

**CHARTER OF THE
AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS OF AMERICAN APPAREL, INC.
AS ADOPTED BY THE BOARD ON APRIL 28, 2008**

I. AUTHORITY

The Audit Committee (the "Committee") of the Board of Directors (the "Board") of American Apparel, Inc. (the "Corporation") is established pursuant to Article III, Section 10 of the Corporation's Amended and Restated Bylaws and Section 141(c) of the Delaware General Corporation Law.

II. PURPOSE OF THE COMMITTEE

The Committee's purpose is to provide assistance to the Board in fulfilling its legal and fiduciary obligations with respect to matters involving the accounting, auditing, financial reporting, internal control and legal compliance functions of the Corporation and its subsidiaries.

The Committee shall oversee the audit efforts of the Corporation's independent auditors and internal auditors and, in that regard, shall take such actions as it may deem necessary to satisfy itself that the Corporation's auditors are independent of management. It is the objective of the Committee to maintain free and open means of communications among the Board, the independent auditors, the internal auditors and the financial and senior management of the Corporation.

III. COMPOSITION OF THE COMMITTEE

The Committee shall consist of three or more directors as determined from time to time by the Board. The members of the Committee shall be appointed annually to one-year terms by a majority vote of the Board at the first meeting of the Board following the annual meeting of the Corporation's stockholders. Each Committee member shall serve until such member's successor is duly elected and qualified or until such member's earlier resignation, removal from office, death or incapacity. The members of the Committee may be removed, with or without cause, only by a majority vote of the Board. Vacancies shall be filled only by a majority of the Board at the next Board meeting following the occurrence of the vacancy or as soon as practicable thereafter. The members of the Committee shall satisfy all applicable requirements then in effect of the American Stock Exchange and any other stock exchange or national securities association on which the Corporation's securities are listed or quoted (such exchange or national securities association on which the Corporation's securities are listed or quoted, the "AMEX"), and any

other regulatory requirements, including without limitation requirements relating to director independence, nomination and size of the Committee.

Unless a chairperson of the Committee is designated by the full Board, a chairperson shall be designated by the Committee, by a majority vote of the full Committee membership. A chairperson will chair all meetings of the Committee, set the agenda for the Committee meetings and establish an annual calendar with a proposed agenda of the audit, financial and other related matters to be addressed at each of the Committee's scheduled meetings during the year. Committee members are expected to make suggestions for agenda items. A vacancy in the position of Committee chairperson shall be filled by majority vote of the Committee at the next Committee meeting following the occurrence of the vacancy or as soon as practicable thereafter.

Each member of the Committee shall be an "independent" director within the meaning of the AMEX rules and, as such, shall be free from any relationship that may interfere with the exercise of his or her independent judgment as a member of the Committee. All members of the Committee shall also satisfy the independence and experience requirements of Section 10A(m)(3) of the Securities Exchange Act of 1934 (the "Exchange Act"). Notwithstanding the foregoing, as permitted by the rules of the AMEX, under exceptional and limited circumstances, one director who does not meet certain of the criteria for "independence" may be appointed to the Committee if the Board determines in its business judgment that membership on the Committee by such person is required by the best interests of the Corporation and its stockholders and the Corporation discloses in the annual proxy statement the nature of such person's relationship and the reasons for the Board's determination. All members of the Committee shall be financially literate at the time of their election to the Committee or shall become financially literate within a reasonable period of time after their appointment to the Committee. "Financial literacy" shall be determined by the Board in the exercise of its business judgment and shall include a working familiarity with basic finance and accounting practices and an ability to read and understand fundamental financial statements. At least one member of the Committee shall have past employment experience in finance or accounting, requisite professional certification in accounting or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or senior officer with financial oversight responsibilities. At least one member of the Committee must be an "audit committee financial expert" under the requirements of the Sarbanes-Oxley Act of 2002. Committee members, if they or the Board deem it appropriate, may enhance their understanding of finance and accounting by participating in educational programs conducted by the Corporation or an outside consultant or firm.

Upon any changes in the composition of the Committee and otherwise approximately once each year, the Committee shall ensure that the Corporation provides the AMEX with written confirmation regarding:

- (i) Any determination that the Board has made regarding the independence of the Committee members;
- (ii) The financial literacy of the Committee members;

- (iii) The determination that at least one of the Committee members has accounting or related financial management expertise; and
- (iv) The annual review and reassessment of the adequacy of the Committee's charter.

IV. MEETINGS OF THE COMMITTEE

The Committee shall meet with such frequency and at such intervals as it shall determine is necessary to carry out its duties and responsibilities, but not less frequently than quarterly. As part of its purpose to foster open communications, the Committee shall meet at least annually with management, the head of the internal auditing department and the Corporation's independent auditors in separate executive sessions to discuss any matters that the Committee or each of these groups or persons believe should be discussed privately. In addition, the Committee (or the chairperson) should meet or confer with the independent auditors and management quarterly to review the Corporation's periodic financial statements prior to their filing with the Securities and Exchange Commission ("SEC"). The chairperson should work with the Chief Financial Officer and management to establish the agendas for Committee meetings. The Committee, in its discretion, may ask other directors, members of management or others to attend its meetings (or portions thereof) and to provide pertinent information as necessary. However, when necessary the Committee may meet in executive session without such other persons present. All non-management directors that are not members of the Committee may attend meetings of the Committee but may not vote.

A majority of the members of the Committee present in person or by means of a conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other shall constitute a quorum. The Committee shall act upon the vote of a majority of its members at a duly called meeting at which a quorum is present. Unless otherwise restricted by the certificate of incorporation or bylaws of the Corporation, any action may be taken by a written instrument signed by all of the members of the Committee. The Committee shall maintain minutes of its meetings and records relating to those meetings. Following each of its meetings, the Committee shall report its deliberations at the next meeting of the Board, including a description of all actions taken by the Committee at the meeting and an identification of any matter that requires action by the Board.

The Committee shall have the authority to establish other rules and procedures for notice and conduct of its meetings consistent with the Corporation's bylaws and this charter.

V. DUTIES AND RESPONSIBILITIES OF THE COMMITTEE

In carrying out its duties and responsibilities, the Committee's policies and procedures should remain flexible, so that it may be in a position to best react or respond to changing circumstances or conditions. The Committee annually shall review the Committee's own performance and review and reassess the adequacy of the Committee's charter. The Committee should recommend any proposed changes to the Committee's charter to the Board for approval. The charter must specify: (1) the scope of the Committee's responsibilities and how it carries out those responsibilities, (2) the ultimate accountability of the Corporation's independent auditors to

the Board and the Committee, (3) the responsibility of the Committee and the Board for the selection, evaluation and replacement of the Corporation's independent auditors, and (4) that the Committee is responsible for ensuring that the Corporation's independent auditors submit on a periodic basis to the Committee a formal written statement delineating all relationships between the independent auditors and the Corporation and that the Committee is responsible for actively engaging in a dialogue with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors and for recommending that the Board take appropriate action to ensure the independence of the independent auditors.

While there is no "blueprint" to be followed by the Committee in carrying out its duties and responsibilities, the following should be considered within the authority of the Committee:

Selection and Evaluation of Auditors

(a) Make recommendations to the Board as to the selection of the firm of independent public accountants to audit the books and accounts of the Corporation and its subsidiaries for each fiscal year;

(b) Review and approve the Corporation's independent auditors' annual engagement letter, including the proposed fees contained therein;

(c) Review the performance of the Corporation's independent auditors and make recommendations to the Board regarding the replacement or termination of the independent auditors when circumstances warrant;

(d) Oversee the independence of the Corporation's independent auditors by, among other things:

- (i) requiring the independent auditors to deliver to the Committee on a periodic basis a formal written statement delineating all relationships between the independent auditors and the Corporation; and
- (ii) actively engaging in a dialogue with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors and recommending that the Board take appropriate action to satisfy itself of the auditors' independence;

(e) Instruct the Corporation's independent auditors that they are ultimately accountable to the Committee and the Board and that the Committee and the Board are responsible for the selection (subject to stockholder approval if determined by the Board), and evaluation and termination of the Corporation's independent auditors;

(f) Appoint or replace the independent auditors (who shall report directly to the Committee) and be directly responsible for determining the compensation and oversight of work of the independent auditors (including resolution of disagreements between management and the

independent auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or related work;

Oversight of Annual Audit and Quarterly Reviews

(g) Review and accept, if appropriate, the annual audit plan of the Corporation's independent auditors, including the scope and staffing of audit activities, and monitor such plan's progress and results during the year;

(h) Pre-approve all auditing services and permitted non-audit services to be performed for the Corporation by its independent auditors, including the fees and terms thereof (subject to the *de minimus* exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which are approved by the Committee prior to the completion of the audit);

(i) Confirm through private discussions with the Corporation's independent auditors and the Corporation's management that no management restrictions are being placed on the scope of the independent auditors' work;

(j) Review and discuss with management and the independent auditors the annual audited financial statements, and recommend to the Board whether the audited financial statements should be included in the Corporation's Annual Report on Form 10-K;

(k) Review with management the results of the year-end audit of the Corporation, including (as applicable):

- (i) the audit report, the published financial statements, the management representation letter, the "Memorandum Regarding Accounting Procedures and Internal Control" or similar memorandum prepared by the Corporation's independent auditors, any other pertinent reports and management's responses concerning such memorandum;
- (ii) the qualitative judgments of the independent auditors about the appropriateness, not just the acceptability, of accounting principle and financial disclosure practices used or proposed to be adopted by the Corporation and, particularly, about the degree of aggressiveness or conservatism of its accounting principles and underlying estimates;
- (iii) the methods used to account for significant unusual transactions;
- (iv) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus;
- (v) management's process for formulating sensitive accounting estimates and the reasonableness of these estimates;
- (vi) significant recorded and unrecorded audit adjustments;

- (vii) any material accounting issues among management, the Corporation's internal auditing department and the independent auditors; and
- (viii) other matters required to be communicated to the Committee under generally accepted auditing standards, as amended, by the independent auditors;

(l) Review with management and the Corporation's independent auditors such accounting policies (and changes therein) of the Corporation, including any financial reporting issues which could have a material impact on the Corporation's financial statements, as are deemed appropriate for review by the Committee prior to any interim or year-end filings with the SEC or other regulatory body;

(m) Discuss within management and the independent auditors all alternative treatments of financial information with generally accepted accounting principles that have been discussed with management and the ramifications of the use of such alternative accounting principles and any material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences;

(n) Confirm that the Corporation's interim financial statements included in Quarterly Reports on Form 10-Q have been reviewed by the Corporation's independent auditors;

(o) Review and discuss with management and the independent auditors (i) the Corporation's earnings press releases generally, including the use of "pro forma" or "adjusted" non-GAAP information, and generally the Corporation's practices related to providing any financial information and earnings guidance to analysts and rating agencies, (ii) the effect on the Corporation's financial statements of regulatory and accounting initiatives and off-balance sheet structures, (iii) the major financial risk exposures and the steps management has taken to monitor and control such exposures and (iv) the matters required to be discussed by Statement of Auditing Standards No. 114 relating to the conduct of an audit;

Oversight of Financial Reporting Process and Internal Controls

(p) Review the adequacy and effectiveness of the Corporation's accounting and internal control policies and procedures through inquiry and discussions with the Corporation's independent auditors and management of the Corporation;

(q) Review with management the Corporation's administrative, operational and accounting internal controls, including controls and security of the computerized information systems, and evaluate whether the Corporation is operating in accordance with its prescribed policies, procedures and codes of conduct;

(r) Review with management and the independent auditors any reportable conditions and material weaknesses, as defined by the American Institute of Certified Public Accountants, affecting internal control;

(s) Receive periodic reports from the Corporation's independent auditors and management of the Corporation to assess the impact on the Corporation of significant accounting

or financial reporting developments proposed by the Financial Accounting Standards Board or the SEC or other regulatory body, or any other significant accounting or financial reporting related matters that may have a bearing on the Corporation;

(t) Establish and maintain free and open means of communication between and among the Board, the Committee, the Corporation's independent auditors, the Corporation's internal auditing department and management;

Other Matters

(u) Meet annually with the general counsel, and outside counsel when appropriate, to review legal and regulatory matters, including any matters that may have a material impact on the financial statements of the Corporation;

(v) Review the Corporation's Annual Reports on Form 10-K, the Corporation's Quarterly Reports on Form 10-Q and proxy statements prior to filing;

(w) Prepare a report to be included in each annual proxy statement (or, if not previously provided during the fiscal year, any other proxy statement or consent statement relating to the election of directors) of the Corporation which states, among other things, whether:

- (i) the Committee has reviewed and discussed with management the audited financial statements to be included in the Corporation's Annual Report on Form 10-K;
- (ii) the Committee has discussed with the Corporation's independent auditors the matters that the auditors are required to discuss with the Committee by Statements on Auditing Standard No. 61 (as it may be modified or supplemented);
- (iii) the Committee has obtained and reviewed, on an at least an annual basis, a report from the independent auditors, consistent with Independence Standards Board Standard No. 1, as may be modified or supplemented, regarding (a) the independent auditor's internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, (c) any steps taken to deal with such issues and (d) all relationships between the independent auditor and the Corporation, and has discussed with the independent auditors their independence; and
- (iv) based on the review and discussions described in subsections (i), (ii), (iii) and (iv) above, the Committee has recommended to the Board that the audited financial statements be included in the Corporation's Annual Report on Form 10-K for the last fiscal year for filing with the SEC;

(x) Review the Corporation's policies relating to the avoidance of conflicts of interest and review all related party transactions that are required to be disclosed pursuant to SEC Regulation S-K, Item 404, or any successor provision;

(y) Review the policies and procedures with respect to officers' expense accounts and perquisites, including the use of corporate assets. The Committee shall consider the results of any review of these policies and procedures by the Corporation's independent auditors;

(z) Review the Corporation's program to monitor compliance with the Corporation's Code of Ethics, and meet periodically with the Corporation's General Counsel to discuss compliance with the Code of Ethics;

(aa) Obtain from the independent auditors any information pursuant to Section 10A of the Exchange Act;

(bb) Conduct or authorize investigations into any matters within the Committee's scope of responsibilities; and

(cc) Perform such additional activities, and consider such other matters, within the scope of its responsibilities, as the Committee or the Board deems necessary or appropriate.

With respect to the duties and responsibilities listed above, the Committee should:

(1) Report regularly to the Board on its activities, as appropriate;

(2) Exercise reasonable diligence in gathering and considering all material information;

(3) Understand and weigh alternative courses of conduct that may be available;

(4) Focus on weighing the benefit versus harm to the Corporation and its stockholders when considering alternative recommendations or courses of action;

(5) If the Committee deems it appropriate, secure independent expert advice and understand the expert's findings and the basis for such findings, including retaining independent auditors, outside counsel or other consultants or experts, at the Corporation's expense, to assist the Committee in fulfilling its duties and responsibilities; and

(6) Provide management, the Corporation's independent auditors and internal auditors with appropriate opportunities to meet privately with the Committee.

VI. DELEGATION OF AUTHORITY

The Committee may form subcommittees, consisting of one or more members of the Committee, for any purpose that the Committee deems appropriate and may delegate to such subcommittees such power and authority within the scope of the Committee's authority; provided, however, that no subcommittee shall consist of fewer than two members; and provided further that the Committee shall not delegate to a subcommittee any power or authority required

by any applicable law, regulation or listing standard to be exercised by the Committee as a whole.

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While the Committee has the duties and responsibilities set forth in this charter, the Committee is not responsible for planning or conducting the audit or for determining whether the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Similarly, it is not the responsibility of the Committee to resolve disagreements, if any, between management and the independent auditors or to ensure that the Corporation complies with all laws and regulations and its Code of Ethics. Nothing contained in this Charter is intended to create, or should be construed as creating, any responsibility or liability of members of the Committee, except to the extent otherwise provided under applicable federal or state law.

In addition, each member of the Committee, in the performance of his or her duties, will be entitled to rely in good faith upon reports presented to the Committee by the Corporation's officers, employees, and other persons who may be engaged by the Committee who may have more time, knowledge and detailed information about the Corporation than do the Committee members. The Committee will review information, opinions, reports or statements of such persons presented to the Committee as to matters the Committee members reasonably believe are within such other persons' professional or expert competence and who have been selected with reasonable care by or on behalf of the Corporation. The Committee's role is one of oversight, and thus, the Committee is not responsible for certifying the Corporation's financial statements or auditor's report. Accordingly, the Committee's role does not provide any special assurances.
