IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	:	Chapter 11
AMERICAN APPAREL, INC., *et al.*,[1]	:	Case No. 15-12055 (BLS)
Debtors.	:	(Jointly Administered)

DISCLOSURE STATEMENT FOR JOINT PLAN OF REORGANIZATION PROPOSED BY THE DEBTORS AND DEBTORS IN POSSESSION

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ATTORNEYS FOR THE DEBTORS
AND DEBTORS IN POSSESSION

Dated: November 20, 2015

[1] The Debtors are the following six entities (the last four digits of their respective taxpayer identification numbers follow in parentheses): American Apparel, Inc. (0601); American Apparel (USA), LLC (8940); American Apparel Retail, Inc. (7829); American Apparel Dyeing & Finishing, Inc. (0324); KCL Knitting, LLC (9518); and Fresh Air Freight, Inc. (3870). The Debtors' address is 747 Warehouse Street, Los Angeles, California 90021.

IMPORTANT INFORMATION FOR YOU TO READ

THE DEADLINE TO VOTE ON THE PLAN IS JANUARY 7, 2016 AT 5:00 P.M. PREVAILING EASTERN TIME, UNLESS EXTENDED BY THE DEBTORS (THE "VOTING DEADLINE").

FOR YOUR VOTE TO BE COUNTED, YOUR BALLOT MUST BE *ACTUALLY RECEIVED* BY THE VOTING AGENT BEFORE THE VOTING DEADLINE AS DESCRIBED HEREIN.

PLEASE BE ADVISED THAT ARTICLE IX OF THE PLAN CONTAINS RELEASE, EXCULPATION, AND INJUNCTION PROVISIONS. YOU SHOULD REVIEW AND CONSIDER THE PLAN CAREFULLY BECAUSE YOUR RIGHTS MAY BE AFFECTED THEREUNDER.

American Apparel, Inc., American Apparel (USA), LLC, American Apparel Retail, Inc., American Apparel Dyeing & Finishing, Inc., KCL Knitting, LLC and Fresh Air Freight, Inc., as debtors and debtors in possession (collectively, the "Debtors" and, together with their affiliates and subsidiaries, the "Company"), are providing you with the information in this Disclosure Statement (as amended, supplemented and modified from time to time, the "Disclosure Statement") because you may be a creditor entitled to vote on the Plan.[2]

The Debtors believe that the Plan is in the best interests of their creditors and other stakeholders. All creditors entitled to vote thereon are urged to vote in favor of the Plan. A summary of the voting instructions is set forth herein, beginning on page 35 of this Disclosure Statement, and in the Disclosure Statement Order. More detailed instructions are contained on the Ballots distributed to the creditors entitled to vote on the Plan. To be counted, your Ballot must be duly completed, executed and actually received by the Voting Agent by 5:00 p.m., prevailing Eastern time, on January 7, 2016, unless extended by the Debtors.

The effectiveness of the proposed Plan is subject to material conditions precedent, some of which may not be satisfied or waived. See Section V.I. There is no assurance that these conditions will be satisfied or waived.

This Disclosure Statement is the only document to be used in connection with the solicitation of votes on the Plan. Subject to the statutory obligations of a statutory creditors' committee to provide access to information to creditors, no person is authorized by any of the Debtors in connection with the Plan or the solicitation of acceptances of the Plan to give any information or to make any representation other than as contained in this Disclosure Statement and the exhibits attached hereto or incorporated by reference or referred to herein. If given or made, such information or representation may not be relied upon as having been authorized by any of the Debtors. Although the Debtors will make available to creditors entitled to vote on the Plan such additional information as may be required by applicable law prior to the Voting Deadline, the delivery of this Disclosure Statement will not under any circumstances imply that the information herein is correct as of any time after the date hereof.

ALL CREDITORS ENTITLED TO VOTE ON THE PLAN ARE ENCOURAGED TO READ AND CAREFULLY CONSIDER THIS ENTIRE DISCLOSURE STATEMENT, INCLUDING THE PLAN ATTACHED AS EXHIBIT 1 AND THE RISK FACTORS DESCRIBED UNDER SECTION X, PRIOR TO SUBMITTING BALLOTS IN RESPONSE TO THIS SOLICITATION.

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[2] Except as otherwise provided herein, capitalized terms used but not otherwise defined herein have the meanings ascribed to them in the Joint Plan of Reorganization of the Debtors and Debtors in Possession (as amended, supplemented and modified from time to time, the "Plan"), attached hereto as Exhibit 1.

The summaries of the Plan and other documents contained in this Disclosure Statement are qualified in their entirety by reference to the Plan itself, the exhibits thereto (the "Confirmation Exhibits") and documents described therein as Filed prior to approval of this Disclosure Statement or subsequently as Plan Supplement materials. In the event that any inconsistency or conflict exists between this Disclosure Statement and the Plan, the terms of the Plan will control. Except as otherwise indicated, the Debtors will File all Confirmation Exhibits with the Bankruptcy Court and make them available for review at the Debtors' document website located online at http://www.gardencitygroup.com/cases-info/AAI (the "Document Website") no later than seven days before the Voting Deadline (or such later date as may be approved by the Bankruptcy Court).

This Disclosure Statement contains, among other things, descriptions and summaries of provisions of the Plan being proposed by the Debtors. The Debtors reserve the right to modify the Plan consistent with section 1127 of the Bankruptcy Code and Bankruptcy Rule 3019, subject to the Restructuring Support Agreement.

The statements contained in this Disclosure Statement are made only as of the date of this Disclosure Statement, and there can be no assurance that the statements contained herein will be correct at any time after this date. The information contained in this Disclosure Statement, including the information regarding the history, businesses and operations of the Debtors, the financial information regarding the Debtors and the liquidation analysis relating to the Debtors, is included for purposes of soliciting acceptances of the Plan, but is not to be construed as admissions or stipulations, but rather as statements made in settlement negotiations as part of the Debtors' attempt to settle and resolve their Liabilities pursuant to the Plan. This Disclosure Statement will not be admissible in any non-bankruptcy proceeding, nor will it be construed to be conclusive advice on the tax, securities or other legal effects of the Plan as to Holders of Claims against, or Interests in, either the Debtors or the Reorganized Debtors. Except where specifically noted, the financial information contained in this Disclosure Statement and in its exhibits has not been audited by a certified public accountant and has not been prepared in accordance with generally accepted accounting principles in the United States.

FORWARD-LOOKING STATEMENTS

This Disclosure Statement contains forward-looking statements based primarily on the current expectations of the Debtors and projections about future events and financial trends affecting the financial condition of the Debtors' and the Non-Debtor Affiliates' businesses and assets. The words "believe," "may," "estimate," "continue," "anticipate," "intend," "expect" and similar expressions identify these forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described below under the caption "Plan-Related Risk Factors" in Section X. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this Disclosure Statement may not occur, and actual results could differ materially from those anticipated in the forward-looking statements. The Debtors do not undertake any obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

This Disclosure Statement has been prepared in accordance with section 1125 of the Bankruptcy Code and Bankruptcy Rule 3016 and not necessarily in accordance with federal or state securities laws or other non-bankruptcy laws. This Disclosure Statement has not been approved or disapproved by the United States Securities and Exchange Commission (the "SEC"), any state securities commission or any securities exchange or association nor has the SEC, any state securities commission or any securities exchange or association passed upon the accuracy or adequacy of the statements contained herein.

QUESTIONS AND ADDITIONAL INFORMATION

If you would like to obtain copies of this Disclosure Statement, the Plan or any of the documents attached hereto or referenced herein, or have questions about the solicitation and voting process or the Debtors' Chapter 11 Cases generally, please contact Garden City Group, LLC, the Voting Agent, by either (i) visiting the Document Website at http://www.gardencitygroup.com/cases-info/AAI or (ii) calling (877) 940-7795.

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TABLE OF EXHIBITS

I. INTRODUCTION

American Apparel, Inc. ("American Apparel"), American Apparel (USA), LLC ("AA LLC"), American Apparel Retail, Inc. ("AA Retail"), American Apparel Dyeing & Finishing, Inc. ("AA D&F"), KCL Knitting, LLC ("KCL") and Fresh Air Freight, Inc. ("Fresh Air"), as debtors and debtors in possession (collectively, the "Debtors"), submit this Disclosure Statement pursuant to section 1125 of title 11 of the United States Code (the "Bankruptcy Code") in connection with the solicitation of acceptances of the Joint Plan of Reorganization of the Debtors and Debtors in Possession (as amended, supplemented and modified from time to time, the "Plan"). A copy of the Plan is attached hereto as Exhibit 1.

This Disclosure Statement sets forth certain information regarding the prepetition operating and financial history of the Debtors, the events leading up to the commencement of the Chapter 11 Cases, events that have occurred during the Chapter 11 Cases and the anticipated organization, operations and capital structure of the reorganized Debtors on or after the Effective Date (the "Reorganized Debtors") if the Plan is confirmed and becomes effective. This Disclosure Statement also describes terms and provisions of the Plan, including certain effects of Confirmation of the Plan, certain risk factors (including those associated with securities to be issued under the Plan), certain alternatives to the Plan and the manner in which distributions will be made under the Plan. The Confirmation process and the voting procedures that Holders of Claims entitled to vote on the Plan must follow for their votes to be counted are also discussed herein.

The Debtors believe that the Plan is the best means to efficiently and effectively implement the restructuring of the Debtors' capital structure and provide for their emergence from bankruptcy. Additional parties who support the Plan include 100% of the lenders under the Prepetition ABL Facility, holders of over 95% in amount of the Prepetition Notes, and lenders under the Lion Credit Facility and the UK Loan (defined in the Plan as the "Supporting Parties"), each of whom have executed the Restructuring Support Agreement, which is attached hereto as Exhibit 5.

Except as otherwise provided herein, capitalized terms not otherwise defined in this Disclosure Statement have the meanings ascribed to them in the Plan. Except as otherwise stated herein, all dollar amounts provided in this Disclosure Statement and in the Plan are given in United States dollars.

On November 20, 2015, the Bankruptcy Court entered an order approving this Disclosure Statement as containing "adequate information," i.e., information of a kind and in sufficient detail to enable a hypothetical reasonable investor typical of the Holders of Claims or Interests to make an informed judgment about the Plan. THE BANKRUPTCY COURT'S APPROVAL OF THIS DISCLOSURE STATEMENT CONSTITUTES NEITHER A GUARANTY OF THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN NOR AN ENDORSEMENT OF THE MERITS OF THE PLAN BY THE BANKRUPTCY COURT.

A. Material Terms of the Plan

As discussed in more detail in Section V below, the Plan will allow the Debtors to strengthen their balance sheet by converting over $200 million of Prepetition indebtedness into Reorganized American Apparel Equity Interests and enabling the Debtors to obtain a material infusion of new equity and debt capital upon emergence that will permit the Debtors to exit bankruptcy protection expeditiously and with sufficient liquidity to implement their business plan. In addition, the Plan will provide distributions to general unsecured creditors in the form of units in a litigation trust and, to each class of general unsecured creditors that accepts the Plan, a portion of a $1 million cash payment.

THE DEBTORS AND THE SUPPORTING PARTIES BELIEVE THAT THE IMPLEMENTATION OF THE PLAN IS IN THE BEST INTERESTS OF EACH OF THE DEBTORS AND ITS STAKEHOLDERS. FOR ALL OF THE REASONS DESCRIBED IN THIS DISCLOSURE STATEMENT, THE DEBTORS URGE YOU TO RETURN YOUR BALLOT ACCEPTING THE PLAN BY THE VOTING DEADLINE (I.E., THE DATE BY WHICH YOUR BALLOT MUST BE ACTUALLY RECEIVED), WHICH IS JANUARY 7, 2016 AT 5:00 P.M. PREVAILING EASTERN TIME.

As set forth in further detail below, the material terms of the Plan are as follows:

Treatment of Claims and Interests

For administrative purposes, the Plan assigns a letter to each Debtor (as set forth in the table below) and a number to each of the Classes of Claims against or Interests in the Debtors.

Letter	Debtor
A	American Apparel, Inc.
B	American Apparel (USA), LLC
C	American Apparel Retail, Inc.
D	American Apparel Dyeing & Finishing, Inc.
E	KCL Knitting, LLC
F	Fresh Air Freight, Inc.

For consistency, similarly designated Classes of Claims and Interests are assigned the same number across each of the Debtors. Any non-sequential enumeration of the Classes is intentional to maintain consistency. Claims against and Interests in each of the Debtors are classified in up to 9 separate Classes as follows:

Class	Designation
1A-1F	Priority Claims
2A-2F	Other Secured Claims
3A-3F	Prepetition Note Secured Claims
4A-4F	General Unsecured Claims
5A	UK Guaranty Claims
6A-6F	Section 510 Claims
7A-7F	Intercompany Claims
8A	APP Interests
9B-9F	Subsidiary Debtor Equity Interests

As further detailed in the Plan, the Plan contemplates the following treatment of Claims and Interests:

- Administrative Claims – Each Holder of an Allowed Administrative Claim will receive Cash equal to the full Allowed amount of such Claim. These Claims are unclassified under the Plan.

- DIP Claims – On the Effective Date, all DIP Expenses will be paid in Cash and the remaining DIP Claims will be converted into loans under the New Exit Facility Term Loan pursuant to the terms of the New Exit Financing Agreement. These Claims are unclassified under the Plan.

- Prepetition ABL Claims – All obligations and claims in respect of or arising under the Prepetition ABL Facility will be paid in full, in Cash, on the Effective Date to the extent not previously paid pursuant to the DIP Orders. These Claims are unclassified under the Plan.

- Priority Tax Claims – Each Holder of an Allowed Priority Tax Claim will receive, at the option of the Debtors, in full satisfaction of its Allowed Priority Tax Claim that is due and payable on or before the Effective Date, on account of and in full and complete settlement, release and discharge of such Claim, (i) Cash in an amount equal to the

	amount of such Allowed Priority Tax Claim or (ii) Cash in an aggregate amount of such Allowed Priority Tax Claim payable in installment payments over a period of time not to exceed five years after the Petition Date, pursuant to section 1129(a)(9)(C) of the Bankruptcy Code. These Claims are unclassified under the Plan. In the event an Allowed Priority Tax Claim is also a Secured Tax Claim, such Claim shall, to the extent it is Allowed, be treated as an Other Secured Claim if such Claim is not otherwise paid in full. • Priority Claims – Each Holder of an Allowed Priority Claim (which does not include Administrative Claims, DIP Claims or Priority Tax Claims) will receive Cash equal to the full Allowed amount of such Claim. These Claims are Unimpaired and are classified in Classes 1A through 1F under the Plan. • Other Secured Claims – Each Other Secured Claim will be Reinstated, paid in full (in Cash), satisfied by delivering the collateral securing any such Allowed Other Secured Claim and paying any interest required to be paid under section 506(b) of the Bankruptcy Code or receive such other recovery necessary to satisfy section 1129 of the Bankruptcy Code. These Claims are Unimpaired and are classified in Classes 2A through 2F under the Plan. • Prepetition Note Secured Claim – Each Holder of an Allowed Prepetition Note Secured Claim will receive its Pro Rata share of 100% of Reorganized American Apparel Equity Interests, subject to dilution by the Management Incentive Plan Interests and the New Equity Investment Interests. Such Claims are Impaired and are classified in Classes 3A through 3F under the Plan. • General Unsecured Claims – Each Holder of an Allowed General Unsecured Claims will receive a distribution equal to its Pro Rata share of (i) units in the Litigation Trust and (ii) solely if the Class in which such Claim is classified accepts the Plan, the applicable GUC Support Payment, which will be paid in semi-annual installments for one year from and after the Effective Date. Such Claims are Impaired and are classified in Classes 4A through 4F under the Plan. • UK Guaranty Claims – Each Holder of an Allowed UK Guaranty Claim will have the UK Guaranty Reinstated, subject to Section 6 of the Restructuring Support Agreement. Such Claims are Unimpaired and are classified in Class 5A under the Plan. • Section 510 Claims – On the Effective Date, Section 510 Claims will be extinguished, cancelled and discharged and Holders of Section 510 Claims will receive no distributions on account of their Claims. Such Claims are Impaired and are classified in Classes 6A through 6F under the Plan. • Intercompany Claims – On the Effective Date or as soon as reasonably practicable thereafter, all Intercompany Claims may be compromised by distribution, contribution or otherwise, or Reinstated, at the discretion of the Debtors or the Reorganized Debtors, as the case may be, on or after the Effective Date. Such Claims are Unimpaired and are classified in Classes 7A through 7F under the Plan.

	• APP Interests – On the Effective Date, all APP Interests will be extinguished, cancelled and discharged and Holders of such Claims will receive no distributions on account of their Interests. Such Claims are Impaired and are classified in Class 8A under the Plan. • Subsidiary Debtor Equity Interests – On the Effective Date, Subsidiary Debtor Equity Interests will be reinstated. Such Claims are Unimpaired and are classified in Classes 9B through 9F under the Plan.
DIP Credit Facility	The Debtors have obtained funding pursuant to a $90 million superpriority debtor-in-possession credit facility (the "DIP Credit Facility") provided by the Supporting Parties, in their capacities as DIP Lenders.
New Exit Facility Term Loan	The Debtors may, subject to the terms of the DIP Documents, convert the DIP Credit Facility into the New Exit Facility Term Loan upon the Effective Date. Pursuant and subject to the DIP Credit Agreement, the New Exit Facility Term Loan shall contain commitments for $30 million in incremental loans, subject to reduction (i) based on the amount of the New Equity Investment exceeding $10 million as determined in accordance with the Equity Commitment Agreement, (ii) dollar-for-dollar for any Cash in the DIP Funding Account (as defined in the DIP Credit Agreement) on the Effective Date and (iii) at the election of the Required Commitment Parties (as defined in the Equity Commitment Agreement) with the consent of the Debtors. The principal terms of the New Exit Facility Term Loan are set forth in the term sheet (the "New Exit Financing Term Sheet") attached as Exhibit C to the Restructuring Support Agreement. Consistent with the New Exit Financing Term Sheet, at the Reorganized Debtors' option (subject to certain limitations to be set forth in the New Exit Financing Agreement), interest under the New Exit Facility Term Loan shall be payable in cash at LIBOR plus 10.0% per annum or paid in kind at LIBOR plus 12.0% per annum. The New Exit Facility Term Loan will mature four years after the Effective Date.
New Equity Investment	Pursuant and subject to the Equity Commitment Agreement, attached as Exhibit D to the Restructuring Support Agreement, the Commitment Parties have committed to invest a minimum of $10 million in Cash in the Reorganized Debtors, which amount is subject to adjustment up to $40 million.
Means of Implementation	The Plan contains standard means of implementation, including provisions for the continued existence of the Reorganized Debtors, the cancellation of certain prepetition debt and debt agreements, the cancellation of prepetition equity interests in American Apparel, the issuance of the Reorganized American Apparel Equity Interests and the revesting of Debtors' assets in the Reorganized Debtors.
Conversion of American Apparel and Issuance of Reorganized American Apparel Equity Interests	The Plan provides that, on the Effective Date, American Apparel will be converted, merged or otherwise reorganized into a Delaware limited liability company, and membership interests in Reorganized American Apparel will be issued pursuant to the Plan. Reorganized American Apparel will elect to be treated as a corporation for U.S. federal income tax purposes effective on the earlier of the Effective Date or the date of formation, absent an alternative structure determined by the Requisite Supporting Parties, which alternative

	structure shall require the consent of the Debtors only if such structure results in a transfer of a Debtor's assets to a new entity that is not a successor of the Debtor for tax purposes. The Reorganized American Apparel Equity Interests distributed on account of Allowed Prepetition Note Secured Claims will be issued in transactions exempt from the registration requirements of the Securities Act and state securities laws pursuant to section 1145 of the Bankruptcy Code or other applicable exemptions, subject to the New LLC Agreement.
Management Incentive Plan	On or after the Effective Date, the New Board will develop and implement the Management Incentive Plan, which will provide grants of equity-based compensation to members of Reorganized American Apparel's management team, including membership interests for, or options to purchase such membership interests, up to an amount equal to 8% of Reorganized American Apparel Equity Interests on a fully diluted basis as of the Effective Date.
Releases	**The Plan provides certain customary release provisions (i) by the Debtors and Reorganized Debtors for the benefit of the Released Parties and (ii) by Holders of Claims for the benefit of the Released Parties (subject to the opt-out provision described in Section VIII.A.17), in each case, relating to any of the Debtors or the Estates, the Chapter 11 Cases or the negotiation, consideration, formulation, preparation, dissemination, implementation, Confirmation or consummation of the Restructuring Support Agreement, the Plan, the Exhibits, the Disclosure Statement, the DIP Credit Agreement, the Equity Commitment Agreement, the New Exit Financing Documents, any of the New Securities and Documents, the Restructuring Transactions or any other transactions proposed in connection with the Chapter 11 Cases or any contract, instrument, release or other agreement or document created or entered into or any other act taken or omitted to be taken in connection therewith or in connection with any obligations arising under the Plan or the obligations assumed hereunder; provided, however, that the Releases provided under the Plan shall have no effect on the Released Party's liability under certain circumstances as set forth in the Plan. For the avoidance of doubt, the Released Parties shall not include any of the Excluded Parties or their Representatives.**
Exculpation	**The Plan provides certain customary exculpation provisions, which include a full exculpation from liability in favor of the Released Parties, the Debtors, the Reorganized Debtors and any of their respective Representatives from any and all claims and causes of action arising on or before the Effective Date in connection with, related to or arising out of the Chapter 11 Cases, any of the Debtors or the Estates, the negotiation, consideration, formulation, preparation, dissemination, implementation, Confirmation or consummation of the Restructuring Support Agreement, Plan, the Exhibits, the Disclosure Statement, the DIP Credit Agreement, the Equity Commitment Agreement, any of the New Exit Financing Documents, any of the New Securities and Documents, the Restructuring Transactions or any other transactions proposed in connection with the Chapter 11 Cases, or any distributions made under or in connection with the Plan or any contract, instrument, release or other agreement or document created or entered into or any other act taken or omitted to be taken in connection therewith or in connection with any other obligations arising under the Plan or the obligations assumed hereunder; provided,**

	however, that the exculpations provided under the Plan shall have no effect on the liability of (1) any Entity that would otherwise result from the failure to perform or pay any obligation or liability under the Plan or any contract, instrument, release or other agreement or document to be entered into or delivered in connection with the Plan or (2) any Released Party that would otherwise result from any act or omission of such Released Party to the extent that such act or omission is determined in a Final Order to have constituted gross negligence or willful misconduct (including fraud).

B. Parties Entitled to Vote on the Plan

Under the provisions of the Bankruptcy Code, not all parties in interest are entitled to vote on a chapter 11 plan. Creditors or equity interest holders whose claims or interests are not impaired by a plan are deemed to accept the plan under section 1126(f) of the Bankruptcy Code and are not entitled to vote. In addition, creditors or equity interest holders whose claims or interests are impaired by the plan and will receive no distribution under the plan are also not entitled to vote because they are deemed to have rejected the plan under section 1126(g) of the Bankruptcy Code. For a discussion of these matters, see Section VI.B below.

The following table sets forth which Classes are entitled to vote on the Plan and which are not, and sets forth the estimated Allowed amount, the estimated recovery and/or the impairment status for each of the separate Classes of Claims provided for in the Plan:

Class	Designation	Impairment	Estimated Allowed Amount[3]	Estimated Recovery Rate[4]	Voting Status
1A-1F	Priority Claims	Unimpaired	$1 million	100%	Deemed to Accept
2A-2F	Other Secured Claims	Unimpaired	$5 million	N/A	Deemed to Accept
3A-3F	Prepetition Note Secured Claims	Impaired	$85.8 million	37.5% (including Prepetition Note Deficiency Claim)	Entitled to Vote
4A-4F	General Unsecured Claims	Impaired	American Apparel: $145.1 million[5] AA LLC: $186.4 million AA Retail: $153.3 million AA D&F: $143.8 million KCL: $143.8 million Fresh Air: $143.8 million	American Apparel: 0.01% AA LLC: 0.28% AA Retail: 0.31% AA D&F: >0.00% KCL: >0.00% Fresh Air: >0.00%	Entitled to Vote
5A	UK Guaranty Claims	Unimpaired	N/A (Reinstated)	N/A	Deemed to Accept
6A-6F	Section 510 Claims	Impaired	Unknown	0%	Deemed to Reject
7A-7F	Intercompany Claims	Unimpaired	N/A[6]	N/A	Deemed to Accept
8A	APP Interests	Impaired	N/A	0%	Deemed to Reject

[3] The Estimated Allowed Amounts are estimates only and actual amounts may be materially greater or less than those set forth herein.

[4] The Estimated Recovery Rates are estimates only and actual recoveries may be materially greater or less than those set forth herein based on, among other things, Allowed Claims arising from the rejection of Executory Contracts or Unexpired Leases and resolution of disputed or unliquidated Claims. In addition, the Estimated Recovery Rates do not include an estimate of value attributable to the Litigation Trust Assets.

[5] Each Class of General Unsecured Claims includes the Prepetition Note Deficiency Claim in the amount of $143.8 million.

[6] The Plan provides that the Debtors have discretion as to whether Intercompany Claims are compromised by distribution, contribution or otherwise, or Reinstated.

Class	Designation	Impairment	Estimated Allowed Amount[3]	Estimated Recovery Rate[4]	Voting Status
			(Cancelled)		
9B-9F	Subsidiary Debtor Equity Interests	Unimpaired	N/A (Reinstated)	N/A	Deemed to Accept

The Bankruptcy Code section 1126 defines "acceptance" of a plan by a class of claims as acceptance by creditors in that class that hold at least two-thirds in dollar amount and more than one-half in number of the claims actually voted to accept or reject the plan. Your vote on the Plan is important. The Bankruptcy Code requires as a condition to confirmation of a plan of reorganization that each class that is impaired and entitled to vote under a plan votes to accept such plan, unless the plan is being confirmed under the "cramdown" provisions of section 1129(b) of the Bankruptcy Code. Section 1129(b) permits confirmation of a plan of reorganization, notwithstanding the non-acceptance of the plan by one or more impaired classes of claims or equity interests, so long as at least one impaired class of claims votes to accept a proposed plan. Under that section, a plan may be confirmed by a bankruptcy court if it does not "discriminate unfairly" and is "fair and equitable" with respect to each non-accepting class.

For a detailed description of the Classes of Claims and Interests and their treatment under the Plan, see Section V.B.

C. Solicitation Package

The package of materials (the "Solicitation Package") to be sent to Holders of Claims and Interests entitled to vote on the Plan will contain:

1. a cover letter (which cover letter may comprise the Debtors' Letter, as defined below) describing (a) the contents of the Solicitation Package; (b) information about how to obtain access, free of charge, to the Plan, the Disclosure Statement and the Disclosure Statement Order, together with the exhibits thereto, on the Debtors' case administration website; and (c) information about how to obtain, free of charge, paper copies of any of the documents included in the Solicitation Package;

2. a notice of the Confirmation Hearing (the "Confirmation Hearing Notice");

3. the Disclosure Statement Order (excluding the exhibits thereto);

4. for Holders of Claims in voting Classes (i.e., Holders of Claims in Classes 3A through 3F and 4A through 4F), an appropriate form of Ballot, instructions on how to complete the Ballot and a pre-paid, pre-addressed Ballot return envelope and such other materials as the Bankruptcy Court may direct;

5. a letter from the Creditors' Committee addressed to all general unsecured creditors recommending that they vote against the Plan (the "Committee Letter"); and

6. a letter from the Debtors responding to the Committee Letter (the "Debtors' Letter"). As discussed in the Debtors' Letter, the Debtors believe that should general unsecured creditors follow the recommendation set forth in the Committee Letter and reject the Plan, and should such rejection result in non-confirmation of the Plan, the general unsecured creditors should be aware that this may result in (i) the inability of the Debtors to operate as a going concern; (ii) the liquidation of the Debtors' estates; (iii) the loss of thousands of domestic jobs; (iv) the rejection of all landlords' leases; and (v) the cessation of business with the Debtors' current vendors and suppliers, all of which would have a direct negative impact on holders of General Unsecured Claims.

In addition to the service procedures outlined above (and to accommodate creditors who wish to review exhibits not included in the Solicitation Packages in the event of paper service): (1) the Plan, the Disclosure Statement and, once they are filed, all exhibits to both documents will be made available online at no charge at the Document Website (http://www.gardencitygroup.com/cases/AAI); and (2) the Debtors will provide parties in

interest (at no charge) with hard copies of the Plan and/or Disclosure Statement upon written request to American Apparel, Inc. et al. Ballot Processing, c/o GCG, P.O. Box 10243, Dublin, Ohio 43017-5743.

D. Voting Procedures, Ballots and Voting Deadline

If you are entitled to vote to accept or reject the Plan, a Ballot(s) has been enclosed in your Solicitation Package for the purpose of voting on the Plan. Please vote and return your Ballot(s) to Garden City Group, LLC (the "Voting Agent") at American Apparel, Inc. et al. Ballot Processing, c/o GCG, P.O. Box 10243, Dublin, Ohio 43017-5743, or by overnight delivery or by hand courier, unless you are a beneficial owner of a security who receives a Ballot from a broker, bank, dealer or other agent or nominee (each, a "Master Ballot Agent"), in which case you must return the Ballot to that Master Ballot Agent (or as otherwise instructed by your Master Ballot Agent).

In addition to accepting Ballots via first class mail, overnight courier, and hand delivery, the Voting Agent will accept Ballots via electronic, online transmissions, solely through a customized online balloting portal on the Document Website (http://www.gardencitygroup.com/cases/AAI). Parties entitled to vote may cast an electronic Ballot and electronically sign and submit the Ballot instantly by utilizing the online balloting portal (which allows a Holder eligible to vote to submit an electronic signature). Instructions for electronic, online transmission of Ballots are set forth on the forms of Ballots. The encrypted ballot data and audit trail created by such electronic submission shall become part of the record of any Ballot submitted in this manner and the creditor's electronic signature will be deemed to be immediately legally valid and effective.

Ballots should not be sent directly to the Debtors, the Creditors' Committee, their agents (other than the Voting Agent) or the Indenture Trustee.

After carefully reviewing (1) the Plan, (2) this Disclosure Statement, (3) the order entered by the Bankruptcy Court (the "Disclosure Statement Order") that, among other things, established the voting procedures, scheduled a Confirmation Hearing and set the voting deadline and the deadline for objecting to Confirmation of the Plan and (4) the detailed instructions accompanying your Ballot, please indicate on your Ballot your vote to accept or reject the Plan. In order for your vote to be counted, you must (i) complete and sign your original Ballot (copies will not be accepted, except with respect to Master Ballots (as defined below), which do not require you to return an original signature) and return it to the appropriate recipient (i.e., either a Master Ballot Agent or the Voting Agent) so that it is actually received by the Voting Deadline by the Voting Agent or (ii) submit your Ballot through the online balloting portal established by the Voting Agent on the Document Website (http://www.gardencitygroup.com/cases/AAI).

Each Ballot has been coded to reflect the Class of Claims it represents. Accordingly, in voting to accept or reject the Plan, you must use only the coded Ballot or Ballots sent to you with this Disclosure Statement.

If you (1) hold Claims in more than one voting Class, or (2) hold multiple Claims within one Class, including if you (a) are the beneficial owner of Prepetition Notes held in street name through more than one Master Ballot Agent or (b) are the beneficial owner of Prepetition Notes registered in your own name as well as the beneficial owner of Prepetition Notes registered in street name, you may receive more than one Ballot.

If you are the beneficial owner of Prepetition Notes held in street name through more than one Master Ballot Agent, for your votes with respect to such Prepetition Notes to be counted, your Ballots must be mailed to the appropriate Master Ballot Agents at the addresses on the envelopes enclosed with your Ballots so that such Master Ballot Agent has sufficient time to record the votes of such beneficial owner on a Master Ballot and return such Master Ballot so it is actually received by the Voting Agent by the Voting Deadline.

All other Ballots, in order to be counted, must be properly completed in accordance with the voting instructions on the Ballot and **actually received** no later than the Voting Deadline (i.e., January 7, 2016 at 5:00 p.m. (prevailing Eastern time)) by the Voting Agent via its online balloting portal or regular mail, overnight courier or personal delivery at the following address: American Apparel, Inc. et al. Ballot Processing, c/o GCG, P.O. Box 10243, Dublin, Ohio 43017-5743, or by overnight delivery or by hand courier. Except with respect to Ballots timely submitted via the Voting Agent's online balloting portal or Ballot used by Master Ballot Agents for recording votes

cast by beneficial owners holding securities (each, a "Master Ballot"), no Ballots may be submitted by electronic mail, and any Ballots submitted by electronic mail will not be accepted by the Voting Agent. Ballots should not be sent directly to the Debtors.

If a Holder of a Claim delivers to the Voting Agent more than one timely, properly completed Ballot with respect to such Claim prior to the Voting Deadline, the Ballot that will be counted for purposes of determining whether sufficient acceptances required to confirm the Plan have been received will be the timely, properly completed Ballot determined by the Voting Agent to have been received last from such Holder with respect to such Claim.

If you are a Holder of a Claim who is entitled to vote on the Plan as set forth in the Disclosure Statement Order and did not receive a Ballot, received a damaged Ballot or lost your Ballot, or if you have any questions concerning the Disclosure Statement, the Plan, the Ballot or the procedures for voting on the Plan, please contact the Voting Agent (1) by telephone (a) for U.S. callers toll-free at (877) 940-7795 and (b) for international callers at (614) 779-0360, (2) by e-mail at AAICaseinfo@gardencitygroup.com or (3) in writing at American Apparel, Inc. et al. Ballot Processing, c/o GCG, P.O. Box 10243, Dublin, Ohio 43017-5743.

FOR FURTHER INFORMATION AND INSTRUCTIONS ON VOTING TO ACCEPT OR REJECT THE PLAN, SEE SECTION VI.

Before voting on the Plan, each Holder of a Claim in Classes 3A through 3F and 4A through 4F should read, in its entirety, this Disclosure Statement, the Plan, the Disclosure Statement Order, the Confirmation Hearing Notice and the instructions accompanying the Ballots. These documents contain important information concerning how Claims are classified for voting purposes and how votes will be tabulated. Holders of Claims entitled to vote are also encouraged to review the relevant provisions of the Bankruptcy Code and Bankruptcy Rules and/or consult their own attorney.

E. Confirmation Exhibits

The Debtors will separately file copies of all Confirmation Exhibits with the Bankruptcy Court no later than seven days before the Voting Deadline (or such later date as may be approved by the Bankruptcy Court). All Confirmation Exhibits will be made available on the Document Website once they are Filed. The Debtors reserve the right, in accordance with the terms of the Plan, to modify, amend, supplement, restate or withdraw any of the Confirmation Exhibits after they are Filed and will promptly make such changes available on the Document Website.

F. Confirmation Hearing and Deadline for Objections to Confirmation

The Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing on whether the Debtors have fulfilled the confirmation requirements of section 1129 of the Bankruptcy Code. The Confirmation Hearing has been scheduled for January 20, 2016 at 10:00 a.m., prevailing Eastern time, before the Honorable Chief Judge Brendan L. Shannon, United States Bankruptcy Judge for the District of Delaware, in Courtroom No. 1, Sixth Floor, at the United States Bankruptcy Court for the District of Delaware, located at 824 North Market Street, Wilmington, Delaware 19801. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice.

Any objection to Confirmation must (1) be in writing, (2) state the name and address of the objecting party and the nature of the Claim or Interest of such party and (3) state with particularity the basis and nature of such objection. Any such objections must be Filed and served upon the persons designated in the Confirmation Hearing Notice in the manner and by the deadline described therein.

II. THE DEBTORS' BUSINESS AND CORPORATE STRUCTURE[7]

A. The Debtors' Business and Corporate Structure

American Apparel, the direct or indirect parent of each of the Debtors and the Non-Debtor Affiliates, is a Delaware corporation. Each of the other Debtors is organized under the laws of California. The Debtors' foreign operations are owned and operated through several affiliates that are organized under the laws of various foreign countries. Together, the Debtors and Non-Debtor affiliates operate a vertically integrated manufacturing, distribution and retail business focused on branded fashion-basic apparel.

The Company's global corporate headquarters is located in Los Angeles, California. Debtor American Apparel is a public reporting company under the Securities Exchange Act of 1934 (the "Exchange Act"). American Apparel has one class of common stock, which was publicly traded under the symbol APP on the New York Stock Exchange's MKT market until October 5, 2015. The common stock of American Apparel is currently publicly traded under the symbol APPCQ on the OTC Pink Marketplace. As of September 30, 2015, there were approximately 182 million shares of American Apparel common stock outstanding.

1. American Apparel (USA), LLC, American Apparel Dyeing & Finishing, Inc. and KCL Knitting, LLC

Debtors AA LLC, AA D&F and KCL collectively operate the Company's manufacturing and wholesale businesses.

a. Manufacturing

The Debtors' manufacturing business is operated exclusively in the United States. To that end, the Debtors operate five manufacturing facilities and one distribution facility in and around the downtown Los Angeles area, employing more than 4,600 individuals. The table below reflects basic information regarding the Debtors' manufacturing and distribution facilities:

Facility Address	Appx. Square Footage	Appx. Employees	Designated Use
747 Warehouse Street Los Angeles, CA 90021	800,000	2,700	Corporate headquarters, sewing, cutting, knitting and distribution
1020 East 59th Street Los Angeles, CA 90001	111,000	48	Knitting
12537 Cerise Avenue Hawthorne, CA 90250	95,000	84	Dyeing
2654 Sequoia Drive South Gate, CA 90280	73,000	755	Cutting and sewing
12641 Industry Street Garden Grove, CA 92841	102,000	528	Knitting, dyeing, cutting and sewing
16322-16400 Trojan Way La Mirada, CA 90638	220,000	547	Distribution

The Debtors' manufacturing segment produces substantially all of the apparel sold in the retail and wholesale businesses discussed below, deriving 59% of its revenue from product sold in its retail stores, 31% of its revenue from product sold wholesale, and 10% of its revenue from product sold online. The manufacturing process is vertically integrated, such that the Company produces much of the inputs that result in a finished product. This vertically integrated model provides the Company with the capability to respond quickly to changes in market demand. It also allows the Company to exercise maximum control and certainty regarding the quality and methods used for garment inputs.

[7] Certain figures and percentages reflected in this Section II have been approximated.

The manufacturing business utilizes a state-of-the-art distribution center in La Mirada, California. The distribution center, which the Company designed and built out in 2012, has the capacity to handle shipments of up to 65 million units of apparel per year. The La Mirada facility is the primary source for distributing the Debtors' goods to their retail stores and online and wholesale customers. In 2014, the Debtors' manufacturing segment produced and shipped more than 50 million units of apparel.

b. Wholesale

The Debtors' wholesale business, which employs 47 individuals, markets and sells undecorated apparel products to distributors and third party screen printers. The customer base for the wholesale business has historically been centered in the United States. In 2014, the Company's wholesale business generated net sales totaling approximately $186 million, almost all of which was generated in the United States.

2. American Apparel Retail, Inc. and the Retail Business

Debtor AA Retail operates the Company's domestic retail business and owns certain of the Company's international subsidiaries. The Company owns and operates approximately 230 retail and outlet stores in 30 states and 18 countries. In addition, the Company operates an online store, located at www.americanapparel.net, that ships directly to over 29 countries. The retail business employs approximately 3,900 people, consisting of 2,200 people in the United States and approximately 1,700 people abroad.

In 2014, the Company's retail business generated net sales totaling approximately $420 million, including approximately $190 million in net sales generated in the United States. The Company's retail business competes in the highly competitive "fast fashion industry."

3. Fresh Air Freight, Inc.

Debtor Fresh Air Freight, Inc. historically operated much of the Company's logistics and shipping.

4. Non-Debtor Foreign Operations

The Debtors' foreign Non-Debtor Affiliates (a) have limited operational infrastructure, (b) consist primarily of a collection of stores subject to market or above-market leases, (c) rely entirely on the Debtors for their supply of products and, importantly, the American Apparel brand (which is the Debtors' intellectual property) and (d) have significant operational and intercompany liabilities. On a country-by-country basis, only two countries produce positive cash flow before accounting for licensing fees and allocated corporate overheard. After accounting for those liabilities, there is limited to no value attributable to the Debtors' equity interests in their foreign subsidiaries.

The Debtors anticipate and intend that their business outside of the United States, conducted largely through the Non-Debtor Affiliates, will remain unaffected by these Chapter 11 Cases. During the Chapter 11 Cases, the Debtors obtained authorization from the Bankruptcy Court to support the ongoing operation of its entire global enterprise, consisting of payments to Non-Debtor Affiliates totaling approximately $1.5 million.

5. In-House Marketing and Advertising

The Company also maintains a staff of about 45 professionals dedicated to marketing and advertising. These individuals are based in the Company's Los Angeles headquarters and are responsible for devising and implementing strategies for selling and advertising products sold through both the retail and wholesale businesses. The Company's in-house capabilities significantly reduce its need for outside advertising firms and ensure that the Company's branding remains consistent throughout the organization.

6. Intellectual Property Portfolio

The Company has invested heavily in developing and maintaining a large portfolio of trademark registrations in the U.S. and internationally. Among other things, the Company own registrations in the U.S. and certain foreign countries of the following trademarks: "American Apparel," "Classic Girl," "Standard American,"

"Classic Baby" and "Sustainable Edition." In total, the Company's trademark portfolio includes more than 120 registrations worldwide.

7. Employees

The Company employs approximately 8,700 employees worldwide, 7,000 of whom work in the United States. The table below summarizes how this population is distributed across the Company's operations:

Operation/Segment	Approximate Percentage	Employer
Manufacturing	51%	American Apparel (USA), LLC
U.S. Retail	25%	American Apparel Retail, Inc.
International Retail	20%	Non-Debtor Affiliates
Wholesale	<1%	American Apparel (USA), LLC
Administrative, Executive, Management, and Other Headquarter-related Functions	3%	American Apparel (USA), LLC

The Debtors' employees are not subject to collective bargaining agreements.

B. The Debtors' Prepetition Capital Structure

As of the Petition Date, the Debtors had outstanding long-term debt in the aggregate principal amount of approximately $295 million, which can be summarized as follows and is described in more detail below:

- $60 million of principal outstanding under the Prepetition ABL Facility;
- $229.6 million on account of the Prepetition Notes, comprised of outstanding principal and accrued interest thereon through October 4, 2015; and
- an unsecured loan of an outstanding principal amount of $9.9 million due April 15, 2021.

Additionally, American Apparel has guaranteed the obligations of American Apparel (Carnaby) Limited ("AA Carnaby") under a $15 million unsecured loan due October 15, 2020.

1. Secured Debt

a. Prepetition ABL Facility

On April 4, 2013, AA LLC entered into a secured $35 million asset-based, revolving credit facility (as amended, the "Capital One Credit Facility") pursuant to that certain Credit Agreement (as amended from time to time, the "Capital One Credit Agreement"), among American Apparel (USA), LLC, American Apparel Retail, Inc., American Apparel Dyeing & Finishing, Inc., and KCL Knitting, LLC, as borrowers (the "ABL Borrowers"), American Apparel and Fresh Air Freight, Inc. as guarantors (the "ABL Guarantors" and, together with the ABL Borrowers, the "ABL Obligors"), Capital One Business Credit Corp. ("Capital One") as administrative agent (the "Capital One Agent") and the lenders party thereto (the "Capital One Lenders"). Subject to the terms of the Intercreditor Agreement (as discussed and defined below), the Capital One Credit Facility was secured by a lien on substantially all of the Debtors' assets. On July 5, 2014, the Capital One Credit Agreement was amended to increase the Capital One Lenders' initial commitment to $50 million.

In early August 2015, the Debtors' were at risk of violating certain performance covenants under the Capital One Credit Facility. The Debtors approached certain major existing bondholders about the possibility of replacing Capital One and providing additional liquidity to stabilize the business or to provide debtor-in-possession financing. As a result of such discussions, on August 17, 2015, the Capital One Lenders assigned their rights and obligations as lenders to a syndicate of lenders that included certain of the Company's existing creditors, including funds associated with Standard General, L.P. ("Standard General"), and funds associated with then-existing bondholders Monarch Alternative Capital L.P., Coliseum Capital LLC and Goldman Sachs Asset Management, L.P.

(collectively, the "Prepetition Secured Lenders"), and Capital One was replaced by Wilmington Trust, National Association ("Wilmington Trust") as administrative agent (such transactions, the "ABL Assignment").

To prevent further value erosion that would be caused by a sudden chapter 11 filing, in lieu of debtor-in-possession financing, immediately following the ABL Assignment, the Capital One Credit Agreement was amended and restated pursuant to an amended and restated credit agreement among the Company, the Prepetition Secured Lenders and Wilmington Trust (the "Prepetition ABL Facility"), pursuant to which among other things, (a) the total commitment thereunder was increased from $50 million to $90 million, and (b) the borrowing base was increased by $15 million (provided that such increase would not apply to the extent the borrowing base exceeds $60 million) to provide additional liquidity to enable the Company to prepare for an orderly and value maximizing transition into chapter 11. Additionally, certain covenant violations existing as of June 30, 2015, under the Capital One Credit Facility were waived under the Prepetition ABL Facility. Certain of the Debtors' other financing agreements, including the Prepetition Notes Indenture and the Lion Credit Facility (as defined below), were also amended to permit the incurrence of additional indebtedness evidenced by the Prepetition ABL Facility.

As of the Petition Date, $60 million in principal was outstanding under the Prepetition ABL Facility.

b. Prepetition Notes

Pursuant to an Indenture dated April 4, 2013 (as amended and supplemented by the Supplemental Indenture dated as of August 17, 2015), among U.S. Bank National Association ("U.S. Bank"), as trustee and collateral agent, American Apparel as issuer, and the remaining Debtors as guarantors (the "Guarantors," and together with American Apparel, the "Notes Obligors"), American Apparel issued 13.0% senior secured notes due April 15, 2020 in the original principal amount of $206 million (the "Prepetition Notes"). The Prepetition Notes issued with an initial interest rate of 13% per annum, subject to adjustment. That adjustment triggered as of December 31, 2014 as a result of the consolidated total net leverage ratio, as calculated under the Prepetition Indenture, having exceeded 4.50 to 1.00. This adjustment resulted in (a) the retroactive accrual of an additional 2% of paid-in-kind interest from the issue date of the Prepetition Notes through the date of such adjustment and (b) the accrual of interest thereafter through October 4, 2015 at the rate of 15% per annum, with the interest in excess of 13% per annum treated as paid-in-kind for interest payments due before April 15, 2018. Subject to the terms of the Intercreditor Agreement, the Prepetition Notes are secured by a lien on substantially all of the Debtors' assets.

As of the Petition Date, the aggregate principal balance of the Prepetition Notes and accrued interest thereon through October 4, 2015 totaled $229.6 million.

c. Collateral and Intercreditor Agreement

U.S. Bank, as collateral agent for the Prepetition Notes, and Wilmington Trust, as administrative agent under the Prepetition ABL Facility, are parties to that certain Intercreditor Agreement dated as of April 4, 2013 (as amended and supplemented on August 17, 2015, the "Intercreditor Agreement"), which sets forth the relative lien priorities between the Prepetition Secured Lenders and the holders of the Prepetition Notes.

The Intercreditor Agreement provides that the Prepetition ABL Facility is secured by (i) a lien on the Credit Facility Priority Collateral[8] that is contractually senior to the lien on the Credit Facility Priority Collateral that

[8] As defined in the Intercreditor Agreement, "Credit Facility Priority Collateral" consists of all of the Company's and each Guarantor's existing and future assets, consisting of: (i) accounts, (ii) inventory, (iii) cash, (iv) deposit accounts and all cash, checks and other instruments on deposit therein or credited thereto, (v) securities accounts and all investment property, (vi) tax refunds, (vii) intercompany notes and obligations, (viii) proceeds of business interruption insurance, (ix) royalties and contract and license rights, (x) instruments, documents, chattel paper (whether tangible or electronic), drafts and acceptances, payment intangibles and all supporting obligations and general intangibles to the extent they arise out of or relate to the foregoing in clauses (i) through (ix), and (xi) books, records and the proceeds of the foregoing (including insurance proceeds of the foregoing). The following specifically does not constitute Credit Facility Priority Collateral: (w) trademarks, licenses, trade names, patents, trade secrets, domain names, and copyrights of the Company or any Guarantor, and general intangibles necessary for the operation of the equipment, machinery and motor vehicles, including warranties and operational manuals and

secures the Prepetition Notes and (ii) a lien on the Notes Priority Collateral[9] that is contractually subordinated to the lien on the Note Priority Collateral that secures the Prepetition Notes, in each case subject to certain permitted liens. The Intercreditor Agreement also provides that the Prepetition Notes are secured by (i) a lien on the Notes Priority Collateral that will be contractually senior to a lien on the Notes Priority Collateral that secures the obligations under the Prepetition ABL Facility and (ii) a lien on the Credit Facility Priority Collateral that is contractually subordinated to the lien on the Credit Facility Priority Collateral that secures the obligations under the Prepetition ABL Facility, again in each case subject to certain permitted liens.

2. Unsecured Debt

The Company is obligated under two unsecured credit facilities, discussed below, in the aggregate principal amount (as of the Petition Date) of approximately $25 million.

a. Lion Credit Facility

On May 22, 2013, American Apparel, as borrower, and AA LLC, AA Retail, AA D&F, KCL and Fresh Air, as guarantors, entered into an agreement with Lion/Hollywood L.L.C. ("Lion"; such agreement, as amended, the "Lion Credit Facility"), to borrow $4.5 million on an unsecured basis with interest accruing at 18% per annum, subject to increase to 20% per annum in the event of certain trigger events. On November 29, 2013, Lion and the Debtors amended the Lion Credit Facility to, among other things, increase borrowings thereunder by $5 million. The Lion Credit Facility matures on April 15, 2021.

The Debtors defaulted under the Lion Credit Facility when the Company suspended its prior chief executive officer in June 2014. On July 16, 2014, Lion assigned its rights and obligations under the Lion Credit Facility to P Standard General Ltd., and effective as of July 22, 2014, P Standard General Ltd. assigned all of its rights and obligations under the Credit Agreement to Standard General Master Fund L.P. ("SGMF"). SGMF and the Debtors entered into an amendment to the Lion Credit Facility on September 8, 2014, among other things, waiving the defaults arising from the suspension of the chief executive officer.

Later, in conjunction with ABL Assignment, the Lion Credit Facility was further amended to permit the Debtors to amend the Prepetition ABL Facility. In exchange for this amendment, the Debtors agreed to provide the payment of consent fees and equity registration rights in favor of SGMF, and the Debtors released potential claims against SGMF and other parties.

The Company failed to make an interest payment due on the Lion Credit Facility on September 30, 2015. On October 1, 2015, SGMF provided notice to the Debtors that a default had occurred and was continuing on account of the missed payment, and that an event of default would occur to the extent the interest payment was not received by October 5, 2015.

As of the Petition Date, an aggregate principal balance of approximately $9.9 million was outstanding under the Lion Credit Facility.

b. UK Loan

On March 25, 2015, one of the Debtors' foreign subsidiaries, AA Carnaby, entered into a credit agreement to borrow $15 million from Standard General L.P., with interest accruing at 14% per annum. The UK Loan, which is guaranteed by American Apparel, matures on October 15, 2020. Pursuant to Section 6 of the Restructuring Support Agreement, Standard General agreed to waive any defaults under the UK Loan Agreement necessary to

(continued…)

similar items, (x) any Capital Stock of any direct or indirect Subsidiary of the Company, (y) any general intangibles relating to any of the foregoing, and (z) the identifiable proceeds of each of the foregoing.

[9] As defined in the Intercreditor Agreement, "Notes Priority Collateral" means all existing and future property and assets owned by the Company and the Guarantors, whether real, personal or mixed (other than any Excluded Assets or Credit Facility Priority Collateral).

implement the treatment of the UK Guaranty Claims under the Plan and to make reasonable modifications to the U.K. Loan Agreement, so long as (i) no Debtor or Supporting Party takes any action that materially adversely affects the rights of Standard General under the U.K. Loan Agreement and (ii) the Plan provides for the reinstatement of the U.K. Guaranty Claims.

As of the Petition Date, an aggregate principal balance of approximately $15 million was outstanding under the UK Loan.

c. Trade Debt

The Debtors owe material amounts, on an unsecured basis, to vendors critical to their manufacturing process, including vendors of yarn, trim and zippers. These vendors typically provide material to the Debtors on an order-by-order basis, without long term contractual agreements.

C. Recent Financial Performance and Events Leading to the Commencement of the Chapter 11 Cases

1. Brief History and Overview of the Company

American Apparel is an iconic, household brand, known around the world for its commitment to making its goods in the United States in a "sweatshop free" environment and its dedication to social causes. Founded in 1998 in Los Angeles, California, American Apparel initially focused its operations on the manufacture and wholesale distribution of blank and screen-printed t-shirts. The Company later expanded its operations to include retail and online stores, and broadened its manufacturing and marketing operations to include an array of clothing and apparel basics. American Apparel now operates a vertically integrated manufacturing, distribution and retail business focused on branded fashion apparel, employing about 8,700 employees across six manufacturing facilities and approximately 230 retail stores worldwide. American Apparel is the largest apparel manufacturer in North America, and in 2014, American Apparel generated more than $600 million in net sales.

2. American Apparel's Business in Recent Years

American Apparel enjoyed significant growth and profitability from its inception through 2009. During that period, it opened more than 280 stores in 19 countries, opened five manufacturing facilities in Southern California and increased its sales revenue to $559 million. American Apparel financed its growth—and, for that matter, its general operations—largely with 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. As a result, the Company carried a high level of indebtedness, forcing the Company to dedicate a substantial portion of its cash flow to pay interest and principal on its debt. In turn, the Company has been plagued with reduced liquidity, increased vulnerability to downturns in the business, industry or the general economy, and limited flexibility in planning for or reacting to changes or disruptions in the business and the retail industry.

The Company's particular vulnerability to business disruptions came to the forefront in 2009. In 2009, the Company began a growth initiative under which it opened new stores and began to manufacture a significant number of new and additional styles, including denim, sweaters, jackets and other products. This expansion was financed with a combination of debt, lease financing and proceeds from the exercise of purchase rights and issuance of common stock. In the midst of this massive campaign, Immigration and Customs Enforcement informed the Company that it was unable to verify the employment eligibility of approximately 200 current employees because of discrepancies in these employees' records, and that another approximately 1,600 employees appeared not to be authorized to work in the United States. In the wake of that notification, the Company fired approximately 1,800 employees (more than a quarter of its manufacturing workforce). This unforeseen personnel loss caused significant manufacturing and other delays, caused the Company to utilize a significant amount of its cash availability and negatively impacted the Company's ability to successfully roll out its new stores and products. For the year ended December 31, 2009, the Company reported just $1.1 million in net income, as compared to $14.1 million in net income a year earlier.

The Company's problems worsened in 2010. For the year ended December 31, 2010, the Company reported a 4.6% decrease in net sales and a 4.8% decrease in gross margin. The Company attributed the decreases in both sales and gross margin primarily to (a) an increase in production costs caused by increases in yarn and fabric prices and manufacturing labor inefficiencies associated with training of newly added sewing operators, and (b) a continued shift in production mix towards more complex retail styles. These operational and market challenges, coupled with the Company's very significant debt obligations caused the Company to experience a severe liquidity crisis.

The Company's troubles came to a head in the spring of 2011, when it included a "going concern" qualification with respect to its 2010 financials in its Form 10-K and warned of a potential bankruptcy. The "going concern" qualification was a breach of covenant under the Company's then-existing credit facilities with Bank of America, N.A. ("Bank of America") and Bank of Montreal, requiring the Company to obtain waivers from those lenders, or refinance those facilities, to avoid default, as well as to avoid a potential cross default under a credit facility with Lion Capital.

Thus, in early 2011, the Company began exploring alternative sources of capital for its ongoing cash needs. The Company faced significant challenges in this regard. Not only was the Company in a precarious financial condition, but the Company's auditor, Deloitte & Touche LLP, had also recently resigned and, in doing so, stated that its report on the Company's previously issued 2009 financial statements should not be relied upon. At the same time, the Company was also under subpoenas from the United States Attorney's Office for the Central District of California and the SEC for documents relating to investigations by the Federal Bureau of Investigation and the SEC into the change in its registered independent accounting firm and its financial reporting and internal controls. These circumstances seriously damaged the Company's credibility in the credit markets.

Through significant efforts, the Company was able to amend its existing credit facilities with Bank of America, Bank of Montreal and Lion Capital. These amendments included a requirement to retain FTI Consulting, Inc. ("FTI") and establish a special committee charged with devising a business plan approved by the Company's Audit Committee and deemed acceptable to one or both of Bank of America or Lion Capital. In addition this special committee and the Company introduced initiatives intended to increase sales, reduce costs and improve liquidity.

As a result of the new business plan and initiatives and a $10.5 million equity infusion, the Company stabilized. Net sales for 2011 increased $14.3 million, or 2.7%, to $547.3 million due primarily to sales improvements in the Company's wholesale and international segments. The Company's gross margin for 2011 increased to 53.9% compared to 52.5% for the year ended December 31, 2010. Operating expenses decreased $11.8 million, or 3.6%, to $318.2 million, as compared to 2010.

The Company continued, however, to carry more than $145 million of long-term debt at an annual interest expense of $33 million (excluding accrued pay-in-kind interest). Despite its incremental improvements, the Company experienced a loss from operations of $23.3 million and a net loss of $39.3 million for the year ended December 31, 2011.

The Company continued to see incremental gains in 2012 due to, among other things, improvements in distribution operations and allocation efforts, a reduction in corporate overhead expenses and better inventory planning. Net sales increased by 12.8% over those reported in 2011. The Company generated income from operations of $962,000. While the Company still experienced a net loss of about $37 million in 2012, the loss was a $2 million improvement over the prior year.

On March 13, 2012, the Company replaced its $75 million revolving credit facility with Bank of America with an $80.0 million senior secured credit facility with Crystal Financial LLC ("Crystal"). A year later, the Company closed a private offering of the Prepetition Notes and also entered into the Capital One Credit Facility. The Company used the net proceeds from the offering of the Prepetition Notes, together with borrowings under the Capital One Credit Facility, to repay and terminate its credit agreement with Crystal and its then-existing loan agreement with Lion Capital (under which the Company had borrowings of approximately $66 million and $144 million, respectively).

On May 22, 2013 the Company entered into the Lion Credit Facility in a principal amount of $4.5 million. On November 29, 2013, the Lion Credit Facility was amended to increase the borrowings by $5 million and to make

certain other technical amendments. By the end of 2013, the Company was carrying approximately $260 million in long-term debt at an annual expense of approximately $39 million.

Also in 2013, the Company transitioned to a new distribution center in La Mirada, California. The transition, completed by the end of 2013, was fraught with difficulties that caused processing inefficiencies which required the Company to employ additional staff in order to meet customer demand. These issues had a significant negative impact on the Company's earnings and cash flow in 2013. The Company ultimately incurred incremental distribution costs and recorded additional cost of sales of approximately $3 million and selling expenses of approximately $11.8 million. The Company also reported that the disruption caused by the cut-over to the new distribution center had a negative impact on sales. The Company's net loss for 2013 exceeded $106 million.

In the spring of 2014, the Audit Committee of the Company's board of directors (the "Board") began to investigate certain conduct of its then-chief executive officer Dov Charney that had been raised to the attention of the Audit Committee. On June 18, 2014, based on evidence uncovered during the Audit Committee's investigation, the independent directors of the Company presented Mr. Charney with a letter notifying him of the Board's intent to suspend him as chief executive officer and to terminate his employment for cause under the terms of his employment agreement. Mr. Charney was advised that the Board would be willing to consider his voluntary resignation as chief executive officer, whereby he would continue in a paid consulting role with the Company without supervisory authority over employees or authority over the Company's finances. Mr. Charney refused this offer, and the Board voted on and approved resolutions providing Mr. Charney with formal notice of the breach of his obligations under his employment agreement, removing Mr. Charney as chairman of the Board and suspending him as chief executive officer, and appointing an independent Board committee which, among other things, was vested with the power to continue the investigation of Mr. Charney's conduct and determine whether Mr. Charney should be terminated for cause under his employment agreement. Mr. Charney's suspension was the result of evidence that Mr. Charney had (i) willfully and continuously failed to substantially perform his job duties under his employment agreement, and (ii) engaged in willful misconduct that has materially injured the financial condition and business reputation of the Company.

On June 23, 2014, Mr. Charney filed a Schedule 13D (the "June 23 Filing") with the SEC, which stated, among other things, that Mr. Charney had engaged in discussions with supporters about potential changes to the composition of the Board. On June 27, 2014, Mr. Charney filed a Schedule 13D/A with the SEC, which disclosed that, on June 25, 2014, Mr. Charney signed a letter agreement with Standard General, under which Standard General agreed to enter into a cooperation agreement with Mr. Charney once Standard General acquired 10% or more of the Company's outstanding equity. The cooperation agreement provided that Standard General's and Mr. Charney's shares would be voted only as agreed between those two parties. Mr. Charney stated in the filing that he understood that Standard General already had acquired at least 10% of the Company's outstanding equity.

On June 27, 2014, in response to Mr. Charney's Schedule 13D/A filing, the Board delegated powers to an Executive Succession Committee, which later met and adopted a shareholder rights plan, which prevented Mr. Charney from immediately acquiring control of the Company.

On July 9, 2014, the Company entered into a Nomination, Standstill and Support Agreement ("Standstill Agreement") with Mr. Charney and Standard General, which provides in part that:

- Standard General would provide American Apparel up to $25 million in immediate financial support, to permit the Company to repay a loan to the Company held by Lion/Hollywood L.L.C.;
- Standard General and Mr. Charney agreed not to acquire any more shares of American Apparel stock;
- Mr. Charney and four other directors would resign from the Board and Mr. Charney would not serve as a Board member;
- Standard General would select three new directors to the Board, two of whom would satisfy the New York Stock Exchange's ("NYSE") standards for director independence;

- Standard General and the Company jointly would select two other directors, both of whom would satisfy the NYSE standards for director independence;

- The Board would amend the Bylaws to the form in which they existed prior to June 28, 2014 and would amend the Rights Plan to accelerate the expiration date to July 24, 2014;

- The Board would create a "Suitability Committee" to oversee the ongoing investigation into Mr. Charney's conduct and to decide whether he would have a role with the Company in the future; and

- Mr. Charney would serve as a consultant to the Company during the pendency of the Suitability Committee's investigation.

In accordance with the terms of the Standstill Agreement, Mr. Charney resigned as a director on July 9, 2014. Over the next six months, the Suitability Committee conducted and completed the investigation into Mr. Charney's conduct, including evidence that he had engaged in a pattern of misconduct and other illicit and unlawful behavior as further described in pleadings filed in certain actions set forth on Exhibit 6 hereto, which is a schedule of the lawsuits brought against the Company on account of Mr. Charney's conduct. In December 2014, the Suitability Committee unanimously determined that Mr. Charney was not suitable to return to the Company in any corporate capacity. The Board voted that Mr. Charney should be terminated for cause. On December 16, 2014, the Company announced in a press release that Mr. Charney had been terminated for cause in accordance with his employment agreement.

As a result of the foregoing conduct, the Company incurred several million dollars in expenses to resolve certain claims against its then-chief executive officer. Thereafter, the Company was exposed to significant negative publicity and a corresponding SEC investigation.

On November 13, 2015, Mr. Charney filed the *Disclosure Statement Objection* [Docket No. 294] in which he disputes a number of the facts above. The Debtors have reviewed Mr. Charney's objection and have made modifications to the Disclosure Statement where they believed it was appropriate. Mr. Charney vigorously disputes the foregoing description of his termination and related matters. Any party in interest may review Mr. Charney's objection, which is located free of charge at http://cases.gcginc.com/aai/pdflib/294_12055.pdf.

Additionally, in September 2014, after conducting a lengthy audit of the Company's German subsidiary, German authorities concluded that the Company had not been paying all requisite import taxes. German authorities assessed, and the Company was forced to pay, $4.5 million in customs penalties. Around the same time, the Company was forced to pay severance claims and a claim relating to a 2011 employee fatality.

The foregoing events that occurred in 2014 significantly impacted the Company's liquidity.

The Company ended 2014 with nearly $250 million in long term debt and reported a $68.8 million loss, bringing its total losses in the prior five year period to $300 million.

3. Litigation

The Company is a party to a number of pending lawsuits, many of which were filed beginning in 2014, and arise directly or indirectly from the investigation, suspension, or termination of Mr. Charney. These include, among others, shareholder derivative lawsuits purporting to assert claims on behalf of the Company against certain of the Company's current and former directors and officers, a federal securities lawsuit asserting claims for misstatements or omissions in connection with the Company's 2014 proxy statement, and various actions filed by Mr. Charney for fraud in connection with the Standstill Agreement, wrongful termination and defamation. A schedule identifying these lawsuits and the current procedural status of each is attached hereto as Exhibit 7.

4. D&O Insurance Policy

The Company's D&O insurance policy for the period January 30, 2014 through January 30, 2015 has a total limit of liability of $35 million per claim, in the aggregate, inclusive of defense costs. Of this total, $10 million is Side A difference-in-conditions coverage. The retention has been satisfied, and approximately $2 million of the primary policy has been exhausted by payment of defense fees in the pending litigations.

D. Mitigating Strategies and the Development of a Turnaround Plan

Following the removal of the Company's chief executive officer, the Board recruited a new management team to professionalize the Debtors' operations, identify and address operational challenges, and return the Company to profitability. Specifically, the Debtors hired a new Chief Executive Officer, Chief Financial Officer, General Counsel, Chief Information Officer, Chief Digital Officer, Senior Vice President of Marketing, President of Wholesale, General Manager of Global Retail and Senior Vice President of Human Resources.[10] Collectively, the new management team has significant retail experience, with companies like the Gores Group, Warnaco Swimwear Group, BCBG Max Azria, Laundry by Shelli Segal, Bauer Nike Hockey, Inc., Jones Soda Company, DirecTV, Verizon, Fox Network Group, Beachbody, Perry Ellis International, Express, Indigo Books Music, Inc. and Club Monaco, Inc.

1. The Company's New Management Team Develops a Turnaround Plan

At the start of 2015, the Company's newly appointed management (later assisted by the Company's advisors) assessed the Company's finances and operations and crafted a turnaround plan based around, among other things, (a) designing product lifecycles that fully exploit domestic capabilities, (b) meeting industry averages for e-commerce, (c) monetizing brand value, (d) building the brand to embrace future marketing initiatives and (e) evaluating and rationalizing the company's store footprint. Each of these initiatives is summarized below.

a. Designing Product Lifecycles to Exploit Domestic Capabilities

The Company historically lacked a formal process for determining what items would be manufactured, when they should be in the stores, and what the Company should do with items that do not sell. This had a series of negative effects. First, the Company had an ever-growing amount of slow-moving inventory that was never fully liquidated and gave stores a stale appeal to customers. To that end, as of June 2014, the Company estimates that it had three million units of slow moving inventory. Second, of the Company's more than 5,000 styles, only a small fraction accounted for the large majority of sales; as such, the Company was incurring the significant cost and inefficiency of manufacturing, distributing and maintaining significant style diversity without any real benefit. Third, the lack of any seasonal deadlines or calendars resulted in the manufacture of product when the Company least needed it. Finally, the Company did not change its product from season to season or year to year, such that the Company's stores had the same offerings year round.

To address these challenges, the Company's new management team has devised and begun to implement a series of new overhauls, including the following:

- The design and merchandizing of a new cohesive product line for wholesale and retail.
- Implementation of a new data management system to begin collecting and tracking important sales-related data and trends. The Company can now begin to track which styles are the most successful in different regions and demographics, and seasonality for each product and style.
- Cessation of production of underperforming styles, with a new focus on the production and sale of bestselling items.

[10] Upon its installation, the new management team adopted a *Code of Business Conduct and Ethics* to avoid future claims against the Company based upon inappropriate employee conduct.

- Creation and maintenance of a design calendar, to ensure that materials are ordered and production commenced at the right times in order to stock stores with clearly defined seasonal lines, giving the Company's operations a fresh look tailored to shifting, seasonal demand.

- Improvements to quality control in the manufacturing process, thereby reducing overtime hours and ensuring a more efficient production method.

b. Meeting Industry Averages for e-Commerce

The Company's competition generates, on average, 20% of their sales from e-commerce. In comparison. the Company's e-commerce platform accounts for 10% of sales. Similarly, of the visits to a retail e-commerce site, the industry norm is to expect that 2.5% of the visits will result in a purchase. In contrast, the Company has a "conversion rate" of 1.6%. This relative disadvantage has resulted from, among other things, a poor user experience, problems with inventory allocation, stale product offerings, lack of a meaningful mobile app and poor use of online marketing options. To address these challenges, management (including the Company's first Chief Digital Officer) has begun to, among other things, develop and build a new state-of-the art mobile app, improve user experience with the Company's website and implement better options for accepting payments internationally.

c. Monetizing Brand Value

Since the fourth quarter of 2013, same store sales comparables have declined virtually every month at an average rate of 7%. To address these challenges, management has, among other things, (a) placed greater emphasis on new designs that emphasize quality and fit, (b) commenced the process of creating new and viable products for wholesale, retail, and e-commerce, (c) launched a new marketing campaign to increase store traffic and rejuvenate store branding, (d) begun to improve the Company's training, onboarding procedures and communications between management and retail staff, (e) identified new markets that might be exploited through new store openings, as well as current stores that are unprofitable and should be closed, (f) hired a new design and merchandising team and a new buying team and (g) created a planning and forecasting division. On the wholesale side, management has, among other things, developed plans for (i) new research and development for innovative fabrics, (ii) an increased focus on international wholesale sales, with strategic expansion into new geographic regions and (iii) launching a new website and mobile experience for the wholesale business.

d. Building the Brand to Embrace Future Marketing Initiatives

While retaining its classic image and culture, the new management team (including the Company's new Senior Vice President of Marketing) has developed a marketing plan to cast the Company in a positive, socially conscious light. The plan involves, among other things, (a) new product launches aligned with digital promotions, (b) a strong collaboration with visual merchandising to create a compelling retail experience, (c) launching new in-store events and partnerships with personalities, celebrities and music bands to increase store traffic, and (d) a new focus on digital advertising with less emphasis on traditional print and outdoor marketing. In addition, the Company has bolstered its dedication to important social and political issues such as immigration rights and equality for the LGBTQ community.

e. Evaluating and Rationalizing the Company's Store Footprint

Over time, some stores have become unprofitable due to economic conditions in a particular area, rental trends for a particular location or the Company's inability to adequately invest in the location due to a lack of capital resources. Additionally, liquidity constraints have limited the Company's ability to identify and expand into areas of proven performance or potential. In August 2015, the Company retained DJM Realty Services, LLC ("DJM") to serve as real estate consultants and professionals. On the Company's behalf, DJM has begun to analyze the Company's leases and to negotiate with landlords regarding potential lease concessions and the terms of new, long-term relationships. At the same time, DJM and management have begun to identify new potential areas for future expansion. In these Chapter 11 Cases, the Debtors intend to reject leases for some of their unprofitable stores and to assume leases for their currently profitable stores. They will also assume leases for those stores they believe will become profitable with adequate investment and increased management attention. Ultimately, the Debtors have as

their goal emerging with a strong lease portfolio that is built to capitalize on strong geographic demand for their products. The Debtors' assessment of the leases it intends to assume and to reject is ongoing.

2. Attempts to Secure New Financing Sources to Deploy the Turnaround Plan

In order to implement its turnaround plan, in 2014 and 2015, the Company undertook aggressive measures to raise capital and to address its tight liquidity profile. Those measures included the following:

- ***Exploring potential transactions:*** In late December 2014, the Company retained Moelis & Company ("Moelis") as investment bankers to explore and solicit interest in a wide variety of potential transactions, including a sale transaction or a transaction involving new debt, equity interests, hybrid capital, or options, warrants or other rights to acquire equity interests in the Company. Moelis contacted more than 90 parties in connection with its solicitation efforts. Of those, 18 parties signed a non-disclosure agreement with the Company and gained access to due diligence regarding the Company's operations and financial conditions. Ultimately, none of those parties determined to enter into a definitive transaction with the Company. Though Moelis pursued one bid received from an interested party, that bid was subject to conditions, which halted formal due diligence and the further materialization of any potential transaction with the interested party.

- ***Obtaining additional credit:*** On March 25, 2015, AA Carnaby entered into the $15 million UK Loan, providing a loan for $15 million in principal, the proceeds of which were used for general corporate purposes of the Company. American Apparel guaranteed the UK Loan.

- ***Raising equity:*** On May 11, 2015, the Company entered into a sales agreement to sell shares of common stock for an aggregate sales price up to $10 million (but in no event more than 15 million shares), through an "at-the-market" equity offering program.

- ***Attempting to increase authorized shares:*** In June 2015, the Board and management submitted a proposal for ratification at the 2015 annual shareholders' meeting that would have increased authorized shares of common stock from 230 million to 460 million in order to provide the Company with greater flexibility to generate capital through future equity financings and potential strategic transactions.

- ***Seeking consent to release share reserves***: In July 2015, after shareholders rejected the aforementioned Board and management's proposal to increase the number of authorized shares, management approached Lion Capital to ask that it waive the requirement that the Company reserve shares in connection with its warrants. Releasing the Lion Capital share reserves would have freed up 24.5 million shares, which the Company could have sold to raise additional liquidity. Lion Capital declined to permit the release of the reserves.

Ultimately, despite its efforts, the Company could not generate additional liquidity sources sufficient to fully support management's turnaround plan. At the same time, the Company's sales declined faster than their earlier downward projections. For the three month period ending June 30, 2015, the Company's net sales totaled approximately $134 million (representing a 17% decrease compared with the same period in 2014), resulting in a net loss totaling approximately $19 million and adjusted EBITDA of approximately $4.1 million (compared with $15.9 million of adjusted EBITDA for the same period in 2014). As of June 30, 2015, the Company had an estimated $7 million in cash and its capacity for additional borrowings under the Capital One Credit Facility totaled $6 million.

E. The Decision to File Chapter 11

With dwindling options for raising capital, in July 2015 the Company deployed a plan to drastically reduce costs in an effort of giving themselves a runway to implement their turnaround plan. The Company aimed to reduce short-term costs by $30 million through, among other things, (a) organization-wide layoffs across all three business operations, (b) negotiations with landlords of significant stores and warehouse facilities to reduce rent obligations, and (c) sourcing fabric and other production inputs from less expensive suppliers. Despite these efforts,

management projected that, absent a turnaround in sales, the Company may not have sufficient cash for the near term.

Thus, in late July 2015, the Company began exploring alternatives, including restructuring contingencies. The Company retained Jones Day as restructuring counsel and FTI as financial advisor and asked Moelis to survey the market for interest in any type of in-court or out-of-court transaction. The Company also approached Standard General and holders of the Prepetition Notes to assess options for restructuring its onerous debt obligations. In early August 2015, certain of these holders executed non-disclosure agreements and began reviewing confidential information regarding the Debtors' financial condition.

Early in the noteholders' diligence process, on August 11, 2015, American Apparel filed a notice with the SEC that its quarterly report for the second quarter of 2015 would be delayed. In this notice the Company disclosed, among other things, potential non-compliance with certain of the covenants for the Capital One Credit Facility and ongoing discussions with the Company's lenders under the Capital One Credit Facility regarding potential waivers of any potential defaults thereunder. Those discussions were ultimately successful, and on August 17, 2015, the Company and the Prepetition Secured Lenders effected the ABL Assignment. As discussed in Part II.B, immediately following this assignment, the Company entered into a series of agreements whereby, among other things, (1) existing defaults or potential defaults under the Prepetition ABL Facility were waived, (2) the total commitment under the Prepetition ABL Facility was increased from $50 million to $90 million, and (3) Wilmington Trust assumed the role as administrative agent under the Prepetition ABL Facility. The Prepetition ABL Facility contained a $15 million permitted over-advance to provide a borrowing base of $60 million, the value of which was supported by Credit Facility Priority Collateral. As a result of this amendment, and the ABL Assignment, the Company obtained access to much-needed liquidity and capital, providing the Company breathing room to further assess its options and attempt to negotiate a reorganization framework with its primary creditor constituencies.

Concurrently with the negotiations over the Prepetition ABL Facility, and after having received tepid interest from potential investors in exploring a distressed or restructuring transaction, the Debtors and their advisors entered into extensive arms'-length negotiations with the Committee of Lead Lenders (which includes the Prepetition Secured Lenders) and Standard General regarding (a) the terms of potential debtor-in-possession financing sufficient to provide the Debtors with the liquidity necessary to sustain operations without material disruption to their businesses, while in a bankruptcy proceeding, and (b) the terms of a potential chapter 11 plan of reorganization.

The Debtors' discussions with these parties regarding debtor-in-possession financing proceeded along a parallel track with separate marketing efforts, conducted by Moelis, to obtain such financing from other sources, as described in the *Declaration of Robert Flachs in Support of Motion for Entry of Interim And Final Orders (I) Authorizing the Debtors to (A) Obtain Postpetition Senior Secured Superpriority Financing Pursuant To 11 U.S.C. §§ 361, 362, 363(c), 363(e), 364(c), 364(d)(1), 364(e) And 507 and (B) Utilize Cash Collateral, (II) Authorizing the Repayment in Full of Amounts Owed Under the Prepetition ABL Credit Facility, (III) Granting Priming Liens, Priority Liens And Superpriority Claims to the DIP Lenders, (IV) Granting Adequate Protection to Certain Prepetition Secured Parties, (V) Scheduling a Final Hearing Pursuant to Bankruptcy Rules 4001(b) And (c) And (VI) Granting Related Relief* (the "Flachs Declaration") [Docket No. 33].

F. The Restructuring Support Agreement, DIP Credit Facility and Proposed Plan

1. The Restructuring Support Agreement

Ultimately, on October 4, 2015, the Debtors entered into a restructuring support agreement (the "Restructuring Support Agreement") with the Committee of Lead Lenders and Standard General in their respective capacities as Prepetition Secured Lenders and holders of Prepetition Notes (defined therein and in the Plan as the "Supporting Parties"), to effectuate a holistic restructuring of the Company's capital structure to be implemented in these Chapter 11 Cases through the Plan. In connection with the Restructuring Support Agreement, the Supporting Parties (collectively, in such capacity, the "DIP Lenders") committed to provide the Debtors with the $90 million DIP Credit Facility, the terms of which are set forth in the DIP Credit Agreement dated October 4, 2015 and summarized in Section II.F.2 herein. The Supporting Parties also agreed that the DIP Credit Facility would be

convertible into the New Exit Facility Term Loan and to provide an additional $40 million of liquidity, as set forth in the Equity Commitment Agreement, to fund exit costs and capitalize the Reorganized Debtors' business.

a. The New Exit Facility Term Loan

The Debtors may, subject to the terms of the DIP Documents, convert the DIP Credit Facility into the New Exit Facility Term Loan upon the Effective Date. Pursuant and subject to the DIP Credit Agreement, the New Exit Facility Term Loan shall contain commitments for $30 million in incremental loans, subject to reduction as summarized in Section I.A (defined in the Plan as the "New Exit Accordion").

The principal terms of the New Exit Facility Term Loan are set forth in the New Exit Financing Term Sheet attached as Exhibit C to the Restructuring Support Agreement. Consistent with the New Exit Financing Term Sheet, at the Reorganized Debtors' option (subject to certain limitations to be set forth in the New Exit Financing Agreement), interest under the New Exit Facility Term Loan shall be payable in cash at LIBOR plus 10.0% per annum or paid in kind at LIBOR plus 12.0% per annum. The New Exit Facility Term Loan will mature four years after the Effective Date.

b. The Equity Commitment Agreement

Pursuant and subject to the Equity Commitment Agreement, attached as Exhibit D to the Restructuring Support Agreement, the Commitment Parties have committed to invest a minimum of $10 million in Cash in the Reorganized Debtors, which amount is subject to adjustment up to $40 million based on the total amount committed under the New Exit Accordion.

c. Governance Terms of the Reorganized American Apparel

Consistent with the Governance Term Sheet, attached to the Restructuring Support Agreement as Exhibit E, on the Effective Date, American Apparel will be converted, merged or otherwise reorganized into a Delaware limited liability company, and membership interests in Reorganized American Apparel will be issued pursuant to the Plan. Reorganized American Apparel will elect to be treated as a corporation for U.S. federal income tax purposes effective on the earlier of the Effective Date or the date of formation, absent an alternative structure determined by the Requisite Supporting Parties, which alternative structure shall require the consent of the Debtors only if such structure results in a transfer of a Debtor's assets to a new entity that is not a successor of the Debtor for tax purposes.

2. The DIP Credit Facility

The principal terms of the DIP Credit Facility, which are described in more detail in the Flachs Declaration and the Debtors' motion seeking authorization to enter it (the "DIP Motion") [Docket No. 19], are as follows:[11]

- AA LLC, AA Retail, AA D&F, and KCL are borrowers. American Apparel and Fresh Air are guarantors.
- Wilmington Trust, N.A. serves as administrative agent.
- The DIP Lenders are Standard General Master Fund L.P., P Standard General Ltd., Monarch Master Funding Ltd., Coliseum Capital Partners, L.P., Coliseum Capital Partners II, L.P., Blackwell Partners, LLC, Series A, Goldman Sachs Trust - Goldman Sachs High Yield Floating Rate Fund, Goldman Sachs Lux Investment Funds - Goldman Sachs High Yield Floating Rate Portfolio (LUX), Goldman Sachs Lux Investment Funds - Global Multi-Sector Credit Portfolio (LUX), Global Opportunities LLC, Global Opportunities Offshore Ltd., Oceana Master Fund Ltd., and PWCM Master Fund Ltd.

[11] The following is only a summary of the relevant terms and the terms of the DIP Credit Facility and is qualified in its entirety by the terms of the DIP Documents.

- The DIP Lenders provided $90 million in senior secured postpetition financing in the form of $30 million in incremental loans and $60 million to refinance the Prepetition ABL Facility. Interest shall accrue at LIBOR plus 7.00% per annum.

- The Debtors' use of cash collateral and the loan proceeds shall be used (i) for working capital and other general corporate purposes (subject to a budget agreed upon by the parties to the DIP Credit Facility on a rolling basis), (ii) to pay administrative costs of the chapter 11 cases, (iii) to repay all amounts owing under the Prepetition ABL Facility, (iv) to pay transaction costs, fees, and expenses with respect to the DIP Credit Facility, (v) to make Permitted Adequate Protection Payments (as defined in the DIP Credit Agreement), (vi) to fund fees owed to the clerk of the Bankruptcy Court and the U.S. Trustee under 28 U.S.C. § 1930(a), (vii) to pay fees incurred by a trustee under section 726(b) of the Bankruptcy Code up to $100,000, and (viii) to pay certain professional fees and expenses allowed by the Court.

- The DIP Lenders were granted certain liens and claims, including priming liens and superpriority claims on property of the estate.

- The parties made representations and warranties substantially the same as those made with respect to the Prepetition ABL Facility.

- Events of default under the DIP Credit Agreement are standard for a facility of this type.

- The DIP Credit Facility terminates on the earlier of (a) April 5, 2016, (b) the date on which the Bankruptcy Court orders the chapter 11 cases converted to cases under chapter 7 of the Bankruptcy Code, (c) the acceleration of the loans and termination of commitments under section 8.02 of the DIP Credit Agreement, (d) the sale of all or substantially all of the Debtors' assets, and (e) the consummation of a confirmed plan of reorganization for the Debtors.

3. Milestones

In addition to outlining the main terms of the Plan, the Restructuring Support Agreement, together with the DIP Credit Agreement, also provides a number of relevant milestones that must be satisfied, including:

- not later than 10 days after the Petition Date, the Debtors shall have filed the Plan, Disclosure Statement and a motion seeking approval of the Disclosure Statement;

- not later than 45 days after the entry of the interim order approving the DIP Credit Facility, the Bankruptcy Court must have entered a final order approving the DIP Credit Facility;

- not later than 60 days from the Petition Date, the Bankruptcy Court must have entered an order approving the Disclosure Statement;

- not later than 120 days from the Petition Date, the Bankruptcy Court must have entered the Confirmation Order; and

- not later than 180 days from the Petition Date, the Effective Date must have occurred.

In the event that any of these milestones are not satisfied, the Requisite Supporting Parties may terminate the Restructuring Support Agreement.

The Restructuring Support Agreement obligates the Debtors to, among other things, use commercially reasonable efforts to obtain confirmation of the Plan as soon as reasonably practicable in accordance with the foregoing milestones. At the same time, the DIP Credit Facility will provide the Debtors with adequate liquidity to accomplish confirmation of the Plan on a reasonable timeline.

III. THE CHAPTER 11 CASES

A. Voluntary Petitions

On October 5, 2015 (defined in the Plan as the "Petition Date"), the Debtors commenced the Chapter 11 Cases by filing voluntary petitions for relief under chapter 11 of the Bankruptcy Code. All of the Chapter 11 Cases have been consolidated for procedural purposes only and are being administered jointly.

The Debtors have continued, and will continue until the Effective Date, to manage their properties as debtors-in-possession, subject to the supervision of the Bankruptcy Court and in accordance with the provisions of the Bankruptcy Code. An immediate effect of the filing of the Chapter 11 Cases was the imposition of the automatic stay under section 362 of the Bankruptcy Code, which, with limited exceptions, enjoined the commencement or continuation of: (1) all collection efforts by creditors; (2) enforcement of liens against any assets of the Debtors; and (3) litigation against the Debtors.

B. First Day Relief

On the Petition Date, the Debtors filed a number of motions and other pleadings (the "First Day Motions"), the most significant of which are described below, to be discussed at the hearing before the Bankruptcy Court on October 6, 2015 (the "First Day Hearing"). The purpose of these motions was to stabilize the Debtors' business in the initial days of these Bankruptcy Cases and to ensure a smooth transition into chapter 11 with minimal disruption to the Debtors' business.

In particular, the First Day Motions sought authority to, among other things: (1) administer the Bankruptcy Cases jointly for procedural purposes; (2) maintain certain customer programs and honor related prepetition obligations to the Debtors' customers; (3) pay certain prepetition employee wages, benefits and related items; (4) continue use of the Debtors' cash management system; (5) pay certain prepetition claims held by the Debtors' shippers and processors; (6) pay prepetition claims of certain critical vendors; (7) pay certain prepetition taxes; (8) establish notice and objection procedures for transfer of equity of the Debtors and establish a record date for notice and sell down procedures for trading in claims against the Debtors' estates; (9) establish adequate assurance procedures with respect to the Debtors' utility providers; (10) continue the Debtors' insurance programs and pay related obligations; (11) obtain post-petition financing (as described in further detail below); (12) confirming administrative priority of goods delivered post-petition; (13) confirm certain protections of the Bankruptcy Code; (14) appoint a claims noticing agent; and (15) file a consolidated list of creditors.

On the Petition Date, the Debtors also filed the Restructuring Support Agreement and the Plan for informational purposes and for discussion at the First Day Hearing. In addition, the Debtors filed an application to employ Garden City Group, LLC ("GCG") as administrative agent and a motion establishing procedures for resolving claims under section 503(b)(9) of the Bankruptcy Code for consideration at a future hearing.

On October 6, 2015, the First Day Motions were granted, including a subset of them on an interim basis. On October 30, 2015 and November 2, 2015, final orders were entered with respect to certain of the First Day Motions.

C. Debtor-in-Possession Credit Facility

On the Petition Date, the Debtors filed the DIP Motion, seeking authority to obtain the DIP Credit Facility in the aggregate principal amount of $90 million from the DIP Lenders and to utilize cash collateral. The Debtors engaged in a robust and arms'-length marketing process designed to attract multiple financing proposals from a focused set of lenders with the sophistication and capacity to provide the Debtors with substantial financing in a relatively short period of time. This process was also geared towards promoting competition and obtaining financing on the best terms available to fit the Debtors' anticipated needs. The Debtors and Moelis sought proposals from 15 potential financing sources, which included 14 third-party lenders and certain of the Debtors' existing constituents. Of the 14 third party lenders that were contacted, four executed non-disclosure agreements and three received access to an electronic data room containing due diligence information related to the Debtors and their financing needs. Ultimately, the Debtors received three proposals for possible debtor-in-possession financing,

including two proposals from third-party lenders and one proposal from the Supporting Parties. Ultimately, the Debtors determined that the DIP Credit Facility was the most favorable proposal.

On October 6, 2015, the Bankruptcy Court entered an interim order authorizing certain relief requested in the DIP Motion, including the full refinancing of the Prepetition ABL Facility. The Final DIP Order was entered on November 2, 2015 [Docket No. 248].

D. The Creditors' Committee

On October 15, 2015, the U.S. Trustee appointed the Creditors' Committee in these Chapter 11 Cases pursuant to section 1102 of the Bankruptcy Code.

The Creditors' Committee fully formed consists of the following members: (1) Atalaya Asset Income Fund I LP; (2) Alameda Square Owner LLC; (3) Simon Property Group; (4) Dunaway Yarns, Inc.; (5) Andari Fashion Inc.; (6) United Fabricare Supply, Inc.; and (7) Fabric Avenue, Inc. Counsel to the Creditors' Committee are Kilpatrick Townsend & Stockton LLP and Klehr Harrison Harvey Branzburg LLP. The Creditors' Committee's financial advisor is Zolfo Cooper LLC.

At this time, the Creditors' Committee does not support the Plan.

E. Further Motions and Related Events in the Chapter 11 Cases

Since the Petition Date, the Debtors have sought and obtained approval for a number of additional motions to aid in the efficient administration of the Chapter 11 Cases, including applications to retain certain professionals and motions to (1) establish interim compensation procedures; (2) reject certain contracts and unexpired leases; and (3) continue to employ certain professionals in the ordinary course of the Debtors' business. Some of the more substantive relief sought by the Debtors is detailed in Sections III.E.1 through III.E.4.

1. Claims Process and Bar Date

On October 27, 2015 and October 28, 2015, the Debtors filed their Schedules identifying the assets and liabilities of their Estates. In addition, pursuant to an order dated October 30, 2015 [Docket No. 227] and later amended on November 3, 2015 [Docket No. 255] (as amended, the "Bar Date Order"), the Bankruptcy Court established the following bar dates for filing Proofs of Claim in the Chapter 11 Cases:

- the general bar date (the "General Bar Date") for all Claims, except as noted below, of December 9, 2015;
- a bar date for government units holding Claims against the Debtors of April 4, 2016;
- a bar date for Claims amended or supplemented by the Debtors' amended Schedules by the later of (a) the General Bar Date; and (b) the date that is thirty (30) days after the date that notice of the applicable amendment to the Schedules is served on the claimant; and
- a bar date for any claims arising from or relating to the rejection of executory contracts or unexpired leases, in accordance with section 365 of the Bankruptcy Code and pursuant to an order of the Bankruptcy Court entered prior to the confirmation of the Plan (any such order, a "Rejection Order"), the later of (a) the General Bar Date and (b) the date that is thirty (30) days after the entry of the applicable Rejection Order.

The Debtors provided notice of the bar dates above as required by the Bar Date Order.

2. KERP

On October 30, 2015, the Debtors sought approval of their Key Employee Retention Plan (the "KERP") for eighty-two (82) of the Debtors' non-insider employees (the "Key Employees") who are critical to the Debtors'

continued operation and a successful restructuring [Docket No. 216] (the "KERP Motion"). Given significant employee attrition since the Petition Date, the Debtors formulated the KERP to incentivize Key Employees, many of whom have unique institutional knowledge of the Debtors, to remain with the Debtors before, during and after these chapter 11 cases, both to ensure the Debtors' continued operation and to avoid the significant costs associated with obtaining and training replacements.

The KERP proposes to make retention payments to Key Employees who both remain employed with the Debtors through the 90 day post-emergence period and, with respect to certain Key Employees, the 180 day post-emergence period, and achieve personal goals as determined by their superiors. The maximum total cost of the KERP is expected to be $1.7 million, assuming there is no attrition among Key Employees. The KERP also proposes a small discretionary pool of not more than $500,000 in the aggregate for the Debtors' chief executive officer to award as retention payments in her discretion or on an as-needed basis to prevent the attrition of non-insider employees that are not currently KERP participants. The Committee of Lead Lenders, the Creditors' Committee and the U.S. Trustee reviewed the terms of the KERP, the timing of the payments and the critical nature of the Key Employees, and determined that the KERP was reasonable and appropriate under the circumstances. On November 17, 2015, the court entered an order approving the KERP [Docket No. 329].

3. Store Closing Procedures

On October 30, 2015, the Debtors sought approval to conduct store closing sales at nine (9) of their "American Apparel" stores and their four (4) "OAK" stores [Docket No. 221] (the "Store Closure Motion") in accordance with the terms of the Store Closing Sale Guidelines (as defined in the Store Closure Motion). On November 20, 2015, the Court entered an order approving the Store Closing Motion [Docket No. 364].

The Debtors' analysis of their retail store portfolio is ongoing. The performance of certain stores through the upcoming holiday retail season, ongoing lease negotiations and the potential for strategic transactions with respect to certain of the stores, among other factors, will impact the Debtors' decision of whether to close additional stores.

4. Director and Officer Defense Costs

On October 29, 2015, the Debtors sought authority to modify the automatic stay to permit the payment of defense costs, subject to certain caps, to director and officer defendants in the D&O Litigations[12] pursuant to the terms of the applicable insurance policies [Docket No. 215] (the "Lift Stay Motion"). On November 17, 2015, the court entered an order approving the Lift Stay Motion [Docket No. 328].

IV. THE PLAN

THE FOLLOWING SUMMARY HIGHLIGHTS CERTAIN OF THE SUBSTANTIVE PROVISIONS OF THE PLAN, AND IS NOT, NOR IS IT INTENDED TO BE, A COMPLETE DESCRIPTION OR A SUBSTITUTE FOR A FULL AND COMPLETE REVIEW OF THE PLAN. THE DEBTORS URGE ALL HOLDERS OF CLAIMS AND INTERESTS TO READ AND STUDY CAREFULLY THE PLAN, A COPY OF WHICH IS ATTACHED HERETO AS EXHIBIT 1.

Section 1123 of the Bankruptcy Code provides that, except for Administrative Claims and Priority Tax Claims, a plan of reorganization must categorize claims against and equity interests in a debtor into individual classes. Although the Bankruptcy Code gives a debtor significant flexibility in classifying claims and interests, section 1122 of the Bankruptcy Code dictates that a plan of reorganization may only classify a claim or an equity interest with claims or equity interests, respectively, that are substantially similar.

[12] The "D&O Litigations" include: (a) *In re American Apparel, Inc. 2014 Derivative Shareholder Litigation*, Lead Case No. CV 14-5230-MWF (JEMx); (b) *Jan Willem Hubner, et al. v. Allan Mayer, et al.*, No. 2:15-cv-02965 (C.D. Cal. Apr. 21, 2015); and (c) *Dov Charney v. Standard General, L.P., et al.*, No. BC586119 (Cal. Super. Ct. June 24, 2015).

The Plan creates seven Classes of Claims and two Classes of Interests per Debtor. These Classes take into account the differing nature and priority of Claims against and Interests in the Debtors. Administrative Claims and Priority Tax Claims are not classified for purposes of voting or receiving distributions under the Plan (as is permitted by section 1123(a)(1) of the Bankruptcy Code) but are treated separately as unclassified Claims.

The Plan provides specific treatment for each Class of Claims and Interests. Only Holders of Claims that are impaired under the Plan and who will receive distributions under the Plan are entitled to vote on the Plan.

The following discussion sets forth the classification and treatment of all Claims against, or Interests in, the Debtors. It is qualified in its entirety by the terms of the Plan, which is attached hereto as Exhibit 1, and which you should read carefully before deciding whether to vote to accept or reject the Plan.

V. CLASSIFICATION AND TREATMENT OF CLAIMS AND INTERESTS

All Claims and Interests, except Administrative Claims and Priority Tax Claims, are placed in the Classes set forth below. In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Claims and Priority Tax Claims, as described in Section II.A of the Plan, are not classified in the Plan. A Claim or Interest is classified in a particular Class only to the extent that the Claim or Interest qualifies within the description of that Class and is classified in other Classes to the extent that any remainder of the Claim or Interest qualifies within the description of such other Classes.

If the Plan is confirmed by the Bankruptcy Court, unless a Holder of an Allowed Claim consents to different treatment, (A) each Allowed Claim in a particular Class will receive the same treatment as the other Allowed Claims in such Class, whether or not the Holder of such Claim voted to accept the Plan and (B) each Allowed Interest in a particular Class will receive the same treatment as the other Allowed Interests in such Class. Such treatment will be in exchange for and in full satisfaction, release and discharge of, the Holder's respective Claims against or Interests in a Debtor, except as otherwise provided in the Plan. Moreover, upon Confirmation, the Plan will be binding on (A) all Holders of Claims regardless of whether such Holders voted to accept the Plan and (B) all Holders of Interests.

A. Unclassified Claims

1. Administrative Claims

a. Administrative Claims in General

Except as specified in Section II.A.1 of the Plan, and subject to Section II.A.1.f of the Plan and subject to the bar date provisions therein, unless otherwise agreed by the Holder of an Administrative Claim and the applicable Reorganized Debtor, each Holder of an Allowed Administrative Claim will receive, in full satisfaction of its Administrative Claim, Cash equal to the Allowed amount of such Administrative Claim on either (i) the latest to occur of (A) the Effective Date (or as soon thereafter as practicable), (B) the date such Claim becomes an Allowed Administrative Claim and (C) such other date as may be agreed upon by the Reorganized Debtors and the Holder of such Claim or (ii) on such other date as the Bankruptcy Court may order.

b. Statutory Fees

All fees payable pursuant to 28 U.S.C. § 1930 after the Effective Date will be paid by the applicable Reorganized Debtor in accordance therewith until the earlier of the conversion or dismissal of the applicable Chapter 11 Case under section 1112 of the Bankruptcy Code or the closing of the applicable Chapter 11 Case pursuant to section 350(a) of the Bankruptcy Code.

c. Ordinary Course Postpetition Administrative Liabilities

Administrative Claims based on liabilities incurred by a Debtor in the ordinary course of its business on or after the Petition Date, including Administrative Claims arising from or with respect to the sale of goods or provision of services on or after the Petition Date, Administrative Claims of governmental units for Taxes (including Tax audit Claims related to Tax years or portions thereof ending after the Petition Date), Administrative Claims

arising under Executory Contracts and Unexpired Leases and all Intercompany Administrative Claims, will be paid by the applicable Reorganized Debtor, pursuant to the terms and conditions of the particular transaction giving rise to those Administrative Claims, without further action by the Holders of such Administrative Claims or further approval by the Bankruptcy Court. Holders of the foregoing Claims will not be required to File or serve any request for payment of such Administrative Claims.

d. DIP Claims

On the Effective Date, all DIP Expenses will be paid in Cash and the remaining DIP Claims will be converted into loans under the New Exit Facility Term Loan pursuant to the terms of the New Exit Financing Agreement.

e. Prepetition ABL Claims

All obligations and claims in respect of or arising under the Prepetition ABL Facility will be paid in full, in Cash, on the Effective Date to the extent not previously paid pursuant to the DIP Orders.

f. Professional Compensation

Professionals or other Entities asserting a Fee Claim for services rendered before the Effective Date must File and serve on the Reorganized Debtors and such other Entities who are designated by the Bankruptcy Rules, the Fee Order, the Confirmation Order or other order of the Bankruptcy Court an application for final allowance of such Fee Claim no later than sixty (60) days after the Effective Date; provided, however, that any party who may receive compensation or reimbursement of expenses pursuant to the Ordinary Course Professionals Order may continue to receive such compensation and reimbursement of expenses for services rendered before the Effective Date pursuant to the Ordinary Course Professionals Order without further Bankruptcy Court review or approval (except as provided in the Ordinary Course Professionals Order). Objections to any Fee Claim must be Filed and served on the Reorganized Debtors and the requesting party no later than ninety (90) days after the Effective Date. To the extent necessary, the Confirmation Order will amend and supersede any previously entered order of the Bankruptcy Court regarding the payment of Fee Claims.

g. Post-Effective Date Professionals' Fees and Expenses

Except as otherwise specifically provided in the Plan, on and after the Effective Date, the Reorganized Debtors will, in the ordinary course of business and without any further notice to or action, order, or approval of the Bankruptcy Court, pay in Cash the reasonable and documented fees and expenses of the Professionals or other fees and expenses incurred by the Reorganized Debtors on or after the Effective Date, in each case, related to implementation and consummation of the Plan. Upon the Effective Date, any requirement that Professionals comply with sections 327 through 331 and 1103 of the Bankruptcy Code or any order of the Bankruptcy Court entered before the Effective Date governing the retention of, or compensation for services rendered by, Professionals after the Effective Date will terminate, and the Reorganized Debtors may employ or pay any Professional in the ordinary course of business without any further notice to or action, order, or approval of the Bankruptcy Court.

h. Bar Dates for Administrative Claims

Except as otherwise provided in the Plan, requests for payment of Administrative Claims (other than DIP Claims, Fee Claims and Administrative Claims based on Liabilities incurred by a Debtor from and after the Petition Date in the ordinary course of its business as described in Section II.A.1.c of the Plan) must be Filed and served on the Reorganized Debtors pursuant to the procedures specified in the Confirmation Order and the notice of entry of the Confirmation Order no later than the Administrative Claims Bar Date. Holders of Administrative Claims that are required to, but do not, File and serve a request for payment of such Administrative Claims by such date will be forever barred, estopped, and enjoined from asserting such Administrative Claims against the Debtors or their property and such Administrative Claims will be deemed discharged as of the Effective Date. Objections to such requests, if any, must be Filed and served on the Reorganized Debtors and the requesting party no later than the Administrative Claims Objection Deadline.

2. Payment of Priority Tax Claims

a. **Priority Tax Claims**

Pursuant to section 1129(a)(9)(C) of the Bankruptcy Code, unless otherwise agreed by the Holder of a Priority Tax Claim and the Debtors (with the consent of the Requisite Consenting Noteholders, such consent not to be unreasonably withheld, conditioned or delayed), each Holder of an Allowed Priority Tax Claim will receive, at the option of the Debtors, in full satisfaction of its Allowed Priority Tax Claim that is due and payable on or before the Effective Date, on account of and in full and complete settlement, release and discharge of such Claim, (i) Cash in an amount equal to the amount of such Allowed Priority Tax Claim or (ii) Cash in an aggregate amount of such Allowed Priority Tax Claim payable in installment payments over a period of time not to exceed five years after the Petition Date, pursuant to section 1129(a)(9)(C) of the Bankruptcy Code; provided, however, that all Allowed Priority Tax Claims that are not due and payable on or before the Effective Date will be paid in the ordinary course of business by the Reorganized Debtors as they become due; provided, further, that, in the event an Allowed Priority Tax Claim is also a Secured Tax Claim, such Claim shall, to the extent it is Allowed, be treated as an Other Secured Claim if such Claim is not otherwise paid in full.

b. **Other Provisions Concerning Treatment of Priority Tax Claims**

Notwithstanding Section II.A.2.a of the Plan, any Claim on account of any penalty arising with respect to or in connection with an Allowed Priority Tax Claim that does not compensate the Holder for actual pecuniary loss will be treated as a General Unsecured Claim, and the Holder (other than as the Holder of a General Unsecured Claim) may not assess or attempt to collect such penalty from the Reorganized Debtors or their respective property.

B. Classified Claims and Interests

1. General

Pursuant to sections 1122 and 1123 of the Bankruptcy Code, Claims and Interests are classified for voting and distribution pursuant to the Plan, as set forth in the Plan. A Claim or Interest will be deemed classified in a particular Class only to the extent that the Claim or Interest qualifies within the description of that Class and will be deemed classified in a different Class to the extent that any remainder of such Claim or Interest qualifies within the description of such other Class. Holders of Allowed Claims may assert such Claims against each Debtor obligated with respect to such Claim, and such Claims will be entitled to share in the recovery provided for the applicable Class of Claims against each obligated Debtor based upon the full Allowed amount of the Claim. Notwithstanding the foregoing, and except as otherwise specifically provided for in the Plan, the Confirmation Order or other order of the Bankruptcy Court, or required by applicable bankruptcy law, in no event will the aggregate value of all property received or retained under the Plan on account of an Allowed Claim exceed 100% of the underlying Allowed Claim.

Section 1129(a)(10) of the Bankruptcy Code will be satisfied for the purposes of Confirmation by acceptance of the Plan by an Impaired Class of Claims; provided, however, that in the event no Holder of a Claim with respect to a specific Class for a particular Debtor timely submits a Ballot in compliance with the Disclosure Statement Order indicating acceptance or rejection of the Plan, such Class will be deemed to have accepted the Plan. The Debtors may seek Confirmation of the Plan pursuant to section 1129(b) of the Bankruptcy Code with respect to any rejecting Class of Claims or Interests.

To the extent a Holder has Claims arising from the same transaction or occurrence that may be asserted against more than one Debtor, the vote of such Holder in connection with such Claims will be counted as a vote of each such Claim against each applicable Debtor against which such Holder has a Claim. The Plan assigns a letter to each Debtor and a number to each of the Classes of Claims against or Interests in the Debtors. For consistency, similarly designated Classes of Claims and Interests are assigned the same number across each of the Debtors. Any non-sequential enumeration of the Classes is intentional to maintain consistency.

Claims against and Interests in each of the Debtors are classified in up to 9 separate Classes as follows:

Letter	Debtor
A	American Apparel, Inc.
B	American Apparel (USA), LLC
C	American Apparel Retail, Inc.
D	American Apparel Dyeing & Finishing, Inc.
E	KCL Knitting, LLC
F	Fresh Air Freight, Inc.

Class	Designation
1	Priority Claims
2	Other Secured Claims
3	Prepetition Note Secured Claims
4	General Unsecured Claims
5	UK Guaranty Claims
6	Section 510 Claims
7	Intercompany Claims
8	APP Interests
9	Subsidiary Debtor Equity Interests

2. Identification of Classes of Claims Against and Interests in the Debtors

The following table designates the Classes of Claims against and Interests in the Debtors and specifies which Classes are (a) Impaired or Unimpaired by the Plan, (b) entitled to vote to accept or reject the Plan in accordance with section 1126 of the Bankruptcy Code or (c) deemed to accept or reject the Plan.

Class	Designation	Impairment	Entitled to Vote
1A-1F	Priority Claims	Unimpaired	Deemed to Accept
2A-2F	Other Secured Claims	Unimpaired	Deemed to Accept
3A-3F	Prepetition Note Secured Claims	Impaired	Entitled to Vote
4A-4F	General Unsecured Claims	Impaired	Entitled to Vote
5A	UK Guaranty Claims	Unimpaired	Deemed to Accept
6A-6F	Section 510 Claims	Impaired	Deemed to Reject
7A-7F	Intercompany Claims	Unimpaired	Deemed to Accept
8A	APP Interests	Impaired	Deemed to Reject
9B-9F	Subsidiary Debtor Equity Interests	Unimpaired	Deemed to Accept

3. Treatment of Claims

a. Priority Claims (Classes 1A through 1F)

Priority Claims are Claims that are entitled to priority in payment pursuant to section 507(a) of the Bankruptcy Code and that are not Administrative Claims, DIP Claims or Priority Tax Claims. On the later of (i) the Effective Date and (ii) the date on which such Priority Claim becomes an Allowed Priority Claim, unless otherwise agreed to by the Debtors and the Holder of an Allowed Priority Claim (in which event such other agreement will govern), each Holder of an Allowed Priority Claim against a Debtor will receive on account and in full and complete settlement, release and discharge of such Claim, Cash in the amount of such Allowed Priority Claim in accordance with section 1129(a)(9) of the Bankruptcy Code. All Allowed Priority Claims against the Debtors that are not due and payable on or before the Effective Date will be paid by the Reorganized Debtors when such Claims become due and payable in the ordinary course of business in accordance with the terms thereof.

Claims in Classes 1A through 1F are Unimpaired. Each Holder of an Allowed Claim in Classes 1A through 1F is conclusively presumed to have accepted the Plan pursuant to Section 1126(f) of the Bankruptcy Code and is, therefore, not entitled to vote.

b. Other Secured Claims (Classes 2A through 2F)

Other Secured Claims are Claims, including Secured Tax Claims but excluding Prepetition ABL Claims and Prepetition Note Secured Claims, that are secured by a lien on property in which an Estate has an interest or that are subject to a valid right of setoff under section 553 of the Bankruptcy Code, to the extent of the value of the Claim Holder's interest in such Estate's interest in such property or to the extent of the amount subject to such valid right of setoff, as applicable, as determined pursuant to section 506 of the Bankruptcy Code. Unless otherwise

agreed by the Holder of an Other Secured Claim and the applicable Debtor and the Creditors' Committee, on the Effective Date or as soon as reasonably practicable thereafter, each Holder of an Other Secured Claim will receive the following treatment at the option of the Debtors: (i) such Allowed Other Secured Claim will be Reinstated; (ii) payment in full (in Cash) of any such Allowed Other Secured Claim; (iii) satisfaction of any such Allowed Other Secured Claim by delivering the collateral securing any such Allowed Other Secured Claim and paying any interest required to be paid under section 506(b) of the Bankruptcy Code; or (iv) such other recovery necessary to satisfy section 1129 of the Bankruptcy Code.

Claims in Classes 2A through 2F are Unimpaired. Each Holder of an Allowed Claim in Classes 2A through 2F is conclusively presumed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code and is, therefore, not entitled to vote.

c. Prepetition Note Secured Claims (Classes 3A through 3F)

Prepetition Note Secured Claims are Secured Claims against any of the Debtors under or evidenced by the Prepetition Indenture or the Prepetition Notes, including any guaranty obligations of the Prepetition Note Guarantors with respect to any of the foregoing. Unless otherwise agreed by the Holder of a Prepetition Note Secured Claim and the Debtors, on the Effective Date or as soon as reasonably practicable thereafter each Holder of an Allowed Prepetition Note Secured Claim, subject to the terms of this Plan, in full and final satisfaction, settlement, release and discharge of, and in exchange for, such Claim, will receive its Pro Rata share of 100% of Reorganized American Apparel Equity Interests, subject to dilution by the Management Incentive Shares and the New Equity Investment Interests; provided, however, that the Debtors, upon the request of the Requisite Supporting Parties, will provide an alternative distribution to any Holder of a Prepetition Note Secured Claim that is not a Supporting Party in Cash in an amount equal to such Holder's Prepetition Note Secured Claim, to be paid on or promptly after the Effective Date.

Claims in Classes 3A through 3F are Impaired. Each Holder of an Allowed Claim in Classes 3A through 3F is entitled to vote.

d. General Unsecured Claims (Classes 4A through 4F)

General Unsecured Claims are all Claims that are not an Administrative Claim, Priority Claim, Prepetition Note Secured Claim, Priority Tax Claim, Other Secured Claim, UK Guaranty Claim, Section 510 Claim or Intercompany Claim, but includes any Claim that is a Prepetition Note Deficiency Claim.

Unless otherwise agreed by the Holder of a General Unsecured Claim and the Debtors, on the Effective Date or as soon as reasonably practicable thereafter, each Holder of an Allowed General Unsecured Claim in Classes 4A through 4F will receive, subject to the terms of this Plan, in full satisfaction, settlement, release and discharge of, and in exchange for, such Claim, a distribution equal to its Pro Rata share of the share of (i) units in the Litigation Trust and (ii) solely if the Class in which such Claim is classified accepts the Plan, the applicable GUC Support Payment, which will be paid in semi-annual installments for 1 year from and after the Effective Date.

Claims in Classes 4A through 4F are Impaired. Each Holder of an Allowed Claim in Classes 4A through 4F is entitled to vote.

e. UK Guaranty Claims (Class 5A)

UK Guaranty Claims are all claims arriving under or evidenced by the guaranty of the UK Loan by American Apparel. On the Effective Date or as soon as reasonably practicable thereafter, all UK Guaranty Claims will be Reinstated, subject to Section 6 of the Restructuring Support Agreement. Claims in Class 5A are Unimpaired. Each Holder of an Allowed Claim in Class 5A is conclusively presumed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code and, therefore, is not entitled to vote

f. Section 510 Claims (Classes 6A through 6F)

Section 510 Claims are all Claims against a Debtor arising from rescission of a purchase or sale of a security of the Debtors or an Affiliate, for damages arising from the purchase or sale of such a security, or for

reimbursement or contribution allowed under section 502 of the Bankruptcy Code on account of such a Claim and any other claim subject to subordination under section 510 of the Bankruptcy Code. No property will be distributed to or retained by the Holders of Section 510 Claims, and such Claims will be extinguished on the Effective Date. Holders of Section 510 Claims will not receive any distribution pursuant to the Plan.

Claims in Classes 6A through 6F are Impaired. Each Holder of an Allowed Claim in Classes 6A through 6F is conclusively presumed to have rejected the Plan pursuant to section 1126(g) of the Bankruptcy Code and, therefore, is not entitled to vote.

g. Intercompany Claims (Classes 7A through 7F)

Intercompany Claims are all Claims held by American Apparel or any of its direct or indirect subsidiaries against a Debtor that arose prior to the Petition Date. On the Effective Date or as soon as reasonably practicable thereafter, all Intercompany Claims may be compromised by distribution, contribution or otherwise, or Reinstated, at the discretion of the Debtors or the Reorganized Debtors, as the case may be, on or after the Effective Date. Claims in Classes 7A through 7F are Unimpaired. Each Holder of an Allowed Claim in Classes 7A through 7F is conclusively presumed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code and, therefore, is not entitled to vote.

h. APP Interests (Class 8A)

APP Interests are all Interests in American Apparel, which include the rights of the Holders of the common stock, membership interests, partnership interests or other equity interests issued by a Debtor and outstanding immediately prior to the Petition Date, and any options, warrants or other rights with respect thereto, or any other instruments evidencing an ownership interest in a Debtor and the rights of any Entity to purchase or demand the issuance of any of the foregoing, including: (i) redemption, conversion, exchange, voting, participation and dividend rights (including any rights in respect of accrued and unpaid dividends); (ii) liquidation preferences; and (iii) stock options and warrants. On the Effective Date or as soon as reasonably practicable thereafter, all APP Interests will be cancelled and extinguished. Holders of APP Interests will not receive any distribution pursuant to the Plan.

Interests in Class 8A are Impaired. Each Holder of an Allowed Interest in Class 8A is conclusively presumed to have rejected the Plan pursuant to section 1126(g) of the Bankruptcy Code and, therefore, is not entitled to vote.

i. Subsidiary Debtor Equity Interests (Classes 9B through 9F)

Subsidiary Debtor Equity Interests are, as to a particular Subsidiary Debtor, any Interests in such Debtor. Interest means the rights of the Holders of the common stock, membership interests or partnership interests issued by a Debtor and outstanding immediately prior to the Petition Date, and any options, warrants or other rights with respect thereto, or any other instruments evidencing an ownership interest in a Debtor and the rights of any Entity to purchase or demand the issuance of any of the foregoing, including: (a) redemption, conversion, exchange, voting, participation and dividend rights (including any rights in respect of accrued and unpaid dividends); (b) liquidation preferences; and (c) stock options and warrants. On the Effective Date, all Subsidiary Debtor Equity Interests will not receive any distribution pursuant to the Plan and will be Reinstated, subject to Section III.C.1 of the Plan.

Interests in Classes 9B through 9F are Unimpaired. Each Holder of an Allowed Interest in Classes 9B through 9F is conclusively presumed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code and, therefore, is not entitled to vote.

C. Reservation of Rights Regarding Claims

Except as otherwise provided in the Plan, nothing will affect the Debtors' or the Reorganized Debtors' rights and defenses, whether legal or equitable, with respect to any Claims, including, without limitation, all rights with respect to legal and equitable defenses to alleged rights of setoffs or recoupment.

D. Postpetition Interest on Claims

Except as required by applicable bankruptcy law, postpetition interest will not accrue or be payable on account of any General Unsecured Claim.

E. Insurance

Notwithstanding anything to the contrary in the Plan, if any Allowed Claim is covered by an insurance policy, such Claim will first be paid from proceeds of such insurance policy, with the balance, if any, treated in accordance with the provisions of the Plan governing the Class applicable to such Claim.

F. Treatment of Executory Contracts and Unexpired Leases

1. Assumption and Rejection of Executory Contracts and Unexpired Leases

On the Effective Date, except as otherwise provided the Plan, each of the Debtors' Executory Contracts and Unexpired Leases not previously assumed or rejected pursuant to an order of the Bankruptcy Court will be deemed rejected as of the Effective Date in accordance with the provisions and requirements of sections 365 and 1123 of the Bankruptcy Code except any Executory Contract or Unexpired Lease (1) identified on Exhibit C to the Plan (which will be Filed as part of the Plan Supplement) as an Executory Contract or Unexpired Lease designated for assumption, (2) which is the subject of a separate motion or notice to assume or reject Filed by the Debtors and pending as of the Confirmation Hearing, (3) that previously expired or terminated pursuant to its own terms or (4) that was previously assumed by any of the Debtors.

Entry of the Confirmation Order by the Bankruptcy Court will constitute an order approving the assumptions or rejections of such Executory Contracts and Unexpired Leases as set forth in the Plan, all pursuant to sections 365(a) and 1123 of the Bankruptcy Code. Each Executory Contract and Unexpired Lease assumed pursuant to the Plan or by Bankruptcy Court order, and not assigned to a third party on or prior to the Effective Date, will revest in and be fully enforceable by the applicable contracting Reorganized Debtor in accordance with its terms, except as such terms may have been modified by order of the Bankruptcy Court. To the maximum extent permitted by law, to the extent any provision in any Executory Contract or Unexpired Lease assumed pursuant to the Plan restricts or prevents, or purports to restrict or prevent, or is breached or deemed breached by, the assumption of such Executory Contract or Unexpired Lease (including, without limitation, any "change of control" provision), then such provision will be deemed modified such that the transactions contemplated by the Plan will not entitle the counterparty thereto to terminate such Executory Contract or Unexpired Lease or to exercise any other default-related rights with respect thereto. Notwithstanding anything to the contrary in the Plan, the Debtors or Reorganized Debtors, as applicable, reserve the right to alter, amend, modify, or supplement Exhibit C to the Plan in their discretion prior to the Effective Date on no less than three (3) days' notice to any counterparty to an Executory Contract or Unexpired Lease affected thereby.

2. Cure of Defaults for Assumed Executory Contracts and Unexpired Leases

Any monetary defaults under each Executory Contract and Unexpired Lease to be assumed pursuant to the Plan will be satisfied, pursuant to section 365(b)(1) of the Bankruptcy Code, by payment of the default amount in Cash on the Effective Date, subject to the limitation described below, or on such other terms as the parties to such Executory Contracts or Unexpired Leases may otherwise agree. In the event of a dispute regarding (a) the amount of any payments to cure such a default, (b) the ability of the Reorganized Debtors or any assignee to provide "adequate assurance of future performance" (within the meaning of section 365 of the Bankruptcy Code) under the Executory Contract or Unexpired Lease to be assumed or (c) any other matter pertaining to assumption, the cure payments required by section 365(b)(1) of the Bankruptcy Code will be made following the entry of a Final Order or orders resolving the dispute and approving the assumption. Exhibit C of the Plan (including any amendments thereto) shall provide notice of the proposed assumption of Executory Contracts and Unexpired Leases and proposed cure amounts with respect thereto and shall be served on the applicable counterparties to such Executory Contract and Unexpired Leases. Such counterparties shall have until 14 days following the date on which Exhibit C or any amendment thereto, as applicable, first identifies the Executory Contract or Unexpired Lease to which such counterparty is a party to File a written objection to such proposed assumption or cure amount, which shall be

served on counsel to the Debtors or Reorganized Debtors, as applicable, the Creditors' Committee and the Committee of Lead Lenders. If the Debtors or Reorganized Debtors, as applicable, and such objecting counterparty cannot resolve such objection within 21 days of the Filing date of such objection, the Debtors or Reorganized Debtors, as applicable, shall File a notice of hearing with the Bankruptcy Court and such dispute shall be heard and determined by the Bankruptcy Court. Any counterparty to an Executory Contract or Unexpired Lease that fails to object timely to the proposed assumption or cure amount will be deemed to have assented to such assumption or cure amount.

Assumption of any Executory Contract or Unexpired Lease pursuant to the Plan or otherwise will result in the full release and satisfaction of any Claims or defaults, whether monetary or nonmonetary, including defaults of provisions restricting the change in control or ownership interest composition or other bankruptcy-related defaults, arising under any assumed Executory Contract or Unexpired Lease at any time prior to the effective date of assumption. Any Proofs of Claim filed with respect to an Executory Contract or Unexpired Lease that has been assumed will be deemed disallowed and expunged without further notice to or action, order or approval of the Bankruptcy Court.

3. Claims Based on Rejection of Executory Contracts and Unexpired Leases

Unless otherwise provided by a Bankruptcy Court order, any Proofs of Claim asserting Claims arising from the rejection of the Debtors' Executory Contracts and Unexpired Leases pursuant to the Plan or otherwise must be filed with the Notice and Claims Agent within 30 days after the date of entry of an order of the Bankruptcy Court (including the Confirmation Order) approving such rejection. Any Proofs of Claim arising from the rejection of the Debtors' Executory Contracts and Unexpired Leases that are not timely filed will be disallowed automatically, forever barred from assertion, and will not be enforceable against any Reorganized Debtor without the need for any objection by the Reorganized Debtors or further notice to or action, order, or approval of the Bankruptcy Court. All Allowed Claims arising from the rejection of the Debtors' Executory Contracts and Unexpired Leases will constitute General Unsecured Claims and will be treated in accordance with Section II.C.4 of the Plan.

The Debtors reserve the right to object to, settle, compromise or otherwise resolve any Claim Filed on account of a rejected Executory Contract or Unexpired Lease.

4. Contracts and Leases Entered Into After the Petition Date

Contracts and leases entered into after the Petition Date by any Debtor, including any Executory Contracts and Unexpired Leases assumed by such Debtor, will be performed by the Debtor or Reorganized Debtor liable thereunder in the ordinary course of its business. Accordingly, such contracts and leases (including any assumed Executory Contracts and Unexpired Leases) will survive and remain unaffected by entry of the Confirmation Order.

5. Reservation of Rights

Neither the exclusion nor inclusion of any contract or lease in the Plan Supplement, nor anything contained in the Plan, nor the Debtors' delivery of a notice of proposed assumption and proposed cure amount to applicable contract and lease counterparties will constitute an admission by the Debtors that any such contract or lease is in fact an Executory Contract or Unexpired Lease or that any Reorganized Debtor has any liability thereunder. If there is a dispute regarding whether a contract or lease is or was executory or unexpired at the time of assumption or rejection, the Debtors or Reorganized Debtors, as applicable, will have 30 days following entry of a Final Order resolving such dispute to alter their treatment of such contract or lease.

6. Pre-Existing Obligations to the Debtors Under Executory Contracts and Unexpired Leases

Rejection of any Executory Contract or Unexpired Lease pursuant to the Plan or otherwise will not constitute a termination of pre-existing obligations owed to the Debtors or Reorganized Debtors under such Executory Contracts or Unexpired Leases. Notwithstanding any applicable non-bankruptcy law to the contrary, the Debtors and Reorganized Debtors expressly reserve and do not waive any right to receive, or any continuing obligation of a counterparty to provide, warranties, indemnifications or continued maintenance obligations on goods

previously purchased by the contracting Debtors or Reorganized Debtors from counterparties to rejected Executory Contracts or Unexpired Leases.

7. Certain Compensation and Benefit Programs

Notwithstanding anything to the contrary in the Plan, all contracts, agreements, policies, programs and plans in existence on the Petition Date that provided for the issuance of APP Interests or other Interests in any of the Debtors to current or former employees or directors of the Debtors are, to the extent not previously terminated or rejected by the Debtors, rejected or otherwise terminated as of the Effective Date without any further action of the Debtors or Reorganized Debtors or any order of the Court, with rejection damages of $0.00, and any unvested APP Interests or other Interests granted under any such agreements, policies, programs and plans in addition to any APP Interests or other Interests granted under such agreements previously terminated or rejected by the Debtors to the extent not previously cancelled will be cancelled pursuant to Section III.L of the Plan. Objections to the treatment of these plans or the Claims for rejection or termination damages arising from the rejection or termination of any such plans, if any, must be submitted and resolved in accordance with the procedures and subject to the conditions for objections to Confirmation. If any such objection is not timely Filed and served before the deadline set for objections to the Plan, each participant in or counterparty to any agreement described in Section IV.G of the Plan will be forever barred from (a) objecting to the rejection or termination provided thereunder, and will be precluded from being heard at the Confirmation Hearing with respect to such objection; (b) asserting against any Reorganized Debtor, or its property, any default existing as of the Effective Date or any counterclaim, defense, setoff or any other interest asserted or assertable against the Debtors; and (c) imposing or charging against any Reorganized Debtor any accelerations, assignment fees, increases or any other fees as a result of any rejection pursuant to Section IV.G of the Plan.

8. Obligations to Insure and Indemnify Directors, Officers and Employees

Any and all directors and officers liability and fiduciary insurance or tail policies in existence as of the Effective Date will be reinstated and continued in accordance with their terms and, to the extent applicable, will be deemed assumed or assumed and assigned by the applicable Debtor or Reorganized Debtor, pursuant to section 365 of the Bankruptcy Code and Section IV.A of the Plan. Each insurance carrier under such policies will continue to honor and administer the policies with respect to the Reorganized Debtors in the same manner and according to the same terms and practices applicable to the Debtors prior to the Effective Date.

Reorganized American Apparel will enter into the Indemnification Agreements with officers, directors and certain employees of the Reorganized Debtors or Debtors (as applicable) serving in such capacity on or after the Petition Date. The form of the Indemnification Agreements will be Filed as part of the Plan Supplement.

The Reorganized Debtors will be obligated to indemnify any person, other than the Excluded Parties or any party who is not a Released Party, who is serving or has served (a) as one of the Debtors' directors, officers or employees at any time from and after the Petition Date for any losses, claims, costs, damages or Liabilities resulting from such person's service in such a capacity at any time from and after the Petition Date or (b) as a director, officer or employee of a Non-Debtor Affiliate at any time from and after the Petition Date (provided that nothing in the Plan will limit any obligations of such Non-Debtor Affiliate), to the extent provided in the applicable certificates of incorporation, by-laws or similar constituent documents, by statutory law or by written agreement, policies or procedures of or with such Debtor, which will be deemed and treated as Executory Contracts that are assumed by the applicable Debtor or Reorganized Debtor pursuant to the Plan and section 365 of the Bankruptcy Code as of the Effective Date. Accordingly, such indemnification obligations will survive and be unaffected by entry of the Confirmation Order. For the avoidance of doubt, no indemnification obligations to any Excluded Party or a party that is not a Released Party will be assumed, reinstated or provided for pursuant to the Plan.

G. Conditions Precedent to Confirmation of the Plan

The Bankruptcy Court will not be requested to enter the Confirmation Order unless and until the following conditions have been satisfied or duly waived pursuant to Section VII.C of the Plan:

- The Bankruptcy Court will have entered the Disclosure Statement Order.

- The Plan and Confirmation Order will be in form and substance acceptable to the Debtors and Requisite Supporting Parties.

H. Conditions Precedent to the Occurrence of the Effective Date

The Effective Date will not occur, and the Plan will not be consummated unless and until the following conditions have been satisfied or duly waived pursuant to Section VII.C of the Plan.

- All documents and agreements necessary to consummate the Plan shall have been effected or executed.
- The Confirmation Order shall be in full force and effect, and no stay thereof shall be in effect.
- All other documents and agreements necessary to implement the Plan on the Effective Date, including without limitation the documents and agreements evidencing the New Exit Facility Term Loan, will have been executed and delivered and all other actions required to be taken in connection with the Effective Date will have occurred.
- The Debtors have received from the Commitment Parties all funds comprising the New Equity Investment or such funds have been funded into the escrow account in accordance with the Equity Commitment Agreement.
- All conditions precedent to the effectiveness of the New Exit Facility Term Loan shall have been satisfied or waived in accordance therewith (except any condition precedent requiring that all conditions to the Effective Date shall have been satisfied or waived).
- The New Securities and Documents shall be in form and substance acceptable to the Debtors and the Requisite Supporting Parties.
- All statutory fees and obligations then due and payable to the Office of the United States Trustee will have been paid and satisfied in full.

I. Waiver of Conditions to Confirmation or the Effective Date

The conditions to Confirmation and the conditions to the Effective Date (other than such conditions set forth in Section VII.B.2 and Section VII.B.4 of the Plan) may be waived in whole or part at any time by the Debtors, with the consent of the Requisite Supporting Parties.

J. Effect of Nonoccurrence of Conditions to the Effective Date

The Debtors reserve the right to seek to vacate the Plan at any time prior to the Effective Date. If the Confirmation Order is vacated pursuant to Section VII.D of the Plan: (1) the Plan will be null and void in all respects, including with respect to (a) the discharge of Claims pursuant to section 1141 of the Bankruptcy Code, (b) the assumption, assumption and assignment or rejection of Executory Contracts and Unexpired Leases, as applicable, and (c) the releases described in Section IX.E of the Plan; and (2) nothing contained in the Plan will (a) constitute a waiver or release of any claims by or against, or any Interest in, any Debtor or (b) prejudice in any manner the rights of the Debtors or any other party in interest.

K. Retention of Jurisdiction by the Bankruptcy Court

Notwithstanding the entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court will retain such jurisdiction over the Chapter 11 Cases after the Effective Date as is legally permissible, including jurisdiction to:

- Allow, disallow, estimate, determine, liquidate, reduce, classify, re-classify, estimate or establish the priority or secured or unsecured status of any Claim or Interest, including the resolution of any

request for payment of any Administrative Claim and the resolution of any objections to the amount, allowance, priority or classification of Claims or Interests;

- Grant or deny any applications for allowance of compensation or reimbursement of expenses authorized pursuant to the Bankruptcy Code or the Plan for periods ending on or before the Effective Date;

- Resolve any matters related to the assumption, assumption and assignment or rejection of any Executory Contract or Unexpired Lease to which any Debtor is a party or with respect to which any Debtor or Reorganized Debtor may be liable and to hear, determine and, if necessary, liquidate any Claims arising therefrom;

- Ensure that distributions to Holders of Claims are accomplished pursuant to the provisions of the Plan;

- Decide or resolve any motions, adversary proceedings, contested or litigated matters and any other matters and grant or deny any applications Filed in the Bankruptcy Court involving any Debtor or any Reorganized Debtor that may be pending on the Effective Date or brought thereafter;

- Enter such orders as may be necessary or appropriate to implement or consummate the provisions of the Plan and all contracts, instruments, releases and other agreements or documents entered into or delivered in connection with the Plan, the Disclosure Statement or the Confirmation Order;

- Resolve any cases, controversies, suits or disputes that may arise in connection with the consummation, interpretation or enforcement of the Plan or any contract, instrument, release or other agreement or document that is entered into or delivered pursuant to the Plan or any Entity's rights arising from or obligations incurred in connection with the Plan or such documents;

- Modify the Plan before or after the Effective Date pursuant to section 1127 of the Bankruptcy Code; modify the Confirmation Order or any contract, instrument, release or other agreement or document entered into or delivered in connection with the Plan, the Disclosure Statement or the Confirmation Order; or remedy any defect or omission or reconcile any inconsistency in any Bankruptcy Court order, the Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release or other agreement or document entered into, delivered or created in connection with the Plan, the Disclosure Statement or the Confirmation Order, in such manner as may be necessary or appropriate to consummate the Plan;

- Hear and determine any matter, case, controversy, suit, dispute, or Causes of Action regarding the existence, nature and scope of the releases, injunctions, and exculpation provided under the Plan, and issue injunctions, enforce the injunctions contained in the Plan and the Confirmation Order, enter and implement other orders or take such other actions as may be necessary or appropriate to implement, enforce or restrain interference by any Entity with respect to the consummation, implementation or enforcement of the Plan or the Confirmation Order, including the releases, injunctions, and exculpation provided under the Plan;

- Enter and implement such orders as are necessary or appropriate if the Confirmation Order is for any reason or in any respect modified, stayed, reversed, revoked or vacated or distributions pursuant to the Plan are enjoined or stayed;

- Determine any other matters that may arise in connection with or relate to the Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release or other agreement or document entered into or delivered in connection with the Plan, the Disclosure Statement or the Confirmation Order;

- Enforce, clarify or modify any orders previously entered by the Bankruptcy Court in the Chapter 11 Cases;

- Enter a final decree closing the Chapter 11 Cases;
- Determine matters concerning state, local and federal Taxes in accordance with sections 346, 505 and 1146 of the Bankruptcy Code, including any Disputed Claims for Taxes;
- Recover all assets of the Debtors and their Estates, wherever located; and
- Hear any other matter over which with the Bankruptcy Court has jurisdiction.

If the Bankruptcy Court abstains from exercising, or declines to exercise, jurisdiction or is otherwise without jurisdiction over any matter, including the matters set forth in Section X of the Plan, the provisions of Section X of the Plan will have no effect upon and will not control, prohibit or limit the exercise of jurisdiction by any other court having jurisdiction with respect to such matter.

VI. VOTING REQUIREMENTS

The Disclosure Statement Order entered by the Bankruptcy Court approved certain procedures for the Debtors' solicitation of votes to approve the Plan, including setting the deadline for voting, which Holders of Claims or Interests are eligible to receive Ballots to vote on the Plan, and certain other voting procedures.

THE DISCLOSURE STATEMENT ORDER IS HEREBY INCORPORATED BY REFERENCE AS THOUGH FULLY SET FORTH HEREIN. YOU SHOULD READ THE DISCLOSURE STATEMENT ORDER, THE CONFIRMATION HEARING NOTICE, AND THE INSTRUCTIONS ATTACHED TO YOUR BALLOT IN CONNECTION WITH THIS SECTION, AS THEY SET FORTH IN DETAIL, AMONG OTHER THINGS, PROCEDURES GOVERNING VOTING DEADLINES AND OBJECTION DEADLINES.

If you have any questions about the procedure for voting your Claim or the Solicitation Package you received, or if you wish to obtain a paper copy of the Plan, this Disclosure Statement or any exhibits to such documents, please contact GCG, the Voting Agent, (A) by telephone (1) for U.S. and Canadian callers toll-free at (877) 940-7795 and (2) for international callers at (614) 779-0360, or (B) in writing at American Apparel, Inc. et al. Ballot Processing, c/o GCG, P.O. Box 10243, Dublin, Ohio 43017-5743 or by email at AAICaseinfo@gardencitygroup.com.

A. Voting Deadline

This Disclosure Statement and the appropriate Ballot(s) are being distributed to all Holders of Claims that are entitled to vote on the Plan. In order to facilitate vote tabulation, there is a separate Ballot designated for each impaired voting Class; however, all Ballots are substantially similar in form and substance, and the term "Ballot" is used without intended reference to the Ballot of any specific Class of Claims.

IN ACCORDANCE WITH THE DISCLOSURE STATEMENT ORDER, IN ORDER TO BE CONSIDERED FOR PURPOSES OF ACCEPTING OR REJECTING THE PLAN, ALL BALLOTS MUST BE RECEIVED BY THE VOTING AGENT NO LATER THAN **5:00 P.M. (PREVAILING EASTERN TIME) ON JANUARY 7, 2016**, WHICH IS THE VOTING DEADLINE. BALLOTS SUBMITTED BY BENEFICIAL OWNERS OF PREPETITION NOTES TO A MASTER BALLOT AGENT MUST BE RECEIVED BY SUCH MASTER BALLOT AGENT WITH SUFFICIENT TIME TO ENABLE THE MASTER BALLOT AGENT TO DELIVER A MASTER BALLOT TO THE VOTING AGENT BY THE VOTING DEADLINE. ONLY THOSE BALLOTS ACTUALLY RECEIVED BY THE VOTING AGENT BEFORE THE VOTING DEADLINE WILL BE COUNTED AS EITHER ACCEPTING OR REJECTING THE PLAN. EXCEPT WITH RESPECT TO BALLOTS SUBMITTED THROUGH THE VOTING AGENT'S ONLINE BALLOTING PORTAL AND MASTER BALLOTS (WHICH MAY BE SUBMITTED BY ELECTRONIC MAIL), NO BALLOTS MAY BE SUBMITTED BY ELECTRONIC MAIL OR OTHER MEANS OF ELECTRONIC SUBMISSION, AND ANY BALLOTS OTHER THAN MASTER BALLOTS SUBMITTED BY ELECTRONIC MAIL OR OTHER MEANS OF ELECTRONIC SUBMISSION WILL NOT BE ACCEPTED BY THE VOTING AGENT.

FOR DETAILED VOTING INSTRUCTIONS, SEE THE DISCLOSURE STATEMENT ORDER.

B. Holders of Claims or Interests Entitled to Vote

Under section 1124 of the Bankruptcy Code, a class of claims or equity interests is deemed to be "impaired" under a plan unless (1) the plan leaves unaltered the legal, equitable and contractual rights to which such claim or equity interest entitles the holder thereof; or (2) notwithstanding any legal right to an accelerated payment of such claim or equity interest, the plan (a) cures all existing defaults (other than defaults resulting from the occurrence of events of bankruptcy), (b) reinstates the maturity of such claim or equity interest as it existed before the default, (c) compensates the holder of such claim or equity interest for any damages resulting from such holder's reasonable reliance on such legal right to an accelerated payment and (d) does not otherwise alter the legal, equitable or contractual rights to which such claim or equity interest entitles the holder of such claim or equity interest.

In general, a holder of a claim or equity interest may vote to accept or reject a plan if (1) the claim or equity interest is "allowed," which means generally that it is not disputed, contingent or unliquidated, and (2) the claim or equity interest is impaired by a plan. However, if the holder of an impaired claim or equity interest will not receive any distribution under the plan on account of such claim or equity interest, the Bankruptcy Code deems such holder to have rejected the plan and provides that the holder of such claim or equity interest is not entitled to vote on the plan. If the claim or equity interest is not impaired, the Bankruptcy Code conclusively presumes that the holder of such claim or equity interest has accepted the plan and provides that the holder is not entitled to vote on the plan.

Except as otherwise provided in the Disclosure Statement Order, the Holder of a Claim against one or more Debtors that is "impaired" under the Plan is entitled to vote to accept or reject the Plan if (1) the Plan provides a distribution in respect of such Claim; and (2) the Claim has been scheduled by the appropriate Debtor (and is not scheduled as disputed, contingent, or unliquidated), the Holder of such Claim has timely Filed a Proof of Claim or a Proof of Claim was deemed timely Filed by an order of the Bankruptcy Court prior to the Voting Deadline.

As set forth in the Tabulation Rules (as defined in the Disclosure Statement Order) and Disclosure Statement Order, Holders of wholly disputed, wholly contingent or wholly unliquidated Claims will have such Claims temporarily allowed for voting purposes only, and not for purposes of allowance or distribution, at $1.00. Any Holder seeking to challenge the allowance of its Claim for voting purposes in accordance with the Tabulation Rules must file a motion, pursuant to Bankruptcy Rule 3018(a), in accordance with the Disclosure Statement Order. Any Ballot submitted by a creditor that files such a motion will be counted solely in accordance with the Debtors' Tabulation Rules and the other applicable procedures contained in the Disclosure Statement Order unless and until the underlying Claim is temporarily allowed by the Bankruptcy Court for voting purposes in a different amount, after notice and a hearing.

A vote on the Plan may be disregarded if the Bankruptcy Court determines, pursuant to section 1126(e) of the Bankruptcy Code, that it was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code. The Disclosure Statement Order also sets forth assumptions and procedures for determining the amount of Claims that each creditor is entitled to vote in these Chapter 11 Cases and how votes will be counted under various scenarios.

C. Vote Required for Acceptance by a Class

A Class of Claims will have accepted the Plan if it is accepted by at least two-thirds (⅔) in amount and more than one-half (½) in number of the Allowed Claims in such Class that have voted on the Plan in accordance with the Disclosure Statement Order.

VII. CONFIRMATION OF THE PLAN

The Bankruptcy Code requires the Bankruptcy Court, after notice, to conduct a hearing at which it will hear objections (if any) and determine whether to confirm the Plan. At the Confirmation Hearing, the Bankruptcy Court will confirm the Plan only if all of the requirements of section 1129 of the Bankruptcy Code described below are met.

The Confirmation Hearing has been scheduled to begin on January 20, 2016 at 10:00 a.m., prevailing Eastern time before the Honorable Chief Judge Brendan L. Shannon, United States Bankruptcy Judge for the District of Delaware, in Courtroom No. 1, Sixth Floor, at the United States Bankruptcy Court for the District of

Delaware, located at 824 North Market Street, Wilmington, Delaware 19801. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice, except for an announcement of the adjourned date made at the Confirmation Hearing.

A. Deadline to Object to Confirmation

Objections, if any, to the Confirmation of the Plan must: (1) be in writing; (2) state the name and address of the objecting party and the nature of the Claim or Interest of such party; (3) state with particularity the basis and nature of any objection; and (4) be Filed with the Bankruptcy Court, and served on the following parties so that they are received no later than **10:00 a.m., prevailing Eastern time, on January 7, 2016**:

- the Debtors, c/o American Apparel, Inc., 747 Warehouse Street, Los Angeles, California 90021, Attn: Chelsea Grayson, Esq. and Lance Miller, Esq.;
- counsel to the Debtors, Jones Day, 222 East 41st St., New York, New York 10017, Attn: Scott J. Greenberg, Esq. and Michael J. Cohen, Esq. and 555 South Flower Street, 50th Floor, Los Angeles, California 90071, Attn: Richard L. Wynne and Erin N. Brady; and Pachulski Stang Ziehl & Jones LLP, 919 North Market Street, 17th Floor, Wilmington, Delaware 19801, Attn: Laura Davis Jones, Esq. and James O'Neill, Esq.;
- the Office of the United States Trustee for the District of Delaware, 844 King Street, Suite 2207, Wilmington, Delaware 19801, Attn: Jane Leamy, Esq. and Natalie M. Cox, Esq.;
- counsel to the Creditors' Committee, Kilpatrick, Townsend & Stockton LLP, The Grace Building, 1114 Avenue of the Americas, New York, New York 10036, Attn: David M. Posner, Esq. and Gianfranco Finizio, Esq. and 1100 Peachtree Street NE, Suite 2800, Atlanta Georgia 30309, Attn: Todd C. Meyers, Esq.; and Klehr Harrison Harvey Branzburg LLP, 919 Market Street, Suite 1000, Wilmington, Delaware 19801, Attn: Domenic E. Pacitti, Esq. and Richard M. Beck, Esq.;
- counsel to Standard General, L.P. and its affiliates, Debevoise & Plimpton LLP, 919 Third Avenue, New York, New York, 10022, Attn: M. Natasha Labovitz, Esq.; and Young Conaway Stargatt & Taylor, LLP, One Rodney Square, 1000 N. King St., Wilmington, Delaware, 19801, Attn: Joseph M. Barry, Esq.;
- counsel to the Committee of Lead Lenders, Milbank, Tweed, Hadley & McCloy LLP, 28 Liberty Ave., New York, New York 10005, Attn: Gerald Uzzi, Esq. and Bradley Scott Friedman, Esq.; and Fox Rothschild LLP, 919 N. Market street, Suite 300, Wilmington, Delaware 19801, Attn: Jeffrey M. Schlerf, Esq. and L. John Bird, Esq.;
- counsel to U.S. Bank National Association, in its capacity as the trustee under the indenture governing the Prepetition Notes, Shipman & Goodwin LLP, One Constitution Plaza, Hartford, Connecticut 06103, Attn: Ira H. Goldman, Esq.;
- counsel to Wilmington Trust, National Association, as DIP Agent and administrative agent under the Prepetition ABL Facility, Covington & Burling LLP, 620 Eighth Avenue, New York, New York 10018, Attn: Ronald Hewitt, Esq. and R. Alexander Clark, Esq.; and Pepper Hamilton LLP, Hercules Plaza, Suite 5100, 1313 N. Market St., Wilmington, Delaware 19899, Attn: David B. Stratton, Esq. and David M. Fournier, Esq.; and
- such other parties that the Bankruptcy Court may order.

B. Requirements for Confirmation of the Plan

Among the requirements for Confirmation of the Plan are that the Plan (1) is accepted by all impaired Classes of Claims and Interests or, if rejected by an impaired Class, that the Plan "does not discriminate unfairly" and is "fair and equitable" as to such Class; (2) is feasible; and (3) is in the "best interests" of creditors and stockholders that are impaired under the Plan.

1. Requirements of Section 1129(a) of the Bankruptcy Code

A moneyed, business or commercial corporation or trust must satisfy the following requirements pursuant to section 1129(a) of the Bankruptcy Code before the Bankruptcy Court may confirm its reorganization plan:

- The plan complies with the applicable provisions of the Bankruptcy Code.
- The proponent(s) of the plan complies with the applicable provisions of the Bankruptcy Code.
- The plan has been proposed in good faith and not by any means forbidden by law.
- Any payment made or to be made by the proponent, by the debtor, or by a person issuing securities or acquiring property under a plan, for services or for costs and expenses in or in connection with the case, or in connection with the plan and incident to the case, has been approved by, or is subject to the approval of, the Bankruptcy Court as reasonable.
- The proponent(s) of a plan has disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the plan, as a director, officer, or voting trustee of the debtor, an affiliate of the debtor participating in a joint plan with the debtor or a successor to the debtor under the plan, and the appointment to, or continuance in, such office of such individual must be consistent with the interests of creditors and equity security holders and with public policy.
- The proponent(s) of the plan has disclosed the identity of any insider (as defined in section 101 of the Bankruptcy Code) that will be employed or retained by the reorganized debtor, and the nature of any compensation for such insider.
- Any governmental regulatory commission with jurisdiction, after confirmation of the plan, over the rates of the debtor has approved any rate change provided for in the plan, or such rate change is expressly conditioned on such approval.
- With respect to each impaired class of claims or interests—
    - each holder of a claim or interest of such class (a) has accepted the plan; or (b) will receive or retain under the plan on account of such claim or interest property of a value, as of the effective date of the plan, that is not less than the amount that such holder would so receive or retain if the debtor were liquidated under chapter 7 of the Bankruptcy Code on such date; or
    - if section 1111(b)(2) of the Bankruptcy Code applies to the claims of such class, each holder of a claim of such class will receive or retain under the plan on account of such claim, property of a value, as of the effective date of the plan, that is not less than the value of such holder's interest in the estate's interest in the property that secures such claims.
- With respect to each class of claims or interests, such class has (a) accepted the plan; or (b) such class is not impaired under the plan (subject to the "cramdown" provisions discussed below; see "Confirmation of the Plan — Requirements of Section 1129(b) of the Bankruptcy Code").
- Except to the extent that the holder of a particular claim has agreed to a different treatment of such claim, the plan provides that:
    - with respect to a claim of a kind specified in sections 507(a)(2) or 507(a)(3) of the Bankruptcy Code, on the effective date of the plan, the holder of the claim will receive on account of such claim cash equal to the allowed amount of such claim, unless such holder consents to a different treatment;

- with respect to a class of claim of the kind specified in sections 507(a)(1), 507(a)(4), 507(a)(5), 507(a)(6), or 507(a)(7) of the Bankruptcy Code, each holder of a claim of such class will receive (a) if such class has accepted the plan, deferred cash payments of a value, on the effective date of the plan, equal to the allowed amount of such claim; or (b) if such class has not accepted the plan, cash on the effective date of the plan equal to the allowed amount of such claim, unless such holder consents to a different treatment;

- with respect to a claim of a kind specified in section 507(a)(8) of the Bankruptcy Code, unless the holder of such a claim consents to a different treatment, the holder of such claim will receive on account of such claim, regular installment payments in cash, of a total value, as of the effective date of the plan, equal to the allowed amount of such claim over a period ending not later than 5 years after the date of the order for relief under section 301, 302, or 303 of the Bankruptcy Code and in a manner not less favorable than the most favored nonpriority unsecured claim provided for by the plan (other than cash payments made to a class of creditors under section 1122(b) of the Bankruptcy Code); and

- with respect to a secured claim which would otherwise meet the description of an unsecured claim of a governmental unit under section 507(a)(8) of the Bankruptcy Code, but for the secured status of that claim, the holder of that claim will receive on account of that claim, cash payments, in the same manner and over the same period, as prescribed in the immediately preceding bullet points above.

- If a class of claims is impaired under the plan, at least one class of claims that is impaired under the plan has accepted the plan, determined without including any acceptance of the plan by any insider (as defined in section 101 of the Bankruptcy Code).

- Confirmation of the plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the debtor or any successor to the debtor under the plan, unless such liquidation or reorganization is proposed in the plan.

- All fees payable under 28 U.S.C. § 1930, as determined by the Bankruptcy Court at the hearing on confirmation of the plan, have been paid or the plan provides for the payment of all such fees on the effective date of the plan.

- The plan provides for the continuation after its effective date of payment of all retiree benefits, as that term is defined in section 1114 of the Bankruptcy Code, at the level established pursuant to subsection (e)(1)(B) or (g) of section 1114 of the Bankruptcy Code, at any time prior to confirmation of the plan, for the duration of the period the debtor has obligated itself to provide such benefits.

The Debtors believe that the Plan meets all the applicable requirements of section 1129(a) of the Bankruptcy Code other than those pertaining to voting, which has not yet taken place.

2. Best Interests of Creditors

Section 1129(a)(7) of the Bankruptcy Code requires that any holder of an impaired claim or interest voting against a proposed plan of reorganization must be provided in the plan with a value, as of the effective date of the plan, at least equal to the value that the holder would receive if the debtor's assets were liquidated under chapter 7 of the Bankruptcy Code. To determine what the Holders of claims and interests in each impaired class would receive if the Debtors' assets were liquidated, the Bankruptcy Court must determine the dollar amount that would be generated from a liquidation of the Debtors' assets in the context of a hypothetical liquidation. Such a determination must take into account the fact that secured claims, and any administrative claims resulting from the original chapter 11 cases and from the chapter 7 cases, would have to be paid in full from the liquidation proceeds before the balance of those proceeds were made available to pay unsecured creditors and make distributions (if any) to holders of interests.

In support of the Debtors' belief that the Holders of Claims and Interests in each impaired Class will receive more under the Plan than if the Debtors' assets were liquidated, annexed to this Disclosure Statement as Exhibit 2 is a liquidation analysis prepared by the Debtors with the assistance of professionals of the Debtors (the "Liquidation Analysis") that assumes that the Chapter 11 Cases were converted to chapter 7 cases and each Debtor's assets are liquidated under the direction of a chapter 7 trustee. THESE LIQUIDATION VALUATIONS HAVE BEEN PREPARED SOLELY FOR USE IN THIS DISCLOSURE STATEMENT AND DO NOT REPRESENT VALUES THAT ARE APPROPRIATE FOR ANY OTHER PURPOSE. NOTHING CONTAINED IN THE LIQUIDATION ANALYSIS IS INTENDED TO BE OR CONSTITUTES A CONCESSION BY OR ADMISSION OF ANY DEBTOR OR ANY NON-DEBTOR AFFILIATE FOR ANY PURPOSE. The assumptions used in developing the Liquidation Analysis are inherently subject to significant uncertainties and contingencies, many of which would be beyond the control of the Debtors or a chapter 7 trustee. Accordingly, there can be no assurances that the values assumed in the Liquidation Analysis would be realized if the Debtors were actually liquidated. In addition, any liquidation would take place in the future at which time circumstances may exist that cannot presently be predicted. A description of the procedures followed and the assumptions and qualifications made by the Debtors in connection with the Liquidation Analysis are set forth in the notes thereto.

3. Feasibility

The Debtors believe that the Reorganized Debtors will be able to perform their obligations under the Plan and continue to operate their businesses without further financial reorganization or liquidation. In connection with Confirmation of the Plan, the Bankruptcy Court must determine that the Plan is feasible in accordance with section 1129(a)(11) of the Bankruptcy Code (which section requires that the Confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtors).

To support the Debtors' belief that the Plan is feasible, the Debtors have prepared the projections for the Reorganized Debtors, as set forth in Exhibit 3 to this Disclosure Statement and discussed in greater detail in Section X below.

4. Requirements of Section 1129(b) of the Bankruptcy Code

The Bankruptcy Code permits confirmation of a plan even if it is not accepted by all impaired classes, as long as (a) the plan otherwise satisfies the requirements for confirmation, (b) at least one impaired class of claims has accepted the plan without taking into consideration the votes of any insiders in such class and (c) the plan is "fair and equitable" and does not "discriminate unfairly" as to any impaired class that has not accepted the plan. These so-called "cramdown" provisions are set forth in section 1129(b) of the Bankruptcy Code.

"Fair and Equitable"

The Bankruptcy Code establishes different "cramdown" tests for determining whether a plan is "fair and equitable" to dissenting impaired classes of secured creditors, unsecured creditors and equity interest holders as follows:

- Secured Creditors. A plan is fair and equitable to a class of secured claims that rejects the plan if the plan provides: (a) that each holder of a secured claim included in the rejecting class (i) retains the liens securing its claim to the extent of the allowed amount of such claim, whether the property subject to those liens is retained by the debtor or transferred to another entity, and (ii) receives on account of its secured claim deferred cash payments having a present value, as of the effective date of the plan, at least equal to such holder's interest in the estate's interest in such property; (b) that each holder of a secured claim included in the rejecting class realizes the "indubitable equivalent" of its allowed secured claim; or (c) for the sale, subject to section 363(k) of the Bankruptcy Code, of any property that is subject to the liens securing the claims included in the rejecting class, free and clear of such liens with such liens to attach to the proceeds of the sale, and the treatment of such liens on proceeds in accordance with clause (i) or (ii) of this paragraph.

- Unsecured Creditors. A plan is fair and equitable as to a class of unsecured claims that rejects the plan if the plan provides that: (a) each holder of a claim included in the rejecting class receives or retains under the plan property of a value, as of the effective date of the plan, equal to the amount

of its allowed claim; or (b) the holders of claims and interests that are junior to the claims of the rejecting class will not receive or retain any property under the plan on account of such junior claims or interests.

- Holders of Interests. A plan is fair and equitable as to a class of interests that rejects the plan if the plan provides that: (a) each holder of an equity interest included in the rejecting class receives or retains under the plan property of a value, as of the effective date of the plan, equal to the greatest of the allowed amount of (i) any fixed liquidation preference to which such holder is entitled, (ii) any fixed redemption price to which such holder is entitled or (iii) the value of the interest; or (b) the holder of any interest that is junior to the interests of the rejecting class will not receive or retain any property under the plan on account of such junior interest.

The Debtors believe the Plan is fair and equitable as to unsecured creditors and Holders of Interests because no Holders of Claims or Interests junior to such parties are receiving any distributions under the Plan on account of such claims or interests. In light of the substantial support obtained from the Supporting Parties, the Debtors do not believe they will be required to seek non-consensual Confirmation of the Plan as to secured creditors.

"*Unfair Discrimination*"

A plan of reorganization does not "discriminate unfairly" if a dissenting class is treated substantially equally with respect to other classes similarly situated, and no class receives more than it is legally entitled to receive for its claims or interests. The Debtors carefully designed the Plan, including calculating the distributions to Holders of General Unsecured Claims against each of the Debtors, to ensure recoveries on account of Claims in a particular Class against each of the Debtors did not result in unfair discrimination among similarly situated Classes. Among other things, the recoveries to Holders of General Unsecured Claims of the applicable Debtors were calculated to ensure that such Holders received a recovery no less favorable than the recovery to Holders of Prepetition Notes on account of claims directly against such Debtor entity under the applicable Prepetition Notes. The Debtors do not believe that the Plan discriminates unfairly against any impaired Class of Claims or Interests.

The Debtors believe that the Plan and the treatment of all Classes of Claims and Interests under the Plan satisfy the foregoing requirements for "cramdown," or non-consensual Confirmation of the Plan pursuant to section 1129(b) of the Bankruptcy Code.

C. Standards Applicable to Certain Releases

Section IX of the Plan provides for releases for certain claims against non-debtors in consideration of services provided to the Debtors and the contributions made by the Released Parties to the Chapter 11 Cases. The Released Parties are, collectively and individually, the Debtors, the Creditors' Committee and its members, the Indenture Trustee, the Prepetition Agent, the Supporting Parties, the DIP Agent, the DIP Lenders, and the Representatives of each of the foregoing (solely in their capacities as such).

As set forth in the Plan, the releases are given by (i) the Debtors; (ii) the Reorganized Debtors; and (iii) to the greatest extent permitted under applicable law, all Holders of Claims against the Debtors that vote to accept the Plan or do not elect to opt out of such releases. The released claims and exculpated claims are limited to those claims or causes of action that may have arisen in connection with, related to or arising out of the matters specified in the release provisions at Section IX of the Plan and disclosed herein at Section VIII.A.16 and VIII.A.17.

The Debtors believe that the releases set forth in the Plan are appropriate because, among other things, the releases are narrowly tailored, and each of the Released Parties has provided value to the Debtors and aided in the reorganization process, including, with respect to certain Released Parties, by providing the DIP Facility, the New Equity Investment, the New Exit Accordion and by providing their support of the transactions contemplated under the Plan, which are anticipated to facilitate the Debtors' ability to propose and pursue confirmation of the Plan in a highly value-maximizing and efficient manner.

Here, the Debtors believe that each of the non-debtor Released Parties has (a) expended significant time and resources analyzing and negotiating the issues presented by the Debtors' prepetition capital structure and (b) contributed significantly to the Debtors' reorganization process by way of substantial commitments of capital and

other means of support. Finally, each of the non-debtor Released Parties have played and will continue to play a substantial role in formulating and negotiating the Plan and in the transactions contemplated thereunder. Absent the support and participation of the Released Parties, the Debtors could not have filed for chapter 11 protection with a path to reorganization and emergence. Accordingly, the Debtors contend that the circumstances of the Chapter 11 Cases satisfy the requirements for such releases.

VIII. MEANS OF IMPLEMENTATION OF THE PLAN

A. Effects of Confirmation of the Plan

1. Conversion of American Apparel and Issuance of Reorganized American Apparel Equity Interests

On the Effective Date, American Apparel will be converted, merged or otherwise reorganized into a Delaware limited liability company, and membership interests in Reorganized American Apparel will be issued pursuant to the Plan, including the distribution of Reorganized American Apparel Equity Interests to holders of Claims in Classes 3A through 3F pursuant to the Plan. The issuance of additional interests in Reorganized American Apparel by Reorganized American Apparel, including New Equity Investment Interests and Management Incentive Plan Interests, will be authorized without the need for further corporate action and without any further action by the Holders of Claims or Interests.

Each distribution and issuance of the Reorganized American Apparel Equity Interests under the Plan will be governed by the terms and conditions set forth in the Plan applicable to such distribution or issuance and by the terms and conditions of the instruments evidencing or relating to such distribution or issuance (including, without limitation, the New LLC Agreement), which terms and conditions will bind each Entity receiving such distribution or issuance.

On the Effective Date, each of the applicable Reorganized Debtors will be authorized to and will issue or execute and deliver, as applicable, the Reorganized American Apparel Equity Interests and the New Securities and Documents, in each case, without further notice to or order of the Bankruptcy Court, act or action under applicable law, regulation, order, or rule or the vote, consent, authorization or approval of any Entity.

The issuance or execution and delivery of the Reorganized American Apparel Equity Interests and the distribution thereof under this Plan will be exempt from registration under applicable securities laws pursuant to section 1145(a) of the Bankruptcy Code and/or any other applicable exemptions. Without limiting the effect of section 1145 of the Bankruptcy Code, all documents, agreements, and instruments entered into and delivered on or as of the Effective Date contemplated by or in furtherance of this Plan will become and will remain effective and binding in accordance with their respective terms and conditions upon the parties thereto, in each case, without further notice to or order of the Bankruptcy Court, act or action under applicable law, regulation, order, or rule or the vote, consent, authorization or approval of any Entity (other than as expressly required by such applicable agreement).

2. Continued Corporate Existence and Vesting of Assets in the Reorganized Debtors

Except as otherwise provided in the Plan (including with respect to the Restructuring Transactions described in Section III.C.1 of the Plan): (a) as of the Effective Date, Reorganized American Apparel will exist as a separate legal entity, with all powers in accordance with the laws of the state of Delaware and the operating agreement, appended to the Plan as Exhibit A; (b) subject to the Restructuring Transactions, each of the Debtors will, as a Reorganized Debtor, continue to exist after the Effective Date as a separate legal entity, with all of the powers of such a legal entity under applicable law and without prejudice to any right to alter or terminate such existence (whether by merger, conversion, dissolution or otherwise) under applicable law; and (c) on the Effective Date, all property of the Estate of a Debtor, and any property acquired by a Debtor or Reorganized Debtor under the Plan, will vest, subject to the Restructuring Transactions, in the applicable Reorganized Debtors, free and clear of all Claims, liens, charges, other encumbrances, Interests and other interests. On and after the Effective Date, each Reorganized Debtor may operate its business and may use, acquire and dispose of property and compromise or settle any claims without supervision or approval by the Bankruptcy Court and free of any restrictions of the Bankruptcy

Code or Bankruptcy Rules, other than those restrictions expressly imposed by the Plan or the Confirmation Order. Without limiting the foregoing, each Reorganized Debtor may pay the charges that it incurs on or after the Effective Date for appropriate Professionals' fees, disbursements, expenses or related support services (including fees relating to the preparation of Professional fee applications) without application to, or the approval of, the Bankruptcy Court.

3. Restructuring Transactions

a. Restructuring Transactions Generally

On the Effective Date, American Apparel will convert, merge or otherwise reorganize into a limited liability company, which will elect to be treated as a corporation for U.S. federal income tax purposes effective on the earlier of the Effective Date or the date of formation, absent an alternative structure determined by the Requisite Supporting Parties, which alternative structure will require the consent of the Debtors only if such structure results in a transfer of a Debtor's assets to a new entity that is not a successor of the Debtor for tax purposes. Certain other Restructuring Transactions may be undertaken as necessary or appropriate to effect, in accordance with applicable non-bankruptcy law, a corporate restructuring of the Debtors' or the Reorganized Debtors' respective businesses or simplify the overall corporate structure of the Reorganized Debtors, all to the extent not inconsistent with any other terms of the Plan. Without limiting the foregoing, unless otherwise provided by the terms of a Restructuring Transaction, all such Restructuring Transactions will be deemed to occur on the Effective Date and may include one or more mergers, conversions, consolidations, restructurings, dispositions, liquidations or dissolutions, as may be determined by the Debtors or the Reorganized Debtors and the Requisite Supporting Parties to be necessary or appropriate. Subject to the immediately preceding sentence, the actions to effect these transactions may include: (a) the execution and delivery of appropriate agreements or other documents of merger, conversion, consolidation, restructuring, disposition, liquidation or dissolution containing terms that are consistent with the terms of the Plan and that satisfy the requirements of applicable state law and such other terms to which the applicable Entities may agree; (b) the execution and delivery of appropriate instruments of transfer, assignment, assumption or delegation of any asset, property, right, liability, duty or obligation on terms consistent with the terms of the Plan and having such other terms to which the applicable Entities may agree; (c) the filing of appropriate certificates or articles of merger, conversion, consolidation, dissolution or change in corporate form pursuant to applicable state law; and (d) the taking of all other actions that the applicable Entities determine to be necessary or appropriate, including making filings or recordings that may be required by applicable state law in connection with such transactions. Any such transactions may be effected on or subsequent to the Effective Date without any further action by the stockholders or directors of any of the Debtors or the Reorganized Debtors.

b. Obligations of Any Successor Corporation in a Restructuring Transaction

The Restructuring Transactions may result in substantially all of the respective assets, properties, rights, Liabilities, duties and obligations of certain of the Reorganized Debtors vesting in one or more surviving, resulting or acquiring entities. In each case in which the surviving, resulting or acquiring entity in any such transaction is a successor to a Reorganized Debtor, such surviving, resulting or acquiring entity will succeed to the rights and obligations of such Reorganized Debtor under the Plan and will perform the obligations of the applicable Reorganized Debtor pursuant to the Plan to pay or otherwise satisfy the Allowed Claims against such Reorganized Debtor, except as provided in the Plan or in any contract, instrument or other agreement or document effecting a disposition to such surviving, resulting or acquiring entity, which may provide that another Reorganized Debtor will perform such obligations.

4. New Exit Facility Term Loan

On the Effective Date, the Reorganized Debtors will be authorized to consummate the New Exit Facility Term Loan and to execute, deliver and enter into the New Exit Financing Documents, and any related agreements or filings without the need for any further corporate or other organizational action and without further action by or approval of the Bankruptcy Court, and the New Exit Financing Documents and any related agreements or filings will be executed and delivered and the applicable Reorganized Debtors will enter into the New Exit Facility Term Loan and be permitted to incur or issue the indebtedness available thereunder. The New Exit Financing Term Sheet is attached as Exhibit C to the Restructuring Support Agreement and the New Exit Financing Agreement will be included in the Plan Supplement.

5. New Equity Commitment

On the Effective Date, the Reorganized Debtors will be authorized to consummate the transactions contemplated by the Equity Commitment Agreement (including the issuance of Reorganized American Apparel Equity Interests in accordance therewith) and to execute, deliver, make or enter into any related agreements, instruments, documents or filings without the need for any further corporate or other organizational action and without further action by or approval of the Bankruptcy Court, and any such agreements, instruments, documents or filings will be executed, delivered or made, as applicable, and Reorganized American Apparel will be authorized to issue the New Equity Investment Interests and the other Reorganized American Apparel Equity Interests, if any, issuable pursuant to the Equity Commitment Agreement. In addition to providing for the issuance of the New Equity Investment Interests to the Commitment Parties, the Equity Commitment Agreement requires that Holders of Prepetition Note Secured Claims that are Eligible Holders and receive Reorganized American Apparel Equity Interests pursuant to the Plan be granted the opportunity to purchase additional Reorganized American Apparel Equity Interests on the terms and subject to the conditions set forth in the Equity Commitment Agreement. The New Equity Investment Interests will not be registered under the Securities Act and may not be transferred or resold except as permitted under the Securities Act and other applicable securities laws, pursuant to registration or exemption therefrom, as well as contractual restrictions on transfer contained in the New LLC Agreement.

6. Sources of Cash for Plan Distributions

The Debtors or Reorganized Debtors, as applicable, are authorized to execute and deliver any documents necessary or appropriate to obtain Cash for funding the Plan, including, without limitation, pursuant and subject to the New Exit Financing Documents and Equity Commitment Agreement. All consideration necessary for the Reorganized Debtors to make payments or distributions pursuant hereto will be obtained through a combination of one or more of the following: (a) Cash on hand of the Debtors, including Cash from business operations, or distributions from Non-Debtor Affiliates; (b) proceeds of the New Exit Facility Term Loan and the New Equity Investment; (c) the proceeds of any tax refunds and other causes of action; and (d) any other means of financing or funding that the Debtors or the Reorganized Debtors determine is necessary or appropriate, subject to the terms of the New Exit Financing Documents. Further, the Debtors and the Reorganized Debtors will be entitled to transfer funds between and among themselves as they determine to be necessary or appropriate to enable the Reorganized Debtors to satisfy their obligations under the Plan. Except as set forth in the Plan, any changes in intercompany account balances resulting from such transfers will be accounted for and settled in accordance with the Debtors' historical intercompany account settlement practices and will not violate the terms of the Plan or any orders entered by the Bankruptcy Court with respect to the Debtors' cash management system.

7. Corporate Governance, Directors and Officers, Employment-Related Agreements and Compensation Programs; Other Agreements

a. The New LLC Agreement of Reorganized American Apparel and Other Corporate Governance Documents

As of the Effective Date, the New LLC Agreement and the Registration Rights Agreement will have been Filed as part of the Plan Supplement and will be in form and substance consistent in all material respects with the Governance Term Sheet. The New LLC Agreement and the certificate of incorporation and bylaws (or comparable constituent documents) of each Reorganized Debtor, among other things, will prohibit the issuance of nonvoting equity securities to the extent required by section 1123(a)(6) of the Bankruptcy Code. After the Effective Date, each Reorganized Debtor may amend and restate its certificate of formation, operating agreement, certificate of incorporation, bylaws or comparable constituent documents, as applicable, as permitted by applicable non-bankruptcy law, subject to the terms and conditions of such constituent documents. On the Effective Date, or as soon thereafter as is practicable, each Reorganized Debtor will file any such certificate of formation or certificate of incorporation (or comparable constituent documents) with the secretary of state or jurisdiction or similar office of the state or jurisdiction in which such Reorganized Debtor is incorporated or organized, to the extent required by and in accordance with the applicable corporate law of such state. On or as soon as practicable after the Effective Date, Reorganized American Apparel and the Registration Rights Parties will enter into the Registration Rights Agreement. The Registration Rights Agreement will provide certain registration rights to the Registration Rights Parties with respect to the Reorganized American Apparel Equity Interests that are issued to such parties under the

Plan (including Reorganized American Apparel Equity Interest issued pursuant to the Equity Commitment Agreement).

b. Directors and Officers of the Reorganized Debtors

In accordance with section 1129(a)(5) of the Bankruptcy Code, from and after the Effective Date, the initial officers and directors of Reorganized American Apparel will be comprised of the individuals identified in a disclosure to be Filed as part of the Plan Supplement and who will be selected in the manner described below.

The initial officers of Reorganized American Apparel will include Paula Schneider, Hassan Natha, Chelsea Grayson and other existing officers of the Debtors to the extent such officers are serving in such capacities on the Effective Date.

The New Board will initially consist of seven (7) directors, including (a) the chief executive officer of Reorganized American Apparel, (b) three independent directors who have relevant industry expertise comprised of (i) one director selected by holders of a majority of the Reorganized American Apparel Equity Interests, (ii) one director selected by Monarch Alternative Capital LP and (iii) one director selected by Goldman Sachs Asset Management, L.P., (c) one additional director selected by Monarch Alternative Capital LP, (d) one director selected by Pentwater Capital Management LP and (e) one director selected by Coliseum Capital Management, LLC.

The directors for the boards of directors of the direct and indirect subsidiaries of Reorganized American Apparel will be identified and selected by the New Board.

c. Employment-Related Agreements and Compensation Programs

Except as otherwise provided in the Plan, as of the Effective Date, each of the Reorganized Debtors will have authority to: (i) maintain, reinstate, amend or revise existing employment, retirement, welfare, incentive, severance, indemnification and other agreements with its active and retired directors, officers and employees, subject to the terms and conditions of any such agreement and applicable non-bankruptcy law; and (ii) enter into new employment, retirement, welfare, incentive, severance, indemnification and other agreements for active and retired employees.

On or after the Effective Date, the New Board will adopt and implement the Management Incentive Plan.

From and after the Effective Date, the Reorganized Debtors will continue to administer and pay the Claims arising before the Petition Date under the Debtors' workers' compensation programs in accordance with their prepetition practices and procedures.

d. Other Matters

Notwithstanding anything to the contrary in the Plan, no provision in any contract, agreement or other document with the Debtors that is rendered unenforceable against the Debtors or the Reorganized Debtors pursuant to sections 541(c), 363(*l*) or 365(e)(1) of the Bankruptcy Code, or any analogous decisional law, will be enforceable against the Debtors or Reorganized Debtors as a result of the Plan.

e. Transactions Effective as of the Effective Date

Pursuant to section 1142 of the Bankruptcy Code and section 303 of the Delaware General Corporation Law and any comparable provisions of the business corporation law of any other state or jurisdiction the following will occur and be effective as of the Effective Date, if no such other date is specified in such other documents, and will be authorized and approved in all respects and for all purposes without any requirement of further action by the stockholders or directors of the Debtors or any of the Reorganized Debtors: (a) the Restructuring Transactions, if any; (b) the adoption of new or amended and restated operating agreements, certificates of incorporation and bylaws (or comparable constituent documents) for each Reorganized Debtor; (c) the initial selection of directors and officers for each Reorganized Debtor; (d) the distribution of Cash and other property pursuant to the Plan, subject to Section V of the Plan; (e) the authorization and issuance of Reorganized American Apparel Equity Interests pursuant to the Plan, including all Reorganized American Apparel Equity Interests issued pursuant to the Equity Commitment

Agreement; (f) the entry into and performance of the New Exit Financing Documents; (g) the adoption, execution, delivery and implementation of all contracts, leases, instruments, releases and other agreements or documents related to any of the foregoing; (h) the adoption, execution and implementation of employment, retirement and indemnification agreements, incentive compensation programs, including the Management Incentive Plan, retirement income plans, welfare benefit plans and other employee plans and related agreements; and (i) any other matters provided for under the Plan involving the corporate structure of the Debtors or Reorganized Debtors or corporate action to be taken by or required of a Debtor or Reorganized Debtor.

8. Litigation Trust

a. Formation of the Litigation Trust

On the Effective Date, the Litigation Trust will be established pursuant to the Litigation Trust Agreement for the purpose of prosecuting the Specified Causes of Action (as determined by the Litigation Trustee) and making distributions (if any) to holders of Allowed General Unsecured Claims (in their capacities as Litigation Trust Beneficiaries) in accordance with the terms of the Plan. The Litigation Trust will have a separate existence from all of the Reorganized Debtors. The Litigation Trust's prosecution of any of the Specified Causes of Action will be on behalf of and for the benefit of the Litigation Trust Beneficiaries.

On the Effective Date, the Litigation Trust Assets will be transferred or issued to, and vest in, the Litigation Trust. On the Effective Date, standing to commence, prosecute and compromise all Specified Causes of Action will transfer to the Litigation Trust; provided, however, that all Causes of Action other than the Specified Causes of Action will be retained by the Reorganized Debtors and will not be transferred to the Litigation Trust. A list of all known Causes of Action to be retained by the Reorganized Debtors will be filed with the Plan Supplement.

Subject to, and to the extent set forth in, the Plan, the Confirmation Order, the Litigation Trust Agreement or other agreement (or any other order of the Bankruptcy Court entered pursuant to, or in furtherance of, the Plan), the Litigation Trust and the Litigation Trustee will be empowered to take the following actions, and any other actions, as the Litigation Trustee determines to be necessary or appropriate to implement the Litigation Trust, all without further order of the Bankruptcy Court:

a. adopt, execute, deliver or file all plans, agreements, certificates and other documents and instruments necessary or appropriate to implement the Litigation Trust;

b. accept, preserve, receive, collect, manage, invest, supervise, prosecute, settle and protect the Specified Causes of Action;

c. calculate and make distributions to the Litigation Trust Beneficiaries;

d. retain Third Party Disbursing Agents and professionals and other Entities;

e. file appropriate Tax returns and other reports on behalf of the Litigation Trust and pay Taxes or other obligations owed by the Litigation Trust; and

f. dissolve the Litigation Trust.

The Litigation Trust has no objective to, and will not, engage in a trade or business and will conduct its activities consistent with the Plan and the Litigation Trust Agreement.

On the Effective Date, the Debtors will transfer, and will be deemed to have irrevocably transferred, the Litigation Trust Assets to the Litigation Trust. Furthermore, the Debtors' and Creditors' Committee's counsel and financial advisors will provide to the Litigation Trustee (or such professionals designated by the Litigation Trustee) documents and other information gathered, and relevant work product developed, during the Chapter 11 Cases in connection with its investigation of the Specified Causes of Action, provided that the provision of any such documents and information will be without waiver of any evidentiary privileges, including without limitation the attorney-client privilege, work-product privilege or other privilege or immunity attaching to any such documents or

information (whether written or oral). The Plan will be considered a motion pursuant to sections 105, 363 and 365 of the Bankruptcy Code for such relief.

The Litigation Trust and the Litigation Trustee will each be a "representative" of the Estates under section 1123(b)(3)(B) of the Bankruptcy Code, and the Litigation Trustee will be the trustee of the Litigation Trust Assets for purposes of 31 U.S.C. § 3713(b) and 26 U.S.C. § 6012(b)(3), and, as such, the Litigation Trustee succeeds to all of the rights, powers and obligations of a trustee in bankruptcy with respect to collecting, maintaining, administering and liquidating the Litigation Trust Assets. Without limiting other such rights, powers, and obligations, on the Effective Date, the Creditors' Committee will transfer, and will be deemed to have irrevocably transferred, to the Litigation Trust and will vest in the Litigation Trust, the Litigation Trustee and all of his or her professionals the Creditors' Committee's evidentiary privileges, including, without limitation, the attorney-client privilege, work product privilege and other privileges and immunities that they possess related to the Specified Causes of Action. The Creditors' Committee and its financial advisors will provide to the Litigation Trustee (or such professionals designated by the Litigation Trustee) documents, other information, and work product relating to the Specified Causes of Action, provided that the provision of any such documents and information will be without waiver of any evidentiary privileges or immunity.

To the extent that any Litigation Trust Assets cannot be transferred to the Litigation Trust because of a restriction on transferability under applicable non-bankruptcy law that is not superseded or preempted by section 1123 of the Bankruptcy Code or any other provision of the Bankruptcy Code, such Litigation Trust Assets will be deemed to have been retained by the Debtors or Reorganized Debtors, as the case may be, and the Litigation Trustee will be deemed to have been designated as a representative of the Debtors or Reorganized Debtors, as the case may be, pursuant to section 1123(b)(3)(B) of the Bankruptcy Code to enforce and pursue such Litigation Trust Assets on behalf of the Debtors or the Reorganized Debtors, as the case may be.

b. The Litigation Trustee

The Litigation Trustee will be the exclusive trustee of the Litigation Trust Assets for purposes of 31 U.S.C. § 3713(b) and 26 U.S.C. § 6012(b)(3) and, solely with respect to the Litigation Trust Assets, the representative of the Estate of each of the Debtors appointed pursuant to section 1123(b)(3)(B) of the Bankruptcy Code. The powers, rights and responsibilities of the Litigation Trustee will be specified in the Litigation Trust Agreement. The Litigation Trustee will distribute the Litigation Trust Assets (or the proceeds thereof) in accordance with the provisions of the Plan and the Litigation Trust Agreement. Other rights and duties of the Litigation Trustee and the beneficiaries of the Litigation Trust will be as set forth in the Litigation Trust Agreement.

c. Fees and Expenses of the Litigation Trust

Except as otherwise ordered by the Bankruptcy Court, the Litigation Trust Expenses will be paid from the Litigation Trust Assets in accordance with the Plan and the Litigation Trust Agreement.

d. Indemnification

The Litigation Trust Agreement may include reasonable and customary indemnification provisions in favor of the Litigation Trustee. Any such indemnification will be the sole responsibility of the Litigation Trust.

e. Tax Treatment

The Litigation Trust is intended to be treated, for federal income Tax purposes, as a grantor trust that is a liquidating trust within the meaning of Treasury Regulations section 301.7701-4(d), with no objective to continue or engage in the conduct of a trade or business. For U.S. federal income tax purposes, the transfer of the Litigation Trust Assets to the Litigation Trust will be treated as a transfer of the Litigation Trust Assets from the Debtors to the Litigation Trust Beneficiaries, followed by the Litigation Trust Beneficiaries' transfer of the Litigation Trust Assets to the Litigation Trust. The Litigation Trust Beneficiaries will thereafter be treated for U.S. federal income tax purposes as the grantors and deemed owners of their respective shares of the Litigation Trust Assets. The Litigation Trust Beneficiaries will include in their annual taxable incomes, and pay tax to the extent due on, their allocable shares of each item of income, gain, deduction, loss and credit, and all other such items will be allocated by the

Litigation Trustee to the Litigation Trust Beneficiaries using any reasonable allocation method. The Litigation Trustee will be required by the Litigation Trust Agreement to file income Tax returns for the Litigation Trust as a grantor trust of the Litigation Trust Beneficiaries. In addition, the Litigation Trust Agreement will require consistent valuation by the Litigation Trustee and the Litigation Trust Beneficiaries, for all federal income Tax and reporting purposes, of any property held by the Litigation Trust. The Litigation Trust Agreement will provide that termination of the trust will occur no later than five years after the Effective Date, unless the Bankruptcy Court approves an extension based upon a finding that such an extension is necessary for the Litigation Trust to complete its liquidating purpose. The Litigation Trust Agreement also will limit the investment powers of the Litigation Trustee in accordance with IRS Rev. Proc. 94-45 and will require the Litigation Trust to distribute at least annually to the Litigation Trust Beneficiaries (as such may have been determined at such time) its net income (net of any payment of or provision for Taxes), except for amounts retained as reasonably necessary to maintain the value of the Litigation Trust Assets.

f. No Revesting of Litigation Trust Assets

No Litigation Trust Asset will revest in any Reorganized Debtor on or after the date such Litigation Trust Asset is transferred to the Litigation Trust but will vest upon such transfer in the Litigation Trust to be administered by the Litigation Trustee in accordance with the Plan and the Litigation Trust Agreement.

g. Preservation of Causes of Action; Compromise and Settlement of Disputes

1. Preservation of All Cause of Action Not Expressly Settled or Released

Unless a Cause of Action against any Entity is expressly waived, relinquished, released, compromised or settled in the Plan or any Final Order (including the Confirmation Order and the Final DIP Order), the Debtors expressly reserve such Causes of Action, which are to be either (i) comprised of the Retained Causes of Action and retained by the Debtors or Reorganized Debtors or (ii) comprised of the Specified Causes of Action and transferred to the Litigation Trust pursuant to the Plan, and, therefore, in each case, no preclusion doctrine, including the doctrines of *res judicata*, collateral estoppel, issue preclusion, claim preclusion, waiver, estoppels (judicial, equitable or otherwise) or laches will apply to such Causes of Action upon or after the entry of the Confirmation Order or Effective Date based on the Plan or the Confirmation Order, except where such Causes of Action have been released in the Plan or any Final Order (including the Confirmation Order and the Final DIP Order). In accordance with section 1123(b) of the Bankruptcy Code, the Debtors or Reorganized Debtors or Litigation Trust may enforce all rights to commence and pursue any and all of the Retained Causes of Action or Specified Causes of Action (as applicable), and the Debtors' or Reorganized Debtors' or Litigation Trust's respective rights to commence, prosecute, or settle any such Retained Causes of Action or Specified Causes of Action (as applicable) will be preserved, notwithstanding entry of the Confirmation Order or the occurrence of the Effective Date. No Entity may rely on the absence of a specific reference in the Plan or the Disclosure Statement to any Cause of Action against it as any indication that the Debtors, Reorganized Debtors or Litigation Trustee will not pursue any and all available Retained Causes of Action or Specified Causes of Action (as applicable) against it. In accordance with section 1123(b)(3) of the Bankruptcy Code, any Specified Causes of Action that a Debtor may hold against any Entity will vest in the Litigation Trust and the Litigation Trustee on behalf of the Litigation Trust and any Retained Causes of Action that a Debtor may hold against any Entity will vest in the Reorganized Debtors.

2. Comprehensive Settlement of Claims and Controversies

Pursuant to section 1123 of the Bankruptcy Code and Bankruptcy Rule 9019, Section III.J of the Plan incorporates an integrated compromise and settlement designed to achieve a beneficial and efficient resolution of these Chapter 11 Cases for all parties in interest. Accordingly, in consideration of the distributions and other benefits provided under the Plan, the provisions of the Plan, including the releases set forth in Section IX.E of the Plan, will constitute a good-faith compromise and settlement of all Claims, disputes, or controversies relating to the rights that a Holder of a Claim may have with respect to any Claim (other than Claims Reinstated under the Plan) or any distribution to be made pursuant to the Plan on account of any such Claim (other than Claims Reinstated under the Plan).

The entry of the Confirmation Order will constitute the Bankruptcy Court's approval, as of the Effective Date, of the compromise or settlement of all such Claims, disputes, or controversies provided for in the Plan, and the Bankruptcy Court's determination that such compromises and settlements are in the best interests of the Debtors, their estates, the Reorganized Debtors, creditors and all other parties in interest, and are fair, equitable and within the range of reasonableness. If the Effective Date does not occur, the settlements set forth in the Plan shall be deemed to have been withdrawn without prejudice to the respective positions of the parties.

9. Reinstatement and Continuation of Insurance Policies

From and after the Effective Date, each of the Debtors' insurance policies in existence as of the Effective Date will be reinstated and continued in accordance with their terms and, to the extent applicable, will be deemed assumed by the applicable Reorganized Debtor pursuant to section 365 of the Bankruptcy Code and Section IV.A of the Plan. Nothing in the Plan will affect, impair or prejudice the rights of the insurance carriers or the Reorganized Debtors under the insurance policies in any manner, and such insurance carriers and Reorganized Debtors will retain all rights and defenses under such insurance policies, and such insurance policies will apply to, and be enforceable by and against, the Reorganized Debtors in the same manner and according to the same terms and practices applicable to the Debtors, as existed prior to the Effective Date.

10. Cancellation and Surrender of Instruments, Securities and Other Documentation

Except as provided in any contract, instrument or other agreement or document entered into or delivered in connection with the Plan, on the Effective Date and concurrently with the applicable distributions made pursuant to Section II of the Plan, all notes, instruments, certificates, and other documents evidencing Claims or Interests (including, without limitation, the APP Interests, the Prepetition Indenture and the Prepetition Notes) shall be deemed cancelled and surrendered and of no further force and effect against the Debtors and the Debtors, without any further action on the part of any Debtor; provided, however, that the Prepetition Indenture and the Prepetition Notes will remain in effect after the Effective Date only as follows: (1) for so long as is necessary to permit distributions to be made pursuant to the Plan and the Indenture Trustee to perform necessary functions with respect thereto; and (2) to allow the Indenture Trustee to exercise its charging lien for the payment of its fees and expenses and for indemnification as provided in the Prepetition Indenture. Notwithstanding the foregoing, to the extent not previously paid, the Debtors will pay all outstanding reasonable and documented fees and expenses of the Indenture Trustee in Cash in full on the Effective Date. From and after the making of the applicable distributions pursuant to Sections II of the Plan, the Holders of the Prepetition Note Secured Claims will have no rights against the Debtors or the Reorganized Debtors arising from or relating to such instruments and other documentation or the cancellation thereof, except the rights provided pursuant to the Plan. No distribution under the Plan shall be made to or on behalf of any Holder of a Prepetition Note Secured Claim unless the Required Documentation is received by the Debtors or Reorganized Debtors (as applicable) to the extent required pursuant to Section V.C.3 of the Plan.

11. Release of Liens

Except as otherwise provided in the Plan or in any contract, instrument, release or other agreement or document entered into or delivered in connection with the Plan, on the Effective Date and consistent with the treatment provided for Claims and Interests in Section II of the Plan, all mortgages, deeds of trust, liens or other security interests, including any liens granted as adequate protection against the property of any Estate, will be fully released and discharged, and all of the right, title and interest of any Holder of such mortgages, deeds of trust, liens or other security interests, including any rights to any collateral thereunder, will revert to the applicable Reorganized Debtor and its successors and assigns. For the avoidance of doubt, the charging liens of the Indenture Trustee under the Prepetition Indenture may be asserted on the distributions (if any) to Holders of Allowed Claims in Classes 3A through 3F, as applicable, and, to the extent asserted, will remain in place until the reasonable and documented fees and expenses of the Indenture Trustee are satisfied. As of the Effective Date, the Reorganized Debtors will be authorized to execute and file on behalf of creditors Form UCC-3 termination statements, mortgage releases or such other forms as may be necessary or appropriate to implement the provisions of Section III.M of the Plan.

12. Effectuating Documents; Further Transactions

On and after the Effective Date, the Reorganized Debtors, and the officers and members of the boards of directors thereof, are authorized to and may issue, execute, deliver, file, or record such contracts, securities, instruments, releases, and other agreements or documents and take such actions as may be necessary or appropriate to effectuate, implement and further evidence the terms and conditions of the Plan, the Restructuring Transactions, the Reorganized American Apparel Equity Interests issued pursuant to the Plan, the Equity Commitment Agreement and the New Exit Financing Documents, in each case, in the name of and on behalf of the Reorganized Debtors, without the need for any approvals, authorization or consents except those expressly required pursuant to the Plan.

13. Dissolution of Official Committees

Except to the extent provided in the Plan, upon the Effective Date, the current and former members of the Creditors' Committee and any other creditor, equity or other committee appointed pursuant to section 1102 of the Bankruptcy Code in the Chapter 11 Cases, and their respective officers, employees, counsel, advisors and agents, will be released and discharged of and from all further authority, duties, responsibilities and obligations related to and arising from and in connection with the Chapter 11 Cases; provided, however, that following the Effective Date the Creditors' Committee will continue in existence and have standing and a right to be heard for the following limited purposes: (a) Claims and/or applications for compensation by Professionals and requests for allowance of Administrative Claims for substantial contribution pursuant to section 503(b)(3)(D) of the Bankruptcy Code; (b) any appeals to which the Creditors' Committee is a party; and (c) any adversary proceedings or contested matters as of the Effective Date to which the Creditors' Committee is a party. Following the completion of the Creditors' Committee's remaining duties set forth above, the Creditors' Committee will be dissolved, and the retention or employment of the Creditors' Committee's respective attorneys, accountants and other agents will terminate.

14. Discharge of Claims and Interests

Except as provided in the Plan or in the Confirmation Order, the rights afforded under the Plan and the treatment of Claims and Interests under the Plan will be in exchange for and in complete satisfaction, discharge and release of all Claims and Interests arising or existing on or before the Effective Date, including any interest accrued on Claims from and after the Petition Date. From and after the Effective Date, the Debtors will be discharged from any and all Claims and Interests that arose or existed prior to the Effective Date, subject to the obligations of the Debtors under the Plan.

15. Injunctions

As of the Effective Date, except with respect to the obligations of the Reorganized Debtors under the Plan or the Confirmation Order, all Entities that have held, currently hold or may hold any Claims or Interests, obligations, suits, judgments, damages, demands, debts, rights, causes of action or Liabilities that are waived, discharged or released under the Plan will be permanently enjoined from taking any of the following enforcement actions against the Debtors, the Reorganized Debtors, the Released Parties or any of their respective assets or property on account of any such waived, discharged or released Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action or Liabilities: (a) commencing or continuing in any manner any action or other proceeding; (b) enforcing, levying, attaching, collecting or recovering in any manner any judgment, award, decree or order; (c) creating, perfecting or enforcing any lien or encumbrance; (d) asserting any right of setoff, subrogation or recoupment of any kind against any debt, liability or obligation due to any Debtor, Reorganized Debtor or Released Party; and (e) commencing or continuing any action, in any manner, in any place to assert any Claim waived, discharged or released under the Plan or that does not otherwise comply with or is inconsistent with the provisions of the Plan.

16. Exculpation

From and after the Effective Date, the Released Parties, the Debtors and the Reorganized Debtors will neither have nor incur any liability to any Entity, and no Holder of a Claim or Interest, no other party in interest and none of their respective Representatives will have any right of action against any Debtor, Reorganized Debtor, Released Party or any of their respective Representatives for any act taken or omitted to

be taken before the Effective Date in connection with, related to or arising out of the Chapter 11 Cases, any of the Debtors or the Estates or the negotiation, consideration, formulation, preparation, dissemination, implementation, Confirmation or consummation of the Restructuring Support Agreement, Plan, the Exhibits, the Disclosure Statement, the DIP Credit Agreement, any of the New Exit Financing Documents, any of the New Securities and Documents, the Restructuring Transactions or any other transactions proposed in connection with the Chapter 11 Cases, or any distributions made under or in connection with the Plan or any contract, instrument, release or other agreement or document created or entered into or any other act taken or omitted to be taken in connection therewith or in connection with any other obligations arising under the Plan or the obligations assumed hereunder; provided, however, that the foregoing provisions of Section IX.D of the Plan will have no effect on the liability of (a) any Entity that would otherwise result from the failure to perform or pay any obligation or liability under the Plan or any contract, instrument, release or other agreement or document to be entered into or delivered in connection with the Plan or (b) any Released Party that would otherwise result from any act or omission of such Released Party to the extent that such act or omission is determined in a Final Order to have constituted gross negligence or willful misconduct (including fraud).

17. Releases

a. ***Releases by Debtors and Reorganized Debtors***

Without limiting any other applicable provisions of, or releases contained in, the Plan, as of the Effective Date, to the fullest extent permitted by law, the Debtors and the Reorganized Debtors, on behalf of themselves and their affiliates, the Estates and their respective successors, assigns and any and all Entities who may purport to claim by, through, for or because of them, will forever release, waive and discharge all Liabilities that they have, had or may have against any Released Party with respect to any of the Debtors or the Estates, the Chapter 11 Cases or the negotiation, consideration, formulation, preparation, dissemination, implementation, Confirmation or consummation of the Restructuring Support Agreement, the Plan, the Exhibits, the Disclosure Statement, the DIP Credit Agreement, the New Exit Financing Documents, any of the New Securities and Documents, the Restructuring Transactions or any other transactions proposed in connection with the Chapter 11 Cases or any distributions made under or in connection with the Plan or any contract, instrument, release or other agreement or document created or entered into or any other act taken or omitted to be taken in connection therewith or in connection with any obligations arising under the Plan or the obligations assumed hereunder; provided, however, that the foregoing provisions of Section IX.E.1 of the Plan will not affect (i) the liability of any Released Party that otherwise would result from any act or omission to the extent that act or omission subsequently is determined in a Final Order to have constituted gross negligence or willful misconduct (including fraud), (ii) any rights to enforce the Plan or the other contracts, instruments, releases, agreements or documents to be, or previously, entered into or delivered in connection with the Plan, (iii) except as otherwise expressly set forth in this Plan, any objections by the Debtors or the Reorganized Debtors to Claims or Interests filed by any Entity against any Debtor and/or the Estates, including rights of setoff, refund or other adjustments, (iv) the rights of the Debtors to assert any applicable defenses in litigation or other proceedings with their employees (including the rights to seek sanctions, fees and other costs) and (v) any claim of the Debtors or Reorganized Debtors, including (but not limited to) cross-claims or counterclaims or other causes of action against employees or other parties, arising out of or relating to actions for personal injury, wrongful death, property damage, products liability or similar legal theories of recovery to which the Debtors or Reorganized Debtors are a party.

b. ***Releases by Holders of Claims or Interests***

Without limiting any other applicable provisions of, or releases contained in, the Plan, as of the Effective Date, in consideration for the obligations of the Debtors and the Reorganized Debtors under the Plan and the consideration and other contracts, instruments, releases, agreements or documents to be entered into or delivered in connection with the Plan, unless otherwise provided in the Confirmation Order, each Holder of a Claim that (i) votes in favor of the Plan or (ii) either (A) abstains from voting or (B) votes to reject the Plan and, in the case of either (A) or (B), does not opt out of the voluntary release contained in Section IX.E.2 of the Plan by checking the opt out box on the Ballot and returning it in accordance with the instructions set forth thereon, indicating that they opt not to grant the releases provided in the Plan, will be

deemed to forever release, waive and discharge all Liabilities in any way that such Entity has, had or may have against any Released Party (which release will be in addition to the discharge of Claims and termination of Interests provided in the Plan and under the Confirmation Order and the Bankruptcy Code), in each case, relating to any of the Debtors or the Estates, the Chapter 11 Cases or the negotiation, consideration, formulation, preparation, dissemination, implementation, Confirmation or consummation of the Restructuring Support Agreement, the Plan, the Exhibits, the Disclosure Statement, the DIP Credit Agreement, the New Exit Financing Documents, any of the New Securities and Documents, the Restructuring Transactions or any other transactions proposed in connection with the Chapter 11 Cases or any contract, instrument, release or other agreement or document created or entered into or any other act taken or omitted to be taken in connection therewith or in connection with any obligations arising under the Plan or the obligations assumed hereunder; provided, however, that the foregoing provisions of Section IX.E.2 of the Plan will have no effect on the liability of (i) any Entity that would otherwise result from the failure to perform or pay any obligation or liability under the Plan or any contract, instrument, release or other agreement or document to be entered into or delivered in connection with the Plan and (ii) any Released Party that would otherwise result from any act or omission of such Released Party to the extent that such act or omission is determined in a Final Order to have constituted gross negligence or willful misconduct (including fraud). Notwithstanding any language to the contrary contained in the Disclosure Statement, the Plan and/or the Confirmation Order, no provision shall release any non-Debtor, including any current and/or former officer and/or director of the Debtors and/or any non-Debtor included in the Released Parties, from liability to the SEC, in connection with any legal action or claim brought by such governmental unit against such person(s).

18. Votes Solicited in Good Faith

The Debtors have, and upon Confirmation of the Plan will be deemed to have, solicited acceptances of the Plan in good faith and in compliance with the applicable provisions of the Bankruptcy Code. The Debtors (and each of their respective affiliates, agents, directors, officers, members, employees, advisors, and attorneys) have participated in good faith and in compliance with the applicable provisions of the Bankruptcy Code in the offer and issuance of the securities offered and sold under the Plan and therefore have not, and on account of such offer and issuance will not be, liable at any time for the violation of any applicable law, rule, or regulation governing the solicitation of acceptances or rejections of the Plan or the offer or issuance of the securities offered and distributed under the Plan.

19. Term of Injunctions or Stays

Unless otherwise provided in the Plan or in the Confirmation Order, all injunctions or stays arising under or entered during the Chapter 11 Cases under section 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, will remain in full force and effect until the later of the Effective Date and the date indicated in the order providing for such injunction or stay.

20. Termination of Certain Subordination Rights

The classification and manner of satisfying Claims under the Plan take into consideration all subordination rights, whether arising under general principles of equitable subordination, contract, sections 510(a) and 510(c) of the Bankruptcy Code or otherwise, that a Holder of a Claim or Interest may have against other Claim or Interest Holders with respect to any distribution made pursuant to the Plan. All subordination rights that a Holder of a Claim, other than a Holder of a Claim Reinstated under the Plan, may have with respect to any distribution to be made pursuant to the Plan will be discharged and terminated, and all actions related to the enforcement of such subordination rights will be permanently enjoined. Accordingly, distributions pursuant to the Plan will not be subject to payment to a beneficiary of such terminated subordination rights or to levy, garnishment, attachment or other legal process by a beneficiary of such terminated subordination rights.

B. Provisions Governing Distributions and Procedures for Resolving Disputed Claims

1. Distributions for Allowed Claims as of the Effective Date

Except as otherwise provided in Section V of the Plan, distributions to be made on the Effective Date to Holders of Allowed Claims as provided by Section II or Section V of the Plan will be deemed made on the Effective Date if made on the Effective Date or as promptly thereafter as practicable by the Debtors or the Reorganized Debtors, as applicable.

2. Disbursing Agent; No Liability

a. Distribution Procedures

The Disbursing Agent will make all distributions required under the Plan. The Reorganized Debtors (or such entity as they may designate) will be appointed to serve as the Disbursing Agent with respect to all Claims and Interests, except that the Litigation Trustee, or its Third Party Disbursing Agent, will be appointed to serve as the Disbursing Agent with respect to the distributions of the units in the Litigation Trust to Holders of Allowed General Unsecured Claims.

Each of the Reorganized Debtors, any Entity engaged by the Debtors or Reorganized Debtors as a disbursing agent, the Litigation Trustee, and the Third Party Disbursing Agent, will have all powers, rights, protections, obligations, and duties afforded or imposed upon the Disbursing Agent under the Plan, but solely with respect to those Claims and Interests on account of which the applicable Disbursing Agent is designated to make distributions under the Plan and with respect to the Litigation Trust.

The Debtors, the Reorganized Debtors, the Disbursing Agent, and the Indenture Trustee, as applicable, will only be required to act and make distributions in accordance with the terms of the Plan. Such parties will have no (i) liability to any party for actions taken in accordance with the Plan or in reliance upon information provided to it in accordance with the Plan or (ii) obligation or liability for distributions under the Plan to any party who does not hold a Claim against the Debtors as of the Distribution Record Date or any other date on which a distribution is made or who does not otherwise comply with the terms of the Plan.

3. Delivery of Distributions and Undeliverable Distributions to Holders of Claims

a. Address for Delivery of Distribution

Except as otherwise provided in the Plan, distributions to holders of Allowed Claims (other than Holders of DIP Claims or Prepetition Note Secured Claims) will be made to holders of record as of the Distribution Record Date by the Reorganized Debtors as set forth on the latest date of the following documents: (1) to the signatory set forth on any of the Proofs of Claim Filed by such Holder or other representative identified therein (or at the last known addresses of such holder if no Proof of Claim is Filed or if the Debtors have been notified in writing of a change of address); (2) at the addresses set forth in any written notices of address changes delivered to the Reorganized Debtors after the date of any related Proof of Claim; (3) at the addresses reflected in the Schedules if no Proof of Claim has been Filed and the Reorganized Debtors have not received a written notice of a change of address; or (4) on any counsel that has appeared in the Chapter 11 Cases on such Holder's behalf. Subject to Section V of the Plan, and unless the Disbursing Agent otherwise determines with respect to a distribution on account of a Claim, distributions under the Plan on account of Allowed Claims will not be subject to levy, garnishment, attachment, or like legal process, so that each holder of an Allowed Claim will have and receive the benefit of the distributions in the manner set forth in the Plan. The Debtors, the Reorganized Debtors, and the Disbursing Agent will not incur any liability whatsoever on account of any distributions under the Plan.

b. Undeliverable Distributions

The Disbursing Agent will make one attempt to make the distributions contemplated under the Plan in accordance with the procedures set forth therein. The Disbursing Agent in its sole discretion may, but will have no obligation to, attempt to locate holders of undeliverable distributions. Any distributions returned to the Disbursing

Agent as undeliverable or otherwise will remain in the possession of the applicable Reorganized Debtor until such time as a distribution becomes deliverable, and no further distributions will be made to such Holder unless such Holder notifies the Disbursing Agent of its then current address. Any Holder of an Allowed Claim entitled to a distribution of property under this Plan that does not assert a claim pursuant to the Plan for an undeliverable distribution, or notify the Disbursing Agent of such Holder's then current address, within 180 days after the Effective Date will have its claim for such undeliverable distribution, and any subsequent distribution to which Holder may have been entitled, discharged and will be forever barred from asserting any such claim against the Reorganized Debtors or their respective property, notwithstanding any federal or state escheat laws to the contrary.

c. Distributions to Holders of Prepetition Note Secured Claims

On the Confirmation Date or as soon as reasonably practical thereafter, the Disbursing Agent will send to the banks, brokers or other financial institutions that hold the Prepetition Notes in "street name" in their accounts with the Depository Trust Company (the "DTC Participating Nominees") and/or their mailing agent(s), a package of materials (collectively, the "Noteholder Distribution Package") to be forwarded to the Holders of Prepetition Note Secured Claims within five (5) Business Days of receipt by the DTC Participating Nominees or the mailing agent(s), as applicable. The Noteholder Distribution Package will contain: (i) a Member Certification form; (ii) a counterpart signature page to the New LLC Agreement; and (iii) instructions regarding the foregoing. The form of the Noteholder Distribution Package will be Filed with the Plan Supplement.

Distributions to Holders of Allowed Prepetition Note Secured Claims will only be made to those Holders that have delivered to the Debtors or Reorganized Debtors (as applicable) (i) a properly completed and duly executed Member Certification and a duly executed counterpart signature page to the New LLC Agreement (the "Initial Required Documentation") and (ii) any additional documentation or information as the Debtors or Reorganized Debtors (as applicable) reasonably request (the "Additional Required Documentation" and, together with the Initial Required Documentation, the "Required Documentation"). A Holder of Allowed Prepetition Note Secured Claims will not be permitted to exercise any rights in connection with the Reorganized American Apparel Equity Interests unless and until it delivers all of the Required Documentation to the Debtors or Reorganized Debtors, as applicable. If such Holder does not deliver the Required Documentation to the Reorganized Debtors within 180 days of the Effective Date (the "Noteholder Distribution Deadline"), such Holder will be deemed to have waived its distribution and will no longer be entitled to any distribution on account of its Prepetition Note Secured Claims; provided, however, that if the Reorganized Debtors request any Additional Required Documentation from a Holder less than ten (10) Business Days prior the Noteholder Distribution Deadline, the Noteholder Distribution Deadline shall automatically be extended, solely with respect to such Holder, to the date that is ten (10) Business Days after such request. A Holder that fails to deliver valid and complete Required Documentation in a timely fashion will have its claim for such undeliverable distribution, and any subsequent distribution to which Holder may have been entitled, discharged and will be forever barred from asserting any such claim against the Reorganized Debtors or their respective property, notwithstanding any federal or state escheat laws to the contrary.

Notwithstanding anything to the contrary in this Plan or the Disclosure Statement, a Holder of Allowed Prepetition Note Secured Claims (that is not also a Supporting Party) that would otherwise be entitled to a distribution of Reorganized American Apparel Equity Interests shall not receive a distribution of Reorganized American Apparel Equity Interests in respect of such Claims, and shall instead be entitled to an alternative distribution of Cash in an amount equal to such Holder's Allowed Prepetition Note Secured Claims, to the extent the Requisite Supporting Parties in their sole discretion request the Debtors or Reorganized Debtors (as applicable) to make such alternative distribution to such Holder (any such holder, a "Cash-Out Noteholder"). Notwithstanding anything to the contrary in the Plan, this Disclosure Statement, or the Equity Commitment Agreement, Cash-Out Noteholders shall not be permitted to purchase Reorganized American Apparel Equity Interests pursuant to the Additional Equity Election

The Disbursing Agent shall provide the Requisite Supporting Parties with regular reports of the Holders of Allowed Prepetition Note Secured Claims that have submitted complete and valid Required Documentation (each, a "Valid Required Documentation Report"). The Requisite Supporting Parties must make a determination, in their sole discretion, as to which Holders are to be Cash-Out Noteholders and must then convey that determination to the Disbursing Agent within five (5) Business Days of the date the Disbursing Agent provides the Requisite Supporting Parties with a Valid Required Documentation Report.

The Reorganized Debtors shall make distributions of Reorganized American Apparel Equity Interests, or the abovementioned alternative cash distribution, to each Holder of Allowed Prepetition Note Secured Claims.

Subject to the terms and conditions set forth in the Equity Commitment Agreement, each Person that was a Holder of Allowed Prepetition Note Secured Claims as of the Distribution Record Date shall have the right to elect to purchase, in its sole discretion at any time from the Closing Date (as defined in the Equity Commitment Agreement) until 5:00 p.m., prevailing Eastern time, on the date that is 30 days following the Closing Date (the "Additional Equity Election Deadline"), a number of additional Reorganized American Apparel Equity Interests (and no less than such amount) calculated in accordance with the Equity Commitment Agreement (the "Additional Equity Election"). To purchase such Additional American Apparel Equity Interests, such Holder of an Allowed Prepetition Note Secured Claim must submit a properly completed and duly executed Election Form (as defined in the Equity Commitment Agreement) and corresponding payment to the Disbursing Agent on or before the Additional Equity Election Deadline and otherwise complying with the terms and conditions set forth in the Equity Commitment Agreement, the Plan, this Disclosure Statement, the Confirmation Order and the instructions accompanying the Election Form. A Holder of Allowed Prepetition Note Secured Claims will not be permitted to purchase Reorganized American Apparel Equity Interests pursuant to the Additional Equity Election unless and until it delivers all of the Required Documentation to the Debtors or Reorganized Debtors, as applicable. If such Holder does not deliver all of the Required Documentation to the Reorganized Debtors by 5:00 p.m., prevailing Eastern time, on the date that is ten (10) Business Days after the Distribution Record Date, such Holder will be deemed to have waived its right to purchase Reorganized American Apparel Equity Interests pursuant to the Additional Equity Election and will no longer be entitled to purchase any such Reorganized American Apparel Equity Interests; provided, however, that if the Reorganized Debtors request any Additional Required Documentation from a Holder, such deadline shall automatically be extended, solely with respect to such Holder, to the date that is five (5) Business Days after such request. As promptly as practicable after the Effective Date, the Reorganized Debtors shall deliver the Offer Notice (as defined in the Equity Commitment Agreement), including the Election Form, to each Holder of Prepetition Note Secured Claims that has delivered the Required Documentation to the Reorganized Debtors and is not a Cash-Out Noteholder. Thereafter, the Reorganized Debtors shall deliver the Offer Notice, including the Election Form, to each other Holder of Prepetition Note Secured Claims that subsequently delivers the Required Documentation to the Reorganized Debtors and is not a Cash-Out Noteholder, as promptly as practicable following such delivery of Required Documentation. The form of the Election Form, including the instructions thereto, will be Filed with the Plan Supplement.

The Reorganized American Apparel Equity Interests will be issued in uncertificated book-entry form, and the distribution of Reorganized American Apparel Equity Interests to Holders of Allowed Prepetition Note Secured Claims pursuant to the Plan will be evidenced solely by entry of such issuance in the books and records of Reorganized American Apparel. All subsequent sales and other transfers of Reorganized American Apparel Equity Interests will be subject to the restrictions set forth in the New LLC Agreement and will be valid and recognized only if made in accordance with the terms and conditions set forth in the New LLC Agreement.

If it is determined by the Disbursing Agent that it can collect any of the aforementioned certifications and information using one or more of the DTC's existing platforms, the Disbursing Agent willl be authorized to tailor these procedures accordingly.

4. Distribution Record Date

As of 5:00 p.m. (prevailing Eastern Time) on the Distribution Record Date, the transfer registers for Claims will be closed. The Disbursing Agent will have no obligation to recognize the transfer or sale of any Claim that occurs after such time on the Distribution Record Date and will be entitled for all purposes the Plan to recognize and make distributions only to those Holders who are Holders of Claims as of 5:00 p.m. on the Distribution Record Date.

Except as otherwise provided in a Final Order of the Bankruptcy Court, the transferees of Claims that are transferred pursuant to Bankruptcy Rule 3001 on or prior to 5:00 p.m. (prevailing Eastern Time) on the Distribution Record Date will be treated as the Holders of such Claims for all purposes, notwithstanding that any period provided by Bankruptcy Rule 3001 for objecting to such transfer has not expired by the Distribution Record Date.

5. Minimum Distributions and Fractional Interests

No fractional amount of Reorganized American Apparel Equity Interests will be distributed under this Plan. To the extent any Holder of a Prepetition Note Secured Claim would be entitled to receive a fractional amount of Reorganized American Apparel Equity Interests, the Debtors or Reorganized Debtors, as applicable, will round downward the number of such interests to be distributed to that Holder to the nearest whole integer. No consideration will be provide in lieu of such fractional amounts of interests that are rounded down.

No distribution of less than twenty-five dollars ($25.00) will be made by the Disbursing Agent to the holder of any Claim unless a request therefor is made in writing to the Disbursing Agent within 180 days of the Effective Date. Each distribution of less than twenty-five dollars ($25.00) as to which no such request is made will automatically revert without restriction to the Reorganized Debtors on the 181st day after the Effective Date.

6. Compliance with Tax Requirements

In connection with the Plan and all instruments issued in connection therewith and distributed thereunder, to the extent applicable, the Debtors, the Reorganized Debtors, Litigation Trustee, the Disbursing Agent or any other party issuing any instruments or making any distributions under the Plan will comply with all applicable Tax withholding and reporting requirements imposed on them by any governmental unit, and all distributions pursuant to the Plan and all related agreements will be subject to such withholding and reporting requirements. Each of the Debtors, Reorganized Debtors, Litigation Trustee, and the Disbursing Agent, as applicable, will be authorized to take any actions that may be necessary or appropriate to comply with such withholding and reporting requirements, including applying a portion of any Cash distribution to be made under the Plan to pay applicable Tax withholding. In the case of a non-Cash distribution that is subject to withholding, the distributing party may withhold an appropriate portion of such distributed property and sell such withheld property to generate Cash necessary to pay over the withholding tax. Any amounts withheld pursuant to the immediately preceding sentence will be deemed to have been distributed and received by the applicable recipient for all purposes of the Plan. Notwithstanding any other provision of the Plan, each Holder of an Allowed Claim receiving a distribution pursuant to the Plan will have the sole and exclusive responsibility for the satisfying and paying of any Tax obligations imposed on it by any governmental unit on account of such distribution, including income, withholding and other Tax obligations. Any party issuing any instrument or making any distribution to the Plan has the right, but not the obligation, to not make a distribution until such Holder has made arrangements satisfactory to the issuing or disbursing party for the payment of any tax obligations.

Any party entitled to receive any property as an issuance or distribution under the Plan will be required, if so requested, to deliver to the Disbursing Agent (or such other Entity designated by the Debtors, which Entity will subsequently deliver to the Disbursing Agent) an appropriate Form W-9 or (if the payee is a foreign Entity) Form W-8, unless such Entity is exempt under the Internal Revenue Code and so notifies the Disbursing Agent. Unless a properly completed Form W-9 or Form W-8, as appropriate, is delivered to the Disbursing Agent (or such other Entity), the Disbursing Agent, in its sole discretion, may (a) make a distribution net of any applicable withholding, including backup withholding, or (b) reserve such distribution. If the Disbursing Agent reserves such distribution, and the Holder fails to comply with the requirement to deliver the Form W-9 or Form W-8 within 180 days after the Effective Date, such distribution will be deemed undeliverable in accordance with Section V.C.2 of the Plan.

7. Manner of Payment Under the Plan

Unless a Holder of an Allowed Claim and the Disbursing Agent otherwise agree, any distribution to be made in Cash under the Plan will be made, at the election of the Disbursing Agent, by check drawn on a domestic bank or by wire transfer from a domestic bank. Cash payments to foreign creditors may, in addition to the foregoing, be made at the option of the Disbursing Agent in such funds and by such means as are necessary or customary in a particular foreign jurisdiction.

8. Time Bar to Cash Payments

Checks issued in respect of Allowed Claims will be null and void if not negotiated within 180 days after the date of issuance thereof. Requests for reissuance of any voided check will be made directly to the Disbursing Agent

by the Entity to whom such check was originally issued. Any claim in respect of such a voided check will be made within 30 days after the date upon which such check was deemed void. If no request is made as provided in the preceding sentence, any claims in respect of such voided check will be discharged and forever barred and such unclaimed distribution will revert without restriction to the Reorganized Debtors, notwithstanding any federal or state escheat laws to the contrary.

9. Setoffs

Except with respect to claims of a Debtor or Reorganized Debtor released pursuant to the Plan or any contract, instrument, release or other agreement or document entered into or delivered in connection with the Plan, the Reorganized Debtors may, pursuant to section 553 of the Bankruptcy Code or applicable non-bankruptcy law, set off against any Claim and the payments or distributions to be made on account of the Claim the claims, rights and causes of action of any nature that the applicable Debtor or Reorganized Debtor may hold against the Holder of the Claim; provided, however, that the failure to effect a setoff will not constitute a waiver or release by the applicable Debtor or Reorganized Debtor of any claims, rights and causes of action that the Debtor or Reorganized Debtor may possess against the Holder of a Claim; provided, further, however, that the Debtor or Reorganized Debtor will not set off or assert a right of set off against any Prepetition Note Secured Claims, Prepetition ABL Claims or DIP Claims.

10. Allocation Between Principal and Accrued Interest

Except as otherwise provided in the Plan, the aggregate consideration paid to Holders with respect to their Allowed Claims will be treated pursuant to the Plan as allocated first to the principal amount of such Allowed Claims (to the extent thereof) and, thereafter, to the interest, if any, accrued through the Effective Date.

11. Distributions to Holders of Disputed Claims

Notwithstanding any other provision of the Plan, (1) no payments or distributions will be made on account of a Disputed Claim until such Claim becomes an Allowed Claim, if ever and (2) except as otherwise agreed to by the relevant parties, no partial payments and no partial distributions will be made with respect to a Disputed Claim until all such disputes in connection with such Disputed Claim have been resolved by settlement or Final Order.

To the extent that a Disputed Claim ultimately becomes an Allowed Claim, distributions (if any) will be made to the Holder of such Allowed Claim in accordance with the provisions of the Plan. On the Distribution Date that is at least 30 days after a Disputed Claim becomes an Allowed Claim (or such lesser period as the Disbursing Agent may determine), the Holder of such Claim will receive the distribution (if any) to which such Holder would have been entitled under the Plan as of the Effective Date (including any payments such Holder would have been entitled to on the Distribution Date on which such Holder is receiving its initial payment) if such claim had been Allowed as of the Effective Date, without any interest to be paid on account of such Claim.

12. Distributions to Holders of Allowed General Unsecured Claims

Except as set forth in this paragraph and only to the extent applicable, on each Distribution Date, the Disbursing Agent will distribute to each Holder of an Allowed General Unsecured Claim its Pro Rata share of the GUC Support Payment minus the aggregate amount of Cash previously distributed upon such Claim; provided, however, that the Disbursing Agent may postpone such distribution if it determines that, taking into account the aggregate amount of the distribution and the number of such Holders eligible to receive distributions thereunder, the expense of administering such distribution does not warrant making such distribution. On a date selected by the Disbursing Agent in its discretion, that is no later than 60 days after all Disputed Claims in Classes 4A through 4F have become Allowed Claims or will have been disallowed, the Disbursing Agent will distribute to each Holder of an Allowed General Unsecured Claim its Pro Rata share of the GUC Support Payment (to the extent applicable) minus the aggregate amount of Cash previously distributed upon such Claim; provided, however, that if the aggregate amount of amount of Cash to be distributed to Holders of Allowed General Unsecured Claims on such date is likely to exceed the expense of administering such distribution, then the Disbursing Agent may, in its discretion, contribute such funds to one or more charitable organizations exempt from income tax under section

501(c)(3) of the Internal Revenue Code selected by the Disbursing Agent and that is unrelated to the Disbursing Agent.

C. Disputed, Contingent and Unliquidated Claims

1. Allowance of Claims

After the Effective Date, the Reorganized Debtors will have and retain any and all rights and defenses the Debtors had with respect to any Claim immediately prior to the Effective Date, except with respect to any Claim deemed Allowed under the Plan. Except as expressly provided in the Plan or in any order entered in the Chapter 11 Cases prior to the Effective Date (including the Confirmation Order), no Claim will become an Allowed Claim unless and until such Claim is deemed Allowed under the Plan or the Bankruptcy Code or the Bankruptcy Court has entered a Final Order (including the Confirmation Order) in the Chapter 11 Cases allowing such Claim. All settled Claims approved prior to the Effective Date pursuant to a Final Order of the Bankruptcy Court pursuant to Bankruptcy Rule 9019 or otherwise will be binding on all parties.

Any Claim that has been listed in the Schedules as disputed, contingent or unliquidated, and for which no Proof of Claim has been timely filed, is not considered Allowed and will be expunged without further action and without any further notice to or action, order or approval of the Bankruptcy Court.

2. Prosecution of Objections to Claims

Except as otherwise specifically provided in the Plan, the Debtors, prior to the Effective Date, and the Reorganized Debtors, after the Effective Date, will have the sole authority: (a) to File, withdraw or litigate to judgment, objections to Claims; (b) to settle or compromise any Disputed Claim without any further notice to or action, order or approval by the Bankruptcy Court; and (c) to administer and adjust the claims register to reflect any such settlements or compromises without any further notice to or action, order or approval by the Bankruptcy Court.

3. Estimation of Claims

The Debtors, prior to the Effective Date, and the Reorganized Debtors after the Effective Date, as applicable, may (but are not required to) at any time request that the Bankruptcy Court estimate any Claim that is contingent or unliquidated pursuant to section 502(c) of the Bankruptcy Code for any reason, regardless of whether any party previously has objected to such Claim or whether the Bankruptcy Court has ruled on any such objection. The Bankruptcy Court will retain jurisdiction to estimate any such Claim, including during the litigation of any objection to any Claim or during the appeal relating to such objection. In the event that the Bankruptcy Court estimates any contingent or unliquidated Claim, that estimated amount will constitute a maximum limitation on such Claim for all purposes under the Plan (including for purposes of distributions), and the relevant Reorganized Debtor may elect to pursue any supplemental proceedings to object to any ultimate distribution on such Claim or Interest.

4. Adjustment to Claims Without Objection

Any Claim that has been paid or satisfied, or any Claim that has been amended or superseded, may be adjusted or expunged on the claims register by the Reorganized Debtors without a claim objection having to be filed and without any further notice to or action, order or approval of the Bankruptcy Court.

5. Disallowance of Certain Claims

EXCEPT AS PROVIDED IN THE PLAN, IN AN ORDER OF THE BANKRUPTCY COURT OR OTHERWISE AGREED, ANY AND ALL PROOFS OF CLAIM FILED AFTER THE CLAIMS BAR DATE WILL BE DEEMED DISALLOWED AND EXPUNGED AS OF THE EFFECTIVE DATE WITHOUT ANY FURTHER NOTICE TO OR ACTION, ORDER OR APPROVAL OF THE BANKRUPTCY COURT, AND HOLDERS OF SUCH CLAIMS MAY NOT RECEIVE ANY DISTRIBUTIONS ON ACCOUNT OF SUCH CLAIMS.

Consistent with Bankruptcy Rule 3003(c), the Debtors will recognize the master Proof of Claim filed by the Indenture Trustee in respect of the Prepetition Note Secured Claims and Prepetition Note Deficiency Claims.

Accordingly, any Proof of Claim filed by a Holder of a Prepetition Note Secured Claim or Prepetition Note Deficiency Claim will be disallowed as duplicative of the Indenture Trustee's master Proof of Claim and deemed expunged from the claims register, without further action or Bankruptcy Court order.

6. Offer of Judgment

The Reorganized Debtors are authorized to serve upon a Holder of a Disputed Claim an offer to allow judgment to be taken on account of such Disputed Claim, and, pursuant to Bankruptcy Rules 7068 and 9014, Federal Rule of Civil Procedure 68 will apply to such offer of judgment. To the extent the Holder of a Disputed Claim must pay the costs incurred by the Reorganized Debtors after the making of such offer, the Reorganized Debtors are entitled to set off such amounts against the amount of any distribution to be paid to such Holder without any further notice to or action, order, or approval of the Bankruptcy Court.

7. Amendments to Claims

On or after the Effective Date, except as provided in the Plan, a Claim may not be filed or amended without the prior authorization of the Bankruptcy Court or the Reorganized Debtors, and, to the extent such prior authorization is not received, any such new or amended Claim filed will be deemed disallowed in full and expunged without any further action.

IX. VALUATION AND FINANCIAL PROJECTIONS

As further discussed below, the Debtors believe the Plan meets the feasibility requirement set forth in section 1129(a)(11) of the Bankruptcy Code, as Confirmation is not likely to be followed by liquidation or the need for further financial reorganization of the Reorganized Debtors.

In connection with developing the Plan, and for purposes of determining whether the Plan satisfies feasibility standards, the Debtors' management has, through the development of financial projections for the years 2016 through 2020 as attached hereto as Exhibit 3 (the "Financial Projections"), analyzed the Reorganized Debtors' ability to meet their obligations under the Plan and to maintain sufficient liquidity and capital resources to conduct their business. The Debtors believe that the Reorganized Debtors will have sufficient liquidity to fund obligations as they arise. Accordingly, the Debtors believe the Plan satisfies the feasibility requirement of section 1129(a)(11) of the Bankruptcy Code. The Debtors prepared the Financial Projections in good faith, based upon estimates and assumptions made by the Debtors' management.

The Financial Projections assume that the Plan will be consummated in accordance with its terms and that all transactions contemplated by the Plan will be consummated by the assumed Effective Date. Any significant delay in the assumed Effective Date of the Plan may have a significant negative impact on the operations and financial performance of the Debtors, including, but not limited to, an increased risk of inability to meet sales forecasts and higher reorganization expenses. Additionally, the estimates and assumptions in the Financial Projections, while considered reasonable by management, may not be realized, and are inherently subject to uncertainties and contingencies. They also are based on factors such as industry performance, general business, economic, competitive, market, and financial conditions, all of which are difficult to predict and generally beyond the Debtors' or the Reorganized Debtors' control. Because future events and circumstances may well differ from those assumed and unanticipated events or circumstances may occur, the Debtors expect that the actual and projected results will differ and the actual results may be materially different from those reflected in the Financial Projections. Therefore, the Financial Projections may not be relied upon as a guaranty or other assurance of the actual results that will occur. The Debtors do not intend to update or otherwise revise the Financial Projections to reflect the occurrence of future events, even in the event that assumptions underlying the Financial Projections are not borne out. The Financial Projections should be read in conjunction with the assumptions and qualifications set forth the Plan.

In addition, in connection with developing the Plan, Moelis performed an analysis of the estimated value of Reorganized Debtors on a going-concern basis, attached here to as Exhibit 4 (the "Valuation Analysis"). The Valuation Analysis is based on various valuation methodologies, including, but not limited to, the trading values approach and the discounted cash flow approach.

Specifically, in preparing the Valuation Analysis, Moelis, among other things: (i) reviewed certain recent publicly available financial results of the Debtors; (ii) reviewed the Financial Projections; and (iii) discussed with certain senior executives the current operations and prospects of the Debtors and Non-Debtor Affiliates, as well as key assumptions related to the Financial Projections. The material financial analyses performed by Moelis consisted of (a) a selected publicly traded companies analysis, (b) a discounted cash flow analysis, and (c) a selected transactions analysis.

THE VALUATION ANALYSIS SET FORTH IN EXHIBIT 4 IS BASED UPON A NUMBER OF ESTIMATES AND ASSUMPTIONS THAT ARE INHERENTLY SUBJECT TO SIGNIFICANT UNCERTAINTIES AND CONTINGENCIES BEYOND THE CONTROL OF THE DEBTORS OR THE REORGANIZED DEBTORS. ACCORDINGLY, THERE CAN BE NO ASSURANCE THAT THE RANGES REFLECTED IN THE VALUATION ANALYSIS WOULD BE REALIZED IF THE PLAN WERE TO BECOME EFFECTIVE, AND ACTUAL RESULTS COULD VARY.

THE VALUATION ANALYSIS REPRESENTS A HYPOTHETICAL VALUATION OF THE REORGANIZED DEBTORS, WHICH ASSUMES THAT SUCH REORGANIZED DEBTORS AND THE NON-DEBTOR AFFILIATES CONTINUE AS AN OPERATING BUSINESS. THE ESTIMATED VALUE SET FORTH IN THE VALUATION ANALYSIS DOES NOT PURPORT TO CONSTITUTE AN APPRAISAL OR NECESSARILY REFLECT THE ACTUAL MARKET VALUE THAT MIGHT BE REALIZED THROUGH A SALE OR LIQUIDATION OF THE REORGANIZED DEBTORS, THEIR SECURITIES OR THEIR ASSETS, WHICH MAY BE MATERIALLY DIFFERENT THAN THE ESTIMATE SET FORTH IN THE VALUATION ANALYSIS. ACCORDINGLY, SUCH ESTIMATED VALUE IS NOT NECESSARILY INDICATIVE OF THE PRICES AT WHICH ANY SECURITIES OF THE REORGANIZED DEBTORS MAY TRADE AFTER GIVING EFFECT TO THE TRANSACTIONS SET FORTH IN THE PLAN. ANY SUCH PRICES MAY BE MATERIALLY DIFFERENT THAN INDICATED BY THE VALUATION ANALYSIS.

X. PLAN-RELATED RISK FACTORS

The implementation of the Plan is subject to a number of material risks, including those described below. Prior to voting on the Plan, each party entitled to vote should carefully consider these risks, as well as all of the information contained in this Disclosure Statement, including the exhibits hereto. If any of these risks occur, New American Apparel may not be able to conduct its business as currently planned, and its financial condition and operating results could be materially harmed. In addition to the risks set forth below, risks and uncertainties not presently known to the Debtors, or risks that the Debtors currently consider immaterial, may also impair the business, financial condition, cash flows and results of operations of New American Apparel. For purposes of the discussion of the Plan-Related Risk Factors, references to "New American Apparel" mean, collectively, Reorganized American Apparel and the Reorganized Debtors, together with their non-Debtor Affiliates.

A. Certain Bankruptcy Considerations

1. If the Plan is not confirmed or consummated, or the reorganization is delayed, distributions to Holders of Allowed Claims would be materially reduced

If the Plan is not confirmed or consummated, there can be no assurance that the Chapter 11 Cases will continue rather than be converted to chapter 7 liquidation cases, or that any alternative plan of reorganization would be on terms as favorable to Holders of Claims as the terms of the Plan. The Debtors anticipate that certain parties in interest may file objections to the Plan in an effort to persuade the Bankruptcy Court that the Debtors have not satisfied the confirmation requirements under sections 1129(a) and (b) of the Bankruptcy Code. Even if (a) no objections are filed, (b) all impaired Classes of Claims accept or are deemed to have accepted the Plan or (c) with respect to any Class that rejects or is deemed to reject the Plan, the requirements for "cramdown" are met, the Bankruptcy Court, which can exercise substantial discretion, may determine that the Plan does not meet the requirements for confirmation under sections 1129(a) and (b) of the Bankruptcy Code. Section 1129(a) of the Bankruptcy Code requires, among other things, (a) a demonstration that the Confirmation of the Plan will not be followed by liquidation or need for further financial reorganization of the Debtors, except as contemplated by the Plan, and (b) that the value of distributions to parties entitled to vote on the Plan who vote to reject the Plan not be less than the value of distributions such creditors would receive if the Debtors were liquidated under chapter 7 of the

Bankruptcy Code. Although the Debtors believe that the Plan will meet the requirements for confirmation, there can be no assurance that the Bankruptcy Court will reach the same conclusion. If the Bankruptcy Court determines that the Plan violates section 1129 of the Bankruptcy Code in any manner, including, among other things, the cramdown requirements under section 1129(b) of the Bankruptcy Code, the Debtors have reserved the right to amend the Plan in such a manner so as to satisfy the requirements of section 1129 of the Bankruptcy Code. If a liquidation or protracted reorganization were to occur, the distributions to Holders of Allowed Claims would be drastically reduced. In particular, the Debtors believe that, as set forth in the Liquidation Analysis, in a liquidation under chapter 7, Holders of Allowed Claims would receive substantially less because of the inability in a liquidation to realize the greater going-concern value of the Debtors' assets. Furthermore, administrative expenses of a chapter 7 trustee and the trustee's attorneys, accountants and other professionals would cause a substantial erosion of the value of the Debtors' estates. Substantial additional Claims may also arise by reason of a protracted reorganization or liquidation, including from the breach of standstill agreements which depend on the absence of substantial delays, and from the rejection of previously assumed unexpired leases and other executory contracts, further reducing distributions to Holders of Allowed Claims.

2. The Plan may not be consummated if the conditions to Effectiveness of the Plan are not satisfied

Sections VII.A and B of the Plan provide for certain conditions that must be satisfied (or waived) prior to the Confirmation Date and for certain other conditions that must be satisfied (or waived) prior to the Effective Date. Many of the conditions are outside of the control of the Debtors and therefore there can be no guarantee that every condition precedent will be met. In such circumstances, there can be no assurance that the Chapter 11 Cases would not be converted to chapter 7 liquidation cases or that any new chapter 11 plan would be as favorable to Holders of Claims as the current Plan. Either outcome may materially reduce distributions to Holders of Claims. See Sections V.G and H to this Disclosure Statement for a description of the conditions to the Confirmation and effectiveness of the Plan, respectively.

3. If the Restructuring Support Agreement is terminated, the ability of the Debtors to confirm and consummate the Plan could be materially and adversely affected

The Restructuring Support Agreement contains a number of termination events, upon the occurrence of which certain parties to the Restructuring Support Agreement may terminate such agreement. If the Restructuring Support Agreement is terminated, each of the parties thereto will be released from their obligations in accordance with the terms of the Restructuring Support Agreement. Such termination may result in the loss of support for the Plan by the Supporting Parties, which could adversely affect the Debtors' ability to confirm and consummate the Plan. If the Plan is not consummated, there can be no assurance that the Chapter 11 Cases would not be converted to chapter 7 liquidation cases or that any new chapter 11 plan would be as favorable to Holders of Claims as the current Plan. Either outcome may materially reduce distributions to Holders of Claims.

4. If the Effective Date is delayed or projected proceeds are not timely received, the Debtors may need to seek additional postpetition financing

The Debtors may not have sufficient cash available in order to operate their business if the Effective Date is delayed or projected proceeds are not timely received by the Debtors. In that case, the Debtors may need additional postpetition financing, which may increase the costs of consummating the Plan. There is no assurance of the terms on which such financing may be available or if such financing will be available. Any increased costs as a result of the incurrence of additional indebtedness may reduce amounts available to distribute to Holders of Allowed Claims.

5. If current estimates of Allowed Secured, Administrative or Priority Claims prove inaccurate, New American Apparel's financial condition could be materially and adversely affected

The estimates of Allowed Claims in this Disclosure Statement are based on the Debtors' review of the Debtors' books and records. Upon the passage of all applicable Claims bar dates, the completion of further analyses of the Proofs of Claim, the completion of Claims litigation and related matters, the total amount of Claims that ultimately become Allowed Claims in the Chapter 11 Cases may differ from the Debtors' estimates, and such

difference could be material to the extent such Allowed Claims are deemed secured or entitled to status as an Allowed Administrative or Priority Claim. If estimates of such Claims are inaccurate, it may materially and adversely affect New American Apparel's financial condition.

6. New American Apparel's ability to use the Debtors' pre-emergence tax attributes may be significantly limited under the United States Federal Income Tax Rules

The Debtors have experienced losses from the operation of their business. As a result, the Debtors estimate that their United States federal income tax net operating loss carryforwards are approximately $207 million as of December 31, 2014, and they expect to have incurred in excess of $50 million additional net operating losses since then through the Petition Date, which amounts could be even higher on the Effective Date. The Debtors' net operating losses and tax basis in assets will be reduced on account of cancellation of indebtedness income, and New American Apparel's ability to use the remaining net operating losses and possibly any recognized built-in losses to offset future taxable income may be significantly limited because the Debtors will experience an "ownership change" as defined in section 382 of the Internal Revenue Code as a result of the Plan and may not qualify or elect to use a special bankruptcy rule that would prevent a limitation on use of the tax attributes from applying. An entity that experiences an ownership change generally is subject to an annual limitation on its use of its pre-ownership change tax attributes after the ownership change equal to the equity value of the corporation immediately before the ownership change, multiplied by the long-term tax-exempt rate posted by the Internal Revenue Service (the "IRS") (subject to certain adjustments). Because the Debtors' ownership change will occur pursuant to the Plan, however, it will be allowed to calculate its limitation, in general, by reference to its equity value immediately after the ownership change (rather than the equity value immediately before the ownership change, as is the case under the general rule for non-bankruptcy ownership changes), thus reflecting the increase in the value of the stock due to the cancellation of debt resulting from the Plan. The annual limitation could also be increased each year to the extent that there is an unused limitation in a prior year. Even if the Debtors qualify for and elect to use a special bankruptcy rule that would prevent a limitation on use of the tax attributes from applying, the Debtors' net operating losses would first be reduced to the extent of certain prior interest deductions taken on account of indebtedness that will be converted into equity under the Plan. The Debtors anticipate that they will experience an ownership change as a result of the Plan, in which case the availability of substantial pre-ownership change tax attributes to offset New American Apparel's future taxable income may be significantly limited.

B. New American Apparel's Financial Condition and Indebtedness

1. New American Apparel's operations might not be profitable after the Effective Date, which could have an adverse impact on the value of Reorganized American Apparel Equity Interests

New American Apparel's operating performance will be tied to, among other things, its ability to successfully implement the turnaround plan devised by the Debtors' management and advisors. Any one of the above-referenced factors, and the risks and other factors described in Section X.C below could have a material adverse impact on New American Apparel's business, financial condition, cash flows and results of operations, which could have an adverse impact on the value of the Reorganized American Apparel Equity Interests issued pursuant to the Plan. Many of the above-referenced factors and risks may be affected by circumstances outside the Debtors' and New American Apparel's control.

Although the implementation of the restructuring and other changes contemplated by the Plan are anticipated to have a positive effect on New American Apparel's business, New American Apparel may not be able to meet the Financial Projections or other results that New American Apparel has assumed in projecting its future business prospects. If New American Apparel does not achieve the Financial Projections or other assumed results, New American Apparel may lack sufficient liquidity to continue operating as planned after the Effective Date. The Financial Projections and other assumed results represent management's current view of New American Apparel's future operations based on currently known facts and various hypothetical assumptions. The Financial Projections and other assumed results do not, however, guarantee New American Apparel's future financial performance.

2. Restrictions imposed by agreements governing indebtedness incurred by New American Apparel or market conditions may limit New American Apparel's ability to obtain additional liquidity

If New American Apparel requires working capital greater than that provided by operating cash flow and cash on hand as of the Effective Date, as a result of these sources of liquidity not meeting current projected needs or if additional cash is needed to fund additional business opportunities, New American Apparel may be required either to obtain other sources of financing or curtail its operations. The availability of such financing may be limited by restrictions imposed by the agreements governing its indebtedness at and after the Effective Date and market conditions prevailing at the time New American Apparel seeks to obtain such financing. No assurance can be given, however, that any additional financing will be available on terms that are favorable or acceptable to New American Apparel. Any inability to raise needed capital could have a material impact on New American Apparel's business, financial condition, cash flows and results of operations.

3. Projections of future performance by New American Apparel are based on assumptions which may not prove accurate and many of which are outside the control of New American Apparel

The Financial Projections attached to this Disclosure Statement as Exhibit 3 are inherently uncertain and are dependent upon the reliability of certain assumptions regarding the performance of New American Apparel in the markets in which it operates. The Financial Projections reflect numerous assumptions, including Confirmation and consummation of the Plan in accordance with its terms, the anticipated future performance of New American Apparel, industry performance, general business and economic conditions, and are subject to many risks, most of which are beyond the control of New American Apparel. Unanticipated events and circumstances occurring after the preparation of the Financial Projections may affect the actual financial results of New American Apparel. Therefore, the actual results achieved throughout the periods covered by the Financial Projections may vary from the projected results. These variations may be material and may adversely affect the ability of New American Apparel to satisfy its obligations following the Effective Date. In addition, this Disclosure Statement does not reflect any events that may occur after the date of this Disclosure Statement. Any failure to successfully implement New American Apparel's business strategy within the time frames currently expected, or at all, may have a material adverse impact on the information contained in this Disclosure Statement, and on New American Apparel's business, financial condition, cash flows and results of operations.

4. Changes to New American Apparel's business plan may cause material adverse changes to New American Apparel's business

New American Apparel may make changes to its business, operations and current business plan, which may have a material adverse impact on New American Apparel's future business, financial condition, cash flows and results of operations.

C. Risks Relating to the Debtors' Business and General Economic Risk Factors

1. Turnover of key executives and the Board of Directors and difficulty of recruiting and retaining key employees could have a material adverse impact on New American Apparel's business

Prior to the Chapter 11 Cases, the Debtors experienced a significant amount of executive-level turnover, which could continue to have a negative impact on New American Apparel's ability to retain key executives and employees and could have a material negative impact on New American Apparel's operations. There is no guarantee that New American Apparel will effectively manage this or any other management transition, which may impact its ability to retain remaining key executives and employees and which could harm New American Apparel's business and operations to the extent there is customer or employee uncertainty regarding the prospects of New American Apparel's business.

2. The termination of the Debtors' prior chief executive officer could continue to have a material adverse impact on New American Apparel's business

The Debtors have incurred substantial expenses in connection with the termination of its prior chief executive officer, Dov Charney, including expenses related to internal and regulatory investigations and the costs of defending lawsuits brought by Mr. Charney and his possible associates. Furthermore, the Debtors believe that Mr. Charney has orchestrated distracting and harmful protests at the Company's headquarters. The Debtors can provide no assurance that Mr. Charney's termination and his related conduct will not have a material adverse impact on New American Apparel or its ability to hire and retain employees and executive officers.

3. Any inability to retain the continued services of key personnel or to identify, hire and retain additional qualified personnel will harm New American Apparel's ability to grow and compete

New American Apparel will depend on the efforts and skills of its management team and other key personnel, and the loss of services of one or more members of this team could have an adverse effect on New American Apparel's business. Senior officers will closely supervise all aspects of New American Apparel's business, in particular the design and production of merchandise and the operation of stores.

If New American Apparel is unable to hire and retain qualified management or if any member of management leaves, such departure could adversely affect New American Apparel's operations and ability to design new products and to maintain and grow the distribution channels for current products.

New American Apparel's ability to anticipate and effectively respond to changing fashion trends will depend in part on the ability to attract and retain key personnel in its design, merchandising and marketing areas, and other functions. In addition, if New American Apparel experiences material growth, it 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 New American Apparel cannot be sure that it will be able to attract and retain a sufficient number of qualified personnel in future periods. If New American Apparel is unable to attract or retain qualified personnel as needed, its growth will be hampered and operating results could be materially adversely affected.

4. Litigation in the ordinary course of business may adversely affect New American Apparel's business

New American Apparel will be subject to various claims and legal actions arising in the ordinary course of its businesses. The Debtors are not able to predict the nature and extent of any such claims and actions and cannot guarantee that the ultimate resolution of such claims and actions will not have a material adverse effect on New American Apparel's business, financial condition, cash flows and results of operations.

5. Increases in the number and magnitude of personal injury claims could adversely affect New American Apparel's operating results

New American Apparel will face inherent business risk from exposure to personal injury or occupational claims and claims from outside parties resulting from New American Apparel's operations. Accidents at the Debtors' manufacturing facilities have resulted, in some cases, in serious injuries and loss of life. New American Apparel could experience material personal injury or occupational claims and investigations arising from past or future accidents and may incur significant costs to defend and/or settle such claims and investigations.

6. Any inability by New American Apparel to maintain the value and image of its brand would likely result in a decline in sales

New American Apparel's success depends on the value and image of its brand. The "American Apparel" name will be integral to New American Apparel's business as well as to the implementation of strategies for expanding the New American Apparel business. Maintaining, promoting and positioning of New American Apparel's brand depend largely on the success of marketing and merchandising efforts and New American Apparel's

ability to provide a consistent, high quality customer experience. The brand of New American Apparel could be adversely affected if New American Apparel fails to achieve these objectives or if its public image or reputation or those of its senior personnel were to be tarnished by negative publicity. Such events could adversely impact New American Apparel's image and result in decreases in sales.

7. Failure to adequately protect trademarks and other intellectual property rights could diminish the value of New American Apparel's brand and reduce demand for New American Apparel merchandise

The Debtors' 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. The Debtors' products are noted for their quality and fit, and the Debtors' distinctive branding has differentiated them in the marketplace. As such, the trademark and variations thereon are valuable assets that are critical to New American Apparel's success. Though New American Apparel likely will continue to vigorously protect its trademarks and brand against infringement, it 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 United States. The unauthorized reproduction or other misappropriation of New American Apparel's trademarks would diminish the value of its brand, which could reduce demand for New American Apparel's products or the prices at which such products can be sold.

8. Seasonal fluctuations in results of operations could have a disproportionate effect on New American Apparel's overall financial condition and results of operations

The Debtors 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 New American Apparel's third or fourth quarter operating results, including adverse weather or unfavorable economic conditions, could have a disproportionate effect on New American Apparel's results of operations for the entire fiscal year.

In order to prepare for peak selling season, New American Apparel will have to produce and keep in stock more merchandise than it would carry at other times of the year. Any unanticipated decrease in demand for New American Apparel's products during the peak selling season could require New American Apparel to sell excess inventory at a substantial markdown, which could reduce 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 merchandise mix, the success of marketing programs, timing and level of markdowns and weather conditions. These factors may cause New American Apparel's comparable store sales results to differ materially from prior periods and from expectations.

9. New American Apparel's plans to expand product offerings and sales channels might not be successful, and implementation of these plans might divert operational, managerial and administrative resources, which could impact New American Apparel's competitive position

New American Apparel's ability to grow its brand and develop or identify new growth opportunities will depend in part on its 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 New American Apprel's 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 expanded product offerings and sales channels fail to maintain and enhance New American Apparel's distinctive brand identity, the brand's image may be diminished and sales may decrease; and

- implementation of these plans may divert management's attention from other aspects of the business and place a strain on management, operational and financial resources, as well as on information systems.

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

10. New American Apparel's ability to attract customers to its stores will depend on the success of the shopping areas in which the stores are located

In order to generate consumer traffic, many of the Debtors' stores are in prominent locations within successful shopping areas. Net sales at these stores are partly dependent on the volume of traffic in those shopping areas. The Debtors' stores benefit from the ability of a shopping area's other tenants to generate consumer traffic in the vicinity of the Debtors' stores and the continuing popularity of the shopping areas. New American Apparel will not be able to 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 that will be beyond New American Apparel's control that would 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 New American Apparel's stores are located, deterioration in the financial conditions of the operators of the shopping areas or developers and consumer spending levels. Furthermore, in pursuing its growth strategy, New American Apparel will be competing with other retailers for prominent locations within the same successful shopping areas. If New American Apparel is unable to secure prime store locations or unable to renew store leases on acceptable terms as they expire from time to time, New American Apparel may not be able to continue to attract the number or quality of customers needed to sustain its projected revenues. All these factors may have a material adverse effect on New American Apparel's financial condition and results of operations.

11. Remodeling of existing stores and expanding the business internationally may strain New American Apparel's resources, adversely impact the performance of existing stores, and delay or prevent successful penetration into international markets

The Debtors' business strategy depends in part on renewing existing store leases on terms that meet financial targets, remodeling existing stores in a timely manner, and cost-efficient operation of these stores. New American Apparel's successful implementation of this portion of Debtors' strategy depends on a number of factors including, but not limited to, the ability to:

- negotiate acceptable leases for these locations;
- complete store design and remodeling projects on time and on budget;
- manage and expand 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 credit facilities, which may limit the ability to fund such expansion;
- manage inventory effectively to meet the needs of existing stores on a timely basis;
- avoid construction delays and cost overruns in connection with the remodeling of 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 financial, operating and management resources.

Any remodeling of existing stores may not result in an increase in revenues even though such initiatives may increase costs. Further, New American Apparel's ability to fund expansion and other capital expenditures will depend on sufficient cash from internal operations (after taking into account debt service obligations and subject to the covenants in debt agreements) or financing subject to general economic, legislative, regulatory and other factors that will be beyond New American Apparel's control and which financing may not be available on commercially reasonable terms or at all.

New American Apparel must be able to effectively renew its existing store leases from time to time. Failure to renew leases on existing store locations on economically beneficial terms could have a material adverse effect on New American Apparel's results of operations.

New American Apparel may 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 New American Apparel to operate its business less effectively, which in turn could cause deterioration in the performance of its stores. In addition, New American Apparel's ability to conduct business in international markets may be affected by legal, regulatory, political and economic risks.

12. Significant fluctuations in exchange rates between the U.S. dollar and foreign currencies may adversely affect New American Apparel's revenues, operating income, net income, earnings per share and cash flows

New American Apparel may face exposure to adverse movements in foreign currency exchange rates as a result of its international operations. These exposures may change over time, and they could have a material adverse impact on New American Apparel's financial results and cash flows. An increase in the value of the U.S. dollar relative to foreign currencies could make New American Apparel's products more expensive and therefore potentially less competitive in foreign markets. Lowering New American Apparel's prices 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.

13. Utilization of foreign suppliers and selling into foreign markets may subject New American Apparel to numerous risks associated with international business that could increase its costs or disrupt the supply of its products, resulting in a negative impact on New American Apparel's business and financial condition

New American Apparel's international operations may subject it 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 New American Apparel's control could disrupt the supply of its products, influence the ability of suppliers to export its products cost-effectively or at all, inhibit its suppliers' ability to procure certain materials and increase New American Apparel's expenses, any of which could harm New American Apparel's business, financial condition and results of operations.

14. Cost increases in, or shortages of, the materials or labor used to manufacture New American Apparel's products could negatively impact its business and financial condition

The manufacture of the Debtors' products is labor intensive and utilizes raw materials supplied by third parties. An important part of the Debtors' branding and marketing is that its products are made in the United States. 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. The Debtors currently 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 the Debtors in their 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, New American Apparel's financial results could be materially adversely affected and its ability to compete against companies with lower labor costs could be hampered. Material increases in labor costs in the U.S. could also force New American Apparel to move all or a portion of its manufacturing overseas, which could adversely affect its brand identity.

Similarly, increases in the prices of raw materials or the prices New American Apparel may pay to the suppliers of the raw materials used in the manufacturing of its products, and shortages in such materials, could have a material adverse effect on its 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 manufacturing costs and could result in a material adverse effect on New American Apparel's financial condition and results of operations. The Debtors are unable to predict whether New American Apparel will be able to successfully pass on the added cost of raw materials to its wholesale and retail customers. In addition, increases in the cost of, or shortages in, raw material inputs could adversely affect New American Apparel's ability to compete. Further, New American Apparel could be forced to seek to offset any increased raw material costs by relocating all or a portion of its manufacturing overseas to locations with lower labor costs.

15. New American Apparel's manufacturing operations likely will be located in higher-cost geographic locations, placing it at a possible disadvantage to competitors that have a higher percentage of their manufacturing operations overseas and/or in lower-cost locations in the United States

Despite the general industry-wide migration of manufacturing operations to lower-cost locations, such as Central America, the Caribbean Basin and Asia, New American Apparel's textile manufacturing operations likely will be located in the Los Angeles, California region, which is a higher-cost location relative to offshore and many other U.S. locations. In addition, the Debtors' competitors generally source or produce a greater portion of their textiles from foreign sources with lower costs. The Debtors' competitors' lower costs of production may allow them to offer their products at lower prices, which could force New American Apparel to lower its margins or to compete more vigorously with non-price-competitive strategies to preserve its margins and sales volume.

16. New American Apparel's likely reliance on operational facilities located in the same vicinity will make its business susceptible to local and regional disruptions or adverse conditions

New American Apparel likely will conduct all of its manufacturing operations in the Los Angeles metropolitan area as the Debtors have. Among other facilities in the area, the Debtors' 800,000 square foot facility in downtown Los Angeles houses executive offices as well as cutting and sewing operations. The Debtors' distribution operations are located in La Mirada, California. As a result of geographic concentration, New American Apparel's operations will be 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 New American Apparel's ability to receive and process orders and provide products and services to stores and customers, which could result in lost sales, canceled sales and a loss of loyalty to its brand. In addition, if there were a major earthquake, New American Apparel may have to cease operations for a significant period due to possible damage to its factories or an inability to deliver products to its distribution center.

17. Unionization of employees at New American Apparel's facilities could result in increased risk of work stoppages and high labor costs

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

18. A disruption in New American Apparel's information technology infrastructure could interrupt its operations

Like the Debtors, New American Apparel likely will depend on information systems to operate its 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. New American Apparel may experience operational problems with its information systems as a result of system failures, viruses, computer "hackers" or other causes. Any material disruption or slowdown of its systems could cause information, including data related to customer orders, to be lost or delayed, delays in the delivery of merchandise to stores and customers or lost sales.

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

19. A failure in online retail operations could significantly disrupt New American Apparel's business and lead to reduced sales and reputational damage

Online retail operations accounted for approximately 10% of the Debtors' net sales for the year ended December 31, 2014. Such sales are subject to numerous risks that could have a material adverse effect on New American Apparel's 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 the 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.

New American Apparel's failure to successfully respond to these risks and uncertainties could reduce online sales and damage the reputation of its brand.

20. Failure to protect the integrity and security of New American Apparel's information systems and customers' information could materially adversely affect New American Apparel's results of operations, damage its reputation and expose New American Apparel to litigation

New American Apparel's operations, including potential sales through its e-commerce website and retail stores, likely will 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 New American Apparel's information systems, could materially adversely affect results of operations. If the security of the customer data stored on New American Apparel's servers or transmitted by its network is breached, New American Apparel's reputation could be materially adversely affected, which could negatively impact sales results, and New American Apparel could be subject to litigation. To date, the Debtors have not experienced a significant security breach.

21. Changes in immigration laws or enforcement actions or investigations under such laws could materially adversely affect New American Apparel's labor force, manufacturing capabilities, operations and financial results

The Debtors rely, and New American Apparel likely will 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 New American Apparel. As a result, New American Apparel could experience very substantial turnover of employees on short or no notice, which could result in manufacturing and other delays. New American Apparel may also have difficulty attracting or hiring new employees in a timely manner, resulting in further delays. These delays could materially adversely affect New American Apparel's revenues and costs and its ability to compete. If New American Apparel were unable to attract and retain sufficient employees, its manufacturing capabilities, operations and financial results would be adversely affected.

22. Changes to, or violations of, customs, advertising, consumer protection, privacy, zoning and occupancy and labor and employment laws could require New American Apparel to modify its current business practices and incur increased costs

New American Apparel likely will be 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, New American Apparel could be subject to litigations, fines and penalties and experience increased costs of certain goods and delays in shipments of goods, which would hurt New American Apparel's business and results of operations.

New American Apparel also likely will be 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, New American Apparel may incur additional wage and benefit costs, which could adversely affect its profitability.

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

23. Third party failure to deliver merchandise to stores and customers could result in lost sales or reduced demand for New American Apparel's merchandise

The efficient operation of New American Apparel's stores and wholesale business will depend on the timely receipt of merchandise from its distribution centers. Independent third party transportation companies likely will deliver a substantial portion of New American Apparel's merchandise to its stores. These shippers may not continue to ship New American Apparel's products at current pricing or terms. These shippers also 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 New American Apparel's 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 New American Apparel's distribution needs would disrupt its operations and could have a material adverse effect on New American Apparel's financial condition and results of operations.

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

24. New American Apparel will have potential exposure to credit risks on its wholesale sales

New American Apparel will be exposed to the risk of financial non-performance by its customers, primarily in its wholesale business. Sales to wholesale customers represented approximately 31% of the Debtors' net sales for the year ended December 31, 2014. New American Apparel's extension of credit likely will involve considerable use of judgment and be based on an evaluation of each customer's financial condition and payment history. New American Apparel likely will monitor its credit risk exposure by periodically obtaining credit reports and updated financials of its customers. Despite the maintenance of an allowance for doubtful accounts for potential credit losses based upon historical trends and other available information, 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 New American Apparel's results of operations.

25. New American Apparel will operate in highly competitive retail and apparel industries and its market share may be adversely impacted at any time by the significant number of competitors in these industries that may compete more effectively than New American Apparel

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 the Debtors manufacture are determined based on market conditions including the price of raw materials. There can be no assurance that New American Apparel will be able to compete successfully in the future.

New American Apparel will 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 will have greater name recognition and be better capitalized than New American Apparel, 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 New American Apparel will be able to.

New American Apparel also will face competition in European, Asian and Canadian markets from established regional and national chains. New American Apparel's 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 New American Apparel's international business is not successful, its results of operations could be adversely affected.

The wholesale business will compete with numerous wholesale companies based on the quality, fashion, availability and price of wholesale product offerings. Many of these companies will have greater name recognition

and greater financial and other resources than New American Apparel. If New American Apparel cannot successfully compete with these companies, its business and results of operations could be adversely affected.

26. Purchases of retail apparel merchandise are generally discretionary and economic conditions may cause a decline in consumer spending which could adversely affect New American Apparel's business and financial performance

New American Apparel's operations and performance will depend significantly on worldwide economic conditions and their impact on levels of consumer spending, particularly in discretionary areas such as fashion apparel. New American Apparel's 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 New American Apparel will 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 New American Apparel's products. In addition, reduced consumer spending may cause New American Apparel to lower prices or drive New American Apparel to offer additional products at promotional prices, any of which would have a negative impact on gross profit.

New American Apparel's ability to meet customers' demands will depend, in part, on its ability to obtain timely and adequate delivery of materials, parts and components from its suppliers. Global financial conditions may materially and adversely affect the ability of New American Apparel's 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 New American Apparel's financial results. As a consequence, New American Apparel's operating results for a particular period may be difficult to predict, and prior results may not necessarily be indicative of results to be expected in future periods. Any of the foregoing effects could have a material adverse effect on New American Apparel's business, financial condition, and results of operations.

27. An inability to gauge fashion trends and react to changing consumer preferences in a timely manner could result in a decrease of New American Apparel's sales

New American Apparel's success will be largely dependent upon its ability to gauge the fashion tastes of its 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 New American Apparel misjudges the market for its merchandise or the products suitable for its market, New American Apparel's sales will be adversely affected. Merchandise misjudgments also could have a material adverse effect on New American Apparel's 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 will require New American Apparel to carry a significant amount of inventory, especially prior to peak selling seasons when New American Apparel will build up its inventory levels. As a result, New American Apparel 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.

28. 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, which could place New American Apparel at a disadvantage to those competitors

New American Apparel's products will be 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 New American Apparel's business, financial condition and results of operation.

29. Current environmental laws, or laws enacted in the future, may harm New American Apparel's business

New American Apparel will be 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). New American Apparel also likely will be 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 New American Apparel's operations likely will involve the handling of chemicals and wastes, some of which are or may become regulated as hazardous substances. New American Apparel's product design and procurement operations must comply with new and future requirements relating to the materials composition of its products. If New American Apparel fails to comply with the rules and regulations regarding the use and sale of such regulated substances, it 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 New American Apparel's properties or any associated offsite disposal locations, or if contamination from prior activities is discovered at any of its properties, New American Apparel may be held liable. The amount of such liability could be material.

D. Risks Related to Reorganized American Apparel Equity Interests

1. Holders of Reorganized American Apparel Equity Interests may not be able to recover in future cases of bankruptcy, liquidation or reorganization

On the Effective Date, Reorganized American Apparel Equity Interests will be distributed to the Holders of Allowed Claims in Classes 3A through 3F, and a certain amount of additional Reorganized American Apparel Equity Interests will be issued pursuant to the Equity Commitment Agreement. Upon the Effective Date, each Holder of Reorganized American Apparel Equity Interests will become subordinated to all Liabilities of New American Apparel. Therefore, the assets of New American Apparel would not be available for distribution to any holder of Reorganized American Apparel Equity Interests in any bankruptcy, liquidation or reorganization of New American Apparel unless and until all indebtedness of New American Apparel has been paid.

2. There is not an established market for Reorganized American Apparel Equity Interests, and Holders will be subject to restrictions on resale and transfer under the New LLC Agreement, which could make such interests illiquid

No established market exists for the Reorganized American Apparel Equity Interests. New American Apparel is not expected, in the near future, to cause Reorganized American Apparel Equity Interests to be listed on any national exchange or interdealer quotation system or to cooperate with any registered broker-dealer who may seek to initiate price quotations for the Reorganized American Apparel Equity Interests in the over the counter market. In addition, the New LLC Agreement governing the Reorganized American Apparel Equity Interests will contain restrictions on transfer by Holders, including transfers to certain prohibited transferees, prohibition on transfers that could result in Reorganized American Apparel being required to file reports under the Exchange Act, and compliance with certain rights of first offer and, if applicable, tag-along and drag-along rights. Furthermore, under the Registration Rights Agreement, the Supporting Parties, any affiliates thereof that receive Reorganized American Apparel Equity Interests (whether pursuant to the Plan or the Equity Commitment Agreement), and Holders of Reorganized American Apparel Equity Interests who are party thereto will have limited rights to cause New American Apparel to file a registration statement registering their Reorganized American Apparel Equity Interests with the SEC. Therefore, there cannot be any assurance that the Reorganized American Apparel Equity

Interests will be a tradable, liquid security at any time after the Effective Date. If no public market for the Reorganized American Apparel Equity Interests develops, holders of such securities may have difficulty selling or obtaining timely and accurate valuation with respect to such securities.

Even if a market were to develop in the future, there cannot be any assurance as to the degree of price volatility in any market that develops for the Reorganized American Apparel Equity Interests. Some Holders who receive Reorganized American Apparel Equity Interests pursuant to the Plan may not elect to hold equity on a long-term basis. Sales by future equityholders of a substantial number of interests after the Effective Date could significantly reduce the market price of the Reorganized American Apparel Equity Interests. Moreover, the perception that these equityholders might sell significant amounts of the Reorganized American Apparel Equity Interests could depress the market price of such interests for a considerable period. Sales of the Reorganized American Apparel Equity Interests, and the possibility thereof, could make it more difficult for New American Apparel to sell equity, or equity-related securities, in the future at a time and price that they consider appropriate.

The valuation of Reorganized American Apparel Equity Interests contained in this Disclosure Statement is not an estimate of the prices at which the Reorganized American Apparel Equity Interests may trade or be sold in the future, and the Debtors have not attempted to make any such estimate in connection with the development of the Plan. The value of the Reorganized American Apparel Equity Interests ultimately may be substantially higher or lower than reflected in the valuation assumptions provided in this Disclosure Statement.

Transfers of Reorganized American Apparel Equity Interests may be subject to customary restrictions consistent with the preservation of the net operating loss and other tax attributes of the Debtors. If an alternative structure determination is made by the Requisite Supporting Parties that causes New American Apparel to be treated as a partnership for U.S. federal income tax purposes (which alternative structure shall require the consent of the Debtors only if such structure results in a transfer of a Debtor's assets to a new entity that is not a successor of the Debtor for tax purposes), transfers of Reorganized American Apparel Equity Interests will be subject to customary restrictions to avoid treatment as a "publicly traded partnership".

3. Certain holders of Reorganized American Apparel Equity Interests could have a significant degree of influence on New American Apparel and matters presented to holders of Reorganized American Apparel Equity Interests

Certain holders of Reorganized American Apparel Equity Interests are expected to acquire a significant ownership interest in New American Apparel pursuant to the Plan. In addition, out of New American Apparel's seven directors initially appointed to the New Board as of the Effective Date, five will have been selected directly by certain of the Supporting Parties. Thus, certain holders of Reorganized American Apparel Equity Interests (or two or more holders acting together) may have significant influence or control over the operations of New American Apparel and matters presented to equityholders of New American Apparel.

4. Future issuances of Reorganized American Apparel Equity Interests may cause holders to incur substantial dilution

In the future, New American Apparel may grant equity securities to its employees, consultants and directors under certain stock option and incentive plans, and New American Apparel intends to adopt the Management Incentive Plan to be effective following the Effective Date, which contemplates the issuance of restricted stock units for, and options to purchase, Reorganized American Apparel Equity Interests to management of New American Apparel under certain circumstances. Furthermore, New American Apparel may issue equity securities in connection with future investments, acquisitions or capital raising transactions. Such grants or issuances could constitute a substantial portion of the then-outstanding common stock and in certain circumstances may be exempt from the pre-emptive rights contained in the New LLC Agreement, which may result in substantial dilution in ownership to holders of equity interests in Reorganized American Apparel, including of Reorganized American Apparel Equity Interests issued pursuant to the Plan.

5. New American Apparel does not expect to pay dividends in the near future

New American Apparel does not anticipate that cash dividends or other distributions will be paid with respect to the Reorganized American Apparel Equity Interests in the foreseeable future and there can be no

assurance that such dividends or other distributions will be paid at any time in the future or at all. In addition, restrictive covenants in certain debt instruments to which New American Apparel will, or may, be a party, may limit the ability of New American Apparel to pay dividends or for New American Apparel to receive dividends from its subsidiaries.

XI. CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF CONSUMMATION OF THE PLAN

A. General

A DESCRIPTION OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN IS PROVIDED BELOW. THE DESCRIPTION IS BASED ON THE INTERNAL REVENUE CODE (THE "IRC"), TREASURY REGULATIONS, JUDICIAL DECISIONS AND ADMINISTRATIVE DETERMINATIONS, ALL AS IN EFFECT ON THE DATE OF THIS DISCLOSURE STATEMENT AND ALL SUBJECT TO CHANGE, POSSIBLY WITH RETROACTIVE EFFECT. CHANGES IN ANY OF THESE AUTHORITIES OR IN THEIR INTERPRETATION COULD CAUSE THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN TO DIFFER MATERIALLY FROM THE CONSEQUENCES DESCRIBED BELOW.

THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND, IN IMPORTANT RESPECTS, UNCERTAIN. NO RULING HAS BEEN REQUESTED FROM THE INTERNAL REVENUE SERVICE; NO OPINION HAS BEEN REQUESTED FROM DEBTORS' COUNSEL CONCERNING ANY TAX CONSEQUENCE OF THE PLAN; AND NO TAX OPINION IS GIVEN BY THIS DISCLOSURE STATEMENT.

THE DESCRIPTION THAT FOLLOWS DOES NOT COVER ALL ASPECTS OF U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO THE DEBTORS OR HOLDERS OF CLAIMS. FOR EXAMPLE, THE DESCRIPTION DOES NOT ADDRESS ISSUES OF SPECIAL CONCERN TO CERTAIN TYPES OF TAXPAYERS, SUCH AS DEALERS IN SECURITIES, LIFE INSURANCE COMPANIES, FINANCIAL INSTITUTIONS, TAX EXEMPT ORGANIZATIONS, PARTNERSHIPS OR PARTNERS IN PARTNERSHIPS, NOR DOES IT ADDRESS TAX CONSEQUENCES TO HOLDERS OF INTERESTS IN THE DEBTORS OR TO HOLDERS OF CLAIMS WHO ARE NOT ENTITLED TO VOTE ON THE PLAN. THE DESCRIPTION ALSO DOES NOT DISCUSS STATE, LOCAL, NON-U.S. OR NON-INCOME TAX CONSEQUENCES.

FOR THESE REASONS, THE DESCRIPTION THAT FOLLOWS IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND PROFESSIONAL TAX ADVICE BASED UPON THE INDIVIDUAL CIRCUMSTANCES OF EACH HOLDER OF A CLAIM. HOLDERS OF CLAIMS ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS REGARDING THE FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES OF THE PLAN.

B. U.S. Federal Income Tax Consequences to the U.S. Debtors

1. Conversion to Limited Liability Company

The Plan provides that, on the Effective Date, American Apparel will be converted, merged or otherwise reorganized into a Delaware limited liability company, and membership interests in Reorganized American Apparel will be issued pursuant to the Plan (hereinafter, the "LLC Conversion"). Reorganized American Apparel is expected to elect to be treated as a corporation for U.S. federal income tax purposes effective on the earlier of the Effective Date or the date of formation, and the remainder of this discussion of U.S. federal income tax consequences of the Plan assumes that Reorganized American Apparel will elect to be treated as a corporation for U.S. federal income tax purposes effective on the earlier of the Effective Date or the date of formation.

Accordingly, it is expected that the LLC Conversion would be a "reorganization" of the Debtors for U.S. federal income tax purposes. Therefore, the Debtors generally would not recognize taxable gain or loss on the LLC Conversion, and the NOLs and other tax attributes of the Debtors generally would carry over to the Reorganized Debtors following the LLC Conversion, subject to certain restrictions and limitations, including those described

below in the discussions regarding cancellation of debt income, limitation on NOL carryforwards, and the alternative minimum tax.

Other U.S. federal income tax consequences to the Debtors may result depending on the terms of any additional Restructuring Transactions that occur with respect to the Debtors.

2. Cancellation of Debt Income

Generally, the discharge of a debt obligation of a U.S. debtor for an amount less than the adjusted issue price (in most cases, the amount the debtor received on incurring the obligation, with certain adjustments) creates cancellation of indebtedness ("COD") income, that must be included in the debtor's income. The amount of the U.S. Debtors' COD income is dependent upon the value of the Plan consideration distributed on account of the Allowed Claims against the Debtors relative to the amount of such Allowed Claims (or adjusted issue price if different from the amount of the Allowed Claims), as well as the extent to which those Allowed Claims constitute debt for federal income tax purposes and to the extent the payment of such Allowed Claims would be deductible for tax purposes. However, COD income is excluded from taxable income by a taxpayer that is a debtor in a reorganization case if the discharge is granted by the bankruptcy court or pursuant to a plan of reorganization approved by a bankruptcy court. The Plan, if approved, would enable the U.S. Debtors to qualify for this bankruptcy exclusion rule with respect to any COD income triggered by the Plan.

If debt of a U.S. Debtor is discharged in a reorganization case qualifying for the bankruptcy exclusion, however, certain income tax attributes otherwise available and of value to the debtor are reduced, in most cases by the amount of the COD income. Tax attributes subject to reduction include, in the following order: (a) net operating losses ("NOLs") and NOL carryforwards; (b) most credit carryforwards, including the general business credit and the minimum tax credit; (c) capital losses and capital loss carryforwards; (d) the tax basis of the debtor's assets, but not in an amount greater than the excess of the aggregate tax bases of the property held by the debtor immediately after the discharge over the aggregate amount of the debtor's liabilities immediately after the discharge; and (e) foreign tax credit carryforwards. A U.S. debtor may elect to avoid the prescribed order of attribute reduction and instead reduce the basis of depreciable property first.

In the case of affiliated corporations filing a consolidated return, such as American Apparel and its consolidated U.S. subsidiaries that are taxed as corporations (the "American Apparel Loss Group"), the attribute reduction rules apply first to the separate attributes of or attributable to the particular corporation whose debt is being discharged, and then, if necessary, to certain attributes of other members of the group. Accordingly, COD income of a debtor would result first in the reduction of any NOLs and other attributes, including asset basis, of or attributable to such debtor, and then, potentially, of consolidated NOLs and/or basis of or attributable to other members of the consolidated group. Attribute reduction does not occur until immediately after the close of the taxable year in which the debt discharge occurs, i.e., after use of any such NOLs and other attributes to determine the consolidated group's taxable income for the tax year in which the debt is discharged.

The American Apparel Loss Group is expected to recognize a significant amount of COD income in connection with the implementation of the Plan. The Reorganized Debtors have not yet determined whether to elect to first reduce tax basis in their depreciable property or to reduce NOLs first. Regardless of whether the Reorganized Debtors make this election, it is expected that the Reorganized American Apparel Loss Group will have significant NOLs remaining after reduction for COD income, although no assurance can be given at this time.

3. Limitation on NOL Carryforwards

a. General

The Debtors estimate that their U.S. federal income tax NOL carryforwards are approximately $207 million as of December 31, 2014, and they expect to have incurred in excess of $50 million additional NOLs since then through the Petition Date, which amounts could be even higher on the Effective Date. These NOLs are primarily located in American Apparel. The Debtors do not believe that the NOLs are currently subject to any limitations on use.

Section 382 of the IRC provides rules limiting the utilization of a corporation's NOLs and other losses, deductions and credits following a more than 50% change in ownership of a corporation's equity (an "Ownership Change"). An Ownership Change will occur with respect to the American Apparel Loss Group in connection with the Plan. Section 382(1)(6) of the IRC sets forth the limitation provisions applicable to corporations that undergo an ownership change in bankruptcy that does not qualify for, or for which the corporations elects out of, the Bankruptcy Exception (as defined below). Therefore, post-Effective Date usage of any NOLs and other tax attributes of the American Apparel Loss Group (after reduction for COD income) by the Reorganized American Apparel Loss Group will be limited by section 382(l)(6) of the IRC, unless the Bankruptcy Exception applies to the transactions contemplated by the Plan. Under section 382(1)(6), the amount of post-ownership change annual taxable income of the Reorganized American Apparel Loss Group that can be offset by the pre-ownership change NOLs of the American Apparel Loss Group generally cannot exceed an amount equal to the product of (a) the applicable federal long-term tax-exempt rate in effect on the date of the ownership change (e.g., 2.82 % for an ownership change occurring in October 2015) and (b) the value of Reorganized American Apparel Equity Interests immediately after implementation of the Plan (the "Annual Limitation"). The value of Reorganized American Apparel Equity Interests for purposes of this computation would reflect the increase, if any, in value resulting from any surrender or cancellation of any Claims in the Chapter 11 Cases.

The Annual Limitation may be increased if American Apparel has a net unrealized built-in gain at the time of an ownership change. If, however, American Apparel has a net unrealized built-in loss at the time of an ownership change, the Annual Limitation may apply to such net unrealized built-in loss.

Any unused Annual Limitation may be carried forward, thereby increasing the Annual Limitation in the subsequent taxable year. However, if Reorganized American Apparel and its subsidiaries do not continue the Debtors' historic business or use a significant portion of their assets in a new business for two years after the ownership change (the "Business Continuity Requirement"), the Annual Limitation resulting from the ownership change is zero.

b. Bankruptcy Exception

Section 382(l)(5) of the IRC (the "Bankruptcy Exception") provides that the Annual Limitation will not apply to limit the utilization of a debtor's NOLs or built-in losses if the debtor stock owned by those persons who were stockholders of the debtor immediately before the ownership change, together with the stock received by certain holders of claims pursuant to the debtor's plan, comprise 50% or more of the value of all of the debtor's stock outstanding immediately after the ownership change. Stock received by holders will be included in the 50% calculation if, and to the extent that, such holders constitute "qualified creditors." A "qualified creditor" is a holder of a claim that (i) was held by such holder since the date that is 18 months before the date on which the debtor first filed its petition with the bankruptcy court or (ii) arose in the ordinary course of business and is held by the person who at all times held the beneficial interest in such claim. In determining whether the Bankruptcy Exception applies, certain holders of claims that would own a *de minimis* amount of the debtor's stock pursuant to the debtor's plan are presumed to have held their claims since the origination of such claims. In general, this *de minimis* rule applies to holders of claims who would own directly or indirectly less than 5% of the total fair market value of the debtor's stock pursuant to the plan. The application of this rule to the American Apparel Loss Group is uncertain.

If the Bankruptcy Exception applies, a subsequent ownership change with respect to the Reorganized American Apparel Loss Group occurring within two years after the Effective Date will result in the reduction of the Annual Limitation that would otherwise apply to the subsequent ownership change to zero. Thus, an ownership change within two years after the Effective Date would eliminate the ability of the American Apparel Loss Group to use pre-ownership change NOLs thereafter. If the Bankruptcy Exception applies, the Business Continuity Requirement does not apply, although a lesser business continuation requirement may apply under Treasury regulations. If a change of ownership occurs after the two years following the Effective Date, then the American Apparel Loss Group will become subject to limitation in the use of their NOLs based upon the value of the American Apparel Loss Group at the time of that subsequent change.

Although the Annual Limitation will not apply to restrict the deductibility of NOLs if the Bankruptcy Exception applies, NOLs of the American Apparel Loss Group will be reduced by the amount of any deduction for any interest paid or accrued, with respect to all Allowed Claims converted into Reorganized American Apparel

Equity Interests, by the Debtors during the three taxable years preceding the taxable year in which the ownership change occurs and during the portion of the taxable year of the ownership change preceding the ownership change.

The Reorganized American Apparel Loss Group has not yet determined whether it is eligible for the Bankruptcy Exception. Even if the Bankruptcy Exception otherwise applies, the Reorganized Debtors may elect to not have the Bankruptcy Exception apply, in which event the Annual Limitation would apply. The Reorganized American Apparel Loss Group will have until the due date of the tax return for the taxable year of the Effective Date to make such a determination. Transfers of Reorganized American Apparel Equity Interests may be subject to customary restrictions consistent with the preservation of the NOLs and other tax attributes of the Debtors, including as necessary to avoid a second ownership change that would eliminate the benefits of the Bankruptcy Exception.

4. Alternative Minimum Tax

In general, a federal alternative minimum tax ("AMT") is imposed on a corporation's alternative minimum taxable income ("AMTI") at a 20% rate to the extent that such tax exceeds the corporation's regular federal income tax for the year. AMTI is generally equal to regular taxable income with certain adjustments. For purposes of computing AMTI, certain tax deductions and other beneficial allowances are modified or eliminated. In particular, even though a corporation might otherwise be able to offset all of its taxable income for regular federal income tax purposes by available NOL carryforwards, a corporation is generally entitled to offset no more than 90% of its AMTI with NOL carryforwards (as recomputed for AMT purposes). Accordingly, usage of the Debtors' NOLs by the Reorganized Debtors may be subject to limitations for AMT purposes in addition to any other limitations that may apply.

If a corporation (or a consolidated group) undergoes an ownership change and is in a net unrealized built-in loss position on the date of the ownership change, the corporation's (or group's) aggregate tax basis in its assets may be reduced for certain AMT purposes to reflect the fair market value of such assets as of the change date.

Any AMT that a corporation pays generally will be allowed as a nonrefundable credit against its regular federal income tax liability in future taxable years when the corporation is no longer subject to AMT.

C. U.S. Federal Income Tax Consequences to U.S. Holders of Allowed Claims

For purposes of this discussion, a "U.S. Holder" is a Holder that is: (1) an individual citizen or resident of the United States for U.S. federal income tax purposes; (2) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any state thereof or the District of Columbia; (3) an estate the income of which is subject to U.S. federal income taxation regardless of the source of such income; or (4) a trust (a) if a court within the United States is able to exercise primary jurisdiction over the trust's administration and one or more United States persons have authority to control all substantial decisions of the trust or (b) that has a valid election in effect under applicable Treasury regulations to be treated as a United States person. The discussion below assumes that the U.S. Holders of Allowed Claims against any Debtor are treated as receiving property from that Debtor in satisfaction of their Allowed Claims, and the Debtors intend to treat distributions under the Plan as such.

The U.S. federal income tax consequences of the Plan to a U.S. Holder of an Allowed Claim will depend, in part, on the tax characterization of the exchanges of Allowed Claims for other property, whether the Prepetition Notes constitute "tax securities" for U.S. federal income tax purposes, what type of consideration was received in exchange for an Allowed Claim, whether the U.S. Holder reports income on the accrual or cash basis, whether the U.S. Holder has taken a bad debt deduction or worthless security deduction with respect to an Allowed Claim and whether the U.S. Holder receives distributions under the Plan in more than one taxable year.

1. Definition of Securities

There is no precise definition of the term "security" under the U.S. federal income tax law. Rather, all facts and circumstances pertaining to the origin and character of a claim are relevant in determining whether it is a security. Nevertheless, courts generally have held that a debt instrument having a term of less than five years will not be considered a tax security, while corporate debt evidenced by a written instrument and having an original maturity of ten years or more will be considered a tax security.

2. Tax Treatment of Exchange of Securities for Equity

Under the Plan, holders of Prepetition Notes (in Classes 3A through 3F) will receive Reorganized American Apparel Equity Interests in exchange for their Prepetition Notes.

The Prepetition Notes have a term of approximately seven years. To the extent the Prepetition Notes constitute "securities" for U.S. federal income tax purposes, the exchange of Prepetition Notes for Reorganized American Apparel Equity Interests pursuant to the Plan would be treated as part of a "reorganization" for U.S. federal income tax purposes. If the exchange is treated as a "reorganization," a U.S. Holder who receives Reorganized American Apparel Equity Interests in exchange for Prepetition Notes pursuant to the Plan generally would not recognize gain or loss on the exchange. To the extent any portion of a U.S. Holder's recovery is allocable to interest on the Prepetition Notes, such portion would be treated as interest income to such holder. See "Certain Other Tax Considerations for Allowed Holders of Claims — Accrued but Unpaid Interest" below for a discussion of the allocation of recoveries first to principal and then to interest

If the exchange of Prepetition Notes for Reorganized American Apparel Equity Interests pursuant to the Plan is treated as "reorganization," the U.S. Holder's aggregate tax basis in the Reorganized American Apparel Equity Interests (apart from any portion thereof allocable to interest) would equal the holder's basis in its Prepetition Notes. The holding period for the Reorganized American Apparel Equity Interests (apart from any portion allocable to interest) would include the holder's holding period in the Prepetition Notes surrendered.

The U.S. Holder's tax basis in any Reorganized American Apparel Equity Interests that are allocable to accrued interest on a Prepetition Note would equal the fair market value of such Reorganized American Apparel Equity Interests on the date of the distribution to the holder, and the holding period of such Reorganized American Apparel Equity Interests would begin on the day after the day of receipt.

3. Tax Treatment of Other Exchanges

A U.S Holder of an Allowed General Unsecured Claim (in Classes 4A through 4F) and, to the extent the Prepetition Notes (in Classes 3A through 3F) do not constitute "securities" for U.S. federal income tax purposes (or if a holder of a Prepetition Note receives an alternate distribution of Cash), a holder of a Prepetition Note, that receives Reorganized American Apparel Equity Interests, units in the Litigation Trust, Cash and/or the GUC Support Payment, as the case may be, in exchange for such holder's Allowed Claim would recognize gain or loss in an amount equal to the difference between (a) the amount of any Cash and the fair market value of the Reorganized American Apparel Equity Interests, units in the Litigation Trust and/or the GUC Support Payment received by the holder with respect to its Allowed Claim and (b) the holder's adjusted tax basis in its Allowed Claim.

To the extent any portion of a U.S. Holder's recovery is allocable to interest on the U.S. Holder's Allowed Claim, such portion would be treated as interest income to such holder. See "Certain Other Tax Considerations for Holders of Allowed Claims — Accrued but Unpaid Interest" below for a discussion of the allocation of recoveries first to principal and then to interest.

The tax basis of any Reorganized American Apparel Equity Interests or units in the Litigation Trust received under the Plan by a U.S. Holder of an Allowed General Unsecured Claim (in Classes 4A through 4F) and, to the extent the Prepetition Notes (in Classes 3A through 3F) do not constitute "securities" for U.S. federal income tax purposes, a U.S. Holder of a Prepetition Note, would equal the fair market value of the Reorganized American Apparel Equity Interests and/or units in the Litigation Trust on the date of distribution to the holder by Reorganized American Apparel. The holding period thereof generally would begin on the day following the day of receipt.

Any gain or loss recognized would be capital or ordinary, depending on the status of the Allowed Claim in the U.S. Holder's hands, including whether the Allowed Claim constitutes a market discount bond in the holder's hands. Generally, any gain or loss recognized by such a holder of an Allowed Claim would be a long-term capital gain or loss if the Allowed Claim is a capital asset in the hands of the holder and the holder has held such Allowed Claim for more than one year, unless the holder had previously claimed a bad debt deduction or the holder had accrued market discount with respect to such Allowed Claim. The deductibility of capital losses is subject to limitations. See "Certain Other Tax Considerations for Holders of Allowed Claims — Market Discount" below for a discussion of the character of any gain recognized in respect of an Allowed Claim with accrued market discount.

4. Litigation Trust

As more fully described in the Plan and herein, the Litigation Trust is intended to be treated, for federal income Tax purposes, as a grantor trust that is a liquidating trust within the meaning of Treasury Regulations section 301.7701-4(d), with no objective to continue or engage in the conduct of a trade or business. For U.S. federal income tax purposes, the transfer of the Litigation Trust Assets to the Litigation Trust will be treated as a transfer of the Litigation Trust Assets from the Debtors to the Litigation Trust Beneficiaries (the holders of Allowed General Unsecured Claims on a pro rata basis), followed by the Litigation Trust Beneficiaries' transfer of the Litigation Trust Assets to the Litigation Trust. The Litigation Trust Beneficiaries will thereafter be treated for U.S. federal income tax purposes as the grantors and deemed owners of their respective shares of the Litigation Trust Assets. The Litigation Trust Beneficiaries will include in their annual taxable incomes, and pay tax to the extent due on, their allocable shares of each item of income, gain, deduction, loss and credit, and all other such items will be allocated by the Litigation Trustee to the Litigation Trust Beneficiaries using any reasonable allocation method. The Litigation Trustee will be required by the Litigation Trust Agreement to file income Tax returns for the Litigation Trust as a grantor trust of the Litigation Trust Beneficiaries. In addition, the Litigation Trust Agreement will require consistent valuation by the Litigation Trustee and the Litigation Trust Beneficiaries, for all federal income Tax and reporting purposes, of any property held by the Litigation Trust. Accordingly, references in the preceding paragraph to "units in the Litigation Trust" shall be construed to mean the holder's pro rata share of the Litigation Trust Assets.

D. Certain Other Tax Considerations for U.S. Holders of Allowed Claims

1. Medicare Surtax

Subject to certain limitations and exceptions, U.S. Holders who are individuals, estates or trusts may be required to pay a 3.8% Medicare surtax on all or part of that U.S. Holder's "net investment income," which includes, among other items, dividends on stock and interest (including original issue discount) on, and capital gains from the sale or other taxable disposition of, debt. U.S. Holders should consult their own tax advisors regarding the effect, if any, of this surtax on their receipt and ownership of Reorganized American Apparel Equity Interests and/or units in the Litigation Trust issued pursuant to the Plan.

2. Accrued but Unpaid Interest

In general, a U.S. Holder that was not previously required to include in taxable income any accrued but unpaid interest on the U.S. Holder's Allowed Claim may be required to include such amount as taxable interest income upon receipt of a distribution under the Plan. A U.S. Holder that was previously required to include in taxable income any accrued but unpaid interest on the U.S. Holder's Allowed Claim may be entitled to recognize a deductible loss to the extent that such interest is not satisfied under the Plan. The Plan provides that, to the extent applicable, all distributions to a holder of an Allowed Claim will apply first to the principal amount of such Allowed Claim until such principal amount is paid in full and then to any accrued but unpaid interest on such Allowed Claim. There is no assurance, however, that the IRS will respect this treatment and will not determine that all or a portion of amounts distributed to such U.S. Holder and attributable to principal under the Plan is properly allocable to interest. Each U.S. Holder of a Claim on which interest has accrued is urged to consult its tax advisor regarding the tax treatment of distributions under the Plan and the deductibility of any accrued but unpaid interest for federal income tax purposes.

3. Post-Effective Date Distributions

Because certain U.S. Holders of Allowed Claims may receive distributions subsequent to the Effective Date, the imputed interest provisions of the IRC may apply and cause a portion of any post-Effective Date distribution to be treated as imputed interest. Imputed interest may, with respect to certain U.S. Holders, accrue over time using the constant interest method, in which event the U.S. Holder may, under some circumstances, be required to include imputed interest in income prior to receipt of a post-Effective Date distribution. Additionally, to the extent U.S. Holders may receive distributions with respect to an Allowed Claim in a taxable year or years following the year of the initial distribution, any loss and a portion of any gain realized by the holder may be deferred. U.S. Holders of Allowed Claims are urged to consult their tax advisors regarding the possible application of (or ability to elect out of) the "installment method" of reporting with respect to their Allowed Claims.

4. Bad Debt and/or Worthless Securities Deduction

A U.S. Holder who, under the Plan, receives in respect of an Allowed Claim an amount less than the U.S. Holder's tax basis in the Allowed Claim may be entitled in the year of receipt (or in an earlier or later year) to a bad debt deduction in some amount under section 166(a) of the IRC or a worthless securities deduction under section 165 of the IRC. The rules governing the character, timing and amount of bad debt or worthless securities deductions place considerable emphasis on the facts and circumstances of the U.S. Holder, the obligor and the instrument with respect to which a deduction is claimed. U.S. Holders of Allowed Claims, therefore, are urged to consult their tax advisors with respect to their ability to take such a deduction.

5. Market Discount

A U.S. Holder that purchased its Allowed Claim from a prior U.S. Holder with market discount will be subject to the market discount rules of the IRC. Under those rules, assuming that the U.S. Holder has made no election to amortize the market discount into income on a current basis with respect to any market discount instrument, any gain recognized on the exchange of its Allowed Claim (subject to a *de minimis* rule) generally would be characterized as ordinary income to the extent of the accrued market discount on such Allowed Claim as of the date of the exchange.

To the extent that a U.S. Holder's Prepetition Note is exchanged in a transaction in which gain or loss is not recognized for U.S. federal income tax purposes, any accrued market discount not treated as ordinary income upon such exchange should carry over, on an allocable basis, to any Reorganized American Apparel Equity Interests received, such that any gain recognized by the holder upon a subsequent disposition of such Reorganized American Apparel Equity Interests would be treated as ordinary income to the extent of any accrued market discount not previously included in income.

6. Information Reporting and Backup Withholding

All distributions under the Plan will be subject to applicable federal income tax reporting and withholding. The IRC imposes "backup withholding" (currently at a rate of 28%) on certain "reportable" payments to certain taxpayers, including payments of interest. Under the IRC's backup withholding rules, a U.S. Holder of an Allowed Claim may be subject to backup withholding with respect to distributions or payments made pursuant to the Plan, unless the U.S. Holder (a) comes within certain exempt categories (which generally include corporations) and, when required, demonstrates this fact or (b) provides a correct taxpayer identification number and certifies under penalty of perjury that the taxpayer identification number is correct and that the taxpayer is not subject to backup withholding because of a failure to report all dividend and interest income. Backup withholding is not an additional federal income tax, but merely an advance payment that may be refunded to the extent it results in an overpayment of income tax. A U.S. Holder of an Allowed Claim may be required to establish an exemption from backup withholding or to make arrangements with respect to the payment of backup withholding.

E. Certain U.S. Federal Income Tax Consequences of the Plan to Non-U.S. Holders of Allowed Claims

For purposes of this discussion, a "Non-U.S. Holder" is any Holder that is neither a U.S. Holder nor a partnership or other entity treated as a partnership or other pass-through entity for U.S. federal income tax purposes.

The following discussion includes only certain U.S. federal income tax consequences of the Plan to Non-U.S. Holders. The discussion does not include any non-U.S. tax considerations. The rules governing the U.S. federal income tax consequences to Non-U.S. Holders are complex. Each Non-U.S. Holder should consult its own tax advisor regarding the U.S. federal, state and local and the foreign tax consequences of the consummation of the Plan to such Non-U.S. Holder and the ownership and disposition of the Reorganized American Apparel Equity Interests.

Whether a Non-U.S. Holder realized gain or loss on the exchange, the amount of such gain or loss, and the treatment of the Litigation Trust is determined in the same manner as set forth above in connection with U.S. Holders.

1. Gain Recognition

Any gain recognized by a Non-U.S. Holder on the exchange of its Allowed Claim generally will not be subject to U.S. federal income taxation unless (a) the Non-U.S. Holder is an individual who was present in the United States for 183 days or more during the taxable year in which the restructuring transactions contemplated by the Plan occur and certain other conditions are met or (b) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States (and, if an income tax treaty applies, such gain is attributable to a permanent establishment maintained by such Non-U.S. Holder in the United States).

If the first exception applies, to the extent that any gain is taxable, the Non-U.S. Holder generally will be subject to U.S. federal income tax at a rate of 30% (or at a reduced rate or exemption from tax under an applicable income tax treaty) on the amount by which such Non-U.S. Holder's capital gains allocable to U.S. sources exceed certain capital losses allocable to U.S. sources during the taxable year of the exchange. If the second exception applies, the Non-U.S. Holder generally will be subject to U.S. federal income tax in the same manner as a U.S. Holder. In addition, if such a Non-U.S. Holder is a corporation, it may be subject to a branch profits tax equal to 30% (or such lower rate provided by an applicable treaty) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments.

2. Accrued but Untaxed Interest

Subject to the application of FATCA and/or backup withholding, payments to a Non-U.S. Holder that are attributable to accrued but untaxed interest generally will not be subject to U.S. federal income or withholding tax, provided that the withholding agent has received or receives, prior to payment, appropriate documentation (generally, IRS Form W-8BEN or W-8BEN-E) establishing that the Non-U.S. Holder is not a U.S. person and therefore the portfolio interest exception is met, unless:

- the Non-U.S. Holder actually or constructively owns 10% or more of the total combined voting power of all classes entitled to vote;
- the Non-U.S. Holder is a "controlled foreign corporation" that is a "related person" with respect to the Debtors (each, within the meaning of the IRC);
- the Non-U.S. Holder is a bank receiving interest described in section 881(c)(3)(A) of the IRC; or
- such interest is effectively connected with the conduct by the Non-U.S. Holder of a trade or business within the United States (in which case, provided the Non-U.S. Holder tenders a properly executed IRS Form W-8ECI (or successor form) to the withholding agent, the Non-U.S. Holder (a) generally will not be subject to withholding tax, but (b) generally will be subject to U.S. federal income tax in the same manner as a U.S. Holder (unless an applicable income tax treaty provides otherwise), and a Non-U.S. Holder that is a corporation for U.S. federal income tax purposes may also be subject to a branch profits tax with respect to such Non-U.S. Holder's effectively connected earnings and profits that are attributable to the accrued but untaxed interest at a rate of 30% (or at a reduced rate or exemption from tax under an applicable income tax treaty)).

A Non-U.S. Holder that does not qualify for an exemption from withholding tax with respect to interest that is not effectively connected income generally will be subject to withholding of U.S. federal income tax at a 30% rate (or at a reduced rate or exemption from tax established through adequate documentation to be available to such holder under an applicable income tax treaty) on payments that are attributable to accrued but untaxed interest. For purposes of providing a properly executed IRS Form W-8BEN or W-8BEN-E (or such successor form as the IRS designates), special procedures are provided under applicable Treasury regulations for payments through qualified foreign intermediaries or certain financial institutions that hold customers' securities in the ordinary course of their trade or business.

3. Sale, Redemption or Repurchase of Reorganized American Apparel Equity Interests

Subject to the application of FATCA and/or backup withholding, a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax with respect to any gain realized on the sale or other taxable disposition (including a cash redemption) of the Reorganized American Apparel Equity Interests unless:

- such Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of disposition or who is subject to special rules applicable to former citizens and residents of the United States;
- such gain is effectively connected with such Non-U.S. Holder's conduct of a U.S. trade or business (and, if an income tax treaty applies, such gain is attributable to a permanent establishment maintained by such Non-U.S. Holder in the United States); or
- the Reorganized Debtors (and/or the Debtors) are or have been a U.S. real property holding corporation (a "USRPHC") for U.S. federal income tax purposes at any time within the shorter of the five-year period preceding the disposition or the Non-U.S. Holder's holding period for the Reorganized American Apparel Equity Interests.

If the first exception applies, the Non-U.S. Holder generally will be subject to U.S. federal income tax at a rate of 30% (or at a reduced rate or exemption from tax established through adequate documentation to be available to such holder under an applicable income tax treaty) on the amount by which such Non-U.S. Holder's capital gains allocable to U.S. sources exceed certain capital losses allocable to U.S. sources during the taxable year of disposition. If the second or the third exception applies, the Non-U.S. Holder generally will be subject to U.S. federal income tax in the same manner as a U.S. Holder and, if the third exception applies, would also be subject to withholding tax with respect to gross proceeds, and a Non-U.S. Holder that is a corporation for U.S. federal income tax purposes may also be subject to a branch profits tax with respect to earnings and profits effectively connected with a U.S. trade or business that are attributable to such gains at a rate of 30% (or at a reduced rate or exemption from tax under an applicable income tax treaty). Although not free from doubt, and there can be no assurances, the Debtors do not believe they are or have been a USRPHC and do not expect the Reorganized Debtors to become a USRPHC.

4. Distributions Paid to Non-U.S. Holders

Any distributions made with respect to Reorganized American Apparel Equity Interests will constitute dividends for U.S. federal income tax purposes to the extent of the Reorganized Debtors' current or accumulated earnings and profits as determined under U.S. federal income tax principles. If the amount of any distribution exceeds the Reorganized Debtors' current or accumulated profits, such excess will first be treated as a return of capital to the extent of a Non-U.S. Holder's basis in its Reorganized American Apparel Equity Interests, and thereafter will be treated as capital gain. Except as described below, dividends paid with respect to Reorganized American Apparel Equity Interests held by a Non-U.S. Holder that are not effectively connected with a Non-U.S. Holder's conduct of a U.S. trade or business (or, if an income tax treaty applies, are not attributable to a permanent establishment maintained by such Non-U.S. Holder in the United States) will be subject to U.S. federal withholding tax at a rate of 30% (or at a reduced rate or exemption from tax established through adequate documentation to be available to such holder under an applicable income tax treaty). A Non-U.S. Holder generally will be required to satisfy certain IRS certification requirements in order to claim a reduction of or exemption from withholding under a tax treaty by filing IRS Form W-8BEN or W-8BEN-E (or successor form) upon which the Non-U.S. Holder certifies, under penalties of perjury, its status as a non-U.S. person and its entitlement to the lower treaty rate or exemption from tax with respect to such payments. Dividends paid with respect to Reorganized American Apparel Equity Interests held by a Non-U.S. Holder that are established through adequate documentation to be effectively connected with a Non-U.S. Holder's conduct of a U.S. trade or business (and, if an income tax treaty applies, are attributable to a permanent establishment maintained by such Non-U.S. Holder in the United States) generally will be subject to U.S. federal income tax, and a Non-U.S. Holder that is a corporation for U.S. federal income tax purposes may also be subject to a branch profits tax with respect to such Non-U.S. Holder's effectively connected

earnings and profits that are attributable to the dividends at a rate of 30% (or at a reduced rate or exemption from tax under an applicable income tax treaty).

Income earned and/or distributed by the Litigation Trust may be subject to withholding to the extent a Non-U.S. Holder is a Litigation Trust Beneficiary. Whether and to what extent withholding will apply will depend, in part, upon the nature of the income and the availability of an applicable treaty or other exemption. Accordingly, Non-U.S. Holders may be asked to provide appropriate documentation, including the applicable IRS Form W-8, to the Litigation Trustee or its designee.

5. FATCA

Pursuant to the Foreign Account Tax Compliance Act ("FATCA"), foreign financial institutions (which term includes most foreign hedge funds, private equity funds, mutual funds, securitization vehicles and other investment vehicles) and certain other foreign entities generally must comply with certain new information reporting rules with respect to their U.S. account holders and investors or confront a new withholding tax on U.S.-source payments made to them (whether received as a beneficial owner or as an intermediary for another party). A foreign financial institution or such other foreign entity that does not comply with the FATCA reporting requirements will generally be subject to a new 30% withholding tax with respect to any "withholdable payments." For this purpose, "withholdable payments" are any U.S.-source payments of fixed or determinable, annual or periodical income (including distributions, if any, on Reorganized American Apparel Equity Interests) and also include the entire gross proceeds from the sale or other disposition of any property of a type which can produce U.S.-source interest or dividends (which would include Reorganized American Apparel Equity Interests) even if the payment would otherwise not be subject to U.S. nonresident withholding tax (e.g., because it is capital gain). Under the applicable final Treasury regulations, withholding under FATCA will generally apply to payments of U.S.-source dividends on the Reorganized American Apparel Equity Interests, although withholding will be deferred until January 1, 2019 for gross proceeds from dispositions of the Reorganized American Apparel Equity Interests. Foreign financial institutions located in jurisdictions that have an intergovernmental agreement with the United States governing FATCA may be subject to different rules.

We will not pay any additional amounts to Non-U.S. Holders in respect of any amounts withheld pursuant to FATCA. Under certain circumstances, a Non-U.S. Holder might be eligible for refunds or credits of such taxes. Non-U.S. Holders are urged to consult with their own tax advisors regarding the effect, if any, of the FATCA provisions to them based on their particular circumstances.

The tax consequences of the Plan to the Non-U.S. Holders are uncertain. Non-U.S. Holders should consult their tax advisors regarding the particular tax consequences to them of the transactions contemplated by the Plan.

F. Importance of Obtaining Professional Tax Assistance

THE FOREGOING DISCUSSION IS INTENDED ONLY AS A SUMMARY OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN, AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE ABOVE DISCUSSION IS FOR INFORMATION PURPOSES ONLY AND IS NOT TAX ADVICE. THE TAX CONSEQUENCES ARE IN MANY CASES UNCERTAIN AND MAY VARY DEPENDING ON A HOLDER'S INDIVIDUAL CIRCUMSTANCES. ACCORDINGLY, HOLDERS ARE URGED TO CONSULT WITH THEIR TAX ADVISORS ABOUT THE FEDERAL, STATE, LOCAL AND FOREIGN INCOME AND OTHER TAX CONSEQUENCES OF THE PLAN.

XII. APPLICABILITY OF CERTAIN FEDERAL AND STATE SECURITIES LAWS

A. Reorganized American Apparel Equity Interests

The following is a discussion of the federal and state securities laws applicable to the issuance of securities pursuant to the Plan, including the Reorganized American Apparel Equity Interests.

The Debtors anticipate that no registration statement will be filed under the Securities Act or any state securities laws with respect to the offer and distribution under the Plan of the Reorganized American Apparel Equity Interests in respect of Claims. The Debtors believe that the provisions of section 1145(a) of the Bankruptcy Code

exempt the offer and distribution of such securities under the Plan from federal and state securities registration requirements as discussed below.

1. Initial Offer and Sale

Section 1145(a)(1) of the Bankruptcy Code exempts the offer and sale of securities under a plan of reorganization from registration under the Securities Act and state securities laws if three principal requirements are satisfied: (a) the securities must be offered and sold under a plan of reorganization and must be securities of the debtor, an affiliate participating in a joint plan with the debtor or a successor to the debtor under the plan; (b) the recipients of the securities must hold a claim against, interest in, or an administrative expense claim in the case concerning the debtor or such affiliate; and (c) the securities must be issued entirely in exchange for the recipient's claim against or interest in the debtor or such affiliate, or principally in such exchange and partly for cash or property. Section 1145(a)(2) of the Bankruptcy Code exempts the offer of a security through any warrant, option, right to purchase or conversion privilege that is sold in the manner specified in section 1145(a)(1) and the sale of a security upon the exercise of such a warrant, option, right or privilege.

The exemptions provided for in section 1145(a) do not apply to an entity that is deemed an "underwriter" as such term is defined in section 1145(b) of the Bankruptcy Code. Section 1145(b) provides that, with specified exemptions and except with respect to "ordinary trading transactions" of an entity that is not an "issuer," an entity is an "underwriter" if the entity:

- purchases a claim against, an interest in, or a claim for administrative expense against the debtor with a view to distributing any security received in exchange for such a claim or interest ("accumulators");
- offers to sell securities offered under a plan for the holders of such securities ("distributors");
- offers to buy securities under a plan from the holders of such securities, if the offer to buy is (a) with a view to distributing such securities and (b) made under a distribution agreement; and
- who is an "issuer" with respect to the securities, as the term "issuer" is defined in section 2(a)(11) of the Securities Act.

Under section 2(a)(11) of the Securities Act, an "issuer" includes any "affiliate" of the issuer, which means any person directly or indirectly controlling, controlled by or under common control with the issuer.

The Debtors believe that the offer and sale of Reorganized American Apparel Equity Interests under the Plan in satisfaction of Claims satisfy the requirements of section 1145(a) of the Bankruptcy Code and, therefore, are exempt from registration under the Securities Act and state securities laws.

Persons who are not deemed "underwriters" may generally resell the securities they receive under section 1145(a)(1) without registration under the Securities Act or other applicable law. Persons deemed "underwriters" may sell such securities without registration only pursuant to exemptions from registration under the Securities Act and other applicable law. The Debtors are not aware of any facts that would cause the Supporting Parties to be deemed to be "underwriters" under section 1145(b).

2. Subsequent Transfers Under Federal Securities Law

a. Non-Affiliates

Securities issued pursuant to section 1145(a) are deemed to have been issued in a public offering pursuant to section 1145(c) of the Bankruptcy Code. In general, therefore, resales of and subsequent transactions in such securities issued under the Plan will be exempt from registration under the Securities Act pursuant to section 4(a)(1) of the Securities Act, unless the holder thereof is deemed to be an "issuer," an "underwriter" or a "dealer" with respect to such securities. For these purposes, an "issuer" includes any "affiliate" of the issuer, defined as a person directly or indirectly controlling, controlled by or under common control with the issuer. "Control," as defined in Rule 405 of the Securities Act, means the possession, directly or indirectly, of the power to direct or cause the

direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise. A "dealer," as defined in section 2(a)(12) of the Securities Act, is any person who engages either for all or part of his or her time, directly or indirectly, as agent, broker or principal, in the business of offering, buying, selling or otherwise dealing or trading in securities issued by another person. Whether or not any particular person would be deemed to be an "affiliate" of Reorganized American Apparel or an "underwriter" or a "dealer" with respect to any securities issued under the Plan will depend upon various facts and circumstances applicable to that person.

Notwithstanding the provisions of section 1145(b) of the Bankruptcy Code regarding accumulators and distributors, in connection with prior bankruptcy cases, the staff of the SEC has taken the position that resales of securities distributed under a plan of reorganization by accumulators or distributors of securities who are not "affiliates" of the issuer of such securities are exempt from registration under the Securities Act if effected in "ordinary trading transactions." The staff of the SEC has indicated in this context that a transaction by such non-"affiliates" may be considered an "ordinary trading transaction" if it is made on a national securities exchange or in the over-the-counter market and does not involve any of the following factors:

- either (a) concerted action by the recipients of securities issued under a plan in connection with the sale of such securities or (b) concerted action by distributors on behalf of one or more such recipients in connection with such sales;

- the use of informational documents concerning the offering of the securities prepared or used to assist in the resale of such securities, other than a bankruptcy court-approved disclosure statement and supplements thereto and documents filed with the SEC pursuant to the Exchange Act; or

- the payment of special compensation to brokers and dealers in connection with the sale of such securities designed as a special incentive to the resale of such securities (other than the compensation that would be paid pursuant to arm's-length negotiations between a seller and a broker or dealer, each acting unilaterally, not greater than the compensation that would be paid for a routine similar-sized sale of similar securities of a similar issuer).

The staff of the SEC has not provided any guidance for privately arranged trades.

The Debtors have not sought the views of the SEC on this matter and, therefore, no assurance can be given regarding the proper application of the "ordinary trading transaction" exemption described above. Any persons intending to rely on such exemption are urged to consult their own counsel as to the applicability thereof to any particular circumstances.

b. Affiliates

Securities issued under the Plan to "affiliates" of New American Apparel will be subject to restrictions on resale. Affiliates of New American Apparel for these purposes will generally include its directors and officers and its controlling stockholders. While there is no precise definition of a "controlling" stockholder, the legislative history of section 1145 of the Bankruptcy Code suggests that a creditor who owns 10% or more of a class of securities of a reorganized debtor may be presumed to be a "controlling person" of the debtor. For any "affiliate" of an issuer deemed to be an underwriter, Rule 144 under the Securities Act provides a safe-harbor from registration under the Securities Act for certain limited public resales of unrestricted securities by "affiliates" of the issuer of such securities. Rule 144 allows a Holder of unrestricted securities that is an affiliate of the issuer of such securities to sell, without registration, within any three-month period a number of shares of such unrestricted securities that does not exceed the greater of 1% of the number of outstanding securities in question or the average weekly trading volume in the securities in question during the four calendar weeks preceding the date on which notice of such sale was filed pursuant to Rule 144, subject to the satisfaction of certain other requirements of Rule 144 regarding the manner of sale, notice requirements and the availability of current public information regarding the issuer.

3. Subsequent Transfers Under State Law

The securities issued under the Plan pursuant to section 1145(a) of the Bankruptcy Code generally may be resold without registration under state securities laws pursuant to various exemptions provided by the respective laws of those states. However, the availability of such state exemptions depends on the securities laws of each state, and holders of Claims may wish to consult with their own legal advisors regarding the availability of these exemptions in their particular circumstances.

In addition, state securities laws generally provide registration exemptions for subsequent transfers to institutional or accredited investors. Such exemptions generally are expected to be available for subsequent transfers of the securities issued pursuant to the Plan.

GIVEN THE COMPLEX NATURE OF THE QUESTION OF WHETHER A PARTICULAR PERSON MAY BE AN UNDERWRITER AND OTHER ISSUES ARISING UNDER APPLICABLE SECURITIES LAWS, THE DEBTORS MAKE NO REPRESENTATIONS CONCERNING THE RIGHT OF ANY PERSON TO TRANSFER REORGANIZED AMERICAN APPAREL EQUITY INTERESTS ISSUED PURSUANT TO THE PLAN. THE DEBTORS RECOMMEND THAT HOLDERS OF CLAIMS CONSULT THEIR OWN COUNSEL CONCERNING WHETHER THEY MAY FREELY TRADE SUCH SECURITIES.

B. New Equity Investment

The offer and sale of the New Equity Investment Interests under the Equity Commitment Agreement will be made only to Eligible Holders in transactions exempt from registration under the Securities Act pursuant to Section 4(a)(2) thereof and Regulation D promulgated thereunder. Unlike the Reorganized American Apparel Equity Interests issued pursuant to the Plan, the offer and sale of New Equity Investment Interests will not be exempted under Section 1145 of the Bankruptcy Code. The New Equity Investment Interests issued under the Equity Commitment Agreement will therefore be "restricted securities" within the meaning of Rule 144 promulgated under the Securities Act and may not be offered or resold by such Eligible Holders without registration under the Securities Act or an applicable exemption therefrom.

Rule 144 provides a limited safe harbor for the public resale of restricted securities if certain conditions are met. These conditions vary depending on whether the holder of the restricted securities is an "affiliate" of the issuer. Rule 144 defines an affiliate as "a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such issuer."

A non-affiliate of an issuer that is not subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act and who has not been an affiliate of the issuer during the 90 days preceding such sale may resell restricted securities after a one-year holding period whether or not there is current public information regarding the issuer.

An affiliate of an issuer that is not subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act may resell restricted securities after the one-year holding period if at the time of the sale certain current public information regarding the issuer is available. An affiliate must also comply with the volume, manner of sale and notice requirements of Rule 144. First, the rule limits the number of restricted securities (plus any unrestricted securities) sold for the account of an affiliate (and related persons) in any three-month period to the greater of 1% of the outstanding securities of the same class being sold, or, if the class is listed on a stock exchange, the average weekly reported volume of trading in such securities during the four weeks preceding the filing of a notice of proposed sale on Form 144 or if no notice is required, the date of receipt of the order to execute the transaction by the broker or the date of execution of the transaction directly with a market maker. Second, the manner of sale requirement provides that the restricted securities must be sold in a broker's transaction, directly with a market maker or in a riskless principal transaction (as defined in Rule 144). Third, if the amount of securities sold under Rule 144 in any three month period exceeds 5,000 shares or has an aggregate sale price greater than $50,000, an affiliate must file or cause to be filed with the SEC three copies of a notice of proposed sale on Form 144, and provide a copy to any exchange on which the securities are traded.

Any Persons who will hold restricted securities issued pursuant to the Equity Commitment Agreement should consult with their own counsel concerning the availability of an exemption from registration for resale of these securities under the Securities Act and other applicable law.

Pursuant to the terms of the Plan, Holders of Reorganized American Apparel Equity Interests who, together with their affiliates, receive at least 10% of the Reorganized American Apparel Equity Interests pursuant to the Plan (including Reorganized American Apparel Equity Interests purchased pursuant to the Equity Commitment Agreement) and each of the Supporting Parties and affiliates thereof (irrespective of whether they satisfy such 10% threshold) that receive Reorganized American Apparel Equity Interests pursuant to the Plan, including Reorganized American Apparel Equity Interests purchased pursuant to the Equity Commitment Agreement, shall enter into the Registration Rights Agreement with the Reorganized Debtors at the Effective Date. The Registration Rights Agreement will provide such Holders limited rights to cause New American Apparel to file a registration statement registering their Reorganized American Apparel Equity Interests with the SEC, including "demand" registration rights prior to an initial public offering by Holders of at least 51% of the Reorganized American Apparel Equity Interests issued pursuant to the Plan, "piggyback" registration rights and further "demand" registration rights after such initial public offering pursuant to the terms of the Registration Rights Agreement, including customary cutback and other exceptions contained therein.

XIII. RECOMMENDATION AND CONCLUSION

The Debtors believe that the confirmation and consummation of the Plan is preferable to all other alternatives. Consequently, the Debtors urge all parties entitled to vote to accept the Plan and to evidence their acceptance by duly completing and returning their Ballots so that they will be received on or before the Voting Deadline.

Dated: November 20, 2015

Respectfully submitted,

American Apparel, Inc. (on its own behalf and on behalf of each affiliate Debtor)

By: /s/ *Hassan Natha*
Name: Hassan Natha
Title: Chief Financial Officer

EXHIBIT 1

Joint Plan of Reorganization of
the Debtors and Debtors in Possession

UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	:	Chapter 11
AMERICAN APPAREL, INC., *et al.*,[1]	:	Case No. 15-12055 (BLS)
Debtors.	:	(Jointly Administered)

JOINT PLAN OF REORGANIZATION OF
THE DEBTORS AND DEBTORS IN POSSESSION

JONES DAY
Richard L. Wynne (admitted *pro hac vice*)
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– and –

PACHULSKI STANG ZIEHL & JONES LLP
Laura Davis Jones (DE Bar No. 2436)
James E. O'Neill (DE Bar No. 4042)
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Wilmington, Delaware 19801
Telephone: (302) 652-4100
Facsimile: (302) 652-4400

ATTORNEYS FOR THE DEBTORS
AND DEBTORS IN POSSESSION

Dated: November 20, 2015

[1] The Debtors are the following six entities (the last four digits of their respective taxpayer identification numbers follow in parentheses): American Apparel, Inc. (0601); American Apparel (USA), LLC (8940); American Apparel Retail, Inc. (7829); American Apparel Dyeing & Finishing, Inc. (0324); KCL Knitting, LLC (9518); and Fresh Air Freight, Inc. (3870). The address of each of the Debtors is 747 Warehouse Street, Los Angeles, California 90021.

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TABLE OF EXHIBITS[2]

Exhibit A – Operating Agreement for Reorganized American Apparel

Exhibit B – New Directors of Reorganized American Apparel

Exhibit C – List of Assumed Executory Contracts and Unexpired Leases

Exhibit D – Litigation Trust Agreement

Exhibit E – New Exit Financing Agreement

Exhibit F – Equity Commitment Agreement

Exhibit G – Form of Indemnification Agreement

Exhibit H – List of Retained Causes of Action

Exhibit I – List of Excluded Parties

Exhibit J – Registration Rights Agreement

[2] The Exhibits not initially appended to the Plan will be Filed as part of the Plan Supplement. All Exhibits will be made available, free of charge, on the Document Website once they are filed. Copies of all Exhibits may be obtained from the Notice and Claims Agent by calling (877) 940-7795 (toll-free). The Debtors reserve the right to modify, amend, supplement, restate or withdraw any of the Exhibits after they are Filed and shall promptly make such changes available on the Document Website.

INTRODUCTION

American Apparel, Inc., American Apparel (USA), LLC, American Apparel Retail, Inc., American Apparel Dyeing & Finishing, Inc., KCL Knitting, LLC and Fresh Air Freight, Inc., as debtors and debtors in possession, propose this joint plan of reorganization for the resolution of Claims against and Interests in each of the Debtors pursuant to chapter 11 of the Bankruptcy Code. The Debtors are the proponents of the Plan within the meaning of section 1129 of the Bankruptcy Code.

Reference is made to the Disclosure Statement, distributed contemporaneously herewith, for a discussion of the Debtors' assets, liabilities, history, business, results of operations, historical financial information, projections of future operations and for a summary of the Plan and the distributions to be made thereunder.

Other agreements and documents supplementing the Plan are appended as Exhibits hereto and have been or will be Filed with the Bankruptcy Court. These supplemental agreements and documents are referenced in the Plan and the Disclosure Statement and will be available for review.

ALL CREDITORS ENTITLED TO VOTE ON THE PLAN ARE ENCOURAGED TO READ THE DISCLOSURE STATEMENT IN ITS ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE PLAN. SUBJECT TO CERTAIN RESTRICTIONS AND REQUIREMENTS SET FORTH IN SECTION 1127 OF THE BANKRUPTCY CODE, IN BANKRUPTCY RULE 3019 AND IN THE PLAN, THE DEBTORS RESERVE THE RIGHT TO ALTER, AMEND, MODIFY, REVOKE OR WITHDRAW THE PLAN PRIOR TO ITS SUBSTANTIAL CONSUMMATION.

I. DEFINED TERMS, RULES OF INTERPRETATION AND COMPUTATION OF TIME

A. Defined Terms

Capitalized terms used in the Plan and not otherwise defined shall have the meanings set forth below. Any term that is not defined in this Plan, but that is used in the Bankruptcy Code or the Bankruptcy Rules, shall have the meaning given to that term in the Bankruptcy Code or the Bankruptcy Rules, as applicable.

1. **"Additional Equity Election"** shall have the meaning set forth in Section V.C.3.

2. **"Additional Required Documentation"** shall have the meaning set forth in Section V.C.3.

3. **"Administrative Claim"** means a Claim against a Debtor or its Estate for costs or expenses of administration of Estates pursuant to sections 364(c)(1), 503(b), 503(c), 507(b) or 1114(e)(2) of the Bankruptcy Code, including: (a) the actual and necessary costs and expenses incurred after the Petition Date and through the Effective Date of preserving the Estates and operating the businesses of the Debtors; (b) compensation for legal, financial advisory, accounting and other services and reimbursement of expenses awarded or allowed under sections 330(a) or 331 of the Bankruptcy Code, including Fee Claims; (c) all fees and charges assessed against the Estates under chapter 123 of title 28, United States Code, 28 U.S.C. §§ 1911-1930; and (d) DIP Claims.

4. **"Administrative Claims Bar Date"** means the date that is thirty (30) days after the Effective Date.

5. **"Administrative Claims Objection Deadline"** means the date that is sixty (60) days after the Effective Date.

6. **"Affiliate"** has the meaning set forth in section 101(2) of the Bankruptcy Code.

7. **"Allowed"** means with respect to Claims: (a) any Claim (i) for which a Proof of Claim has been timely filed on or before the applicable Claims Bar Date (or for a Proof of Claim that by the Bankruptcy Code or Final Order is not or shall not be required to be Filed) or (ii) that is listed in the Schedules as of the

Effective Date as not disputed, not contingent and not unliquidated, and for which no Proof of Claim has been timely filed; provided that, in each case, any such Claim shall be considered Allowed only if and to the extent that no objection to the allowance thereof has been interposed within the applicable period of time fixed by the Plan, the Bankruptcy Code, the Bankruptcy Rules or the Bankruptcy Court or such an objection has been interposed and the Claim has been thereafter Allowed by a Final Order; or (b) any Claim Allowed pursuant to the Plan, a Final Order of the Bankruptcy Court (including pursuant to any stipulation approved by the Bankruptcy Court) and any Stipulation of Amount and Nature of Claim; provided, further, that the Claims described in clauses (a) and (b) above shall not include any Claim on account of a right, option, warrant, right to convert or other right to purchase an Equity Interest. Claims allowed solely for the purpose of voting to accept or reject the Plan pursuant to an order of the Bankruptcy Court shall not be considered "Allowed Claims" hereunder.

8. **"American Apparel"** means American Apparel, Inc.

9. **"APP Interests"** means any Interests in American Apparel.

10. **"Avoidance Actions"** means any and all avoidance, recovery, subordination or other actions or remedies that may be brought on behalf of the Debtors or the Estates under the Bankruptcy Code or applicable non-bankruptcy law, including, without limitation, actions or remedies under sections 510, 542, 543, 544, 545, 547, 548, 549, 550, 551, 553(b) and 724(a) of the Bankruptcy Code and other similar state law claims and causes of action other than any such claims or causes of action against any post-Effective Date customers, vendors or employees of the Reorganized Debtors or any of the Released Parties.

11. **"Ballot"** means the applicable form or forms of ballot(s) distributed to Holders of Claims entitled to vote on the Plan and on which the acceptance or rejection of the Plan is to be indicated.

12. **"Bankruptcy Code"** means title 11 of the United States Code, as now in effect or hereafter amended, as applicable to these Chapter 11 Cases.

13. **"Bankruptcy Court"** means the United States District Court having jurisdiction over the Chapter 11 Cases and, to the extent of any reference made pursuant to 28 U.S.C. § 157, the bankruptcy unit of such District Court.

14. **"Bankruptcy Rules"** means, collectively, the Federal Rules of Bankruptcy Procedure and the local rules of the Bankruptcy Court, as now in effect or hereafter amended.

15. **"Business Day"** means any day, other than a Saturday, Sunday or "legal holiday" (as defined in Bankruptcy Rule 9006(a)).

16. **"Equity Commitment Agreement"** means that certain Equity Commitment Agreement attached hereto as Exhibit F, which evidences the Supporting Parties' commitment to provide the New Equity Investment.

17. **"Cash"** means the lawful currency of the United States of America and equivalents thereof.

18. **"Cash-Out Noteholder"** shall have the meaning set forth in Section V.C.3.

19. **"Causes of Action"** means all claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action and liabilities, arising on, prior to or after the Petition Date, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising in law, equity or otherwise, including Avoidance Actions, asserted, or which may be asserted, by or on behalf of any of the Debtors and/or the Estates, which are or may be pending on the Effective Date or prosecuted thereafter against any Entity, based in law or equity, including, without limitation, under the Bankruptcy Code, whether direct, indirect, derivative or otherwise and whether asserted or unasserted as of the Confirmation Date.

20. **"Chapter 11 Cases"** means the cases commenced under chapter 11 of the Bankruptcy Code by the Debtors in the Bankruptcy Court.

21. **"Claim"** means a claim, as such term is defined in section 101(5) of the Bankruptcy Code, against a Debtor.

22. **"Claims Bar Date"** means, as applicable, the Administrative Claims Bar Date and any other date or dates to be established by an Order of the Bankruptcy Court by which Proofs of Claim must be filed.

23. **"Class"** means a class of Claims or Interests, as described in Section II.

24. **"Commitment Parties"** shall have the meaning ascribed to such term in the Equity Commitment Agreement.

25. **"Committee of Lead Lenders"** means, collectively, certain lenders under the Prepetition ABL Facility and holders of Prepetition Notes comprised of funds associated with Monarch Alternative Capital LP, Coliseum Capital Management, LLC, Goldman Sachs Asset Management, L.P. and Pentwater Capital Management LP.

26. **"Confirmation"** means the entry of the Confirmation Order on the docket of the Bankruptcy Court.

27. **"Confirmation Date"** means the date on which the Bankruptcy Court enters the Confirmation Order on its docket, within the meaning of Bankruptcy Rules 5003 and 9021.

28. **"Confirmation Hearing"** means the hearing held by the Bankruptcy Court to consider Confirmation of the Plan, as such hearing may be continued from time to time.

29. **"Confirmation Order"** means the order of the Bankruptcy Court, which shall be in form and substance acceptable to the Debtors and the Requisite Supporting Parties, confirming the Plan pursuant to section 1129 of the Bankruptcy Code.

30. **"Creditors' Committee"** shall mean the official committee of unsecured creditors appointed in the Chapter 11 Cases pursuant to section 1102 of the Bankruptcy Code.

31. **"Debtors"** means, collectively, American Apparel, American Apparel (USA), LLC, American Apparel Retail, Inc., American Apparel Dyeing & Finishing, Inc., KCL Knitting, LLC and Fresh Air Freight, Inc.

32. **"DIP Agent"** means Wilmington Trust, National Association, in its capacity as administrative agent and collateral agent under the DIP Credit Agreement.

33. **"DIP Claim"** means a Claim of the DIP Agent or DIP Lenders arising under the DIP Credit Agreement or any of the DIP Orders, including Claims for payment of DIP Expenses.

34. **"DIP Credit Agreement"** means that certain Debtor-in-Possession Secured Superpriority Credit Agreement, dated as of October 4, 2015 (as the same may have been subsequently modified, amended, supplemented or otherwise revised from time to time, and together with all instruments, documents and agreements related thereto) among American Apparel (USA), LLC, American Apparel Dyeing & Finishing, Inc., American Apparel Retail, Inc. and KCL Knitting, LLC (as borrowers), the Guarantors (as defined in the DIP Credit Agreement), the DIP Agent and the DIP Lenders party thereto.

35. **"DIP Expenses"** means all reasonable and documented fees and expenses of the DIP Agent and the advisors of the DIP Lenders and the DIP Agent in connection with the negotiation, formulation, preparation, execution, delivery, implementation, consummation and enforcement of the Restructuring Support

Agreement, the Plan, the Plan Documents, and the transactions contemplated thereby, in each case, as provided in the DIP Order, but shall not include, among other things, fees and expenses incurred by Standard General relating to any litigation commenced against Standard General or any challenges to Standard General's Claims (other than fees and expenses incurred as a result of (x) any such litigation or challenges asserted by the Debtors or another Supporting Party or (y) the commencement against Standard General of any litigation related to the Restructuring Support Agreement, the Plan, the Restructuring Documents (as defined in the Restructuring Support Agreement) and the transactions contemplated thereby).

36. **"DIP Lenders"** means, collectively, those entities identified as "Lenders" in the DIP Credit Agreement and their respective permitted successors and assigns (solely in their capacity as "Lenders" under the DIP Credit Agreement).

37. **"DIP Orders"** means, collectively, the Interim DIP Order and the Final DIP Order.

38. **"Disbursing Agent"** means, with respect to distributions made (i) under the Plan, Reorganized American Apparel (or such other Entity designated by the Debtors in their sole discretion and without the need for any further order of the Bankruptcy Court) in its capacity as disbursing agent pursuant to Section V and (ii) from the Litigation Trust or from the Litigation Trust Assets in accordance with the Litigation Trust Agreement and the Plan, the Litigation Trustee or the Third Party Disbursing Agent.

39. **"Disclosure Statement"** means the Disclosure Statement for the Joint Plan of Reorganization of the Debtors and Debtors in Possession, dated October 15, 2015 (including all exhibits and schedules thereto or referenced therein), that has been prepared and distributed by the Debtors, pursuant to section 1125(b) of the Bankruptcy Code, as the same may be amended, modified or supplemented.

40. **"Disclosure Statement Order"** means an order entered by the Bankruptcy Court, approving, among other things, the Disclosure Statement as containing adequate information pursuant to section 1125 of the Bankruptcy Code, authorizing solicitation of the Disclosure Statement and the Plan and approving related solicitation materials.

41. **"Disputed Claim"** means any portion of a Claim (a) that is neither an Allowed Claim nor a disallowed Claim, (b) that is listed as disputed, contingent or unliquidated on the Schedules or that is otherwise subject to an objection or (c) for which a Proof of Claim has been timely filed with the Bankruptcy Court or a written request for payment has been made, to the extent the Debtors have, or any party in interest entitled to do so has, interposed a timely objection or request for estimation, which objection or request for estimation has not been withdrawn or determined by a Final Order.

42. **"Distribution Date"** means the Initial Distribution Date or the applicable Periodic Distribution Date.

43. **"Distribution Record Date"** means the date for determining which Holders of Allowed Claims or Interests are eligible to receive distributions hereunder, which, unless otherwise specified, shall be the Confirmation Date or such other date as designated in a Final Order of the Bankruptcy Court; provided, however, that the Distribution Record Date shall not apply to Holders of Allowed Prepetition Note Secured Claims if DTC's Automated Tender Offer Program (or ATOP) is employed in connection with the distributions to be made to Holders of Allowed Prepetition Note Secured Claims.

44. **"Document Website"** means the internet site at www.gardencitygroup.com/cases/AAI at which all of the exhibits and schedules to the Plan and the Disclosure Statement will be available to any party in interest and the public, free of charge.

45. **"DTC"** means The Depository Trust Company.

46. **"DTC Participating Nominees"** shall have the meaning set forth in Section V.C.3.

47. **"Effective Date"** means the day selected by the Debtors, with the consent of the Requisite Supporting Parties (not to be unreasonably delayed, withheld or conditioned), that is a Business Day as soon as reasonably practicable after the Confirmation Date on which all conditions to the Effective Date in Section VII.B shall have been satisfied or waived in accordance with Section VII.C and, if a stay of the Confirmation Order is in effect, such stay shall have expired, dissolved, or been lifted.

48. **"Eligible Holder"** means (a) an "accredited investor" (as such term is defined in Rule 501 of Regulation D promulgated under the Securities Act) or (b) "qualified institutional buyer" (as such term is defined in Rule 144A(a)(1) under the Securities Act).

49. **"Entity"** means an individual, firm, corporation, partnership, limited liability company, association, joint stock company, joint venture, estate, trust, unincorporated organization or government or any political subdivision thereof, or other person or entity.

50. **"Estate"** means, as to each Debtor, the estate created for such Debtor in its Chapter 11 Case pursuant to section 541 of the Bankruptcy Code.

51. **"Excluded Party"** means any Entity identified on Exhibit I to the Plan and any immediate family member of such individuals.

52. **"Executory Contract"** or **"Unexpired Lease"** means a contract or lease to which a Debtor is a party that is subject to assumption, assumption and assignment or rejection under section 365 of the Bankruptcy Code, including any modifications, amendments, addenda or supplements thereto or restatements thereof.

53. **"Exhibit"** means an exhibit attached to this Plan or included in the Plan Supplement.

54. **"Fee Claim"** means a Claim under sections 328, 330(a), 331, 503 or 1103 of the Bankruptcy Code for compensation of a Professional or other Entity for services rendered or expenses incurred in the Chapter 11 Cases.

55. **"Fee Order"** means any order establishing procedures for interim compensation and reimbursement of expenses of Professionals that may be entered by the Bankruptcy Court.

56. **"File," "Filed"** or **"Filing"** means file, filed or filing with the Bankruptcy Court or its authorized designee in the Chapter 11 Cases.

57. **"Final DIP Order"** means the final order of the Bankruptcy Court authorizing, among other things, the Debtors to enter into and obtain credit under the DIP Credit Agreement, and granting certain rights, protections, and liens to and for the benefit of the DIP Lenders dated November 2, 2015 [Docket No. 248].

58. **"Final Order"** means an order or judgment of the Bankruptcy Court, or other court of competent jurisdiction, as entered on the docket in the Chapter 11 Cases or the docket of any other court of competent jurisdiction, that has not been reversed, stayed, modified or amended, and as to which the time to appeal or seek certiorari or move for a new trial, reargument or rehearing has expired, and no appeal or petition for certiorari or other proceedings for a new trial, reargument or rehearing has been timely taken, or as to which any appeal that has been taken or any petition for certiorari that has been timely filed has been withdrawn or resolved by the highest court to which the order or judgment was appealed or from which certiorari was sought or the new trial, reargument or rehearing shall have been denied or resulted in no modification of such order; provided that the possibility that a motion under rule 60 of the Federal Rules of Civil Procedure, or any analogous rule under the Bankruptcy Rules, may be filed relating to such order, shall not cause an order not to be a Final Order.

59. **"General Unsecured Claim"** means any Claim that is not an Administrative Claim, Priority Claim, Prepetition Note Secured Claim, Priority Tax Claim, Other Secured Claim, UK Guaranty Claim,

Section 510 Claim, DIP Claim or Intercompany Claim, but includes any Claim that is a Prepetition Note Deficiency Claim.

60. **"Governance Term Sheet"** means that term sheet describing the material terms of the New LLC Agreement and the Registration Rights Agreement, appended as Exhibit E to the Restructuring Support Agreement.

61. **"GUC Support Payment"** means:

a. in the case of Class 4A, $10,000.00 in Cash;

b. in the case of Class 4B, $517,000.00 in Cash;

c. in the case of Class 4C, $470,000.00 in Cash;

d. in the case of Class 4D, $1,000.00 in Cash;

e. in the case of Class 4E, $1,000.00 in Cash; and

f. in the case of Class 4F, $1,000.00 in Cash;

62. **"Holder"** means an Entity holding a Claim or Interest, as the context requires.

63. **"Impaired"** means, when used in reference to a Claim or an Interest, a Claim or an Interest that is impaired within the meaning of section 1124 of the Bankruptcy Code.

64. **"Indemnification Agreement"** means the indemnification agreements the form of which shall be Filed with the Plan Supplement and be reasonably acceptable to the Debtors and the Requisite Supporting Parties, which Reorganized American Apparel shall enter into with officers, directors and certain employees of the Reorganized Debtors or Debtors (as applicable) serving in such capacity on or after the Petition Date, but excluding any officers, directors or employees who is not a Released Party, under which Reorganized American Apparel shall be obligated to such officer, director or employee for any (a) losses, claims, costs, damages or Liabilities set forth in Section IV.H.3 and (b) litigation costs incurred in connection with any Causes of Action asserted and based on such person's service to the Debtors prior to the Petition Date, in each case, in such a capacity at any time as a director, officer or employee of a Debtor or Non-Debtor Affiliate.

65. **"Indenture Trustee"** means U.S. Bank National Association (or any successor thereto), in its capacity as trustee under the Prepetition Indenture.

66. **"Initial Distribution Date"** means the Effective Date or the date occurring as soon as reasonably practicable after the Effective Date when distributions under the Plan shall commence.

67. **"Initial Required Documentation"** shall have the meaning set forth in Section V.C.3.

68. **"Intercompany Claim"** means any Claim held by American Apparel or any of its direct or indirect subsidiaries, including a Debtor, against a Debtor.

69. **"Interest"** means the rights of the Holders of the common stock, membership interests, partnership interests or other equity interests issued by a Debtor and outstanding immediately prior to the Petition Date, and any options, warrants or other rights with respect thereto, or any other instruments evidencing an ownership interest in a Debtor and the rights of any Entity to purchase or demand the issuance of any of the foregoing, including: (a) redemption, conversion, exchange, voting, participation and dividend rights (including any rights in respect of accrued and unpaid dividends); (b) liquidation preferences; and (c) stock options and warrants.

70. **"Interim DIP Order"** means the interim order of the Bankruptcy Court authorizing, among other things, the Debtors to enter into and obtain credit under the DIP Credit Agreement, and granting certain rights, protections, and liens to and for the benefit of the DIP Lenders dated October 7, 2015 [Docket No. 88].

71. **"Liabilities"** means any and all Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action and liabilities, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, arising in law, equity or otherwise, that are based in whole or in part on any act, event, injury, omission, transaction or agreement.

72. **"Litigation Trust"** means the trust established pursuant to Section III.H, among other things, to administer the Litigation Trust Assets pursuant to the Litigation Trust Agreement.

73. **"Litigation Trust Agreement"** means the trust agreement, to be dated as of or prior to the Effective Date, between the Debtors and the Litigation Trustee, governing the Litigation Trust, which shall be substantially in the form of Exhibit D.

74. **"Litigation Trust Assets"** means (a) the Specified Causes of Action and (b) the Litigation Trust Funds.

75. **"Litigation Trust Beneficiaries"** shall have the meaning ascribed to the term "Beneficiaries" in the Litigation Trust Agreement.

76. **"Litigation Trust Board"** shall have the meaning set forth in the Litigation Trust Agreement.

77. **"Litigation Trust Expenses"** means any and all reasonable fees, costs and expenses incurred by the Litigation Trust or the Litigation Trustee (or any Third Party Disbursing Agent or any professional or other Entity retained by the Litigation Trustee) on or after the Effective Date in connection with any of their duties under the Plan and the Litigation Trust Agreement, including any administrative fees, attorneys' fees and expenses, insurance fees, taxes and escrow expenses.

78. **"Litigation Trust Funds"** means the $250,000 in Cash used to initially fund the Litigation Trust pursuant to the Plan.

79. **"Litigation Trustee"** means the natural person appointed by the Creditors' Committee to act as trustee of the Litigation Trust in accordance with the terms of the Plan, the Confirmation Order and the Litigation Trust Agreement, or any successor appointed in accordance with the terms of the Plan and the Litigation Trust Agreement.

80. **"Management Incentive Plan"** means an incentive plan for the management of Reorganized American Apparel to be developed and implemented by the New Board promptly following the Effective Date pursuant to which Reorganized American Apparel may distribute to certain members of the management of Reorganized American Apparel membership interests for, or options to purchase such membership interests, up to an amount equal to 8% of Reorganized American Apparel Equity Interests on a fully diluted basis as of the Effective Date.

81. **"Management Incentive Plan Interests"** means any Reorganized American Apparel Equity Interests issued as a result of the exercise of options, restricted stock or other securities granted pursuant to the Management Incentive Plan.

82. **"Member Certification"** means the certification by a Holder of an Allowed Prepetition Note Secured Claim indicating, among other things, (a) whether such Holder, or any Affiliate of the Holder, or any Entity holding, directing or indirectly, any type of ownership interest (including stock, membership interests, partnership interests, or units) of such Holder, or any contracting party with such Holder, is (i) a competitor of the Debtors (or an Affiliate of such a competitor), (ii) an Excluded Party or an Affiliate of an Excluded Party or

(iii) otherwise satisfies certain provisions regarding eligibility to own Reorganized American Apparel Equity Interests set forth in the Governance Term Sheet and (b) whether such Holder is an Eligible Holder.

83. **"New Board"** means the initial board of directors of Reorganized American Apparel.

84. **"New Equity Investment"** means the investment in the Reorganized Debtors at least in the amount of the New Equity Minimum Investment plus any additional amount determined by the Supporting Parties, which New Equity Investment shall be made pursuant to, and subject to the terms and conditions set forth in, the Equity Commitment Agreement.

85. **"New Equity Investment Interests"** means any membership interests in Reorganized American Apparel issued in exchange for the New Equity Investment.

86. **"New Equity Minimum Investment Amount"** means $10 million.

87. **"New Exit Accordion"** means up to $30 million of incremental loans as further set forth in the term sheet regarding the New Exit Financing Facility attached to the Restructuring Term Sheet and the DIP Credit Agreement (subject to a dollar-for-dollar reduction for the amount of the Debtors' Cash on hand on the Effective Date and the amount of the New Equity Investment in excess of the New Equity Minimum Investment Amount) and to be made available under the New Exit Financing Agreement.

88. **"New Exit Financing Agreement"** means the credit agreement evidencing the New Exit Facility Term Loan, which shall provide for the New Exit Accordion and otherwise be in form and substance acceptable to the Requisite Supporting Parties and Filed with the Plan Supplement.

89. **"New Exit Financing Documents"** means, collectively, the definitive documents, statements and filings that evidence the New Exit Facility Term Loan, including, without limitation, the New Exit Financing Agreement.

90. **"New Exit Facility Term Loan"** means a financing facility that is entered into by one or more of the Reorganized Debtors on the Effective Date.

91. **"New LLC Agreement"** means the new operating agreement for Reorganized American Apparel, which shall be in form and substance acceptable to the Requisite Supporting Parties and Filed with the Plan Supplement.

92. **"New Securities and Documents"** means the Reorganized American Apparel Equity Interests, the New Equity Investment, the Equity Commitment Agreement, the New LLC Agreement, the Registration Rights Agreement, the New Exit Financing Documents and any and all other securities, notes, stock, instruments, certificates, and other documents or agreements required to be issued, executed or delivered pursuant to or in connection with this Plan.

93. **"Non-Debtor Affiliate"** means any direct or indirect subsidiary of American Apparel that is not a Debtor.

94. **"Noteholder Distribution Deadline"** shall have the meaning set forth in Section V.C.3.

95. **"Noteholder Distribution Package"** shall have the meaning set forth in Section V.C.3.

96. **"Notice and Claims Agent"** means Garden City Group, LLC, in its capacity as noticing, claims and solicitation agent for the Debtors.

97. **"Ordinary Course Professionals Order"** means any order entered by the Bankruptcy Court authorizing the Debtors to retain, employ and pay professionals and service providers, as specified in such order, which are not materially involved in the administration of the Chapter 11 Cases.

98. **"Other Secured Claim"** means a Secured Claim, including a Secured Tax Claim but excluding a DIP Claim, Prepetition ABL Claim or a Prepetition Note Secured Claim.

99. **"Periodic Distribution Date"** means, unless otherwise ordered by the Bankruptcy Court, (a) the first Business Day that is 180 days after the Initial Distribution Date or (b) the first Business Day that is 180 days after the immediately preceding Periodic Distribution Date, as applicable.

100. **"Petition Date"** means October 5, 2015.

101. **"Plan"** means this joint plan of reorganization for the Debtors, and all Exhibits attached hereto or referenced herein, supplements, appendices, schedules, and the Plan Supplement, as the same may be amended, modified or supplemented.

102. **"Plan Supplement"** means the compilation of documents and forms of documents as amended from time to time that constitute Exhibits to the Plan Filed with the Bankruptcy Court no later than seven days before the earlier of the (a) Voting Deadline and (b) deadline for objections to Confirmation of this Plan (or such later date as may be approved by the Bankruptcy Court), including, without limitation, the following: (i) the New LLC Agreement; (ii) the list of directors of Reorganized American Apparel; (iii) the list of Executory Contracts and Unexpired Leases to be assumed by the Debtors; (iv) the Litigation Trust Agreement; (v) the New Exit Facility Financing Agreement; (vi) the Equity Commitment Agreement; (vii) a form of the Indemnification Agreement, (viii) a list of the Retained Causes of Action, (ix) the Registration Rights Agreement and (x) the list of Excluded Parties.

103. **"Prepetition ABL Claim"** means any Claim against any of the Debtors under or evidenced by the Prepetition ABL Facility.

104. **"Prepetition ABL Facility"** means that certain Amended and Restated Credit Agreement dated as of August 17, 2015 by and among American Apparel, the guarantors thereunder and the Prepetition Agent, as the same may be amended, modified or supplemented from time to time.

105. **"Prepetition Agent"** means Wilmington Trust, National Association, in its capacity as administrative agent under the Prepetition ABL Facility.

106. **"Prepetition Indenture"** means that certain Indenture dated April 4, 2013 by and among the American Apparel, the Prepetition Note Guarantors and the Indenture Trustee, as the same may be amended, modified or supplemented from time to time.

107. **"Prepetition Note Deficiency Claim"** means the unsecured portion of any Claim against any of the Debtors under or evidenced by the Prepetition Indenture or the Prepetition Notes, including any guaranty obligations of the Prepetition Note Guarantors with respect to any of the foregoing.

108. **"Prepetition Note Secured Claim"** means any Secured Claim against any of the Debtors under or evidenced by the Prepetition Indenture or the Prepetition Notes, including any guaranty obligations of the Prepetition Note Guarantors with respect to any of the foregoing. For the purpose of determining distributions under the Plan, the Prepetition Note Secured Claims shall be deemed allowed in the amount of $85,800,000 or such other amount as determined by the Court in connection with Confirmation.

109. **"Prepetition Note Guarantors"** means all of the Debtors except for American Apparel.

110. **"Prepetition Notes"** means the 13.0% senior secured notes due 2020 issued in the original aggregate principal amount of $206 million pursuant to the Prepetition Indenture.

111. **"Priority Claim"** means a Claim that is entitled to priority in payment pursuant to section 507(a) of the Bankruptcy Code that is not an Administrative Claim, DIP Claim or a Priority Tax Claim.

112. **"Priority Tax Claim"** means a Claim that is entitled to priority in payment pursuant to section 507(a)(8) of the Bankruptcy Code.

113. **"Pro Rata"** means:

a. when used with reference to a distribution of Reorganized American Apparel Equity Interests to Holders of Allowed Claims in Classes 3A through 3F, proportionately so that with respect to a particular Allowed Claim in any such Class, the ratio of (w) the amount of Reorganized American Apparel Equity Interests distributed on account of such Claim to (x) the Allowed amount of such Claim is the same as the ratio of (y) Reorganized American Apparel Equity Interests distributed on account of all Allowed Claims in such applicable Class to (z) the amount of all Allowed Claims in such applicable Class; and

b. when used with reference to a distribution of Litigation Trust units or the GUC Support Payment (if applicable) to Holders of Allowed Claims in Classes 4A through 4F, proportionately so that with respect to a particular Allowed Claim in any such Class, the ratio of (w) the number of Litigation Trust units or the amount of the applicable GUC Support Payment (if applicable) distributed on account of such Claim to (x) the Allowed amount of such Claim is the same as the ratio of (y) Litigation Trust units or the applicable GUC Support Payment (if applicable) distributed on account of all Allowed Claims in such applicable Class to (z) the amount of all Allowed Claims in such applicable Class.

114. **"Professional"** means any professional employed in the Chapter 11 Cases pursuant to sections 327, 328, 363 or 1103 of the Bankruptcy Code or any professional or other Entity seeking compensation or reimbursement of expenses in connection with the Chapter 11 Cases pursuant to section 503(b)(4) of the Bankruptcy Code.

115. **"Proof of Claim"** means a proof of claim filed with the Bankruptcy Court or the Notice and Claims Agent in connection with the Chapter 11 Cases.

116. "**Registration Rights Agreement**" means a registration rights agreement, by and among Reorganized American Apparel and the Registration Rights Parties, which shall be in form and substance consistent in all material respects with the terms set forth in the Governance Term Sheet and otherwise acceptable to Reorganized American Apparel and the Requisite Supporting Parties and Filed with the Plan Supplement.

117. "**Registration Rights Parties**" means each of the Supporting Parties and any other recipient of membership interests in Reorganized American Apparel that receives (together with its Affiliates and related funds) 10% or more of the aggregate Reorganized American Apparel Equity Interests issued under the Plan (including Reorganized American Apparel Equity Interests pursuant to the Equity Commitment Agreement).

118. **"Reinstated"** means, unless the Plan specifies a particular method pursuant to which a Claim or Interest shall be Reinstated, (a) leaving unaltered the legal, equitable and contractual rights to which a Claim or Interest so as to render such Claim or Interest Unimpaired; or (b) notwithstanding any contractual provisions or applicable law that entitles the Holder of a Claim or Interest to demand or receive accelerated payment of such Claim or Interest after the occurrence of a default, (i) curing any such default that occurred before or after the commencement of the applicable Chapter 11 Case, other than a default of a kind specified in section 365(b)(2) of the Bankruptcy Code or of a kind that section 365(b)(2) of the Bankruptcy Code expressly does not require to be cured; (ii) reinstating the maturity of a Claim or Interest as such maturity existed before such default; (iii) compensating the Holder of a Claim or Interest for any damages incurred as a result of any reasonable reliance by such Holder on such contractual provision or such applicable law; (iv) if such Claim arises from any failure to perform a nonmonetary obligation, other than a default arising from failure to operate a nonresidential real property lease subject to section 365(b)(1)(A) of the Bankruptcy Code, compensating the Holder of such Claim for any actual pecuniary loss incurred by such Holder as a result of such failure; and (v) not otherwise altering the legal, equitable or contractual rights to which a Claim or Interest entitles the Holder of such Claim or Interest.

119. **"Released Parties"** means, collectively and individually, (i) the Debtors, (ii) the Creditors' Committee, (iii) the members of the Creditors' Committee, (iv) the Indenture Trustee, (v) the Prepetition

Agent, (vi) the Supporting Parties, (vii) the DIP Agent, (viii) the DIP Lenders and (ix) the Representatives of each of the parties enumerated in the preceding clauses (i), (ii), (iii), (iv), (v), (vi), (vii) and (viii) (solely in their capacities as such); provided that any Excluded Party, any Entity that objects to Confirmation of, or votes to reject, the Plan (except the Creditors' Committee or any of its members, solely in their capacity as such), and any of their respective Representatives, in each case, shall not be a Released Party.

120. "Reorganized" means, (a) when used in reference to a particular Debtor, such Debtor on and after the Effective Date, and (b) when used in reference to the Debtors collectively, then all of the Debtors on and after the Effective Date.

121. "Reorganized American Apparel Equity Interests" means the membership interests in Reorganized American Apparel to be initially authorized pursuant to the Plan as of the Effective Date, including such membership interests to be issued pursuant to the Plan.

122. "Representatives" means, with respect to any Entity, any successor, predecessor, officer, director, partner, limited partner, general partner, shareholder, manager, management company, investment manager, affiliate, employee, agent, attorney, advisor, investment banker, financial advisor, accountant or other Professional of such Entity or any of the foregoing and any committee of which such Entity is a member, in each case, in such capacity, serving on or after the Petition Date; provided that Representatives do not include any Excluded Party.

123. "Required Documentation" shall have the meaning set forth in Section V.C.3.

124. "Requisite Supporting Parties" shall have the meaning ascribed to such term in the Restructuring Support Agreement.

125. "Restructuring Support Agreement" means that certain Restructuring Support Agreement, dated October 4, 2015, among the Debtors and the Supporting Parties, pursuant to which the Supporting Parties have agreed to support and vote in favor of this Plan, appended as Exhibit A to the *Declaration of Mark Weinsten in Support of First Day Pleadings* [Docket No. 3], as such agreement may be amended from time to time.

126. "Restructuring Transactions" means, collectively, those mergers, consolidations, restructurings, dispositions, conversions, liquidations, dissolutions or other transactions that the Debtors and Requisite Supporting Parties determine to be necessary or appropriate to effect a corporate restructuring of the Debtors' business or otherwise to simplify the overall corporate structure of the Reorganized Debtors, as described in greater detail in, and subject to, Section III.C.

127. "Retained Causes of Action" shall mean the known Causes of Action set forth on Exhibit H hereto.

128. "Schedules" means, collectively, the (a) schedules of assets, Liabilities and Executory Contracts and Unexpired Leases and (b) statements of financial affairs, as each may be amended and supplemented from time to time, Filed by the Debtors pursuant to section 521 of the Bankruptcy Code.

129. "Section 510 Claim" means any Claim against a Debtor arising from rescission of a purchase or sale of a security of the Debtors or an Affiliate, for damages arising from the purchase or sale of such a security, or for reimbursement or contribution allowed under section 502 of the Bankruptcy Code on account of such a Claim and any other claim subject to subordination under section 510 of the Bankruptcy Code.

130. "Secured Claim" means a Claim that is secured by a lien on property in which an Estate has an interest or that is subject to a valid right of setoff under section 553 of the Bankruptcy Code, to the extent of the value of the Claim Holder's interest in such Estate's interest in such property or to the extent of the amount subject to such valid right of setoff, as applicable, as determined pursuant to section 506 of the Bankruptcy Code.

131. **"Secured Tax Claim"** means any Secured Claim against any Debtor that, absent its secured status, would be entitled to priority in right of payment under section 507(a)(8) of the Bankruptcy Code (determined irrespective of time limitations), including any related Secured Claim for penalties.

132. **"Securities Act"** means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

133. **"Specified Causes of Action"** means those Causes of Action solely comprising (a) Avoidance Actions pursuant to section 547 of the Bankruptcy Code and (b) Causes of Action arising before the Petition Date against or related to the conduct of any of the Excluded Parties; provided that (a) the Specified Causes of Action shall not include any Causes of Action against any of the Released Parties or any post-Effective Date customers, vendors or employees of the Reorganized Debtors and (b) the Litigation Trust shall only recover against an Excluded Party net of any contribution claim of such Excluded Party against any Released Party, as determined by a court of competent jurisdiction.

134. **"Standstill Agreement"** means that certain Nomination, Standstill and Support Agreement dated July 9, 2014 by and among American Apparel, Mr. Dov Charney, Standard General L.P., Standard General Master Fund L.P. and P Standard General Ltd.

135. **"Stipulation of Amount and Nature of Claim"** means a stipulation or other agreement between the applicable Debtor or Reorganized Debtor and a Holder of a Claim or Interest establishing the allowed amount or nature of such Claim or Interest that is (a) entered into in accordance with any Claim settlement procedures established by order of the Bankruptcy Court in these Chapter 11 Cases, (b) expressly permitted by the Plan or (c) approved by order of the Bankruptcy Court.

136. **"Subsidiary Debtor"** means any Debtor other than American Apparel.

137. **"Subsidiary Debtor Equity Interests"** means, as to a particular Subsidiary Debtor, any Interests in such Debtor.

138. **"Supporting Parties"** shall mean the lenders under the Prepetition ABL Facility or beneficial owners of Prepetition Notes that are, and any transferee of a Supporting Party that becomes, a party to the Restructuring Support Agreement in accordance therewith.

139. **"Tax"** means: (a) any net income, alternative or add-on minimum, gross income, gross receipts, sales, use, ad valorem, value added, transfer, franchise, profits, license, property, environmental or other tax, assessment or charge of any kind whatsoever (together in each instance with any interest, penalty, addition to tax or additional amount) imposed by any federal, state, local or foreign taxing authority; or (b) any liability for payment of any amounts of the foregoing types as a result of being a member of an affiliated, consolidated, combined or unitary group, or being a party to any agreement or arrangement whereby liability for payment of any such amounts is determined by reference to the liability of any other Entity.

140. **"Third Party Disbursing Agent"** means an Entity engaged by Reorganized American Apparel in its capacity as Disbursing Agent or engaged by the Litigation Trustee to act as a Disbursing Agent pursuant to Section V.

141. **"UK Guaranty"** means the guaranty of the UK Loan by American Apparel.

142. **"UK Guaranty Claim"** means any Claim arising under or evidenced by UK Guaranty.

143. **"UK Loan"** means the loans made pursuant to that certain Credit Agreement dated as of March 25, 2015 among American Apparel (Carnaby) Limited, as the initial borrower, certain additional borrowers party thereto, American Apparel, as guarantor, Standard General L.P., on behalf of one or more of its controlled funds and the lenders from time to time party thereto.

144. **"Unimpaired"** means, when used in reference to a Claim or an Interest, a Claim or an Interest that is not Impaired within the meaning of section 1124 of the Bankruptcy Code.

145. **"U.S. Trustee"** means the United States Trustee appointed under section 581 of title 28 of the United States Code to serve in the District of Delaware.

146. **"Valid Required Documentation Report"** shall have the meaning set forth in Section V.C.3.

147. **"Voting Deadline"** means 5:00 p.m. (prevailing Eastern time) on January 7, 2016, which is the deadline for submitting Ballots to accept or reject the Plan in accordance with section 1126 of the Bankruptcy Code.

B. Rules of Interpretation and Computation of Time

1. Rules of Interpretation

For purposes of the Plan, unless otherwise provided herein: (a) whenever it is appropriate from the context, each term, whether stated in the singular or the plural, includes both the singular and the plural; (b) unless otherwise provided in the Plan, any reference in the Plan to a contract, instrument, release or other agreement or document being in a particular form or on particular terms and conditions means that such document shall be substantially in such form or substantially on such terms and conditions; (c) any reference in the Plan to an existing document or Exhibit Filed or to be Filed means such document or Exhibit, as it may have been or may be amended, modified or supplemented pursuant to the Plan, Confirmation Order or otherwise; (d) any reference to an Entity as a Holder of a Claim or Interest includes that Entity's successors, assigns and affiliates; (e) all references in the Plan to Sections, Articles and Exhibits are references to Sections, Articles and Exhibits of or to the Plan; (f) the words "herein," "hereunder" and "hereto" refer to the Plan in its entirety rather than to a particular portion of the Plan; (g) captions and headings to Articles and Sections are inserted for convenience of reference only and are not intended to be a part of or to affect the interpretation of the Plan; (h) subject to the provisions of any contract, articles or certificates of incorporation, bylaws, codes of regulation, similar constituent documents, instrument, release or other agreement or document entered into or delivered in connection with the Plan, the rights and obligations arising under the Plan shall be governed by, and construed and enforced in accordance with, federal law, including the Bankruptcy Code and the Bankruptcy Rules; and (i) the rules of construction set forth in section 102 of the Bankruptcy Code (other than subsection (5) thereof) shall apply to the extent not inconsistent with any other provision of this Section I.B.1.

2. Computation of Time

In computing any period of time prescribed or allowed by the Plan, the provisions of Bankruptcy Rule 9006(a) shall apply.

3. Reference to Monetary Figures

All references in the Plan to monetary figures refer to the lawful currency of the United States of America, unless otherwise expressly provided.

II. CLASSIFICATION AND TREATMENT OF CLAIMS AND INTERESTS

All Claims and Interests, except Administrative Claims and Priority Tax Claims, are placed in the Classes set forth below. In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Claims and Priority Tax Claims, as described in Section II.A, are not classified herein. A Claim or Interest is classified in a particular Class only to the extent that the Claim or Interest qualifies within the description of that Class and is classified in other Classes to the extent that any remainder of the Claim or Interest qualifies within the description of such other Classes.

A. Unclassified Claims

1. Administrative Claims

a. Administrative Claims in General

Except as specified in this Section II.A.1, and subject to Section II.A.1.f and subject to the bar date provisions herein, unless otherwise agreed by the Holder of an Administrative Claim and the applicable Reorganized Debtor, each Holder of an Allowed Administrative Claim shall receive, in full satisfaction of its Administrative Claim, Cash equal to the Allowed amount of such Administrative Claim on either (i) the latest to occur of (A) the Effective Date (or as soon thereafter as practicable), (B) the date such Claim becomes an Allowed Administrative Claim and (C) such other date as may be agreed upon by the Reorganized Debtors and the Holder of such Claim or (ii) on such other date as the Bankruptcy Court may order.

b. Statutory Fees

All fees payable pursuant to 28 U.S.C. § 1930 after the Effective Date shall be paid by the applicable Reorganized Debtor in accordance therewith until the earlier of the conversion or dismissal of the applicable Chapter 11 Case under section 1112 of the Bankruptcy Code or the closing of the applicable Chapter 11 Case pursuant to section 350(a) of the Bankruptcy Code.

c. Ordinary Course Postpetition Administrative Liabilities

Administrative Claims based on liabilities incurred by a Debtor in the ordinary course of its business on or after the Petition Date, including Administrative Claims arising from or with respect to the sale of goods or provision of services on or after the Petition Date, Administrative Claims of governmental units for Taxes (including Tax Claims related to Tax years or portions thereof ending after the Petition Date), Administrative Claims arising under Executory Contracts and Unexpired Leases and all Intercompany Administrative Claims, shall be paid by the applicable Reorganized Debtor, pursuant to the terms and conditions of the particular transaction giving rise to those Administrative Claims, without further action by the Holders of such Administrative Claims or further approval by the Bankruptcy Court. Holders of the foregoing Claims shall not be required to File or serve any request for payment of such Administrative Claims.

d. DIP Claims

On the Effective Date, all DIP Expenses shall be paid in Cash and the remaining DIP Claims will be converted into loans under the New Exit Facility Term Loan pursuant to the terms of the New Exit Financing Agreement.

e. Prepetition ABL Claims

All obligations and claims in respect of or arising under the Prepetition ABL Facility shall be paid in full, in Cash, on the Effective Date to the extent not previously paid pursuant to the DIP Orders.

f. Professional Compensation

Professionals or other Entities asserting a Fee Claim for services rendered before the Effective Date must File and serve on the Reorganized Debtors and such other Entities who are designated by the Bankruptcy Rules, the Fee Order, the Confirmation Order or other order of the Bankruptcy Court an application for final allowance of such Fee Claim no later than sixty (60) days after the Effective Date; provided, however, that any party who may receive compensation or reimbursement of expenses pursuant to the Ordinary Course Professionals Order may continue to receive such compensation and reimbursement of expenses for services rendered before the Effective Date pursuant to the Ordinary Course Professionals Order without further Bankruptcy Court review or approval (except as provided in the Ordinary Course Professionals Order). Objections to any Fee Claim must be Filed and served on the Reorganized Debtors and the requesting party no later than ninety (90) days after the Effective Date. To the extent

necessary, the Confirmation Order shall amend and supersede any previously entered order of the Bankruptcy Court regarding the payment of Fee Claims.

g. Post-Effective Date Professionals' Fees and Expenses

Except as otherwise specifically provided in the Plan, on and after the Effective Date, the Reorganized Debtors shall, in the ordinary course of business and without any further notice to or action, order, or approval of the Bankruptcy Court, pay in Cash the reasonable and documented fees and expenses of the Professionals or other fees and expenses incurred by the Reorganized Debtors on or after the Effective Date, in each case, related to implementation and consummation of the Plan. Upon the Effective Date, any requirement that Professionals comply with sections 327 through 331 and 1103 of the Bankruptcy Code or any order of the Bankruptcy Court entered before the Effective Date governing the retention of, or compensation for services rendered by, Professionals after the Effective Date shall terminate, and the Reorganized Debtors may employ or pay any Professional in the ordinary course of business without any further notice to or action, order, or approval of the Bankruptcy Court.

h. Bar Dates for Administrative Claims

Except as otherwise provided herein, requests for payment of Administrative Claims (other than DIP Claims, Fee Claims and Administrative Claims based on Liabilities incurred by a Debtor from and after the Petition Date in the ordinary course of its business as described in Section II.A.1.c) must be Filed and served on the Reorganized Debtors pursuant to the procedures specified in the Confirmation Order and the notice of entry of the Confirmation Order no later than the Administrative Claims Bar Date. Holders of Administrative Claims that are required to, but do not, File and serve a request for payment of such Administrative Claims by such date shall be forever barred, estopped and enjoined from asserting such Administrative Claims against the Debtors or their property and such Administrative Claims shall be deemed discharged as of the Effective Date. Objections to such requests, if any, must be Filed and served on the Reorganized Debtors and the requesting party no later than the Administrative Claims Objection Deadline.

2. Payment of Priority Tax Claims

a. Priority Tax Claims

Pursuant to section 1129(a)(9)(C) of the Bankruptcy Code, unless otherwise agreed by the Holder of a Priority Tax Claim and the Debtors (with the consent of the Requisite Supporting Parties, such consent not to be unreasonably withheld, conditioned or delayed), each Holder of an Allowed Priority Tax Claim shall receive, at the option of the Debtors, in full satisfaction of its Allowed Priority Tax Claim that is due and payable on or before the Effective Date, on account of and in full and complete settlement, release and discharge of such Claim, (i) Cash in an amount equal to the amount of such Allowed Priority Tax Claim or (ii) Cash in an aggregate amount of such Allowed Priority Tax Claim payable in installment payments over a period of time not to exceed five years after the Petition Date, pursuant to section 1129(a)(9)(C) of the Bankruptcy Code; provided, however, that all Allowed Priority Tax Claims that are not due and payable on or before the Effective Date shall be paid in the ordinary course of business by the Reorganized Debtors as they become due; provided, further, that, in the event an Allowed Priority Tax Claim is also a Secured Tax Claim, such Claim shall, to the extent it is Allowed, be treated as an Other Secured Claim if such Claim is not otherwise paid in full.

b. Other Provisions Concerning Treatment of Priority Tax Claims

Notwithstanding Section II.A.2.a, any Claim on account of any penalty arising with respect to or in connection with an Allowed Priority Tax Claim that does not compensate the Holder for actual pecuniary loss shall be treated as a General Unsecured Claim, and the Holder (other than as the Holder of a General Unsecured Claim) may not assess or attempt to collect such penalty from the Reorganized Debtors or their respective property.

B. Classification of Claims and Interests

1. General

Pursuant to sections 1122 and 1123 of the Bankruptcy Code, Claims and Interests are classified for voting and distribution pursuant to this Plan, as set forth herein. A Claim or Interest shall be deemed classified in a particular Class only to the extent that the Claim or Interest qualifies within the description of that Class and shall be deemed classified in a different Class to the extent that any remainder of such Claim or Interest qualifies within the description of such other Class. Holders of Allowed Claims may assert such Claims against each Debtor obligated with respect to such Claim, and such Claims shall be entitled to share in the recovery provided for the applicable Class of Claims against each obligated Debtor based upon the full Allowed amount of the Claim. Notwithstanding the foregoing, and except as otherwise specifically provided for herein, the Confirmation Order or other order of the Bankruptcy Court, or required by applicable bankruptcy law, in no event shall the aggregate value of all property received or retained under the Plan on account of an Allowed Claim exceed 100% of the underlying Allowed Claim.

Section 1129(a)(10) of the Bankruptcy Code shall be satisfied for the purposes of Confirmation by acceptance of the Plan by an Impaired Class of Claims; provided, however, that in the event no Holder of a Claim with respect to a specific Class for a particular Debtor timely submits a Ballot in compliance with the Disclosure Statement Order indicating acceptance or rejection of this Plan, such Class will be deemed to have accepted this Plan. The Debtors may seek Confirmation of this Plan pursuant to section 1129(b) of the Bankruptcy Code with respect to any rejecting Class of Claims or Interests.

To the extent a Holder has Claims arising from the same transaction or occurrence that may be asserted against more than one Debtor, the vote of such Holder in connection with such Claims will be counted as a vote of each such Claim against each applicable Debtor against which such Holder has a Claim. The Plan assigns a letter to each Debtor and a number to each of the Classes of Claims against or Interests in the Debtors. For consistency, similarly designated Classes of Claims and Interests are assigned the same number across each of the Debtors. Any non-sequential enumeration of the Classes is intentional to maintain consistency.

Claims against and Interests in each of the Debtors are classified in up to 9 separate Classes as follows:

Letter	Debtor
A	American Apparel, Inc.
B	American Apparel (USA), LLC
C	American Apparel Retail, Inc.
D	American Apparel Dyeing & Finishing, Inc.
E	KCL Knitting, LLC
F	Fresh Air Freight, Inc.

Class	Designation
1	Priority Claims
2	Other Secured Claims
3	Prepetition Note Secured Claims
4	General Unsecured Claims
5	UK Guaranty Claims
6	Section 510 Claims
7	Intercompany Claims
8	APP Interests
9	Subsidiary Debtor Equity Interests

2. Identification of Classes of Claims Against and Interests in the Debtors

Claims against and Interests in the Debtors are classified in up to 9 separate Classes. The following table designates the Classes of Claims against and Interests in the Debtors and specifies which Classes are (a) Impaired or Unimpaired by this Plan, (b) entitled to vote to accept or reject this Plan in accordance with section 1126 of the Bankruptcy Code or (c) deemed to accept or reject this Plan.

Class	Designation	Impairment	Entitled to Vote
1A-1F	Priority Claims	Unimpaired	Deemed to Accept
2A-2F	Other Secured Claims	Unimpaired	Deemed to Accept
3A-3F	Prepetition Note Secured Claims	Impaired	Entitled to Vote
4A-4F	General Unsecured Claims	Impaired	Entitled to Vote
5A	UK Guaranty Claims	Unimpaired	Deemed to Accept

6A-6F	Section 510 Claims	Impaired	Deemed to Reject
7A-7F	Intercompany Claims	Unimpaired	Deemed to Accept
8A	APP Interests	Impaired	Deemed to Reject
9B-9F	Subsidiary Debtor Equity Interests	Unimpaired	Deemed to Accept

C. Treatment of Claims

1. Priority Claims (Classes 1A through 1F)

a. *Classification:* Classes 1A through 1F consist of all Priority Claims against the respective Debtors.

b. *Treatment:* On the later of (a) the Effective Date and (b) the date on which such Priority Claim becomes an Allowed Priority Claim, unless otherwise agreed to by the Debtors and the Holder of an Allowed Priority Claim (in which event such other agreement will govern), each Holder of an Allowed Priority Claim against a Debtor shall receive on account and in full and complete settlement, release and discharge of such Claim, at the Debtors' election, Cash in the amount of such Allowed Priority Claim in accordance with section 1129(a)(9) of the Bankruptcy Code. All Allowed Priority Claims against the Debtors that are not due and payable on or before the Effective Date shall be paid by the Reorganized Debtors when such Claims become due and payable in the ordinary course of business in accordance with the terms thereof.

c. *Voting:* Claims in Classes 1A through 1F are Unimpaired. Each Holder of an Allowed Claim in Classes 1A through 1F is conclusively presumed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code and is, therefore, not entitled to vote.

2. Other Secured Claims (Classes 2A through 2F)

a. *Classification:* Classes 2A through 2F consists of all Other Secured Claims against the respective Debtors.

b. *Treatment:* Unless otherwise agreed by the Holder of an Other Secured Claim and the Debtors, on the Effective Date or as soon as reasonably practicable thereafter, each Holder of an Other Secured Claim shall receive the following treatment at the option of the Debtors: (i) such Allowed Other Secured Claim shall be Reinstated; (ii) payment in full (in Cash) of any such Allowed Other Secured Claim; (iii) satisfaction of any such Allowed Other Secured Claim by delivering the collateral securing any such Allowed Other Secured Claim and paying any interest required to be paid under section 506(b) of the Bankruptcy Code; or (iv) such other recovery necessary to satisfy section 1129 of the Bankruptcy Code.

c. *Voting:* Claims in Classes 2A through 2F are Unimpaired. Each Holder of an Allowed Claim in Classes 2A through 2F is conclusively presumed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code and is, therefore, not entitled to vote.

3. Prepetition Note Secured Claims (Classes 3A through 3F)

a. *Allowance:* On the Effective Date, the Prepetition Note Secured Claims shall be deemed Allowed Claims under the Plan.

b. *Classification:* Classes 3A through 3F consist of all Prepetition Note Secured Claims.

c. *Treatment:* Unless otherwise agreed by the Holder of a Prepetition Note Secured Claim and the Debtors, on the Effective Date or as soon as reasonably practicable thereafter each Holder of an Allowed Prepetition Note Secured Claim, subject to the terms of this Plan, in full and final satisfaction, settlement, release and discharge of, and in exchange for, such Claim, shall receive its Pro Rata share of 100% of Reorganized American Apparel Equity Interests, subject to dilution by the Management Incentive Shares and the

New Equity Investment Interests; provided, however, that the Debtors, upon the request of the Requisite Supporting Parties, shall provide an alternative distribution to any Holder of a Prepetition Note Secured Claim that is not a Supporting Party in Cash in an amount equal to such Holder's Prepetition Note Secured Claim, to be paid on or promptly after the Effective Date.

d. *Voting:* Claims in Classes 3A through 3F are Impaired. Each Holder of an Allowed Claim in Classes 3A through 3F is entitled to vote.

4. General Unsecured Claims (Classes 4A through 4F)

a. *Classification:* Classes 4A through 4F consists of all General Unsecured Claims.

b. *Treatment:* Unless otherwise agreed by the Holder of a General Unsecured Claim and the Debtors, on the Effective Date or as soon as reasonably practicable thereafter, each Holder of an Allowed General Unsecured Claim in Classes 4A through 4F shall receive, subject to the terms of this Plan, in full satisfaction, settlement, release and discharge of, and in exchange for, such Claim, a distribution equal to its Pro Rata share of (i) units in the Litigation Trust and (ii) solely if the Class in which such Claim is classified accepts the Plan, the applicable GUC Support Payment, which shall be paid in semi-annual installments for 1 year from and after the Effective Date.

c. *Voting:* Claims in Classes 4A through 4F are Impaired. Each Holder of an Allowed Claim in Classes 4A through 4F is entitled to vote.

5. UK Guaranty Claims (Class 5A)

a. *Classification:* Class 5A consists of all UK Guaranty Claims.

a. *Treatment:* On the Effective Date or as soon as reasonably practicable thereafter, all UK Guaranty Claims shall be Reinstated, subject to Section 6 of the Restructuring Support Agreement.

b. *Voting:* Claims in Class 5A are Unimpaired. Each Holder of an Allowed Claim in Class 5A is conclusively presumed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code and, therefore, is not entitled to vote.

6. Section 510 Claims (Classes 6A through 6F)

a. *Classification:* Classes 6A through 6F consists of all Section 510 Claims.

b. *Treatment:* No property shall be distributed to or retained by the Holders of Section 510 Claims, and such Claims shall be extinguished on the Effective Date. Holders of Section 510 Claims shall not receive any distribution pursuant to the Plan.

c. *Voting:* Claims in Classes 6A through 6F are Impaired. Each Holder of an Allowed Claim in Classes 6A through 6F is conclusively presumed to have rejected the Plan pursuant to section 1126(g) of the Bankruptcy Code and, therefore, is not entitled to vote.

7. Intercompany Claims (Classes 7A through 7F)

a. *Classification:* Classes 7A through 7F consists of all Intercompany Claims.

b. *Treatment:* On the Effective Date or as soon as reasonably practicable thereafter, all Intercompany Claims may be extinguished or compromised by distribution, contribution or otherwise,

or Reinstated, at the discretion of the Debtors or the Reorganized Debtors, as the case may be, on or after the Effective Date.

c. *Voting:* Claims in Classes 7A through 7F are Unimpaired. Each Holder of an Allowed Claim in Classes 7A through 7F is conclusively presumed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code and, therefore, is not entitled to vote.

8. APP Interests (Class 8A)

a. *Classification:* Class 8A consists of all APP Interests.

b. *Treatment:* On the Effective Date or as soon as reasonably practicable thereafter, all APP Interests shall be cancelled and extinguished. Holders of APP Interests shall not receive any distribution pursuant to the Plan.

c. *Voting:* Interests in Class 8A are Impaired. Each Holder of an Allowed Interest in Class 8A is conclusively presumed to have rejected the Plan pursuant to section 1126(g) of the Bankruptcy Code and, therefore, is not entitled to vote.

9. Subsidiary Debtor Equity Interests (Classes 9B through 9F)

a. *Classification:* Classes 9B through 9F consists of all Subsidiary Debtor Equity Interests.

b. *Treatment:* On the Effective Date, all Subsidiary Debtor Equity Interests shall not receive any distribution pursuant to the Plan and shall be Reinstated, subject to Section III.C.1.

c. *Voting:* Interests in Classes 9B through 9F are Unimpaired. Each Holder of an Allowed Interest in Classes 9B through 9F is conclusively presumed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code and, therefore, is not entitled to vote.

D. Reservation of Rights Regarding Claims

Except as otherwise provided in the Plan, nothing shall affect the Debtors' or the Reorganized Debtors' rights and defenses, whether legal or equitable, with respect to any Claims, including, without limitation, all rights with respect to legal and equitable defenses to alleged rights of setoffs or recoupment.

E. Postpetition Interest on Claims

Except as required by applicable bankruptcy law, postpetition interest shall not accrue or be payable on account of any General Unsecured Claim.

F. Insurance

Notwithstanding anything to the contrary herein, if any Allowed Claim is covered by an insurance policy, such Claim shall first be paid from proceeds of such insurance policy, with the balance, if any, treated in accordance with the provisions of the Plan governing the Class applicable to such Claim.

III. MEANS OF IMPLEMENTATION

A. Conversion of American Apparel and Issuance of Reorganized American Apparel Equity Interests

On the Effective Date, American Apparel shall be converted, merged or otherwise reorganized into a Delaware limited liability company, and membership interests in Reorganized American Apparel shall be issued

pursuant to the Plan, including the distribution of Reorganized American Apparel Equity Interests to holders of Claims in Classes 3A through 3F pursuant to the Plan. The issuance of additional interests in Reorganized American Apparel by Reorganized American Apparel, including New Equity Investment Interests and Management Incentive Plan Interests, shall be authorized without the need for further corporate action and without any further action by the Holders of Claims or Interests.

Each distribution and issuance of the Reorganized American Apparel Equity Interests under the Plan shall be governed by the terms and conditions set forth in the Plan applicable to such distribution or issuance and by the terms and conditions of the instruments evidencing or relating to such distribution or issuance (including, without limitation, the New LLC Agreement), which terms and conditions shall bind each Entity receiving such distribution or issuance.

On the Effective Date, each of the applicable Reorganized Debtors will be authorized to and shall issue or execute and deliver, as applicable, the Reorganized American Apparel Equity Interests and the New Securities and Documents, in each case, without further notice to or order of the Bankruptcy Court, act or action under applicable law, regulation, order, or rule or the vote, consent, authorization or approval of any Entity.

The issuance or execution and delivery of the Reorganized American Apparel Equity Interests and the distribution thereof under this Plan shall be exempt from registration under applicable securities laws pursuant to section 1145(a) of the Bankruptcy Code and/or any other applicable exemptions. Without limiting the effect of section 1145 of the Bankruptcy Code, all documents, agreements, and instruments entered into and delivered on or as of the Effective Date contemplated by or in furtherance of this Plan shall become and shall remain effective and binding in accordance with their respective terms and conditions upon the parties thereto, in each case, without further notice to or order of the Bankruptcy Court, act or action under applicable law, regulation, order, or rule or the vote, consent, authorization or approval of any Entity (other than as expressly required by such applicable agreement).

B. Continued Corporate Existence and Vesting of Assets in the Reorganized Debtors

Except as otherwise provided herein (including with respect to the Restructuring Transactions described in Section III.C.1): (1) as of the Effective Date, Reorganized American Apparel shall exist as a separate legal entity, with all powers in accordance with the laws of the state of Delaware and the operating agreement, appended hereto as Exhibit A; (2) subject to the Restructuring Transactions, each of the Debtors shall, as a Reorganized Debtor, continue to exist after the Effective Date as a separate legal entity, with all of the powers of such a legal entity under applicable law and without prejudice to any right to alter or terminate such existence (whether by merger, conversion, dissolution or otherwise) under applicable law; and (3) on the Effective Date, all property of the Estate of a Debtor, and any property acquired by a Debtor or Reorganized Debtor under the Plan, shall vest, subject to the Restructuring Transactions, in the applicable Reorganized Debtors, free and clear of all Claims, liens, charges, other encumbrances, Interests and other interests. On and after the Effective Date, each Reorganized Debtor may operate its business and may use, acquire and dispose of property and compromise or settle any claims without supervision or approval by the Bankruptcy Court and free of any restrictions of the Bankruptcy Code or Bankruptcy Rules, other than those restrictions expressly imposed by the Plan or the Confirmation Order. Without limiting the foregoing, each Reorganized Debtor may pay the charges that it incurs on or after the Effective Date for appropriate Professionals' fees, disbursements, expenses or related support services (including fees relating to the preparation of Professional fee applications) without application to, or the approval of, the Bankruptcy Court.

C. Restructuring Transactions

1. Restructuring Transactions Generally

On or after the Confirmation Date, American Apparel shall convert, merge or otherwise reorganize into a limited liability company, which shall elect to be treated as a corporation for U.S. federal income tax purposes effective on the earlier of the Effective Date or the date of formation, absent an alternative structure determined by the Requisite Supporting Parties, which alternative structure shall require the consent of the Debtors only if such structure results in a transfer of a Debtor's assets to a new entity that is not a successor of the Debtor for tax purposes. Certain other Restructuring Transactions may be undertaken as necessary or appropriate to effect, in

accordance with applicable non-bankruptcy law, a corporate restructuring of the Debtors' or the Reorganized Debtors' respective businesses or simplify the overall corporate structure of the Reorganized Debtors, all to the extent not inconsistent with any other terms of the Plan. Without limiting the foregoing, unless otherwise provided by the terms of a Restructuring Transaction, all such Restructuring Transactions will be deemed to occur on the Effective Date and may include one or more mergers, conversions, consolidations, restructurings, dispositions, liquidations or dissolutions, as may be determined by the Debtors or the Reorganized Debtors and the Requisite Supporting Parties to be necessary or appropriate. Subject to the immediately preceding sentence, the actions to effect these transactions may include: (a) the execution and delivery of appropriate agreements or other documents of merger, conversion, consolidation, restructuring, disposition, liquidation or dissolution containing terms that are consistent with the terms of the Plan and that satisfy the requirements of applicable state law and such other terms to which the applicable Entities may agree; (b) the execution and delivery of appropriate instruments of transfer, assignment, assumption or delegation of any asset, property, right, liability, duty or obligation on terms consistent with the terms of the Plan and having such other terms to which the applicable Entities may agree; (c) the filing of appropriate certificates or articles of merger, conversion, consolidation, dissolution or change in corporate form pursuant to applicable state law; and (d) the taking of all other actions that the applicable Entities determine to be necessary or appropriate, including making filings or recordings that may be required by applicable state law in connection with such transactions. Any such transactions may be effected on or subsequent to the Effective Date without any further action by the stockholders or directors of any of the Debtors or the Reorganized Debtors.

2. Obligations of Any Successor Corporation in a Restructuring Transaction

The Restructuring Transactions may result in substantially all of the respective assets, properties, rights, Liabilities, duties and obligations of certain of the Reorganized Debtors vesting in one or more surviving, resulting or acquiring Entities. In each case in which the surviving, resulting or acquiring Entity in any such transaction is a successor to a Reorganized Debtor, such surviving, resulting or acquiring Entity will succeed to the rights and obligations of such Reorganized Debtor under the Plan and will perform the obligations of the applicable Reorganized Debtor pursuant to the Plan to pay or otherwise satisfy the Allowed Claims against such Reorganized Debtor, except as provided in the Plan or in any contract, instrument or other agreement or document effecting a disposition to such surviving, resulting or acquiring Entity, which may provide that another Reorganized Debtor will perform such obligations

D. New Exit Facility Term Loan

On the Effective Date, the Reorganized Debtors shall be authorized to consummate the New Exit Facility Term Loan and to execute, deliver and enter into the New Exit Financing Documents, and any related agreements or filings without the need for any further corporate or other organizational action and without further action by or approval of the Bankruptcy Court, and the New Exit Financing Documents and any related agreements or filings shall be executed and delivered and the applicable Reorganized Debtors shall enter into the New Exit Facility Term Loan and be permitted to incur or issue the indebtedness available thereunder. The New Exit Financing Term Sheet is attached as Exhibit C to the Restructuring Support Agreement and the New Exit Financing Agreement shall be included in the Plan Supplement.

E. New Equity Commitment

On the Effective Date, the Reorganized Debtors shall be authorized to consummate the transactions contemplated by the Equity Commitment Agreement (including the issuance of Reorganized American Apparel Equity Interests in accordance therewith) and to execute, deliver, make or enter into any related agreements, instruments, documents or filings without the need for any further corporate or other organizational action and and without further action by or approval of the Bankruptcy Court, and any such agreements, instruments, documents or filings shall be executed, delivered or made, as applicable, and Reorganized American Apparel shall be authorized to issue the New Equity Investment Interests and the other Reorganized American Apparel Equity Interests, if any, issuable pursuant to the Equity Commitment Agreement. In addition to providing for the issuance of the New Equity Investment Interests to the Commitment Parties, the Equity Commitment Agreement requires that Holders of Prepetition Note Secured Claims that are Eligible Holders and receive Reorganized American Apparel Equity Interests pursuant to the Plan be granted the opportunity to purchase additional Reorganized American Apparel Equity Interests on the terms and subject to the conditions set forth in the Equity Commitment Agreement. The

New Equity Investment Interests will not be registered under the Securities Act and may not be transferred or resold except as permitted under the Securities Act and other applicable securities laws, pursuant to registration or exemption therefrom, as well as contractual restrictions on transfer contained in the New LLC Agreement.

F. Sources of Cash for Plan Distributions

The Debtors or Reorganized Debtors, as applicable, are authorized to execute and deliver any documents necessary or appropriate to obtain Cash for funding the Plan, including, without limitation, pursuant and subject to the New Exit Financing Documents and Equity Commitment Agreement. All consideration necessary for the Reorganized Debtors to make payments or distributions pursuant hereto shall be obtained through a combination of one or more of the following: (a) Cash on hand of the Debtors, including Cash from business operations, or distributions from Non-Debtor Affiliates; (b) proceeds of the New Exit Facility Term Loan and the New Equity Investment; (c) the proceeds of any tax refunds and other causes of action; and (d) any other means of financing or funding that the Debtors or the Reorganized Debtors determine is necessary or appropriate, subject to the terms of the New Exit Financing Documents. Further, the Debtors and the Reorganized Debtors shall be entitled to transfer funds between and among themselves as they determine to be necessary or appropriate to enable the Reorganized Debtors to satisfy their obligations under the Plan. Except as set forth herein, any changes in intercompany account balances resulting from such transfers shall be accounted for and settled in accordance with the Debtors' historical intercompany account settlement practices and shall not violate the terms of the Plan or any orders entered by the Bankruptcy Court with respect to the Debtors' cash management system.

G. Corporate Governance, Directors and Officers, Employment-Related Agreements and Compensation Programs; Other Agreements

1. The New LLC Agreement of Reorganized American Apparel and Other Corporate Governance Documents

As of the Effective Date, the New LLC Agreement and the Registration Rights Agreement shall have been Filed as part of the Plan Supplement and shall be in form and substance consistent in all material respects with the Governance Term Sheet. The New LLC Agreement and the certificate of incorporation and bylaws (or comparable constituent documents) of each Reorganized Debtor, among other things, shall prohibit the issuance of nonvoting equity securities to the extent required by section 1123(a)(6) of the Bankruptcy Code. After the Effective Date, each Reorganized Debtor may amend and restate its certificate of formation, operating agreement, certificate of incorporation, bylaws or comparable constituent documents, as applicable, as permitted by applicable non-bankruptcy law, subject to the terms and conditions of such constituent documents. On the Effective Date, or as soon thereafter as is practicable, each Reorganized Debtor shall file any such certificate of formation or certificate of incorporation (or comparable constituent documents) with the secretary of state or jurisdiction or similar office of the state or jurisdiction in which such Reorganized Debtor is incorporated or organized, to the extent required by and in accordance with the applicable corporate law of such state. On or as soon as practicable after the Effective Date, Reorganized American Apparel and the Registration Rights Parties will enter into the Registration Rights Agreement. The Registration Rights Agreement shall provide certain registration rights to the Registration Rights Parties with respect to the Reorganized American Apparel Equity Interests that are issued to such parties under the Plan (including Reorganized American Apparel Equity Interest issued pursuant to the Equity Commitment Agreement).

2. Directors and Officers of the Reorganized Debtors

In accordance with section 1129(a)(5) of the Bankruptcy Code, from and after the Effective Date, the initial officers and directors of Reorganized American Apparel shall be comprised of the individuals identified in a disclosure to be Filed as part of the Plan Supplement and who will be selected in the manner described below.

The initial officers of Reorganized American Apparel shall include Paula Schneider, Hassan Natha, Chelsea Grayson and other existing officers of the Debtors to the extent such officers are serving in such capacities on the Effective Date.

The New Board shall initially consist of seven (7) directors, including (a) the chief executive officer of Reorganized American Apparel, (b) three independent directors who have relevant industry expertise comprised of (i) one director selected by holders of a majority of the Reorganized American Apparel Equity Interests, (ii) one director selected by Monarch Alternative Capital LP and (iii) one director selected by Goldman Sachs Asset Management, L.P., (c) one additional director selected by Monarch Alternative Capital LP, (d) one director selected by Pentwater Capital Management LP and (e) one director selected by Coliseum Capital Management, LLC.

The directors for the boards of directors of the direct and indirect subsidiaries of Reorganized American Apparel shall be identified and selected by the New Board.

3. Employment-Related Agreements and Compensation Programs

a. Except as otherwise provided herein, as of the Effective Date, each of the Reorganized Debtors shall have authority to: (i) maintain, reinstate, amend or revise existing employment, retirement, welfare, incentive, severance, indemnification and other agreements with its active and retired directors, officers and employees, subject to the terms and conditions of any such agreement and applicable non-bankruptcy law; and (ii) enter into new employment, retirement, welfare, incentive, severance, indemnification and other agreements for active and retired employees.

b. On or after the Effective Date, the New Board shall adopt and implement the Management Incentive Plan.

c. From and after the Effective Date, the Reorganized Debtors shall continue to administer and pay the Claims arising before the Petition Date under the Debtors' workers' compensation programs in accordance with their prepetition practices and procedures.

4. Other Matters

Notwithstanding anything to the contrary in the Plan, no provision in any contract, agreement or other document with the Debtors that is rendered unenforceable against the Debtors or the Reorganized Debtors pursuant to sections 541(c), 363(*l*) or 365(e)(1) of the Bankruptcy Code, or any analogous decisional law, shall be enforceable against the Debtors or Reorganized Debtors as a result of this Plan.

5. Transactions Effective as of the Effective Date

Pursuant to section 1142 of the Bankruptcy Code and section 303 of the Delaware General Corporation Law and any comparable provisions of the business corporation law of any other state or jurisdiction the following shall occur and be effective as of the Effective Date, if no such other date is specified in such other documents, and shall be authorized and approved in all respects and for all purposes without any requirement of further action by the stockholders or directors of the Debtors or any of the Reorganized Debtors: (a) the Restructuring Transactions, if any; (b) the adoption of new or amended and restated operating agreements, certificates of incorporation and bylaws (or comparable constituent documents) for each Reorganized Debtor; (c) the initial selection of directors and officers for each Reorganized Debtor; (d) the distribution of Cash and other property pursuant to the Plan, subject to Section V; (e) the authorization and issuance of Reorganized American Apparel Equity Interests pursuant to the Plan, including all Reorganized American Apparel Equity Interests issued pursuant to the Equity Commitment Agreement; (f) the entry into and performance of the New Exit Financing Documents; (g) the adoption, execution, delivery and implementation of all contracts, leases, instruments, releases and other agreements or documents related to any of the foregoing; (h) the adoption, execution and implementation of employment, retirement and indemnification agreements, incentive compensation programs, including the Management Incentive Plan, retirement income plans, welfare benefit plans and other employee plans and related agreements; and (i) any other matters provided for under the Plan involving the corporate structure of the Debtors or Reorganized Debtors or corporate action to be taken by or required of a Debtor or Reorganized Debtor.

H. Litigation Trust

1. Formation of the Litigation Trust

On the Effective Date, the Litigation Trust shall be established pursuant to the Litigation Trust Agreement for the purpose of prosecuting the Specified Causes of Action (as determined by the Litigation Trustee) and making distributions (if any) to holders of Allowed General Unsecured Claims (in their capacities as Litigation Trust Beneficiaries) in accordance with the terms of the Plan. The Litigation Trust shall have a separate existence from all of the Reorganized Debtors. The Litigation Trust's prosecution of any of the Specified Causes of Action will be on behalf of and for the benefit of the Litigation Trust Beneficiaries.

a. On the Effective Date, the Litigation Trust Assets will be transferred or issued to, and vest in, the Litigation Trust. On the Effective Date, standing to commence, prosecute and compromise all Specified Causes of Action shall transfer to the Litigation Trust; provided, however, that all Causes of Action other than the Specified Causes of Action shall be retained by the Reorganized Debtors and shall not be transferred to the Litigation Trust. A list of all known Causes of Action to be retained by the Reorganized Debtors shall be filed with the Plan Supplement.

b. Subject to, and to the extent set forth in, the Plan, the Confirmation Order, the Litigation Trust Agreement or other agreement (or any other order of the Bankruptcy Court entered pursuant to, or in furtherance of, the Plan), the Litigation Trust and the Litigation Trustee will be empowered to take the following actions, and any other actions, as the Litigation Trustee determines to be necessary or appropriate to implement the Litigation Trust, all without further order of the Bankruptcy Court:

i. adopt, execute, deliver or file all plans, agreements, certificates and other documents and instruments necessary or appropriate to implement the Litigation Trust;

ii. accept, preserve, receive, collect, manage, invest, supervise, prosecute, settle and protect the Specified Causes of Action;

iii. calculate and make distributions to the Litigation Trust Beneficiaries;

iv. retain Third Party Disbursing Agents and professionals and other Entities;

v. file appropriate Tax returns and other reports on behalf of the Litigation Trust and pay Taxes or other obligations owed by the Litigation Trust; and

vi. dissolve the Litigation Trust.

c. The Litigation Trust has no objective to, and will not, engage in a trade or business and will conduct its activities consistent with the Plan and the Litigation Trust Agreement.

d. On the Effective Date, the Debtors will transfer, and will be deemed to have irrevocably transferred, the Litigation Trust Assets to the Litigation Trust. Furthermore, the Debtors' and Creditors' Committee's counsel and financial advisors will provide to the Litigation Trustee (or such professionals designated by the Litigation Trustee) documents and other information gathered, and relevant work product developed, during the Chapter 11 Cases in connection with its investigation of the Specified Causes of Action, provided that the provision of any such documents and information will be without waiver of any evidentiary privileges, including without limitation the attorney-client privilege, work-product privilege or other privilege or immunity attaching to any such documents or information (whether written or oral). The Plan will be considered a motion pursuant to sections 105, 363 and 365 of the Bankruptcy Code for such relief.

e. The Litigation Trust and the Litigation Trustee will each be a "representative" of the Estates under section 1123(b)(3)(B) of the Bankruptcy Code, and the Litigation Trustee will be the trustee of the Litigation Trust Assets for purposes of 31 U.S.C. § 3713(b) and 26 U.S.C. § 6012(b)(3), and, as such, the Litigation

Trustee succeeds to all of the rights, powers and obligations of a trustee in bankruptcy with respect to collecting, maintaining, administering and liquidating the Litigation Trust Assets. Without limiting other such rights, powers, and obligations, on the Effective Date, the Creditors' Committee will transfer, and will be deemed to have irrevocably transferred, to the Litigation Trust and shall vest in the Litigation Trust, the Litigation Trustee and all of his or her professionals the Creditors' Committee's evidentiary privileges, including, without limitation, the attorney-client privilege, work product privilege and other privileges and immunities that they possess related to the Specified Causes of Action. The Creditors' Committee and its financial advisors will provide to the Litigation Trustee (or such professionals designated by the Litigation Trustee) documents, other information, and work product relating to the Specified Causes of Action, provided that the provision of any such documents and information will be without waiver of any evidentiary privileges or immunity.

f. To the extent that any Litigation Trust Assets cannot be transferred to the Litigation Trust because of a restriction on transferability under applicable non-bankruptcy law that is not superseded or preempted by section 1123 of the Bankruptcy Code or any other provision of the Bankruptcy Code, such Litigation Trust Assets shall be deemed to have been retained by the Debtors or Reorganized Debtors, as the case may be, and the Litigation Trustee shall be deemed to have been designated as a representative of the Debtors or Reorganized Debtors, as the case may be, pursuant to section 1123(b)(3)(B) of the Bankruptcy Code to enforce and pursue such Litigation Trust Assets on behalf of the Debtors or the Reorganized Debtors, as the case may be.

2. Litigation Trustee

The Litigation Trustee will be the exclusive trustee of the Litigation Trust Assets for purposes of 31 U.S.C. § 3713(b) and 26 U.S.C. § 6012(b)(3) and, solely with respect to the Litigation Trust Assets, the representative of the Estate of each of the Debtors appointed pursuant to section 1123(b)(3)(B) of the Bankruptcy Code. The powers, rights and responsibilities of the Litigation Trustee will be specified in the Litigation Trust Agreement. The Litigation Trustee will distribute the Litigation Trust Assets (or the proceeds thereof) in accordance with the provisions of the Plan and the Litigation Trust Agreement. Other rights and duties of the Litigation Trustee and the beneficiaries of the Litigation Trust will be as set forth in the Litigation Trust Agreement.

2. Fees and Expenses of the Litigation Trust

Except as otherwise ordered by the Bankruptcy Court, the Litigation Trust Expenses will be paid from the Litigation Trust Assets in accordance with the Plan and the Litigation Trust Agreement.

3. Indemnification

The Litigation Trust Agreement may include reasonable and customary indemnification provisions in favor of the Litigation Trustee. Any such indemnification will be the sole responsibility of the Litigation Trust.

4. Tax Treatment

The Litigation Trust is intended to be treated, for federal income Tax purposes, as a grantor trust that is a liquidating trust within the meaning of Treasury Regulations section 301.7701-4(d), with no objective to continue or engage in the conduct of a trade or business. For U.S. federal income tax purposes, the transfer of the Litigation Trust Assets to the Litigation Trust will be treated as a transfer of the Litigation Trust Assets from the Debtors to the Litigation Trust Beneficiaries, followed by the Litigation Trust Beneficiaries' transfer of the Litigation Trust Assets to the Litigation Trust. The Litigation Trust Beneficiaries will thereafter be treated for U.S. federal income tax purposes as the grantors and deemed owners of their respective shares of the Litigation Trust Assets. The Litigation Trust Beneficiaries shall include in their annual taxable incomes, and pay tax to the extent due on, their allocable shares of each item of income, gain, deduction, loss and credit, and all other such items shall be allocated by the Litigation Trustee to the Litigation Trust Beneficiaries using any reasonable allocation method. The Litigation Trustee will be required by the Litigation Trust Agreement to file income Tax returns for the Litigation Trust as a grantor trust of the Litigation Trust Beneficiaries. In addition, the Litigation Trust Agreement will require consistent valuation by the Litigation Trustee and the Litigation Trust Beneficiaries, for all federal income Tax and reporting purposes, of any property held by the Litigation Trust. The Litigation Trust Agreement will provide that termination

of the trust will occur no later than five years after the Effective Date, unless the Bankruptcy Court approves an extension based upon a finding that such an extension is necessary for the Litigation Trust to complete its liquidating purpose. The Litigation Trust Agreement also will limit the investment powers of the Litigation Trustee in accordance with IRS Rev. Proc. 94-45 and will require the Litigation Trust to distribute at least annually to the Litigation Trust Beneficiaries (as such may have been determined at such time) its net income (net of any payment of or provision for Taxes), except for amounts retained as reasonably necessary to maintain the value of the Litigation Trust Assets.

I. No Revesting of Litigation Trust Assets

No Litigation Trust Asset will revest in any Reorganized Debtor on or after the date such Litigation Trust Asset is transferred to the Litigation Trust but will vest upon such transfer in the Litigation Trust to be administered by the Litigation Trustee in accordance with the Plan and the Litigation Trust Agreement.

J. Preservation of Causes of Action; Compromise and Settlement of Disputes

1. Preservation of All Causes of Action Not Expressly Settled or Released

Unless a Cause of Action against any Entity is expressly waived, relinquished, released, compromised or settled in the Plan or any Final Order (including the Confirmation Order and the Final DIP Order), the Debtors expressly reserve such Causes of Action, which are to be either (i) comprised of the Retained Causes of Action and retained by the Debtors or Reorganized Debtors or (ii) comprised of the Specified Causes of Action and transferred to the Litigation Trust pursuant to the Plan, and, therefore, in each case, no preclusion doctrine, including the doctrines of *res judicata*, collateral estoppel, issue preclusion, claim preclusion, waiver, estoppels (judicial, equitable or otherwise) or laches shall apply to such Causes of Action upon or after the entry of the Confirmation Order or Effective Date based on the Plan or the Confirmation Order, except where such Causes of Action have been released in the Plan or any Final Order (including the Confirmation Order and the Final DIP Order). In accordance with section 1123(b) of the Bankruptcy Code, the Debtors or Reorganized Debtors or Litigation Trust may enforce all rights to commence and pursue any and all of the Retained Causes of Action or Specified Causes of Action (as applicable), and the Debtors' or Reorganized Debtors' or Litigation Trust's respective rights to commence, prosecute, or settle any such Retained Causes of Action or Specified Causes of Action (as applicable) shall be preserved, notwithstanding entry of the Confirmation Order or the occurrence of the Effective Date. No Entity may rely on the absence of a specific reference in the Plan or the Disclosure Statement to any Cause of Action against it as any indication that the Debtors, Reorganized Debtors or Litigation Trustee will not pursue any and all available Retained Causes of Action or Specified Causes of Action (as applicable) against it. In accordance with section 1123(b)(3) of the Bankruptcy Code, any Specified Causes of Action that a Debtor may hold against any Entity shall vest in the Litigation Trust and the Litigation Trustee on behalf of the Litigation Trust and any Retained Causes of Action that a Debtor may hold against any Entity shall vest in the Reorganized Debtors.

2. Comprehensive Settlement of Claims and Controversies

Pursuant to section 1123 of the Bankruptcy Code and Bankruptcy Rule 9019, this Section III.J incorporates an integrated compromise and settlement designed to achieve a beneficial and efficient resolution of these Chapter 11 Cases for all parties in interest. Accordingly, in consideration of the distributions and other benefits provided under the Plan, the provisions of the Plan, including the releases set forth in Section IX.E, shall constitute a good-faith compromise and settlement of all Claims, disputes, or controversies relating to the rights that a Holder of a Claim may have with respect to any Claim (other than Claims Reinstated hereunder) or any distribution to be made pursuant to the Plan on account of any such Claim (other than Claims Reinstated hereunder).

The entry of the Confirmation Order shall constitute the Bankruptcy Court's approval, as of the Effective Date, of the compromise or settlement of all such Claims, disputes, or controversies provided for herein, and the Bankruptcy Court's determination that such compromises and settlements are in the best interests of the Debtors, their estates, the Reorganized Debtors, creditors and all other parties in interest, and are fair, equitable and within the range of reasonableness. If the Effective Date does not occur, the settlements set forth herein shall be deemed to have been withdrawn without prejudice to the respective positions of the parties.

K. Reinstatement and Continuation of Insurance Policies

From and after the Effective Date, each of the Debtors' insurance policies in existence as of the Effective Date shall be reinstated and continued in accordance with their terms and, to the extent applicable, shall be deemed assumed by the applicable Reorganized Debtor pursuant to section 365 of the Bankruptcy Code and Section IV.A of the Plan. Nothing in the Plan shall affect, impair or prejudice the rights of the insurance carriers or the Reorganized Debtors under the insurance policies in any manner, and such insurance carriers and Reorganized Debtors shall retain all rights and defenses under such insurance policies, and such insurance policies shall apply to, and be enforceable by and against, the Reorganized Debtors in the same manner and according to the same terms and practices applicable to the Debtors, as existed prior to the Effective Date.

L. Cancellation and Surrender of Instruments, Securities and Other Documentation

Except as provided in any contract, instrument or other agreement or document entered into or delivered in connection with the Plan, on the Effective Date and concurrently with the applicable distributions made pursuant to Section II, all notes, instruments, certificates, and other documents evidencing Claims or Interests (including, without limitation, the APP Interests, the Prepetition Indenture and the Prepetition Notes) shall be deemed cancelled and surrendered and of no further force and effect against the Debtors and the Debtors, without any further action on the part of any Debtor; provided, however, that the Prepetition Indenture and the Prepetition Notes shall remain in effect after the Effective Date only as follows: (1) for so long as is necessary to permit distributions to be made pursuant to the Plan and the Indenture Trustee to perform necessary functions with respect thereto; and (2) to allow the Indenture Trustee to exercise its charging lien for the payment of its fees and expenses and for indemnification as provided in the Prepetition Indenture. Notwithstanding the foregoing, to the extent not previously paid, the Debtors shall pay all outstanding reasonable and documented fees and expenses of the Indenture Trustee in Cash in full on the Effective Date. From and after the making of the applicable distributions pursuant to Section II, the Holders of the Prepetition Note Secured Claims shall have no rights against the Debtors or the Reorganized Debtors arising from or relating to such instruments and other documentation or the cancellation thereof, except the rights provided pursuant to the Plan. No distribution under the Plan shall be made to or on behalf of any Holder of a Prepetition Note Secured Claim unless the requirements of Section V.C.3 are met.

M. Release of Liens

Except as otherwise provided in the Plan or in any contract, instrument, release or other agreement or document entered into or delivered in connection with the Plan, on the Effective Date and consistent with the treatment provided for Claims and Interests in Section II, all mortgages, deeds of trust, liens or other security interests, including any liens granted as adequate protection against the property of any Estate, shall be fully released and discharged, and all of the right, title and interest of any Holder of such mortgages, deeds of trust, liens or other security interests, including any rights to any collateral thereunder, shall revert to the applicable Reorganized Debtor and its successors and assigns. For the avoidance of doubt, the charging liens of the Indenture Trustee under the Prepetition Indenture may be asserted on the distributions to Holders of Allowed Claims in Classes 3A through 3F and, to the extent asserted, shall remain in place until the reasonable and documented fees and expenses of the Indenture Trustee are satisfied. As of the Effective Date, the Reorganized Debtors shall be authorized to execute and file on behalf of creditors Form UCC-3 termination statements, mortgage releases or such other forms as may be necessary or appropriate to implement the provisions of this Section III.M.

N. Effectuating Documents; Further Transactions

On and after the Effective Date, the Reorganized Debtors, and the officers and members of the boards of directors thereof, are authorized to and may issue, execute, deliver, file, or record such contracts, securities, instruments, releases, and other agreements or documents and take such actions as may be necessary or appropriate to effectuate, implement and further evidence the terms and conditions of the Plan, the Restructuring Transactions, the Reorganized American Apparel Equity Interests issued pursuant to the Plan, the Equity Commitment Agreement and the New Exit Financing Documents, in each case, in the name of and on behalf of the Reorganized Debtors, without the need for any approvals, authorization or consents except those expressly required pursuant to the Plan.

IV. TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

A. Assumption and Rejection of Executory Contracts and Unexpired Leases

On the Effective Date, except as otherwise provided herein, each of the Debtors' Executory Contracts and Unexpired Leases not previously assumed or rejected pursuant to an order of the Bankruptcy Court shall be deemed rejected as of the Effective Date in accordance with the provisions and requirements of sections 365 and 1123 of the Bankruptcy Code except any Executory Contract or Unexpired Lease (1) identified on Exhibit C to this Plan (which shall be Filed as part of the Plan Supplement) as an Executory Contract or Unexpired Lease designated for assumption, (2) which is the subject of a separate motion or notice to assume or reject Filed by the Debtors and pending as of the Confirmation Hearing, (3) that previously expired or terminated pursuant to its own terms or (4) that was previously assumed by any of the Debtors.

Entry of the Confirmation Order by the Bankruptcy Court shall constitute an order approving the assumptions or rejections of such Executory Contracts and Unexpired Leases as set forth in the Plan, all pursuant to sections 365(a) and 1123 of the Bankruptcy Code. Each Executory Contract and Unexpired Lease assumed pursuant to the Plan or by Bankruptcy Court order, and not assigned to a third party on or prior to the Effective Date, shall revest in and be fully enforceable by the applicable contracting Reorganized Debtor in accordance with its terms, except as such terms may have been modified by order of the Bankruptcy Court. To the maximum extent permitted by law, to the extent any provision in any Executory Contract or Unexpired Lease assumed pursuant to the Plan restricts or prevents, or purports to restrict or prevent, or is breached or deemed breached by, the assumption of such Executory Contract or Unexpired Lease (including, without limitation, any "change of control" provision), then such provision shall be deemed modified such that the transactions contemplated by the Plan shall not entitle the counterparty thereto to terminate such Executory Contract or Unexpired Lease or to exercise any other default-related rights with respect thereto. Notwithstanding anything to the contrary in the Plan, the Debtors or Reorganized Debtors, as applicable, reserve the right to alter, amend, modify, or supplement Exhibit C to the Plan in their discretion prior to the Effective Date on no less than three (3) days' notice to any counterparty to an Executory Contract or Unexpired Lease affected thereby.

B. Cure of Defaults for Assumed Executory Contracts and Unexpired Leases

Any monetary defaults under each Executory Contract and Unexpired Lease to be assumed pursuant to the Plan shall be satisfied, pursuant to section 365(b)(1) of the Bankruptcy Code, by payment of the default amount in Cash on the Effective Date, subject to the limitation described below, or on such other terms as the parties to such Executory Contracts or Unexpired Leases may otherwise agree. In the event of a dispute regarding (1) the amount of any payments to cure such a default, (2) the ability of the Reorganized Debtors or any assignee to provide "adequate assurance of future performance" (within the meaning of section 365 of the Bankruptcy Code) under the Executory Contract or Unexpired Lease to be assumed or (3) any other matter pertaining to assumption, the cure payments required by section 365(b)(1) of the Bankruptcy Code shall be made following the entry of a Final Order or orders resolving the dispute and approving the assumption. Exhibit C of the Plan (including any amendments thereto) shall provide notice of the proposed assumption of Executory Contracts and Unexpired Leases and proposed cure amounts with respect thereto and shall be served on the applicable counterparties to such Executory Contract and Unexpired Leases. Such counterparties shall have until 14 days following the date on which Exhibit C or any amendment thereto, as applicable, first identifies the Executory Contract or Unexpired Lease to which such counterparty is a party to File a written objection to such proposed assumption or cure amount, which shall be served on counsel to the Debtors or Reorganized Debtors, as applicable, the Creditors' Committee and the Committee of Lead Lenders. If the Debtors or Reorganized Debtors, as applicable, and such objecting counterparty cannot resolve such objection within 21 days of the Filing date of such objection, the Debtors or Reorganized Debtors, as applicable, shall File a notice of hearing with the Bankruptcy Court and such dispute shall be heard and determined by the Bankruptcy Court. Any counterparty to an Executory Contract or Unexpired Lease that fails to object timely to the proposed assumption or cure amount shall be deemed to have assented to such assumption or cure amount.

Assumption of any Executory Contract or Unexpired Lease pursuant to the Plan or otherwise shall result in the full release and satisfaction of any Claims or defaults, whether monetary or nonmonetary, including defaults of provisions restricting the change in control or ownership interest composition or other bankruptcy-related defaults,

arising under any assumed Executory Contract or Unexpired Lease at any time prior to the effective date of assumption. Any Proofs of Claim filed with respect to an Executory Contract or Unexpired Lease that has been assumed shall be deemed disallowed and expunged without further notice to or action, order or approval of the Bankruptcy Court.

C. Claims Based on Rejection of Executory Contracts and Unexpired Leases

Unless otherwise provided by a Bankruptcy Court order, any Proofs of Claim asserting Claims arising from the rejection of the Debtors' Executory Contracts and Unexpired Leases pursuant to the Plan or otherwise must be filed with the Notice and Claims Agent within 30 days after the date of entry of an order of the Bankruptcy Court (including the Confirmation Order) approving such rejection. Any Proofs of Claim arising from the rejection of the Debtors' Executory Contracts and Unexpired Leases that are not timely filed shall be disallowed automatically, forever barred from assertion, and shall not be enforceable against any Reorganized Debtor without the need for any objection by the Reorganized Debtors or further notice to or action, order, or approval of the Bankruptcy Court. All Allowed Claims arising from the rejection of the Debtors' Executory Contracts and Unexpired Leases shall constitute General Unsecured Claims and shall be treated in accordance with Section II.C.4.

The Debtors reserve the right to object to, settle, compromise or otherwise resolve any Claim Filed on account of a rejected Executory Contract or Unexpired Lease.

D. Contracts and Leases Entered Into After the Petition Date

Contracts and leases entered into after the Petition Date by any Debtor, including any Executory Contracts and Unexpired Leases assumed by such Debtor, shall be performed by the Debtor or Reorganized Debtor liable thereunder in the ordinary course of its business. Accordingly, such contracts and leases (including any assumed Executory Contracts and Unexpired Leases) shall survive and remain unaffected by entry of the Confirmation Order.

E. Reservation of Rights

Neither the exclusion nor inclusion of any contract or lease in the Plan Supplement, nor anything contained in the Plan, nor the Debtors' delivery of a notice of proposed assumption and proposed cure amount to applicable contract and lease counterparties shall constitute an admission by the Debtors that any such contract or lease is in fact an Executory Contract or Unexpired Lease or that any Reorganized Debtor has any liability thereunder. If there is a dispute regarding whether a contract or lease is or was executory or unexpired at the time of assumption or rejection, the Debtors or Reorganized Debtors, as applicable, shall have 30 days following entry of a Final Order resolving such dispute to alter their treatment of such contract or lease.

F. Pre-Existing Obligations to the Debtors Under Executory Contracts and Unexpired Leases

Rejection of any Executory Contract or Unexpired Lease pursuant to the Plan or otherwise shall not constitute a termination of pre-existing obligations owed to the Debtors or Reorganized Debtors under such Executory Contracts or Unexpired Leases. Notwithstanding any applicable non-bankruptcy law to the contrary, the Debtors and Reorganized Debtors expressly reserve and do not waive any right to receive, or any continuing obligation of a counterparty to provide, warranties, indemnifications or continued maintenance obligations on goods previously purchased by the contracting Debtors or Reorganized Debtors from counterparties to rejected Executory Contracts or Unexpired Leases.

G. Certain Compensation and Benefit Programs

Notwithstanding anything to the contrary in this Plan, all contracts, agreements, policies, programs and plans in existence on the Petition Date that provided for the issuance of APP Interests or other Interests in any of the Debtors to current or former employees or directors of the Debtors are, to the extent not previously terminated or

rejected by the Debtors, rejected or otherwise terminated as of the Effective Date without any further action of the Debtors or Reorganized Debtors or any order of the Court, with rejection damages of $0.00, and any unvested APP Interests or other Interests granted under any such agreements, policies, programs and plans in addition to any APP Interests or other Interests granted under such agreements previously terminated or rejected by the Debtors to the extent not previously cancelled shall be cancelled pursuant to Section III.L. Objections to the treatment of these plans or the Claims for rejection or termination damages arising from the rejection or termination of any such plans, if any, must be submitted and resolved in accordance with the procedures and subject to the conditions for objections to Confirmation. If any such objection is not timely Filed and served before the deadline set for objections to the Plan, each participant in or counterparty to any agreement described in this Section IV.G shall be forever barred from (1) objecting to the rejection or termination provided hereunder, and shall be precluded from being heard at the Confirmation Hearing with respect to such objection; (2) asserting against any Reorganized Debtor, or its property, any default existing as of the Effective Date or any counterclaim, defense, setoff or any other interest asserted or assertable against the Debtors; and (3) imposing or charging against any Reorganized Debtor any accelerations, assignment fees, increases or any other fees as a result of any rejection pursuant to this Section IV.G.

H. Obligations to Insure and Indemnify Directors, Officers and Employees

1. Any and all directors and officers liability and fiduciary insurance or tail policies in existence as of the Effective Date shall be reinstated and continued in accordance with their terms and, to the extent applicable, shall be deemed assumed or assumed and assigned by the applicable Debtor or Reorganized Debtor, pursuant to section 365 of the Bankruptcy Code and Section IV.A. Each insurance carrier under such policies shall continue to honor and administer the policies with respect to the Reorganized Debtors in the same manner and according to the same terms and practices applicable to the Debtors prior to the Effective Date.

2. Reorganized American Apparel shall enter into the Indemnification Agreements with officers, directors and certain employees of the Reorganized Debtors or Debtors (as applicable) serving in such capacity on or after the Petition Date. The form of the Indemnification Agreements shall be Filed as part of the Plan Supplement.

3. The Reorganized Debtors shall be obligated to indemnify any person, other than the Excluded Parties or any party who is not a Released Party, who is serving or has served (a) as one of the Debtors' directors, officers or employees at any time from and after the Petition Date for any losses, claims, costs, damages or Liabilities resulting from such person's service in such a capacity at any time from and after the Petition Date or (b) as a director, officer or employee of a Non-Debtor Affiliate at any time from and after the Petition Date (provided that nothing herein shall limit any obligations of such Non-Debtor Affiliate), to the extent provided in the applicable certificates of incorporation, by-laws or similar constituent documents, by statutory law or by written agreement, policies or procedures of or with such Debtor, which shall be deemed and treated as Executory Contracts that are assumed by the applicable Debtor or Reorganized Debtor pursuant to the Plan and section 365 of the Bankruptcy Code as of the Effective Date. Accordingly, such indemnification obligations shall survive and be unaffected by entry of the Confirmation Order. For the avoidance of doubt, no indemnification obligations to any Excluded Party or a party that is not a Released Party shall be assumed, reinstated or provided for pursuant to the Plan.

V. PROVISIONS GOVERNING DISTRIBUTIONS

A. Distributions for Allowed Claims as of the Effective Date

Except as otherwise provided in this Section V, distributions to be made on the Effective Date to Holders of Allowed Claims as provided by Section II or this Section V shall be deemed made on the Effective Date if made on the Effective Date or as promptly thereafter as practicable by the Debtors or the Reorganized Debtors, as applicable.

B. Disbursing Agent; No Liability

The Disbursing Agent shall make all distributions required hereunder. The Reorganized Debtors (or such entity as they may designate) shall be appointed to serve as the Disbursing Agent with respect to all Claims and

Interests, except that the Litigation Trustee, or its Third Party Disbursing Agent, shall be appointed to serve as the Disbursing Agent with respect to the distributions of the units in the Litigation Trust to Holders of Allowed General Unsecured Claims.

Each of the Reorganized Debtors, any Entity engaged by the Debtors or Reorganized Debtors as a disbursing agent, the Litigation Trustee, and the Third Party Disbursing Agent, shall have all powers, rights, protections, obligations, and duties afforded or imposed upon the Disbursing Agent under the Plan, but solely with respect to those Claims and Interests on account of which the applicable Disbursing Agent is designated to make distributions under the Plan and with respect to the Litigation Trust.

The Debtors, the Reorganized Debtors, the Disbursing Agent, and the Indenture Trustee, as applicable, shall only be required to act and make distributions in accordance with the terms of the Plan. Such parties shall have no (i) liability to any party for actions taken in accordance with the Plan or in reliance upon information provided to it in accordance with the Plan or (ii) obligation or liability for distributions under the Plan to any party who does not hold a Claim against the Debtors as of the Distribution Record Date or any other date on which a distribution is made or who does not otherwise comply with the terms of the Plan.

C. Delivery of Distributions and Undeliverable Distributions to Holders of Claims

1. Address for Delivery of Distribution.

Except as otherwise provided in the Plan, distributions to holders of Allowed Claims (other than Holders of DIP Claims or Prepetition Note Secured Claims) shall be made to holders of record as of the Distribution Record Date by the Reorganized Debtors as set forth on the latest date of the following documents: (1) to the signatory set forth on any of the Proofs of Claim Filed by such Holder or other representative identified therein (or at the last known addresses of such holder if no Proof of Claim is Filed or if the Debtors have been notified in writing of a change of address); (2) at the addresses set forth in any written notices of address changes delivered to the Reorganized Debtors after the date of any related Proof of Claim; (3) at the addresses reflected in the Schedules if no Proof of Claim has been Filed and the Reorganized Debtors have not received a written notice of a change of address; or (4) on any counsel that has appeared in the Chapter 11 Cases on such Holder's behalf. Subject to this Section V, and unless the Disbursing Agent otherwise determines with respect to a distribution on account of a Claim, distributions under the Plan on account of Allowed Claims shall not be subject to levy, garnishment, attachment, or like legal process, so that each holder of an Allowed Claim shall have and receive the benefit of the distributions in the manner set forth in the Plan. The Debtors, the Reorganized Debtors, and the Disbursing Agent shall not incur any liability whatsoever on account of any distributions under the Plan.

2. Undeliverable Distributions

The Disbursing Agent shall make one attempt to make the distributions contemplated hereunder in accordance with the procedures set forth herein. The Disbursing Agent in its sole discretion may, but shall have no obligation to, attempt to locate holders of undeliverable distributions. Any distributions returned to the Disbursing Agent as undeliverable or otherwise shall remain in the possession of the applicable Reorganized Debtor until such time as a distribution becomes deliverable, and no further distributions shall be made to such Holder unless such Holder notifies the Disbursing Agent of its then current address. Any Holder of an Allowed Claim entitled to a distribution of property under this Plan that does not assert a claim pursuant to the Plan for an undeliverable distribution, or notify the Disbursing Agent of such Holder's then current address, within 180 days after the Effective Date shall have its claim for such undeliverable distribution, and any subsequent distribution to which Holder may have been entitled, discharged and shall be forever barred from asserting any such claim against the Reorganized Debtors or their respective property, notwithstanding any federal or state escheat laws to the contrary.

3. Distributions to Holders of Prepetition Note Secured Claims

On the Confirmation Date or as soon as reasonably practical thereafter, the Disbursing Agent shall send to the banks, brokers or other financial institutions that hold the Prepetition Notes in "street name" in their accounts with the Depository Trust Company (the "DTC Participating Nominees") and/or their mailing agent(s), a package of

materials (collectively, the "Noteholder Distribution Package") to be forwarded to the Holders of Prepetition Note Secured Claims within five (5) Business Days of receipt by the DTC Participating Nominees or the mailing agent(s), as applicable. The Noteholder Distribution Package shall contain: (i) a Member Certification form; (ii) a counterpart signature page to the New LLC Agreement; and (iii) instructions regarding the foregoing. The form of the Noteholder Distribution Package shall be Filed with the Plan Supplement.

Distributions to Holders of Allowed Prepetition Note Secured Claims shall only be made to those Holders that have delivered to the Debtors or Reorganized Debtors (as applicable) (a) a properly completed and duly executed Member Certification and a duly executed counterpart signature page to the New LLC Agreement (the "Initial Required Documentation"), and (b) any additional documentation or information as the Debtors or Reorganized Debtors (as applicable) reasonably request (the "Additional Required Documentation" and, together with the Initial Required Documentation, the "Required Documentation"). A Holder of Allowed Prepetition Note Secured Claims shall not be permitted to exercise any rights in connection with the Reorganized American Apparel Equity Interests unless and until it delivers all of the Required Documentation to the Debtors or Reorganized Debtors, as applicable. If such Holder does not deliver the Required Documentation to the Reorganized Debtors within 180 days of the Effective Date (the "Noteholder Distribution Deadline"), such Holder will be deemed to have waived its distribution and will no longer be entitled to any distribution on account of its Prepetition Note Secured Claims; provided, however, that if the Reorganized Debtors request any Additional Required Documentation from a Holder less than ten (10) Business Days prior to the Noteholder Distribution Deadline, the Noteholder Distribution Deadline shall automatically be extended, solely with respect to such Holder, to the date that is ten (10) Business Days after such request. A Holder that fails to deliver valid and complete Required Documentation in a timely fashion shall have its claim for such undeliverable distribution, and any subsequent distribution to which Holder may have been entitled, discharged and shall be forever barred from asserting any such claim against the Reorganized Debtors or their respective property, notwithstanding any federal or state escheat laws to the contrary.

Notwithstanding anything to the contrary in this Plan or the Disclosure Statement, a Holder of Allowed Prepetition Note Secured Claims (that is not also a Supporting Party) that would otherwise be entitled to a distribution of Reorganized American Apparel Equity Interests shall not receive a distribution of Reorganized American Apparel Equity Interests in respect of such Claims, and shall instead be entitled to an alternative distribution of Cash in an amount equal to such Holder's Allowed Prepetition Note Secured Claims, to the extent the Requisite Supporting Parties in their sole discretion request the Debtors or Reorganized Debtors (as applicable) to make such alternative distribution to such Holder (any such holder, a "Cash-Out Noteholder"). Notwithstanding anything to the contrary in the Plan, this Disclosure Statement, or the Equity Commitment Agreement, Cash-Out Noteholders shall not be permitted to purchase Reorganized American Apparel Equity Interests pursuant to the Additional Equity Election

The Disbursing Agent shall provide the Requisite Supporting Parties with regular reports of the Holders of Allowed Prepetition Note Secured Claims that have submitted complete and valid Required Documentation (each, a "Valid Required Documentation Report"). The Requisite Supporting Parties must make a determination, in their sole discretion, as to which Holders are to be Cash-Out Noteholders and must then convey that determination to the Disbursing Agent within five (5) Business Days of the date the Disbursing Agent provides the Requisite Supporting Parties with a Valid Required Documentation Report.

The Reorganized Debtors shall make distributions of Reorganized American Apparel Equity Interests, or the abovementioned alternative cash distribution, to each Holder of Allowed Prepetition Note Secured Claims.

Subject to the terms and conditions set forth in the Equity Commitment Agreement, each Person that was a Holder of Allowed Prepetition Note Secured Claims as of the Distribution Record Date shall have the right to elect to purchase, in its sole discretion at any time from the Closing Date (as defined in the Equity Commitment Agreement) until 5:00 p.m., prevailing Eastern time, on the date that is 30 days following the Closing Date (the "Additional Equity Election Deadline"), a number of additional Reorganized American Apparel Equity Interests (and no less than such amount) calculated in accordance with the Equity Commitment Agreement (the "Additional Equity Election"). To purchase such Additional American Apparel Equity Interests, such Holder of an Allowed Prepetition Note Secured Claim must submit a properly completed and duly executed Election Form (as defined in the Equity Commitment Agreement) and corresponding payment to the Disbursing Agent on or before the Additional Equity Election Deadline and otherwise complying with the terms and conditions set forth in the Equity

Commitment Agreement, this Plan, the Disclosure Statement, the Confirmation Order and the instructions accompanying the Election Form. A Holder of Allowed Prepetition Note Secured Claims shall not be permitted to purchase Reorganized American Apparel Equity Interests pursuant to the Additional Equity Election unless and until it delivers all of the Required Documentation to the Debtors or Reorganized Debtors, as applicable. If such Holder does not deliver all of the Required Documentation to the Reorganized Debtors by 5:00 p.m., prevailing Eastern time, on the date that is ten (10) Business Days after the Distribution Record Date, such Holder shall be deemed to have waived its right to purchase Reorganized American Apparel Equity Interests pursuant to the Additional Equity Election and shall no longer be entitled to purchase any such Reorganized American Apparel Equity Interests; provided, however, that if the Reorganized Debtors request any Additional Required Documentation from a Holder, such deadline shall automatically be extended, solely with respect to such Holder, to the date that is five (5) Business Days after such request. As promptly as practicable after the Effective Date, the Reorganized Debtors shall deliver the Offer Notice (as defined in the Equity Commitment Agreement), including the Election Form, to each Holder of Prepetition Note Secured Claims that has delivered the Required Documentation to the Reorganized Debtors and is not a Cash-Out Noteholder. Thereafter, the Reorganized Debtors shall deliver the Offer Notice, including the Election Form, to each other Holder of Prepetition Note Secured Claims that subsequently delivers the Required Documentation to the Reorganized Debtors and is not a Cash-Out Noteholder, as promptly as practicable following such delivery of Required Documentation. The form of the Election Form, including the instructions thereto, shall be Filed with the Plan Supplement.

The Reorganized American Apparel Equity Interests will be issued in uncertificated book-entry form, and the distribution of Reorganized American Apparel Equity Interests to Holders of Allowed Prepetition Note Secured Claims pursuant to the Plan will be evidenced solely by entry of such issuance in the books and records of Reorganized American Apparel. All subsequent sales and other transfers of Reorganized American Apparel Equity Interests will be subject to the restrictions set forth in the New LLC Agreement and will be valid and recognized only if made in accordance with the terms and conditions set forth in the New LLC Agreement.

If it is determined by the Disbursing Agent that it can collect any of the aforementioned certifications and information using one or more of the DTC's existing platforms, the Disbursing Agent shall be authorized to tailor these procedures accordingly.

D. Distribution Record Date

As of 5:00 p.m. (prevailing Eastern Time) on the Distribution Record Date, the transfer registers for Claims shall be closed. The Disbursing Agent shall have no obligation to recognize the transfer or sale of any Claim that occurs after such time on the Distribution Record Date and shall be entitled for all purposes herein to recognize and make distributions only to those Holders who are Holders of Claims as of 5:00 p.m. on the Distribution Record Date.

Except as otherwise provided in a Final Order of the Bankruptcy Court, the transferees of Claims that are transferred pursuant to Bankruptcy Rule 3001 on or prior to 5:00 p.m. (prevailing Eastern Time) on the Distribution Record Date shall be treated as the Holders of such Claims for all purposes, notwithstanding that any period provided by Bankruptcy Rule 3001 for objecting to such transfer has not expired by the Distribution Record Date.

E. Minimum Distributions and Fractional Interests

No fractional amount of Reorganized American Apparel Equity Interests shall be distributed under this Plan. To the extent any Holder of a Prepetition Note Secured Claim would be entitled to receive a fractional amount of Reorganized American Apparel Equity Interests, the Debtors or Reorganized Debtors, as applicable, shall round downward the number of such interests to be distributed to that Holder to the nearest whole integer. No consideration shall be provide in lieu of such fractional amounts of interests that are rounded down.

No distribution of less than twenty-five dollars ($25.00) shall be made by the Disbursing Agent to the holder of any Claim unless a request therefor is made in writing to the Disbursing Agent within 180 days of the Effective Date. Each distribution of less than twenty-five dollars ($25.00) as to which no such request is made shall automatically revert without restriction to the Reorganized Debtors on the 181st day after the Effective Date.

F. Compliance with Tax Requirements

In connection with the Plan and all instruments issued in connection herewith and distributed hereunder, to the extent applicable, the Debtors, the Reorganized Debtors, Litigation Trustee, the Disbursing Agent or any other party issuing any instruments or making any distributions under the Plan shall comply with all applicable Tax withholding and reporting requirements imposed on them by any governmental unit, and all distributions pursuant to the Plan and all related agreements shall be subject to such withholding and reporting requirements. Each of the Debtors, Reorganized Debtors, Litigation Trustee, and the Disbursing Agent, as applicable, shall be authorized to take any actions that may be necessary or appropriate to comply with such withholding and reporting requirements, including applying a portion of any Cash distribution to be made under the Plan to pay applicable Tax withholding. In the case of a non-Cash distribution that is subject to withholding, the distributing party may withhold an appropriate portion of such distributed property and sell such withheld property to generate Cash necessary to pay over the withholding tax. Any amounts withheld pursuant to the immediately preceding sentence shall be deemed to have been distributed and received by the applicable recipient for all purposes of the Plan. Notwithstanding any other provision of the Plan, each Holder of an Allowed Claim receiving a distribution pursuant to the Plan shall have the sole and exclusive responsibility for the satisfying and paying of any Tax obligations imposed on it by any governmental unit on account of such distribution, including income, withholding and other Tax obligations. Any party issuing any instrument or making any distribution to the Plan has the right, but not the obligation, to not make a distribution until such Holder has made arrangements satisfactory to the issuing or disbursing party for the payment of any tax obligations.

Any party entitled to receive any property as an issuance or distribution under the Plan shall be required, if so requested, to deliver to the Disbursing Agent (or such other Entity designated by the Debtors, which Entity shall subsequently deliver to the Disbursing Agent) an appropriate Form W-9 or (if the payee is a foreign Entity) Form W-8, unless such Entity is exempt under the Internal Revenue Code and so notifies the Disbursing Agent. Unless a properly completed Form W-9 or Form W-8, as appropriate, is delivered to the Disbursing Agent (or such other Entity), the Disbursing Agent, in its sole discretion, may (a) make a distribution net of any applicable withholding, including backup withholding, or (b) reserve such distribution. If the Disbursing Agent reserves such distribution, and the Holder fails to comply with the requirement to deliver the Form W-9 or Form W-8 within 180 days after the Effective Date, such distribution shall be deemed undeliverable in accordance with Section V.C.2.

G. Manner of Payment Under the Plan.

Unless a Holder of an Allowed Claim and the Disbursing Agent otherwise agree, any distribution to be made in Cash under the Plan shall be made, at the election of the Disbursing Agent, by check drawn on a domestic bank or by wire transfer from a domestic bank. Cash payments to foreign creditors may, in addition to the foregoing, be made at the option of the Disbursing Agent in such funds and by such means as are necessary or customary in a particular foreign jurisdiction.

H. Time Bar to Cash Payments.

Checks issued in respect of Allowed Claims shall be null and void if not negotiated within 180 days after the date of issuance thereof. Requests for reissuance of any voided check shall be made directly to the Disbursing Agent by the Entity to whom such check was originally issued. Any claim in respect of such a voided check shall be made within 30 days after the date upon which such check was deemed void. If no request is made as provided in the preceding sentence, any claims in respect of such voided check shall be discharged and forever barred and such unclaimed distribution shall revert without restriction to the Reorganized Debtors, notwithstanding any federal or state escheat laws to the contrary.

I. Setoffs

Except with respect to claims of a Debtor or Reorganized Debtor released pursuant to the Plan or any contract, instrument, release or other agreement or document entered into or delivered in connection with the Plan, the Reorganized Debtors may, pursuant to section 553 of the Bankruptcy Code or applicable non-bankruptcy law, set off against any Claim and the payments or distributions to be made on account of the Claim the claims, rights and causes of action of any nature that the applicable Debtor or Reorganized Debtor may hold against the Holder of

the Claim; provided, however, that the failure to effect a setoff shall not constitute a waiver or release by the applicable Debtor or Reorganized Debtor of any claims, rights and causes of action that the Debtor or Reorganized Debtor may possess against the Holder of a Claim; provided, further, however, that the Debtor or Reorganized Debtor shall not set off or assert a right of set off against any Prepetition Note Secured Claims, Prepetition ABL Claims or DIP Claims.

J. Allocation Between Principal and Accrued Interest

Except as otherwise provided in the Plan, the aggregate consideration paid to Holders with respect to their Allowed Claims shall be treated pursuant to the Plan as allocated first to the principal amount of such Allowed Claims (to the extent thereof) and, thereafter, to the interest, if any, accrued through the Effective Date.

K. Distributions to Holders of Disputed Claims

Notwithstanding any other provision of the Plan, (1) no payments or distributions will be made on account of a Disputed Claim until such Claim becomes an Allowed Claim, if ever and (2) except as otherwise agreed to by the relevant parties, no partial payments and no partial distributions shall be made with respect to a Disputed Claim until all such disputes in connection with such Disputed Claim have been resolved by settlement or Final Order.

To the extent that a Disputed Claim ultimately becomes an Allowed Claim, distributions (if any) shall be made to the Holder of such Allowed Claim in accordance with the provisions of the Plan. On the Distribution Date that is at least 30 days after a Disputed Claim becomes an Allowed Claim (or such lesser period as the Disbursing Agent may determine), the Holder of such Claim shall receive the distribution (if any) to which such Holder would have been entitled under the Plan as of the Effective Date (including any payments such Holder would have been entitled to on the Distribution Date on which such Holder is receiving its initial payment) if such claim had been Allowed as of the Effective Date, without any interest to be paid on account of such Claim.

L. Distributions to Holders of Allowed General Unsecured Claims

Except as set forth in this paragraph and only to the extent applicable, on each Distribution Date, the Disbursing Agent will distribute to each Holder of an Allowed General Unsecured Claim its Pro Rata share of the GUC Support Payment minus the aggregate amount of Cash previously distributed upon such Claim; provided, however, that the Disbursing Agent may postpone such distribution if it determines that, taking into account the aggregate amount of the distribution and the number of such Holders eligible to receive distributions thereunder, the expense of administering such distribution does not warrant making such distribution. On a date selected by the Disbursing Agent in its discretion, that is no later than 60 days after all Disputed Claims in Classes 4A through 4F have become Allowed Claims or shall have been disallowed, the Disbursing Agent shall distribute to each Holder of an Allowed General Unsecured Claim its Pro Rata share of the GUC Support Payment (to the extent applicable) minus the aggregate amount of Cash previously distributed upon such Claim; provided, however, that if the aggregate amount of amount of Cash to be distributed to Holders of Allowed General Unsecured Claims on such date is likely to exceed the expense of administering such distribution, then the Disbursing Agent may, in its discretion, contribute such funds to one or more charitable organizations exempt from income tax under section 501(c)(3) of the Internal Revenue Code selected by the Disbursing Agent and that is unrelated to the Disbursing Agent.

VI. DISPUTED, CONTINGENT AND UNLIQUIDATED CLAIMS

A. Allowance of Claims

After the Effective Date, the Reorganized Debtors shall have and retain any and all rights and defenses the Debtors had with respect to any Claim immediately prior to the Effective Date, except with respect to any Claim deemed Allowed under the Plan. Except as expressly provided in the Plan or in any order entered in the Chapter 11 Cases prior to the Effective Date (including the Confirmation Order), no Claim shall become an Allowed Claim unless and until such Claim is deemed Allowed under the Plan or the Bankruptcy Code or the Bankruptcy Court has entered a Final Order (including the Confirmation Order) in the Chapter 11 Cases allowing such Claim. All settled

Claims approved prior to the Effective Date pursuant to a Final Order of the Bankruptcy Court pursuant to Bankruptcy Rule 9019 or otherwise shall be binding on all parties.

Any Claim that has been listed in the Schedules as disputed, contingent or unliquidated, and for which no Proof of Claim has been timely filed, is not considered Allowed and shall be expunged without further action and without any further notice to or action, order or approval of the Bankruptcy Court.

B. Prosecution of Objections to Claims

Except as otherwise specifically provided in the Plan, the Debtors, prior to the Effective Date, and the Reorganized Debtors, after the Effective Date, shall have the sole authority: (1) to File, withdraw or litigate to judgment, objections to Claims; (2) to settle or compromise any Disputed Claim without any further notice to or action, order or approval by the Bankruptcy Court; and (3) to administer and adjust the claims register to reflect any such settlements or compromises without any further notice to or action, order or approval by the Bankruptcy Court.

C. Estimation of Claims

The Debtors, prior to the Effective Date, and the Reorganized Debtors after the Effective Date, as applicable, may (but are not required to) at any time request that the Bankruptcy Court estimate any Claim that is contingent or unliquidated pursuant to section 502(c) of the Bankruptcy Code for any reason, regardless of whether any party previously has objected to such Claim or whether the Bankruptcy Court has ruled on any such objection. The Bankruptcy Court shall retain jurisdiction to estimate any such Claim, including during the litigation of any objection to any Claim or during the appeal relating to such objection. In the event that the Bankruptcy Court estimates any contingent or unliquidated Claim, that estimated amount shall constitute a maximum limitation on such Claim for all purposes under the Plan (including for purposes of distributions), and the relevant Reorganized Debtor may elect to pursue any supplemental proceedings to object to any ultimate distribution on such Claim or Interest.

D. Adjustment to Claims Without Objection

Any Claim that has been paid or satisfied, or any Claim that has been amended or superseded, may be adjusted or expunged on the claims register by the Reorganized Debtors without a claim objection having to be Filed and without any further notice to or action, order or approval of the Bankruptcy Court.

E. Disallowance of Certain Claims

EXCEPT AS PROVIDED HEREIN, IN AN ORDER OF THE BANKRUPTCY COURT OR OTHERWISE AGREED, ANY AND ALL PROOFS OF CLAIM FILED AFTER THE CLAIMS BAR DATE SHALL BE DEEMED DISALLOWED AND EXPUNGED AS OF THE EFFECTIVE DATE WITHOUT ANY FURTHER NOTICE TO OR ACTION, ORDER OR APPROVAL OF THE BANKRUPTCY COURT, AND HOLDERS OF SUCH CLAIMS MAY NOT RECEIVE ANY DISTRIBUTIONS ON ACCOUNT OF SUCH CLAIMS.

Consistent with Bankruptcy Rule 3003(c), the Debtors shall recognize the master Proof of Claim filed by the Indenture Trustee in respect of the Prepetition Note Secured Claims and Prepetition Note Deficiency Claims. Accordingly, any Proof of Claim filed by a Holder of a Prepetition Note Secured Claim or Prepetition Note Deficiency Claim shall be disallowed as duplicative of the Indenture Trustee's master Proof of Claim and deemed expunged from the claims register, without further action or Bankruptcy Court order.

F. Offer of Judgment

The Reorganized Debtors are authorized to serve upon a Holder of a Disputed Claim an offer to allow judgment to be taken on account of such Disputed Claim, and, pursuant to Bankruptcy Rules 7068 and 9014, Federal Rule of Civil Procedure 68 shall apply to such offer of judgment. To the extent the Holder of a Disputed Claim must pay the costs incurred by the Reorganized Debtors after the making of such offer, the Reorganized

Debtors are entitled to set off such amounts against the amount of any distribution to be paid to such Holder without any further notice to or action, order, or approval of the Bankruptcy Court.

G. Amendments to Claims

On or after the Effective Date, except as provided herein, a Claim may not be filed or amended without the prior authorization of the Bankruptcy Court or the Reorganized Debtors, and, to the extent such prior authorization is not received, any such new or amended Claim filed shall be deemed disallowed in full and expunged without any further action.

VII. CONDITIONS PRECEDENT TO CONFIRMATION AND CONSUMMATION OF THE PLAN

A. Conditions to Confirmation

The Bankruptcy Court shall not be requested to enter the Confirmation Order unless and until the following conditions have been satisfied or duly waived pursuant to Section VII.C:

1. The Bankruptcy Court shall have entered the Disclosure Statement Order.

2. The Plan and Confirmation Order shall be in form and substance acceptable to the Debtors and the Requisite Supporting Parties.

B. Conditions to the Effective Date

The Effective Date shall not occur, and the Plan shall not be consummated unless and until the following conditions have been satisfied or duly waived pursuant to Section VII.C:

1. All documents and agreements necessary to consummate the Plan shall have been effected or executed.

2. The Confirmation Order shall be in full force and effect, and no stay thereof shall be in effect.

3. All other documents and agreements necessary to implement the Plan on the Effective Date including without limitation the documents and agreements evidencing the New Exit Facility Term Loan shall have been executed and delivered and all other actions required to be taken in connection with the Effective Date shall have occurred.

4. The Debtors have received from the Commitment Parties all funds comprising the New Equity Investment or such funds have been funded into the escrow account in accordance with the Equity Commitment Agreement.

5. All conditions precedent to the effectiveness of the New Exit Facility Term Loan shall have been satisfied or waived in accordance therewith (except any condition precedent requiring that all conditions to the Effective Date shall have been satisfied or waived).

6. The New Securities and Documents shall be in form and substance acceptable to the Debtors and the Requisite Supporting Parties.

7. All statutory fees and obligations then due and payable to the Office of the United States Trustee shall have been paid and satisfied in full.

C. Waiver of Conditions to Confirmation or the Effective Date

The conditions to Confirmation and the conditions to the Effective Date (other than such conditions set forth in Section VII.B.2 and Section VII.B.4) may be waived in whole or part at any time by the Debtors, with the consent of the Requisite Supporting Parties.

D. Effect of Nonoccurrence of Conditions to the Effective Date

The Debtors reserve the right to seek to vacate the Plan at any time prior to the Effective Date. If the Confirmation Order is vacated pursuant to this Section VII.D: (1) the Plan shall be null and void in all respects, including with respect to (a) the discharge of Claims pursuant to section 1141 of the Bankruptcy Code, (b) the assumption, assumption and assignment or rejection of Executory Contracts and Unexpired Leases, as applicable, and (c) the releases described in Section IX.E; and (2) nothing contained in the Plan shall (a) constitute a waiver or release of any claims by or against, or any Interest in, any Debtor or (b) prejudice in any manner the rights of the Debtors or any other party in interest.

VIII. NON-CONSENSUAL CONFIRMATION

In the event that any Impaired Class of Claims or Interests rejects this Plan, the Debtors reserve the right, without any delay in the occurrence of the Confirmation Hearing or Effective Date, to (A) request that the Bankruptcy Court confirm this Plan in accordance with section 1129(b) of the Bankruptcy Code with respect to such non-accepting Class, in which case this Plan shall constitute a motion for such relief and/or (B) amend this Plan in accordance with Section XI.A.

IX. EFFECT OF CONFIRMATION

A. Dissolution of Official Committees

Except to the extent provided herein, upon the Effective Date, the current and former members of the Creditors' Committee and any other creditor, equity or other committee appointed pursuant to section 1102 of the Bankruptcy Code in the Chapter 11 Cases, and their respective officers, employees, counsel, advisors and agents, shall be released and discharged of and from all further authority, duties, responsibilities and obligations related to and arising from and in connection with the Chapter 11 Cases; provided, however, that following the Effective Date the Creditors' Committee shall continue in existence and have standing and a right to be heard for the following limited purposes: (1) Claims and/or applications for compensation by Professionals and requests for allowance of Administrative Claims for substantial contribution pursuant to section 503(b)(3)(D) of the Bankruptcy Code; (2) any appeals to which the Creditors' Committee is a party; and (3) any adversary proceedings or contested matters as of the Effective Date to which the Creditors' Committee is a party. Following the completion of the Creditors' Committee's remaining duties set forth above, the Creditors' Committee shall be dissolved, and the retention or employment of the Creditors' Committee's respective attorneys, accountants and other agents shall terminate.

B. Discharge of Claims and Interests

Except as provided in the Plan or in the Confirmation Order, the rights afforded under the Plan and the treatment of Claims and Interests under the Plan shall be in exchange for and in complete satisfaction, discharge and release of all Claims and Interests arising or existing on or before the Effective Date, including any interest accrued on Claims from and after the Petition Date. From and after the Effective Date, the Debtors shall be discharged from any and all Claims and Interests that arose or existed prior to the Effective Date, subject to the obligations of the Debtors under the Plan.

C. Injunctions

As of the Effective Date, except with respect to the obligations of the Reorganized Debtors under the Plan or the Confirmation Order, all Entities that have held, currently hold or may hold any Claims or Interests, obligations, suits, judgments, damages, demands, debts, rights, causes of action or Liabilities that

are waived, discharged or released under the Plan shall be permanently enjoined from taking any of the following enforcement actions against the Debtors, the Reorganized Debtors, the Released Parties or any of their respective assets or property on account of any such waived, discharged or released Claims, obligations, suits, judgments, damages, demands, debts, rights, causes of action or Liabilities: (1) commencing or continuing in any manner any action or other proceeding; (2) enforcing, levying, attaching, collecting or recovering in any manner any judgment, award, decree or order; (3) creating, perfecting or enforcing any lien or encumbrance; (4) asserting any right of setoff, subrogation or recoupment of any kind against any debt, liability or obligation due to any Debtor, Reorganized Debtor or Released Party; and (5) commencing or continuing any action, in any manner, in any place to assert any Claim waived, discharged or released under the Plan or that does not otherwise comply with or is inconsistent with the provisions of the Plan.

D. Exculpation

From and after the Effective Date, the Released Parties, the Debtors and the Reorganized Debtors shall neither have nor incur any liability to any Entity, and no Holder of a Claim or Interest, no other party in interest and none of their respective Representatives shall have any right of action against any Debtor, Reorganized Debtor, Released Party or any of their respective Representatives for any act taken or omitted to be taken before the Effective Date in connection with, related to or arising out of the Chapter 11 Cases, any of the Debtors or the Estates or the negotiation, consideration, formulation, preparation, dissemination, implementation, Confirmation or consummation of the Restructuring Support Agreement, Plan, the Exhibits, the Disclosure Statement, the DIP Credit Agreement, any of the New Exit Financing Documents, any of the New Securities and Documents, the Restructuring Transactions or any other transactions proposed in connection with the Chapter 11 Cases, or any distributions made under or in connection with the Plan or any contract, instrument, release or other agreement or document created or entered into or any other act taken or omitted to be taken in connection therewith or in connection with any other obligations arising under the Plan or the obligations assumed hereunder; provided, however, that the foregoing provisions of this Section IX.D shall have no effect on the liability of (1) any Entity that would otherwise result from the failure to perform or pay any obligation or liability under the Plan or any contract, instrument, release or other agreement or document to be entered into or delivered in connection with the Plan or (2) any Released Party that would otherwise result from any act or omission of such Released Party to the extent that such act or omission is determined in a Final Order to have constituted gross negligence or willful misconduct (including fraud).

E. Releases

1. Releases by Debtors and Reorganized Debtors

Without limiting any other applicable provisions of, or releases contained in, the Plan, as of the Effective Date, to the fullest extent permitted by law, the Debtors and the Reorganized Debtors, on behalf of themselves and their affiliates, the Estates and their respective successors, assigns and any and all Entities who may purport to claim by, through, for or because of them, shall forever release, waive and discharge all Liabilities that they have, had or may have against any Released Party with respect to any of the Debtors or the Estates, the Chapter 11 Cases or the negotiation, consideration, formulation, preparation, dissemination, implementation, Confirmation or consummation of the Restructuring Support Agreement, the Plan, the Exhibits, the Disclosure Statement, the DIP Credit Agreement, the New Exit Financing Documents, any of the New Securities and Documents, the Restructuring Transactions or any other transactions proposed in connection with the Chapter 11 Cases or any distributions made under or in connection with the Plan or any contract, instrument, release or other agreement or document created or entered into or any other act taken or omitted to be taken in connection therewith or in connection with any obligations arising under the Plan or the obligations assumed hereunder; provided, however, that the foregoing provisions of this Section IX.E.1 shall not affect (a) the liability of any Released Party that otherwise would result from any act or omission to the extent that act or omission subsequently is determined in a Final Order to have constituted gross negligence or willful misconduct (including fraud), (b) any rights to enforce the Plan or the other contracts, instruments, releases, agreements or documents to be, or previously, entered into or delivered in connection with the Plan, (c) except as otherwise expressly set forth in this Plan, any objections by the Debtors or the Reorganized Debtors to Claims or Interests filed by any Entity against any Debtor and/or the Estates,

including rights of setoff, refund or other adjustments, (d) the rights of the Debtors to assert any applicable defenses in litigation or other proceedings with their employees (including the rights to seek sanctions, fees and other costs) and (e) any claim of the Debtors or Reorganized Debtors, including (but not limited to) cross-claims or counterclaims or other causes of action against employees or other parties, arising out of or relating to actions for personal injury, wrongful death, property damage, products liability or similar legal theories of recovery to which the Debtors or Reorganized Debtors are a party.

2. Releases by Holders of Claims

Without limiting any other applicable provisions of, or releases contained in, the Plan, as of the Effective Date, in consideration for the obligations of the Debtors and the Reorganized Debtors under the Plan and the consideration and other contracts, instruments, releases, agreements or documents to be entered into or delivered in connection with the Plan, unless otherwise provided in the Confirmation Order, each Holder of a Claim that (a) votes in favor of the Plan or (b) either (i) abstains from voting or (ii) votes to reject the Plan and, in the case of either (i) or (ii), does not opt out of the voluntary release contained in this Section IX.E.2 by checking the opt out box on the Ballot and returning it in accordance with the instructions set forth thereon, indicating that they opt not to grant the releases provided in the Plan, shall be deemed to forever release, waive and discharge all Liabilities in any way that such Entity has, had or may have against any Released Party (which release shall be in addition to the discharge of Claims and termination of Interests provided herein and under the Confirmation Order and the Bankruptcy Code), in each case, relating to any of the Debtors or the Estates, the Chapter 11 Cases or the negotiation, consideration, formulation, preparation, dissemination, implementation, Confirmation or consummation of the Restructuring Support Agreement, the Plan, the Exhibits, the Disclosure Statement, the DIP Credit Agreement, the New Exit Financing Documents, any of the New Securities and Documents, the Restructuring Transactions or any other transactions proposed in connection with the Chapter 11 Cases or any contract, instrument, release or other agreement or document created or entered into or any other act taken or omitted to be taken in connection therewith or in connection with any obligations arising under the Plan or the obligations assumed hereunder; provided, however, that the foregoing provisions of this Section IX.E.2 shall have no effect on the liability of (a) any Entity that would otherwise result from the failure to perform or pay any obligation or liability under the Plan or any contract, instrument, release or other agreement or document to be entered into or delivered in connection with the Plan and (b) any Released Party that would otherwise result from any act or omission of such Released Party to the extent that such act or omission is determined in a Final Order to have constituted gross negligence or willful misconduct (including fraud). Notwithstanding any language to the contrary contained in the Disclosure Statement, the Plan and/or the Confirmation Order, no provision shall release any non-Debtor, including any current and/or former officer and/or director of the Debtors and/or any non-Debtor included in the Released Parties, from liability to the SEC, in connection with any legal action or claim brought by such governmental unit against such person(s).

F. Votes Solicited in Good Faith

The Debtors have, and upon confirmation of the Plan shall be deemed to have, solicited acceptances of the Plan in good faith and in compliance with the applicable provisions of the Bankruptcy Code. The Debtors (and each of their respective affiliates, agents, directors, officers, members, employees, advisors, and attorneys) have participated in good faith and in compliance with the applicable provisions of the Bankruptcy Code in the offer and issuance of the securities offered and sold under the Plan and therefore have not, and on account of such offer and issuance will not be, liable at any time for the violation of any applicable law, rule, or regulation governing the solicitation of acceptances or rejections of the Plan or the offer or issuance of the securities offered and distributed under the Plan.

G. Term of Injunctions or Stays

Unless otherwise provided herein or in the Confirmation Order, all injunctions or stays arising under or entered during the Chapter 11 Cases under section 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the later of the Effective Date and the date indicated in the order providing for such injunction or stay.

H. Termination of Certain Subordination Rights

The classification and manner of satisfying Claims under the Plan take into consideration all subordination rights, whether arising under general principles of equitable subordination, contract, sections 510(a) and 510(c) of the Bankruptcy Code or otherwise, that a Holder of a Claim or Interest may have against other Claim or Interest Holders with respect to any distribution made pursuant to the Plan. All subordination rights that a Holder of a Claim, other than a Holder of a Claim Reinstated hereunder, may have with respect to any distribution to be made pursuant to the Plan shall be discharged and terminated, and all actions related to the enforcement of such subordination rights shall be permanently enjoined. Accordingly, distributions pursuant to the Plan shall not be subject to payment to a beneficiary of such terminated subordination rights or to levy, garnishment, attachment or other legal process by a beneficiary of such terminated subordination rights**.**

X. RETENTION OF JURISDICTION

Notwithstanding the entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court shall retain such jurisdiction over the Chapter 11 Cases after the Effective Date as is legally permissible, including jurisdiction to:

1. Allow, disallow, estimate, determine, liquidate, reduce, classify, re-classify, estimate or establish the priority or secured or unsecured status of any Claim or Interest, including the resolution of any request for payment of any Administrative Claim and the resolution of any objections to the amount, allowance, priority or classification of Claims or Interests;

2. Grant or deny any applications for allowance of compensation or reimbursement of expenses authorized pursuant to the Bankruptcy Code or the Plan for periods ending on or before the Effective Date;

3. Resolve any matters related to the assumption, assumption and assignment or rejection of any Executory Contract or Unexpired Lease to which any Debtor is a party or with respect to which any Debtor or Reorganized Debtor may be liable and to hear, determine and, if necessary, liquidate any Claims arising therefrom;

4. Ensure that distributions to Holders of Claims are accomplished pursuant to the provisions of the Plan;

5. Decide or resolve any motions, adversary proceedings, contested or litigated matters and any other matters and grant or deny any applications Filed in the Bankruptcy Court involving any Debtor or any Reorganized Debtor that may be pending on the Effective Date or brought thereafter;

6. Enter such orders as may be necessary or appropriate to implement or consummate the provisions of the Plan and all contracts, instruments, releases and other agreements or documents entered into or delivered in connection with the Plan, the Disclosure Statement or the Confirmation Order;

7. Resolve any cases, controversies, suits or disputes that may arise in connection with the consummation, interpretation or enforcement of the Plan or any contract, instrument, release or other agreement or document that is entered into or delivered pursuant to the Plan or any Entity's rights arising from or obligations incurred in connection with the Plan or such documents;

8. Modify the Plan before or after the Effective Date pursuant to section 1127 of the Bankruptcy Code; modify the Confirmation Order or any contract, instrument, release or other agreement or document entered into or delivered in connection with the Plan, the Disclosure Statement or the Confirmation Order; or remedy any defect or omission or reconcile any inconsistency in any Bankruptcy Court order, the Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release or other agreement or document entered into, delivered or created in connection with the Plan, the Disclosure Statement or the Confirmation Order, in such manner as may be necessary or appropriate to consummate the Plan;

9. Hear and determine any matter, case, controversy, suit, dispute, or Causes of Action regarding the existence, nature and scope of the releases, injunctions, and exculpation provided under the Plan, and issue injunctions, enforce the injunctions contained in the Plan and the Confirmation Order, enter and implement other orders or take such other actions as may be necessary or appropriate to implement, enforce or restrain interference by any Entity with respect to the consummation, implementation or enforcement of the Plan or the Confirmation Order, including the releases, injunctions, and exculpation provided under the Plan;

10. Enter and implement such orders as are necessary or appropriate if the Confirmation Order is for any reason or in any respect modified, stayed, reversed, revoked or vacated or distributions pursuant to the Plan are enjoined or stayed;

11. Determine any other matters that may arise in connection with or relate to the Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release or other agreement or document entered into or delivered in connection with the Plan, the Disclosure Statement or the Confirmation Order;

12. Enforce, clarify or modify any orders previously entered by the Bankruptcy Court in the Chapter 11 Cases;

13. Enter a final decree closing the Chapter 11 Cases;

14. Determine matters concerning state, local and federal Taxes in accordance with sections 346, 505 and 1146 of the Bankruptcy Code, including any Disputed Claims for Taxes;

15. Recover all assets of the Debtors and their Estates, wherever located; and

16. Hear any other matter over which with the Bankruptcy Court has jurisdiction.

If the Bankruptcy Court abstains from exercising, or declines to exercise, jurisdiction or is otherwise without jurisdiction over any matter, including the matters set forth in this Section X, the provisions of this Section X shall have no effect upon and shall not control, prohibit or limit the exercise of jurisdiction by any other court having jurisdiction with respect to such matter.

XI. MISCELLANEOUS PROVISIONS

A. Modification of the Plan

Subject to the restrictions on modifications set forth in section 1127 of the Bankruptcy Code and the consent of the Requisite Supporting Parties and, to the extent a modification to the Plan disproportionately affects a Supporting Party, the consent of such Supporting Party, the Debtors reserve the right to alter, amend or modify the Plan before its substantial consummation. Prior to the Effective Date, the Debtors may make appropriate technical adjustments and modifications to the Plan without further order or approval of the Bankruptcy Court. Holders of Claims that have accepted the Plan shall be deemed to have accepted the Plan, as amended, modified, or supplemented, if the proposed amendment, modification, or supplement does not materially and adversely change the treatment of the Claim of such Holder; provided, however, that any Holders of Claims who were deemed to accept the Plan because such Claims were Unimpaired shall continue to be deemed to accept the Plan only if, after giving effect to such amendment, modification, or supplement, such Claims continue to be Unimpaired.

B. Revocation of the Plan

The Debtors reserve the right to revoke or withdraw the Plan as to any or all of the Debtors prior to the Confirmation Date or at the Confirmation Hearing. If the Debtors revoke or withdraw the Plan as to any or all of the Debtors, or if Confirmation as to any or all of the Debtors does not occur, then the Plan shall be null and void in all respects with respect to such Debtors or, if consented to by the Requisite Supporting Parties, all Debtors, and nothing contained in the Plan shall: (1) prejudice in any manner the rights of any such Debtor(s) or any other party in interest with respect to such Debtor(s); or (2) constitute an admission of any sort by any such Debtor(s) or any

other party in interest with respect to such Debtor(s). The revocation or withdrawal of the Plan with respect to one or more Debtors shall not require the re-solicitation of the Plan with respect to the remaining Debtors.

C. Conversion or Dismissal of Certain of the Chapter 11 Cases

If the requisite Classes do not vote to accept this Plan or the Bankruptcy Court does not confirm this Plan, the Debtors reserve the right to have any Debtor's Chapter 11 Case dismissed or converted, or to liquidate or dissolve any Debtor under applicable non-bankruptcy procedure or chapter 7 of the Bankruptcy Code.

D. Inconsistency

In the event of any inconsistency among the Plan, the Disclosure Statement, or any exhibit or schedule to the Disclosure Statement, the provisions of the Plan shall govern. In the event of any inconsistencies among the Plan and the New Securities and Documents, the New Securities and Documents (as applicable) shall control.

E. Exhibits / Schedules

All exhibits and schedules to the Plan, including the Plan Supplement, are incorporated into and constitute a part of the Plan as if set forth herein.

F. Section 1145 Exemption

To the maximum extent provided by section 1145(a) of the Bankruptcy Code, the Reorganized American Apparel Equity Interests issued under the Plan shall be exempt from registration under the Securities Act and any state's securities law registration requirements and all rules and regulations promulgated thereunder.

G. Exemption from Transfer Taxes

Pursuant to section 1146(a) of the Bankruptcy Code, the issuance, transfer, or exchange of notes or equity securities under or in connection with the Plan, including the Reorganized American Apparel Equity Interests issued pursuant to the Plan, the creation of any mortgage, deed of trust or other security interest, the making or assignment of any lease or sublease, or the making or delivery of any deed or other instrument of transfer under, in furtherance of, or in connection with the Plan, including any merger agreements or agreements of consolidation, deeds, bills of sale or assignments executed in connection with any of the transactions contemplated under the Plan (including, without limitation, the New Exit Financing Documents, the Restructuring Transactions, the New LLC Agreement, the New Equity Investment, the Equity Commitment Agreement and the creation of the Litigation Trust), shall not be subject to any stamp, real estate transfer, mortgage recording, or other similar tax.

H. Request for Expedited Determination of Taxes

Reorganized American Apparel and any Reorganized Debtor may request an expedited determination under section 505(b) of the Bankruptcy Code with respect to tax returns filed, or to be filed, on behalf of the Debtor for any and all taxable periods ending after the Petition Date through, and including, the Effective Date.

I. Severability

If prior to the entry of the Confirmation Order, any term or provision of the Plan is determined by the Bankruptcy Court to be invalid, void, or unenforceable, the Bankruptcy Court may, at the request of the Debtors, subject to the consent of the Requisite Supporting Parties, alter and interpret such term or provision to the extent necessary to render it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void, or unenforceable, and such term or provision shall then be applicable as so altered or interpreted. Notwithstanding any such holding, alteration or interpretation, the remaining terms and provisions of the Plan shall remain in full force and effect and shall in no way be affected, impaired or invalidated by such holding, alteration or interpretation. The Confirmation Order shall constitute a judicial determination and

shall provide that each term and provision of the Plan, as it may have been altered or interpreted in accordance with the foregoing, is valid and enforceable pursuant to its terms.

J. Governing Law

Except to the extent that (1) the Bankruptcy Code or other federal law is applicable or (2) an exhibit or schedule to the Plan or the Disclosure Statement or any agreement entered into with respect to any of the Restructuring Transactions provides otherwise (in which case the governing law specified therein shall be applicable to such exhibit, schedule or agreement), the rights, duties, and obligations arising under the Plan shall be governed by, and construed and enforced in accordance with, the laws of the State of New York, without giving effect to the principles of conflict of laws that would require application of the laws of another jurisdiction.

K. No Admissions

If the Effective Date does not occur, the Plan shall be null and void in all respects, and nothing contained in the Plan shall (1) constitute a waiver or release of any claims by or against, or any interests in, any of the Debtors or any other Entity, (2) prejudice in any manner the rights of any of the Debtors or any other Entity, or (3) constitute an admission of any sort by any of the Debtors or any other Entity.

L. Successors and Assigns

The rights, benefits and obligations of any Entity named or referred to in the Plan shall be binding on, and shall inure to the benefit of, any heir, executor, administrator, successor or assign of such Entity.

M. Service of Documents

To be effective, any pleading, notice or other document required by the Plan or the Confirmation Order to be served on or delivered to counsel to the Debtors, the Reorganized Debtors, the Creditors' Committee, the Prepetition Agent, the Indenture Trustee, and each of the Requisite Supporting Parties must be sent by overnight delivery service, facsimile transmission, courier service or messenger to:

1. The Debtors and the Reorganized Debtors

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Richard L. Wynne, Esq.
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– and –

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Laura Davis Jones, Esq.
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Attorneys for the Debtors and Reorganized Debtors

2. Creditors' Committee

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Attorneys for the Creditors' Committee

3. The Indenture Trustee

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– and –

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Ira H. Goldman, Esq.

4. The Committee of Lead Lenders

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Gerard Uzzi, Esq.
Bradley Scott Friedman, Esq.

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Jeffrey M. Schlerf, Esq.

Attorneys for the Committee of Lead Lenders

5. DIP Agent

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Megan McCauley, Esq.

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Facsimile: (212) 841-1010
Ronald Hewitt, Esq.

Attorneys for the DIP Agent

6. Office of the U.S. Trustee

OFFICE OF THE UNITED STATES TRUSTEE
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Wilmington, Delaware 19801
Telephone: (302) 573-6491
Facsimile: (302) 573-6497
Jane Leamy, Esq.
Natalie M. Cox, Esq.

XII. CONFIRMATION REQUEST

The Debtors request Confirmation of the Plan pursuant to section 1129 of the Bankruptcy Code.

Dated: November 20, 2015

Respectfully submitted,

American Apparel, Inc., on its own behalf and on behalf of each affiliate Debtor

By: /s/ *Hassan Natha*
Name: Hassan Natha
Title: Chief Financial Officer

COUNSEL TO THE DEBTORS AND DEBTORS IN POSSESSION:

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EXHIBIT 2

Liquidation Analysis

LIQUIDATION ANALYSIS

Pursuant to section 1129(a)(7) of the Bankruptcy Code (often identified as the "best interests test"), Holders of Allowed Claims must either (a) accept the Plan or (b) receive or retain under the Plan property of a value, as of the Plan's assumed Effective Date, that is not less than the value such non-accepting Holder would receive or retain if the Debtors were liquidated under chapter 7 of the Bankruptcy Code ("Chapter 7" and, the cases thereunder, the "Chapter 7 Cases" and, the trustee appointed thereunder, "Chapter 7 Trustee").

In determining whether the best interests test has been met, the first step is to determine the dollar amount that would be generated from a hypothetical liquidation of the Debtors' assets under Chapter 7. The Debtors, with assistance of their restructuring advisor FTI, have prepared this hypothetical liquidation analysis (the "Liquidation Analysis") in connection with the Disclosure Statement. The Liquidation Analysis reflects the estimated cash proceeds, net of liquidation-related costs that would likely be available to the Debtors' creditors if the Debtors were to be liquidated under Chapter 7 as an alternative to continued operation of the Debtors' businesses under the Plan. Accordingly, asset values discussed herein may be different than amounts referred to in the Plan. The Liquidation Analysis is based upon the assumptions discussed herein and in the Disclosure Statement. All capitalized terms not defined in this Liquidation Analysis have the meanings ascribed to them in the Disclosure Statement.

UNDERLYING THE LIQUIDATION ANALYSIS ARE NUMEROUS ESTIMATES THAT, ALTHOUGH DEVELOPED AND CONSIDERED REASONABLE BY THE DEBTORS' MANAGEMENT AND ITS ADVISORS, ARE INHERENTLY SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC, REGULATORY AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES BEYOND THE CONTROL OF THE DEBTORS AND THEIR MANAGEMENT. ACCORDINGLY, THERE CAN BE NO ASSURANCE THAT THE VALUES REFLECTED IN THE LIQUIDATION ANALYSIS WOULD BE REALIZED IF THE DEBTORS WERE, IN FACT, LIQUIDATED, AND ACTUAL RESULTS COULD MATERIALLY DIFFER FROM THE RESULTS SET FORTH HEREIN.

General Assumptions:

This Liquidation Analysis assumes the Chapter 7 conversion and liquidation of the Debtors and their Non-Debtor Affiliates (collectively the "Company").

Consistent with the Company's books and records, this Liquidation Analysis is presented with the assets and liabilities of the Debtors consolidated into American Apparel, Inc. ("AAI"); American Apparel (USA), LLC ("AA LLC"); and American Apparel Retail, Inc., ("AAR"). The Liquidation Analysis further assumes that the Non-Debtor Affiliates are also liquidated.

The Liquidation Analysis assumes hypothetically that the Chapter 11 Cases are converted to Chapter 7 Cases on January 15, 2016 (the "Conversion Date").

Asset Recovery Assumptions:

The assumptions, as described, are based on the Company's August 31, 2015 legal entity level balance sheets unless otherwise stated. The Liquidation Analysis assumes a range of recoveries for the Company's assets, with the midpoint of the Liquidation Analysis presented herein.

Note 1- Total Cash and Cash Equivalents:

- Based on reported balances, by entity, as of August 31, 2015

Note 2- Net Accounts Receivable:

- For retail entities, this balance is primarily comprised of credit card receivables.
- For wholesale entities (AA LLC, American Apparel Canada Wholesale, Inc., and American Apparel (UK) Limited) this balance is primarily made up of trade accounts receivable. Under the Prepetition ABL Facility, the U.S. receivables received a 71% advance rate, including ineligibles.
- Assumption ranges used in the Liquidation Analysis:
    - Retail entities: 85% to 95%
    - Wholesale entities: 60% to 75%

Note 3- Other Receivables

- Assumption range used in the Liquidation Analysis: 5% to 10%

Note 4- Prepaid Expenses

- Assumption range used in the Liquidation Analysis: 10% to 30%

Note 5- Inventory

- Inventory recovery assumptions for the Debtors were based on the two most recent inventory appraisals conducted by the Company. Both of these appraisals assumed a net orderly liquidation value ("NOLV") for U.S. retail inventory in the range of 105% to 110%. For U.S. wholesale inventory, the NOLV recovery in the appraisals was between 41% and 43%.
- For Non-Debtor Affiliates, the assumptions were reduced based on a general assumption of more aged and, therefore, lower value goods in those entities.
- Assumptions range used in the Liquidation Analysis:
    - Debtors:
        - AAR: 75% to 105%
        - AA LLC: 37% to 47%
    - Non-Debtor Affiliates:
        - Retail entities: 75% to 95%
        - Wholesale entities: 25% to 35%

Note 6- Net Property and Equipment

The Company's property and equipment assets consist primarily, in the retail entities, of leasehold improvements and store fixtures. AA LLC property and equipment consists of owned and capital leased textile manufacturing equipment (knitting, dyeing, finishing, cutting and sewing) equipment, information technology assets, office equipment and furniture and related items. The Company has not had any of this equipment appraised. Due to the age of most of the equipment and the makeup and nature of the retail fixtures and leasehold improvements, we would not expect this equipment to generate a very high return.

- Assumption range used in the Liquidation Analysis: 10% to 30%; 5% to 15% of Gross PP&E

Note 7- Deposits

AA LLC's deposits consist of over $20,000,000 of deposits for worker compensation liabilities. These are cash deposits currently being held by the Company's workers compensation carrier. In addition, AA LLC, AAR and nearly all Non-Debtor Affiliates have deposits outstanding for certain lease obligations. In a liquidation scenario, it is assumed that insurers and most landlords would have setoff rights against outstanding worker compensation or lease breakage liabilities and that these claims would exceed the value of the deposits. Therefore, recovery on deposits in a liquidation scenario would be expected to be minimal.

- Assumptions range used in the Liquidation Analysis: 2% to 15%

Note 8- Restricted Cash

Certain non-debtor entities (American Apparel Deutschland GmbH, AA Carnaby, and American Apparel Italia SRL) hold restricted cash on their balance sheets. According to the Company's management, these are rental guarantees that are required to be set aside in a restricted account. The Liquidation Analysis assumes a minimal recovery on these amounts.

- Assumptions range used in the Liquidation Analysis: 5% to 15%

Note 9- Other Assets

This balance sheet account consists, nearly entirely, of deferred financing costs, which are assumed to have no recovery value in a liquidation scenario.

- Assumption used in the Liquidation Analysis: 0%

Note 10- Brand Value and Leaseholds

- The Liquidation Analysis assumes a value to the brand of between $30 million and $50 million. The Company has not had its brand and intellectual property appraised by an independent appraiser.
- The Liquidation Analysis does not assume any value for leaseholds. This assumption is based on consultation with the Company's lease marketing and negotiations consultant.

Note 11- Recovery from Intercompany Receivables and Proceeds from Equity in Non-Debtor Affiliates

The Liquidation Analysis assumes that any recoveries available from None-Debtor Affiliates would be paid as follows:

- If a Non-Debtor Affiliate has a projected recovery value greater than zero (after paying all liabilities outstanding in such Non-Debtor Affiliate's home jurisdiction) and the Non-Debtor Affiliate has a net payable intercompany balance, the Liquidation Analysis assumes the entity holding the corresponding intercompany receivable would receive proceeds up to the amount of the receivable balance.

- If a Non-Debtor Affiliate has a projected recovery value greater than zero and does not owe any intercompany claims to one or more Debtors (or such claims are less than the projected recovery value) the recovery value is assumed to be paid 65% to secured debt obligations and 35% to the Non-Debtor Affiliate's parent entity and available to pay administrative expenses and claims of such parent entity in accordance with the Bankruptcy Code.
- The Liquidation Analysis does not consider any tax liabilities or local governmental restrictions on movement of funds that could reduce recovery from Non-Debtor Affiliate entities.

Recovery Assumptions:

Note 12- Administrative Expenses
For the Debtors, the Liquidation Analysis assumes a professional fee carve-out of approximately $4.9 million to cover unpaid professional fees for the Debtors and the Creditors' Committee plus an additional $2.1 million. The Liquidation Analysis also assumes wind down expenses and related professional fees of between $5 million and $7 million.

Claims Assumptions:

Assumptions for Claims Against the Debtors:

Note 13- DIP Claims:
The Liquidation Analysis assumes a projected DIP loan balance of $66.8 million, as of the Conversion Date, based on the Company's forecast. For purposes of the Liquidation Analysis, the DIP loan balance assumes that cash held in the DIP funding account would be netted against the outstanding balance.

Note 14- Accrued and Unpaid Administrative Expenses:
The Liquidation Analysis assumes $20.5M of accrued and unpaid administrative expenses, as of the Conversion Date, based on the Company's forecast. These consist of professional fees not included in the carve out, post-petition accounts payable balances and estimated claims asserted under section 503(b)(9) of the Bankruptcy Code.

Note 15- Prepetition Notes:

- Balance of Prepetition Notes assumed to be $229.6 million

Note 16- Priority Claims:

Consists primarily of accrued wage and payroll-related obligations and tax liabilities.

Note 17- General Unsecured Claims

The Liquidation Analysis assumes the following General Unsecured Claims:

- Prepetition accrued expenses and accounts payable
- Lease rejection damage claims for all domestic leases, limited by section 502(b)(6) of the Bankruptcy Code
- Unsecured loan under Lion Credit Facility with approximate $10,000,000 outstanding principal balance
- Deficiency claim for the unpaid unsecured portion of the Prepetition Notes
- Guaranty by AAI of the UK Loan with an approximate $15,000,000 outstanding principal balance
- Accrued and unpaid interest as of the Petition Date
- Intercompany Claims payable (only assumed for Debtors with a net intercompany payable balance)

Other Assumptions Related to Claims Against the Debtors

Worker's compensation liabilities are assumed to be offset by deposits held by worker's compensation carrier. No additional worker's compensation related claims are assumed in the Liquidation Analysis.

Non-Debtor Affiliates Claims Assumptions

Priority Claims:

Consists of accrued wages and employee benefits and deferred tax liabilities.

General Unsecured Claims

Consists of general unsecured claims against the Non-Debtor Affiliates based on:

- Accrued expenses and accounts payable
- Estimated lease breakage costs, based on consultation with the Company’s lease marketing and negotiations consultant
- Employee severance

American Apparel
Hypothetical Liquidation Analysis by Entity
($ in 000's)

The amounts presented are estimates. The actual results are subject to significant uncertainty and could vary materially from what is presented.

Assumed Liquidation Date
1/15/2016

		Debtors			
		AME	AAI	AAR	
	Notes	American Apparel (USA), LLC	American Apparel Inc.	American Apparel Retail, Inc.	Total Debtors
Assets (Liquidation Value):					
Total Cash and Cash Equivalents	1	$ 4,482	$ 0	$ 332	$ 4,815
Net Accounts Receivable	2	10,895	-	716	11,612
Other Receivables	3	21	-	-	21
Prepaid Expenses	4	762	30	413	1,205
Inventory	5	27,101	-	24,568	51,670
Net Property and Equipment	6	9,474	-	10,105	19,579
Deposits	7	881	-	213	1,095
Other Assets	9	-	-	-	-
Brand Value	10	40,000	-	-	40,000
Total Recoverable Asset Value		**$ 93,618**	**$ 30**	**$ 36,349**	**$ 129,997**
Professional Fee Carveout	12	4,870	-	-	4,870
Wind-Down and Pro Fees	12	2,967	66	2,967	6,000
Remaining Recovery Value		**85,781**	**(36)**	**33,382**	**119,127**
Recovery from Foreign Intercompany Receivables	11	-	-	3,199	3,199
Proceeds from 65% Equity in Foreign Subs	11	-	33	36	69
Debtors Net Asset Value		**85,781**	**(3)**	**36,617**	**122,395**
Projected DIP Loan (net of DIP Funding Acct Balance)	13	**66,778**	**-**	**66,778**	
Proceeds Applied to DIP		46,801	-	19,978	66,778
Recovery to DIP Loan		**70%**	**0%**	**30%**	**100%**
Proceeds from 35% Equity in Foreign Subs	11	-	18	19	37
Remaining Recovery Value		**38,980**	**15**	**16,659**	**55,653**
Accrued and Unpaid Administrative Claims	14	10,687	15	9,816	20,518
Recovery on Administrative Claims		**100%**	**100%**	**100%**	
Remaining Recovery Value		**28,293**	**-**	**6,843**	**35,136**
Senior Secured Notes	**15**	**229,574**	**229,574**	**229,574**	
Proceeds Applied to Senior Secured Notes		28,293	-	6,843	35,136
Recovery to Senior Secured Notes		**12%**	**0%**	**3%**	**15%**
Remaining Recovery Value		**-**	**-**	**-**	**-**
Debtors Priority Claims	**16**	7,606	-	3,125	
Recovery to Priority		**0%**	**0%**	**0%**	
Remaining Recovery Value		**-**	**-**	**-**	**-**
Debtors GUC Claims (includes lease damage claims)		55,142	16,286	34,154	
Senior Notes Deficiency Claim (claim on all Debtors)		194,438	194,438	194,438	
Intercompany Payable Claims		309,938	N/A	N/A	
Total General Unsecured Claims	**17**	559,518	210,724	228,593	
Recovery to General Unsecureds		**0.0%**	**0.0%**	**0.0%**	

[1] Book value is based on August 31, 2015 balance sheet data unless otherwise stated

EXHIBIT 3

Prospective Financial Information

FINANCIAL PROJECTIONS

The Debtors (together with the Non-Debtor Affiliates, the "Company"), with the assistance of their advisors, developed a set of financial projections for the period of April 1, 2016 through December 31, 2016 and the years ending December 31 for each of 2017, 2018, 2019 and 2020 (such projections, the "Financial Projections" and, such period, the "Projection Period") for the purpose of demonstrating feasibility of the Plan.[1] The Financial Projections present, to the best of the Debtors' knowledge, the Reorganized Debtors' projected financial position, results of operations, and cash flows during the Projection Period.

Assumptions Used in the Financial Projections

The Financial Projections are premised on a number of important assumptions. Although the management of Company believes the assumptions to be reasonable based on the most currently available information, the Company can provide no assurance that these assumptions will be realized. See Section XI of the Disclosure Statement for a discussion of various factors that could affect American Apparel's financial condition, results of operations, business, prospects and securities.

General Assumptions

1. **Plan Terms and Consummation.** The Financial Projections assume the reorganization will be consummated as of the Effective Date, which for modeling purposes is assumed to occur as of April 1, 2016.

2. **Fresh Start Accounting.** In connection with the Plan, the Company will be required to restate its balance sheet in accordance with the principles of fresh start accounting. The Financial Projections have been prepared consistent with the basic principles of fresh start accounting as set forth in American Institute of Certified Public Accountants Statement of Position 90-7. The Debtors are in the process of evaluating further how principles of fresh start accounting will be allocated to the Company's various assets. The final allocation may differ from the amounts presented herein.

3. **Macroeconomic Factors.** The Financial Projections assume that general economic conditions will not change significantly during the time period in question.

Income Statement

4. **Sales.** The Company sells its products through the following channels:
    a. **Retail Stores:** American Apparel will continue to operate 212 retail stores. These stores accounted for $331 million (54.4%) of total sales in 2014.
    b. **Online:** The Company hosts an online media platform/marketplace for the sale and distribution of its products, accounting for $61 million (10.0%) of sales in 2014
    c. **Wholesale:** The Company operates a wholesale business that accounted for $187 million (30.7%) of sales in 2014.

[1] Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Plan or the Disclosure Statement, as applicable.

5. **Gross Margin.** Projected gross margin is based on historic experience, adjusted for improved manufacturing efficiencies and general organizational improvement.

6. **Operating Expenses.** Projected operating expenses are based upon historical experience and expected market conditions, adjusted to reflect the expected decrease in expenses resulting both from reduced scale of operations as well as cost reduction initiatives.

7. **EBITDA.** For purposes of the projections, EBITDA is defined as earnings before interest expense, income tax provision, depreciation and amortization, non-recurring and restructuring related expenses (i.e., store shut-down costs, bankruptcy related professional fees) and non-cash charges such as inventory write-offs.

8. **Depreciation and Amortization.** Book depreciation is projected based on straight line depreciation. Adjustments to the value of long term fixed or intangible assets are based upon fresh start accounting principles.

9. **Interest Expense.** Post-reorganization interest expense reflects cash interest payments on the New Exit Term Loan Facility and any additional post-emergence debt obligations.

10. **Restructuring Costs.** The Financial Projections assume that the Company will use Cash from operations, proceeds of the DIP Credit Facility, the New Exit Term Loan Facility and trade credit provided by suppliers to pay all expenses associated with the reorganization and to provide for working capital throughout the Projection Period. Certain of these expenses will be paid on or about the Effective Date, including cure costs, success fees, stub rent, administrative claims, professional fees and expenses incurred or accrued during the Chapter 11 Cases.

11. **Income Taxes.** The Financial Projections assume an effective state and federal tax rate of 40% less usable, post-transaction, net operating loss carry-forwards of $4.08 million per year.

Balance Sheet

12. **Working Capital.** Projections of changes in certain balance sheet accounts such as accounts receivable and accounts payable are based on historical ratios of such accounts to other accounts such as revenues and operating expenses. The projected accounts payable balance reflects 20 to 30-day terms from vendors, in line with historic levels.

13. **Post-Reorganization Indebtedness.** The post-reorganization indebtedness consists of the New Exit Term Loan Facility and the $15 million UK Loan.

14. **Post-Reorganization Property, Plant & Equipment.** Property, plant and equipment was not valued independently. Post-reorganization property, plant and equipment is based on historical book value.

Cash Flow Statement

15. **Cash from Operations.** Cash from operations for fiscal year 2015 includes restructuring fees such as emergence costs, forgiveness of debt, bankruptcy professional fees and inventory markdowns.

16. **Capital Expenditures.** Capital expenditures for information technology are assumed to be in an aggregate amount of $11 million between 2016 and 2017. Regular maintenance capital expenditures range from $1.12 million to $1.7 million each month. The Company has traditionally expensed store maintenance costs and will continue to do so in the future.

Financial Projections

The Financial Projections prepared by the Debtors are summarized in the following tables. Specifically, the attached tables include:

- Pro-forma reorganized balance sheet at April 1, 2016
- Projected balance sheets at December 31, 2016, 2017, 2018, 2019 and 2020.
- Projected statement of operations for the fiscal years ended December 31 2015, 2016, 2017, 2018, 2019 and 2020.
- Statement of operations for fiscal 2015 include actual operating results for the period January through June and projected operating results for the period July through December.
- Projected statements of cash flows for the fiscal years ended December 31, 2016, 2017, 2018, 2019, and 2020.

These Financial Projections were not prepared to comply with the guidelines for prospective financial statements published by the American Institute of Certified Public Accountants. The Company's independent accountants have neither examined nor compiled the accompanying projections and accordingly do not express an opinion or any other form of assurance with respect to the Financial Projections, assume no responsibility for the Financial Projections and disclaim any association with the Financial Projections.

The Company does not publish projections of its anticipated financial position or results of operations. Unless otherwise required by securities law, the Company will not:

- furnish updated projections, or
- make updated information concerning the Financial Projections publicly available.

The Company believes that the Financial Projections represent the most probable range of operating results and financial position and that the estimates and assumptions underlying the projections are reasonable. The estimates and assumptions may not be realized, however and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond its control. No representations can be or are made as to whether the actual results will be within the range set forth in the Financial Projections. Some assumptions inevitably will not materialize, and events and circumstances occurring subsequent to the date on which the Financial Projections were prepared may be different from those assumed or may be unanticipated, and therefore may affect financial results in a material and possibly adverse manner. The Financial Projections, therefore, may not be relied upon as a guarantee or other assurance of the actual results that will occur.

American Apparel

INCOME STATEMENT- US & International

($ in 000)

		Post Emergence					
	2015	**Q1 2016**	**Q2-Q4 2016**	**2017**	**2018**	**2019**	**2020**
Sales							
Retail	$ 298,129	$ 61,857	$ 218,538	$ 286,003	$ 297,381	$ 309,212	$ 318,456
Wholesale	168,984	42,131	131,922	182,756	191,894	201,488	211,563
Online	58,099	16,802	45,792	68,227	73,685	79,580	85,947
Total Sales	525,212	120,790	396,252	536,986	562,960	590,281	615,965
Total COGS	280,231	62,265	201,179	275,993	280,176	293,106	306,271
Total Gross Profit	**244,981**	**58,525**	**195,073**	**260,993**	**282,784**	**297,175**	**309,694**
Gross Margin							
Retail	*59%*	*61%*	*62%*	*61%*	*63%*	*63%*	*63%*
Wholesale	*17%*	*22%*	*22%*	*22%*	*23%*	*24%*	*24%*
Online	*68%*	*67%*	*68%*	*67%*	*69%*	*69%*	*69%*
% of Sales	*47%*	*48%*	*49%*	*49%*	*50%*	*50%*	*50%*
Expenses							
Inventory Write-off	-	13,000	-	-	-	-	-
Operating Expenses	230,903	46,733	147,346	200,426	202,109	203,810	205,527
Corporate Overhead	64,075	14,280	41,489	54,727	55,875	56,871	57,887
EBIT	**(49,997)**	**(15,489)**	**6,238**	**5,840**	**24,800**	**36,494**	**46,281**
Miscellaneous Expenses / (Income)							
CH 11 Restructuring	15,349	8,691	-	-	-	-	-
Other Restructuring*	-	37,120	-	-	2,500	-	-
Interest expense	22,166	1,304	10,940	15,600	15,600	14,579	10,125
Foreign currency loss / (gain)	635	-	-	-	-	-	-
Loss / (gain) on extinguishment of debt	-	-	-	-	-	-	-
Change in warrant liability expense	(11,921)	-	-	-	-	-	-
Other expense / (income)	(261)	965	(410)	(573)	(591)	(608)	(627)
Total	25,967	48,080	10,530	15,027	17,509	13,971	9,498
Pre-Tax Net Income	**(75,964)**	**(63,569)**	**(4,292)**	**(9,186)**	**7,290**	**22,524**	**36,783**
Income Tax	-	-	-	-	1,284	7,377	13,081
Net Income	(75,964)	(63,569)	(4,292)	(9,186)	6,006	15,146	23,702
Depreciation and Amortization	23,226	5,332	17,894	23,226	23,226	23,226	23,226
Impairment	3,178	-	-	-	-	-	-
Stock Based Compensation	414	-	-	-	-	-	-
Other One time Compensation Charges	6,619	750	2,250	-	-	-	-
Other Non-recurring	15,274	13,000	-	-	-	-	-
EBITDA	**$ (1,286)**	**$ 3,593**	**$ 26,382**	**$ 29,066**	**$ 48,026**	**$ 59,720**	**$ 69,507**

* Other Restructuring consists of KEIP, KERP, stub rent, success fees to professionals and other bankruptcy emergence related expenses.

American Apparel

BALANCE SHEET - Consolidated

($ in 000)

	April 1st, 2016	2016	2017	2018	2019	2020
CURRENT ASSETS						
Cash	$ 30,150	$ 29,065	$ 20,917	$ 33,009	$ 31,542	$ 17,388
Accounts receivable,	25,900	25,390	26,385	27,585	28,852	30,086
net of allowance for doubtful accounts	-	-	-	-	-	-
Other Receivables	426	426	426	426	426	426
Due from subsidiary/Intercompany	-	-	-	-	-	-
Prepaid expenses	9,498	9,498	9,498	9,498	9,498	9,498
Prepaid income taxes	432	432	432	432	432	432
Inventories	99,064	98,791	102,439	98,276	100,371	100,362
Deferred tax assets	650	650	650	650	650	650
Total current assets	166,119	164,251	160,747	169,875	171,770	158,842
PROPERTY AND EQUIPMENT (Net)	25,068	24,719	24,413	22,606	16,800	10,993
INVESTMENT IN SUBSIDIARY	4	4	4	4	4	4
DEFERRED TAXES - Non-current	2,496	2,496	2,496	2,496	2,496	2,496
INTANGIBLE ASSETS, net of accum. Amort.	924	924	924	924	924	924
DEPOSITS	32,262	32,262	32,262	32,262	32,262	32,262
REORG. VALUE DEFICIT TO IDENTIFIED ASSETS	(18,295)	(18,295)	(18,295)	(18,295)	(18,295)	(18,295)
RESTRICTED CASH	1,491	1,491	1,491	1,491	1,491	1,491
OTHER ASSETS	8,717	8,717	8,717	8,717	8,717	8,717
Total ASSETS	$ 218,785	$ 216,569	$ 212,758	$ 220,080	$ 216,168	$ 197,433
CURRENT LIABILITIES						
Exit Financing ABL / Accordion	30,000	30,000	30,000	30,000	30,000	30,000
Accounts payable	14,958	17,034	22,410	23,725	24,683	25,611
Accrued Expenses	19,205	19,205	19,205	19,205	19,205	19,205
Income tax Payable	1,440	1,440	1,440	1,440	1,440	1,440
Other Liabilities	8,539	8,539	8,539	8,539	8,539	8,539
Total current liabilities	74,141	76,217	81,593	82,908	83,866	84,794
TERM LOANS	105,224	105,224	105,224	105,224	85,209	41,844
DEFERRED RENT CREDIT	11,181	11,181	11,181	11,181	11,181	11,181
OTHER LIABILITIES - LT	16,344	16,344	16,344	16,344	16,344	16,344
Total LIABILITIES	206,890	208,967	214,343	215,658	196,600	154,164
Total STOCKHOLDERS' EQUITY	11,894	7,602	(1,584)	4,422	19,568	43,270
	$ 218,785	$ 216,569	$ 212,758	$ 220,080	$ 216,168	$ 197,433

American Apparel

Indirect Cash Flow

($ in 000)

	Post Emergence Q2-Q4 2016	2017	2018	2019	2020
NET INCOME	**$ (4,292)**	**$ (9,186)**	**$ 6,006**	**$ 15,146**	**$ 23,702**
Operations					
Depreciation & Amortization	17,894	23,226	23,226	23,226	23,226
Inventory	273	(3,648)	4,163	(2,095)	9
Change in A/R	509	(995)	(1,199)	(1,267)	(1,235)
Write-off of Pre-Petition A/P	-	-	-	-	-
Change in A/P	2,076	5,376	1,315	958	928
	20,752	23,959	27,505	20,822	22,928
Financing					
Change in Original ABL	-	-	-	-	-
Change in Original Term Loan	-	-	-	-	-
Change in Exit Financing Term Loan	-	-	-	(20,016)	(43,364)
Change in Exit Financing ABL / Accordion	-	-	-	-	-
APIC - Post BK Investment					
Term Loan Write-off					
	-	-	-	(20,016)	(43,364)
Investing					
CapEx	(17,545)	(22,920)	(21,420)	(17,420)	(17,420)
Net Change in Cash	**$ (1,085)**	**$ (8,147)**	**$ 12,092**	**$ (1,467)**	**$ (14,154)**

EXHIBIT 4

Valuation Analysis

VALUATION ANALYSIS OF THE REORGANIZED DEBTORS[1]

At the Debtors' request, Moelis & Company ("Moelis") performed a valuation analysis of the Reorganized Debtors. Based upon and subject to the review and analysis described herein, and subject to the assumptions, limitations and qualifications described herein, Moelis' view, as of October 1, 2015 was that the estimated going concern value of the Reorganized Debtors, as of an assumed Effective Date for the purposes of this valuation analysis of December 31, 2015 (the "Assumed Effective Date"), would be in a range between $180 million and $270 million. Moelis' views are necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to Moelis as of, the date of its analysis. It should be understood that, although subsequent developments may affect Moelis' views, Moelis does not have any obligation to update, revise or reaffirm its estimate.

Moelis' analysis is based, at the Debtors' direction, on a number of assumptions, including, among other assumptions, that (i) the Debtors will be reorganized in accordance with the Plan, which will be effective on or prior to December 31, 2015 for the purposes of this valuation analysis; (ii) the Reorganized Debtors will achieve the results set forth in the Financial Projections for 2016 through 2020 (the "Projection Period") provided to Moelis by the Debtors; (iii) the Reorganized Debtors' capitalization and available cash will be as set forth in the Plan and the Disclosure Statement (in particular, the pro forma indebtedness of the Reorganized Debtors as of the Effective Date will not exceed $135 million); and (iv) the Reorganized Debtors will be able to obtain all future financings, on the terms and at the times necessary to achieve the results set forth in the Financial Projections. Moelis makes no representation as to the achievability or reasonableness of such assumptions. In addition, Moelis assumed that there will be no material change in economic, monetary, market and other conditions as in effect on, and the information made available to Moelis as of the Assumed Effective Date.

Moelis assumed, at the Debtors' direction, that the Financial Projections prepared by the Debtors' management were reasonably prepared on a basis reflecting the best currently available estimates and judgments of the Debtors' management as to the future financial and operating performance of the Reorganized Debtors. The future results of the Reorganized Debtors are dependent upon various factors, many of which are beyond the control or knowledge of the Debtors, and consequently are inherently difficult to project. See Exhibit 3 to the Disclosure Statement (Financial Projections). The Reorganized Debtors' actual future results may differ materially (positively or negatively) from the Financial Projections and, as a result, the actual enterprise value of the Reorganized Debtors may be materially higher or lower than the estimated range herein. Among other things, failure to consummate the Plan in a timely manner may have a materially negative impact on the enterprise value of the Reorganized Debtors.

The estimated enterprise value in this analysis represents a hypothetical enterprise value of the Reorganized Debtors as the continuing operators of the business and assets of the Debtors, after giving effect to the Plan, based on consideration of certain valuation methodologies as described below. The estimated enterprise value in this section does not purport to constitute an appraisal or necessarily reflect the actual market value that might be realized through a sale or liquidation of the Reorganized Debtors, its securities or its assets, which may be materially higher or lower than the estimated enterprise value range herein. The actual value of an operating business such as the Reorganized Debtors' business is subject to uncertainties and contingencies that are difficult to predict and will fluctuate with changes in various factors affecting the financial condition and prospects of such a business.

In conducting its analysis, Moelis, among other things: (i) reviewed certain publicly available business and financial information relating to the Reorganized Debtors that Moelis deemed relevant; (ii) reviewed certain internal information relating to the business, earnings, cash flow, assets, liabilities and prospects of the Reorganized Debtors,

[1] Capitalized terms not defined herein shall have the meanings ascribed to them in the Disclosure Statement.

including the Financial Projections, furnished to Moelis by the Debtors; (iii) conducted discussions with members of senior management and representatives of the Debtors concerning the matters described in clauses (i) and (ii) of this paragraph, as well as their views concerning the Debtors' business and prospects before giving effect to the Plan, and the Reorganized Debtors' business prospects after giving effect to the Plan; (iv) reviewed publicly available financial and stock market data for certain other companies in lines of business that Moelis deemed relevant; (v) reviewed publicly available financial data for certain transactions that Moelis deemed relevant; (vi) reviewed the Plan; and (vii) conducted such other financial studies and analyses and took into account such other information as we deemed appropriate. In connection with its review, Moelis did not assume any responsibility for independent verification of any of the information supplied to, discussed with, or reviewed by Moelis and, with the consent of the Debtors, relied on such information being complete and accurate in all material respects. In addition, at the direction of the Debtors, Moelis did not make any independent evaluation or appraisal of any of the assets or liabilities (contingent, derivative, off-balance-sheet, or otherwise) of the Reorganized Debtors, nor was Moelis furnished with any such evaluation or appraisal. Moelis also assumed, with the Debtors' consent, that the final form of the Plan does not differ in any respect material to its analysis from the draft that Moelis reviewed.

The estimated enterprise value in this section does not constitute a recommendation to any Holder of a Claim or Interest as to how such holder should vote or otherwise act with respect to the Plan. Moelis has not been asked to and does not express any view as to what the trading value of the Reorganized Debtors' securities would be when issued pursuant to the Plan or the prices at which they may trade in the future. The estimated enterprise value set forth herein does not constitute an opinion as to fairness from a financial point of view to any holder of the consideration to be received by such holder under the Plan or of the terms and provisions of the Plan.

Valuation Methodologies

In preparing its valuation, Moelis performed a variety of financial analyses and considered a variety of factors. The following is a brief summary of the material financial analyses performed by Moelis, which consisted of (a) a selected publicly traded companies analysis, (b) a discounted cash flow analysis, and (c) a selected transactions analysis. This summary does not purport to be a complete description of the analyses performed and factors considered by Moelis. The preparation of a valuation analysis is a complex analytical process involving various judgmental determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to particular facts and circumstances, and such analyses and judgments are not readily susceptible to summary description. As such, Moelis' valuation analysis must be considered as a whole. Reliance on only one of the methodologies used, or portions of the analysis performed, could create a misleading or incomplete conclusion as to enterprise value.

A. ***Selected Publicly Traded Companies Analysis.*** The selected publicly traded companies analysis is based on the enterprise values of selected U.S.-based publicly traded softline retail and branded apparel companies that have operating and financial characteristics comparable in certain respects to the Reorganized Debtors. For example, such characteristics may include similar size and scale of operations, product mix, customer base, operating margins and growth rates. Under this methodology, certain financial multiples that measure financial performance and value are calculated for each selected company and then applied to the Reorganized Debtors' financials to imply an enterprise value for the Reorganized Debtors. Moelis used, among other measures, enterprise value (defined as market value of equity plus book value of debt, book value of preferred stock and minority interests less cash, subject to adjustment where appropriate) for each selected company as a multiple of such company's publicly available consensus projected EBITDA for the calendar years of 2015 and 2016, and the LTM EBITDA from the date of each company's most recent public filing.

   Although the selected companies were used for comparison purposes, no selected company is either identical or directly comparable to the business of the Reorganized Debtors. Accordingly, Moelis' comparison of selected companies to the business of the Reorganized Debtors and analysis of the results of such comparisons was not purely mathematical, but instead involved considerations and judgments concerning differences in

operating and financial characteristics and other factors that could affect the relative values of the selected companies and the Reorganized Debtors. The selection of appropriate companies for this analysis is a matter of judgment and subject to limitations due to sample size and the public availability of meaningful market-based information.

B. ***Discounted Cash Flow Analysis.*** The discounted cash flow ("DCF") analysis is a forward-looking enterprise valuation methodology that estimates the value of an asset or business by calculating the present value of expected future cash flows to be generated by that asset or business. Moelis' DCF analysis used the Financial Projections' estimated debt-free, after-tax free cash flows through December 31, 2020. These cash flows were then discounted at a range of estimated weighted average costs of capital ("Discount Rate") for the Reorganized Debtors. The Discount Rate reflects the estimated blended rate of return that would be expected by debt and equity investors to invest in the Reorganized Debtors' business based on its target capital structure. The enterprise value was determined by calculating the present value of the Reorganized Debtors' unlevered after-tax free cash flows based on the Financial Projections plus an estimate for the value of the Reorganized Debtors beyond the Projection Period known as the terminal value. The terminal value was derived using two methodologies: (i) by applying a range of multiples to the estimated EBITDA of the Reorganized Debtors in the terminal year and (ii) by applying a range of perpetuity growth rates to the Reorganized Debtors' terminal year unlevered free cash flow.

To determine the Discount Rate, Moelis used the estimated cost of equity and the estimated after-tax cost of debt for the Reorganized Debtors, assuming a targeted long-term debt-to-total capitalization ratio based on debt-to-capitalization ratios of selected publicly traded softline retail companies. Moelis calculated the cost of equity based on (i) the capital asset pricing model, which assumes that the expected equity return is a function of the risk-free rate and the correlation of a publicly traded stock's performance to the return on the broader market and (ii) an adjustment related to the estimated equity market capitalization of the Reorganized Debtors, which reflects the historical equity returns of small, medium and large equity market capitalization companies that are not accounted for by the capital asset pricing model. In determining a range of EBITDA terminal exit multiples, Moelis relied upon various analyses, including, among other things, the range of EBITDA trading multiples for the last twelve month period ("LTM") of selected publicly traded companies that Moelis deemed similar to the Reorganized Debtors. In addition, Moelis assumed that certain of the net operating losses at the Debtors' U.S. entities will survive after the Effective Date, which were valued in accordance with the limitations set forth in Section 382 of the Internal Revenue Code.

C. ***Selected Transactions Analysis.*** The selected transactions analysis is based on the implied enterprise values of companies and assets involved in publicly disclosed merger and acquisition transactions for which the targets had operating and financial characteristics comparable in certain respects to the Reorganized Debtors. Under this methodology, the enterprise value of each such target is determined by an analysis of the consideration paid and the net debt assumed in the merger or acquisition transaction. The enterprise value is then compared to a selected operating metric, in this case, EBITDA, in order to determine an enterprise value multiple. Moelis analyzed various merger and acquisition transactions that have occurred in the apparel retail sector since 2012. In this analysis, the LTM enterprise value multiples were utilized to determine a range of implied enterprise value for the Reorganized Debtors.

Other factors not directly related to a company's business operations can affect a valuation in a transaction, including, among others factors: (a) circumstances surrounding a merger transaction may introduce "diffusive quantitative results" into the analysis (i.e., a buyer may pay an additional premium for reasons that are not solely related to competitive bidding); (b) the market environment is not identical for transactions occurring at different periods of time; and (c) circumstances pertaining to the financial position of the company may have an impact on the resulting purchase price (i.e., a company in financial distress may receive a lower price due to perceived weakness in its bargaining leverage).

Valuation Considerations

As a result of the foregoing, the estimated enterprise value in this section is not necessarily indicative of actual value, which may be significantly higher or lower than the estimate herein. Accordingly, none of the Debtors, Moelis or any other person assumes responsibility for the accuracy of such estimated enterprise value. Depending on

the actual financial results of the Debtors or changes in the financial markets, the enterprise value of the Reorganized Debtors as of the Effective Date may differ from the estimated enterprise value set forth herein as of an Assumed Effective Date for the purposes of this valuation analysis of December 31, 2015. In addition, the market prices, to the extent there is a market, of Reorganized Debtors' securities will depend upon, among other things, prevailing interest rates, conditions in the financial markets, the investment decisions of prepetition creditors receiving such securities under the Plan (some of whom may prefer to liquidate their investment rather than hold it on a long-term basis), and other factors that generally influence the prices of securities.

EXHIBIT 5

Restructuring Support Agreement

RESTRUCTURING SUPPORT AGREEMENT

This RESTRUCTURING SUPPORT AGREEMENT (together with all exhibits, schedules and attachments hereto, as amended, supplemented or otherwise modified from time to time in accordance with the terms hereof, this "**Agreement**"), dated as of October 4, 2015, is entered into by and among (a) American Apparel, Inc., a Delaware corporation ("**American Apparel**"), and its undersigned subsidiaries (each an "**Company Party**" and, collectively with American Apparel, the "**Company**"); (b) each of the creditor parties identified on the signature pages hereto (such Persons (as defined below) described in this clause (b), together with their respective successors and permitted assigns under this Agreement, each, a "**Supporting Party**" and, collectively, the "**Supporting Parties**"). The Company and the Supporting Parties are referred to herein as the "**Parties**" and each individually as a "**Party**". Capitalized terms used herein and not defined herein shall have the meanings ascribed to such terms in the Plan (as defined below).

PRELIMINARY STATEMENTS

WHEREAS, as of the date hereof, the Supporting Parties collectively own or control in excess of 95% of the aggregate outstanding principal amount of the 13% Senior Secured Notes due 2020 (the "**Notes**") issued pursuant to an indenture, dated as of April 4, 2013, (as amended, supplemented or otherwise modified from time to time, the "**Indenture**") by and among the American Apparel, the subsidiary guarantors listed on the signatures pages thereto and U.S. Bank National Association, as trustee and collateral agent (the "**Indenture Trustee**");

WHEREAS, as of the date hereof, the Supporting Parties collectively comprise 100% of the lenders under the Amended and Restated Credit Agreement, dated as of August 17, 2015 (the "**ABL Credit Agreement**") among American Apparel (USA), LLC, as a borrower and as borrower representative, American Apparel Retail, Inc., American Apparel Dyeing & Finishing, Inc., KCL Knitting, LLC, as the other borrowers party thereto, the other credit parties thereto, the lenders party thereto and Wilmington Trust, National Association, as Administrative Agent;

WHEREAS, Standard General (as defined below) is party to that certain Credit Agreement dated as of March 25, 2015 among American Apparel (Carnaby) Limited (**"AA Carnaby")**, as the initial borrower, certain additional borrowers party thereto, American Apparel, as guarantor, Standard General L.P., on behalf of one or more of its controlled funds and the lenders from time to time party thereto (the "**U.K. Loan Agreement**");

WHEREAS, the Company and the Supporting Parties have agreed to implement a restructuring transaction for the Company in accordance with, and subject to the terms and conditions set forth in, this Agreement, the Plan, the DIP Credit Agreement, the Exit Facility Term Sheet, the Equity Commitment Agreement, and the Governance Term Sheet (each such document as defined below and including any schedules, annexes and exhibits attached thereto, each as may be modified in accordance with the terms hereof

and, collectively, the "**Operative Documents**" and, such restructuring transaction, the "**Restructuring Transaction**");

WHEREAS, the Operative Documents are the product of arm's-length, good faith negotiations among the Company and the Supporting Parties and sets forth the material terms and conditions of the Restructuring Transaction, as supplemented by the terms and conditions of this Agreement;

WHEREAS, the Company plans to commence voluntary reorganization cases (the "**Chapter 11 Cases**") under chapter 11 of title 11 of the United States Code (as amended, the "**Bankruptcy Code**"), in the United States Bankruptcy Court for the District of Delaware (the "**Bankruptcy Court**");

WHEREAS, the Company and the Supporting Parties have agreed to implement the Restructuring Transaction through the Plan, any modification, supplement or amendment of which shall be in form and substance acceptable to the Company and the Requisite Supporting Parties; and

WHEREAS, the Parties desire to express to one another their mutual support and commitment in respect of the matters discussed herein.

NOW, **THEREFORE**, in consideration of the promises and the mutual covenants and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

Section 1. *Operative Documents*. The Operative Documents are expressly incorporated herein by reference and made part of this Agreement as if fully set forth herein. The Operative Documents set forth the material terms and conditions of the Plan and the Restructuring Transaction; *provided*, *however*, that the Operative Documents are supplemented by the terms and conditions of this Agreement.

Section 2. *Certain Definitions; Rules of Construction*. As used in this Agreement, the following terms have the following meanings:

(a) **"ABL Credit Agreement Lenders"** means lenders under the ABL Credit Agreement as of the date hereof.

(b) "**Alternative Transaction**" means any dissolution, winding up, liquidation, reorganization, assignment for the benefit of creditors, merger, transaction, consolidation, business combination, joint venture, partnership, sale of assets, financing (debt or equity) or restructuring of or by the Company, other than the Restructuring Transaction.

(c) "**Business Day**" means a day other than a Saturday, Sunday or other day on which the Federal Reserve Bank of New York is closed.

(d) "**Claims and Interests**" means, as applicable, Note Claims, Other Claims, SG U.K. Loan Claims, Lion Loan Claims, and Equity Interests.

(e) "**Committee of Lead Lenders' Advisors**" means (i) Milbank, Tweed, Hadley and McCloy LLP ("**Milbank**"), as lead counsel for the Committee of Lead Lenders, (ii) Fox Rothschild LLP, as local counsel for the Committee of Lead Lenders' Advisors, (iii) Ducera Partners LLC, as financial advisor to the Committee of Lead Lenders, and (iv) any successor counsel or advisor to any of the foregoing.

(f) "**Committee of Lead Lenders**" that certain group of holders of Notes and ABL Credit Agreement Lenders comprised of certain funds associated with Monarch Alternative Capital LP, Coliseum Capital Management, LLC, Goldman Sachs Asset Management, L.P., and Pentwater Capital Management LP.

(g) "**Confirmation Order**" means an order of the Bankruptcy Court confirming the Plan pursuant to section 1129 of the Bankruptcy Code.

(h) "**DIP Credit Agreement**" means that certain superpriority debtor-in-possession credit agreement entered into among American Apparel (USA) LLC, the lenders from time to time parties thereto and Wilmington Trust, National Association, as it may be amended from time to time in accordance with the terms thereof and attached hereto as Exhibit B.

(i) "**DIP Facility**" means term loan credit facility evidenced by the DIP Credit Agreement.

(j) "**DIP Order**" means, as applicable, (i) an interim order in the proposed form annexed hereto as Exhibit F and to be entered by the Bankruptcy Court approving, inter alia, the Company's entry into the DIP Credit Agreement or (ii) the Final DIP Order.

(k) "**Disclosure Statement**" means the disclosure statement for the Plan that is prepared and distributed in accordance with, among other things, sections 1125, 1126(b), and 1145 of the Bankruptcy Code, Rule 3018 of the Federal Rules of Bankruptcy Procedure (the "**Bankruptcy Rules**") and other applicable law, and all exhibits, schedules, supplements, modifications and amendments thereto.

(l) "**Disclosure Statement Order**" means an order of the Bankruptcy Court approving the Disclosure Statement and the Solicitation (as defined below).

(m) "**Effective Date**" means the date upon which all conditions precedent to the effectiveness of the Plan have either been satisfied or expressly waived in accordance with the terms thereof, and on which the transactions to occur on the Effective Date pursuant to the Plan occur or are consummated.

(n) "**Equity Commitment Agreement**" means the agreement setting forth the material terms for the New Equity Investment and related commitment, attached hereto as Exhibit D, and any modification, supplement or amendment thereto, which shall be in form and substance acceptable to the Company and the Requisite Supporting Parties.

(o) "**Equity Interests**" means any capital stock, limited liability company interests, partnership interests or other equity, ownership or profits interests in American Apparel or in any of its subsidiaries, and any options, warrants, conversion privileges or rights of any kind to acquire any capital stock, limited liability company interests, partnership interests or other equity, ownership or profits interests in American Apparel or any of its undersigned subsidiaries.

(p) "**Exit Facility Term Sheet**" means the term sheet setting forth the material terms for the exit financing facility attached hereto as Exhibit C and any modification, supplement or amendment thereto, which shall be in form and substance acceptable to the Company and the Requisite Supporting Parties.

(q) "**Final DIP Order**" means the Final Order approving, inter alia, the Company's entry into the DIP Credit Agreement.

(r) "**Final Order**" means an order or judgment of the Bankruptcy Court (or any other court of competent jurisdiction) entered by the Bankruptcy Court (or such other court) on the docket in the Chapter 11 Cases (or the docket of such other court) that is not subject to a stay and has not been modified, amended, reversed or vacated without the consent of the Company and the Requisite Supporting Parties.

(s) "**Governance Term Sheet**" means the term sheet attached hereto as Exhibit E, setting forth the material terms for the governance and organization of the restructured Debtors on the effective date of the Plan (including the terms of the New LLC Agreement and the Registration Rights Agreement) and any modification, supplement or amendment to such term sheet, which shall be in form and substance acceptable to the Company and the Requisite Supporting Parties.

(t) "**Lion Loan"** means that certain Credit Agreement, dated as of May 22, 2013, by and between American Apparel, Inc. and Lion/Hollywood LLC as further amended and in respect of which the loans held by and other rights and obligation thereunder of Lion/Hollywood LLC were assigned to and assumed by Standard General.

(u) **"Lion Loan Claims"** means any and all claims arising under the Lion Loan.

(v) "**Nomination Agreement**" means that certain Nomination, Standstill and Support Agreement, dated July 9, 2014 among Standard General, the Company, and Dov Charney.

(w) "**Note Claims**" means any and all claims arising under the Indenture or in respect of the Notes.

(x) "**Other Claims**" means any "claims" (as such term is defined in section 101(5) of the Bankruptcy Code) against the Company and/or any of its undersigned subsidiaries other than Note Claims.

(y) "**Person**" means an individual, a partnership, a joint venture, a limited liability company, a corporation, a trust, an unincorporated organization, a group, a governmental or regulatory authority, or any legal entity or association.

(z) "**Plan**" means the plan of reorganization to be confirmed in the Chapter 11 Cases attached hereto as Exhibit A, together with all exhibits, schedules and attachments thereto, as amended, supplemented or otherwise modified from time to time.

(aa) "**Requisite Supporting Parties**" means, as of any date of determination, the Support Parties who own or control as of such date at least 66 and two-thirds percent in principal amount of the Notes.

(bb) "**Restructuring Documents**" means all agreements, instruments or orders (including all exhibits, schedules, supplements, appendices, annexes and attachments thereto) that are utilized to implement or effectuate, or that otherwise relate to, this Agreement, the Operative Documents, the Plan and/or the Restructuring Transaction, each in form and substance acceptable or reasonably acceptable (as applicable according to the specific provisions of this Agreement) to the Company and the Requisite Supporting Parties, including (i) the Plan Supplement, (ii) the Disclosure Statement and any motion seeking the approval thereof, (iii) the Disclosure Statement Order, (iv) the Confirmation Order, (v) the ballots, the motion to approve the form of the ballots and the Solicitation, and the order of the Bankruptcy Court approving the form of the ballots and the Solicitation, (vi) any documentation relating to the DIP Facility, the Exit Term Loan Facility, and the New Equity Interests, and (vii) any documentation relating to exit financing, post-emergence organizational documents, equityholder-related agreements or other related documents to be executed on the Effective Date.

(cc) "**Restructuring Support Period**" means, with reference to any Party, the period commencing on the Restructuring Support Effective Date and ending on the earlier of (i) the Effective Date and (ii) the date on which this Agreement is terminated with respect to such Party in accordance with Section 7 hereof.

(dd) **"SG U.K. Loan Claims**" means any and all claims arising under the SG U.K. Loan.

(ee) "**Solicitation**" means the solicitation of votes to accept or reject the Plan pursuant to sections 1125 and 1126 of the Bankruptcy Code.

(ff) "**Standard General"** means Standard General L.P., Standard General Master Fund L.P., P Standard General Ltd., and any affiliate or subsidiary of such entities.

(gg) "**Standard General Advisors**" means Debevoise & Plimpton LLP, counsel to Standard General, and one local counsel to Standard General.

(hh) "**Transaction Expenses**" means all reasonable and documented fees and expenses of the Committee of Lead Lenders' Advisors and Standard General's Advisors in connection with the negotiation, formulation, preparation, execution, delivery,

implementation, consummation and enforcement of this Agreement, the Plan, the Restructuring Documents, and the transactions contemplated thereby, in each case as provided in the DIP Order, but shall not include, among other things, fees and expenses relating to any litigation commenced against Standard General or any challenges to Standard General's Claims (other than fees and expenses incurred as a result of (x) any such litigation or challenges asserted by another Party or (y) the commencement against Standard General of any litigation related to this Agreement, the Plan, the Restructuring Documents and the transactions contemplated thereby).

Unless otherwise specified, references in this Agreement to any Section or clause refer to such Section or clause as contained in this Agreement. The words "**herein,**" "**hereof**" and "**hereunder**" and other words of similar import in this Agreement refer to this Agreement as a whole, and not to any particular Section or clause contained in this Agreement. Wherever from the context it appears appropriate, each term stated in either the singular or plural shall include the singular and the plural, and pronouns stated in the masculine, feminine or neuter gender shall include the masculine, feminine and neuter genders. The words "**including,**" "**includes**" and "**include**" shall each be deemed to be followed by the words "**without limitation**".

Section 3. *Bankruptcy Process; Plan of Reorganization*

(a) *Commencement of the Chapter 11 Cases*. The Company hereby agrees that, as soon as reasonably practicable, but in no event later than October 5, 2015 (the date on which such filing occurs, the "Commencement Date"), the Company shall file with the Bankruptcy Court voluntary petitions for relief under chapter 11 of the Bankruptcy Code and any and all other documents necessary to commence the Chapter 11 Case of each Company Party.

(b) *Filing of Plan and Disclosure Statement*: The Company shall file with the Bankruptcy Court (i) the Plan and (ii) the Disclosure Statement. Any modifications, supplements or amendments of the Plan or Disclosure Statement shall be in form and substance acceptable to the Company and the Requisite Supporting Parties.

(c) *Filing of Solicitation Motion:* The Company shall file with the Bankruptcy Court a motion seeking approval of the Disclosure Statement and related solicitation procedures, which shall be in form and substance acceptable to the Company and reasonably acceptable to the Requisite Supporting Parties.

(d) *Confirmation of the Plan:* The Company shall use its commercially reasonable efforts to obtain confirmation of the Plan as soon as reasonably practicable following the Commencement Date in accordance with the Bankruptcy Code and on terms consistent with this Agreement and the DIP Credit Agreement, and each Supporting Party shall use its commercially reasonable efforts to cooperate fully in connection therewith.

(e) *Approval of the DIP Facility:* On the Commencement Date, the Company shall file a motion seeking entry of the DIP Order that shall authorize the Company's

entry into the DIP Credit Agreement and DIP Facility, which motion shall be in form and substance acceptable to the Company and reasonably acceptable to the Requisite Supporting Parties (the "**DIP Motion**").

(f) *Restructuring Documents:* All Restructuring Documents shall be in form and substance acceptable or reasonably acceptable (as applicable according to the specific provisions of this Agreement) to the Company and the Requisite Supporting Parties.

Section 4. *Agreements of the Supporting Parties*.

(a) *Support of Restructuring Transaction*. Each of the Supporting Parties agrees that, for the duration of the Restructuring Support Period, such Supporting Party shall:

(i) subject to receipt of a Disclosure Statement approved by the Bankruptcy Court soliciting the Plan, timely vote or cause to be voted its Claims and Interests, as applicable, to accept the Plan, by delivering its duly executed and completed ballots accepting the Plan on a timely basis following the commencement of the Solicitation, which ballots shall not indicate that the Supporting Party opts out of third-party releases provided under the Plan; provided that such vote shall be immediately revoked and deemed void ab initio upon termination of this Agreement pursuant to the terms hereof (except any termination pursuant to Section 7(d) hereof);

(ii) not change or withdraw (or cause to be changed or withdrawn) any such vote;

(iii) not (x) object to, delay, impede or take any other action to interfere with acceptance or implementation of the Plan, (y) directly or indirectly solicit, encourage, propose, file, support, participate in the formulation of or vote for, any restructuring, sale of assets, merger, workout or plan of reorganization for the Company or any of its affiliates or subsidiaries other than the Plan or (z) otherwise take any action that would in any material respect interfere with, delay or postpone the consummation of the Restructuring Transaction;

(iv) support, and take all reasonable actions necessary to facilitate the implementation and consummation of, the Restructuring Transaction (including the Bankruptcy Court's approval of the Restructuring Documents, the Solicitation and confirmation of the Plan and the consummation of the Restructuring Transaction pursuant to the Plan);

(v) not (A) directly or indirectly propose, support, assist, encourage, solicit, or vote for, any Alternative Transaction, (B) support or encourage the termination or modification of the Company's exclusive period for the filing of a plan or the Company's exclusive period to solicit votes on a plan, (C) take any other action, including initiating any legal proceedings or enforcing rights as a holder of Claims and Interests, as applicable, that is inconsistent with this Agreement or the Restructuring Documents, or that would reasonably be expected

to prevent, interfere with, delay or impede the implementation or consummation of the Restructuring Transaction (including the Bankruptcy Court's approval of the Restructuring Documents, the Solicitation and confirmation of the Plan and the consummation of the Restructuring Transaction pursuant to the Plan); and (D) oppose or object to, or support any other Person's efforts to oppose or object to, any motions filed by the Company that are not inconsistent with this Agreement;

(vi) support, and not object to, the Company's establishment (including the Company's motion seeking approval of) and the Bankruptcy Court's approval of a customary key employee retention plan and key employee incentive plan for certain employees of the Company on terms and conditions reasonably acceptable to the Supporting Parties;

(vii) timely vote or cause to be voted its Claims and Interests, as applicable, against any Alternative Transaction; and

(viii) concurrently with the delivery to the Debtors of executed signature pages to this Agreement, deliver to the Company its executed signature pages to the DIP Credit Agreement and the Equity Commitment Agreement.

(b) *Rights of Supporting Parties Unaffected*. Nothing contained herein shall limit (i) the rights of a Supporting Party under any applicable bankruptcy, insolvency, foreclosure or similar proceeding, including, without limitation, appearing as a party in interest in any matter to be adjudicated in order to be heard concerning any matter arising in the Chapter 11 Cases, in each case, so long as the exercise of any such right is consistent with such Supporting Party's obligations hereunder; (ii) subject to Section 4(e) and Section 6 hereof, any right of a Supporting Party under (x) the Indenture, or constituting a waiver or amendment of any provision of the Indenture, and (y) any other applicable agreement, instrument or document that gives rise to a Supporting Party's Claims and Interests, as applicable, or constituting a waiver or amendment of any provision of any such agreement, instrument or document; (iii) the ability of a Supporting Party to consult with other Supporting Parties or the Company; or (iv) the ability of a Supporting Party to enforce any right, remedy, condition, consent or approval requirement under this Agreement or any of the Restructuring Documents.

(c) *Transfers*. Each Supporting Party agrees that, for the duration of the Restructuring Support Period, such Supporting Party shall not sell, transfer, loan, issue, pledge, hypothecate, assign, grant, or otherwise dispose of (including by participation), directly or indirectly, in whole or in part, any of its Claims and Interests, as applicable, or any option thereon or any right or interest therein (including granting any proxies, depositing any Claims and Interests into a voting trust or entering into a voting agreement with respect to any Claims and Interests) (collectively, a "**Transfer**"), unless (A) after providing 10 days' notice of such proposed transfer to the Supporting Parties, the Requisite Supporting Parties do not object to such transfer; and (B) the transferee of such Claims and Interests (the "**Transferee**") either (i) is a Supporting Party or, (ii) if such Transferee is not a Supporting Party and there is no objection pursuant to subsection (A), prior to the effectiveness of such Transfer, such Transferee agrees in writing, for the

benefit of the Parties, to become a Supporting Party and to be bound by all of the terms of this Agreement applicable to a Supporting Party (including with respect to any and all Claims and Interests the Transferee already may then or subsequently own or control) by executing a joinder agreement, substantially in the form attached hereto as Exhibit G (each, a "**Joinder Agreement**"), and by delivering an executed copy thereof to Milbank, Standard General Advisors, and the Company (in accordance with the notice provisions set forth in Section 23 hereof and prior to the effectiveness of such Transfer), in which event (x) the Transferee shall be deemed to be a Supporting Party hereunder with respect to all of its owned or controlled Claims and Interests and (y) the transferor Supporting Party shall be deemed to relinquish its rights, and be released from its obligations, under this Agreement to the extent of the transferred Claims and Interests. Each Supporting Party agrees that any Transfer of any Claims and Interests that does not comply with the terms and procedures set forth herein shall be deemed void ab initio, and the Company and each other Supporting Party shall have the right to enforce the voiding of such Transfer. The restrictions of this paragraph shall not apply to any Transfers from a Supporting Party to a Person that controls, is controlled by, or is under common control with such Supporting Party, whether such control is derived from equity ownership, contractual authority or otherwise. For the avoidance of doubt, and notwithstanding anything to the contrary contained in this Agreement, any Transfer shall be subject to any order governing trading of Claims and/or Interests entered by the Bankruptcy Court pursuant to a customary "NOL motion" filed by the Company.

(d) *Additional Claims and Interests*. In the event that any Supporting Party acquires additional Claims and Interests, as applicable, such Supporting Party agrees that all such Claims and Interests shall automatically become subject to the provisions of this Agreement.

(e) *Forbearance*. During the Restructuring Support Period, each Supporting Party hereby agrees to (i) forbear from the exercise of any rights or remedies it may have against the Company, AA Carnaby or any Supporting Party under any agreement with the Company or AA Carnaby, including, without limitation, the ABL Credit Agreement, the Indenture (including any collateral documents referenced therein), the Nomination Agreement, the U.K. Loan Agreement, and the Lion Loan Agreement, and under applicable United States or foreign law or otherwise, in each case, with respect to any defaults or events of default which may arise under any such agreements or such applicable law at any time on or before the termination of this Agreement and (ii) not commence any legal action or assert a claim against any other Party or object to any of the Prepetition ABL Claims, Note Claims, SG U.K. Loan Claims, Lion Loan Claims or DIP Claims of any other Party in the Chapter 11 Cases. For the avoidance of doubt, except as provided in this Agreement, the forbearance set forth in this Section 4(e) shall not constitute a waiver with respect to any defaults or any events of default under any of the foregoing agreements and shall not bar any Supporting Party from filing a proof of claim or taking action to establish the amount of such claim. Except as expressly provided in this Agreement, nothing herein is intended to, or does, in any manner waive, limit, impair, or restrict any right of any Supporting Party, the ability of each of the Supporting Parties to protect and preserve its rights, remedies and interests, including its claims, against the Company. If the transactions contemplated hereby are not

consummated, or if this Agreement is terminated for any reason, the Parties fully reserve any and all of their rights.

Section 5. *Agreements of the Company*. (a) *Affirmative Covenants*. Subject to Section 25(a) hereof, the Company, jointly and severally, agrees that, for the duration of the Restructuring Support Period, unless otherwise consented to or waived in writing by the Requisite Supporting Parties, the Company shall use commercially reasonable efforts to:

(i) (A) support and take all reasonable actions necessary to facilitate the implementation and consummation of the Restructuring Transaction (including, without limitation, seeking the Bankruptcy Court's approval of the Restructuring Documents and DIP Credit Agreement, adequate protection, and other relief set forth in the DIP Order, as applicable, the Solicitation, confirmation of the Plan and the consummation of the Restructuring Transaction pursuant to the Plan); and (B) not take any action that is inconsistent with the implementation or consummation of the Restructuring Transaction;

(ii) comply with each of the deadlines provided in the DIP Order or the DIP Credit Agreement;

(iii) timely file an objection to any motion filed with the Bankruptcy Court by any Person seeking an order (A) directing the appointment in the Chapter 11 Cases of an examiner with expanded powers or a trustee, (B) converting the Chapter 11 Cases to cases under chapter 7 of the Bankruptcy Code, (C) dismissing the Chapter 11 Cases or (D) granting any relief that is inconsistent with this Agreement in any material respect;

(iv) timely file an objection to any motion filed with the Bankruptcy Court by any Person seeking an order modifying or terminating the Company's exclusive right to file and/or solicit acceptances of a plan;

(v) provide to the Committee of Lead Lenders' Advisors, and direct their employees, officers, advisors and other representatives to provide the Supporting Parties' Advisors, (A) reasonable access (without any material disruption to the conduct of the Company's businesses) during normal business hours to the Company's books and records, (B) reasonable access to the management and advisors of the Company for the purposes of evaluating the Company's assets, liabilities, operations, businesses, finances, strategies, prospects and affairs and (C) timely and reasonable responses to all reasonable diligence requests;

(vi) promptly notify the Supporting Parties of any newly commenced material governmental or third party litigations, investigations or hearings;

(vii) promptly notify the Supporting Parties of any breach by the Company of which the Company has knowledge in respect of any of the obligations, representations, warranties, or covenants set forth in this Agreement

by furnishing written notice to Milbank within three (3) Business Days of actual knowledge of such breach;

(viii) distribute any and all material pleadings to be filed with the Bankruptcy Court to Milbank as promptly as practicable in advance of any filing thereof; and

(ix) to obtain any and all required governmental, regulatory and/or third party approvals necessary or required for the implementation or consummation of the Restructuring Transaction or the approval by the Bankruptcy Court of the Restructuring Documents, as applicable.

(b) *Negative Covenants*. Subject to Section 25(a) hereof, the Company, jointly and severally, agrees that, for the duration of the Restructuring Support Period, unless otherwise consented to in writing by the Requisite Supporting Parties, the Company shall not, directly or indirectly, do any of the following:

(i) seek, solicit, propose or support an Alternative Transaction;

(ii) (A) publicly announce its intention not to pursue the Restructuring Transaction; (B) suspend or revoke the Restructuring Transaction; or (C) execute, file or agree to file any Restructuring Documents (including any modifications or amendments thereof) that are inconsistent in any material respect with this Agreement or the Operative Documents;

(iii) commence an avoidance action or other legal proceeding that challenges the validity, enforceability or priority of the Indenture, the Notes, or any Claim or Interest held by any Supporting Party;

(iv) enter into any commitment or agreement with respect to debtor-in-possession financing, use of cash collateral, adequate protection, exit financing and/or any other financing arrangements other than the DIP Facility; or

(v) file any motion, pleading or other Restructuring Document with the Bankruptcy Court (including any modifications or amendments thereof), or publicly announce that it intends to take or has taken any action, in each case, that is inconsistent in any material respect with this Agreement or the Documents.

Section 6. *Additional Agreements of Standard General*: Standard General, jointly and severally, agrees, on or before the Effective Date, to waive any defaults under the U.K. Loan Agreement (other than defaults arising from AA Carnaby's failure to pay principal and interest thereunder) necessary to implement the treatment of the SG U.K. Loan Claims under the Plan and to make reasonable modifications to the U.K. Loan Agreement, in each case, so long as (a) no Party or AA Carnaby takes any action that materially adversely affects the rights of Standard General under the U.K. Loan Agreement and (b) the Plan provides for the reinstatement of the SG U.K. Loan Claims.

Section 7. *Termination of Agreement*. (a) *Supporting Party Termination Events*. Upon written notice (the "**Supporting Party Termination Notice**") from the Requisite Supporting Parties delivered in accordance with Section 23 hereof, the Requisite Supporting Parties may terminate this Agreement at any time after the occurrence, and during the continuation, of any of the following events (each, a "**Supporting Party Termination Event**"):

(i) the breach in any material respect by the Company of any of its covenants, obligations, representations or warranties contained in this Agreement, and such breach remains uncured for a period of five (5) Business Days from the date the Company receives a Supporting Party Termination Notice;

(ii) the acceleration of the DIP Facility after the occurrence of an "Event of Default" under the DIP Facility;

(iii) on October 5, 2015, unless the Company has commenced the Chapter 11 Cases;

(iv) the issuance by any governmental authority, including any regulatory authority or court of competent jurisdiction, of any ruling, judgment or order enjoining the consummation of a material portion of the Restructuring Transaction, unless such ruling, judgment or order has not been stayed, reversed or vacated within five (5) Business Days after the date of such issuance; *provided*, *however*, that if such issuance has been made at the request of any of the Supporting Parties, then the Supporting Parties shall not be entitled to exercise the Supporting Party Termination Event with respect to such issuance;

(v) the Company files any motion or pleading with the Bankruptcy Court that is not consistent with this Agreement or the Operative Documents and such motion or pleading has not been withdrawn prior to the earlier of (i) two (2) Business Days after the Company receives written notice from the Requisite Supporting Parties (in accordance with Section 23) that such motion or pleading is inconsistent with this Agreement or the Operative Documents and (ii) entry of an order of the Bankruptcy Court approving such motion or pleading;

(vi) the Bankruptcy Court grants relief that is inconsistent with this Agreement in any material respect;

(vii) the Company proposes or supports an Alternative Transaction;

(viii) the Company (A) withdraws the Plan or publicly announces its intention to withdraw the Plan or to pursue an Alternative Transaction, (B) files a Restructuring Document in form and substance that has not been consented to by the Requisite Supporting Parties, (C) moves voluntarily to dismiss any of the Chapter 11 Cases, (D) moves for conversion of any of the Chapter 11 Cases to chapter 7 under the Bankruptcy Code, or (E) moves for the appointment of an examiner with expanded powers or a chapter 11 trustee;

(ix) the waiver, amendment or modification of the Plan or any of the other Restructuring Documents, in a manner inconsistent with this Agreement or the Plan without the consent the Requisite Supporting Parties;

(x) the Plan, the Disclosure Statement and motion seeking entry of the Disclosure Statement Order are not filed with the Bankruptcy Court by the date that is 10 days after the Commencement Date; and

(xi) the Bankruptcy Court enters an order (A) directing the appointment of an examiner with expanded powers or a chapter 11 trustee, (B) converting the Chapter 11 Cases to cases under chapter 7 of the Bankruptcy Code, or (C) dismissing the Chapter 11 Cases.

(b) *Company Termination Events*. The Company may terminate this Agreement as to all Parties (unless otherwise provided below in this Section 7(b)), upon written notice (the "**Company Termination Notice**") delivered in accordance with Section 23 hereof, upon the occurrence of any of the following events (each, a "**Company Termination Event**"):

(i) the breach in any material respect by a Supporting Party of their covenants, obligations, representations or warranties contained in this Agreement, which breach remains uncured for a period of five (5) Business Days from the date the Supporting Party receives the Company Termination Notice (except for any breach of Section 4(a)(viii), for which there shall be no cure period), but such termination only shall be with respect to such Supporting Party; provided, however, that if the termination of this Agreement with respect to such Supporting Party is based on a breach of Section 4(a)(viii) or causes the remaining Supporting Parties to hold less than 66 and 2/3rds of the then-outstanding principal amount of the Notes, then the Company shall have the right to terminate this Agreement with respect to all Parties;

(ii) the issuance by any governmental authority, including any regulatory authority or court of competent jurisdiction, of any ruling, judgment or order enjoining the consummation of a material portion of the Restructuring Transaction, unless, in each case, such ruling, judgment or order has been issued at the request of the Company, or, in all other circumstances, such ruling, judgment or order has not been stayed, reversed or vacated within three Business Days after such issuance; and

(iii) the board of directors of any Company Party, after consultation with outside counsel, determines in good faith that continued performance under this Agreement would be inconsistent with the exercise of its fiduciary duties under applicable law, including because such board's fiduciary obligations require it to direct such Company Party to accept a proposal for an Alternative Transaction.

(c) *Mutual Termination*. This Agreement may be terminated by mutual written agreement among the Company and the Requisite Supporting Parties.

(d) *Automatic Termination*. This Agreement shall automatically terminate upon the Effective Date.

(e) *Effect of Termination*. Upon the termination of this Agreement in accordance with Section 5(a), 5(b), or 5(c), and except as provided in Section 17 herein, this Agreement shall become void and of no further force or effect, and each Party shall, except as otherwise expressly provided in this Agreement, be immediately released from its liabilities, obligations, commitments, undertakings and agreements under or related to this Agreement and shall have all the rights and remedies that it would have had and shall be entitled to take all actions, whether with respect to the Claims and Interests, the Restructuring Transaction or otherwise, that it would have been entitled to take had it not entered into this Agreement, including all rights and remedies available to it under applicable law, the Indenture and the ABL Credit Agreement and/or any ancillary documents or agreements thereto; *provided*, *however*, that in no event shall any such termination relieve a Party hereto from (i) liability for its breach or non-performance of its obligations hereunder prior to the date of such termination and (ii) obligations under this Agreement that by their express terms expressly survive termination of this Agreement. If this Agreement has been terminated at a time when permission of the Bankruptcy Court shall be required for a Supporting Party to change or withdraw (or cause to change or withdraw) its vote to accept the Plan, the Company shall not oppose any attempt by such Supporting Party to change or withdraw (or cause to change or withdraw) such vote at such time.

(f) *Automatic Stay*. The Company acknowledges and agrees, and shall not dispute, that the giving of a Supporting Party Termination Notice by any of the Supporting Parties or the Indenture Trustee pursuant to this Agreement shall not be a violation of the automatic stay under section 362 of the Bankruptcy Code (and the Company hereby waives, to the greatest extent possible, the applicability of the automatic stay to the giving of such notice), and no cure period contained in this Agreement shall be extended pursuant to sections 108 or 365 of the Bankruptcy Code or any other applicable law without the prior written consent of the Requisite Supporting Parties.

Section 8. *Good Faith Cooperation; Further Assurances; Acknowledgement*. The Parties shall cooperate with one another in good faith and shall coordinate their activities with one another (to the extent practicable and subject to the terms hereof) in respect of (a) all matters concerning the implementation of the Restructuring Transaction, and (b) the pursuit and support of the Restructuring Transaction (including confirmation of the Plan). Without limiting the foregoing, upon the reasonable request of the Standard General Advisors, the Committee of Lead Lenders' Advisors shall consult with the Standard General Advisors with respect to the matters contemplated hereby, including any consent required of the Requisite Supporting Parties. Furthermore, subject to the terms hereof, each of the Parties shall take such actions as may be reasonably necessary to carry out the purposes and intent of this Agreement and the Restructuring Transaction, including making and filing any required governmental or regulatory filings and voting

any Claims and Interests in favor of the Plan, and shall refrain from taking any action that would frustrate the purposes and intent of this Agreement. This Agreement is not, and shall not be deemed, a solicitation of votes for the acceptance of a chapter 11 plan or a solicitation to tender or exchange any securities. The acceptance of the Plan by the Supporting Parties will not be solicited until the Supporting Parties have received the Disclosure Statement and related ballots, as approved by the Bankruptcy Court.

Section 9. *Representations and Warranties*. (a) Each Party, severally (and not jointly), represents and warrants to the other Parties that the following statements are true and correct as of the date hereof (or as of the date a Supporting Party becomes a party hereto):

(i) such Party is validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, has all requisite corporate, partnership, limited liability company or similar authority to enter into this Agreement and perform its obligations under, and carry out the transactions contemplated in, this Agreement, and the execution and delivery of this Agreement by such Party and the performance of such Party's obligations under this Agreement have been duly authorized by all necessary corporate, limited liability company, partnership or other similar action on its part;

(ii) the execution, delivery and performance by such Party of this Agreement does not and will not (A) violate any provision of law, rule or regulation applicable to it or any of its subsidiaries or its charter or bylaws (or other similar governing documents) or those of any of its subsidiaries, or (B) conflict with, result in a breach of or constitute (with due notice or lapse of time or both) a default under any material contractual obligation to which it or any of its subsidiaries is a party, other than breaches that arise from (1) the commencement or filing of a voluntary or involuntary petition under any bankruptcy, insolvency or debtor relief laws of any jurisdiction or (2) any agreement to enter into or commence any bankruptcy, insolvency proceeding or any proceeding under any debtor relief laws, in each case, of any jurisdiction;

(iii) the execution, delivery and performance by such Party of this Agreement does not and will not require any registration or filing with, consent or approval of, or notice to, or other action of, with or by, any federal, state or governmental authority, regulatory body or commission, except such filings as may be necessary or required under the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended or any rule or regulation promulgated thereunder (the "**Exchange Act**"), "**blue sky**" laws or the Bankruptcy Code; and

(iv) this Agreement is the legally valid and binding obligation of such Party, enforceable in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or limiting creditors' rights generally or by equitable principles relating to enforceability or a ruling of the Bankruptcy Court.

(b) Each Supporting Party severally (and not jointly) represents and warrants that, as of the date hereof (or as of the date such Supporting Party becomes a party hereto):

(i) it is the beneficial owner of the principal or notional (as applicable) amount (which amount shall be denominated in the applicable currency) or number of Claims and Interests, as applicable, set forth below its name on the signature page hereof (or below its name on the signature page of a Joinder Agreement for any Supporting Party that becomes a party hereto after the date hereof), and/or has, with respect to the beneficial owners of such Claims and Interests, (A) full power and authority to vote on, and consent to, matters concerning such Claims and Interests, or to exchange, assign and Transfer such Claims and Interests, or (B) full power and authority to bind, or act on behalf of, such beneficial owners with respect to such Claims and Interests;

(ii) it has made no prior assignment, sale, participation, grant, conveyance or other Transfer of, and has not entered into any other agreement to assign, sell, participate, grant, convey or otherwise Transfer, in whole or in part, any portion of its right, title, or interests in any Claims and Interests that is inconsistent with the representations and warranties of such Supporting Party herein or would render such Supporting Party otherwise unable to comply with this Agreement and perform its obligations hereunder; and

(iii) the Claims and Interests owned by such Supporting Party are free and clear of any option, proxy, voting restriction, right of first refusal or other limitation on disposition of any kind, that would reasonably be expected to adversely affect in any way the performance by such Supporting Party of its obligations contained in this Agreement at the time such obligations are required to be performed.

(c) It is understood and agreed that the representations and warranties made by a Supporting Party that is an investment manager of a beneficial owner of Claims and Interests are made with respect to, and on behalf of, such beneficial owner and not such investment manager, and, if applicable, are made severally (and not jointly) with respect to the investment funds, accounts and other investment vehicles managed by such investment manager.

Section 10. *Amendments and Waivers*. This Agreement, including any exhibits or schedules hereto, and the Operative Documents may not be modified, amended or supplemented except in a writing signed by the Company and the Requisite Supporting Parties; *provided*, *however*, that, notwithstanding any provision herein to the contrary, if any such amendment, modification, waiver or supplement would adversely affect any of the rights or obligations (as applicable) of any Supporting Party in a manner that is different or disproportionate in any material respect from the effect on the rights or obligations (as applicable) of Supporting Parties generally other than in proportion to the amount of such Note Claims, or if any such amendment, modification, waiver or supplement would impose any cost or liability upon any Supporting Party, such

amendment, modification, waiver or supplement shall also require the written consent of such affected Supporting Party. In determining whether any consent or approval has been given or obtained by the Requisite Supporting Parties, any then-existing Supporting Party that is in material breach of its covenants, obligations or representations under this Agreement (and the Notes held by such Supporting Party) shall be excluded from such determination, and the Notes held by such Supporting Party shall be treated as if they were not outstanding.

Section 11. *Transaction Expenses*. Subject to the terms of the DIP Order, the Company hereby agrees to pay in cash the Transaction Expenses incurred prior to the termination of this Agreement or following such termination for Transaction Expenses that result from litigation commenced by a third party related to this Agreement. The Company hereby acknowledges and agrees that the Transaction Expenses incurred prior to the termination of this Agreement are of the type that should be entitled to treatment as administrative expense claims pursuant to sections 503(b) and 507(a)(2) of the Bankruptcy Code.

Section 12. *Effectiveness*. This Agreement shall become effective and binding upon each Party upon the execution and delivery by such Party of an executed signature page hereto; provided that signature pages executed by Supporting Parties shall be delivered to (a) other Supporting Parties in a redacted form that removes such Supporting Party's holdings of the Notes and (b) the Company, Jones Day and the Company's other advisors in an unredacted form (to be held by Jones Day and such other advisors on a professionals' eyes only basis) (the "**Restructuring Support Effective Date**").

Section 13. *Conflicts*. In the event the terms and conditions set forth in the Operative Documents and in this Agreement are inconsistent, the Operative Documents shall control. In the event any of the terms and conditions set forth in any of the Operative Documents is inconsistent with the terms and conditions of another Operative Document, the Plan shall control. In the event of any conflict among the terms and provisions of the Confirmation Order, the Plan, this Agreement and the Operative Documents, the terms of the Confirmation Order shall control. Notwithstanding the foregoing, nothing contained in this Section 13 shall affect, in any way, the requirements set forth herein for the amendment of this Agreement.

Section 14. *GOVERNING LAW; JURISDICTION; WAIVER OF JURY TRIAL*. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO ANY CONFLICTS OF LAW PROVISIONS WHICH WOULD REQUIRE THE APPLICATION OF THE LAW OF ANY OTHER JURISDICTION. BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH OF THE PARTIES HEREBY IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ANY LEGAL ACTION, SUIT, DISPUTE OR PROCEEDING ARISING UNDER, OUT OF OR IN CONNECTION WITH THIS AGREEMENT SHALL BE BROUGHT IN THE FEDERAL OR STATE COURTS LOCATED IN THE STATE OF NEW YORK, COUNTY OF NEW YORK, AND THE PARTIES HERETO IRREVOCABLY CONSENT TO THE JURISDICTION OF SUCH COURTS AND

WAIVE ANY OBJECTIONS AS TO VENUE OR INCONVENIENT FORUM. NOTWITHSTANDING THE FOREGOING CONSENT TO JURISDICTION, SO LONG AS THE BANKRUPTCY COURT HAS JURISDICTION OVER THE COMPANY, EACH OF THE PARTIES AGREES THAT THE BANKRUPTCY COURT SHALL HAVE EXCLUSIVE JURISDICTION WITH RESPECT TO ANY MATTER UNDER OR ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT, AND HEREBY SUBMITS TO THE JURISDICTION OF THE BANKRUPTCY COURT. EACH PARTY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 15. *Specific Performance/Remedies*. It is understood and agreed that if any Party seeks specific performance and injunctive or other equitable relief (including attorney's fees and costs) as a remedy of any such breach, in addition to any other remedy to which such nonbreaching Party may be entitled, at law or in equity, the other Party will not raise the adequacy of money damages as a defense. Each Party agrees to waive any requirement for the securing or posting of a bond in connection with such remedy.

Section 16. *Disclosure; Publicity*. The Company shall submit drafts to each counsel of each Supporting Party of any press releases, public documents and any and all filings with the SEC that (i) constitute disclosure of the existence or terms of this Agreement or any amendment to the terms of this Agreement at least 2 Business Days prior to making any such disclosure, or (ii) any other disclosure that includes descriptions of the Restructuring Transaction or any Supporting Party. Except as required by applicable law or otherwise permitted under the terms of any other agreement between the Company and any Supporting Party, no Party or its advisors shall disclose to any person or entity (including, for the avoidance of doubt, any other Supporting Party), other than advisors to the Company, the principal amount or percentage of any Notes held by any Supporting Party, in each case, without such Supporting Party's prior written consent; provided that (a) if such disclosure is required by law, subpoena, or other legal process or regulation, the disclosing Party shall afford the relevant Supporting Party a reasonable opportunity to review and comment in advance of such disclosure and shall take all reasonable measures to limit such disclosure (the expense of which, if any, shall be borne by the Company), (b) the foregoing shall not prohibit the disclosure of the aggregate percentage or aggregate principal amount of Notes (including any series of Notes) held by all the Supporting Party collectively and (c) any Party may disclose information requested by a regulatory authority with jurisdiction over its operations to such authority without limitation or notice to any Party or other person. Notwithstanding the provisions in this Section 16, any Party may disclose, to the extent consented to in writing by a Supporting Party, such Supporting Party's individual holdings. Any public filing of this Agreement, with the Bankruptcy Court or otherwise, which includes executed signature pages to this Agreement shall include such signature pages only in redacted form with respect to the holdings of each Supporting Party (provided that the holdings disclosed in such signature pages may be filed in unredacted form with the Bankruptcy Court under seal).

Section 17. *Survival*. Notwithstanding the termination of this Agreement pursuant to Section 7 hereof, the agreements and obligations of the Parties in this Section 17 and Sections 7(e), 7(f), 11, 14, 15, 18, 19, 20, 23, 24, 25, 26 and 27 hereof and the last paragraph of Section 2 shall survive such termination and shall continue in full force and effect in accordance with the terms hereof.

Section 18. *Headings*. The headings of the sections, paragraphs and subsections of this Agreement are inserted for convenience only and shall not affect the interpretation hereof or, for any purpose, be deemed a part of this Agreement.

Section 19. *Successors and Assigns; Severability; Several Obligations*. This Agreement is intended to bind and inure to the benefit of the Parties and their respective successors, assigns, heirs, executors, administrators and representatives; *provided*, *however*, that nothing contained in this Section 19 shall be deemed to permit sales, assignments or other Transfers of the Claims and Interests other than in accordance with Section 4(c) of this Agreement. If any provision of this Agreement, or the application of any such provision to any Person or circumstance, shall be held invalid or unenforceable in whole or in part, such invalidity or unenforceability shall attach only to such provision or part thereof and the remaining part of such provision hereof and this Agreement shall continue in full force and effect; *provided*, *however*, that nothing in this Section 19 shall be deemed to amend, supplement or otherwise modify, or constitute a waiver of, any Supporting Party Termination Event or any Company Termination Event.

Section 20. *No Third-Party Beneficiaries*. Unless expressly stated herein, this Agreement shall be solely for the benefit of the Parties and no other Person shall be a third-party beneficiary hereof.

Section 21. *Prior Negotiations; Entire Agreement*. This Agreement, including the exhibits and schedules hereto, constitutes the entire agreement of the Parties, and supersedes all other prior negotiations, with respect to the subject matter hereof, except that the Parties acknowledge that any confidentiality agreements (if any) heretofore executed between the Company and any Supporting Party shall continue in full force and effect.

Section 22. *Counterparts*. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, and all of which together shall be deemed to be one and the same agreement. Execution copies of this Agreement may be delivered by facsimile, e-mail or otherwise, which shall be deemed to be an original for the purposes of this Section 22.

Section 23. *Notices*. All notices, requests, demands, document deliveries and other communications under this Agreement shall be in writing and shall be deemed to have been duly given, provided or made (a) when delivered personally, (b) when sent by electronic mail ("**e-mail**") or (c) one Business Day after deposit with an overnight courier service, with postage prepaid to the Parties at the following addresses or e-mail addresses (or at such other addresses or e-mail addresses for a Party as shall be specified by like notice):

If to the Company:

American Apparel, Inc.
747 Warehouse Street
Los Angeles, California 90021-1106
Attention: Chelsea Grayson, Esq. (cgrayson@americanapparel.net)

with a copy to (which shall not constitute notice):

Jones Day
222 East 41st Street
New York, New York 10017
Attention: Scott J. Greenberg (sgreenberg@jonesday.com)
Michael J. Cohen (mcohen@jonesday.com)

If to the Supporting Parties:

To each Supporting Party at the addresses or e-mail addresses set forth below the Supporting Parties' signature page to this Agreement (or to the signature page to a Joinder Agreement in the case of any Supporting Party that becomes a party hereto after the Restructuring Support Effective Date)

with a copy to (which shall not constitute notice):

Milbank, Tweed, Hadley & McCloy LLP
28 Liberty Street
New York, New York 10005
Attention: Gerard Uzzi (guzzi@milbank.com)
Alexander M. Kaye (akaye@milbank.com), and
Bradley Scott Friedman (bfriedman@milbank.com)

with a copy to (which shall not constitute notice):

Debevoise & Plimpton LLP
919 Third Avenue
New York, New York 10022
Attention: Natasha Labovitz (nlabovitz@debevoise.com)

Section 24. *Reservation of Rights; No Admission*. Except as expressly provided in this Agreement or in any amendment thereof agreed upon by the Parties pursuant to the terms hereof, nothing herein is intended to, or does, in any manner waive, limit, impair or restrict the ability of each of the Parties to protect and preserve its rights, remedies and interests, including its claims against any of the other Parties (or their respective affiliates or subsidiaries) or its full participation in the Chapter 11 Cases. Without limiting the foregoing sentence in any way, if the Restructuring Transaction is not consummated, or if this Agreement is terminated for any reason, nothing in this

Agreement shall be construed as a waiver by any Party of any or all of such Party's rights, remedies, claims and defenses, and the Parties expressly reserve any and all of their respective rights, remedies, claims and defenses. This Agreement is part of a proposed settlement of matters that could otherwise be the subject of litigation among the Parties. Pursuant to Rule 408 of the Federal Rules of Evidence, any applicable state rules of evidence and any other applicable law, foreign or domestic, this Agreement and all negotiations relating thereto shall not be admissible into evidence in any proceeding other than a proceeding to enforce its terms. This Agreement shall in no event be construed as, or be deemed to be, evidence of an admission or concession on the part of any Party of any claim or fault or liability or damages whatsoever. Each of the Parties denies any and all wrongdoing or liability of any kind and does not concede any infirmity in the claims or defenses which it has asserted or could assert.

Section 25. *Fiduciary Duties*.

(a) Notwithstanding anything to the contrary herein, (i) nothing in this Agreement shall require any Company Party or any directors or officers of any Company Party to take any action, or to refrain from taking any action, that would breach, or be inconsistent with, its or their fiduciary obligations under applicable law, and (ii) to the extent that such fiduciary obligations require any Company Party or any directors or officers of any Company Party to take any such action, or refrain from taking any such action, they may do so without incurring any liability to any Party under this Agreement; *provided, however*, that nothing in this Section 25 shall be deemed to amend, supplement or otherwise modify, or constitute a waiver of, any Termination Event that may arise as a result of any such action or omission.

(b) Notwithstanding anything to the contrary herein, nothing in this Agreement shall create any additional fiduciary obligations on the part of the Company or any directors or officers of the Company that did not exist prior to the execution of this Agreement.

Section 26. *Representation by Counsel*. Each Party acknowledges that it has been represented by counsel with respect to this Agreement and the Restructuring Transaction. Accordingly, any rule of law or any legal decision that would provide any Party with a defense to the enforcement of the terms of this Agreement against such Party based upon lack of legal counsel shall have no application and is expressly waived. Neither Party shall be considered to be the drafter of this Agreement or any of its provisions for the purpose of any statute, decision or rule of interpretation or construction that would, or might cause, any provision to be construed against such Party.

Section 27. *Relationship Among Parties*. Notwithstanding anything herein to the contrary, the duties and obligations of the Supporting Parties under this Agreement shall be several, not joint. It is understood and agreed that no Supporting Party has any duty of trust or confidence of any kind or form with respect to any other Supporting Party or the Company, and, except as expressly provided in this Agreement, there are no commitments between or among them. In this regard, it is understood and agreed that any Supporting Party may trade in the Claims and Interests without the consent of the

Company or any other Supporting Party, subject to applicable securities laws and the terms of this Agreement; *provided*, *however*, that no Supporting Party shall have any responsibility for any such trading to any other Person by virtue of this Agreement. No prior history, pattern or practice of sharing confidences between or among the Supporting Parties or the Company shall in any way affect or negate this Agreement.

[Signature pages follow]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed and delivered by their respective duly authorized officers, solely in their respective capacity as officers of the undersigned and not in any other capacity, as of the date first set forth above.

AMERICAN APPAREL, INC.

By: _____
Name: Hassan Nahha
Title: CFO

AMERICAN APPAREL (USA), LLC

By: _____
Name: Hassan Nahha
Title: CFO

AMERICAN APPAREL RETAIL, INC.

By: _____
Name: Hassan Nahha
Title: CFO

FRESH AIR FREIGHT, INC.

By: _____
Name: Hassan Nahha
Title: CFO

KCL KNITTING, LLC

By: _____
Name: Hassan Nahha
Title: CFO

AMERICAN APPAREL DYEING & FINISHING, INC.

By: _____
Name: Hassan Nahha
Title: CFO

MONARCH MASTER FUNDING LTD.

By: Monarch Alternative Capital LP
Its: Advisor

By: _____
Name:
Title:

Notice Information:

C/O Monarch Alternative Capital LP
535 Madison Avenue
New York NY 10022
Attn: Michael Gillin
Phone: (212) 554-1743
Fax: 1-(866)-741-3564
Email: Michael.gillin@monarchlp.com; fundops@monarchlp.com

Principal Amount of Note Claims:

_____

COLISEUM CAPITAL PARTNERS, L.P.

By: Coliseum Capital, LLC, General Partner

By: Adam Gray

BLACKWELL PARTNERS, LLC, SERIES A

By: Coliseum Capital Management, LLC, Attorney-in-fact

By: Adam Gray

COLISEUM CAPITAL PARTNERS II, L.P.

By: Coliseum Capital, LLC, General Partner

By: Adam Gray

Notice Information:

Adam Gray
Coliseum Capital Management, LLC
One Station Place
7th Floor South
Stamford, CT 06902

Principal Amount of Note Claims:

_____

GOLDMAN SACHS TRUST, on behalf of the GOLDMAN SACHS HIGH YIELD FLOATING RATE FUND

By: Goldman Sachs Asset Management, L.P., as investment advisor and not as principal

By: _____
Name: Jean Joseph
Title: Managing Director

GOLDMAN SACHS LUX INVESTMENT FUNDS for the benefit of GOLDMAN SACHS HIGH YIELD FLOATING RATE PORTFOLIO (LUX)

By: Goldman Sachs Asset Management, L.P., solely as its investment advisor and not as principal

By: _____
Name: Jean Joseph
Title: Managing Director

GOLDMAN SACHS LUX INVESTMENT FUNDS for the benefit of GOLDMAN SACHS GLOBAL MULTI-SECTOR CREDIT PORTFOLIO (LUX)

By: Goldman Sachs Asset Management, L.P., solely as its investment advisor and not as principal

By: _____
Name: Jean Joseph
Title: Managing Director

GLOBAL OPPORTUNITIES, LLC

By: Goldman Sachs Asset Management, L.P., not in its individual capacity, but solely as investment adviser

By: _____
Name: Jean Joseph
Title: Managing Director

GLOBAL OPPORTUNITIES OFFSHORE, LTD.

By: Goldman Sachs Asset Management, L.P., not in its individual capacity, but solely as investment adviser

By: Jean Joseph
Name: JEAN JOSEPH
Title: Managing Director

Notice Information:

Michael Abatemarco
30 Hudson St, 5th Floor
Jersey City, NJ 07302
am-gsbankloans@gs.com

Principal Amount of Note Claims:

_____

Pentwater Capital Management LP, as investment advisor to:

Oceana Master Fund Ltd.
PWCM Master Fund Ltd.
AAI Pentwater Fund Public Limited Company
LMA SPC for and on behalf of Map 98 Segregated Portfolio
Pentwater Credit Opportunities Master Fund Ltd.
Pentwater Event Driven Cayman Fund Ltd.

By: _____
Name: Neal Nenadovic
Title: Chief Financial Officer
Pentwater Capital Management LP

Notice Information:

Attention:

Pentwater Capital Management LP
614 Davis St
Evanston, IL 60201
312-589-6400

Principal Amount of Note Claims:

_____

STANDARD GENERAL MASTER FUND, L.P.

By: Standard General L.P., its investment manager

By: _____
Name: Soohyung Kim
Title: CEO

P STANDARD GENERAL LTD.

By: _____
Name: Soohyung Kim
Title: CEO of its Investment Manager

Notice Information: Standard General L.P.

Attention: Joseph Mause
767 Fifth Avenue, 12th fl
New York, NY 10153
(212) 257-4701
legal@standgen.com

Principal Amount of Note Claims:

_____

EXHIBIT A

PLAN
(See Exhibit 1 to Disclosure Statement)

EXHIBIT B

DIP CREDIT AGREEMENT
(See DIP Credit Agreement at Docket No. 19-1)

EXHIBIT C

EXIT FACILITY TERM SHEET

AMERICAN APPAREL (USA), LLC
Exit Term Loan Facility

Summary of Principal Terms and Conditions

Borrowers	Reorganized American Apparel (USA), LLC (the "**Company**"), Reorganized American Apparel Retail, Inc., Reorganized American Apparel Dyeing & Finishing, Inc. and Reorganized KCL Knitting, LLC, (collectively, the "**Borrowers**"), formerly debtors and debtors-in-possession in the cases filed under Chapter 11 (the "**Chapter 11 Cases**"); provided that to the extent any such entity or entities may be merged or consolidated with and into a Borrower, the "Borrowers" shall consist of such surviving entities.
Guarantors	Reorganized American Apparel, Inc., Reorganized Fresh Air Freight, Inc. and each other entity party that executes a guaranty (collectively, the "**Guarantors**" and together with the Borrowers, the "**Credit Parties**").
Exit Term Loan Facility	Secured term loan facility (the "**Exit Term Loan Facility**" or the "**Exit Financing**"), the holders thereof referred to as the "**Lenders**", comprised of (i) term loans (the "**Converted DIP Loan**") converted on a dollar-for-dollar basis from the loans under the Borrowers' debtor-in-possession credit agreement (the "**DIP Facility**") on the Closing Date (as defined below) and (ii) an additional incremental term loan (the "**Incremental Exit Loan**" and together with the Converted DIP Loan, the "**Exit Term Loan**") in the principal amount of $30,000,000 to be funded on the Closing Date, proceeds of which will be used solely to fund (and be limited, as to amount, by) disbursements, costs and expenses required in connection with the Reorganization (as defined below), working capital and for other general corporate purposes of the Credit Parties, which principal amount of Incremental Exit Loan shall be reduced (x) dollar-for-dollar with the cash in the DIP Funding Account (as defined below) on the Closing Date, (y) to the extent that the "Requisite Commitment Parties" (as such term is defined in the Equity Commitment Agreement, dated as of October 4, 2015, between the Company and the other parties thereto (the "**Equity Commitment Agreement**")) determine to increase the new equity investment amount in the Company above $10,000,000 and (z) at the election of the Requisite Commitment Parties, with the consent of the Borrowers. Exit Term Loans that are prepaid may not be reborrowed. The "**Plan**" means the Chapter 11 Plan of Reorganization and the related disclosure statement of the Credit Parties (collectively, the "**Debtors**") to be filed with the United States Bankruptcy Court for the District of Delaware (the "**Bankruptcy Court**"), in form and substance satisfactory to the Required Lenders. The reorganization contemplated by the Plan is referred to herein as the "**Reorganization**."
Use of Proceeds	The Exit Term Loan Facility will be used (i) to refinance all "Loans" under the DIP Facility on the Closing Date (i.e. the Converted DIP Loan) and (ii) with respect to the Incremental Exit Loan, to fund certain disbursements, costs and expenses in connection with the Reorganization

	and to provide working capital and for other general corporate purposes of the Credit Parties.
Closing Date	The date on which the Exit Term Loans are issued under the Exit Term Loan Facility and the Reorganization is consummated pursuant to the Plan (the "**Closing Date**").
Maturity	The date that is 4 years after the Closing Date.
Collateral	A first priority perfected senior lien on all assets of the Credit Parties, other than 35% of the equity of foreign subsidiaries and certain customary baskets to be agreed by the Required Lenders in their sole discretion ("**Permitted Liens**"), subject in priority only to the liens granted to the New Working Capital Facility (as defined below) which shall be subject to ranking and intercreditor arrangements satisfactory to the Required Lenders (the "**Collateral**").
Conditions to Closing	Usual and customary for facilities of this type, including, without limitation, the following:

A. Since June 30, 2015, there not having occurred any event, occurrence, development or state of circumstances or facts that has had or could reasonably be expected to have, individually or in the aggregate a Material Adverse Effect. "Material Adverse Effect" means (a) a material adverse effect on, the operations, business, assets, properties, liabilities (actual or contingent) or condition (financial or otherwise) of the Credit Parties, taken as a whole (excluding (i) any matters publicly disclosed prior to the filing of the Chapter 11 Cases, (ii) any matters disclosed in the schedules to the DIP Facility, (iii) any matters disclosed in any first day pleadings or declarations, and (iv) the effect of filing the Chapter 11 Cases, the events and conditions related and/or leading up thereto and the effects thereof and any action required to be taken under the DIP Facility or under the Exit Term Loan Facility); (b) a material impairment of the rights and remedies of the Administrative Agent or any Lender under any Exit Term Loans; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against any Credit Party of any Exit Term Loans.

B. The negotiation, execution and delivery of an intercreditor agreement for the New Working Capital Facility to be entered into as of the Closing Date (if any) and customary definitive documentation in respect of the Exit Financing consistent with the terms set forth in this Term Sheet and otherwise satisfactory to the Required Lenders and the Administrative Agent (the "**Exit Financing Documentation**").

C. The satisfaction of the Required Lenders and the Administrative Agent with:

- the Plan;
- the terms of any New Working Capital Facility, including the type of facility (i.e. ABL, first lien revolver, first out revolver or term facility) and priority of collateral (i.e. first lien on substantially all assets or first lien on ABL collateral, second lien on term

collateral), and the definitive documentation in respect thereof;

- the business plan of the Credit Parties (which will be reasonably satisfactory to the Required Lenders); and
- the terms, entry and effectiveness of a confirmation order with respect to the Plan.

D. The Reorganization shall have been consummated in accordance with the Plan (all conditions set forth therein having been satisfied or waived (with any such waiver having been approved by the Required Lenders)), and substantial consummation (as defined in Section 1101 of the Bankruptcy Code) of the Plan in accordance with its terms shall have occurred contemporaneously with the closing of the Exit Term Loans and such closing shall have occurred not later than the date that falls six months after October 5, 2015.

E. The Required Lenders shall be reasonably satisfied that, on the Closing Date, immediately after giving effect to the consummation of the Plan, the issuance of the Exit Term Loans to occur on the Closing Date and any other transactions to occur on the Closing Date, the Credit Parties and their subsidiaries shall have outstanding no indebtedness other than indebtedness outstanding under the Exit Financing, the New Working Capital Facility and any additional indebtedness on terms and conditions (including as to amount) satisfactory to the Required Lenders and, if secured, subject to intercreditor arrangements satisfactory to the Required Lenders.

F. The terms and conditions of the Exit Term Loan Facility shall be substantively consistent with the terms and conditions described herein or otherwise satisfactory to the Required Lenders and the Administrative Agent.

G. Delivery of evidence that all required insurance has been maintained and that the Administrative Agent has been named as loss payee and additional insured.

H. Accuracy of representations and warranties contained in the Exit Financing Documentation in all material respects (or, in the case of representations and warranties that are qualified by materiality, in all respects) and absence of default and Event of Default under the Exit Financing Documentation.

I. Compliance with customary documentation conditions, including the delivery of customary legal opinions and closing certificates (including a customary solvency certificate), good standing certificates and certified organizational documents, in each case, in form and substance reasonably satisfactory to the Required Lenders and the Administrative Agent.

J. The Administrative Agent shall have a first priority perfected senior lien on all assets of the Credit Parties, other than Permitted Liens, subject in priority only to the liens granted to the New Working Capital Facility (if any) which shall be subject to ranking and

intercreditor arrangements satisfactory to the Required Lenders.

K. Receipt by the Administrative Agent of reasonably satisfactory results of customary lien searches.

L. All requisite governmental and third party approvals shall have been obtained, and there shall be no litigation, governmental, administrative or judicial action against the Credit Parties that could reasonably be expected to restrain, prevent or impose materially burdensome restrictions on the Reorganization or the Exit Term Loans.

M. Delivery of all documentation and other information required by bank regulatory authorities under applicable "know-your-customer" and anti-money laundering rules and regulations, including without limitation the Patriot Act.

N. Payment by the Borrowers on the Closing Date of (i) the administrative and collateral agency fee and expenses (including the fees and expenses of counsel to the Administrative Agent) due on such date, (ii) the fees of Milbank, Tweed Hadley & McCloy LLP, designated local counsel and Ducera Partners LLC in connection with the transactions hereunder and (iii) all expenses payable on the Closing Date pursuant to the terms hereof.

O. The Required Lenders and the Administrative Agent shall be reasonably satisfied with the flow of funds in connection with the closing.

P. Such other conditions precedent as the Required Lenders and the Administrative Agent shall reasonably require.

Interest Rate

Interest shall be paid in cash ("**Cash Interest**"); provided that, so long as no Default or Event of Default has occurred and is continuing, the Borrowers may elect to pay all or a portion of the interest accrued in a particular interest period in kind ("**PIK Interest**"), in lieu of paying such interest in cash, solely to the extent necessary to ensure that liquidity of the Credit Parties and their Subsidiaries would not be less than $10,000,000 after giving effect to such interest payment. Any PIK Interest so elected to be paid will be added to the principal amounts outstanding under the Exit Term Loan Facility.

Cash Interest on the Loans will accrue at the Eurodollar Rate plus the Margin. As used herein, the Margin means "10.0% *per annum"*. PIK Interest on the Loans will accrue at the Eurodollar Rate plus the Margin plus 2%.

As used herein, the terms "Eurodollar Rate" will have meanings customary and appropriate for financings of this type, and the basis for calculating accrued interest and the interest periods for loans bearing interest at the Eurodollar Rate will be customary and appropriate for financings of this type (which in no event shall be less than 1.0%).

During the continuance of an Event of Default, the loans and all other outstanding obligations will bear interest at an additional 2.00% *per annum* above the interest rate otherwise applicable.

Upfront Fees/OID	2% on the Incremental Exit Loan.
Scheduled Amortization	None.
Conversion Fee	A non-refundable fee payable in the form of the right, and the obligation, to purchase new equity interest in the Reorganized Company (as defined Equity Commitment Agreement) in the amounts and as calculated in the Equity Commitment Agreement, which shall be earned and payable on the Closing Date.
Call Protection	Callable at 103%, 102% and101% of par in years1, 2 and 3, respectively, and thereafter at par.
Mandatory Prepayments	The Exit Term Loans shall be prepaid with: (i) 100% of the net cash proceeds of any asset sales or casualty or condemnation events (subject to (a) first offering paydown to the New Working Capital Facility with respect to collateral subject to first-priority liens securing the New Working Capital Facility and (b) subject to reinvestment rights and baskets and exclusions to be agreed); and (ii) 100% of the proceeds of debt incurrences (other than debt permitted under the Exit Financing Documentation).
Representations and Warranties	Usual and customary for facilities of this type and such other representations and warranties as the Required Lenders may reasonably require.
Affirmative and Negative Covenants	Usual and customary for facilities of this type and such other covenants as the Required Lenders may reasonably require. The covenant limiting indebtedness shall permit the Borrower to incur a new working capital facility in an amount up to $40,000,000 ("**New Working Capital Facility**").
Financial Covenants	Such financial covenants as the Required Lenders may reasonably require.
Events of Default	Usual and customary for facilities of this type and such other events of default as the Required Lenders may reasonably require.
Financial and Other Reporting	Usual and customary for facilities of this type.
Amendments and Voting	Usual and customary for facilities of this type.
Required Lenders	Lenders holding a majority of the Exit Term Loans (the "**Required Lenders**").
Expenses and Indemnification	Usual and customary for facilities of this type.
Other Provisions	The Exit Financing Documentation will include customary provisions regarding increased costs, illegality, tax indemnities, waiver of trial by jury and other similar provisions.
Assignments and Participations	Usual and customary for facilities of this type.

Governing Law	State of New York.
Administrative Agent	Wilmington Trust, National Association (the "**Administrative Agent**").

EXHIBIT D

EQUITY COMMITMENT AGREEMENT

EXECUTION VERSION

EQUITY COMMITMENT AGREEMENT

AMONG

AMERICAN APPAREL, INC.

AND

THE COMMITMENT PARTIES PARTY HERETO

Dated as of October 4, 2015

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EQUITY COMMITMENT AGREEMENT

THIS EQUITY COMMITMENT AGREEMENT (this "Agreement"), dated as of October 4, 2015, is made by and among American Apparel, Inc., and the Commitment Parties set forth on the signature pages hereto (collectively, the "Commitment Parties"). Capitalized terms that are used but are not otherwise defined in this Agreement shall have the meanings given to them in Section 1.1 hereof or, if not defined therein, shall have the meanings given to them in the Restructuring Support Agreement (as defined below).

RECITALS

WHEREAS, the Company and certain of its domestic Subsidiaries (collectively, the "Debtors") have entered into a Restructuring Support Agreement, dated as of the date hereof (the "Restructuring Support Agreement"), with the Commitment Parties as the "Supporting Parties" thereunder, which provides for the restructuring of the Debtors' capital structure and financial obligations pursuant to a plan of reorganization to be filed in jointly administered cases (the "Chapter 11 Cases") under Title 11 of the United States Code, 11 U.S.C. §§ 101- 1532, as amended (the "Bankruptcy Code"), in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"), on the terms and conditions set forth in the Plan;

WHEREAS, pursuant to this Agreement and the Plan, and subject to the terms and conditions contained herein and therein, (a) the Company has agreed to issue to the Commitment Parties an aggregate number of Units equal to the quotient of the Total Equity Commitment Amount divided by the Purchase Price, at a per-Unit cash purchase price equal to the Purchase Price and (b) each Commitment Party has agreed to purchase its Commitment Percentage of such Units;

WHEREAS, pursuant to this Agreement and the Plan, and subject to the terms and conditions contained herein and therein, each of the Minority Equityholders will have the right to elect, at any time during the 30 days following the Closing Date, to purchase additional Units, at a per-Unit cash purchase price equal to the Purchase Price, in an aggregate amount equal to such Minority Equityholder's Purchase Right Percentage of the Total Equity Commitment Amount; and

NOW, THEREFORE, in consideration of the mutual promises, agreements, representations, warranties and covenants contained herein, each of the Parties hereby agrees as follows:

ARTICLE I

DEFINITIONS

Section 1.1 Definitions. Except as otherwise expressly provided in this Agreement, whenever used in this Agreement (including any Exhibits and Schedules hereto), the following terms shall have the respective meanings specified therefor below:

"Action" means any legal, governmental, administrative, regulatory or judicial actions, suits, arbitrations, audits, actions, demands, demand letters, directives, claims, liens, notices of noncompliance or violation, investigations or proceedings.

"Affiliate" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with, such Person as of the date on which, or at any time during the period for which, the determination of affiliation is being made; provided that no Commitment Party shall be deemed an Affiliate of the Company or any of its Subsidiaries for any purpose under this Agreement. For purposes of this definition, the term "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of such Person.

"Allowed Prepetition Note Secured Claim" has the meaning given to such term in the Plan.

"Board" means the board of managers of the Company.

"Business Day" means any day, other than a Saturday, Sunday or legal holiday, as defined in Bankruptcy Rule 9006(a).

"claim" has the meaning given to such term in Section 101 of the Bankruptcy Code.

"Closing Date" means the date on which the Closing occurs.

"Commencement Date" means the date that the Debtors file voluntary petitions in the Bankruptcy Court to commence the Chapter 11 Cases.

"Commitment Party Default" means the failure by any Commitment Party to deliver the aggregate Purchase Price for such Commitment Party's Commitment Percentage of any Equity Commitment Units by the Escrow Funding Date in accordance with Section 2.2(b).

"Commitment Percentage" means, with respect to any Commitment Party, the sum of (x) the product (rounded to four decimal places) of such Commitment Party's DIP Commitment Percentage and the DIP Commitment Percentage Multiplier, plus (y) the product (rounded to four decimal places) of such Commitment Party's Notes Commitment Percentage and the Notes Commitment Percentage Multiplier (rounded to four decimal places).

"Company" means American Apparel, Inc., a Delaware corporation, and for the avoidance of doubt shall also include (a) the limited liability company into which American Apparel, Inc. will be converted in accordance with the Plan, and (b) the Reorganized Company.

"Company Governance Documents" means, (a) at any time prior to the Company's conversion into a Delaware limited liability company, the Company's certificate of incorporation and by-laws as in effect at such time, and (b) at any time from and after the Company's conversion into a Delaware limited liability company, the Certificate of Formation of

the Company and the limited liability company agreement of the Company as in effect at such time.

"Company SEC Documents" means the reports, schedules, forms, statements and other documents (including exhibits and other information incorporated therein) filed with or furnished to the SEC by the Company on or prior to the date hereof

"Confirmation Order" means an order confirming the Plan pursuant to Section 1129 of the Bankruptcy Code and authorizing the consummation of the transactions contemplated hereby and thereby.

"Contract" means any agreement, contract or instrument, including any loan, note, bond, mortgage, indenture, guarantee, deed of trust, license, franchise, commitment, lease, franchise agreement, letter of intent, memorandum of understanding or other obligation, and any amendments thereto, whether written or oral, but excluding the Plan.

"Defaulted Equity Commitment Units" means, with respect to any Commitment Party Default, the Equity Commitment Units for which the Defaulting Commitment Party has failed to deliver the aggregate Purchase Price in accordance with Section 2.2(b).

"Defaulting Commitment Party" means, at any time, any Commitment Party that caused a Commitment Party Default that is continuing at such time.

"DIP Commitment Percentage" means, with respect to any Commitment Party, 20.0%.

"DIP Commitment Percentage Multiplier" means the quotient of (x) $90,000,000 divided by (y) the sum of $90,000,000 plus the amount of the Allowed Prepetition Note Secured Claims held by all Commitment Parties as of the date hereof; provided, that to the extent the aggregate principal amount of the loans under the DIP Facility are increased, the $90,000,000 will be adjusted accordingly in the foregoing clauses (x) and (y).

"DIP Facility" has the meaning given to such term in the Exit Facility Term Sheet.

"Effective Date" has the meaning given to such term in the Plan.

"Emergence Credit Facilities" means, collectively, the Exit Term Loan Facility and, if applicable, the New Working Capital Facility, in each case as defined in the Exit Facility Term Sheet.

"Equity Commitment" means, with respect to each Commitment Party, its obligation to purchase Units, subject to the terms and conditions set forth herein, pursuant to Section 2.1 of this Agreement.

"Equity Commitment Units" means, with respect to each Commitment Party, the Units that such Commitment Party is required to purchase pursuant to its Equity Commitment.

"Event" means any event, development, occurrence, circumstance or change.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulation of the SEC thereunder.

"Final DIP Order" means the final order of the Bankruptcy Court authorizing, among other things, the Debtors to enter into and obtain credit under the DIP Credit Agreement, and granting certain rights, protections, and liens to and for the benefit of the DIP.

"Governance Term Sheet" means the term sheet titled "Summary of Terms for Post-Restructuring Equity" and attached as Exhibit E to the Restructuring Support Agreement.

"Governmental Entity" means any U.S. or non-U.S. international, regional, federal, state, municipal or local governmental, judicial, administrative, legislative or regulatory authority, entity, instrumentality, agency, department, commission, court, or tribunal of competent jurisdiction (including any branch, department or official thereof).

"Interim DIP Order" means an interim order of the Bankruptcy Court authorizing, among other things, the Debtors to enter into and obtain credit under the DIP Credit Agreement, and granting certain rights, protections, and liens to and for the benefit of the DIP Lenders.

"Law" means any law (statutory or common), statute, regulation, rule, code or ordinance enacted, adopted, issued or promulgated by any Governmental Entity.

"Lien" means any lease, lien, adverse claim, charge, option, right of first refusal, servitude, security interest, mortgage, pledge, deed of trust, easement, encumbrance, restriction on transfer, conditional sale or other title retention agreement, defect in title or other restrictions of a similar kind.

"Material Adverse Effect" means any Event after the Commencement Date which, individually or collectively with all other Events, has had or would reasonably be expected to have a material adverse effect on (a) the business, assets, liabilities, finances, properties, results of operations, or condition (financial or otherwise) of the Debtors or the Reorganized Debtors, or (b) the ability of the Debtors or the Reorganized Debtors to perform their respective obligations under, or to consummate the transactions contemplated by, this Agreement or the Plan in any material respect, in each case, except to the extent such Event results from (i) any change after the date hereof in global, national or regional political conditions or in the general business, market and economic conditions affecting the industries and regions in which the Company and its Subsidiaries operate, including, in each case, natural disasters and acts of terrorism, war or piracy or other hostilities; (ii) any changes after the date hereof in applicable Law, in GAAP or the interpretation or enforcement thereof; (iii) the execution, delivery, announcement or existence of, or performance of this Agreement or the transactions contemplated hereby, the Plan or the Restructuring Support Agreement, including, but not limited to the announcement of the identity of the Commitment Parties; (iv) any matters publicly disclosed (in the SEC Documents or otherwise) prior to the filing of the Chapter 11 Cases, (v) any matters disclosed in the schedules to the DIP Facility, (vi) any matters disclosed in any first day pleadings or declarations, and (vii) the effect of filing the Chapter 11 Cases, the events and conditions related and/or leading up thereto and the effects thereof and any action

required to be taken under the DIP Facility documents or under any orders of the Bankruptcy Court in the Chapter 11 Cases).

"Minority Equityholder" means, at any time of determination, any Person then holding any Minority Equityholder Notes Claims (including any Person, including as applicable any Commitment Party or Affiliate thereof, that was not a holder of Minority Equityholder Notes Claims as of the date hereof but subsequently acquires any Minority Equityholder Notes Claims).

"Minority Equityholder Notes Claims" means, collectively, the Allowed Prepetition Note Secured Claims held, as of the date hereof, by Persons other than Commitment Parties and their Affiliates.

"Notes Commitment Percentage" means, with respect to any Commitment Party, the quotient, expressed as a percentage (rounded to four decimal places), of (x) the aggregate amount of the Allowed Prepetition Note Secured Claims held by such Commitment Party as of the date hereof, divided by (y) the aggregate amount of the Allowed Prepetition Note Secured Claims held by all Commitment Parties as of the date hereof.

"Notes Commitment Percentage Multiplier" means the quotient of (x) the amount of the Allowed Prepetition Note Secured Claims held by all Commitment Parties as of the date hereof, divided by (y) the sum of (i) $90,000,000 plus (ii) the amount of the Allowed Prepetition Note Secured Claims held by all Commitment Parties as of the date hereof; provided, that to the extent the aggregate principal amount of the loans under the DIP Facility are increased, the foregoing $90,000,000 will be adjusted accordingly.

"Order" means any judgment, order, award, injunction, writ, permit, license or decree of any Governmental Entity or arbitrator.

"Outside Date" means the date that is 180 days after the date of this Agreement.

"Parties" means, collectively, the Company and the Commitment Parties.

"Person" means an individual, firm, corporation (including any non-profit corporation), partnership, limited liability company, joint venture, associate, trust, Governmental Entity or other entity or organization.

"Plan" means the Debtors' Joint Plan of Reorganization, in substantially the form attached as Exhibit B to the Restructuring Support Agreement (including the Plan Supplement(s) and all other exhibits, schedules and annexes thereto) providing for, among other matters, the implementation of this Agreement, as may be further amended, supplemented or otherwise modified from time to time in accordance with the Restructuring Support Agreement.

"Plan Supplement" means the plan supplement to be filed by the Debtors with the Bankruptcy Court.

"Purchase Price" means the purchase price per Unit for the Units to be sold by the Company pursuant to this Agreement, which shall be an amount equal to the quotient of (x) an assumed total enterprise value for the Company of $225,000,000, minus the aggregate amount

of all funded indebtedness of the Company and its Subsidiaries that will be outstanding on the Effective Date after giving effect to the Plan (including all capital leases and the full amount available under the Incremental Exit Loan (as defined in the Exit Facility Term Sheet), irrespective of whether it has been funded at such time), divided by (y) the aggregate number of Units distributed under the Plan (excluding any Units issued pursuant to this Agreement).

"Purchase Right Percentage" means, with respect to any Minority Equityholder, the quotient, expressed as a percentage (rounded to four decimal places), of (x) the aggregate amount of the Minority Equityholder Notes Claims held by such Minority Equityholder as of the Effective Date before giving effect to the Plan, divided by (y) the sum of $90,000,000 plus the aggregate amount of all Allowed Prepetition Note Secured Claims as of the Effective Date before giving effect to the Plan; provided, that to the extent the aggregate principal amount of the loans under the DIP Facility are increased, the foregoing $90,000,000 will be adjusted accordingly.

"Registration Rights Agreement" means a registration rights agreement that will become effective as of the Effective Date, which shall be, in form and substance, (a) consistent in all material respects with the terms set forth in the Governance Term Sheet and the Restructuring Support Agreement and (b) reasonably acceptable to the Required Commitment Parties, and which shall provide certain registration rights to each recipient of Equity Commitment Units hereunder.

"Related Party" means, with respect to any Person, (a) any former, current or future director, officer, agent, Affiliate, employee, general or limited partner, member, manager or stockholder of such Person and (b) any former, current or future director, officer, agent, Affiliate, employee, general or limited partner, member, manager or stockholder of any of the foregoing.

"Reorganized Company" means the Company, from and after the Effective Date.

"Reorganized Company LLC Agreement" means the limited liability company agreement of the Reorganized Company that will become effective as of the Effective Date, which shall be, in form and substance, (a) consistent in all material respects with the terms set forth in the Governance Term Sheet and the Restructuring Support Agreement and (b) reasonably acceptable to the Required Commitment Parties.

"Representatives" means, with respect to any Person, such Person's directors, officers, members, partners, managers, employees, agents, investment bankers, attorneys, accountants, advisors and other representatives.

"Required Commitment Parties" means Commitment Parties with an aggregate Commitment Percentage of more than 50%.

"SEC" means the U.S. Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations of the SEC thereunder.

"Subsidiary" means, with respect to any Person, any corporation, partnership, joint venture or other legal entity as to which such Person (either alone or through or together with any other subsidiary), (a) owns, directly or indirectly, more than fifty percent (50%) of the stock or other equity interests, (b) has the power to elect a majority of the board of directors or similar governing body or (c) has the power to direct the business and policies.

"Supermajority Commitment Parties" means Commitment Parties with an aggregate Commitment Percentage of more than 66 2/3%.

"Takeover Statute" means any restrictions contained in any "fair price," "moratorium," "control share acquisition", "business combination" or other similar anti-takeover statute or regulation.

"Total Equity Commitment Amount" means an amount equal to no less than $10,000,000, or such greater amount, not to exceed $40,000,000, as the Supermajority Commitment Parties in their sole discretion may elect, by written notice given to the Company at any time after the date hereof and prior to 5:00 p.m., New York City time, on the date that is seven (7) Business Days prior to the Closing Date.

"Total Equity Commitment Units" means the aggregate number of Units that all Commitment Parties are required to purchase hereunder pursuant to their Equity Commitments.

"Transaction Agreements" means, collectively, this Agreement, the Reorganized Company LLC Agreement, and the Registration Rights Agreement.

"Transfer" means sell, transfer, assign, pledge, hypothecate, participate, donate or otherwise encumber or dispose of.

"Units" means, collectively, the voting common membership interest units in the Reorganized Company.

Section 1.2 Construction. In this Agreement, unless the context otherwise requires:

(a) references to Articles, Sections, Exhibits and Schedules are references to the articles and sections or subsections of, and the exhibits and schedules attached to, this Agreement;

(b) the descriptive headings of the Articles and Sections of this Agreement are inserted for convenience only, do not constitute a part of this Agreement and shall not affect in any way the meaning or interpretation of this Agreement;

(c) references in this Agreement to "writing" or comparable expressions include a reference to a written document transmitted by means of electronic mail in portable document format (pdf), facsimile transmission or comparable means of communication;

(d) words expressed in the singular number shall include the plural and vice versa; words expressed in the masculine shall include the feminine and neuter gender and vice versa;

(e) the words "hereof", "herein", "hereto" and "hereunder", and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole, including all Exhibits and Schedules attached to this Agreement, and not to any provision of this Agreement;

(f) the term this "Agreement" shall be construed as a reference to this Agreement as the same may have been, or may from time to time be, amended, modified, varied, novated or supplemented;

(g) "include", "includes" and "including" are deemed to be followed by "without limitation" whether or not they are in fact followed by such words;

(h) references to "day" or "days" are to calendar days;

(i) unless otherwise specified, references to a statute means such statute as amended from time to time and includes any successor legislation thereto and any regulations promulgated thereunder in effect on the date of this Agreement; and

(j) references to "dollars" or "$" are to United States of America dollars.

ARTICLE II

EQUITY COMMITMENT

Section 2.1 Purchase and Sale. At the Closing, subject to the terms and conditions set forth in this Agreement and the Plan, each Commitment Party, severally and not jointly, shall purchase from the Company, and the Company shall sell and deliver to each such Commitment Party, at a per-Unit cash purchase price equal to the Purchase Price, a number of Units (rounded to the nearest whole Unit) equal to the quotient of (x) a number which is equal to the product of such Commitment Party's Commitment Percentage and the Total Equity Commitment Amount, divided by (y) the Purchase Price. Each Commitment Party's obligation to pay the aggregate Purchase Price for its respective Equity Commitment Units shall be satisfied by its delivery of cash in such amount to the Escrow Account, as provided in Section 2.2 below.

Section 2.2 Purchase Price Funding.

(a) Funding Notice. No later than the date that is five (5) Business Days prior to the Closing Date, the Company shall deliver to each Commitment Party a written notice (the "Funding Notice") setting forth (i) the number of Equity Commitment Units to be purchased by such Commitment Party pursuant to its respective Equity Commitment and the aggregate Purchase Price therefor; and (ii) wire instructions for the escrow account to which such Commitment Party shall deliver the aggregate Purchase Price for such Equity Commitment Units (the "Escrow Account").

(b) Escrow Account Funding. No later than the date that is one (1) Business Day prior to the Closing (such date, the "Escrow Funding Date"), each Commitment Party shall deliver the aggregate Purchase Price for such Commitment Party's Commitment Percentage of the Equity Commitment Units, by wire transfer of immediately available funds in U.S. dollars to the Escrow Account in satisfaction of such Commitment Party's Equity Commitment. The Escrow Account shall be established with an escrow agent reasonably satisfactory to the Required Commitment Parties and the Company pursuant to an escrow agreement in form and substance reasonably satisfactory to the Required Commitment Parties and the Company. The funds held in the Escrow Account shall be released, and each Commitment Party shall receive from the Subscription Escrow Account the cash amount actually funded to the Subscription Escrow Account by such Commitment Party, plus any interest accrued thereon, within two (2) Business Days following any termination of this Agreement in accordance with its terms.

Section 2.3 Closing. The closing of the purchase and sale of Units pursuant to the Equity Commitments (the "Closing") shall take place on the Effective Date promptly following consummation of the Plan, or at such other time, following the Effective Date, as is mutually agreed in writing by the Company and the Supermajority Commitment Parties. The Closing shall take place at the offices of Milbank, Tweed, Hadley & McCloy LLP, 28 Liberty Street, New York, New York 10005 or remotely via the exchange of documents and signatures.

Section 2.4 Deliveries at the Closing. At the Closing:

(a) All funds held in the Escrow Account shall be delivered to the Company, by wire transfer of immediately available funds in U.S. dollars, in satisfaction of the Purchase Price for all Equity Commitment Units with respect to which the Purchase Price has been funded pursuant to Section 2.2.

(b) Each Commitment Party (or, if applicable, its designee pursuant to Section 2.6(a)) shall deliver to the Company (i) a duly executed counterpart of the Reorganized Company LLC Agreement and (ii) a duly executed counterpart of the Registration Rights Agreement.

(c) The Company shall:

(i) Issue to each Commitment Party (or, if applicable, its designee pursuant to Section 2.6(a)) its respective Equity Commitment Units, against payment of the aggregate Purchase Price for such Units, along with evidence reasonably satisfactory to such Commitment Party that the books and records of the Company have been updated to reflect such issuance.

(ii) Deliver to each Commitment Party (A) a duly executed counterpart of the Reorganized Company LLC Agreement and (B) a duly executed counterpart of the Registration Rights Agreement.

(iii) Deliver to each Commitment Party an officer's certificate certifying that each of the conditions set forth in Sections 7.2(d) and 7.2(e) have been satisfied.

Section 2.5 Commitment Party Default.

(a) Upon the occurrence of a Commitment Party Default by any Commitment Party, the Company shall give prompt written notice thereof (a "Default Notice") to each of the other Commitment Parties that is not a Defaulting Commitment Party, each of whom shall have the right, but not the obligation, within five (5) Business Days after receipt of the Default Notice, to elect by written notice to the Company to purchase all or any portion of the Defaulted Equity Commitment Units, at a per-Unit purchase price equal to the Purchase Price, which purchase shall be allocated pro rata among all such Commitment Parties electing to purchase all or any portion of the Defaulted Equity Commitment Units (such Commitment Parties, the "Substituted Commitment Parties") based upon the relative applicable Commitment Percentage of any such Substituted Commitment Parties or as may otherwise be mutually agreed upon by the Substituted Commitment Parties. The closing of any such purchase and sale of Defaulted Equity Commitment Units shall occur at 10:00 a.m. New York City Time on the date that is ten (10) Business Days following the Closing Date or such other time and date as is mutually agreed by the Company and the applicable Substituted Commitment Party, with the Purchase Price for such Defaulted Equity Commitment Units to be paid by wire transfer of immediately available funds in U.S. dollars to the Company at the account specified in the Default Notice, and the Company shall issue such Defaulted Equity Commitment Units in the manner set forth in Section 2.4(c)(i) of this Agreement.

(b) Nothing in this Agreement shall be deemed to require a Commitment Party to purchase more than its Commitment Percentage of the Equity Commitment Units.

(c) For the avoidance of doubt, nothing contained in this Agreement (including the purchase by a Substituted Commitment Party of any Defaulted Equity Commitment Units) shall relieve any Defaulting Commitment Party from its obligations with respect to its Equity Commitment Units or any liability in connection with such Defaulting Commitment Party's Commitment Party Default, and the Company shall retain all rights and remedies available to it under law or at equity.

Section 2.6 Assignment of Equity Commitment Rights.

(a) Each Commitment Party shall have the right to require, by written notice to the Company no later than two (2) Business Days prior to the Closing Date, that all or any portion of its Equity Commitment Units be issued in the name of, and delivered to one or more of its Affiliates or funds or accounts that are managed by such Commitment Party or its Affiliates (each, a "Related Purchaser") which notice of designation shall (i) be addressed to the Company and signed by such Commitment Party and each Related Purchaser, (ii) specify the number of Equity Commitment Units to be delivered to or issued in the name of each such Related Purchaser and (iii) contain a confirmation by each such Related Purchaser of the accuracy of the representations set forth in Sections 5.5 through 5.7 as applied to such Related Purchaser; provided that no such designation shall relieve such Commitment Party from any of its obligations under this Agreement; provided further, that no such Related Purchaser is a "Prohibited Transferee" (as defined in the Reorganized Company LLC Agreement).

(b) Each Commitment Party agrees that it will not, directly or indirectly, Transfer, at any time prior to the Effective Date, any of its rights and obligations under this Agreement to any Person other than in accordance with Sections 2.5, 2.6(a) or 2.6(c), or any other provision of this Agreement that expressly permits such Transfer. In the event that any Commitment Party purports to Transfer all or any portion of its Allowed Prepetition Note Secured Claims or allowed DIP Facility Claims, then such transferee shall agree in a writing addressed to the Company (i) to assume a proportionate percentage of such Commitment Party's Equity Commitment, (ii) that such transferee or assignee shall be fully bound by this Agreement and (iii) to provide the representations and warranties set forth in Article V hereof; provided that no such Transfer shall relieve such Commitment Party from any of its obligations under this Agreement; provided further, that no such Transfer is to a "Prohibited Transferee" (as defined in the Reorganized Company LLC Agreement). In the event of a default by such transferee or assignee, as applicable, of its obligations hereunder to purchase any Equity Commitment Units, the transferring Commitment Party shall be obligated to purchase such Equity Commitment Units within one (1) Business Day of receiving notice of such default.

(c) Each Commitment Party shall have the right to assign, by written notice to the Company no later than ten (10) Business Days prior to the Closing Date, in accordance with the Restructuring Support Agreement, all or any portion of its Equity Commitment to any other Commitment Party or Commitment Parties (each, a "Commitment Party Assignee"), which notice of assignment shall (i) be addressed to the Company and signed by such Commitment Party and each Commitment Party Assignee, and (ii) specify the portion of such Commitment Party's Equity Commitment that is being assigned to such Commitment Party Assignee(s); provided that no such Transfer shall relieve such Commitment Party from any of its obligations under this Agreement.

ARTICLE III

MINORITY EQUITYHOLDER PURCHASE RIGHT

Section 3.1 Minority Equityholder Purchase Right.

(a) On the terms and conditions set forth in this Article III and the Plan, each Minority Equityholder shall have the right to elect, in the manner set forth in Section 3.1(c), at any time during the 30 days following the Closing Date (the "Election Period"), to purchase a number of Units (rounded to the nearest whole Unit, and which Units, for the avoidance of doubt, shall be in addition to the Total Equity Commitment Units) equal to the quotient of (x) the product of such Minority Equityholder's Purchase Right Percentage and the number of Total Equity Commitment Units. As used herein, "Offered Units" means, with respect to any Minority Equityholder, the number of Units that such Minority Equityholder is entitled to purchase pursuant to this Article III, as calculated in accordance with the immediately preceding sentence.

(b) As promptly as practicable following the Closing Date (and in no event more than two (2) Business Days thereafter) the Company shall deliver to each Minority Equityholder notice of the issuance of the Equity Commitment Units (the "Offer Notice"), which notice shall include an election form provided by the Company and in form and substance reasonably satisfactory to the Required Commitment Parties (the "Election Form") and shall set

forth (A) the Total Equity Commitment Amount, the Purchase Price and the total number of Equity Commitment Units that were issued to the Commitment Parties, (B) such Minority Equityholder's Purchase Right Percentage, and (C) the number of Offered Units that such Minority Equityholder is entitled to purchase pursuant to this Article III and the aggregate Purchase Price therefor. The Election Form will require, among other things, that any Minority Equityholder making such election confirm in writing the accuracy of the representations set forth in Sections 5.5 through 5.7 as applied to such Minority Equityholder.

(c) Each Minority Equityholder shall have the right to elect to purchase all (but not less than all) of its Offered Units, at a per-Unit purchase price equal to the Purchase Price, by delivering each of the following to the Company, at any time during the Election Period, in accordance with the instructions included with the Offer Notice: (i) a properly completed and duly executed Election Form, (ii) immediately available funds in U.S. dollars, in an amount equal to the aggregate Purchase Price set forth in such Minority Equityholder's Offer Notice, (iii) a duly executed counterpart of the Reorganized Company LLC Agreement, and (iv) a duly executed counterpart of the Registration Rights Agreement, if applicable.

(d) As promptly as practicable following the Company's receipt from any Minority Equityholder of all of the items listed in Section 3.1(c), and in no event more than three (3) Business Days thereafter, the Company shall issue the Offered Units to such Minority Equityholder, and shall deliver to such Minority Equityholder, to the address specified in such Minority Equityholder's Election Form, (i) evidence that the books and records of the Company have been updated to reflect such issuance, (ii) a duly executed counterpart of the Reorganized Company LLC Agreement and (iii) a duly executed counterpart of the Registration Rights Agreement to the Minority Equityholder, if applicable. The issuance of Offered Units pursuant to this Article III shall not be subject to any preemptive rights that would otherwise apply pursuant to the Reorganized Company LLC Agreement.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Except as (i) set forth in the Company SEC Documents or (ii) as may be or become untrue directly as a result of the commencement of the Chapter 11 Cases or the discharge or compromise of claims as a result thereof, the Company hereby represents and warrants to each of the Commitment Parties, as of the date of this Agreement and as of the Closing Date, as follows:

Section 4.1 Organization and Qualification. Each of the Company and each of its Subsidiaries (i) is a duly organized and validly existing corporation, limited liability company or limited partnership, as the case may be, in good standing under the laws of the jurisdiction of its incorporation or formation and (ii) has the corporate or other applicable power and authority to own its property and assets and to transact the business in which it is currently engaged and presently proposes to engage, except where the failure to do so would not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

Section 4.2 Corporate Power and Authority. The Company has the requisite power and authority, subject to entry of the Confirmation Order, to enter into, execute and deliver each of the other Transaction Agreements and to perform its obligations thereunder. Subject to entry of the Confirmation Order, the execution and delivery of each of the Transaction Agreements and the consummation of the transactions contemplated hereby and thereby have been or will be duly authorized by all requisite corporate or limited liability action, as applicable, on behalf of the Company, and no other organizational authorizations or approvals on the part of the Company or its equity holders are or will be necessary.

Section 4.3 Execution and Delivery; Enforceability. Subject to entry of the Confirmation Order, each of the Transaction Agreement has been or will be, as applicable, duly executed and delivered by the Company, and the Company's obligations hereunder and thereunder will constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with their respective terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar Laws of general applicability relating to or affecting creditors' rights and to general principles of equity whether applied in a court of law or a court of equity.

Section 4.4 Equity Interests.

(a) The Units to be issued pursuant to this Agreement will, when issued and delivered on the Closing Date, be duly and validly authorized, issued and delivered, and free and clear of all Liens, preemptive rights, subscription and similar rights, except as set forth in the Transaction Agreements.

(b) Except as set forth in the Transaction Agreements, the Emergence Credit Facilities or any employment agreement entered into as provided in the Plan or as otherwise specifically provided for by the Plan, including without limitation any management incentive equity plan contained or provided for and approved in connection therewith, as of the Closing Date, neither the Company nor any of its Subsidiaries will be party to or otherwise bound by or subject to any outstanding option, warrant, call, right, security, commitment, contract, arrangement or undertaking (including any preemptive right) that (i) obligates the Company or any of its Subsidiaries to issue, deliver, sell or transfer, or repurchase, redeem or otherwise acquire, or cause to be issued, delivered, sold or transferred, or repurchased, redeemed or otherwise acquired, any equity or voting interests in, the Company or any of its Subsidiaries or any security convertible or exercisable for or exchangeable into any such equity or voting interest, (ii) obligates the Company or any of its Subsidiaries to issue, grant, extend or enter into any such option, warrant, call, right, security, commitment, contract, arrangement or undertaking, (iii) restricts the transfer of any equity interests of the Company or any of its Subsidiaries or (iv) relates to the voting of any equity interests of the Company.

Section 4.5 No Conflict. The Company's execution and delivery of the Transaction Agreements, the compliance by the Company with all of the provisions hereof and thereof and the consummation of the transactions contemplated herein and therein will not (a) materially conflict with, or result in a material breach, modification or violation of, any of the terms or provisions of, or constitute a material default under (with or without notice or lapse of time, or both), or result, except to the extent expressly specified in the Plan, in the acceleration

of, or the creation of any Lien under, any Contract to which the Company or any of its Subsidiaries will be bound or to which any of the property or assets of the Company or any of its Subsidiaries will be subject, as of the Closing Date after giving effect to the Plan, (b) result in any violation of the provisions of the Reorganized Company LLC Agreement or the Certificate of Formation of the Company as of the Effective Date or any of the organization documents of any of the Company's material Subsidiaries or (c) result in any violation of any Law or Order applicable to the Company or any of its Subsidiaries or any of their properties, except, in the case of clauses (a) and (c) above, where such occurrence, event or result would not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

Section 4.6 Consents and Approvals. Subject to entry of the Confirmation Order, no consent, approval, waiver, authorization, notice or filing is required to be obtained by the Company from, or to be given by the Company to, or made by the Company or any of its Affiliates with, any Governmental Entity or other Person, in connection with the execution, delivery and performance by the Company of the Transaction Documents, except for such qualifications or filings under applicable federal or state securities or Blue Sky laws as may be required in connection with the transactions contemplated by this Agreement that will be made by the Company within the time prescribed by law under such federal or state securities or Blue Sky laws.

Section 4.7 Arm's Length. The Company acknowledges and agrees that each of the Commitment Parties is acting solely in the capacity of an arm's length contractual counterparty to the Company with respect to the transactions contemplated hereby and not as a financial advisor or a fiduciary to, or an agent of, the Company or any of its Subsidiaries.

Section 4.8 Financial Statements. The audited consolidated balance sheets of the Company as at December 31, 2014 and the unaudited consolidated balance sheets of the Company as at June 30, 2015 and the related consolidated statements of operations and of cash flows for the fiscal year or quarter, as the case may be, ended on such dates (collectively, the "Financial Statements"), present fairly the consolidated financial condition of the Company as at such dates, and the consolidated results of its operations and its consolidated cash flows for the respective fiscal period or quarter, as the case may be, then ended. All such financial statements, including the related schedules and notes thereto, have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") applied consistently throughout the periods involved (except as approved by the aforementioned firm of accountants and disclosed therein, and, with respect to unaudited interim financial statements, as permitted by Form 10-Q of the Exchange Act).

Section 4.9 Absence of Certain Changes. From the Commencement Date to the Closing Date, no Event has occurred or exists that constitutes a Material Adverse Effect.

Section 4.10 Legal Proceedings. Other than the Chapter 11 Cases and any adversary proceedings or contested motions commenced in connection therewith, there are no material Actions pending or, to the actual knowledge of the Company, threatened, to which the Company or any of its Subsidiaries is a party or to which any property of the Company or any of its Subsidiaries is the subject which (a) in any manner draws into question the validity or enforceability of this Agreement, the Plan or the Transaction Agreements or (b) that would

reasonably be expected to have a Material Adverse Effect and which would not be subject to discharge under the Plan.

Section 4.11 Takeover Statutes. No Takeover Statute is applicable to this Agreement, the Equity Commitment and the other transactions contemplated by this Agreement. As of the entry of the Confirmation Order, the Board shall have authorized and approved the issuance of the Units (including the Equity Commitment Units) pursuant to the Plan and this Agreement.

Section 4.12 No Broker's Fees. Neither the Company nor any of its Subsidiaries is a party to any Contract with any Person that would give rise to a valid claim against the Commitment Parties for a brokerage commission, finder's fee or like payment in connection with this Agreement or any of the transactions contemplated hereby that would not be subject to discharge under the Plan.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF THE COMMITMENT PARTIES

Each Commitment Party represents and warrants, as to itself only, as of the date of this Agreement and as of the Closing Date, as follows:

Section 5.1 Organization and Existence. Such Commitment Party is a legal entity duly organized, validly existing and, if applicable, in good standing (or the equivalent thereof) under the laws of its jurisdiction of incorporation or organization.

Section 5.2 Corporate Power and Authority. Such Commitment Party has the requisite corporate, limited partnership, limited liability company or other organizational power and authority to enter into, execute and deliver this Agreement and each other Transaction Agreements to which such Commitment Party is a party and to perform its obligations hereunder and thereunder and has taken all necessary corporate, limited partnership, limited liability company or other organizational action required for the due authorization, execution, delivery and performance by it of this Agreement and the other Transaction Agreements.

Section 5.3 Execution and Delivery. Each of the Transaction Agreements (a) has been, or prior to its execution and delivery will be, duly and validly executed and delivered by such Commitment Party and (b) when executed and delivered, will constitute the valid and binding obligations of such Commitment Party, enforceable against such Commitment Party in accordance with their respective terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar Laws of general applicability relating to or affecting creditors' rights and to general principles of equity whether applied in a court of law or a court of equity.

Section 5.4 No Conflict. Such Commitment Party's execution, delivery and performance of each of the Transaction Agreements does not and will not (i) violate any provision of its organizational documents, (ii) to the actual knowledge of such Commitment Party, conflict with, or result in the breach of, or constitute a default under, or result in the termination, cancellation, modification or acceleration (whether after the filing of notice or the

lapse of time or both) of any material right or obligation of the Commitment Party under, any Contract, or (iii) to the actual knowledge of such Commitment Party, violate or result in a breach of or constitute a default under any Law to which the Commitment Party is subject.

Section 5.5 No Registration. Such Commitment Party understands that the Equity Commitment Units have not been registered under the Securities Act by reason of a specific exemption from the registration provisions of the Securities Act, the availability of which depends on, among other things, the bona fide nature of the investment intent and the accuracy of such Commitment Party's representations as expressed herein or otherwise made pursuant hereto.

Section 5.6 Purchasing Intent. Such Commitment Party is acquiring the Equity Commitment Units for its own account, not as a nominee or agent, and not with the view to, or for resale in connection with, any distribution thereof not in compliance with applicable securities Laws.

Section 5.7 Sophistication; Investigation. Such Commitment Party is an institutional "accredited investor" as such term is defined in Rule 501(a) of the Securities Act, or a "qualified institutional buyer" as such term is defined in Rule 144A under the Securities Act. Such Commitment Party has made its own inquiry and investigation into the Company and has undertaken such investigation and had access to such information as it has deemed necessary to enable it to make an informed decision with respect to the execution, delivery and performance of this Agreement. Such Commitment Party has not relied on any advice from the Company or its representatives regarding the tax consequences of an investment in the Equity Commitment Units. Such Commitment Party has such knowledge and experience in financial and business matters such that it is capable of evaluating the merits and risks of its investment in the Equity Commitment Units being acquired hereunder. Such Commitment Party understands and is able to bear any economic risks associated with such investment (including the necessity of holding the Equity Commitment Units for an indefinite period of time), including a complete loss of its investment in the Equity Commitment Units. In evaluating the suitability of an investment in the Equity Commitment Units, such Commitment Party has not relied upon any representation or warranty of any Person by or on behalf of the Company other than those representations and warranties that are expressly set forth in this Agreement and the Restructuring Support Agreement, whether written or oral.

Section 5.8 No Broker's Fees. Such Commitment Party is not a party to any Contract with any Person (other than this Agreement) that would give rise to a valid claim against the Company, for a brokerage commission, finder's fee or like payment in connection with this Agreement or an of the transactions contemplated hereby.

Section 5.9 Sufficiency of Funds. At the Escrow Funding Date, such Commitment Party will have available to it sufficient funds to make the payment of the aggregate Purchase Price for its Equity Commitment Units.

ARTICLE VI

ADDITIONAL COVENANTS

Section 6.1 Confirmation Order and Plan. The Company shall use its commercially reasonable efforts to obtain entry of the Confirmation Order as soon as reasonably practicable following the Commencement Date and on terms consistent with the Restructuring Support Agreement.

Section 6.2 Commercially Reasonable Efforts.

(a) Without in any way limiting any other respective obligation of the Company or any Commitment Party in this Agreement, the Company shall use (and shall cause its Subsidiaries to use), and each Commitment Party shall use, commercially reasonable efforts to take or cause to be taken all actions, and do or cause to be done all things, reasonably necessary, proper or advisable in order to consummate and make effective the transactions contemplated by this Agreement and the Plan, including using commercially reasonable efforts in:

(i) timely preparing and filing all documentation reasonably necessary to effect all necessary notices, reports and other filings of such Party and to obtain as promptly as practicable all consents, registrations, approvals, permits and authorizations necessary or advisable to be obtained from any third party or Governmental Entity;

(ii) defending any Actions challenging this Agreement, the Plan or any other Transaction Agreement or the consummation of the transactions contemplated hereby and thereby, including seeking to have any stay or temporary restraining order entered by any Governmental Entity vacated or reversed; and

(iii) working together in good faith to finalize the Registration Rights Agreement and the Reorganized Company LLC Agreement for timely inclusion in the Plan Supplement.

(b) Subject to applicable Laws relating to the exchange of information, the Commitment Parties and the Company shall have the right to review in advance, and to the extent practicable each will consult with the other on all of the information relating to the Commitment Parties or the Company, as the case may be, and any of their respective Subsidiaries, that appears in any filing made with, or written materials submitted to, any third party and/or any Governmental Entity in connection with the transactions contemplated by this Agreement or the Plan; provided, however, that, except as provided for in Section 5(a)(viii) of the Restructuring Support Agreement, neither the Company nor the Commitment Parties are required to provide for review in advance motions, pleadings, declarations or other evidence filed, or submitted in connection with any filing, with the Bankruptcy Court or in connection with any other proceeding. In exercising the foregoing rights, each of the Company and the Commitment Parties shall act reasonably and as promptly as practicable.

(c) Nothing contained in this Section 6.2 shall limit the ability of any Commitment Party to consult with the Debtors, to appear and be heard, or to file objections, concerning any matter arising in the Chapter 11 Cases.

Section 6.3 LLC Agreement and Registration Rights Agreement. The Plan will provide that prior to the purchase of Units by any Person pursuant to this Agreement, such Person must be a party to the Reorganized Company LLC Agreement and have delivered a duly executed counterpart thereto. Each Commitment Party that purchases Units hereunder shall be entitled to certain registration rights under the Registration Rights Agreement with respect to all

such Units. Forms of the Reorganized Company LLC Agreement and the Registration Rights Agreement shall be filed with the Bankruptcy Court as part of the Plan Supplement.

Section 6.4 Blue Sky. The Company shall, on or before the Closing Date, take such action, if any, as the Company shall reasonably determine is necessary in order to obtain an exemption for, or to qualify the Equity Commitment Units issued hereunder for, sale to the Commitment Parties at the Closing Date pursuant to this Agreement under applicable securities and "Blue Sky" Laws of the states of the United States (or to obtain an exemption from such qualification) and any applicable foreign jurisdictions, and shall provide evidence of any such action so taken to the Commitment Parties on or prior to the Closing Date. The Company shall timely make all filings and reports, if any, relating to the offer and sale of the Equity Commitment Units issued hereunder required under applicable securities and "Blue Sky" Laws of the states of the United States following the Closing Date. The Company shall pay all fees and expenses in connection with satisfying its obligations under this Section 6.4.

Section 6.5 Share Legend. All Units issued under this Agreement shall be issued in uncertificated book-entry form, and all such Units shall be subject to a restrictive notation in the member register or other appropriate records maintained by the Company or its transfer agent, to the effect that such Units have not been registered under the Securities Act or any state securities laws, and may not be Transferred in the absence of an effective registration statement or an available exemption from registration thereunder. The Company shall remove such restrictive notation at any time after the restrictions described therein cease to be applicable, including, as applicable, when such Units may be sold by such holder under Rule 144 under the Securities Act without any further restrictions thereunder. The Company may reasonably request customary opinions, certificates or other evidence that such restrictions no longer apply, in connection with any such removal. All Units issued under this Agreement shall also be subject to transfer restrictions contained in the Reorganized Company LLC Agreement and also bear a legend with respect to such transfer restrictions.

ARTICLE VII

CONDITIONS TO THE OBLIGATIONS OF THE PARTIES

Section 7.1 Conditions to the Obligation of All Parties. The obligations of the Company (except to the extent waived by the Company in its sole discretion) and each Commitment Party (except to the extent waived by the Required Commitment Parties in their sole discretion) to consummate the transactions contemplated hereby shall be subject to the satisfaction of each of the following conditions.

(a) Effective Date. The Effective Date shall have occurred and the Plan shall have been consummated.

(b) No Legal Impediment to Issuance. No Law or Order shall have been enacted, adopted or issued by any Governmental Entity that prohibits the implementation of the Plan or the transactions contemplated by this Agreement.

Section 7.2 Conditions to the Commitment Party Obligations. The obligations of each Commitment Party to consummate the transactions contemplated hereby shall be subject to the satisfaction (or waiver by the Required Commitment Parties in their sole discretion) of each of the following conditions:

(a) Plan. The Company and all of the other Debtors shall have complied, in all material respects, with the terms of the Plan that are to be performed by the Company and the other Debtors on or prior to the Effective Date.

(b) Consents. All governmental notifications, filings, consents, waivers and approvals required for the consummation of the transactions contemplated by this Agreement shall have been made or received.

(c) Representations and Warranties. The representations and warranties of the Debtors contained in Sections 4.1, 4.2, 4.3 and 4.4(a) shall be true and correct in all respects at and as of the Closing Date with the same effect as if made on and as of the Closing Date (except for such representations and warranties made as of a specified date, which shall be true and correct only as of the specified date). All other representations and warranties of the Debtors contained in this Agreement shall be true and correct (disregarding all materiality or Material Adverse Effect qualifiers) at and as of the Closing Date with the same effect as if made on and as of the Closing Date (except for such representations and warranties made as of a specified date, which shall be true and correct only as of the specified date), except where the failure to be so true and correct does not constitute a Material Adverse Effect.

(d) Covenants. The Debtors shall have performed and complied, in all respects, with all of their respective covenants and agreements contained in this Agreement.

(e) Material Adverse Effect. From the Commencement Date to the Closing Date, there shall not have occurred, and there shall not exist, any Event that constitutes a Material Adverse Effect.

(f) Restructuring Support Agreement. The Restructuring Support Agreement shall be in full force and effect and shall not have been terminated in accordance with its terms, and there shall not exist any default thereunder by any party other than such Commitment Party.

Section 7.3 Conditions to the Company's Obligations. The obligation of the Company and the other Debtors to consummate the transactions contemplated hereby is subject to the satisfaction (or waiver by the Company) of each of the following conditions:

(a) Representations and Warranties. The representations and warranties of each Commitment Party contained in this Agreement shall be true and correct in all material respects at and as of the Closing Date with the same effect as if made on and as of the Closing Date (except for such representations and warranties made as of a specified date, which shall be true and correct only as of the specified date).

(b) Covenants. Each Commitment Party shall have performed and complied, in all respects, with all of its covenants and agreements contained in this Agreement and the Restructuring Support Agreement.

(c) Restructuring Support Agreement. The Restructuring Support Agreement shall be in full force and effect and shall not have been terminated in accordance with its terms, and there shall not exist any default thereunder by any party other than the Company.

(d) Conditions of Plan. The Company shall be satisfied that the conditions to the occurrence of the Effective Date of the Plan and in the Confirmation Order shall have been satisfied or waived in accordance with the terms thereof and the Plan.

ARTICLE VIII

INDEMNIFICATION AND CONTRIBUTION

Section 8.1 Indemnification Obligations. The Company (the "Indemnifying Party") shall indemnify and hold harmless each Commitment Party, their Affiliates, shareholders, members, partners and other equity holders, general partners, managers and their respective Representatives, agents and controlling persons (each, an "Indemnified Person") from and against any and all losses, claims, damages, liabilities and costs and expenses (collectively, "Losses") that any such Indemnified Person may incur or to which any such Indemnified Person may become subject arising out of or in connection with this Agreement, including the Equity Commitments, the use of the proceeds of the Equity Commitment Units, or any breach by the Company of this Agreement, for any claim, challenge, litigation, investigation or proceeding relating to any of the foregoing, regardless of whether any Indemnified Person is a party thereto, whether or not such proceedings are brought by the Company, the other Debtors, their respective equity holders, Affiliates, creditors or any other Person, and reimburse each Indemnified Person upon demand for reasonable and documented (subject to redaction to preserve attorney client and work product privileges) legal or other third-party expenses incurred in connection with investigating, preparing to defend or defending, or providing evidence in or preparing to serve or serving as a witness with respect to, any lawsuit, investigation, claim or other proceeding relating to any of the foregoing (including in connection with the enforcement of the indemnification obligations set forth herein), irrespective of whether or not the transactions contemplated by this Agreement are consummated or whether or not this Agreement is terminated; provided that the foregoing indemnity will not, as to any Indemnified Person, apply to Losses (a) caused by a Commitment Party Default by a Commitment Party, (b) to the extent relating to disputes among Commitment Parties and/or Minority Equityholders, or (c) to the extent they are found by a final, non-appealable judgment of a court of competent jurisdiction to arise from the bad faith, willful misconduct or gross negligence of such Indemnified Person.

Section 8.2 Indemnification Procedure. Promptly after receipt by an Indemnified Person of notice of the commencement of any claim, challenge, litigation, investigation or proceeding (an "Indemnified Claim"), such Indemnified Person will, if a claim is to be made hereunder against the Indemnifying Party in respect thereof, notify the Indemnifying Party in writing of the commencement thereof, specifying in reasonable detail the Losses paid, incurred or otherwise arising; provided that (a) the omission to so notify the Indemnifying Party will not relieve the Indemnifying Party from any liability that it may have hereunder except to the extent it has been materially prejudiced by such failure and (b) the omission to so notify the Indemnifying Party will not relieve the Indemnifying Party from any liability that it may have to

such Indemnified Person otherwise than on account of this Article VIII. Such notice will be accompanied by copies of reasonably sufficient documentation with respect to such claim, challenge, litigation, investigation or proceeding, including any summons, complaint or other pleading that may have been served and any written demand or any other document or instrument directly relating thereto. In case any such Indemnified Claims are brought against any Indemnified Person and it notifies the Indemnifying Party of the commencement thereof, the Indemnifying Party will be entitled to participate therein, and, to the extent that it may elect by written notice delivered to such Indemnified Person, to assume the defense thereof, with counsel reasonably acceptable to such Indemnified Person; provided that if the parties (including any impleaded parties) to any such Indemnified Claims include both such Indemnified Person and the Indemnifying Party and based on advice of such Indemnified Person's counsel there are legal defenses available to such Indemnified Person that are different from or additional to those available to the Indemnifying Party, such Indemnified Person shall have the right to select separate counsel to assert such legal defenses and to otherwise participate in the defense of such Indemnified Claims. Upon receipt of notice from the Indemnifying Party to such Indemnified Person of its election to so assume the defense of such Indemnified Claims with counsel reasonably acceptable to the Indemnified Person, the Indemnifying Party shall not be liable to such Indemnified Person for expenses incurred by such Indemnified Person in connection with the defense thereof (other than reasonable costs of investigation) unless (i) such Indemnified Person shall have employed separate counsel (in addition to any local counsel) in connection with the assertion of legal defenses in accordance with the proviso to the immediately preceding sentence (it being understood, however, that the Indemnifying Party shall not be liable for the expenses of more than one separate counsel representing the Indemnified Persons who are parties to such Indemnified Claims (in addition to one local counsel in each jurisdiction in which local counsel is required) and that all such expenses shall be reimbursed as they occur), (ii) the Indemnifying Party shall not have employed counsel reasonably acceptable to such Indemnified Person to represent such Indemnified Person within a reasonable time after notice of commencement of the Indemnified Claims, (iii) the Indemnifying Party shall have failed or is failing to defend such claim, and is provided written notice of such failure by the Indemnified Person and such failure is not reasonably cured within ten (10) Business Days of receipt of such notice, or (iv) the Indemnifying Party shall have authorized in writing the employment of counsel for such Indemnified Person.

Section 8.3 Settlement of Indemnified Claims. The Indemnifying Party shall not be liable for any settlement of any Indemnified Claims effected without its written consent (which consent shall not be unreasonably withheld). If any settlement of any Indemnified Claims is consummated with the written consent of the Indemnifying Party or if there is a final judgment for the plaintiff in any such Indemnified Claims, the Indemnifying Party agrees to indemnify and hold harmless each Indemnified Person from and against any and all Losses by reason of such settlement or judgment to the extent such Losses are otherwise subject to indemnification by the Indemnifying Party hereunder in accordance with, and subject to the limitations of, the provisions of this Article VIII. The Indemnifying Party shall not, without the prior written consent of an Indemnified Person (which consent shall be granted or withheld in the Indemnified Person's sole discretion), effect any settlement of any pending or threatened Indemnified Claims in respect of which indemnity or contribution has been sought hereunder by such Indemnified Person unless (i) such settlement includes an unconditional release of such Indemnified Person in form and substance reasonably satisfactory to such Indemnified Person

from all liability on the claims that are the subject matter of such Indemnified Claims and (ii) such settlement does not include any statement as to or any admission of fault, culpability or a failure to act by or on behalf of any Indemnified Person.

Section 8.4 Contribution. If for any reason the foregoing indemnification is unavailable to any Indemnified Person or insufficient to hold it harmless from Losses that are subject to indemnification pursuant to Section 8.1, then the Indemnifying Party shall contribute to the amount paid or payable by such Indemnified Person as a result of such Loss in such proportion as is appropriate to reflect not only the relative benefits received by the Indemnifying Party, on the one hand, and such Indemnified Person, on the other hand, but also the relative fault of the Indemnifying Party, on the one hand, and such Indemnified Person, on the other hand, as well as any relevant equitable considerations. The Indemnifying Parties also agree that no Indemnified Person shall have any liability based on their comparative or contributory negligence or otherwise to the Indemnifying Party, any Person asserting claims on behalf of or in right of any of the Indemnifying Party, or any other Person in connection with an Indemnified Claim.

Section 8.5 Treatment of Indemnification Payments. All amounts paid by the Indemnifying Party to an Indemnified Person under this Article VIII shall, to the extent permitted by applicable Law, be treated as adjustments to the Purchase Price for all tax purposes.

Section 8.6 No Survival. All representations and warranties made in this Agreement shall not survive the Closing Date.

ARTICLE IX

TERMINATION

Section 9.1 Termination Rights. This Agreement may be terminated and the transactions contemplated hereby may be abandoned at any time prior to the Closing Date (including at any time prior to entry of the Confirmation Order):

(a) by mutual written consent of the Company and the Required Commitment Parties;

(b) by the Company by written notice to each Commitment Party or by the Required Commitment Parties by written notice to the Company if any Law or Order shall have been enacted, adopted or issued by any Governmental Entity, that prohibits the implementation of the Plan or the transactions contemplated by this Agreement or the other Transaction Agreements;

(c) by the Required Commitment Parties upon written notice to the Company:

(i) at any time following the Outside Date, if the Closing shall not have occurred prior to such time; provided, that such right to terminate this Agreement shall not be available to any Party whose failure to perform any material obligation required to be performed by it under this Agreement has been a cause of or results in the failure of the Closing to occur by such time;

(ii) if the Company shall have breached any of its representations, warranties, covenants or other agreements in this Agreement or any such representation and warranty shall have become inaccurate after the date of this Agreement, and such breach or inaccuracy would, individually or in the aggregate, if continuing on the Closing Date, result in a failure of a condition set forth in Section 7.2(c) or Section 7.2(d), and such breach or inaccuracy is not cured by the Company by the earlier of (A) the twentieth (20th) Business Day after the giving of notice thereof to the Company by any Commitment Party; provided that the Commitment Parties shall not have such right to terminate this Agreement if they are then in breach of any representation, warranty, covenant or other agreement hereunder that would result in the failure of any condition set forth in Section 7.3(a) or Section 7.3(b);

(iii) if the Interim DIP Order is not entered by the Bankruptcy Court by the date that is five (5) Business Days after the date hereof;

(iv) if the Final DIP Order is not entered by the Bankruptcy Court by the date that is forty-five (45) days after the date hereof;

(v) in the event of any termination, waiver or modification of the Interim DIP Order or the Final DIP Order without the prior written consent of the Required Commitment Parties; or

(vi) if any of the Chapter 11 Cases shall have been dismissed or converted to a case under chapter 7 of the Bankruptcy Code, or the Bankruptcy Court has entered an Order in any of the Chapter 11 Cases appointing an examiner or trustee with expanded powers to oversee or operate the Debtors in the Chapter 11 Cases; and

(d) by the Supermajority Commitment Parties, if any Event occurs or has occurred on or after the Commencement Date that, either alone or in combination with any other Event, constitutes a Material Adverse Effect.

Section 9.2 Automatic Termination. This Agreement shall terminate automatically, unless waived by both the Company and the Required Commitment Parties, upon any termination of the Restructuring Support Agreement or upon any determination by the Bankruptcy Court that this Agreement is unenforceable for any reason.

Section 9.3 Effect of Termination. Upon any termination of this Agreement pursuant to this Article IX, this Agreement shall forthwith become void and there shall be no further obligations or liabilities on the part of the Debtors or the Commitment Parties; provided that (i) the obligations of the Debtors to pay the Transaction Expenses pursuant to Section 10.14 and to satisfy their indemnification obligations pursuant to Article VIII shall survive the termination of this Agreement indefinitely and shall remain in full force and effect, and (ii) the provisions set forth in Article X shall survive the termination of this Agreement in accordance with their terms.

ARTICLE X

GENERAL PROVISIONS

Section 10.1 Notices. All notices and other communications in connection with this Agreement shall be in writing and shall be deemed given if delivered personally, sent via electronic facsimile (with confirmation), mailed by registered or certified mail (return receipt requested) or delivered by an express courier (with confirmation) to the Parties at the following addresses (or at such other address for a Party as will be specified by like notice):

(a) **If to the Company:**

American Apparel, Inc.
747 Warehouse Street
Los Angeles, California 90021-1106
Attention: Chelsea Grayson, Esq. (cgrayson@americanapparel.net)

with a copy (which shall not constitute notice) to:

Jones Day
222 East 41st Street
New York, New York 10017
Attention: Scott J. Greenberg (sgreenberg@jonesday.com)
Michael J. Cohen (mcohen@jonesday.com)

(b) **If to the Commitment Parties (or to any of them):**

To each Commitment Party at the addresses or e-mail addresses set forth below the Commitment Parties' signature page to this Agreement.

with a copy (which shall not constitute notice) to:

Milbank, Tweed, Hadley & McCloy LLP
28 Liberty Street
New York, New York 10005
Attention: Gerard Uzzi (guzzi@milbank.com)
Alexander M. Kaye (akaye@milbank.com), and
Bradley Scott Friedman (bfriedman@milbank.com)

with a copy (which shall not constitute notice) to:

Debevoise & Plimpton LLP
919 Third Avenue
New York, New York 10022
Attention: M. Natasha Labovitz (nlabovitz@debevoise.com)
Jonathan Levitsky (jelevitsky@debevoise.com)

Section 10.2 Assignment; Third Party Beneficiaries. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned by any Party (whether by operation of Law or otherwise) without the prior written consent of the Company and the Commitment Parties, other than an assignment by a Commitment Party expressly

permitted by Sections 2.5, 2.6(a), 2.6(c) or 10.7 or any other provision of this Agreement and any purported assignment in violation of this Section 10.2 shall be void *ab initio*. This Agreement will be binding upon, and shall be enforceable by and inure solely to the benefit of, each of the Parties and their respective successors and permitted assigns, and this Agreement (including the documents and instruments referred to in this Agreement) is not intended to and does not confer upon any other Person any rights or remedies under this Agreement, except that (a) the Indemnified Parties shall be third-party beneficiaries of, and entitled to enforce, the provisions of Article VIII (Indemnification and Contribution) and (b) the Minority Equityholders shall be third-party beneficiaries of, and entitled to enforce, the provisions of Article III (Minority Equityholder Purchase Right.

Section 10.3 Prior Negotiations; Entire Agreement.

(a) This Agreement (including the agreements attached as Exhibits to and the documents and instruments referred to in this Agreement) constitutes the entire agreement of the Parties and supersedes all prior agreements, arrangements or understandings, whether written or oral, among the Parties with respect to the subject matter of this Agreement, except that the Parties hereto acknowledge that any confidentiality agreements heretofore executed among the Parties and the Restructuring Support Agreement will continue in full force and effect.

(b) Notwithstanding anything to the contrary in the Plan (including any amendments, supplements or modifications thereto) or the Confirmation Order (and any amendments, supplements or modifications thereto) or an affirmative vote to accept the Plan submitted by any Commitment Party, nothing contained in the Plan (including any amendments, supplements or modifications thereto) or Confirmation Order (including any amendments, supplements or modifications thereto) shall alter, amend or modify the rights of the Commitment Parties under this Agreement unless such alteration, amendment or modification has been made in accordance with Section 10.7.

Section 10.4 Governing Law; Venue. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD FOR ANY CONFLICTS OF LAW PRINCIPLES THAT WOULD APPLY THE LAWS OF ANY OTHER JURISDICTION, AND, TO THE EXTENT APPLICABLE, THE BANKRUPTCY CODE. THE PARTIES CONSENT AND AGREE THAT ANY ACTION TO ENFORCE THIS AGREEMENT OR ANY DISPUTE, WHETHER SUCH DISPUTES ARISE IN LAW OR EQUITY, ARISING OUT OF OR RELATING TO THIS AGREEMENT AND THE AGREEMENTS, INSTRUMENTS AND DOCUMENTS CONTEMPLATED HEREBY SHALL BE BROUGHT EXCLUSIVELY IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK OR ANY NEW YORK STATE COURT SITTING IN NEW YORK CITY, OR, AT ANY TIME FOLLOWING THE COMMENCEMENT DATE SHALL BE BROUGHT EXCLUSIVELY IN THE BANKRUPTCY COURT (OR, SOLELY TO THE EXTENT THE BANKRUPTCY COURT DECLINES JURISDICTION OVER SUCH ACTION OR DISPUTE, IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK OR ANY NEW YORK STATE COURT SITTING IN NEW YORK CITY). THE PARTIES CONSENT TO AND AGREE TO SUBMIT TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS. EACH OF THE PARTIES HEREBY WAIVES AND AGREES NOT TO

ASSERT IN ANY SUCH DISPUTE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY CLAIM THAT (I) SUCH PARTY IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF THE BANKRUPTCY COURT, (II) SUCH PARTY AND SUCH PARTY'S PROPERTY IS IMMUNE FROM ANY LEGAL PROCESS ISSUED BY SUCH COURTS OR (III) ANY LITIGATION OR OTHER PROCEEDING COMMENCED IN SUCH COURTS IS BROUGHT IN AN INCONVENIENT FORUM. THE PARTIES HEREBY AGREE THAT MAILING OF PROCESS OR OTHER PAPERS IN CONNECTION WITH ANY SUCH ACTION OR PROCEEDING TO AN ADDRESS PROVIDED IN WRITING BY THE RECIPIENT OF SUCH MAILING, OR IN SUCH OTHER MANNER AS MAY BE PERMITTED BY LAW, SHALL BE VALID AND SUFFICIENT SERVICE THEREOF AND HEREBY WAIVE ANY OBJECTIONS TO SERVICE ACCOMPLISHED IN THE MANNER HEREIN PROVIDED.

Section 10.5 Waiver of Jury Trial. EACH PARTY HEREBY WAIVES ALL RIGHTS TO TRIAL BY JURY IN ANY JURISDICTION IN ANY ACTION, SUIT, OR PROCEEDING BROUGHT TO RESOLVE ANY DISPUTE AMONG THE PARTIES UNDER THIS AGREEMENT, WHETHER IN CONTRACT, TORT OR OTHERWISE.

Section 10.6 Counterparts. This Agreement may be executed in any number of counterparts, all of which will be considered one and the same agreement and will become effective when counterparts have been signed by each of the Parties and delivered to each other Party (including via facsimile or other electronic transmission), it being understood that each Party need not sign the same counterpart.

Section 10.7 Waivers and Amendments; Rights Cumulative. This Agreement may be amended, restated, modified, or changed only by a written instrument signed by the Debtors and the Required Commitment Parties (other than a Defaulting Commitment Party); provided that each Commitment Party's prior written consent shall be required for any amendment that would have the effect of: (a) modifying such Commitment Party's Commitment Percentage, (b) increasing the Purchase Price to be paid in respect of the Equity Commitment Units, (c) extending the Outside Date; (d) increasing the Total Equity Commitment Amount above $40,000,000 without each Commitment Party having the opportunity (but not the obligation) to participate pro rata in such increase (for the avoidance of doubt, this clause shall only apply to the Equity Commitment Units to be issued pursuant to this Agreement and shall not apply to any subsequent issuance of Units, it being agreed that no Commitment Party shall be required to purchase such Units); or (e) otherwise have a materially adverse and disproportionate effect on such Commitment Party; provided, further, that a written instrument signed by the Debtors and the Supermajority Commitment Parties (other than a Defaulting Commitment Party) shall be required to amend, restate, modify or change any provision that gives the Supermajority Commitment Parties consent rights with respect to any matter. The terms and conditions of this Agreement may be waived (i) by the Company only by a written instrument executed by the Company and (ii) by the Commitment Parties only by a written instrument executed by the Required Commitment Parties (provided that each Commitment Party's prior written consent shall be required for any waiver having the effects referred to in the first proviso of this Section 10.7). Notwithstanding anything to the contrary contained in this Agreement, the Commitment Parties may agree, among themselves, to reallocate their Commitment Percentages, without any consent or approval of any other Party; provided, however, for the avoidance of doubt any such

agreement among the Commitment Parties shall require the consent or approval of all Commitment Parties affected by such reallocation; provided, further that any reallocation shall require the consent of the Company (such consent not to be unreasonably withheld, conditioned or delayed). No delay on the part of any Party in exercising any right, power or privilege pursuant to this Agreement will operate as a waiver thereof, nor will any waiver on the part of any Party of any right, power or privilege pursuant to this Agreement, nor will any single or partial exercise of any right, power or privilege pursuant to this Agreement, preclude any other or further exercise thereof or the exercise of any other right, power or privilege pursuant to this Agreement. Except as otherwise provided in this Agreement, the rights and remedies provided pursuant to this Agreement are cumulative and are not exclusive of any rights or remedies which any Party otherwise may have at law or in equity.

Section 10.8 Headings. The headings in this Agreement are for reference purposes only and will not in any way affect the meaning or interpretation of this Agreement.

Section 10.9 Specific Performance. The Parties agree that irreparable damage would occur if any provision of this Agreement were not performed in accordance with the terms hereof and that the Parties shall be entitled to seek an injunction or injunctions without the necessity of posting a bond to prevent breaches of this Agreement or to enforce specifically the performance of the terms and provisions hereof, in addition to any other remedy to which they are entitled at law or in equity. Unless otherwise expressly stated in this Agreement, no right or remedy described or provided in this Agreement is intended to be exclusive or to preclude a Party from pursuing other rights and remedies to the extent available under this Agreement, at law or in equity.

Section 10.10 Damages. Notwithstanding anything to the contrary in this Agreement, none of the Parties will be liable for, and none of the Parties shall claim or seek to recover, any punitive, special, indirect or consequential damages or damages for lost profits, including, without limitation, with respect to Losses under Article VIII (other than in respect of Losses incurred in respect of any third party claims).

Section 10.11 No Reliance. No Commitment Party or any of its Related Parties shall have any duties or obligations to the other Commitment Parties in respect of this Agreement, the Plan or the transactions contemplated hereby or thereby, except those expressly set forth herein. Without limiting the generality of the foregoing, (a) no Commitment Party or any of its Related Parties shall be subject to any fiduciary or other implied duties to the other Commitment Parties, (b) no Commitment Party or any of its Related Parties shall have any duty to take any discretionary action or exercise any discretionary powers on behalf of any other Commitment Party, (c) (i) no Commitment Party or any of its Related Parties shall have any duty to the other Commitment Parties to obtain, through the exercise of diligence or otherwise, to investigate, confirm, or disclose to the other Commitment Parties any information relating to the Company or any of its Subsidiaries that may have been communicated to or obtained by such Commitment Party or any of its Affiliates in any capacity and (ii) no Commitment Party may rely, and confirms that it has not relied, on any due diligence investigation that any other Commitment Party or any Person acting on behalf of such other Commitment Party may have conducted with respect to the Company or any of its Affiliates or any of their respective securities and (d) each Commitment Party acknowledges that no other Commitment Party is

acting as a placement agent, initial purchaser, underwriter, broker or finder with respect to its Equity Commitment.

Section 10.12 Publicity; Public Disclosure of Agreement.

(a) At all times prior to the Closing Date or the earlier termination of this Agreement in accordance with its terms, the Company and the Commitment Parties shall consult with each other prior to issuing any press releases (and provide each other a reasonable opportunity to review and comment upon such release) or otherwise making public announcements with respect to the transactions contemplated by this Agreement.

(b) Subject to Section 10.12(a), the Company may, in its discretion, disclose this Agreement (including the signature pages hereto) in a press release or public filing; provided, however, that the Company shall not disclose the Commitment Percentage of any Commitment Party to any Person, other than legal, accounting, financial and other advisors to the Company, or any of its respective subsidiaries or affiliates, unless such information is or becomes publicly available other than by the Company's breach of this Section 10.12 or such information is required to be disclosed by law, rule, regulation, legal, judicial or administrative process, subpoena, or court order, or by a governmental, regulatory, or self-regulatory authority, or similar body, including the SEC and the Company's filing obligations the Exchange Act. For the avoidance of doubt, the Company shall be permitted to disclose at any time the aggregate amount of claims held by any class of Commitment Parties.

Section 10.13 Settlement Discussions. This Agreement and the transactions contemplated herein are part of a proposed settlement of a dispute between the Parties. Nothing herein shall be deemed an admission of any kind. Pursuant to Section 408 of the U.S. Federal Rule of Evidence and any applicable state rules of evidence, this Agreement and all negotiations relating thereto shall not be admissible into evidence in any Action, except to the extent filed with, or disclosed to, the Bankruptcy Court in connection with the Chapter 11 Cases (other than an Action to approve or enforce the terms of this Agreement).

Section 10.14 Transaction Expenses. At the Closing or termination of this Agreement,, the Company will reimburse or pay, as the case may be, the reasonable and documented out-of-pocket costs and expenses incurred by the Commitment Parties in connection with this Agreement and the transactions contemplated hereby (including investigating, negotiating and completing such transactions), including the fees and expenses of Milbank, Tweed, Hadley & McCloy LLP and Deveboise & Plimpton LLP reasonably incurred (collectively, "Transaction Expenses"), to the extent such amounts are incurred on or prior to the earlier of the Effective Date and the termination of this Agreement. Such Transaction Expenses shall constitute an allowed administrative expense of the Company under Section 503(b)(1) and 507(a)(1) of the Bankruptcy Code. The payment of Transaction Expenses hereunder shall not limit the payment of fees and expenses as contemplated in the Restructuring Support Agreement or in any other agreement by and among the Parties hereto; provided, however, that the payment of any amounts pursuant to this Section shall not be duplicative with the payment of any amounts pursuant to the Restructuring Support Agreement or any other agreement by and among the parties hereto.

Section 10.15 Transfer Taxes. All Units issued by the Company pursuant to this Agreement will be delivered to the applicable Commitment Party (or designee, as applicable) or Minority Equityholder with all issue, stamp, transfer, sales and use, or similar transfer Taxes or duties (if any) that are due and payable in connection with such delivery duly paid in full by the Company.

Section 10.16 Additional Agreements. While this Agreement is in effect with respect to any Commitment Party, such Commitment Party shall be automatically entitled to its pro rata share of any fees, expenses, compensation or benefits in the event that the Company or any of the Debtors agrees to pay any such fees, expenses or other compensation or grant any such benefits to any other Commitment Party in connection with or related to this Agreement (including in connection with any amendment, waiver or modification of this Agreement) or the Equity Commitments made herein.

[*Signature Pages Follow*]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed and delivered by their respective duly authorized officers, solely in their respective capacity as officers of the undersigned and not in any other capacity, as of the date first set forth above.

AMERICAN APPAREL, INC.

By: /s/ [ ]
Name: [ ]
Title: [ ]

.

[MONARCH COMMITMENT PARTY]

By: /s/ [ ]
Name: [ ]
Title: [ ]

Notice Information:

[Name]
[Address]
Attention: [Name] ([email address])

Principal Amount of Note Claims:

_____

[COLISEUM COMMITMENT PARTY]

By: /s/ [ ]
Name: [ ]
Title: [ ]

Notice Information:

[Name]
[Address]
Attention: [Name] ([email address])

Principal Amount of Note Claims:

_____

[GSAM COMMITMENT PARTY]

By: /s/ [ ]
Name: [ ]
Title: [ ]

Notice Information:

[Name]
[Address]
Attention: [Name] ([email address])

Principal Amount of Note Claims:

_____

[PENTWATER COMMITMENT PARTY]

By: /s/ [ ]
Name: [ ]
Title: [ ]

Notice Information:

[Name]
[Address]
Attention: [Name] ([email address])

Principal Amount of Note Claims:

_____

[STANDARD GENERAL COMMITMENT PARTY]

By: /s/ [ ]
Name: [ ]
Title: [ ]

Notice Information:

[Name]
[Address]
Attention: [Name] ([email address])

Principal Amount of Note Claims:

_____

Schedule 1

Required Consents

EXHIBIT E

GOVERNANCE TERM SHEET

Final Version

IN RE: AMERICAN APPAREL INC.
SUMMARY OF TERMS FOR POST-RESTRUCTURING EQUITY

This term sheet (this "Equity Term Sheet") sets forth the principal terms of the equity to be issued pursuant to the financial restructuring of American Apparel Inc. ("AAP Inc.") as described in the Restructuring Support Agreement to which this Equity Term Sheet is attached (the "Restructuring Support Agreement"). This Equity Term Sheet does not constitute (nor shall it be construed as) an offer to sell or buy, nor the solicitation of an offer to sell or buy, any securities of the Company (as defined below) or of AAP Inc. or any of its subsidiaries, it being understood that any such offer or solicitation will only be made in compliance with applicable provisions of securities, bankruptcy and/or other applicable laws. The transactions described herein will be subject to the completion of definitive documents incorporating the terms set forth herein and the closing of any transaction shall be subject to the terms and conditions set forth in such definitive documents. Capitalized terms used but not otherwise defined herein shall have the meaning ascribed to such terms in the Restructuring Support Agreement. All references in this Equity Term Sheet to a specified percentage of Units (as defined below) outstanding shall be calculated without giving effect to any Units or other equity interests issued pursuant to any equity incentive plan adopted by the Company or any other issuance that is carved out of the Operating Agreement's preemptive rights provision.

The Company	AAP Inc. will be converted into a Delaware limited liability company, on or prior to the Effective Date (such limited liability company, the "Company"). The Company will elect to be treated as a corporation for U.S. federal, state and local income tax purposes effective on the earlier of the Effective Date or the date of formation, absent an alternative structure determined by the Supporting Parties, which alternative structure shall require the consent of the Company Parties if such structure results in a transfer of a Company Party's assets to a new entity that is not a successor of the Company Party for tax purposes.
Operating Agreement; Units	The Company shall be governed by a limited liability company agreement (the "Operating Agreement"), in a form to be filed with the Plan Supplement. Each Person that receives a distribution of New Common Equity pursuant to the Plan shall be required, as a condition to receiving such distribution, to become a party to the Operating Agreement by executing a counterpart signature page to the Operating Agreement. The New Common Equity will be issued in the form of common membership interest units in the Company ("Units"). From and after the Effective Date, it shall be a condition to any issuance or transfer of Units that the recipient thereof become a member of the Company (a "Member") and a party to the Operating Agreement. The Operating Agreement shall provide for only one class of Units at the Effective Date.
Board of Directors	Board Composition: The Company shall be managed by a Board of Directors (the "Board") consisting of seven directors (collectively, the

"Directors"), including (i) the Chief Executive Officer of the Company (the "CEO"), (ii) three individuals who have relevant industry expertise and are not affiliates of the appointing Member, the Company or any DC Transferee (as defined below), including (a) one individual elected by the affirmative vote of Units representing at least a majority of the total outstanding Units (an "At-Large Independent Director"), (b) one individual appointed by Goldman Sachs Asset Management, L.P. ("GSAM") (the "GSAM Independent Director") and (c) one individual appointed by Monarch Alternative Capital LP ("Monarch") (the "Monarch Independent Director" and, collectively with the At-Large Independent Director and the GSAM Independent Director, the "Independent Directors"), (iii) one individual appointed by Monarch; (iv) one individual appointed by Pentwater Capital Management LP; and (v) one individual appointed by Coliseum Capital Management, LLC. The initial term of the At-Large Independent Director shall expire on the one year anniversary of the Effective Date, and thereafter all At-Large Independent Directors shall be subject to election each year and shall be elected (or appointed, as applicable) for a term expiring one year after the date of his or her election or appointment, in the manner described in the foregoing clause (ii).

Additional Appointment Rights. Any Member (other than the Initial Appointing Members (as defined below)) shall have the right to appoint one Director from and after such time as it becomes the holder of at least 15% (including Units held by its affiliates) of the total outstanding Units (any such Member(s), collectively with the Initial Appointing Members, the "Appointing Members"). Any Member (other than Monarch and its affiliates, for so long as Monarch has the right to appoint more than one Director) shall have the right to appoint two Directors (one of whom must be an industry expert and not an affiliate of the appointing Member or the Company, and shall be deemed an "Independent Director" for all purposes hereof) from and after such time as it becomes the holder of at least 30% (including Units held by its affiliates) of the total outstanding Units. Any such additional Director appointment right will be accommodated by giving the applicable Member an appointment right with respect to (i) any Board seat with respect to which another Member has ceased to have appointment rights because it has fallen below the Board Seat Threshold (and with respect to which no other Member has obtained appointment rights) or (ii) the At-Large Independent Director Board seat, if there are no such Board seats as are described in clause (i). As used herein, "Initial Appointing Members" means, collectively, Monarch, Coliseum, GSAM and Pentwater, in each case together with their respective affiliates.

Cessation of Appointment Rights. A Member shall cease to have the right to appoint any Directors (and shall cease to be an Appointing Member and, as applicable, an Initial Appointing Member) from and

after such time as it ceases to hold a number of Units (including Units held by its affiliates) that is at least 13% of the aggregate number of Units issued as distributions under the Plan or pursuant to the equity commitment agreement contemplated by the Plan (such number of Units, as adjusted proportionally to reflect any Unit splits or combinations, equity issuances or similar transactions, the "Board Seat Threshold"), and the term of any Director(s) appointed by such Member shall thereupon automatically terminate, and from and after such time such Board seat (a) will be given to any Member that has obtained the right to appoint an additional Director, to the extent necessary to accommodate such right, and (b) will otherwise be an At-Large Independent Director seat until it is given to a Member to accommodate such an appointment right. Any Director whose term was automatically terminated pursuant to the immediately preceding sentence may continue to serve until his or her successor is duly elected. Monarch shall cease to have the right to appoint the Monarch Independent Director, and any other Member with the right to appoint a second Director shall cease to have the right to appoint such Director, from and after such time as Monarch or such other Member, as applicable, ceases to hold a number of Units (including Units held by its affiliates) equal to at least two times the Board Seat Threshold, and from and after such time such Board seat will be an At-Large Independent Director seat.

Transfers of Appointment Rights. A Member that has the right to appoint a Director shall have (for so long as it has such appointment right) the right to transfer such appointment right to any Person to whom it transfers (subject to and in accordance with the terms of the Operating Agreement) a number of Units equal to or greater than the Board Seat Threshold.

Vacancies; Removal: A Member (or a group of Members) that has the right to appoint a Director shall have (for so long as it has such appointment right) the exclusive right to fill vacancies with respect to such Board seat and the exclusive right to remove such Director; *provided, however*, that any Director may be removed for "cause" (to be defined in the Operating Agreement) by the affirmative vote of one or more Members holding more than 60% of the Units then outstanding. Any At-Large Independent Director may be removed at any time, with or without cause, by any Member or group of Members holding, in the aggregate, a majority of the total outstanding Units.

Chairman: The initial Chairman of the Board shall be selected at the initial Board meeting by a plurality vote of the Directors.

Meetings: The Board shall meet no less frequently than once per calendar quarter. Board meetings may be called by the Chairman of the Board, the CEO, or by any three Directors with at least forty-eight (48) hours' prior notice in writing or by email.

Quorum: A quorum shall consist of a majority of the full Board.

Board Action: Board action shall require the affirmative vote of a majority of the Directors present at a duly called meeting at which a quorum is present, or the written consent of all of the Directors; *provided, however* that the entry by the Company or any of its subsidiaries into any transaction with any Member or its members, managers, directors, officers, employees, agents or representatives or its or any of their affiliates (other than agreements between the Company and its subsidiaries) shall require the approval of a majority of the disinterested Directors (for purposes of this provision, a Director shall not be disinterested if they have been appointed by such Member).

Committees; Subsidiary Boards: Subject to any applicable law or stock exchange rule to which the Company is then subject, each Member that has the right to appoint a Director to the Board shall also have the right to proportionate representation by such Director on all Board committees, and on the boards and committees of any material subsidiaries of the Company; provided that for purposes of any Board or subsidiary committees, such representation can be in the form of a non-voting observer.

Board Observer: Each of Monarch and GSAM, for so long as it has the right to appoint an Independent Director, will have the right to appoint one non-voting observer to the Board (each, a "Board Observer"), who will receive all Board materials and notice of all Board meetings, and be entitled to attend all Board meetings, with such receipt of materials and attendance subject to customary exclusions related to the loss of attorney-client privilege and the entry into a customary non-disclosure agreement.

Member Consent Rights

The Company shall not, and shall not permit any of its subsidiaries to, take any of the following actions without the prior written consent of Members holding a majority of the Units then outstanding:

- Any merger, consolidation, recapitalization, reorganization or other business combination transaction of the Company or any of its material subsidiaries;
- Any sale, lease or other disposition of all or substantially all assets of the Company or any of its material subsidiaries; and
- Any dissolution, winding-up or liquidation of the Company or any of its subsidiaries.

Fiduciary Duties; Indemnity and Exculpation

The Operating Agreement shall expressly provide that any duties (including fiduciary duties) of any Member or Director in their capacities as such (but not the duties of any officer of the Company, in

his or her capacity as such) that would otherwise apply at law or in equity (including the duty of loyalty and the duty of care) shall be waived and eliminated to the fullest extent permitted under Delaware law and any other applicable law; *provided, however* that (i) the foregoing shall not eliminate the obligation of each Member to act in compliance with the express terms of this Agreement and (ii) the foregoing shall not be deemed to eliminate the implied contractual covenant of good faith and fair dealing. In furtherance of the foregoing (but subject to the foregoing provisos), when any Member (but not the officers of the Company, in their capacity as such) takes any action under the Operating Agreement to give or withhold its consent or approval, such Member shall have no duty (fiduciary or otherwise) to consider the interests of the Company, its subsidiaries or the other Members, and may act exclusively in its own interest.

The Operating Agreement shall contain customary indemnification and exculpation provisions consistent with the foregoing and applicable Delaware law.

Pre-emptive Rights

If the Company or any of its subsidiaries proposes to issue Units or other equity interests or securities convertible into or exercisable or exchangeable therefor, the Company shall (or shall cause such subsidiary to) first offer to each Member holding at least 5% of the Units then outstanding the right to purchase, for cash, at a price equal to the price at which the Company (or such subsidiary) proposes to issue such Units or other interests or securities, such Member's pro rata portion based on its respective ownership of the Units outstanding immediately prior to such issuance (or, as applicable, its indirect ownership in such subsidiary) of such Units or other securities, subject to customary exceptions for Unit dividends, issuances under employee incentive plans, and issuances in connection with acquisition transactions.

Transfers of Units

The ability of any Member to directly or indirectly sell, assign, transfer, pledge or otherwise dispose of all or any of its Units (any of the foregoing, a "Transfer") shall be subject to the following restrictions, subject to customary exceptions for Transfers to affiliates and other "permitted transferees":

- The transferee shall have executed a joinder to the Operating Agreement, in an agreed upon form.
- All Transfers shall be made in compliance with all applicable federal and state securities laws.
- All Transfers shall be subject to the Right of First Offer and (subject to the percentage threshold) Tag-Along provisions described below.
- No Transfer of Units will be permitted if, as a result of such

Transfer, any class of equity securities of the Company would be held of record by a number of holders that exceeds the applicable threshold for registration under the Securities Exchange Act of 1934, as amended (the "Exchange Act") or if the Board otherwise determines that such Transfer could result in the Company's being required to file reports under the Exchange Act.

- No Transfer of Units will be permitted during a specified windows of time immediately before and immediately after the Company issues its quarterly and annual financial statements.
- No Transfers of Units will be permitted to any of the following Persons (each, a "Prohibited Transferee"), and in the event that any Transfer of Units is made to a Prohibited Transferee in violation of this provision or deemed to be made to a Prohibited Transferee by operation of law or otherwise the Board may, in its sole discretion at any time thereafter, cause any or all such Units to be stripped of all voting and information rights:
    - Any Person that the Board determines in good faith is a competitor of the Company or an affiliate of a competitor, other than as approved by the Board.
    - Dov Charney, his family members, or any of their respective affiliates, or any other Person (a) in which any of the foregoing Persons is an actively participating investor, (b) in which any of the foregoing Persons holds any equity or voting power, or has the right to obtain an equity interest or voting power or otherwise obtain control through the exercise of any option, warrant, right or security, (c) whose investment in the Units is being funded directly or indirectly by any of the foregoing Persons, (d) with whom any of the foregoing Persons is acting as a member of a "group" (as such term is defined in the Securities Exchange Act of 1934, as amended), (e) acting in its capacity as a lender, co-investor, or financing source for any of the foregoing Persons (any of the foregoing, a "DC Transferee").
- All Transfers may be subject to customary restrictions consistent with the preservation of the net operating loss and other tax attributes of the Company and its subsidiaries. If an alternate structure decision is made rendering the Company to be treated as a partnership for U.S. federal, state and local income tax purposes, Transfers may be subject to customary restrictions to avoid treatment as a "publicly traded partnership"

These Transfer Restrictions will also apply to Transfers of equity interests in any entity that directly or indirectly holds Units, other than bona fide Transfers of equity interests in an entity whose aggregate direct and indirect interest in the Units represents 10% or less of such

entity's total assets. Any purported transfer to a Prohibited Transferee shall be void *ab initio* and have no force and effect.

Right of First Offer

In the event that any Member proposes to Transfer all or any of its Units (the "Offered Units") to any unaffiliated third party in one or more bona fide transactions, then such Member (a "ROFO Seller") shall deliver to each of the other Members holding a number of Units equal to or greater than the Board Seat Threshold (each, a "ROFO Offeree") written notice thereof, specifying the number of Offered Units, the price per Offered Unit, and any other material terms of such Transfer (an "Offer Notice").

- Each ROFO Offeree may elect to purchase, by written notice given to the ROFO Seller at any time during the 10 Business Days following its receipt of the Offer Notice (the "Offer Period"), its *pro rata* share (based on its respective ownership of the Units held by all ROFO Offerees as of the date of the Offer Notice) of the Offered Units at the price and on the terms specified in the Offer Notice.
- Any Offered Units that ROFO Offerees do not elect to purchase will be re-offered *pro rata* to each ROFO Offeree who elected to purchase Offered Units.
- Any remaining Offered Units may be Transferred by the ROFO Seller, at any time during the 75 days following expiration of the Offer Period to any third party on terms (including a cash purchase price that, net of commissions or similar expenses, is no lower than the price specified therein) no more favorable in the aggregate to such third party than the terms specified in the Offer Notice. If a buyer is found during the 75-day ROFO window, the transfer to such Buyer will be subject to the tag-along if the number of Units exceeds the 51% threshold for a Tag-Along Sale (as defined below). If during such 75 days the ROFO Seller is not able to sell the remaining Offered Units on such terms, but determines in good faith that such remaining Offered Units may reasonably be expected to be sold to a third party under terms more favorable to such third party than originally proposed in the Offer Notice, the ROFO Seller may deliver a new Offer Notice to the ROFO Offerees with respect to such remaining Offered Units with such terms.

Tag-along Rights

In the event that any one or more Members proposes to Transfer to any unaffiliated Person or "group" of unaffiliated Persons (the "Tag-Along Buyer") Units that constitute more than 51% of the total Units then outstanding (a "Tag-Along Sale"), such Member (the "Selling Member") shall provide notice of the Tag-Along Sale to each of the other Members (the "Tag-Along Offerees") no later than ten (10) Business Days prior to the proposed closing of such Tag-Along Sale (the "Tag Along Notice"). Each Tag-Along Offeree shall have "tag-along" rights to participate, on a *pro rata* basis (based on its respective ownership of the Units held by all Tag-Along Offerees as of the date of

the Tag-Along Notice), in the Tag-Along Sale, on the same terms, and subject to the same conditions as the Selling Member, with a corresponding reduction (except to the extent the Tag-Along Buyer agrees to purchase additional Units) in the number of Units being sold by the Tag-Along Seller to reflect the number of Units that Tag-Along Offerees elect to sell in the Tag-Along Sale. It shall be a condition precedent to the effectiveness of any Tag-Along Sale that the Tag-Along Buyer concurrently purchase, pursuant to the terms hereof, all of the Units with respect to which Tag-Along Offerees elect to exercise tag-along rights in connection with such Tag-Along Sale.

Drag-along Rights In the event that any one or more Members collectively holding more than 60% of the outstanding Units proposes to Transfer all of its or their Units, as the case may be, to any unaffiliated Person or "group" of unaffiliated Persons (the "Drag-Along Buyer"), then such Members (the "Drag-Along Seller") shall have the right to cause all of the other Members to Transfer all of their Units to the Drag-Along Buyer, on the same terms, and subject to the same conditions as the Drag-Along Seller. In connection with any such Transfer, each Member shall, if applicable, (i) vote in favor of the transaction pursuant to which the Transfer is effected, (ii) not exercise any appraisal or similar rights with respect to such transaction and (iii) provide customary representations and warranties to the Drag-Along Buyer regarding its legal status and authority, and its ownership of the Units being transferred, and customary (several but not joint) indemnities regarding the same, (iv) participate *pro rata* in any indemnification of the Drag-Along Buyer with respect to matters other than the representations and warranties described in clause (iii), *provided*, that each Member's liability shall be several and not joint and several, and (v) take all other actions reasonably requested in order to consummate such transaction. In no event shall any such Member be required to indemnify or contribute any amount in excess of the net cash amount received by such Member in any such Transfer.

Information Rights The Company shall hold quarterly conference calls with the Members to discuss the results of the Company's operations and the financial performance of the Company for the prior fiscal quarter and year-to-date and to answer questions related thereto, and shall provide the following to each Member:

- audited consolidated financial statements within 90 days after the end of each fiscal year;
- unaudited quarterly consolidated financial statement within 45 days from the end of each quarter;
- unaudited monthly reports and consolidated financial statements within 30 days after the end of each month;

- transcripts of the quarterly conference calls described above; and
- not less than 45 days prior to the beginning of each fiscal year, a budget and a business plan, *provided* that the Company will not be required to provide any such budget and business plan information to any holder of less than 5% of the Units then outstanding (including any Units held by its affiliates).

The Company shall provide the foregoing information in an electronic data room to which access is given to each Member and any potential transferee that enters into a customary confidentiality agreement in form and substance reasonably acceptable to the Company; *provided*, that access to the budgets and business plans may be restricted to Members entitled to receive such information and potential transferees of such Members; *provided, further* no access to any of the foregoing information shall be given to any Prohibited Transferee, except as approved by the Board with respect to any Prohibited Transferee that is not a DC Transferee, and in no event will any such access be given to any DC Transferee.

In addition, each Member of the Company holding (including any Units held by its affiliates) at least 5% of the Units then outstanding shall have the right, upon reasonable notice and at reasonable times, to meet with the officers of the Company and its subsidiaries and to have access to the officers of the Company and its subsidiaries, and the Company shall provide to each such Member who so requests, information and rights that satisfy the VCOC requirements of ERISA and that are customary for transactions of this type.

In addition, upon reasonable notice from any Member of the Company holding (including any Units held by its affiliates) at least 5% of the Units then outstanding, the Company shall, and shall cause its officers and employees to, afford such 5% Member and its representatives reasonable access during normal business hours to the corporate, financial and similar records, reports and documents of the Company, including, without limitation, all books and records, minutes of proceedings, internal management documents, reports of operations, reports of adverse developments, copies of any management letters and communications with Members or Managers, and to permit such Member and its representatives to examine such documents and make copies thereof.

The Company's obligation to provide the foregoing information to any particular Member shall be subject to customary exceptions regarding competitors, attorney-client privileged information, and the restrictions described above with respect to Prohibited Transferees.

Capital Contributions	No Member shall be required to make any additional capital contributions to the Company without the prior consent of such Member.
D&O Insurance; Indemnification Agreements	The Directors and executive officers shall have the benefit of customary Indemnification Agreements with the Company and the Company shall maintain customary D&O insurance.
Confidentiality	Customary confidentiality restrictions for a privately held company (including with respect to all information and documents described under "Information Rights" above), with a carve-out allowing Members to share confidential information with any potential transferee that enters into a customary confidentiality agreement in form and substance reasonably acceptable to the Company; *provided however*, that such carve out shall not apply to any Prohibited Transferee, except as approved by the Board with respect to any Prohibited Transferee that is not a DC Transferee. In in no event may any such information be shared with any DC Transferee.
Amendments	Any amendment to the Operating Agreement shall require approval of Members holding at least 66 2/3% of the Units then outstanding, *provided*, that any amendment that adversely affects the Director or observer appointment rights of any Member or could reasonably be expected to materially adversely affect any Member's interest in the Company in a manner that is disproportionate to the effect on each other Member's interest in the Company shall require the consent of such Member.
IPO Issuer / Structuring	In connection with any registered offering of equity securities by the Company for its own account or pursuant to any demand registration as described below, the Board may cause the Company to merge with or convert into a corporation or other business entity that is an affiliate of the Company, pursuant to which the outstanding Units are converted into or exchanged for voting common stock of such corporation (or voting common equity securities of such other business entity) (the "IPO Issuer"), for the purpose of effecting an initial offering of such class of securities of such IPO Issuer for sale to the public in a registered offering. In any such conversion or exchange, each Member will receive shares (or other equity securities, as applicable) of the IPO Issuer having (a) a fair market value (as determined by the Board in good faith) equal to the distribution that such Member would have received with respect to its Units if the Company were dissolved and its assets distributed pursuant to Operating Agreement's liquidation waterfall and (b) substantially equivalent economic, governance, priority and other rights and privileges as are in effect for the Units immediately prior to such transaction, subject to the changes that would

be required to comply with applicable federal securities laws and national stock exchange listing rules in connection with such transaction.

Registration Rights

Registration Rights Agreement: The Company and each Person that receives a distribution of Units pursuant to the Plan (including Units purchased pursuant to the Equity Commitment Agreement) that, together with all Units distributed pursuant to the Plan to affiliates of such Member, represent at least 10% of the total number of Units distributed pursuant to the Plan and Equity Commitment Agreement, will enter into a Registration Rights Agreement, in a form to be filed with the Plan Supplement. Notwithstanding the foregoing, each Supporting Party (as defined in the Restructuring Support Agreement) and any affiliate thereof that receives Units pursuant to the Plan or Equity Commitment Agreement will also be a party to the Registration Rights Agreement, irrespective of whether it satisfies such 10% percentage threshold. The Registration Rights Agreement will include customary provisions including those set forth below.

Demand Registrations: Prior to the completion of an underwritten public offering that results in net proceeds to the Company and selling Members of at least $50 million (an "IPO"), any one or more Members that is a party to the Registration Rights Agreement and holds Units (including any Units held by its affiliates) representing at least 51% of the total Units issued under the Plan shall be entitled to up to three "demand" registrations. Such demand registration rights may be exercised at any time from and after the 12-month anniversary of the Effective Date.

Following the completion of an IPO and provided that the Company is eligible to use Form S-3 to effectuate such registration, any one or more Members that are party to the Registration Rights Agreement and hold in the aggregate Units (including any units held by their affiliates) representing at least 10% of the total Units issued under the Plan shall be entitled to no more than three "demand" registrations on Form S-3 per Member; *provided*, that in no event shall the Company be required to file more than three such registration statements during any twelve month period.

Any demand registration may, at the option of the Member who makes the demand, be a "shelf" registration pursuant to Rule 415 under the Securities Act, provided that the Company is eligible to use Form S-3 to effectuate such registration.

Piggyback Registration Rights. In addition to the demand registration rights set forth above, in the event that the Company files a registration statement for an offering of securities on its own behalf or on behalf of any other person (other than an IPO and with customary exceptions for

employee benefit plans, and acquisition or exchange transactions), each Member shall be entitled to include any Units that it owns in such offering, subject to customary cut-back provisions (as described more fully below) in the case of any underwritten public offering.

Cut-Backs. In the case of any underwritten public offering by the Company for its own account, priority shall be given to securities offered by the Company, and any cut-backs will be allocated proportionally among the Members participating in such offering based on the number of Registrable Securities held by each such Member. In the case of any underwritten public offering pursuant to a demand registration, any cut-backs will be allocated proportionally among all Members participating in such offering based on the number of Registrable Securities held by each such Member.

Holdback Provisions: In connection with any underwritten registration, each Member that is party to the Registration Rights Agreement will be required, with respect to any Units that it owns, to enter into customary holdback agreements with the managing underwriter(s) of such offering; *provided*, that such holdback agreements shall not require a holding period of longer than 180 days with respect to an IPO and 90 days with respect to any other registration (unless a longer period is required by FINRA regulations or applicable law).

Indemnification: Customary indemnification and contribution arrangements in connection with any offering pursuant to a registration statement filed pursuant to the Registration Rights Agreement.

Registration Expenses: All registrations shall be at the Company's expense, including, without limitation, fees and expenses of one counsel for the Members if any of them are registering Units in connection with any such registration, such counsel to be selected by the holders of a majority of the Units being registered.

Amendments: Any amendment to the Registration Rights Agreement shall require approval of Members holding at least 66 2/3% of the "Registrable Securities" then outstanding, *provided* that any amendment that could reasonably be expected to materially adversely affect any Member's rights thereunder in a manner that is disproportionate to the effect on each other Member's rights thereunder shall require the consent of such Member.

Termination: Following an IPO, a Member's rights and obligations under the Registration Rights Agreement will terminate (other than continuing indemnification and customary expense reimbursement obligations thereunder) when they cease to hold "Registrable Securities" which will be defined in the Registration Rights Agreement; provided, that Units distributed pursuant to the Plan (including Units purchased

pursuant to the Equity Commitment Agreement) will not cease to be Registrable Securities for so long as they are held by any party to the Registration Rights Agreement that holds at least 5% (including Units held by its affiliates that are party to the Registration Rights Agreement) of the total outstanding Units, calculated without giving effect to any Units or other equity interests issued pursuant to any equity incentive plan adopted by the Company or any other issuance that is carved out of the Operating Agreement's preemptive rights provision. For all purposes of this "Registration Rights" section of this Equity Term Sheet, "Units" shall be construed to include any IPO Issuer securities received upon the conversion or exchange of Units, as contemplated under the "IPO Issuer / Structuring" heading above.

EXHIBIT F

INTERIM DIP ORDER
(See Interim DIP Order at Docket No. 80)

EXHIBIT G

JOINDER AGREEMENT

[ ], 2015

The undersigned ("**Transferee**") hereby acknowledges that it has reviewed and understands the Restructuring Support Agreement, dated as of October [__], 2015, a copy of which is attached hereto as Annex I (as amended, supplemented or otherwise modified from time to time, the "**Agreement**"), by and among American Apparel Inc., a Delaware corporation ("**American Apparel**"), and its direct and indirect subsidiaries parties thereto (the "**Company**") and the entities and persons named therein as "**Supporting Parties**", and that it has been represented, or has had the opportunity to be represented, by counsel with respect to the Agreement. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in the Agreement.

1. *Agreement to be Bound*. The Transferee hereby agrees to be bound by all of the terms of the Agreement. The Transferee shall hereafter be deemed to be a "**Supporting Party**" and a "**Party**" for all purposes under the Agreement and with respect to all Claims and Interests held by such Transferee.

2. *Representations and Warranties*. The Transferee hereby makes the representations and warranties of the Supporting Parties set forth in Section 9 of the Agreement to each other Party or only the Company (as applicable).

3. *Governing Law*. This Joinder Agreement shall be governed by and construed in accordance with the internal laws of the State of New York, without regard to any conflicts of law provisions which would require the application of the law of any other jurisdiction.

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IN WITNESS WHEREOF, the Transferee has caused this Joinder Agreement to be executed as of the date first written above.

Name of Transferor: _____
Name of Transferee: _____

By: _____
Name: _____
Title: _____

Notice Address:

_____

_____
Attention: _____

with a copy to:

_____

_____
Attention: _____

Principal Amount of Note Claims:
$_____

Principal Amount of Other Claims:
$_____

ANNEX I

RESTRUCTURING SUPPORT AGREEMENT

EXHIBIT 6

Claims Against American Apparel
Arising from Alleged Conduct of Dov Charney

CLAIMS AGAINST AMERICAN APPAREL
ARISING FROM ALLEGED CONDUCT OF DOV CHARNEY

Selected Employment Claims				
Case Name	**Case Number**	**Jurisdiction**	**Date Filed**	**Status**
Yusef Farrell v. American Apparel, Inc., and Dov Charney	BC573219	Los Angeles Superior Court	2015	Pending in arbitration
Spencer Longo v. American Apparel, Inc.	480-2014-02800	EEOC	2014	Settled Jan. 2015 $50,000
Michael Bumblis v. American Apparel Retail, Inc.	BC496498	Los Angeles Superior Court	2014	Settled Dec. 2014 $500,000
Matt Ladewski adv. American Apparel, Inc. and Dov Charney	177062-74588	DFEH	2013	Settled July 2014 $6,000
Wilson v. American Apparel, Inc., and Dov Charney	BC457920	Los Angeles Superior Court	2011	Settled Feb. 2015 $2,000,000
Morales v. American Apparel, Inc., Dov Charney, and Kyung Chung	Index Nos. 5018/2011 and 5122/2011	New York Supreme Court, County of Kings	2011	Judgment June 2014 $1,559,159.87 ($759,159.87 after offset)
Ferguson v. American Apparel, Inc., Dov Charney, and Kyung Chung	BC460331	Los Angeles Superior Court	2011	Judgment Oct. 2014 $1,819,178.89
Lubans-DeHaven v. American Apparel, Inc., Dov Charney, and Kyung Chung	BC457920	Los Angeles Superior Court	2011	Settled May 2014 (confidential)
Lo v. American Apparel, Inc. and Dov Charney	BC457920	Los Angeles Superior Court	2011	Settled Feb. 2013 (confidential)
Laura Barry v. American Apparel Retail, Inc. and Dov Charney	10-12542CA11	11th Judicial Circuit Court of Miami-Dade County	2010	Settled Dec. 2010 $20,000
Jeneleen Floyd v. American Apparel, Inc., and Dov Charney	BC391765	Los Angeles Superior Court	2008	Settled Jan. 2010 $43,250
Roberto Hernandez v.	BC401547	Los Angeles	2008	(confidential)

American Apparel, Inc., and Dov Charney		Superior Court		
Heather Pithie, Rebecca Brinegar v. American Apparel, Inc., American Apparel Retail, Inc., and Dov Charney	BC334169	Los Angeles Superior Court	2005	Settled 2005 $212,000
Select Shareholder Derivative Lawsuits				
Case Name	**Case Number**	**Jurisdiction**	**Date Filed**	**Status**
Federman v. Dov Charney, et al.	14-cv-05230	C.D. Cal.	2014	Dismissed without prejudice in July 2015
Rendelman v. Dov Charney, et al.	2:14-cv-05699	C.D. Cal.	2014	Dismissed without prejudice in July 2015
Nikolai Grigoriev v. Dov Charney, et al.	CV106576 GAF (JCx)	C.D. Cal.	2010	On appeal
Andrew Smukler v. Dov Charney, et al.	CV107518 RSWL (FFMx)	C.D. Cal.	2010	On appeal
John L. Smith v. Dov Charney, et al.	BC 443763	Los Angeles Superior Court	2010	Stayed
Lisa Kim v. Dov Charney, et al.	BC 443902	Los Angeles Superior Court	2010	Stayed
Teresa Lankford v. Dov Charney, et al.	BC 445094	Los Angeles Superior Court	2010	Stayed
Wesley Norris v. Dov Charney, et al.	BC 447890	Los Angeles Superior Court	2010	Stayed
Select Employment Claims Without Formal Suit				
Parties			**Date**	**Status**
Stephanie Kalinowski adv. American Apparel, Inc.			2014	Pending
Alexandria Hood adv. American Apparel, Inc.			2014	Settled Dec. 2014 $150,000
Ariel Flores adv. American Apparel, Inc., Dov Charney			2010	Settled Feb. 2011 $150,000

EXHIBIT 7

Status of Pending and Recently Dismissed Litigation

AMERICAN APPAREL – STATUS OF PENDING AND RECENTLY DISMISSED LITIGATION

Case	Case No. and Court	Date Filed	Description	Status
Charney v. American Apparel, Inc.	No. 01-14-0000-7628 (American Arbitration Association)	6/23/14	Mr. Charney initiated an arbitration proceeding to bring several claims alleging that the Company wrongfully terminated him.	The proceeding is in discovery, and the case schedule extends into 2016.
In re American Apparel, Inc. 2014 Derivative Shareholder Litigation	Nos. 14-cv-05230-MWF-JEM (C.D. Cal), 15-56258 (9th Cir.)	7/7/14	Plaintiffs, purported shareholders of the Company, alleged that the board of directors did not act quickly enough to remove Mr. Charney as CEO when his misconduct came to light. The court granted American Apparel's motion to dismiss for failure to allege demand futility granted in April 2015 and dismissed the case for failure to prosecute on July 17, 2015.	Plaintiff filed a notice of appeal on August 17, 2015.
Carlos Hirschberg et al. v. American Apparel, Inc. et al.	No. 2:15-cv-02827 (C.D. Cal.)	4/16/15	This class action complaint seeks relief based on the Company's alleged failure to provide employees with 60-days notice prior to their termination as required under federal law and the California Worker Adjustment and Retraining Notification Act (WARN).	The case has been removed from court's active caseload until application by parties or court order. Plaintiff must file periodic status reports, the first of which is due on January 8, 2016.
Jan Willem Hubner, et al. v. Allan Mayer, et al.	Nos. 2:15-cv-2965-MWF (C.D. Cal.), 15-55996 (9th Cir.)	4/21/15	Shareholder plaintiffs sought a preliminary injunction to undo the shareholder vote at 2014 annual meeting and prospectively enjoin the vote at 2015 annual meeting. The Court denied plaintiffs' motion for preliminary injunction. Plaintiffs stipulated to judgment and filed an appeal based on the issue of whether pleading economic loss is required to state a claim for a violation of Section 14(a) of the 1934 Act.	On July 28, 2015, defendants filed a motion to dismiss the appeal for lack of jurisdiction, which is fully briefed and pending.
Eliana Rodriguez v. Allan Mayer, et al.	C.A. No. 10944-CB (Del. Ch.)	4/24/15	Plaintiff, a purported shareholder of the Company, brought class action asserting claims for alleged breaches of fiduciary duties by American	Plaintiff filed notice and proposed order of voluntary dismissal without prejudice, subject to approval of court

Case	Case No. and Court	Date Filed	Description	Status
			Apparel's former and current board of directors for actions relating to Charney taken in the lead up to the Company's 2014 annual meeting.	due to assertion of putative class claims, and court entered order of dismissal without prejudice on September 18, 2015.
Charney v. American Apparel, Inc., et al.	No. BC581602 (Los Angeles, Cal. Super. Ct.)	5/12/15	Mr. Charney brought a defamation lawsuit against the Company and its Chairwoman Colleen Brown based on a letter from Brown to employees stating that Mr. Charney had been terminated for cause.	The court granted the Company's dispositive anti-SLAPP motion.
American Apparel, Inc. v. Charney	C.A. No. 11033-CB (Del. Ch.)	5/15/15	The Company filed a lawsuit seeking specific performance of the terms of the Standstill Agreement and injunctive relief prohibiting Charney from breaching the terms of the Standstill Agreement. Court entered temporary restraining order against Charney lasting through the end of the Company's 2015 Annual Meeting.	The parties are to meet and confer on a schedule for the completion of discovery.
Charney v. American Apparel, Inc.	C.A. No. 11098-CB (Del. Ch.)	6/4/15	Mr. Charney asserted two claims: (i) advancement for his attorneys' fees and expenses incurred in connection with the Standstill Proceeding (C.A. No. 11033-CB); and (ii) indemnification for his attorneys' fees and expenses incurred in connection with this action.	Judgment entered dismissing claims with prejudice on September 25, 2015.
Charney v. American Apparel, Inc., David Danziger, et al.	No. BC585664 (Los Angeles, Cal. Super. Ct.)	6/19/15	Mr. Charney brought a defamation lawsuit against the Company and its former director David Danziger based on a conversation between Mr. Danziger and an investor of FiveT Capital touching on Charney's suspension.	On October 19, 2015, the court stayed the case in its entirety and set a status conference for February 16, 2016 regarding the status of the bankruptcy proceedings.
Charney v. Standard General, L.P., et al.	No. BC586119 (Los Angeles, Cal.	6/24/15	The complaint alleges that the Standstill Agreement he entered into with Standard General	Pending before the court is Standard General's motion to stay on the grounds

Case	Case No. and Court	Date Filed	Description	Status
	Super. Ct.)		and American Apparel, and other agreements between Charney and Standard General, were fraudulently obtained as part of a conspiracy to deprive Charney of control over American Apparel in favor of Standard General.	that the claims asserted were subject to exclusive jurisdiction in Delaware and in deference to litigation filed in Delaware Chancery court seeking declaratory relief on the agreements at issue. American Apparel and the former and current director defendants have joined in the motion. The court has scheduled a hearing for December 11, 2015.
Kenneth Vaughan v. American Apparel Inc.	C.A. No. 11500-CB (Del. Ch.)	9/11/15	This is an action for inspection of books and records pursuant to 8 Del. C. § 220.	Notice of bankruptcy filed October 6, 2015.

NAI-1500647248v1