

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

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**I. AUTHORITY**

The Compensation 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 purposes are to oversee the Corporation's compensation and employee benefit plans and practices, including its executive compensation plans and its incentive-compensation and equity-based plans; to review and discuss with management the Corporation's compensation discussion and analysis ("CD&A") to be included in the Corporation's annual proxy statement or annual report on Form 10-K filed with the Securities and Exchange Commission ("SEC"); to prepare the Compensation Committee Report as required by the rules of the SEC; to recommend compensation policies to the Board; and to perform any other responsibilities vested in it pursuant to this Charter.

**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 annually appointed 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 vote of the Board at the next Board meeting following the occurrence of the vacancy or as soon as practicable thereafter. Each member 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 applicable regulatory requirement relating to director independence, nomination and size of the Committee. In addition, at least two of the Committee members must qualify as "non-employee directors" within the meaning of Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and "outside directors" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). Collectively, the requirements set forth

in the immediately preceding two sentences are referred to as the "Independence Requirements," and the directors who qualify thereunder are referred to as the "Independent Directors."

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. The 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 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 a majority vote of the full Committee membership at the next Committee meeting following the occurrence of the vacancy or as soon as practicable thereafter.

#### **IV. MEETINGS AND PROCEDURES OF THE COMMITTEE**

The Committee shall meet as often as it determines necessary to carry out its duties and responsibilities, but no less frequently than two times annually. The Committee, in its discretion, may ask any other director, officer, employee, outside legal counsel, independent auditor, or any other professional retained by the Corporation to render advice to the Corporation, to attend a meeting of the Committee or meet with any members or advisors to the Committee to provide pertinent information as necessary. However, when necessary, the Committee may meet in executive session without such other persons present, and in all cases, no officer or employee of the Corporation, including the CEO, may be present during voting or deliberations with respect to their own compensation. 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**

### **A. *Executive Compensation***

The Committee shall have the following duties and responsibilities with respect to the Corporation's executive compensation plans:

(a) To review at least annually and to approve, either as a committee or together with the other Independent Directors: (i) the Corporation's overall compensation philosophy and policies for executive officers of the Corporation and its subsidiaries generally and (ii) the goals and objectives of the Corporation and its compensation plans with respect to the compensation of executive officers of the Corporation and its subsidiaries with the primary overall objectives of the Corporation's executive compensation program focused on attracting, retaining and motivating the Corporation's management, providing a strong link between executive compensation and performance and such other objectives as may from time to time be determined by the Committee to be in the best interests of the Corporation; and to amend, either as a committee or together with the other Independent Directors, these goals and objectives if the Committee deems it appropriate.

(b) To review at least annually the Corporation's executive compensation plans in light of the Corporation's goals and objectives with respect to such plans, and, if the Committee deems it appropriate, adopt, either as a committee or together with the other Independent Directors, new, or the amendment of existing, executive compensation plans.

(c) In consultation with management, to oversee regulatory compliance with respect to compensation matters, including, but not limited to: (i) overseeing the Corporation's policies on structuring compensation programs to preserve tax deductibility and, as required, establishing and administering a corporate policies regarding compensation paid to the Corporation's executive officers in excess of limits deductible under Section 162(m) of the Code; and (ii) monitoring the Corporation's compliance with the requirements of the Sarbanes-Oxley Act of 2002 relating to 401(k) plans and loans to directors and corporate officers and with all other applicable laws affecting employee compensation.

(d) To request that management obtain information in order for the Committee to assess executive compensation, including compensation surveys and studies of the compensation practices of comparable companies.

(e) To evaluate annually the performance of the Chief Executive Officer in light of the goals and objectives of the Corporation's executive compensation plans and to review and recommend the Chief Executive Officer's compensation level, including annual salary, bonus, equity grants, performance-related pay, perquisites or other personal benefits, retirement benefits, deferred compensation, tax gross-ups, supplemental executive retirement plans, severance payments, change-in-control agreements and all awards of shares or share options based on this evaluation for

approval, either as a committee or together with the other Independent Directors. In determining the long-term incentive component of the Chief Executive Officer's compensation, the Committee shall consider all relevant factors, including the Corporation's performance and relative stockholder return, the value of similar awards to chief executive officers of comparable companies, and the awards given to the Chief Executive Officer of the Corporation in past years. The Committee may discuss the Chief Executive Officer's compensation with the Board if it chooses to do so.

(f) To evaluate annually the performance of the other executive officers of the Corporation in light of the goals and objectives of the Corporation's executive compensation plans, and to determine and approve, either as a committee or together with the other Independent Directors, the compensation of such other executive officers based on this evaluation, including annual salary, bonus, equity grants, performance-related pay, perquisites or other personal benefits, retirement benefits, deferred compensation, tax gross-ups, supplemental executive retirement plans, severance payments, change-in-control agreements and all awards of shares or share options. To the extent that long-term incentive compensation is a component of such executive officer's compensation, the Committee shall consider all relevant factors in determining the appropriate level of such compensation, including the factors applicable with respect to the Chief Executive Officer.

(g) To evaluate annually director compensation, if any, and recommend for full Board approval from time to time any proposed changes in such compensation.

(h) To review and approve, either as a committee or together with the other Independent Directors, any employment contract or related agreements, such as severance or termination arrangements to be made with any executive officer of the Corporation.

(i) To perform such duties and responsibilities as may be assigned to the Committee under the terms of any executive compensation plan.

(j) To review and approve, either as a committee or together with the other Independent Directors perquisites or other personal benefits to the Corporation's directors and recommend any changes to the Board.

(k) To review and discuss with management the Corporation's CD&A and, based on that review and discussion, to recommend to the Board that the CD&A be included in the Corporation's annual proxy statement or annual report on Form 10-K, in accordance with applicable rules and regulations promulgated by the SEC, the AMEX and other regulatory bodies.

(l) To prepare the Compensation Committee Report in accordance with the rules and regulations of the SEC for inclusion in the Corporation's annual proxy statement or annual report on Form 10-K.

(m) To review the description of the Committee's processes and procedures for the consideration and determination of executive and director compensation to be included in the Corporation's annual proxy statement or annual report on Form 10-K.

(n) To consider such other matters in relation to the compensation policies of the Corporation as the Committee or the Board may, in its discretion, determine to be advisable.

(o) To (i) review executive officer and director indemnification and insurance matters, (ii) serve as a counseling committee to the Chief Executive Officer of the Corporation regarding matters of key personnel selection, compensation matters and such other matters as the Board may from time to time direct and (iii) review the procedures and policies of the Corporation designed to ensure compliance with applicable laws and regulations relating to compensation of executive officers and to monitor the results of these compliance efforts.

***B. General Compensation and Employee Benefit Plans***

The Committee shall have the following duties and responsibilities with respect to the Corporation's general compensation and employee benefit plans, including incentive-compensation and equity-based plans:

(a) To review at least annually the goals and objectives of the Corporation's general compensation plans and other employee benefit plans, including incentive-compensation and equity-based plans, and amend, either as a committee or together with the Board, these goals and objectives if the Committee deems it appropriate.

(b) To review at least annually the Corporation's general compensation plans and other employee benefit plans, including incentive-compensation and equity-based plans, in light of the goals and objectives of these plans, and amend (to the extent that is has the authority to amend), either as a committee or together with the Board, these plans if the Committee deems it appropriate.

(c) To perform such duties and responsibilities as may be assigned to the Committee under the terms of any compensation or other employee benefit plan, including any incentive-compensation or equity-based plan.

(d) To review all equity compensation plans to be submitted for stockholder approval under the AMEX rules, and to review and, in the Committee's sole discretion, approve, either as a committee or together with the Board, all equity compensation plans that are exempt from such stockholder approval requirement.

## **VI. ROLE OF CHIEF EXECUTIVE OFFICER**

The Chief Executive Officer may make, and the Committee may consider recommendations to the Committee regarding the Corporation's compensation and employee benefit plans and practices, including its executive compensation plans, its incentive-compensation and equity-based plans with respect to executive officers other than the Chief Executive Officer and the Corporation's director compensation arrangements.

## **VII. 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 as the Committee deems appropriate; *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 law, regulation or listing standard to be exercised by the Committee as a whole, including its responsibilities for any matters that involve executive compensation or any matters where it has determined such compensation is intended to comply with Section 162(m) of the Code or is intended to be exempt from Section 16(b) under the Exchange Act pursuant to Rule 16b-3, unless the members of such subcommittee each qualify as "outside directors" under Section 162(m) and "non-employee directors" under Rule 16b-3. Where so permitted, a subcommittee of the Committee may exercise the powers and authority of the Committee and the Board while acting within the scope of the powers and responsibilities delegated to it.

If any Committee member does not qualify as a "non-employee director" for purposes of Rule 16b-3 under the Exchange Act and as an "outside director" under Section 162(m) of the Code, the Committee shall establish a subcommittee (the "Section 162(m) Subcommittee") whose members shall qualify as "non-employee directors" for purposes of Rule 16b-3 under the Exchange Act and "outside directors" under Section 162(m) of the Code, and whose duties shall include (1) the approval of grants of stock options to the Corporation's executive officers, including the Chief Executive Officer, in accordance with Rule 16b-3 under the Exchange Act, (2) the adoption of performance goals with respect to performance based compensation for executive officers, including the Chief Executive Officer in accordance with Section 162(m) of the Code, (3) the determination of whether performance goals have been met before performance based compensation is paid to executive officers in accordance with Section 162(m) of the Code, (4) the administration of the Corporation's 2007 Performance Incentive Equity Plan and (5) any other action required to be performed by a committee or subcommittee of "non-employee directors" (pursuant to Rule 16b-3) and "outside directors" (pursuant to Section 162(m)) of the Code.

## **VIII. EVALUATION OF THE COMMITTEE**

The Committee shall, on an annual basis, evaluate its performance. In conducting this review, the Committee shall evaluate whether this Charter appropriately addresses the matters that are or should be within its scope and shall recommend to the Board such changes as it deems necessary or appropriate. The Committee shall address all matters that the Committee considers relevant to its performance, including at least the following: the adequacy, appropriateness and quality of the information and recommendations presented by the Committee to the Board, the manner in which they were discussed or debated, and whether the number and length of meetings of the Committee were adequate for the Committee to complete its work in a thorough and thoughtful manner.

The Committee shall deliver to the Board a report, which may be oral, setting forth the results of its evaluation, including any recommended amendments to this Charter and any recommended changes to the Corporation's or the Board's policies or procedures.

## **IX. INVESTIGATIONS AND STUDIES; OUTSIDE ADVISERS**

The Committee may conduct or authorize investigations into or studies of matters within the Committee's scope of responsibilities and may retain, at the Corporation's expense, such independent counsel or other consultants or advisers as it deems necessary or appropriate, including compensation consultants to advise the Committee with respect to amounts or forms of executive and director compensation. The Committee shall have the sole authority to retain or terminate any compensation consultant to assist the Committee in carrying out its responsibilities, including sole authority to approve the consultant's fees and other retention terms, such fees to be borne by the Corporation.

While the members of the Committee have the duties and responsibilities set forth in this Charter, 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. 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. Accordingly, the Committee's role does not provide any special assurances with regard to matters that are outside the Committee's area of expertise or that are the traditional responsibility of management.