent gross sales invoiced to customers less certain related charges for discounts, returns, and other promotional allowances.

The Company recognizes revenue from gift cards, gift certificates and store credits as they are redeemed for product or when it is determined that some portion of gift cards will not be redeemed. See *Gift Cards* below.

### ***Sales Returns and Allowances***

The Company analyzes its historical sales return experience and records an allowance for its wholesale, online and retail store sales. Estimating sales returns are based on many factors including expected return data communicated by customers. The Company regularly reviews those factors and makes adjustments when it believes that actual product returns and claims may differ from established reserves. If actual or expected future returns and claims are significantly greater or lower than reserves established, the Company would decrease or increase net revenues in the period in which it made such determination.

### ***Gift Cards***

Upon issuance of a gift card, a liability is established for the cash value. The liability is relieved and net sales are recorded upon redemption by the customer. Over time, some portion of gift cards is not redeemed ("breakage"). The Company determines breakage income for gift cards based on historical redemption patterns. Breakage income is recorded as a credit to selling expenses, which is a component of operating expenses in the consolidated statements of operations. The Company currently records breakage when gift cards remain unredeemed after two years. The Company's gift cards, gift certificates and store credits do not have expiration dates.

The Company does not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions used to calculate breakage.

### ***Shipping and Handling Costs***

Shipping and handling costs consist primarily of freight expenses incurred to transport products to the Company's retail stores, distribution center, and wholesale and online retail customers. These costs are included in cost of sales while amounts billed to customers for shipping are included in net sales.

### ***Deferred Rent, Rent Expense and Tenant Allowances***

The Company occupies its retail stores, corporate office, manufacturing facilities, and distribution center under operating leases with terms of one to ten years. Some leases contain renewal options for periods ranging from five to fifteen years under substantially the same terms and conditions as the original leases but with rent adjustments based on various factors specific to each agreement. Many of the store leases require payment of a specified minimum rent, a contingent rent based on a percentage of the store's net sales in excess of a specified threshold, plus defined escalating rent provisions. The Company recognizes its minimum rent expense on a straight-line basis over the term of the lease (including probable lease renewals) plus the construction period prior to occupancy of the retail location using a mid-month convention. Further, rent expenses include payments of real estate taxes, insurance and certain common area and maintenance costs in addition to the future minimum operating lease payments. Certain lease agreements provide for the Company to receive lease inducements or tenant allowances from landlords to assist in the financing of certain property. These inducements are recorded as a component of deferred rent and amortized as a reduction of rent expense over the term of the related lease.

### ***Advertising***

The Company does not defer advertising expenses but expenses them as incurred. Advertising expenses were \$15,176 , \$19,814 , and \$22,114 for the years ended December 31, 2014 , 2013 and 2012 , respectively, and were included in selling expenses in the consolidated statements of operations. The Company has cooperative advertising arrangements with certain vendors in its U.S. wholesale segment. For the years ended December 31, 2014 , 2013 and 2012 , cooperative advertising expenses were not significant.

### ***Share-Based Compensation***

Share-based compensation expense for all share-based payment awards granted or modified is based on the estimated grant date fair value. The Company recognizes these compensation expenses on a straight-line basis over the vesting period for all share-based awards granted. The fair value of stock option awards is estimated using the Black-Scholes option pricing model at the grant date. The Company calculates the expected volatility using the historical volatility over the most recent period equal to the expected term and evaluates the extent to which available information indicate that future volatility may differ from historical volatility. The risk-free rates for the expected terms of the stock options are based on the U.S. Treasury yield curve in effect at the time of the grant. Due to the lack of historical information, the Company determines the expected term of its stock option awards by using the simplified method, which assumes each vesting tranche of the award has a term equal to the midpoint between when the award vests and when the award expires. Estimated forfeitures are zero , and actual forfeitures have been insignificant to date. The expected dividend yield is zero as the Company has not paid or declared any cash dividends on its common stock. Based on these valuations, the Company recognized share-based compensation expense of \$4,317 , \$8,451 , and \$10,580 for the years ended December 31, 2014 , 2013 and 2012 , respectively.

### ***Earnings per Share***

Basic earnings per share ("EPS") excludes dilution and reflects net loss divided by the weighted average shares of common stock outstanding during the period presented. Diluted EPS is based on the weighted average shares of common stock and potential dilutive common stock outstanding during the period presented. See Note 13.

### ***Comprehensive Loss***

Comprehensive loss represents the change in stockholders' equity resulting from transactions other than stockholder investments and distributions. Accumulated other comprehensive loss includes changes in equity that are excluded from the Company's net loss, specifically, unrealized gains and losses on foreign currency translation adjustments and is presented in the consolidated statements of stockholders' equity. The Company presents the components of comprehensive loss within the consolidated statements of operations and comprehensive loss.

### ***Foreign Currency Translation***

The Company's 100% owned direct and indirect foreign operations present their financial reports in the currency used in the economic environment in which they mainly operate, known as the functional currency. The Company's functional currencies consist of the Canadian dollar for operations in Canada, the Australian dollar for operations in Australia, the pound Sterling for operations in the U.K., the Euro for operations in the European Union (excluding the Swiss Franc for operations in Switzerland and the Swedish Kronor for operations in Sweden, which are remeasured to Euro before translated into U.S. dollar), the New Israeli Shekel for operations in Israel, the Yen for the operations in Japan, the Won for operations in South Korea, the Renminbi for operations in China, the Real for operations in Brazil, and the Peso for operations in Mexico.

Assets and liabilities in foreign subsidiaries are translated into U.S. dollars at the exchange rate on the closing date, while the income statement is translated at the average exchange rate for the financial year. Gains and losses from these translations are recognized in foreign currency translation included in accumulated other comprehensive loss in the consolidated statements of stockholders' deficit.

**Recently Issued Accounting Standards**

In August 2014 , the Financial Accounting Standards Board ("FASB") issued a new standard on disclosure of uncertainties about an entity's ability to continue as a going concern. The new standard provides guidance on determining when and how reporting entities must disclose going concern uncertainties in their financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statements. Additionally, an entity must provide certain disclosures if there is substantial doubt about the entity's ability to continue as a going concern. The new standard will be effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2016 . Early adoption is permitted. The Company is in the process of evaluating the impact of adoption on the Company's consolidated financial statements.

In June 2014 , the FASB issued a new standard on accounting for share-based payments. The new standard clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. As such, the performance target should not be reflected in estimating the grant date fair value of the award. The new standard also clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period for which the requisite service has already been rendered. The new standard will be effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015 . Early adoption is permitted. The Company is in the process of evaluating the impact of adoption on the Company's consolidated financial statements.

In May 2014 , the FASB issued a new standard on recognizing revenue in contracts with customers. The new standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The new standard creates a five-step process to recognize revenue that requires entities to exercise judgment when considering contract terms and relevant facts and circumstances. The new standard also requires expanded disclosures surrounding revenue recognition. The new standard will be effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2016 . The Company is in the process of evaluating the impact of adoption on the Company's consolidated financial statements.

Other recently issued accounting standards are not expected to have a material effect on the Company's consolidated financial statements.

**Note 3. Inventories**

The components of inventories are as follows:

	December 31,	
	2014	2013
Raw materials	\$ 17,738	\$ 23,199
Work in process	2,805	2,596
Finished goods	135,813	146,361
	156,356	172,156
Less reserve for inventory shrinkage and obsolescence	(8,778)	(2,778)
Total, net of reserves	\$ 147,578	\$ 169,378

The Company increased its lower of cost or market reserves for excess and slow-moving inventories to \$6,684 at December 31, 2014 from \$1,951 at December 31, 2013 . As part of the Company's valuation analysis of inventory, the Company identified certain slow-moving, second quality finished goods and raw materials inventory for additional reserves. Inventory shrinkage reserves were \$2,094 and \$827 at December 31, 2014 and 2013 , respectively.

**Note 4. Property and Equipment**

Property and equipment consist of the following:

	December 31,	
	2014	2013
Machinery and equipment	\$ 59,703	\$ 58,069
Furniture and fixtures	47,404	46,749
Computers and software	47,220	45,402
Automobiles and light trucks	1,309	1,334
Leasehold improvements	94,747	95,886
Buildings	503	547
Construction in progress	115	1,353
	251,001	249,340
Less accumulated depreciation and amortization	(201,684)	(180,037)
Total	\$ 49,317	\$ 69,303

Property and equipment is recorded on the basis of cost and is depreciated using a straight-line method over the estimated useful lives of fixed assets. Leasehold improvements are amortized over the shorter of the useful life of the assets or the lease term. Expenditures which significantly improve or extend the life of an asset are capitalized and depreciated over the asset's remaining useful life. The Company expenses maintenance and repair costs as incurred.

The useful lives of the Company's major classes of assets are as follows:

Machinery and equipment	5 to 7 years
Furniture and fixtures	3 to 5 years
Computers and software	3 to 5 years
Automobiles and light trucks	3 to 5 years
Leasehold improvements	Shorter of lease term or useful life
Buildings	25 years

Upon sale or disposition, the related cost and accumulated depreciation are removed from the Company's financial statements and the resulting gain or loss, if any, is reflected in income from operations. Property and equipment acquired are recorded as construction in progress until placed in-service, at which time the asset is reclassified to the appropriate asset category and depreciation commences.

Depreciation and amortization expenses were \$25,897 , \$26,076 and \$22,989 for the years ended December 31, 2014 , 2013 , and 2012 , respectively. Machinery and equipment held under capital leases were \$15,743 and \$15,115 as of December 31, 2014 and 2013 , respectively, which were included in property and equipment. Accumulated amortizations for these capital leases were \$13,099 and \$12,252 as of December 31, 2014 , and 2013 , respectively.

**Note 5. Goodwill, Intangible Assets and Other Assets**

The following table presents the net carrying amounts of definite and indefinite lived intangible assets and other assets.

	December 31,	
	2014	2013
Deferred financing costs	\$ 9,816	\$ 10,275
Broker and finder fees	1,775	1,779
Lease rights	172	187
Key money on store leases	2,027	1,652
<b>Total intangible assets, gross</b>	<b>13,790</b>	<b>13,893</b>
Accumulated amortization	(2,739)	(2,361)
<b>Total intangible assets, net</b>	<b>11,051</b>	<b>11,532</b>
Goodwill	1,906	1,906
Workers compensation deposit	16,124	16,124
Lease security deposits	7,389	9,013
Restricted cash	1,650	2,078
Other	5,768	6,074
<b>Total intangible and other assets, net</b>	<b>\$ 43,888</b>	<b>\$ 46,727</b>

***Intangible assets***

Deferred financing costs represent costs associated with issuing debt and are amortized on a straight-line basis over the term of the related indebtedness. Deferred financing cost amortization expenses were \$1,901 , \$1,895 , and \$2,287 for the years ended December 31, 2014 , 2013 and 2012 , respectively, which were included in interest expense on the consolidated statements of operations.

Lease rights are costs incurred to acquire the right to lease a specific property. A majority of the Company's lease rights are related to premiums paid to landlords. Lease rights are recorded at cost and are amortized on a straight-line basis over the term of the respective leases.

Key money is funds paid to a landlord or tenant to acquire the rights of tenancy under a commercial property lease for a certain property. Key money represents the "right to lease" with an automatic right of renewal. This right can be subsequently sold by the Company or can be recovered in case a landlord refuses to allow the automatic right of renewal. Key money is amortized on a straight-line basis over the respective lease terms.

Aggregate amortization expenses of intangible assets and other assets, excluding deferred financing costs, were \$595 , \$456 , and \$472 for the years ended December 31, 2014 , 2013 and 2012 , respectively, which were included in operating expenses in the consolidated statements of operations. None of the intangible assets are anticipated to have a residual value. The following table presents the estimated future amortization expenses related to amortizable intangible assets as of December 31, 2014 :

Year Ending December 31,	Amortization Expense	
	2015	\$ 2,209
	2016	2,190
	2017	2,170
	2018	1,910
	2019 and thereafter	2,305
	Total	<b>\$ 10,784</b>

***Goodwill***

There were no changes in the carrying amount of goodwill for the year ended December 31, 2014. Goodwill is reviewed for impairment on an annual basis and more frequently if potential impairment indicators exist. No impairment indications were identified during any of the periods presented.

**Note 6. Accrued Expenses and Other Current Liabilities**

The components of accrued expenses and other current liabilities are as follows:

	December 31,	
	2014	2013
Compensation, bonuses and related taxes	\$ 13,010	\$ 12,254
Accrued interest	5,932	6,064
Workers' compensation and other self-insurance reserves (Note 16)	6,760	6,383
Sales, value and property taxes	5,984	5,240
Gift cards and store credits	8,462	7,391
Loss contingencies	2,360	1,177
Deferred revenue	962	1,258
Deferred rent	3,422	3,363
Other	14,477	6,888
Total accrued expenses and other current liabilities	<u>\$ 61,369</u>	<u>\$ 50,018</u>

**Note 7. Revolving Credit Facilities and Current Portion of Long-Term Debt**

The following table presents revolving credit facilities and current portion of long-term debt:

	Lender	Maturity	December 31,	
			2014	2013
Revolving credit facility	Capital One	April 14, 2018	\$ 34,299	\$ 43,526
Revolving credit facility	Bank of Montreal	March 31, 2014	0	443
Current portion of long-term debt			13	73
Total			<u>\$ 34,312</u>	<u>\$ 44,042</u>

The Company incurred interest expenses of \$39,853 , \$39,286 and \$41,559 for the years ended December 31, 2014 , 2013 and 2012 , respectively, for all outstanding borrowings. The interests subject to capitalization were no t significant for the years ended December 31, 2014 , 2013 and 2012 .

**Revolving Credit Facility - Capital One**

The Company had \$34,299 and \$43,526 outstanding on a \$50,000 asset-backed revolving credit facility with Capital One as of December 31, 2014 and 2013 , respectively. The amount available for additional borrowings on December 31, 2014 was \$13,146 . The Capital One Credit Facility matures on April 14, 2018 and is subject to a January 15, 2018 maturity if excess availability is less than \$15,000 at the time of notice to Capital One that an "applicable high yield discount obligation" redemption will be required pursuant to Section 3.01(e) of the Indenture governing the Notes (as defined in Note 8).

In March 2014, the Company entered into the Fifth Amendment to the Capital One Credit Facility which waived the obligation to maintain the minimum fixed charge coverage and maximum leverage ratios for the three months ended December 31, 2013 and March 31, 2014. Based on the Fifth Amendment, the interest rates on borrowings under the Capital One Credit Facility are equal to LIBOR plus 5.0% or the bank's prime rate plus 4.0% at the Company's option and are subject to specified borrowing requirements and covenants. In addition, the Fifth Amendment reset the minimum fixed charge coverage ratios, maximum leverage ratios, maximum capital expenditures and minimum adjusted EBITDA.

On March 25, 2015, the Company entered into the Sixth Amendment which (i) waived any defaults under the Capital One Credit Facility due to the failure to meet the obligation to maintain the maximum leverage ratio and minimum adjusted EBITDA required for the measurement periods ended December 31, 2014, as defined in the credit agreement, (ii) waived the obligation to maintain the minimum fixed charge coverage ratios, maximum leverage ratios and minimum adjusted EBITDA required for the twelve months ending March 31, 2015, (iii) included provisions to permit the Company to enter into the Standard General Credit Agreement, (iv) reset financial covenants relating to maintaining minimum fixed charge coverage ratios, maximum leverage ratios and minimum adjusted EBITDA and (v) permitted the Company to borrow \$15,000 under the Standard General Credit Agreement.

Standard General informed the Company that it entered into an agreement with Capital One that could result in it purchasing all of the loans and commitments outstanding under the Capital One Credit Facility by September 30, 2015 or earlier under certain other circumstances.

As of December 31, 2014, the Company was not in compliance with the maximum leverage ratio and the minimum adjusted EBITDA covenants under the Capital One Credit Facility. For the April 1, 2014 through December 31, 2014 covenant reference period, the maximum leverage ratio was 6.70 to 1.00 as compared with the covenant maximum of 5.10 to 1.00 and the minimum adjusted EBITDA was \$38,186 as compared with the covenant minimum of \$41,124 . However, these covenant violations were waived by the Sixth Amendment. For the year ended December 31, 2014, the Company was required to maintain a minimum fixed charge coverage ratio of not less than 1.00 to 1.00 and a maximum capital expenditure of not more than \$8,000 . The Company was in compliance with these covenants at December 31, 2014.

The Capital One Credit Facility is secured by a lien on substantially all of the assets of the Company's domestic subsidiaries and equity interests in certain of the Company's foreign subsidiaries, subject to some restrictions. It requires that the Company maintain a lockbox arrangement and contains certain subjective acceleration clauses. In addition, Capital One may adjust the advance restriction and criteria for eligible inventory and accounts receivable at its discretion. The Capital One Credit Facility contains cross-default provisions whereby an event of default under the Senior Notes Indenture (the "Indenture") or other indebtedness, in each case of an amount greater than a specified threshold, would cause an event of default under the Capital One Credit Facility. As of December 31, 2014, the Company had \$1,080 of outstanding letters of credit secured against the Capital One Credit Facility.

**Revolving Credit Facility - Bank of Montreal**

The Company's 100% owned Canadian subsidiaries had a revolving credit facility with Bank of Montreal. Outstanding amounts under this credit facility were repaid, and the agreement expired, on March 31, 2014.

**Note 8. Long-Term Debt**

Long-term debt consists of the following:

	December 31,	
	2014	2013
Senior Secured Notes due 2020 <sup>(a)</sup>	\$ 208,084	\$ 203,265
Standard General Loan Agreement <sup>(b)</sup>	9,049	0
Lion Loan Agreement <sup>(c)</sup>	0	9,865
Other	268	411
Total long-term debt	217,401	213,541
Current portion of debt	(13)	(73)
Long-term debt, net of current portion	\$ 217,388	\$ 213,468

(a) Includes accrued interest paid-in-kind of \$7,233 and \$3,044 and net of unamortized discount of \$5,149 and \$5,779 at December 31, 2014 and 2013 , respectively.

(b) Net of unamortized discount of \$816 at December 31, 2014 .

(c) Includes accrued interest paid-in-kind of \$365 at December 31, 2013 . Assigned to Standard General on July 16, 2014.

**Senior Secured Notes due 2020**

The Company has outstanding senior secured notes (the "Notes") issued at 97% of the \$206,000 par value on April 4, 2013. The Notes mature on April 15, 2020 and bear interest at 15% per annum, of which 2% is payable in-kind until April 14, 2018 and in cash on subsequent interest dates. Interest of approximately \$13,900 per payment period in 2015 is payable semi-annually, in arrears, on April 15 and October 15. On April 14, 2014 and October 15, 2014, the Company paid \$13,390 and \$13,666 in interest on the Notes, respectively.

On or after April 15, 2017, the Company may, at its option, redeem some or all of the Notes at a premium, decreasing ratably over time to zero as specified in the Indenture, plus accrued and unpaid interest to, but not including, the redemption date. Prior to April 15, 2017, the Company may, at its option, redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of certain equity offerings at a redemption price of 113% of the aggregate principal amount of the redeemed notes plus accrued and unpaid interest to, but not including, the redemption date. In addition, at any time prior to April 15, 2017, the Company may, at its option, redeem some or all of the Notes by paying a "make whole" premium, plus accrued and unpaid interest to, but not including, the redemption date. If the Company experiences certain change of control events, the holders of the Notes will have the right to require the Company to purchase all or a portion of the Notes at a price in cash equal to 101% of the principal amount of such Notes, plus accrued and unpaid interest to, but not including, the date of purchase. In addition, the Company is required to use the net proceeds of certain asset sales, if not used for specified purposes, to purchase some of the Notes at 100% of the principal amount, plus accrued and unpaid interest to, but not including, the date of purchase. On each interest payment date after April 4, 2018, the Company will be required to redeem, for cash, a portion of each Note then outstanding equal to the



amount necessary to prevent such Note from being treated as an "applicable high yield discount obligation" within the meaning of the Internal Revenue Code. The redemption price will be 100% of the principal amount plus accrued and unpaid interest thereon on the date of redemption.

The Notes are guaranteed, jointly and severally, on a senior secured basis by the Company's existing and future domestic subsidiaries. The Notes and the related guarantees are secured by a first-priority lien on the Company's and its domestic subsidiaries' assets (other than the Credit Facility Priority Collateral, as defined below, subject to some exceptions and permitted liens). The Notes and the related guarantees also are secured by a second-priority lien on all of Company's and its domestic subsidiaries' cash, trade accounts receivable, inventory and certain other assets (collectively, the "Credit Facility Priority Collateral"), subject to certain exceptions and permitted liens. The Notes and the guarantees, respectively, rank equal in right of payment with the Company's and its domestic subsidiaries' senior indebtedness, including indebtedness under the Capital One Credit Facility, before giving effect to collateral arrangements.

The Notes impose certain limitations on the ability of the Company and its domestic subsidiaries to, among other things, and subject to a number of important qualifications and exceptions, incur additional indebtedness or issue disqualified capital stock or preferred stock (with respect to restricted subsidiaries), grant liens, make payments in respect of their capital stock or certain indebtedness, enter into transactions with affiliates, create dividend or other payment restrictions affecting subsidiaries, merge or consolidate with any other person, sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its assets or adopt a plan of liquidation. The Company must annually report to the trustee on compliance with such limitations. The Notes also contain cross-default provisions whereby a payment default or acceleration of any indebtedness in an aggregate amount greater than a specified threshold would cause an event of default with respect to the Notes.

As of December 31, 2014, the Company was in compliance with the required covenants of the Indenture.

#### ***Standard General Loan Agreement***

On July 7, 2014, Lion issued a notice of acceleration to the Company under the Lion Loan Agreement as a result of the Board's decision to suspend Mr. Charney as CEO of the Company. The notice accelerated and declared the amounts outstanding under the Lion Loan Agreement and any accrued interest immediately due and payable. On July 14, 2014, Lion issued a notice rescinding the notice of acceleration. On July 16, 2014, Lion assigned its rights and obligations as a lender under the Lion Loan Agreement to Standard General. Standard General has waived any default under the Standard General Loan Agreement that may have resulted or which might result from Mr. Charney not being the CEO of the Company.

On September 8, 2014, the Company entered into an amendment of the Standard General Loan Agreement to lower the applicable interest rate to 17%, extend the maturity to April 15, 2021, and make certain other technical amendments, including to remove a provision that specified that Mr. Charney not being the CEO of the Company would constitute an event of default. The principal amount of the term loan was \$9,865. Interest under the loan agreement is payable in cash or, to the extent permitted by the Company's other debt agreements, in-kind.

As a result of the September 8, 2014 amendment, the Company evaluated the change in cash flows and determined that there was a greater than 10% change between the present values of the existing loan and the amended loan causing an extinguishment of debt. The Company recorded the amended loan at its fair value of \$9,034 and recorded a gain of \$171 on extinguishment of debt. Additionally, the \$831 difference between the original principal amount of \$9,865 and the fair value of the amended loan of \$9,034 was recorded as a discount and will be recognized as interest expense using the effective interest method over the remaining term of the amended loan.

#### ***Standard General Credit Agreement***

On March 25, 2015, one of the Company's subsidiaries borrowed \$15,000 under the Standard General Credit Agreement. The Standard General Credit Agreement is guaranteed by the Company, bears interest at 14% per annum, and will mature on October 15, 2020.

The Standard General Credit Agreement contains customary defaults, including cross event of default to the Notes and the Standard General Loan Agreement and cross acceleration to other indebtedness above a threshold amount.

If the Company experiences certain change of control events, the Company is required to offer to prepay the Standard General Credit Agreement at 101% of the outstanding principal amount plus accrued and unpaid interest on the date of the prepayment. The Company will be required to prepay loans under the Standard General Credit Agreement to the extent necessary to avoid the loan being characterized as an "applicable high yield discount obligation" within the meaning of the Internal Revenue Code, by the first interest payment date following the fifth anniversary of closing.

**Note 9. Fair Value of Financial Instruments**

The Company's financial instruments at fair value are measured on a recurring basis. Related unrealized gains or losses are recognized in unrealized (gain) loss on change in fair value of warrants in the consolidated statements of operations. For additional disclosures regarding methods and assumptions used in estimating fair values of these financial instruments, see Note 2.

The following tables present carrying amounts and fair values of the Company's financial instruments as of December 31, 2014 and 2013 , and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value. The Company did not have any assets or liabilities categorized as Level 1 as of December 31, 2014 .

		December 31, 2014	
		Carrying Amount	Fair Value
Senior Secured Notes due 2020	Level 2 Liability	\$ 208,084	\$ 211,538
Standard General Loan Agreement	Level 3 Liability	9,049	8,868
Lion Warrant	Level 3 Liability	(a)	19,239
		\$ 217,133	\$ 239,645
		December 31, 2013	
		Carrying Amount	Fair Value
Senior Secured Notes due 2020	Level 3 Liability	\$ 203,265	\$ 191,065
Lion Loan Agreement	Level 3 Liability	9,865	9,773
Lion Warrant	Level 3 Liability	(a)	20,954
		\$ 213,130	\$ 221,792

(a) No cost is associated with these liabilities (see Note 13).

The following table presents a summary of changes in fair value of the Lion Warrant (Level 3 financial liabilities) which are marked to market on a periodic basis:

	2014	2013
Beginning balance	\$ 20,954	\$ 17,241
Adjustments included in earnings <sup>(a)</sup>	(1,715)	3,713
Ending balance	\$ 19,239	\$ 20,954

(a) The amount of total gains or losses for the period attributable to the change in unrealized gains or losses relating to liabilities held at the reporting date. The unrealized gains or losses are recorded in unrealized (gain) loss on change in fair value of warrants in the consolidated statements of operations.

**Note 10. Capital Lease Obligations**

The Company leases certain equipment under capital lease arrangements expiring at various dates through the year 2017 . The assets and liabilities under capital leases are recorded at the lower of the present values of the minimum lease payments or the fair values of the assets. The interest rates pertaining to these capital leases range from 0.4% to 24.1% (weighted average interest rate is 9.4% ).

The following table presents future minimum commitments for capital leases as of December 31, 2014 :

Year Ending December 31,	Capital Leases	
	2015	\$ 3,328
	2016	2,030
	2017	27
	2018	0
	2019	0
	Thereafter	0
Total future minimum lease payments		5,385
Less: Amount representing interest		425
Net minimum lease payments		\$ 4,960
Current portion		\$ 2,978
Long-term portion		\$ 1,982

**Note 11. Income Taxes**

***Income tax provision***

Components of income (loss) before income taxes are as follows:

	Year Ended December 31,		
	2014	2013	2012
U.S.	\$ (68,695)	\$ (107,637)	\$ (38,365)
Foreign	2,037	3,110	4,906
	\$ (66,658)	\$ (104,527)	\$ (33,459)

Components of the income tax provision are as follows:

	Year Ended December 31,		
	2014	2013	2012
<b>Current:</b>			
Federal	\$ 0	\$ 0	\$ 0
State	401	200	134
Foreign	2,137	2,024	3,446
Total current	2,538	2,224	3,580
<b>Deferred:</b>			
Federal	0	(402)	0
State	0	0	0
Foreign	(379)	(51)	233
Total deferred	(379)	(453)	233
Income tax provision	\$ 2,159	\$ 1,771	\$ 3,813

The following presents a reconciliation of income taxes at the U.S. federal statutory rate to the Company's actual taxes.

	Year Ended December 31,		
	2014	2013	2012
Taxes at the statutory federal tax rate of 35%	\$ (23,330)	\$ (36,585)	\$ (11,711)
State tax, net of federal benefit	(1,610)	(4,059)	4,913
Change in valuation allowance	20,966	42,771	5,123
Return to provision adjustments	1,731	0	0
Tax differential on vesting of stock grants	2,820	0	0
Change in state deferred rate	670	0	0
Foreign tax rate differential	(148)	10	(618)
Unrealized (gain) loss on warrants	(600)	1,299	4,809
Other	1,660	(1,665)	1,297
Total income tax provision	<u>\$ 2,159</u>	<u>\$ 1,771</u>	<u>\$ 3,813</u>

### Deferred Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial reporting basis and the respective tax basis of the Company's assets and liabilities, and expected benefits of utilizing net operating loss and tax-credit carryforwards. The Company reduces deferred tax assets resulting from future tax benefits by a valuation allowance if, based on the weight of the available evidence, it is more likely than not that some portion or all of these deferred taxes will not be realized. The Company has determined it is more likely than not that it will not realize the benefit of its deferred tax assets and accordingly has recorded full valuation allowances against U.S. and most foreign jurisdiction deferred tax assets. Significant components of the Company's net deferred tax assets and liabilities are as follows:

	December 31,	
	2014	2013
<b>Deferred tax assets:</b>		
Net operating loss carryforwards	\$ 76,582	\$ 62,052
Accrued liabilities	18,997	16,134
Federal and California tax credits	12,067	12,067
Foreign tax credits	11,034	9,296
Inventory reserves	7,583	6,877
Fixed assets	8,713	5,723
Deferred rent	5,536	7,295
Deferred gift card income	2,784	2,379
Other	2,426	1,833
Allowance for doubtful accounts	158	831
Total gross deferred tax assets	145,880	124,487
Less valuation allowance	(143,062)	(120,694)
Deferred tax assets, net of valuation allowance	<u>\$ 2,818</u>	<u>\$ 3,793</u>
<b>Deferred tax liabilities:</b>		
Prepaid expenses	\$ (1,188)	\$ (1,432)
Other	0	(1,113)
Total gross deferred tax liabilities	(1,188)	(2,545)
<b>Net deferred tax assets</b>	<u>\$ 1,630</u>	<u>\$ 1,248</u>

At December 31, 2014, the Company had U.S. Federal NOL carryforwards of \$202,781 expiring beginning in 2030, state NOL carryforwards of \$121,211 expiring beginning in 2020 and foreign NOL carryforwards of \$9,596 with expiration dates starting in 2015 (certain foreign loss carryforwards do not expire).

Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), may limit the ability to use U.S. federal NOL and tax credit carryforwards as a result of ownership changes that have occurred previously or that could occur in the future. In general, an ownership change, as defined by Section 382 of the Code, results from transactions increasing the ownership of certain

shareholders or public groups in the stock of a corporation by more than 50 percentage points over a three-year period. The Company believes that an ownership change has not occurred through December 31, 2014, and U.S. federal NOL and other tax attribute carryforwards are not limited.

The Company has California state tax credits of \$11,800, which carryover for ten years. Management determined that it is more likely than not that the state tax credits are not realizable due to the Company's inability to generate future tax liabilities and accordingly has provided a full valuation allowance against the unused California credit carryforwards.

The Company does not provide for U.S. federal income taxes on the undistributed earnings (\$21,004 at December 31, 2014) of its controlled foreign corporations because earnings are considered to be permanently reinvested outside of the U.S. Determination of U.S. income taxes, as adjusted for tax credits and foreign withholding taxes, that would be incurred upon any future distribution is not practicable because of the complexities associated with its hypothetical calculation. Any U.S. tax consequences more likely than not will be substantially eliminated as a result of significant U.S. federal and state NOLs to utilize to offset any tax effect of repatriation.

**Uncertainty in Income Taxes**

The Company recognizes tax benefits related to positions taken, or expected to be taken, on a tax return only if, "more-than-likely-than-not" the positions are sustainable. Once this threshold has been met, the Company's measurement of its expected tax benefits is recognized in its financial statements. A reconciliation of the beginning and ending balances of unrecognized tax benefits is as follows:

	2014	2013
Balance at January 1	\$ 0	\$ 0
Increases for tax positions in prior periods	477	0
Balance at December 31	<u>\$ 477</u>	<u>\$ 0</u>

The Company recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense. Related to the unrecognized tax benefits noted above, the Company accrued interest and penalties of \$24 and \$48, respectively for the year ended December 31, 2014. The Company does not believe that it is reasonably possible that there will be any decrease in unrecognized tax benefits during the next twelve months.

The Company is subject to U.S. federal income tax as well as income tax in multiple state and foreign jurisdictions. The Internal Revenue Service ("IRS") completed its audit on the Company's tax year 2011, and there was no assessment. Tax years that remain subject to examination by the IRS are 2012 through 2014. The Company's state and foreign tax returns are open to audit under similar statute of limitations for the calendar years 2009 through 2014.

**Note 12. Related Party Transactions**

**Personal Guarantees by Mr. Charney**

As of December 31, 2014, Mr. Charney personally guaranteed the Company's obligations under two property leases aggregating \$9,210 in obligations.

**Lease Agreement between the Company and a Related Party**

The Company has an operating lease expiring in November 2016 for its knitting facility with American Central Plaza, LLC, which is partially owned by Mr. Charney and Marty Bailey, the Company's Chief Manufacturing Officer ("CMO"). Mr. Charney holds an 18.75% ownership interest in American Central Plaza, LLC, while the CMO holds a 6.25% interest. The remaining members of American Central Plaza, LLC are not affiliated with the Company. Rent expenses (including property taxes and insurance payments) related to this lease were \$717, \$778 and \$830 for the years ended December 31, 2014, 2013 and 2012, respectively.

**Payments to Morris Charney**

Morris Charney ("Mr. M. Charney") is Mr. Charney's father and served as a director of American Apparel Canada Wholesale Inc. and a director of American Apparel Canada Retail Inc. until June 28, 2014. Day to day operations of these two Canadian subsidiaries are handled by their management and employees, none of whom performs any policy making functions for the Company. The Company's management sets the policies for American Apparel, Inc. and its subsidiaries as a whole. Mr. M. Charney did not perform any policy making functions for the Company or any of its subsidiaries. Mr. M. Charney only provided architectural consulting services primarily for stores located in Canada and, in limited cases, in the U.S. Mr. M. Charney was paid architectural consulting and director fees amounting to \$70, \$238 and \$260 for the years ended December 31, 2014, 2013 and 2012, respectively.

### ***Agreements between Mr. Charney and Standard General***

As of December 31, 2014, Mr. Charney owned 42.3% of the Company's outstanding common stock. Mr. Charney and Standard General collectively controlled the right to vote such common stock.

On June 25, 2014, Mr. Charney entered into a letter agreement with Standard General in which, if Standard General was able to acquire at least 10% of the Company's outstanding shares, Standard General would loan Mr. Charney the funds needed for him to purchase those acquired shares from Standard General (the "SG-Charney Loan"). Between June 26, 2014 and June 27, 2014, Standard General acquired 27,351 of the Company's outstanding shares, and Mr. Charney purchased those shares at a price of \$0.715 per share using the proceeds from the SG-Charney Loan. According to Mr. Charney's Schedule 13D/A, dated June 25, 2014, the loan bears interest at 10% per annum, payable in-kind and matures on July 15, 2019, with no prepayment penalty. The loan is collateralized by the newly acquired shares as well as by Mr. Charney's original shares of the Company's outstanding common stock.

On July 9, 2014, Mr. Charney and Standard General entered into a cooperation agreement, which provides, among other things, that neither Mr. Charney nor Standard General will vote the common stock owned by Mr. Charney except in a manner approved by the parties in writing, except that Mr. Charney may vote certain of his shares in favor of his own election to the Board and may vote all of such shares pursuant to the Investment Voting Agreement dated March 13, 2009 between Mr. Charney and Lion. In addition, Mr. Charney agreed to enter into warrant agreements with Standard General that would give Standard General the right exercisable, on or prior to July 15, 2017, to purchase from Mr. Charney 32,072 shares (consisting of the 27,351 shares purchased by using the proceeds from the SG-Charney Loan and 10% of Mr. Charney's 47,209 original shares).

### ***Loans held by Standard General***

See Note 8 for a description of the Standard General Loan Agreement assigned to Standard General on July 16, 2014 and Standard General Credit Agreement between the Company and Standard General in March 2015.

### ***Loan and Warrants held by Lion***

See Note 8 for a description of the loan made by Lion to the Company (and assigned to Standard General on July 16, 2014) and Note 13 for a description of the warrants issued by the Company to Lion.

### **Note 13. Stockholders' Deficit**

#### ***Rights Plan***

On December 21, 2014, the Board adopted a stockholders rights plan (the "Rights Plan"). Under the Rights Plan, the Company declared a dividend of one preferred share purchase right for each share of its common stock held by shareholders of record as of January 2, 2015. Each right entitles the registered holder to purchase from the Company a unit consisting of one ten-thousandth of a share (a "Unit") of Series B Junior Participating Preferred Stock, par value \$0.0001 per share, at a purchase price of \$3.25 per Unit, subject to adjustment.

#### ***Public Offering***

On March 31, 2014, the Company completed a public offering of 61,645 shares of its common stock at \$0.50 per share for net proceeds of \$28,435 .

#### ***Common Stock Warrants***

As a result of the public offering in March 2014, Lion received the right to purchase an additional 2,905 shares of the Company's common stock, and the exercise price of all of Lion held warrants (the "Lion Warrants") was adjusted from \$0.75 per share to \$0.66 per share. Such adjustments were required by the terms of the existing Lion Warrants. As of December 31, 2014, Lion held warrants to purchase 24,511 shares of the Company's common stock, with an exercise price of \$0.66 per share. These warrants will expire on February 18, 2022.

The Lion Warrants, as amended, contain certain anti-dilution protections in favor of Lion providing for proportional adjustment of the warrant price and, under certain circumstances, the number of shares of the Company's common stock issuable upon exercise of the Lion Warrants, in connection with, among other things, stock dividends, subdivisions and combinations and the issuance of additional equity securities at less than fair market value, as well as providing for the issuance of additional warrants to Lion in the event of certain equity sales or debt for equity exchanges.

The fair value of the Lion Warrants as of December 31, 2014 and 2013 , estimated using the Binomial Lattice option valuation model, were \$19,239 and \$20,954 , respectively, and recorded as a current liability in the consolidated balance sheets. The calculation assumed a stock price of \$1.03 , exercise price of \$0.66 , volatility of 73.85% , annual risk free interest rate of 1.99% , a contractual remaining term of 7.2 years and no dividends.

The following table presents a summary of common stock warrants activities:

	Shares (in thousands)	Weighted -Average Exercise Price	Weighted -Average Contractual Life (in years)
Outstanding - January 1, 2012	22,606	\$ 1.05	6.0
Issued <sup>(a)</sup>	44,212	0.90	0
Forfeited <sup>(a)</sup>	(44,212)	1.03	0
Expired	0	0.00	0
Outstanding - December 31, 2012	22,606	\$ 0.81	8.8
Issued <sup>(a)</sup>	0	0.00	0
Forfeited <sup>(a)</sup>	0	0.00	0
Expired	(1,000)	2.15	0
Outstanding - December 31, 2013	21,606	\$ 0.75	8.2
Issued <sup>(a)</sup>	24,511	0.66	8.0
Forfeited <sup>(a)</sup>	(21,606)	0.75	0
Expired	0	0.00	0
Outstanding - December 31, 2014	24,511	\$ 0.66	7.2
Fair Value - December 31, 2014	\$ 19,239		

(a) Issued and forfeited warrants represent repriced shares.

### Earnings Per Share

The Company presents EPS utilizing a dual presentation of basic and diluted EPS. Basic EPS excludes dilution and reflects net loss divided by the weighted-average shares of common stock outstanding for the period presented. Diluted EPS includes the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

The Company had common stock under various options, warrants, and other agreements at December 31, 2014, 2013 and 2012. The weighted-average effects of 38,225, 46,684 and 53,478 shares at December 31, 2014, 2013 and 2012, respectively, were excluded from the calculation of net loss per share for the years ended December 31, 2014, 2013, and 2012 because their impact would have been anti-dilutive.

A summary of the potential stock issuances under various options, warrants, and other agreements that could have a dilutive effect on the shares outstanding as of December 31, 2014, 2013, and 2012 are as follows:

	2014	2013	2012
SOF Warrants	0	0	1,000
Lion Warrants	24,511	21,606	21,606
Shares issuable to Mr. Charney based on market conditions <sup>(a)</sup>	13,611	20,416	20,416
Contingent shares issuable to Mr. Charney based on market conditions <sup>(b)</sup>	0	2,112	2,112
Contingent shares issuable to Mr. Charney based on performance factors <sup>(c)</sup>	0	0	5,000
Employee options & restricted shares	103	2,550	3,344
	38,225	46,684	53,478

(a) Charney Anti-Dilution Rights pursuant to the April 26, 2011 Investor Purchase Agreement, of which 6,805 expired unexercised on April 15, 2014 (Note 14).

(b) Pursuant to the March 24, 2011 conversion of debt to equity, which expired unexercised on March 24, 2014.

(c) Pursuant to Mr. Charney's employment agreement commenced April 1, 2012, of which 5,000 expired unexercised on December 31, 2013 (Note 14).

### Note 14. Share-Based Compensation

The American Apparel, Inc. 2011 Omnibus Stock Incentive Plan (the "2011 Plan") authorizes the granting of a variety of incentive awards, the exercise or vesting of which would allow up to an aggregate of 17,500 shares of the Company's common stock to be acquired by the holders of such awards and authorizes up to 3,000 shares that may be awarded to any participant during any calendar year. The purpose of the 2011 Plan is to provide an incentive to selected employees, directors, independent contractors, and consultants of the Company or its affiliates, and provides that the Company may grant options, stock appreciation rights, restricted stock, and other stock-based and cash-based awards. As of December 31, 2014, there were approximately 12,664 shares available for future grants under the 2011 Plan.

The Company has identified a clerical discrepancy in its records pertaining to the total historic number of shares issued in connection with grants of common stock to non-executive employees under its stock incentive plans. The Company has not yet determined the full impact of the discrepancy but anticipates that it may result in a non-material reduction in the number of outstanding shares of common stock reported by the Company.

Restricted Share Awards - The following table presents a summary of the restricted share awards activity:

	Shares (in thousands)	Weighted-Average Grant Date Fair Value Per Share	Weighted-Average Remaining Vesting Period (in years)
Non-vested - January 1, 2012	3,186	\$ 1.45	2.7
Granted	1,418	0.93	
Vested	(1,783)	1.23	
Forfeited	(177)	1.13	
Non-vested - December 31, 2012	2,644	\$ 1.33	1.3
Granted	963	1.75	
Vested	(1,650)	1.42	
Forfeited	(107)	1.60	
Non-vested - December 31, 2013	1,850	\$ 1.46	0.9
Granted	1,055	0.74	
Vested	(2,519)	1.14	
Forfeited	(283)	1.65	
Non-vested - December 31, 2014	103	\$ 1.17	0.3

Vesting of the restricted share awards to employees may be either immediately upon grant or over a period of three to five years of continued service by the employee in equal annual installments. Vesting is immediate in the case of members of the Board. Share-based compensation is recognized over the vesting period based on the grant-date fair value.

Stock Option Awards - The following table presents a summary of the stock option activity:

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Contractual Remaining Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding - January 1, 2012	950	\$ 1.06	9.5	
Granted	0			
Forfeited	0			
Expired	(250)	\$ 1.75		
Outstanding - December 31, 2012	700	\$ 0.82	8.8	
Granted	0			
Forfeited	0			
Expired	0			
Outstanding - December 31, 2013	700	\$ 0.82	7.8	
Granted	0			
Exercised	(700)	\$ 0.82		
Forfeited	0			
Expired	0			
Outstanding - December 31, 2014	0			
Vested (exercisable) - December 31, 2014	0			
Non-vested - December 31, 2014	0			



Share-Based Compensation Expense - The Company recorded share-based compensation expenses of \$4,317 , \$8,451 and \$10,580 for the years ended December 31, 2014 , 2013 and 2012 , respectively, related to its share-based compensation awards that are expected to vest. No amounts have been capitalized. As of December 31, 2014 , unrecorded compensation cost related to non-vested awards was \$101 , which is expected to be recognized through 2017.

Mr. Charney Anti-Dilution Rights - In 2011, the Company provided Mr. Charney with certain anti-dilution rights (the "Charney Anti-Dilution Rights"), which provided that Mr. Charney has a right to receive from the Company, subject to the satisfaction of certain average volume weighted closing price targets, and other terms and conditions set forth in the agreement, up to 20,416 shares of the Company's common stock as anti-dilution protection.

The fair value of these awards was determined under the Monte Carlo simulation pricing model. The calculation was based on the exercise price of \$0 , the stock price of \$1.3 , annual risk free rate of 0.45% , volatility of 90.46% and a term of 3.5 years . The Company considered the shares to be awards with market conditions, and the related service and amortization period for the shares occur in three measurement periods.

On April 15, 2014, the last day of the first measurement period, the Company determined that the vesting requirements for such period were not met and 6,805 of the 20,416 anti-dilution rights expired unexercised. On December 16, 2014, the Board terminated Mr. Charney for cause in accordance with the terms of his employment agreement. Despite the termination, the unexercised anti-dilution rights remain exercisable under the 2011 Investor Purchase Agreement but are immediately vested. The remaining unrecognized compensation cost of \$233 was recognized as of December 31, 2014 . The Company recorded share-based compensation expense associated with Mr. Charney's certain anti-dilution rights of \$1,985 , \$6,459 and \$5,440 for the years ended December 31, 2014 , 2013 and 2012 , respectively.

Mr. Charney Performance-Based Award - Effective April 1, 2012, the Company provided Mr. Charney the rights to 7,500 shares of the Company's stock which were issuable in three equal installments, one per each measurement period, only upon the achievement of certain EBITDA targets for each of fiscal 2014, 2013 and 2012. The fair value of the award was based on the grant-date share price of \$0.75 per share. For 2012, the Company achieved the target EBITDA and Mr. Charney received 2,500 shares. For 2013, the Company did not achieve the target EBITDA and reversed previously recorded share-based compensation expense of \$703 . For 2014, the achievement of the performance condition was no longer considered probable, and previously recognized compensation costs of \$469 were reversed during 2013. As of December 31, 2014, there was no unrecorded compensation cost related to this EBITDA award.

Non-Employee Directors - On January 2, 2014, April 1, 2014, July 1, 2014, and January 2, 2015, the Company issued a quarterly stock grant to each director for services performed of approximately 8 , 20 , 11 , and 11 shares based on grant date fair values of \$1.21 , \$0.50 , \$0.87 , and \$1.05 per share, respectively.

In connection with the Standstill and Support Agreement, four non-employee directors resigned from the Board, and seven new directors were appointed to the Board. On September 15, 2014, each of the four resigned non-employee directors received a pro-rated quarterly stock grant of approximately 4 shares based on grant date fair value of \$0.88 per share. On October 1, 2014, the Company issued quarterly stock grants ranging from approximately 4 to 16 shares based on the grant date fair value of \$0.81 per share. On January 2, 2015, the Company issued quarterly stock grants to each director ranging from approximately 10 to 19 shares based on the grant date fair value of \$1.05 per share.

**Note 15. Commitments and Contingencies**

***Operating Leases***

The Company conducts retail operations under operating leases, which expire at various dates through 2034. The Company's primary manufacturing facilities and executive offices are currently under a long-term lease which expires on July 31, 2019.

For leases that contain predetermined escalations of the minimum rentals, the Company recognizes the related rent expense on a straight-line basis and records the difference between the recognized rental expense and amounts payable under the leases as deferred rent. This liability amounted to \$16,768 and \$21,587 as of December 31, 2014 and 2013, respectively. Total rent expenses, including some real estate taxes and maintenance costs, were approximately \$70,018, \$79,794, and \$77,390 for the years ended December 31, 2014, 2013, and 2012, respectively. The Company did not incur any significant contingent rent during the same periods. Rent expense is allocated to cost of sales for production-related activities, selling expenses for retail stores, and general and administrative expenses in the consolidated statements of operations.

The following table presents future minimum commitments (excluding real estate tax and maintenance costs) for retail locations and other leases that have initial or non-cancelable lease terms exceed one year as of December 31, 2014 :

<u>Year Ending December 31,</u>	<u>Operating Leases</u>	
	2015 \$	63,007
	2016	50,121
	2017	43,555
	2018	25,624
	2019	18,321
Thereafter		46,689

***Customs and Duties***

In 2012, the German authorities audited the import records of the Company's German subsidiary for the years 2009 through 2011 and issued retroactive punitive duty assessments on certain containers of goods imported. The German customs imposed a substantially higher tariff rate than the original rate that the Company had paid on the imports, more than doubling the amount of the tariff that the Company would have to pay. The assessments of additional retaliatory duty originated from a trade dispute. Despite the ongoing appeals of the assessment, the German authorities demanded, and the Company paid, in connection with such assessments, \$4,390 in the third quarter of 2014 and the final balance of \$85 in the fourth quarter of 2014. The Company recorded the duty portion of \$79 in cost of sales and the retaliatory duties, interest and penalties of \$5,104 in general and administrative expenses in its consolidated statements of operations.

Additionally, during the fourth quarter of 2014, the Company wrote off approximately \$3,300 in duty receivables to cost of sales in its consolidated statements of operations. These duty receivables related to changes in transfer costs for products sold to the Company's European subsidiaries. The Company is also subject to, and has recorded charges related to, customs and similar audit settlements and contingencies in other jurisdictions.

***Mr. Charney Investigation***

In connection with the suspension of Mr. Charney on June 18, 2014, the Board formed a new special committee (the "Suitability Committee") for the purpose of overseeing the investigation into alleged misconduct by Mr. Charney (the "Internal Investigation") which ultimately concluded with his termination for cause on December 16, 2014.

***OSHA Settlement***

In 2011, an industrial accident at the Company's facility in Orange County, California resulted in the fatality of a Company employee. In accordance with law, a mandatory criminal investigation was initiated. In early August 2014, the Company and the Orange County district attorney's office began to negotiate a resolution of potential claims related to the accident, and the Company accrued \$1,000 in costs representing its best estimate of the cost to settle this matter. On August 19, 2014, a settlement of all claims related to the criminal investigation, pursuant to which the Company paid \$1,000, was approved by the California Superior Court in Orange County.

### ***Real Estate Matter***

The landlord for the Company's headquarters and manufacturing facility in Los Angeles, California has identified certain alleged breaches under its lease. The Company is currently engaging with the landlord to resolve this dispute. Should the Company fail to resolve this matter on acceptable terms, they could result in material liability.

### ***Advertising***

The Company had approximately \$1,300 in advertising commitments at December 31, 2014 , which primarily relate to print advertisements in newspapers and magazines as well as outdoor advertising. The majority of these commitments are expected to be paid during 2015.

### **Note 16. Workers' Compensation and Other Self-Insurance Reserves**

The Company uses a combination of third-party insurance and self-insurance for a number of risks including workers' compensation, medical benefits provided to employees, and general liability claims. General liability claims primarily relate to litigation that arises from store operations.

Estimating liability is a difficult process as many factors can ultimately affect the final settlement of a claim and, therefore, the reserve required. Changes in future inflation rates, litigation trends, legal interpretations, benefit levels, and settlement patterns, among other factors, can impact ultimate claim costs. The Company estimates liability by utilizing loss development factors based on its specific data to project the future development of incurred losses. Loss estimates are adjusted based upon actual claim settlements and reported claims. Although the Company does not expect ultimate claim costs significantly differ from its estimates, self-insurance reserves could be affected if actual developed claims considerably fluctuate from the historical trends and the assumptions applied. The Company's estimated claims are discounted using a rate of 1.54% with a duration that approximates the duration of its self-insurance reserve portfolio. The undiscounted liabilities were \$20,409 and \$15,809 as of December 31, 2014 and 2013, respectively.

The workers' compensation liability is based on an estimate of losses for claims incurred, but not paid at the end of the period. Funding is made directly to the providers and/or claimants by the insurance company. To guarantee performance under the workers' compensation program, the Company issued standby letters of credit of \$300 and \$450 with insurance companies being the beneficiaries as of December 31, 2014 and 2013, respectively and cash deposits of \$16,124 in favor of insurance company beneficiaries as of both December 31, 2014 and 2013. In early 2015, the Company increased cash deposits to approximately \$18,000 . At December 31, 2014 , the Company recorded a total reserve of \$19,560 , of which \$5,321 is included in accrued expenses and \$14,239 is included in other long-term liabilities on the consolidated balance sheets. At December 31, 2013 , the Company recorded a total reserve of \$15,356 , of which, \$3,871 is included in accrued expenses and \$11,485 is included in other long-term liabilities on the consolidated balance sheets.

The Company self-insures its health insurance benefit obligations while the claims are administered through a third party administrator. The medical benefit liability is based on estimated losses for claims incurred, but not paid at the end of the period. Funding is made directly to the providers and/or claimants by the insurance company. The Company's total reserves of \$1,439 and \$2,512 are included in accrued expenses in the consolidated balance sheets at December 31, 2014 and 2013 , respectively.

### **Note 17. Business Segment and Geographic Area Information**

The Company reports the following four operating segments based on the management approach: U.S. Wholesale, U.S. Retail, Canada, and International. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of the Company's reportable segments.

The U.S. Wholesale segment consists of the Company's wholesale operations of undecorated apparel products sold to distributors and third party screen printers in the U.S. as well as its online consumer sales. The Retail segment consists of the Company's retail operations in the U.S., which comprised 136 retail stores as of December 31, 2014 . The Canada segment includes wholesale, retail, and online consumer operations in Canada. As of December 31, 2014 , the retail operations in the Canada segment comprised 31 retail stores. The International segment includes wholesale, retail, and online consumer operations outside of the U.S. and Canada. As of December 31, 2014 , the retail operations in the International segment comprised 75 retail stores operating in 18 countries outside the U.S. and Canada. All of the Company's retail stores sell its apparel products directly to consumers.

The Company evaluates performance of its operating segments primarily based on net sales and operating income or loss from operations. Operating income or loss for each segment does not include corporate general and administrative expenses, interest expense and other miscellaneous income/expense items. Corporate general and administrative expenses include, but are not limited to, human resources, legal, finance, information technology, accounting, executive compensation and various other corporate level expenses.

The following tables present key financial information of the Company's reportable segments before unallocated corporate expenses:

	For the Year Ended December 31, 2014				
	U.S. Wholesale	U.S. Retail	Canada	International	Consolidated
Wholesale net sales	\$ 167,795	\$ 0	\$ 10,224	\$ 8,842	\$ 186,861
Retail net sales	0	191,442	38,087	131,113	360,642
Online consumer net sales	41,174	0	3,233	16,981	61,388
Total net sales	208,969	191,442	51,544	156,936	608,891
Gross profit	60,182	123,738	28,023	97,192	309,135
Income (loss) from segment operations	31,068	(794)	3,838	(1,380)	32,732
Depreciation and amortization	8,645	11,614	1,672	3,966	25,897
Capital expenditures	2,424	4,018	415	2,961	9,818
Retail store impairment	0	696	178	1,864	2,738
Deferred rent benefit	(443)	(3,025)	(202)	(646)	(4,316)
	For the Year Ended December 31, 2013				
	U.S. Wholesale	U.S. Retail	Canada	International	Consolidated
Wholesale net sales	\$ 159,682	\$ 0	\$ 12,092	\$ 8,893	\$ 180,667
Retail net sales	0	205,011	45,163	141,517	391,691
Online consumer net sales	41,569	0	2,879	17,135	61,583
Total net sales to external customers	201,251	205,011	60,134	167,545	633,941
Gross profit	49,877	131,912	34,720	104,376	320,885
Income (loss) from segment operations	11,981	(2,731)	3,684	3,916	16,850
Depreciation and amortization	7,418	12,420	1,853	4,385	26,076
Capital expenditures	10,115	11,204	1,167	4,568	27,054
Retail store impairment	0	642	144	754	1,540
Deferred rent expense (benefit)	81	(1,678)	(375)	(121)	(2,093)
	For the Year Ended December 31, 2012				
	U.S. Wholesale	U.S. Retail	Canada	International	Consolidated
Wholesale net sales	\$ 149,611	\$ 0	\$ 13,006	\$ 10,278	\$ 172,895
Retail net sales	0	198,886	48,499	141,738	389,123
Online consumer net sales	35,744	0	2,164	17,384	55,292
Total net sales to external customers	185,355	198,886	63,669	169,400	617,310
Gross profit	53,195	130,498	37,500	106,190	327,383
Income (loss) from segment operations	27,893	4,197	(57)	10,670	42,703
Depreciation and amortization	6,322	10,909	1,543	4,215	22,989
Capital expenditures	9,791	6,626	1,607	3,583	21,607
Retail store impairment	0	243	130	1,274	1,647
Deferred rent expense (benefit)	523	(706)	(197)	(515)	(895)

Reconciliation of reportable segments combined income from operations to the consolidated loss before income taxes is as follows:

	Year Ended December 31,		
	2014	2013	2012
Income from operations of reportable segments	\$ 32,732	\$ 16,850	\$ 42,703
Unallocated corporate expenses	60,315	46,145	41,741
Interest expense	39,853	39,286	41,559
Foreign currency transaction loss	1,479	1	120
Unrealized (gain) loss on change in fair value of warrant	(1,715)	3,713	4,126
(Gain) loss on extinguishment of debt	(171)	32,101	(11,588)
Other (income) expense	(371)	131	204
Consolidated loss before income taxes	<u>\$ (66,658)</u>	<u>\$ (104,527)</u>	<u>\$ (33,459)</u>

Net sales by geographic location of customers are as follows:

	Year Ended December 31,		
	2014	2013	2012
United States	\$ 400,411	\$ 406,262	\$ 384,241
Europe (excluding United Kingdom)	64,760	70,347	66,861
Canada	51,544	60,134	63,669
United Kingdom	42,601	44,153	47,694
South Korea	12,696	10,380	10,732
Japan	12,836	18,119	20,336
Australia	9,293	10,218	11,458
China	7,613	6,894	5,317
Other foreign countries	7,137	7,434	7,002
Total consolidated net sales	<u>\$ 608,891</u>	<u>\$ 633,941</u>	<u>\$ 617,310</u>

Property and equipment, net by geographic location and total assets by reporting segments are as follows:

	December 31,	
	2014	2013
United States	\$ 38,932	\$ 53,424
Europe (excluding the United Kingdom)	3,818	4,741
United Kingdom	2,482	4,434
Canada	2,301	3,913
Australia	566	846
Japan	506	750
South Korea	189	344
China	80	291
Other foreign countries	443	560
Total consolidated long-lived assets	<u>\$ 49,317</u>	<u>\$ 69,303</u>
U.S. Wholesale	\$ 165,936	\$ 169,474
U.S. Retail	57,933	77,150
Canada	15,271	17,761
International	55,249	69,367
Total assets	<u>\$ 294,389</u>	<u>\$ 333,752</u>

Foreign subsidiaries accounted for the following percentages of total assets and total liabilities:

	December 31,	
	2014	2013
Total assets	24.0%	26.1%
Total liabilities	6.3%	6.8%

#### **Note 18. Litigation**

The Company is subject to various claims and contingencies in the ordinary course of business that arise from litigation, business transactions, operations, employee-related matters, or taxes. The Company establishes reserves when it believes a loss is probable and is able to estimate its potential exposure. For loss contingencies believed to be reasonably possible, the Company also discloses the nature of the loss contingency and an estimate of the possible loss or range of loss, or a statement that such an estimate cannot be made. Insurance may cover a portion of such losses; however, certain matters could arise for which we do not have insurance coverage or for which insurance provides only partial coverage. These matters could have a material negative effect on the Company's business, financial position, results of operations, or cash flows. In all cases, the Company vigorously defends itself unless a reasonable settlement appears appropriate.

##### SEC Investigation

On February 5, 2015, the Company learned that the Securities and Exchange Commission had issued a formal order of investigation with respect to matters arising from the Suitability Committee's review relating to Mr. Charney. The SEC's investigation is a non-public, fact-finding inquiry to determine whether any violations of law have occurred. The Company intends to cooperate fully with the SEC in its investigation.

##### Shareholder Derivative Actions

In 2010, two shareholder derivative lawsuits were filed in the United States District Court for the Central District of California (the "Court") that were subsequently consolidated for all purposes into a case entitled *In re American Apparel, Inc. Shareholder Derivative Litigation*, Lead Case No. CV106576 (the "First Derivative Action"). Plaintiffs in the First Derivative Action alleged a cause of action for breach of fiduciary duty arising out of (i) the Company's alleged failure to maintain adequate accounting and internal control policies and procedures; (ii) the Company's alleged violation of state and federal immigration laws in connection with the previously disclosed termination of over 1,500 employees following an Immigration and Customs Enforcement inspection; and (iii) the Company's alleged failure to implement controls sufficient to prevent a sexually hostile and discriminatory work environment. The Company does not maintain any direct exposure to loss in connection with these shareholder derivative lawsuits. The Company's status as a "Nominal Defendant" in the actions reflects that the lawsuits are purportedly maintained by the named plaintiffs on behalf of American Apparel and that plaintiffs seek damages on the Company's behalf. The Company filed a motion to dismiss the First Derivative Action which was granted with leave to amend on July 31, 2012. Plaintiffs did not amend the complaint and subsequently filed a motion to dismiss each of their claims, with prejudice, for the stated purpose of taking an immediate appeal of the Court's July 31, 2012 order. On October 16, 2012, the Court granted the plaintiffs' motion to dismiss and entered judgment accordingly. On November 12, 2012, plaintiffs filed a Notice of Appeal to the Ninth Circuit Court of Appeals where the case is currently pending.

In 2010, four shareholder derivative lawsuits were filed in the Superior Court of the State of California for the County of Los Angeles (the "Superior Court") which were subsequently consolidated for all purposes into a case entitled *In re American Apparel, Inc. Shareholder Derivative Litigation*, Lead Case No. BC 443763 (the "State Derivative Action"). Three of the matters comprising the State Derivative Action alleged causes of action for breach of fiduciary duty arising out of (i) the Company's alleged failure to maintain adequate accounting and internal control policies and procedures; and (ii) the Company's alleged violation of state and federal immigration laws in connection with the previously disclosed termination of over 1,500 employees following an Immigration and Customs Enforcement inspection. The fourth matter alleges seven causes of action for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets also arising out of the same allegations. On April 12, 2011, the Superior Court issued an order granting a stay (which currently remains in place) of the State Derivative Action on the grounds that, among other reasons, the case is duplicative of the First Derivative Action.

In July 2014, two shareholder derivative lawsuits were filed in the Court that were subsequently consolidated for all purposes into a case entitled *In re American Apparel, Inc. 2014 Shareholder Derivative Litigation*, Lead Case No. 14-CV-5699 (the "Second Derivative Action," and together with the First Derivative Action, the "Federal Derivative Actions"). Plaintiffs in the Second Derivative Action alleged similar causes of action for breach of fiduciary duty by failing to (i) maintain adequate internal control and exercise proper oversight over Mr. Charney, whose alleged misconduct and mismanagement has purportedly harmed the Company's operations and financial condition, (ii) ensure Mr. Charney's suspension as CEO did not trigger material defaults under two of the Company's credit agreements, and (iii) prevent Mr. Charney from increasing his ownership percentage of the Company. The Second Derivative Action primarily seeks to recover damages and reform corporate governance and internal procedures. The Company does not maintain any direct exposure to loss in connection with these shareholder derivative lawsuits. The Company's

status as a "Nominal Defendant" in the actions reflects that the lawsuits are purportedly maintained by the named plaintiffs on behalf of American Apparel and that plaintiffs seek damages on the Company's behalf. The Company has filed a motion to dismiss, and the parties are currently briefing this motion.

Both the Federal Derivative Actions and State Derivative Action are covered under the Company's Directors and Officers Liability insurance policy, subject to a deductible and a reservation of rights.

Should the above matters (i.e., the Federal Derivative Actions or the State Derivative Action) be decided against the Company in an amount that exceeds the Company's insurance coverage, or if liability is imposed on grounds that fall outside the scope of the Company's Directors and Officers Liability insurance coverage, the Company could not only incur a substantial liability, but also experience an increase in similar suits and suffer reputational harm. The Company is unable to predict the financial outcome of these matters at this time, and any views formed as to the viability of these claims or the financial exposure which could result may change from time to time as the matters proceed through their course. However, no assurance can be made that these matters, either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, which could have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

#### Employment Matters

The Company has previously disclosed arbitrations filed on or about February 17, 2011, related to cases filed in the Supreme Court of New York, County of Kings (Case No. 5018-1) and Superior Court of the State of California for the County of Los Angeles (Case Nos. BC457920 and BC460331) against American Apparel, Mr. Charney and certain members of the Board asserting claims of sexual harassment, assault and battery, impersonation through the internet, defamation and other related claims. The Company has settled or obtained a dismissal of all of these claims.

In addition, the Company is currently engaged in other employment-related claims and other matters incidental to its business. The Company believes that all such claims are without merit or not material and intends to vigorously dispute the validity of the plaintiffs' claims. While the final resolution of such claims cannot be determined based on information at this time, the Company believes, but cannot provide assurance that, the amount and ultimate liability, if any, with respect to these actions will not materially affect its business, financial position, results of operations, or cash flows. Should any of these matters be decided against the Company, it could not only incur liability but also experience an increase in similar suits and suffer reputational harm.

#### Federal Securities Action

Four putative class action lawsuits (Case No. CV106352 MMM (RCx), Case No. CV106513 MMM (RCx), Case No. CV106516 MMM (RCx), and Case No. CV106680 GW (JCGx)) were filed in fall of 2010 in the United States District Court for the Central District of California ("USDC") which were subsequently consolidated for all purposes into a case entitled In re American Apparel, Inc. Shareholder Litigation, Lead Case No. CV106352 MMM (JCGx). The lead plaintiff appointed by the USDC alleges two causes of action for violations of Section 10(b) and 20(a) of the 1934 Act, and Rule 10b-5 promulgated under Section 10(b), arising out of alleged misrepresentations contained in the Company's press releases, public filings with the SEC, and other public statements relating to (i) the adequacy of the Company's internal and financial control policies and procedures; (ii) the Company's employment practices; and (iii) the effect that the dismissal of over 1,500 employees following an Immigration and Customs Enforcement inspection would have on the Company. Plaintiff seeks damages in an unspecified amount, reasonable attorneys' fees and costs, and equitable relief as the USDC may deem proper. On November 6, 2013, the USDC issued an order staying the case pending ongoing settlement discussions between the parties. Plaintiff filed an unopposed motion of preliminary approval which was granted on April 16, 2014 without oral argument. On July 28, 2014, the USDC approved the settlement, and final judgment was entered on July 30, 2014.

#### Wage and Hour Actions

In April 2014, the five former employees' wage and hour cases including Guillermo Ruiz, Antonio Partida, Emily Truong, Jessica Heupel, and Anthony Heupel were settled on an aggregate and class-wide basis for \$850 , and a final approval was granted by the presiding arbitrator. On September 12, 2014, the court granted final approval of the settlement. The Company did not have insurance coverage for this matter.

**Note 19. Condensed Consolidating Financial Information**

The Notes which constitute debt obligations of American Apparel Inc. (the "Parent") are fully and unconditionally guaranteed, jointly and severally, by the Company's existing and future 100% owned direct and indirect domestic subsidiaries. The Notes are subject to certain customary automatic release provisions including the satisfaction and discharge, defeasance, or full payment of the principal, premium and, if any, accrued and unpaid interests. In certain circumstances, the Notes are subject to the sale or substantial disposition of the subsidiary guarantor's assets. No guarantor subsidiaries are less than 100% owned, directly or indirectly, by the Company.

The following presents the Parent's condensed consolidating balance sheets as of December 31, 2014 and 2013, and its condensed consolidating statements of operations and comprehensive (loss) income and condensed consolidating statements of cash flows for the years ended December 31, 2014, 2013 and 2012, the Company's material guarantor subsidiaries and the non-guarantor subsidiaries, and the elimination entries necessary to present the Company's financial statements on a consolidated basis. These condensed consolidating financial information should be read in conjunction with the Company's consolidated financial statements.



**Condensed Consolidating Balance Sheets**  
**December 31, 2014**  
(in thousands)

	Parent	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Elimination Entries	Consolidated
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash	\$ 0	\$ 1,370	\$ 6,973	\$ 0	\$ 8,343
Trade accounts receivable, net	0	19,422	5,876	0	25,298
Intercompany accounts receivable, net	240,989	(229,956)	(11,033)	0	0
Inventories, net	0	116,335	31,137	106	147,578
Other current assets	90	11,290	6,391	0	17,771
Total current assets	241,079	(81,539)	39,344	106	198,990
Property and equipment, net	0	38,932	10,385	0	49,317
Investments in subsidiaries	(115,109)	15,874	0	99,235	0
Other assets, net	8,861	27,463	9,758	0	46,082
<b>TOTAL ASSETS</b>	<b>\$ 134,831</b>	<b>\$ 730</b>	<b>\$ 59,487</b>	<b>\$ 99,341</b>	<b>\$ 294,389</b>
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>					
<b>CURRENT LIABILITIES</b>					
Revolving credit facilities and current portion of long-term debt	\$ 0	\$ 34,299	\$ 13	\$ 0	\$ 34,312
Accounts payable	0	32,508	3,046	0	35,554
Accrued expenses and other current liabilities	13,498	31,855	16,016	0	61,369
Fair value of warrant liability	19,239	0	0	0	19,239
Other current liabilities	0	9,762	2,038	0	11,800
Total current liabilities	32,737	108,424	21,113	0	162,274
Long-term debt, net	217,133	0	255	0	217,388
Other long-term liabilities	477	25,431	4,335	0	30,243
<b>TOTAL LIABILITIES</b>	<b>250,347</b>	<b>133,855</b>	<b>25,703</b>	<b>0</b>	<b>409,905</b>
<b>STOCKHOLDERS' (DEFICIT) EQUITY</b>					
Common stock	18	100	494	(594)	18
Additional paid-in capital	218,779	6,726	7,967	(14,693)	218,779
Accumulated other comprehensive (loss) income	(6,915)	(2,493)	(4,136)	6,629	(6,915)
(Accumulated deficit) retained earnings	(325,241)	(137,458)	29,459	107,999	(325,241)
Less: Treasury stock	(2,157)	0	0	0	(2,157)
<b>TOTAL STOCKHOLDERS' (DEFICIT) EQUITY</b>	<b>(115,516)</b>	<b>(133,125)</b>	<b>33,784</b>	<b>99,341</b>	<b>(115,516)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>	<b>\$ 134,831</b>	<b>\$ 730</b>	<b>\$ 59,487</b>	<b>\$ 99,341</b>	<b>\$ 294,389</b>

**Condensed Consolidating Balance Sheets**  
**December 31, 2013**  
(in thousands)

	Parent	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Elimination Entries	Consolidated
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash	\$ 0	\$ 512	\$ 8,164	\$ 0	\$ 8,676
Trade accounts receivable, net	0	15,109	5,592	0	20,701
Intercompany accounts receivable, net	247,414	(224,181)	(23,233)	0	0
Inventories, net	0	129,716	39,736	(74)	169,378
Other current assets	97	10,442	6,002	0	16,541
Total current assets	247,511	(68,402)	36,261	(74)	215,296
Property and equipment, net	0	53,424	15,879	0	69,303
Investments in subsidiaries	(94,161)	18,158	0	76,003	0
Other assets, net	9,282	27,934	11,937	0	49,153
<b>TOTAL ASSETS</b>	<b>\$ 162,632</b>	<b>\$ 31,114</b>	<b>\$ 64,077</b>	<b>\$ 75,929</b>	<b>\$ 333,752</b>
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>					
<b>CURRENT LIABILITIES</b>					
Revolving credit facilities and current portion of long-term debt	\$ 0	\$ 43,586	\$ 456	\$ 0	\$ 44,042
Accounts payable	0	34,738	3,552	0	38,290
Accrued expenses and other current liabilities	5,952	28,344	15,722	0	50,018
Fair value of warrant liability	20,954	0	0	0	20,954
Other current liabilities	0	6,830	1,855	0	8,685
Total current liabilities	26,906	113,498	21,585	0	161,989
Long-term debt, net	213,130	47	291	0	213,468
Other long-term liabilities	0	29,711	5,988	0	35,699
<b>TOTAL LIABILITIES</b>	<b>240,036</b>	<b>143,256</b>	<b>27,864</b>	<b>0</b>	<b>411,156</b>
<b>STOCKHOLDERS' (DEFICIT) EQUITY</b>					
Common stock	11	100	492	(592)	11
Additional paid-in capital	185,472	6,726	7,685	(14,411)	185,472
Accumulated other comprehensive (loss) income	(4,306)	(543)	(671)	1,214	(4,306)
(Accumulated deficit) retained earnings	(256,424)	(118,425)	28,707	89,718	(256,424)
Less: Treasury stock	(2,157)	0	0	0	(2,157)
<b>TOTAL STOCKHOLDERS' (DEFICIT) EQUITY</b>	<b>(77,404)</b>	<b>(112,142)</b>	<b>36,213</b>	<b>75,929</b>	<b>(77,404)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>	<b>\$ 162,632</b>	<b>\$ 31,114</b>	<b>\$ 64,077</b>	<b>\$ 75,929</b>	<b>\$ 333,752</b>

**Condensed Consolidating Statement of Operations and Comprehensive (Loss) Income  
For the Year Ended December 31, 2014**

(in thousands)

	Parent	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Elimination Entries	Consolidated
Net sales	\$ 0	\$ 447,968	\$ 208,480	\$ (47,557)	\$ 608,891
Cost of sales	0	272,505	74,216	(46,965)	299,756
Gross profit	0	175,463	134,264	(592)	309,135
Selling and distribution expenses	0	124,470	88,087	0	212,557
General and administrative expenses	16,130	63,093	42,126	74	121,423
Retail store impairment	0	695	2,043	0	2,738
(Loss) income from operations	(16,130)	(12,795)	2,008	(666)	(27,583)
Interest expense and other expense	33,874	5,226	(25)	0	39,075
Equity in loss (earnings) of subsidiaries	18,336	611	0	(18,947)	0
(Loss) income before income taxes	(68,340)	(18,632)	2,033	18,281	(66,658)
Income tax provision	477	401	1,281	0	2,159
Net (loss) income	\$ (68,817)	\$ (19,033)	\$ 752	\$ 18,281	\$ (68,817)
Other comprehensive (loss) income, net of tax	(2,609)	(1,950)	(3,465)	5,415	(2,609)
Comprehensive (loss) income	\$ (71,426)	\$ (20,983)	\$ (2,713)	\$ 23,696	\$ (71,426)

**Condensed Consolidating Statement of Operations and Comprehensive (Loss) Income  
For the Year Ended December 31, 2013**

(in thousands)

	Parent	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Elimination Entries	Consolidated
Net sales	\$ 0	\$ 462,732	\$ 227,680	\$ (56,471)	\$ 633,941
Cost of sales	0	285,947	84,938	(57,829)	313,056
Gross profit	0	176,785	142,742	1,358	320,885
Selling and distribution expenses	0	143,379	98,304	0	241,683
General and administrative expenses	502	67,779	38,676	0	106,957
Retail store impairment	0	642	898	0	1,540
(Loss) income from operations	(502)	(35,015)	4,864	1,358	(29,295)
Interest expense and other expense	63,992	10,622	618	0	75,232
Equity in loss (earnings) of subsidiaries	41,804	(95)	0	(41,709)	0
(Loss) income before income taxes	(106,298)	(45,542)	4,246	43,067	(104,527)
Income tax provisions	0	(202)	1,973	0	1,771
Net (loss) income	\$ (106,298)	\$ (45,340)	\$ 2,273	\$ 43,067	\$ (106,298)
Other comprehensive (loss) income, net of tax	(1,581)	(162)	(1,407)	1,569	(1,581)
Comprehensive (loss) income	\$ (107,879)	\$ (45,502)	\$ 866	\$ 44,636	\$ (107,879)

**Condensed Consolidating Statement of Operations and Comprehensive (Loss) Income  
For the Year Ended December 31, 2012**

(in thousands)

	Parent	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Elimination Entries	Consolidated
Net sales	\$ 0	\$ 452,234	\$ 233,069	\$ (67,993)	\$ 617,310
Cost of sales	0	271,809	85,958	(67,840)	289,927
Gross profit	0	180,425	147,111	(153)	327,383
Selling and distribution expenses	0	126,492	100,955	0	227,447
General and administrative expenses	1,276	59,420	36,518	113	97,327
Retail store impairment	0	243	1,404	0	1,647
(Loss) income from operations	(1,276)	(5,730)	8,234	(266)	962
Interest expense and other expense	23,975	9,629	817	0	34,421
Equity in loss (earnings) of subsidiaries	12,021	(1,057)	0	(10,964)	0
(Loss) income before income taxes	(37,272)	(14,302)	7,417	10,698	(33,459)
Income tax provision	0	133	3,680	0	3,813
Net (loss) income	\$ (37,272)	\$ (14,435)	\$ 3,737	\$ 10,698	\$ (37,272)
Other comprehensive income, net of tax	631	164	498	(662)	631
Comprehensive (loss) income	\$ (36,641)	\$ (14,271)	\$ 4,235	\$ 10,036	\$ (36,641)

**Condensed Consolidating Statement of Cash Flows**  
**For the Year Ended December 31, 2014**

(in thousands)

	Parent	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Elimination Entries	Consolidated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net cash provided by (used in) operating activities	\$ 6,361	\$ (26,715)	\$ 15,142	\$ 0	\$ (5,212)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Capital expenditures	0	(6,441)	(3,377)	0	(9,818)
Proceeds from sale of fixed assets	0	(1)	22	0	21
Restricted cash	0	0	214	0	214
Net cash used in investing activities	0	(6,442)	(3,141)	0	(9,583)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Cash overdraft	0	1,720	0	0	1,720
Repayments under current revolving credit facilities, net	0	(9,280)	(429)	0	(9,709)
Repayments of term loans and notes payable	0	(47)	(13)	0	(60)
Payments of debt issuance costs	(2,102)	0	0	0	(2,102)
Net proceeds from issuance of common stock	28,435	0	0	0	28,435
Proceeds from stock option exercise	574	0	0	0	574
Payment of statutory payroll tax withholding on share-based compensation associated with issuance of common stock	(647)	0	0	0	(647)
Repayments of capital lease obligations	0	(2,595)	(64)	0	(2,659)
Advances to/from affiliates	(32,621)	44,217	(11,596)	0	0
Net cash provided by (used in) financing activities	(6,361)	34,015	(12,102)	0	15,552
Effect of foreign exchange rate on cash	0	0	(1,090)	0	(1,090)
Net increase (decrease) in cash	0	858	(1,191)	0	(333)
Cash, beginning of period	0	512	8,164	0	8,676
Cash, end of period	\$ 0	\$ 1,370	\$ 6,973	\$ 0	\$ 8,343
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>					
Property and equipment acquired and included in accounts payable	\$ 0	\$ 130	\$ 65	\$ 0	\$ 195
Property and equipment acquired under capital lease	\$ 0	\$ 434	\$ 0	\$ 0	\$ 434
Standard General Loan Agreement assigned from Lion	\$ 9,865	\$ 0	\$ 0	\$ 0	\$ 9,865
Lion Loan Agreement assigned to Standard General	\$ (9,865)	\$ 0	\$ 0	\$ 0	\$ (9,865)

**Condensed Consolidating Statement of Cash Flows**  
**For the Year Ended December 31, 2013**

(in thousands)

	Parent	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Elimination Entries	Consolidated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net cash (used in) provided by operating activities	\$ (13,825)	\$ (16,811)	\$ 17,913	\$ 0	\$ (12,723)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Capital expenditures	0	(21,319)	(5,735)	0	(27,054)
Proceeds from sale of fixed assets	0	109	64	0	173
Restricted cash	0	3,265	(1,531)	0	1,734
Net cash used in investing activities	0	(17,945)	(7,202)	0	(25,147)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Cash overdraft	0	3,993	0	0	3,993
Repayments of expired revolving credit facilities, net	0	(28,513)	0	0	(28,513)
Borrowings (repayments) under current revolving credit facilities, net	0	43,579	(3,785)	0	39,794
Repayments of term loans and notes payable	9,500	(29,953)	(13)	0	(20,466)
Repayment of Lion term loan	(144,149)	0	0	0	(144,149)
Issuance of Senior Secured Notes	199,820	0	0	0	199,820
Payments of debt issuance costs	(10,540)	(1,369)	0	0	(11,909)
Payment of statutory payroll tax withholding on share-based compensation associated with issuance of common stock	(2,623)	0	0	0	(2,623)
Repayments of capital lease obligations	0	(1,662)	(57)	0	(1,719)
Advances to/from affiliates	(38,183)	45,397	(7,214)	0	0
Net cash provided by (used in) financing activities	13,825	31,472	(11,069)	0	34,228
Effect of foreign exchange rate on cash	0	0	(535)	0	(535)
Net decrease in cash	0	(3,284)	(893)	0	(4,177)
Cash, beginning of period	0	3,796	9,057	0	12,853
Cash, end of period	\$ 0	\$ 512	\$ 8,164	\$ 0	\$ 8,676
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>					
Property and equipment acquired and included in accounts payable	\$ 0	\$ 818	\$ 758	\$ 0	\$ 1,576
Property and equipment acquired under capital lease	\$ 0	\$ 4,213	\$ 0	\$ 0	\$ 4,213

**Condensed Consolidating Statement of Cash Flows**  
**For the Year Ended December 31, 2012**

(in thousands)

	Parent	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Elimination Entries	Consolidated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net cash (used in) provided by operating activities	\$ (584)	\$ 15,181	\$ 8,992	\$ 0	\$ 23,589
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Capital expenditures	0	(16,418)	(5,189)	0	(21,607)
Proceeds from sale of fixed assets	0	414	60	0	474
Restricted cash	0	(3,265)	(455)	0	(3,720)
Net cash used in investing activities	0	(19,269)	(5,584)	0	(24,853)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Cash overdraft	0	(1,921)	0	0	(1,921)
Repayments of expired revolving credit facilities, net	0	(48,324)	0	0	(48,324)
Borrowings under current revolving credit facilities, net	0	26,113	2,338	0	28,451
Borrowings (repayments) of term loans and notes payable, net	0	30,000	(13)	0	29,987
Payments of debt issuance costs	(231)	(4,995)	0	0	(5,226)
Payment of statutory payroll tax withholding on stock-based compensation associated with issuance of common stock	(393)	0	0	0	(393)
Proceeds from equipment lease financing	0	4,533	0	0	4,533
(Repayments) proceeds of capital lease obligations	0	(2,979)	86	0	(2,893)
Advances to/from affiliates	1,208	5,167	(6,375)	0	0
Net cash provided by (used in) financing activities	584	7,594	(3,964)	0	4,214
Effect of foreign exchange rate on cash	0	0	(390)	0	(390)
Net increase (decrease) in cash	0	3,506	(946)	0	2,560
Cash, beginning of period	0	290	10,003	0	10,293
Cash, end of period	\$ 0	\$ 3,796	\$ 9,057	\$ 0	\$ 12,853
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>					
Property and equipment acquired and included in accounts payable	\$ 0	\$ 3,160	\$ 618	\$ 0	\$ 3,778

**Note 20. Unaudited Quarterly Financial Information**

Summarized quarterly financial information for fiscal 2014 and 2013 are listed below.

	Quarter Ended			
	December 31	September 30	June 30	March 31
<b>2014</b>				
Net sales	\$ 153,529	\$ 155,869	\$ 162,397	\$ 137,096
Gross profit	\$ 72,235	\$ 82,539	\$ 82,387	\$ 71,974
Net loss	\$ (27,962)	\$ (19,184)	\$ (16,205)	\$ (5,466)
Loss per share basic and diluted	\$ (0.16)	\$ (0.11)	\$ (0.09)	\$ (0.05)
<b>2013</b>				
Net sales	\$ 169,102	\$ 164,543	\$ 162,236	\$ 138,060
Gross profit	\$ 79,507	\$ 84,640	\$ 83,870	\$ 72,868
Net loss	\$ (20,770)	\$ (1,513)	\$ (37,504)	\$ (46,511)
Loss per share basic and diluted	\$ (0.19)	\$ (0.01)	\$ (0.34)	\$ (0.42)

The Company experiences seasonality in its operations; sales during the third and fourth fiscal quarters have generally been the highest while sales during the first fiscal quarter have been the lowest. This reflects the combined impact of the seasonality of the wholesale and retail segments. Generally, the Company's retail segment has not experienced the same pronounced sales seasonality as other retailers.

Net loss during 2014 was primarily affected by lower sales volumes and significant expenses related to certain professional fees and contingency settlements, particularly during the third and fourth quarter of 2014. In connection with the suspension of Mr. Charney on June 18, 2014, the Board formed the Internal Investigation which ultimately concluded with his termination for cause on December 16, 2014. The suspension and the Internal Investigation have resulted in substantial legal and consulting fees. Additionally, as discussed in Notes 15 and 18, the Company entered into certain settlements with the German customs authorities and other jurisdictions, the Orange County district attorney's office related to an OSHA matter, and various previously disclosed employment-related claims. Finally, the Company experienced unusually high employee severance costs during 2014. The primary causes of the net losses during the first and second quarters of 2014 were driven by lower sales volume and the unrealized losses on the Company's warrants, respectively.

Net loss during 2013 was affected by the transition to the Company's new distribution center in La Mirada, California resulted in significant incremental costs (primarily labor). The issues surrounding the transition primarily related to improper design and integration and inadequate training and staffing. These issues caused processing inefficiencies that required the Company to employ additional staffing in order to meet customer demand. The transition was successfully completed during the fourth quarter of 2013. The center is now fully operational and labor costs have been reduced. The primary causes of the net losses during the first and second quarters of 2013 were driven by the unrealized losses on the Company's warrants and the loss on early extinguishment of debt, respectively.



**American Apparel, Inc. and Subsidiaries**  
**Valuation and Qualifying Accounts**  
(in thousands)

Description	Balance, Beginning of Year	Charged to Costs and Expenses	Deductions (Recoveries)	Other	Balance, End of Year
<b>Allowance for trade accounts receivable:</b>					
For the year ended December 31, 2014	\$ 2,229	\$ 1,563	\$ 0	\$ (3,334)	\$ 458
For the year ended December 31, 2013	\$ 2,085	\$ 1,512	\$ 0	\$ (1,368)	\$ 2,229
For the year ended December 31, 2012	\$ 2,195	\$ 99	\$ 0	\$ (209)	\$ 2,085

Description	Balance, Beginning of Year	Charged to Costs and Expenses	Deductions (Recoveries)	Other	Balance, End of Year
<b>Reserve for inventory shrinkage and obsolescence:</b>					
For the year ended December 31, 2014	\$ 2,778	\$ 6,948	\$ 0	\$ (948)	\$ 8,778
For the year ended December 31, 2013	\$ 2,653	\$ 912	\$ 0	\$ (787)	\$ 2,778
For the year ended December 31, 2012	\$ 3,932	\$ 690	\$ 0	\$ (1,969)	\$ 2,653

Description	Balance, Beginning of Year	Increase in Allowance	Deductions to Allowance	Other	Balance, End of Year
<b>Valuation allowance of deferred tax assets:</b>					
For the year ended December 31, 2014	\$ 120,694	\$ 22,368	\$ 0	\$ 0	\$ 143,062
For the year ended December 31, 2013	\$ 77,578	\$ 43,116	\$ 0	\$ 0	\$ 120,694
For the year ended December 31, 2012	\$ 73,773	\$ 4,720	\$ (915)	\$ 0	\$ 77,578

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures**

None.

### **Item 9A. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures.

As required by Securities and Exchange Commission Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

#### **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external reporting purposes in accordance with GAAP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our internal control over financial reporting based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (1992)*. Based on this assessment, and the opinion expressed by our external auditor's attestation report included herein, our management believes that our internal controls over financial reporting were effective as of December 31, 2014.

Based on the COSO (1992) criteria, management did not note control deficiencies that constituted a material weakness in our prior reported financial statements. A "material weakness" is a deficiency or combination of deficiencies in internal control over financial reporting, such that there is more than a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

#### **Changes in Internal Controls over Financial Reporting**

We regularly review our system of internal control over financial reporting to ensure we maintain an effective internal control environment. As we expand globally, we are increasingly dependent on information systems to operate our website, process transactions, respond to customer inquiries, manage inventory and production, purchase, well and ship goods on a timely basis and maintain cost-efficient operations. In connection with the process of upgrading our information technology infrastructure and resulting business process changes, we continue to create and enhance the design and documentation of our internal control processes to ensure effective controls over financial reporting.

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Our process for evaluating controls and procedures is continuous and encompasses constant improvement of the design and effectiveness of established controls and procedures and the remediation of any deficiencies which may be identified during this process.

### **Item 9B. Other Information**

None.

### PART III

**Item 10. Directors, Executive Officers, and Corporate Governance**

**Item 11. Executive Compensation**

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

**Item 14. Principal Accountant Fees and Services**

The information called for by Items 10, 11, 12, 13 and 14 will be included in the Company's definitive proxy statement for the 2015 Annual Meeting of Stockholders, which will be filed with the SEC within 120 days after December 31, 2014. The relevant portions of such definitive proxy statement are incorporated herein by reference.

### PART IV

**Item 15. Exhibits and Financial Statement Schedules**

The following documents are filed as a part of this Annual Report on Form 10-K:

1. Financial Statements: See "Index to Consolidated Financial Statements" in Item 8, Part II of this Annual Report on Form 10-K.
2. Financial Statement Schedule: Schedule II - Valuation and Qualifying Accounts

All other schedules are omitted as the required information is inapplicable or the information is presented in the Consolidated Financial Statements and/or Notes thereto.

3. Exhibits: The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this Annual Report on Form 10-K.

*In reviewing the agreements included as exhibits to this Annual Report on Form 10-K, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about our or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement, and;*

- *should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;*
- *have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;*
- *may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and*
- *were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.*

*Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information may be found elsewhere in this Annual Report on Form 10-K and in our other public filings, which are available without charge through the SEC's website at <http://www.sec.gov>.*



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Exhibit No.	Description	Incorporated by Reference		
		Form	Exhibit/Annex	Filing Date/Period End Date
2.1	Acquisition Agreement by and among American Apparel, Inc., AAI Acquisition LLC, American Apparel, Inc., a California corporation, American Apparel, LLC, each of American Apparel Canada Wholesale Inc. and American Apparel Canada Retail Inc. (together the “CI companies”), Dov Charney, Sam Lim, and the stockholders of each of the CI companies.	PRER 14A	Annex A	11/28/2007
3.1	Amended and Restated Certificate of Incorporation of American Apparel, Inc.	8-K	3.1	12/18/2007
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of American Apparel, Inc.	8-K	3.1	06/27/2011
3.3	Amended and Restated Bylaws of American Apparel, Inc. as amended effective as of December 21, 2014.	8-K	3.2	12/22/2014
3.4	Certificate of Amendment to Certificate of Formation of American Apparel (USA), LLC.	10-K	3.3	03/17/2008
3.5	Certificate of Designation of Series A Junior Participating Preferred Stock of American Apparel, Inc. filed with the Secretary of State of the State of Delaware on June 30, 2014.	8-K	3.1	06/30/2014
3.6	Certificate of Designation of Series B Junior Participating Preferred Stock of American Apparel, Inc. filed with the Secretary of State of the State of Delaware on December 22, 2014.	8-K	3.1	12/22/2014
3.7	Specimen Common Stock Certificate	8-K	4.2	12/18/2007
4.1	Registration Rights Agreement, dated as of December 12, 2007	DEFM14A	Annex H	11/28/2007
4.2	Lock-Up Agreement, dated as of December 12, 2007, between American Apparel, Inc. and Dov Charney	DEFM14A	Annex D	11/28/2007
4.3	Letter Agreement Re: Extension of Lock-Up Agreement, dated as of March 13, 2009, among Dov Charney, Lion Capital (Guernsey) II Limited and American Apparel, Inc.	8-K	10.5	03/16/2009
4.4	Warrants to Purchase Shares of Common Stock of American Apparel, Inc., dated as of March 13, 2009, issued to Lion Capital (Guernsey) II Limited.	8-K	10.3	03/13/2009
4.5	Investment Agreement, dated as of March 13, 2009, between American Apparel, Inc. and Lion Capital (Guernsey) II Limited.	8-K	10.2	03/16/2009
4.6	Investment Voting Agreement, dated as of March 13, 2009, between American Apparel, Inc. and Lion Capital (Guernsey) II Limited.	8-K	10.4	03/16/2009
4.7	Voting Agreement, dated as of February 18, 2011, between Dov Charney, an individual, and Lion/Hollywood LLC., in its capacity as a lender under the Lion Credit Agreement.	8-K	10.2	02/22/2011
4.8	Warrant to Purchase Shares of Common Stock of American Apparel, Inc., dated as of March 24, 2011, issued to Lion/Hollywood LLC.	8-K	10.2	03/28/2011
4.9	Amendment No. 1, dated as of March 24, 2011, to the Warrant to Purchase Shares of Common Stock of American Apparel, Inc.	8-K	10.3	03/28/2011
4.10	Form of Voting Agreement, dated as of April 26, 2011, between Dov Charney and the other persons signatory thereto.	8-K	10.3	04/28/2011
4.11	Warrant to Purchase Shares of Common Stock of American Apparel, Inc., dated as of April 26, 2011, issued to Lion/Hollywood LLC.	8-K	10.6	04/28/2011

4.12	Amendment No. 1, dated as of April 26, 2011, to the Warrant to Purchase Shares of Common Stock of American Apparel, Inc., issued to Lion/Hollywood LLC.	8-K	10.7	04/28/2011
4.13	Amendment No. 2, dated as of April 26, 2011, to the Warrant to Purchase Shares of Common Stock of American Apparel, Inc., issued to Lion/Hollywood LLC.	8-K	10.8	04/28/2011

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4.14	Warrant to Purchase Shares of Common Stock of American Apparel, Inc., dated as of July 7, 2011, issued to Lion/Hollywood LLC.	8-K	10.1	07/13/2011
4.15	Warrant to Purchase Shares of Common Stock of American Apparel, Inc., dated as of July 12, 2011, issued to Lion/Hollywood LLC.	8-K	10.2	07/13/2011
4.16	Amendment No. 1, March 13, 2012, to the Warrant to Purchase Shares of Common Stock of of American Apparel, Inc., dated as of July 12, 2011.	8-K	10.5	03/19/2012
4.17	Amendment No. 1, March 13, 2012, to the Warrant to Purchase Shares of Common Stock of of American Apparel, Inc., dated as of July 7, 2011.	8-K	10.6	03/19/2012
4.18	Amendment No. 1, March 13, 2012, to the Warrant to Purchase Shares of Common Stock of of American Apparel, Inc., dated as of April 26, 2011.	8-K	10.7	03/19/2012
4.19	Amendment No. 2, March 13, 2012, to the Warrant to Purchase Shares of Common Stock of of American Apparel, Inc., dated as of March 24, 2011.	8-K	10.8	03/19/2012
4.20	Amendment No. 3, March 13, 2012, to the Warrant to Purchase Shares of Common Stock of of American Apparel, Inc., dated as of March 13, 2009.	8-K	10.9	03/19/2012
4.21	Indenture, dated as of April 4, 2013, by and among the Company, the Guarantors and U.S. Bank National Association.	8-K	4.1	04/09/2013
4.22	Form of Note	8-K	4.2	04/09/2013
4.23	Registration Rights Agreement, dated as of April 4, 2013, by and among the Company, the Guarantors and Cowen and Company, LLC and Sea Port Group Securities, LLC, as representatives of the initial purchasers.	8-K	4.3	04/09/2013
4.24	Rights Agreement, dated as of June 27, 2014, between American Apparel, Inc. and Continental Stock Transfer & Trust Company, including the form of Certificate of Designations as Exhibit A, the form of Rights Certificate as Exhibit B and the form of Summary of Rights to Purchase Preferred Stock as Exhibit C.	8-K	4.1	06/30/2014
4.25	Amendment No. 1 to Rights Agreement, dated as of July 9, 2014, by and between American Apparel, Inc. and Continental Stock Transfers & Trust Company.	8-K	4.1	07/09/2014
4.26	Rights Agreement, dated as of December 21, 2014, between American Apparel, Inc. and Continental Stock Transfer & Trust Company & Trust Company, including the form of Certificate of Designation as Exhibit A, the form of Rights Certificate as Exhibit B and the form of Summary of Rights to Purchase Preferred Stock as Exhibit C.	8-K	4.1	12/22/2014
4.27	Amendment No. 1 to Rights Agreement, dated as of January 16, 2015, by and between American Apparel, Inc. and Continental Stock Transfer & Trust Company.	8-K	4.1	01/16/2015
10.1 +	American Apparel, Inc. 2011 Omnibus Stock Incentive Plan, as amended and restated, dated as of June 25, 2013	DEF 14A	Annex A	04/30/2013
10.2	Lease by and between Titan Real Estate Investment Group, Inc., and Textile Unlimited Corp., E&J Textile Group, Inc., and Johnester Knitting, Inc.	8-K	10.15	12/18/2007
10.3	Lease, dated as of December 13, 2005, by and between American Apparel, Inc. and American Central Plaza.	8-K	10.17	12/18/2007
10.4	Lease Amendment, effective as of November 15, 2006, by and between American Apparel, Inc. and American Central Plaza.	8-K	10.18	12/18/2007
10.5	Lease Amendment, effective as of March 22, 2007, by and between American Apparel, Inc. and American Central Plaza.	8-K	10.19	12/18/2007
10.6	Lease, dated as of January 1, 2004, by and between American Apparel, Inc. and Alameda Produce	8-K	10.21	12/18/2007

Market, Inc.

10.7	Lease, dated as of May 12, 2004, by and between American Apparel, Inc. and Alameda Produce Market, Inc.	8-K	10.22	12/18/2007
10.8	Lease, dated as of July 30, 2009, by and between American Apparel, Inc. and Alameda Produce Market, Inc.	8-K	10.21	12/18/2007
10.9	Form of Purchase and Investment Agreement by and among American Apparel, Inc. and the purchasers signatory thereto.	8-K	10.1	12/18/2007



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10.10	Purchase Agreement, dated as of April 27, 2011, between American Apparel, Inc. and Dov Charney.	8-K/A	10.2	04/28/2011
10.11	Amendment to Purchase Agreement, dated as of October 16, 2012, by and between American Apparel, Inc. and Dov Charney.	8-K	10.1	10/22/2012
10.12	Amendment and Agreement, dated as of April 10, 2009, by and between American Apparel, Inc. and Lion/Hollywood LLC.	8-K	10.1	04/16/2009
10.13	Second Amendment and Agreement, dated as of June 17, 2009, by and between American Apparel, Inc. and Lion/Hollywood LLC.	8-K	10.1	06/19/2009
10.14	Third Amendment and Agreement, dated as of August 18, 2009, by and between American Apparel, Inc. and Lion/Hollywood LLC.	8-K	10.1	08/20/2009
10.15	Letter Agreement, Re: Pledging of Restricted Securities, dated as of October 28, 2009	8-K	10.1	11/03/2009
10.16	Intercreditor Agreement, dated as of April 4, 2013, by and among U.S. Bank National Association and Capital One Leverage Finance Corp.	8-K	10.2	04/09/2013
10.17	Credit Agreement, dated as of April 4, 2013, by and among the Company, the Borrowers, the Guarantors, Capital One Leverage Finance Corp., and the Lenders party thereto.	8-K	10.1	04/09/2013
10.18	Amendment No. 1, dated as of May 22, 2013, to Credit Agreement by and among the Company, the Borrowers, the Guarantors, Capital One Leverage Finance Corp., and the Lenders party thereto.	10-K	10.39	04/01/2013
10.19	Amendment No. 2 to Credit Agreement, dated as of July 5, 2013, by and among the Company, the Borrowers, the Guarantors, Capital One Leverage Finance Corp., and the Lenders party thereto.	8-K	10.1	07/09/2013
10.20	Amendment No. 3 to Credit Agreement and Limited Waiver, dated as of November 14, 2013, by and among the Company, the Borrowers, the Guarantors, Capital One Leverage Finance Corp., and the Lenders party thereto.	10-K	10.41	04/01/2014
10.21	Amendment No. 4 to Credit Agreement and Limited Consent, dated as of November 29, 2013, by and among the Company, the Borrowers, the Guarantors, Capital One Leverage Finance Corp., and the Lenders party thereto.	10-K	10.42	04/01/2014
10.22	Amendment No. 5 to Credit Agreement and Limited Waiver, dated as of March 25, 2014, by and among the Company, the Borrowers, Fresh Air Freight, Inc., Capital One Business Credit Corp (i/k/a Capital One Leverage Finance Corp.), as Administrative Agent, and the Lenders party thereto.	8-K	10.1	03/25/2014
10.23	Credit Agreement, dated as of May 22, 2013, by and among American Apparel, Inc. and Lion/Hollywood LLC.	10-K	10.44	04/01/2014
10.24	Amendment No. 1 to Credit Agreement, dated as of November 29, 2013, by and among American Apparel, Inc. and Lion/Hollywood LLC.	10-K	10.45	04/01/2014
10.25	Amendment to Credit Agreement, dated as of September 8, 2014, by and among American Apparel, Inc. and Standard General Master Fund L.P.	10-Q	10.6	11/10/2014
10.26†	Separation Agreement and General Release of All Claims, dated as of May 16, 2014, by and between American Apparel, Inc. and Glenn A. Weinman.	8-K	10.1	05/13/2014
10.27	Nomination Standstill and Support Agreement, by and among American Apparel, Inc., Standard General Master Fund L.P., P Standard General Ltd and Dov Charney.	8-K	10.1	07/09/2014
10.28†	Employment Agreement, effective as of July 14, 2014, between American Apparel, Inc. and John J. Luttrell.	8-K	10.1	07/18/2014
10.29†	American Apparel, Inc. Severance Plan	8-K	10.1	07/25/2014

10.30†	Employment Agreement, dated as of September 29, 2014, by and between American Apparel, Inc. and Hassan Natha.	10-Q	10.4	11/10/2014
10.31†	Letter Agreement, dated as of September 28, 2014, by and between American Apparel, Inc. and Alvarez & Marsal North America, LLC.	10-Q	10.3	11/10/2014
10.32*	Employment Agreement, effective as of November 20, 2014, by and between American Apparel, Inc. and Chelsea A. Grayson.			

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10.33*	Employment Agreement, effective as of January 9, 2015, by and between American Apparel, Inc. and Paula Schneider.			
10.34*	Amendment No. 6 to Credit Agreement and Waiver, dated as of March 25, 2015, by and among the Company, the Borrowers, Fresh Air Freight, Inc., Capital One Business Credit Corp (i/k/a Capital One Leverage Finance Corp.), as Administrative Agent, and the Lenders party thereto.			
10.35*	Credit Agreement, dated as of March 25, 2015, by and among American Apparel, Inc. and Standard General L.P.			
14.1	American Apparel, Inc. Code of Ethics	8-K	14.1	12/18/2007
101.INS*	XBRL Instance Document			
101.SCH*	XBRL Taxonomy Extension Schema Document			
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document			
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document			
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document			
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document			

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\* Filed herewith.

† Management contract or compensatory plan or arrangement.



EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (the “Agreement”), effective as of November 20, 2014 (the “Effective Date”), by and between American Apparel, Inc., a Delaware corporation (the “Company”), and Chelsea A. Grayson (herein referred to as the “Executive”).

WHEREAS, the Company and the Executive deem it to be in their respective best interests to enter into an agreement providing for the Company’s employment of the Executive pursuant to the terms herein stated;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto hereby agree as follows:

1. Employment; Position and Duties; Exclusive Services.

(a) Employment. The Company agrees to employ the Executive, and the Executive agrees to be employed by the Company, for the Term provided in Section 2 below and upon the other terms and conditions hereinafter provided.

(b) Position and Duties. During the Term, the Executive (i) agrees to serve as the General Counsel, Executive Vice President and Secretary of the Company and to perform such reasonably related duties as may be assigned to her from time to time by the Board of Directors of the Company (the “Board”), (ii) shall report only to the Board, the Chairman of the Board, the Chief Executive Officer, and the President of the Company, (iii) shall be given such authority as is appropriate given the Executive’s position in a company the nature and size of the Company to carry out the duties described above, and (iv) agrees to serve, if elected, at no additional compensation in the position of officer or director of any subsidiary or affiliate of the Company.

(c) Exclusive Services. During the Term, and except for illness or incapacity and service on non-profit boards, approved by the Board in its discretion, that do not materially adversely affect or interfere with the performance of the Executive’s duties and obligations to the Company or any of its subsidiaries or affiliates, the Executive shall devote all of her business time, attention, skill and efforts exclusively to the business and affairs of the Company and its subsidiaries and affiliates, shall not be engaged in any other business activity, and shall perform and discharge the duties which may be assigned to her from time to time by the Board, the Chairman of the Board or the Chief Executive Officer consistent with her position.

(d) Place of Employment. The Executive shall perform her duties out of the Company’s Los Angeles, California office (as same may be relocated in the same metropolitan area from time to time) or at such other location as shall be agreed to in writing by the Company and the Executive.

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2. Term of Agreement.

The term of employment under this Agreement shall initially be the twelve months commencing on December 15, 2014 (the “Effective Date”) and ending on December 14, 2015, and shall be automatically extended without further action by either party for successive one-year periods as of each December 15 (beginning December 15, 2015) (each, an “Extension Date”), unless written notice of either party’s intention to terminate this Agreement has been given to the other party at least 90 calendar days prior to the expiration of the Term (including any one-year extension thereof). As used in this Agreement, the “Term” shall mean the initial one year term plus any extensions thereof as provided in this Section 2.

3. Salary and Bonuses.

The Executive’s cash compensation for all services to be rendered by her in any capacity hereunder shall consist of base salary and other compensation as provided in this Section.

(a) Salary. The Executive shall be paid a base salary at the rate of \$400,000.00 per annum. The Salary shall be payable in accordance with the customary payroll practices for executives of the Company. The amount of the Executive’s Salary will be reviewed not less often than annually by the Compensation Committee of the Board (the “Compensation Committee”) and may be increased on the basis of such review. The Executive’s annual base salary, as in effect from time to time, is hereinafter referred to as the “Salary.”

(b) Performance Bonuses. The Executive will be eligible to receive an annual incentive compensation award in respect of each fiscal year of the Company during the Term, commencing with fiscal year 2015, with a target payment equal to 50% of Salary during each such fiscal year, subject to the terms and conditions of the Company’s annual bonus plan, and further subject to written sales, EBITDA, net debt and inventory goals, criteria or targets, including, without limitation, the timely delivery of reviewed and audited, as applicable, financial statements and timely required SEC filings, all as determined by the Board or the Compensation Committee in its or their sole discretion in respect of each such fiscal year (each such bonus, an “Annual Bonus”). Any Annual Bonus earned shall be payable in a lump sum in cash. The Annual Bonus earned in respect of each fiscal year of the Company during the Term, if any, shall be paid to the Executive in the fiscal year immediately following the fiscal year for which the bonus is earned, but in all events no later than the earlier of (A) ten days after the filing of the Company’s Form 10-K with the Securities Exchange Commission, and (B) 90 days after the end of the applicable fiscal year for which the bonus is earned.

4. Equity Awards.

The Compensation Committee of the Board is in the process of developing a long term incentive plan (the “LTIP”) for senior management. If an LTIP becomes effective, the Executive shall be entitled to participate in the LTIP at a level commensurate with Executive’s title and responsibilities. Any equity awards pursuant to the LTIP will be at the sole discretion of the Board. Immediately upon (a) a change of control of the Company, as defined in the LTIP, or (b) a termination of Executive’s employment (i) upon the Executive’s death or Disability (as defined below), (ii) by the Company without Cause (as defined below), or (iii) by the Executive with Good Reason (as defined below), all outstanding stock-based awards (including without limitation, restricted stock, phantom stock, and performance stock), stock options, and similar equity-based awards, and all restricted cash awards, in each case made to the Executive under the LTIP, shall be payable and/or vest as provided in the LTIP and the award to Executive, as applicable.

5. Pension and Welfare Benefits.

During the Term, the Executive will be entitled to participate in all pension and welfare plans, programs and benefits that are applicable to executives of the Company.

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6. Other Benefits.

(a) Travel and Business-related Expenses. During the Term, the Executive shall be promptly reimbursed in accordance with the written policies of the Company for traveling and other expenses reasonably incurred in the performance of the business of the Company.

(b) Vacation; Leaves of Absence. During the Term, the Executive shall be allowed time away with pay on the same basis as the Company generally provides to other executives of the Company, provided, that the Executive shall be provided with no less than 20 paid vacation days and paid federal holidays.

7. Termination of Employment. Upon termination of the Executive's employment for any reason, the Executive agrees to resign, as of the date of such termination and to the extent applicable, from the Board (and any committees thereof) and the board of directors of any of the Company's affiliates and direct or indirect subsidiaries (and any committees thereof), if applicable, and agrees to resign as an officer of the Company and each of the Company's affiliates and direct or indirect subsidiaries.

(a) Termination for Cause; Resignation Without Good Reason.

(i) If the Executive's employment is terminated by the Company for Cause (as defined below in this Section) or if the Executive resigns from her employment without Good Reason other than for death or Disability (as defined below in Section 7(d)), prior to the expiration of the Term, the Executive shall be entitled to receive: (A) the Salary provided for in Section 3(a) as accrued through the date of such resignation or termination; and (B) any unreimbursed expenses, each within 30 days following termination. The Executive shall not accrue or otherwise be eligible to receive Salary payments or to participate in any plans, programs or benefits described in Section 5 hereof with respect to periods after the date of such termination or resignation and shall not be eligible to receive any annual performance bonus or long term performance bonus in respect of the year of such termination or resignation or any calendar year following the year in which such termination or resignation occurs. Any bonus earned in respect of a year prior to the year in which such termination or resignation occurs shall be payable at the same time and in the same manner as bonuses are paid to participants in the applicable bonus plan.

Subject to Section 18, the Executive shall have no right under this Agreement or otherwise to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such termination or resignation of employment (except to the extent provided for under the terms of any such plan, arrangement or benefit).

(ii) Termination for "Cause" shall mean termination by action of the Board because of: (A) the Executive's willful and continued failure (other than by reason of the incapacity of the Executive due to physical or mental illness) substantially to perform her duties hereunder; (B) the Executive's failure (other than by reason of the incapacity of the Executive due to physical or mental illness) to perform such reasonable duties as are assigned to her from time to time by the Board, the Chairman of the Board, the Chief Executive Officer, or the President of the Company; (C) the conviction of the Executive or the Executive entering a plea of guilty or nolo contendere to a crime that constitutes a felony or the perpetration by the Executive of a serious dishonest act against the Company or any of its affiliates or subsidiaries; (D) any willful misconduct by the Executive in connection with the performance of her duties, including, without limitation, conduct that is materially injurious to the financial condition or business reputation of the Company or any of its affiliates or subsidiaries, misappropriation of funds or property of the Company, securing or attempting to secure personally any profit in connection with any transaction entered into on behalf of the Company, misrepresentation to the Company, or any violation of law or regulations on Company premises or to which the Company is subject; (E) commission by Executive of an act involving moral turpitude, dishonesty, theft, unethical business conduct, or conduct that materially impairs or injures the reputation of, or harms, the Company; (F) aiding a competitor to the Company in a manner that adversely affects the Company; (G) failure by Executive to devote her full time and best efforts

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to the Company's business and affairs; (H) misappropriation of a Company opportunity for the Executive's personal benefit; (I) a material breach of the Executive's obligations under this Agreement or under any

Company written policy applicable to the Executive; or (J) chronic alcoholism or drug abuse which materially affects the Executive's performance hereunder, provided, however, that no event or circumstance shall be considered to constitute Cause within the meaning of this clause (ii) unless the Executive has been given written notice of the events or circumstances constituting Cause within 30 calendar days of the Company becoming aware of the initial occurrence of such event or circumstance and, for those events or circumstances capable of cure (but only for those capable of a cure), Executive has failed to effect a cure thereof within 30 calendar days following the receipt of such notice.

(iii) Resignation for "Good Reason" shall mean the resignation of the Executive because of (A) a material reduction in the Executive's responsibilities, duties, authority, status or titles as described in Section 1 above or any reduction in the Executive's Annual Salary or Annual Bonus opportunity, or a material reduction in the benefits provided to the Executive; (B) failure by the Company to pay or provide the Executive when due any compensation, benefits or perquisites to which the Executive is entitled pursuant to this Agreement or any other plan, contract or arrangement in which the Executive participates or is entitled to participate; (C) a material change in the Executive's reporting structure; (D) failure of any successor (whether direct or indirect, by stock or asset purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume this Agreement (either by operation of law or in writing), (E) a relocation of the principal location at which the Executive is required to provide services to any office or location more than fifty (50) miles from the one described in Section 1(d) hereof; or (F) a material breach of the Company's obligations under this Agreement; provided, however, that no event or circumstance shall be considered to constitute Good Reason within the meaning of this clause (iii) unless the Company has been given written notice of the events or circumstances constituting Good Reason by the Executive within 30 calendar days of the initial occurrence of such event or circumstance and, for those events or circumstances capable of cure (but only for those capable of a cure), the Company has failed to effect a cure thereof within 30 calendar days following the receipt of such notice.

(iv) The date of termination of employment by the Company pursuant to this Section 7(a) shall be the date specified in a written notice of termination from the Company to the Executive, which, in the case of a proposed termination to which the 30-day cure period provided for in subsection (ii) above applies shall be no less than 31 calendar days after the delivery of such notice to the Executive. The date of a resignation by the Executive pursuant to this Section 7(a) shall be the date specified in the written notice of resignation from the Executive to the Company or, if no date is specified therein, ten (10) business days after receipt by the Company of the written notice of resignation from the Executive.

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(b) Termination Without Cause, Resignation for Good Reason.

(i) If the Executive's employment is terminated by the Company without Cause or if the Executive should resign for Good Reason, prior to the expiration of the Term, she shall be entitled to receive: (A) the Salary provided for in Section 3(a) as accrued through the date of such resignation or termination, payable within 30 days following termination and (subject to the Executive's execution and delivery of a general release of all claims against the Affiliated Companies and the expiration of any release revocation period, which release shall be consistent with the terms of this Agreement and in form reasonably acceptable to the Company (the "Release"), within sixty (60) calendar days following termination of employment), continued payment of the Executive's then-current Salary for a period of six (6) months (the "Continuation Period"), payable in accordance with the Company's usual payment practices; provided that the first payment shall be made on the sixtieth (60th) calendar day following termination of employment and shall include payment of any amounts that would otherwise be due prior thereto; (B) at the time of, on the terms of, and otherwise consistent with payments to similarly-situated executives, (x) any Annual Bonus earned but not yet paid in respect of any calendar year preceding the year in which such termination or resignation occurs and (y) an Annual Bonus for the calendar year in which the Executive's termination of employment or resignation occurs equal to a pro rata portion of the Executive's target Annual Bonus, if any, for such year, determined on the basis of the number of days in such year through the date of the Executive's termination of employment or resignation, provided, however, that if the Executive's employment is terminated during the first three months of a fiscal year, no such bonus shall be payable with respect to that fiscal year; and (C) any unreimbursed expenses.

Except to the extent required pursuant to Section 22 hereof, during the Continuation Period, Salary payments to the Executive shall be payable in accordance with the customary payroll practices of the Company.

Subject to the Executive's execution and delivery of the Release and the expiration of any release revocation period within sixty (60) calendar days following termination of employment, the Executive (and those eligible dependents who were participants in the applicable plans as of the termination date) shall also be entitled to continued participation in the medical, dental and insurance plans and arrangements described in Section 5, on the same terms and conditions as are in effect immediately prior to such termination or resignation, until the earlier to occur of (i) the last day of the Continuation Period and (ii) such time as the Executive is entitled to comparable benefits provided by a subsequent employer. Anything herein to the contrary notwithstanding, the Company shall have no obligation to continue to maintain during the Continuation Period any plan or program solely as a result of the provisions of this Agreement. If, during the Continuation Period, the Executive is precluded from participating in a plan or program by its terms or applicable law or if the Company for any reason ceases to maintain such plan or program, the Company shall provide the Executive with compensation or benefits the aggregate value of which, in the reasonable judgment of the Company, is no less than the aggregate value of the compensation or benefits that the Executive would have received under such plan or program had she been eligible to participate therein or had such plan or program continued to be maintained by the Company.

(ii) Except as may be provided under the terms of any applicable grants to the Executive under the LTIP, Section 18, any plan or arrangement in which the Executive participates, or as may be otherwise required by applicable law (including, without limitation, the provisions of Section 4980B(f) of the Internal Revenue Code of 1986, as amended (the "Code")), the Executive shall have no right under this Agreement or any other agreement to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such termination or resignation of employment. In the event of a termination or resignation pursuant to this Section 7(b), the Executive shall have no duty of mitigation with respect to amounts payable to her pursuant to this Section 7(b) or other benefits to which she is entitled pursuant hereto, except as provided in the immediately preceding

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paragraph. Notwithstanding anything to the contrary in this Agreement, the right of the Executive to receive payments provided for in this Section 7(b) shall be subject to Section 8 of this Agreement.

(iii) The date of termination of employment by the Company pursuant to this Section 7(b) shall be the date specified in the written notice of termination from the Company to the Executive or, if no date is specified therein, ten business days after receipt by the Executive of the written notice of termination from the Company. The date of a resignation by the Executive pursuant to this Section 7(b) shall be the date specified in the written notice of resignation from the Executive to the Company which, in the case of a proposed resignation to which the 30-day cure period provided for in subsection 7(a)(iii) above applies shall be no less than 31 days after the delivery of such notice to the Company; and in the case of a proposed resignation to which the 30-day cure period does not apply and in which no date is specified therein, the date of resignation shall be ten business days after receipt by the Company of the written notice of resignation from the Executive.

(c) Death. If the Executive's employment hereunder terminates by reason of death prior to expiration of the Term, the Executive's beneficiary (or if no such beneficiary is designated, her estate) shall be entitled to receive: (i) the Salary provided for in Section 3(a) as accrued through the date of the Executive's death; (ii) any Annual Bonus earned but not yet paid in respect of any calendar year preceding the year in which the Executive's death occurs; (iii) an Annual Bonus for the calendar year in which the Executive's death occurs equal to a pro rata portion of the Executive's target Annual Bonus, if any, for such year, determined on the basis of the number of days in such year through the date of the Executive's death; and (iv) any unreimbursed expenses. Annual Bonus payments provided for in this Section 7(c) shall be made at the same time and in the same manner as bonuses are paid to participants in the applicable bonus plan. As used in this Section, the term "beneficiary" includes both the singular and the plural of such term, as may be appropriate.

(d) Disability. If, the Executive is terminated from employment by the Company as a result of the Executive's Disability (as defined below in this Section), the Executive, her conservator or guardian, as the case may be, shall be entitled to receive: (i) the Salary provided for in Section 3(a) as accrued through the date of the Executive's termination of employment; (ii) any Annual Bonus earned but not yet paid in respect of any calendar year preceding the year in which the Executive's termination of employment occurs; (iii) an Annual Bonus for the calendar year in which the Executive's termination of employment occurs equal to a pro rata portion of the Executive's target Annual Bonus, if any, for such year, determined on the basis of the number of days in such year through the date of the Executive's termination of employment; and (iv) any unreimbursed expenses. Annual Bonus payments provided for in this Section 7(d) shall be made at the same time and in the same manner as bonuses are paid to participants in the applicable bonus plan. For purposes of this Agreement, "Disability" shall mean that the Executive is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to last for a continuous period of not less than twelve months. Any dispute as to whether or not the Executive is disabled within the meaning of the preceding sentence shall be resolved by a physician reasonably satisfactory to the Executive and the Company, and the determination of such physician shall be final and binding upon both the Executive and the Company.

(e) Non-Renewal of the Term. In the event the Company elects not to extend the Term pursuant to Section 2, unless the Executive's employment is earlier terminated pursuant to paragraphs (a), (b), (c) or (d) of this Section 7, the expiration of the Term and Executive's termination of employment hereunder shall be deemed to occur on the close of business on the day immediately preceding the next scheduled Extension Date and the Executive shall be entitled to receive the benefits and payments set forth under Section 7(b)(i)(A)-(D) above. Following such termination of Executive's employment under this Section 7(e), except as set forth in this Section 7(e) and Section 18, Executive shall have no further rights to any compensation or any other benefits under this Agreement.

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8. Tax Withholding .

Payments to the Executive of all compensation contemplated under this Agreement shall be subject to all applicable legal requirements with respect to the withholding of taxes.

9. Confidentiality and Proprietary Rights .

(a) Confidentiality . The Executive acknowledges that as a result of her employment with the Company, the Executive will obtain secret and confidential information concerning the business of the Company, and its subsidiaries and affiliates (all of such entities referred to collectively in this Section as the “ Affiliated Companies ”). Other than in the performance of her duties hereunder or if confidential information is required to be disclosed by law, court order or other legal process (provided that the Executive shall give prompt written notice to the Company of such requirement, disclose no more information than is so required, and cooperate with any attempts by the Company to obtain a protective order or similar treatment) or to the extent necessary to enable the Executive to enforce (or defend) her rights under this Agreement or any other agreement with the Company or any affiliate, the Executive agrees not to disclose, either during the Term of her employment with the Company or at any time thereafter, to any person, firm or corporation any confidential information concerning the Company which is not in the public domain or known within the relevant trade or industry (other than as a result of an unauthorized disclosure by the Executive) including trade secrets, budgets, strategies, operating plans, marketing plans, supplier lists, non-public company agreements, employee lists, or the customer lists or similar confidential information of the Company.

(b) Proprietary Rights . All records, files, memoranda, reports, price lists, customer lists, drawings, plans, sketches, documents and the like (together with all copies thereof) relating to the business of the Affiliated Companies, which the Executive shall use or prepare or come in contact with in the course of, or as a result of her employment, or as a result of work performed by the Executive for the Company, shall, as between the parties, remain the sole property of the Company. Upon termination of her employment with the Company, the Executive agrees to promptly return all such materials and shall not thereafter cause removal thereof from the premises of the Company. Further, the Executive agrees to disclose and assign, and does hereby assign, to the Company as its exclusive property, all ideas, writings, inventions, discoveries, improvements and technical or business innovations made or conceived by the Executive, whether or not patentable or copyrightable, either solely or jointly with others during the course of her employment with the Company, relating directly to the business, work or investigations of the Company or its subsidiaries (“ Company Inventions ”).

Notwithstanding the foregoing, the Executive understands that the provisions of this Agreement requiring assignment of Company Inventions to the Company do not apply to any invention that qualifies under the provisions of California Labor Code Section 2870 (as set forth in Exhibit A hereto). The Executive understands that Company will keep in confidence and will not disclose to third parties without the Executive’s consent any confidential information disclosed in writing to Company relating to inventions that qualify under the provisions of Section 2870 of the California Labor Code.

(c) Except as may be required by applicable law, without the Executive’s prior written consent, the Executive shall not be subject to any restrictions on her activities following termination of employment with the Company other than as expressly set forth in this Agreement or the LTIP.

10. Cooperation .

The Executive agrees that following the date of termination of employment, she shall reasonably cooperate with the Company, if so requested, with respect to the Company’s business affairs, as well as any internal or external investigation, claims or litigation (whether or not currently pending) involving the Company, including providing information and assistance and making herself reasonably available for both pre-trial discovery and trial proceedings. The Company shall promptly reimburse Executive for any out-of-pocket expenses incurred by Executive in connection with her cooperation with the Company pursuant to this Section 10, including, without

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limitation, any reasonable attorneys' fees and travel and lodging costs incurred by the Executive.

11. Nonassignability; Binding Agreement.

Neither this Agreement nor any right, duty, obligation or interest thereunder shall be assignable or delegable by the Executive without the Company's prior written consent; provided, however, that nothing in this Section shall preclude the Executive from designating any of her beneficiaries to receive any benefits payable hereunder upon her death or disability, or her executors, administrators, or other legal representatives, from assigning any rights hereunder to the person or persons entitled thereto. If the Executive should die while any payment, benefit or entitlement is due to her pursuant to this Agreement, such payment, benefit or entitlement shall be paid or provided to her designated beneficiary (or, if there is no designated beneficiary, her estate). This Agreement shall be binding upon, and inure to the benefit of, the parties hereto, any successors to or assigns of the Company and the Executive's heirs and the personal representatives of the Executive's estate. In addition, the Company shall assign to and require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

12. Amendment; Waiver. This Agreement may not be modified, amended or waived in any manner except by an instrument in writing signed by the parties hereto. No delay or failure by any party hereto in exercising, protecting or enforcing any of its rights, titles, interests or remedies hereunder, and no course of dealing or performance with respect thereto, shall constitute a waiver thereof. The express waiver by a party hereto of any right, title, interest or remedy in a particular instance or circumstance shall not constitute a waiver thereof in any other instance or circumstance.

13. Notices.

Any notice hereunder by either party to the other shall be given in writing by personal delivery, email or certified mail, return receipt requested, to the applicable address set forth below:

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|                       | American Apparel, Inc.<br>747 Warehouse Street<br>Los Angeles, California 90021<br>Attention: Scott Brubaker and/or Chief Executive Officer<br>Email: <a href="mailto:scott@AmericanApparel.net">scott@AmericanApparel.net</a> |
| (a) To the Company:   | Chelsea A. Grayson<br>747 Warehouse Street<br>Los Angeles, California 90021<br>Email: <a href="mailto:cgrayson@americanapparel.net">cgrayson@americanapparel.net</a>   |
| (b) To the Executive: |  |

(or such other address as may from time to time be designated by written notice by any party hereto for such purpose). Notice shall be deemed given, if by personal delivery, on the date of such delivery or, if by email, on the business day following receipt of confirmation or, if by certified mail, on the date shown on the applicable return receipt.

14. California Law.

This Agreement is to be governed by and interpreted in accordance with the laws of the State of California, without giving effect to the choice-of-law provisions thereof. If, under such law, any portion of this Agreement is at any time deemed to be in conflict with any applicable statute, rule, regulation or ordinance, such portion shall be deemed to be modified or altered to conform thereto or, if that is not possible, to be omitted from this Agreement, and the invalidity of any such portion shall not affect the force, effect and validity of the remaining portion hereof.

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15. Arbitration .

The Company and the Executive agree that any and all disputes based upon, relating to or arising out of this Agreement, the Executive's employment relationship with the Company or any of its subsidiaries or affiliates and/or the termination of that relationship, and/or any other dispute by and between the Executive and the Company or any of its subsidiaries or affiliates, including any and all claims that the Executive may at any time attempt to assert against the Company or any of its subsidiaries or affiliates, shall be submitted to binding arbitration in Los Angeles County, California, pursuant to the American Arbitration Association's ("AAA") Employment Arbitration Rules and Mediation Procedures, including the Optional Rules for Emergency Measures of Protection (the "Rules"), provided that the arbitrator shall allow for discovery sufficient to adequately arbitrate any asserted claims, including access to essential documents and witnesses, and otherwise in accordance with California Code of Civil Procedure § 1283.05, and provided further that the Rules shall be modified by the arbitrator to the extent necessary to be consistent with applicable law. The arbitrator shall be a retired judge of the California Superior Court, California Court of Appeal, or United States District Court, to be mutually agreed upon by the parties. If, however, the parties are unable to agree upon an arbitrator, then an arbitrator, who is a retired judge of the California Superior Court, California Court of Appeal, or United States District Court, shall be selected by AAA in accordance with the Rules. The Company and the Executive further agree that each party shall pay its own costs and attorneys' fees, if any; provided, however, that if either party prevails on a claim which affords the prevailing party an award of attorneys' fees, then the arbitrator may award reasonable attorneys' fees to the prevailing party, consistent with applicable law. In any event, the Company shall pay any expenses that the Executive would not otherwise have incurred if the dispute had been adjudicated in a court of law, rather than through arbitration, including the arbitrator's fee, any administrative fee and any filing fee in excess of the maximum court filing fee in the jurisdiction in which the arbitration is commenced. The Company and the Executive further agree that any hearing must be transcribed by a certified shorthand reporter, and that the arbitrator shall issue a written decision and award supported by essential findings of fact and conclusions of law in order to facilitate judicial review. Said award and decision shall be issued within thirty (30) calendar days of the completion of the arbitration. Judgment in a court of competent jurisdiction may be had on said decision and award of the arbitrator. For these purposes, the parties agree to submit to the jurisdiction of the state and federal courts located in Los Angeles County, California.

16. Injunctive Relief .

The Executive acknowledges and agrees that the services being rendered by the Executive to the Company under this Agreement are of a special, unique and extraordinary character that gives them peculiar value to the Affiliated Companies, the loss of which (in violation of this Agreement) would cause irreparable harm to the Affiliated Companies and affiliates, for which the Affiliated Companies would have no adequate remedy at law. The Executive further acknowledges and agrees that the trade secrets and confidential and related information referred to in this Agreement each are of substantial value to the Affiliated Companies and that a breach of any of the terms and conditions of this Agreement relating to those subjects would cause irreparable harm to the Affiliated Companies, for which the Affiliated Companies would have no adequate remedy at law. Therefore, in addition to any other remedies (in law or in equity) that may be available to the Company and/or any of its subsidiaries and affiliates under this Agreement or otherwise, the Affiliated Companies shall be entitled to obtain (pursuant to the Rules) temporary restraining orders, preliminary and permanent injunctions and/or other equitable relief (pursuant to the Rules) to specifically enforce the Executive's duties and obligations under this Agreement, or to enjoin any breach of this Agreement, without the need to post a bond or other security and without the need to demonstrate special damages.

17. Counterparts .

This Agreement may be executed by either of the parties hereto in counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

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18. Indemnification . With respect to any acts or omissions that may have occurred prior to termination of the Executive's employment, the Company will indemnify the Executive (and her legal representatives or other successors) to the fullest extent permitted (including payment of expenses in advance of final disposition of a proceeding) by the laws of the State of California, as in effect at the time of the subject act or omission, or by the Certificate of Incorporation and By-Laws of the Company, as in effect at such time, or by the terms of any indemnification agreement between the Company and the Executive, whichever affords greatest protection to the Executive, and the Executive shall be entitled to the protection of any insurance policies the Company maintained by the Company generally for the benefit of its directors and officers (the "D&O Policies") (and the Executive shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any Company officer or director), against all costs, charges and expenses whatsoever incurred or sustained by her or her legal representatives at the time such costs, charges and expenses are incurred or sustained (including any time following Executive's termination of employment), in connection with any action, suit or proceeding to which she (or her legal representatives or other successors) may be made a party by reason of her being or having been a director, officer or employee of the Company or any subsidiary thereof, or her serving or having served any other enterprises as a director, officer or employee at the request of the Company. During the Term and for a customary tail period, the Company shall maintain in full force and effect one or more D&O Policies covering the Executive with coverage amounts customary for a business of the nature and size as the Company.

19. Cumulative Remedies .

Each and all of the several rights and remedies provided in this Agreement, or by law or in equity, shall be cumulative, and no one of them shall be exclusive of any other right or remedy, and the exercise of any one of such rights or remedies shall not be deemed a waiver of, or an election to exercise, any other such right or remedy.

20. Headings: Construction .

The section and other headings contained in this Agreement are for reference purposes only and shall not in any way affect the meaning and interpretation of this Agreement. In construing this Agreement, no party hereto shall have any term or provision construed against such party solely by reason of such party having drafted or written such term or provision.

21. Survival .

Any provision of this Agreement which imposes an obligation after termination or expiration of this Agreement (including but not limited to the obligations set forth in Section 9 hereof) shall, unless otherwise specified, survive the termination or expiration of this Agreement and be binding on the Executive and the Company.

22. General 409A Compliance .

To the maximum extent applicable, it is intended that the Agreement comply with the provisions of Section 409A of the Code, as amended. This Agreement will be administered and interpreted in a manner consistent with this intent, and any provision that would cause this Agreement to fail to satisfy Section 409A of the Code will have no force and effect until amended to comply therewith (which amendment may be retroactive to the extent permitted by Section 409A of the Code). Notwithstanding anything contained herein to the contrary, to the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A, the Executive shall not be considered to have terminated employment with the Company for purposes of this Agreement and no payments shall be due to the Executive under this Agreement which are payable upon the Executive's termination of employment until the Executive would be considered to have incurred a "separation from service" from the Company within the meaning of Section 409A of the Code. To the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A of the Code, amounts that would otherwise be payable and

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benefits that would otherwise be provided pursuant to this Agreement during the six-month period immediately following the Executive's termination of employment shall instead be paid in a lump sum on the first business day after the date that is six months following the Executive's termination of employment (or upon the Executive's death, if earlier). In addition, for purposes of the Agreement, each amount to be paid or benefit to be provided to the Executive pursuant to this Agreement shall be construed as a separate identified payment for purposes of Section 409A of the Code. With respect to expenses eligible for reimbursement under the terms of the Agreement, (i) the amount of such expenses eligible for reimbursement in any taxable year shall not affect the expenses eligible for reimbursement in another taxable year and (ii) any reimbursements of such expenses shall be made no later than the end of the calendar year following the calendar year in which the related expenses were incurred, except, in each case, to the extent that the right to reimbursement does not provide for a "deferral of compensation" within the meaning of Section 409A of the Code.

23. Section 280G.

(a) Notwithstanding any other provision of this Agreement, in the event that the Executive becomes entitled to receive or receives any payments, options, awards or benefits (including, without limitation, the monetary value of any non-cash benefits and the accelerated vesting of equity-based awards) under this Agreement or under any other plan, agreement or arrangement with the Company, any person whose actions result in a change of control of the Company or any person affiliated with the Company or such person (collectively, the "Payments"), that may separately or in the aggregate constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), or any similar or successor provision ("Section 280G") and it is determined that, but for this Section 23(a), any of the Payments will be subject to any excise tax pursuant to Section 4999 of the Code or any similar or successor provision, the Company shall pay to the Executive an amount equal to the Payments, reduced by the minimum amount necessary to prevent any portion of the Payments from being an "excess parachute payment" (within the meaning of Section 280G).

(b) All computations and determinations called for by this Section 23 shall be made and reported in writing to the Company and the Executive by an independent accounting firm or independent tax counsel appointed by the Company (the "Tax Advisor"), and all such computations and determinations shall be conclusive and binding on the Company and the Executive. For purposes of such calculations and determinations, the Tax Advisor may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the Executive shall furnish to the Tax Advisor such information and documents as the Tax Advisor may reasonably request in order to make their required calculations and determinations. The Company shall bear all fees and expenses charged by the Tax Advisor in connection with its services.

(c) In the event that Section 23(a) applies and a reduction is required to be applied to the Payments thereunder, the Payments shall be reduced by the Company in its reasonable discretion in the following order: (i) reduction of any Payments that are exempt from Code Section 409A and (ii) reduction of any Payments that are subject to Code Section 409A on a pro-rata basis or such other manner that complies with Code Section 409A, as determined by the Company.

24. Preemption. In the event there is a conflict between any provision of this Agreement and any other agreement, plan, policy or program of the Company, the provisions of this Agreement shall control.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above, effective as of the Effective Date.

American Apparel, Inc.

By: /s/ Scott Brubaker  
Scott Brubaker, Interim Chief Executive Officer

/s/ Chelsea A. Grayson  
Chelsea A. Grayson

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Exhibit A

CALIFORNIA LABOR CODE SECTION 2870

EMPLOYMENT AGREEMENTS; ASSIGNMENT OF RIGHTS

“(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer’s equipment, supplies, facilities, or trade secret information except for those inventions that either: (1) Relate at the time of conception or reduction to practice of the invention to the employer’s business, or actual or demonstrably anticipated research or development of the employer; or (2) Result from any work performed by the employee for the employer. (b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under Subdivision (a), the provision is against the public policy of this state and is unenforceable.”

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (the “Agreement”), effective as of December 16, 2014, by and between American Apparel, Inc., a Delaware corporation (the “Company”), and Paula Schneider (herein referred to as the “Executive”).

WHEREAS, the Company and the Executive deem it to be in their respective best interests to enter into an agreement providing for the Company’s employment of the Executive pursuant to the terms herein stated;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto hereby agree as follows:

1. Employment; Position and Duties; Exclusive Services.

(a) Employment. The Company agrees to employ the Executive, and the Executive agrees to be employed by the Company, for the Term provided in Section 2 below and upon the other terms and conditions hereinafter provided.

(b) Position and Duties. During the Term, the Executive (i) agrees to serve as the Chief Executive Officer of the Company and to perform such reasonably related duties as may be assigned to her from time to time by the Board of Directors of the Company (the “Board”), (ii) shall report only to the Board and the Chairman of the Board, (iii) shall be given such authority as is appropriate given the Executive’s position in a company the nature and size of the Company to carry out the duties described above, and (iv) agrees to serve, if elected, at no additional compensation in the position of officer or director of any subsidiary or affiliate of the Company. In addition, to the extent that the Board determines that it is not otherwise inconsistent with its fiduciary obligations, the Company shall invite Executive to attend all meetings of the Board in a nonvoting observer capacity. Executive shall be bound by any confidentiality policies relating to the Board and shall execute a written acknowledgement agreeing to be so bound.

(c) Exclusive Services. During the Term, and except for illness or incapacity and service on non-profit boards approved by the Board in its discretion and that do not materially adversely affect or interfere with the performance of the Executive’s duties and obligations to the Company or any of its subsidiaries or affiliates, the Executive shall devote all of her business time, attention, skill and efforts exclusively to the business and affairs of the Company and its subsidiaries and affiliates, shall not be engaged in any other business activity, and shall perform and discharge the duties which may be assigned to her from time to time by the Board or the Chairman of the Board consistent with her position.

(d) Place of Employment. The Executive shall perform her duties out of the Company’s Los Angeles, California office (as same may be relocated in the same metropolitan area from time to time) or at such other location as shall be agreed to in writing by the Company and the Executive.

2. Term of Agreement.

The term of employment under this Agreement shall commence on January 5, 2015 (the “Effective Date”) until terminated in accordance with Section 7 hereof. As used in this Agreement, the “Term” shall mean the Effective Date until termination of this Agreement as provided in Section 7 hereof.

3. Salary and Bonuses.

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The Executive's cash compensation for all services to be rendered by her in any capacity hereunder shall consist of base salary and other compensation as provided in this Section.

(a) Salary. The Executive shall be paid a base salary at the rate of Six Hundred Thousand Dollars (\$600,000) per annum. The Salary shall be payable in accordance with the customary payroll practices for executives of the Company. The amount of the Executive's Salary will be reviewed not less often than annually by the Compensation Committee of the Board (the "Compensation Committee") and may be increased on the basis of such review. The Executive's annual base salary, as in effect from time to time, is hereinafter referred to as the "Salary."

(b) Performance Bonuses. The Executive will be eligible to receive an annual incentive compensation award in respect of each fiscal year of the Company during the Term, with the incentive based on a bonus matrix providing for a target payment with a range of 50% to 75% of Salary during each such fiscal year, subject to the terms and conditions of the Company's annual bonus plan, and further goals, criteria or targets to be determined by the Board or the Compensation Committee in its or their sole discretion in respect of each such fiscal year (each such bonus, an "Annual Bonus"). Any Annual Bonus earned shall be payable in a lump sum in cash. The Annual Bonus earned in respect of each fiscal year of the Company during the Term, if any, shall be paid to the Executive in the fiscal year immediately following the fiscal year for which the bonus is earned, but in all events no later than the earlier of (A) ten days after the filing of the Company's Form 10-K with the Securities Exchange Commission, and (B) 90 days after the end of the applicable fiscal year for which the bonus is earned.

(c) Ninety-Day Assessment and Plan. On or before April 5, 2015, the Executive shall provide the Board with an assessment of the Company and an operational plan for the balance of the fiscal year or such other period as the Executive and Board shall deem appropriate. Within thirty (30) calendar days of the delivery and presentation of such assessment and plan, the Company shall pay Executive a bonus of One Hundred Thousand Dollars (\$100,000).

4. Equity Awards.

The Compensation Committee of the Board is in the process of developing a long term incentive plan (the "LTIP") for senior management. If an LTIP becomes effective, the Executive shall be entitled to participate in the LTIP at a level commensurate with Executive's title and responsibilities and shall be considered for awards during the Term as part of the Board's regular compensation determination process with respect to its senior executives. Any equity awards pursuant to the LTIP will be at the sole discretion of the Board. Immediately upon (a) a change of control of the Company, as defined in the LTIP, or (b) a termination of Executive's employment (i) upon the Executive's death or Disability (as defined below), (ii) by the Company without Cause (as defined below), or (iii) by the Executive with Good Reason (as defined below), all outstanding stock-based awards (including without limitation, restricted stock, phantom stock, and performance stock), stock options, and similar equity-based awards, and all restricted cash awards, in each case made to the Executive under the LTIP, shall be payable and/or vest as provided in the LTIP and the award to Executive, as applicable. The Company represents that the LTIP referred to in this paragraph is intended to provide additional compensation, separate and apart from all other compensation referred to in the other provisions of this Agreement, in an amount to be determined by the Board.

5. Pension and Welfare Benefits.

During the Term, the Company shall provide Executive medical insurance coverage and benefits on terms consistent with those being offered to other of the Company's executives, including dental coverage for the Executive and her two (2) daughters. Executive shall also be entitled to participate in all pension and welfare plans, programs and benefits that are applicable to executives of the Company.

6. Other Benefits.

(a) Travel and Business-related Expenses. During the Term, the Executive shall be promptly reimbursed in accordance with the written policies of the Company for traveling and other expenses reasonably

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incurred in the performance of the business of the Company. During the Term, Executive shall be permitted to travel via business-class service for domestic and international flights over three (3) hours in duration.

(b) Vacation; Leaves of Absence. During the Term, the Executive shall be allowed time away with pay on the same basis as the Company generally provides to other executives of the Company, provided, that the Executive shall be provided with no less than twenty (20) paid vacation days, exclusive of and in addition to paid federal holidays.

7. Termination of Employment. Upon termination of the Executive's employment for any reason, the Executive agrees to resign, as of the date of such termination and to the extent applicable, from the Board (and any committees thereof) and the board of directors of any of the Company's affiliates and direct or indirect subsidiaries (and any committees thereof), if applicable, and agrees to resign as an officer of the Company and each of the Company's affiliates and direct or indirect subsidiaries.

(a) Termination for Cause; Resignation Without Good Reason.

(i) If the Executive's employment is terminated by the Company for Cause (as defined below in this Section) or if the Executive resigns from her employment without Good Reason other than for death or Disability (as defined below in Section 7(d)), prior to the expiration of the Term, the Executive shall be entitled to receive: (A) the Salary provided for in Section 3(a) as accrued through the date of such resignation or termination; and (B) any unreimbursed expenses, each within 30 days following termination. The Executive shall not accrue or otherwise be eligible to receive Salary payments or to participate in any plans, programs or benefits described in Section 5 hereof with respect to periods after the date of such termination or resignation and shall not be eligible to receive any annual performance bonus or long term performance bonus in respect of the year of such termination or resignation or any calendar year following the year in which such termination or resignation occurs. Any bonus earned in respect of a year prior to the year in which such termination or resignation occurs shall be payable at the same time and in the same manner as bonuses are paid to participants in the applicable bonus plan.

Subject to Section 18, the Executive shall have no right under this Agreement or otherwise to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such termination or resignation of employment (except to the extent provided for under the terms of any such plan, arrangement or benefit).

(ii) Termination for "Cause" shall mean termination by action of the Board because of: (A) the Executive's willful and continued failure (other than by reason of the incapacity of the Executive due to physical or mental illness) substantially to perform her duties hereunder; (B) the Executive's failure (other than by reason of the incapacity of the Executive due to physical or mental illness) to perform such reasonable duties as are assigned to her from time to time by the Board or the Chairman of the Board; (C) the conviction of the Executive or the Executive entering a plea of guilty or nolo contendere to a crime that constitutes a felony or the perpetration by the Executive of a serious dishonest act against the Company or any of its affiliates or subsidiaries; (D) any willful misconduct by the Executive in connection with the performance of her duties, including, without limitation, conduct that is materially injurious to the financial condition or business reputation of the Company or any of its affiliates or subsidiaries, misappropriation of funds or property of the Company, securing or attempting to secure personally any profit in connection with any transaction entered into on behalf of the Company, misrepresentation to the Company, or any violation of law or regulations on Company premises or to which the Company is subject; (E) commission by Executive of an act involving moral turpitude, dishonesty, theft, unethical business conduct, or conduct that materially impairs or injures the reputation of, or harms, the Company; (F) aiding a competitor to the Company in a manner that adversely affects the Company; (G) failure by Executive to devote her full time and best efforts to the Company's business and affairs; (H) misappropriation of a Company opportunity for the Executive's personal benefit; (I) a material breach of the Executive's obligations under this Agreement or under any Company written policy applicable to the Executive; or (J) chronic alcoholism or drug abuse which materially

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affects the Executive's performance hereunder, provided, however, that no event or circumstance shall be considered to constitute Cause within the meaning of this clause (ii) unless the Executive has been given written notice of the events or circumstances constituting Cause within 30 calendar days of the Company becoming aware of the initial occurrence of such event or circumstance and, for those events or circumstances capable of cure (but only for those capable of a cure), Executive has failed to effect a cure thereof within 30 calendar days following the receipt of such notice.

(iii) Resignation for "Good Reason" shall mean the resignation of the Executive because of (A) a material reduction in the Executive's responsibilities, duties, authority, status or titles as described in Section 1 above or any reduction in the Executive's Salary or Annual Bonus opportunity, or a material reduction in the benefits provided to the Executive; (B) failure by the Company to pay or provide the Executive when due any compensation, benefits or perquisites to which the Executive is entitled pursuant to this Agreement or any other plan, contract or arrangement in which the Executive participates or is entitled to participate; (C) a material change in the Executive's reporting structure; (D) failure of any successor (whether direct or indirect, by stock or asset purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume this Agreement (either by operation of law or in writing), (E) a relocation of the principal location at which the Executive is required to provide services to any office or location more than fifty (50) miles from the one described in Section 1(d) hereof; or (F) a material breach of the Company's obligations under this Agreement; provided, however, that no event or circumstance shall be considered to constitute Good Reason within the meaning of this clause (iii) unless the Company has been given written notice of the events or circumstances constituting Good Reason by the Executive within 30 calendar days of the initial occurrence of such event or circumstance and, for those events or circumstances capable of cure (but only for those capable of a cure), the Company has failed to effect a cure thereof within 30 calendar days following the receipt of such notice.

(iv) The date of termination of employment by the Company pursuant to this Section 7(a) shall be the date specified in a written notice of termination from the Company to the Executive, which, in the case of a proposed termination to which the 30-day cure period provided for in subsection (ii) above applies shall be no less than 31 calendar days after the delivery of such notice to the Executive. The date of a resignation by the Executive pursuant to this Section 7(a) shall be the date specified in the written notice of resignation from the Executive to the Company or, if no date is specified therein, ten (10) business days after receipt by the Company of the written notice of resignation from the Executive.

(b) Termination Without Cause, Resignation for Good Reason.

(i) If the Executive's employment is terminated by the Company without Cause or if the Executive should resign for Good Reason, prior to the expiration of the Term, she shall be entitled to receive: (A) the Salary provided for in Section 3(a) as accrued through the

date of such resignation or termination, payable within 30 days following termination and (subject to the Executive's execution and delivery of a general release of all claims against the Affiliated Companies and the expiration of any release revocation period, which release shall be consistent with the terms of this Agreement and in form reasonably acceptable to the Company (the "Release"), within sixty (60) calendar days following termination of employment), continued payment of the Executive's then-current Salary for a period of eighteen (18) months (the "Continuation Period"), payable in accordance with the Company's usual payment practices; provided that the first payment shall be made on the sixtieth (60th) calendar day following termination of employment and shall include payment of any amounts that would otherwise be due prior thereto; (B) at the time of, on the terms of, and otherwise consistent with payments to similarly-situated executives, (x) any Annual Bonus earned but not yet paid in respect of any calendar year preceding the year in which such termination or resignation occurs and (y) an Annual Bonus for the calendar year in which the Executive's termination of employment or resignation occurs equal to a pro rata portion of the Executive's target Annual Bonus, if any, for such year, determined on the basis of the number of days in such year through the date of the Executive's termination of employment or resignation, provided, however,

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that if the Executive's employment is terminated during the first three months of a fiscal year, no such bonus shall be payable with respect to that fiscal year; and (C) any unreimbursed expenses.

Except to the extent required pursuant to Section 22 hereof, during the Continuation Period, Salary payments to the Executive shall be payable in accordance with the customary payroll practices of the Company.

Subject to the Executive's execution and delivery of the Release and the expiration of any release revocation period within sixty (60) calendar days following termination of employment, the Executive (and those eligible dependents who were participants in the applicable plans as of the termination date) shall also be entitled to continued participation in the medical, dental and insurance plans and arrangements described in Section 5, on the same terms and conditions as are in effect immediately prior to such termination or resignation, until the earlier to occur of (i) the last day of the Continuation Period and (ii) such time as the Executive is entitled to comparable benefits provided by a subsequent employer. Anything herein to the contrary notwithstanding, the Company shall have no obligation to continue to maintain during the Continuation Period any plan or program solely as a result of the provisions of this Agreement. If, during the Continuation Period, the Executive is precluded from participating in a plan or program by its terms or applicable law or if the Company for any reason ceases to maintain such plan or program, the Company shall provide the Executive with compensation or benefits the aggregate value of which, in the reasonable judgment of the Company, is no less than the aggregate value of the compensation or benefits that the Executive would have received under such plan or program had she been eligible to participate therein or had such plan or program continued to be maintained by the Company.

(ii) Except as may be provided under the terms of any applicable grants to the Executive under the LTIP, Section 18, any plan or arrangement in which the Executive participates, or as may be otherwise required by applicable law (including, without limitation, the provisions of Section 4980B(f) of the Internal Revenue Code of 1986, as amended (the "Code")), the Executive shall have no right under this Agreement or any other agreement to receive any other compensation, or to participate in any other plan, arrangement or benefit, with respect to future periods after such termination or resignation of employment. In the event of a termination or resignation pursuant to this Section 7(b), the Executive shall have no duty of mitigation with respect to amounts payable to her pursuant to this Section 7(b) or other benefits to which she is entitled pursuant hereto, except as provided in the immediately preceding paragraph. Notwithstanding anything to the contrary in this Agreement, the right of the Executive to receive payments provided for in this Section 7(b) shall be subject to Section 8 of this Agreement.

(iii) The date of termination of employment by the Company pursuant to this Section 7(b) shall be the date specified in the written notice of termination from the Company to the Executive or, if no date is specified therein, ten business days after receipt by the Executive of the written notice of termination from the Company. The date of a resignation by the Executive pursuant to this Section 7(b) shall be the date specified in the written notice of resignation from the Executive to the Company which, in the case of a proposed resignation to which the 30-day cure period provided for in subsection 7(a)(iii) above applies shall be no less than 31 days after the delivery of such notice to the Company; and in the case of a proposed resignation to which the 30-day cure period does not apply and in which no date is specified therein, the date of resignation shall be ten (10) business days after receipt by the Company of the written notice of resignation from the Executive.

(c) Death. If the Executive's employment hereunder terminates by reason of death prior to expiration of the Term, the Executive's beneficiary (or if no such beneficiary is designated, her estate) shall be entitled to receive: (i) the Salary provided for in Section 3(a) as accrued through the date of the Executive's death; (ii) any Annual Bonus earned but not yet paid in respect of any calendar year preceding the year in which the Executive's death occurs; (iii) an Annual Bonus for the calendar year in which the Executive's death occurs equal to a pro rata portion of the Executive's target Annual Bonus, if any, for such year, determined on the basis of the number of days in such year through the date of the Executive's death; and (iv) any unreimbursed expenses. Annual Bonus payments provided for in this Section 7(c) shall be made at the same time and in the same manner as bonuses

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are paid to participants in the applicable bonus plan. As used in this Section, the term “ beneficiary ” includes both the singular and the plural of such term, as may be appropriate.

(d) Disability . If, the Executive is terminated from employment by the Company as a result of the Executive’s Disability (as defined below in this Section), the Executive, her conservator or guardian, as the case may be, shall be entitled to receive: (i) the Salary provided for in Section 3(a) as accrued through the date of the Executive’s termination of employment; (ii) any Annual Bonus earned but not yet paid in respect of any calendar year preceding the year in which the Executive’s termination of employment occurs; (iii) an Annual Bonus for the calendar year in which the Executive’s termination of employment occurs equal to a pro rata portion of the Executive’s target Annual Bonus, if any, for such year, determined on the basis of the number of days in such year through the date of the Executive’s termination of employment; and (iv) any unreimbursed expenses. Annual Bonus payments provided for in this Section 7(d) shall be made at the same time and in the same manner as bonuses are paid to participants in the applicable bonus plan. For purposes of this Agreement, “ Disability ” shall mean that the Executive is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to last for a continuous period of not less than twelve months. Any dispute as to whether or not the Executive has a Disability within the meaning of the preceding sentence shall be resolved by a physician reasonably satisfactory to the Executive and the Company, and the determination of such physician shall be final and binding upon both the Executive and the Company.

8. Tax Withholding .

Payments to the Executive of all compensation contemplated under this Agreement shall be subject to all applicable legal requirements with respect to the withholding of taxes.

9. Confidentiality and Proprietary Rights .

(a) Confidentiality . The Executive acknowledges that as a result of her employment with the Company, the Executive will obtain secret and confidential information concerning the business of the Company, and its subsidiaries and affiliates (all of such entities referred to collectively as the “ Affiliated Companies ”). Other than in the performance of her duties hereunder or if confidential information is required to be disclosed by law, court order or other legal process (provided that the Executive shall give prompt written notice to the Company of such requirement, disclose no more information than is so required, and cooperate with any attempts by the Company to obtain a protective order or similar treatment) or to the extent necessary to enable the Executive to enforce (or defend) her rights under this Agreement or any other agreement with the Company or any affiliate, the Executive agrees not to disclose, either during the Term of her employment with the Company or at any time thereafter, to any person, firm or corporation any confidential information concerning the Affiliated Companies which is not in the public domain or known within the relevant trade or industry (other than as a result of an unauthorized disclosure by the Executive) including trade secrets, budgets, strategies, operating plans, marketing plans, supplier lists, non-public company agreements, employee lists, or the customer lists or similar confidential information of the Affiliated Companies.

(b) Proprietary Rights . All records, files, memoranda, reports, price lists, customer lists, drawings, plans, sketches, documents and the like (together with all copies thereof) relating to the business of the Affiliated Companies, which the Executive shall use or prepare or come in contact with in the course of, or as a result of her employment, or as a result of work performed by the Executive for the Company, shall, as between the parties, remain the sole property of the Company. Upon termination of her employment with the Company, the Executive agrees to promptly return all such materials and shall not thereafter cause removal thereof from the premises of the Company. Further, the Executive agrees to disclose and assign, and does hereby assign, to the Company as its exclusive

property, all ideas, writings, inventions, discoveries, improvements and technical or business innovations made or conceived by the Executive, whether or not patentable or copyrightable, either solely or jointly with others during the course of her employment with the Company, relating directly to the business, work or investigations of the Affiliated Companies (“ Company Inventions ”).

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Notwithstanding the foregoing, the Executive understands that the provisions of this Agreement requiring assignment of Company Inventions to the Company do not apply to any invention that qualifies under the provisions of California Labor Code Section 2870 (as set forth in Exhibit A hereto). The Executive understands that Company will keep in confidence and will not disclose to third parties without the Executive's consent any confidential information disclosed in writing to Company relating to inventions that qualify under the provisions of Section 2870 of the California Labor Code.

(c) Except as may be required by applicable law, without the Executive's prior written consent, the Executive shall not be subject to any restrictions on her activities following termination of employment with the Company other than as expressly set forth in this Agreement or the LTIP.

10. Cooperation.

The Executive agrees that following the date of termination of employment, she shall reasonably cooperate with the Company, if so requested, with respect to the Company's business affairs, as well as any internal or external investigation, claims or litigation (whether or not currently pending) involving the Company, including providing information and assistance and making herself reasonably available for both pre-trial discovery and trial proceedings. The Company shall promptly reimburse Executive for any out-of-pocket expenses incurred by Executive in connection with her cooperation with the Company pursuant to this Section 10, including, without limitation, any reasonable attorneys' fees and travel and lodging costs incurred by the Executive.

11. Nonassignability; Binding Agreement.

Neither this Agreement nor any right, duty, obligation or interest thereunder shall be assignable or delegable by the Executive without the Company's prior written consent; provided, however, that nothing in this Section shall preclude the Executive from designating any of her beneficiaries to receive any benefits payable hereunder upon her death or disability, or her executors, administrators, or other legal representatives, from assigning any rights hereunder to the person or persons entitled thereto. If the Executive should die while any payment, benefit or entitlement is due to her pursuant to this Agreement, such payment, benefit or entitlement shall be paid or provided to her designated beneficiary (or, if there is no designated beneficiary, her estate). This Agreement shall be binding upon, and inure to the benefit of, the parties hereto, any successors to or assigns of the Company and the Executive's heirs and the personal representatives of the Executive's estate. In addition, the Company shall assign to and require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

12. Amendment; Waiver. This Agreement may not be modified, amended or waived in any manner except by an instrument in writing signed by the parties hereto. No delay or failure by any party hereto in exercising, protecting or enforcing any of its rights, titles, interests or remedies hereunder, and no course of dealing or performance with respect thereto, shall constitute a waiver thereof. The express waiver by a party hereto of any right, title, interest or remedy in a particular instance or circumstance shall not constitute a waiver thereof in any other instance or circumstance.

13. Notices.

Any notice hereunder by either party to the other shall be given in writing by personal delivery, email or certified mail, return receipt requested, to the applicable address set forth below:

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American Apparel, Inc.  
747 Warehouse Street  
Los Angeles, California 90021  
Attention: Chairman of the Board  
Email: bod@americanapparel.net

(a) To the Company:

Paula Schneider  
747 Warehouse Street  
Los Angeles, California 90021

(b) To the Executive:

Email: [pschneider@americanapparel.net](mailto:pschneider@americanapparel.net)

(or such other address as may from time to time be designated by written notice by any party hereto for such purpose). Notice shall be deemed given, if by personal delivery, on the date of such delivery or, if by email, on the business day following receipt of confirmation or, if by certified mail, on the date shown on the applicable return receipt.

14. California Law.

This Agreement is to be governed by and interpreted in accordance with the laws of the State of California, without giving effect to the choice-of-law provisions thereof. If, under such law, any portion of this Agreement is at any time deemed to be in conflict with any applicable statute, rule, regulation or ordinance, such portion shall be deemed to be modified or altered to conform thereto or, if that is not possible, to be omitted from this Agreement, and the invalidity of any such portion shall not affect the force, effect and validity of the remaining portion hereof.

15. Arbitration.

The Company and the Executive agree that any and all disputes based upon, relating to or arising out of this Agreement, the Executive's employment relationship with the Company or any of its subsidiaries or affiliates and/or the termination of that relationship, and/or any other dispute by and between the Executive and the Company or any of its subsidiaries or affiliates, including any and all claims that the Executive may at any time attempt to assert against the Company or any of its subsidiaries or affiliates, shall be submitted to binding arbitration in Los Angeles County, California, pursuant to the American Arbitration Association's ("AAA") Employment Arbitration Rules and Mediation Procedures, including the Optional Rules for Emergency Measures of Protection (the "Rules"), provided that the arbitrator shall allow for discovery sufficient to adequately arbitrate any asserted claims, including access to essential documents and witnesses, and otherwise in accordance with California Code of Civil Procedure § 1283.05, and provided further that the Rules shall be modified by the arbitrator to the extent necessary to be consistent with applicable law. The arbitrator shall be a retired judge of the California Superior Court, California Court of Appeal, or United States District Court, to be mutually agreed upon by the parties. If, however, the parties are unable to agree upon an arbitrator, then an arbitrator, who is a retired judge of the California Superior Court, California Court of Appeal, or United States District Court, shall be selected by AAA in accordance with the Rules. The Company and the Executive further agree that each party shall pay its own costs and attorneys' fees, if any; provided, however, that if either party prevails on a claim which affords the prevailing party an award of attorneys' fees, then the arbitrator may award reasonable attorneys' fees to the prevailing party, consistent with applicable law. In any event, the Company shall pay any expenses that the Executive would not otherwise have incurred if the dispute had been adjudicated in a court of law, rather than through arbitration, including the arbitrator's fee, any administrative fee and any filing fee in excess of the maximum court filing fee in the jurisdiction in which the arbitration is commenced. The Company and the Executive further agree that any hearing must be transcribed by a certified shorthand reporter, and that the arbitrator shall issue a written decision and award supported by essential findings of fact and conclusions of law in order to facilitate judicial review. Said award and decision shall be issued within thirty (30) calendar days of the completion of the arbitration. Judgment in a court of competent jurisdiction may be had on said decision and award of the arbitrator. For these purposes, the parties agree to submit to the jurisdiction of the state and federal courts located in Los Angeles County, California.

16. Injunctive Relief.

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The Executive acknowledges and agrees that the services being rendered by the Executive to the Company under this Agreement are of a special, unique and extraordinary character that gives them peculiar value to the Affiliated Companies, the loss of which (in violation of this Agreement) would cause irreparable harm to the Affiliated Companies and affiliates, for which the Affiliated Companies would have no adequate remedy at law. The Executive further acknowledges and agrees that the trade secrets and confidential and related information referred to in this Agreement each are of substantial value to the Affiliated Companies and that a breach of any of the terms and conditions of this Agreement relating to those subjects would cause irreparable harm to the Affiliated Companies, for which the Affiliated Companies would have no adequate remedy at law. Therefore, in addition to any other remedies (in law or in equity) that may be available to the Company and/or any of its subsidiaries and affiliates under this Agreement or otherwise, the Affiliated Companies shall be entitled to obtain (pursuant to the Rules) temporary restraining orders, preliminary and permanent injunctions and/or other equitable relief (pursuant to the Rules) to specifically enforce the Executive's duties and obligations under this Agreement, or to enjoin any breach of this Agreement, without the need to post a bond or other security and without the need to demonstrate special damages.

17. Counterparts .

This Agreement may be executed by either of the parties hereto in counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

18. Indemnification .

With respect to any acts or omissions that may have occurred prior to termination of the Executive's employment, the Company will indemnify and hold harmless the Executive (and her legal representatives or other successors) to the fullest extent permitted, against any and all claims, charges, and/or expenses (including attorney's fees), witness fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by the Executive in connection with any threatened, pending or completed action, lawsuit or proceeding, whether civil, criminal, administrative or investigative (including an action by or in the right of the Corporation) to which Executive is, was or at any time becomes a party, or is threatened to be made a party. The Company will indemnify Executive to the fullest extent permitted (including payment of expenses in advance of final disposition of a proceeding) by the laws of the State of California, as in effect at the time of the subject act or omission, or by the Certificate of Incorporation and By-Laws of the Company, as in effect at such time, or by the terms of any indemnification agreement between the Company and the Executive, whichever affords greatest protection to the Executive. The Executive shall be entitled to the protection of any insurance policies the Company maintained by the Company generally for the benefit of its directors and officers (the "D&O Policies") (and the Executive shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any Company officer or director), against all costs, charges and expenses whatsoever incurred or sustained by her or her legal representatives at the time such costs, charges and expenses are incurred or sustained (including any time following Executive's termination of employment), in connection with any action, suit or proceeding to which she (or her legal representatives or other successors) may be made a party by reason of her being or having been a director, officer or employee of the Company or any subsidiary thereof, or her serving or having served any other enterprises as a director, officer or employee at the request of the Company. During the Term and for a customary tail period, the Company shall maintain in full force and effect one or more D&O Policies covering the Executive with coverage amounts customary for a business of the nature and size as the Company.

19. Cumulative Remedies .

Each and all of the several rights and remedies provided in this Agreement, or by law or in equity, shall be cumulative, and no one of them shall be exclusive of any other right or remedy, and the exercise of any one of such rights or remedies shall not be deemed a waiver of, or an election to exercise, any other such right or remedy.

20. Headings; Construction .

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The section and other headings contained in this Agreement are for reference purposes only and shall not in any way affect the meaning and interpretation of this Agreement. In construing this Agreement, no party hereto shall have any term or provision construed against such party solely by reason of such party having drafted or written such term or provision.

21. Survival.

Any provision of this Agreement which imposes an obligation after termination or expiration of this Agreement (including but not limited to the obligations set forth in Section 9 hereof) shall, unless otherwise specified, survive the termination or expiration of this Agreement and be binding on the Executive and the Company.

22. General 409A Compliance.

To the maximum extent applicable, it is intended that the Agreement comply with the provisions of Section 409A of the Code, as amended. This Agreement will be administered and interpreted in a manner consistent with this intent, and any provision that would cause this Agreement to fail to satisfy Section 409A of the Code will have no force and effect until amended to comply therewith (which amendment may be retroactive to the extent permitted by Section 409A of the Code). Notwithstanding anything contained herein to the contrary, to the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A, the Executive shall not be considered to have terminated employment with the Company for purposes of this Agreement and no payments shall be due to the Executive under this Agreement which are payable upon the Executive's termination of employment until the Executive would be considered to have incurred a "separation from service" from the Company within the meaning of Section 409A of the Code. To the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A of the Code, amounts that would otherwise be payable and benefits that would otherwise be provided pursuant to this Agreement during the six-month period immediately following the Executive's termination of employment shall instead be paid in a lump sum on the first business day after the date that is six months following the Executive's termination of employment (or upon the Executive's death, if earlier). In addition, for purposes of the Agreement, each amount to be paid or benefit to be provided to the Executive pursuant to this Agreement shall be construed as a separate identified payment for purposes of Section 409A of the Code. With respect to expenses eligible for reimbursement under the terms of the Agreement, (i) the amount of such expenses eligible for reimbursement in any taxable year shall not affect the expenses eligible for reimbursement in another taxable year and (ii) any reimbursements of such expenses shall be made no later than the end of the calendar year following the calendar year in which the related expenses were incurred, except, in each case, to the extent that the right to reimbursement does not provide for a "deferral of compensation" within the meaning of Section 409A of the Code.

23. Section 280G.

(a) Notwithstanding any other provision of this Agreement, in the event that the Executive becomes entitled to receive or receives any payments, options, awards or benefits (including, without limitation, the monetary value of any non-cash benefits and the accelerated vesting of equity-based awards) under this Agreement or under any other plan, agreement or arrangement with the Company, any person whose actions result in a change of control of the Company or any person affiliated with the Company or such person (collectively, the "Payments"), that may separately or in the aggregate constitute "parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), or any similar or successor provision ("Section 280G") and it is determined that, but for this Section 23(a), any of the Payments will be subject to any excise tax pursuant to Section 4999 of the Code or any similar or successor provision, the Company shall pay to the Executive an amount equal to the Payments, reduced by the minimum amount necessary to prevent any portion of the Payments from being an "excess parachute payment" (within the meaning of Section 280G).

(b) All computations and determinations called for by this Section 23 shall be made and reported in writing to the Company and the Executive by an independent accounting firm or independent tax counsel appointed by the Company (the "Tax Advisor"), and all such computations and determinations shall be conclusive and binding on the Company and the Executive. For purposes of such calculations and determinations,

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the Tax Advisor may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the Executive shall furnish to the Tax Advisor such information and documents as the Tax Advisor may reasonably request in order to make their required calculations and determinations. The Company shall bear all fees and expenses charged by the Tax Advisor in connection with its services.

(c) In the event that Section 23(a) applies and a reduction is required to be applied to the Payments thereunder, the Payments shall be reduced by the Company in its reasonable discretion in the following order: (i) reduction of any Payments that are exempt from Code Section 409A and (ii) reduction of any Payments that are subject to Code Section 409A on a pro-rata basis or such other manner that complies with Code Section 409A, as determined by the Company.

24. Preemption. In the event there is a conflict between any provision of this Agreement and any other agreement, plan, policy or program of the Company, the provisions of this Agreement shall control.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above, effective as of the Effective Date.

American Apparel, Inc.

By: /s/ Allan Mayer  
Co-Chairman, Board of Directors

December 15, 2014

/s/ Paula Schneider  
Paula Schneider

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Exhibit A

CALIFORNIA LABOR CODE SECTION 2870

EMPLOYMENT AGREEMENTS; ASSIGNMENT OF RIGHTS

“(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer’s equipment, supplies, facilities, or trade secret information except for those inventions that either: (1) Relate at the time of conception or reduction to practice of the invention to the employer’s business, or actual or demonstrably anticipated research or development of the employer; or (2) Result from any work performed by the employee for the employer. (b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under Subdivision (a), the provision is against the public policy of this state and is unenforceable.”

**AMENDMENT NO. 6 TO CREDIT AGREEMENT AND WAIVER**

THIS **AMENDMENT NO. 6 TO CREDIT AGREEMENT AND WAIVER** dated as of March 25, 2015 (this “Amendment”), is among **AMERICAN APPAREL (USA), LLC**, a California limited liability company (“AA USA”), **AMERICAN APPAREL RETAIL, INC.**, a California corporation (“AA Retail”), **AMERICAN APPAREL DYEING & FINISHING, INC.**, a California corporation (“AA Dyeing & Finishing”), **KCL KNITTING, LLC**, a California limited liability company (“KCL” and, together with AA USA, AA Retail and AA Dyeing & Finishing, collectively, the “Borrowers” and each, individually, a “Borrower”), **AMERICAN APPAREL, INC.**, a Delaware corporation (“Holdings”), **FRESH AIR FREIGHT, INC.**, a California corporation (“Fresh Air” and, together with Holdings, collectively, the “Guarantors” and each, individually, a “Guarantor”), **CAPITAL ONE BUSINESS CREDIT CORP.** (f/k/a Capital One Leverage Finance Corp.), as administrative agent (in such capacity, the “Administrative Agent”), and each of the Lenders party hereto.

**RECITALS:**

A. The Borrowers, the other borrowers from time to time party thereto, the Guarantors, the other guarantors from time to time party thereto, the lenders from time to time party thereto (collectively, “Lenders”) and the Administrative Agent have entered into that certain Credit Agreement dated as of April 4, 2013 (as amended by that certain Amendment No. 1 to Credit Agreement dated as of May 22, 2013, that certain Amendment No. 2 to Credit Agreement dated as of July 5, 2013, that certain Amendment No. 3 to Credit Agreement and Limited Waiver dated as of November 14, 2013, that certain Amendment No. 4 to Credit Agreement and Limited Consent dated as of November 29, 2013, and that certain Amendment No. 5 to Credit Agreement and Limited Consent dated as of March 25, 2014 the “Credit Agreement”). Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in the Credit Agreement.

B. The Guarantors have entered into that certain Guaranty dated as of April 4, 2013, in favor of the Administrative Agent.

C. The Borrowers have requested that the Administrative Agent and Lenders amend certain provisions of the Credit Agreement as set forth below.

D. Subject to the terms and conditions set forth below, the Administrative Agent and Lenders party hereto are willing to so amend the Credit Agreement.

In furtherance of the foregoing, the parties agree as follows:

**Section 1. AMENDMENTS.** Subject to the covenants, terms and conditions set forth herein and in reliance upon the representations and warranties set forth herein, the Credit Agreement is amended as follows:

(a) The following definitions are added to Section 1.01 of the Credit Agreement in the appropriate alphabetical order:

“ “Permitted Unsecured Debt” means the obligations of certain Foreign Subsidiaries incurred pursuant to the Indebtedness permitted under Section 7.02(q).”

“ “Permitted Unsecured Debt Documents” means any credit agreement, note and any other related material documents or instruments evidencing or from time to time executed in connection with the Permitted Unsecured Debt.

“ “Purchase Rights” means purchase rights described in the Form 8-K report of Holdings, filed with the Securities and Exchange Commission on June 30, 2014, relating to a dividend distribution of rights to purchase preferred stock.”

“ “Sixth Amendment Effective Date” means March 25, 2015.

(b) Clause (h) of the definition of “Adjusted Earnings” in Section 1.01 of the Credit Agreement is hereby deleted in its entirety and is replaced with the following in lieu thereof:

“(h) extraordinary, unusual or non-recurring losses, charges or expenses, including restructuring charges and severance costs, not to exceed \$31,000,000 in the Reference Period ending December 31, 2014, \$10,000,000 in any subsequent Reference Period or other applicable covenant measurement period (calculated without regard to such losses, charges or expenses incurred in the Reference Period ending December 31, 2014), unless approved by the Administrative Agent; provided that with respect to any such extraordinary, unusual or non-recurring losses, charges or expenses occurring on or after January 1, 2015, only non-cash extraordinary, unusual or non-recurring losses, charges or expenses shall be added back to EBITDA for purposes of any determination of the Fixed Charge Coverage Ratio.”

(c) The definition of “Change of Control” in Section 1.01 of the Credit Agreement is hereby deleted in its entirety and is replaced with the following in lieu thereof:

“Change of Control” means an event or series of events by which:

(a) except with respect to Permitted Holders, any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding any employee benefit plan of such person or its subsidiaries, and any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, except that (i) a person or group shall be deemed to have “beneficial ownership” of all securities that such person or group has the right to acquire, whether such right is exercisable immediately or only after the passage of time (such right, an “option right”), and (ii) Persons party to a stockholders agreement, investment agreement, voting agreement or similar agreement with a Permitted Holder pursuant to which such Persons have the right to designate directors and agree to vote for one another’s designees shall not be deemed to constitute a “group” and/or “person” under Section 13 of the Exchange Act or any of the rules and regulations promulgated thereunder solely because they are parties to, or as a result of their exercise of such designation and voting rights under, such agreement so long as such Person without inclusion of the equity securities held by Permitted Holders, directly or indirectly, owns less than 35% or more of the equity securities of Holdings entitled to vote for members of the board of directors or equivalent governing body on a fully diluted basis), directly or indirectly, of 35% or more of the equity securities of Holdings entitled to vote for members of the board of directors or equivalent governing body of Holdings on a fully-diluted basis (and taking into account all such securities that such person or group has the right to acquire pursuant to any option right); provided that notwithstanding the foregoing, no Change of Control shall be deemed to occur as a result of or in connection with (x) the equity securities of Holdings owned by Standard General L.P. and its Affiliates, or (y) any voting agreements between any Permitted Holders and any of Standard General L.P. or any of its Affiliates, in each case of clause (x) or (y), so long as Standard General L.P. and its Affiliates do not beneficially own in excess of 49% of the equity securities of Holdings entitled to vote for members of the board of directors; or

(b) Other than pursuant to a transaction permitted by Section 7.05, Holdings shall cease to directly own and control legally and beneficially (i) 100% of the Capital Stock of AA USA (free and clear of all Liens other than Liens in favor of the Administrative Agent granted under the Security Documents and Senior Notes Liens accordance with the terms of the Senior Notes Intercreditor Agreement), (ii) 100% of the Capital Stock of each of the AA Canadian Subsidiaries (free and clear of all Liens other than (x) Liens granted to the lenders under the Canadian Documents in accordance with the terms of the Canadian Intercreditor Agreement, (y) Liens in favor of the Administrative Agent granted under the Security Documents and (z) the Senior Notes Liens in accordance with the terms of the Senior Notes Intercreditor Agreement and the Canadian Intercreditor Agreement) and (iii) 100% of the Capital Stock of any of its Subsidiaries acquired or formed after the date hereof and directly held by Holdings (other than directors’ qualifying shares and other similar equity interest holdings of Foreign Subsidiaries required to be held by local Persons in accordance with applicable law), in the case of clause (b)(iii), free and clear of all Liens other than Liens in favor of the Administrative Agent granted under the Security Documents and the Senior Notes Liens in accordance with the terms of the Senior Notes Intercreditor Agreement); or

(c) Other than pursuant to a transaction permitted by Section 7.05, any Borrower or any Subsidiary of any Borrower shall cease to directly own and control legally and beneficially 100% of the Capital Stock of each of its Subsidiaries in existence on the date hereof or acquired or formed after the date hereof to the extent directly held by such Borrower or such Subsidiary (other than directors’ qualifying shares and other similar equity interest holdings of Foreign Subsidiaries required to be held by local Persons in accordance with applicable law), free and clear of all Liens other than Liens in favor of the Administrative Agent granted under the Security Documents and Senior Notes Liens in accordance with the terms of the Senior Notes Intercreditor Agreement); or

(d) a change of control occurs under the Senior Notes Indenture, the Lion Debt Documents or the Permitted Unsecured Debt Documents.

For purposes of this definition, notwithstanding anything to the contrary set forth above, a Person shall not be deemed to have beneficial ownership of Capital Stock subject to a stock purchase agreement, merger agreement or similar agreement until

the consummation of the transactions contemplated by such agreement and, until the consummation of such transactions, a Change of Control will be deemed not to have occurred with respect to any such stock purchase agreement, merger agreement or similar agreement.”

(d) The definition of "Fixed Charge Coverage Ratio is hereby amended by inserting the following in clause (a)(i) of such definition, immediately after the words "Reference Period":

"(or other applicable period being measured)".

(e) The definition of "Line Reserve" in Section 1.01 of the Credit Agreement is hereby deleted in its entirety and is replaced with the following in lieu thereof:

““ Line Reserve ” means an amount initially equal to \$2,500,000, which shall be increased to \$5,000,000 on July 1, 2015.”

(f) Section 5.01 (a) of the Credit Agreement is hereby amended by deleting "Each" in the first sentence of such Section and replacing it with "Except as previously disclosed to the Administrative Agent with respect to clause (c) hereof (such disclosure including the draft 10-K for the period ended December 31, 2014, provided to the Administrative Agent on or prior to the Sixth Amendment Effective Date), each”.

(g) Section 5.04 of the Credit Agreement is deleted in its entirety and the following is inserted in lieu thereof:

“Since September 30, 2014, there has occurred no Material Adverse Effect.”

(h) Schedule 5.07 of the Credit Agreement is deleted in its entirety and replaced by Schedule 5.07 attached hereto.

(i) Section 5.18 of the Credit Agreement is deleted in its entirety and the following is inserted in lieu thereof:

“Based upon the actual knowledge of the Chief Executive Officer and Chief Financial Officer of Holdings, and except as specifically disclosed in Schedule 5.18, existing Environmental Laws and claims, as they relate to the Credit Parties and their Subsidiaries, could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.”

(j) Section 5.20 of the Credit Agreement is hereby amended by deleting “There” in the second sentence and replacing it with “Except as otherwise disclosed to the Administrative Agent (such disclosure including the draft 10-K for the period ended December 31, 2014, provided to the Administrative Agent on or prior to the Sixth Amendment Effective Date; provided that such draft 10-K is not materially different from the 10-K filed with the SEC for such period, with respect to the matters referenced in this Section 5.20), there”.

(k) Section 5.21 of the Credit Agreement is hereby amended by deleting “)” in the first sentence and replacing it with “, and the draft 10-K for the period ended December 31, 2014, provided to the Administrative Agent on or prior to the Sixth Amendment Effective Date; provided that such draft 10-K is not materially different from the 10-K filed with the SEC for such period with respect to the matters referenced in this Section 5.21)”.

(l) Section 5.23 of the Credit Agreement is hereby amended by deleting “No Credit Party, nor” in the first sentence and replacing it with “No Credit Party, nor, to the knowledge of any Credit Party,”.

(m) The last sentence in Section 5.24 of the Credit Agreement is deleted in its entirety and the following sentence is inserted in lieu thereof:

“No Credit Party is in violation of any provision of any Lion Debt Document or Permitted Unsecured Debt Document, and the Loans and the Loan Documents and the transactions contemplated hereby and thereby do not violate and/or conflict with any provision of the Lion Debt Documents or Permitted Unsecured Debt Documents.”

(n) Section 6.04(i) of the Credit Agreement is deleted in its entirety and the following is inserted in lieu thereof:

“(i) promptly after delivery or receipt thereof, copies of all notices, reports and other communications delivered or received by any Credit Party in connection with the Senior Notes Documents, the Permitted Unsecured Debt Documents, the Lion Debt Documents or the Subordinated Debt Documents and not later than five (5) Business Days following the effectiveness thereof, copies of any new Senior Notes Documents, Permitted Unsecured Debt Documents or Lion Debt Documents or any



amendment, supplement, waiver, or other modification, replacement or renewal with respect to any Senior Notes Document, Permitted Unsecured Debt Documents or Lion Debt Document.”

(o) Section 7.01 of the Credit Agreement is hereby amended by (i) deleting “and” at the end of clause (p) thereof, (ii) deleting the “.” at the end of clause (q) thereof and replacing it with “;”, and (iii) inserting the following clauses (r) and (s) thereafter: “(r) Investments consisting of any Credit Party or any Subsidiary thereof guaranteeing the Permitted Unsecured Debt; and (s) Investments in any Foreign Subsidiary to be used by such Foreign Subsidiaries solely (and substantially contemporaneously) to make payments on or in respect of Permitted Unsecured Debt to the extent such payments are permitted under Section 7.04(b)(vi) and the Borrowers have delivered to the Administrative Agent the certificate required thereunder (to the extent applicable).”

(p) Section 7.02 of the Credit Agreement is hereby amended by (i) deleting “and” at the end of clause (o) thereof, (ii) deleting the “.” at the end of clause (p) thereof and replacing it with “; and”, and (iii) inserting the following clause (q) thereafter:

“(q) unsecured Debt of one or more Foreign Subsidiaries in an aggregate principal amount not to exceed \$15,000,000 plus the amount of any increase in principal for the purpose of paying interest in kind or as a result of accretion thereof; provided that (i) the maturity date of such Indebtedness shall be at least one hundred and eighty (180) days following the Maturity Date; (ii) such Indebtedness is not secured and permits prepayments without penalty, (iii) the terms, covenants and defaults applicable to such Indebtedness shall be no more restrictive in all material respects, taken as a whole, than the covenants and defaults applicable to the Credit Parties and their Subsidiaries under the Senior Notes Indenture (it being agreed that such Indebtedness contains representations and warranties and cross events of defaults to the Senior Notes Indenture and the Lion Debt Documents, and such terms do not violate this clause (iii)) ; and (iv) not less than 3 Business Days (or such shorter period as agreed by the Administrative Agent in its discretion) prior to such incurrence, the Borrower Representative has delivered copies of the Permitted Unsecured Debt Documents to be executed or delivered in connection therewith (with delivery of true copies of the executed and delivered Permitted Unsecured Debt Documents to be delivered to the Administrative Agent promptly after the execution thereof).”

(q) Section 7.04(a) of the Credit Agreement is deleted in its entirety and the following is inserted in lieu thereof:

“ **Restricted Payments** . No Credit Party nor any Subsidiary shall make any Restricted Payment, except (a) Restricted Payments to a Credit Party; (b) Restricted Payments solely in shares of common stock or preferred stock (other than Disqualified Capital Stock) or warrants or rights to purchase common stock or preferred stock (other than Disqualified Capital Stock) so long as no Change of Control would result therefrom, (c) Restricted Payments in the form of splits of Capital Stock or reclassifications of Capital Stock into additional shares of common stock, (d) Restricted Payments by a Subsidiary of a Credit Party that is not a Credit Party made ratably to the holders of its Capital Stock, (e) repurchases of Capital Stock in any Credit Party or any Subsidiary deemed to occur upon “cashless” exercise of stock options or warrants, and (f) to the extent constituting Restricted Payments, the issuance of the Purchase Rights and the payment of an amount not to exceed \$200,000 in redemption of the Purchase Rights.”

(r) Section 7.04(b) of the Credit Agreement is hereby amended by inserting “, the Permitted Unsecured Debt” immediately after “the Subordinated Debt Documents” in the introductory provision thereof, which precedes clause (i) thereof.

(s) Section 7.04(b) of the Credit Agreement is further hereby amended by (i) deleting “and” at the end of clause (iii) thereof, (ii) deleting the “.” at the end of clause (iv) thereof and replacing it with “; and”, and (iii) inserting the following clauses (v) and (vi) thereafter:

“(v) With respect to the Indebtedness consisting of Permitted Unsecured Debt, payments thereunder only to the extent made by the Foreign Subsidiaries party to such Indebtedness and so long as no Loan proceeds or Collateral are used, directly or indirectly to make such payments; and

(vi) With respect to Indebtedness consisting of the Permitted Unsecured Debt or Lion Debt, (A) regularly scheduled payments of interest and fees when due; provided that if any Default or Event of Default exists at the time of such payment or would arise therefrom, such payments of interest shall be paid in kind to the extent permitted under the terms of such Permitted Unsecured Debt, Lion Debt and the Senior Notes Indenture; (B) payment of principal and interest on the scheduled maturity date thereof; (C) prepayments, redemptions, repurchases, defeasances or acquisition or retirement of the Permitted Unsecured Debt or Lion Debt if (x) the Fixed Charge Coverage Ratio for the Reference Period most recently ended prior to such prepayment (and for which the financial statements required by Section 6.04(b) have been delivered to the Administrative Agent) is at least 1.10 to 1.00 (which such calculation, for the avoidance of doubt, shall exclude such prepayment), (y) Overall Excess Availability is at least \$5,000,000 on the date of such prepayment (after giving effect to such prepayment and any other Credit extensions made on such date) and average daily Overall Excess Availability is projected by Holdings to be at least \$5,000,000

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for each day during the 30-day period after such prepayment, and (z) no Default or Event of Default exists before or immediately after giving effect to such prepayment and not less than 10 Business Days (or such shorter period as agreed by the Administrative Agent in its discretion) prior to such prepayment, the Borrower Representative has delivered a certificate to the Administrative Agent demonstrating compliance with this clause (C); (D) Permitted Refinancings of Permitted Unsecured Debt or Lion Debt and (E) amounts required to be paid in connection with a change of control offer to the extent required to be made under the Permitted Unsecured Debt or Lion Debt, provided that the Borrower Agent has given the Administrative Agent five (5) Business Days prior written notice of any such payment.”

(t) Section 7.08 of the Credit Agreement is hereby amended by (i) deleting “and” at the end of clause (vi) thereof and replacing it with “,” and (ii) inserting the following immediately preceding the period at the end of such Section: “, and the transactions referenced in and contemplated by that certain Nomination, Standstill and Support Agreement, dated as of July 9, 2014, provided that any Debt incurred thereunder is Permitted Unsecured Debt and Lion Debt.”

(u) Section 7.10 of the Credit Agreement is hereby deleted and replaced in its entirety with the following:

“ **Change in Terms of Governing Documents; Material Agreements** . No Credit Party nor any Subsidiary shall change or amend, modify, supplement or waive the terms of any (a) of its Governing Documents, except amendments, modifications, supplements or waivers that do not adversely affect the rights or interests of the Administrative Agent or the Lenders, (b) Senior Notes Documents, the Lion Debt Documents, or the Permitted Unsecured Debt without the prior written consent of the Administrative Agent, to the extent such amendment, modification, supplement or waiver shall (i) increase the aggregate principal amount of the Senior Notes, the Lion Debt or the Permitted Unsecured Debt or interest, premiums or fees owing thereon, except to the extent permitted under Section 7.02(c), 7.02(p) or 7.02(q), as applicable, (ii) shorten the weighted average life, (iii) change the amortization (other than to extend the same), (iv) amend the maturity date (other than to extend the same), (v) increase the overall interest rate, or (vi) otherwise amend the representations, covenants and defaults under the Senior Notes Documents, the Lion Debt Documents or the Permitted Unsecured Debt in a manner that would result in such covenants and defaults being materially less favorable to the Credit Parties, taken as a whole, or materially more adverse to the interests of the Lenders; or (c) any Subordinated Debt Document, except to the extent permitted by the Subordination Agreement applicable thereto.”

(v) Section 7.13 of the Credit Agreement is hereby deleted and replaced in its entirety with the following:

“ **7.13 Fixed Charge Coverage Ratio.** The Credit Parties shall not permit the Fixed Charge Coverage Ratio, determined as of the end of each period set forth below to be less than the amount set forth below opposite such period:

Period	Minimum Fixed Charge Coverage Ratio
April 1, 2015 through June 30, 2015	0.33 to 1.00
July 1, 2015 through September 30, 2015	1.27 to 1.00
October 1, 2015 through December 31, 2015	1.17 to 1.00
April 1, 2015 through March 31, 2016	.75 to 1.00
July 1, 2015 through June 30, 2016	.91 to 1.00
October 1, 2015 through September 30, 2016 and each Reference Period ended thereafter	1.15 to 1.00

(w) Section 7.15 of the Credit Agreement is hereby deleted and replaced in its entirety with the following:

“ **7.15 Maximum Leverage Ratio.** The Credit Parties shall not permit the Leverage Ratio, determined as of the end of each Fiscal Quarter set forth below to be greater than the amount set forth below opposite such period:

Reference Period	Maximum Leverage Ratio
December 31, 2015	7.02 to 1.00
March 31, 2016 and each Fiscal Quarter end thereafter	6.00 to 1.00

(x) Section 7.19 of the Credit Agreement is hereby deleted and replaced in its entirety with the following:

“**7.19 Adjusted Earnings.** The Credit Parties shall not permit the Adjusted Earnings for each period set forth below to be less than the amount set forth below opposite such period:

<b>Period</b>	<b>Minimum Adjusted Earnings</b>
April 1, 2015 through June 30, 2015	\$ 7,350,000
April 1, 2015 through September 30, 2015	\$ 25,071,000
April 1, 2015 through December 31, 2015	\$ 41,581,000
April 1, 2015 through March 31, 2016 and each Reference Period ended thereafter	\$ 43,000,000

(y) The existing Section 8.01(s) of the Credit Agreement is deleted in its entirety and the following is inserted in lieu thereof: “[Reserved]”.

(z) The existing Section 9.06(a) of the Credit Agreement is amended by deleting the second sentence thereof in its entirety and inserting the following in lieu thereof:

“Upon receipt of any such notice of resignation, the Required Lenders shall have the right, in consultation with the Borrowers, to appoint a successor from among the Lenders (or an Affiliate of a Lender) or a financial institution or other entity that provides agency or trustee services, in each case, having an office in the United States.”

(aa) The existing Section 10.06(b) of the Credit Agreement is amended by inserting the following at the end thereof:

“Notwithstanding the foregoing, with the consent of the Administrative Agent, but without the consent of any Borrower, any Lender may assign to Standard General, L.P. and/or its Affiliates all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans (including for purposes of this subsection (b), participations in L/C Obligations and in Swing Line Loans) at the time owing to it.”

The amendments to the Credit Agreement are limited to the extent specifically set forth above and no other terms, covenants or provisions of the Credit Agreement are intended to be affected hereby.

**Section 2. WAIVER.** (a) Subject to the covenants, terms and conditions set forth herein and in reliance upon the representations and warranties set forth herein, the Administrative Agent and the Lenders party hereto hereby waive any Default or Event of Default arising from (i) any actions taken prior to the Sixth Amendment Effective Date that would be permitted under Section 7.04(a)(f) if taken after the Sixth Amendment Effective Date and (ii) any failure of the Credit Parties to comply with the financial covenants set forth in Sections 7.13, 7.15 and 7.19 of the Credit Agreement, in each case, solely for the Reference Period ended December 31, 2014. For the avoidance of doubt, the covenants set forth in Sections 7.13, 7.15 and 7.19 of the Credit Agreement shall not be applicable for the period ending March 31, 2015.

(b) Notwithstanding anything to the contrary contained in any Loan Document, the proceeds of Permitted Unsecured Debt which are loaned or otherwise transferred to Holdings or any other Credit Party shall not be required to be deposited into any Local Account, Concentration Account or Main Concentration Account or otherwise held in any particular account, to the extent to be utilized to make interest payments with respect to the Senior Notes, and the provisions of the Loan Documents are waived to the extent necessary to permit such proceeds to be held by Holdings or any other Credit Party, provided that substantially all such proceeds are utilized to make payment of interest due on the Senior Notes on or before April 15, 2015 and such amounts not so applied are deposited as required by the Loan Documents without giving effect to this clause (b).

The waivers set forth in this Section 2 are limited to the extent and time period specifically set forth above and no other terms, covenants or provisions of the Credit Agreement (nor compliance for any other applicable time period) are intended to be waived or affected hereby.

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**Section 3. CONDITIONS PRECEDENT.** The parties hereto agree that this Amendment and the amendments set forth in Section 1 above and the waivers set forth in Section 2 above shall not be effective until the satisfaction of each of the following conditions precedent (the date on which such conditions precedent are satisfied or waived, the “Amendment 6 Effective Date”):

(a) **Documentation** . The Administrative Agent shall have received (i) a counterpart of this Amendment, duly executed and delivered by each Borrower, each Guarantor and each Lender, (ii) true copies of amendments and waivers of the Lion Debt Documents, in form and substance reasonably satisfactory to Administrative Agent and (iii) such other documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of each Credit Party, the authorization of this Amendment and any other legal matters relating to the Credit Parties or the transactions contemplated hereby.

(b) **Amendment Fee** . The Borrowers shall pay to the Administrative Agent, for the pro rata benefit of the Lenders a fee of \$250,000 upon execution of this Amendment (which fee may be charged to the Borrowers’ Loan Account).

(c) **Fees and Expenses**. All fees and expenses of counsel to the Administrative Agent estimated to date shall have been paid in full (without prejudice to final settling of accounts for such fees and expenses), in each case to the extent invoiced.

(d) **Proceeds of Intercompany Loan/Permitted Unsecured Debt** . American Apparel (Carnaby) Limited, a private company with limited liability incorporated under the laws of England and Wales shall have received, in immediately available funds, \$15,000,000 in gross proceeds from borrowings of Permitted Unsecured Debt.

#### **Section 4. REPRESENTATIONS AND WARRANTIES .**

(a) In order to induce the Administrative Agent and Lenders to enter into this Amendment, each Credit Party represents and warrants to the Administrative Agent and Lenders as follows:

(i) The representations and warranties made by such Credit Party contained in Article V of the Credit Agreement (other than Section 5.04 thereof) shall be true and correct in all material respects (but without any duplication of any materiality qualifications) on and as of the Amendment 6 Effective Date (after giving effect to the amendments and waivers contained herein), except to the extent that such representations and warranties expressly relate to an earlier date, in which case on the Amendment 6 Effective Date such representations and warranties shall be true and correct in all material respects (but without any duplication of any materiality qualifications) on and as of such earlier date.

(ii) Since the Balance Sheet Date, no act, event, condition or circumstance (except for any act, event, condition or circumstance publicly disclosed by Holdings prior to the date hereof in a filing with the SEC or as otherwise disclosed to the Administrative Agent , including to the extent disclosed in the draft 10-K for the period ended December 31, 2014, provided to the Administrative Agent on or prior to the Sixth Amendment Effective Date) has occurred or arisen which, individually or in the aggregate, has had or could reasonably be expected to have a Material Adverse Effect.

(iii) No Default or Event of Default has occurred and is continuing or will exist after giving effect to this Amendment.

(b) In order to induce the Administrative Agent and Lenders to enter into this Amendment, each Credit Party represents and warrants to the Administrative Agent and Lenders that this Amendment has been duly authorized, executed and delivered by such Credit Party and constitutes its legal, valid and binding obligation.

#### **Section 5. MISCELLANEOUS.**

(a) **Ratification and Confirmation of Loan Documents** . Each Credit Party hereby consents, acknowledges and agrees to the amendments and waivers set forth herein and hereby confirms and ratifies in all respects the Loan Documents to which such Person is a party (including, without limitation, with respect to each Guarantor, the continuation of its payment and performance obligations under the Guaranty upon and after the effectiveness of the amendments and waivers contemplated hereby and, with respect to each Credit Party, the continuation and existence of the liens granted under the Security Documents to secure the Obligations).

(b) **Fees and Expenses** . The Borrowers, jointly and severally, shall promptly pay on demand (and, in any event, within 10 Business Days after demand therefor) all reasonable costs and expenses of the Administrative Agent in connection with

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the preparation, reproduction, execution, and delivery of this Amendment and any other documents prepared in connection herewith, including, without limitation, the reasonable fees and out-of-pocket expenses of counsel for the Administrative Agent.

(c) **Headings** . Section and subsection headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

(d) **Governing Law; Waiver of Jury Trial** . This Amendment shall be governed by and construed in accordance with the laws of the State of New York, and shall be further subject to the provisions of Section 10.14 of the Credit Agreement.

(e) **Counterparts** . This Amendment may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original, and all of which when taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page of this Amendment by facsimile or electronic transmission (including .pdf file) shall be effective as delivery of a manually executed counterpart hereof.

(f) **Entire Agreement** . This Amendment, together with all the Loan Documents (collectively, the “Relevant Documents”), sets forth the entire understanding and agreement of the parties hereto in relation to the subject matter hereof and supersedes any prior negotiations and agreements among the parties relating to such subject matter. No promise, condition, representation or warranty, express or implied, not set forth in the Relevant Documents shall bind any party hereto, and no such party has relied on any such promise, condition, representation or warranty. Each of the parties hereto acknowledges that, except as otherwise expressly stated in the Relevant Documents, no representations, warranties or commitments, express or implied, have been made by any party to the other. None of the terms or conditions of this Amendment may be changed, modified, waived or canceled orally or otherwise except in a writing signed by the parties hereto for such purpose.

(g) **Enforceability** . Should any one or more of the provisions of this Amendment be determined to be illegal or unenforceable as to one or more of the parties hereto, all other provisions nevertheless shall remain effective and binding on the parties hereto.

(h) **Successors and Assigns** . This Amendment shall be binding upon and inure to the benefit of each Borrower, each Guarantor, the Administrative Agent, each Lender and their respective successors and assigns (subject to Section 10.06 of the Credit Agreement).

*[Remainder of page intentionally left blank; signatures begin on following page]*

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The following parties have caused this Amendment No. 6 to Credit Agreement and Waiver to be executed as of the date first written above.

**BORROWERS :**

**AMERICAN APPAREL (USA), LLC**

By:  
Name:  
Title:

**AMERICAN APPAREL RETAIL, INC.**

By:  
Name:  
Title:

**AMERICAN APPAREL DYEING & FINISHING, INC.**

By:  
Name:  
Title:

**KCL KNITTING, LLC**

By:  
Name:  
Title:

**GUARANTORS :**

**AMERICAN APPAREL, INC.**

By:  
Name:  
Title:

**FRESH AIR FREIGHT, INC.**

By:  
Name:  
Title:

**ADMINISTRATIVE AGENT AND LENDERS :**

**CAPITAL ONE BUSINESS CREDIT CORP. ,**

as Administrative Agent and Lender

By:

Name: Julianne Low

Title: Senior Vice President



**BANK OF MONTREAL, CHICAGO BRANCH ,**

as Lender

By:

Name:

Title:

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### Litigation

1. **Shareholder Derivative Actions**. In 2010, two shareholder derivative lawsuits were filed in the United States District Court for the Central District of California (the "Court") that were subsequently consolidated for all purposes into a case entitled *In re American Apparel, Inc. Shareholder Derivative Litigation*, Lead Case No. CV106576 (the "First Derivative Action"). Plaintiffs in the First Derivative Action alleged a cause of action for breach of fiduciary duty arising out of (i) the Company's alleged failure to maintain adequate accounting and internal control policies and procedures; (ii) the Company's alleged violation of state and federal immigration laws in connection with the previously disclosed termination of over 1,500 employees following an Immigration and Customs Enforcement inspection; and (iii) the Company's alleged failure to implement controls sufficient to prevent a sexually hostile and discriminatory work environment. The Company does not maintain any direct exposure to loss in connection with these shareholder derivative lawsuits. The Company's status as a "Nominal Defendant" in the actions reflects that the lawsuits are purportedly maintained by the named plaintiffs on behalf of American Apparel and that plaintiffs seek damages on the Company's behalf. The Company filed a motion to dismiss the First Derivative Action which was granted with leave to amend on July 31, 2012. Plaintiffs did not amend the complaint and subsequently filed a motion to dismiss each of their claims, with prejudice, for the stated purpose of taking an immediate appeal of the Court's July 31, 2012 order. On October 16, 2012, the Court granted the Plaintiffs' motion to dismiss and entered judgment accordingly. On November 12, 2012, Plaintiffs filed a Notice of Appeal to the Ninth Circuit Court of Appeals where the case is currently pending.

In 2010, four shareholder derivative lawsuits were filed in the Superior Court of the State of California for the County of Los Angeles (the "Superior Court") which were subsequently consolidated for all purposes into a case entitled *In re American Apparel, Inc. Shareholder Derivative Litigation*, Lead Case No. BC 443763 (the "State Derivative Action"). Three of the matters comprising the State Derivative Action alleged causes of action for breach of fiduciary duty arising out of (i) the Company's alleged failure to maintain adequate accounting and internal control policies and procedures; and (ii) the Company's alleged violation of state and federal immigration laws in connection with the previously disclosed termination of over 1,500 employees following an Immigration and Customs Enforcement inspection. The fourth matter alleges seven causes of action for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets also arising out of the same allegations. On April 12, 2011, the Superior Court issued an order granting a stay (which currently remains in place) of the State Derivative Action on the grounds that, among other reasons, the case is duplicative of the First Derivative Action.

In July 2014, two shareholder derivative lawsuits were filed in the Court that were subsequently consolidated for all purposes into a case entitled *In re American Apparel, Inc. 2014 Shareholder Derivative Litigation*, Lead Case No. 14-CV-5699 (the "Second Derivative Action," and together with the First Derivative Action, the "Federal Derivative Actions"). Plaintiffs in the Second Derivative Action alleged similar causes of action for breach of fiduciary duty by failing to (i) maintain adequate internal control and exercise proper oversight over Mr. Charney, whose alleged misconduct and mismanagement has purportedly harmed the Company's operations and financial condition, (ii) ensure Mr. Charney's suspension as CEO did not trigger material defaults under two of the Company's credit agreements, and (iii) prevent Mr. Charney from increasing his ownership percentage of the Company. The Second Derivative Action primarily seeks to recover damages and reform corporate governance and internal procedures. The Company does not maintain any direct exposure to loss in connection with these shareholder derivative lawsuits. The Company's status as a "Nominal Defendant" in the actions reflects that the lawsuits are purportedly maintained by the named plaintiffs on behalf of American Apparel and that plaintiffs seek damages on the Company's behalf. The Company has filed a motion to dismiss, and the parties are currently briefing this motion.

Both the Federal Derivative Actions and State Derivative Actions are covered under the Company's Directors and Officers Liability insurance policy, subject to a deductible and a reservation of rights.

Should the above matters (i.e., the Federal Derivative Actions or the State Derivative Action) be decided against the Company in an amount that exceeds the Company's insurance coverage, or if liability is imposed on grounds that fall outside the scope of the Company's Directors and Officers Liability insurance coverage, the Company could not only incur a substantial liability, but also experience an increase in similar suits and suffer reputational harm. The Company is unable to predict the financial outcome of these matters at this time, and any views formed as to the viability of these claims or the financial exposure which could result may change from time to time as the matters proceed through their course. However, no assurance can be made that these matters, either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, which could have a material adverse effect upon the Company's financial condition, results of operations, or cash flows.

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2. **Charney v. American Apparel**. On June 18, 2014, American Apparel's Board of Directors suspended its CEO, Dov Charney, and gave notice of the Company's intention to terminate him for cause. On June 23, 2014, Mr. Charney commenced arbitration against the Company and asserted claims "in excess of \$50 million" for the Company's alleged "breach of employment agreement, breach of covenant of good faith and fair dealing, retaliatory discharge, violation of Age Discrimination in Employment Act, intentional infliction of emotional distress, defamation and related claims." That matter has been stayed by agreement of the parties pursuant to the Nomination, Support, and Standstill Agreement dated as of July 9, 2014, and appended to the Form 8-K filed by the Company with the SEC.

CREDIT AGREEMENT

dated as of

March 25, 2015

among

AMERICAN APPAREL (CARNABY) LIMITED,

as the Initial Borrower,

THE ADDITIONAL BORROWERS PARTY HERETO,

AMERICAN APPAREL, INC.,

as Guarantor,

STANDARD GENERAL L.P.,

on behalf of one or more of its controlled funds

and

THE LENDERS FROM TIME TO TIME PARTY HERETO

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## **EXHIBITS**

- Exhibit A: Form of Assignment and Acceptance
- Exhibit B: Form of Note
- Exhibit C: Form of Joinder
- Exhibit D-1: Form of U.S. Tax Compliance Certificate
- Exhibit D-2: Form of U.S. Tax Compliance Certificate
- Exhibit D-3: Form of U.S. Tax Compliance Certificate
- Exhibit D-4: Form of U.S. Tax Compliance Certificate

## **SCHEDULES**

- Schedule 1.01(a): Lenders and Commitments
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  - Schedule 3.13: Environmental Compliance
  - Schedule 3.14: Labor Contracts
-

**CREDIT AGREEMENT**, dated as of March 25, 2015 among:

- (a) **AMERICAN APPAREL (CARNABY) LIMITED**, a private company incorporated under the laws of England and Wales with registration number 05114129, with its principal executive offices at 3<sup>rd</sup> Floor, 60-66 National House, Wardour Street, W1F 0TA, London, United Kingdom (in such capacity, the “Initial Borrower”);
- (b) the **ADDITIONAL BORROWERS** now or hereafter party hereto;
- (c) **AMERICAN APPAREL, INC.**, a corporation organized under the laws of the State of Delaware (the “Guarantor”);
- (d) **STANDARD GENERAL L.P.**, on behalf of one or more of its controlled funds; and
- (e) the **LENDERS** from time to time party hereto;

in consideration of the mutual covenants herein contained and benefits to be derived herefrom, the parties hereto agree as follows:

**ARTICLE I**  
Definitions

**SECTION 1.01**     Definitions.

As used in this Agreement, the following terms have the meanings specified below:

“Additional Borrower” means any Foreign Subsidiary that becomes a Borrower in accordance with Section 2.02.

“Affiliate” means, with respect to a specified Person, any Person that directly or indirectly through one or more intermediaries Controls, is Controlled by or is under common Control with the Person specified.

“Aggregate Exposure” means, with respect to any Lender at any time, an amount equal to, without duplication, (i) the aggregate amount of such Lender’s unfunded Commitments then in effect, plus (ii) the aggregate then unpaid principal amount of such Lender’s Loans, including PIK Interest added to the principal amount of such Loans, if any. If the Aggregate Exposure is determined with respect to a particular Class of Loans or Commitments, such Commitments, Loan and PIK Interest shall be determined solely with respect to such Class.

“Aggregate Exposure Percentage” means, with respect to any Lender at any time, the ratio (expressed as a percentage) of such Lender’s Aggregate Exposure at such time to the Aggregate Exposure of all Lenders at such time.

“Agreement” means this Credit Agreement, as amended, restated, supplemented or otherwise modified and in effect from time to time.

“American Apparel (USA)” means American Apparel (USA), LLC, a California limited liability company.

“Applicable Law” means as to any Person: (i) all laws, statutes, rules, regulations, orders, codes, ordinances or other requirements having the force of law and (ii) all court orders, decrees, judgments, injunctions, notices, binding agreements and/or rulings, in each case of or by any Governmental Authority which has jurisdiction over such Person, or any property of such Person.

“Approved Fund” means any Person (other than a natural person) that is engaged in making, purchasing,

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holding or investing in bank loans and similar extensions of credit in the ordinary course of its business and that is administered or managed by (a) a Lender or (b) an affiliate of a Lender.

“Assignment and Acceptance” means an assignment and acceptance entered into by a Lender and an assignee (with, if applicable, the consent of any party whose consent is required by Section 8.04), in the form of Exhibit A.

“Bankruptcy Code” means the Bankruptcy Reform Act of 1978, as amended, and codified as 11 U.S.C. §101 et seq.

“Board” means the Board of Governors of the Federal Reserve System of the United States of America.

“Borrowers” means the Initial Borrower and any Additional Borrowers.

“Borrowing” means the incurrence of Loans.

“Borrowing Notice” means a request by a Borrower for a Borrowing of Loans delivered in accordance with Section 2.02.

“Business Day” means any day that is not a Saturday, Sunday or other day on which commercial banks in New York are authorized or required by law to remain closed.

“Capital Stock” means, as to any Person that is a corporation, the authorized shares of such Person’s capital stock, including all classes of common, preferred, voting and nonvoting capital stock, and, as to any Person that is not a corporation or an individual, the membership or other ownership interests in such Person, including, without limitation, the right to share in profits and losses, the right to receive distributions of cash and other property, and the right to receive allocations of items of income, gain, loss, deduction and credit and similar items from such Person, whether or not such interests include voting or similar rights entitling the holder thereof to exercise control over such Person, collectively with, in any such case, all warrants, options and other rights to purchase or otherwise acquire, and all other instruments convertible into or exchangeable for, any of the foregoing; provided that, notwithstanding the foregoing, Capital Stock shall not include Indebtedness convertible into or exchangeable for Capital Stock.

“Cash Interest” has the meaning provided in Section 2.04(a).

“CERCLA” means the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. §9601 et seq.

“Change in Law” means (i) the adoption of any law, rule or regulation after the Closing Date, (ii) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the Closing Date or (iii) compliance by any Credit Party with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the Closing Date. Notwithstanding anything herein to the contrary, (x) all requests, rules, guidelines, requirements and directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or by United States or foreign regulatory authorities, in each case pursuant to Basel III, and (y) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines, requirements and directives thereunder or issued in connection therewith or in implementation thereof, shall in each case be deemed to be a Change in Law, regardless of the date enacted, adopted, issued or implemented.

“Change of Control” has the meaning provided in the Senior Notes Indenture as of the date hereof.

“Change of Control Offer” has the meaning provided therefor in Section 2.08(a).

“Change of Control Payment” has the meaning provided therefor in Section 2.08(a).

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“Change of Control Payment Date” has the meaning provided therefor in Section 2.08(a).

“Charges” has the meaning provided therefor in Section 8.13.

“Charter Document” means as to any Person, its partnership agreement, certificate of incorporation, operating agreement, membership agreement or similar constitutive document or agreement, its by-laws and all shareholder or other equity holder agreements, voting trusts and similar arrangements to which such Person is a party or which is applicable to its Capital Stock, and all other arrangements relating to the Control or management of such Person.

“Class” means in the event Loans have been made to multiple Borrowers, each Loan or Loans made to a particular Borrower.

“Closing Date” means March 25, 2015.

“Code” means the Internal Revenue Code of 1986 and the Treasury regulations promulgated thereunder, as amended from time to time.

“Commitment” means, with respect to each Lender, the aggregate commitment(s) of such Lender hereunder to make Loans to any Borrower in an amount not to exceed the amount set forth opposite its name on Schedule 1.01(a) hereto or such other amount as may be set forth in an Assignment and Acceptance to which such Lender is a party. As of the Closing Date, the aggregate amount of the Commitments is \$15,000,000.

“Consolidated” means, when used to modify a financial term, test, statement, or report of a Person, the application or preparation of such term, test, statement or report (as applicable) based upon the consolidation, in accordance with GAAP, of the financial condition or operating results of such Person and its Subsidiaries.

“Contractual Obligation” means, as to any Person, any provision of any security issued by such Person or any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

“Control” means the possession, directly or indirectly, of the power (i) to vote 25% or more of the securities having ordinary voting power for the election of directors (or any similar governing body) of a Person, or (ii) to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. The terms “Controlling” and “Controlled” have meanings correlative thereto.

“Credit Party” means (i) the Lenders, (ii) the beneficiaries of each indemnification obligation undertaken by any Borrower under any Loan Document, (iii) any other Person to whom Obligations under this Agreement and other Loan Documents are owing and (iv) the successors and assigns of each of the foregoing.

“Custodian” means any receiver, trustee, assignee, liquidator, sequestrator or similar official under the Bankruptcy Code.

“Default” means any event or condition that constitutes an Event of Default or that upon notice, lapse of time or both would become an Event of Default.

“Default Rate” has the meaning provided in Section 2.05.

“Designated Jurisdiction” means any country or territory to the extent that such country or territory itself is the subject of any Sanction.

“dollars” or “\$” refers to lawful money of the United States of America.

“Eligible Assignee” means any assignee permitted by and consented to in accordance with Section 8.04(b);

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provided that in no event shall any Loan Party or any of their respective Affiliates (other than the Initial Lender and its Affiliates) be Eligible Assignees.

“Environmental Laws” means all Applicable Laws issued, promulgated or entered into by or with any Governmental Authority, relating in any way to the protection of human health or the environment, to the preservation or reclamation of natural resources, to the handling, treatment, storage, disposal of Hazardous Materials or to the assessment or remediation of any Release or threatened Release of any Hazardous Material or to the environment.

“Environmental Liability” means any liability, contingent or otherwise (including, without limitation, any liability for damages, natural resource damage, costs of environmental remediation, administrative oversight costs, fines, penalties or indemnities), of any Loan Party or any of their Subsidiaries directly or indirectly resulting from or based upon (i) violation of any Environmental Law, (ii) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (iii) exposure to any Hazardous Materials, (iv) the Release or threatened Release of any Hazardous Materials into the environment or (v) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“Events of Default” has the meaning assigned to such term in Section 6.01.

“Excluded Taxes” means, with respect to any Credit Party or any other recipient of any payment to be made by or on account of any obligation of any Loan Party hereunder, (i) Taxes imposed on (or measured by) its net income, franchise taxes and branch profits taxes in each case (a) by the jurisdiction under the laws of which such recipient is organized or tax resident or in which its principal office is located or, in the case of any Credit Party, in which its applicable lending office is located or (b) that are Other Connection Taxes, (ii) in the case of a Credit Party or other recipient (other than an assignee pursuant to a request by the Borrower under Section 2.13(b), any United States withholding Tax on amounts payable to such Credit Party to the extent that is not a result of a change in Applicable Law after the time such Credit Party becomes a party to this Agreement (or designates a new lending office), except to the extent that such Credit Party (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding Tax pursuant to Section 2.12(a) and, (iii) Taxes attributable to such recipient’s failure to comply with Section 2.12(e), and (iv) any United States withholding Taxes imposed under FATCA.

“FATCA” means Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreements entered into pursuant to Section 1471(b)(1) of the Code.

“First Lien Credit Agreement” means the Credit Agreement, dated as of April 4, 2013, by and among American Apparel (USA), LLC, as borrower, and the other borrowers and credit parties party thereto, the lenders party thereto, Capital One Leverage Finance Corp., as administrative agent and the other parties party thereto, as amended, restated, supplemented or otherwise modified and in effect from time to time.

“Fiscal Quarter” means any fiscal quarter of any Fiscal Year, which quarters shall generally end on the last day of each March, June, September or December of such Fiscal Year in accordance with the fiscal accounting calendar of the Guarantor.

“Fiscal Year” means any period of twelve consecutive months ending on December 31 of any calendar year.

“Foreign Lender” means a Lender that is not a United States Person as defined in Section 7701(a)(30) of the Code.

“Foreign Subsidiary” means any Subsidiary of the Guarantor that is organized under the laws of a jurisdiction other than the United States of America or any State thereof or the District of Columbia.

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“Funding Date” means the Closing Date and each date on which a Loan is made to a Borrower.

“GAAP” means accounting principles generally accepted in the United States set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession of the United States, which are in effect from time to time.

“Governmental Authority” means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, tribunal, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

“Guarantee” has the meaning provided in Section 7.01.

“Guarantor” has the meaning set forth in the Preamble to this Agreement.

“Hazardous Materials” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes, mold, fungi or similar bacteria, and all other substances or wastes of any nature regulated pursuant to any Environmental Law, including any material listed as a hazardous substance under Section 101(14) of CERCLA.

“Indebtedness” has the meaning provided in the Senior Notes Indenture as of the date hereof.

“Indemnified Taxes” means Taxes other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of any Loan Party under any Loan Document.

“Indemnitee” has the meaning provided in Section 8.03(a).

“Information” has the meaning provided in Section 8.15(a).

“Initial Borrower” has the meaning set forth in the Preamble to this Agreement.

“Initial Lender” means an entity controlled by Standard General and organized under the laws of the United States of America that shall be designated (and is capable of funding the initial Loans) by Standard General, by notice in writing to the Guarantor prior to the initial Funding Date, to act as the “Initial Lender” hereunder. Prior to any such designation, Standard General shall be deemed to be the “Initial Lender.”

“Interest Election” has the meaning provided in Section 2.04(a).

“Interest Payment Date” means the last day of each of March, June, September and December.

“Interest Rate” means a per annum rate equal to 14%.

“Joinder Agreement” means an agreement, in the form attached hereto as Exhibit C, pursuant to which, among other things, a Foreign Subsidiary becomes a party to, and bound by the terms of, this Agreement and the other applicable Loan Documents as a Borrower.

“Lenders” means the Initial Lender, the other Persons identified on Schedule 1.01(a) hereto and each assignee that becomes a party to this Agreement as set forth in Section 8.04(b), in each case, until such Person ceases to hold any Loans or Commitments.

“Lion Credit Agreement” means that certain Credit Agreement, dated as of May 22, 2013, among the Guarantor, the guarantors party thereto, Lion/Hollywood L.L.C., as the initial lender, and the other lenders from

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time to time party thereto (as amended, supplemented or otherwise modified from time to time).

“Loan Account” has the meaning provided in Section 2.09(a).

“Loan Documents” means this Agreement, the Notes and any other instrument or agreement now or hereafter executed and delivered in connection herewith by any Loan Party and the Initial Lender or any other Lender, each as amended, restated, supplemented or otherwise modified from time to time in accordance with the terms hereof and thereof.

“Loan Parties” means the Borrowers and the Guarantor.

“Loans” means all loans made pursuant to this Agreement pursuant to Section 2.01(b).

“Mandatory Principal Prepayment Amount” means, as of each AHYDO Prepayment Date, the portion of Loans required to be redeemed to prevent the Loans from being treated as an “applicable high yield discount obligation” within the meaning of Section 163(i) (1) of the Code.

“Material Adverse Effect” means (a) a material adverse change in, or a material adverse effect on, the operations, business, assets, properties, liabilities (actual or contingent) or condition (financial or otherwise) of the Guarantor and its Subsidiaries, taken as a whole; (b) a material impairment of the rights and remedies of any Lender under any Loan Document, or of the ability of the Borrowers, taken as a whole, to pay any Obligations under the Loan Documents, when due; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against any Loan Party of any Loan Documents to which it is a party.

“Material Indebtedness” means Indebtedness (other than the Obligations) of the Guarantor and its Subsidiaries in an aggregate principal amount exceeding \$2,500,000.

“Maturity Date” means October 15, 2020, and if such date is not a Business Day, the next succeeding Business Day.

“Maximum Rate” has the meaning provided therefor in Section 8.13.

“Minority Lenders” has the meaning provided therefor in Section 8.02(c).

“Notes” means the notes, if any, executed and delivered pursuant to Section 2.03(a) in substantially the form as attached hereto as Exhibit B, as may be amended, supplemented or modified from time to time.

“Obligations” means (a) the due and punctual payment of (i) the principal of, and interest (including all interest that accrues after the commencement of any case or proceeding by or against any Loan Party under the Bankruptcy Code or any state, federal or provincial bankruptcy, insolvency, receivership or similar law, whether or not allowed in such case or proceeding) on the Loans and the Guarantee as and when due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise and (ii) all other monetary obligations, including fees, costs, expenses and indemnities, whether primary, secondary, direct, contingent, fixed or otherwise, of the Loan Parties to the Credit Parties under this Agreement and the other Loan Documents, and (b) the due and punctual payment and performance of all the covenants, agreements, obligations and liabilities of each Loan Party under or pursuant to this Agreement and the other Loan Documents.

“Other Connection Taxes” means with respect to any recipient, Taxes imposed as a result of a present or former connection between such recipient and the jurisdiction imposing such Tax (other than connections arising from such recipient having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction pursuant to or enforced any Loan Document, or sold or assigned an interest in any Loan or Loan Document).

“Other Taxes” means any and all current or future stamp or documentary taxes, value-added taxes (VAT) or any other excise or property taxes, charges or similar levies arising from any payment made under any Loan

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Document or from the execution, delivery or enforcement of, or otherwise with respect to, any Loan Document.

“Participant” has the meaning provided therefor in Section 8.04(e).

“Participation Register” has the meaning provided therefor in Section 8.04(e).

“Person” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“Register” has the meaning provided in Section 8.04(c).

“Regulation U” means Regulation U of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

“Regulation X” means Regulation X of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

“Related Parties” means, with respect to any Person, such Person’s Affiliates and the partners, directors, officers, employees, agents, trustees, administrators, managers and advisors of such Person and of such Person’s Affiliates.

“Release” has the meaning provided in Section 101(22) of CERCLA.

“Required Lenders” means (i) if there are two or fewer Lenders, all Lenders or (ii) if there are three or more Lenders, at any time, Lenders holding more than 50% of the aggregate unpaid principal amount of the Loans (or the Loans of any Class) outstanding, plus the amount of any unutilized outstanding Commitments (or the Commitments of such Class).

“Restricted Subsidiary” means any “Restricted Subsidiary” under the Senior Notes Indenture or, if the Senior Notes Indenture is no longer in effect, any Subsidiary of the Borrower that was a Restricted Subsidiary immediately prior to when the Senior Notes Indenture ceased to be in effect.

“Sanction(s)” means any international economic sanction administered or enforced by the United States Government (including, without limitation, OFAC), the United Nations Security Council, the European Union, Her Majesty’s Treasury or other relevant sanctions authority.

“Senior Management” means with respect to any of the Loan Parties or any of its Subsidiaries, its chairman, president, chief financial officer, treasurer, controller, assistant controller, chief executive officer or general counsel.

“Senior Notes” means the senior secured notes due 2020 issued pursuant to the Senior Notes Indenture

“Senior Notes Indenture” means the Indenture dated April 4, 2013, by and among the Guarantor, the guarantors party thereto and U.S. Bank National Association, as trustee and collateral agent, as such Indenture is in effect from time to time.

“Settlement Date” has the meaning provided in Section 2.11.

“Significant Subsidiaries” means each Restricted Subsidiary that satisfies the criteria for a “significant subsidiary” set forth in Rule 1-02(w) of Regulation S-X under the Exchange Act.

“Solvent” means, with respect to any Person on a particular date, that on such date (i) at fair valuations, all of the properties and assets of such Person are greater than the sum of the debts, including contingent liabilities, of such Person, (ii) the present fair saleable value of the properties and assets of such Person is not less than the amount that would be required to pay the probable liability of such Person on its debts as they become absolute and

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matured, (iii) such Person is able to realize upon its properties and assets and pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business, (iv) such Person does not intend to, and does not believe that it will, incur debts beyond such Person's ability to pay as such debts mature, and (v) such Person is not engaged in a business or a transaction, and is not about to engage in a business or transaction, for which such Person's properties and assets would constitute unreasonably small capital after giving due consideration to the prevailing practices in the industry in which such Person is engaged.

“Standard General” means Standard General L.P., on behalf of one or more of its Affiliates.

“Subsidiary” means with respect to any Person (the “parent”) at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent's Consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (i) of which Capital Stock representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, Controlled or held, or (ii) that is, as of such date, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent. Unless the context otherwise requires, “Subsidiary” or “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of the Guarantor.

“Taxes” means any and all current or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“United States Person” means any person that is a “United States Person” as defined in Section 7701(a)(30) of the Code.

#### SECTION 1.02 Terms Generally.

The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation”. The word “will” shall be construed to have the same meaning and effect as the word “shall.” Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in the other Loan Documents), (b) any reference herein to any Person shall be construed to include such Person's successors and permitted assigns, (c) the words “herein”, “hereof” and “hereunder”, and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement, (e) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights and (f) all financial statements and other financial information provided by the Borrowers to any Lender shall be provided with reference to dollars, (g) all references to “\$” or “dollars” or to amounts of money shall be deemed to be references to the lawful currency of the United States of America, and (h) this Agreement and the other Loan Documents are the result of negotiation among, and have been reviewed by counsel to, among others, the Loan Parties and the Initial Lender and are the product of discussions and negotiations among all parties. Accordingly, this Agreement and the other Loan Documents are not intended to be construed against any of the Lenders merely on account of any Lender's involvement in the preparation of such documents.

#### SECTION 1.03 Accounting Terms: GAAP.

Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP.

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## ARTICLE II

### Amount and Terms of Credit

#### SECTION 2.01 Loans.

Subject to the terms and conditions set forth herein, the Lenders holding Commitments agree to make Loans to the Borrowers from time to time (provided that there shall not be more than five Borrowings of Loans) (i) in an amount, as to each such Lender, not to exceed such Lender's Commitment and (ii) in an aggregate principal amount not to exceed \$15,000,000. Amounts borrowed under this Section 2.01 and repaid or prepaid may not be reborrowed.

#### SECTION 2.02 Making of Loans.

(i) The Guarantor may from time to time on or after the Closing Date request that any Foreign Subsidiary become an Additional Borrower hereunder (such Foreign Subsidiary, prior to becoming an Additional Borrower pursuant to this Section 2.02, an "Applicant Borrower"). Within ten (10) Business Days after receipt of such notice, the Initial Lender shall notify the Guarantor whether it consents to such Person becoming an Additional Borrower hereunder, such consent not to be unreasonably withheld, and, provided, that no consent shall be required for a Foreign Subsidiary that exists on the Closing Date and is organized under the laws of the United Kingdom. The parties hereto acknowledge and agree that prior to any such Applicant Borrower becoming entitled to incur Loans, the Initial Lender and any other Lenders shall have received, (A) copies of the Charter Documents of such Applicant Borrower and other documents, confirmations or information as may reasonably be requested by any Lender (collectively, the "Applicant Borrower Documents"), (B) customary legal opinions (addressed to the Lenders) of counsel for such Applicant Borrower covering such matters relating to the Loan Parties, the Loan Documents or the Transactions contemplated thereby as any Lender shall reasonably request and (C) Notes signed by such Applicant Borrower to the extent any Lender so requests. If the Applicant Borrower shall be entitled to receive Loans hereunder, the Applicant Borrower shall send a notice to the Lenders specifying the effective date upon which the requested Applicant Borrower shall constitute an Additional Borrower for purposes hereof, whereupon each of the Lenders agrees to permit such Borrower to receive Loans hereunder, on the terms and conditions set forth herein, and each of the parties hereto agrees that such Additional Borrower otherwise shall be a Borrower for all purposes of this Agreement.

(ii) The Obligations of all Additional Borrowers shall be several in nature, and no Borrower, in its capacity as a Borrower, will be liable for the Obligations of another Borrower.

(iii) Any acknowledgment, consent, direction, certification or other action which might otherwise be valid or effective only if given or taken by all Borrowers, or by each Borrower acting singly, shall be valid and effective if given or taken only by the Guarantor, whether or not any such other Borrower joins therein. The Guarantor shall be entitled to act on behalf of any other Borrower, and the Initial Lender and any other Lenders may rely on any notice, action, acknowledgment or ratification made by the Guarantor acting on behalf of or purporting to act on behalf of any other Borrower. Any notice, demand, consent, acknowledgement, direction, certification or other communication delivered to the Guarantor in accordance with the terms of this Agreement shall be deemed to have been delivered to each Borrower.

(iv) The Guarantor may from time to time, upon not less than five (5) Business Days' notice from the Guarantor to the Initial Lender (or such shorter period as may be agreed by the Initial Lender in its reasonable discretion), terminate a Borrower's status as such; provided that

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there are no outstanding Loans payable by such Borrower or other amounts payable by such Borrower on account of any Loans made to it, as of the effective date of such termination. The Initial Lender will promptly notify any other Lenders of any such termination of a Borrower's status.

(v) The applicable Borrower shall give the Initial Lender irrevocable notice (which notice must be received by the Initial Lender prior to 6:00 p.m., New York City time, at least five Business Days prior to the requested Funding Date) requesting that the Lenders holding Commitments make Loans on such Funding Date and specifying (a) the requested Funding Date, (b) the aggregate principal amount to be borrowed (which shall be in a minimum amount of \$1,000,000 and integral multiples of \$1,000,000 above such amount) and (c) instructions for remittance of the proceeds of such Loan to be borrowed. Not later than 1:30 p.m., New York City time, on such Funding Date, the Lenders holding Commitments shall fund its pro rata share of the Loan (as determined in accordance with its Commitment) in immediately available funds to such Borrower by wire transfer of such funds in accordance with instructions provided to the Lenders making such Loan.

(vi) Each Lender may fulfill its Commitment with respect to any Loan by causing any lending office of such Lender to make such Loan; provided, however, that any such use of a lending office shall not affect the obligation of the such Borrower to repay such Loan in accordance with the terms of the applicable Note. Each Lender shall, subject to its overall policy considerations, use reasonable efforts to select a lending office which will not result in the payment of increased costs by the Borrowers pursuant to Section 2.06.

#### SECTION 2.03 Notes.

(a) Upon the request of any Lender, the applicable Borrower shall duly execute and deliver a Note evidencing the Loan, as applicable, made by such Lender.

(b) Each Lender is hereby authorized by the Borrowers to endorse on a schedule attached to each Note delivered to such Lender (or on a continuation of such schedule attached to such Note and made a part thereof), or otherwise to record in such Lender's internal records, an appropriate notation evidencing the date and amount of each Loan from such Lender, each payment and prepayment of principal of any such Loan, each payment of interest on any such Loan and the other information provided for on such schedule; provided, however, that the failure of any Lender to make such a notation or any error therein shall not affect the obligation of the applicable Borrowers to repay the Loans made by such Lender in accordance with the terms of this Agreement and the applicable Notes.

(c) Upon receipt of an affidavit of a Lender as to the loss, theft, destruction or mutilation of such Lender's Note and upon cancellation of such Note, the applicable Borrower will issue, in lieu thereof, a replacement Note in favor of such Lender, in the same principal amount thereof and otherwise of like tenor.

#### SECTION 2.04 Mandatory Principal and Interest Payments on Loans.

(a) Any Borrower may, at the option of the Guarantor (subject to the proviso at the end of this sentence) (an "Interest Election"), elect to pay interest on the Class of Loans made to it on each Interest Payment Date (i) in cash ("Cash Interest"), (ii) by increasing the outstanding principal amount of the applicable Loans on the relevant Interest Payment Date by the amount of interest accrued from the effective date of any such Interest Election until such Interest Payment Date ("PIK Interest"), with such increases to the principal amount of such Class of Loans allocated on a pro rata basis to the outstanding Loans of such Class in accordance with such Lenders' Aggregate Exposure Percentages with respect to such Class immediately prior to such allocation and/or (iii) at the Guarantor's discretion, subject to the following proviso, partially in PIK Interest and partially in Cash

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Interest; provided, that (x) the Guarantor must elect to have the applicable Borrower pay interest in the form of Cash Interest to the extent such Borrower either (A) has unrestricted cash available or (B) the Guarantor or a Restricted Subsidiary has unrestricted cash available and has the ability without violating any then-existing contract to transfer cash to the applicable Borrower, in the case of each of (A) and (B), only to the extent it would be commercially prudent from the perspective of the Guarantor and its Subsidiaries, taken as a whole, for such Borrower to pay Cash Interest in the light of all the facts and circumstances existing at such time including budgeted, expected and reasonably likely liabilities or expenses as they become, or are reasonably likely to become, due and payable and (y) the outstanding principal amount of Loans shall in no event exceed \$15,000,000. Unless the context otherwise requires, for all purposes hereof, references to “principal amount” of the Loans refers to the face amount of the Loans and not gross proceeds funded hereunder and includes any interest so capitalized and added to the principal amount of the Loans from the date on which such interest has been so added.

(b) The Guarantor must make an Interest Election on behalf of the applicable Borrower by delivering a notice to each of the Lenders no later than ten (10) Business Days prior to the effective date of any Interest Election (or, if the initial Interest Payment Date with regard to such Loan is less than ten (10) Business Days after the making of such Loan, the date such Loan is made (with regard to such Interest Payment Date)), which notice shall specify (x) whether such Interest Election is made under clause (i) and/or (ii) of the immediately preceding paragraph and (y) the effective date of such Interest Election, which effective date must be the next succeeding Interest Payment Date to occur after the date of the giving of such notice, or, if not a Business Day, the first Business Day to occur thereafter. An Interest Election shall remain in effect until the earlier of (i) next Interest Payment Date following the effective date of such Interest Election and (ii) the Maturity Date; provided that no more than one Interest Election may be given by the Guarantor in any three-month period. In the absence of such an election for any interest period, interest on the Loans shall be payable as Cash Interest.

(c) Subject to Section 2.05, each Loan shall bear interest (computed on the basis of the actual number of days elapsed over a year of 365 (or 366 days, if applicable) at a rate per annum that shall be equal to the Interest Rate compounding quarterly to the extent provided in Section 2.04(c).

(d) Cash Interest accrued on each Loan shall be payable on the Interest Payment Dates applicable to such Loan, except as otherwise provided in this Agreement. PIK Interest accrued on each Loan shall be payable by increasing the outstanding principal amount of the Loans by the amount of PIK Interest on the Interest Payment Date applicable to such Loan for such period and in such amounts as required by the relevant Interest Election(s). Any interest so added to the principal amount of the Loans shall bear interest as provided in this Section 2.04 from the date on which such interest has been so added. The obligation of the Borrowers to pay PIK Interest shall be automatically evidenced by this Agreement or, if applicable, any Notes issued pursuant to this Agreement.

(e) All accrued and unpaid interest shall be paid in cash at maturity (whether by acceleration or otherwise), after such maturity on demand and upon any repayment or prepayment thereof (on the amount prepaid).

(f) In addition to interest payments required to be made hereunder, and subject to the rights of acceleration hereunder, the full unpaid principal balance of the Loans, including PIK Interest, if any, that has been added to the principal balance of the Loans, shall be payable in full on the Maturity Date.

(g) In computing interest on any Loan, the date on which such interest is paid shall not be included and the first date of the interest period applicable to such Loan shall be included.

(h) If any Loans would otherwise constitute “applicable high yield discount obligations” within the meaning of Section 163(i)(1) of the Code, at the end of each “accrual period” (as defined in Section 1272(a)(5) of the Code) ending after the fifth anniversary of the applicable Funding Date (each, an “AHYDO Prepayment Date”), the Borrower will be required to prepay for cash a portion of each applicable Loan then outstanding equal to the Mandatory Principal Prepayment Amount (each such redemption, a “Mandatory Principal Prepayment”). The prepayment amount for the portion of the applicable Loans prepaid pursuant to any Mandatory Principal Prepayment will be 100% of the principal amount of such portion plus any accrued interest thereon on the

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date of prepayment. No partial prepayment of the Loans prior to any AHYDO Prepayment Date pursuant to any other provision of this Agreement will alter the Borrower's obligation to make any Mandatory Principal Prepayment with respect to any Loans that remain outstanding on such AHYDO Prepayment Date.

SECTION 2.05      Default Interest .

After the occurrence of any Default which remains unremedied for twenty (20) days and at all times thereafter while such Default remains unremedied, interest shall accrue on all outstanding Loans including on PIK Interest, if any, that has been added to the principal amount of the Loan (after as well as before judgment, as and to the extent permitted by law) at a rate per annum (the "Default Rate") equal to the Interest Rate in effect from time to time plus 2% per annum and such interest shall be payable in cash on each Interest Payment Date (or any earlier maturity of the Loans).

SECTION 2.06      Increased Costs .

(a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender or any holding company of any Lender; or

(ii) impose on any Lender any other condition affecting this Agreement or Loans made by such Lender;

and the result of any of the foregoing shall be to reduce the amount of any sum received or receivable by such Lender hereunder (whether of principal, interest or otherwise), then the applicable Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender for such additional costs incurred or reduction suffered.

(b) If any Lender determines that any Change in Law regarding capital or liquidity requirements has or would have the effect of reducing the rate of return on such Lender's capital or liquidity or on the capital or liquidity of such Lender's holding company, if any, as a consequence of this Agreement or the Loans made by such Lender to a level below that which such Lender or such Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy), then from time to time the applicable Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered.

(c) A certificate of a Lender setting forth the amount or amounts necessary to compensate such Lender or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section 2.06 and setting forth in reasonable detail the manner in which such amount or amounts were determined shall be delivered to the Initial Borrower and shall be conclusive absent manifest error. The applicable Borrower shall pay such Lender the amount shown as due on any such certificate within fifteen (15) Business Days after receipt thereof.

(d) Failure or delay on the part of any Lender to demand compensation pursuant to this Section 2.06 shall not constitute a waiver of such Lender's right to demand such compensation; provided that no compensation will be paid to any Lender with respect to any Change in Law that has occurred 180 days before such Lender has demanded compensation under this Section 2.06.

SECTION 2.07      Optional Prepayment of Loans; Reimbursement of Lenders .

(a) The Borrowers shall have the right to prepay any outstanding Loans of any Class, in whole or part, upon at least two (2) Business Day's prior written notice or facsimile notice to each Lender having Loans

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with respect to the applicable Class (with notices or payments delivered or made after 5:00 p.m. New York City time on a particular Business Day being deemed delivered or made on the next succeeding Business Day).

(b) [Reserved.]

(c) Any prepayment made pursuant to this Section 2.07 shall be subject to the following limitations:

(i) All prepayments shall be paid to all Lenders having a Loan with respect to the applicable Class being prepaid for application to the prepayment of outstanding Loans of such Class, including PIK Interest, if any, together with any accrued and unpaid interest, ratably in accordance with each Lender's Aggregate Exposure Percentage with respect to such Class; and

(ii) Each notice of prepayment shall specify the Class of Loans to be prepaid, the prepayment date and the principal amount of the Loans to be prepaid. Each notice of prepayment shall be irrevocable and shall commit the applicable Borrower to prepay such Loan by the amount and on the date stated therein; provided that if a notice of prepayment is expressly conditioned upon the effectiveness of an acquisition, debt incurrence or equity issuance, then such notice of prepayment may be revoked (by notice to the each Lender on or prior to the specified prepayment date) if such condition is not satisfied.

(d) In the event any Borrower fails to prepay the Loans on the date specified in any prepayment notice delivered pursuant to Section 2.07(a), such Borrower, on demand by any Lender, shall pay to such Lender, any amounts required to compensate such Lender for any loss incurred by such Lender as a result of such failure to prepay. Any Lender demanding such payment shall deliver to the Guarantor from time to time one or more certificates setting forth the amount of such loss as determined by such Lender and setting forth in reasonable detail the manner in which such amount was determined.

#### SECTION 2.08 Mandatory Prepayment; Commitment Termination.

(a) Upon the occurrence of a Change of Control, each Borrower will make an offer to the Lenders to repurchase the Loans at a purchase price in cash equal to one hundred one percent (101%) of (x) the aggregate principal amount of such Loans outstanding, including PIK Interest, if any, plus (y) accrued and unpaid interest thereon (any such offer, a "Change of Control Offer" and any such payment, the "Change of Control Payment"). Within five (5) Business Days following any Change of Control, the Guarantor will provide irrevocable notice to each Lender describing the transaction or transactions that constitute the Change of Control and stating the purchase price and the purchase date, which shall be no later than five (5) Business Days from the date such notice is given (the "Change of Control Payment Date"). On the Change of Control Payment Date, the Borrowers will deposit with the applicable Lenders an amount equal to the Change of Control Payment in respect of the Loans of each Lender that has accepted the Change of Control Offer.

(b) The Commitments shall terminate at 5:00 p.m., New York City time, on the second anniversary of the Closing Date.

#### SECTION 2.09 Maintenance of Loan Account; Statements of Account.

(a) Each Lender shall maintain an account on its books in the name of each Borrower (each a "Loan Account") which will reflect (i) all Loans made by such Lender to such Borrower and the Class of each such Loan, (ii) all increases in the outstanding principal amount of the Loans resulting from the payment of PIK Interest and (iii) any and all other monetary Obligations that have become payable.

(b) Each Loan Account will be credited with all amounts received from such Borrower or from others for the Borrower's account. At the reasonable request of any Borrower, each Lender shall send such

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Borrower a statement accounting for its Loan Account during such Fiscal Quarter. Any such quarterly statements shall, absent manifest error, be an account stated, which is final, conclusive and binding on the Borrowers.

SECTION 2.10      Payments.

(a) The Borrowers shall make each payment required to be made hereunder or under any other Loan Document (whether of principal, interest or fees, of amounts payable under Section 2.06, Section 2.07(d) or Section 2.12, or otherwise) prior to 2:00 p.m., New York City time, on the date when due, in immediately available funds, without setoff or counterclaim. Any amounts received after such time on any date shall be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made directly to the Persons entitled thereto and payments pursuant to other Loan Documents shall be made to the Persons specified therein. If any payment under any Loan Document shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments under each Loan Document shall be made in dollars.

(b) All funds received by any Person entitled thereto shall be applied in accordance with the provisions of Section 6.03 hereof, as applicable, ratably among the Persons entitled thereto in accordance with the amounts of principal, interest, and fees then due to such respective parties.

SECTION 2.11      Settlement Amongst Lenders.

The amount of each Lender's applicable Aggregate Exposure Percentage of outstanding Loans of each Class shall be computed quarterly and shall be adjusted based on all Loans of such Class, all increases in the outstanding principal amount of the Loans of such Class resulting from the payment of interest in kind and repayments of Loans of such Class received by the Lenders as of 2:00 p.m., New York City time, on the first Business Day (such date, the "Settlement Date") following the end of each Fiscal Quarter.

SECTION 2.12      Taxes.

(a) Any and all payments by or on account of any obligation of the Loan Parties hereunder or under any other Loan Document shall be made free and clear of and without deduction for any Taxes, except as required by applicable law. If any applicable law (as determined in the reasonable judgment of the Guarantor) requires the deduction or withholding of any Tax from any such payment by or on behalf of any Loan Party, then the Loan Party (or the applicable withholding agent) shall be entitled to and shall make such deduction or withholding and shall timely pay the full amount deducted or withheld to the relevant Governmental Authority in accordance with Applicable Law and, if such Tax is an Indemnified Tax or Other Tax, then the sum payable shall be increased as necessary so that after making all required deductions or withholdings for Taxes (including deductions applicable to additional sums payable under this Section 2.12) the applicable Credit Party receives an amount equal to the sum it would have received had no such deductions been made.

(b) In addition, the Loan Parties shall pay any Other Taxes to the relevant Governmental Authority in accordance with Applicable Law.

(c) Without duplicating the provisions of Section 2.12(a) and (b) above, the Loan Parties shall indemnify each Credit Party, within ten (10) days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by such Credit Party on or with respect to any payment by or on account of any obligation of the Loan Parties hereunder or under any other Loan Document (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section 2.12) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Guarantor by a Credit Party, setting forth in reasonable detail the manner in which such amount was determined, shall be conclusive absent manifest error.

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(d) As soon as practicable after any payment of Taxes pursuant to this Section 2.12 by a Loan Party to a Governmental Authority, the Guarantor shall deliver to each Lender the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Required Lenders.

(e) (i) Any Lender that is entitled to an exemption from or reduction of withholding Tax with respect to payments made under any Loan Document shall deliver to the Guarantor, at the time or times reasonably requested by the Guarantor, such properly completed and executed documentation reasonably requested by the Guarantor as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any Lender, if reasonably requested by the Guarantor, shall deliver such other documentation prescribed by applicable law or reasonably requested by the Guarantor as will enable the Borrower or the Guarantor to determine whether or not such Lender is subject to backup withholding or information reporting requirements. Notwithstanding anything to the contrary in the preceding two sentences, the completion, execution and submission of such documentation (other than such documentation set forth in Section 2.12(e) (ii)(A), (ii)(B) and (ii)(D) below) shall not be required if in the Lender's reasonable judgment such completion, execution or submission would subject such Lender to any material unreimbursed cost or expense.

(ii) Without limiting the generality of the foregoing,

(A) any Lender that is a U.S. Person shall deliver to the Guarantor on or prior to the date on which such Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Guarantor), executed copies of IRS Form W-9 certifying that such Lender is exempt from U.S. federal backup withholding tax;

(B) any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to the Guarantor (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Guarantor) whichever of the following is applicable:

(1) in the case of a Foreign Lender claiming the benefits of an income tax treaty to which the United States is a party (x) with respect to payments of interest under any Loan Document, executed copies of IRS Form W-8BEN or W-8BEN-E establishing an exemption from, or reduction of U.S. federal withholding Tax pursuant to the "interest" article of such tax treaty and (y) with respect to any other applicable payments under any Loan Document, IRS Form W-8BEN or W-8BEN-E establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the "business profits" or "other income" article of such tax treaty.

(2) executed copies of IRS Form W-ECI;

(3) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under Section 881(c) of the Code, (x) a certificate substantially in the form of Exhibit D-1 to the effect that such Foreign Lender is not a "bank" within the meaning of Section 881(c)(3)(A) of the Code, a "10 percent shareholder" of the Guarantor within the meaning of Section 881(c)(3)(B) of the Code, or a "controlled foreign corporation" described in Section 881(c)(3)(C) of the Code (a "U.S. Tax Compliance Certificate") and (y) executed copies of IRS Form W-8BEN or W-8BEN-E; or

(4) to the extent a Foreign Lender is not the beneficial owner, executed copies of IRS Form W-8IMY, accompanied by IRS Form W-ECI, IRS Form W-8BEN or W-8BEN-E, a U.S. Tax Compliance Certificate substantially in the form of Exhibit D-2 or Exhibit D-3, IRS Form W-9, and/or other certification documents from each beneficial owner, as applicable, provided that if the Foreign Lender is a partnership and one or more direct or indirect partners of such Foreign Lender are claiming the portfolio interest exemption, such Foreign Lender may provide a U.S. Tax Compliance Certificate substantially in the form of Exhibit D-4 on behalf of each such direct and indirect partner;

(C) any Foreign Lender shall, to the extent it is legally entitled to do so, deliver to the

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Guarantor (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of the Guarantor), executed copies of any other form prescribed by applicable law as a basis for claiming exemption from or a reduction in U.S. federal withholding Tax, duly completed, together with such supplementary documentation as may be prescribed by applicable law to permit the Guarantor to determine the withholding or deduction required to be made; and

(D) if a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), such Lender shall deliver to the Guarantor at the time or times prescribed by law and at such time or times reasonably requested by the Guarantor such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Guarantor as may be necessary for the Guarantor and Borrower to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (D), "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

Each Lender agrees (x) that if any form or certification it previously delivered pursuant to Section 2.12(e)(ii) expires or becomes obsolete, it shall update such form or certification or promptly notify the Guarantor in writing of its legal inability to do so and (y) that if such Lender has actual knowledge that any form or certification it previously delivered pursuant to Section 2.12(e) becomes inaccurate in any respect, it shall promptly notify the Guarantor such inaccuracy.

(f) If any Loan Party shall be required pursuant to Section 2.12(a), (b) or (c) to pay any additional amount to, or to indemnify, any Credit Party to the extent that such Credit Party becomes subject to Taxes subsequent to the Closing Date (or, if applicable, subsequent to the date such Person becomes a party to this Agreement) as a result of any change in the circumstances of such Credit Party (other than a change in Applicable Law), including without limitation a change in the residence, place of incorporation, principal place of business of such Credit Party or a change in the branch or lending office of such Credit Party, as the case may be, such Credit Party shall use reasonable efforts to avoid or minimize any amounts which might otherwise be payable pursuant to Section 2.12 (a), (b) or (c); provided however, that such efforts shall not include the taking of any actions by such Credit Party that would result in any tax, costs or other expense to such Credit Party (other than a tax, cost or other expense for which such Credit Party shall have been reimbursed or indemnified by the Loan Parties pursuant to this Agreement or otherwise) or any action which would or might in the reasonable opinion of such Credit Party have an adverse effect upon its business, operations or financial condition or otherwise be disadvantageous to such Credit Party.

(g) If any Credit Party reasonably determines that it has received a refund of any Taxes paid, indemnified or reimbursed by the Loan Parties pursuant to Section 2.12 (including by the payment of additional amounts pursuant to this Section 2.12), such Credit Party shall pay to the applicable Loan Party, with reasonable promptness following the date upon which it receives the refund an amount equal to the refund (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section 2.12 with respect to the Taxes giving rise to such refund), net of all out of pocket expenses incurred in securing such refund by the Credit Party and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund); provided, that the Borrower, upon the request of the Credit Party, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Credit Party in the event the Credit Party is required to repay such refund to such Governmental Authority. This paragraph shall not be construed to require the Credit Party to make available its tax returns (or any other information relating to its taxes which it deems confidential) to the Guarantor or any other Person.

(h) For purposes of this Section 2.12, the term Applicable Law includes FATCA.

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SECTION 2.13 Mitigation Obligations; Replacement of Lenders.

(a) If any Lender requests compensation under Section 2.06, or if any Loan Party is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.12, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the reasonable judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.06 or Section 2.12, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The applicable Loan Party hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment; provided, however, that no Loan Party shall be liable for such costs and expenses of a Lender requesting compensation if (i) such Lender becomes a party to this Agreement on a date after the Closing Date and (ii) the relevant Change in Law occurs on a date prior to the date such Lender becomes a party hereto.

(b) If any Lender requests compensation under Section 2.06, or if any Loan Party is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.12, or if any Lender defaults in its obligation to fund Loans hereunder, then the Guarantor may, at its sole expense and effort, upon notice to such Lender, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 8.04), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided, however, that (i) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans, including PIK Interest, if any, accrued interest on the Loans, accrued fees and all other amounts payable to it hereunder from the assignee (to the extent of such outstanding principal, including PIK Interest, if any, accrued interest and fees) or the Borrowers (in the case of all other amounts) and (ii) in the case of any such assignment resulting from a claim for compensation under Section 2.06 or payments required to be made pursuant to Section 2.12, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Guarantor to require such assignment and delegation cease to apply.

ARTICLE III

Representations and Warranties

To induce the Credit Parties to make the Loans, the Initial Borrower, the Guarantor and, if applicable, any Additional Borrowers, jointly and severally, make, on the Closing Date and each Funding Date thereafter, the following representations and warranties to each Credit Party, all of which shall survive the execution and delivery of this Agreement and the making of the Loans ( provided that the representations and warranties set forth in Section 3.05 shall be made only on each Funding Date on which Loans are made and only by the Guarantor and each Borrower to which Loans are extended on such Funding Date):

SECTION 3.01 Organization; Powers.

Each Loan Party and each Subsidiary of a Loan Party is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to own its property and assets and to carry on its business as now conducted and each Loan Party has all requisite power and authority to execute and deliver and perform all its obligations under all Loan Documents to which such Loan Party is a party. Each Loan Party and each Subsidiary of a Loan Party is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required, except where the failure to do so individually or in the aggregate could not reasonably be expected to result in a Material Adverse Effect. Schedule 3.01 annexed hereto sets forth, as of the Closing Date, the Guarantor and the Initial Borrower's names as they appear in official filings in their jurisdiction of incorporation, organization type, organization number, if any, issued by such

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jurisdiction of incorporation and their federal employer identification number.

SECTION 3.02 Authorization; Enforceability.

The transactions contemplated hereby and by the other Loan Documents to be entered into by each Loan Party on the Closing Date or such other Funding Date are within such Loan Party's corporate or other organizational powers and have been duly authorized by all necessary corporate, membership, partnership or other necessary action. This Agreement has been duly executed and delivered by the Guarantor and the Initial Borrower and constitutes, and each other Loan Document to which any Loan Party is a party, when executed and delivered by such Loan Party will constitute, a legal, valid and binding obligation of such Loan Party, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

SECTION 3.03 Governmental Approvals; No Conflicts.

The transactions to be entered into and contemplated by the Loan Documents (a) (i) on the Closing Date do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except for such as have been obtained or made and are in full force and effect and (ii) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except for such as have been obtained or made and are in full force and effect as of the date of any Borrowing, (b) will not violate any material Applicable Law or the Charter Documents of any Loan Party and (c) will not violate or result in a default under any indenture or any other agreement, instrument or other evidence of Material Indebtedness, or any other material instrument binding upon any Loan Party or its assets, or give rise to a right thereunder to require any payment to be made by any Loan Party.

SECTION 3.04 Compliance with Law.

The Guarantor and each of its Subsidiaries is in compliance in all material respects with the requirements of all Applicable Law and all orders, writs, injunctions and decrees applicable to it, except in such instances in which (a) such Applicable Law or such order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted or (b) the failure to comply therewith, either individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

SECTION 3.05 Borrower Representations.

(a) Each Borrower is subject to civil and commercial Laws with respect to its obligations under this Agreement and the other Loan Documents to which it is a party (collectively as to such Borrower, the "Applicable Borrower Documents"), and the execution, delivery and performance by such Borrower of the Applicable Borrower Documents constitute and will constitute private and commercial acts and not public or governmental acts. Neither such Borrower nor any of its property has any immunity from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) under the laws of the jurisdiction in which such Borrower is organized and existing in respect of its obligations under the Applicable Borrower Documents.

(b) The Applicable Borrower Documents are in proper legal form under the Laws of the jurisdiction in which such Borrower is organized and existing for the enforcement thereof against such Borrower under the Laws of such jurisdiction, and are sufficient to ensure the legality, validity, enforceability, priority or admissibility in evidence of the Applicable Borrower Documents.

(c) It is not necessary to ensure the legality, validity, enforceability, priority or admissibility in evidence of the Applicable Borrower Documents that the Applicable Borrower Documents be filed, registered or recorded with, or executed or notarized before, any court or other authority in the jurisdiction in which such Borrower is organized and existing or that any registration charge or stamp or similar tax be paid on or in respect

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of the Applicable Borrower Documents or any other document, except for (A) any such filing, registration, recording, execution, translation or notarization as has been made or is not required to be made until the Applicable Borrower Document or any other document is sought to be enforced and (B) any charge or tax as has been timely paid.

(d) There is no tax, levy, impost, duty, fee, assessment or other governmental charge, or any deduction or withholding, imposed by any Governmental Authority in or of the jurisdiction in which such Borrower is organized and existing either (A) on or by virtue of the execution or delivery or enforcement of or performance by the parties of their respective obligations under the Applicable Borrower Documents or (B) on any payment to be made by such Borrower pursuant to the Applicable Borrower Documents, except as has been disclosed in writing to the Initial Lender. None of the Borrowers is a foreign financial institution as defined in section 1471(d)(4) of the Code.

(e) The execution, delivery and performance of the Applicable Borrower Documents executed by such Borrower are, under applicable foreign exchange control regulations of the jurisdiction in which such Borrower is organized and existing, not subject to any notification or authorization except (A) such as have been made or obtained or (B) such as cannot be made or obtained until a later date (provided that any notification or authorization described in clause (b) shall be made or obtained as soon as is reasonably practicable).

(f) The execution, delivery and performance of the Applicable Borrower Documents executed by such Borrower and the making of the applicable Loans will not violate or result in a default under any indenture or any other agreement, instrument or other evidence of Material Indebtedness, or any other material instrument binding upon any Borrower or its assets, or give rise to a right thereunder to require any payment to be made by any Borrower.

#### SECTION 3.06 Solvency.

As of the Closing Date, the Guarantor and its Subsidiaries, taken as a whole on a consolidated basis, are Solvent.

#### SECTION 3.07 Financial Statements; No Material Adverse Change.

(a) There has been furnished to the Initial Lender a consolidated and consolidating balance sheet of the Guarantor and its Subsidiaries as of December 31, 2013, and a consolidated and consolidating statements of income or operations, cash flows and shareholders' equity of the Guarantor and its Subsidiaries for the Fiscal Year then ended, and in the case of the consolidated financial statements, certified by Marcum LLP. Such financial statements have been prepared in accordance with GAAP and fairly present the financial condition of the Guarantor and its Subsidiaries as at the close of business on the date thereof and the results of operations for the Fiscal Year then ended. There are no contingent liabilities of the Guarantor or any Subsidiary as of such date involving material amounts, known to the officers of Guarantor or any Subsidiary, required to be disclosed in such balance sheet and the notes related thereto in accordance with GAAP, which were not disclosed in such balance sheet and the notes related thereto.

(b) There has been furnished to the Initial Lender an unaudited consolidated and consolidating balance sheet of the Guarantor and its Subsidiaries as of the close of the Fiscal Quarter ending September 30, 2014 and unaudited consolidated and consolidating statements of income or operations and cash flow of the Guarantor and its Subsidiaries as of the close of such Fiscal Quarter, in each case, certified by a financial officer of Guarantor. Such balance sheet and statement of income or operations and cash flows have been prepared in accordance with GAAP and fairly present the financial condition of the Guarantor and its Subsidiaries as at the close of business on the date thereof and the results of operations subject to year-end and quarterly adjustments and the absence of footnotes. There are no contingent liabilities of the Guarantor or any Subsidiary as of such date involving material amounts, known to the officers of the Guarantor or any Subsidiary required to be disclosed in such balance sheet and the notes related thereto in accordance with GAAP which were not disclosed in such balance sheet and the

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notes related thereto.

(c) Since September 30, 2014, there has occurred no Material Adverse Effect.

SECTION 3.08 Litigation.

There are no actions, suits, proceedings, claims or disputes pending or, to the knowledge of the Loan Parties, threatened in writing, at law, in equity, in arbitration or before any Governmental Authority, by or against the Loan Parties, any of its Subsidiaries or any member of the Senior Management of any Loan Party or any of its Subsidiaries or against any of their properties or revenues that (a) as of the Closing Date purport to affect or pertain to this Agreement or any of the transactions contemplated hereby or (b) could reasonably be expected to result in material liabilities against the Loan Parties and their Subsidiaries, taken as a whole, either individually or in the aggregate except as specifically disclosed in Schedule 3.08, and there has been no material adverse change in the status, or financial effect on the Loan Parties and their Subsidiaries, taken as a whole, of the matters described on Schedule 3.08.

SECTION 3.09 No Default.

From and after the Closing Date, (i) no Default or Event of Default has first occurred and is continuing or would result from the consummation of the transactions contemplated by this Agreement, and (ii) no Event of Default (as defined in each of the First Lien Credit Agreement and the Senior Notes Indenture) has first occurred and is continuing.

SECTION 3.10 Investment Company Act.

None of the Loan Parties is required to be registered as an “investment company” under the Investment Company Act of 1940.

SECTION 3.11 Regulations U and X.

The proceeds of the Loans shall be used solely for the purposes specified in Section 5.02. No portion of any Loan is to be used for the purpose of purchasing or carrying any “margin security” or “margin stock” as such terms are used in Regulations U and X of the Board of Governors of the Federal Reserve System, 12 COFFER. Parts 221 and 224.

SECTION 3.12 True Copies of Charter Documents.

The Loan Parties (as of the Closing Date or, with respect to any Additional Borrower, the initial Funding Date for such Additional Borrower) have furnished or caused to be furnished to the Lender true and complete copies of the Charter Documents (together with any amendments thereto) of each Loan Party.

SECTION 3.13 Environmental Compliance.

Based upon the actual knowledge of the executive officers of the Guarantor, and except as specifically disclosed in Schedule 3.13, existing Environmental Laws and claims, as they relate to the Loan Parties and their Subsidiaries, could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

SECTION 3.14 Labor Contracts.

Except as set forth on Schedule 3.14, as of the Closing Date, none of the Loan Parties is party to any collective bargaining agreement. There are no material grievances, disputes or controversies with any union or other organization of any Loan Party’s employees, or threats of strikes or work stoppages that would reasonably be expected to result in a Material Adverse Effect.

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SECTION 3.15 Disclosure.

Each Loan Party has disclosed to the Initial Lender all agreements, instruments and corporate or other restrictions to which it or any of its Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, would reasonably be expected to result in a Material Adverse Effect (which disclosure includes matters disclosed pursuant to filings with the United States Securities and Exchange Commission made by the Guarantor so long as the Loan Parties have alerted the Initial Lender to the existence thereof, and the draft 10-K for the period ended December 31, 2014, provided to the Initial Lender prior to the Closing Date). No report, financial statement, certificate or other information furnished (whether in writing or orally) by or on behalf of any Loan Party to the Initial Lender in connection with the transactions contemplated hereby and the negotiation of this Agreement or delivered hereunder (in each case, as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not materially misleading.

SECTION 3.16 OFAC.

No Loan Party, nor, to the knowledge of any Guarantor, any Related Party, (i) is currently the subject of any Sanctions, (ii) is located, organized or residing in any Designated Jurisdiction, or (iii) is or has been (within the previous five (5) years) engaged in any transaction with any Person who is now or was then the subject of Sanctions or who is located, organized or residing in any Designated Jurisdiction. No Loan, nor the proceeds from any Loan, has been used, directly or indirectly, to lend, contribute, provide or has otherwise made available to fund any activity or business in any Designated Jurisdiction or to fund any activity or business of any Person located, organized or residing in any Designated Jurisdiction or who is the subject of any Sanctions, or in any other manner that will result in any violation by any Person (including any Lender, the Arranger, the Administrative Agent or the L/C Issuer) of Sanctions.

ARTICLE IV

Conditions

SECTION 4.01 Closing Date.

The obligation of each Lender to make the initial extension of credit requested to be made by it is subject to the satisfaction, prior to or concurrently with the making of such extension of credit, of the following conditions precedent:

- (a) The Initial Lender (or its counsel) shall have received a counterpart of this Agreement signed on behalf of each party hereto.
  - (b) The Initial Lender shall have received a favorable written opinion (addressed to the Initial Lender and dated the Closing Date) of counsel for the Loan Parties covering such matters relating to the Loan Parties, the Loan Documents or the Transactions contemplated thereby as the Initial Lender shall reasonably request.
  - (c) The Initial Lender shall have received Charter Documents and such other documents and certificates as the Initial Lender or its counsel may reasonably request relating to the organization, existence and good standing of the Guarantor and the Initial Borrower, the authorization of the transactions contemplated by the Loan Documents and any other legal matters relating to the Guarantor, the Initial Borrower, the Loan Documents or the transactions contemplated thereby, all in form and substance reasonably satisfactory to the Initial Lender and its counsel.
  - (d) The Initial Lender shall have received a certificate, reasonably satisfactory in form and substance to the Initial Lender, certifying (i) that the Guarantor and its Subsidiaries, taken as a whole, are Solvent as of the Closing Date and (ii) that as of the Closing Date, the representations and warranties
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made by the Guarantor and the Initial Borrower in the Loan Documents, or which are contained in any document furnished in connection herewith and therewith, are true and correct in all material respects; provided that any representation and warranty that is qualified as to materiality or “Material Adverse Effect” or similar language and the representation and warranty contained in Section 3.04 shall be true and correct in all respects; (iii) that immediately after giving effect to the consummation of the transactions contemplated under this Agreement and the other Loan Documents on the Closing Date (including any Loans made hereunder on the Closing Date), no Default or Event of Default exists, and (iv) as to compliance with the terms of the First Lien Credit Agreement and the Senior Notes Indenture.

(e) Immediately after giving effect to the consummation of the transactions contemplated under this Agreement and the other Loan Documents on the Closing Date (including any Loans made hereunder on the Closing Date), no Default or Event of Default shall exist.

(f) All necessary consents and approvals to the transactions contemplated hereby shall have been obtained and shall be reasonably satisfactory to the Initial Lender.

(g) There shall have been delivered to the Initial Lender such additional instruments and documents as the Initial Lender or its counsel reasonably may require or request.

(h) The Initial Lender shall have received a Borrowing Notice as required by Section 2.02.

(i) The Initial Lender shall have received a true, correct and complete copy, certified as such by the Guarantor, of (1) the First Lien Credit Agreement, (2) the Senior Notes Indenture, (3) the Intercreditor Agreement (as defined in the Senior Notes Indenture), in each case, in effect as of the Closing Date, and (4) an amendment to the First Lien Credit Agreement, explicitly permitting all of the transactions contemplated hereby and by the other Loan Documents, and such amendment shall be in form and substance reasonably satisfactory to the Initial Lender and be in full force and effect on or prior to the Closing Date.

Notwithstanding the foregoing, the obligations of the Lenders to make Loans hereunder shall not become effective unless all of the foregoing conditions are satisfied (or waived as provided in Section 4.01 hereof) at or prior to 3:00 p.m., New York City time, on the Closing Date (and, in the event such conditions are not so satisfied or waived, this Agreement shall terminate at such time). The conditions set forth in this Section 4.01 are for the sole benefit of each Credit Party and may be waived by the Initial Lender, in whole or in part, without prejudice to any other Credit Party.

#### SECTION 4.02 Funding Dates for Loans .

The obligations of the Lenders holding Commitments to make Loans on each Funding Date are subject solely to the following conditions precedent:

(a) The Foreign Subsidiary requesting Loans on such Funding Date shall have been made a Borrower, and delivery of the Applicant Borrower Documents shall have occurred, in accordance with Section 2.02.

(b) The Initial Lender shall have received a certificate certifying that as of such Funding Date, the representations and warranties made by any Borrowers in the Loan Documents, or which are contained in any document furnished in connection herewith and therewith, are true and correct in all material respects; provided that any representation and warranty that is qualified as to materiality or “Material Adverse Effect” or similar language and the representation and warranty contained in Section 3.04 shall be true and correct in all respects; and immediately after giving effect to the making of the Loans requested on such Funding Date no Default or Event of Default shall exist.

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(c) Immediately after giving effect to the making of the Loans requested on such Funding Date, no Default or Event of Default shall exist.

(d) All necessary consents and approvals to the making of the Loans requested on such Funding Date shall have been obtained.

(e) The Initial Lender shall have received a Borrowing Notice as required by Section 2.02.

## ARTICLE V

### Covenants

#### SECTION 5.01 Notices.

The Initial Borrower will furnish to each Lender prompt written notice of a Default or Event of Default, specifying the nature and extent thereof and the action (if any) which is proposed to be taken with respect thereto.

#### SECTION 5.02 Use of Proceeds.

The proceeds of any Loans made hereunder will be used only for general corporate purposes of the Guarantor and its Subsidiaries and may be distributed, loaned or transferred by the applicable Borrower to the Guarantor or any Subsidiary of the Guarantor. No part of the proceeds of the Loans will be used, whether directly or indirectly, for any purpose that entails a violation of any of the regulations of the Board, including Regulations U and X.

## ARTICLE VI

### Events of Default

#### SECTION 6.01 Events of Default.

If any of the following events (“Events of Default”) shall occur:

(a) any Borrower shall fail to pay any principal of any Loan when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) any Borrower shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount referred to in Section 6.01(a)) payable under this Agreement or any other Loan Document and such failure shall continue for a period of five (5) consecutive Business Days following written demand therefor by the Lenders;

(c) any representation or warranty of any Loan Party in, or in connection with, any Loan Document or any amendment, supplement or modification thereof or waiver thereunder, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with any Loan Document or any amendment or modification thereof or waiver thereunder, shall prove to have been materially incorrect when made;

(d) a default in the observance of performance of any other covenant or agreement contained in this Agreement or any other Loan Document which default continues for a period of sixty (60) days after the Initial Borrower receives written notice specifying the default (and demanding that such default will be remedied) from the Required Lenders;

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(e) the occurrence of (i) an “Event of Default” under and as defined in the Senior Notes Indenture or (ii) an “Event of Default” under and as defined in the Lion Credit Agreement;

(f) the failure to pay at final maturity (giving effect to any applicable grace periods and any extensions thereof) the principal amount of any Indebtedness of the Guarantor or any Subsidiary of the Guarantor, or the acceleration of the final stated maturity of any such Indebtedness, in each case, if the aggregate principal amount of such Indebtedness, together with the principal amount of any other such Indebtedness in default for failure to pay principal at final maturity or which has been accelerated, aggregates \$10,000,000 or more at any time;

(g) any Borrower, the Guarantor, any of its Significant Subsidiaries or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary (i) commences a voluntary case or proceeding under the Bankruptcy Code with respect to itself, (ii) consents to the entry of an order for relief against it in an involuntary case under the Bankruptcy Code, (iii) consents to the appointment of a Custodian of it or for substantially all of its property, (iv) makes a general assignment for the benefit of its creditors; or (v) takes any corporate action to authorize or effect any of the foregoing; or

(h) a court of competent jurisdiction enters a judgment, decree or order for relief in respect of any Borrower, the Guarantor, any of its Significant Subsidiaries or any group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary in an involuntary case or proceeding under the Bankruptcy Code, which shall (i) approve as properly filed a petition seeking reorganization, arrangement, adjustment or composition in respect of such Borrower, the Guarantor, such Significant Subsidiary or group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary, (ii) appoint a Custodian of such Borrower, the Guarantor, such Significant Subsidiary or group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary, or for substantially all of its property or (iii) order the winding up or liquidation of its affairs; and such judgment, decree or order shall remain unstayed and in effect for a period of sixty (60) days;

then, and in every such event (other than an event described in Section 6.01(g) or Section 6.01(h) with respect to any Loan Party), and at any time thereafter during the continuance of such event, the Required Lenders may, by notice to the Guarantor, declare the Obligations then outstanding to be due and payable in whole, and thereupon the principal of the Loans, including any interest paid-in-kind, and all other Obligations so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Loan Parties accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Loan Parties. In case of any event with respect to any Loan Party described in Section 6.01(g) or Section 6.01(h), the Commitments shall automatically and irrevocably terminate and the principal of the Loans, including any interest paid-in-kind, and other Obligations then outstanding, together with accrued interest thereon and all fees and other obligations of the Loan Parties accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Loan Parties.

#### SECTION 6.02 Remedies on Default.

In case any one or more of the Events of Default shall have occurred and be continuing, and whether or not the maturity of the Obligations shall have been accelerated pursuant hereto, the Required Lenders may proceed to protect and enforce their rights and remedies under this Agreement or any of the other Loan Documents by suit in equity, action at law or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in this Agreement and the other Loan Documents or any instrument pursuant to which the Obligations are evidenced, and, if such amount shall have become due, by declaration or otherwise, proceed to enforce the payment thereof or any other legal or equitable right of the Credit Parties. No remedy herein is intended to be exclusive of any other remedy and each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or any other provision of law.

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SECTION 6.03 Application of Proceeds.

After the occurrence of an Event of Default and acceleration of the Obligations, any amounts received on account of the Obligations shall be applied in the following order:

- (a) FIRST, ratably to pay interest accrued (other than any PIK Interest) in respect of the Obligations until paid in full;
- (b) SECOND, ratably to pay principal due, including any PIK Interest, in respect of the Loans to the Borrowers until paid in full;
- (c) THIRD, ratably to pay any other Obligations; and
- (d) FOURTH, to the applicable Borrower or such other Person entitled thereto under Applicable Law.

ARTICLE VI

Guarantee

SECTION 7.01 Guarantee.

Subject to this Article VII, on and after the initial Funding Date with respect to any Loans, the Guarantor hereby fully and unconditionally, jointly and severally guarantees (such guarantee, as amended or supplemented from time to time, to be referred to herein as the “Guarantee”), to each of the Lenders and their respective successors and assigns that (i) the principal of, premium, if any and interest on the Loans shall be promptly paid in full when due, subject to any applicable grace period, whether upon redemption pursuant to the terms of the Loans, by acceleration or otherwise, and interest on the overdue principal (including interest accruing at the then applicable rate provided in this Agreement after the occurrence of any Event of Default set forth in Section 6.01(d) or (e), whether or not a claim for post-filing or post-petition interest is allowed under Applicable Law following the institution of a proceeding under bankruptcy, insolvency or similar laws), if any, and interest on any interest, to the extent lawful, of the Loans and all other obligations of the Additional Borrowers to the Lenders hereunder, thereunder or under any other Loan Document shall be promptly paid in full or performed, all in accordance with the terms hereof, thereof and of the other Loan Documents; and (ii) in case of any extension of time of payment or renewal of any of the Loans or of any such other obligations, the same shall be promptly paid in full when due or performed in accordance with the terms of the extension or renewal, subject to any applicable grace period, whether at stated maturity, by acceleration or otherwise, subject, however, in the case of clauses (i) and (ii) above, to the limitations set forth in this Section 7.01 and Section 7.03. The Guarantor hereby agrees that its obligations hereunder shall be unconditional, irrespective of the validity, regularity or enforceability of the Loans, this Agreement, or any other Loan Document, the absence of any action to enforce the same, any waiver or consent by any of the Lenders with respect to any provisions hereof or thereof, the recovery of any judgment against any Borrower, any action to enforce the same or any other circumstance which might otherwise constitute a legal or equitable discharge or defense of the Guarantor under this Guarantee. The Guarantor hereby waives diligence, presentment, demand of payment, filing of claims with a court in the event of insolvency or bankruptcy of any Borrower, any right to require a proceeding first against any Borrower, protest, notice and all demands whatsoever and covenants that this Guarantee shall not be discharged except by complete performance of the obligations contained in the Loans, this Agreement and in this Guarantee.

The obligations of the Guarantor are limited to the maximum amount which, after giving effect to all other contingent and fixed liabilities of the Guarantor, shall result in the obligations of the Guarantor under the Guarantee not constituting a fraudulent conveyance or fraudulent transfer under federal or state law. The net worth of the Guarantor for such purpose shall include any claim of the Guarantor against any Borrower for reimbursement. If any Lender is required by any court or otherwise to return to any Borrower or any custodian, trustee, liquidator or

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other similar official acting in relation to any Borrower, any amount paid by any Borrower to the such Lender and this Guarantee, to the extent theretofore discharged, shall be reinstated in full force and effect. The Guarantor further agrees that, as between it, on the one hand, and the Lenders on the other hand, (x) the maturity of the obligations guaranteed hereby may be accelerated as provided in Article VI for the purposes of this Guarantee notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the obligations guaranteed hereby, and (y) in the event of any acceleration of such obligations as provided in Article VI, such obligations (whether or not due and payable) shall forthwith become due and payable by the Guarantor for the purpose of this Guarantee.

SECTION 7.02 Release of Guarantee.

The Guarantor will be automatically and unconditionally released from its Guarantee without any action required on the part of any Lender upon payment in full in cash of the principal of, premium, if any, accrued and unpaid interest on the Loans and all other Obligations under this Agreement that are then due and payable in respect of the Loans.

At the Guarantor's request and expense, the Lenders will promptly execute and deliver an instrument evidencing such release. The Guarantor may also be released from its obligations under its Guarantee in connection with a permitted amendment of this Agreement.

SECTION 7.03 Limitation of the Guarantor's Liability.

The Guarantor and, by its acceptance hereof, each of the Lenders hereby confirms that it is the intention of all such parties that the guarantee by the Guarantor pursuant to its Guarantee not constitute a fraudulent transfer or conveyance for purposes of the Bankruptcy Code, the Uniform Fraudulent Conveyance Act, the Uniform Fraudulent Transfer Act or any similar Federal or state law. To effectuate the foregoing intention, the Lenders and the Guarantor hereby irrevocably agree that the obligations of the Guarantor under the Guarantee shall be limited to the maximum amount as shall, after giving effect to all other contingent and fixed liabilities of the Guarantor, result in the obligations of the Guarantor under the Guarantee not constituting such fraudulent transfer or conveyance.

SECTION 7.04 [Reserved].

SECTION 7.05 Waiver of Subrogation.

The Guarantor agrees that it shall not be entitled to any right of subrogation in relation to the Lenders in respect of any obligations guaranteed hereby until payment in full of all obligations guaranteed hereby.

SECTION 7.06 Waiver of Stay, Extension or Usury Laws.

The Guarantor covenants to the extent permitted by law that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or any usury law that would prohibit or forgive the Guarantor from performing its Guarantee as contemplated herein, wherever enacted, now or at any time hereafter in force; and the Guarantor hereby expressly waives to the extent permitted by law all benefit or advantage of any such law, and covenants that it shall not hinder, delay or impede the execution of any power herein granted to the Lenders, but shall suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE VIII

Miscellaneous

SECTION 8.01 Notices.

Except in the case of notices and other communications expressly permitted to be given by telephone, all

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notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by facsimile or e-mail, as follows:

(a) if to any Loan Party, to it at American Apparel, Inc. 747 Warehouse St., Los Angeles, CA 90021, Attention: General Counsel, with a copy to Skadden, Arps, Slate, Meagher & Flom LLP, Attention: David Reamer (Telecopy No. (917) -777-2850); E-Mail dreamer@skadden.com);

(b) if to Standard General, to it at the following address:  
Standard General L.P.  
767 5th Avenue  
New York, New York 10153  
Attention: Gail D. Steiner  
E-Mail Address: GSteiner@standgen.com

with a copy to:

Debevoise & Plimpton LLP  
919 Third Avenue  
New York, New York 10022  
Attention: Craig A. Bowman  
E-Mail Address: cabowman@debevoise.com

(c) if to any Credit Party, to it at its address (or facsimile number or e-mail address) as set forth on Schedule 1.01(a) hereto or on any Assignment and Acceptance.

Notwithstanding the foregoing, any notice hereunder sent by e-mail shall be solely for the distribution of (i) routine communications such as financial statements and (ii) documents and signature pages for execution by the parties hereto, and for no other purpose. Any party hereto may change its address, facsimile number or email address for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given three (3) days after mailing or otherwise upon delivery.

#### SECTION 8.02 Waivers; Amendments .

(a) No failure or delay by any Credit Party in exercising any right or power hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Credit Parties hereunder and under the other Loan Documents are cumulative and are not exclusive of any other rights or remedies that they would otherwise have. No waiver of any provision of any Loan Document or consent to any departure by any Borrower therefrom shall in any event be effective unless the same shall be permitted by Section 8.02 (b), and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan shall not be construed as a waiver of any Default or Event of Default, regardless of whether any Credit Party may have had notice or knowledge of such Default or Event of Default at the time.

(b) Except as otherwise specifically provided herein, neither this Agreement nor any other Loan Document nor any provision hereof or thereof may be waived, amended or modified except, in the case of this Agreement, pursuant to an agreement or agreements in writing entered into by the Borrowers and the Required Lenders; provided however, that no such waiver, amendment, modification or other agreement shall:

(i) increase the Commitment of any Lender without the prior written consent of such Lender;

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- (ii) reduce the principal amount of any Obligation or reduce the rate of interest thereon, or reduce any fees payable under the Loan Documents without the consent of the Lenders adversely affected thereby;
- (iii) postpone the scheduled date of payment of the principal amount of any Obligation, or any interest thereon, or any fees payable under the Loan Documents, or reduce the amount of, waive or excuse any such payment, or postpone the expiration of the Commitments or postpone the Maturity Date without the consent of the Lenders adversely affected thereby;
- (iv) change Section 2.08(a) without the prior written consent of each Lender adversely affect thereby; or
- (v) without prior written consent of all Lenders:
  - (A) subordinate the Obligations hereunder to any other Indebtedness;
  - (B) change any of the provisions of this Section 8.02 or the definition of “Required Lenders” or any other provision of any Loan Document specifying the number or percentage of Lenders required to waive, amend or modify any rights thereunder or make any determination or grant any consent thereunder; or
  - (C) change Section 8.04(a).

(c) Notwithstanding anything to the contrary contained in this Section 8.02, in the event that any Loan Party shall request that this Agreement or any other Loan Document be modified, amended or waived in a manner which would require the consent of the Lenders pursuant to Section 8.02(b) and such amendment is approved by the Required Lenders, but not by the requisite percentage of all of the Lenders, the Guarantor and such Required Lenders shall be permitted to amend this Agreement without the consent of the Lender or Lenders which did not agree to the modification or amendment requested by the Guarantor (such Lender or Lenders, collectively the “Minority Lenders”) subject to their providing for (i) the termination of each Commitment of each of the Minority Lenders, (ii) the addition to this Agreement of one or more other Eligible Assignees, or an increase in the Commitment of one or more of the Required Lenders, so that the aggregate amount of the Commitments after giving effect to such amendment shall be in the same amount as the aggregate amount of the Commitments immediately before giving effect to such amendment, (iii) if any Loans are outstanding at the time of such amendment, the making of such additional Loans by such new or increasing Lender or Lenders, as the case may be, as may be necessary to repay in full the outstanding Loans (including principal, interest, fees and other amounts) of the Minority Lenders immediately before giving effect to such amendment and (iv) such other modifications to this Agreement or the Loan Documents as may be appropriate and incidental to the foregoing.

(d) No notice to or demand on any Borrower shall entitle any Borrower to any other or further notice or demand in the same, similar or other circumstances. Each holder of a Note shall be bound by any amendment, modification, waiver or consent authorized as provided herein, whether or not a Note shall have been marked to indicate such amendment, modification, waiver or consent and any consent by a Lender, or any holder of a Note, shall bind any Person subsequently acquiring a Note, whether or not a Note is so marked. No amendment to this Agreement or any other Loan Document shall be effective against any Borrower unless signed by such Borrower.

#### SECTION 8.03 Expenses; Indemnity; Damage Waiver .

(a) The Loan Parties shall be jointly and severally obligated to pay all reasonable out-of-pocket expenses incurred by the Initial Lender, any Lender and any Collateral Agent, including reasonable fees, charges and disbursements of counsel and outside consultants for each of the Initial Lender, such Lender and such Collateral Agent (including, without limitation, commercial finance examiners), in connection with the enforcement or protection of their rights in connection with the Loan Documents, or in connection with the Loans

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made hereunder, including all reasonable out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of the Obligations; provided that the Lenders who are not the Initial Lender and any Collateral Agent shall be entitled to reimbursement for no more than one counsel representing all such Lenders (absent a conflict of interest in which case the Lenders may engage and be reimbursed for additional counsel). For the avoidance of doubt, each party hereto shall pay its own expenses incurred in connection with the negotiation and documentation of this Agreement.

(b) The Borrowers shall, jointly and severally, indemnify the Credit Parties and each of their Subsidiaries and Affiliates, and each of their respective stockholders, directors, officers, employees, agents, attorneys, and advisors of any of the foregoing Persons (each such Person being called an “Indemnitee”) against, and hold each Indemnitee harmless from, any and all damages, actual out-of-pocket losses, claims, actions, causes of action, settlement payments, obligations, liabilities and related expenses (including the reasonable fees, charges and disbursements of any counsel for any Indemnitee incurred in connection with any such damages, actual out-of-pocket losses, claims, actions, causes of action, settlement payments, obligations or liabilities), incurred, suffered, sustained or required to be paid by, or asserted against, any Indemnitee arising out of, in any way connected with, or as a result of (i) the execution or delivery of any Loan Document or any other agreement or instrument contemplated hereby, the performance by the parties to the Loan Documents of their respective obligations thereunder or the consummation of the transactions contemplated by the Loan Documents or any other transactions contemplated hereby, (ii) any Loans or the use of the proceeds therefrom, (iii) any actual or alleged presence or Release of Hazardous Materials on or from any property currently or formerly owned, leased or operated by any Borrower or any Subsidiary of a Borrower, or any Environmental Liability related in any way to any Borrower or any Subsidiary of a Borrower, (iv) any actual or prospective claim, litigation, investigation or proceeding relating to or arising from any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto or (v) without duplication to Section 2.12(b), any documentary taxes, assessments or similar charges made by any Governmental Authority by reason of the execution and delivery of this Agreement or any other Loan Document; provided, however, that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence, bad faith or willful misconduct of such Indemnitee or any Affiliate of such Indemnitee (or any officer, director, employee, advisor or agent of such Indemnitee or any such Indemnitee’s Affiliates). In connection with any indemnified claim hereunder, the Indemnitee shall be entitled to select its own counsel, and the Borrower shall promptly pay the reasonable and documented fees and expenses of such counsel; provided that such fees and expenses of counsel shall be limited to one primary counsel (and one counsel in each relevant material jurisdiction) representing all similarly situated Indemnitees (absent a conflict of interest, written notice of which is given to the Guarantor, in which case the Indemnitees may engage and be reimbursed for additional counsel). This Section 8.03 shall not apply to Taxes with respect to payments on the Loans other than Taxes referred in 8.03(b)(v).

(c) No Borrower shall assert and, to the extent permitted by Applicable Law, each Borrower hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the transactions contemplated by the Loan Documents, any Loans or the use of the proceeds thereof.

(d) The provisions of this Section 8.03 shall remain operative and in full force and effect regardless of the termination of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Obligations, the invalidity or unenforceability of any term or provision of any Loan Document, or any investigation made by or on behalf of any Credit Party. All amounts due under this Section 8.03 shall be payable no later than ten (10) days after written demand therefor.

#### SECTION 8.04 Successors and Assigns.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of

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the parties hereto and their respective successors and assigns permitted hereby, except that no Borrower may assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any such attempted assignment or transfer without such consent shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby and, to the extent expressly contemplated hereby, Indemnitees), any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) (A) Any Lender may assign to one or more Eligible Assignees all or a portion of its outstanding Loans under this Agreement; provided, however, that each assignment of outstanding Loans shall be subject to the following conditions: (i) except in the case of an assignment to a Lender or an Affiliate of a Lender or an Approved Fund or an assignment of the entire remaining amount of the assigning Lender's Loans, the amount of the Loans of the assigning Lender subject to an assignment shall not be less than \$1,000,000, or, if less, the entire remaining amount of the assigning Lender's Loans; (ii) each partial assignment of outstanding Loans shall be made as an assignment of a proportionate part of all the assigning Lender's Loans; (iii) the parties to each assignment shall execute and deliver to the Guarantor and the other Lenders an Assignment and Acceptance. (B) Any Lender may assign to one or more Eligible Assignees all or a portion of its undrawn Commitments under this Agreement; provided, however, that the parties to each assignment of undrawn Commitments shall execute and deliver to the Guarantor and the other Lenders an Assignment and Acceptance. (C) Subject to acceptance and recording thereof pursuant to Section 8.04(d), from and after the effective date specified in each Assignment and Acceptance, the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Section 8.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 8.04(b) shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with Section 8.04(e). The Borrowers hereby acknowledge and agree that any assignment shall give rise to a direct obligation of the Borrowers to the assignee and that the assignee shall be considered to be a "Credit Party" for all purposes under this Agreement and the other Loan Documents.

(c) The Guarantor and each Lender, acting for this purpose as an agent of the Borrowers, shall maintain a copy of each Assignment and Acceptance delivered to it and a register (the "Register") for the recordation of the names and addresses of the Lenders and the principal amount (and stated interest) of the Loans owing to, each Lender pursuant to the terms hereof from time to time. The entries in the Register shall be conclusive, and the Borrowers and Credit Parties may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by any Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee and any written consent to such assignment required by Section 8.04(b), the Borrowers and each Lender shall accept such Assignment and Acceptance and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this Section 8.04(d).

(e) Any Lender may, without the consent of the Borrowers or any other Person, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of the Loans owing to it), subject to the following:

(i) such Lender's obligations under this Agreement and the other Loan Documents shall remain unchanged;

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(ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations;

(iii) the Loan Parties and other Credit Parties shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement;

(iv) any agreement or instrument pursuant to which a Lender sells a participation in the Loans shall provide that such Lender shall retain the sole right to enforce the Loan Documents and to approve any amendment, modification or waiver of any provision of the Loan Documents; provided, however, that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the proviso to Section 8.02(b) that adversely affects such Participant;

(v) subject to clauses (viii) and (ix) of this Section 8.04(e), the Loan Parties agree that each Participant shall be entitled to the benefits of Section 2.06 and Section 2.12 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to Section 8.04(b);

(vi) to the extent permitted by law, each Participant also shall be entitled to the benefits of Section 8.08 as though it were a Lender;

(vii) each Lender, acting for this purpose as an agent of the Borrowers, shall maintain at its offices a record of each agreement or instrument effecting any participation and a register (each a "Participation Register") meeting the requirements of 26 CFR §5f.103-1(c) for the recordation of the names and addresses of its Participants and their rights with respect to principal amounts (and stated interest) and other Obligations from time to time. The entries in each Participation Register shall be conclusive, and the Borrowers and the Credit Parties may treat each Person whose name is recorded in a Participation Register as a Participant for all purposes of this Agreement (including, for the avoidance of doubt, for purposes of entitlement to benefits under Section 2.06, Section 2.12, and Section 8.08). The Participation Register shall be available for inspection by any Borrower and any Credit Party at any reasonable time and from time to time upon reasonable prior notice;

(viii) a Participant shall not be entitled to receive any greater payment under Sections 2.06 and 2.12 (subject to the requirement and limitations therein, including the requirements under Section 2.12(e), and it being understood that the documentation required under Section 2.12 shall be delivered to the participating Lender) than the participating Lender would have been entitled to receive with respect to the participation sold to such Participant.

(f) Any Credit Party may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Credit Party, including any pledge or assignment to secure obligations to any of the twelve Federal Reserve Banks organized under Section 4 of the Federal Reserve Act, 12 U.S.C. Section 341, and this Section 8.04 shall not apply to any such pledge or assignment of a security interest; provided, however, that no such pledge or assignment of a security interest shall release a Credit Party from any of its obligations hereunder or substitute any such pledgee or assignee for such Credit Party as a party hereto.

(g) The Loan Parties authorize each Credit Party to disclose to any Participant or assignee and any prospective Participant or assignee, subject to the provisions of Section 8.15, any and all financial information in such Credit Party's possession concerning the Loan Parties which has been delivered to such Credit Party by or on behalf of the Loan Parties pursuant to this Agreement or which has been delivered to such Credit

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Party by or on behalf of the Loan Parties in connection with such Credit Party's credit evaluation of the Borrowers prior to becoming a party to this Agreement.

SECTION 8.05 Survival.

All covenants, agreements, indemnities, representations and warranties made by the Borrowers in the Loan Documents and in the certificates or other instruments delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of the Loan Documents and the making of any Loans, regardless of any investigation made by any such other party or on its behalf and notwithstanding that any Credit Party may have had notice or knowledge of any Default or Event of Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other Obligation is outstanding and unpaid and so long as the Commitments have not expired or been irrevocably terminated. The provisions of Section 2.06, Section 2.12 and Section 8.03 shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Obligations, the expiration or termination of the Commitments or the termination of this Agreement or any provision hereof. In connection with the termination of this Agreement, the Credit Parties, may require such assurances and indemnities as it shall reasonably deem necessary or appropriate to protect the Credit Parties against loss on account of such termination, including, without limitation, with respect to credits previously applied to the Obligations that may subsequently be reversed or revoked.

SECTION 8.06 Counterparts; Integration; Effectiveness.

This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all contemporaneous or previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Initial Borrower and when the Initial Lender shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by facsimile or e-mail shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 8.07 Severability.

Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof, and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 8.08 Right of Setoff.

If an Event of Default shall have occurred and be continuing, each Credit Party, each Participant, and each of their respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to setoff and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by such Credit Party, Participant, or Affiliate to or for the credit or the account of the Borrowers against any of and all the obligations of the Borrowers now or hereafter existing under this Agreement or other Loan Document held by a Credit Party, irrespective of whether or not such Credit Party shall have made any demand under this Agreement or other Loan Document and although such obligations may be matured or unmatured or otherwise fully secured. The applicable Lender shall provide the Borrower with written notice promptly after any exercise of the right of setoff. The rights of each Credit Party under this Section 8.08 are in addition to other rights and remedies (including other rights of setoff) that such Credit Party may have. Notwithstanding the foregoing, no Credit Party will, or will permit its Participant to, exercise its rights under this

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Section 8.08 without the consent of the Required Lenders.

SECTION 8.09 Governing Law; Jurisdiction; Consent to Service of Process.

(a) THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

(b) Each party to this Agreement agrees that any suit for the enforcement of this Agreement or any other Loan Document shall be brought in the federal or state courts of the State of New York and consents to the exclusive jurisdiction of such courts. Each party to this Agreement hereby waives any objection which it may now or hereafter have to the venue of any such suit or any such court or that such suit is brought in an inconvenient forum and agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that any Credit Party may otherwise have to bring any action or proceeding relating to this Agreement against a Borrower or its properties in the courts of any jurisdiction.

(c) Each party to this Agreement agrees that any action commenced by it asserting any claim or counterclaim arising under or in connection with this Agreement or any other Loan Document shall be brought solely in the federal or state courts of the State of New York and consents to the exclusive jurisdiction of such courts with respect to any such action.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 8.01. Nothing in this Agreement or any other Loan Document will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 8.10 WAIVER OF JURY TRIAL.

**EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY) AND WAIVES THE RIGHT TO ASSERT ANY SETOFF, COUNTERCLAIM OR CROSS-CLAIM IN RESPECT OF, AND ALL STATUTES OF LIMITATIONS WHICH MAY BE RELEVANT TO, SUCH ACTION OR PROCEEDING; AND WAIVES DUE DILIGENCE, DEMAND, PRESENTMENT AND PROTEST AND ANY NOTICES THEREOF AS WELL AS NOTICE OF NONPAYMENT. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS, AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.**

SECTION 8.11 Press Releases and Related Matters.

Each Credit Party executing this Agreement agrees that neither it nor its Affiliates will in the future issue any press releases or other public disclosure using the name of the Initial Lender or its Affiliates or referring to this Agreement or the other Loan Documents without at least two (2) Business Days' prior notice to the Initial Lender and without the prior written consent of the Initial Lender unless (and only to the extent that) such Credit Party or Affiliate is required to do so under law and then, in any event, such Credit Party or Affiliate will consult with the Initial Lender before issuing such press release or other public disclosure. The Guarantor and Initial Borrower consent to the publication by the Initial Lender or any Lender of advertising material relating to the financing transactions contemplated by this Agreement using the Guarantor's or Initial Borrower's name, product

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photographs, logo or trademark. The Initial Lender reserves the right to provide to industry trade organizations information necessary and customary for inclusion in league table measurements.

SECTION 8.12 Headings.

Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

SECTION 8.13 Interest Rate Limitation.

Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts that are treated as interest on such Loan under Applicable Law (collectively, the “Charges”), shall be found by a court of competent jurisdiction in a final order to exceed the maximum lawful rate (the “Maximum Rate”) that may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with Applicable Law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

SECTION 8.14 Additional Waivers.

(a) To the fullest extent permitted by Applicable Law, the obligations of each Loan Party hereunder shall not be affected by (i) the failure of any Credit Party to assert any claim or demand or to enforce or exercise any right or remedy against any other Loan Party under the provisions of this Agreement, any other Loan Document or otherwise or (ii) any rescission, waiver, amendment or modification of, or any release of any Loan Party from, any of the terms or provisions of, this Agreement, any other Loan Document.

(b) The obligations of each Loan Party to pay the Obligations in full hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason (other than the indefeasible payment in full in cash of the Obligations after the termination of all Commitments to any Loan Party under any Loan Document), including any claim of waiver, release, surrender, alteration or compromise of any of the Obligations, and shall not be subject to any defense or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality or unenforceability of any of the Obligations, or otherwise. Without limiting the generality of the foregoing, the obligations of each Loan Party shall not be discharged or impaired or otherwise affected by the failure of any Credit Party to assert any claim or demand or to enforce any remedy under this Agreement, any other Loan Document or any other agreement, by any waiver or modification of any provision of any thereof, any default, failure or delay, willful or otherwise, in the performance of any of the Obligations, or by any other act or omission that may or might in any manner or to any extent vary the risk of any Loan Party or that would otherwise operate as a discharge of any Loan Party as a matter of law or equity (other than the indefeasible payment in full in cash of all the Obligations after termination of all Commitments to any Loan Party under any Loan Document).

(c) To the fullest extent permitted by Applicable Law, each Loan Party waives any defense based on or arising out of any defense of any other Loan Party or the unenforceability of the Obligations or any part thereof from any cause, or the cessation from any cause of the liability of any other Loan Party, other than the indefeasible payment in full in cash of all the Obligations after the termination of all Commitments to any Loan Party under any Loan Document. The Credit Parties may, at their election, foreclose on any security held by one or more of them by one or more judicial or nonjudicial sales, accept an assignment of any such security in lieu of foreclosure, compromise or adjust any part of the Obligations, make any other accommodation with any other Loan Party, or exercise any other right or remedy available to them against any other Loan Party, without affecting

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or impairing in any way the liability of any Loan Party hereunder except to the extent that all the Obligations have been indefeasibly paid in full in cash and performed in full after the termination of Commitments to any Borrower under any Loan Document. Pursuant to Applicable Law, each Loan Party waives any defense arising out of any such election even though such election operates, pursuant to Applicable Law, to impair or to extinguish any right of reimbursement or subrogation or other right or remedy of such Loan Party against any other Loan Party, as the case may be, or any security.

(d) Any indebtedness of any Loan Party now or hereafter held by any other Loan Party or any Subsidiary thereof is hereby subordinated in right of payment to the prior indefeasible payment in full of the Obligations, and no Loan Party will demand, sue for or otherwise attempt to collect any such indebtedness. If any amount shall erroneously be paid to any Loan Party or any such Subsidiary thereof on account of (i) such subrogation, contribution, reimbursement, indemnity or similar right or (ii) any such indebtedness of any Loan Party, such amount shall be held in trust for the benefit of the Credit Parties and shall forthwith be paid to the Lenders, to be credited against the payment of the Obligations, whether matured or unmatured, in accordance with the terms of this Agreement and the other Loan Documents.

(e) Without limiting the generality of the foregoing, or of any other waiver or other provision set forth in this Agreement, each Loan Party waives all rights and defenses arising out of an election of remedies by any Credit Party, even though that election of remedies has destroyed such Credit Party's rights of subrogation and reimbursement against such Loan Party by the operation of Section 580(d) of the California Code of Civil Procedure or otherwise. Each Loan Party hereby absolutely, knowingly, unconditionally, and expressly waives any and all claim, defense or benefit arising directly or indirectly under any one or more of Sections 2787 to 2855 inclusive of the California Civil Code or any similar law of California.

(f) Each Loan Party hereby agrees to keep each other Loan Party fully apprised at all times as to the status of its business, affairs, finances, and financial condition, and its ability to perform its Obligations, and in particular as to any adverse developments with respect thereto. Each Loan Party hereby agrees to undertake to keep itself apprised at all times as to the status of the business, affairs, finances, and financial condition of each other Loan Party, and of the ability of each other Loan Party to perform its Obligations, and in particular as to any adverse developments with respect to any thereof. Each Loan Party hereby agrees, in light of the foregoing mutual covenants to inform each other, and to keep themselves and each other informed as to such matters, that the Credit Parties shall have no duty to inform any Loan Party of any information pertaining to the business, affairs, finances, or financial condition of any other Loan Party, or pertaining to the ability of any other Borrower to perform its Obligations, even if such information is adverse, and even if such information might influence the decision of one or more of the Borrowers to continue to be jointly and severally liable for the Obligations of one or more of the other Borrowers. To the fullest extent permitted by Applicable Law, each Loan Party hereby expressly waives any duty of the Credit Parties to inform any Loan Party of any such information.

#### SECTION 8.15 Confidentiality.

(a) Each of the Credit Parties agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to their Affiliates and their Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by Applicable Law or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement and any actual or prospective counterparty or advisors to any swap or derivative transactions relating to the Loan Parties and the Obligations, (g) with the consent of the Guarantor or (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to any Credit Party on

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a nonconfidential basis from a source other than the Loan Parties. For the purposes of this Section 8.15(a), the term “Information,” means all information received from the Loan Parties relating to their business, other than any such information that is available to the Credit Parties on a nonconfidential basis prior to disclosure by the Loan Parties; provided that, in the case of information received from the Loan Parties after the Closing Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

(b) Each of the Loans Parties agrees to maintain the confidentiality of the Lender Information (as defined below), except that Lender Information may be disclosed (a) to their Affiliates and their Affiliates’ directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by Applicable Law or by any subpoena or similar legal process, (d) to any other party to this Agreement, or (e) with the consent of the Credit Parties. In the event that any Loan Party is permitted to disclose Lender Information pursuant to clause (b) or (c) above, such Loan Party will notify the Credit Parties as early as practicable prior to such disclosure. For the purposes of this Section 8.15(b), the term “Lender Information,” means all information received from the Loan Parties in connection with the Loan Documents or set forth therein, including, without limitation, the identity of the Credit Parties and their Affiliates. Any Person required to maintain the confidentiality of Lender Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

#### SECTION 8.16 Patriot Act.

Each Lender hereby notifies the Loan Parties that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the “Act”), it is required to obtain, verify and record information that identifies the Loan Parties, which information includes the name and address of the Loan Parties and other information that will allow such Lender to identify the Loan Parties in accordance with the Act. The Initial Borrower is in compliance, in all material respects, with the Patriot Act. No part of the proceeds of the Loans will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended.

#### SECTION 8.17 Foreign Asset Control Regulations.

Neither the advance of the Loans nor the use of the proceeds of any thereof will violate the Trading With the Enemy Act (50 U.S.C. § 1 et seq., as amended) (the “Trading With the Enemy Act”) or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) (the “Foreign Assets Control Regulations”) or any enabling legislation or executive order relating thereto (which for the avoidance of doubt shall include, but shall not be limited to (a) Executive Order 13224 of September 21, 2001 Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism (66 Fed. Reg. 49079 (2001)) (the “Executive Order”) and (b) the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Public Law 107-56)). Furthermore, none of the Borrowers or their respective Affiliates (a) is or will become a “blocked person” as described in the Executive Order, the Trading With the Enemy Act or the Foreign Assets Control Regulations or (b) engages or will engage in any dealings or transactions, or be otherwise associated, with any such “blocked person” or in any manner violative of any such order.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

AMERICAN APPAREL (CARNABY)  
LIMITED,  
as the Initial Borrower

By:  
Name:  
Title:

AMERICAN APPAREL, INC.  
as the Guarantor

By:  
Name:  
Title:

STANDARD GENERAL L.P.,  
as the Initial Lender

By:

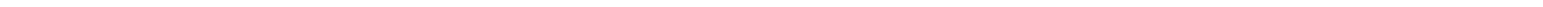
Name:

Title:

**Schedule 1.01(a)**  
**Lenders and Commitments**

**Initial Lender**  
Standard Clothing LLC

**Commitment**  
\$15,000,000



**Schedule 3.01**

**Organization Information**

<b>Entity Name (as it appears on such Company's Certificate)</b>	<b>Entity Type</b>	<b>Jurisdiction of Organization</b>	<b>Org ID No.</b>	<b>Tax ID No.</b>
American Apparel, Inc.	Corporation	Delaware	4004038	20-3200601
American Apparel (Carnaby) Limited	Private Company	England & Wales	05114129	N/A

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## Schedule 3.08

### **Litigation**

1. **Shareholder Derivative Actions**. In 2010, two shareholder derivative lawsuits were filed in the United States District Court for the Central District of California (the "Court") that were subsequently consolidated for all purposes into a case entitled *In re American Apparel, Inc. Shareholder Derivative Litigation*, Lead Case No. CV106576 (the "First Derivative Action"). Plaintiffs in the First Derivative Action alleged a cause of action for breach of fiduciary duty arising out of (i) the Company's alleged failure to maintain adequate accounting and internal control policies and procedures; (ii) the Company's alleged violation of state and federal immigration laws in connection with the previously disclosed termination of over 1,500 employees following an Immigration and Customs Enforcement inspection; and (iii) the Company's alleged failure to implement controls sufficient to prevent a sexually hostile and discriminatory work environment. The Company does not maintain any direct exposure to loss in connection with these shareholder derivative lawsuits. The Company's status as a "Nominal Defendant" in the actions reflects that the lawsuits are purportedly maintained by the named plaintiffs on behalf of American Apparel and that plaintiffs seek damages on the Company's behalf. The Company filed a motion to dismiss the First Derivative Action which was granted with leave to amend on July 31, 2012. Plaintiffs did not amend the complaint and subsequently filed a motion to dismiss each of their claims, with prejudice, for the stated purpose of taking an immediate appeal of the Court's July 31, 2012 order. On October 16, 2012, the Court granted the Plaintiffs' motion to dismiss and entered judgment accordingly. On November 12, 2012, Plaintiffs filed a Notice of Appeal to the Ninth Circuit Court of Appeals where the case is currently pending.

In 2010, four shareholder derivative lawsuits were filed in the Superior Court of the State of California for the County of Los Angeles (the "Superior Court") which were subsequently consolidated for all purposes into a case entitled *In re American Apparel, Inc. Shareholder Derivative Litigation*, Lead Case No. BC 443763 (the "State Derivative Action"). Three of the matters comprising the State Derivative Action alleged causes of action for breach of fiduciary duty arising out of (i) the Company's alleged failure to maintain adequate accounting and internal control policies and procedures; and (ii) the Company's alleged violation of state and federal immigration laws in connection with the previously disclosed termination of over 1,500 employees following an Immigration and Customs Enforcement inspection. The fourth matter alleges seven causes of action for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets also arising out of the same allegations. On April 12, 2011, the Superior Court issued an order granting a stay (which currently remains in place) of the State Derivative Action on the grounds that, among other reasons, the case is duplicative of the First Derivative Action.

In July 2014, two shareholder derivative lawsuits were filed in the Court that were subsequently consolidated for all purposes into a case entitled *In re American Apparel, Inc. 2014 Shareholder Derivative Litigation*, Lead Case No. 14-CV-5699 (the "Second Derivative Action," and together with the First Derivative Action, the "Federal Derivative Actions"). Plaintiffs in the Second Derivative Action alleged similar causes of action for breach of fiduciary duty by failing to (i) maintain adequate internal control and exercise proper oversight over Mr. Charney, whose alleged misconduct and mismanagement has purportedly harmed the Company's operations and financial condition, (ii) ensure Mr. Charney's suspension as CEO did not trigger material defaults under two of the Company's credit agreements, and (iii) prevent Mr. Charney from increasing his ownership percentage of the Company. The Second Derivative Action primarily seeks to recover damages and reform corporate governance and internal procedures. The Company does not maintain any direct exposure to loss in connection with these shareholder derivative lawsuits. The Company's status as a "Nominal Defendant" in the actions reflects that the lawsuits are purportedly maintained by the named plaintiffs on behalf of American Apparel and that plaintiffs seek damages on the Company's behalf. The Company has filed a motion to dismiss, and the parties are currently briefing this motion.

Both the Federal Derivative Actions and State Derivative Actions are covered under the Company's

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Directors and Officers Liability insurance policy, subject to a deductible and a reservation of rights.

Should the above matters (i.e., the Federal Derivative Actions or the State Derivative Action) be decided against the Company in an amount that exceeds the Company's insurance coverage, or if liability is imposed on grounds that fall outside the scope of the Company's Directors and Officers Liability insurance coverage, the Company could not only incur a substantial liability, but also experience an increase in similar suits and suffer reputational harm. The Company is unable to predict the financial outcome of these matters at this time, and any views formed as to the viability of these claims or the financial exposure which could result may change from time to time as the matters proceed through their course. However, no assurance can be made that these matters, either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, which could have a material adverse effect upon the Company's financial condition, results of operations, or cash flows.

2. **Charney v. American Apparel**. On June 18, 2014, American Apparel's Board of Directors suspended its CEO, Dov Charney, and gave notice of the Company's intention to terminate him for cause. On June 23, 2014, Mr. Charney commenced arbitration against the Company and asserted claims "in excess of \$50 million" for the Company's alleged "breach of employment agreement, breach of covenant of good faith and fair dealing, retaliatory discharge, violation of Age Discrimination in Employment Act, intentional infliction of emotional distress, defamation and related claims." That matter has been stayed by agreement of the parties pursuant to the Nomination, Support, and Standstill Agreement dated as of July 9, 2014, and appended to the Form 8-K filed by the Company with the SEC.
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**Schedule 3.13**

**Environmental Compliance**

None.

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**Schedule 3.14**

**Labor Contracts**

None.

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## Exhibit A

### Form of Assignment and Acceptance

#### ASSIGNMENT AND ACCEPTANCE

Reference is made to the Credit Agreement dated as of March 25, 2015 (as amended, modified, supplemented or restated and in effect from time to time, the “Credit Agreement”) by and among (i) American Apparel (Carnaby) Limited as the Initial Borrower and the Additional Borrowers party thereto (together with the Initial Borrower, the “Borrowers”), (ii) American Apparel, Inc. as Guarantor, (iii) Standard General L.P., on behalf of one or more of its controlled funds (“Standard General”) and (iv) the other Lenders party thereto. Capitalized terms used herein and not defined herein shall have the meanings assigned to such terms in the Credit Agreement.

\_\_\_\_\_ (the “Assignor”) and \_\_\_\_\_ (the “Assignee”) agree as follows:

1. The Assignor hereby irrevocably sells and assigns to the Assignee without recourse to the Assignor, and the Assignee hereby irrevocably purchases and assumes from the Assignor without recourse to the Assignor, the interest described in Section 1 of Schedule I hereto in and to the Assignor’s rights and obligations as a Lender under the Credit Agreement as of the Effective Date (defined below). After giving effect to such sale and assignment, the principal amount of the Loans owing to the Assignor and the Assignee will be as set forth in Section 2 of Schedule I hereto.
  2. The Assignor (a) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim and that it is legally authorized to enter into this Assignment and Acceptance; (b) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in, or in connection with, the Credit Agreement or any other Loan Document or any other instrument or document furnished pursuant thereto or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement or any other Loan Document or any other instrument or document furnished pursuant thereto; (c) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrowers or the performance or observance by the Borrowers of any of its obligations under the Credit Agreement or any other Loan Document or any other instrument or document furnished pursuant thereto; and (d) confirms, in the case of an assignment to an Assignee who is not a Lender or an Affiliate of a Lender or an Approved Fund, that the amount of the Loans subject to this Assignment and Acceptance is not less than \$1,000,000 or, if less, the entire remaining amount of the Assignor’s Loans.
  3. The Assignee (a) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements referred to in Section 3.07(a) thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Acceptance; (b) agrees that it will, independently and without reliance upon Standard General, the Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (c) agrees that it will perform in accordance with their terms all of the obligations which, by the terms of the Credit Agreement, are required to be performed by it as a Lender; (d) represents and warrants that it is legally authorized to enter into this Assignment and Acceptance; (e) specifies as its lending office (and address for notices) the office set forth beneath its name on the signature pages hereof and (f) agrees to deliver to the each Lender and the Borrowers
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such documents and other information as required by Section 2.12(e) of the Credit Agreement, as applicable.

4. The effective date of this Assignment and Acceptance shall be the date of receipt of a duly completed Assignment and Acceptance executed by the Assignor and the Assignee by the Borrowers and each Lender, unless otherwise specified on Schedule I hereto (the “Effective Date”).
5. Upon such acceptance by the Borrowers and each Lender and recording by the Borrowers and each Lender, from and after the Effective Date, (a) the Assignee shall be a party to the Credit Agreement and, to the extent of the interest assigned by this Assignment and Acceptance, shall have the rights and obligations under the Credit Agreement of a Lender thereunder, and (b) the Assignor shall, to the extent provided in this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Credit Agreement, other than those relating to events or circumstances occurring prior to the Effective Date, and except as otherwise provided in Section 8.04 of the Credit Agreement.
6. Upon such acceptance and recording by the Borrowers and each Lender, from and after the Effective Date, the Assignor shall make all payments under the Credit Agreement in respect of the interest assigned hereby (including, without limitation, all payments of principal, interest and fees with respect thereto) to the Assignee. The Assignor and Assignee shall make all appropriate adjustments in payments under the Credit Agreement for periods prior to the Effective Date directly between themselves.
7. This Assignment and Acceptance shall be governed by, and be construed and interpreted in accordance with, the law of the State of New York.
8. This Assignment and Acceptance may be executed in counterparts, each of which shall be deemed to constitute an original, but all of which when taken together shall constitute one and the same instrument. Delivery of an executed signature page of this Assignment and Acceptance by facsimile or other electronic transmission shall be effective as delivery of a manually executed counterpart thereof.

**[SIGNATURE PAGE FOLLOWS]**

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IN WITNESS WHEREOF, the parties hereto have caused this Assignment and Acceptance to be executed by their respective officers thereunto duly authorized, as of the date first above written on Schedule I hereto.

[ASSIGNOR]

By:

Name:

Title:

[ASSIGNEE]

By:

Name:

Title:

Lending Office (and address for notices):

[Address]

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Schedule I to Assignment and Acceptance

Dated \_\_\_\_\_, \_\_\_\_\_

This is Schedule I to Assignment and Acceptance with respect to the Credit Agreement dated as of March 25, 2015, as amended, modified, supplemented or restated and in effect from time to time, by and among (i) American Apparel (Carnaby) Limited as the Initial Borrower and the Additional Borrowers party thereto, (ii) American Apparel, Inc. as Guarantor, (iii) Standard General L.P., on behalf of one or more of its controlled funds and (iv) the other Lenders party thereto.

Section 1.

Name of Assignor:

Name of Assignee:

Principal amount of Loans assigned: \$

Section 2.

Principal amount of Loans owing to Assignor: \$

Principal amount of Loans owing to Assignee: \$

Section 3.

Effective Date:

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## Exhibit B

### NOTE

\$ \_\_\_\_\_ [ \_\_\_\_\_ ], 201\_\_

FOR VALUE RECEIVED, the undersigned (the “Borrower”) promises to pay to [Insert name of Lender] (the “Lender”), with its offices at [Insert address of Lender], the principal sum of [ \_\_\_\_\_ ] DOLLARS (\$[ \_\_\_\_\_ ]), with interest, including PIK Interest, if any, at the rate and payable in the manner stated in the Credit Agreement dated as of March 25, 2015 (as amended, modified, supplemented or restated and in effect from time to time, the “Credit Agreement”) by and among (i) [American Apparel (Carnaby) Limited as the Initial Borrower,]<sup>1</sup> the Borrower and the Additional Borrowers party thereto, (ii) American Apparel, Inc. as Guarantor, (iii) Standard General L.P., on behalf of one or more of its controlled funds and (iv) the other Lenders party thereto. Capitalized terms used herein and not defined herein shall have the meanings assigned to such terms in the Credit Agreement.

This is a “Note” to which reference is made in the Credit Agreement and is subject to all terms and provisions thereof. The principal of, and interest (including PIK Interest, if any) on, this Note shall be payable at the times, in the manner, and in the amounts as provided in the Credit Agreement and shall be subject to prepayment and acceleration as provided therein. Capitalized terms used herein and not defined herein shall have the meanings assigned to such terms in the Credit Agreement.

The Lender’s books and records concerning the Loan, the accrual of interest thereon, and the repayment of such Loan, shall be prima facie evidence of the indebtedness hereunder, absent manifest error.

No delay or omission by the Lender in exercising or enforcing any of the Lender’s powers, rights, privileges, remedies or discretions hereunder shall operate as a waiver thereof on that occasion nor on any other occasion. No waiver of any Event of Default shall operate as a waiver of any other Event of Default, nor as a continuing waiver.

The Borrower, and each guarantor of this Note, waives presentment, demand, notice and protest, and also waives any delay on the part of the holder hereof. The Borrower assents to any extension or other indulgence (including, without limitation, the release or substitution of Collateral) permitted by the Lender with respect to this Note and/or any Collateral or any extension or other indulgence with respect to any other liability or any collateral given to secure any other liability of the Borrower or any other Person obligated on account of this Note.

This Note shall be binding upon the Borrower, and each guarantor hereof, and upon their respective successors, assigns, and representatives, and shall inure to the benefit of the Lender and its successors and assigns.

<sup>1</sup> Use when signatory is not the Initial Borrower.





THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE CONFLICTS OF LAWS PRINCIPLES THEREOF.

The Borrower agrees that any suit for the enforcement of this Note or any other Loan Document shall be brought in the courts of the State of New York sitting in New York City or any federal court sitting therein and consents to the exclusive jurisdiction of such courts. The Borrower hereby waives any objection which it may now or hereafter have to the venue of any such suit or any such court or that such suit is brought in an inconvenient forum and agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. The Borrower agrees that any action commenced by the Borrower asserting any claim or counterclaim arising under or in connection with this Note or any other Loan Document shall be brought solely in the courts of the State of New York sitting in New York City or any federal court sitting therein and consents to the exclusive jurisdiction of such courts with respect to any such action.

The Borrower makes the following waiver knowingly, voluntarily and intentionally, and understands that the Lender, in the establishment and maintenance of its relationship with the Borrower contemplated by this Note, are relying thereon. THE BORROWER, EACH GUARANTOR AND SURETY, AND THE LENDER, BY ITS ACCEPTANCE HEREOF, HEREBY WAIVE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS NOTE, ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY) AND WAIVE THE RIGHT TO ASSERT ANY SETOFF, COUNTERCLAIM OR CROSS-CLAIM IN RESPECT OF, AND ALL STATUTES OF LIMITATIONS WHICH MAY BE RELEVANT TO, SUCH ACTION OR PROCEEDING; AND WAIVE DUE DILIGENCE, DEMAND, PRESENTMENT AND PROTEST AND ANY NOTICES THEREOF AS WELL AS NOTICE OF NONPAYMENT. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS, AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THE CREDIT AGREEMENT AND THIS NOTE BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS HEREIN.

THE LOANS HAVE BEEN ISSUED WITH ORIGINAL ISSUE DISCOUNT FOR UNITED STATES FEDERAL INCOME TAX PURPOSES. THE ISSUE PRICE, AMOUNT OF ORIGINAL ISSUE DISCOUNT, ISSUE DATE AND YIELD TO MATURITY OF THE LOANS MAY BE OBTAINED BY CONTACTING THE CHIEF FINANCIAL OFFICER OF THE BORROWER AT 213-488-0226.

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IN WITNESS WHEREOF, the Borrower has caused this Note to be duly executed as of the date set forth above.

[\_\_\_\_\_]

By:

Name:

Title:



**Exhibit C**

Form of Joinder

JOINDER TO CREDIT AGREEMENT

This Joinder to Credit Agreement (this “Joinder”) is made as of \_\_\_\_\_, 20\_\_, by and among:

\_\_\_\_\_ (the “New Borrower”), with its principal executive offices at \_\_\_\_\_;

and each Lender, with its principal executive offices at c/o [ \_\_\_\_];

in consideration of the mutual covenants herein contained and benefits to be derived herefrom.

W I T N E S S E T H :

A. Reference is made to a certain Credit Agreement dated as of March 25, 2015 (as amended, modified, supplemented or restated and in effect from time to time, the “Credit Agreement”), by and among (i) American Apparel (Carnaby) Limited as the Initial Borrower and the Additional Borrowers party thereto (together with the Initial Borrower, the “Existing Borrowers”), (ii) American Apparel, Inc. as Guarantor, (iii) Standard General L.P., on behalf of one or more of its controlled funds and (iv) the other Lenders party thereto. Capitalized terms used herein and not defined herein shall have the meanings assigned to such terms in the Credit Agreement.

B. The New Borrower desires to become a party to, and to be bound by the terms of, the Credit Agreement and the other Loan Documents in the same capacity and to the same extent as the Existing Borrowers thereunder.

C. Pursuant to the terms of the Credit Agreement, in order for the New Borrower to become party to the Credit Agreement and the other Loan Documents as provided herein, the New Borrower and the Existing Borrowers are required to execute this Joinder.

NOW, THEREFORE, in consideration of the premises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Joinder and Assumption of Obligations. Effective as of the date of this Joinder, the New Borrower hereby acknowledges that the New Borrower has received and reviewed a copy of the Credit Agreement and the other Loan Documents, and acknowledges and agrees to:

(a) join in the execution of, and become a party to, the Credit Agreement as a Borrower thereunder, as indicated with its signature below;

(b) be bound by all representations, warranties, covenants, agreements, liabilities and acknowledgments of the Existing Facility Guarantors under the Credit Agreement and the other Loan Documents, in each case, with the same force and effect as if such New Borrower was a signatory to the Credit Agreement and the other Loan Documents and was expressly named as a Borrower therein;

- (c) assume all rights and interests and perform all applicable duties and Obligations of the Existing Borrowers under the Credit Agreement and the other Loan Documents; and
  - (d) upon request, execute and deliver to each requesting Lender a promissory note substantially in the form of Exhibit B to the Credit Agreement.
2. Representations, Warranties and Covenants . The New Borrower (i) confirms that, after giving effect to the Supplemental Schedules (as defined below), all representations and warranties set forth in the Credit Agreement as of the date hereof are true and correct in all material respects (provided that any such representation and warranty that is qualified as to materiality or “Material Adverse Effect” or similar language shall be true and correct in all respects) as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects (but without any duplication of any materiality qualifications) as of such earlier date (ii) agrees that from and after the date of this Joinder such New Borrower shall be bound by the covenants set forth in the Credit Agreement. To the extent that any changes in any representations, warranties, and covenants require any amendments to the schedules to the Credit Agreement, such schedules are hereby updated, as evidenced by any supplemental schedules (if any) annexed to this Joinder (collectively, the “Supplemental Schedules”).
3. Ratification of Loan Documents . Except as specifically amended by this Joinder and the other documents executed and delivered in connection herewith, all of the terms and conditions of the Credit Agreement and of the other Loan Documents shall remain in full force and effect as in effect prior to the date hereof, without releasing any obligors thereon or collateral security therefor.
4. Conditions Precedent to Effectiveness . This Joinder shall not be effective until each of the following conditions precedent have been fulfilled to the reasonable satisfaction of each Lender.
- (a) This Joinder shall have been duly executed and delivered by the respective parties hereto, in form and substance reasonably satisfactory to each Lender.
  - (b) All action on the part of the New Borrower and the other Loan Parties necessary for the valid execution, delivery and performance by the New Borrower and the other Loan Parties of this Joinder and all other documentation, instruments, and agreements to be executed in connection herewith shall have been duly and effectively taken and evidence thereof reasonably satisfactory to each Lender shall have been provided to each Lender.
  - (c) The New Borrower shall each have delivered the following to each Lender, in form and substance reasonably satisfactory to each Lender:
    - (i) A copy of the certificate or articles of incorporation or certificate of formation, as applicable, of such New Borrower, certified by the Secretary of State of the jurisdiction of its organization, and a certificate of good standing (to the extent such concept exists) from such applicable Secretary of State.
    - (ii) A certificate of an authorized officer relating to the organization and existence of such party, the authorization of the transactions contemplated by the Loan Documents, and attesting to the true signatures of each Person authorized as a signatory to any of the Loan Documents, together with true and accurate copies of all Charter Documents.
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- a) Execution and delivery by the New Borrower of any other applicable Loan Documents and agreements required by the Lenders.
- (d) The Lenders shall have received a written legal opinion of the New Borrower's counsel addressed to the Lenders, covering such matters relating to the New Borrower, the Loan Documents and/or the transactions contemplated thereby as each Lender shall reasonably request.
- (e) All reasonable out-of-pocket fees and Credit Party expenses incurred by the Lenders in connection with the preparation and negotiation of this Joinder and related documents (including the reasonable fees and expenses of counsel to the Lenders) shall have been paid in full.
- (f) No Default or Event of Default shall have occurred and be continuing.
- (g) The Loan Parties shall have executed and delivered to the Lenders such additional documents, instruments and agreements as each Lender may reasonably request.

5. Miscellaneous.

- (a) This Joinder may be executed in several counterparts and by each party on a separate counterpart, each of which when so executed and delivered shall be an original, and all of which together shall constitute one instrument.
- (b) This Joinder expresses the entire understanding of the parties with respect to the transactions contemplated hereby. No prior negotiations or discussions shall limit, modify, or otherwise affect the provisions hereof.
- (c) Any determination that any provision of this Joinder or any application hereof is invalid, illegal or unenforceable in any respect and in any instance shall not affect the validity, legality, or enforceability of such provision in any other instance, or the validity, legality or enforceability of any other provisions of this Joinder.
- (d) The Loan Parties shall pay all Credit Party Expenses of the Credit Parties, including, without limitation, reasonable attorneys' fees in connection with the preparation, negotiation, execution and delivery of this Joinder in accordance with the terms of the Credit Agreement.
- (e) The New Borrower warrants and represents that the New Borrower has consulted with independent legal counsel of its selection in connection with this Joinder and is not relying on any representations or warranties of the Lenders or their counsel in entering into this Joinder.
- (f) THIS JOINDER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE CONFLICTS OF LAWS PRINCIPLES THEREOF.

**[SIGNATURE PAGES FOLLOW]**

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IN WITNESS WHEREOF, each of the undersigned has caused this Joinder to be duly executed and delivered by its proper and duly authorized officer as of the date set forth below.

**[NEW BORROWER]:**

By:

Name:

Title:

**[LENDERS]**

By:

Name:

Title:

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Acknowledged and Agreed:

INITIAL BORROWER:

AMERICAN APPAREL (CARNABY) LIMITED

By:

Name:

Title:

[EXISTING BORROWERS AS OF THE DATE OF THE JOINDER]:

[

By:

Name:

Title: ]

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**Exhibit D-1**

FORM OF

U.S. TAX COMPLIANCE CERTIFICATE

(For Foreign Lenders That Are Not Partnerships For U.S. Federal Income Tax Purposes)

Reference is made to the Credit Agreement dated as of March 25, 2015 (as amended, modified, supplemented or restated and in effect from time to time, the “Credit Agreement”) by and among (i) American Apparel (Carnaby) Limited as the Initial Borrower and the Additional Borrowers party thereto (together with the Initial Borrower, the “Borrowers”), (ii) American Apparel, Inc. as Guarantor, (iii) Standard General L.P., on behalf of one or more of its controlled funds and (iv) the other Lenders party thereto. Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

Pursuant to the provisions of Section 2.12 of the Credit Agreement, the undersigned hereby certifies that (i) it is the sole record and beneficial owner of the Loan(s) (as well as any Note(s) evidencing such Loan(s)) in respect of which it is providing this certificate, (ii) it is not a bank within the meaning of Section 881(c)(3)(A) of the Code, (iii) it is not a ten percent shareholder of the Borrowers within the meaning of Section 871(h)(3)(B) of the Code and (iv) it is not a controlled foreign corporation related to the Borrowers as described in Section 881(c)(3)(C) of the Code.

The undersigned has furnished the Borrowers with a certificate of its non-U.S. Person status on IRS Form W-8BEN or W-8 BEN-E. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform the Borrowers, and (2) the undersigned shall have at all times furnished the Borrowers with a properly completed and currently effective certificate either in the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

[NAME OF LENDER]

By:

Name:

Title:

Date: \_\_\_\_\_, 20[ ]



**Exhibit D-2**

FORM OF

U.S. TAX COMPLIANCE CERTIFICATE

(For Foreign Participants That Are Not Partnerships For U.S. Federal Income Tax Purposes)

Reference is made to the Credit Agreement dated as of March 25, 2015 (as amended, modified, supplemented or restated and in effect from time to time, the “Credit Agreement”) by and among (i) American Apparel (Carnaby) Limited as the Initial Borrower and the Additional Borrowers party thereto (together with the Initial Borrower, the “Borrowers”), (ii) American Apparel, Inc. as Guarantor, (iii) Standard General L.P., on behalf of one or more of its controlled funds and (iv) the other Lenders party thereto. Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

Pursuant to the provisions of Section 2.12 of the Credit Agreement, the undersigned hereby certifies that (i) it is the sole record and beneficial owner of the participation in respect of which it is providing this certificate, (ii) it is not a bank within the meaning of Section 881(c)(3)(A) of the Code, (iii) it is not a ten percent shareholder of the Borrowers within the meaning of Section 871(h)(3)(B) of the Code, and (iv) it is not a controlled foreign corporation related to the Borrowers as described in Section 881(c)(3)(C) of the Code.

The undersigned has furnished its participating Lender with a certificate of its non-U.S. Person status on IRS Form W-8BEN or W-8 BEN-E. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform such Lender in writing, and (2) the undersigned shall have at all times furnished such Lender with a properly completed and currently effective certificate either in the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

[NAME OF PARTICIPANT]

By:

Name:

Title:

Date: \_\_\_\_\_, 20[ ]

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**Exhibit D-3**

FORM OF

U.S. TAX COMPLIANCE CERTIFICATE

(For Foreign Participants That Are Partnerships For U.S. Federal Income Tax Purposes)

Reference is made to the Credit Agreement dated as of March 25, 2015 (as amended, modified, supplemented or restated and in effect from time to time, the “Credit Agreement”) by and among (i) American Apparel (Carnaby) Limited as the Initial Borrower and the Additional Borrowers party thereto (together with the Initial Borrower, the “Borrowers”), (ii) American Apparel, Inc. as Guarantor, (iii) Standard General L.P., on behalf of one or more of its controlled funds and (iv) the other Lenders party thereto. Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

Pursuant to the provisions of Section 2.12 of the Credit Agreement, the undersigned hereby certifies that (i) it is the sole record owner of the participation in respect of which it is providing this certificate, (ii) its direct or indirect partners/members are the sole beneficial owners of such participation, (iii) with respect such participation, neither the undersigned nor any of its direct or indirect partners/members is a bank extending credit pursuant to a loan agreement entered into in the ordinary course of its trade or business within the meaning of Section 881(c)(3)(A) of the Code, (iv) none of its direct or indirect partners/members is a ten percent shareholder of the Borrowers within the meaning of Section 871(h)(3)(B) of the Code and (v) none of its direct or indirect partners/members is a controlled foreign corporation related to the Borrowers as described in Section 881(c)(3)(C) of the Code.

The undersigned has furnished its participating Lender with IRS Form W-8IMY accompanied by one of the following forms from each of its partners/members that is claiming the portfolio interest exemption: (i) an IRS Form W-8BEN or W-8 BEN-E or (ii) an IRS Form W-8IMY accompanied by an IRS Form W-8BEN or W-8 BEN-E from each of such partner’s/member’s beneficial owners that is claiming the portfolio interest exemption. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform such Lender and (2) the undersigned shall have at all times furnished such Lender with a properly completed and currently effective certificate either in the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

[NAME OF PARTICIPANT]

By:

Name:

Title:

Date: \_\_\_\_\_, 20[ ]

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**Exhibit D-4**

FORM OF

U.S. TAX COMPLIANCE CERTIFICATE

(For Foreign Lenders That Are Partnerships For U.S. Federal Income Tax Purposes)

Reference is made to the Credit Agreement dated as of March 25, 2015 (as amended, modified, supplemented or restated and in effect from time to time, the “Credit Agreement”) by and among (i) American Apparel (Carnaby) Limited as the Initial Borrower and the Additional Borrowers party thereto (together with the Initial Borrower, the “Borrowers”), (ii) American Apparel, Inc. as Guarantor, (iii) Standard General L.P., on behalf of one or more of its controlled funds and (iv) the other Lenders party thereto. Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

Pursuant to the provisions of Section 2.12 of the Credit Agreement, the undersigned hereby certifies that (i) it is the sole record owner of the Loan(s) (as well as any Note(s) evidencing such Loan(s)) in respect of which it is providing this certificate, (ii) its direct or indirect partners/members are the sole beneficial owners of such Loan(s) (as well as any Note (s) evidencing such Loan(s)), (iii) with respect to the extension of credit pursuant to this Credit Agreement or any other Loan Document, neither the undersigned nor any of its direct or indirect partners/members is a bank extending credit pursuant to a loan agreement entered into in the ordinary course of its trade or business within the meaning of Section 881(c)(3)(A) of the Code, (iv) none of its direct or indirect partners/members is a ten percent shareholder of the Borrowers within the meaning of Section 871(h)(3)(B) of the Code and (v) none of its direct or indirect partners/members is a controlled foreign corporation related to the Borrowers as described in Section 881(c)(3)(C) of the Code.

The undersigned has furnished the Borrowers with IRS Form W-8IMY accompanied by one of the following forms from each of its partners/members that is claiming the portfolio interest exemption: (i) an IRS Form W-8BEN or W-8 BEN-E or (ii) an IRS Form W-8IMY accompanied by an IRS Form W-8BEN or W-8 BEN-E from each of such partner’s/member’s beneficial owners that is claiming the portfolio interest exemption. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform the Borrowers, and (2) the undersigned shall have at all times furnished the Borrowers with a properly completed and currently effective certificate either in the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

[NAME OF LENDER]

By:

Name:

Title:

Date: \_\_\_\_\_, 20[ ]

## Exhibit B

### NOTE

\$15,000,000 March 25, 2015

FOR VALUE RECEIVED, the undersigned (the “Borrower”) promises to pay to Standard Clothing LLC (the “Lender”), with its offices at 767 5<sup>th</sup> Avenue, New York, NY 10153, the principal sum of FIFTEEN MILLION DOLLARS (\$15,000,000), with interest, including PIK Interest, if any, at the rate and payable in the manner stated in the Credit Agreement dated as of March 25, 2015 (as amended, modified, supplemented or restated and in effect from time to time, the “Credit Agreement”) by and among (i) the Borrower and the Additional Borrowers party thereto, (ii) American Apparel, Inc. as Guarantor, (iii) Standard General L.P., on behalf of one or more of its controlled funds and (iv) the other Lenders party thereto. Capitalized terms used herein and not defined herein shall have the meanings assigned to such terms in the Credit Agreement.

This is a “Note” to which reference is made in the Credit Agreement and is subject to all terms and provisions thereof. The principal of, and interest (including PIK Interest, if any) on, this Note shall be payable at the times, in the manner, and in the amounts as provided in the Credit Agreement and shall be subject to prepayment and acceleration as provided therein. Capitalized terms used herein and not defined herein shall have the meanings assigned to such terms in the Credit Agreement.

The Lender’s books and records concerning the Loan, the accrual of interest thereon, and the repayment of such Loan, shall be prima facie evidence of the indebtedness hereunder, absent manifest error.

No delay or omission by the Lender in exercising or enforcing any of the Lender’s powers, rights, privileges, remedies or discretions hereunder shall operate as a waiver thereof on that occasion nor on any other occasion. No waiver of any Event of Default shall operate as a waiver of any other Event of Default, nor as a continuing waiver.

The Borrower, and each guarantor of this Note, waives presentment, demand, notice and protest, and also waives any delay on the part of the holder hereof. The Borrower assents to any extension or other indulgence (including, without limitation, the release or substitution of Collateral) permitted by the Lender with respect to this Note and/or any Collateral or any extension or other indulgence with respect to any other liability or any collateral given to secure any other liability of the Borrower or any other Person obligated on account of this Note.

This Note shall be binding upon the Borrower, and each guarantor hereof, and upon their respective successors, assigns, and representatives, and shall inure to the benefit of the Lender and its successors and assigns.

THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE CONFLICTS OF LAWS PRINCIPLES THEREOF.

The Borrower agrees that any suit for the enforcement of this Note or any other Loan Document shall be brought in the courts of the State of New York sitting in New York City or any federal court sitting therein and consents to the exclusive jurisdiction of such courts. The Borrower hereby waives any objection which

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it may now or hereafter have to the venue of any such suit or any such court or that such suit is brought in an inconvenient forum and agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. The Borrower agrees that any action commenced by the Borrower asserting any claim or counterclaim arising under or in connection with this Note or any other Loan Document shall be brought solely in the courts of the State of New York sitting in New York City or any federal court sitting therein and consents to the exclusive jurisdiction of such courts with respect to any such action.

The Borrower makes the following waiver knowingly, voluntarily and intentionally, and understands that the Lender, in the establishment and maintenance of its relationship with the Borrower contemplated by this Note, are relying thereon. THE BORROWER, EACH GUARANTOR AND SURETY, AND THE LENDER, BY ITS ACCEPTANCE HEREOF, HEREBY WAIVE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS NOTE, ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY) AND WAIVE THE RIGHT TO ASSERT ANY SETOFF, COUNTERCLAIM OR CROSS-CLAIM IN RESPECT OF, AND ALL STATUTES OF LIMITATIONS WHICH MAY BE RELEVANT TO, SUCH ACTION OR PROCEEDING; AND WAIVE DUE DILIGENCE, DEMAND, PRESENTMENT AND PROTEST AND ANY NOTICES THEREOF AS WELL AS NOTICE OF NONPAYMENT. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS, AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THE CREDIT AGREEMENT AND THIS NOTE BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS HEREIN.

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IN WITNESS WHEREOF, the Borrower has caused this Note to be duly executed as of the date set forth above.

AMERICAN APPAREL (CARNABY) LIMITED

By:

Name:

Title:

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## SUBORDINATION AGREEMENT

This SUBORDINATION AGREEMENT (this “Agreement”) is made as of March 25, 2015 by and among American Apparel, Inc., a Delaware corporation (the “Borrower”), American Apparel (Carnaby) Limited, a private company with limited liability incorporated under the laws of England and Wales (the “Subordinated Creditor”), and the Administrative Agent (as defined in the Credit Agreement (referred to below)) pursuant to that certain Credit Agreement.

### WITNESSETH

WHEREAS, the Subordinated Creditor may from time to time make loans to the Borrower with the proceeds of amounts loaned to the Subordinated Creditor under that certain Credit Agreement, dated as of the date hereof (as amended, restated, supplemented, or otherwise modified from time to time, the “Standard General Credit Agreement”), among the Borrower, the Subordinated Creditor, and Standard General L.P., on behalf of one or more of its controlled funds, as the initial lender, which loans to the Borrower by the Subordinated Creditor shall be evidenced by an intercompany note and/or other instrument or document (collectively, the “Subordinated Debt Documents”), and which loans, as well as the right to payment due thereunder, are and shall be unsecured; and

WHEREAS, the Borrower has entered into the Credit Agreement, dated as of April 4, 2013 (as amended, restated, supplemented or otherwise modified from time to time, the “Credit Agreement”), among (i) American Apparel (USA) LLC, a California limited liability company (the “Company”), (ii) the other borrowers party thereto, (iii) the other Credit Parties party thereto, (iv) the Lenders from time to time party thereto, (v) Capital One, N.A., as L/C Issuer, and (vi) Capital One Leverage Finance Corp., as Administrative Agent (in such capacity, the “Administrative Agent”) and Swing Line Lender, pursuant to which the Lenders thereunder have, upon certain terms and conditions, made loans and provided other financial accommodations to or for the benefit of the Company and certain of its Affiliates secured by substantially all assets and properties of the Credit Parties;

NOW, THEREFORE, in consideration of the foregoing and for good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Capitalized Terms. Capitalized terms used but not defined herein shall have the meaning ascribed to such terms in the Credit Agreement. The Administrative Agent, the Lenders and the other Secured Parties (as defined in the Credit Agreement) are referred to herein as the “Senior Creditors”.
  2. Subordination: Each of the Subordinated Creditor and the Borrower hereby agrees with the Administrative Agent that the principal, interest, fees, expenses and all other amounts due (collectively, the “Subordinated Debt Obligations”) under the Subordinated Debt Documents are and shall be subject to and subordinate to the Obligations on the terms and conditions set forth in this Agreement until the date upon the last to occur of (i) the expiration or termination of the Commitments, (ii) the indefeasible payment in full in cash of principal of and interest on each Loan and all fees and other Obligations, (iii) the expiration, termination, cash collateralization or backstopping by a letter of credit reasonably acceptable to the Administrative Agent and the L/C Issuer of all Letters of Credit, (iv) the reimbursement of all Letter of Credit disbursements and Unreimbursed Amounts, and (v) the satisfaction or cash collateralization of all Bank Product Obligations (such date, the “Credit Facility Termination Date”). The Subordinated Creditor will not commence any action or proceeding of any kind against the Borrower, or against any of the Borrower’s assets, to recover all or any part of the Subordinated Debt Obligations not paid when due, and
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no holder of the Subordinated Debt Obligations shall at any time join with any creditor in bringing any proceeding against the Borrower, under any liquidation, conservatorship, bankruptcy, reorganization, rearrangement or other insolvency law now or hereafter existing, unless and until the occurrence of the Credit Facility Termination Date.

3. Deferral of Subrogation: The Subordinated Creditor shall not be subrogated to the rights of the Secured Parties with respect to the obligations under the Credit Agreement and the other Loan Documents until the occurrence of the Credit Facility Termination Date; and for the purposes of such subrogation, no payments or distributions to the Secured Parties of any cash, property or securities to which the Subordinated Creditor would be entitled except for these provisions shall, as among the Subordinated Creditor, its creditors other than the Administrative Agent, the other Secured Parties and the Borrower, be deemed to be a payment by the Subordinated Creditor to or on account of the obligations under the Credit Agreement and the other Loan Documents.

4. Further Assurances: The Subordinated Creditor and the Borrower shall execute all such further instruments and do such other and further acts as the Administrative Agent or the other Secured Parties may reasonably request in furtherance of the Administrative Agent's and the other Secured Parties' rights hereunder and/or the purposes of this Agreement. The respective obligations of the Subordinated Creditor and the Borrower hereunder being unique, are specifically enforceable by the Administrative Agent and the other Secured Parties.

5. Acknowledgement: The Subordinated Creditor hereby acknowledges and agrees that the Subordinated Debt Obligations are unsecured and covenants and agrees that the Subordinated Debt Obligations shall remain unsecured. In addition, the Subordinated Creditor hereby agrees, upon request of the Administrative Agent at any time and from time to time, to execute such other documents or instruments as may be requested by the Administrative Agent further to evidence of public record or otherwise the senior priority of the Obligations as contemplated hereby.

6. No part of the Subordinated Debt Obligations have been assigned to or subjected to another security interest in favor of anyone other than the Senior Creditors. The Subordinated Creditor shall not assign or subordinate any part of the Subordinated Debt Obligations except with the prior written consent of the Administrative Agent (other than with respect to Subordinated Debt Obligations which are subordinated pursuant to the requirements of the Senior Notes Indenture (as defined in the Standard General Credit Agreement)).

7. Application Of Proceeds: The proceeds (if any) received by the Administrative Agent or the other Secured Parties on account of the Subordinated Debt Obligations shall be applied towards the Obligations in such order and manner as the Administrative Agent may determine in its sole discretion. Any such proceeds received by the Administrative Agent in excess of the amounts necessary to satisfy the Obligations shall be paid to the Subordinated Creditor. The Borrower shall not make any payment to the Subordinated Creditor under the Subordinated Debt Documents, nor shall the Subordinated Creditor accept any payment from the Borrower under the Subordinated Debt Documents, except to the extent that such payment is permitted under the Credit Agreement.

8. Subordination on Dissolution, Liquidation or Reorganization: Upon payment or distribution of assets or securities of the Borrower of any kind or character, whether in cash, property or securities, in any insolvency or bankruptcy proceeding, unless and until the Credit Facility Termination Date has occurred, (a) no direct or indirect payments or distributions of any kind or character, whether in cash, property or securities, shall be made by or on behalf of the Borrower or shall be accepted by the Subordinated Creditor on account of the Subordinated Debt Obligations and (b) the Administrative Agent shall be entitled to receive

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directly, for application of the payment of the Obligations, any payments or distributions of any kind or character, whether in cash, property or securities, made by any Person on account of the Subordinated Debt Obligations. The Administrative Agent is hereby authorized to demand, sue for, collect and receive every such payment or distribution described in this Section 8 and give acceptance herefor and file an appropriate claim for and on behalf of the Subordinated Creditor if the Subordinated Creditor does not file, and there is not otherwise filed on behalf of the Subordinated Creditor, a proper claim or proof of claim in the form required in any such insolvency or bankruptcy proceeding prior to 10 Business Days before the expiration of the time to file such claim or claims.

Upon any payment or distribution of assets of the Borrower in any insolvency, bankruptcy, receivership, liquidation, reorganization, dissolution, winding up or similar case or proceeding, the Subordinated Creditor shall be entitled to rely upon any order or decree entered by any court of competent jurisdiction in which an insolvency, bankruptcy, receivership, liquidation, reorganization, dissolution, winding up or similar case or proceeding is pending, or a certificate of the trustee in bankruptcy, receiver, liquidating trustee, custodian, assignee for the benefit of creditors, agent or other Person making such payment or distribution, delivered to the Subordinated Creditor, for the purpose of ascertaining the Persons entitled to participate in such payment or distribution, the Administrative Agent and the other Secured Parties and other Indebtedness of the Borrower, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto.

9. Certain Waivers By Borrowers: The Borrower hereby waives diligence, presentment, demand, protest and notice of any kind whatsoever.

10. Certain Waivers By Subordinated Creditors: The Subordinated Creditor:

- a. Waives notice of non-payment, presentment, demand, notice, protest or otherwise with respect to the Obligations and/or the Subordinated Debt Obligations.
- b. Waives notice of the acceptance of this Agreement by the Administrative Agent and the other Secured Parties.
- c. Assents to any extension, renewal, indulgence or waiver, permitted to the Borrower and/or any other person liable or obligated to the Administrative Agent or the other Secured Parties for or on the Obligations and waives all suretyship defenses generally.
- d. If entitled thereto, waives the right to notice and/or hearing prior to the Administrative Agent's or the other Secured Parties' exercising of the Administrative Agent's or the other Secured Parties' rights and remedies hereunder.

No action by the Administrative Agent or any other Secured Party which has been assented to herein shall affect the obligations of the Subordinated Creditor to the Administrative Agent or the other Secured Parties hereunder.

11. Continuing Effectiveness of Subordination:

- a. The Administrative Agent and the other Secured Parties may continue to rely upon this Agreement and the subordination effected hereby with respect to all Obligations which may arise hereafter. The repayment and satisfaction of all of the Obligations shall not terminate this Agreement and the subordination effected hereby as to any Obligations which arise thereafter.
  - b. The subordination effected hereby shall not be affected by any fraudulent, illegal, or improper act by the Borrower, the Subordinated Creditor, or any person liable or obligated to the Administrative Agent or any other Secured Party for or on the Obligations, nor by any release, discharge or invalidation, by operation of law or otherwise, of the Obligations or by the legal incapacity of the Borrower, the
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Subordinated Creditor, or any other person liable or obligated to the Administrative Agent or the other Secured Parties for or on the Obligations.

- c. All interest on the Obligations for which the Borrower has agreed to be liable and all costs of collection shall continue to accrue and shall continue to be Obligations for purposes of the subordination effected hereby notwithstanding any stay to the enforcement thereof against the Borrower or disallowance therefor against the Borrower.
- d. This Agreement, if previously terminated, shall be automatically reinstated, without any further action, if at any time any payment made or value received by the Administrative Agent or any other Secured Party with respect to the Obligations is rescinded or must otherwise be returned by the Administrative Agent upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, all as though such payment had not been made or value received.

12. Non-Impairment: The above provisions are not intended to impair (a) the obligation of the Borrower, which is absolute and unconditional, to pay to the Subordinated Creditor the Subordinated Debt Obligations, as and when the same shall become due and payable in accordance with its terms, principal and interest thereon, subject to the rights of the Administrative Agent and the other Secured Parties as provided in the above provisions, or (b) to affect the relative rights of the Subordinated Creditor and other creditors of the Borrower, other than the relative rights of the Subordinated Creditor with respect to the Administrative Agent and the other Secured Parties.

13. Agent's Books and Records: The books and records of the Administrative Agent showing the accounts between the Administrative Agent and the Borrower and (if any) the Administrative Agent and the Subordinated Creditor shall be admissible in any action or proceeding to enforce this Agreement and shall constitute prima facie evidence and proof of the items contained therein.

14. Effect of Breach of Agreement: Each of the Borrower and the Subordinated Creditor hereby acknowledges and agrees that any failure by the Borrower or the Subordinated Creditor to promptly, punctually, and faithfully perform or discharge any of its obligations hereunder shall be an Event of Default under the Credit Agreement.

15. Costs of Enforcement:

- a. The Borrower will pay on demand all reasonable and documented attorneys' fees and out-of-pocket expenses incurred by the Administrative Agent's and the other Secured Parties' attorneys and all reasonable and documented costs incurred by the Administrative Agent and the other Secured Parties, which costs and expenses are related to the Administrative Agent's and the other Secured Parties' efforts to preserve, protect, collect, or enforce any of the obligations of the Subordinated Creditor and/or any of the obligations of the Borrower and/or any of the Administrative Agent's and the Other Secured Parties' Rights and Remedies hereunder (whether or not suit is instituted by or against the Administrative Agent or the other Secured Parties).
  - b. The Subordinated Creditor will pay on demand all reasonable and documented attorneys' fees and out-of-pocket expenses incurred by the Administrative Agent's and the other Secured Parties' attorneys and all reasonable and documented costs
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incurred by the Administrative Agent and the other Secured Parties, which costs and expenses are related to the Administrative Agent's and the other Secured Parties' efforts to preserve, protect, collect, or enforce any of the obligations of the Subordinated Creditor and/or any of the Administrative Agent's and the Other Secured Parties' Rights and Remedies hereunder (whether or not suit is instituted by or against the Administrative Agent or the other Secured Parties).

16. Incorporation: This Agreement constitutes the entire agreement and understanding of the parties relating to the subject matter hereof and supersedes all prior and contemporaneous agreements and understandings, whether oral or written, relating to the subject matter hereof. No provisions hereof may be altered, amended, waived, canceled, or modified, except by a written instrument executed, sealed, and acknowledged by a duly authorized officer of the Administrative Agent, Subordinated Creditor and the Borrower.

17. Administrative Agent's and Other Secured Parties' Rights and Remedies: The rights, remedies, powers, privileges, and discretions of the Administrative Agent and the other Secured Parties hereunder (hereinafter, the "Administrative Agent's and the Other Secured Parties' Rights and Remedies") shall be cumulative and not exclusive of any rights or remedies which it would otherwise have. No delay or omission by the Administrative Agent or any other Secured Party in exercising or enforcing any of the Administrative Agent's and the Other Secured Parties' Rights and Remedies shall operate as, or constitute, a waiver thereof. No waiver by the Administrative Agent or any other Secured Party of any of the Administrative Agent's and the Other Secured Parties' Rights and Remedies or of any default or remedy under any other agreement with the Borrower or the Subordinated Creditor shall operate as a waiver of any other default hereunder or thereunder. No exercise of the Administrative Agent's and the Other Secured Parties' Rights and Remedies and no other agreement or transaction, of whatever nature, entered into between the Administrative Agent or any other Secured Party and the Subordinated Creditor and/or between the Administrative Agent or any other Secured Party and the Borrower at any time shall preclude any other or further exercise of the Administrative Agent's and the Other Secured Parties' Rights and Remedies. No waiver by the Administrative Agent or any other Secured Party of any of the Administrative Agent's and the Other Secured Parties' Rights and Remedies on any one occasion shall be deemed a continuing waiver. All of the Administrative Agent's and the Other Secured Parties' Rights and Remedies and all of the Administrative Agent's and the other Secured Parties' rights, remedies, powers, privileges, and discretions under any other agreement with the Subordinated Creditor and/or the Borrower shall be cumulative, and not alternative or exclusive, and may be exercised by the Administrative Agent or the other Secured Parties at such time or times and in such order of preference as the Administrative Agent or the other Secured Parties in their sole discretion may determine. The Administrative Agent or any other Secured Party may proceed with respect to the Subordinated Debt Obligations without resort or regard to other collateral or sources of satisfaction of the Obligations or, if any, the obligations and indebtedness of the Subordinated Creditor to the Administrative Agent or any other Secured Party. The rights granted to the Senior Creditors hereunder are solely for their protection and nothing herein contained shall impose on the Senior Creditors any duties with respect to any property of the Subordinated Creditor received hereunder beyond reasonable care in its custody and preservation while in its possession, The Senior Creditors shall have no duty to preserve rights against prior parties in any instrument or chattel paper received hereunder.

18. Binding Effect: This Agreement shall be binding upon the Subordinated Creditor, the Borrower and their respective, representatives, successors, and assigns, and shall inure to the benefit of the Administrative Agent, the other Secured Parties, and their respective successors and assigns.

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19. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE CONFLICTS OF LAWS PRINCIPLES THEREOF.

20. Jurisdiction; Consent to Service of Process. Each of the Subordinated Creditor and the Borrower agrees that any suit for the enforcement of this Agreement may be brought in the courts of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York as the Administrative Agent may elect in its sole discretion and consents to the nonexclusive jurisdiction of such courts. Each of the Subordinated Creditor and the Borrower hereby waives any objection which it may now or hereafter have to the venue of any such suit or any such court or that such suit is brought in an inconvenient forum and agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Each of the Subordinated Creditor and the Borrower agrees that any action commenced by the Subordinated Creditor or the Borrower asserting any claim or counterclaim arising under or in connection with this Agreement shall be brought solely in the courts of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York as the Administrative Agent may elect in its sole discretion and consents to the nonexclusive jurisdiction of such courts with respect to such action.

22. Waiver of Jury Trial: Each of the Subordinated Creditor and the Borrower respectively makes the following waiver knowingly, voluntarily, and intentionally and understands that the Administrative Agent, in the establishment and maintenance of the Administrative Agent's relationship with the Borrower, is relying thereon. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

23. Counterparts: This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Agreement by telecopy or other electronic imaging means shall be effective as delivery of a manually executed counterpart of this Agreement.

23. Notices: All notices and other communications to the Borrower, the Subordinated Creditor, the Administrative Agent or any other Secured Party provided for herein shall be delivered pursuant to Section 10.02 of the Credit Agreement (or such other section that from time to time shall provide for notices and other communications).

[SIGNATURE PAGES TO FOLLOW]

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IN WITNESS WHEREOF, each of the undersigned has duly executed and delivered this Agreement as of the date above first written. This Agreement is intended to take effect as a sealed instrument.

BORROWER:

AMERICAN APPAREL, INC.

By:

Name:

Title:

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SUBORDINATED CREDITOR:  
AMERICAN APPAREL, (CARNABY) LIMITED

By:

Name:

Title:

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Acknowledged by:

ADMINISTRATIVE AGENT:

**CAPITAL ONE BUSINESS CREDIT CORP. ,**  
as Administrative Agent

By: \_\_\_\_\_

Name:

Title:

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## SUBORDINATION AGREEMENT

This Subordination Agreement (this “Agreement”) is made as of March 25, 2015 by and among American Apparel, Inc., a Delaware corporation (the “Borrower”), American Apparel (Carnaby) Limited, a private company with limited liability incorporated under the laws of England and Wales (the “Subordinated Creditor”), for the benefit of the Collateral Agent (as defined in the Indenture (referred to below)) pursuant to that certain Indenture.

### WITNESSETH

WHEREAS, the Subordinated Creditor may from time to time make loans to the Borrower with the proceeds of amounts loaned to the Subordinated Creditor under that certain Credit Agreement, dated as of the date hereof (as amended, restated, supplemented, or otherwise modified from time to time, the “Credit Agreement”), among the Borrower, the Subordinated Creditor, and Standard General L.P., on behalf of one or more of its controlled funds, as the initial lender, which loans to the Borrower by the Subordinated Creditor shall be evidenced by an intercompany note and/or other instrument or document (collectively, the “Subordinated Debt Documents”), and which loans, as well as the right to payment due thereunder, are and shall be unsecured; and

WHEREAS, the Borrower has entered into the Indenture, dated as of April 4, 2013 (as amended, restated, supplemented or otherwise modified from time to time, the “Indenture”), among (i) the Borrower and (ii) U.S. Bank National Association, as Trustee (as defined therein) and Collateral Agent (in such capacity, the “Collateral Agent”).

NOW, THEREFORE, in consideration of the foregoing and for good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Capitalized Terms. Capitalized terms used but not defined herein shall have the meaning ascribed to such terms in the Indenture. The Collateral Agent, the Trustee and each of the Holders are collectively referred to herein as the “Senior Creditors”.

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2. Subordination : Each of the Subordinated Creditor and the Borrower hereby agrees that the principal, interest, fees, expenses and all other amounts due (collectively, the “ Subordinated Debt Obligations ”) under the Subordinated Debt Documents are and shall be subject to and subordinate to the Indenture Obligations on the terms and conditions set forth in this Agreement until the occurrence of (i) the irrevocable payment in full in cash of the principal of, interest and fees (including interest and fees accruing on or after the commencement of any insolvency or liquidation proceeding, whether or not such interest or fees would be allowed in such insolvency or liquidation proceeding) and all other amounts constituting Indenture Obligations, (ii) satisfaction and discharge of the Indenture pursuant to Section 8.02 of the Indenture or (iii) the occurrence of a Legal Defeasance or Covenant Defeasance pursuant to Section 8.01 of the Indenture (such date, the “ Indenture Termination Date ”). The Subordinated Creditor will not commence any action or proceeding of any kind against the Borrower, or against any of the Borrower’s assets, to recover all or any part of the Subordinated Debt Obligations not paid when due, and no holder of the Subordinated Debt Obligations shall at any time join with any creditor in bringing any proceeding against the Borrower, under any liquidation, conservatorship, bankruptcy, reorganization, rearrangement or other insolvency law now or hereafter existing, unless and until the occurrence of the Indenture Termination Date.

3. Deferral of Subrogation : The Subordinated Creditor shall not be subrogated to the rights of the Senior Creditors with respect to the obligations under the Indenture and the other Indenture Documents until the occurrence of the Indenture Termination Date; and for the purposes of such subrogation, no payments or distributions to the Senior Creditors of any cash, property or securities to which the Subordinated Creditor would be entitled except for these provisions shall, as among the Subordinated Creditor, its creditors other than the Senior Creditors and the Borrower, be deemed to be a payment by the Subordinated Creditor to or on account of the obligations under the Indenture and the other Indenture Documents.

4. Enforcement : The respective obligations of the Subordinated Creditor and the Borrower hereunder being unique, are specifically enforceable by the Collateral Agent and the other Senior Lenders.

5. Application Of Proceeds : The proceeds (if any) received by the Collateral Agent or the other Senior Creditors on account of the Subordinated Debt Obligations shall be applied towards the Indenture Obligations in such order and manner as the Collateral Agent may determine in its sole discretion. Any such proceeds received by the Collateral Agent in excess of the amounts necessary to satisfy the Indenture Obligations shall be paid to the Subordinated Creditor.

6. Subordination on Dissolution, Liquidation or Reorganization : Upon payment or distribution of assets or securities of the Borrower of any kind or character, whether in cash, property or securities, in any insolvency or bankruptcy proceeding, unless and until the Indenture Termination Date has occurred, (a) no direct or indirect payments or distributions of any kind or character, whether in cash, property or securities, shall be made by or on behalf of the Borrower or shall be accepted by the Subordinated Creditor on account of the Subordinated Debt Obligations and (b) the Collateral Agent shall be entitled to receive directly, for application of the payment of the Indenture Obligations, any payments or distributions of any kind or character, whether in cash, property or securities, made by any Person on account of the Subordinated Debt Obligations. The Collateral Agent is hereby authorized to demand, sue for, collect and receive every such payment or distribution described in this Section 8 and give acceptance herefor and file an appropriate claim for and on behalf of the Subordinated Creditor if the Subordinated Creditor does not file, and there is not otherwise filed on behalf of the Subordinated Creditor, a proper claim or proof of claim in the form required in any such insolvency or bankruptcy proceeding prior to 10 Business Days before the expiration of the time to file such claim or claims.

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Upon any payment or distribution of assets of the Borrower in any insolvency, bankruptcy, receivership, liquidation, reorganization, dissolution, winding up or similar case or proceeding, the Subordinated Creditor shall be entitled to rely upon any order or decree entered by any court of competent jurisdiction in which an insolvency, bankruptcy, receivership, liquidation, reorganization, dissolution, winding up or similar case or proceeding is pending, or a certificate of the trustee in bankruptcy, receiver, liquidating trustee, custodian, assignee for the benefit of creditors, agent or other Person making such payment or distribution, delivered to the Subordinated Creditor, for the purpose of ascertaining the Persons entitled to participate in such payment or distribution, the Collateral Agent and the other Senior Creditors and other Indebtedness of the Borrower, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto.

7. Certain Waivers By Borrowers : The Borrower hereby waives diligence, presentment, demand, protest and notice of any kind whatsoever.

8. Certain Waivers By Subordinated Creditors : The Subordinated Creditor:

- a. Waives notice of non-payment, presentment, demand, notice, protest or otherwise with respect to the Indenture Obligations and/or the Subordinated Debt Obligations.
- b. Waives notice of the acceptance of this Agreement by the Collateral Agent and the other Senior Creditors.
- c. Assents to any extension, renewal, indulgence or waiver, permitted to the Borrower and/or any other person liable or obligated to the Collateral Agent or the other Senior Creditors for or on the Indenture Obligations and waives all suretyship defenses generally.
- d. If entitled thereto, waives the right to notice and/or hearing prior to the Collateral Agent's or the other Senior Creditors' exercising of the Collateral Agent's or the other Senior Creditors' rights and remedies hereunder.

No action by the Collateral Agent or any other Senior Creditor which has been assented to herein shall affect the obligations of the Subordinated Creditor to the Collateral Agent or the other Senior Creditors hereunder.

9. Continuing Effectiveness of Subordination:

- a. The Collateral Agent and the other Senior Creditors may continue to rely upon this Agreement and the subordination effected hereby with respect to all Indenture Obligations which may arise hereafter. The repayment and satisfaction of all of the Indenture Obligations shall not terminate this Agreement and the subordination effected hereby as to any Indenture Obligations which arise thereafter.
  - b. The subordination effected hereby shall not be affected by any fraudulent, illegal, or improper act by the Borrower, the Subordinated Creditor, or any person liable or obligated to the Collateral Agent or any other Senior Creditor for or on the Indenture Obligations, nor by any release, discharge or invalidation, by operation of law or otherwise, of the Indenture Obligations or by the legal incapacity of the Borrower, the Subordinated Creditor, or any other person liable or obligated to the Collateral Agent or the other Senior Creditors for or on the Indenture Obligations.
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- c. All interest on the Indenture Obligations for which the Borrower has agreed to be liable and all costs of collection shall continue to accrue and shall continue to be Indenture Obligations for purposes of the subordination effected hereby notwithstanding any stay to the enforcement thereof against the Borrower or disallowance therefor against the Borrower.
- d. This Agreement, if previously terminated, shall be automatically reinstated, without any further action, if at any time any payment made or value received by the Collateral Agent or any other Senior Creditor with respect to the Indenture Obligations is rescinded or must otherwise be returned by the Collateral Agent upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, all as though such payment had not been made or value received.

10. Non-Impairment : The above provisions are not intended to impair (a) the obligation of the Borrower, which is absolute and unconditional, to pay to the Subordinated Creditor the Subordinated Debt Obligations, as and when the same shall become due and payable in accordance with its terms, principal and interest thereon, subject to the rights of the Collateral Agent and the other Senior Creditors as provided in the above provisions, or (b) to affect the relative rights of the Subordinated Creditor and other creditors of the Borrower, other than the relative rights of the Subordinated Creditor with respect to the Collateral Agent and the other Senior Creditors.

11. Incorporation : This Agreement constitutes the entire agreement and understanding of the parties relating to the subject matter hereof and supersedes all prior and contemporaneous agreements and understandings, whether oral or written, relating to the subject matter hereof. No provisions hereof may be altered, amended, waived, canceled, or modified, except by a written instrument executed, sealed, and acknowledged by a duly authorized officer of the Subordinated Creditor and the Borrower.

12. Collateral Agent's and Other Senior Creditors' Rights and Remedies : The rights, remedies, powers, privileges, and discretions of the Collateral Agent and the other Senior Creditors hereunder (the "Collateral Agent's and the Other Senior Creditors' Rights and Remedies") shall be cumulative and not exclusive of any rights or remedies which it would otherwise have. No delay or omission by the Collateral Agent or any other Senior Creditor in exercising or enforcing any of the Collateral Agent's and the Other Senior Creditors' Rights and Remedies shall operate as, or constitute, a waiver thereof. No waiver by the Collateral Agent or any other Senior Creditor of any of the Collateral Agent's and the Other Senior Creditors' Rights and Remedies or of any default or remedy under any other agreement with the Borrower or the Subordinated Creditor shall operate as a waiver of any other default hereunder or thereunder. No exercise of the Collateral Agent's and the Other Senior Creditors' Rights and Remedies and no other agreement or transaction, of whatever nature, entered into between the Collateral Agent or any other Senior Creditor and the Subordinated Creditor and/or between the Collateral Agent or any other Senior Creditor and the Borrower at any time shall preclude any other or further exercise of the Collateral Agent's and the Other Senior Creditors' Rights and Remedies. No waiver by the Collateral Agent or any other Senior Creditor of any of the Collateral Agent's and the Other Senior Creditors' Rights and Remedies on any one occasion shall be deemed a continuing waiver. All of the Collateral Agent's and the Other Senior Creditors' Rights and Remedies and all of the Collateral Agent's and the other Senior Creditors' rights, remedies, powers, privileges, and discretions under any other agreement with the Subordinated Creditor and/or the Borrower shall be cumulative, and not alternative or exclusive, and may be exercised by the Collateral Agent or the other Senior Creditors at such time or times and in such order of preference as the Collateral Agent or the other Senior Creditors in their sole discretion may determine. The Collateral Agent or any other Senior Creditor may proceed with respect to the Subordinated Debt Obligations without resort or regard to other collateral or

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sources of satisfaction of the Indenture Obligations or, if any, the obligations and indebtedness of the Subordinated Creditor to the Collateral Agent or any other Senior Creditor. The rights granted to the Senior Creditors hereunder are solely for their protection and nothing herein contained shall impose on the Senior Creditors any duties with respect to any property of the Subordinated Creditor received hereunder beyond reasonable care in its custody and preservation while in its possession, The Senior Creditors shall have no duty to preserve rights against prior parties in any instrument or chattel paper received hereunder. The Collateral Agent is a third party beneficiary of this Agreement.

13. Binding Effect : This Agreement shall be binding upon the Subordinated Creditor, the Borrower and their respective, representatives, successors, and assigns, and shall inure to the benefit of the Collateral Agent, the other Senior Creditors, and their respective successors and assigns.

14. Governing Law . THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE CONFLICTS OF LAWS PRINCIPLES THEREOF.

15. Jurisdiction; Consent to Service of Process . Each of the Subordinated Creditor and the Borrower agrees that any suit for the enforcement of this Agreement may be brought in the courts of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York as the Collateral Agent may elect in its sole discretion and consents to the nonexclusive jurisdiction of such courts. Each of the Subordinated Creditor and the Borrower hereby waives any objection which it may now or hereafter have to the venue of any such suit or any such court or that such suit is brought in an inconvenient forum and agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Each of the Subordinated Creditor and the Borrower agrees that any action commenced by the Subordinated Creditor or the Borrower asserting any claim or counterclaim arising under or in connection with this Agreement shall be brought solely in the courts of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York as the Collateral Agent may elect in its sole discretion and consents to the nonexclusive jurisdiction of such courts with respect to such action.

16. Waiver of Jury Trial : EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

23, Counterparts : This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Agreement by telecopy or other electronic imaging means shall be effective as delivery of a manually executed counterpart of this Agreement.

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17. Notices: All notices and other communications to the Borrower, the Subordinated Creditor, the Collateral Agent or any other Senior Creditor provided for herein shall be delivered pursuant to the Indenture (or such other section that from time to time shall provide for notices and other communications).

[SIGNATURE PAGES TO FOLLOW]

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IN WITNESS WHEREOF, each of the undersigned has duly executed and delivered this Agreement as of the date above first written. This Agreement is intended to take effect as a sealed instrument.

BORROWER:

AMERICAN APPAREL, INC.

By:

Name:

Title:

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SUBORDINATED CREDITOR:  
AMERICAN APPAREL, (CARNABY) LIMITED

By:

Name:

Title:

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**AMERICAN APPAREL, INC.**

March 25, 2015

**SECRETARY'S CERTIFICATE**

Reference is hereby made to that certain credit agreement, dated as of the date hereof (the "Credit Agreement"; capitalized terms used but not defined herein shall have the respective meanings ascribed to them in the Credit Agreement), among American Apparel (Carnaby) Limited, a private company incorporated under the laws of England and Wales, as the Initial Borrower, American Apparel, Inc., a Delaware corporation (the "Company"), as Guarantor and Standard General L.P., on behalf of one or more of its controlled funds, as the Initial Lender. The undersigned, Secretary of the Company, solely in such officer's capacity as Secretary of the Company and not individually, does hereby certify on behalf of the Company as follows:

1. Attached hereto as Exhibit A is a true and complete copy of the Amended and Restated Certificate of Incorporation of the Company and all amendments thereto (the "Certificate of Incorporation"), certified as of a recent date by the Secretary of State of the State of Delaware. Such Certificate of Incorporation has not been amended or repealed and is in full force and effect on and as of the date hereof, and other than with respect to the amendments attached thereto, no subsequent action has been taken by the Company, its stockholders, directors or officers in contemplation of the filing of any such amendment or other document and no proceedings therefor have occurred.
2. Attached hereto as Exhibit B is a true, complete and correct copy of the Bylaws of the Company, as amended and in effect at all times from the date on which the Resolutions (as defined below) were adopted, and there have been no amendments thereto except those amendments attached as part of such Exhibit B.
3. Attached hereto as Exhibit C are true, complete and correct copies of certain resolutions (the "Resolutions") adopted by the Board of Directors of the Company and the Audit Committee of the Board of Directors of the Company on [ ], 2015. The Resolutions have not in any way been amended, supplemented, modified, revoked or rescinded and remain in full force and effect as of the date hereof.
4. Attached hereto as Exhibit D is a true and, complete and correct copy of a certificate of good standing of the Company, certified as of a recent date by the Secretary of State of the State of Delaware.
5. Each of the persons listed on Exhibit E attached hereto has been duly elected to, qualified for and now holds the office of the Company set forth opposite such person's name and is currently serving in such capacity, and the signature of each such person set forth opposite his or her name is his or her true and genuine signature, and each such person is duly authorized to execute, on behalf of the Company, the Credit Agreement and any certificate or other document to be delivered by the Company pursuant to the Credit Agreement.
6. Attached hereto as Exhibit F is a true, correct and complete copy of each of (1) the First Lien Credit Agreement and the Amendment No. 6 to Credit Agreement and Limited Waiver (as defined in the First Lien Credit Agreement) thereto, (2) the Senior Notes Indenture and (3) the Intercreditor Agreement (as defined in the Senior Notes Indenture).

[ *Signature Page Follows* ]

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**IN WITNESS WHEREOF** , I have signed this certificate as of the date first written above.

By:

Name: Chelsea A. Grayson

Title: General Counsel, Executive Vice President and Secretary

I, Hassan Natha, Chief Financial Officer and Executive Vice President of the Company, do hereby certify that Chelsea A. Grayson is the duly elected or appointed, qualified and acting Secretary of the Company, and the signature set forth above is his genuine signature.

**IN WITNESS WHEREOF** , I have signed this certificate as of the date first written above.

By:

Name: Hassan Natha

Title: Chief Financial Officer and Executive Vice President



**Exhibit A**

**Certificate of Incorporation**

**Exhibit B**

**Bylaws**

**Exhibit C**

**Resolutions**



**Exhibit D**

**Certificate of Good Standing**





**Exhibit E**

**Authorized Officers**

**Name**

Paula Schneider

Chelsea A. Grayson

Hassan Natha

**Title**

Chief Executive Officer

General Counsel, Executive Vice  
President and Secretary

Chief Financial Officer and Executive  
Vice President

**Signature**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Exhibit F**

**First Lien Credit Agreement and the Amendment No. 6 to Credit Agreement and Waiver (as defined in the First Lien Credit Agreement) thereto**

**Senior Notes Indenture**

**Intercreditor Agreement (as defined in the Senior Notes Indenture)**

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## DIRECTOR'S CERTIFICATE

To: Standard General L.P.  
on behalf of one or more of its controlled funds  
in its capacity as Lender under the Credit Agreement (as defined in the Shareholder Resolutions (as defined below))

I, Martin Bailey, the sole director of American Apparel (Carnaby) Limited of 40 Queen Anne Street, London, England W1G 9EL and registered number 05114129 (the "**Company**") **HEREBY CERTIFY** that:

1. attached hereto marked "A" and initialled by me for the purpose of identification is a true and correct copy of the Memorandum and Articles of Association and the Certificate of Incorporation of the Company, each of which is in full force and effect and has not been amended or superseded on or prior to the date hereof;
  2. attached hereto marked "B" and initialled by me for the purpose of identification is a true and correct copy of the resolutions of the sole shareholder of the Company passed on 25th March 2015 (the "**Shareholder Resolutions**") approving, amongst other things, the Company's entry into the (i) Credit Agreement (as defined in the Shareholder Resolutions) and (ii) a proposed note to be issued in favour of the Lender (as defined in the Shareholder Resolutions), which Shareholder Resolutions have not been amended, modified, superseded or revoked on or prior to the date hereof and are in full force and effect;
  3. attached hereto marked "C" and initialled by me for the purpose of identification is a true and correct copy of the written resolutions of the sole director of the Company passed on 25th March 2015 (the "**Director Resolutions**") approving, amongst other things, the Company's entry into the Credit Agreement and the Lender Note (each as defined in the Director Resolutions) and:
    - (a) such sole director has been duly elected or appointed as director;
    - (b) the Director Resolutions were duly passed in accordance with the constitutional documents of the Company and applicable law and have not been amended, modified, superseded or revoked on or prior to the date hereof and are in full force and effect; and
    - (c) the sole director has confirmed he has no direct or indirect interest in any of the Documents (as defined in the Director Resolutions) or the transactions relating thereto or in connection therewith and was permitted to vote on the passing of the Director Resolutions and his vote could be counted in a quorum;
  4. the Company has not breached and is not in breach of, and following entry into the Credit Agreement, will not as a consequence thereof be in breach of, the Company's Articles of Association or any other obligation of the Company;
  5. the Company is not unable and has not been deemed unable to pay its debts within the meaning of Section 123 of the Insolvency Act 1986;
  6. no order has been made or resolution passed for the compulsory or voluntary winding up of the Company and, to the best of my knowledge and belief (having made all reasonable enquiry), (a) no
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petition has been presented for the compulsory or voluntary winding up of the Company or the making of an administration order in respect of the Company and (b) no liquidator, receiver, administrative receiver or administrator has been appointed in respect of the Company or any part of its undertaking or assets;

7. the below named person is the sole duly appointed director of the Company and the signature appearing below opposite his name is his true signature:

<b>Name</b>	<b>Position</b>	<b>Signature</b>
Martin Bailey	Director	

Signed:

Martin Bailey

Director

Date:

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## OFFICER'S CERTIFICATE

March 25, 2015

Reference is made to that certain Credit Agreement, dated as of the date hereof (the “Credit Agreement”; capitalized terms defined therein and not otherwise defined herein being used herein as therein defined), among American Apparel (Carnaby) Limited, a private company with limited liability incorporated under the laws of England and Wales, as the Initial Borrower, the Additional Borrowers party thereto, American Apparel, Inc., a Delaware corporation, as Guarantor (in such capacity, the “Company”), and Standard General L.P., on behalf of one or more of its controlled funds, as the Initial Lender.

Pursuant to Sections 4.01(d) of the Credit Agreement, the undersigned Chief Financial Officer of the Company, hereby certifies, as of the date hereof, solely in his capacity as Chief Financial Officer and not in his individual capacity, as follows:

1. The Company and its Subsidiaries, taken as a whole, are Solvent.
2. The representations and warranties made by the Guarantor and the Initial Borrower in the Loan Documents, or which are contained in any document furnished in connection therewith, are true and correct in all material respects; provided that any representation and warranty that is qualified as to materiality or “Material Adverse Effect” or similar language and the representation and warranty contained in Section 3.04 of the Credit Agreement are true and correct in all respects.
3. Immediately after giving effect to the consummation of the transactions contemplated under the Credit Agreement and the other Loan Documents on the Closing Date, no Default or Event of Default exists.
4. Immediately after giving effect to the consummation of the transactions contemplated under the Credit Agreement and the other Loan Documents on the Closing Date, no Default or Event of Default exists under and as defined in each of the First Lien Credit Agreement and the Senior Notes Indenture.

[ *Signature Page Follows* ]

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IN WITNESS WHEREOF, the undersigned has duly executed this Officer's Certificate as of the date first written above.

By:

Name: Hassan Natha

Title: Chief Financial Officer



## INTERCOMPANY NOTE

March 25<sup>1</sup>, 2015

THIS NOTE IS SUBORDINATED IN ALL RESPECTS, AS SET FORTH IN (I) THAT CERTAIN SUBORDINATION AGREEMENT DATED THE DATE HEREOF, AMONG AMERICAN APPAREL, INC., AMERICAN APPAREL (CARNABY) LIMITED AND CAPITAL ONE BUSINESS CREDIT CORP., AS ADMINISTRATIVE AGENT UNDER THE FIRST LIEN CREDIT AGREEMENT REFERRED TO BELOW AND (II) THAT CERTAIN SUBORDINATION AGREEMENT DATED THE DATE HEREOF, BETWEEN AMERICAN APPAREL, INC., AND AMERICAN APPAREL (CARNABY) LIMITED, FOR THE BENEFIT OF U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE UNDER THE SECOND LIEN INDENTURE REFERRED TO BELOW.

FOR VALUE RECEIVED, AMERICAN APPAREL, INC., a Delaware corporation (“Holdings”), as a Payor under this Intercompany Note (this “Note”) (Holdings in such capacity, together with its respective successors and permitted assigns, “Payor”), promises to pay to the order of American Apparel (Carnaby) Limited, a private company with limited liability incorporated under the laws of England and Wales (the “UK Entity” or “Payee”), [\$\_\_\_ (\_\_\_)], or such lesser or greater amount as is outstanding under this Note. Such amount will be loaned by the Payee to Payor from the proceeds of the initial funding under that certain Credit Agreement dated as of March 25, 2015 (as amended, modified, supplemented or restated and in effect from time to time, the “Credit Agreement”) by and among (i) the UK Entity as the Initial Borrower and the Additional Borrowers party thereto, (ii) Holdings as Guarantor, (iii) Standard General L.P., on behalf of one or more of its controlled funds and (iv) the other Lenders party thereto. Payments in respect of principal on this Note shall be made by Payor upon request of Payee when principal amounts (in the amount so due under the Credit Agreement) are due and payable by the Payee under the Credit Agreement and payments in respect of interest on this Note shall be made by Payor upon request of Payee when interest payments are due under the Credit Agreement (in the amount so due under the Credit Agreement). Payments hereunder shall be in lawful money of the United States of America, in immediately available funds and at such location as the Payee shall from time to time designate, except with respect to PIK Interest (as referenced below). The Payee may record either on Schedule A attached to this Note (and any continuation thereof) or in the books and records of the Payee the date and amount of each loan to Payor or payment of PIK Interest and all payments thereafter made by the Payor with respect thereto, but the failure to make any such notation shall not affect the obligations of the Payor under this Note. The Payor promises to pay interest on the unpaid principal amount of the loans made by the Payee to the Payor from time to time outstanding under this Note, and in the event that the Payee elects to pay interest under the Credit Agreement in the form of PIK Interest, interest owed under this Note may be paid by increasing the outstanding principal amount of this Note by the amount of interest so paid under the Credit Agreement. Interest under this Note shall accrue at the same rate as the interest under the Credit Agreement (which interest shall not be in excess of the maximum rate of interest that may be lawfully charged under applicable law). This Note may be repaid in full at any time by paying the entire principal amount hereof and all accrued and unpaid interest hereon. Partial payments of principal or accrued interest thereon may also be paid at the election of Payor. Capitalized terms used herein and not defined herein shall have the meanings assigned to such terms in the Credit Agreement.

<sup>1</sup>To be dated as of the date of borrowing.

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This Note is being entered into by the parties hereto pursuant to the requirements of (a) that certain Credit Agreement (including Section 4.01(i), Section 7.01(d) and Section 7.02(h) thereof) dated as of April 4, 2013 (as amended, restated, supplemented and otherwise modified from time to time, the “First Lien Credit Agreement”), among (i) American Apparel (USA), LLC, a California limited liability company, (ii) the other Borrowers party thereto, (iii) the other Credit Parties party thereto, (iv) the Lenders from time to time party thereto, (v) Capital One, N.A., as L/C Issuer, and (vi) Capital One Business Credit Corp. (f/k/a Capital One Leverage Finance Corp.), as Administrative Agent (in such capacity, the “First Lien Administrative Agent”) and as Swing Line Lender, and (b) subclause (6) of the definition of “Permitted Indebtedness” under the Indenture dated as of April 4, 2013 (as amended, restated, supplemented and otherwise modified from time to time, the “Second Lien Indenture”), by and among Holdings, the guarantors party thereto and U.S. Bank National Association, as collateral agent and trustee, pursuant to which senior notes secured by a second priority security interest in this Note have been extended.

This Note is subject to (a) the Subordination Agreement dated as of March 25, 2015 (as amended, from time to time), by and among the Payor, the First Lien Administrative Agent and the other parties thereto, and (b) the Subordination Agreement dated as of March 25, 2015 (as amended, from time to time), by and among the Payor, the Second Lien Collateral Agent and the other parties thereto.

The Payor hereby waives diligence, presentment, demand, protest and notice of any kind. No failure to exercise, and no delay in exercising, any rights hereunder on the part of any Payee or its assignee shall operate as a waiver of such rights.

This Note shall be binding upon the Payor and its successors and assigns, and the terms and provisions of this Note shall inure to the benefit of the Payee and its successors and assigns, including subsequent holders hereof. This Note may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of this Note by telecopy or other electronic transmission shall be effective as delivery of a manually executed counterpart of this Note.

This Note shall be governed by the laws of the State of New York.

[ SIGNATURE PAGES FOLLOW ]

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IN WITNESS WHEREOF, the Payor has executed this Note on the date first written above.

**AMERICAN APPAREL, INC., as Payor**

By:

Name:

Title:

The Payee hereby acknowledges and agrees that the rights of the Payee and the obligations of the Payor under this Note are subject to and subordinated in accordance with the terms of the Subordination Agreements.

**AMERICAN APPAREL (CARNABY) LIMITED, as Payee**

By:

Name:

Title:

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**List of Wholly-Owned Subsidiaries American Apparel**  
**as of December 31, 2014**

<b>Investment In</b>	<b>Location</b>	<b>Owned By</b>	<b>Ownership %</b>
American Apparel (USA), LLC	California, USA	American Apparel, Inc.	100%
American Apparel Canada Retail Inc.	Canada	American Apparel, Inc.	100%
American Apparel Canada Wholesale Inc.	Canada	American Apparel, Inc.	100%
American Apparel Retail, Inc.	California, USA	American Apparel (USA), LLC	100%
KCL Knitting, LLC	California, USA	American Apparel (USA), LLC	100%
American Apparel Dyeing and Finishing, Inc.	California, USA	American Apparel (USA), LLC	100%
Fresh Air Freight, Inc.	California, USA	American Apparel (USA), LLC	100%
American Apparel Deutschland GmbH	Germany	American Apparel (USA), LLC	100%
American Apparel (Carnaby) Limited	United Kingdom	American Apparel (USA), LLC	100%
American Apparel (UK) Limited	United Kingdom	American Apparel (USA), LLC	100%
American Apparel Australia Pty Ltd.	Australia	American Apparel, Inc.	100%
American Apparel do Brasil Comercio de Roupas Ltda.	Brazil	American Apparel Retail, Inc.	99%
	California, USA	American Apparel (USA), LLC	1%
American Apparel Mexico, S. de R.L. de C.V.	Mexico	American Apparel Retail, Inc.	0.03%
	California, USA	American Apparel (USA), LLC	99.97%
American Apparel Mexico Labor, S. de R.L. de C.V.	Mexico	American Apparel Retail, Inc.	100%
American Apparel Mexico Import, S. de R.L. de C.V.	Mexico	American Apparel Mexico, S. de R.L. de C.V.	99.97%
	Mexico	American Apparel Mexico Labor, S. de R.L. de C.V.	0.03%
American Apparel Retail (Israel), Ltd.	Israel	American Apparel Retail, Inc.	100%
American Apparel Japan Y.K.	Japan	American Apparel (USA) LLC	100%
American Apparel Korea Co., Ltd.	Korea	American Apparel Retail, Inc.	100%
American Apparel Ireland Limited	Ireland	American Apparel Retail, Inc.	100%
American Apparel Hong Kong	China	American Apparel Retail, Inc.	100%

<b>Investment In</b>	<b>Location</b>	<b>Owned By</b>	<b>Ownership %</b>
American Apparel (Beijing) Trading Company, Ltd.	China	American Apparel, Inc.	100%
American Apparel Italia SRL	Italy	American Apparel Deutschland GmbH	100%
American Apparel Spain, S.L.	Spain	American Apparel Deutschland GmbH	100%

All of our direct and indirect subsidiaries are wholly-owned by their respective parent companies.

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statement of American Apparel, Inc. on Form S-3 [File No. 333-192863] and Forms S-8 [File Nos. 333-175430, 333-163322 and 333-150293] of our report dated March xx, 2015, with respect to our audits of the consolidated financial statements and the related consolidated financial statement schedules of American Apparel, Inc. as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012 and our report dated March xx, 2015 with respect to our audit of the effectiveness of internal control over financial reporting of American Apparel, Inc. as of December 31, 2014, which reports are included in this Annual Report on Form 10-K of American Apparel, Inc. for the year ended December 31, 2014.

/s/ Marcum LLP

Marcum LLP  
Melville, New York  
March xx, 2015

## CERTIFICATIONS

I, Paula Schneider, certify that:

1. I have reviewed this annual report on Form 10-K of American Apparel, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2015

By: \_\_\_\_\_ /s/ PAULA SCHNEIDER

**Paula Schneider**  
**Chief Executive Officer**

## CERTIFICATIONS

I, Hassan N. Natha, certify that:

1. I have reviewed this annual report on Form 10-K of American Apparel, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2015

By: \_\_\_\_\_ /s/ HASSAN N. NATHA

**Hassan N. Natha**  
**Chief Financial Officer**



**Certification of the Chief Executive Officer  
Pursuant to 18 U.S.C. Section 1350,  
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of American Apparel, Inc. (the "Company") on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paula Schneider, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934.
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

Date: March 25, 2015

By: \_\_\_\_\_ /s/ PAULA SCHNEIDER

**Paula Schneider  
Chief Executive Officer**

**Certification of the Chief Financial Officer  
Pursuant to 18 U.S.C. Section 1350,  
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of American Apparel, Inc. (the "Company") on Form 10-K for the year ended December 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Hassan N. Natha, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934.
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

Date: March 25, 2015

By: \_\_\_\_\_ /s/ HASSAN N. NATHA  
**Hassan N. Natha**  
**Chief Financial Officer**