AMERICAN APPAREL, INC
Form DEF 14A
June 17, 2015

Use these links to rapidly review the document
Table of Contents

Table of Contents

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under §240.14a-12

**American Apparel, Inc.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

o 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:

o Fee paid previously with preliminary materials.

o 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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Table of Contents

June 17, 2015

Dear Fellow Stockholder:

You are cordially invited to the 2015 Annual Meeting of Stockholders of American Apparel, Inc. (the "Annual Meeting") to be held on July 16, 2015, at 9:00 a.m., Central Time, at the Chicago office of Skadden, Arps, Slate, Meagher & Flom LLP, 155 N. Wacker Dr., Chicago, IL 60606.

The matters to be considered and voted upon at the Annual Meeting are described in the Notice of Annual Meeting of Stockholders and the Proxy Statement that accompany this letter.

It is very important that your shares be represented and voted at the Annual Meeting. Please read the attached Proxy Statement and vote your shares as soon as possible.

If you have any questions or need assistance in voting your shares, please call our proxy solicitor, Innisfree M&A Incorporated, toll-free at 888-750-5834.

Thank you for your continued support of American Apparel.

Sincerely,

/s/ COLLEEN B. BROWN

Colleen B. Brown
*Chairperson of the Board*

# AMERICAN APPAREL, INC.

**747 Warehouse Street**
**Los Angeles, California 90021**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**
**To be held on July 16, 2015**

| | |
|---|---|
| **Time and Date:** | 9:00 a.m., Central Time, on Thursday, July 16, 2015 |
| **Place:** | The Chicago office of Skadden, Arps, Slate, Meagher & Flom LLP, 155 N. Wacker Dr., Chicago, IL 60606 |
| **Items of Business:** | 1. To elect Laura A. Lee, Thomas J. Sullivan and Lyndon Lea to the Board of Directors, each to serve for a term of three years and until his or her successor is duly elected and qualified, or such director's earlier death, resignation or removal. |
| | 2. To ratify the appointment of Marcum LLP as our independent auditors for the fiscal year ending December 31, 2015. |
| | 3. To approve an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of our common stock that we may issue. |
| | 4. To consider and transact such other business as may properly come before the Annual Meeting. |

**Board of Directors Recommendation:** The Board of Directors recommends that you vote "**FOR**" the election of each nominee for the Board of Directors and "**FOR**" Items 2 and 3.

**Adjournments and Postponements:** Any action on the items of business described above may be considered at the Annual Meeting at the time and on the date specified above or at any time and date to which the Annual Meeting may be properly adjourned or postponed.

**Record Date:** You are entitled to notice of and to vote at the Annual Meeting and any adjournment or postponement thereof only if you were a holder of record of shares of American Apparel, Inc. common stock as of the close of business on June 15, 2015. If your shares are held in an account at a brokerage firm, bank or similar organization, that organization is considered the record holder for purposes of voting at the Annual Meeting and will provide you with instructions on how you can direct that organization to vote your shares.

**Voting: Your vote is very important. Whether or not you plan to attend the Annual Meeting, we encourage you to read the accompanying Proxy Statement and our 2014 Annual Report on Form 10-K and vote as soon as possible. You may submit your proxy for the Annual Meeting by using the telephone or Internet voting system or by completing, signing, dating and returning your proxy card. For specific instructions on how to vote your shares, please refer to the section entitled "Questions and Answers about the Proxy Materials and Annual Meeting" beginning on page 1 of the accompanying Proxy Statement.**

**Admission:** Space limitations make it necessary to limit attendance at the Annual Meeting to stockholders of record. If your shares are held in an account at a brokerage firm, bank or similar organization and you wish to attend the Annual Meeting, you must obtain a letter from that brokerage firm, bank or similar organization confirming your ownership of the shares as of the record date and bring it to the Annual Meeting. Admission to the Annual Meeting will be on a first-come, first-served basis. Cameras, mobile phones and recording devices will not be permitted at the Annual Meeting.

**The Annual Meeting will begin promptly at 9:00 a.m., Central Time.**

Table of Contents

**Registration will begin at 8:30 a.m., Central Time.**

Sincerely,

/s/ CHELSEA A. GRAYSON

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Chelsea A. Grayson
*Executive Vice President, General Counsel and Secretary*
Los Angeles, California
June 17, 2015

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDERS MEETING TO BE HELD ON JULY 16, 2015: The Proxy Statement and Annual Report to stockholders will be available at www.americanapparel.net/aboutus/investorrelations/.**

**Table of Contents**


| | |
|---|---|
| BACKGROUND OF THE SOLICITATION | 7 |
| PROPOSAL 1: ELECTION OF CLASS B DIRECTORS | 8 |
| PROPOSAL 2: RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS | 10 |
| RELATIONSHIP WITH INDEPENDENT AUDITORS | 11 |
| REPORT OF THE AUDIT COMMITTEE | 12 |
| PROPOSAL 3: AMENDMENT TO THE AMENDED AND RESTATED CERTIFICATE OF INCORPORATION | 13 |
| DIRECTORS AND EXECUTIVE OFFICERS | 15 |
| CORPORATE GOVERNANCE AND BOARD MATTERS | 19 |
| PROCESSES AND PROCEDURES FOR DETERMINATION OF EXECUTIVE AND DIRECTOR COMPENSATION | 27 |
| COMPENSATION OF DIRECTORS | 29 |
| DIRECTOR COMPENSATION FISCAL 2014 | 29 |
| COMPENSATION DISCUSSION AND ANALYSIS | 31 |
| COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION | 36 |
| COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION | 37 |
| SUMMARY COMPENSATION TABLE | 38 |
| EQUITY COMPENSATION PLAN INFORMATION | 43 |
| GRANTS OF PLAN-BASED AWARDS | 43 |
| OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END | 43 |
| OPTIONS EXERCISED AND STOCK VESTED | 43 |
| BENEFICIAL OWNERSHIP OF SHARES | 47 |
| CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS | 50 |
| OTHER MATTERS | 54 |
| OTHER BUSINESS | 54 |
| INFORMATION CONCERNING STOCKHOLDER PROPOSALS | 55 |
| ANNEX A | A-1 |
| PROXY CARD | |

Table of Contents

# AMERICAN APPAREL, INC.

**747 Warehouse Street**
**Los Angeles, California 90021**

## PROXY STATEMENT
## FOR 2015 ANNUAL MEETING OF STOCKHOLDERS

**To be held on July 16, 2015**

### QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND ANNUAL MEETING

**Q: Why am I receiving these materials?**

A:

This proxy statement (this "Proxy Statement"), together with our Annual Report on Form 10-K for the year ended December 31, 2014 (our "Annual Report"), is being mailed to stockholders commencing on or about June 17, 2015 in connection with the solicitation by the Board of Directors (the "Board of Directors" or the "Board") of American Apparel, Inc. (the "Company" or "American Apparel") of proxies for use at the 2015 Annual Meeting of Stockholders and any adjournments or postponements thereof (the "Annual Meeting") to be held at the Chicago office of Skadden, Arps, Slate, Meagher & Flom LLP, 155 N. Wacker Dr., Chicago, IL 60606 on Thursday, July 16, 2015, at 9:00 a.m., Central Time, for the purposes set forth in this Proxy Statement and in the accompanying Notice of Annual Meeting of Stockholders.

**Q: What items will be voted on at the Annual Meeting?**

A:

(1) The election of each of Ms. Lee, Mr. Sullivan and Mr. Lea to the Board of Directors, each to serve for a term of three years and until his or her successor is duly elected and qualified, or such director's earlier death, resignation or removal. This proposal is referred to as "Proposal 1."

(2) The ratification of the appointment of Marcum LLP as our independent auditors for the fiscal year ending December 31, 2015. This proposal is referred to as "Proposal 2."

(3) The approval of an amendment to our Amended and Restated Certificate of Incorporation, as amended (the "Certificate of Incorporation"), to increase the number of authorized shares of the Company's common stock ("Common Stock") that we may issue. This proposal is referred to as "Proposal 3."

(4) Such other business as may properly come before the Annual Meeting.

The stockholders of the Company have no dissenters' or appraisal rights in connection with any of the proposals to be voted on at the Annual Meeting.

**Q: How does the Board recommend I vote on the proposals?**

A:

The Board recommends a vote FOR the election of each of Ms. Lee, Mr. Sullivan and Mr. Lea to the Board of Directors, each to serve for a term of three years and until his or her successor is duly elected and qualified, or such director's earlier death, resignation or removal.

The Board recommends a vote FOR the ratification of Marcum LLP as our independent auditors for the year ending December 31, 2015.

Table of Contents

The Board recommends a vote FOR the amendment to our Certificate of Incorporation to increase the number of shares of Common Stock that we may issue.

**Q: How do I vote?**

A:

There are four ways to vote:

***Voting in Person.*** To vote in person, you must attend the Annual Meeting and follow the procedures for voting announced at the Annual Meeting. If your shares are held in an account at a brokerage firm, bank or similar organization, you must present a signed proxy from that organization in order to be able to vote at the Annual Meeting.

***Voting by Internet.*** You may vote by proxy over the Internet by following the instructions provided in the proxy card or voting instruction form, as applicable.

***Voting by Telephone.*** You may vote by proxy by calling the toll free number found on the proxy card or voting instruction form, as applicable.

***Voting by Mail.*** You may vote by proxy by mail by following the instructions on the proxy card or voting instruction form, as applicable.

**Q: Who is entitled to vote?**

A:

Only holders of record of our Common Stock as of the close of business on June 15, 2015 (the "Record Date") are entitled to vote at the Annual Meeting.

If your shares are held in an account at a brokerage firm, bank or similar organization, that organization is considered the record holder for purposes of voting at the Annual Meeting and will provide you with instructions on how to direct that organization to vote your shares. See "What if my shares are held in an account at a brokerage firm, bank or similar organization?" below.

**Q: How many shares can I vote?**

A:

As of the Record Date, 179,982,122 shares of Common Stock, the only outstanding voting securities of the Company, were issued and outstanding. Each record holder of Common Stock is entitled to one vote for each share held.

**Q: Can I change my vote after I have voted?**

A:

You may revoke your proxy and change your vote at any time before the final vote at the Annual Meeting by voting again by proxy as described above (only your latest, properly completed proxy submitted, whether by mail, telephone or the Internet, prior to the Annual Meeting will be counted) or by attending the Annual Meeting and voting in person. However, your attendance at the Annual Meeting will not automatically revoke your proxy unless you vote again at the Annual Meeting or specifically request in writing that your prior proxy be revoked by delivering to the Company's Secretary at 747 Warehouse Street, Los Angeles, California 90021 a written notice of revocation prior to the Annual Meeting.

**Q: How can I get electronic access to the 2015 Annual Meeting materials?**

A:

This Proxy Statement and our Annual Report are also available without charge on the Company's website at *www.americanapparel.net/aboutus/investorrelations/* and the SEC's website at *sec.gov*. By referring to our website, we do not incorporate the website or any portion of the website by reference into this Proxy Statement.

Table of Contents

The proxy card or voting instruction form contains instructions on how you can elect to receive future proxy materials electronically by e-mail. Choosing to receive future proxy materials by e-mail will save the Company the cost of printing and mailing documents to you and will reduce the impact of the Company's annual meetings on the environment. If you choose to receive future proxy materials by e-mail, you will receive an e-mail message next year with instructions containing a link to those materials and a link to the proxy voting website. Your election to receive proxy materials by e-mail will remain in effect until you terminate it.

**Q: I share an address with another stockholder, and we received only one copy of the Proxy Statement. How may I obtain a separate copy of the Proxy Statement?**

A:

The Company has adopted a procedure called "householding," which the SEC has approved. Under this procedure, the Company may deliver a single copy of the Proxy Statement and our Annual Report to stockholders who share the same address unless the Company has received contrary instructions from one or more of the stockholders. This procedure reduces the Company's printing costs, mailing costs and fees. All stockholders have the ability to access the 2015 Annual Meeting materials on the website referred to in the Proxy Statement. If you would like to receive a separate copy of the Proxy Statement and our Annual Report, please submit your request to:

American Apparel, Inc.
Attn: Investor Relations
747 Warehouse Street
Los Angeles, California 90021
(213) 488-0226

Similarly, if you share an address with another stockholder and received multiple copies of the Proxy Statement and our Annual Report, you may write or call us at the above address and phone number to make arrangements to receive a single copy of the Proxy Statement and our Annual Report at the shared address in the future.

In addition, if you share the same address with another stockholder and request a printed copy of the Proxy Statement and our Annual Report, you may write or call us at the above address to request that a separate copy of the Proxy Statement and our Annual Report be delivered to each stockholder at the shared address.

Stockholders who hold shares in an account at a brokerage firm, bank or similar organization may contact their brokerage firm, bank or other similar organization to request information about householding.

**Q: What does it mean if I get more than one proxy card?**

A:

If your shares are registered differently and are in more than one account, you may receive more than one proxy card. Please follow the voting instructions on the proxy cards or voting instruction forms, as applicable, and vote all proxy cards or voting instruction forms, as applicable, to ensure that all of your shares are voted. We encourage you to have all accounts registered in the same name and address whenever possible. You can accomplish this by contacting our transfer agent at:

Continental Stock Transfer & Trust Company
17 Battery Place
New York, NY 10004
(212) 509-4000, extension 206
*continentalstock.com*
cstmail@continentalstock.com

Table of Contents

**Q: What if my shares are held in an account at a brokerage firm, bank or similar organization?**

A:

If your shares are held in an account at a brokerage firm, bank or similar organization, then you are the beneficial owner of shares held in "street name." The organization holding your account is considered the record holder for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct that organization on how to vote the shares held in your account, and that organization will provide you with instructions on how to do so. You will receive a voting instruction form from your brokerage firm, bank or similar organization instead of a proxy card, and you should follow the instructions on the voting instruction form.

If you do not provide the organization that holds your shares with specific voting instructions, under the rules of the NYSE MKT LLC (the "NYSE MKT") in effect as of the date of this Proxy Statement, that organization generally may vote on routine matters but cannot vote on non-routine matters. The election of Ms. Lee, Mr. Sullivan and Mr. Lea to the Board (Proposal One) is considered a "non-routine" matter under the applicable rules of the NYSE MKT, and the ratification of the appointment of Marcum as our independent auditors for the fiscal year ending December 31, 2015 (Proposal Two) and the amendment of our Certificate of Incorporation to increase the number of authorized shares of Common Stock (Proposal Three) are considered "routine" under the applicable rules of the NYSE MKT. If the organization that holds your shares does not receive instructions from you on how to vote your shares on a non-routine matter, that organization will inform the inspector of elections that it does not have the authority to vote on that matter with respect to your shares. This is generally referred to as a "broker non-vote." A broker non-vote will have the effects described under "What quorum and vote is required to approve each proposal?" below.

**Q: What quorum and vote is required to approve each proposal?**

A:

A quorum must have been established in order to consider any matter.

For Proposal 1, directors are elected by a plurality of votes cast. Therefore, the three candidates for director receiving the most votes will become directors of the Company. Stockholders may not cumulate their votes. Any broker non-votes and any proxies marked "Withhold" with respect to the election of one or more directors will not count as "votes cast" with respect to the director or directors indicated and therefore will be disregarded for purposes of determining the outcome of this proposal.

Proposal 2, the ratification of our independent auditors, requires the affirmative "for" vote of a majority of those shares present in person or represented by proxy and entitled to vote on this proposal at the Annual Meeting. Any abstentions with respect to this proposal will count as votes against this proposal. Broker non-votes, if any, with respect to the ratification of our independent auditors will not count as shares entitled to vote on this proposal and therefore will be disregarded for purposes of determining the outcome of the vote on this proposal.

Proposal 3, the approval of an amendment to the Company's Certificate of Incorporation to increase the number of authorized shares of Common Stock the Company may issue, requires the affirmative "for" vote of a majority of outstanding shares entitled to vote on this proposal at the Annual Meeting. Any abstentions and broker non-votes, if any, with respect to this proposal will count as votes against this proposal.

**Q: How will voting on any other business be conducted?**

A:

Although we do not know of any business to be considered at the Annual Meeting other than the proposals described in this Proxy Statement, if any other business is presented at the Annual Meeting, your signed proxy or your authenticated Internet or telephone proxy will give authority to each of Paula Schneider, our Chief Executive Officer, and Chelsea A. Grayson, our Executive Vice President, General Counsel and Secretary, to vote on such matters at their discretion.

Table of Contents

**Q: What is the deadline to propose actions for consideration at next year's annual meeting of stockholders or to nominate individuals to serve as directors?**

A:

You may submit proposals, including director nominations, for consideration at future stockholder meetings as follows:

**Stockholder Proposals:** For a stockholder proposal to be considered for inclusion in the Company's proxy statement for the 2016 Annual Meeting of Stockholders, the written proposal must be delivered to or mailed and received by the Secretary of the Company at our principal executive offices no later than February 18, 2016. If the date of the 2016 Annual Meeting of Stockholders is moved more than 30 days before or after the anniversary date of the Annual Meeting, the deadline for inclusion of proposals in our proxy statement instead will be a reasonable time before we begin to print and mail our proxy materials. Such proposals also will need to comply with Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), regarding the inclusion of stockholder proposals in company-sponsored proxy materials. Proposals should be addressed to:

American Apparel, Inc.
Attn: Chelsea A. Grayson, Secretary
747 Warehouse Street
Los Angeles, California 90021
(213) 488-0226

For a stockholder proposal that is not intended to be included in the Company's proxy statement for the 2016 Annual Meeting of Stockholders under Rule 14a-8 under the Exchange Act, written notice of the proposal, which notice must include the information required by the Company's Amended and Restated Bylaws (the "Bylaws"), must be received by the Company's Secretary:

Not earlier than the close of business on the 90th day prior to the 2016 Annual Meeting of Stockholders; and

Not later than the close of business on the 60th day prior to the 2016 Annual Meeting of Stockholders.

If less than 70 days' notice or prior public disclosure of the date of the 2016 Annual Meeting of Stockholders is given or made to stockholders, then notice of a stockholder proposal that is not intended to be included in the Company's proxy statement under Rule 14a-8 under the Exchange Act must be received no later than the close of business on the tenth day following the date on which notice of the date of the 2016 Annual Meeting of Stockholders is mailed to the stockholders or the date on which public disclosure of the date of the 2016 Annual Meeting of Stockholders is made, whichever is first.

**Nomination of Director Candidates:** You may propose director candidates for consideration by the Board's Nominating and Corporate Governance Committee or you may nominate director candidates directly at an annual meeting in accordance with the procedures set forth in the Bylaws, as summarized under the caption "Corporate Governance and Board Matters Consideration of Director Nominees Stockholder Nominees" herein.

**Copy of Bylaw Provisions:** You may contact the Company's Secretary at our principal executive offices for a copy of the relevant Bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates.

**Q: How is the Company soliciting proxies for the Annual Meeting?**

A:

This solicitation is made by mail on behalf of the Board of Directors. Costs of the solicitation will be borne by the Company. Further solicitation of proxies may be made by telephone, facsimile or personal interview by the directors, officers and employees of the Company and its affiliates, who will not receive additional compensation for the solicitation and by certain officers or employees of

Table of Contents

Innisfree M&A Incorporated, who we have hired to assist us in the solicitation of proxies. The Company will reimburse banks, brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in forwarding proxy materials to stockholders. The costs of this proxy solicitation are summarized under the caption "Other Matters  Cost of Solicitation" herein.

**Q: How will Dov Charney's shares of Common Stock be voted at the 2015 Annual Meeting?**

A:

As of June 15, 2015, Mr. Charney, the Company's former Chief Executive Officer, owned approximately 41.4% of our outstanding Common Stock. However, Mr. Charney may ***not*** vote such shares at the 2015 Annual Meeting or any adjournments or postponements thereof except as mutually agreed with Standard General L.P. ("Standard General") under the terms of a cooperation agreement entered into between Mr. Charney and Standard General. In addition, under the terms of the Standstill Agreement (as defined below under "Background of the Solicitation"), Mr. Charney and Standard General agreed to vote shares in excess of $33^{1}/_{3}$ percent of the outstanding Common Stock at the 2015 Annual Meeting or any adjournments or postponements thereof in proportion to the votes for such proposals or other business cast by the other stockholders of the Company voting at the 2015 Annual Meeting. For further information on the cooperation agreement and Standstill Agreement see "Certain Relationships and Related Transactions  Agreements between Mr. Charney and Standard General."

Standard General has informed the Company that it will only approve Mr. Charney voting for proposals recommended by the Board of Directors at the 2015 Annual Meeting.

**Q: Will Dov Charney's shares be counted for purposes of establishing a quorum at the 2015 Annual Meeting?**

A:

Yes. Under the terms of the Standstill Agreement (as defined below under "Background of the Solicitation"), Mr. Charney agreed that his shares will be counted for purposes of establishing a quorum at the 2015 Annual Meeting.

**Q: Is Dov Charney or his representatives permitted to solicit a proxy from me or otherwise encourage me to vote against any of the proposals recommended by the Company's Board of Directors?**

A:

No. Under the terms of the Standstill Agreement (as defined below under "Background of the Solicitation"), Mr. Charney may not solicit proxies, or encourage, advise, influence or assist any other person in the solicitation of any proxies against any of the proposals recommended by the Company's Board of Directors at the 2015 Annual Meeting. Moreover, on June 1, 2015, the Delaware Court of Chancery granted the motion of the Company for a temporary restraining order against Mr. Charney, temporarily restraining Mr. Charney from breaching the terms of the Standstill Agreement. Mr. Charney subsequently agreed that the restraints placed on him by such temporary restraining order are extended until the conclusion of the 2015 Annual Meeting. If you are contacted by Mr. Charney or any of his representatives in regards to your vote at the 2015 Annual Meeting, please promptly inform the general counsel of the Company at (213) 542-4993.

**Q: How can I find the voting results of the Annual Meeting?**

A:

We intend to announce preliminary voting results at the Annual Meeting and will publish final results in our Current Report on Form 8-K within four business days after the Annual Meeting.

**Q: How may I communicate with the Company's Board or the non-management directors on the Company's Board?**

A:

You may communicate with the Board by submitting an e-mail to the Company's Board at *bod@americanapparel.net*.

Table of Contents

## BACKGROUND OF THE SOLICITATION

On May 17, 2015, Jeffrey Kolb, a stockholder of American Apparel, notified the Company that he was nominating two candidates for election as directors at the 2015 Annual Meeting. Mr. Kolb also proposed that the Company adopt a resolution that would repeal any provision of the Company's Bylaws in effect at the time of the annual meeting that was not included in the Company's Bylaws as of December 22, 2014.

On May 21, 2015, the Company filed for a temporary restraining order in the Delaware Court of Chancery against Mr. Charney to prevent him from breaching the Nomination, Standstill and Support Agreement, dated July 9, 2014, among Standard General, Standard General L.P., P Standard General Ltd. and Mr. Charney (the "Standstill Agreement"), through the pendency of the court's decision on the Company's motion for a preliminary injunction, including, but not limited to, by taking any direct or indirect action seeking to remove the Company's directors, or by making any disparaging comments about the Company to the press or any other third party.

On June 1, 2015, the Delaware Court of Chancery granted the motion of the Company for a temporary restraining order against Mr. Charney, temporarily restraining Mr. Charney from breaching the terms of the Standstill Agreement.

On June 5, 2015, Mr. Charney agreed that the restraints placed on him by such temporary restraining order are extended until the conclusion of the 2015 Annual Meeting.

On June 7, 2015, the Company and Mr. Kolb entered into a letter agreement pursuant to which, among other things, (i) the Company will form a new advisory committee comprised of industry executives, Company employees and other qualified personnel that will provide insights, guidance and strategic input for the Company's Chief Executive Officer ("CEO"), (ii) the Company will use reasonable efforts to identify a new independent director with significant experience as a member of senior management of retail and/or apparel companies and appoint the new director to fill a vacancy on the Board prior to the Company's 2016 annual meeting of stockholders, and (iii) Mr. Kolb withdrew his notice of intent to nominate persons for election as directors of the Company and to present a proposal at the 2015 Annual Meeting. Gene Montesano, the co-founder of Lucky Brand jeans and one of the two director candidates proposed by Mr. Kolb, will head the new advisory committee if he is willing and able to do so.

Table of Contents

## PROPOSAL 1: ELECTION OF CLASS B DIRECTORS

Pursuant to the Company's Certificate of Incorporation, the Board of Directors is divided into three classes of directors serving staggered terms (Classes A, B and C). One class of directors is elected at each annual meeting of stockholders for a three-year term, and those directors will hold office until their successors have been duly elected and qualified, or until their earlier death, resignation or removal. The Bylaws authorize a Board of Directors consisting of not less than one or more than nine directors. The Board of Directors currently consists of nine members: Mses. Colleen B. Brown, Laura A. Lee and Paula Schneider and Messrs. Jeff Chang, David Glazek, Lyndon Lea, Joseph Magnacca, Allan Mayer and Thomas J. Sullivan. We currently have no vacancies on the Board of Directors.

Ms. Lee and Mr. Sullivan were designated to serve as Class B directors by Standard General under the Standstill Agreement, effective as of August 2, 2014. Under the terms of the Standstill Agreement, the Company has agreed to use its reasonable best efforts to cause the election of Ms. Lee and Mr. Sullivan to the Board of Directors at the 2015 Annual Meeting. Mr. Lea was designated to serve as a Class B director by Lion/Hollywood L.L.C. ("Lion") in accordance with the investment agreement the Company entered into with Lion, dated as of March 13, 2009 (as amended, the "Investment Agreement") (described under "Certain Relationships and Related Party Transactions" herein).

The terms of Ms. Lee, Mr. Sullivan and Mr. Lea will expire at the Annual Meeting. After careful consideration of the specific experience, qualifications, attributes and skills of each director and director nominee, the Board has nominated Laura A. Lee, Thomas J. Sullivan and Lyndon Lea (the "Class B Nominees") for reelection at the Annual Meeting. Each of Ms. Lee and Mr. Sullivan currently meets the criteria to qualify as an independent director according to SEC regulations and NYSE MKT listing standards.

If elected, each of the Class B Nominees will serve for a term of three years and until his or her successor is duly elected and qualified at the 2018 Annual Meeting of Stockholders, or such director's earlier death, resignation or removal.

Each of the Class B Nominees has consented to being named in this Proxy Statement and has agreed to serve as a member of the Board of Directors if elected. If any of the Class B Nominees is unable to serve, which is not anticipated, the persons named as proxies intend to vote for such other person or persons as the Board of Directors may designate in accordance with the Investment Agreement and the investment voting agreement, dated as of March 13, 2009, between Mr. Charney and Lion (the "Investment Voting Agreement"), described below. In no event will the shares represented by the proxies be voted for more than three nominees at the Annual Meeting.

The names and certain information concerning each of the Class B Nominees, including their experience, qualifications, attributes and skills, are set forth below, and the names and certain information regarding the continuing directors whose terms expire in 2016 and 2017 are set forth under the heading "Directors and Executive Officers" herein.

**Laura A. Lee** was appointed to the Board on August 8, 2014 and currently serves as a member of the Nominating and Corporate Governance Committee of the Board. In July 2015, Ms. Lee will be joining Margaritaville Enterprises as their Chief Digital Officer and President of Margaritaville Media. Ms. Lee was with Google/YouTube from October 2007 to June 2015, where she served as the Global Head of Top Creators and oversaw relationships with the top YouTube talent worldwide. Previously, Ms. Lee also was the head of North American Partnerships where she oversaw more than 500 television, film, new media, original entertainment, and U.S. Hispanic partnerships. Prior to joining Google, she was a Vice President and Head of Business Development & Operations for MTV, where she launched various broadband businesses, spearheaded key acquisitions/JVs and oversaw MTV Puerto Rico. Ms. Lee holds a B.A. from Brown University and an M.B.A. from the Harvard Business School.

Table of Contents

Ms. Lee's experience in digital, e-commerce and marketing, combined with the leadership skills and experiences of the other Board members, provides us with the perspectives and judgment necessary to guide our strategy and monitor its execution.

**Thomas J. Sullivan** was appointed to the Board on August 2, 2014 and currently serves as the Chair of the Nominating and Corporate Governance Committee and as a member of the Audit Committee of the Board. Mr. Sullivan has served as a director of Media General since November 2013. He has also served as a member of the advisory board of Millennium Custodial Trust since 2010 and a Trustee of Accredited Mortgage Loan REIT since 2009. Since 2009, Mr. Sullivan has been the Managing Partner of Smallwood Partners, LLC, a financial advisory services firm. Prior to the merger of Media General and New Young Broadcasting Holding Co. ("Young"), Mr. Sullivan was a member of the Board of Directors, as well as of the Audit, Compensation and Nominating Committees, of Young from January 2009 until November 2013. Mr. Sullivan held the position of Executive Chairman of Young from June 2012 until November 2013 and served as Senior Vice President, Finance and Chief Financial Officer in 2012. Mr. Sullivan's previous experience also includes serving as a Managing Director with Investcorp International, Inc., an international middle market private equity firm. Mr. Sullivan holds a B.B.S. from Villanova University. Mr. Sullivan has served on numerous boards for 20 years and has broad leadership, operational and financial restructuring experience as well as experience in the fields of private equity and capital markets. Mr. Sullivan's experience as a public company director and in the private equity sector, combined with the leadership skills and experiences of the other Board members, provides us with the perspectives and judgment necessary to guide our strategy and monitor its execution.

**Lyndon Lea** was appointed to the Board on January 13, 2015 as a designee of Lion under the Investment Agreement. Mr. Lea is a founding partner of Lion Capital LLP, an affiliate of Lion, and serves as its Managing Partner. Prior to founding Lion Capital, Mr. Lea was a Partner of Hicks, Muse, Tate & Furst where he co-founded its European operations in 1998. Prior to joining Hicks Muse, Mr. Lyndon served at Glenisla, the European affiliate of Kohlberg Kravis Roberts & Co and was an investment banker. Mr. Lea received his B.A. from the University of Western Ontario in Canada.

**Vote Required**

The Class B Nominees will be elected by a plurality of the votes cast at the Annual Meeting. **Unless instructed to the contrary in the proxy, the shares represented by the proxies will be voted FOR ALL in favor of the election of each of the Board's nominees.**

**The Board of Directors recommends a vote FOR each of the Class B Nominees.**

Table of Contents

**PROPOSAL 2: RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS**

The Audit Committee has selected the firm of Marcum LLP ("Marcum") to act as the Company's independent auditors for the fiscal year ending December 31, 2015, and recommends that the stockholders vote in favor of such appointment. Marcum has served as the Company's independent auditors since 2010.

Although stockholder ratification of the selection of Marcum as the Company's independent auditors is not required by the Company's Bylaws or otherwise, the Board of Directors believes it appropriate as a matter of policy to request that stockholders ratify the selection of the Company's independent registered public accounting firm, and the stockholders ratified the selection of Marcum in previous years. In the event the stockholders do not ratify the appointment of Marcum, the Audit Committee will reconsider its appointment. In addition, even if the stockholders ratify the appointment of Marcum, the Audit Committee may in its discretion appoint a different independent public accounting firm at any time if the Audit Committee determines that a change is in the best interests of the Company and its stockholders. Representatives of Marcum are expected to be present at the Annual Meeting to respond to appropriate questions and to make a statement if such representatives so desire.

**Vote Required**

The affirmative vote of a majority of shares present in person or represented by proxy at the Annual Meeting and entitled to vote on this proposal is required to ratify the selection of Marcum as our independent auditors for the fiscal year ending December 31, 2015. **Unless instructed to the contrary in the proxy, the shares represented by the proxies will be voted FOR this Proposal 2.**

**The Board of Directors recommends a vote FOR this Proposal 2.**

## RELATIONSHIP WITH INDEPENDENT AUDITORS

### Principal Accounting Firm Fees

Aggregate fees billed to us for the fiscal years ended December 31, 2014 and 2013 by the Company's current and former independent auditors are as follows.

| (in thousands) | 2014 | 2013 |
|---|---|---|
| **Marcum LLP** | | |
| Audit fees(1) | $ 1,695 | $ 1,825 |
| Audit-related fees(2) | | 120 |
| Tax fees(3) | | |
| All other fees(4) | 85 | |
| | $ 1,780 | $ 1,945 |

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(1) "Audit fees" consist of fees for professional services rendered by the principal accountant for the audit of the Company's annual financial statements included in Form 10-Ks, the review of financial statements included in Form 10-Qs and for services that are normally provided by the auditor in connection with statutory and regulatory filings or engagements for those fiscal years.

(2) "Audit-related fees" consist of fees for assurance and related activities by the principal accountant that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported as audit fees.

(3) "Tax fees" consist of fees for professional services rendered by the principal accountant for tax compliance, tax advice and tax planning.

(4) "All other fees" consist of fees for any products and services provided by the principal accountant not included in the first three categories.

In accordance with Section 10A(i) of the Exchange Act, before the Company engages its independent accountant to render audit or non-audit services, the engagement is approved by the Company's Audit Committee. All of the Company's independent auditor's fees were pre-approved by the Audit Committee in 2014. The Audit Committee utilizes a policy pursuant to which the audit, audit-related, and permissible non-audit services to be performed by the independent auditor are pre-approved prior to the engagement to perform such services. Pre-approval is generally provided annually, and any pre-approval is detailed as to the particular service or category of services and is generally limited by a maximum fee amount. The independent auditor and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditor in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee considered whether the provision of non-audit services provided by Marcum as described above was compatible with maintaining such accountant's independence, and believes that the provision of these services is consistent with maintaining such accountant's independence.

Table of Contents

**REPORT OF THE AUDIT COMMITTEE**

The Audit Committee assists the Board in fulfilling its responsibilities for general oversight of the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the Company's system of internal control over financial reporting and the qualifications, independence and performance of the Company's internal audit function and independent auditor. Management is responsible for the financial reporting process, including the Company's system of internal control over financial reporting, and for the preparation of the Company's consolidated financial statements in accordance with generally accepted accounting principles. The Company's independent auditor is responsible for performing an independent audit of the Company's financial statements and expressing an opinion as to the conformity of the Company's audited financial statements with generally accepted accounting principles.

The Audit Committee reviewed and discussed with management the Company's audited financial statements as of and for the fiscal year ended December 31, 2014. In addition, the Audit Committee discussed with Marcum the matters with respect to the audit of such financial statements required to be discussed by Statement on Auditing Standards No. 61, as amended and adopted by the Public Company Accounting Oversight Board in Rule 3200T, pertaining to communications with audit committees. The Audit Committee also received the written disclosures and the letter from Marcum required by applicable requirements of the Public Company Accounting Oversight Board regarding Marcum's communications with the Audit Committee concerning independence and discussed with Marcum its independence.

The Audit Committee met with Marcum, with and without management present, to discuss the overall scope of its audit, the results of its examinations, its evaluations, if any, of the Company's internal control over financial reporting, and the overall quality of the Company's financial reporting, in each case for fiscal year 2014.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 for filing with the SEC.

By the Audit Committee,
David Danziger, Chairman
Colleen B. Brown
Thomas J. Sullivan

## PROPOSAL 3: AMENDMENT TO THE AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO INCREASE THE AUTHORIZED NUMBER OF SHARES OF COMMON STOCK

At the 2015 Annual Meeting, the stockholders of the Company will be asked to consider and vote in favor of an amendment to the Certificate of Incorporation that would increase the number of shares of Common Stock that the Company is authorized to issue. In June 2015, the Board voted to approve and recommend to our stockholders that they approve this amendment.

**Proposed Amendment**

The Company's Board of Directors has adopted a resolution to amend the Certificate of Incorporation to increase the number of authorized shares of Common Stock from 230,000,000 to 460,000,000 shares. The form of the amendment is attached as *Annex A* to this Proxy Statement. The amendment will replace Article Fourth of the Certificate of Incorporation with the following language:

FOURTH: The total number of shares of all classes of capital stock which the Corporation shall have authority to issue is 461,000,000 of which 460,000,000 shares shall be Common Stock of the par value of $.0001 per share and 1,000,000 shares shall be Preferred Stock of the par value of $.0001 per share.

The proposed amendment will not increase or otherwise affect the number of shares of preferred stock that are authorized. In December 2014, the Company authorized the issuance of 200,000 shares of Series B preferred stock that are issuable pursuant to its stockholder rights plan.

If the proposed amendment is approved by the stockholders, the amendment will be effective upon the filing of the amendment with the Delaware Secretary of State, which filing is expected to occur promptly after the 2015 Annual Meeting.

**Purpose and Background for Increase in Authorized Common Stock**

The purpose of the proposed amendment is to increase the number of authorized shares of Common Stock from 230,000,000 to 460,000,000 shares. Of the 230,000,000 currently authorized shares of our Common Stock 179,982,122 were issued and outstanding as of June 15, 2015. After taking into account shares recently sold in our at-the-market offering (described below) and shares reserved, pursuant to the Company's current employee benefits plans and employment arrangements, for the issuance of or adjustments to our currently outstanding warrants and stock options, and other current contractual compensation arrangements, the Company estimates that only approximately 4,655,789 of the 230,000,000 authorized shares of Common Stock remain available for future issuance. In addition, in May 2015, the Company authorized and launched an "at-the-market" offering pursuant to which the Company may, from time to time, issue and sell up to 15 million shares of Common Stock having an aggregate offering price of up to $10,000,000, which is expected to further reduce the number of shares of Common Stock available for future issuance. 3,514,989 shares of Common Stock have been sold under the at-the-market offering as of June 15, 2015.

The Board believes that it is advisable and in the best interests of the Company and its stockholders to increase the number of authorized shares of Common Stock in order to give the Company greater flexibility in considering and planning for a variety of general corporate purposes that may be identified in the future. These corporate purposes include, but are not limited to, future equity financings to fund our working capital needs for the continued implementation of our turn-around strategy or other purposes, potential strategic transactions such as mergers, acquisitions and other business combinations, issuances upon exercise of or adjustments to warrants and stock options, attracting and retaining employees by the issuance of equity under our equity compensation plans, and other general corporate purposes.

Table of Contents

Other than possible issuances pursuant to the at-the-market offering (as described above), pursuant to the Company's current employee benefits plans and employment arrangements, the exercise of or adjustments to our currently outstanding warrants and stock options, and other current contractual compensation arrangements, the Company has no immediate plans, understandings, agreements or commitments to issue additional shares of Common Stock. The Company, however, reviews and evaluates potential opportunities, including financing alternatives, on an ongoing basis to determine if such actions would be in the best interest of the Company and its stockholders. In addition, the Company may need to conduct future equity financings to fund our working capital needs for the continued implementation of our turn-around strategy or other purposes, and the Company is actively considering such options. Absent the proposed amendment, the Company may be required to conduct such future equity financings through direct or indirect sales of its authorized but unissued blank check preferred stock (or fractions thereof) which, among other things, would be senior to the Common Stock. The additional authorized shares of Common Stock would enable the Company to act quickly in response to corporate and capital-raising opportunities (as described above), in most cases without the necessity of holding a special stockholders' meeting and obtaining further stockholder approval before such issuance(s) could proceed, except as provided under Delaware law or NYSE MKT rules.

**Possible Effects of the Amendment**

Upon issuance, the additional shares of authorized Common Stock would have rights identical to the currently outstanding shares of Common Stock. Adoption of the amendment would not have any immediate dilutive effect on the proportionate voting power or other rights of our existing stockholders. As is true for shares presently authorized but unissued, the future issuance of Common Stock authorized by the proposed amendment may, among other things, decrease our existing stockholders' percentage equity ownership and, depending on the price at which they are issued, could be dilutive to our existing stockholders and may have a negative effect on the market price of the Common Stock. Current stockholders have no preemptive or similar rights, which means current stockholders do not have prior rights to purchase any new issue of Common Stock in order to maintain their proportionate equity ownership in the Company.

Although this proposal to increase the authorized number of shares of Common Stock has been prompted by business and financial considerations and not by the threat of any known or threatened hostile takeover attempt, the Company would be able to use the additional shares to oppose a hostile takeover attempt or delay or prevent changes of control or management of the Company.

**Vote Required**

The affirmative vote of a majority of outstanding shares entitled to vote at the Annual Meeting is required for the adoption of this proposal. **Unless instructed to the contrary in the proxy, the shares represented by the proxies will be voted FOR this Proposal 3.**

**The Board of Directors recommends a vote FOR this Proposal 3.**

Table of Contents

**DIRECTORS AND EXECUTIVE OFFICERS**

The directors and executive officers of the Company and their ages and positions with the Company as of June 15, 2015, are as follows:

| Name | Age | Position |
| --- | --- | --- |
| Paula Schneider | 57 | Chief Executive Officer and Director |
| Hassan N. Natha | 55 | Executive Vice President and Chief Financial Officer |
| Martin Bailey | 55 | Chief Manufacturing Officer |
| Chelsea A. Grayson | 43 | Executive Vice President, General Counsel and Secretary |
| Colleen B. Brown | 56 | Director and Chairperson of the Board |
| Jeff Chang | 34 | Director |
| David Glazek | 37 | Director |
| Lyndon Lea | 46 | Director |
| Laura A. Lee | 39 | Director |
| Joseph Magnacca | 52 | Director |
| Allan Mayer | 65 | Director |
| Thomas J. Sullivan | 52 | Director |

**Director Nominees**

The names and certain information concerning each of the Class B Nominees' experience, qualifications, attributes and skills are set forth under "Proposal 1" above.

**Director Vacancies**

There are currently no vacancies on our Board of Directors.

On July 9, 2014, in connection with the Standstill Agreement, five (5) of the seven (7) members of the Board resigned, including Dov Charney (the "Resignations"), effective as of August 2, 2014. In connection with the Standstill Agreement, Allan Mayer and David Danziger were to remain as directors, and each were to continue to serve as Co-Chairman of the Board. Immediately after such resignations, Messrs. Mayer and Danziger were to appoint the following individuals to fill the vacancies on the Board: one individual designated by Standard General to the Company to serve as a Class A director of the Company (the "Class A Designee"), two other individuals designated by Standard General to the Company to serve as Class B directors of the Company (the "Class B Designees" and together with the Class A Designee, the "Standard General Designees") and two other individuals mutually agreed between Standard General and the Company to serve as Class C directors of the Company (together with the Standard General Designees, the "New Board Designees"). On July 31, 2014, in accordance with the Standstill Agreement, the Board amended and restated our Bylaws to fix the size of the Board at nine directors.

On August 2, 2014, immediately following the acceptance of the Resignations, Allan Mayer and David Danziger appointed four (4) individuals to fill the vacancies resulting from the Resignations in accordance with the terms of the Standstill Agreement: David Glazek, designated by Standard General, to serve as a Class A director, Thomas J. Sullivan, designated by Standard General, to serve as a Class B director and Colleen B. Brown and Joseph Magnacca, each mutually agreed between Standard General and the Company, to serve as Class C directors.

On August 8, 2014, the Board appointed Laura A. Lee, designated by Standard General, to serve as a Class B director to fill the remaining vacancy resulting from the Resignations. Pursuant to the terms of the Standstill Agreement, the Company will use its reasonable best efforts to cause the election of the Class B Designees of the Company at the 2015 Annual Meeting of Stockholders.

Table of Contents

On September 15, 2014, the Board appointed Robert Mintz as a Class C director to fill one of the existing vacancies on the Board. Mr. Mintz was a designee of Lion under the Investment Agreement, which currently permits Lion to appoint two directors to the Board.

On December 15, 2014, the Board voted to terminate Dov Charney as CEO for cause in accordance with the terms of his employment agreement. Such decision followed a determination by a special committee of the Board that it was not appropriate for Dov Charney to be reinstated as CEO or serve as an officer or employee of the Company. Mr. Charney's consulting relationship with us, which began at the time of his suspension as CEO, was also terminated on such date. On such date, the Board also appointed Paula Schneider as our CEO, effective as of January 5, 2015.

On December 22, 2014, Allan Mayer and David Danziger, our Co-Chairmen of the Board, stepped down from that position and Colleen B. Brown was appointed as the new Chairperson of the Board.

On January 13, 2015, the Board appointed Lyndon Lea, as a Class B director to fill one of the existing vacancies on the Board. Mr. Lea is a designee of Lion under the Investment Agreement.

On March 6, 2015, Robert Mintz resigned from the Board; on March 24, 2015, the Board elected Jeff Chang, designated by Lion, to fill that vacancy as a Class C director.

On June 14, 2015, David Danziger provided his resignation to the Company as a member of the Board, effective immediately. On June 14, 2015, following the acceptance of Mr. Danziger's resignation, the Company's remaining directors appointed Paula Schneider, our CEO, to fill the vacancy resulting from Mr. Danziger's resignation as a Class A director.

**Directors Continuing in Office**

The names and certain information regarding each continuing director's experience, qualifications, attributes and skills are set forth below.

*Class A Directors (Terms Expire at the 2017 Annual Meeting of Stockholders)*

**David Glazek** was appointed to Board on August 2, 2014 and serves as a member of the Compensation and Nominating and Governance Committees of the Board. Mr. Glazek joined Standard General in 2008 and has been a Partner since 2012. Mr. Glazek currently serves as a director of North Atlantic Holding Company, Inc., a Manager of Standard Carbon LLC, and a board observer of Upstate Power Producers, Inc. Prior to joining Standard General, Mr. Glazek held investment banking positions at Lazard Freres & Co. LLC, where he focused on mergers and acquisitions and corporate restructurings. Mr. Glazek also worked at Blackstone Group LP. Mr. Glazek holds a J.D. from Columbia Law School and a B.A. from the University of Michigan. Mr. Glazek has broad experience in investment research and analysis as well as experience addressing operational, transactional, and financing needs of companies, including Standard General investment portfolio companies.

**Allan Mayer** was elected a director of the Board on December 12, 2007 and serves as Chair of the Compensation Committee and as a member of the Nominating and Governance Committee of the Board. Since October 2006, he has been a principal partner, member of the management committee, and head of the Strategic Communications Division of 42West LLC, a leading public relations firm. Previously, from 1997 until October 2006, Mr. Mayer was managing director and head of the entertainment practice at the crisis communications firm Sitrick and Company. Mr. Mayer began his professional life as a journalist, working as a staff reporter for *The Wall Street Journal*; a writer, foreign correspondent and senior editor for *Newsweek*, and the founding editor (and later publisher) of *Buzz* magazine. He also served as editorial director of Arbor House Publishing Co. and senior editor of Simon & Schuster. Mr. Mayer has authored two books *Madam Prime Minister: Margaret Thatcher and Her Rise to Power* (Newsweek Books, 1980) and *Gaston's War* (Presidio Press, 1987) and is co-author, with Michael S. Sitrick, of *Spin: How To Turn The Power of the Press to Your Advantage* (Regnery, 1998).

Table of Contents

In addition, he has written for a wide variety of national publications, ranging from *The New York Times Magazine* to *Vogue*. Mr. Mayer is a recipient of numerous professional honors, including the National Magazine Award, the Overseas Press Club Citation of Excellence, and six William Allen White Awards. Mr. Mayer serves on the board of directors of Film Independent and has lectured on crisis management and communications at UCLA's Anderson School of Business and USC's Annenberg School of Communication. Mr. Mayer received his B.A. from Cornell University.

**Paula Schneider** joined American Apparel as CEO on January 5, 2015. Prior to joining us, Ms. Schneider served as President and Chief Operating Officer of ESP Group, Ltd. from 2013 to 2014, CEO of Big Strike LLC from 2010 to 2012, Senior Advisor to the Gores Group from 2010 to 2012, and President of Warnaco Swimwear Group from 2007 to 2010. Ms. Schneider has also previously served as President of Sales of BCBG Max Azria and as President of Laundry by Shelli Segal. Ms. Schneider has a B.A. in Costume Design and Theater from California State University, Chico. Ms. Schneider's leadership experience and extensive track record in design, merchandising, sales, manufacturing, finance, licensing and human resources, combined with the leadership skills and experiences of the other Board members, provides us with the perspectives and judgment necessary to guide our strategy and monitor its execution.

*Class C Directors (Terms Expire at the 2016 Annual Meeting of Stockholders)*

**Colleen B. Brown** was appointed to the Board on August 2, 2014 and became Chairperson of the Board on December 22, 2014. Ms. Brown currently serves as a member of the Audit and Nominating and Corporate Governance Committees of the Board. Ms. Brown has served as a director of TrueBlue, Inc. since July 2014 and a Managing Director of Newport Board Group since March 2014 where she advises major institutions and institutional investors on corporate governance issues. In addition, she currently serves as a director of DataSphere Technologies, Inc. and of Port Blakely Companies. Prior to joining TrueBlue, Inc., Ms. Brown served as President and CEO of Fisher Communications, Inc. from 2005 to 2013 and as a director of Fisher Communications, Inc. from 2006 to 2013. From 2000 to 2004, she served as Senior Vice President of Belo Corporation. Earlier in Ms. Brown's career, she was President of the Television Division of Lee Enterprises from 1998 to 2000 and was President and General Manager of various companies at Gannett Co. Inc., a multinational media company, from 1980 to 1998. She also served on the board of Career Builder from 2000 to 2004 and on the board of Classified Ventures from 2000 to 2004. Ms. Brown holds a B.S. from the University of Dubuque and M.B.A. from the University of Colorado. Ms. Brown has extensive management, operations and business experience, as well as proven experience serving on the boards of public companies.

**Jeff Chang** was appointed to the Board on March 24, 2015 as a designee of Lion under the Investment Agreement. Mr. Chang has been a Director of Lion Capital since 2013 and joined Lion Capital in 2008. Prior to joining Lion Capital, Mr Chang was employed by AEA Investors in New York where he focused on industrial and consumer investments. Prior to this, Mr. Chang worked with Bain & Company in San Francisco and Dresdner Kleinwort Wasserstein, in their Technology M&A Group, also in San Francisco. Jeff holds a B.S. from the University of California, Berkeley.

**Joseph Magnacca** was appointed to the Board of Directors on August 2, 2014 and serves as a member of the Compensation Committee of the Board. Mr. Magnacca served as a director and CEO of RadioShack from February 2013 to May 2015. Prior to joining RadioShack, he served as President of Daily Living Products and Solutions of Walgreen Co. from 2011 to 2013. Mr. Magnacca also led the Walgreens Retail acquisition team, which acquired Alliance Boots in 2012. From July 2010 to March 2011, he served as President of Duane Reade Holdings, Inc., and from 2008 to 2010, he served as Senior Vice President and Chief Merchandising Officer of Duane Reade Holdings, Inc. Beginning in 2001 and until 2008, Mr. Magnacca held the position of Executive Vice President of Shoppers Drug

Mart Corporation. Mr. Magnacca has extensive marketing and merchandising experience as well as leadership and business skills.

**Non-Director Executive Officers**

**Hassan N. Natha** joined American Apparel as Executive Vice President and Chief Financial Officer ("CFO") on September 29, 2014. Mr. Natha has more than 20 years of experience in finance with both public and private companies, including service as Chief Financial Officer at Fisher Communications, Inc. and Jones Soda Company. He also spent ten years at Nike's Bauer Nike Hockey, Inc. in various finance and executive operations roles. Mr. Natha is a Certified Public Accountant and a Canadian Chartered Professional Accountant. He received a bachelor's degree in Commerce from Concordia University and holds a Graduate Diploma of Public Accountancy from McGill University.

**Martin Bailey** has been our Chief Manufacturing Officer since 2002 overseeing our textile and apparel production and the planning, purchasing, sourcing, product development, quality-assurance and distribution departments, as well as nonrelated support departments. Mr. Bailey has been in the apparel industry for over 30 years and brings a wealth of industry experience. He has managed manufacturing services and operations for companies such as Fruit of the Loom and Alstyle Apparel and has earned a reputation in the apparel industry for his ability to implement cost-effective programs and streamline and organize production growth. Mr. Bailey graduated from Campbellsville College with a B.S. in Business Administration.

**Chelsea A. Grayson** joined American Apparel as Executive Vice President, General Counsel and Secretary on December 15, 2014. Ms. Grayson has more than 15 years of experience in private practice as a corporate attorney with the law firms of Jones Day and Loeb & Loeb LLP, where she was a partner in the corporate groups of both firms. Her experience includes private placements of equity and debt securities for public and private companies, joint ventures and strategic alliances, and mergers and acquisitions for clients in a variety of industries, including retail. Ms. Grayson, a Los Angeles native, is a member of the State Bar of California and received a B.A. from the University of California, Los Angeles and a J.D. from Loyola Law School.

Table of Contents

## CORPORATE GOVERNANCE AND BOARD MATTERS

**Background of American Apparel, Inc.**

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

**Director Independence**

The Board is currently composed of nine directors, six of whom qualify as independent directors as defined under the applicable listing standards of the NYSE MKT (each an "Independent Director"). Each of Ms. Brown, Mr. Glazek, Ms. Lee, Mr. Magnacca, Mr. Mayer and Mr. Sullivan qualifies as an Independent Director.

In establishing independence, the Board affirmatively determines that each director or nominee does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In addition, the Board has determined as provided in the NYSE MKT rules that the following categories of persons would not be considered independent: (1) a director who is, or during the past three years was, employed by us, other than prior employment as an interim executive officer (provided the interim employment did not last longer than one year); (2) a director who accepted or has an immediate family member who accepted any compensation from us in excess of $120,000 during any period of twelve consecutive months within the three years preceding the determination of independence (unless such compensation falls under exceptions provided for under the NYSE MKT rules); (3) a director who is an immediate family member of an individual who is, or at any time during the past three years was, employed by us as an executive officer; (4) a director who is an executive officer, partner or a controlling stockholder, or has an immediate family member who is an executive officer, partner or a controlling stockholder, of an organization to which we made, or from which we received, payments (other than those arising solely from investments in our securities or payments under non-discretionary charitable contribution matching programs) which, in any of the past three fiscal years, exceeds or exceeded the greater of $200,000, or 5% of the other organization's consolidated gross revenues; (5) a director who is, or has an immediate family member who is, employed as an executive officer of another entity where at any time during the most recent three fiscal years any of our executive officers serve on the compensation committee of such other entity; and (6) a director who is, or has an immediate family member who is, a current partner of our outside auditor, or was a partner or employee of our outside auditor who worked on our audit at any time during any of the past three years.

Applying these standards, the Board determined that six directors qualify as Independent Directors. In making this determination with respect to Thomas Sullivan, the Nominating and Corporate Governance Committee considered that Mr. Sullivan serves as a member of the board of directors of Media General, and that Soohyung Kim, Chief Executive Officer of Standard General, also serves as a member of the board of directors of Media General. In making this determination with respect to Joseph Magnacca, the Nominating and Corporate Governance Committee considered that Mr. Magnacca served as Chief Executive Officer of RadioShack, and that Standard General is the beneficial owner of approximately 9.8% of the outstanding common stock of RadioShack. In making this determination with respect to David Glazek, the Nominating and Corporate Governance Committee considered that Mr. Glazek is a partner of Standard General.

Table of Contents

**Board Leadership Structure and Role in Risk Oversight**

As discussed more fully above, on June 18, 2014, the Board voted to replace Dov Charney as Chairman of the Board and appointed Allan Mayer and David Danziger as Co-Chairmen of the Board.

On December 22, 2014, Allan Mayer and David Danziger, our Co-Chairmen of the Board, stepped down from that position and Colleen B. Brown was appointed as the new Chairperson of the Board. Accordingly, during 2014, we transitioned to a Board leadership structure that fully separates the positions of Chairman and CEO. In addition, the terms of the Standstill Agreement require that we separate the positions of Chairman and CEO. By having different individuals serve in these capacities, we believe that our leadership structure will provide additional objective and thoughtful oversight by the Board and enable our CEO to focus on our operations. This provision survives for as long as any Standard General Designee is a member of the Board. The CEO is responsible for risk management associated with our day-to-day operations, and the Board, as a whole and through its committees, is responsible for overseeing our overall risk management. In this oversight role, the Board must ensure that the risk management processes designed and implemented by management are adequate and functioning as designed. We believe that our new leadership structure enables the Board to perform this role effectively. The Board will continue to consider from time to time the optimal leadership structure for us based on what the Board believes is best for us and our stockholders.

**Committee Composition**

The Board presently has the following three committees: (1) an Audit Committee, (2) a Compensation Committee and (3) a Nominating and Corporate Governance Committee. Committee membership during the last fiscal year and the functions of each of the committees are described below. Each of the committees operates under a written charter adopted by the Board. All of the committee charters are available on our website at *www.americanapparel.net/aboutus/investorrelations*.

The Board held twenty-one meetings during fiscal year 2014. The Audit Committee met nine times; the Compensation Committee met seven times and the Nominating and Corporate Governance Committee met nine times. Pursuant to the Standstill Agreement, the Suitability Committee was established for the purposes of overseeing the investigation into Mr. Charney's alleged misconduct and determining whether it is appropriate for Mr. Charney to be reinstated as the CEO or serve as an officer or employee of the Company or any of its subsidiaries. The Suitability Committee met twenty-seven times and was dissolved at the conclusion of the investigation in December 2014. Other than Mr. Chehebar, each director attended, in person or telephonically, at least 75% in the aggregate of (i) the total number of meetings of the Board held during 2014 and (ii) the total number of meetings held by all committees of the Board on which he served during 2014. In addition, all of our then directors (other than Mr. Chehebar) attended our 2014 Annual Meeting in person or telephonically. We expect our directors to attend annual meetings of stockholders and all Board meetings and respective committee meetings and to spend the time needed and to meet as frequently as necessary to properly discharge their responsibilities.

Table of Contents

***Current Directors:***

| Name of Directors | Audit Committee | Compensation Committee | Nominating and Corporate Governance Committee |
|---|---|---|---|
| ***Independent Directors:*** | | | |
| Colleen B. Brown | X | | X |
| David Glazek | | X | X |
| Laura A. Lee | | | X |
| Joseph Magnacca | | X | |
| Allan Mayer | | X* | X |
| Thomas J. Sullivan | X | | X* |
| ***Other Directors:*** | | | |
| Jeff Chang | | | |
| Lyndon Lea | | | |
| Paula Schneider | | | |

X = Committee Member; * = Committee Chair

**Audit Committee**

The current members of the Audit Committee are Ms. Brown and Mr. Sullivan. The Board has determined that each member of this Committee is an Independent Director. The Company intends to fill the vacancy in the Audit Committee caused by the resignation of David Danziger prior to the date of the Annual Meeting.

The Audit Committee's purpose is to provide assistance to the Board in fulfilling its legal and fiduciary obligations with respect to matters involving our accounting, auditing, financial reporting, internal control and legal compliance functions. The Audit Committee oversees the audit efforts of our independent accountants and internal auditors and, in that regard, takes such actions as it may deem necessary to satisfy itself that our auditors are independent of management. It is the objective of the Audit Committee to maintain free and open means of communications among the Board, the independent accountants, the internal auditors and our financial and senior management.

Among other things, the Audit Committee prepares the Audit Committee report for inclusion in the annual proxy statement; annually reviews the Audit Committee Charter and the Audit Committee's performance; appoints, evaluates and determines the compensation of our independent auditors; reviews and approves the scope of the annual audit, the audit fees and the financial statements; reviews our disclosure controls and procedures, internal controls, information security policies, internal audit function, and corporate policies with respect to financial information and earnings guidance; oversees investigations into complaints concerning financial matters; and reviews other risks that may have a significant impact on our financial statements. The Audit Committee has the authority to obtain advice and assistance from, and receive appropriate funding from us for, outside legal, accounting and other advisors as the Audit Committee deems necessary to carry out its duties.

The Audit Committee is a separately-designated standing committee, established in accordance with section 3(a)(58)(A) of the Exchange Act (15 U.S.C. 78(c)(58)(A)). The Audit Committee at all times is required to be composed exclusively of at least three "independent directors" who are "financially literate" as defined under NYSE MKT listing standards. NYSE MKT listing standards define "financially literate" as being able to read and understand fundamental financial statements, including a company's balance sheet, income statement and statement of cash flows. The Audit Committee is currently composed of two financially literate Independent Directors: Ms. Brown and Mr. Sullivan. In addition, Ms. Brown and Mr. Sullivan qualify to serve as the "financial expert" according to the requirements of SEC Regulation S-K Items 407(d)(5)(ii) and 407(d)(5)(iii).

Table of Contents

A copy of the current Audit Committee Charter is available on our website at *www.americanapparel.net/aboutus/investorrelations*.

**Compensation Committee**

The current members of the Compensation Committee are Messrs. Glazek, Mayer and Magnacca, with Mr. Mayer as Chairman. The Board has determined that each member of this Committee is an Independent Director.

The Compensation Committee is responsible for overseeing our compensation and employee benefit plans and practices, including the executive compensation plans and the incentive-compensation and equity-based plans. The Compensation Committee reviews and approves our general compensation policies, oversees the administration of all of our compensation and benefit plans, reviews and approves compensation of our executive officers, prepares the Compensation Committee Report to be filed with the SEC and recommends compensation policies to the Board. For more information, see "Processes and Procedures for Determination of Executive and Director Compensation" below and the current copy of the Compensation Committee Charter, which is available on our website at *www.americanapparel.net/aboutus/investorrelations*.

**Nominating and Corporate Governance Committee**

The current members of the Nominating and Corporate Governance Committee are Mses. Brown and Lee and Messrs. Glazek, Mayer and Sullivan, with Mr. Sullivan as Chairman. The Board has determined that each member of this committee is an Independent Director.

The Nominating and Corporate Governance Committee assists the Board in identifying and recommending individuals qualified to serve as directors. Subject to Lion's right to designate up to two persons to the Board pursuant to the Investment Agreement, consistent with criteria approved by the Board (as described below under "Consideration of Director Nominees"), the Nominating and Corporate Governance Committee will select, or recommend that the Board select, the director nominees required for each subsequent annual meeting of stockholders. The Nominating and Corporate Governance Committee will consider persons identified by its members, management, stockholders and others as nominees.

The guidelines for selecting nominees, which are specified in the Nominating and Corporate Governance Committee's current charter, generally provide that persons to be nominated should be evaluated with respect to their experience, skills, expertise, diversity, personal and professional integrity, character, business judgment, time availability in light of other commitments, dedication, conflicts of interest and such other relevant factors that the Nominating and Corporate Governance Committee considers appropriate in the context of the needs of the Board. Additionally, the guidelines provide that the Nominating and Corporate Governance Committee should consider whether candidates are independent pursuant to NYSE MKT requirements; accomplished in their fields and maintain a reputation, both personal and professional, consistent with our image and reputation; able to read and understand financial statements; knowledgeable as to our company and the issues affecting us; committed to enhancing stockholder value; able to understand fully the legal responsibilities of a director and the governance processes of a public company; able to develop a good working relationship with other Board members and senior management; and able to suggest business opportunities to us. The Nominating and Corporate Governance Committee will evaluate each individual in the context of the Board as a whole, with the objective of recommending a group of persons that reflects the appropriate balance of knowledge, experience, skills, expertise and diversity and includes at least the minimum number of independent directors required by the NYSE MKT. The Nominating and Corporate Governance Committee will not distinguish among nominees recommended by stockholders and nominees recommended by other persons.

In addition to the responsibilities described above, the Nominating and Corporate Governance Committee currently develops and recommends to the Board a set of corporate governance principles

Table of Contents

for us, oversees the evaluation of our management and the Board, and makes recommendations to the Board regarding the size and composition of committees of the Board, including identifying individuals qualified to serve as members of each committee. A copy of the current Nominating and Corporate Governance Committee Charter is available on our website at *www.americanapparel.net/aboutus/investorrelations*.

**Consideration of Director Nominees**

*Stockholder Nominees*

Our stockholders may make recommendations to the Nominating and Corporate Governance Committee of candidates for nomination as our directors or may nominate a person directly for election to the Board, in each case subject to compliance with the procedures described below and further set forth in the charter of the Nominating and Corporate Governance Committee and in the Bylaws, as the case may be.

However, pursuant to the Investment Agreement (described under "Certain Relationships and Related Transactions" herein), Lion currently has the right to designate up to two persons to the Board of Directors and a board observer, subject to maintaining certain minimum ownership thresholds of shares issuable under the "Lion Warrants" described under "Certain Relationships and Related Transactions" herein. Pursuant to the 2009 Investment Voting Agreement (described under "Certain Relationships and Related Transactions" herein), for so long as Lion has the right to designate any person or persons to the Board of Directors, Mr. Charney has agreed to vote his shares of Common Stock in favor of Lion's designees, subject to maintaining a certain minimum ownership threshold, and Lion has agreed to vote its shares of Common Stock in favor of Mr. Charney, subject to termination upon the occurrence of certain events.

Lion designated Messrs. Lea and Chang to the Board in 2014 and 2015, respectively, in accordance with the terms of the Investment Agreement. In addition, under the terms of the Standstill Agreement, the Company has agreed to use its reasonable best efforts to cause the election of Ms. Lee and Mr. Sullivan to the Board of Directors at the 2015 Annual Meeting.

*Stockholder Recommendations of Nominees.* The policy of the Nominating and Corporate Governance Committee is to consider properly submitted stockholder recommendations of candidates for election to the Board as described below under "Identifying and Evaluating Nominees for Directors." The Nominating and Corporate Governance Committee will evaluate a prospective nominee recommended by any stockholder in the same manner and against the same criteria as any other prospective nominee identified by the Nominating and Corporate Governance Committee from any other source.

In evaluating recommendations from stockholders, the Nominating and Corporate Governance Committee will seek to achieve a balance of knowledge, experience and capability on the Board and to address the membership criteria set forth under "Director Qualifications" below.

A stockholder recommendation of a candidate for election to the Board must be in writing and must be received by us not later than 30 days after the end of our fiscal year. The recommendation must contain the following information and documentation:

- the candidate's name, age, business and current resident addresses, as well as residence address for the past 20 years, principal occupation or employment and employment history (name and address of employer and job title) for the past 10 years and educational background;
- the candidate's permission for us to conduct a background investigation;
- the number of shares of our Common Stock beneficially owned by the candidate;

the information that would be required to be disclosed about the candidate under the rules of the Exchange Act in a proxy statement soliciting proxies for the election of such candidate as a director; and

a signed consent of the candidate to serve as our director, if elected.

Stockholder recommendations for candidates for membership on the Board should be addressed to:

American Apparel, Inc.
Attention: Nominating and Corporate Governance Committee
747 Warehouse Street
Los Angeles, California 90021

*Stockholder Nominations of Directors.* A stockholder that instead desires to nominate a person directly for election to the Board at an annual meeting of stockholders must comply with the advance notice procedures of the Bylaws and attend the annual meeting of stockholders to make the necessary motion. Nominations of persons for election to the Board at a meeting of stockholders may be made at such meeting by any stockholder of the Company entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in the Bylaws and described below.

Such nominations by any stockholder must be made pursuant to timely notice in writing to our Secretary. To be timely, a stockholder's notice must be delivered to or mailed and received at our principal executive offices not less than 60 days nor more than 90 days prior to the meeting. In the event that less than 70 days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder, to be timely, must be received no later than the close of business on the tenth day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made, whichever first occurs.

Such stockholder's notice to the Secretary must set forth:

as to each person whom the stockholder proposes to nominate for election or reelection as a director, (a) the name, age, business address and residence address of the person, (b) the principal occupation or employment of the person, (c) the class and number of shares of our capital stock which are beneficially owned by the person, and (d) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to the rules and regulations of the SEC under Section 14 of the Exchange Act; and

as to the stockholder giving the notice (a) the name and record address of the stockholder and (b) the class and number of shares of our capital stock which are beneficially owned by the stockholder.

We may require any proposed nominee to furnish such other information as may reasonably be required by us to determine the eligibility of such proposed nominee to serve as our director. No person nominated by a stockholder will be eligible for election as our director unless nominated in accordance with the procedures set forth above. Our officer presiding at an annual meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he or she should so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

*Director Qualifications*

The Nominating and Corporate Governance Committee has the responsibility to review the background and qualifications of individuals being considered as director candidates, including developing criteria and qualifications for membership on the Board. Among the qualifications considered in the selection of candidates, the Nominating and Corporate Governance Committee shall consider each candidate's experience, skills, expertise, diversity, personal and professional integrity, character, business judgment, time availability in light of other commitments, dedication, conflicts of interest and such other relevant factors that the Nominating and Corporate Governance Committee considers appropriate in the context of the needs of the Board.

Table of Contents

Additionally, the Nominating and Corporate Governance Committee considers whether the candidate is:

- independent pursuant to NYSE MKT requirements;
- accomplished in his or her field and maintained a reputation, both personal and professional, consistent with the image and our reputation;
- able to read and understand financial statements (the Nominating and Corporate Governance Committee will also determine if a candidate qualifies as an "audit committee financial expert," as defined by the SEC);
- knowledgeable as to us and issues affecting us;
- committed to enhancing stockholder value;
- able to understand fully the legal responsibilities of a director and the governance processes of a public company;
- able to develop a good working relationship with other Board members and senior management; and
- able to suggest business opportunities to the Company.

*Identifying and Evaluating Nominees for Directors*

The Nominating and Corporate Governance Committee annually reviews the composition of the Board and reviews the suitability for continued service as a director of each Board member when his or her term expires and when he or she has a change in status, including but not limited to an employment change, and to recommend whether or not the director should be re-nominated. The Nominating and Corporate Governance Committee also recommends to the Board the nominees, consistent with the criteria for selecting directors established by the Board or the Nominating and Corporate Governance Committee, for election as directors by the stockholders or appointment by the Board, as the case may be, pursuant to our Bylaws.

**Executive Sessions**

Executive sessions of non-management directors are expected to be held on a regular basis. Any non-management director can request that an additional executive session be scheduled.

**Communications with the Board**

You may communicate with the Board by submitting an e-mail to the Board at *bod@americanapparel.net*. All directors have access to this e-mail address.

**Governance Guidelines and Committee Charters**

The Company's Governance Guidelines, which satisfy NYSE MKT listing standards for "corporate governance guidelines," as well as the charters for each of the committees of the Board, are available at *www.americanapparel.net/aboutus/investorrelations/*. Stockholders may request a copy of the Company's Governance Guidelines or the charter of any of the committees of the Board, at no cost, by writing to us at the following address: American Apparel, Inc., Attn: General Counsel, 747 Warehouse Street, Los Angeles, California 90021.

**Code of Business Conduct and Ethics**

On December 19, 2014, as part of the review by the Board of our corporate governance and policies, the Board adopted a revised Code of Business Conduct and Ethics ("Revised Code") that amended, restated, and replaced the prior Code of Ethics ("Prior Code") applicable to us, effective as of January 1, 2015. The Revised Code applies to all directors, employees and officers, including our principal executive officer, principal financial officer and principal accounting officer or controller, or

Table of Contents

persons performing similar functions. The Revised Code is intended to clarify, update or enhance the descriptions of the standards of conduct that are expected of all of our directors, officers and employees.

The Revised Code is also published on our website at *www.americanapparel.net/aboutus/investorrelations/corporategovernance*. In addition, stockholders may request a copy of the Revised Code free of charge by contacting our investor relations department at investors@americanapparel.net.

**Indemnification of Directors**

The General Corporation Law of the State of Delaware provides that a company may indemnify its directors and officers as to certain liabilities. Our Certificate of Incorporation and Bylaws provide for the indemnification of our directors and officers to the fullest extent permitted by law, and we have entered into separate indemnification agreements with certain directors and officers to effectuate these provisions and have purchased directors' and officers' liability insurance. The effect of such provisions is to indemnify, to the fullest extent permitted by law, our directors and officers against all costs, expenses and liabilities incurred by them in connection with any action, suit or proceeding in which they are involved by reason of their affiliation with us.

Table of Contents

**PROCESSES AND PROCEDURES FOR DETERMINATION OF EXECUTIVE AND DIRECTOR COMPENSATION**

The Compensation Committee of the Board is responsible for overseeing our compensation and employee benefit plans and practices. The Compensation Committee reviews and approves, either as a committee or together with the other independent directors, our general compensation policies, oversees the administration of all of our compensation and benefit plans and reviews and approves, either as a committee or together with the other independent directors, the compensation of our executive officers. The Compensation Committee Charter requires that each member of the committee satisfy all applicable requirements then in effect of the NYSE MKT and any other stock exchange or national securities association on which our securities are listed or quoted and any other applicable regulatory requirement relating to director independence, nomination and size of the Compensation Committee and that the Compensation Committee consist of no fewer than two Board members who qualify as "non-employee directors" within the meaning of Rule 16b-3 under the Exchange Act and "outside directors" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended. The Compensation Committee consists of three Board members, each of whom the Board has affirmatively determined satisfied these independence requirements.

The Compensation Committee Charter sets forth the purpose of and other matters pertaining to the Compensation Committee. The form of the current Compensation Committee Charter is available on the Company's website at *www.americanapparel.net/aboutus/investorrelations*.

Pursuant to its Charter, the Compensation Committee's responsibilities include the following::

- review and approve, either as a committee or together with the other independent directors, the corporate goals and objectives relevant to the compensation of our CEO and other executive officers;
- evaluate, either as a committee or together with the other independent directors, our CFO's performance in light of such goals and objectives;
- set, either as a committee or together with the other independent directors, our executive officers' compensation levels, including base salary, annual incentive opportunities, long-term incentive opportunities and benefits;
- review and approve, either as a committee or together with the other independent directors, any employment contracts or related agreements, such as severance or termination arrangements, to be made with any of our executive officers;
- review and recommend to the Board appropriate director compensation programs and, either as a committee or together with the other independent directors, review and approve perquisites or other personal benefits to directors and recommend any changes to the Board;
- review its own performance and assess the adequacy of its Charter;
- review and approve the goals and objectives of and the plans underlying our general compensation and other employee benefit programs, including incentive-compensation and equity-based programs;
- retain (after taking into consideration all factors relevant to that person's independence from management) and terminate any compensation consultant used to assist in the evaluation of officer compensation, including to approve the consultant's fees and other retention terms;
- review and discuss with management our Compensation Discussion and Analysis to be included in our annual proxy statement;

review and recommend for approval by the Board, or approve, the frequency with which we should submit to the stockholders an advisory vote on the compensation of our named executive officers, taking into account any prior stockholder advisory vote on the frequency with which we shall hold a stockholder advisory vote on compensation of our named executive officers;

Table of Contents

- review the results of any stockholder advisory vote on the compensation of our named executive officers and consider whether to make any adjustments to our executive compensation policies and practices; and

- produce a report of the Compensation Committee to be included in our annual proxy statement.

Table of Contents

**COMPENSATION OF DIRECTORS**

Compensation for non-employee directors will consist of annual stock grants and Board and Committee meeting fees, as described below. Employees who are also directors will receive no additional compensation for their Board service.

**DIRECTOR COMPENSATION FISCAL 2014**

During 2014, our non-employee directors received a total of $1,026,312 in Board and Committee retainers and meeting fees, for their participation in Board, Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee meetings held during 2014.

Pursuant to the Amended and Restated 2011 Omnibus Stock Incentive Plan ("2011 Plan"), our non-employee directors each received the cash payments and fully vested stock grants as described below for their Board service.

Each non-employee director is eligible to receive compensation for their service totaling $80,000, to be paid in four equal installments quarterly in arrears, for service by such director during such quarter, on each of March 31, June 30, September 30, and December 31 (or if such day is not a business day, on the next succeeding business day) (each, a "Quarterly Award Date"), payable, at the option of each director individually, either (i) entirely in shares of our Common Stock or (ii) half in our Common Stock and half in cash at the time of such grant. For fiscal 2014, any such grants of stock will be of that number of shares, rounded down to the nearest whole share, having an aggregate value equal to the value of the award (either $10,000 or $20,000) based on a per-share price equal to the greater of (x) the average of the high and low sale prices of our Common Stock on the NYSE MKT on the Quarterly Award Date (or the next business day if such date is not a business day) and (y) the last sale price of our Common Stock on the Quarterly Award Date (or the next business day if such date is not a business day).

The table below presents the compensation provided by us to all non-employee directors for the fiscal year ended December 31, 2014:

| | Fees Earned or Paid in Cash ($) | Stock Awards ($)(1) | Option Awards ($) | Change in Pension Value and Nonqualified Delivered Compensation Earnings ($) | Non-Equity Incentive Plan Compensation ($) | All Other Compensation ($) | Total ($) |
|---|---|---|---|---|---|---|---|
| *Independent Non-Employee Directors* | | | | | | | |
| Colleen B. Brown | 70,970 | 16,522 | | | | | 87,492 |
| Alberto Chehebar | 25,333 | 23,333 | | | | | 48,666 |
| David Danziger(2) | 196,739 | 40,000 | | | | | 236,739 |
| David Glazek(3) | | | | | | | |
| Robert Greene | 81,208 | 23,333 | | | | | 104,541 |
| Marvin Igelman | 46,333 | 23,333 | | | | | 69,666 |
| Lyndon Lea(4) | | | | | | | |
| Laura A. Lee | 30,870 | 15,869 | | | | | 46,739 |
| Joseph Magnacca | 31,521 | 16,522 | | | | | 48,043 |
| William Mauer | 54,333 | 23,333 | | | | | 77,666 |
| Allan Mayer(2) | 183,239 | 40,000 | | | | | 223,239 |
| Robert Mintz(4) | 3,000 | 3,478 | | | | | 6,478 |
| Thomas J. Sullivan | 44,000 | 33,043 | | | | | 77,043 |
| *All Non-Employee Directors* | 767,546 | 258,766 | | | | | 1,026,312 |

(1) Represents the aggregate grant date fair value.

Table of Contents

(2) Fees earned for Messrs. Danziger and Mayer include $50,000 each for their appointment as Co-Chairmen of the Board on June 18, 2014.

(3) Mr. Glazek declined compensation.

(4) On March 13, 2009, we entered into the Investment Agreement with Lion pursuant to which Mr. Lea and Mr. Mintz, designees of Lion, are ineligible for compensation. We have requested the return of shares and cash compensation inadvertently issued and paid, respectively, to Mr. Mintz and as of June 15, 2015, we have not yet received such shares or cash repayment.

**Annual Stock Awards and Meeting Fees**

ceeff;padding-left:2px;padding-top:2px;padding-bottom:2px;border-top:1px solid #000000;">

(110
)
50,929

Stock-based compensation expense
—

—

8,226

—

—

—

8,226

—

8,226

Issuance of shares under share award plans, net of shares withheld for taxes
142,106

1

(3,706
)
—

—

—

(3,705
)
—

(3,705
)
Tax benefit from share award plans
—

—

3,241

—

—

—

3,241

—

3,241

Dividends
—

—

—

(30,141
)
—

—

(30,141
)
—

(30,141
)
Contributions from noncontrolling interests, net
—

—

—

—

—

—

—

112

112

Balance, January 31, 2015
41,294,906

$
413

$
620,083

$
422,845

$
(193,192
)
$
(646
)
$
849,503

$
13,959

$
863,462

Balance, July 31, 2015
41,462,941

$
415

$
623,510

$
440,748

$
(193,192
)
$
(4,913
)
$
866,568

$
14,018

$
880,586

Comprehensive income (loss):

Net income (loss)
—

—

—

57,395

—

—

57,395

(194
)
57,201

Foreign currency translation adjustments, net of tax
—

—

—

—

—

(2,794
)
(2,794
)
—

(2,794
)
Total comprehensive income (loss)

54,601

(194
)
54,407

Stock-based compensation expense
—

—

8,390

—

—

—

8,390

—

8,390

Issuance of shares under share award plans, net of shares withheld for taxes
115,078

1

(7,287
)
—

—

—

(7,286
)
—

(7,286
)
Tax benefit from share award plans
—

—

3,555

—

—

—

3,555

—

3,555

Repurchases of common stock (Note 11)
—

—

—

—

(40,000
)
—

(40,000
)
—

(40,000
)
Dividends
—

—

—

(45,221
)
—

—

(45,221
)
—

(45,221
)
Contributions from noncontrolling interests, net
—

—

—

—

—

—

—

91

91

Balance, January 31, 2016
41,578,019

$
416

$
628,168

$
452,922

$
(233,192
)
$
(7,707
)
$
840,607

$
13,915

$
854,522

The accompanying Notes are an integral part of these consolidated condensed financial statements.

5

Vail Resorts, Inc.
Consolidated Condensed Statements of Cash Flows
(In thousands)
(Unaudited)

| | Six Months Ended January 31, | |
|---|---|---|
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Net income | $57,201 | $51,376 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 79,241 | 73,345 |
| Cost of real estate sales | 9,444 | 12,620 |
| Stock-based compensation expense | 8,390 | 8,226 |
| Deferred income taxes, net | 35,937 | 24,321 |
| Change in fair value of Contingent Consideration | — | (4,550) |
| Gain on litigation settlement | — | (16,400) |
| Park City litigation settlement payment | — | (10,000) |
| Other non-cash income, net | (2,134) | (2,577) |
| Changes in assets and liabilities: | | |
| Restricted cash | 6,894 | 311 |
| Trade receivables, net | 27,696 | 28,742 |
| Inventories, net | (5,263) | (5,358) |
| Accounts payable and accrued liabilities | 111,778 | 129,655 |
| Other assets and liabilities, net | (19,716) | (15,526) |
| Net cash provided by operating activities | 309,468 | 274,185 |
| Cash flows from investing activities: | | |
| Capital expenditures | (77,237) | (74,020) |
| Acquisition of businesses | (20,245) | (182,500) |
| Other investing activities, net | 3,961 | 704 |
| Net cash used in investing activities | (93,521) | (255,816) |
| Cash flows from financing activities: | | |
| Proceeds from borrowings under Credit Facility Revolver | 105,000 | 243,000 |
| Payments on Credit Facility Revolver | (225,500) | (243,000) |
| Payments on Credit Facility Term Loan | (3,125) | — |
| Payments of other long-term debt | (257) | (536) |
| Dividends paid | (45,221) | (30,141) |
| Repurchases of common stock | (40,000) | — |
| Other financing activities, net | 3,925 | 4,593 |
| Net cash used in financing activities | (205,178) | (26,084) |
| Effect of exchange rate changes on cash and cash equivalents | (860) | (113) |
| Net increase (decrease) in cash and cash equivalents | 9,909 | (7,828) |
| Cash and cash equivalents: | | |
| Beginning of period | 35,459 | 44,406 |
| End of period | $45,368 | $36,578 |
| | | |
| Non-cash investing and financing activities: | | |
| Accrued capital expenditures | $4,425 | $4,016 |
| Capital expenditures under long-term financing | $— | $7,037 |

The accompanying Notes are an integral part of these consolidated condensed financial statements.

Vail Resorts, Inc.
Notes to Consolidated Condensed Financial Statements
(Unaudited)

1. Organization and Business

Vail Resorts, Inc. ("Vail Resorts" or the "Parent Company") is organized as a holding company and operates through various subsidiaries. Vail Resorts and its subsidiaries (collectively, the "Company") operate in three business segments: Mountain, Lodging and Real Estate.

In the Mountain segment, the Company operates nine world-class mountain resort properties at the Vail, Breckenridge, Keystone and Beaver Creek mountain resorts in Colorado; Park City in Utah (comprised of the former standalone Park City Mountain Resort acquired in September 2014 and the former Canyons Resort in Park City, Utah); the Heavenly, Northstar, and Kirkwood mountain resorts in the Lake Tahoe area of California and Nevada; Perisher Ski Resort ("Perisher" acquired in June 2015) in New South Wales, Australia; and, the ski areas of Wilmot Mountain in Wisconsin (acquired in January 2016), Afton Alps in Minnesota and Mount Brighton in Michigan ("Urban" ski areas); as well as ancillary services, primarily including ski school, dining and retail/rental operations, and for Perisher including lodging and transportation operations. The resorts located in the United States (except for Northstar, Park City and the Urban ski areas) operate primarily on federal land under the terms of Special Use Permits granted by the USDA Forest Service (the "Forest Service"). The operations of Perisher are conducted pursuant to a long-term lease and license on land owned by the government of New South Wales, Australia.

In the Lodging segment, the Company owns and/or manages a collection of luxury hotels and condominiums under its RockResorts brand, as well as other strategic lodging properties and a large number of condominiums located in proximity to the Company's U.S. mountain resorts, National Park Service ("NPS") concessionaire properties including the Grand Teton Lodge Company ("GTLC"), which operates destination resorts in the Grand Teton National Park, Colorado Mountain Express ("CME"), a Colorado resort ground transportation company, and mountain resort golf courses.

Vail Resorts Development Company ("VRDC"), a wholly-owned subsidiary, conducts the operations of the Company's Real Estate segment, which owns and develops real estate in and around the Company's resort communities.

The Company's mountain business and its lodging properties at or around the Company's mountain resorts are seasonal in nature with peak operating seasons primarily from mid-November through mid-April in the United States. The Company's peak operating season at Perisher, its NPS concessionaire properties and its golf courses generally occur from June to early October. The Company also has non-majority owned investments in various other entities, some of which are consolidated (see Note 7, Variable Interest Entities).

2. Summary of Significant Accounting Policies

Basis of Presentation

Consolidated Condensed Financial Statements— In the opinion of the Company, the accompanying Consolidated Condensed Financial Statements reflect all adjustments necessary to state fairly the Company's financial position, results of operations and cash flows for the interim periods presented. All such adjustments are of a normal recurring nature. Results for interim periods are not indicative of the results for the entire fiscal year. The accompanying Consolidated Condensed Financial Statements should be read in conjunction with the audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2015. Certain information and footnote disclosures, including significant accounting policies, normally included in fiscal year financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. The Consolidated Condensed Balance Sheet as of July 31, 2015

was derived from audited financial statements.

Use of Estimates— The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standards— In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, "Revenue Recognition." This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to

which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of the new revenue standard by one year, and would allow entities the option to early adopt the new revenue standard as of the original effective date. This standard will be effective for the first interim period within fiscal years beginning after December 15, 2017 (the Company’s first quarter of fiscal 2019 if it does not early adopt), using one of two retrospective application methods. The Company is evaluating the impacts, if any, the adoption of this accounting standard will have on the Company’s financial position or results of operations and cash flows and related disclosures and is determining the appropriate transition method.

In February 2015, the FASB issued ASU No. 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis,” which amends the consolidation requirements in ASC 810, “Consolidation.” This ASU affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments: (i) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (“VIEs”) or voting interest entities, (ii) eliminate the presumption that a general partner should consolidate a limited partnership, (iii) affect the consolidated analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships and (iv) provide a scope exception for certain entities. The standard will be effective for the first interim period within fiscal years beginning after December 15, 2015 (the Company’s first quarter of fiscal 2017). The standard may be applied retrospectively or through a cumulative effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The Company is evaluating the impacts, if any, the adoption of this accounting standard will have on the Company’s financial position or results of operations and cash flows.

In April 2015, the FASB issued ASU No. 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.” The new standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The guidance in the new standard is limited to the presentation of debt issuance costs and does not affect the recognition and measurement of debt issuance costs. In June 2015, the FASB issued ASU No. 2015-15, “Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements.” The guidance in ASU No. 2015-03 does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance within ASU No. 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff stated that they would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The standard will be effective for the first interim period within fiscal years beginning after December 15, 2015 (the Company’s first quarter of fiscal 2017) and early adoption is permitted for financial statements that have not been previously issued. The standard should be applied on a retrospective basis. The adoption of this new accounting standard will amend presentation and disclosure requirements concerning debt issuance costs; but will not affect the Company’s overall financial position or results of operations and cash flows.

In April 2015, the FASB issued ASU No. 2015-05, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.” The standard provides guidance about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the software license element of the arrangement should be accounted for as an acquisition of a software license. If a cloud computing arrangement does not include a software license, it should be accounted for as a service contract. The standard will be effective for the first interim period within fiscal years beginning after December 15, 2015 (the Company’s first quarter of fiscal 2017) and may be adopted either

retrospectively or prospectively. The adoption of this accounting standard is not expected to have a material impact on the Company’s financial position or results of operations and cash flows.

In July 2015, the FASB issued ASU No. 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory.” This standard provides guidance on the measurement of inventory that is measured using first-in, first-out or average cost. An entity should measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The standard will be effective for the first interim period within fiscal years beginning after December 15, 2016 (the Company’s first quarter of fiscal 2018) and is required to be adopted prospectively and early adoption is permitted. The adoption of this accounting standard is not expected to have a material impact on the Company’s financial position or results of operations and cash flows.

In September 2015, the FASB issued ASU No. 2015-16, “Simplifying the Accounting for Measurement-Period Adjustments.” The standard requires that adjustments to provisional amounts identified during the measurement period of a business combination be recognized in the reporting period in which those adjustments are determined, including the effect on earnings, if any, calculated as if the accounting had been completed at the acquisition date. The standard eliminates the previous requirement to retrospectively

account for such adjustments but requires additional disclosures related to the income statement effects of adjustments to provisional amounts identified during the measurement period. The standard is effective for the annual period beginning after December 15, 2015 and interim periods within those annual periods (the Company's first quarter of fiscal 2017), with early adoption permitted, and is to be applied prospectively. The Company has adopted this standard and will apply this standard, as applicable, on any future measurement period adjustments.

In November 2015, the FASB issued ASU No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes." The standard changes how deferred taxes are classified on an entity's balance sheets. The standard eliminates the current requirement for entities to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, entities will be required to classify all deferred tax assets and liabilities as noncurrent. The standard is effective for financial statements issued for annual periods beginning after December 15, 2016 (the Company's first quarter of fiscal 2018), with early adoption permitted, and may be applied prospectively or retrospectively. The adoption of this new accounting standard will amend presentation requirements, but will not affect the Company's overall financial position or results of operations and cash flows.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which supersedes "Leases (Topic 840)." The standard requires lessees to recognize the assets and liabilities arising from all leases, including those classified as operating leases under previous accounting guidance, on the balance sheet and disclose key information about leasing arrangements. The standard also allows for an accounting policy election not to recognize on the balance sheet lease assets and liabilities for leases with a term of 12 months or less. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset on their balance sheets, while lessor accounting will be largely unchanged. The standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those years (the Company's first quarter of fiscal 2020), and must be applied using a modified retrospective transition approach to leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with early adoption permitted. The Company is currently evaluating the impacts the adoption of this accounting standard will have on the Company's financial position or results of operations and cash flows and related disclosures.

3. Net Income Per Common Share

Basic earnings per share ("EPS") excludes dilution and is computed by dividing net income attributable to Vail Resorts stockholders by the weighted-average shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised, resulting in the issuance of shares of common stock that would then participate in the earnings of Vail Resorts. Presented below is basic and diluted EPS for the three months ended January 31, 2016 and 2015 (in thousands, except per share amounts):

| | Three Months Ended January 31, | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Basic | Diluted | Basic | Diluted |
| Net income per share: | | | | |
| Net income attributable to Vail Resorts | $116,982 | $116,982 | $115,762 | $115,762 |
| Weighted-average shares outstanding | 36,246 | 36,246 | 36,329 | 36,329 |
| Effect of dilutive securities | — | 1,010 | — | 1,038 |
| Total shares | 36,246 | 37,256 | 36,329 | 37,367 |
| Net income per share attributable to Vail Resorts | $3.23 | $3.14 | $3.19 | $3.10 |

The Company computes the effect of dilutive securities using the treasury stock method and average market prices during the period. The number of shares issuable on the exercise of share based awards excluded from the calculation of diluted net income per share because the effect of their inclusion would have been anti-dilutive totaled 19,000 and 8,000 for the three months ended January 31, 2016 and 2015, respectively.

Presented below is basic and diluted EPS for the six months ended January 31, 2016 and 2015 (in thousands, except per share amounts):

| | Six Months Ended January 31, | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Basic | Diluted | Basic | Diluted |
| Net income per share: | | | | |
| Net income attributable to Vail Resorts | $57,395 | $57,395 | $51,486 | $51,486 |
| Weighted-average shares outstanding | 36,359 | 36,359 | 36,289 | 36,289 |
| Effect of dilutive securities | — | 999 | — | 1,024 |
| Total shares | 36,359 | 37,358 | 36,289 | 37,313 |
| Net income per share attributable to Vail Resorts | $1.58 | $1.54 | $1.42 | $1.38 |

The number of shares issuable on the exercise of share based awards excluded from the calculation of diluted net income per share because the effect of their inclusion would have been anti-dilutive totaled 10,000 and 4,000 for the six months ended January 31, 2016 and 2015, respectively.

During the three and six months ended January 31, 2016, the Company paid cash dividends of $0.6225 and $1.2450 per share ($22.6 million and $45.2 million, respectively, in the aggregate). During the three and six months ended January 31, 2015, the Company paid cash dividends of $0.4150 and $0.8300 per share ($15.1 million and $30.1 million, respectively, in the aggregate). On March 9, 2016, the Company's Board of Directors declared a quarterly cash dividend of $0.81 per share payable on April 13, 2016 to stockholders of record as of March 29, 2016.

4. Long-Term Debt

Long-term debt as of January 31, 2016, July 31, 2015 and January 31, 2015 is summarized as follows (in thousands):

| | Maturity (a) | January 31, 2016 | July 31, 2015 | January 31, 2015 |
|---|---|---|---|---|
| Credit Facility Revolver | 2020 | $64,500 | $185,000 | $— |
| Credit Facility Term Loan | 2020 | 246,875 | 250,000 | — |
| Industrial Development Bonds | 2020 | — | — | 41,200 |
| Employee Housing Bonds | 2027-2039 | 52,575 | 52,575 | 52,575 |
| 6.50% Notes | 2019 | — | — | 215,000 |
| Canyons obligation | 2063 | 320,277 | 317,455 | 314,657 |
| Other | 2016-2029 | 11,308 | 11,800 | 12,503 |
| Total debt | | 695,535 | 816,830 | 635,935 |
| Less: Current maturities (b) | | 13,340 | 10,154 | 1,196 |
| Long-term debt | | $682,195 | $806,676 | $634,739 |

(a) Maturities are based on the Company's July 31 fiscal year end.
(b) Current maturities represent principal payments due in the next 12 months.

Aggregate maturities for debt outstanding as of January 31, 2016 reflected by fiscal year are as follows (in thousands):

| | Total |
|---|---|
| 2016 | $6,537 |
| 2017 | 13,354 |
| 2018 | 13,397 |
| 2019 | 13,455 |
| 2020 | 268,641 |
| Thereafter | 380,151 |
| Total debt | $695,535 |

The Company incurred gross interest expense of $10.9 million and $13.8 million for the three months ended January 31, 2016 and 2015, respectively, of which $0.2 million and $0.4 million, respectively, were amortization of deferred financing costs. The Company had no capitalized interest during the three months ended January 31, 2016 and 2015. The Company incurred gross interest expense of $21.5 million and $27.4 million for the six months ended January 31, 2016 and 2015, respectively, of which $0.5 million and $0.7 million, respectively, were amortization of deferred financing costs. The Company had no capitalized interest during the six months ended January 31, 2016 and 2015.

5. Acquisitions

Wilmot Mountain

On January 19, 2016, the Company, through a wholly-owned subsidiary, acquired all of the assets of Wilmot Mountain ("Wilmot"), a ski area located in Wisconsin near the Illinois state line, for total cash consideration of $20.2 million. The purchase price was allocated to identifiable tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The Company has completed its preliminary purchase price allocation and has recorded $12.5 million in property, plant and equipment, $0.2 million in other assets, $0.4 million in other intangible assets (with a weighted-average amortization period of 10 years), and $0.4 million of assumed liabilities on the date of acquisition. The excess of the purchase price over the aggregate fair values of assets acquired and liabilities assumed was $7.5 million and was recorded as goodwill. The goodwill recognized is attributable primarily to expected synergies, the assembled workforce of Wilmot and other factors. The goodwill is expected to be deductible for income tax purposes. The operating results of Wilmot are reported within the Mountain segment.

Perisher Ski Resort

On June 30, 2015, the Company, through a wholly-owned subsidiary, acquired all of the entities that operate Perisher Ski Resort ("Perisher") in New South Wales, Australia for total cash consideration of $124.6 million, net of cash acquired. The Company funded the cash purchase price through borrowings under the revolver portion of its senior credit facility ("Credit Agreement"). Perisher holds a long-term lease and license with the New South Wales Government under the National Parks and Wildlife Act, which expires in 2048 with a 20-year renewal option. The Company acquired the entities that hold the assets, conduct operations and includes the long-term lease and license with the New South Wales government for the ski area and related amenities of Perisher, including assumed liabilities.

The following summarizes the preliminary estimated fair values of the identifiable assets acquired and liabilities assumed at the date the transaction was effective (in thousands).

| | Estimates of Fair Value at Effective Date of Transaction |
|---|---|
| Accounts receivable | $1,494 |
| Inventory | 4,859 |
| Property, plant and equipment | 126,287 |
| Intangible assets | 5,458 |
| Other assets | 525 |
| Goodwill | 31,657 |
| Total identifiable assets acquired | $170,280 |
| Accounts payable and accrued liabilities | $11,394 |
| Deferred revenue | 15,906 |
| Deferred income tax liability, net | 18,429 |
| Total liabilities assumed | $45,729 |
| Total purchase price, net of cash acquired | $124,551 |

The estimated fair values of assets acquired and liabilities assumed in the acquisition of Perisher are preliminary and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed. The Company believes that information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the Company is obtaining additional information necessary to finalize those fair values. Therefore, the preliminary measurements of fair value reflected are subject to change. The Company expects to finalize the valuation and complete the purchase price allocation as soon as practicable but no later than one year from the acquisition date.
The excess of the purchase price over the aggregate fair values of assets acquired and liabilities assumed was recorded as goodwill. The goodwill recognized is attributable primarily to expected synergies, the assembled workforce of Perisher and other factors. None of the goodwill is expected to be deductible for income tax purposes under Australian tax law. The intangible assets primarily consist of trademarks and customer lists. The definite-lived intangible assets have a weighted-average amortization period of approximately 4 years.

Park City Mountain Resort
On September 11, 2014, VR CPC Holdings, Inc. (“VR CPC”), a wholly-owned subsidiary of the Company, and Greater Park City Company, Powdr Corp., Greater Properties, Inc., Park Properties, Inc., and Powdr Development Company (collectively, “Park City Sellers”) entered into a Purchase and Sale Agreement (the “Purchase Agreement”) providing for the acquisition of substantially all of the assets related to Park City Mountain Resort in Park City, Utah. The cash purchase price was $182.5 million and was funded through borrowings under the revolver portion of the Credit Agreement.

As provided under the Purchase Agreement, the Company acquired the property, assets and operations of Park City Mountain Resort, which includes the ski area and related amenities, from Park City Sellers and assumed leases of certain realty, acquired certain assets, and assumed certain liabilities of Park City Sellers relating to Park City Mountain Resort. In addition to the Purchase Agreement, the parties settled the litigation related to the validity of a lease of certain land owned by Talisker Land Holdings, LLC under the ski terrain of Park City Mountain Resort (the “Park City Litigation”). In connection with settling the Park City Litigation, the Company recorded a non-cash gain of $16.4 million in the Mountain segment for the six months ended January 31, 2015. The gain on litigation settlement represented the estimated fair value of the rents (including damages and interest) due the Company from the Park City Sellers for their use of land and improvements from the Canyons transaction date of May 29, 2013 to the Park City Mountain Resort acquisition date. Additionally, the Company assigned a fair value of $10.1 million to the settlement

of the Park City Litigation that applied to the period prior to the Canyons transaction. The combined fair value of the Park City Litigation settlement of $26.5 million was determined by applying market capitalization rates to the estimated fair market value of the land and improvements, plus an estimate of statutory damages and interest. The estimated fair value of the Park City Litigation settlement was not received in cash, but was instead reflected as part of the cash price negotiated for the Park City Mountain Resort acquisition. Accordingly, the estimated fair value of the Park City Litigation settlement was included in the total consideration for the acquisition of Park City Mountain Resort. However, the gain on the Park City Litigation settlement was recorded as a separate transaction, as discussed above. Under an agreement entered into in conjunction with the Canyons transaction,

the Company made a $10.0 million payment to Talisker in the six months ended January 31, 2015, resulting from the settlement of the Park City Litigation.

The following summarizes the fair values of the identifiable assets acquired and liabilities assumed at the date the transaction was effective (in thousands):

| | Acquisition Date Fair Value |
|---|---|
| Accounts receivable | $930 |
| Other assets | 3,075 |
| Property, plant and equipment | 76,605 |
| Deferred income tax assets, net | 7,428 |
| Real estate held for sale and investment | 7,000 |
| Intangible assets | 27,650 |
| Goodwill | 92,516 |
| Total identifiable assets acquired | $215,204 |
| Accounts payable and accrued liabilities | $1,935 |
| Deferred revenue | 4,319 |
| Total liabilities assumed | $6,254 |
| Total purchase price | $208,950 |

The excess of the purchase price over the aggregate fair values of assets acquired and liabilities assumed was recorded as goodwill. The goodwill recognized is attributable primarily to expected synergies, the assembled workforce of Park City Mountain Resort and other factors. The majority of goodwill is expected to be deductible for income tax purposes. The intangible assets primarily consist of trademarks, water rights, and customer lists. The intangible assets have a weighted-average amortization period of approximately 46 years. The operating results of Park City, which are recorded in the Mountain segment, contributed $27.6 million and $28.4 million of net revenue (including an allocation of season pass revenue) for the three and six months ended January 31, 2015, respectively. The Company recognized $0.8 million of transaction related expenses in Mountain operating expense in the Consolidated Condensed Statements of Operations for the six months ended January 31, 2015.

Certain land and improvements in the Park City Mountain Resort ski area (excluding the base area) were part of the Talisker leased premises to Park City Mountain Resort and were subject to the Park City Litigation as of the Canyons transaction date (May 29, 2013), and as such, were recorded as a deposit (“Park City Deposit”) for the potential future interests in the land and associated improvements at its estimated fair value in conjunction with the Canyons transaction. Upon settlement of the Park City Litigation, the land and improvements associated with the Talisker leased premises became subject to the Canyons lease, and as a result, the Company reclassified the Park City Deposit to the respective assets within property, plant and equipment in the six months ended January 31, 2015. The inclusion of the land and certain land improvements that was subject to the Park City Litigation and now included in the Canyons lease requires no additional consideration from the Company to Talisker, but the financial contribution from the operations of Park City Mountain Resort will be included as part of the calculation of EBITDA for the resort operations, and as a result, factor into the participating contingent payments (see Note 8, Fair Value Measurements). The majority of the assets acquired under the Park City Mountain Resort acquisition, although not under lease, are subject to the terms and conditions of the Canyons lease.

13

Perisher and Park City Mountain Resort Pro Forma Financial Information

The following presents the unaudited pro forma consolidated financial information of the Company as if the acquisitions of Perisher and Park City Mountain Resort were completed on August 1, 2014. The following unaudited pro forma financial information includes adjustments for (i) depreciation on acquired property, plant and equipment; (ii) amortization of intangible assets recorded at the date of the transactions; (iii) related-party land leases; and (iv) transaction and business integration related costs. This unaudited pro forma financial information is presented for informational purposes only and does not purport to be indicative of the results of future operations or the results that would have occurred had the transaction taken place on August 1, 2014 (in thousands, except per share amounts).

| | Three Months Ended January 31, 2015 | Six Months Ended January 31, 2015 |
|---|---|---|
| Pro forma net revenue | $530,678 | $703,254 |
| Pro forma net income attributable to Vail Resorts, Inc. | $111,850 | $57,624 |
| Pro forma basic net income per share attributable to Vail Resorts, Inc. | $3.08 | $1.59 |
| Pro forma diluted net income per share attributable to Vail Resorts, Inc. | $2.99 | $1.54 |

6. Supplementary Balance Sheet Information

The composition of property, plant and equipment follows (in thousands):

| | January 31, 2016 | July 31, 2015 | January 31, 2015 |
|---|---|---|---|
| Land and land improvements | $438,373 | $431,854 | $411,148 |
| Buildings and building improvements | 1,024,065 | 1,006,821 | 959,863 |
| Machinery and equipment | 873,045 | 815,946 | 774,791 |
| Furniture and fixtures | 302,077 | 286,863 | 281,869 |
| Software | 111,118 | 106,433 | 104,511 |
| Vehicles | 62,093 | 61,036 | 58,760 |
| Construction in progress | 24,767 | 53,158 | 16,676 |
| Gross property, plant and equipment | 2,835,538 | 2,762,111 | 2,607,618 |
| Accumulated depreciation | (1,443,649) | (1,375,836) | (1,323,403) |
| Property, plant and equipment, net | $1,391,889 | $1,386,275 | $1,284,215 |

The composition of accounts payable and accrued liabilities follows (in thousands):

| | January 31, 2016 | July 31, 2015 | January 31, 2015 |
|---|---|---|---|
| Trade payables | $82,913 | $62,099 | $87,864 |
| Deferred revenue | 190,976 | 145,949 | 163,253 |
| Accrued salaries, wages and deferred compensation | 43,916 | 33,461 | 41,710 |
| Accrued benefits | 26,199 | 24,436 | 22,304 |
| Deposits | 36,995 | 19,336 | 33,709 |
| Other accruals | 66,771 | 46,018 | 71,989 |
| Total accounts payable and accrued liabilities | $447,770 | $331,299 | $420,829 |

The composition of other long-term liabilities follows (in thousands):

| | January 31, 2016 | July 31, 2015 | January 31, 2015 |
|---|---|---|---|
| Private club deferred initiation fee revenue | $123,886 | $126,104 | $129,315 |
| Unfavorable lease obligation, net | 28,593 | 29,997 | 30,096 |
| Other long-term liabilities | 100,127 | 99,815 | 69,902 |
| Total other long-term liabilities | $252,606 | $255,916 | $229,313 |

7. Variable Interest Entities

The Company is the primary beneficiary of four employee housing entities (collectively, the "Employee Housing Entities"), Breckenridge Terrace, LLC, The Tarnes at BC, LLC, BC Housing, LLC and Tenderfoot Seasonal Housing, LLC, which are variable interest entities ("VIEs"), and the Company has consolidated them in its Consolidated Condensed Financial Statements. As a group, as of January 31, 2016, the Employee Housing Entities had total assets of $25.8 million (primarily recorded in property, plant and equipment, net) and total liabilities of $64.4 million (primarily recorded in long-term debt as "Employee Housing Bonds"). The Company's lenders have issued letters of credit totaling $53.4 million under the Company's Credit Agreement related to Employee Housing Bonds. Payments under the letters of credit would be triggered in the event that one of the entities defaults on required payments. The letters of credit have no default provisions.

The Company is the primary beneficiary of Avon Partners II, LLC ("APII"), which is a VIE. APII owns commercial space and the Company leases substantially all of that space. APII had total assets of $4.3 million (primarily recorded in property, plant and equipment, net) and no debt as of January 31, 2016.

8. Fair Value Measurements

The Financial Accounting Standards Board issued fair value guidance that establishes how reporting entities should measure fair value for measurement and disclosure purposes. The guidance establishes a common definition of fair value applicable to all assets and liabilities measured at fair value and prioritizes the inputs into valuation techniques used to measure fair value. Accordingly, the Company uses valuation techniques which maximize the use of observable inputs and minimize the use of unobservable inputs when determining fair value. The three levels of the hierarchy are as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities;

Level 2: Inputs include quoted prices for similar assets and liabilities in active and inactive markets or that are observable for the asset or liability either directly or indirectly; and

Level 3: Unobservable inputs which are supported by little or no market activity.

The table below summarizes the Company's cash equivalents and Contingent Consideration (as defined below) measured at fair value (all other assets and liabilities measured at fair value are immaterial) (in thousands):

| | Fair Value Measurement as of January 31, 2016 | | | |
|---|---|---|---|---|
| Description | Balance at January 31, 2016 | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Commercial Paper | $2,401 | $— | $2,401 | $— |
| Certificates of Deposit | $2,401 | $— | $2,401 | $— |
| Liabilities: | | | | |
| Contingent Consideration | $6,900 | $— | $— | $6,900 |

| | Fair Value Measurement as of July 31, 2015 | | | |
|---|---|---|---|---|
| Description | Balance at July 31, 2015 | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Money Market | $7,577 | $7,577 | $— | $— |
| Commercial Paper | $2,401 | $— | $2,401 | $— |
| Certificates of Deposit | $2,651 | $— | $2,651 | $— |
| Liabilities: | | | | |
| Contingent Consideration | $6,900 | $— | $— | $6,900 |

| | Fair Value Measurement as of January 31, 2015 | | | |
|---|---|---|---|---|
| Description | Balance at January 31, 2015 | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Money Market | $7,578 | $7,578 | $— | $— |
| Commercial Paper | $2,401 | $— | $2,401 | $— |
| Certificates of Deposit | $2,900 | $— | $2,900 | $— |
| Liabilities: | | | | |
| Contingent Consideration | $6,000 | $— | $— | $6,000 |

The Company's cash equivalents are measured utilizing quoted market prices or pricing models whereby all significant inputs are either observable or corroborated by observable market data.

The changes in Contingent Consideration during the six months ended January 31, 2016 and 2015 were as follows (in thousands):

| | | | |
|---|---|---|---|
| Balance as of July 31, 2015 and 2014, respectively | $6,900 | $10,500 | |
| Change in fair value | — | (4,500 | ) |
| Balance as of January 31, 2016 and 2015, respectively | $6,900 | $6,000 | |

The lease for Canyons provides for participating contingent payments to Talisker of 42% of the amount by which EBITDA for the resort operations, as calculated under the lease, exceed approximately $35 million, as established at the transaction date, with such threshold amount subsequently increased annually by an inflation linked index and a

10% adjustment for any capital improvements or investments made under the lease by the Company (the "Contingent Consideration"). The fair value of Contingent Consideration includes the resort operations of Park City Mountain Resort, following completion of the acquisition, in the calculation of EBITDA on which participating contingent payments are made, and increases the EBITDA threshold before which participating contingent payments are made by 10% of the purchase price paid by the Company for Park City Mountain Resort along with all future capital expenditures associated with Park City Mountain Resort. The Company estimated the fair value of the Contingent Consideration payments using an option pricing valuation model. As of January 31, 2016, key assumptions included a discount rate of 11.5%, volatility of 20.0%, and credit risk of 2.5%. The model also incorporates assumptions for EBITDA and

16

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capital expenditures, which are unobservable inputs and thus are considered Level 3 inputs. As Contingent Consideration is classified as a liability, the liability is remeasured to fair value at each reporting date until the contingency is resolved. During the six months ended January 31, 2016, the Company did not record a change in the estimated fair value of the participating contingent payments. The estimated fair value of the Contingent Consideration is $6.9 million as of January 31, 2016, and this liability is recorded in other long-term liabilities in the Consolidated Condensed Balance Sheets.

9. Commitments and Contingencies

Metropolitan Districts

The Company credit-enhances $8.0 million of bonds issued by Holland Creek Metropolitan District (“HCMD”) through an $8.1 million letter of credit issued under the Credit Agreement. HCMD’s bonds were issued and used to build infrastructure associated with the Company’s Red Sky Ranch residential development. The Company has agreed to pay capital improvement fees to Red Sky Ranch Metropolitan District (“RSRMD”) until RSRMD’s revenue streams from property taxes are sufficient to meet debt service requirements under HCMD’s bonds, and the Company has recorded a liability of $1.8 million primarily within “other long-term liabilities” in the accompanying Consolidated Condensed Balance Sheets, as of January 31, 2016, July 31, 2015 and January 31, 2015, respectively, with respect to the estimated present value of future RSRMD capital improvement fees. The Company estimates it will make capital improvement fee payments under this arrangement through the fiscal year ending July 31, 2029.

Guarantees/Indemnifications

As of January 31, 2016, the Company had various other letters of credit for $64.6 million, consisting primarily of $53.4 million to support the Employee Housing Bonds and $11.2 million for workers’ compensation, general liability construction related deductibles and other activities. The Company also had surety bonds of $9.3 million as of January 31, 2016, primarily to provide collateral for its workers compensation self-insurance programs.

In addition to the guarantees noted above, the Company has entered into contracts in the normal course of business that include certain indemnifications under which it could be required to make payments to third parties upon the occurrence or non-occurrence of certain future events. These indemnities include indemnities to licensees in connection with the licensees’ use of the Company’s trademarks and logos, indemnities for liabilities associated with the infringement of other parties’ technology and software products, indemnities related to liabilities associated with the use of easements, indemnities related to employment of contract workers, the Company’s use of trustees, indemnities related to the Company’s use of public lands and environmental indemnifications. The duration of these indemnities generally is indefinite and generally do not limit the future payments the Company could be obligated to make.

As permitted under applicable law, the Company and certain of its subsidiaries have agreed to indemnify their directors and officers over their lifetimes for certain events or occurrences while the officer or director is, or was, serving the Company or its subsidiaries in such a capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a director and officer insurance policy that should enable the Company to recover a portion of any future amounts paid.

Unless otherwise noted, the Company has not recorded any significant liabilities for the letters of credit, indemnities and other guarantees noted above in the accompanying Consolidated Condensed Financial Statements, either because the Company has recorded on its Consolidated Condensed Balance Sheets the underlying liability associated with the guarantee, the guarantee is with respect to the Company’s own performance and is therefore not subject to the measurement requirements as prescribed by GAAP, or because the Company has calculated the fair value of the indemnification or guarantee to be immaterial based upon the current facts and circumstances that would trigger a payment under the indemnification clause. In addition, with respect to certain indemnifications it is not possible to

determine the maximum potential amount of liability under these potential obligations due to the unique set of facts and circumstances likely to be involved in each particular claim and indemnification provision. Historically, payments made by the Company under these obligations have not been material.

As noted above, the Company makes certain indemnifications to licensees for their use of the Company's trademarks and logos. The Company does not record any liabilities with respect to these indemnifications.

Self Insurance

The Company is self-insured for claims under its health benefit plans and for the majority of workers' compensation claims. Workers compensation claims are subject to stop loss policies. The self-insurance liability related to workers' compensation is determined actuarially based on claims filed. The self-insurance liability related to claims under the Company's health benefit plans is determined based on analysis of actual claims. The amounts related to these claims are included as a component of accrued benefits in accounts payable and accrued liabilities (see Note 6, Supplementary Balance Sheet Information).

Legal

The Company is a party to various lawsuits arising in the ordinary course of business. Management believes the Company has adequate insurance coverage and/or has accrued for loss contingencies for all known matters deemed to be probable losses and estimable. As of January 31, 2016, July 31, 2015 and January 31, 2015, the accrual for the above loss contingencies was not material individually and in the aggregate.

10. Segment Information

The Company has three reportable segments: Mountain, Lodging and Real Estate. The Mountain segment includes the operations of the Company's mountain resorts and Urban ski areas and related ancillary services. The Lodging segment includes the operations of all of the Company's owned hotels in the U.S., RockResorts, NPS concessionaire properties, condominium management, CME and mountain resort golf operations. The Real Estate segment owns and develops real estate in and around the Company's resort communities. The Company's reportable segments, although integral to the success of each other, offer distinctly different products and services and require different types of management focus. As such, these segments are managed separately.

The Company reports its segment results using Reported EBITDA (defined as segment net revenue less segment operating expenses, plus or minus segment equity investment income or loss, plus gain on litigation settlement and for the Real Estate segment, plus gain on sale of real property), which is a non-GAAP financial measure. The Company reports segment results in a manner consistent with management's internal reporting of operating results to the chief operating decision maker (the Chief Executive Officer) for purposes of evaluating segment performance.

Reported EBITDA is not a measure of financial performance under GAAP. Items excluded from Reported EBITDA are significant components in understanding and assessing financial performance. Reported EBITDA should not be considered in isolation or as an alternative to, or substitute for, net income, net change in cash and cash equivalents or other financial statement data presented in the Consolidated Condensed Financial Statements as indicators of financial performance or liquidity. Because Reported EBITDA is not a measurement determined in accordance with GAAP and thus is susceptible to varying calculations, Reported EBITDA as presented may not be comparable to other similarly titled measures of other companies.

The Company utilizes Reported EBITDA in evaluating performance of the Company and in allocating resources to its segments. Mountain Reported EBITDA consists of Mountain net revenue less Mountain operating expense plus or minus Mountain equity investment income or loss plus gain on litigation settlement. Lodging Reported EBITDA consists of Lodging net revenue less Lodging operating expense. Real Estate Reported EBITDA consists of Real Estate net revenue less Real Estate operating expense plus gain on sale of real property. All segment expenses include an allocation of corporate administrative expenses. Assets are not allocated between segments, or used to evaluate performance, except as shown in the table below.

The following table presents financial information by reportable segment, which is used by management in evaluating performance and allocating resources (in thousands):

| | Three Months Ended January 31, | | Six Months Ended January 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net revenue: | | | | |
| Lift | $287,685 | $239,288 | $307,838 | $239,288 |
| Ski school | 62,040 | 57,295 | 65,424 | 57,295 |
| Dining | 44,738 | 38,619 | 57,093 | 46,658 |
| Retail/rental | 102,975 | 95,012 | 135,364 | 124,485 |
| Other | 35,434 | 32,817 | 68,086 | 55,691 |
| Total Mountain net revenue | 532,872 | 463,031 | 633,805 | 523,417 |
| Lodging | 62,807 | 59,364 | 127,093 | 117,857 |
| Total Resort net revenue | 595,679 | 522,395 | 760,898 | 641,274 |
| Real estate | 3,684 | 7,842 | 13,032 | 17,225 |
| Total net revenue | $599,363 | $530,237 | $773,930 | $658,499 |
| Operating expense: | | | | |
| Mountain | $296,256 | $268,966 | $447,414 | $400,918 |
| Lodging | 57,311 | 53,927 | 118,748 | 111,681 |
| Total Resort operating expense | 353,567 | 322,893 | 566,162 | 512,599 |
| Real estate | 4,617 | 9,871 | 13,958 | 21,485 |
| Total segment operating expense | $358,184 | $332,764 | $580,120 | $534,084 |
| Gain on litigation settlement | $— | $— | — | 16,400 |
| Gain on sale of real property | $632 | $— | 1,791 | — |
| Mountain equity investment (loss) income, net | $(61) | $200 | 781 | 525 |
| Reported EBITDA: | | | | |
| Mountain | $236,555 | $194,265 | $187,172 | $139,424 |
| Lodging | 5,496 | 5,437 | 8,345 | 6,176 |
| Resort | 242,051 | 199,702 | 195,517 | 145,600 |
| Real estate | (301) | (2,029) | 865 | (4,260) |
| Total Reported EBITDA | $241,750 | $197,673 | $196,382 | $141,340 |
| | | | | |
| Real estate held for sale and investment | $117,999 | $151,103 | $117,999 | $151,103 |
| | | | | |
| Reconciliation to net income attributable to Vail Resorts, Inc.: | | | | |
| Total Reported EBITDA | $241,750 | $197,673 | $196,382 | $141,340 |
| Depreciation and amortization | (40,541) | (37,376) | (79,241) | (73,345) |
| Change in fair value of Contingent Consideration | — | — | — | 4,550 |
| Loss on disposal of fixed assets and other, net | (1,206) | (26) | (2,985) | (781) |
| Investment income, net | 161 | 62 | 359 | 36 |
| Interest expense | (10,910) | (13,807) | (21,505) | (27,375) |
| Income before (provision) benefit from income taxes | 189,254 | 146,526 | 93,010 | 44,425 |
| (Provision) benefit from income taxes | (72,383) | (30,826) | (35,809) | 6,951 |
| Net income | $116,871 | $115,700 | $57,201 | $51,376 |
| Net loss attributable to noncontrolling interests | 111 | 62 | 194 | 110 |
| Net income attributable to Vail Resorts, Inc. | $116,982 | $115,762 | $57,395 | $51,486 |

11. Share Repurchase Program

On March 9, 2006, the Company’s Board of Directors approved the repurchase of up to 3,000,000 shares of common stock, on July 16, 2008 approved an increase of the Company’s common stock repurchase authorization by an additional 3,000,000 shares, and on December 4, 2015, the Company’s Board of Directors approved an increase in the number of shares authorized to be repurchased under the share repurchase program by an additional 1,500,000 shares. The Company repurchased zero shares of common stock during both the three months ended January 31, 2016 and 2015. During the six months ended January 31, 2016 and 2015, the Company repurchased 377,830 shares (at a total cost of $40.0 million) and zero shares of common stock, respectively. Since inception of its share repurchase program through January 31, 2016, the Company has repurchased 5,326,941 shares at a cost of approximately $233.2 million. As of January 31, 2016, 2,173,059 shares remained available to repurchase under the existing share repurchase program which has no expiration date. Shares of common stock purchased pursuant to the repurchase program will be held as treasury shares and may be used for the issuance of shares under the Company’s employee share award plan.

12. Income Taxes

The Company had Federal net operating loss (“NOL”) carryforwards that expired in the year ended July 31, 2008 and were limited in deductibility each year under Section 382 of the Internal Revenue Code. The Company had only been able to use these NOL carryforwards to the extent of approximately $8.0 million per year through December 31, 2007 (the “Section 382 Amount”). However, during the year ended July 31, 2005, the Company amended previously filed tax returns (for tax years 1997-2002) in an effort to remove the restrictions under Section 382 of the Internal Revenue Code on approximately $73.8 million of NOL carryforwards to reduce future taxable income. As a result, the Company requested a refund related to the amended returns in the amount of $6.2 million and reduced its federal tax liability in the amount of $19.6 million in subsequent returns. These NOL carryforwards relate to fresh start accounting from the Company’s reorganization in 1992. During the year ended July 31, 2006, the Internal Revenue Service (“IRS”) completed its examination of the Company’s filing position in these amended returns and disallowed the Company’s request for refund and its position to remove the restrictions under Section 382 of the Internal Revenue Code. The Company appealed the examiner’s disallowance of these NOL carryforwards to the Office of Appeals. In December 2008, the Office of Appeals denied the Company’s appeal, as well as a request for mediation. The Company disagreed with the IRS interpretation disallowing the utilization of the NOL’s and in August 2009, the Company filed a complaint in the United States District Court for the District of Colorado against the United States of America seeking a refund of approximately $6.2 million in Federal income taxes paid, plus interest. On July 1, 2011, the District Court granted the Company summary judgment, concluding that the IRS’s decision disallowing the utilization of the NOLs was inappropriate. The computations themselves, however, remained in dispute, and the District Court’s ruling was subject to appeal by the IRS. Subsequently, the District Court proceedings were continued pending settlement discussions between the parties.

The Company also filed two related tax proceedings in the United States Tax Court regarding calculation of NOL carryover deductions for tax years 2006, 2007, and 2008. The two proceedings involved substantially the same issues as the litigation in the District Court for tax years 2000 and 2001 in which the Company disagreed with the IRS as to the utilization of NOLs. Like the District Court proceedings, the Tax Court proceedings were continued pending settlement discussions between the parties.

On January 29, 2015, the parties completed the execution of a comprehensive settlement agreement resolving all issues and computations in the above mentioned pending proceedings, which allowed the Company to utilize a significant portion of the NOLs. As a result, the Company reversed $27.7 million of other long-term liabilities related to uncertain tax benefits, and recorded income tax benefits of $23.8 million for the utilization of the NOLs, including the reversal of accrued interest and penalties, within its Consolidated Condensed Statements of Operations for the three and six months ended January 31, 2015.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Vail Resorts, Inc., together with its subsidiaries, is referred to throughout this Quarterly Report on Form 10-Q for the period ended January 31, 2016 ("Form 10-Q") as "we," "us," "our" or the "Company."

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended July 31, 2015 ("Form 10-K") and the Consolidated Condensed Financial Statements as of January 31, 2016 and 2015 and for the three and six months then ended, included in Part I, Item 1 of this Form 10-Q, which provide additional information regarding our financial position, results of operations and cash flows. To the extent that the following Management's Discussion and Analysis contains statements which are not of a historical nature, such statements are forward-looking statements, which involve risks and uncertainties. See "Forward-Looking Statements" below. These risks include, but are not limited to, those discussed in this Form 10-Q and in our other filings with the Securities and Exchange Commission ("SEC"), including the risks described in Item 1A "Risk Factors" of Part I of the Form 10-K.

The following Management's Discussion and Analysis includes discussion of financial performance within each of our segments. We have chosen to specifically include Reported EBITDA (defined as segment net revenue less segment operating expense, plus or minus segment equity investment income or loss, plus gain on litigation settlement and for the Real Estate segment, plus gain on sale of real property) and Net Debt (defined as long-term debt plus long-term debt due within one year less cash and cash equivalents), in the following discussion because we consider these measurements to be significant indications of our financial performance and available capital resources. Reported EBITDA and Net Debt are not measures of financial performance or liquidity under accounting principles generally accepted in the United States of America ("GAAP"). We utilize Reported EBITDA in evaluating our performance and in allocating resources to our segments. Refer to the end of the "Results of Operations" section below for a reconciliation of Reported EBITDA to net income attributable to Vail Resorts, Inc. We also believe that Net Debt is an important measurement as it is an indicator of our ability to obtain additional capital resources for our future cash needs. Refer to the end of the "Results of Operations" section below for a reconciliation of Net Debt to long-term debt.

Items excluded from Reported EBITDA and Net Debt are significant components in understanding and assessing financial performance or liquidity. Reported EBITDA and Net Debt should not be considered in isolation or as an alternative to, or substitute for, net income, net change in cash and cash equivalents or other financial statement data presented in the Consolidated Condensed Financial Statements as indicators of financial performance or liquidity. Because Reported EBITDA and Net Debt are not measurements determined in accordance with GAAP and are susceptible to varying calculations, Reported EBITDA and Net Debt as presented may not be comparable to other similarly titled measures of other companies.

Overview
Our operations are grouped into three integrated and interdependent segments: Mountain, Lodging and Real Estate. Resort is the combination of the Mountain and Lodging segments.

Mountain Segment
The Mountain segment is comprised of the operations of mountain resort properties at the Vail, Breckenridge, Keystone and Beaver Creek mountain resorts in Colorado ("Colorado" resorts); Park City in Utah (comprised of the former standalone Park City Mountain Resort acquired in September 2014 and the former Canyons Resort in Park City, Utah); the Heavenly, Northstar and Kirkwood mountain resorts in the Lake Tahoe area of California and Nevada ("Tahoe" resorts); Perisher Ski Resort ("Perisher" acquired in June 2015) in New South Wales, Australia; and, the ski areas of Wilmot Mountain in Wisconsin (acquired in January 2016), Afton Alps in Minnesota and Mount Brighton in Michigan ("Urban" ski areas); as well as ancillary services, primarily including ski school, dining and retail/rental operations, and for Perisher including lodging and transportation operations. Mountain segment revenue is seasonal, with the majority of revenue earned from our U.S. mountain resorts and ski areas occurring in our second and third fiscal quarters and the majority of revenue earned from Perisher occurring in our first and fourth fiscal quarters. Our U.S. mountain resorts are typically open for business from mid-November through mid-April, which is the peak operating season for the Mountain segment, and Perisher is typically open for business from June to early October. Our single largest source of Mountain segment revenue is the sale of lift tickets (including season passes), which represented approximately 54% and 52% of Mountain net revenue for the three months ended January 31, 2016 and 2015, respectively.

Lift revenue is driven by volume and pricing. Pricing is impacted by both absolute pricing as well as the demographic mix of guests, which impacts the price points at which various products are purchased. The demographic mix of guests to our U.S. mountain resorts is divided into two primary categories: (i) out-of-state and international ("Destination") guests and (ii) in-state and local ("In-State") guests. For both the three months ended January 31, 2016 and 2015, Destination guests comprised approximately 53% of our mountain resort skier visits, while In-State guests comprised approximately 47% of our mountain resort skier visits.

Destination guests generally purchase our higher-priced lift ticket products and utilize more ancillary services such as ski school, dining and retail/rental, as well as the lodging at or around our mountain resorts. Destination guest visitation is less likely to be impacted by changes in the weather, but can be more impacted by adverse economic conditions or the global geopolitical climate. In-State guests tend to be more value-oriented and weather sensitive. We offer a variety of season pass products for all of our mountain resorts and Urban ski areas, marketed towards both Destination and In-State guests. Our season pass product offerings range from providing access to one or a combination of our mountain resorts and Urban ski areas to our Epic Season Pass that allows pass holders unlimited and unrestricted access to all of our mountain resorts and Urban ski areas. Our season pass products provide a compelling value proposition to our guests, which in turn assists us in developing a loyal base of customers who commit to ski at our mountain resorts and Urban ski areas generally in advance of the ski season and typically ski more days each season at our mountain resorts and Urban ski areas than those guests who do not buy season passes. As such, our season pass program drives strong customer loyalty; mitigates exposure to many weather sensitive guests; and generates additional ancillary spending. In addition, our season pass products attract new guests to our mountain resorts and Urban ski areas. All of our season pass products, including the Epic Season Pass, are sold predominately prior to the start of the ski season. Season pass revenue, although primarily

collected prior to the ski season, is recognized in the Consolidated Condensed Statement of Operations ratably over the ski season. For the three months ended January 31, 2016 and 2015, approximately 46% and 45%, respectively, of the total lift revenue recognized was comprised of season pass revenue (of which revenue recognized represents approximately 52% and 50% of total U.S. season pass sales for the 2015/2016 and 2014/2015 ski seasons, respectively, with the remaining U.S. season pass sales almost entirely recognized as lift revenue in our third fiscal quarter ending April 30).

The cost structure of our mountain resort operations has a significant fixed component with variable expenses including, but not limited to, USDA Forest Service ("Forest Service") fees, credit card fees, retail/rental cost of sales and labor, ski school labor and dining operations; as such, profit margins can fluctuate greatly based on the level of revenues.

Lodging Segment

Operations within the Lodging segment include (i) ownership/management of a group of luxury hotels and condominiums through the RockResorts brand, including several proximate to our U.S. mountain resorts; (ii) ownership/management of non-RockResorts branded hotels and condominiums proximate to our U.S. mountain resorts; (iii) National Park Service ("NPS") concessionaire properties including the Grand Teton Lodge Company ("GTLC"); (iv) Colorado Mountain Express ("CME"), a Colorado resort ground transportation company; and (v) mountain resort golf courses.

The performance of lodging properties (including managed condominium rooms) proximate to our mountain resorts, and CME, is closely aligned with the performance of the Mountain segment and generally experiences similar seasonal trends, particularly with respect to visitation by Destination guests, and represented approximately 94% and 93% of Lodging segment revenue (excluding Lodging segment revenue associated with reimbursement of payroll costs) for the three months ended January 31, 2016 and 2015, respectively. Management primarily focuses on Lodging net revenue excluding payroll cost reimbursement and Lodging operating expense excluding reimbursed payroll costs (which are not measures of financial performance under GAAP) as the reimbursements are made based upon the costs incurred with no added margin, as such the revenue and corresponding expense have no effect on our Lodging Reported EBITDA, which we use to evaluate Lodging segment performance. Revenue of the Lodging segment during our first and fourth fiscal quarters is generated primarily by the operations of our NPS concessionaire properties (as their operating season generally occurs from mid-May to mid-October), mountain resort golf operations and seasonally low operations from our other owned and managed properties and businesses.

Real Estate Segment

The principal activities of our Real Estate segment include the marketing and selling of remaining condominium units available for sale, which primarily relate to The Ritz-Carlton Residences, Vail, and One Ski Hill Place in Breckenridge; the sale of land parcels to third-party developers; planning for future real estate development projects, including zoning and acquisition of applicable permits; and, the occasional purchase of selected strategic land parcels for future development. Revenue from vertical development projects is not recognized until closing of individual units within a project, which occurs after substantial completion of the project. Additionally, our real estate development projects most often result in the creation of certain resort assets that provide additional benefit to the Mountain and Lodging segments. We continue undertaking preliminary planning and design work on future projects and are pursuing opportunities with third-party developers rather than undertaking our own significant vertical development projects. We believe that, due to our low carrying cost of real estate land investments, we are well situated to promote future projects with third-party developers while limiting our financial risk. Our revenue from the Real Estate segment, and associated expense, can fluctuate significantly based upon the timing of closings and the type of real estate being sold, causing volatility in the Real Estate segment's operating results from period to period.

Recent Trends, Risks and Uncertainties

Together with those risk factors we have identified in our Form 10-K, we have identified the following important factors (as well as risks and uncertainties associated with such factors) that could impact our future financial performance or condition:

- The timing and amount of snowfall can have an impact on Mountain and Lodging revenue particularly in regards to skier visits and the duration and frequency of guest visitation. To help mitigate this impact, we sell a variety of season pass products prior to the beginning of the ski season resulting in a more stabilized stream of lift revenue. Additionally, our season pass products provide a compelling value proposition to our guests, which in turn creates a guest commitment predominately prior to the start of the ski season. During fiscal year 2015, pass revenue represented approximately 40% of total lift revenue. Due primarily to increased pass sales for the 2015/2016 ski season compared to the 2014/2015 ski season, season pass revenue increased approximately $22.8 million, or 21.1%, for the three months ended January 31, 2016 compared to the same period in the prior year. Additionally, deferred revenue related to U.S. season pass sales was $124.1 million as of January 31, 2016 (compared to $107.8 million as of January 31, 2015), which will be almost entirely recognized as lift revenue during our third fiscal quarter ending April 30, 2016.

22

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- Although many key economic indicators in the U.S. have held steady through the beginning of calendar year 2016, including consumer confidence and the unemployment rate, the growth in the U.S. economy may be challenged by declining or slowing growth in economies outside of the U.S., accompanied by devaluation of currencies against the U.S. dollar and lower commodity prices. Given these economic trends and uncertainties, we cannot predict what the impact will be on overall travel and leisure spending or more specifically, on our guest visitation, guest spending or other related trends for the remainder of the 2015/2016 U.S. ski season.

- On June 30, 2015, we acquired the entities that operate Perisher Ski Resort ("Perisher") in New South Wales, Australia for total cash consideration of AU$176.2 million (approximately US$134.8 million), excluding cash acquired and assumed working capital. The cash purchase price was funded through borrowings from the revolving portion of our senior credit facility ("Credit Agreement"). We expect that Perisher will positively contribute to our results of operations with its peak operating season occurring during our first and fourth fiscal quarters. However, we cannot predict whether we will realize all of the synergies expected from the operations of Perisher and the ultimate impact Perisher will have on our future results of operations.

The estimated fair values of assets acquired and liabilities assumed in the Perisher acquisition are preliminary and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed. We believe that information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but we are obtaining additional information necessary to finalize those fair values. Therefore, the preliminary measurements of fair value reflected within the Consolidated Condensed Balance Sheets as of January 31, 2016 are subject to change.

- As of January 31, 2016, we had $45.4 million in cash and cash equivalents, as well as $262.9 million available under the revolver component of our Credit Agreement (which represents the total commitment of $400.0 million less outstanding borrowings of $64.5 million and certain letters of credit outstanding of $72.6 million). In addition, during the three months ended October 31, 2015 we repurchased 377,830 shares of our common stock at a total cost of approximately $40.0 million, and during the three months ended January 31, 2016 we completed the acquisition of a ski area, Wilmot Mountain in Wisconsin, for cash consideration of approximately $20.2 million. We believe that the terms of our Credit Agreement allow for sufficient flexibility in our ability to make future acquisitions, investments, distributions to stockholders and incur additional debt. This, combined with the continued positive cash flow from operating activities of our Mountain and Lodging segments, primarily occurring during our second and third fiscal quarters, less resort capital expenditures has and is anticipated to continue to provide us with substantial liquidity. We believe our liquidity will allow us to consider strategic investments and other forms of returning value to our stockholders including additional share repurchases and the continued payment of a quarterly cash dividend, of which, on March 9, 2016 our Board of Directors approved an approximate 30% increase in our regular quarterly cash dividend on our common stock to $0.81 per share (or approximately $29.4 million quarterly based upon shares outstanding as of January 31, 2016).

- Real Estate Reported EBITDA is highly dependent on, among other things, the timing of closings on condominium units available for sale, which determines when revenue and associated cost of sales is recognized. Changes to the anticipated timing or mix of closing on one or more real estate projects, or unit closings within a real estate project, could materially impact Real Estate Reported EBITDA for a particular quarter or fiscal year. As of January 31, 2016, we had six units at The Ritz-Carlton Residences, Vail and two units at One Ski Hill Place in Breckenridge available for sale with a remaining book value of approximately $18.7 million for both projects as of January 31, 2016. We cannot predict the ultimate number of units that we will sell, the ultimate price we will receive, or when the units will sell, although we currently anticipate the selling process will take less than two years to complete assuming continued stability in resort real estate markets.

In accordance with GAAP, we test goodwill and indefinite-lived intangible assets for impairment annually as well as on an interim basis to the extent factors or indicators become apparent that could reduce the fair value of our reporting units or indefinite-lived intangible assets below book value. We also evaluate long-lived assets for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We evaluate the recoverability of our goodwill by estimating the future discounted cash flows of our reporting units and terminal values of the businesses using projected future levels of income, as well as business trends, prospects and market and economic conditions. We evaluate the recoverability of indefinite-lived intangible assets using the income approach based upon estimated future revenue streams, and we evaluate long-lived assets based upon estimated undiscounted future cash flows. Our fiscal 2015 annual impairment test did not result in a goodwill or indefinite-lived intangible asset impairment. However, if lower than projected levels of cash flows were to occur due to prolonged abnormal weather conditions or a prolonged weakness in general economic conditions, among other risks, it could cause less than expected growth and/or a reduction in terminal values and cash flows and could result in an impairment charge attributable to

certain goodwill, indefinite-lived intangible assets and/or long-lived assets, negatively affecting our results of operations and stockholders' equity.

RESULTS OF OPERATIONS

Summary

Below is a summary of operating results for the three and six months ended January 31, 2016, compared to the three and six months ended January 31, 2015 (in thousands):

| | Three Months Ended January 31, | | Six Months Ended January 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Mountain Reported EBITDA | $236,555 | $194,265 | $187,172 | $139,424 |
| Lodging Reported EBITDA | 5,496 | 5,437 | 8,345 | 6,176 |
| Resort Reported EBITDA | 242,051 | 199,702 | 195,517 | 145,600 |
| Real Estate Reported EBITDA | (301) | (2,029) | 865 | (4,260) |
| Income before provision for income taxes | 189,254 | 146,526 | 93,010 | 44,425 |
| Net income attributable to Vail Resorts, Inc. | $116,982 | $115,762 | $57,395 | $51,486 |

A discussion of the segment results and other items can be found below.

Mountain Segment

Three months ended January 31, 2016 compared to the three months ended January 31, 2015
Mountain segment operating results for the three months ended January 31, 2016 and 2015 are presented by category as follows (in thousands, except effective ticket price ("ETP")):

| | Three Months Ended January 31, | | Percentage Increase (Decrease) |
|---|---|---|---|
| | 2016 | 2015 | |
| Net Mountain revenue: | | | |
| Lift | $287,685 | $239,288 | 20.2 % |
| Ski school | 62,040 | 57,295 | 8.3 % |
| Dining | 44,738 | 38,619 | 15.8 % |
| Retail/rental | 102,975 | 95,012 | 8.4 % |
| Other | 35,434 | 32,817 | 8.0 % |
| Total Mountain net revenue | $532,872 | $463,031 | 15.1 % |
| Mountain operating expense: | | | |
| Labor and labor-related benefits | $114,794 | $102,470 | 12.0 % |
| Retail cost of sales | 38,262 | 35,546 | 7.6 % |
| Resort related fees | 28,452 | 24,866 | 14.4 % |
| General and administrative | 48,762 | 43,550 | 12.0 % |
| Other | 65,986 | 62,534 | 5.5 % |
| Total Mountain operating expense | $296,256 | $268,966 | 10.1 % |
| Mountain equity investment (loss) income, net | (61) | 200 | (130.5)% |
| Mountain Reported EBITDA | $236,555 | $194,265 | 21.8 % |
| | | | |
| Total skier visits | 4,581 | 4,071 | 12.5 % |
| ETP | $62.80 | $58.78 | 6.8 % |

Mountain Reported EBITDA includes $3.3 million and $3.0 million of stock-based compensation expense for the three months ended January 31, 2016 and 2015, respectively.

Mountain Reported EBITDA for the three months ended January 31, 2016 increased $42.3 million, or 21.8%, compared to the three months ended January 31, 2015. Our results for the three months ended January 31, 2016 compared to the same period in the prior year reflect very strong U.S. pass sales growth for the 2015/2016 ski season; a very strong rebound at our Tahoe resorts; and improved results at our Colorado resorts and at Park City; as well as strong ancillary guest spend for ski school, dining and retail/rental operations. Our Tahoe resorts saw a significant increase in skier visitation during the three months ended January 31, 2016 compared to the same period in the prior year as a result of improved weather and snow conditions compared to the same period in the prior year. Additionally, our Colorado resorts and Park City realized strong increases in skier visitation during the three months ended January 31, 2016 compared to the same period in the prior year which we believe is in part due to the significant capital improvements we have made at Park City. However, these results were partially offset by a decline during the three months ended January 31, 2016 in international visitation, which we believe is due to the strong U.S. dollar, and off-season fixed operating expenses for Perisher (acquired June 30, 2015) which has its peak operating season from June through early October.

Lift revenue increased $48.4 million, or 20.2%, for the three months ended January 31, 2016, compared to the same period in the prior year, resulting from a $25.6 million, or 19.5%, increase in lift revenue excluding season pass

revenue, as well as a $22.8 million, or 21.1%, increase in season pass revenue. The increase in lift revenue excluding season pass revenue was driven by an increase in ETP excluding season pass holders of 11.9%, along with higher visitation at our Tahoe resorts and at Park City. The increase in season pass revenue was driven by a combination of both an increase in pricing and units sold, and was favorably impacted by increased pass sales to Destination guests. Total ETP increased $4.02, or 6.8%, due to price increases in both our lift ticket products at our U.S. mountain resorts and season pass products, partially offset by higher average visitation by season pass holders during the three months ended January 31, 2016 compared to the same period in the prior year.

Ski school revenue increased $4.7 million, or 8.3%, for the three months ended January 31, 2016, compared to the same period in the prior year, driven by increases in ski school revenue at our Colorado, Tahoe and Park City resorts, which was primarily driven by overall increases in skier visitation.

Dining revenue increased $6.1 million, or 15.8%, for the three months ended January 31, 2016, compared to the three months ended January 31, 2015, which benefited from overall increases in skier visitation at our Colorado, Tahoe and Park City resorts. In addition, the increase in dining revenue was further attributable to the earlier opening of terrain and on-mountain dining facilities at our Tahoe resorts compared to the prior year, and from both the opening of a new on-mountain dining venue and upgrades of existing on-mountain dining venues at Park City.

Retail/rental revenue increased $8.0 million, or 8.4%, for the three months ended January 31, 2016, compared to the same period in the prior year, resulting from both an increase in retail sales and rental revenue of $5.5 million, or 7.9%, and $2.5 million, or 9.4%, respectively. The increase in retail sales was driven primarily by an increase in sales volume at stores proximate to our Tahoe resorts and in the San Francisco Bay Area due to improved weather conditions and snowfall in the Tahoe region. The increase in rental revenue was primarily driven by stores proximate to our Tahoe and Colorado resorts which experienced higher volumes due to overall increased skier visitation.

Other revenue mainly consists of mountain activities revenue, employee housing revenue, guest services revenue, commercial leasing revenue, marketing and internet advertising revenue, private club revenue (which includes both club dues and amortization of initiation fees), municipal services revenue and other recreation activity revenue. For the three months ended January 31, 2016, other revenue increased $2.6 million, or 8.0%, compared to the three months ended January 31, 2015, primarily due to increases in marketing revenue driven by higher revenue from our strategic partners, increased base area services, including parking revenue, and other mountain activities revenue driven by increased visitation.

Operating expense increased $27.3 million, or 10.1%, for the three months ended January 31, 2016 compared to the three months ended January 31, 2015, including incremental expenses of $4.2 million from Perisher. Excluding Perisher, operating expenses increased $23.1 million, or 8.6%. Labor and labor-related benefits (excluding Perisher) increased $10.8 million, or 10.5%, due to wage adjustments, increased staffing levels to support higher volumes primarily in ski school, mountain operations and on-mountain dining and increased bonus expense. Retail cost of sales increased $2.7 million, or 7.6%, due to an increase in retail sales of $5.5 million, or 7.9%. Resort related fees increased $3.6 million, or 14.4%, due to overall increases in revenue upon which those fees are based. General and administrative expense (excluding Perisher) increased $4.7 million, or 10.9%, primarily due to higher Mountain segment component of allocated corporate costs, including increased sales and marketing expense. Other expense (excluding Perisher) increased $1.3 million, or 2.1%, primarily driven by higher operating expenses including rent expense, food and beverage cost of sales commensurate with increased dining revenue, repairs and maintenance expense and supplies expense, partially offset by lower fuel expense.

Mountain equity investment (loss) income, net, primarily includes our share of income from the operations of a real estate brokerage joint venture.

Six months ended January 31, 2016 compared to the six months ended January 31, 2015
Mountain segment operating results for the six months ended January 31, 2016 and 2015 are presented by category as follows (in thousands, except ETP):

| | Six Months Ended January 31, | | Percentage Increase (Decrease) | |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| Net Mountain revenue: | | | | |
| Lift | $307,838 | $239,288 | 28.6 | % |
| Ski school | 65,424 | 57,295 | 14.2 | % |
| Dining | 57,093 | 46,658 | 22.4 | % |
| Retail/rental | 135,364 | 124,485 | 8.7 | % |
| Other | 68,086 | 55,691 | 22.3 | % |
| Total Mountain net revenue | $633,805 | $523,417 | 21.1 | % |
| Mountain operating expense: | | | | |
| Labor and labor-related benefits | $166,593 | $145,475 | 14.5 | % |
| Retail cost of sales | 54,741 | 52,336 | 4.6 | % |
| Resort related fees | 30,344 | 26,150 | 16.0 | % |
| General and administrative | 85,976 | 75,566 | 13.8 | % |
| Other | 109,760 | 101,391 | 8.3 | % |
| Total Mountain operating expense | $447,414 | $400,918 | 11.6 | % |
| Gain on litigation settlement | — | 16,400 | (100.0 | )% |
| Mountain equity investment income, net | 781 | 525 | 48.8 | % |
| Mountain Reported EBITDA | $187,172 | $139,424 | 34.2 | % |
| | | | | |
| Total skier visits | 5,016 | 4,071 | 23.2 | % |
| ETP | $61.37 | $58.78 | 4.4 | % |

Mountain Reported EBITDA includes $6.7 million and $6.2 million of stock-based compensation expense for the six months ended January 31, 2016 and 2015, respectively.

Mountain Reported EBITDA for the six months ended January 31, 2016 increased $47.7 million, or 34.2%, compared to the six months ended January 31, 2015. This increase is primarily due to strong U.S. pass sales growth for the 2015/2016 ski season; a very strong rebound at our Tahoe resorts; and improved results at our Colorado resorts and at Park City; as well as strong ancillary guest spend for ski school, dining and retail/rental operations. Mountain Reported EBITDA for the six months ended January 31, 2016 was also positively impacted by the addition of Perisher (acquired in June 2015) which has its peak operating season from June through early October, increased summer activities revenue and the elimination of transaction, integration and litigation expenses incurred in the same period in the prior year related to Park City. These favorable impacts were partially offset by a decline during the three months ended January 31, 2016 in international visitation to our U.S. resorts, the $16.4 million non-cash gain on Park City litigation settlement recognized during the six months ended January 31, 2015 and by recording a full non-peak fiscal quarter of operating results for Park City during the period ended October 31, 2015 compared to the same period in the prior year due to the acquisition of Park City Mountain Resort in September 2014.

As our U.S. resorts opened for ski season operations during our second fiscal quarter, the results of the six months ended January 31, 2016 and 2015 for lift revenue and ski school revenue at our U.S. resorts are the same as the three months ended January 31, 2016 and 2015 as previously discussed. Additionally, during the three months ended October 31, 2015, we generated $20.2 million and $3.4 million of lift revenue and ski school revenue, respectively, from Perisher’s ski season operations which comprises the majority of Perisher’s revenue for the current fiscal year.

Dining revenue increased $10.4 million, or 22.4%, for the six months ended January 31, 2016 compared to the six months ended January 31, 2015, and was primarily attributable to overall increases in summer and skier visitation at our U.S. mountain resorts combined with incremental dining revenue from Perisher. Additionally, dining revenue benefited from the earlier opening of terrain and on-mountain dining facilities at our Tahoe resorts compared to the prior year, and from both the opening of a new on-mountain dining venue and upgrades of existing on-mountain dining venues at Park City.

Retail/rental revenue increased $10.9 million, or 8.7%, for the six months ended January 31, 2016, compared to the same period in the prior year, which was driven by an increase in both retail sales and rental revenue of $6.2 million, or 6.5%, and $4.7 million, or 16.8%, respectively. The increase in retail sales was primarily attributable to increases in sales volume at stores proximate to our Tahoe resorts and in the San Francisco Bay Area due to improved weather conditions and snowfall in the Tahoe region. The increase in rental revenue was primarily driven by stores proximate to our mountain resorts in Tahoe and Colorado which experienced higher volumes due to increased overall skier visitation, and incremental rental revenue from Perisher.

Other revenue mainly consists of summer visitation and mountain activities revenue, employee housing revenue, guest services revenue, commercial leasing revenue, marketing and internet advertising revenue, private club revenue (which includes both club dues and amortization of initiation fees), municipal services revenue and other recreation activity revenue. Other revenue is also comprised of Perisher lodging and transportation revenue. For the six months ended January 31, 2016, other revenue increased $12.4 million, or 22.3%, compared to the six months ended January 31, 2015, primarily attributable to incremental revenue from Perisher, increases in summer activities revenue from improved summer visitation at both our Colorado and Tahoe mountain resorts combined with the expansion of our on-mountain summer activities offerings, increases in marketing revenue driven by higher revenue from our strategic partners, and higher base area services and parking revenue due to increased visitation.

Operating expense increased $46.5 million, or 11.6%, for the six months ended January 31, 2016 compared to the six months ended January 31, 2015, including incremental expenses from Perisher of $19.7 million. Additionally, current year results were favorably impacted by the elimination of transaction, integration and litigation expenses incurred in the same period in the prior year related to Park City. Excluding Perisher and transaction, integration and litigation expenses related to Park City, operating expenses increased $30.7 million, or 7.7%. Labor and labor-related benefits (excluding Perisher) increased $12.6 million, or 8.6%, due to wage adjustments, increased staffing levels to support higher volumes primarily in ski school, mountain operations and on-mountain dining, and increased bonus expense. Retail cost of sales increased $2.4 million, or 4.6%, compared to an increase in retail sales of $6.2 million, or 6.5%, reflecting an improvement in the gross profit margin percentage at our retail outlets. Resort related fees (excluding Perisher) increased $3.9 million, or 14.8%, due to overall increases in revenue upon which those fees are based. General and administrative expense (excluding Perisher) increased $8.2 million, or 10.9%, primarily due to higher Mountain segment component of allocated corporate costs, including increased sales and marketing expense. Other expense (excluding Perisher from the current period and Park City transaction, integration and litigation expenses from the prior period) increased $4.3 million, or 4.4%, driven by higher operating expenses including food and beverage cost of sales commensurate with the increase in dining revenue, rent expense, supplies expense and repairs and maintenance expense, partially offset by lower fuel expense.

Mountain equity investment income, net, primarily includes our share of income from the operations of a real estate brokerage joint venture.

Lodging Segment

Three months ended January 31, 2016 compared to the three months ended January 31, 2015
Lodging segment operating results for the three months ended January 31, 2016 and 2015 are presented by category as follows (in thousands, except average daily rates ("ADR") and revenue per available room ("RevPAR")):

| | Three Months Ended January 31, | | Percentage Increase (Decrease) | |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| Lodging net revenue: | | | | |
| Owned hotel rooms | $12,045 | $11,333 | 6.3 | % |
| Managed condominium rooms | 21,063 | 19,648 | 7.2 | % |
| Dining | 8,841 | 8,222 | 7.5 | % |
| Transportation | 8,293 | 8,497 | (2.4 | )% |
| Other | 9,425 | 9,059 | 4.0 | % |
| | 59,667 | 56,759 | 5.1 | % |
| Payroll cost reimbursements | 3,140 | 2,605 | 20.5 | % |
| Total Lodging net revenue | $62,807 | $59,364 | 5.8 | % |
| Lodging operating expense: | | | | |
| Labor and labor-related benefits | $27,026 | $25,943 | 4.2 | % |
| General and administrative | 9,410 | 8,849 | 6.3 | % |
| Other | 17,735 | 16,530 | 7.3 | % |
| | 54,171 | 51,322 | 5.6 | % |
| Reimbursed payroll costs | 3,140 | 2,605 | 20.5 | % |
| Total Lodging operating expense | $57,311 | $53,927 | 6.3 | % |
| Lodging Reported EBITDA | $5,496 | $5,437 | 1.1 | % |
| | | | | |
| Owned hotel statistics: | | | | |
| ADR | $255.44 | $246.68 | 3.6 | % |
| RevPar | $161.66 | $148.42 | 8.9 | % |
| Managed condominium statistics: | | | | |
| ADR | $403.76 | $409.37 | (1.4 | )% |
| RevPar | $159.75 | $145.16 | 10.1 | % |
| Owned hotel and managed condominium statistics (combined): | | | | |
| ADR | $353.96 | $352.72 | 0.4 | % |
| RevPar | $160.21 | $145.94 | 9.8 | % |

The Lodging segment ADR and RevPAR statistics presented above for the three months ended January 31, 2015 have been adjusted to exclude resort fee revenue from the calculations for ADR and RevPAR, as stipulated by the Uniform System of Accounts for the Lodging Industry, Eleventh Revised Edition.

Lodging Reported EBITDA includes $0.8 million and $0.7 million of stock-based compensation expense for the three months ended January 31, 2016 and 2015, respectively.

Total Lodging net revenue (excluding payroll cost reimbursements) for the three months ended January 31, 2016 increased $2.9 million, or 5.1%, as compared to the three months ended January 31, 2015. This increase was primarily attributable to an increase in transient guest visitation at our lodging properties and managed condominium rooms at or proximate to our mountain resorts due to increased skier visitation (as discussed in the Mountain segment).

Revenue from owned hotel rooms increased $0.7 million, or 6.3%, for the three months ended January 31, 2016 compared to the same period in the prior year, driven by an 8.9% increase in RevPar primarily resulting from a 3.1 percentage point increase in occupancy. Occupancy for owned lodging properties was favorably impacted by increased skier visitation at our Colorado mountain resorts. Revenue from managed condominium rooms increased $1.4 million, or 7.2%, for the three months ended January 31, 2016 compared to the three months ended January 31, 2015, which was primarily attributable to increased transient guest visitation

at our managed condominium rooms in Colorado, Tahoe and Park City, as well as increased group business at our managed condominium rooms in Colorado and Park City, which drove a 10.1% increase in RevPar.

Dining revenue for the three months ended January 31, 2016 increased $0.6 million, or 7.5%, as compared to the three months ended January 31, 2015, primarily generated at our Colorado and Park City lodging properties as a result of increased skier visitation. Other revenue increased $0.4 million, or 4.0%, for the three months ended January 31, 2016 compared to the three months ended January 31, 2015, primarily due to an increase in revenue from conference services provided to our group business at our Colorado and Park City lodging properties.

Operating expense (excluding reimbursed payroll costs) increased $2.8 million, or 5.6%, for the three months ended January 31, 2016 compared to the three months ended January 31, 2015. Labor and labor-related benefits increased $1.0 million, or 4.2%, resulting from wage increases and higher staffing levels associated with increased overall occupancy. General and administrative expense increased $0.6 million, or 6.3%, due to higher allocated corporate costs. Other expense increased $1.2 million, or 7.3%, primarily due to higher operating expenses (such as commissions, repairs and maintenance and credit card fees) and higher advertising expenses.

Revenue from payroll cost reimbursement and the corresponding reimbursed payroll costs relate to payroll costs at managed hotel properties where we are the employer and all payroll costs are reimbursed by the owners of the properties under contractual arrangements. Since the reimbursements are made based upon the costs incurred with no added margin, the revenue and corresponding expense have no effect on our Lodging Reported EBITDA.

Six months ended January 31, 2016 compared to the six months ended January 31, 2015
Lodging segment operating results for the six months ended January 31, 2016 and 2015 are presented by category as follows (in thousands, except ADR and RevPAR):

| | Six Months Ended January 31, | | Percentage Increase (Decrease) | |
|---|---|---|---|---|
| | 2016 | 2015 | | |
| Lodging net revenue: | | | | |
| Owned hotel rooms | $29,351 | $26,251 | 11.8 | % |
| Managed condominium rooms | 29,310 | 27,759 | 5.6 | % |
| Dining | 23,882 | 21,760 | 9.8 | % |
| Transportation | 10,613 | 10,814 | (1.9 | )% |
| Golf | 8,502 | 7,644 | 11.2 | % |
| Other | 19,595 | 18,782 | 4.3 | % |
| | 121,253 | 113,010 | 7.3 | % |
| Payroll cost reimbursements | 5,840 | 4,847 | 20.5 | % |
| Total Lodging net revenue | $127,093 | $117,857 | 7.8 | % |
| Lodging operating expense: | | | | |
| Labor and labor-related benefits | $55,721 | $53,318 | 4.5 | % |
| General and administrative | 17,379 | 16,366 | 6.2 | % |
| Other | 39,808 | 37,150 | 7.2 | % |
| | 112,908 | 106,834 | 5.7 | % |
| Reimbursed payroll costs | 5,840 | 4,847 | 20.5 | % |
| Total Lodging operating expense | $118,748 | $111,681 | 6.3 | % |
| Lodging Reported EBITDA | $8,345 | $6,176 | 35.1 | % |
| | | | | |
| Owned hotel statistics: | | | | |
| ADR | $219.94 | $211.09 | 4.2 | % |
| RevPar | $143.94 | $129.98 | 10.7 | % |
| Managed condominium statistics: | | | | |
| ADR | $316.44 | $315.85 | 0.2 | % |
| RevPar | $101.59 | $93.04 | 9.2 | % |
| Owned hotel and managed condominium statistics (combined): | | | | |
| ADR | $272.20 | $267.79 | 1.6 | % |
| RevPar | $114.02 | $103.70 | 10.0 | % |

The Lodging segment ADR and RevPAR statistics presented above for the six months ended January 31, 2015 have been adjusted to exclude resort fee revenue from the calculations for ADR and RevPAR, as stipulated by the Uniform System of Accounts for the Lodging Industry, Eleventh Revised Edition.

Lodging Reported EBITDA includes $1.5 million and $1.3 million of stock-based compensation expense for the six months ended January 31, 2016 and 2015, respectively.

Total Lodging net revenue (excluding payroll cost reimbursements) for the six months ended January 31, 2016 increased $8.2 million, or 7.3%, as compared to the six months ended January 31, 2015, which is primarily due to an increase in transient guest visitation to our lodging properties and managed condominium rooms at or proximate to our mountain resorts due to increased skier visitation; an increase in transient business from improved summer visitation at GTLC and our Colorado mountain resort properties; and improved group business at our Colorado mountain resort properties.

Revenue from owned hotel rooms increased $3.1 million, or 11.8%, for the six months ended January 31, 2016, as compared to the same period in the prior year. Owned room revenue was positively impacted from an increase in transient guest visitation attributable to increased skier visits at our Colorado mountain resorts and improved summer visitation, generating a $1.4 million increase in revenue from owned hotel rooms; and an increase in transient guest visitation and ADR at GTLC for the three months ended October 31, 2015 compared to the same period in the prior year, resulting in a $1.7 million increase in revenue from owned

31

hotel rooms. Revenue from managed condominium rooms increased $1.6 million, or 5.6%, for the six months ended January 31, 2016 compared to the same period in the prior year, primarily due to increased transient guest visitation at our managed condominium rooms at or proximate to our mountain resorts, as well as increased group business at our managed condominium rooms in Colorado and Park City which drove a 9.2% increase in RevPar.

Dining revenue for the six months ended January 31, 2016 increased $2.1 million, or 9.8%, as compared to the six months ended January 31, 2015, primarily due to increased dining revenue generated at our Colorado lodging properties as a result of increased summer visitation and skier visits, as well as increased revenue at GTLC during the three months ended October 31, 2015. Golf revenue for the six months ended January 31, 2016 increased $0.9 million, or 11.2%, as compared to the six months ended January 31, 2015 primarily due to incremental revenue from reimbursable expenses for managing the Canyons golf course beginning in the summer of 2015. Other revenue increased $0.8 million, or 4.3%, for the six months ended January 31, 2016 as compared to the six months ended January 31, 2015, primarily due to an increase in ancillary revenue from improved visitation at GTLC during the three months ended October 31, 2015, an increase in revenue from conference services provided to our group business at our Colorado and Park City lodging properties, and increased revenue from our central reservations booking services.

Operating expense (excluding reimbursed payroll costs) increased $6.1 million, or 5.7%, for the six months ended January 31, 2016, compared to the six months ended January 31, 2015. Labor and labor-related benefits increased $2.4 million, or 4.5%, resulting from wage increases and higher staffing levels associated with increased overall occupancy. General and administrative expense increased $1.0 million, or 6.2%, due to higher allocated corporate costs, including increased information technology expense, increased marketing and sales expenses, and increased human resources expense. Other expense increased $2.7 million, or 7.2%, primarily due to higher operating expenses (such as food and beverage cost of sales, repairs and maintenance, and credit card fees) and higher advertising expenses.

Revenue from payroll cost reimbursement and the corresponding reimbursed payroll costs relate to payroll costs at managed hotel properties where we are the employer and all payroll costs are reimbursed by the owners of the properties under contractual arrangements. Since the reimbursements are made based upon the costs incurred with no added margin, the revenue and corresponding expense have no effect on our Lodging Reported EBITDA.

Real Estate Segment

Three months ended January 31, 2016 compared to the three months ended January 31, 2015

Real Estate segment operating results for the three months ended January 31, 2016 and 2015 are presented by category as follows (in thousands):

| | Three Months Ended January 31, | | Percentage Increase |
|---|---|---|---|
| | 2016 | 2015 | (Decrease) |
| Total Real Estate net revenue | $3,684 | $7,842 | (53.0)% |
| Real Estate operating expense: | | | |
| Cost of sales (including sales commission) | 2,785 | 6,127 | (54.5)% |
| Other | 1,832 | 3,744 | (51.1)% |
| Total Real Estate operating expense | 4,617 | 9,871 | (53.2)% |
| Gain on sale of real property | 632 | — | nm |
| Real Estate Reported EBITDA | $(301) | $(2,029) | 85.2 % |

Real Estate Reported EBITDA includes $0.2 million and $0.3 million of stock-based compensation expense for the three months ended January 31, 2016 and 2015, respectively.

Our Real Estate net revenue is primarily determined by the timing of closings and the mix of real estate sold in any given period. Different types of projects have different revenue and profit margins; therefore, as the real estate

inventory mix changes it can greatly impact Real Estate segment net revenue, operating expense and Real Estate Reported EBITDA.

Three months ended January 31, 2016
Real Estate segment net revenue for the three months ended January 31, 2016 was primarily driven by the closing of one condominium unit at The Ritz-Carlton Residences, Vail ($3.4 million of revenue and a price per square foot of $1,535). The price per square foot for the project is driven by the premier location and the comprehensive and exclusive amenities related to the project. Real Estate net revenue also included $0.1 million of rental revenue from placing unsold units into our rental program. Additionally, we recorded a gain on sale of real property of $0.6 million (net of $0.2 million in related land basis and costs) for a land parcel which sold for $0.8 million.

Operating expense for the three months ended January 31, 2016 included cost of sales of $2.6 million resulting from the closing of one condominium unit at The Ritz-Carlton Residences, Vail (a cost per square foot of $1,183). The cost per square foot for The Ritz-Carlton Residences, Vail project is reflective of the high-end features and amenities and the high construction costs associated with mountain resort development. Additionally, sales commissions of approximately $0.2 million were incurred commensurate with revenue recognized. Other operating expense of $1.8 million (including $0.2 million of stock-based compensation expense) was primarily comprised of general and administrative costs, which includes marketing expense for real estate available for sale (including those units that have not yet closed), carrying costs for units available for sale and overhead costs, such as labor and labor-related benefits and allocated corporate costs.

Three months ended January 31, 2015
Real Estate segment net revenue for the three months ended January 31, 2015 was driven by the closing of four condominium units at One Ski Hill Place ($3.9 million of revenue with an average selling price of $1.0 million and an average price per square foot of $1,134) and one condominium unit at The Ritz-Carlton Residences, Vail ($3.3 million of revenue with a price per square foot of $1,496). Real Estate net revenue also included $0.3 million of rental revenue from placing unsold units into our rental program.

Operating expense for the three months ended January 31, 2015 included cost of sales of $5.7 million resulting from the closing of four condominium units at One Ski Hill Place (average cost per square foot of $902) and one condominium unit at The Ritz-Carlton Residences, Vail (a cost per square foot of $1,172). Additionally, sales commissions of approximately $0.4 million were incurred commensurate with revenue recognized. Other operating expense of $3.7 million (including $0.3 million of stock-based compensation expense) was primarily comprised of general and administrative costs.

Six months ended January 31, 2016 compared to the six months ended January 31, 2015
Real Estate segment operating results for the six months ended January 31, 2016 and 2015 are presented by category as follows (in thousands):

| | Six Months Ended January 31, | | Percentage Increase (Decrease) |
|---|---|---|---|
| | 2016 | 2015 | |
| Total Real Estate net revenue | $13,032 | $17,225 | (24.3)% |
| Real Estate operating expense: | | | |
| Cost of sales (including sales commission) | 10,551 | 13,879 | (24.0)% |
| Other | 3,407 | 7,606 | (55.2)% |
| Total Real Estate operating expense | 13,958 | 21,485 | (35.0)% |
| Gain on sale of real property | 1,791 | — | nm |
| Real Estate Reported EBITDA | $865 | $(4,260) | 120.3% |

Real Estate Reported EBITDA includes $0.2 million and $0.7 million of stock-based compensation expense for the six months ended January 31, 2016 and 2015, respectively.

Six months ended January 31, 2016

Real Estate segment net revenue for the six months ended January 31, 2016 was primarily driven by the closing of three condominium units at The Ritz-Carlton Residences, Vail ($9.3 million of revenue with an average selling price of $3.1 million and an average price per square foot of $1,586) and two condominium units at One Ski Hill Place ($2.5 million of revenue with an average selling price of $1.2 million and an average price per square foot of $1,129). Real Estate net revenue also included $0.1 million of rental revenue from placing unsold units into our rental program. Additionally, we recorded a gain on sale of real property of $1.8 million (net of $1.9 million in related land basis and costs) for land parcels which sold for $3.7 million.

Operating expense for the six months ended January 31, 2016 included cost of sales of $9.0 million resulting from the closing of three condominium units at The Ritz-Carlton Residences, Vail (average cost per square foot of $1,198) and two condominium units at One Ski Hill Place (average cost per square foot of $931). Additionally, sales commissions of approximately $0.8 million were incurred commensurate with revenue recognized. Other operating expense of $3.4 million (including $0.2 million of stock-based compensation) was primarily comprised of general and administrative costs.

Six months ended January 31, 2015
Real Estate segment net revenue for the six months ended January 31, 2015 was driven by the closing of three condominium units at The Ritz-Carlton Residences, Vail ($9.6 million of revenue with an average selling price of $3.2 million and an average price per square foot of $1,541) and six condominium units at One Ski Hill Place ($6.6 million of revenue with an average selling price of $1.1 million and an average price per square foot of $1,116). Real Estate net revenue also included $0.4 million of rental revenue from placing unsold units into our rental program.

Operating expense for the six months ended January 31, 2015 included cost of sales of $12.7 million resulting from the closing of three condominium units at The Ritz-Carlton Residences, Vail (average cost per square foot of $1,208) and six condominium units at One Ski Hill Place (average cost per square foot of $888). Additionally, sales commissions of approximately $1.0 million were incurred commensurate with revenue recognized. Other operating expense of $7.6 million (including $0.7 million of stock-based compensation expense) was primarily comprised of general and administrative costs.

Other Items

In addition to segment operating results, the following material items contributed to our overall financial position.

Depreciation and amortization. Depreciation and amortization expense for the three and six months ended January 31, 2016 increased $3.2 million and $5.9 million, respectively, compared to the same periods in the prior year, primarily due to assets acquired in the Perisher acquisition.

Change in fair value of Contingent Consideration. There was no change in fair value of the Contingent Consideration recorded during the six months ended January 31, 2016. A gain of $4.5 million was recorded during the six months ended January 31, 2015 related to a decrease in the estimated fair value of the participating contingent payments to Talisker under the lease for Canyons. Commensurate with the acquisition of Park City Mountain Resort, the fair value of the Contingent Consideration includes the resort operations of Park City Mountain Resort in the calculation of EBITDA on which participating contingent payments are made, and increases the EBITDA threshold before which participating contingent payments are made by 10% of the purchase price paid by the Company for Park City Mountain Resort along with all future capital expenditures associated with Park City Mountain Resort, or the combined resort of Park City (comprised of the former standalone Park City Mountain Resort acquired in September 2014 and the former Canyons Resort). The estimated fair value of the Contingent Consideration is $6.9 million as of January 31, 2016.

Interest expense. Interest expense for the three and six months ended January 31, 2016 decreased $2.9 million and $5.9 million, respectively, compared to the same period in the prior year, primarily due to the redemption of the remaining $215.0 million of our 6.50% Notes outstanding in May 2015 and the redemption of the entire $41.2 million of our Industrial Development Bonds outstanding in May 2015, partially offset by interest expense on the borrowings incurred under the $250.0 million term loan facility, bearing interest at 1.68% at January 31, 2016, used to fund the redemption of the 6.50% Notes and Industrial Development Bonds in May 2015.

Income taxes. The effective tax rate (provision) / benefit for the three and six months ended January 31, 2016 was (38.2)% and (38.5)%, respectively, compared to (21.0)% and 15.6%, respectively, for the three and six months ended January 31, 2015. The interim period effective tax rate is primarily driven by anticipated pre-tax book income for the full fiscal year adjusted for items that are deductible/non-deductible for tax purposes only (i.e., permanent items). Additionally, the income tax (provision) / benefit recorded for the three and six months ended January 31, 2015 reflects $23.8 million of income tax benefits due to the reversal of income tax contingencies, including accrued interest and penalties, resulting from a settlement with the IRS on the utilization of certain net operating losses (“NOLs”) relating to fresh start accounting from our reorganization in 1992.

Reconciliation of Non-GAAP Measures

The following table reconciles from segment Reported EBITDA to net income attributable to Vail Resorts, Inc. (in thousands):

| | Three Months Ended January 31, | | Six Months Ended January 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Mountain Reported EBITDA | $236,555 | $194,265 | $187,172 | $139,424 |
| Lodging Reported EBITDA | 5,496 | 5,437 | 8,345 | 6,176 |
| Resort Reported EBITDA | 242,051 | 199,702 | 195,517 | 145,600 |
| Real Estate Reported EBITDA | (301) | (2,029) | 865 | (4,260) |
| Total Reported EBITDA | 241,750 | 197,673 | 196,382 | 141,340 |
| Depreciation and amortization | (40,541) | (37,376) | (79,241) | (73,345) |
| Loss on disposal of fixed assets and other, net | (1,206) | (26) | (2,985) | (781) |
| Change in fair value of Contingent Consideration | — | — | — | 4,550 |
| Investment income, net | 161 | 62 | 359 | 36 |
| Interest expense | (10,910) | (13,807) | (21,505) | (27,375) |
| Income before (provision) benefit from income taxes | 189,254 | 146,526 | 93,010 | 44,425 |
| (Provision) benefit from income taxes | (72,383) | (30,826) | (35,809) | 6,951 |
| Net income | 116,871 | 115,700 | 57,201 | 51,376 |
| Net loss attributable to noncontrolling interests | 111 | 62 | 194 | 110 |
| Net income attributable to Vail Resorts, Inc. | $116,982 | $115,762 | $57,395 | $51,486 |

The following table reconciles Net Debt to long-term debt (in thousands):

| | January 31, | |
|---|---|---|
| | 2016 | 2015 |
| Long-term debt | $682,195 | $634,739 |
| Long-term debt due within one year | 13,340 | 1,196 |
| Total debt | 695,535 | 635,935 |
| Less: cash and cash equivalents | 45,368 | 36,578 |
| Net Debt | $650,167 | $599,357 |

LIQUIDITY AND CAPITAL RESOURCES

Significant Sources of Cash

Our second and third fiscal quarters historically result in seasonally high cash on hand as our U.S. mountain resorts and Urban ski areas are generally open for ski operations from mid-November to mid-April, from which we have historically generated a significant portion of our operating cash flows for the fiscal year. Additionally, cash provided by or used in operating activities can be significantly impacted by the timing or mix of closings on remaining inventory of real estate available for sale.

We had $45.4 million of cash and cash equivalents as of January 31, 2016, compared to $36.6 million as of January 31, 2015. We currently anticipate that our Mountain and Lodging segment operating results will continue to provide a significant source of future operating cash flows (primarily those generated in our second and third fiscal quarters) combined with proceeds from the sale of remaining inventory of real estate available for sale from the completed Ritz-Carlton Residences, Vail and One Ski Hill Place at Breckenridge projects, and occasional land sales.

At January 31, 2016, we also had available $262.9 million under the Credit Agreement (which represents the total commitment of $400.0 million less outstanding borrowings of $64.5 million and certain letters of credit outstanding of $72.6 million). We expect that our liquidity needs in the near term will be met by continued use of operating cash flows, borrowings under the Credit Agreement, if needed, and proceeds from future real estate closings. We believe the Credit Agreement, which matures in 2020, provides adequate flexibility and is priced favorably with any new borrowings currently priced at LIBOR plus 1.125%.

35

Six months ended January 31, 2016 compared to the six months ended January 31, 2015
We generated $309.5 million of cash from operating activities during the six months ended January 31, 2016, an increase of $35.3 million compared to $274.2 million of cash generated during the six months ended January 31, 2015. The increase in operating cash flows was primarily a result of improved Mountain (including the addition of Perisher) and Lodging segment operating results for the six months ended January 31, 2016 compared to the six months ended January 31, 2015, excluding the non-cash gain on litigation settlement of $16.4 million recorded in the prior period; increased season pass sales for the 2015/2016 ski season compared to the 2014/2015 ski season of which only a portion has been reflected in operating results; decreased cash interest payments during the six months ended January 31, 2016 compared to the same period in the prior year; and a $10.0 million Park City litigation payment to Talisker during the six months ended January 31, 2015. These increases in operating cash inflows were partially offset by a net increase in cash outflows of $32.5 million from the combination of estimated income tax payments made during the six months end January 31, 2016 and the receipt of an income tax refund during the six months ended January 31, 2015 in conjunction with the settlement reached with the IRS regarding the utilization of Federal NOLs, and receipt of a $12.5 million legal settlement during the six months ended January 31, 2015. Additionally, we generated $11.5 million in proceeds from real estate development project closings (net of sales commissions and deposits previously received) during the six months ended January 31, 2016 compared to $15.6 million in proceeds (net of sales commissions and deposits previously received) from real estate closings that occurred in the six months ended January 31, 2015.

Cash used in investing activities for the six months ended January 31, 2016 decreased by $162.3 million compared to the six months ended January 31, 2015, primarily due to the acquisition of Park City Mountain Resort for $182.5 million during the six months ended January 31, 2015 as compared to the acquisition of Wilmot Mountain for $20.2 million during the six months ended January 31, 2016.

Cash used in financing activities increased $179.1 million during the six months ended January 31, 2016, compared to the six months ended January 31, 2015, due to a decrease in net borrowings under the revolver portion of our Credit Agreement primarily resulting from the usage of our Credit Agreement to fund the acquisition of Park City Mountain Resort during the six months ended January 31, 2015; repurchases of our common stock of $40.0 million; and an increase in dividends paid of $15.1 million during the six months ended January 31, 2016 compared to the same period in the prior year.

Significant Uses of Cash
Our cash uses include providing for working capital needs and capital expenditures for assets to be used in resort operations.

We have historically invested significant amounts of cash in capital expenditures for our resort operations, and we expect to continue to do so subject to operating performance particularly as it relates to discretionary projects. Current planned capital expenditures primarily include investments that will allow us to maintain our high quality standards, as well as certain incremental discretionary improvements at our mountain resorts and Urban ski areas and throughout our owned hotels. We evaluate additional discretionary capital improvements based on an expected level of return on investment. We currently anticipate we will spend approximately $100 million of resort capital expenditures for calendar year 2016, excluding capital expenditures for summer related activities and one-time transformational investments at Wilmot. Included in these estimated capital expenditures is approximately $60 million of maintenance capital expenditures, which are necessary to maintain appearance and level of service appropriate to our resort operations, including routine replacement of snow grooming equipment and rental fleet equipment. Discretionary expenditures for calendar year 2016 include, among other projects, a new 500-seat restaurant at the top of the Peak 7 chairlift in Breckenridge, upgrading the Sun Up chairlift at Vail Mountain (Chair 17) from a fixed grip triple to a high-speed four-passenger chairlift, renovation of the Pines Lodge in Beaver Creek, revamping our primary websites to a single ‘responsive’ desktop/mobile platform which will be integrated with our data-based and personalized

marketing technology, and further upgrading our customer database and our call center technology. In addition, we expect to spend approximately $14 million on new summer activities related to our Epic Discovery program at Vail, Breckenridge and Heavenly, and approximately $13 million on improvements at Wilmot. We currently plan to utilize cash on hand, borrowings available under our Credit Agreement and/or cash flow generated from future operations to provide the cash necessary to complete our capital plans.

Principal payments on the vast majority of our long-term debt ($648.8 million of the total $695.5 million debt outstanding as of January 31, 2016) are not due until fiscal 2020 and beyond. As of January 31, 2016 and 2015, total long-term debt (including long-term debt due within one year) was $695.5 million and $635.9 million, respectively.

Our debt service requirements can be impacted by changing interest rates as we had $364.0 million of variable-rate debt outstanding as of January 31, 2016. A 100-basis point change in LIBOR would cause our annual interest payments to change by approximately $3.6 million. Additionally, the annual payments associated with the financing of the Canyons transaction increase by the greater of CPI less 1%, or 2%. The fluctuation in our debt service requirements, in addition to interest rate and inflation

changes, may be impacted by future borrowings under our Credit Agreement or other alternative financing arrangements we may enter into. Our long term liquidity needs depend upon operating results that impact the borrowing capacity under the Credit Agreement, which can be mitigated by adjustments to capital expenditures, flexibility of investment activities and the ability to obtain favorable future financing. We can also respond to liquidity impacts of changes in the business and economic environment by managing our capital expenditures.

Our share repurchase program is conducted under authorizations made from time to time by our Board of Directors. Our Board of Directors initially authorized the repurchase of up to 3,000,000 shares of common stock (March 9, 2006) and later authorized additional repurchases of up to 3,000,000 additional shares (July 16, 2008). On December 4, 2015, our Board of Directors approved an increase in the number of shares authorized to be repurchased under the share repurchase program by an additional 1,500,000 shares. During the six months ended January 31, 2016, we repurchased 377,830 shares of common stock at a cost of $40.0 million. Since inception of this stock repurchase program through January 31, 2016, we have repurchased 5,326,941 shares at a cost of approximately $233.2 million. As of January 31, 2016, 2,173,059 shares remained available to repurchase under the existing repurchase authorization. Shares of common stock purchased pursuant to the repurchase program will be held as treasury shares and may be used for the issuance of shares under the Company's share award plan. Repurchases under the program may be made from time to time at prevailing prices as permitted by applicable laws, and subject to market conditions and other factors. The timing as well as the number of shares that may be repurchased under the program will depend on several factors, including our future financial performance, our available cash resources and competing uses for cash that may arise in the future, the restrictions in our Credit Agreement, prevailing prices of our common stock and the number of shares that become available for sale at prices that we believe are attractive. The share repurchase program has no expiration date.

In fiscal 2011, our Board of Directors approved the commencement of a regular quarterly cash dividend on our common stock of $0.15 per share, subject to quarterly declaration. Since the initial commencement of a regular quarterly cash dividend, our Board of Directors has annually approved an increase to our cash dividend on our common stock and on March 9, 2016, our Board of Directors approved an approximate 30% increase to our quarterly cash dividend to $0.81 per share (or approximately $29.4 million per quarter based upon shares outstanding as of January 31, 2016). During the six months ended January 31, 2016, the Company paid cash dividends of $1.2450 per share or $45.2 million in the aggregate. These dividends were funded through available cash on hand and borrowing under the revolving portion of our Credit Agreement. Subject to the discretion of our Board of Directors, applicable law and contractual restrictions, we anticipate paying regular quarterly cash dividends on our common stock for the foreseeable future. The amount, if any, of the dividends to be paid in the future will depend on our available cash on hand, anticipated cash needs, overall financial condition, restrictions contained in our Credit Agreement, future prospects for earnings and cash flows, as well as other factors considered relevant by our Board of Directors.

Covenants and Limitations

We must abide by certain restrictive financial covenants under our Credit Agreement. The most restrictive of those covenants include the following covenants: Net Funded Debt to Adjusted EBITDA ratio and the Interest Coverage ratio (each as defined in the Credit Agreement). In addition, our financing arrangements limit our ability to make certain restricted payments, pay dividends on or redeem or repurchase stock, make certain investments, make certain affiliate transfers and may limit our ability to enter into certain mergers, consolidations or sales of assets and incur certain indebtedness. Our borrowing availability under the Credit Agreement is primarily determined by the Net Funded Debt to Adjusted EBITDA ratio, which is based on our segment operating performance, as defined in the Credit Agreement.

We were in compliance with all restrictive financial covenants in our debt instruments as of January 31, 2016. We expect that we will meet all applicable financial maintenance covenants in our Credit Agreement, including the Net Funded Debt to Adjusted EBITDA ratio, throughout the year ending July 31, 2016. However, there can be no

assurance we will meet such financial covenants. If such covenants are not met, we would be required to seek a waiver or amendment from the banks participating in the Credit Agreement. There can be no assurance that such waiver or amendment would be granted, which could have a material adverse impact on our liquidity.

OFF BALANCE SHEET ARRANGEMENTS

We do not have off balance sheet transactions that are expected to have a material effect on our financial condition, revenue, expenses, results of operations, liquidity, capital expenditures or capital resources.

FORWARD-LOOKING STATEMENTS

Except for any historical information contained herein, the matters discussed in this Form 10-Q contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information available as of the date hereof, which are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to our contemplated future prospects, developments and business strategies.

These forward-looking statements are identified by their use of terms and phrases such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “predict,” “project,” “will” and similar terms and phrases, including references t assumptions. Although we believe that our plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that such plans, intentions or expectations will be achieved. Important factors that could cause actual results to differ materially from our forward-looking statements include, but are not limited to:

- prolonged weakness in general economic conditions, including adverse effects on the overall travel and leisure related industries;
- unfavorable weather conditions or natural disasters;
- willingness of our guests to travel due to terrorism, the uncertainty of military conflicts or outbreaks of contagious diseases, and the cost and availability of travel options;
- adverse events that occur during our peak operating periods combined with the seasonality of our business;
- competition in our mountain and lodging businesses;
- high fixed cost structure of our business;
- our ability to fund resort capital expenditures;
- our reliance on government permits or approvals for our use of public land or to make operational and capital improvements;
- risks related to federal, state, local and foreign government laws, rules and regulations;
- risks related to our reliance on information technology;
- our failure to maintain the integrity of our customer or employee data;
- adverse consequences of current or future legal claims;
- a deterioration in the quality or reputation of our brands, including from the risk of accidents at our mountain resorts;
- our ability to hire and retain a sufficient seasonal workforce;
- risks related to our workforce, including increased labor costs;
- loss of key personnel;
- our ability to successfully integrate acquired businesses or future acquisitions;
- our ability to realize anticipated financial benefits from Park City;
- fluctuations in foreign currency exchange rates, in particular the Australian dollar;
- impairments or write downs of our assets;
- changes in accounting estimates and judgments, accounting principles, policies or guidelines; and
- a materially adverse change in our financial condition.

All forward-looking statements attributable to us or any persons acting on our behalf are expressly qualified in their entirety by these cautionary statements.

If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those expected, estimated or projected. Given these uncertainties, users of the information included in this Form 10-Q, including investors and prospective investors, are cautioned not to place undue reliance on such forward-looking statements. Actual results may differ materially from those suggested by the

forward-looking statements that we make for a number of reasons, including those described in this Form 10-Q and in Part I, Item 1A "Risk Factors" of the Form 10-K. All forward-looking statements are made only as of the date hereof. Except as may be required by law, we do not intend to update these forward-looking statements, even if new information, future events or other circumstances have made them incorrect or misleading.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk has not materially changed since July 31, 2015.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Management of the Company, under the supervision and with participation of the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), evaluated the effectiveness of the Company's disclosure controls and procedures as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Act") as of the end of the period covered by this report on Form 10-Q.

Based upon their evaluation of the Company's disclosure controls and procedures, the CEO and the CFO concluded that the disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Act is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

The Company, including its CEO and CFO, does not expect that the Company's controls and procedures will prevent or detect all error and all fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the period covered by this Form 10-Q that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

There have been no material changes from those risk factors previously disclosed in Item 1A to Part I of the Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are either filed herewith or, if so indicated, incorporated by reference to the documents indicated in parentheses, which have previously been filed with the Securities and Exchange Commission.

| Exhibit Number | Description | Sequentially Numbered Page |
|---|---|---|
| 10.1 | Vail Resorts, Inc. 2015 Omnibus Incentive Plan (Incorporated by reference to Exhibit 10.1 on Form 8-K of Vail Resorts, Inc. filed on December 7, 2015) (File Number 001-09614). | |
| 10.2 | Form of Restricted Share Unit Agreement (Incorporated by reference to Exhibit 10.2 on Form 8-K of Vail Resorts, Inc. filed on December 7, 2015) (File Number 001-09614). | |
| 10.3 | Form of Share Appreciation Rights Agreement (Incorporated by reference to Exhibit 10.3 on Form 8-K of Vail Resorts, Inc. filed on December 7, 2015) (File Number 001-09614). | |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | 42 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | 43 |
| 32 | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | 44 |
| 101 | The following information from the Company’s Quarterly Report on Form 10-Q for the three and six months ended January 31, 2016 formatted in eXtensible Business Reporting Language: (i) Unaudited Consolidated Condensed Balance Sheets as of January 31, 2016, July 31, 2015, and January 31, 2015; (ii) Unaudited Consolidated Condensed Statements of Operations for the three and six months ended January 31, 2016 and January 31, 2015; (iii) Unaudited Consolidated Condensed Statements of Comprehensive Income for the three and six months ended January 31, 2016 and January 31, 2015; (iv) Unaudited Consolidated Condensed Statements of Stockholders’ Equity for the six months ended January 31, 2016 and January 31, 2015; (v) Unaudited Consolidated Condensed Statements of Cash Flows for the six months ended January 31, 2016 and January 31, 2015; and (vi) Notes to the Consolidated Condensed Financial Statements. | |

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.

| | | |
|---|---|---|
| | | Vail Resorts, Inc. |
| Date: March 10, 2016 | By: | /s/ Michael Z. Barkin<br>Michael Z. Barkin<br>Executive Vice President and Chief Financial Officer<br>(Principal Financial Officer) |
| Date: March 10, 2016 | By: | /s/ Mark L. Schoppet<br>Mark L. Schoppet<br>Senior Vice President, Controller and Chief Accounting Officer<br>(Principal Accounting Officer) |

41