

Post Holdings, Inc.
Form DEF 14A
December 12, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN
PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934
Filed by the registrant
Filed by a party other than the registrant
Check the appropriate box:

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

Post Holdings, Inc.
(Name of registrant as specified in its charter)
Payment of the filing fee (check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies:
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
 - (4) Proposed maximum aggregate value of transaction:
 - (5) Total fee paid:
- Fee paid previously with preliminary materials.
Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
 - (1) Amount previously paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing party:
 - (4) Date filed:

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December 12, 2014

Dear fellow shareholders:

You are cordially invited to attend our annual meeting of shareholders on Thursday, January 29, 2015. We will hold the meeting at 9:00 a.m., Central Time, at Gateway Center, One Gateway Drive, Collinsville, Illinois 62234.

In connection with the annual meeting, we have prepared a notice of the meeting, a proxy statement, a proxy card and our annual report for the fiscal year ended September 30, 2014, which contain detailed information about us and our operating and financial performance. On or about December 12, 2014, we began mailing to our shareholders these materials or a Notice of Availability of Proxy Materials containing instructions on how to access these materials online.

Whether or not you plan to attend the meeting, we encourage you to vote your shares. You may vote by telephone or on the Internet, or if you received or requested to receive printed proxy materials, complete, sign and return the enclosed proxy card in the postage-paid envelope enclosed with the proxy materials. The prompt execution of your proxy will be greatly appreciated.

Sincerely,
William P. Stiritz
Executive Chairman

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Post Holdings, Inc.
2503 S. Hanley Road
St. Louis, Missouri 63144
December 12, 2014

Notice of Annual Meeting of Shareholders

Dear shareholders:

The 2015 annual meeting of shareholders of Post Holdings, Inc. will be held at 9:00 a.m., Central Time, on Thursday, January 29, 2015, at Gateway Center, One Gateway Drive, Collinsville, Illinois 62234. At the annual meeting, shareholders will consider the following matters:

1. the election of three nominees for director;
2. a proposal to approve increases in the number of shares of our common stock issuable upon conversion of our 2.5% Series C Cumulative Perpetual Convertible Preferred Stock;
3. the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm;
4. an advisory vote on executive compensation; and
5. any other business properly introduced at the annual meeting.

The close of business on December 2, 2014 has been fixed as the record date for the determination of shareholders entitled to receive notice of and to vote at the annual meeting or any adjournment or postponement thereof. This notice of the meeting and the proxy statement and proxy card are first being sent or made available to shareholders on or about December 12, 2014.

We are pleased to take advantage of Securities and Exchange Commission rules that allow us to furnish these proxy materials and our Annual Report to Shareholders on the Internet. This means that most shareholders will not receive paper copies of our proxy materials and Annual Report. We will instead send shareholders a Notice Regarding the Availability of Proxy Materials (the "Notice") with instructions for accessing the proxy materials and Annual Report on the Internet. We believe that posting these materials on the Internet enables us to provide shareholders with the information that they need more quickly, while lowering our costs of printing and delivery and reducing the environmental impact of our 2015 Annual Meeting.

Your vote is important. Please note that if you hold your shares through a broker, your broker cannot vote your shares on any matter except ratification of the appointment of our independent registered public accounting firm in the absence of your specific instructions as to how to vote. In order for your vote to be counted, please make sure that you submit your vote to your broker.

By order of the Board of Directors,
Diedre J. Gray
Senior Vice President, General Counsel
and Administration, Secretary

IMPORTANT NOTICE REGARDING AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON JANUARY 29, 2015

This notice, the proxy statement attached to this notice, and our annual report to shareholders for the fiscal year ended September 30, 2014 are available at www.edocumentview.com/Post and on our website at www.postholdings.com.

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PROXY STATEMENT SUMMARY

This summary highlights information contained elsewhere in this proxy statement. This summary is not a complete description, and you should read the entire proxy statement carefully before voting.

ANNUAL MEETING

Time and Date	9:00 a.m. Central Time on Thursday, January 29, 2015
Place	Gateway Center One Gateway Drive Collinsville, IL 62234
Record Date	December 2, 2014
Voting	Shareholders on the record date are entitled to one vote per share on each matter to be voted upon at the Annual Meeting.

VOTING ITEMS

Item	Board Recommendation	Page Reference
Item 1 - Election of Three Directors	For all nominees	11
Item 2 - Proposal to approve increases in the number of shares of our common stock issuable upon conversion of our 2.5% Series C Cumulative Perpetual Convertible Preferred Stock	For	14
Item 3 - Ratification of the Selection of PricewaterhouseCoopers LLP as our Independent Registered Public Accounting Firm for Fiscal 2015	For	17
Item 4 - Advisory Vote to Approve Executive Compensation	For	37

Transact any other business that properly comes before the meeting.

BOARD OF DIRECTORS

The following table provides summary information about each director nominee as of November 1, 2014. At our Annual Meeting, shareholders will be asked to elect the three director nominees in Class III listed in the table below.

Class III - Directors whose terms expire at the 2015 Annual Meeting of Shareholders and who are nominees for terms expiring at the 2018 Annual Meeting

Name	Director Since	Occupation and Experience	Independent	Board Committees ⁽¹⁾			
				AC	CGCC	EC	SFOC
William P. Stiritz	2012	Chairman of the Board and Executive Chairman of Post Holdings, Inc.	No			X	X
Jay W. Brown	2012	Retired executive	Yes	X	X		X
Edwin H. Callison	2012	Executive Vice President, Wirtz Beverage Group	Yes	X	X		

- (1) AC - Audit Committee; CGCC - Corporate Governance & Compensation Committee; EC - Executive Committee; SFOC - Strategy & Financial Oversight Committee

APPROVAL OF PROPOSAL TO APPROVE INCREASES IN NUMBER OF SHARES OF COMMON STOCK ISSUABLE UPON CONVERSION OF OUR 2.5% SERIES C CUMULATIVE PERPETUAL CONVERTIBLE PREFERRED STOCK

We are asking our shareholders to consider and vote upon a proposal to approve increases in the number of shares of our common stock issuable upon conversion of our 2.5% Series C Cumulative Perpetual Convertible Preferred Stock that would result from the occurrence of certain events, such as “fundamental changes” and certain recapitalizations, reclassifications or other changes in our common stock, including cash dividend payments. Rules of the New York Stock Exchange, or NYSE, upon which our common stock trades, limit the number of shares of our common stock that we may issue without shareholder approval upon conversion of our convertible preferred stock. Approval of the proposal would allow us to issue shares of our common stock upon conversion of the convertible preferred stock in excess of the limits currently in effect or applicable to the convertible preferred stock. While we currently do not know whether we will ever undergo a fundamental change under circumstances that would result in a conversion rate in excess of the limits currently in effect or whether we will ever effect any of the transactions that would increase the conversion rate above current limits, if the proposal is approved we would be able to avoid the additional demands on our cash flows and liquidity associated with the increased dividend rate we would otherwise be obligated to pay. Additionally, our board of directors and management will have greater flexibility if they determine that a fundamental change, dividend, recapitalization or other transaction described in the proposal would be in the best interests of us and our shareholders, even if the conversion rate as adjusted for those transactions would otherwise result in the issuance of shares in excess of the NYSE rule limits. A similar proposal was considered at our 2014 Annual Meeting with respect to our 3.75% Series B Cumulative Perpetual Convertible Preferred Stock and the matter was approved by approximately 89% of the votes cast.

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INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We are asking our shareholders to ratify the selection of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending September 30, 2015.

EXECUTIVE COMPENSATION

Consistent with the provisions of Section 14A of the Securities Exchange Act of 1934 (which was added by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010) and related U.S. Securities and Exchange Commission rules, our board is asking that our shareholders vote to approve, on an advisory (non-binding) basis, the compensation of our named executive officers as disclosed in this proxy statement. This vote is not intended to address any specific item of our compensation program, but rather addresses our overall approach to the compensation of our named executive officers.

As described in detail in this proxy statement, we seek to closely align the interests of our corporate officers with the interests of our shareholders. Our compensation programs are designed to reward our corporate officers for the achievement of financial and operating performance.

Our “named executive officers” are those individuals who served as our Chief Executive Officer and Chief Financial Officer during fiscal 2014 as well as the three other most highly compensated officers. Please read “Compensation Discussion and Analysis” beginning on page 19 and the executive compensation tables beginning on page 27 for additional details about our executive compensation programs, including information about our named executive officers’ fiscal 2014 compensation.

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PROXY AND VOTING INFORMATION

Why am I receiving these materials?

Our board of directors is soliciting proxies for the 2015 annual meeting of shareholders. This proxy statement, the form of proxy and the Company's 2014 Annual Report to Shareholders will be available at www.edocumentview.com/Post beginning on December 12, 2014. On or about December 12, 2014, a Notice Regarding the Availability of Proxy Materials (the "Notice") will be mailed to shareholders of record at the close of business on December 2, 2014. On the record date, there were 44,860,090 shares of our common stock outstanding. How can I receive printed proxy materials?

This year we have elected to take advantage of the U.S. Security and Exchange Commission (the "SEC") rule that allows us to furnish proxy materials to you online. We believe electronic delivery will expedite shareholders' receipt of materials, while lowering costs and reducing the environmental impact of our Annual Meeting by reducing printing and mailing of full sets of materials. On or about December 12, 2014, we mailed to many of our shareholders a Notice containing instructions on how to access our proxy statement and annual report online. If you received a Notice by mail, you will not receive a printed copy of the proxy materials unless you specifically request one. However, the Notice contains instructions on how to receive a paper copy of the materials.

Where and when is the annual meeting?

We will hold the annual meeting on Thursday, January 29, 2015, at 9:00 a.m., Central Time, at Gateway Center, One Gateway Drive, Collinsville, Illinois 62234.

What am I being asked to vote on at the meeting?

We are asking our shareholders to consider the following items:

1. the election of the three nominees for director named in this proxy statement;
2. a proposal to approve increases in the number of shares of our common stock issuable upon conversion of our 2.5% Series C Cumulative Perpetual Convertible Preferred Stock;
3. the ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm;
4. an advisory vote on executive compensation; and
5. any other business properly introduced at the annual meeting.

How many votes do I have?

You have one vote for each share of our common stock that you owned at the close of business on the record date.

These shares include:

• shares registered directly in your name with our transfer agent, for which you are considered the "shareholder of record;"

• shares held for you as the beneficial owner through a broker, bank or other nominee in "street name;" and

• shares credited to your account in our savings investment plan.

What is the difference between holding shares as a "shareholder of record" and as a "beneficial owner"?

If your shares are registered directly in your name with our transfer agent, you are considered the "shareholder of record" with respect to those shares. We have sent these proxy materials directly to you.

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the "beneficial owner" of the shares held in street name. Your broker, bank or other nominee who is considered the shareholder of record with respect to those shares has forwarded these proxy materials to you. As the beneficial owner, you have the right to direct your broker, bank or other nominee on how to vote your shares by using the voting instruction card included in the mailing or by following their instructions for voting by telephone or the Internet.

How can I vote my shares?

You can vote by proxy or in person.

How do I vote by proxy?

Pursuant to rules adopted by the SEC, we are providing you access to our proxy materials over the Internet.

Accordingly, we are sending a Notice to our shareholders of record. If you received a Notice by mail, you will not receive a printed copy of

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the proxy materials, including a printed proxy card, unless you request to receive these materials. The Notice will instruct you as to how you may access and review the proxy materials on the Internet on the website referred to in the Notice. The Notice also instructs you as to how you may access your proxy card to vote on the Internet.

If you are a shareholder of record, you may vote by telephone, Internet or mail. Our telephone and Internet voting procedures are designed to authenticate shareholders by using individual control numbers that can be found on the proxy card.

Registered Shares:

Voting by telephone: You can vote by calling 800-652-VOTE (8683) and following the instructions provided.

Telephone voting is available 24 hours a day, 7 days a week, until 1:00 a.m., Central Time, on Thursday, January 29, 2015.

Voting by Internet: You can vote via the Internet by accessing www.envisionreports.com/POST and following the instructions provided. Internet voting is available 24 hours a day, 7 days a week, until 1:00 a.m., Central Time, on Thursday, January 29, 2015.

Voting by mail: If you choose to vote by mail (if you request printed copies of the proxy materials by mail), simply mark your proxy card, date and sign it, and return it in the postage-paid envelope provided.

Street Name Shares: If you hold shares through a bank, broker or other institution, you will receive material from that firm explaining how to vote.

If you submit your proxy using any of these methods, Jeff A. Zadoks or Diedre J. Gray, who have been appointed by our board of directors as the proxies for our shareholders for this meeting, will vote your shares in the manner you indicate. You may specify whether your shares should be voted for all, some, or none of the nominees for director and for or against any other proposals properly introduced at the annual meeting. If you vote by telephone or Internet and choose to vote with the recommendation of our board of directors, or if you vote by mail, sign your proxy card, and do not indicate specific choices, your shares will be voted "FOR" the election of all three nominees for director; "FOR" the proposal to approve increases in the number of shares of our common stock issuable upon conversion of our convertible preferred stock; "FOR" ratification of the appointment of our independent public accounting firm; and "FOR" the proposal regarding an advisory vote on executive compensation.

If any other matter is presented at the meeting, your proxy will authorize Jeff A. Zadoks or Diedre J. Gray to vote your shares in accordance with their best judgment. At the time this proxy statement was printed, we knew of no matters to be considered at the annual meeting other than those referenced in this proxy statement.

If you wish to give a proxy to someone other than Jeff A. Zadoks or Diedre J. Gray, you may strike out their names on the proxy card and write in the name of any other person, sign the proxy, and deliver it to the person whose name has been substituted.

How can I revoke my proxy?

You may revoke a proxy in any one of the following four ways:

- submit a valid, later-dated proxy;
- vote again electronically after your original vote;
- notify our corporate secretary in writing before the annual meeting that you have revoked your proxy; or
- vote in person at the annual meeting.

How do I vote in person?

If you are a shareholder of record, you may attend the annual meeting and cast your vote in person. If you hold shares in street name, then you will need to bring an account statement or letter from your broker, bank or other nominee indicating that you were the record holder of your shares as of December 2, 2014.

If I hold shares in street name, how can I vote my shares?

You can submit voting instructions to your broker, bank or other nominee. In most instances, you will be able to do this by telephone, over the Internet or by mail. Please refer to the materials you receive from your broker, bank or other nominee.

How do I vote my shares in the savings investment plan?

If you are both a registered shareholder and a participant in our savings investment plan, you will receive a single proxy card that covers shares of our common stock credited to your plan account as well as shares of record registered

in exactly the same name. Accordingly, your proxy card also serves as a voting instruction for the trustee of the plan.
If your plan account is

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not carried in exactly the same name as your shares of record, you will receive separate proxy cards for individual and plan holdings. If you own shares through this plan and you do not return your proxy by 4:00 p.m., Central Time, on January 26, 2015, the trustee will vote your shares in the same proportion as the shares that are voted by the other participants in the plan. The trustee will also vote unallocated shares of our common stock held in the plan in direct proportion to the voting of allocated shares in the plan for which voting instructions have been received unless doing so would be inconsistent with the trustee's duties.

Is my vote confidential?

Yes. Voting tabulations are confidential except in extremely limited circumstances. Such limited circumstances include contested solicitation of proxies, when disclosure is required by law, to defend a claim against us or to assert a claim by us, and when a shareholder's written comments appear on a proxy or other voting material.

What "quorum" is required for the annual meeting?

In order to have a valid shareholder vote, a quorum must exist at the annual meeting. For us, a quorum exists when shareholders holding a majority of the outstanding shares entitled to vote at the meeting are present or represented at the meeting, provided that in no event shall a quorum consist of less than a majority of the outstanding shares entitled to vote.

What vote is required?

The affirmative vote of a majority of the shares present and entitled to vote at the meeting is required for a director nominee to be elected and for each of the items to be presented to the shareholders for approval.

How are the voting results determined?

A proxy card marked "withhold" for a nominee will not be voted for that nominee. A proxy card marked "abstain" on a matter will be considered to be represented at the annual meeting, but not voted for these purposes. If a broker indicates on its proxy that it does not have authority to vote certain shares held in "street name," the shares not voted are referred to as "broker non-votes." Broker non-votes occur when brokers do not have discretionary voting authority to vote certain shares held in "street name" on particular proposals under the rules of the New York Stock Exchange ("NYSE"), and the "beneficial owner" of those shares has not instructed the broker to vote on those proposals. If you are a beneficial owner, your broker, bank or other nominee is permitted to vote your shares only with regard to ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm, even if the holder does not receive voting instructions from you. Shares registered in the name of a broker, bank or other nominee, for which proxies are voted on some, but not all matters, will be considered to be represented at the annual meeting for purposes of determining a quorum and voted only as to those matters marked on the proxy card.

Is any other business expected at the meeting?

The board of directors does not intend to present any business at the annual meeting other than the proposals described in this proxy statement. However, if any other matter properly comes before the annual meeting, including any shareholder proposal omitted from the proxy statement and form of proxy pursuant to Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") your proxies will act on such matter in their discretion.

Where can I find the voting results?

We intend to announce preliminary voting results at the annual meeting. We will publish the final results in a Current Report on Form 8-K, which we expect to file on or before February 4, 2015. You can obtain a copy of the Form 8-K by logging on to our website at www.postholdings.com, by calling the SEC at 800-SEC-0330 for the location of the nearest public reference room, or through the EDGAR system at www.sec.gov. Information on our website does not constitute part of this proxy statement.

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CORPORATE GOVERNANCE

Overview

We are dedicated to creating long-term shareholder value. It is our policy to conduct our business with integrity and an unrelenting passion for providing value to our customers and consumers. All of our corporate governance materials, including our corporate governance guidelines, our global standards of business conduct, our director code of ethics and board committee charters, are published under the Corporate Governance section within the Investor Relations portion of our website at www.postholdings.com. Information on our website does not constitute part of this proxy statement. The board of directors regularly reviews these materials, Missouri law, the rules and listing standards of the NYSE and SEC rules and regulations, as well as best practices suggested by recognized governance authorities, and modifies our corporate governance materials as warranted.

Director Independence

Our board of directors follows the categorical independence standards based on the NYSE listing standards and the SEC rules and regulations as described in our corporate governance guidelines. The guidelines contain the categorical standards our board uses to make its determination as to the materiality of the relationships of each of our directors. Our board has determined, in its judgment, that all of our non-employee directors, except Mr. David Skarie, are independent directors as defined in the NYSE listing standards and the SEC rules and regulations. The board determined that Mr. Skarie is not an independent director since he previously served as co-CEO and President of Ralcorp Holdings, Inc. (“Ralcorp”), our former parent company, until December 2011. We anticipate that Mr. Skarie will be determined to be independent as of December 2014.

The independent members of the board of directors meet regularly without the presence of management. These sessions are normally held following or in conjunction with regular board meetings. The lead independent director, or the chairman of the committee then in session, acts as the presiding director during executive sessions. As the Chairman of our Corporate Governance and Compensation Committee, Mr. Robert Grote currently serves as our lead independent director.

Code of Ethics

Our global standards of business conduct, applicable to all corporate officers and employees, sets forth our expectations for the conduct of business by corporate officers and employees. Our directors have adopted, and are required to abide by, a director code of ethics. We intend to post amendments to or waivers from (to the extent applicable to one of our corporate officers or directors) these documents on our website.

Conflicts of Interest

Pursuant to our conflict of interest policy, global standards of business conduct and director code of ethics, each director and corporate officer has an obligation not to engage in any transaction that could be deemed a conflict of interest. Our directors may not engage in any transaction that could impact their independence on the board of directors.

The Corporate Governance and Compensation Committee is responsible for approving and ratifying transactions in which one or more directors may have an interest. The Committee reviews the material facts of all interested party transactions that require the Committee’s approval and either approves or disapproves of the entry into the interested party transaction. In the event management, in the normal course of reviewing our records, determines an interested party transaction exists which was not approved by the Committee, management will present the transaction to the Committee for consideration.

The Committee has adopted standing pre-approval of certain transactions in which a corporate officer or director may have an interest including (i) transactions involving competitive bids, (ii) certain charitable contributions, and (iii) certain banking related services. The Committee believes these transactions are immaterial to us and to any director or corporate officer. No director may participate in the approval of an interested party transaction for which he is a related party. If an interested party transaction will be ongoing, the Committee may establish guidelines for our

management to follow in its ongoing dealings with the related party.

Structure of the Board of Directors

Our articles of incorporation and bylaws provide for a board of directors that is divided into three classes as equal in size as possible. The classes have three-year terms, and the term of one class expires each year in rotation at that year's annual meeting. The size of the board of directors can be changed by a vote of its members. The board of directors is currently comprised of eight members. Vacancies on the board of directors may be filled by a majority of the remaining directors. A director elected to fill a vacancy, or a new directorship created by an increase in the size of the board of directors, serves until

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the next meeting of shareholders at which directors are elected, at which he or she may stand for election if nominated by the full board.

Board Meetings and Committees

The board of directors has the following four committees: Audit, Corporate Governance and Compensation, Executive and Strategy and Financial Oversight. The table below contains information concerning the membership of each of the committees and the number of times the board of directors and each committee met during fiscal 2014. During fiscal 2014, each director attended at least 75% of the total number of meetings of the board of directors and of the committees on which he serves. Our corporate governance guidelines do not require the directors to attend the annual meeting of shareholders.

Director	Board	Audit	Corporate Governance and Compensation	Executive	Strategy and Financial Oversight
William P. Stiritz	Δ			Δ	Δ
Terence E. Block	•			•	•
Jay W. Brown	•	•	•		•
Edwin H. Callison	•	Δ			
Gregory L. Curl	•	•	•		•
William H. Danforth	•		•		
Robert E. Grote	•		Δ		
David P. Skarie	•			•	
Meetings held in fiscal 2014	9	4	4	0	3
Δ – Chair	•	– Member			

Effective November 1, 2014, Mr. Terence E. Block resigned from his positions as President and Chief Operating Officer and a member of the board of directors of the Company, and all committees thereof. Also effective November 1, 2014, the board appointed Robert V. Vitale, our current President and Chief Executive Officer, to serve as a member of our board of directors. Mr. Vitale is also a member of the Executive and Strategy and Financial Oversight Committees.

Audit Committee

The Audit Committee's primary responsibilities are to monitor and oversee (a) the quality and integrity of our financial statements and financial reporting, (b) the independence and qualifications of our independent auditors, (c) the performance of our independent audit, (d) our systems of internal accounting, financial controls and disclosure controls, and (e) compliance with legal and regulatory requirements, codes of conduct and ethics programs.

The board of directors has determined, in its judgment, that the Audit Committee is comprised solely of independent directors as defined in the NYSE listing standards and Rule 10A-3 of the Exchange Act. The committee operates under a written charter, adopted by the board of directors, which is available under the Corporate Governance section within the Investor Relations portion of our website at www.postholdings.com. The board of directors has also determined, in its judgment, that Mr. Callison, the chair of our Audit Committee, qualifies as an "audit committee financial expert" as defined by SEC rules and that each member of the Audit Committee is "financially literate" as defined by NYSE rules. Our corporate governance guidelines do not currently restrict the number of audit committees of public companies on which members of our Audit Committee may serve, however, the board of directors has determined that none of the members of the Audit Committee currently serves on the audit committees of more than three public companies. The report of the Audit Committee can be found on page 18 of this proxy statement.

Corporate Governance and Compensation Committee

The Corporate Governance and Compensation Committee (a) determines the compensation level of the corporate officers, (b) reviews management's Compensation Discussion and Analysis relating to our executive compensation programs and approves the inclusion of the same in our proxy statement and/or annual report, (c) issues a report confirming the committee's review and approval of the Compensation Discussion and Analysis for inclusion in our proxy statement and/or annual report, (d) administers and makes recommendations with respect to incentive compensation plans and stock-based plans and (e) reviews and oversees risks arising from or in connection with our

compensation policies and programs for all employees. The Corporate Governance and Compensation Committee also reviews and revises, as necessary, our corporate governance guidelines.

The board of directors has determined, in its judgment, that the Corporate Governance and Compensation Committee is comprised solely of independent directors as defined in the NYSE listing standards. The committee operates under a written

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charter, adopted by the board of directors, which is available under the Corporate Governance section within the Investor Relations portion of our website at www.postholdings.com. The charter was revised in June 2013 to make provision for new SEC and NYSE rules affecting compensation committees. The charter now provides for assessing potential conflicts of interest of compensation consultants and other advisers. The report of the Corporate Governance and Compensation Committee can be found on page 36 of this proxy statement.

Executive Committee

The Executive Committee may exercise all board authority in the intervals between board meetings, to the extent such authority is in compliance with our corporate governance guidelines and does not infringe upon the duties and responsibilities of other board committees.

Strategy and Financial Oversight Committee

The Strategy and Financial Oversight Committee periodically reviews financial and strategic matters with management in order to assist the board of directors in exercising its responsibilities regarding the financial conditions, objectives and strategy of the Company.

Nomination Process for Election of Directors

The Corporate Governance and Compensation Committee has responsibility for assessing the need for new directors to address specific requirements or to fill a vacancy. The committee may, from time to time, initiate a search for a new candidate seeking input from our chairman and from other directors. The committee may retain an executive search firm to identify potential candidates. All candidates must meet the requirements specified in our corporate governance guidelines. Candidates who meet those requirements and otherwise qualify for membership on our board of directors are identified, and the committee initiates contact with preferred candidates. The committee regularly reports to the board of directors on the progress of the committee's efforts. The committee meets to consider and approve final candidates who are then presented to the board of directors for consideration and approval. Our chairman or the chairman of the Corporate Governance and Compensation Committee may extend an invitation to join the board of directors.

The committee relies primarily on recommendations from management and members of the board of directors to identify director nominee candidates. However, the committee will consider timely written suggestions from shareholders. Such suggestions and the nominee's consent to being nominated, together with appropriate biographical information (including principal occupation for the previous five years, business and residential addresses, and educational background) and other relevant information as outlined in our bylaws, should be submitted in writing to our corporate secretary. Shareholders wishing to suggest a candidate for director nomination for the 2016 annual meeting should mail their suggestions to Post Holdings, Inc., 2503 S. Hanley Road, St. Louis, Missouri 63144, Attn: Corporate Secretary. Suggestions must be received by the corporate secretary no earlier than October 1, 2015 and no later than October 31, 2015.

Role of the Board in Risk Oversight

The board of directors is responsible for the oversight of risk, while management is responsible for the day-to-day management of risk. The board of directors, directly and through its committees, carries out its oversight role by regularly reviewing and discussing with management the risks inherent in the operation of our business and applicable risk mitigation efforts. Management meets regularly to discuss our business strategies, challenges, risks and opportunities and reviews those items with the board of directors at regularly scheduled meetings.

We do not believe that our compensation policies and practices encourage excessive and unnecessary risk-taking. The design of our compensation policies and practices encourages employees to remain focused on both short- and long-term financial and operational goals. For example, cash bonus plans measure performance on an annual basis but are based on a wide variety of factors and, while recommended by the Chief Executive Officer, are subject to the Corporate Governance and Compensation Committee's ultimate judgment and discretion. In addition, equity awards typically vest over a number of years, which we believe encourages employees to focus on sustained stock price appreciation over an extended period of time instead of on short-term financial results.

Board Leadership Structure

Our current board leadership structure consists of:

• Separate Executive Chairman and Chief Executive Officer roles;

• An independent Lead Director;

• All non-management directors except the Executive Chairman and Chief Executive Officer;

• Independent Audit and Corporate Governance and Compensation Committees; and

• Governance practices that promote independent leadership and oversight.

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Separate Chairman and CEO

We do not have a formal policy with respect to separation of the offices of Chairman of the Board and Chief Executive Officer, and the board of directors believes that it should maintain flexibility to select our Chairman and board leadership structure from time to time. During fiscal 2014, William P. Stirtz served as our Chief Executive Officer and Chairman of the Board. Effective November 1, 2014, Robert V. Vitale serves as our Chief Executive Officer and Mr. Stirtz serves as Executive Chairman of our Board. Both Mr. Stirtz and Mr. Vitale are also members of the board. The board believes that this leadership structure, which separates the Chairman and Chief Executive Officer roles, is optimal at this time because it allows Mr. Vitale to focus on operating and managing our company, while Mr. Stirtz can focus on the overall leadership and strategic direction of the Company. In addition, an independent director serves as lead director. As described below, we believe that our governance practices ensure that skilled and experienced independent directors provide independent leadership. The board of directors believes the Executive Chairman and Chief Executive Officer positions are appropriate in light of the substantial independent oversight provided by the board.

When determining the leadership structure that will allow the board of directors to effectively carry out its responsibilities and best represent our shareholders' interests, the board will consider various factors, including our specific business needs, our operating and financial performance, industry conditions, the economic and regulatory environment, board and committee annual self-evaluations, advantages and disadvantages of alternative leadership structures and our corporate governance practices.

Lead Director

Pursuant to our Corporate Governance Guidelines, the Chairman of the Corporate Governance and Compensation Committee, currently Robert E. Grote, acts in the role of lead director. The lead director's duties are described in our Corporate Governance Guidelines and include: (i) chairing the meetings of the independent directors when the Chairman is not present; (ii) working with the Chief Executive Officer to develop the board and committee agendas and approve the final agendas; (iii) coordinating, developing the agenda for and chairing executive sessions of the board's independent directors; and (iv) working in conjunction with the Corporate Governance and Compensation Committee to identify for appointment the members of the various board committees.

In addition to the lead director, the board has a majority of independent directors. The Audit Committee and Corporate Governance and Compensation Committees are composed solely of independent directors. Consequently, independent directors directly oversee critical matters and appropriately monitor the Chairman and Chief Executive Officer. Our independent directors have the opportunity to meet in executive session at the conclusion of each of our board of director meetings.

Director Evaluations

On an annual basis, the Corporate Governance and Compensation Committee is expected to conduct an evaluation of the board of directors, the functioning of the committees and each individual member of the board. In addition to this evaluation, and as a part of this process, the board and each committee conducts a self-assessment. The Corporate Governance and Compensation Committee reviews the results of these self-assessments, and shares the same with the board and each committee, as appropriate, and makes any advisable recommendations based on this feedback.

Policy on Director Diversity

While the Corporate Governance and Compensation Committee does not have a written policy regarding diversity in identifying new director candidates, the committee takes diversity into account in looking for the best available candidates to serve on the board of directors. The committee looks to establish diversity on the board of directors through a number of demographics, experience (including operational experience), skills and viewpoints, all with a view to identify candidates who can assist the board with its decision making. The committee believes that the current board of directors reflects diversity on a number of these factors.

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Communication with the Board

Shareholders and other parties interested in communicating directly with an individual director or with the non-management directors as a group may do so by writing to the individual director or group, c/o Post Holdings, Inc., 2503 S. Hanley Road, St. Louis, Missouri 63144, Attn: Corporate Secretary. The board of directors has directed our corporate secretary to forward shareholder communications to our chairman and any other director to whom the communications are directed. In order to facilitate an efficient and reliable means for directors to receive all legitimate communications directed to them regarding our governance or operations, our corporate secretary will use her discretion to refrain from forwarding the following: sales literature; defamatory material regarding us and/or our directors; incoherent or inflammatory correspondence, particularly when such correspondence is repetitive or was addressed previously in some manner; and other correspondence unrelated to the board of director's corporate governance and oversight responsibilities.

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ELECTION OF DIRECTORS

(Proxy Item No. 1)

The terms of three current directors (Messrs. Stiritz, Brown and Callison) will expire at the annual meeting. Our board of directors has nominated Messrs. Stiritz, Brown and Callison for election for a three-year term that will expire in 2018. The board of directors is not aware that any of these nominees will be unwilling or unable to serve as a director. All nominees have consented to be named in the proxy statement and to serve if elected. If, however, a nominee is unavailable for election, your proxy authorizes us to vote for a replacement nominee if the board of directors names one. As an alternative, the board of directors may reduce the number of directors to be elected at the meeting. Proxies may not be voted for a greater number of persons than the nominees presented.

All of the nominees currently are directors. Each of these directors was elected to the board on February 3, 2012, immediately after the separation from Ralcorp was completed.

The persons named on the proxy card intend to vote the proxy representing your shares for the election of Messrs. Stiritz, Brown and Callison, unless you indicate on the proxy card that the vote should be withheld or you indicate contrary directions. If you deliver the proxy card without giving any direction, the persons named on the proxy card will vote the proxy representing your shares FOR the election of the nominee named on the proxy card. If a nominee is unavailable to serve as a director, your proxies may vote for another nominee proposed by the board of directors, or the board may reduce the number of directors to be elected at the annual meeting.

The board of directors recommends a vote "FOR" these nominees.

Information about the Current Directors and Nominees for Election to the Board of Directors

Board Composition

We believe that our directors should possess the highest personal and professional integrity and values and be committed to representing the long-term interests of our shareholders. We further believe that the backgrounds and qualifications of our directors, considered as a group, should provide a blend of business experience and competence, and professional and personal abilities, that will allow the board of directors to fulfill its responsibilities. The Corporate Governance and Compensation Committee works with the board to determine the appropriate mix of these backgrounds and qualifications that would establish and maintain a board with strong collective abilities.

To fulfill these objectives, the board of directors has determined that it is important to nominate directors with the skills and experiences set forth below, among others. The experiences, qualifications and skills that the board considered in each director's re-nomination are included in their individual biographies.

Leadership Experience. We believe that directors with experience in significant leadership positions over an extended period generally possess strong abilities to motivate and manage others and to identify and develop leadership qualities in others. They also generally possess a practical understanding of organizations, processes, strategy, risk management and the methods to drive change and growth.

Financial or Accounting Acumen. We believe that an understanding of finance and financial reporting processes enables our directors to evaluate and understand the impact of business decisions on our financial statements and capital structure. In addition, accurate financial reporting and robust auditing are critical to our ongoing success.

Industry Experience. We seek directors with experience as executives, directors or in other leadership positions in industries relevant to our business, including consumer packaged goods, branded products, retail or consumer product manufacturing.

Operational Experience. We believe that directors who are current or former executives with direct operational responsibilities bring valuable practical insight to helping develop, implement and assess our operating plan and business strategy. Operational experience includes experience in areas such as marketing, supply chain, sustainability and commodity management.

Public Company Board Experience. Directors with experience as executives or directors of other publicly traded companies generally are well prepared to fulfill the board's responsibilities of overseeing and providing insight and guidance to management, and help further our goals of greater transparency, accountability for management and the board, and protection of our shareholders' interests.

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In addition, when evaluating the suitability of individuals for nomination, the Corporate Governance and Compensation Committee considers other appropriate factors, including whether the individual satisfies applicable independence requirements.

The following information is furnished with respect to each nominee for election as a director and each continuing director. The ages of the directors are as of December 31, 2014.

NOMINEES FOR ELECTION

WILLIAM P. STIRITZ has served as our chairman of the board of directors and our chief executive officer since February 2012 and was appointed executive chairman of the Company effective November 1, 2014. Mr. Stiritz is a private equity investor and served as the chairman of the board of directors of Ralcorp Holdings, Inc. from 1994 until February 2012. Since prior to 2005, Mr. Stiritz has been a partner at Westgate Group LLC, a consumer-oriented private equity firm. Mr. Stiritz was Chairman Emeritus of the board of directors of Energizer Holdings, Inc. from January 2007 to May 2008 and chairman of the board of directors of Energizer Holdings from 2000 to 2007. In addition, he has served a Director of Vail Resorts, Inc. from 1997 to 2009. Mr. Stiritz has extensive managerial expertise, including as chairman at a number of public and private companies, experience in financial operations, as well as diverse industry experience and expertise with large multinational corporations. Age 80.

Director Qualifications

Leadership Experience, Financial or Accounting Acumen, Industry Experience, Operational Experience, Public Company Board Experience.

JAY W. BROWN has served as a member of the board of directors since February 2012 and is a retired senior executive with a long general management career in large consumer-oriented businesses. Most recently, Mr. Brown was a partner at Westgate Equity Partners, LLC, a consumer-oriented private equity firm. At Westgate, Mr. Brown was responsible for operational management of portfolio companies. Prior to forming Westgate in 1998, Mr. Brown was a senior executive with the Ralston Purina Company, running several divisions of the multi-dimensional food and agribusiness company, including serving as president and chief executive officer of Protein Technologies International, a leading supplier of soy-based proteins to the food and paper processing industries, Continental Baking Company, a subsidiary of Ralston Purina and of Tri-Union Seafoods (a/k/a Van Camp Seafood Company), a provider of stable seafood products. Mr. Brown served as a director and chairman of the compensation committee of Jack in the Box Inc. from 1997 to 2003 and as a director of Agribands International, Inc. from 1998 to 2001. Mr. Brown has expertise and background in the food and consumer products industries, particularly in mergers and acquisitions, including as a chief executive officer, board member and investor. Age 69.

Director Qualifications

Leadership Experience, Industry Experience, Operational Experience, Public Company Board Experience.

EDWIN H. CALLISON has served as a member of the board of directors since February 2012. Mr. Callison has been Executive Vice President of Wirtz Beverage Group, a leading national distributor of luxury and premium wine, spirits and beer brands, since June 2012, and also served Wirtz as Senior Vice President from June 2008 until June 2012. From 2003 to June 2008, he served as Vice President and General Manager for Judge & Dolph's Spectrum division, an affiliate of the Wirtz Beverage Group. Prior to 2003, he spent more than 20 years in various leadership positions with Callison Distributing in Belleville, Illinois. Mr. Callison serves on the board of directors of the Wine and Spirits Wholesalers of America, the Wine and Spirits Distributors of Illinois and Wirtz Corporation. Mr. Callison has expertise and background in sales, marketing, finance, operations and logistics. Age 59.

Director Qualifications

Leadership Experience, Financial or Accounting Acumen, Operational Experience.

DIRECTORS CONTINUING IN SERVICE

GREGORY L. CURL has served as a member of the board of directors since February 2012. Mr. Curl has been president of Temasek Holdings, an investment company owned by the Singapore government, since September 2010, following a banking career of over 35 years. From 1997 until January 2010, he served as vice chairman of corporate development and chief risk officer at Bank of America Corporation, retiring from Bank of America Corporation in March 2010. Prior to that, Mr. Curl served in a number of senior executive capacities. Mr. Curl has over 35 years of expertise and background in the financial services industry, particularly in mergers and acquisitions. Age 65.

Director Qualifications

Leadership Experience, Financial or Accounting Acumen, Public Company Board Experience.

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WILLIAM H. DANFORTH has served as a member of the board of directors since February 2012. Dr. Danforth has been a life trustee since July 2005 and chancellor emeritus since 1995 of Washington University in St. Louis. He served as chancellor of the university from 1971 until his retirement in 1995. Dr. Danforth served as a director of Ralcorp from 1994 to 1999 and of Ralston Purina Company from 1969 until 2001, when Nestlé S.A. acquired the company. Dr. Danforth also served as member of the board of directors of Energizer Holdings, Inc. from 2000 to 2005. Dr. Danforth has expertise and background in management and the food industry. Age 88.

Director Qualifications

Leadership Experience, Industry Experience, Operational Experience, Public Company Board Experience.

ROBERT E. GROTE has served as a member of the board of directors since February 2012. Mr. Grote is, and has been for the past five years, a retired executive. Prior to 1998, Mr. Grote spent more than twenty years in management. He served in a number of executive positions at Washington Steel Corporation, an integrated, flat-rolled stainless steel producer, most recently as VP-Administration. He also served as general counsel for Washington Steel Corporation and on the company's board of directors. Mr. Grote later ran two Pittsburgh, Pennsylvania non-profit organizations: Pittsburgh Center for the Arts and Central Blood Bank. Prior to joining Washington Steel, he practiced law in St. Louis, Missouri, and served for two years as an Assistant United States Attorney for the Eastern District of Missouri. Mr. Grote has expertise and background in legal affairs, human resources, employee relations, strategic planning, and management. Age 71.

Director Qualifications

Leadership Experience, Operational Experience, Public Company Board Experience.

DAVID P. SKARIE has served as a member of the board of directors since February 2012. Mr. Skarie previously served as co-chief executive officer and president of Ralcorp from September 2003 until his retirement in December 2011. Mr. Skarie also served on the board of directors of Ralcorp from 2003 until February 2012. Mr. Skarie has expertise and background in the consumer industry, including as a chief executive officer. Age 68.

Director Qualifications

Leadership Experience, Financial or Accounting Acumen, Industry Experience, Operational Experience, Public Company Board Experience.

ROBERT V. VITALE has served as a member of the board of directors since November 2014. Mr. Vitale previously served as our chief financial officer since October 2011 and was appointed our president and chief executive officer effective November 1, 2014. Mr. Vitale previously served as president and chief executive officer of AHM Financial Group, LLC from 2006 until 2011. Mr. Vitale is a certified public accountant and has expertise and background in the consumer industry, including as a chief executive officer. Age 48.

Director Qualifications

Leadership Experience, Financial or Accounting Acumen, Industry Experience, Operational Experience.

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APPROVAL OF INCREASES IN COMMON STOCK ISSUABLE ON CONVERSION
OF CONVERTIBLE PREFERRED STOCK

(Proxy Item No. 2)

At the annual meeting, we are asking our shareholders to consider and vote upon a proposal to approve increases in the number of shares of our common stock that would be issued or issuable upon conversion of our 2.5% Series C Cumulative Perpetual Convertible Preferred Stock, which we refer to as our “convertible preferred stock,” that would result from the occurrence of certain events, such as “fundamental changes” and certain recapitalizations, reclassifications or other changes in our common stock, including cash dividend payments, each of which is described briefly below and in more detail under “Conversion Rights” in Exhibit A to this proxy statement.

General

We issued 3,000,000 shares of our convertible preferred stock on December 16, 2013 and an additional 200,000 shares of our convertible preferred stock on January 14, 2014 and received net proceeds of approximately \$310,200,000. The terms and conditions of our convertible preferred stock are contained in the Certificate of Designation, Rights and Preferences, or certificate of designation, of our convertible preferred stock as filed with the Missouri Secretary of State and are summarized in the “Description of the Convertible Preferred Stock” attached to this proxy statement as Exhibit A.

Holders of shares of our convertible preferred stock, at their option, may convert some or all of their outstanding shares of our convertible preferred stock at an initial conversion rate of 1.8477 shares of our common stock per share of our convertible preferred stock. This initial conversion rate continues to be in effect as of the date of this proxy statement. If all holders of our convertible preferred stock were to convert their shares at this rate, we would issue, in the aggregate, 5,912,640 shares of our common stock, which would have represented approximately 18.1% of the shares of our common stock outstanding at the time we issued the convertible preferred stock. As noted above, the conversion rate is subject to adjustment upon the occurrence of certain events, such as “fundamental changes” and certain recapitalizations, reclassifications or other changes in our common stock, including cash dividend payments. Rules of the NYSE, upon which our common stock trades, limit the number of shares of our common stock that we may issue without shareholder approval upon conversion of our convertible preferred stock. Specifically, Section 312.03(c) of the NYSE Listed Company Manual requires that we obtain shareholder approval in certain circumstances prior to the issuance of our common stock, or securities convertible into or exercisable for our common stock, such as our convertible preferred stock, in any transaction or series of related transactions if: (i) the common stock issuable by us has, or will have upon issuance, voting power equal to 20% or more of the voting power outstanding before the issuance of such stock or of securities convertible into or exercisable for our common stock; or (ii) the number of shares of our common stock to be issued is, or will upon issuance, equal 20% or more of the number of shares of our common stock outstanding before the issuance of such stock or of securities convertible into or exercisable for our common stock.

At the annual meeting, we are seeking the approval of our shareholders for adjustments in the conversion rate of our convertible preferred stock that could result in us issuing shares of our common stock that exceed, in the aggregate, the 20% thresholds specified in NYSE Section 312.03(c).

Increases in Common Stock Issuable upon a “Fundamental Change”

The terms of our convertible preferred stock provide that the conversion rate may be adjusted in connection with a “fundamental change.” The term “fundamental change” is defined in the certificate of designation and is described in more detail in Exhibit A under “Conversion Rights - Make-Whole Premium upon a Fundamental Change;” however, it generally includes events such as:

- a person or group other than us or our subsidiaries beneficially owning more than 50% of the voting power of our common stock;
- with certain exceptions, including where at least 90% of the consideration received by holders of our common stock for the fundamental change transaction consists of publicly traded common stock and our convertible preferred stock is convertible into such stock, consummation of a recapitalization or reclassification of our common stock that results in our common stock being converted into or exchanged for stock or other securities or assets, or a business combination involving us that results in our common stock being converted into cash, securities or other property, or a

sale, lease or other transfer of all or substantially all of our assets to any person other than one of our subsidiaries; approval by our shareholders of our liquidation or dissolution; or our common stock ceasing to be listed or quoted on the NYSE, The NASDAQ Global Select Market or The NASDAQ Global Market (or any of their respective successors).

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Upon the occurrence of a fundamental change, a holder may elect to convert its convertible preferred stock in connection with the fundamental change as follows:

- if our “stock price” (as defined in the certificate of designation) is greater than or equal to \$49.20 per share (subject to adjustment as provided in the certificate of designation), the holder may elect to have the conversion rate (A) increased by a number of additional shares of our common stock determined based on the stock price and effective date of the fundamental change, as described in the certificate of designation (see “Conversion Rights - Make-Whole Premium upon a Fundamental Change” in Exhibit A); or
- regardless of the “stock price,” the holder may elect to have the conversion rate increased to equal the quotient of “(x)” divided by “(y),” where “(x)” equals the sum of the \$100 liquidation preference of the convertible preferred stock and (B) all accrued and unpaid dividends to the fundamental change settlement date (as defined in the certificate of designation), and where “(y)” equals the average of the closing sale prices of our common stock for the five consecutive trading days ending on the third business day prior to the fundamental change settlement date.

The purpose of these adjustments to the conversion rate in connection with a fundamental change is to provide holders of our convertible preferred stock with certain limited protections against adverse changes in us or our stock price. We anticipate that an adjustment to the conversion rate as described in clause (B) above would occur only under circumstances in which our stock price at the time of the fundamental change is less than \$49.20 per share.

Adjustments to the conversion rate described in clause (A) above will not result in us being required to issue, in the aggregate, shares of common stock in excess of the NYSE Section 312.03(c) limits. However, the conversion rate adjustment described in clause (B) above could result in us being required to issue, in the aggregate, shares of common stock in excess of the Section 312.03(c) limits.

Since we did not obtain shareholder approval under NYSE Section 312.03(c) prior to the issuances of our convertible preferred stock on December 16, 2013 and January 14, 2014, the certificate of designation provides that the conversion rate adjustment described in clause (B) above will not exceed 2.0325 shares of our common stock per share of our convertible preferred stock, which we refer to as the “share cap.” The share cap was designed to ensure that any adjustment of the conversion rate under clause (B) would not result in the issuance by us of shares of our common stock that exceed in the aggregate the thresholds under Section 312.03(c) by limiting the maximum number of shares of our common stock issuable in connection with a fundamental change to 6,504,000 shares, which would have represented approximately 19.9% of the number of shares of our common stock outstanding at the time we issued the convertible preferred stock.

The certificate of designation also provides that if we do not obtain the requisite shareholder approval to increase the share cap to 4.065 shares of our common stock per share of our convertible preferred stock, which we refer to as the “adjusted share cap,” by January 31, 2015, the annual dividend rate on our convertible preferred stock will automatically increase by 0.25%, to 2.75%, and the increased dividend rate will remain in effect until such time, if ever, that our shareholders approve the adjusted share cap. The aggregate amount of the increased dividend would be \$800,000 per year, if increased dividends are triggered under the Certificate of Designation. The adjusted share cap would permit us to issue up to 13,008,000 shares of common stock upon conversion of our convertible preferred stock in connection with clause (B) above, an amount that exceeds the NYSE Section 312.03(c) limits and thus requires shareholder approval under the NYSE rules.

Increases in our Common Stock Issuable as a Result of Recapitalizations, Reclassifications and Changes of our Common Stock

The rate at which shares of our convertible preferred stock is convertible into shares of our common stock may also be adjusted from time to time, as described in more detail under “Conversion Right - Recapitalizations, Reclassifications and Changes of Our Common Stock” in Exhibit A, if:

- (1) we exclusively issue shares of our common stock as a dividend or distribution on our common stock to all or substantially all holders of our common stock, or if we effect a share split or share combination;
- we distribute to all or substantially all holders of our common stock any rights, options or warrants entitling them
- (2) to subscribe for or purchase shares of our common stock at a price per share that is less than the average of the closing sale prices of our common stock over a ten trading day period;
- (3)

we distribute shares of our capital stock, evidences of our indebtedness or other assets, securities or property of ours or rights, options or warrants to acquire our capital stock or other securities, to all or substantially all holders of our common stock (subject to certain exclusions);

- (4) we pay any cash dividend or distribution to all or substantially all holders of our common stock;
or
- (5) we or any of our subsidiaries makes a payment in respect of a tender offer or exchange offer for our common stock, to the extent the cash and value of any other consideration included in the payment per share of our common stock

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exceeds the closing sale price of a share of our common stock on the trading day following the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer.

As described above, NYSE Section 312.03(c) may limit the amount by which we may increase the conversion rate on our convertible preferred stock in connection with the events described in clauses (2) through (5) above. We do not believe that Section 312.03(c) would limit adjustments under clause (1) above.

Shareholder Approval

At the annual meeting, we are asking our shareholders to consider and vote upon a proposal to approve increases in the number of shares of our common stock issuable upon conversion of the convertible preferred stock, which would have the effect of approving (i) the increase in the share cap to the adjusted share cap conversion rate of 4.065 shares of our common stock per share of our convertible preferred stock and (ii) all increases in the number of shares of our common stock arising from changes in the conversion rate due to recapitalizations, reclassifications and other changes in our common stock described in clauses (2) through (5) above.

Shareholder approval of this proposal would allow us to issue shares of our common stock upon conversion of our convertible preferred stock even if, after the conversion rate adjustments in connection with a fundamental change described in clause (B) above or the other conversion rate adjustments described in clauses (2) through (5) above, the aggregate number of our shares of common stock that may be so issued has, or will have upon issuance, voting power equal to 20% or more of the voting power of our common stock outstanding before the issuance of such stock or of securities convertible into or exercisable for our common stock and is, or will upon issuance, equal 20% or more of the number of shares of our common stock outstanding before the issuance of such stock or of securities convertible into or exercisable for common stock.

While we currently do not know whether we will ever undergo a fundamental change under circumstances that would result in a conversion rate in excess of the share cap currently in effect, or whether we will ever effect any of the transactions described in clauses (2) through (5) above, if the proposal is approved, then we would be able to avoid the additional demands on our cash flows and liquidity associated with the increased dividend rate we would otherwise be obligated to pay and our board of directors and management will have greater flexibility if they determine that a fundamental change, dividend, recapitalization or other transaction described above would be in the best interests of us and our shareholders, even if the conversion rate as adjusted for those transactions would otherwise result in the issuance of shares in excess of the NYSE rule limits.

A similar proposal was considered at our 2014 Annual Meeting with respect to our 3.75% Series B Cumulative Perpetual Convertible Preferred Stock, which has substantially similar terms as the convertible preferred stock discussed in this proposal, and the matter was approved by approximately 89% of the votes cast.

Our board of directors recommends a vote "FOR" the approval of the increases in our common stock issuable on conversion of our convertible preferred stock.

Table of ContentsRATIFICATION OF APPOINTMENT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM

(Proxy Item No. 3)

The Audit Committee has selected PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending September 30, 2015, and the board of directors has directed that management submit the appointment of our independent registered public accounting firm for ratification by our shareholders at the annual meeting. PricewaterhouseCoopers LLP has served as our independent registered public accounting firm since February 2012. A representative of that firm will be present at the annual meeting, will have an opportunity to make a statement, if they desire, and will be available to respond to appropriate questions.

We are not required to obtain shareholder ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm. However, we are submitting the appointment of PricewaterhouseCoopers LLP to shareholders for ratification as a matter of good corporate practice. If our shareholders fail to ratify the appointment, the Audit Committee will reconsider whether or not to retain PricewaterhouseCoopers LLP. Even if the appointment is ratified, the Audit Committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time if they determine that such a change would be in our best interests and the best interests of our shareholders.

The following table sets forth the fees paid for audit services during the fiscal years ended September 30, 2013 and 2014 and for other services during those fiscal years.

	Year Ended September 30,	
	2013	2014
Audit fees ⁽¹⁾	\$2,548,000	⁽³⁾ \$5,262,000
Audit-related fees	\$—	\$82,000
Tax fees	\$—	\$55,000
All other fees ⁽²⁾	\$1,800	\$1,800

(1) Audit fees relate primarily to the audit of our financial statements, comfort letter consents and review of SEC registration statements.

(2) All other fees include any fees for services received by PricewaterhouseCoopers which are not included in any of the above categories. The other fees consist of licensing fees paid for accounting research software.

(3) Subsequent to the filing of the 2014 proxy statement, the Audit Committee approved the payment of \$343,000 of additional audit fees to PricewaterhouseCoopers LLP, resulting in total 2013 audit fees of \$2,548,000.

With regard to the fees listed above, the Audit Committee has considered whether the provision by PricewaterhouseCoopers LLP of services other than audit services is compatible with its ability to maintain its independence. Regardless of the size or nature of the other services, if any, to be provided, it is the Audit Committee's policy and practice to approve any services not under the heading "Audit Fees" before any such other services are undertaken. Our audit was staffed primarily by full-time, permanent employees of PricewaterhouseCoopers LLP. The board of directors recommends a vote "FOR" ratification of the appointment of our independent registered public accounting firm.

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AUDIT COMMITTEE REPORT

The Audit Committee oversees our financial reporting process on behalf of the board of directors. Management is responsible for our internal controls, financial reporting processes and compliance with laws and regulations and ethical business standards. PricewaterhouseCoopers LLP, our independent registered public accounting firm, is responsible for performing an independent audit of our consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (the “PCAOB”) and issuing a report thereon. Our internal auditors assist the Audit Committee with its responsibility to monitor and oversee the financial reporting process and internal controls. The committee discussed with our internal auditors and independent registered public accounting firm the overall scopes and plans for their respective audits. The committee met, at least quarterly, with the internal auditors and independent registered public accounting firm, and at their discretion with and without management present, and discussed the results of their examinations, their evaluations of our internal controls, and the overall quality of our financial reporting.

With respect to our audited financial statements for the fiscal year ended September 30, 2014, management has represented to the committee that the financial statements were prepared in accordance with generally accepted accounting principles and the committee has reviewed and discussed those financial statements with management. The Audit Committee has also discussed with PricewaterhouseCoopers LLP the matters required to be discussed by PCAOB Auditing Standard No. 16 (Communications with Audit Committees) as modified or supplemented.

The Audit Committee has received the written disclosures from PricewaterhouseCoopers LLP required by PCAOB Rule 3526 (Communications with Audit Committees Concerning Independence), as modified or supplemented, and has discussed the independence of PricewaterhouseCoopers LLP with members of that firm.

Based on the review and discussions referred to above, the Audit Committee recommended to the board of directors that the audited consolidated financial statements for the fiscal year ended September 30, 2014 be included in our Annual Report on Form 10-K filed with the SEC for that year.

While the Audit Committee has the responsibilities and powers set forth in its charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that our financial statements are complete and accurate or are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent registered public accounting firm.

Edwin H. Callison, Chairman

Jay W. Brown

Gregory L. Curl

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COMPENSATION OF OFFICERS AND DIRECTORS

Compensation Discussion and Analysis

Executive Summary

This Compensation Discussion and Analysis (“CD&A”) describes how the Corporate Governance and Compensation Committee (the “Compensation Committee”) decided to compensate the following officers for fiscal 2014:

- William P. Stiritz, our Chief Executive Officer;
- Terence E. Block, our President and Chief Operating Officer;
- Robert V. Vitale, our Chief Financial Officer;
- James L. Holbrook, our Executive Vice President and President, Post Foods; and
- Jeff A. Zadoks, our Senior Vice President, Chief Accounting Officer.

We refer to these individuals in this proxy statement as our “named executive officers.” In October 2014, we announced a number of management changes, which are outlined under Management Changes for Fiscal 2015 and Fiscal 2015 Compensation later in this CD&A.

Our executive compensation programs are based upon achieving the following objectives:

- aligning the compensation of our named executive officers with the long-term interests of our shareholders;
- providing a total compensation opportunity that allows us to attract and retain talented executive officers, and motivate them to achieve exceptional business results; and
- ensuring that our named executive officers’ total compensation opportunities are competitive in comparison with our peers, that our incentive compensation is performance-based, and that our programs are consistent with high standards of corporate governance and evolving best practices within our industry.

Fiscal 2014 Business Review and Impact on Executive Compensation

Compensation of Mr. Stiritz in Fiscal 2014

Pursuant his employment agreement expiring on October 9, 2017, Mr. Stiritz receives a base salary of \$1 per year. Under this agreement, Mr. Stiritz generally does not participate in any of the Company’s short-term or long-term bonus plans, benefit plans or other similar arrangements. Mr. Stiritz receives almost his entire compensation in the form of stock options. In October 2013, Mr. Stiritz received a grant of 600,000 stock options with an exercise price of \$40.30 per share.

Other Executives

In fiscal 2014, Post continued in transforming its business and expanding into new categories. Among other things, Post management:

- completed the acquisition of Dakota Growers Pasta Company in January 2014 and the acquisitions of Dymatize Enterprises, LLC and Golden Boy Foods Ltd. in February 2014;
- signed a definitive agreement in February 2014 to acquire the PowerBar and Musashi brands from Nestlé S.A., which closed on October 1, 2014;
- raised over \$1.5 billion in three high-yield note offerings in November 2013, March 2014 and June 2014;
- raised approximately \$310 million in a convertible preferred stock offering in December 2013;
- entered into a \$300 million revolving credit facility in January 2014, which was subsequently increased to \$400 million in May 2014, and further amended the facility in June 2014 to add an \$885 million term loan;
- raised approximately \$600 million in two common stock offerings in March 2014 and May 2014;
- raised approximately \$280 million in an offering of tangible equity units in May 2014;
- completed the acquisition of the Michael Foods business in June 2014;
- introduced product improvements and/or line extensions on key brands, including the introduction of large bagged items of Pebbles, Honeycomb and Golden Crisp, as well as a new beverage drink, Goodness-to-Go; and
- signed a definitive agreement in August 2014 to acquire American Blanching Company, which closed on November 1, 2014.

During fiscal 2014, Post continued its transformation into a diverse consumer products holding company. With the continued decline in the ready-to-eat cereal category, Post focused on acquisitions that compete in different categories with

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better growth prospects. Despite these substantial achievements, the business results fell short of management's expectations.

As a result, bonuses for executive leadership were modest, and below target. For fiscal 2014, the base salaries and annual incentives awarded to the executives were as follows:

	Base Salary FY 2014	Target Bonus Opportunity FY 2014	Bonus Awarded FY 2014	Bonus Awarded as a Percentage of Target FY 2014
William P. Stirtz (1)	\$1	N/A	\$—	N/A
Terence E. Block (2)	\$550,000	100%	\$—	N/A
Robert V. Vitale	\$500,000	100%	\$100,000	20%
James L. Holbrook	\$500,000	100%	\$100,000	20%
Jeff A. Zadoks	\$285,000	80%	\$205,200	90%

(1) Pursuant to his employment agreement, Mr. Stirtz has agreed that he generally will not participate in any of the Company's short-term or long-term bonus plans, benefit plans or other similar arrangements.

(2) Mr. Block retired from his position as President and Chief Operating Officer of the Company effective November 1, 2014.

Advisory Stockholder Say-On-Pay Vote

At the Company's 2014 Annual Meeting, the shareholders approved, with a 86% vote in favor, on an advisory basis, the executive compensation disclosed in the proxy statement for that meeting. Subsequently, the Compensation Committee and the board of directors reviewed and gave consideration to that vote in determining future executive compensation policies and decisions.

We were pleased with our shareholders' support of our compensation program in fiscal 2013, and the Compensation Committee continues to review our executive compensation practices to further align our compensation practices with our pay-for-performance philosophy and shareholder interests. We value the opinions of our shareholders and will continue to consider the outcome of future say-on-pay votes, as well as feedback received throughout the year, when making compensation decisions for our named executive officers. The Company intends to hold the advisory vote on executive compensation annually.

Compensation Philosophy

We believe that our success in creating long-term value for our shareholders depends on our ability to attract, retain and motivate our executive officers. We encourage sustained long-term profitability and increased shareholder value by linking compensation to our financial and operating performance. We use equity-based awards and other mechanisms to align the long-term interests of our officers with those of our shareholders. We have designed elements of our executive compensation program to increase the likelihood that we will retain key employees.

We have determined the type and amount of compensation for each executive officer after considering a variety of factors, including the executive officer's position and level of responsibility within our company, comparative market data and other external market-based factors. Our Compensation Committee uses this information when establishing compensation in order to achieve a comprehensive package that emphasizes pay-for-performance and is competitive in the marketplace.

The Compensation Committee believes that an effective executive compensation program should encompass the following fundamental objectives:

- compensation should be competitive;
- compensation should vary with performance;
- compensation should align the long-term interests of our corporate officers with those of our shareholders; and
- compensation should provide a retention incentive.

Our Compensation Process

The Compensation Committee uses current compensation levels, performance, future leadership potential and succession planning, among other factors, in determining appropriate compensation levels for our officers.

The Compensation Committee anticipates that it will review the design of its executive compensation program and the various components of compensation annually. In doing so, the Compensation Committee will assess whether

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compensation programs used in prior years have successfully achieved our compensation objectives. The Compensation Committee also considers the extent to which our compensation program is designed to achieve the Company’s long-term financial and operating goals. The Compensation Committee will likely continue to make adjustments to Post’s compensation structure over the next several years as the Company grows.

Role of Management

Our human resources group reviews published compensation surveys and publicly disclosed compensation information reported by entities within our peer group described below. The human resources group uses the information to develop compensation targets and ranges (salaries, bonus awards and equity awards) for positions similar to those held by our officers. Management works together with the human resources department and the Compensation Committee to recommend base salaries for the executives, ensuring that salaries are designed to take into account competitive practices at peer companies. Our Chief Executive Officer, working with our Executive Chairman, is expected to provide to the chairman of the Compensation Committee recommendations of salary adjustments, annual bonus payments, and equity awards for the executive officers (other than himself). The recommendations of the Chief Executive Officer and the Executive Chairman are designed to reflect the Compensation Committee’s compensation philosophy. Any further adjustments will be made by the Compensation Committee based on the financial or operating performance of the company. The Chief Executive Officer and Executive Chairman also review with the Compensation Committee the performance of each officer (other than themselves). The Compensation Committee reviews the peer data and compensation recommendations from compensation consultants, but has the discretion to modify the compensation of the executive officers, including modifying the recommendations from the human resources group, Executive Chairman and Chief Executive Officer.

Role of Compensation Consultant and Peer Group Determinations

The Compensation Committee has the ability to directly engage a compensation consultant which is independent of any compensation consultant engaged by management. Post management and the Compensation Committee obtained a benchmarking survey and compensation advice in May 2012 from Frederick W. Cook & Co., Inc. (“FW Cook”). In 2012, FW Cook advised management and the Compensation Committee with respect to both annual and long-term incentive compensation and on competitive compensation practices and other executive compensation developments, appropriate peer companies, program design and the appropriate mix of compensation. Except as described above, FW Cook provided no other services to Post and received no compensation other than for its executive compensation advice.

The peer group developed in May 2012 was as follows. At the time of development of the peer group, these companies reported a median revenue of approximately \$1.6 billion for their respective most recently completed fiscal years:

B&G Foods, Inc.	The Hain Celestial Group, Inc.
Brown-Forman Corporation	Imperial Sugar Company
Central European Distribution Corporation	J&J Snack Foods Corp.
Coca-Cola Bottling Co.	Monster Beverage Corporation
Cott Corporation	Sanderson Farms, Inc.
Darling International Inc.	Snyder’s-Lance, Inc.
Diamond Foods, Inc.	Sunopta Inc.
Flowers Foods, Inc.	TreeHouse Foods, Inc.
Keurig Green Mountain, Inc.	

For fiscal 2012, the Compensation Committee utilized survey data provided by FW Cook in connection with benchmarking the executive officers’ compensation, targeting around the 75th percentile of the peer group. For fiscal years 2013 and 2014, the Compensation Committee elected not to engage a compensation consultant or benchmark compensation. Rather, each of the executive officers received modest increases in their base salaries (and thus, bonus opportunities), but the nature of the long-term compensation remained the same. The variable elements of Post’s executive compensation programs (cash bonuses, stock options and restricted stock units) allow our executives to earn compensation that, when combined with their base salaries, could generate total compensation at or higher than

(depending on increases in Post's share price) target levels and would reflect Post's long-term improved performance. The Compensation Committee expects to review the composition of the peer group annually, or as often as appropriate given changing circumstances, to determine its appropriateness.

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CEO Compensation

Mr. William P. Stiritz served as our Chief Executive Officer until November 1, 2014, when he was appointed our Executive Chairman. Unlike the other named executive officers of Post, Mr. Stiritz does not have a traditional compensation package comprised of base salary, cash bonuses, deferred compensation or other benefit programs. Instead, Mr. Stiritz's compensation has been made entirely in the form of equity awards, as set forth in his employment agreement described below. As a result, except with respect to a special grant of restricted stock units ("RSUs") in May 2012, Mr. Stiritz will generally not receive any actual compensation unless and to the extent that the Company's stock price appreciates from the date of grant. Additionally, Mr. Stiritz has some stock option awards with exercise prices far in excess of the price of the Company's stock at the time of the grant, further committing him to increasing the Company's value.

The Compensation Committee believes that this compensation package directly aligns Mr. Stiritz's interests with the Company's shareholders, has a strong retention element due to the vesting features of equity compensation, and provides Mr. Stiritz with limited severance. Each of these characteristics is consistent with requiring strong performance from both Mr. Stiritz and the Company in order for Mr. Stiritz to achieve any true compensation under the employment agreement. The Compensation Committee utilized survey data provided by FW Cook in May 2012 in connection with the benchmarking of Mr. Stiritz's overall compensation package, targeting Mr. Stiritz's compensation around the 75th percentile within the peer group. The Compensation Committee believes that the aggregate compensation provided by the employment agreement is purely performance oriented, and fits the Compensation Committee's compensation philosophy of paying well for outstanding performance, but providing less total compensation if the Company and its shareholders do not benefit as well.

Elements of Compensation

Our compensation program applicable to our executives other than Mr. Stiritz is comprised of the following components:

Compensation Component	Purpose
Base salary	Fixed component of pay intended to compensate an executive officer fairly for the responsibility level of the position held.
Annual incentive awards	Variable component of pay intended to motivate and reward an executive officer's contribution to achieving short-term/annual objectives.
Long-term incentives (equity)	Variable component of pay intended to motivate and reward an executive officer's contribution to achieving our long-term objectives and to align the interests of our executives with those of our shareholders; generally with vesting over a number of years.
Retirement and other benefits	Fixed component of pay intended to protect against catastrophic expenses (healthcare, disability, and life insurance) and provide retirement savings opportunity.
Perquisites	Fixed component of pay intended to help us in attracting and retaining executive talent.
Post-termination compensation (severance and change in control)	Fixed component of pay intended to provide income and benefits following an executive officer's involuntary termination of employment and, in the case of a change in control, to also help provide continuity of management through the transaction.

Post aims to provide compensation programs with a significant variable element. The total compensation package is designed to reward all executive officers for improved shareholder value, compensate executive officers for services performed during the fiscal year and provide an incentive to remain employed with Post.

Base Salary

We provide each executive officer with an annual base salary, other than Mr. Stiritz, whose base salary is \$1. Base salaries depend on peer data, individual performance, the executive officer's ability to address competitive or operating challenges, and overall company financial performance. The Compensation Committee attempts to set base salary levels to be competitive with executives holding positions of similar responsibility and complexity at peer group

corporations as reflected in public filings and published surveys, as well as competitive data provided by compensation consultants. Base salaries are reviewed and approved on an annual basis.

Annual Cash Bonus

Post provides executive officers (other than Mr. Stiritz, who does not participate in any bonus plans) the opportunity to earn additional cash compensation on a fiscal year basis under our Senior Management Bonus Program. Prior to the beginning of each fiscal year, the Chief Executive Officer, working with our Executive Chairman, submits recommendations to the Compensation Committee, which approves certain performance targets that must be satisfied before a bonus is paid. Prior to each fiscal year, the Compensation Committee determines target award payouts for each participant if the relevant performance targets are achieved. The amount of payout is not computed through specific mathematical formulas. Rather, the Compensation Committee evaluates a variety of factors including the following: the participant's total compensation package; the financial performance of the business relative to the business plan (including

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such measures as sales volume, revenues, costs, cash flow and operating profit); Post's overall financial performance for the fiscal year; the participant's individual performance (including the quality of strategic plans, organizational and management development, participation in evaluations of potential acquisitions and similar manifestations of individual performance); and the business environment. In determining bonus amounts, the Compensation Committee considers the recommendations made by our Chief Executive Officer and Executive Chairman. The bonus targets are set at levels which the Compensation Committee deems appropriate in light of our compensation philosophy, usually in the range of 100% to 120% of the executive's base salary. The Compensation Committee retains the authority to determine the bonus payouts based on achievement of the target performance goals.

Long-Term Compensation

Our long-term compensation program for the executive officers is comprised of long-term equity compensation. The Post Holdings, Inc. 2012 Long-Term Incentive Plan (the "2012 Plan") provides for the grant of long-term equity compensation in the form of options, restricted stock awards, RSUs, performance shares, stock appreciation rights and other stock based awards.

Stock options entitle the recipient to purchase a specified number of shares of Post common stock after a specified period of time at an option price, which will not be less than the fair market value of our common stock on the date of grant.

Restricted stock awards consist of grants of shares of Post common stock that are restricted and may not be sold, pledged, transferred or otherwise disposed of until the lapse or release of such restrictions. Individuals holding restricted stock awards may exercise full voting rights and are entitled to receive dividends during the restriction period.

RSUs represent a grant of units representing shares of Post common stock. Upon vesting, cash or shares of Post common stock will be issued. Individuals with RSUs do not have any voting or dividend rights with respect such award.

Performance shares refer to contingent awards of a specified number of performance shares or units, with each performance share or unit equivalent to one or more shares of Post common stock or a fractional share. Recipients earn a variable percentage of the performance shares or units awarded based on the achievement of specified performance objectives. Performance shares or units may pay out in cash, shares of Post common stock or both.

Stock appreciation rights allow recipients to receive, upon exercise, cash or shares of Post common stock (or a combination of both) equal in value to the difference between the exercise price and the fair market value at the date of exercise. The exercise price of a stock appreciation right will not be less than the fair market value of the common stock on the date of grant.

Post believes that granting long-term compensation mostly in the form of non-qualified stock options ensures an executive officer's long-term compensation is linked directly to shareholder value since the executive officer receives no benefit from the option unless shareholders have benefited from an appreciation in the value of Post's common stock. The vesting of stock-based awards under the 2012 Plan may be accelerated upon the occurrence of certain events, as provided in the relevant award agreement.

We believe that long-term equity incentive awards will be a critical element in the mix of compensation, linking compensation of our executive officers to long-term increases in the market price of our common stock, and therefore align the interests of our executive officers to those of our shareholders.

The total number of shares of Post common stock that may be delivered under the 2012 Plan is 6,500,000, plus any awards that are forfeited, paid in cash rather than in Post common stock, withheld to pay taxes, expired or are canceled without delivery of shares of Post common stock. Post common stock will be issuable upon vesting or exercise of stock appreciation rights issued in substitution of Ralcorp stock appreciation rights awards held by our employees. In October 2013, we granted stock options to each of our named executive officers other than Mr. Zadoks. Stock options and RSUs granted to our named executive officers are subject to "double trigger" accelerated vesting, meaning that vesting will only occur in the event of a "change in control" of Post with the executive's subsequent termination by Post "without cause" or for "good reason" (as these terms are defined in the 2012 Plan) within two years after such change in control. A change in control without such a termination will not result in accelerated vesting.

Deferred Compensation

We maintain deferred compensation plans for non-management directors and key employees. The deferred compensation plan allows eligible employees to defer all or a portion of any bonus earned on a pre-tax basis. The committee that administers the plan may determine that matching contributions may be made for any of Post's fiscal years. Absent such determination, no matching contribution is made. We also maintain an executive savings investment plan

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which permits eligible employees to make pre-tax deductions between 1% and 44% of their annual compensation. Income taxes on the amounts deferred and any investment gains are deferred until distributed. The plan does not provide for Company matching contributions. The plan does permit, if approved, a discretionary annual employer contribution.

Deferred compensation may be invested in Post common stock equivalents or in a number of funds operated by Vanguard Fund Group, Inc. with a variety of investment strategies and objectives. Under this plan, distribution of deferrals invested in common stock equivalents are made in shares of our common stock, while deferrals invested in the Vanguard funds are made in cash. A number of investment funds are available as “benchmark” investment options. Amounts contributed continue to grow on a tax-deferred basis until distributed. We do not guarantee the rate of return of any fund. As with any deferred compensation plan, there are restrictions on deferral and distribution elections as well as potential financial exposure to changes in our financial health. These plans allow executives to accumulate funds for retirement. See Non-Qualified Deferred Compensation below for further information.

Perquisites

We provide executives limited perquisites and other personal benefits that we believe are reasonable and consistent with our overall compensation philosophy. These benefits help retain and attract superior employees for key positions. The Compensation Committee reviews the levels of perquisites and other benefits periodically.

Currently the only perquisite provided by Post is personal use of our corporate aircraft. Our executive officers may use the plane for personal use with prior authorization of the Chief Executive Officer. Our Compensation Committee has the authority to grant tax gross-ups related to such use. In fiscal 2012, the Committee authorized tax gross-ups related to such use provided that they not exceed \$100,000 for any individual or \$200,000 in the aggregate during any fiscal year, which limits remained in effect for fiscal 2014. The Compensation Committee reviews the levels of perquisites and other benefits periodically. Personal use of the Company aircraft is discussed in the Summary Compensation Table where applicable.

Employment Agreements

Mr. Stiritz. On May 29, 2012, we entered into an employment agreement with William P. Stiritz, our former Chief Executive Officer and our current Executive Chairman, effective November 1, 2014. The majority of the compensation potentially payable to Mr. Stiritz pursuant to this employment agreement is long-term, performance-based compensation, primarily based on stock options, although Mr. Stiritz also received some RSUs in recognition of his service for completing the successful separation from Ralcorp. The employment agreement originally expired pursuant to its terms on April 30, 2015, but was amended in October 2013 to extend the expiration date to May 28, 2016, and was further amended in October 2014 to extend the expiration date to October 9, 2017, although the agreement will automatically renew for one-year periods unless either party gives notice of its intention not to renew. Under the terms of the employment agreement, Mr. Stiritz’s base salary is \$1 per year. Mr. Stiritz will not participate in any cash bonus programs and generally will not participate in any of our traditional benefit plans, absent special circumstances.

In connection with the employment agreement, in May 2012, Post granted Mr. Stiritz 1,550,000 stock options at an exercise price equal to \$31.25, the closing market price of Post stock on the date of grant, generally vesting in equal increments on the first, second and third anniversaries of the grant date. In connection with the amendment to his employment agreement in October 2013 extending the term by one year, Post granted Mr. Stiritz 600,000 stock options at an exercise price equal to \$40.30, the closing market price of Post stock on the date of grant, generally vesting in equal increments on the first, second and third anniversaries of the grant date. In connection with the amendment to his employment amendment in October 2014, Post granted Mr. Stiritz 1,000,000 stock options at an exercise price equal to \$55.00, which was well above the \$33.79 closing price of the Company’s common stock on the date of grant. These options also generally vest in equal increments on the first, second and third anniversaries of the grant date. These equity based awards were issued pursuant to and governed by the 2012 Plan. All equity grants to Mr. Stiritz are subject to “double trigger” accelerated vesting in the event of a change in control and Mr. Stiritz’s subsequent termination by Post without cause or by him for good reason within two years after such change in control. Either party can terminate Mr. Stiritz’s employment agreement upon 30 days’ notice.

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Management Continuity Agreements

We have entered into management continuity agreements with all of our senior management, including the named executive officers whose compensation is discussed herein, except Mr. Stiritz. These agreements are intended to promote stability and continuity of senior management in the event of an actual or anticipated change of control of Post. The board of directors authorized these agreements in recognition of the importance to us and our shareholders of avoiding the distraction and loss of key management personnel that may occur in connection with rumored or actual fundamental corporate changes. Our board of directors is of the opinion that a properly designed change in control agreement protects shareholder interest by providing (i) incentives to remain with the company despite uncertainties while a transaction is under consideration or pending, (ii) assurance of severance benefits for terminated employees and (iii) access to equity components of total compensation after a change in control.

Under the agreement, an officer may receive (i) a lump sum severance payment (equal to two or three years of base pay depending on the officer), (ii) a lump sum payout equal to the present actuarial value of continued participation in certain welfare benefit plans or equivalent benefits, (iii) a lump sum cash payment equal to the difference between the present values of the participant's actual benefits under our retirement plan and the supplemental retirement plan and what the participant would have been entitled to if he or she had remained employed for two or three years (based on the same period applicable to severance payment), (iv) outplacement assistance and (v) reimbursement for certain litigation expenses.

Information regarding payments under the agreements for the corporate officers named in this proxy statement is provided in Potential Payments upon Termination of Employment or Change in Control below.

Stock Ownership Guidelines

We have established stock ownership guidelines applicable to all non-employee directors and all corporate executive officers. Our board of directors believes that it is in the Company's best interests and the best interests of our shareholders to align the financial interests of the executive officers and non-employee directors with those of our shareholders. Our Chief Executive Officer and each of our directors is expected to own shares of common stock valued at five times the base salary or annual retainer, and each of the other executive officers is expected to own stock valued at two times the base salary. The guidelines became effective on February 3, 2012, and participants are expected to comply with the ownership requirements within five years of adoption. The Compensation Committee is responsible for monitoring the application of the stock ownership guidelines and may modify the guidelines in its discretion, including as a result of dramatic or unexpected changes in the market value of Post common stock. The Compensation Committee has the discretion to enforce these stock ownership guidelines on a case-by-case basis.

Deductibility of Certain Executive Compensation

Section 162(m) of the Internal Revenue Code sets a limit on deductible compensation of \$1,000,000 per person, per year for the chief executive officer and the next three highest-paid executives (excluding the chief financial officer). However, the deduction limit does not apply if the compensation is strictly performance based. In establishing total compensation for such officers, the Compensation Committee considers the effect of Section 162(m). However, corporate objectives may not always be consistent with the requirements for full deductibility. Therefore, deductibility is not the sole factor used in setting the appropriate compensation levels paid by Post and decisions leading to future compensation levels may not be fully deductible under Section 162(m). We believe this flexibility enables us to respond to changing business conditions or to an executive's exceptional individual performance.

Management Changes for Fiscal 2015 and Fiscal 2015 Compensation

In connection with a larger reorganization of our businesses, in October 2014 we announced the following named executive officer management changes, effective November 1, 2014:

Terence E. Block retired from his positions as President and Chief Operating Officer and a member of the board of directors of the Company. As part of Mr. Block's retirement, the Company entered into a Separation and Release Agreement with Mr. Block which provides for: (a) a lump sum payment of \$1.1 million; (b) the acceleration of vesting of 38,001 shares of RSUs and 200,000 non-qualified stock options; (c) Mr. Block to remain available on a consulting basis for the Company until December 31, 2014; and (d) a general release of all claims Mr. Block may have against the Company.

¶The board appointed William P. Stiritz to serve as Executive Chairman of the Company.

• The board appointed Robert V. Vitale to serve as President and Chief Executive Officer of the Company.
• The board appointed James L. Holbrook to serve as Executive Vice President, Post Holdings; President & CEO, Consumer Brands.

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The board appointed Jeff A. Zadoks to serve as Senior Vice President and Chief Financial Officer of the Company. Regarding executive compensation associated with these management changes, the Compensation Committee engaged FW Cook as its independent compensation consultant to assist it in considering and analyzing competitive market practices and compensation developments and trends and to advise it in the selection of the appropriate peer companies. For fiscal 2015, Post did not target individual components of compensation but rather targeted the overall compensation packages for our executive officers. The peer group for fiscal 2015 compensation benchmarking was largely the same as approved in May 2012, except the new peer group removes Central European Distribution Corporation and Imperial Sugar Company.

In connection with Mr. Stiritz becoming our Executive Chairman, the Compensation Committee recommended and the board of directors approved an amendment to Mr. Stiritz's employment agreement reflecting his new responsibilities, and extending the term of his employment agreement to October 2017. The board also granted Mr. Stiritz 1,000,000 stock options at an exercise price of \$55.00, generally vesting in equal increments on the first, second and third anniversaries of the grant date. The exercise price of \$55.00 for these options substantially exceeds the price of the Company's common stock on the date of grant, which was \$33.79. The Compensation Committee granted these options to Mr. Stiritz with the higher exercise price in order to closely align Mr. Stiritz's interests to those of the Company's shareholders.

The Compensation Committee also approved new fiscal 2015 base salaries and target bonus percentages (expressed as percentages of base salary) for our other named executive officers, as stated in the table below. Additionally, the Compensation Committee granted stock options and RSUs in the amounts listed below.

Name	Position Effective November 1, 2014	Base Salary	Target Bonus	Stock Option Award (1)	RSU Award (2)
Robert V. Vitale	President and Chief Executive Officer	\$800,000	120%	125,000	25,000
James L. Holbrook	EVP, Post Holdings; President & CEO, Consumer Brands	\$600,000	100%	100,000	20,000
Jeff A. Zadoks	SVP, Chief Financial Officer	\$375,000	100%	—	10,000

The non-qualified stock options were granted on October 9, 2014 and have an exercise price of \$33.79, the closing (1) market price of the Company's common stock on the date of grant. The options vest in equal installments on the first, second and third anniversaries of the date of grant.

The RSUs were granted on October 9, 2014 and vest in equal installments on the first, second and third (2) anniversaries of the date of grant, and are settled in shares of stock, except for Mr. Zadoks' RSUs, which are ultimately settled in cash.

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Summary Compensation Table

The following table shows information about the compensation of our Chief Executive Officer, our Chief Financial Officer and the three most highly compensated officers who were serving as named executive officers at September 30, 2014.

Name and Principal Position (1)	Year	Salary (\$)(3)	Bonus Awards (\$)(4)	Option Awards (\$)(5)	Non-Equity Incentive Plan Compensation (\$)(6)	Changes in Pension Value and Non-Qualified Deferred Compensation Earnings (\$)(7)	All Other Compensation (\$)(8)	Total (\$)
William P. Stiritz Chairman & CEO	2014	1	—	5,500,375	—	—	183,229	5,683,605
	2013	1	—	—	—	—	130,111	130,112
	2012	1	—9,765,625	12,846,854	—	—	131,948	22,744,428
Robert V. Vitale CFO	2014	500,000	—765,700	1,362,884	100,000	3,290	46,503	2,778,377
	2013	427,500	—643,910	1,205,598	430,000	2,548	63,164	2,772,720
	2012	266,667	—593,750	988,366	400,000	6,039	20,858	2,275,680
Terence E. Block (2) President & COO	2014	550,000	—765,700	1,362,884	—	60,226	124,643	2,863,453
	2013	500,000	—643,910	1,050,765	500,000	4,921	100,511	2,800,107
	2012	333,333	—593,750	988,366	500,000	15,244	24,283	2,454,976
James L. Holbrook EVP & President, Post Foods	2014	500,000	—765,700	1,362,884	100,000	62,646	79,169	2,870,399
	2013	427,500	—643,910	1,205,598	430,000	35,008	69,531	2,811,547
	2012	266,667	—375,000	691,856	400,000	12,308	18,622	1,764,453
Jeff A. Zadoks SVP, Chief Accounting Officer	2014	285,000	—1,330,850	—	205,200	5,116	18,353	1,844,519
	2013	248,333	—169,450	—	200,000	4,233	19,886	641,902
	2012	148	retail stores operating in the United States, as of March 31, 2011. The Canada segment includes retail, wholesale and online consumer operations in Canada. As of March 31, 2011, the retail					

operations in the Canada segment were comprised of 38 retail stores. The International segment includes retail, wholesale and online consumer operations outside of the United States and Canada. As of March 31, 2011, the retail operations in the International segment were comprised of 72 retail stores operating outside of the United States and Canada in 18 countries. All of the Company's retail stores sell the Company's apparel products directly to consumers.

The Company's management evaluates performance based on a number of factors; however, the primary measures of performance are net sales and income or loss from operations of each business segment, as these are the key performance indicators reviewed by management. Operating income or loss for each segment does not include unallocated corporate general and administrative expenses, interest expense and other miscellaneous income/expense items. Corporate general and administrative expenses include, but are not limited to: human resources, legal, finance, information technology, accounting, executive compensation and various other corporate level expenses. Such

unallocated expenses remain within corporate.

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

	Three Months Ended March 31, 2011				Consolidated
	U.S. Wholesale	U.S. Retail	Canada	International	
Wholesale net sales	\$29,116	\$—	\$2,416	\$1,868	\$33,400
Retail net sales	—	37,020	9,720	25,961	72,701
Online consumer net sales	5,534	—	493	3,939	9,966
Total net sales to external customers	34,650	37,020	12,629	31,768	116,067
Gross profit	11,088	24,739	7,956	20,115	63,898
Income (loss) from operations	6,443	(4,995)	(880)	(1,622)	(1,054)
Depreciation and amortization	2,167	2,696	433	1,338	6,634
Capital expenditures	1,008	1,034	79	410	2,531
Retail store impairment charges	—	110	2	538	650
Deferred rent expense (benefit)	78	(920)	(22)	(126)	(990)

	Three Months Ended March 31, 2010				Consolidated
	U.S. Wholesale	U.S. Retail	Canada	International	
Wholesale net sales	\$29,406	\$—	\$2,515	\$2,966	\$34,887
Retail net sales	—	40,893	11,304	26,960	79,157
Online consumer net sales	4,423	—	395	2,952	7,770
Net sales to external customers	33,829	40,893	14,214	32,878	121,814
Gross profit	5,319	28,659	9,011	18,352	61,341
(Loss) income from operations	(695)	(4,376)	450	(5,650)	(10,271)
Depreciation and amortization	2,300	2,619	564	1,633	7,116
Capital expenditures	1,184	1,095	313	349	2,941
Retail store impairment charges	—	1,973	241	1,977	4,191
Deferred rent expense	120	722	9	131	982

Reconciliation of reportable segments combined (loss) income from operations for the three months ended March 31, 2011 and 2010 to the consolidated loss before income taxes is as follows:

	Three Months Ended March 31,	
	2011	2010
Consolidated loss from operations of reportable segments	(1,054)	\$(10,271)
Unallocated corporate expenses	(12,037)	(11,285)
Interest expense	(7,131)	(5,046)
Foreign currency transaction gain (loss)	811	(756)
Unrealized gain on change in fair value of warrant	2,100	—
Loss on extinguishment of debt	(3,114)	—
Other income (expense)	36	(155)
Consolidated loss before income taxes	\$(20,389)	\$(27,513)

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Net sales by geographic location of customer for the three months ended March 31, 2011 and 2010, are as follows:

	Three Months Ended March 31,	
	2011	2010
United States	\$71,670	\$74,722
Canada	12,629	14,214
Europe (excluding United Kingdom)	14,702	17,376
United Kingdom	7,773	6,697
South Korea	2,049	2,171
Japan	2,478	2,442
Australia	2,513	1,986
Other foreign countries	2,253	2,206
Total consolidated net sales	\$116,067	\$121,814

Long-lived assets - Property and equipment, net, by geographic location is summarized as follows:

	March 31, 2011	December 31, 2010
United States	\$59,400	\$61,754
Canada	6,864	7,063
Europe (excluding the United Kingdom)	6,202	6,257
United Kingdom	5,534	5,784
South Korea	414	394
Japan	1,162	1,290
Australia	1,282	1,311
Other foreign countries	1,535	1,547
Total Consolidated Long-Lived Assets	\$82,393	\$85,400

Identifiable assets by reportable segment:

U.S. Wholesale	\$148,696	\$129,948
U.S. Retail	85,292	92,931
Canada	31,672	32,876
International	68,292	72,195
Total	\$333,952	\$327,950

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

	March 31, 2011	December 31, 2010		
Total assets	30.3	% 32.0	%	
Total liabilities	10.9	% 13.7	%	

Note 17. Litigation

The Company is subject to various claims and contingencies in the ordinary course of its business, including those related to litigation, business transactions, employee-related matters and taxes, and others. When the Company is aware of a claim or potential claim, it assesses the likelihood of any loss or exposure. If it is probable that a loss will result and the amount of the loss can be reasonably estimated, the Company will record a liability for the loss. In addition to the estimated loss, the recorded liability includes probable and estimable legal costs associated with the claim or potential claim. There is no assurance that such matters will not materially and adversely affect the Company's business, financial position, and results of operations or cash flows.

On or about September 19, 2005, Ms. Mary Nelson, an independent contractor in the sales department at American Apparel, commenced a lawsuit (Mary Nelson v. American Apparel, Inc., et al., Case No. BC333028 filed in Superior Court of the State of California for the County of Los Angeles, Central District) (the "Nelson Action") wherein she alleges she was wrongfully terminated, was subjected to harassment and discrimination based upon her gender and other claims related to her tenure at the Company. The parties are engaged in ongoing arbitration of this suit. Until arbitration proceedings are final, the ultimate costs could change. The insurance carrier for the Company has asserted that it is not obligated to provide coverage for this proceeding. The Company has accrued an estimate for this loss contingency in its accompanying condensed consolidated balance sheet as of March 31, 2011. The Company may have an exposure to loss in excess of the amounts accrued, however, an estimate of such potential loss cannot be made at this time, and no assurance can be made that this matter either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, larger than the Company's estimate, which could have a material adverse effect upon the Company's financial condition and results of operations.

On February 7, 2006, Sylvia Hsu, a former employee of the Company, filed a Charge of Discrimination with the Los Angeles District Office of the Equal Employment Opportunity Commission ("EEOC") (Hsu v. American Apparel: Charge No. 480- 2006-00418), alleging that she was subjected to sexual harassment by a co-worker and constructively discharged as a result of the sexual harassment and a hostile working environment. On March 9, 2007, the EEOC expanded the scope of its investigation to other employees of the Company who may have been sexually harassed. On August 9, 2010, the EEOC issued a written determination finding that reasonable cause exists to believe the Company discriminated against Ms. Hsu and women, as a class, on the basis of their female gender, by subjecting them to sexual harassment. No finding was made on the issue of Ms. Hsu's alleged constructive discharge. In its August 19, 2010 written determination, the EEOC has invited the parties to engage in informal conciliation. If the parties are unable to reach a settlement which is acceptable to the EEOC, the EEOC will advise the parties of the court enforcement alternatives available to Ms. Hsu, aggrieved persons, and the EEOC. The insurance carrier for the Company has asserted that it is not obligated to provide coverage for this proceeding. The Company has not recorded a provision for this matter and intends to work cooperatively with the EEOC to resolve the claim in a manner acceptable to all parties. The Company does not at this time believe that any settlement will involve the payment of damages in an amount that would be material to and adversely affect the Company's business, financial position, and results of operations and cash flows.

On November 5, 2009, Guillermo Ruiz, a former employee of the Company, filed suit against the Company on behalf of putative classes of all current and former non-exempt California employees (Guillermo Ruiz, on behalf of himself and all others similarly situated v. American Apparel, Inc., Case Number BC425487) in the Superior Court of the State of California for the County of Los Angeles, alleging the Company failed to pay certain wages due for hours worked, to provide meal and rest periods or compensation in lieu thereof and to pay wages due upon termination to certain of its employees. The complaint further alleges that the Company failed to comply with certain itemized employee wage statement provisions and unfair competition law. The plaintiff is seeking compensatory damages and economic and/or special damages in an unspecified amount; premium pay, wages and penalties; injunctive relief and restitution; and reimbursement for attorneys' fees, interest and the costs of the suit. The parties are engaged in ongoing settlement discussions jointly with Antonio Partida (the case described below) in an effort to reach a global settlement of all claims asserted in both of these actions. No assurances can be made that a settlement can be reached. If a settlement is not reached, then Plaintiff's claims will be adjudicated through the arbitration process. The Company does not have insurance coverage for this matter. Should the matter be decided against the Company, the Company

could not only incur substantial liability but also experience an increase in similar suits and suffer reputational harm. The Company has accrued an estimate for this loss contingency in its accompanying condensed consolidated balance sheet as of March 31, 2011. The Company may have an exposure to loss in excess of the amounts accrued, however, an estimate of such potential loss cannot be made at this time. Moreover, no assurance can be made that this matter either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, larger than the Company's estimate, which could have a material adverse effect upon the Company's financial condition and results of operations.

On June 21, 2010, Antonio Partida, a former employee of the Company, filed suit against the Company on behalf of putative classes of current and former non-exempt California employees (Antonio Partida, on behalf of himself and all others similarly situated v. American Apparel (USA), LLC, Case No. 30-2010-00382719-CU-OE-CXC) in the Superior Court of the State of California for the County of Orange, alleging the Company failed to pay certain wages for hours worked, to provide meal and rest periods or compensation in lieu thereof, and to pay wages due upon separation. The complaint further alleges that the Company failed to timely pay wages, unlawfully deducted wages and failed to comply with certain itemized employee wage statement provisions and unfair competition law. The plaintiff is seeking compensatory damages and economic and/or special damages in an unspecified amount, premium pay, wages and penalties, injunctive relief and restitution, and reimbursement of attorneys' fees, interest and the costs of the suit. The parties are engaged in ongoing settlement discussions jointly with Guillermo Ruiz (the case described above) in an effort to reach a global settlement of all claims asserted in both of these actions. No assurances can be made that a settlement can be reached. If a settlement is not reached, then Plaintiff's claims will be adjudicated through the arbitration process. There is no known insurance coverage for this matter. Should the matter be decided against the Company, the Company could not only incur substantial liability but also experience an increase in similar suits and suffer reputational harm. The Company has accrued an estimate for this loss contingency in its accompanying condensed consolidated balance sheet as of March 31, 2011. The Company may have an exposure to loss in excess of the amounts accrued, however, an estimate of such potential loss cannot be made at this time. Moreover, no assurance can be made that this matter either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, larger than the Company's estimate, which could have a material adverse effect upon the Company's financial condition and results of operations.

On or about December 2, 2010, Emilie Truong, a former employee of the Company, filed suit against the Company on behalf of putative classes of current and former non-exempt California employees (Emilie Truong, individually and on behalf of all others similarly situated v. American Apparel, Inc. and American Apparel LLC, Case No. BC450505) in the Superior Court of the State of California for the County of Los Angeles, alleging the Company failed to timely provide final paychecks upon separation. Plaintiff is seeking unspecified premium wages, attorneys' fees and costs, disgorgement of profits, and an injunction against the alleged unlawful practices. Plaintiff's claims will be adjudicated through the arbitration. There is no known insurance coverage for this matter. Should the matter be decided against the Company, the Company could not only incur substantial liability, but also experience an increase in similar suits and suffer reputational harm. The Company is unable to predict the financial outcome of these matters at this time, and any views formed as to the viability of these claims or the financial exposure which could result may change from time to time as the matters proceed through their course. However, no assurance can be made that these matters, either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, which could have a material adverse effect upon the Company's financial condition and results of operations.

On or about February 9, 2011, Jessica Heupel, a former retail employee filed suit on behalf of putative classes of current and former non-exempt California employees (Jessica Heupel, individually and on behalf of all others similarly situated v. American Apparel Retail, Inc., Case No. 37-2011-00085578-CU-OE-CTL) in the San Diego Superior Court of the State of California, alleging the Company failed to pay certain wages for hours worked, to provide meal and rest periods or compensation in lieu thereof, and to pay wages due upon separation. The plaintiff is seeking monetary damages as follows: (1) for alleged meal and rest period violations; (2) for alleged failure to timely pay final wages, as well as for punitive damages for the same; and (3) unspecified damages for unpaid minimum wage and overtime. In addition, Plaintiff seeks premium pay, wages and penalties, injunctive relief and restitution, and reimbursement of attorneys' fees, interest and the costs of the suit. Plaintiff's claims will be adjudicated through the arbitration. There is no known insurance coverage for this matter. Should the matter be decided against the Company, the Company could not only incur substantial liability, but also experience an increase in similar suits and suffer reputational harm. The Company is unable to predict the financial outcome of these matters at this time, and any views formed as to the viability of these claims or the financial exposure which could result may change from time to time as the matters proceed through their course. However, no assurance can be made that these matters, either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, which could have a material adverse effect upon the Company's financial condition and results of

operations.

Two shareholder derivative lawsuits, entitled Nikolai Grigoriev v. Dov Charney, et al., Case No. CV106576 GAF (JCx) (the "Grigoriev Action") and Andrew Smukler v. Dov Charney, et al., Case No. CV107518 RSWL (FFMx) (the "Smukler Action"), were filed in the United States District Court for the Central District of California on September 2, 2010 and October 7, 2010, respectively, and four shareholder derivative lawsuits, entitled John L. Smith v. Dov Charney, et al., Case No. BC 443763 (the "Smith Action"), Lisa Kim v. Dov Charney, et al., Case No. BC 443902 (the "Kim Action"), Teresa Lankford v. Dov Charney, et al., Case No. BC 445094 (the "Lankford Action"), and Wesley Norris v. Dov Charney, et al., Case No. BC 447890 (the "Norris Action") were filed in the Superior Court of the State of California, County of Los Angeles on August 16, 2010, September 3, 2010, September 7, 2010, and October 21, 2010, respectively, by persons identifying themselves as

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American Apparel shareholders and purporting to act on behalf of American Apparel, naming American Apparel as a nominal defendant and certain current and former officers, directors, and executives of the Company as defendants. Plaintiffs in the Grigoriev Action, Smukler Action, Smith Action, Kim Action, and Norris Action allege causes of action for breach of fiduciary duty arising out of (i) the Company's alleged failure to maintain adequate accounting and internal control policies and procedures; and (ii) the Company's alleged violation of state and federal immigration laws in connection with the previously disclosed termination of over 1,500 employees following an Immigration and Customs Enforcement inspection. The Lankford Action alleges seven causes of action for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets also arising out of (i) the Company's alleged failure to maintain adequate accounting and internal control policies and procedures; and (ii) the Company's alleged violation of state and federal immigration laws in connection with the previously disclosed termination of over 1,500 employees following an Immigration and Customs Enforcement inspection. On November 4, 2010, the four lawsuits filed in the Superior Court of the State of California were consolidated for all purposes into a case entitled *In re American Apparel, Inc. Shareholder Derivative Litigation*, Lead Case No. BC 443763 (the "State Derivative Action"). On November 12, 2010, the two lawsuits filed in the United States District Court for the Central District of California were consolidated for all purposes into a case entitled *In re American Apparel, Inc. Shareholder Derivative Litigation*, Lead Case No. CV106576 (the "Federal Derivative Action"). Plaintiffs in the Federal Derivative Action must file a consolidated amended complaint by May 31, 2011. On April 12, 2011, the Court issued an order staying the State Derivative Action on the grounds that the case is duplicative of the Federal Derivative Action, as well as the putative securities class action currently pending in the U.S. District Court for the Central District of California (see below). Plaintiffs in each of the derivative cases seek damages on behalf of the Company in an unspecified amount, as well as equitable and injunctive relief. The Company does not maintain any exposure to loss in connection with these shareholder derivative lawsuits. The lawsuits do not assert any claims against the Company. The Company's status as a "Nominal Defendant" in the actions reflects the fact that the lawsuits are maintained by the named plaintiffs on behalf of American Apparel and that plaintiffs seek damages on behalf of the Company.

Four putative class action lawsuits, entitled *Anthony Andrade v. American Apparel, et al.*, Case No. CV106352 MMM (RCx), *Douglas Ormsby v. American Apparel, et al.*, Case No. CV106513 MMM (RCx), *James Costa v. American Apparel, et al.*, Case No. CV106516 MMM (RCx), and *Wesley Childs v. American Apparel, et al.*, Case No. CV106680 GW (JCGx), were filed in the United States District Court for the Central District of California on August 25, 2010, August 31, 2010, August 31, 2010, and September 8, 2010, respectively, against the Company and certain of its officers and executives on behalf of American Apparel shareholders who purchased the Company's common stock between December 19, 2006 and August 17, 2010. On December 3, 2010, the four lawsuits were consolidated for all purposes into a case entitled *In re American Apparel, Inc. Shareholder Litigation*, Lead Case No. CV106352 (the "Federal Securities Action"). On March 14, 2011, the United States District Court appointed the firm of Barroway Topaz, LLP to serve as lead counsel and Mr. Charles Rendelman to serve as lead plaintiff. On April 29, 2011, Mr. Rendelman filed an Amended Class Action Complaint against the Company, certain of its officers, and Lion, alleging two causes of action for violations of Section 10(b) and 20(a) of the 1934 Act, and Rules 10b-5 promulgated under Section 10(b), arising out of alleged misrepresentations contained in its press releases, public filings with the SEC, and other public statements relating to (i) the adequacy of its internal and financial control policies and procedures; (ii) its employment practices; and (iii) the effect that the dismissal of over 1,500 employees following an Immigration and Customs Enforcement inspection would have on the Company. Discovery is stayed in the Federal Securities Action, as well as in the Federal Derivative Action, pending resolution of any forthcoming motions to dismiss the Federal Securities Action. Plaintiffs seek damages in an unspecified amount, reasonable attorneys fees and costs, and equitable relief as the Court may deem proper. The Company is unable to predict the financial outcome of these matters at this time, and any views formed as to the viability of these claims or the financial exposure which could result may change from time to time as the matters proceed through their course. However, no assurance can be made that these matters, either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, which could have a material adverse effect upon the Company's financial condition and results of operations.

In August 2010, the Company received a subpoena from the United States Attorney's Office for the Central District of California for documents relating to an official criminal investigation being conducted by the Federal Bureau of Investigation into the change in the Company's registered independent accounting firm and the Company's financial reporting and internal controls. The Company has also received a subpoena from the SEC for documents relating to its investigation surrounding the change in the Company's registered independent accounting firm and the Company's financial reporting and internal controls. The Company intends to cooperate fully with these subpoenas and investigations.

On May 9, 2011, the Company received a subpoena from the United States Attorney's Office for the Central District of California for documents relating to a complaint filed by a former employee with the Occupational Safety & Health Administration in November 2010 that contains allegations regarding, inter alia, the Company's policies with respect to and accounting of foreign currency transactions and transfer pricing. The Company intends to fully cooperate with this subpoena.

On February 17, 2011, the Company filed complaints in arbitration against five former employees seeking: (1) declaratory relief that the arbitration, confidentiality, severance and bonus agreements signed by the former employees are valid and enforceable; (2) damages in the event the former employees or anyone of them breaches their confidentiality agreements, as threatened; (3) attorneys' fees and costs incurred to compel the suit into arbitration; (4) declaratory relief that the former employees' claims of sexual harassment and sexual assault are false and without merit; and (5) declaratory relief that the former employees have attempted to engage in abuse of process for the purpose of extorting from the Company and Dov Charney money solely to avoid public shame and economic loss. On March 4, 2011, one such former employee filed suit against American Apparel, Dov Charney, and the current members of the Board of Directors of American Apparel in the Supreme Court of New York, County of Kings, Case No. 5018-11. The suit alleges sexual harassment, gender discrimination, retaliation, negligent hiring and supervision, intentional and negligent infliction of emotional distress, fraud and unpaid wages, and seeks, among other things, an award of compensatory damages, exemplary damages, attorneys' fees and costs, all in an amount of at least \$250,000. On March 23, 2011, three of the other former employees filed a consolidated suit against American Apparel and Dov Charney in the Los Angeles Superior Court for the State of California, Case No. BC457920. Such action alleges sexual harassment, failure to prevent harassment and discrimination, intentional infliction of emotional distress, assault and battery, and a declaratory judgment that the confidentiality and arbitration agreements signed by plaintiffs are unenforceable. Such action seeks monetary damages, various forms of injunctive relief, and attorneys' fees and costs. The remaining plaintiffs seek only a declaratory judgment that the confidentiality and arbitration agreements they signed are unenforceable. On April 27, 2011, three of the former employees filed suit against the Company, Dov Charney and a Company employee in the Los Angeles Superior Court, State of California, Case No. BC460331, asserting claims for Impersonation through Internet or Electronic Means, Intentional Infliction of Emotional Distress, Defamation, Invasion of Privacy/False Light, and Invasion of Privacy/Appropriation of Likeness. Such action seeks monetary damages, injunctive relief and attorneys' fees and costs. The Company believes that each of the above described actions are covered by insurance, subject to a deductible, and is awaiting confirmation of coverage from its carriers. The Company does not believe that any of these claims will exceed the amount of the Company's available insurance, although the views formed as to the viability of these claims or the financial exposure which could result may change from time to time as the matters proceed through their course.

The Company is currently engaged in other employment-related claims and other matters incidental to the Company's business. Management believes that all such claims against the Company are without merit or not material, and the Company intends to vigorously dispute the validity of the plaintiffs' claims. While the ultimate resolution of such claims cannot be determined, based on information at this time, the Company believes the amount, and ultimate liability, if any, with respect to these actions will not materially affect the Company's business, financial position, results of operations, or cash flows. The Company cannot assure you, however, that such actions will not have a material adverse effect on the Company's consolidated results of operations, financial position or cash flows.

Note 18. Subsequent Events

The Company has evaluated events that occurred subsequent to March 31, 2011 and through the date the financial statements were issued. Management concluded that no additional subsequent events required disclosure in these financial statements other than those disclosed in these notes to these financial statements.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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Overview

We are a vertically-integrated manufacturer, distributor, and retailer of branded fashion basic apparel. We design, manufacture and sell clothing, accessories and personal care products for women, men, children and babies through retail, wholesale and online distribution channels. As of March 31, 2011, we operated a total of 258 retail stores in the United States, Canada and 18 other countries. Our wholesale business is a leading supplier of T-shirts and other casual wear to screen printers and distributors. In addition, we operate an online retail e-commerce website at www.americanapparel.com where we sell our clothing and accessories directly to consumers.

We conduct our primary manufacturing operations out of an 800,000 square foot facility in the warehouse district of downtown Los Angeles, California. The facility houses our executive offices, as well as cutting, sewing, warehousing, and distribution operations. We conduct knitting operations at our facilities in Los Angeles and Garden Grove, California, which produce a majority of the fabric we use in our products. We also operate dye houses that provide dyeing and finishing services for nearly all of the raw fabric used in production. We operate a dyeing and finishing facility in Hawthorne, California, which provides fabric dyeing and finishing services. We operate a garment dyeing and finishing facility, located in South Gate, California, which is used in cutting, sewing, dyeing and finishing garments. We operate a fabric dyeing and finishing facility, and located in Garden Grove, California, which has been expanded to including knitting, cutting and sewing operations. Because we manufacture domestically and are vertically integrated, we believe this enables us to more quickly respond to customer demand and to changing fashion trends and to closely monitor product quality. Our products are recognized for their quality and fit, and together with our distinctive branding these attributes have differentiated our products in the marketplace.

The results of the respective business segments exclude unallocated corporate expenses, which consist of our shared overhead costs. These costs are presented separately and generally include corporate costs such as human resources, legal, finance, information technology, accounting, and executive compensation.

The following sets forth the change in retail store count during the three months ended March 31, 2011 and 2010.

	U.S. Retail	Canada	International	Total
Three Months Ended March 31, 2011				
Open at January 1, 2011	157	40	76	273
Opened	—	—	—	—
Closed	(9	) (2	) (4	) (15
Open at March 31, 2011	148	38	72	258
Three Months Ended March 31, 2010				
Open at January 1, 2010	160	40	81	281
Opened	—	1	—	1
Closed	(1	) —	(1	) (2
Open at March 31, 2010	159	41	80	280

Comparable Store Sales

The table below shows the (decrease) increase in comparable store sales for our retail stores, for the three months ended March 31, 2011, and 2010, including the number of retail stores included in the comparison at the end of each period. Comparable store sales are defined as the percentage change in sales for stores that have been open for more than twelve full months. Remodeled and expanded stores are excluded from the determination of comparable stores for the following twelve month period if the remodel or expansion results in a change of greater than 20% of selling

square footage. Closed stores are excluded from the base of comparable stores following their last full month of operation.

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

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	Three Months Ended March 31,		
	2011	2010	
Comparable store sales	(8)%	(10
Number of stores in comparison	249		249
Executive Summary)%

As of March 31, 2011, we had approximately \$6.2 million in cash, \$1.6 million of availability for additional borrowings and \$58.5 million outstanding on a \$75,000 revolving credit facility under the BofA Credit Agreement (as defined in Note 7 to our condensed consolidated financial statements under Item 1 - Financial Statements), \$1.6 million of availability for additional borrowings and \$4.2 million outstanding on a C\$11,000 revolving credit facility under the Bank of Montreal Credit Agreement (as defined in Note 7 to our condensed consolidated financial statements under Item 1 - Financial Statements), and \$82.3 million (including paid-in-kind interest of \$3.7 million and net of discount of \$20.0 million) of term loans outstanding under the Lion Credit Agreement (as defined in Note 8 to our condensed consolidated financial statements under Item 1 - Financial Statements). As of April 30, 2011, we had approximately \$8.0 million in cash, approximately \$8.9 million of availability for additional borrowings and \$46.1 million outstanding on the credit facility under the BofA Credit Agreement and \$1.4 million of availability for additional borrowings and \$4.0 million outstanding on the credit facility under the Bank of Montreal Credit Agreement.

On April 26, 2011, we sold 15,776,506 shares of Common Stock to a group of investors, at a price of \$0.90 per share, for the aggregate cash purchase price of approximately \$14.2 million, of which \$5.0 million went to satisfy and meet the availability requirement of the amendment to the BofA Credit Agreement. The investors also received the right to purchase up to an additional 27,443,173 shares at the same price within 180 days, subject to shareholder approval and subject to certain anti-dilution and other adjustments. In connection with this transaction and as a condition to the investors purchasing the shares, Mr. Dov Charney was also provided with an anti-dilution protection if the market price of Common Stock meets certain thresholds, subject to certain terms and conditions. This transaction improved our liquidity position by approximately \$8.0 million.

We incurred a loss from operations of \$13.1 million for the three months ended March 31, 2011, compared to a loss from operations of \$21.6 million for the three months ended March 31, 2010. The current operating plan indicates that losses from operations may be incurred for all of fiscal 2011. Consequently, we may not have sufficient liquidity necessary to sustain operations for the next twelve months and this raises substantial doubt that we will be able to continue as a going concern.

We are in the process of executing a plan to improve the operating performance and our financial position. This plan includes optimizing production levels at our manufacturing facilities including raw material purchases and labor; streamlining our logistics operations; merchandise price rationalization in our wholesale and retail channels; renegotiating the terms of a number of our retail real estate leases, including possible store closures; improving merchandise allocation procedures and rationalizing staffing levels. In addition, we continue to develop other initiatives intended to either increase sales, reduce costs or improve liquidity. Although our plan reflects improvements in these trends, there can be no assurance that our plan to improve the operating performance and our financial position will be successful. We continue to evaluate other alternative sources of capital for ongoing cash needs, however, there can be no assurance we will be successful in those efforts.

For the three months ended March 31, 2011, we reported net sales of \$116.1 million, a decrease of \$5.7 million, or 4.7% over the \$121.8 million reported for the three months ended March 31, 2010. Gross margin increased to 55.1% for the three months ended March 31, 2011 compared to 50.4% for the three months ended March 31, 2010. The

increase in gross margin was primarily due to increase in sales prices across our sales channels and manufacturing labor efficiencies beginning in the second half of 2010 that have reduced our production costs.

Operating expenses, which include all selling, general and administrative costs and retail store impairment charges, decreased \$5.9 million, or 7.1%, to \$77.0 million for the three months ended March 31, 2011 as compared to \$82.9 million for the three months ended March 31, 2010. Fixed asset impairment expenses decreased \$3.5 million to \$0.7 million for the three months ended March 31, 2011 as compared to \$4.2 million for the three months ended March 31, 2010. Impairment charges were reduced as bulk of the investments in leasehold improvements in most underperforming stores as well the stores that were closed during the three months ended March 31, 2011 have already been impaired in earlier periods. Interest expense increased \$2.1 million to \$7.1 million for the three months ended March 31, 2011, as compared to \$5.0 million the three months ended March 31, 2010 due to higher outstanding debt balances and higher interest rates on Lion term loan note. Net loss for the three months ended March 31, 2011 was \$20.7 million compared to \$42.8 million for the three months ended March 31, 2010,

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primarily due to increase in gross profit, reduction in selling expenses, impairment charges and income tax expense, offset by gain in change of fair value of warrants and foreign currency transactions.

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Results of Operations

The results of operations of the interim periods are not necessarily indicative of results for the entire year.

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Three Months Ended March 31, 2011 Compared to the Three Months Ended March 31, 2010

The following table sets forth our results of operations from our unaudited condensed consolidated statements of operations by dollar and as a percentage of net sales for the periods indicated (dollars in thousands):

	Three Months Ended March 31,					
	2011	% of net sales	2010	% of net sales		
U.S. Wholesale	\$34,650	29.9	% \$33,829	27.8	%	
U.S. Retail	37,020	31.9	% 40,893	33.6	%	
Canada	12,629	10.9	% 14,214	11.7	%	
International	31,768	27.4	% 32,878	27.0	%	
Total net sales	116,067	100.0	% 121,814	100.0	%	
Cost of sales	52,169	44.9	% 60,473	49.6	%	
Gross profit	63,898	55.1	% 61,341	50.4	%	
Selling expenses	50,235	43.3	% 52,597	43.2	%	
General and administrative expenses	26,104	22.5	% 26,109	21.4	%	
Retail store impairment charges	650	0.6	% 4,191	3.4	%	
Loss from operations	(13,091	) (11.3	)% (21,556	) (17.7)%	
Interest expense	7,131	6.1	% 5,046	4.1	%	
Foreign currency transaction (gain) loss	(811	) (0.7	)% 756	0.6	%	
Unrealized gain on change in fair value of warrants	(2,100	) (1.8)% —	—	%	
Loss on extinguishment of debt	3,114	2.7	% —	—	%	
Other (income) expense	(36	) —	% 155	0.1	%	
Loss before income tax	(20,389	) (17.6	)% (27,513	) (22.6)%	
Income tax expense	356	0.3	% 15,329	12.6	%	
Net loss	\$(20,745	) (17.9	)% \$(42,842	) (35.2)%	

U.S. Wholesale: Total net sales for the U.S. Wholesale segment increased \$0.9 million, or 2.7%, to \$34.7 million for the three months ended March 31, 2011 as compared to \$33.8 million for the three months ended March 31, 2010.

Wholesale net sales, excluding online consumer net sales, decreased \$0.3 million, or 1.0%, to \$29.1 million for the three months ended March 31, 2011 as compared to \$29.4 million for the three months ended March 31, 2010.

Following a loss of a major distributor at the end of 2010, we have refocused our efforts in this channel to target customers in the market for imprintable apparel and so far have substantially been able to replace this lost business. Online consumer net sales increased \$1.1 million, or 25.0%, to \$5.5 million for the three months ended March 31, 2011 as compared to \$4.4 million for the three months ended March 31, 2010, primarily as a result of improvements to our website and fulfillment process.

U.S. Retail: Net sales for the U.S. Retail segment decreased \$3.9 million, or 9.5%, to \$37.0 million for the three months ended March 31, 2011 as compared to \$40.9 million for the three months ended March 31, 2010. Comparable store sales for the three months ended March 31, 2011 decreased by 7%, or \$2.7 million. Store closures caused a \$1.2

million sales decrease. Since March 31, 2010, the number of U.S. Retail segment stores in operation decreased from 159 to 148.

Canada: Total net sales for the Canada segment decreased \$1.6 million, or 11.3%, to \$12.6 million for the three months ended March 31, 2011 as compared to \$14.2 million for the three months ended March 31, 2010. Holding foreign currency exchange rates constant to those prevailing in the comparable period in 2010, total revenue for the current period would have been approximately \$12.1 million, or \$2.1 million lower when compared to the same period last year. Comparable store sales for the three months ended March 31, 2011 decreased by 18%, or \$2.1 million. The decrease for the three months ended March

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31, 2011 was partially offset by an increase of approximately \$0.5 million relating to existing store sales that were not in operation for the comparable period last year. Since March 31, 2010, the number of retail stores in the Canada segment in operation decreased from 41 to 38. Holding foreign currency exchange rates constant to those prevailing in the comparable period in 2010, total revenue for the current period would have been approximately \$9.3 million, or \$2.0 million lower when compared to the same period last year.

Wholesale net sales at \$2.4 million remained substantially the same as compared to \$2.5 million in sales achieved in the prior year comparable period.

Online consumer net sales were substantially unchanged between periods.

International: Total net sales for the International segment decreased \$1.1 million, or 3.3%, to \$31.8 million for the three months ended March 31, 2011 as compared to \$32.9 million for the three months ended March 31, 2010.

Holding foreign currency exchange rates constant to those prevailing in the comparable period in 2010, total revenue for the current period would have been approximately \$30.5 million, or \$2.4 million lower when compared to the same period last year.

Retail net sales decreased \$1.0 million, or 3.7%, to \$26.0 million for the three months ended March 31, 2011 as compared to \$27.0 million for the three months ended March 31, 2010. Comparable store sales for the three months ended March 31, 2011 decreased by 5%, or \$1.3 million as compared to the comparable period in 2010. Declines for the three months ended March 31, 2011 were offset by an increase of approximately \$0.3 million relating to existing store sales that were not in operation for the comparable period. Since March 31, 2010, the number of International retail segment stores in operation decreased from 80 to 72. Holding foreign currency exchange rates constant to those prevailing in the comparable period in 2010, retail sales for the current period would have been approximately \$24.9 million, or \$2.1 million lower when compared to the same period last year.

Wholesale net sales decreased \$1.1 million, or 36.7%, to \$1.9 million for the three months ended March 31, 2011 as compared to \$3.0 million for the three months ended March 31, 2010. Holding foreign currency exchange rates constant to those prevailing in the comparable period in 2010, sales for the current period would have been approximately \$1.8 million, or \$1.2 million lower when compared to the same period last year.

Online consumer net sales increased \$0.9 million to \$3.9 million for the three months ended March 31, 2011. Holding foreign currency exchange rates constant to those prevailing in the comparable period in 2010, total revenue for the current period would have been approximately \$3.8 million, or \$0.8 million higher when compared to the same period last year.

Cost of sales: Cost of goods sold as a percentage of net sales was 44.9% and 49.6% for the three months ended March 31, 2011 and 2010, respectively. On a comparative basis, cost of goods sold decrease was primarily due to improvement in manufacturing labor productivity and maintenance of a steady production schedule during the second half of 2010 and the first quarter of 2011 which lowered the manufacturing overhead charges per unit of inventory produced. As a result of this strategy we experienced a reduction in labor and overhead production costs. This was despite the impact in the 2011 first quarter of increased costs for the purchase of yarn and fabrics. Elevated material costs are expected to continue impacting production for the remainder of 2011 and we continue to expect improvements in manufacturing unit costs.

The decrease in cost of sales in three months ended March 31, 2011 compared to three months ended March 31, 2010 was partially offset by \$0.6 million, due to a decline in the value of the U.S. Dollar relative to foreign currencies.

Selling expenses: Selling expenses decreased \$2.4 million, or 4.6%, to \$50.2 million for the three months ended March 31, 2011 as compared to \$52.6 million for the three months ended March 31, 2010. The decrease was mainly attributable to reduced advertising and marketing expenses of \$1.0 million and facility related expenses of \$2.1 million, partially offset by a salary wage and benefit increase of \$0.8 million. As a percentage of sales, selling expenses increased to 43.3% in the three months ended March 31, 2011 from 43.2% in the three months ended March 31, 2010 and this percentage change was caused primarily by reduced leverage from lower sales.

General and administrative expenses: There was relatively no change to general and administrative expenses for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010. As a percentage of sales, general and administrative expenses increased to 22.5% in the three months ended March 31, 2011 from 21.4% in the three months ended March 31, 2010 from the reduced leverage caused by lower sales.

Retail store impairment charges: We recorded impairment charges relating to retail store leasehold improvements of \$0.7 million and \$4.2 million for the three months ended March 31, 2011 and 2010, respectively

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Interest expense: Interest expense increased \$2.1 million, to \$7.1 million for the three months ended March 31, 2011 primarily from an increase in the average balance of debt outstanding. The major components of interest expense consist of interest on the BofA Credit Agreement, the Bank of Montreal Credit Agreement, loans from our CEO and unrelated parties and the Lion Credit Agreement. Interest rates on our various debt facilities and capital leases ranged from 4.8% to 18.0% for the three months ended March 31, 2011 and 4.8% to 16.7% for the three months ended March 31, 2010. Interest expense increased \$2.1 million, or 41.3%, to \$7.1 million for the three months ended March 31, 2011 as compared to \$5.0 million for the three months ended March 31, 2010. Interest expense for the three months ended March 31, 2011 primarily consisted of amortization of deferred financing cost of approximately \$0.5 million, Lion Credit Agreement related interest paid in kind of approximately \$4.2 million, interest paid in cash of \$1.1 million and other interest expense of \$1.3 million. For the three months ended March 31, 2010, interest expense primarily consisted of Lion Credit Agreement related fees and interest of \$3.5 million and deferred financing cost of approximately \$1.5 million.

Foreign currency transaction gain: For the three months ended March 31, 2011, foreign currency transaction gains totaled \$0.8 million as compared to a loss of \$0.8 million for the three months ended March 31, 2010. The change related to lower valuation of the U.S. Dollar relative to foreign currencies with which we transact our business.

Unrealized loss on change in fair value of warrants: We recorded a \$2.1 million gain in the fair value of warrants for the three months ended March 31, 2011.

Loss on Extinguishment of Debt: During the three months ended March 31, 2011, we recorded a loss on extinguishment of debt pertaining to the Lion Credit Agreement of approximately \$3.1 million.

Income tax expense: The provision for income tax decreased \$14.9 million, to \$0.4 million for the quarter ended March 31, 2011 as compared to \$15.3 million for the quarter ended March 31, 2010. In the first quarter of 2010 we determined that it is more likely than not that we would not generate sufficient taxable income to realize certain previously recorded deferred income tax assets and we provided a valuation reserve of \$15.5 million. For the quarter ended March 31, 2011 we recorded additional valuation allowances of \$0.4 million.

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Liquidity and Capital Resources

As of March 31, 2011, we had approximately \$6.2 million in cash, \$1.6 million of availability for additional borrowings and \$58.5 million outstanding on a \$75,000 revolving credit facility under the BofA Credit Agreement (as defined in Note 7 to our condensed consolidated financial statements under Item 1 - Financial Statements), \$1.6 million of availability for additional borrowings and \$4.2 million outstanding on a C\$11,000 revolving credit facility under the Bank of Montreal Credit Agreement (as defined in Note 7 to our condensed consolidated financial statements under Item 1 - Financial Statements), and \$82.3 million (including paid-in-kind interest of \$3.7 million and net of discount of \$20.0 million) of term loans outstanding under the Lion Credit Agreement (as defined in Note 8 to our condensed consolidated financial statements under Item 1 - Financial Statements). As of April 30, 2011, we had approximately \$8.0 million in cash, approximately \$8.9 million of availability for additional borrowings and \$46.1 million outstanding on the credit facility under the BofA Credit Agreement and \$1.4 million of availability for additional borrowings and \$4.0 million outstanding on the credit facility under the Bank of Montreal Credit Agreement. As May 10, 2011, we had approximately \$5.9 million available for borrowing under the BofA Credit Agreement and \$1.5 million available under the Bank of Montreal Credit Agreement.

Over the past years, our growth has been funded through a combination of borrowings from related and unrelated parties, bank debt and lease financing, and proceeds from the exercise of warrants. Our principal liquidity requirements are for working capital and capital expenditures and in 2010 and the first quarter of 2011 to fund operating losses. We fund our liquidity requirements primarily through cash on hand, cash flow from operations, if any, borrowings from revolving credit facilities and term loans under the Lion Credit Agreement. We also in the past have funded liquidity needs with related party loans from our CEO, all of which were canceled in exchange for shares of common stock in March 2011, and cash investments by our CEO, who purchased 1,129,576 treasury shares of common stock at a total cost of \$1.7 million in December 2010 and 1,801,802 shares of common stock at a total cost of approximately \$2.0 million in March 2011. We generate cash primarily through the sale of our products manufactured by us at our retail stores and through our wholesale operations. Primary uses of cash are for the purchase of raw materials, payment to our manufacturing employees and retail employees, retail store opening costs and the payment of rent for retail stores.

We incurred a loss from operations of \$13.1 million for the three months ended March 31, 2011, compared to a loss from operations of \$21.6 million for the three months ended March 31, 2010. The current operating plan indicates that losses from operations may be incurred for all of fiscal 2011. Consequently, we may not have sufficient liquidity necessary to sustain operations for the next twelve months and this raises substantial doubt that we will be able to continue as a going concern.

Our consolidated financial statements for the year ended December 31, 2010 contained a “going concern” explanatory paragraph as a result of substantial losses incurred during fiscal 2010 combined with liquidity concerns. The BofA Credit Agreement, Lion Credit Agreement and Bank of Montreal Credit Agreement contain covenants which require us to furnish our audited financial statements and audited financial statements of our Canadian operations, respectively, without a going concern or like qualification. Noncompliance with such covenants could have constituted a default under such credit agreements and, absent a waiver, prevented us from making borrowings under the BofA Credit Agreement and the Bank of Montreal Credit Agreement.

On April 26, 2011, we sold 15,776,506 shares of Common Stock to a group of investors, at a price of \$0.90 per share, for the aggregate cash purchase price of approximately \$14.2 million, of which \$5.0 million went to satisfy and meet the availability requirement of the amendment to the BofA Credit Agreement. The investors also received the right to

purchase up to an additional 27,443,173 shares at the same price within 180 days, subject to shareholder approval and subject to certain anti-dilution and other adjustments. In connection with this transaction and as a condition to the investor purchasing the shares, Mr. Dov Charney was also provided with an anti-dilution protection if the market price of Common Stock meets certain thresholds, subject to certain terms and conditions. This transaction improved our liquidity position by approximately \$8.0 million.

On April 26, 2011, we entered into an amendment under the BofA Credit Agreement, which among other things, waived the requirement to furnish our 2010 audited financial statements without a "going concern" or like qualification. The amendment also required us to, among other things, i) receive new equity contribution in excess of \$10.5 million and ii) revises the financial covenant requiring minimum excess availability to require excess availability in an amount not less than the greater of \$12.5 million and 15% of the lesser of the borrowing base and the revolving credit ceiling. On the same date we also entered into an amendment under the Lion Credit Agreement which, among other things, waived the requirement to furnish the 2010 audited financial statements without a "going concern" or like qualification. On May 9, 2011, we entered into a waiver agreement with the Bank of Montreal, which waived the requirement to furnish the fiscal 2010 audited financial statements of our Canadian operations without a "going concern" or like qualification.

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We are in the process of executing a plan to improve the operating performance and our financial position. This plan includes optimizing production levels at our manufacturing facilities including raw material purchases and labor; streamlining our logistics operations; merchandise price rationalization in our wholesale and retail channels; renegotiating the terms of a number of our retail real estate leases, including possible store closures; improving merchandise allocation procedures and rationalizing staffing levels. In addition, we continue to develop other initiatives intended to either increase sales, reduce costs or improve liquidity. Although our plan reflects improvements in these trends, there can be no assurance that our plan to improve the operating performance and our financial position will be successful. We continue to evaluate other alternative sources of capital for ongoing cash needs, however, there can be no assurance we will be successful in those efforts.

Cash Flow Overview

	Three Months Ended March 31,	
	2011	2010
	(Dollars in thousands)	
Net cash (used in) provided by:		
Operating activities	\$(6,414	) \$(4,835
Investing activities	(2,510	) (2,941
Financing activities	7,490	6,222
Effect of foreign exchange rate on cash	(8	) (1,031
Net decrease in cash	\$(1,442	) \$(2,585

Three Months Ended March 31, 2011

For the three months ended March 31, 2011, cash used in operations was \$6.4 million. This was a result of net losses of \$20.7 million, offset by non-cash expenses of \$14.3 million. Non-cash expenses primarily include depreciation, amortization, loss on disposal of property and equipment, foreign exchange transaction gain, allowance for inventory shrinkage and obsolescence, change in fair value of warrant liability, accrued interest-in-kind, impairment charges, stock based compensation, bad debt expense, deferred income taxes, and deferred rent. Cash used for working capital due to a decrease in trade receivables of \$0.3 million, increases in inventory of \$12.7 million, decreases in prepaid expenses and other current assets of \$1.7 million, a decrease in other long-term assets of \$0.6 million, an increase in accounts payable and accrued expenses and other liabilities of \$11.8 million and a increase in income taxes receivable of \$1.6 million. The increase in our inventory balances was driven, in part, by our newly adopted production planning and scheduling methodology which calls for maintaining of normal production levels throughout the year, regardless of seasonality in demand. This approach was adopted in the fourth quarter of 2010 and should enable us to have sufficient inventory levels in stock and to be well positioned in anticipation of the summer selling season which begins in the second quarter of our fiscal year. Inventory also increased due to the effect of a historically high cost of yarn and related increase in fabric costs. The increase in accounts payable was as a result of cash management activities. With the recent receipt of the financing previously discussed and with our entry into our primary selling seasons, we expect to reduce the balance of accounts payable on a gradual basis.

For the three months ended March 31, 2011, we used \$2.5 million of cash in investing activities. This consisted of increased net investment in property and equipment of \$1.0 million for the U.S. Wholesale segment, \$1.0 million for the U.S. Retail segment, \$0.1 million for the Canada segment and \$0.4 million for the International segment. We have not opened any new stores in the first quarter of 2011. Investments in the U.S. Wholesale segment consisted mostly of expenditures for manufacturing equipment and computer hardware and software. Investments in the U.S. Retail segment were primarily to upgrade and remodel certain existing stores.

For the three months ended March 31, 2011, cash provided by financing activities was \$7.5 million. This consisted primarily from proceeds of \$2.0 million from sale of common stock to our CEO, borrowings of \$5.4 million under our revolving credit facilities, and \$3.1 million in proceeds from a sale lease back financing transaction for manufacturing

equipment. Borrowings were primarily used to fund our operating loss and working capital needs as described above.

Three Months Ended March 31, 2010

For the three months ended March 31, 2010, cash used in operations was \$4.8 million. Our net loss of \$42.8 million was offset or added to by the following:

The net loss was reduced for the non-cash impact of depreciation and amortization of property and equipment ,
deferred

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financing costs and debt discount charges, stock-based compensation expense, deferred rent amortization, foreign currency transaction losses and the impact of the income tax valuation allowance.

For the three months ended March 31, 2010, changes in working capital provided cash of \$4.3 million. A decrease in inventory of \$2.7 million and a decrease in prepaid and other current assets of \$4.3 million increased funds from operations. The decrease in inventories for the three months ended March 31, 2010 was the result of our decision to maintain lower levels of inventories in response to declining sales. An increase in accounts payable of \$1.5 million, accrued expenses and other long-term liabilities of \$1.9 million and an income tax payable increase of \$2.5 million provided funds from operating activities. The increase in accounts payable was primarily driven by cash management efforts. Cash from operations was reduced due to an increase in accounts receivable of \$3.1 million. The increase in accounts receivable was primarily driven by a \$7.5 million increase in net sales for the three months ended March 31, 2010.

Debt Agreements

The following is an overview of American Apparel's total outstanding debt obligations as of March 31, 2011 (dollar amounts in thousands):

Description of Debt	Lender Name	Interest Rate	March 31, 2011
Revolving credit facility	Bank of America, N.A.	4.8	% \$58,490
Revolving credit facility (Canada)	Bank of Montreal	5.0	% 4,232
Term loan from private investment firm, net of discount and including interest paid-in-kind	Lion Capital LLP	18	% 82,336
Other			501
Capital lease obligations	33 individual leases ranging between \$1-\$511	From 6.1% to 16.7%	3,861
Cash overdraft			1,609
Total debt including cash overdraft			\$151,029

Financial Covenants

Our credit agreements impose certain restrictions regarding capital expenditures and limit our ability to: incur additional indebtedness, dispose of assets, make repayment of indebtedness or amendments of debt instruments, pay distributions, create liens on assets and enter into sale and leaseback transactions, investments, loans or advances and acquisitions.

The BofA Credit Agreement imposes a minimum excess availability covenant, which requires us to maintain minimum excess availability of 10% of our net availability under the BofA Credit Agreement. At March 31, 2011 our net availability under the credit agreement was \$75.0 million, minimum excess availability was \$7.5 million, and our excess availability was \$1.7 million. The BofA Credit Agreement also requires us to furnish our 2010 audited financial statements without a "going concern" or like qualification.

On June 23, 2010, we entered into an amendment to the Lion Capital Agreement, which among other things, (i) replaced the Total Debt to Consolidated EBITDA financial covenant with a minimum Consolidated EBITDA financial covenant, tested on a quarterly basis, and (ii) increased the interest rate payable under the Lion Credit Agreement from 15% to 17% per annum for the period from June 21, 2010 through the date that we deliver financial statements to Lion for the three months ended September 30, 2010, and thereafter from the time financial statements

for any Fiscal Quarters (as defined in the Lion Credit Agreement) demonstrate that the ratio of Total Debt to Consolidated EBITDA as at the end of such Fiscal Quarter exceeds certain specified ratios until we deliver financial statements to Lion for the next Fiscal Quarter.

On February 18, 2011, we entered into an amendment to the Lion Credit Agreement, which, among other things, (i) redefined the monthly minimum Consolidated EBITDA financial covenant calculation to include limited fees and charges for professional services, (ii) established new monthly minimum Consolidated EBITDA amounts, (iii) adjusted the Total Debt to Consolidated EBITDA ratios, and (iv) added a covenant for the Total Debt to Consolidated EBITDA ratio that increases the interest rate payable from 17% to 18% if the ratio is greater than 4.00:1.00 for any four consecutive Fiscal Quarters or if Consolidated EBITDA for any twelve consecutive Fiscal Month period is negative. In connection with the fifth amendment, we paid Lion a fee of approximately \$1.0 million, which was capitalized as a deferred financing cost and will amortize over the

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remaining term of the loan. As of March 31, 2011, our Total Debt was \$149.4 million while our Consolidated EBITDA for the twelve months ending March 31, 2011 was (\$3.5) million and our Total Debt to Consolidated EBITDA ratio was (42.69):1.00. As of March 31, 2011, we exceeded the specified ratio and therefore the interest rate payable remained at 18%. As of March 31, 2011 Consolidated EBITDA as defined by the amendment for purposes of calculating Consolidated EBITDA for any twelve consecutive final month period to determine compliance with Section 6.11 of the Lion Credit Agreement was \$16.5 million.

The Lion Credit Agreement also requires us to furnish our 2010 audited financial statements without a "going concern" or like qualification and sets an annual limitation of our capital expenditures to \$27,500 for fiscal 2011.

The Bank of Montreal Credit Agreement contains a fixed charge coverage ratio, tested at the end of each month, which measures the ratio of EBITDA less cash income taxes paid, dividends paid and unfinanced capital expenditures divided by interest expense plus scheduled principal payments of long term debt, debt under capital leases, dividends, and shareholder loans and advances, for our Canadian subsidiaries, of not less than 1.25:1.00. The Bank of Montreal Credit Agreement also restricts our Canadian subsidiaries from entering into operating leases which would lead to payments under such leases totaling more than C\$8.5 million in any fiscal year, and imposes a minimum excess availability covenant which requires our Canadian subsidiaries to maintain at all times minimum excess availability of 5% of the revolving credit commitment under the credit facility. The Bank of Montreal Credit Agreement also requires us to furnish our 2010 audited financial statements of our Canadian operations without a "going concern" or like qualification.

On April 26, 2011, we entered into an amendment under the BofA Credit Agreement, which, among other things, waived the requirement to furnish our 2010 audited financial statements without a "going concern" or like qualification. The amendment also required us to, among other things, i) receive new equity contribution in excess of \$10.5 million and ii) revises the financial covenant requiring minimum excess availability to require excess availability in an amount not less than the greater of \$12.5 million and 15% of the lesser of the borrowing base and the revolving credit ceiling. On the same date we also entered into an amendment under the Lion Credit Agreement by which the requirement to furnish the 2010 audited financial statements without a "going concern" or like qualification has also been waived for financial statements relating to the 2010 fiscal year. On May 9, 2011, we entered into a waiver agreement with the Bank of Montreal, which waived the requirement to furnish the 2010 audited financial statements of our Canadian operations without a "going concern" or like qualification. As of May 10, 2011, we were in compliance with the terms of our various credit agreements.

Future Capital Requirements

As of March 31, 2011, we had (i) approximately \$6.2 million in cash, (ii) \$1.6 million of availability for additional borrowings and \$58.5 million outstanding under the BofA Credit Agreement, (iii) \$1.6 million of availability for additional borrowings and \$4.2 million outstanding on a C\$11.0 million revolving credit facility under the Bank of Montreal Credit Agreement.

On April 26, 2011, we sold 15,776,506 shares of Common Stock to a group of investors, at a price of \$0.90 per share, for the aggregate cash purchase price of approximately \$14.2 million, of which \$5.0 million went to satisfy and meet the availability requirement of the amendment to the BofA Credit Agreement. The investors also received the right to purchase up to an additional 27,443,173 shares at the same price within 180 days, subject to shareholder approval and subject to certain anti-dilution and other adjustments. In connection with this transaction and as a condition to the investor purchasing the shares, Mr. Dov Charney was also provided with an anti-dilution protection if the market price of Common Stock meets certain thresholds, subject to certain terms and conditions. This transaction improved our liquidity position by approximately \$8.0 million.

Off-Balance Sheet Arrangements and Contractual Obligations

Our material off-balance sheet contractual commitments are operating lease obligations and letters of credit. Operating lease commitments consist principally of leases for our retail stores, manufacturing facilities, distribution centers and corporate office. These leases frequently include options which permit us to extend the terms beyond the initial fixed lease term. As appropriate, we will negotiate lease renewals as the leases approach expiration. Issued and outstanding letters of credit were \$7.4 million at March 31, 2011, and were related primarily to workers' compensation insurance and rent deposits. We also have capital lease obligations which consist principally of leases for our manufacturing equipment.

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Seasonality

We experience seasonality in our operations. Historically, sales during the third and fourth fiscal quarters have generally been the highest, with sales during the first and second fiscal quarter the lowest. This reflects the combined impact of the seasonality of the wholesale and retail segments. Generally, our retail segment has not experienced the same pronounced sales seasonality as other retailers.

Critical Accounting Estimates and Policies

As discussed in Part II, Item 8. Management Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended December 31, 2010 we consider our most critical accounting estimates and policies to include:

- revenue recognition;
- sales returns and other allowances;
- allowance for doubtful accounts;
- inventory valuation, obsolescence;
- valuation and recoverability of long-lived assets including the values assigned to acquired intangible assets, goodwill, and property and equipment;
- income taxes;
- foreign currency;
- accruals for the outcome of current litigation;
- fair value of warrant liabilities;
- stock based compensation; and
- self-insurance liabilities.

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

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

Inflation

Inflation affects the cost of raw materials, goods and services used in our operations. In 2010, the price of yarn and the cost of certain related fabrics began to increase as a result of the compounding effect of added demand, and supply shortages primarily from the effect of severe weather conditions in certain cotton producing countries, and a ban on cotton exports imposed by the government of India. Prices continued to increase throughout 2010 and thus far through the first quarter of 2011. As of March 31, 2011, our per pound cost is approximately two times what it was immediately prior to when cotton prices began to rise in 2010. Although to date we have not experienced any meaningful shortages in the supply of yarn and fabrics we cannot predict if any future shortages will occur and if such shortages do occur they could have a material effect on our financial condition and results of operations. In April 2011 we began to see up to 15% reductions in the quotes for yarn purchases. We cannot predict if this change in pricing is temporary or long-term. In addition, high oil costs can affect the cost of all raw materials and components. The competitive environment can limit the ability of American Apparel to recover higher costs resulting from inflation by raising prices. Although, we cannot precisely determine the effects of inflation on our business, we believe that the effects on revenues and operating results have not been significant. We seek to mitigate the adverse effects of inflation primarily through improved productivity and strategic buying initiatives. We do not believe that inflation has had a material impact on our results of operations for the periods presented. Further, in response to increases in our raw

material costs we have implemented price increases of certain products in our Wholesale and U.S. Retail segments. We are unable to predict if we will be able to successfully pass on the added cost of raw materials by further increasing the price of our products to our wholesale and retail customers.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk (amounts in thousands)

Our exposure to market risk is limited to interest rate risk associated with our credit facilities and foreign currency exchange risk associated with our foreign operations.

Interest Rate Risk

Based on the our interest rate exposure on variable rate borrowings at March 31, 2011, a 1% increase in average interest rates on our borrowings would increase future interest expense by approximately \$73 per month. We determined these amounts based on approximately \$62.7 million of variable rate borrowings at March 31, 2011. We are currently not using any interest rate collars or hedges to manage or reduce interest rate risk. As a result, any increase in interest rates on our variable rate borrowings would increase interest expense and reduce net income.

Foreign Currency Risk

The majority of our operating activities are conducted in U.S. dollars. Approximately 38.3% of our net sales for the three months ended March 31, 2011 were denominated in other currencies such as Euros, British Pounds Sterling or Canadian Dollars, among others. Nearly all of our production costs and material costs are denominated in U.S. dollars although the majority of the yarn is sourced from outside the United States. If the U.S. dollar were to appreciate by 10% against other currencies it could have a significant adverse impact on our earnings. Since an appreciated U.S. dollar makes goods produced in the United States relatively more expensive to overseas customers, other things being equal, we would have to lower our retail margin in order to maintain sales volume overseas. A lower retail margin overseas would adversely affect net income assuming sales volume remains the same. The functional currencies of our foreign operations consist of the Canadian dollar for Canadian subsidiaries, the pound Sterling for U.K. subsidiaries, the Euro for subsidiaries in Continental Europe, the Yen for the Japanese subsidiary, the Won for the South Korea subsidiary, and local currencies for any of the foreign subsidiaries not mentioned.

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Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures

Under the supervision and participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as such term is defined under Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that as of March 31, 2011, our disclosure controls and procedures were ineffective due to material weaknesses existing in our internal controls over financial reporting as of December 31, 2010 (described below), which have not been fully remediated as of March 31, 2011.

A material weakness is a deficiency, or a combination of deficiencies, in Internal Control over Financial Reporting (“ICFR”), such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis. Material weaknesses would permit information required to be disclosed by the Company in the reports that it files or submits to not be recorded, processed, summarized and reported, within the time periods specified in the SEC rules and forms. As of March 31, 2011, the following material weaknesses existed:

Material weakness related to the control environment. We concluded that, in certain instances, we did not maintain an adequate control environment that fully emphasized the establishment of, adherence to, or adequate communication regarding appropriate internal control over financial reporting. Specifically, we concluded that we did not have adequate controls in the following areas for the purposes of establishing, maintaining and communicating our control environment: (i) a sufficient number of adequately trained accounting personnel in our foreign subsidiaries with appropriate expertise in GAAP, and (ii) a sufficient number of trained accounting personnel with expertise in GAAP to ensure complex material and/or non-routine transactions are properly reflected in our consolidated financial statements

Material weakness related to financial closing and reporting process. We concluded that we did not perform adequate independent review and maintain effective controls over the preparation of financial statements in the following respects: preparation of the consolidated financial statements and related notes thereto, account analyses, account summaries and account reconciliations prepared in the areas of inventory and related inventory reserves, cost of sales and certain other accounts. We also identified deficiencies in (i) our inventory costing related to our retail segment that was offset by adjustments in our transfer pricing, (ii) our identification and evaluation of manufacturing variances resulting from out-of-date standard costs and recent changes in the manufacturing process and (iii) the timely completion of our evaluation of excess and obsolete inventory reserves.

(b) Remediation Activities

Over the course of fiscal 2010 and 2011, the Company continued to take substantial measures to remediate the remaining material weaknesses, described as follows:

Material weakness related to the control environment: We have identified a number of additional resources necessary to improve the overall domestic and international financial accounting and reporting departments. As of December 31, 2010, we have filled openings in certain key financial positions and are in the process of recruiting resources for the remaining open positions that are expected to enhance the overall technical capabilities of our resources. Additionally, we have developed and are implementing a technical training program for the accounting and finance staff in the areas of GAAP related to complex and non-routine transactions relevant to our operations. We continue to improve our corporate wide procedures to facilitate uniform application of accounting policies on a global basis.

Material weakness related to financial closing and reporting process: We continue to improve the preparation and review of account reconciliations by implementing specific procedures and internal controls, including the detailed review of our financial closing process by our internal audit group, to monitor and evaluate key accounts and assumptions behind our critical estimates. We have identified and implemented additional internal controls to strengthen account analysis within the categories of fixed assets, deferred rent, and inventory. To address inventory costing, we have transitioned the responsibility for maintaining standard costs from our production planning department to our accounting department and have enhanced production reporting in order to separately record and analyze production variances. We are implementing an enhanced workforce management system which will enable us to more accurately track direct labor to specific production runs. We continue to enhance our international cost accounting procedures for intercompany inventory transfers and inventory costing. As we continue to solidify our staffing levels we expect our internal controls over the financial closing and reporting process to strengthen and remediate this material weakness.

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(c) Changes in ICFR

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the most recent fiscal quarter ended March 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting,

During 2011, the Company's management continued to implement the steps outlined above under "Remediation Activities" to improve the quality of its ICFR.

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PART II-OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to various claims and contingencies in the ordinary course of its business, including those related to litigation, business transactions, employee-related matters and taxes, and others. When we are aware of a claim or potential claim, it assesses the likelihood of any loss or exposure. If it is probable that a loss will result and the amount of the loss can be reasonably estimated, we will record a liability for the loss. In addition to the estimated loss, the recorded liability includes probable and estimable legal costs associated with the claim or potential claim. There is no assurance that such matters will not materially and adversely affect our business, financial position, and results of operations or cash flows.

On or about September 19, 2005, Ms. Mary Nelson, an independent contractor in the sales department at American Apparel, commenced a lawsuit (Mary Nelson v. American Apparel, Inc., et al., Case No. BC333028 filed in Superior Court of the State of California for the County of Los Angeles, Central District) (the "Nelson Action") wherein she alleges she was wrongfully terminated, was subjected to harassment and discrimination based upon her gender and other claims related to her tenure at American Apparel. The parties are engaged in ongoing arbitration of this suit. Until arbitration proceedings are final, the ultimate costs could change. The insurance carrier for us has asserted that it is not obligated to provide coverage for this proceeding. We have accrued an estimate for this loss contingency in our accompanying consolidated balance sheet as of March 31, 2011. We may have an exposure to loss in excess of the amounts accrued, however, an estimate of such potential loss cannot be made at this time, and no assurance can be made that this matter either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, larger than our estimate, which could have a material adverse effect upon our financial condition and results of operations.

On February 7, 2006, Sylvia Hsu, a former employee of American Apparel, filed a Charge of Discrimination with the Los Angeles District Office of the Equal Employment Opportunity Commission ("EEOC") (Hsu v. American Apparel: Charge No. 480- 2006-00418), alleging that she was subjected to sexual harassment by a co-worker and constructively discharged as a result of the sexual harassment and a hostile working environment. On March 9, 2007, the EEOC expanded the scope of its investigation to other employees of American Apparel who may have been sexually harassed. On August 9, 2010, the EEOC issued a written determination finding that reasonable cause exists to believe we discriminated against Ms. Hsu and women, as a class, on the basis of their female gender, by subjecting them to sexual harassment. No finding was made on the issue of Ms. Hsu's alleged constructive discharge. In its August 19, 2010 written determination, the EEOC has invited the parties to engage in informal conciliation. If the parties are unable to reach a settlement which is acceptable to the EEOC, the EEOC will advise the parties of the court enforcement alternatives available to Ms. Hsu, aggrieved persons, and the EEOC. The insurance carrier for us has asserted that it is not obligated to provide coverage for this proceeding. We have not recorded a provision for this matter and intends to work cooperatively with the EEOC to resolve the claim in a manner acceptable to all parties. We do not at this time believe that any settlement will involve the payment of damages in an amount that would be material to and adversely affect our business, financial position, and results of operations and cash flows.

On November 5, 2009, Guillermo Ruiz, a former employee of American Apparel, filed suit against us on behalf of putative classes of all current and former non-exempt California employees (Guillermo Ruiz, on behalf of himself and all others similarly situated v. American Apparel, Inc., Case Number BC425487) in the Superior Court of the State of California for the County of Los Angeles, alleging we failed to pay certain wages due for hours worked, to provide meal and rest periods or compensation in lieu thereof and to pay wages due upon termination to certain of its employees. The complaint further alleges that we failed to comply with certain itemized employee wage statement provisions and unfair competition law. The plaintiff is seeking compensatory damages and economic and/or special damages in an unspecified amount; premium pay, wages and penalties; injunctive relief and restitution; and reimbursement for attorneys' fees, interest and the costs of the suit. The parties are engaged in ongoing settlement discussions jointly with Antonio Partida (the case described below) in an effort to reach a global settlement of all claims asserted in both of these actions. No assurances can be made that a settlement can be reached. If a settlement is not reached, then Plaintiff's claims will be adjudicated through the arbitration process. We do not have insurance

coverage for this matter. Should the matter be decided against us, we could not only incur substantial liability but also experience an increase in similar suits and suffer reputational harm. We have accrued an estimate for this loss contingency in our condensed consolidated balance sheet as of March 31, 2011. We may have an exposure to loss in excess of the amounts accrued, however, an estimate of such potential loss cannot be made at this time. Moreover, no assurance can be made that this matter either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, larger than our estimate, which could have a material adverse effect upon our financial condition and results of operations.

On June 21, 2010, Antonio Partida, a former employee of American Apparel filed suit against us on behalf of putative classes of current and former non-exempt California employees (Antonio Partida, on behalf of himself and all others similarly situated v. American Apparel (USA), LLC, Case No. 30-2010-00382719-CU-OE-CXC) in the Superior Court of the State of California for the County of Orange, alleging we failed to pay certain wages for hours worked, to provide meal and rest periods

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or compensation in lieu thereof, and to pay wages due upon separation. The complaint further alleges that we failed to timely pay wages, unlawfully deducted wages and failed to comply with certain itemized employee wage statement provisions and unfair competition law. The plaintiff is seeking compensatory damages and economic and/or special damages in an unspecified amount, premium pay, wages and penalties, injunctive relief and restitution, and reimbursement of attorneys' fees, interest and the costs of the suit. The parties are engaged in ongoing settlement discussions jointly with Guillermo Ruiz (the case described above) in an effort to reach a global settlement of all claims asserted in both of these actions. No assurances can be made that a settlement can be reached. If a settlement is not reached, then Plaintiff's claims will be adjudicated through the arbitration process. There is no known insurance coverage for this matter. Should the matter be decided against us, we could not only incur substantial liability but also experience an increase in similar suits and suffer reputational harm. We have accrued an estimate for this loss contingency in our condensed consolidated balance sheet as of March 31, 2011. We may have an exposure to loss in excess of the amounts accrued, however, an estimate of such potential loss cannot be made at this time. Moreover, no assurance can be made that this matter either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, larger than our estimate, which could have a material adverse effect upon our financial condition and results of operations.

On or about December 2, 2010, Emilie Truong, a former employee of American Apparel, filed suit against us on behalf of putative classes of current and former non-exempt California employees (Emilie Truong, individually and on behalf of all others similarly situated v. American Apparel, Inc. and American Apparel LLC, Case No. BC450505) in the Superior Court of the State of California for the County of Los Angeles, alleging we failed to timely provide final paychecks upon separation. Plaintiff is seeking unspecified premium wages, attorneys' fees and costs, disgorgement of profits, and an injunction against the alleged unlawful practices. Plaintiff's claims will be adjudicated through the arbitration process. There is no known insurance coverage for this matter. Should the matter be decided against us, we could not only incur substantial liability, but also experience an increase in similar suits and suffer reputational harm. We are unable to predict the financial outcome of these matters at this time, and any views formed as to the viability of these claims or the financial exposure which could result may change from time to time as the matters proceed through their course. However, no assurance can be made that these matters, either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, which could have a material adverse effect upon our financial condition and results of operations.

On or about February 9, 2011, Jessica Heupel, a former retail employee filed suit on behalf of putative classes of current and former non-exempt California employees (Jessica Heupel, individually and on behalf of all others similarly situated v. American Apparel Retail, Inc., Case No. 37-2011-00085578-CU-OE-CTL) in the San Diego Superior Court of the State of California, alleging we failed to pay certain wages for hours worked, to provide meal and rest periods or compensation in lieu thereof, and to pay wages due upon separation. The plaintiff is seeking monetary damages as follows: (1) for alleged meal and rest period violations; (2) for alleged failure to timely pay final wages, as well as for punitive damages for the same; and (3) unspecified damages for unpaid minimum wage and overtime. In addition, Plaintiff seeks premium pay, wages and penalties, injunctive relief and restitution, and reimbursement of attorneys' fees, interest and the costs of the suit. Plaintiff's claims will be adjudicated through the arbitration process. There is no known insurance coverage for this matter. Should the matter be decided against us, we could not only incur substantial liability, but also experience an increase in similar suits and suffer reputational harm. We are unable to predict the financial outcome of these matters at this time, and any views formed as to the viability of these claims or the financial exposure which could result may change from time to time as the matters proceed through their course. However, no assurance can be made that these matters, either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, which could have a material adverse effect upon our financial condition and results of operations.

Two shareholder derivative lawsuits, entitled Nikolai Grigoriev v. Dov Charney, et al., Case No. CV106576 GAF (JCx) (the "Grigoriev Action") and Andrew Smukler v. Dov Charney, et al., Case No. CV107518 RSWL (FFMx) (the "Smukler Action"), were filed in the United States District Court for the Central District of California on September 2,

2010 and October 7, 2010, respectively, and four shareholder derivative lawsuits, entitled John L. Smith v. Dov Charney, et al., Case No. BC 443763 (the "Smith Action"), Lisa Kim v. Dov Charney, et al., Case No. BC 443902 (the "Kim Action"), Teresa Lankford v. Dov Charney, et al., Case No. BC 445094 (the "Lankford Action"), and Wesley Norris v. Dov Charney, et al., Case No. BC 447890 (the "Norris Action") were filed in the Superior Court of the State of California, County of Los Angeles on August 16, 2010, September 3, 2010, September 7, 2010, and October 21, 2010, respectively, by persons identifying themselves as American Apparel shareholders and purporting to act on behalf of American Apparel, naming American Apparel as a nominal defendant and certain current and former officers, directors, and executives of the Company as defendants. Plaintiffs in the Grigoriev Action, Smukler Action, Smith Action, Kim Action, and Norris Action allege causes of action for breach of fiduciary duty arising out of (i) our alleged failure to maintain adequate accounting and internal control policies and procedures; and (ii) our alleged violation of state and federal immigration laws in connection with the previously disclosed termination of over 1,500 employees following an Immigration and Customs Enforcement inspection. The Lankford Action alleges seven causes of action for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets

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also arising out of (i) our alleged failure to maintain adequate accounting and internal control policies and procedures; and (ii) our alleged violation of state and federal immigration laws in connection with the previously disclosed termination of over 1,500 employees following an Immigration and Customs Enforcement inspection. On November 4, 2010, the four lawsuits filed in the Superior Court of the State of California were consolidated for all purposes into a case entitled *In re American Apparel, Inc. Shareholder Derivative Litigation*, Lead Case No. BC 443763 (the "State Derivative Action"). On November 12, 2010, the two lawsuits filed in the United States District Court for the Central District of California were consolidated for all purposes into a case entitled *In re American Apparel, Inc. Shareholder Derivative Litigation*, Lead Case No. CV106576 (the "Federal Derivative Action"). Plaintiffs in the Federal Derivative Action must file a consolidated amended complaint by May 31, 2011. On April 12, 2011, the Court issued an order staying the State Derivative Action on the grounds that the case is duplicative of the Federal Derivative Action, as well as the putative securities class action currently pending in the U.S. District Court for the Central District of California (see below). Plaintiffs in each of the derivative cases seek damages on our behalf in an unspecified amount, as well as equitable and injunctive relief. We do not maintain any exposure to loss in connection with these shareholder derivative lawsuits. The lawsuits do not assert any claims against us. Our status as a "Nominal Defendant" in the actions reflects the fact that the lawsuits are maintained by the named plaintiffs on behalf of American Apparel and that plaintiffs seek damages on our behalf.

Four putative class action lawsuits, entitled *Anthony Andrade v. American Apparel, et al.*, Case No. CV106352 MMM (RCx), *Douglas Ormsby v. American Apparel, et al.*, Case No. CV106513 MMM (RCx), *James Costa v. American Apparel, et al.*, Case No. CV106516 MMM (RCx), and *Wesley Childs v. American Apparel, et al.*, Case No. CV106680 GW (JCGx), were filed in the United States District Court for the Central District of California on August 25, 2010, August 31, 2010, August 31, 2010, and September 8, 2010, respectively, against us and certain of our officers and executives on behalf of American Apparel shareholders who purchased our common stock between December 19, 2006 and August 17, 2010. On December 3, 2010, the four lawsuits were consolidated for all purposes into a case entitled *In re American Apparel, Inc. Shareholder Litigation*, Lead Case No. CV106352 (the "Federal Securities Action"). On March 14, 2011, the United States District Court appointed the firm of Barroway Topaz, LLP to serve as lead counsel and Mr. Charles Rendelman to serve as lead plaintiff. On April 29, 2011, Mr. Rendelman filed an Amended Class Action Complaint against American Apparel, certain of our officers, and Lion, alleging two causes of action for violations of Section 10(b) and 20(a) of the 1934 Act, and Rules 10b-5 promulgated under Section 10(b), arising out of alleged misrepresentations contained in our press releases, public filings with the SEC, and other public statements relating to (i) the adequacy of our internal and financial control policies and procedures; (ii) our employment practices; and (iii) the effect that the dismissal of over 1,500 employees following an Immigration and Customs Enforcement inspection had on American Apparel. Discovery is stayed in the Federal Securities Action, as well as in the Federal Derivative Action, pending resolution of any forthcoming motions to dismiss the Federal Securities Action. Plaintiffs seek damages in an unspecified amount, reasonable attorneys fees and costs, and equitable relief as the Court may deem proper. We are unable to predict the financial outcome of these matters at this time, and any views formed as to the viability of these claims or the financial exposure which could result may change from time to time as the matters proceed through their course. However, no assurance can be made that these matters, either individually or together with the potential for similar suits and reputational harm, will not result in a material financial exposure, which could have a material adverse effect upon our financial condition and results of operations.

In August 2010, we received a subpoena from the United States Attorney's Office for the Central District of California for documents relating to an official criminal investigation being conducted by the Federal Bureau of Investigation into the change in our registered independent accounting firm and our financial reporting and internal controls. We have also received a subpoena from the SEC for documents relating to its investigation surrounding the change in our registered independent accounting firm and our financial reporting and internal controls. We intends to cooperate fully with these subpoenas and investigations.

On May 9, 2011, we received a subpoena from the United States Attorney's Office for the Central District of California for documents relating to a complaint filed by a former employee with the Occupational Safety & Health Administration in November 2010 that contains allegations regarding, inter alia, our policies with respect to and accounting of foreign currency transactions and transfer pricing. We intends to fully cooperate with this subpoena.

On February 17, 2011, we filed complaints in arbitration against five former employees seeking: (1) declaratory relief that the arbitration, confidentiality, severance and bonus agreements signed by the former employees are valid and enforceable; (2) damages in the event the former employees or anyone of them breaches their confidentiality agreements, as threatened; (3) attorneys' fees and costs incurred to compel the suit into arbitration; (4) declaratory relief that the former employees' claims of sexual harassment and sexual assault are false and without merit; and (5) declaratory relief that the former employees have attempted to engage in abuse of process for the purpose of extorting from American Apparel and Dov Charney money solely to avoid public shame and economic loss. On March 4, 2011, one such former employee filed suit against American Apparel, Dov

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Charney, and the current members of the Board of Directors of American Apparel in the Supreme Court of New York, County of Kings, Case No. 5018-11. The suit alleges sexual harassment, gender discrimination, retaliation, negligent hiring and supervision, intentional and negligent infliction of emotional distress, fraud and unpaid wages, and seeks, among other things, an award of compensatory damages, exemplary damages, attorneys' fees and costs, all in an amount of at least \$250,000. On March 23, 2011, three of the other former employees filed a consolidated suit against American Apparel and Dov Charney in the Los Angeles Superior Court for the State of California, Case No. BC457920. Such action alleges sexual harassment, failure to prevent harassment and discrimination, intentional infliction of emotional distress, assault and battery, and a declaratory judgment that the confidentiality and arbitration agreements signed by plaintiffs are unenforceable. Such action seeks monetary damages, various forms of injunctive relief, and attorneys' fees and costs. The remaining plaintiffs seek only a declaratory judgment that the confidentiality and arbitration agreements they signed are unenforceable. On April 27, 2011, three of the former employees filed suit against American Apparel, Dov Charney and an American Apparel employee in the Los Angeles Superior Court, State of California, Case No. BC460331, asserting claims for Impersonation through Internet or Electronic Means, Intentional Infliction of Emotional Distress, Defamation, Invasion of Privacy/False Light, and Invasion of Privacy/Appropriation of Likeness. Such action seeks monetary damages, injunctive relief and attorneys' fees and costs. We believe that each of the above described actions are covered by insurance, subject to a deductible, and is awaiting confirmation of coverage from its carriers. We do not believe that any of these claims will exceed the amount of our available insurance, although the views formed as to the viability of these claims or the financial exposure which could result may change from time to time as the matters proceed through their course.

We are currently engaged in other employment-related claims and other matters incidental to our business. Management believes that all such claims against us are without merit or not material, and our intends to vigorously dispute the validity of the plaintiffs' claims. While the ultimate resolution of such claims cannot be determined, based on information at this time, we believe the amount, and ultimate liability, if any, with respect to these actions will not materially affect our business, financial position, results of operations, or cash flows. We cannot assure you, however, that such actions will not have a material adverse effect on our consolidated results of operations, financial position or cash flows.

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Item 1A. Risk Factors

Before deciding to invest in us or to maintain or increase your investment, you should carefully consider the risks described below as well as the other information in this report and our other filings with the SEC. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect us. If any of these risks actually materialize, our business, financial position, results of operations and cash flows could be adversely impacted. In that event, the market price of our common stock could decline and you may lose all or part of your investment.

During the three months ended March 31, 2011, there have been no material changes in our risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010 except for the changes and additions described below. Please refer to the Company's Annual Report on Form 10-K (filed with the SEC on March 31, 2011) for the year ended December 31, 2010 for a list of our risk factors.

As a result of operating losses and negative cash flows from operations, together with other factors, we may not have sufficient liquidity to sustain operations and to continue as a going concern.

We incurred a substantial loss from operations and had negative cash flows from operating activities for the year ended December 31, 2010 and for the three months ended March 31, 2011. Our current operating plan indicates that we will incur a loss from operations for fiscal year 2011. Consequently, we may not have sufficient liquidity necessary to sustain operations for the next twelve months. As a result of these factors together with world-wide economic conditions and significant increases in yarn and fabric prices, among others, there exists substantial doubt that we will be able to continue as a going concern.

Our consolidated financial statements for the year ended December 31, 2010 contain a "going concern" explanatory paragraph in the report of our independent registered public accounting firm, and such financial statements and our financial statements for the three months ended March 31, 2011 included herein also contain "going concern" disclosure in the notes thereto. These financial statements do not include any adjustments to reflect the possible future effects on the recoverability of assets or the amounts of liabilities that may result should we be unable to continue as a going concern.

In addition, the BofA Credit Agreement matures in July 2012, and the Bank of Montreal Credit Agreement matures in December 2012, and there can be no assurances that we will be able to negotiate a renewal or extension of these credit agreements with our existing lenders or enter into a replacement credit agreement with new lenders or commercially reasonable terms or at all. If we are not able to enter into a renewal, extension or replacement of the BofA Credit Agreement or the Bank of Montreal Credit Agreement prior to their respective maturities, we would no longer have access to liquidity from such revolving credit facility after its maturity date. As a result, our access to working capital would be limited and this could adversely affect our ability to finance and continue our operations.

We are currently exploring alternatives for other sources of capital for ongoing cash needs. Management is in the process of executing a plan to improve our operating performance and financial position. This plan includes optimizing production levels at our manufacturing facilities including raw material purchases and labor costs; streamlining our logistics operations; merchandise price rationalization in our wholesale and retail channels; renegotiating the terms of a number of our retail real estate leases, including possible store closures; improving merchandise allocation procedures and rationalizing staffing levels at our stores. In addition, we continue to develop other initiatives intended to either increase sales, reduce costs or improve liquidity. If we cannot meet our capital needs from these actions, we may be required to take additional steps such as further modifying our business plan to close additional stores, further reducing production or reducing or delaying capital expenditures or seeking to restructure our existing indebtedness. We also are in the process of seeking additional financing, to the extent available.

There can be no assurance that management's plan to improve our operating performance and financial position will be successful or that we will be able to obtain additional financing on commercially reasonable terms or at all. As a result, our liquidity and ability to timely pay our obligations when due could be adversely affected. In addition, until stockholder approval is obtained to increase the number of our authorized shares of common stock, we are not able to raise any new equity financing. Any new financing also may be substantially dilutive to existing stockholders and may require reductions in exercise prices or other adjustments of our existing warrants. Furthermore, our vendors and landlords may resist renegotiation or lengthening of payment and other terms through legal action or otherwise. If we are not able to timely, successfully or efficiently implement the strategies that we are pursuing to improve our operating performance and financial position, obtain alternative sources of capital or otherwise meet our liquidity needs, we may need to voluntarily seek protection under Chapter 11 of the U.S. Bankruptcy Code.

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Failure of American Apparel to comply with covenants under its financing arrangements could result in the acceleration of its debt repayment obligations and an inability to borrow under its revolving credit agreements and therefore fund its operations.

The financing agreements between us and our lenders contain certain financial and other covenants, including covenants relating to capital expenditure limitations, availability under our revolving credit facility and minimum Consolidated EBITDA as defined in the agreements. Failure of American Apparel to maintain compliance with any of these covenants can result in American Apparel being unable to borrow under our revolving credit facility, which we utilize to access our working capital, and may adversely affect the ability of American Apparel to finance and continue its operations. Such a failure could also result in acceleration of the outstanding debt in its entirety, and may adversely affect the ability of American Apparel to obtain financing that may be necessary to effectively operate our business and grow the business going forward.

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

We are subject to regulatory inquiries, investigations, claims and suits. We are currently defending a consolidated putative shareholder class action, two consolidated shareholder derivative actions proceeding in federal and state court, respectively, four wage and hour suits, and numerous employment related claims and suits. We are cooperating with investigations by the SEC and by the United States Attorney's Office for the Central District of California. We are also responding to several allegations of discrimination and/or harassment that have been filed with the Equal Employment Opportunity Commission or state counterpart agencies. In the event one or more of these matters are decided against us, we could not only incur a substantial liability but also experience an increase in similar suits and suffer reputational harm. Furthermore, the previous insurer for our employment practices liability insurance policy alleges that a sexual harassment suit is not covered by that insurance policy. We are unable to predict the financial outcome that could result from these matters at this time and any views we form as to the viability of these claims or the financial exposure in which they could result could change from time to time as the matters proceed through their course, as facts are established and various judicial determinations are made. No assurance can be made that these matters will not have material financial exposure, which together with the potential for similar suits and reputational harm, could have a material adverse effect upon our financial condition and results of operations. See the section entitled "Legal Proceedings" in our Annual Report on Form 10-K and herein for a more detailed discussion of our pending litigation.

There will be a substantial number of shares of American Apparel's common stock available for issuance or sale in the future that would result in dilution to existing public stockholders, may increase the volume of common stock available for sale in the open market and may cause a decline in the market price of American Apparel's common stock.

Mr. Charney, certain other investors and our warrant holders, Lion/Hollywood, L.L.C. ("Lion") and SOF Investments, L.P.-Private IV ("SOF"), currently own or have the right to acquire a substantial number of shares of our Common Stock.

Mr. Charney currently owns 44.9 million shares of Common Stock and, in addition, Mr. Charney has agreed to acquire, subject to receipt of stockholder approval, or has a right to acquire or receive, up to an additional 42.4 million shares of Common Stock. Of these shares, 2.3 million shares may be acquired by Mr. Charney at a price of \$0.90 per share (on the same terms as are applicable to the other investors' shares described below), 2.1 million shares are issuable to Mr. Charney if the market price of the Common Stock meets a certain threshold or there is a change of control of the Company in each case on or before March 24, 2013, and the remaining shares are issuable to Mr. Charney in installments if the market price of the Common Stock meets certain thresholds between April 2012 and

April 2015. The resale of Mr. Charney's shares has not been registered and these shares are or, when issued will be, restricted securities under the securities laws. Of the shares currently owned by Mr. Charney, a total of 37.3 million of such shares are subject to a lock-up agreement and cannot be sold publicly, in the absence of our consent, until the expiration of the restricted period under the lock-up agreement in December 2013 (which period may be shortened upon the occurrence of certain events).

On April 26, 2011, we issued to certain investors an aggregate of 15.8 million shares of Common Stock, and such investors also have the right to acquire up to an additional 27.4 million shares of Common Stock at a price of \$0.90 per share, within 180 days of the closing date, subject to certain topping-up and anti-dilution adjustments for additional issuances for cash of Common Stock (or securities exercisable, exchangeable or convertible for Common Stock), prior to April 26, 2012, including reduction of the purchase price to the lowest-issued price for such issuances made at a price below the purchase price, subject to some exceptions. The investors also were granted one demand registration right with respect to their initial shares and one additional demand registration right if they purchase additional shares, in each case, exercisable after the four-month anniversary of the closing date, subject to customary terms and conditions.

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We also have outstanding warrants exercisable to purchase an aggregate of 20.9 million shares of Common Stock, representing as of May 10, 2011, on an as-converted basis, approximately 17.5% of the outstanding Common Stock (after giving effect to the issuance of the shares underlying such warrants). SOF holds a warrant, expiring on December 19, 2013, to purchase 1.0 million shares of Common Stock at an exercise price of \$2.151 per share, which exercise price is subject to adjustment under certain circumstances as set forth in the warrant. In addition, Lion holds warrants, each expiring on February 18, 2018, to purchase an aggregate of 19.8 million shares of Common Stock at an exercise price of \$1.00 per share, which exercise price is subject to adjustment under certain circumstances as set forth in the warrants and the Lion Credit Agreement. In addition, upon the issuance of any additional shares to Mr. Charney or the investors as described above, pursuant to the Lion Credit Agreement, we would be required to issue to Lion additional warrants, with an exercise price of \$1.00 per share, subject to adjustment under certain circumstances as set forth in the warrants and the Lion Credit Agreement, to purchase a number of shares of Common Stock sufficient to prevent dilution of Lion's fully-diluted beneficial ownership of Common Stock as a result of the issuance of such shares. Lion also has certain demand and piggyback registration rights with respect to the shares of Common Stock underlying its warrants.

In addition, pursuant to the Lion Credit Agreement, in the event of certain other issuances and sales of common or preferred stock (including securities convertible, exercisable or exchangeable for Common Stock) or a debt-for-equity exchange by the Company prior to the repayment of obligations under the Lion Credit Agreement, the Company is required to issue additional warrants to Lion exercisable for a number of shares sufficient to prevent the dilution of Lion's fully-diluted beneficial ownership of Common Stock as a result of such transaction at an initial exercise price equal to the lesser of \$0.90 and the lowest issued price for such transaction, and, in addition, reduce the exercise price of the existing warrants issued to Lion to the lowest issued price for such transaction.

Assuming (i) issuance in full of the 27.4 million shares of Common Stock the investors have a right to purchase as described above, (ii) issuance in full of the 42.4 million shares of Common Stock issuable to Mr. Charney or that Mr. Charney has a right to purchase or receive as described above, (iii) exercise in full of new warrants issued to Lion as a result of such issuances to the investors and Mr. Charney, (iv) exercise in full of Lion's and SOF's existing warrants to purchase a total of 20.9 million shares of Common Stock, (v) exercise in full by management of currently outstanding options to purchase, and full vesting of restricted stock awards with respect to, a total of 2,550,000 shares of Common Stock and (vi) no other issuances of Common Stock or securities convertible, exercisable or exchangeable for Common Stock, the percentage ownership of stockholders other than Mr. Charney, the investors and holders of outstanding warrants as described above would be reduced from 38.4% as of the closing of the issuance of shares to the investors on April 26, 2011 (or 45.7% as of April 25, 2011 prior to giving effect to such closing) to 18.4%.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
None.

Item 3. Defaults Upon Senior Securities
None.

Item 4. [Removed and Reserved]

Item 5. Other Information
None.

Item 6. Exhibits

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

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;

- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;

- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and

- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

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

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Registrant (included as Exhibit 3.1 of the Current Report on Form 8-K (File No. 001-32697) filed December 18, 2007 and incorporated by reference herein)
3.2	Bylaws of the Registrant (included as Exhibit 3.1 of the Current Report on Form 8-K (File No. 001-32697) filed November 9, 2007 and incorporated by reference herein)
3.3	Amendment to Bylaws, effective October 1, 2010 (included as Exhibit 3.1 of the Current Report on Form 8-K (Filed No. 001-32697) filed October 8, 2010 and incorporated by reference herein)
10.1	Waiver to Credit Agreement, dated as of January 31, 2011, among American Apparel, Inc., the facility guarantors from time to time party thereto, Wilmington Trust FSB, as the administrative agent and the collateral agent, Lion Capital (Americas) Inc., as a lender, Lion/Hollywood L.L.C., as a lender, and other

lenders from time to time party thereto (included as Exhibit 10.1 of the Current Report on Form 8-K filed on February 1, 2011).

10.2 Employment Agreement, dated February 7, 2011 by and between John Luttrell and American Apparel, Inc. (included as Exhibit 10.1 of the Current Report on Form 8-K filed on February 3, 2011).

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- 10.3 Fifth Amendment to Credit Agreement, dated as of February 18, 2011, among American Apparel, Inc., the facility guarantors from time to time party thereto, Wilmington Trust FSB, as the administrative agent and the collateral agent, Lion Capital (Americas) Inc., as a lender, Lion/Hollywood L.L.C., as a lender, and other lenders from time to time party thereto (included as Exhibit 10.1 of the Current Report on Form 8-K filed on February 22, 2011).
- 10.4 Voting Agreement, dated as of February 18, 2011, between Dov Charney, an individual, and Lion/Hollywood L.L.C., in its capacity as a lender under the Lion Credit Agreement (included as Exhibit 10.2 of the Current Report on Form 8-K filed on February 22, 2011).
- 10.5 Employment Agreement, dated March 17, 2011 by and between Martin Staff and American Apparel, Inc (included as Exhibit 10.1 of the Current Report on Form 8-K filed on March 23, 2011).
- 10.6 Purchase Agreement, dated as of March 24, 2011, between American Apparel, Inc. and Dov Charney (included as Exhibit 10.1 of the Current Report on Form 8-K filed on March 28, 2011).
- 10.7 Warrant to Purchase Shares of Common Stock of American Apparel, Inc., dated March 24, 2011, issued to Lion/Hollywood L.L.C (included as Exhibit 10.2 of the Current Report on Form 8-K filed on March 28, 2011).
- 10.8 Amendment No. 1, dated March 24, 2011, to the Warrant to Purchase Shares of Common Stock of American Apparel, Inc., dated March 13, 2009 (included as Exhibit 10.3 of the Current Report on Form 8-K filed on March 28, 2011).
- 10.9 Form of Purchase and Investment Agreement, dated as of April 21, 2011, by and among American Apparel, Inc. and the purchasers signatory thereto (included as Exhibit 10.1 of the Current Report on Form 8-K filed on April 28, 2011).
- 10.1 Purchase Agreement, dated as of April 27, 2011, between American Apparel, Inc. and Dov Charney (included as Exhibit 10.2 of the Current Report on Form 8-K/A filed on April 28, 2011).
- 10.11 Form of Voting Agreement, dated as of April 26, 2011, between Dov Charney and the other persons signatory thereto (included as Exhibit 10.3 of the Current Report on Form 8-K filed on April 28, 2011).
- 10.12 Waiver, Consent and Eighth Amendment to Credit Agreement, dated as of April 26, 2011, by and among American Apparel, Inc., American Apparel (USA), LLC, the other Borrowers and Facility Guarantors party thereto, Bank of America, N.A. and the lenders party thereto (included as Exhibit 10.4 of the Current Report on Form 8-K filed on April 28, 2011).
- 10.13 Waiver and Sixth Amendment to Credit Agreement, dated as of April 26, 2011, among American Apparel, Inc., the facility guarantors from time to time party thereto, Wilmington Trust FSB, as the administrative agent and the collateral agent, Lion Capital (Americas) Inc., as a lender, Lion/Hollywood L.L.C., as a lender, and other lenders from time to time party thereto (included as Exhibit 10.5 of the Current Report on Form 8-K filed on April 28, 2011).
- 10.14 Warrant to Purchase Shares of Common Stock of American Apparel, Inc., dated April 26, 2011, issued to Lion/Hollywood L.L.C (included as Exhibit 10.6 of the Current Report on Form 8-K filed on April 28, 2011).

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- 10.15 Amendment No. 1, dated April 26, 2011, to the Warrant to Purchase Shares of Common Stock of American Apparel, Inc., dated March 24, 2011 (included as Exhibit 10.7 of the Current Report on Form 8-K filed on April 28, 2011).
- 10.16 Amendment No. 2, dated April 26, 2011, to the Warrant to Purchase Shares of Common Stock of American Apparel, Inc., dated March 13, 2009 (included as Exhibit 10.8 of the Current Report on Form 8-K filed on April 28, 2011).
- 31.1* Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2* Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1* Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2* Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99.1 Press release, dated April 1, 2011, of American Apparel, Inc (included as Exhibit 99.1 of the Current Report on Form 8-K filed on April 1, 2011).

* Filed herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 10, 2011

AMERICAN APPAREL, INC.

Signature	Title	Date
/s/ DOV CHARNEY Dov Charney	Chief Executive Officer and Director (Principal Executive Officer)	May 10, 2011
/s/ JOHN LUTTRELL John Luttrell	Chief Financial Officer and Director (Principal Financial and Accounting Officer)	May 10, 2011