

ABERCROMBIE & FITCH CO /DE/

Form 10-K

March 30, 2015

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 31, 2015

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from        to

Commission file number 001-12107

ABERCROMBIE & FITCH CO.

(Exact name of registrant as specified in its charter)

Delaware

31-1469076

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

6301 Fitch Path, New Albany, Ohio

43054

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (614) 283-6500

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Class A Common Stock, \$0.01 Par Value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.   

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

Large accelerated filer ☒    Accelerated filer       Non-accelerated filer       Smaller reporting company     
(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).    Yes    ☒ No

Aggregate market value of the Registrant’s Class A Common Stock (the only outstanding common equity of the Registrant) held by non-affiliates of the Registrant (for this purpose, executive officers and directors of the Registrant are considered affiliates) as of August 1, 2014: \$2,672,148,648.

Number of shares outstanding of the Registrant’s common stock as of March 26, 2015: 69,548,066 shares of Class A Common Stock.

**DOCUMENT INCORPORATED BY REFERENCE:**

Portions of the Registrant’s definitive proxy statement for the Annual Meeting of Stockholders, to be held on June 18, 2015, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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Table of ContentsABERCROMBIE & FITCH CO.  
TABLE OF CONTENTSPART I

ITEM 1.	<u>BUSINESS</u>	<u>3</u>
ITEM 1A.	<u>RISK FACTORS</u>	<u>8</u>
ITEM 1B.	<u>UNRESOLVED STAFF COMMENTS</u>	<u>16</u>
ITEM 2.	<u>PROPERTIES</u>	<u>17</u>
ITEM 3.	<u>LEGAL PROCEEDINGS</u>	<u>18</u>
ITEM 4.	<u>MINE SAFETY DISCLOSURES</u>	<u>18</u>

PART II

ITEM 5.	<u>MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	<u>19</u>
ITEM 6.	<u>SELECTED FINANCIAL DATA</u>	<u>22</u>
ITEM 7.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>23</u>
	<u>FINANCIAL SUMMARY</u>	<u>25</u>
	<u>CURRENT TRENDS AND OUTLOOK</u>	<u>26</u>
ITEM 7A.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>39</u>
ITEM 8.	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	<u>41</u>
	<u>CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME</u>	<u>41</u>
	<u>CONSOLIDATED BALANCE SHEETS</u>	<u>42</u>
	<u>CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY</u>	<u>43</u>
	<u>CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	<u>44</u>
	<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>45</u>
ITEM 9.	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	<u>74</u>
ITEM 9A.	<u>CONTROLS AND PROCEDURES</u>	<u>74</u>
ITEM 9B.	<u>OTHER INFORMATION</u>	<u>74</u>

PART III

ITEM 10.	<u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	<u>75</u>
ITEM 11.	<u>EXECUTIVE COMPENSATION</u>	<u>75</u>
ITEM 12.	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	<u>76</u>
ITEM 13.	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	<u>76</u>
ITEM 14.	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	<u>76</u>

PART IV

ITEM 15.	<u>EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	<u>77</u>
	<u>SIGNATURES</u>	<u>86</u>

Table of Contents

PART I

ITEM 1. BUSINESS.

GENERAL.

Abercrombie & Fitch Co. (“A&F”), a company incorporated in Delaware in 1996, through its subsidiaries (collectively, A&F and its subsidiaries are referred to as “Abercrombie & Fitch” or the “Company”), is a specialty retailer that operates stores and direct-to-consumer operations. Through these channels, the Company sells a broad array of products, including: casual sportswear apparel, including knit and woven shirts, graphic t-shirts, fleece, jeans and woven pants, shorts, sweaters, and outerwear; personal care products; and accessories for men, women and kids under the Abercrombie & Fitch, abercrombie kids, and Hollister brands. The Company also sells bras, underwear, personal care products, sleepwear and at-home products for girls through Hollister under the Gilly Hicks brand. As of January 31, 2015, the Company operated 799 stores in the United States (“U.S.”) and 170 stores outside of the U.S.

The Company’s fiscal year ends on the Saturday closest to January 31, typically resulting in a fifty-two week year, but occasionally giving rise to an additional week, resulting in a fifty-three week year as was the case for Fiscal 2012. Fiscal years are designated in the consolidated financial statements and notes, as well as the remainder of this Annual Report on Form 10-K, by the calendar year in which the fiscal year commenced. All references herein to “Fiscal 2014” represent the fifty-two week fiscal year ended January 31, 2015; to “Fiscal 2013” represent the fifty-two week fiscal year ended February 1, 2014; and to “Fiscal 2012” represent the fifty-three week fiscal year ended February 2, 2013. In addition, all references herein to “Fiscal 2015” represent the 52-week fiscal year that will end on January 30, 2016.

A&F makes available free of charge on its Internet website, [www.abercrombie.com](http://www.abercrombie.com), under “Investors, SEC Filings,” its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as well as A&F’s definitive proxy materials filed pursuant to Section 14 of the Exchange Act, as soon as reasonably practicable after A&F electronically files such material with, or furnishes it to, the Securities and Exchange Commission (“SEC”). The SEC maintains a website that contains electronic filings by A&F and other issuers at [www.sec.gov](http://www.sec.gov). In addition, the public may read and copy any materials A&F files with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

The Company has included its Internet website addresses throughout this filing as textual references only. The information contained within these Internet websites is not incorporated into this Annual Report on Form 10-K.

LONG-TERM OBJECTIVES.

Our objectives are focused on improving return on invested capital through a combination of improving operating margin and continuing our disciplined approach to capital allocation.

While the specifics of our strategy may change over time, our current priorities to improve operating margin include:

- Improving store productivity and profitability
- Selective international growth
- Increasing direct-to-consumer and omnichannel penetration
- Reducing expense

Our approach to capital allocation includes:

Continuing to invest in projects that generate the highest risk-adjusted return

Returning cash to shareholders, subject to suitable market conditions and available liquidity

## Table of Contents

### DESCRIPTION OF OPERATIONS.

#### Brands.

**Abercrombie & Fitch.** Abercrombie & Fitch stands for effortless American style. Since 1892, the brand has been known for its attention to detail with designs that embody simplicity and casual luxury. Rooted in a heritage of quality craftsmanship, Abercrombie & Fitch continues to bring its customers iconic, modern classics with an aspirational look, feel, and attitude.

**abercrombie kids.** abercrombie kids stands for American style with a fun, youthful attitude. Known for its made-to-play durability, comfort and on-trend designs, abercrombie kids makes cool, classic clothing that kids truly want to wear.

**Hollister.** Hollister is the fantasy of Southern California. Inspired by beautiful beaches, open blue skies, and sunshine, Hollister lives the dream of an endless summer. Hollister's laidback lifestyle makes every design effortlessly cool and totally accessible. Hollister brings Southern California to the world.

Refer to the “FINANCIAL SUMMARY” in “ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS” of this Annual Report on Form 10-K for information regarding net sales and other financial and operational data by segment and by brand.

### FINANCIAL INFORMATION ABOUT SEGMENTS.

The Company determines its segments on the same basis that it uses to allocate resources and assess performance. All of the Company’s segments sell a similar group of products — casual sportswear apparel, personal care products and accessories for men, women and kids and bras, underwear and sleepwear for girls. The Company had three reportable segments as of January 31, 2015: U.S. Stores, International Stores and Direct-to-Consumer. Refer to Note 17, “SEGMENT REPORTING,” of the Notes to Consolidated Financial Statements included in “ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA” of this Annual Report on Form 10-K for further discussion of the Company’s reportable segments. The Company is currently reviewing its reportable segments in the context of its recent transition to a brand-based organizational model.

### STORE OPERATIONS.

At the end of Fiscal 2014, the Company operated 969 stores. The following table details the number of retail stores operated by the Company at January 31, 2015:

Fiscal 2014	Abercrombie & Fitch	abercrombie kids	Hollister	Total
U.S.	250	116	433	799
International	29	6	135	170
Total	279	122	568	969

### DIRECT-TO-CONSUMER OPERATIONS.

The Company operates websites for each brand, both domestically and internationally. The websites reinforce each particular brand’s lifestyle, and are designed to complement the in-store experience. Total net sales through direct-to-consumer operations, including shipping and handling revenue, were \$832.5 million for Fiscal 2014, representing 22% of total net sales. The Company operates 46 websites, including both desktop and mobile versions.

In addition, the websites are available in 10 languages, accept nine currencies and ship to over 120 countries.

#### OMNICHANNEL.

By increasing omnichannel efforts, the Company is working toward providing customers with a more integrated and convenient shopping experience both online and in-store, including enabling "ship-from-store" and "order-in store." The Company also expects to have "reserve-in-store" and "in-store-pickup" activated in its U.S. stores during Fiscal 2015, and is working on extending its omnichannel capabilities to Europe. The brands continue to evolve their consumer engagement strategies by developing and tailoring digital communication to connect with customers on a more personal level.

## Table of Contents

### MARKETING AND ADVERTISING.

The Company is in the process of evolving its consumer engagement strategy, going beyond its iconic in-store experiences to further develop digital experiences. In-store experiences are designed to captivate the senses to reinforce the aspirational lifestyle represented by each brand and flagship stores represent the pinnacle of the Company's in-store branding efforts. The brands also have a strong fan base of globally diverse followers on key social platforms, such as Facebook, Twitter, Instagram, and Weibo. The brands engage with fans as well as key influencers such as celebrities, bloggers, and stylists to communicate fashion stories. In addition, the A&F and Hollister customer relationship management programs provide a platform to develop direct relationships with more than 10 million marketable contacts in the Company's database.

### MERCHANDISE SUPPLIERS.

During Fiscal 2014, the Company sourced merchandise through approximately 150 vendors located throughout the world, primarily in Asia and Central America. The Company did not source more than 10% of its merchandise from any single factory or supplier during Fiscal 2014. The Company pursues a global sourcing strategy that includes relationships with vendors in 12 countries, as well as the U.S. The Company's foreign sourcing of merchandise is negotiated and settled in U.S. Dollars.

All product sources, including independent manufacturers and suppliers, must achieve and maintain the Company's high quality standards, which are an integral part of the Company's identity. The Company has established supplier product quality standards to ensure the high quality of fabrics and other materials used in the Company's products. The Company utilizes both home office and field employees to help monitor compliance with the Company's product quality standards.

Before the Company begins production with any factory, the factory must first go through a quality assurance assessment to ensure it meets Company standards. This includes factories that are subcontractors to the factories and vendors with whom the Company works. All factories are contractually required to adhere to our vendor Code of Business Conduct and Ethics, and all factories go through social audits, which includes a factory walk-through to appraise the physical working conditions and health and safety practices, as well as payroll and age document review. Social audits on the factories are performed at least every two years after the initial audit. The Company strives to partner with suppliers who respect local laws and share our dedication to utilize best practices in human rights, labor rights, environmental practices and workplace safety.

### DISTRIBUTION AND MERCHANDISE INVENTORY.

The Company's merchandise is shipped to the Company's distribution centers ("DCs") where it is received and inspected before being shipped to stores or direct-to-consumer customers. The Company uses its two DCs in New Albany, Ohio to support its North American stores and direct-to-consumer business for customers outside of Europe and Asia. The Company expects to have substantially completed a \$50 million conversion of one of its New Albany DCs to a dedicated direct-to-consumer facility in the second quarter of Fiscal 2015. The Company uses a third-party DC in the Netherlands for the distribution of merchandise to stores and direct-to-consumer customers located in Europe, a third-party DC in China for the distribution of merchandise to stores and direct-to-consumer customers located in China, a third-party DC in Hong Kong for the distribution of merchandise to stores in Asia and Australia, and direct-to-consumer customers located in Asia, and a third-party DC in the United Arab Emirates for the distribution of merchandise to stores located in the Middle East. The Company utilizes primarily one contract carrier to ship merchandise and related materials to its North American stores and direct-to-consumer customers, and several contract carriers for its European and Asian stores and direct-to-consumer customers.

The Company strives to maintain sufficient quantities of inventory in its retail stores and DCs to offer customers a full selection of current merchandise. The Company attempts to balance in-stock levels and inventory turnover, and to take markdowns when required to keep merchandise fresh and current with fashion trends.

#### INFORMATION SYSTEMS.

The Company's management information systems consist of a full range of retail, merchandising and financial systems. The systems include applications related to point-of-sale, direct-to-consumer, inventory management, supply chain, planning, sourcing, merchandising and financial reporting. The Company continues to invest in technology to upgrade core systems to make the Company scalable and enhance efficiencies, including the support of its direct-to-consumer operations and international store operations.

## Table of Contents

### SEASONAL BUSINESS.

The retail apparel market has two principal selling seasons: the Spring season which includes the first and second fiscal quarters (“Spring”); and the Fall season which includes the third and fourth fiscal quarters (“Fall”). As is typical in the apparel industry, the Company experiences its greatest sales activity during the Fall season due to the Back-to-School (August) and Holiday (November and December) selling periods, particularly in the U.S.

### TRADEMARKS.

The Abercrombie & Fitch®, abercrombie®, Hollister®, Gilly Hicks®, “Moose” and “Seagull” trademarks are registered with the U.S. Patent and Trademark Office and registered or pending with the registries of countries where stores are located or likely to be located in the future. In addition, these trademarks are either registered, or the Company has applications for registration pending, with the registries of many of the foreign countries in which the manufacturers of the Company’s products are located. The Company has also registered, or has applied to register, certain other trademarks in the U.S. and around the world. The Company believes its products are identified by its trademarks and, therefore, its trademarks are of significant value. Each registered trademark has a duration of ten to 20 years, depending on the date it was registered, and the country in which it is registered, and is subject to an indefinite number of renewals for a like period upon continued use and appropriate application. The Company intends to continue using its core trademarks and to renew each of its registered trademarks that remain in use.

### OTHER INFORMATION.

Additional information about the Company’s business, including its revenues and profits for the last three fiscal years and gross square footage of stores, is set forth under “ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS” of this Annual Report on Form 10-K.

### COMPETITION.

The sale of apparel, accessories and personal care products through stores and direct-to-consumer channels is a highly competitive business with numerous participants, including individual and chain fashion specialty stores, as well as regional and national department stores. As the Company continues expanding internationally, it also faces competition in local markets from established chains, as well as local specialty stores. Brand recognition, fashion, price, service, store location, selection and quality are the principal competitive factors in retail store and direct-to-consumer sales.

The competitive challenges facing the Company include: anticipating and quickly responding to changing fashion trends and maintaining the aspirational positioning of its brands. Furthermore, the Company faces additional competitive challenges as many retailers continue promotional activities, particularly in the U.S. In response to these conditions, the Company has engaged in promotional activity and increased its focus on operating efficiency while seeking to preserve the value of its brands.

### ASSOCIATE RELATIONS.

As of March 26, 2015, the Company employed approximately 65,000 associates, of which approximately 57,000 were part-time associates, which equates to approximately 6,000 full-time equivalents. On average, the Company employed approximately 18,000 full-time equivalents during Fiscal 2014.

The Company believes it maintains a good relationship with its associates. However, in the normal course of business, the Company is party to lawsuits involving former and current associates.

ENVIRONMENTAL MATTERS.

Compliance with domestic and international regulations related to environmental matters has not had, nor is it expected to have, any material effect on capital expenditures, earnings, or the Company's competitive position based on information and circumstances known to us at this time.

Table of Contents

EXECUTIVE OFFICERS OF THE REGISTRANT.

Set forth below is certain information regarding the executive officers of A&F as of March 26, 2015:

Jonathan E. Ramsden, 50, has been Chief Operating Officer of A&F since January 2014, and Interim Principal Executive Officer and a member of the Office of the Chairman of A&F since December 2014. Mr. Ramsden also served as Executive Vice President and Chief Financial Officer of A&F from December 2008 to May 2014. From December 1998 to December 2008, Mr. Ramsden served as Chief Financial Officer and a member of the Executive Committee of TBWA Worldwide, a large advertising agency network and a division of Omnicom Group Inc. Prior to becoming Chief Financial Officer of TWBA Worldwide, he served as Controller and Principal Accounting Officer of Omnicom Group Inc. from June 1996 to December 1998.

Christos E. Angelides, 52, has been Brand President of Abercrombie & Fitch and abercrombie kids since October 2014 and a member of the Office of the Chairman of A&F since December 2014. Prior to joining A&F, Mr. Angelides spent 28 years with Next plc, a multi-billion dollar fashion retail and Internet chain based in the United Kingdom, where he served as Group Product Director and a member of the Board of Directors from 2000 to September 2014. Prior thereto, he held a number of senior management roles with Next including General Manager of Next's sourcing office in Hong Kong, Womenswear Product Director and Menswear Product Director, and served as Chairman of Next Sourcing Limited and Non-Executive Director of Lipsy, a young women's fashion brand owned by Next.

Robert E. Bostrom, 62, has been Senior Vice President, General Counsel and Corporate Secretary of A&F since January 2014. Since August 2014, Mr. Bostrom has been a member of the Board of Directors of NeuLion, Inc. From December 2012 until December 2013, Mr. Bostrom was Co-Chairman of the Financial Regulatory and Compliance Practice of Greenberg Traurig LLP, an international law firm. From August 2011 until November 2012, Mr. Bostrom was Co-Head of the Global Financial Institutions and Funds Sector of Dentons US LLP (formerly, SNR Denton), an international law firm. From February 2006 to August 2011, Mr. Bostrom was Executive Vice President, General Counsel and Corporate Secretary of the Federal Home Loan Mortgage Corporation (also known as Freddie Mac). Prior to Freddie Mac, Mr. Bostrom was the Managing Partner of the New York office of Winston & Strawn LLP, a Member of that Firm's Executive Committee and Head of its Financial Institutions Practice.

Diane Chang, 59, has been Executive Vice President — Sourcing of A&F since May 2004. Prior thereto, Ms. Chang held the position of Senior Vice President — Sourcing of A&F from February 2000 to May 2004 and the position of Vice President — Sourcing of A&F from May 1998 to February 2000.

Joanne C. Crevoiserat, 51, has been Executive Vice President and Chief Financial Officer of A&F since May 2014. Prior to joining A&F, she served in a number of senior management roles at Kohl's Inc., which operates family-oriented department stores and a website featuring apparel, footwear, accessories, soft home products and housewares. From June 2012 to April 2014, Ms. Crevoiserat was the Executive Vice President of Finance of Kohl's and from November 2008 to June 2012, she served as the Executive Vice President of Merchandise Planning and Allocation of Kohl's. Prior to her time with Kohl's, Ms. Crevoiserat held senior finance positions with Wal-Mart Stores and May Department Stores, including Chief Financial Officer of the Filene's, Foley's and Famous-Barr brands.

Fran Horowitz, 51, has been Brand President of Hollister since October 2014 and a member of the Office of the Chairman of A&F since December 2014. Before joining Hollister, from October 2013 to October 2014, Ms. Horowitz served as the President of Ann Taylor Loft, a division of Ann Inc., the parent company of three specialty retail fashion brands in North America. Prior to her time with Ann Taylor Loft, from February 2005 to October 2012, she held various roles at Express, Inc., a specialty apparel and accessories retailer of women's and men's merchandise, including Executive Vice President of Women's Merchandising and Design from May 2010 to November 2012.

Before her time with Express, Inc., Ms. Horowitz spent 13 years at Bloomingdale's in various women's merchandising roles, including Vice President Divisional Merchandise Manager.

Amy L. Zehrer, 45, has been Executive Vice President — Store and Brand Services of A&F since February 2015. Prior thereto, Ms. Zehrer held the position of Executive Vice President — Stores of A&F from February 2013 to February 2015, the position of Senior Vice President — Stores of A&F from November 2007 to February 2013 and the position of Vice President — Stores of A&F from August 2006 to November 2007. Ms. Zehrer has been with A&F since 1992 playing an integral part in evolving the brands and the success of the Company's international expansion.

The executive officers serve at the pleasure of the Board of Directors of A&F.

Table of Contents

ITEM 1A. RISK FACTORS

FORWARD-LOOKING STATEMENTS AND RISK FACTORS.

We caution that any forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in this Annual Report on Form 10-K or made by us, our management or our spokespeople involve risks and uncertainties and are subject to change based on various factors, many of which may be beyond our control. Words such as “estimate,” “project,” “plan,” “believe,” “expect,” “anticipate,” “intend” and similar expressions may identify forward-looking statements. Except as may be required by applicable law, we assume no obligation to publicly update or revise our forward-looking statements.

The following factors could affect our financial performance and could cause actual results to differ materially from those expressed or implied in any of the forward-looking statements:

- changes in global economic and financial conditions, and the resulting impact on consumer confidence and consumer spending, as well as other changes in consumer discretionary spending habits, could have a material adverse effect on our business, results of operations and liquidity;
- the inability to manage our inventory commensurate with customer demand and changing fashion trends could adversely impact our sales levels and profitability;
- fluctuations in the cost, availability and quality of raw materials, labor and transportation, could cause manufacturing delays and increase our costs;
- we are currently involved in a selection process for a new Chief Executive Officer and if this selection process is delayed our business could be negatively impacted;
- failure to realize the anticipated benefits of our recent transition to a brand-based organizational model could have a negative impact on our business;
- a significant component of our growth strategy is international expansion, which requires significant capital investment, the success of which is dependent on a number of factors that could delay or prevent the profitability of our international operations;
- direct-to-consumer sales channels are a focus of our growth strategy, and the failure to successfully develop our position in these channels could have an adverse impact on our results of operations;
- our inability to successfully implement our strategic plans could have a negative impact on our growth and profitability;
- fluctuations in foreign currency exchange rates could adversely impact our financial condition and results of operations;
- our business could suffer if our information technology systems are disrupted or cease to operate effectively;
- we may be exposed to risks and costs associated with cyber-attacks, credit card fraud and identity theft that would cause us to incur unexpected expenses and loss of revenues;
- our market share may be negatively impacted by increasing competition and pricing pressures from companies with brands or merchandise competitive with ours;
- our ability to attract customers to our stores depends, in part, on the success of the shopping malls or area attractions in which most of our stores are located;
- our failure to protect our reputation could have a material adverse effect on our brands;
- we rely on the experience and skills of our senior executive officers, the loss of whom could have a material adverse effect on our business;
- we depend upon independent third parties for the manufacture and delivery of all our merchandise, a disruption of which could result in lost sales and could increase our costs;
-

our reliance on two distribution centers domestically and third-party distribution centers internationally makes us susceptible to disruptions or adverse conditions affecting our distribution centers;

• we may be exposed to liabilities under the Foreign Corrupt Practices Act, and any determination that we violated the Foreign Corrupt Practices Act could have a material adverse effect on our business;

• in a number of our European stores, associates are represented by workers' councils and unions, whose demands could adversely affect our profitability or operating standards for our brands;

• our facilities, systems and stores, as well as the facilities and systems of our vendors and manufacturers, are vulnerable to natural disasters, pandemic disease and other unexpected events, any of which could result in an interruption to our business and adversely affect our operating results;

• our litigation exposure could have a material adverse effect on our financial condition and results of operations;

• our inability or failure to adequately protect our trademarks could have a negative impact on our brand image and limit our ability to penetrate new markets;

• fluctuations in our tax obligations and effective tax rate may result in volatility in our operating results;

## Table of Contents

extreme weather conditions and the seasonal nature of our business may cause net sales to fluctuate and negatively impact our results of operations;

the impact of war or acts of terrorism could have a material adverse effect on our operating results and financial condition;

changes in the regulatory or compliance landscape could adversely affect our business and results of operations;

our Asset-Based Revolving Credit Agreement and our Term Loan Agreement include restrictive covenants that limit our flexibility in operating our business; and,

compliance with changing regulations and standards for accounting, corporate governance and public disclosure could adversely affect our business, results of operations and reported financial results.

The following sets forth a description of the preceding risk factors that we believe may be relevant to an understanding of our business. These risk factors could cause actual results to differ materially from those expressed or implied in any of our forward-looking statements.

Changes in global economic and financial conditions, and the resulting impact on consumer confidence and consumer spending, as well as other changes in consumer discretionary spending habits, could have a material adverse effect on our business, results of operations and liquidity.

Our business depends on consumer demand for our merchandise. Consumer purchases of discretionary items, including our merchandise, generally decline during recessionary periods and other periods where disposable income is adversely affected. Our performance is subject to factors that affect worldwide economic conditions including unemployment, consumer credit availability, consumer debt levels, reductions in net worth based on declines in the financial, residential real estate and mortgage markets, sales tax rates and tax rate increases, fuel and energy prices, interest rates, consumer confidence in future economic and political conditions, consumer perceptions of personal well-being and security, the value of the U.S. Dollar versus foreign currencies and other macroeconomic factors. Additionally, consumer preferences and discretionary spending habits have changed in recent years, which has negatively impacted, and may continue to negatively impact, the retail apparel market. Global economic uncertainty and changing consumer preferences and discretionary spending habits could have a material adverse effect on our results of operations, liquidity and capital resources if reduced consumer demand for our merchandise should occur. It could also impact our ability to fund growth and/or result in our becoming reliant on external financing, the availability and cost of which may be uncertain.

The economic conditions and factors described above could adversely affect the productivity of our stores, as well as adversely affect the pace of opening new stores, or their productivity once opened. Finally, the economic environment may exacerbate some of the risks noted below, including consumer demand, strain on available resources, our international growth strategy, availability of real estate, interruption of the flow of merchandise from key vendors and manufacturers, and foreign currency exchange rate fluctuations.

The inability to manage our inventory commensurate with customer demand and changing fashion trends could adversely impact our sales levels and profitability.

Our success largely depends on our ability to anticipate and gauge the fashion preferences of our customers and provide merchandise that satisfies constantly shifting demands in a timely manner. Our merchandise and our brands must appeal to our consumers, whose preferences change frequently and cannot be predicted with certainty. We must translate market trends into appropriate, saleable merchandise far in advance of its sale in our stores or through our websites. Because we enter into agreements for the manufacture and purchase of merchandise well in advance of the applicable selling season, we are vulnerable to changes in consumer preferences and demand, pricing shifts, and the sub-optimal selection and timing of merchandise purchases. Moreover, there can be no assurance that we will continue to anticipate consumer demands and accurately plan inventory successfully in the future. Changing consumer

preferences and fashion trends, whether we are able to anticipate, identify and respond to them or not, could adversely impact our sales. Inventory levels for certain merchandise styles no longer considered to be “on trend” may increase, leading to higher markdowns to sell through excess inventory and therefore, lower than planned margins. A distressed economic and retail environment, in which many of our competitors continue to engage in aggressive promotional activities increases the importance of reacting appropriately to changing consumer preferences and fashion trends. Conversely, if we underestimate consumer demand for our merchandise, or if our manufacturers fail to supply quality products in a timely manner, we may experience inventory shortages, which may negatively impact customer relationships, diminish brand loyalty and result in lost sales. Any of these events could significantly harm our operating results and financial condition.

## Table of Contents

Fluctuations in the cost, availability and quality of raw materials, labor and transportation, could cause manufacturing delays and increase our costs.

Fluctuations in the cost, availability and quality of the fabrics or other raw materials used to manufacture our merchandise could have a material adverse effect on our cost of goods, or our ability to meet customer demand. The prices for such fabrics depend largely on the market prices for the raw materials used to produce them, particularly cotton, as well as the cost of compliance with sourcing laws. The price and availability of such raw materials may fluctuate significantly, depending on many factors, including crop yields and weather patterns. Such factors may be exacerbated by legislation and regulations associated with global climate change. In addition, the cost of labor at many of our third-party manufacturers has been increasing significantly, and as the middle class in developing countries continues to grow, it is unlikely such cost pressure will abate. The Company is also susceptible to fluctuations in the cost of transportation. We may not be able to pass all or a portion of higher raw materials prices or labor or transportation costs on to our customers, which could adversely affect our gross margin and results of our operations.

We are currently involved in a selection process for a new Chief Executive Officer and if this selection process is delayed our business could be negatively impacted.

On December 8, 2014, Michael S. Jeffries retired from the position of Chief Executive Officer and resigned from the position of Director of the Company. Our Board of Directors appointed Arthur C. Martinez to serve as Executive Chairman of the Company, created an Office of the Chairman, and initiated a selection process to identify a new Chief Executive Officer. The selection process for a new Chief Executive Officer may create uncertainty about our business and future direction. To the extent there is a material delay in choosing a new Chief Executive Officer, our business could be negatively impacted.

Failure to realize the anticipated benefits of our recent transition to a brand-based organizational model could have a negative impact on our business.

As part of our transition to a brand-based organizational model, the Company hired Christos E. Angelides as the Brand President of Abercrombie & Fitch and abercrombie kids and Fran Horowitz as the Brand President of Hollister. Failure to realize the anticipated benefits of our recent transition to a brand-based organizational model could have a negative impact on our business. In addition, realization of the anticipated benefits of this new brand-based organizational model is dependent on the effectiveness of this new management structure.

A significant component of our growth strategy is international expansion, which requires significant capital investment, the success of which is dependent on a number of factors that could delay or prevent the profitability of our international operations.

Our growth strategy includes the opening of new international stores. International expansion has placed, and will continue to place, increased demands on our operational, managerial and administrative resources at all levels of the Company. These increased demands may cause us to operate our business less efficiently, which in turn could cause deterioration in the performance of our existing stores or could adversely affect our inventory levels. Furthermore, our ability to conduct business in international markets may be adversely affected by legal, regulatory, political and economic risks. In addition, as we expand internationally, we may incur significant costs related to starting up and maintaining foreign operations. Costs may include, but are not limited to, obtaining prime locations for stores, setting up foreign offices and distribution centers, hiring experienced management and maintaining good relations with individual associates and groups of associates. We may be unable to open and operate new stores successfully, or we may face operational issues that delay our intended pace of international store openings and, in any such case, our growth may be limited, unless we can:

- identify suitable markets and sites for store locations;
- address the different operational characteristics present in each country to which we expand, including employment and labor, transportation, logistics, real estate, lease provisions and local reporting or legal requirements;
- negotiate acceptable lease terms, in some cases in locations in which the relative rights and obligations of landlords and tenants differ significantly from the customs and practices in the U.S.;
- hire, train and retain qualified store personnel;
- gain and retain acceptance from foreign customers;
- manage inventory effectively to meet the needs of new and existing stores on a timely basis;
- integrate new stores into existing operations and expand infrastructure to accommodate growth;
- foster current relationships and develop new relationships with vendors that are capable of supplying a greater volume of merchandise;
- generate sufficient operating cash flows or secure adequate capital on commercially reasonable terms to fund our expansion plan;

## Table of Contents

manage foreign currency exchange risks effectively; and  
achieve acceptable operating margins from new stores.

Failure to successfully implement our international expansion initiatives as a result of one or more of the factors above could have a material adverse effect on our results of operations or could otherwise adversely affect our ability to achieve our growth strategy objectives.

Direct-to-consumer sales channels are a focus of our growth strategy, and the failure to successfully develop our position in these channels could have an adverse impact on our results of operations.

We sell merchandise for each brand over the Internet, both domestically and internationally. We have made significant investments in capital spending and labor to develop these channels, invested in digital media to attract new customers and developed localized fulfillment, shipping and customer service operations. There is no assurance that we will be able to continue to successfully maintain or expand our direct-to-consumer sales channels. Our reliance on direct-to-consumer sales channels make us vulnerable to shifting consumer traffic patterns, customer data breaches, direct-to-consumer buying trends and strength of brand perception. Changes in foreign governmental regulations relating to direct-to-consumer sales may also negatively impact our ability to deliver product to our customers. Our inability to adequately respond to these risks and uncertainties or to successfully maintain and expand our direct-to-consumer business may have an adverse impact on our results of operations.

In addition, direct-to-consumer operations are subject to numerous risks, including reliance on third-party computer hardware/software providers, violations of state, federal or international laws, including those relating to online privacy, credit card fraud, telecommunication failures and electronic break-ins and similar disruptions, and disruption of Internet service. Our failure to successfully respond to these risks might adversely affect sales in our direct-to-consumer business as well as damage our reputation and brands.

Our inability to successfully implement our strategic plans could have a negative impact on our growth and profitability.

Our long-term strategy includes four key objectives: recovering store productivity and profitability, continuing selective international expansion, increasing direct-to-consumer and omnichannel penetration, and process improvement and expense efficiency. Our ability to execute these strategies successfully and in a timely fashion is subject to various risks and uncertainties as described under this “Risk Factors” section. Specifically, these risks can be categorized into market risk, execution risk and customer resonance risk. Market risk includes consumer spending, actions of brand competitors and changes in demographics or preferences of our target customer. Achieving the goals of our long-term strategy is also dependent on us executing the strategy successfully. Finally, the initiatives we implement in connection with our long-term strategy may not resonate with our customers. It may take longer than anticipated to generate the expected benefits from our long-term strategy and there can be no guarantee that these initiatives will result in improved operating results. In addition, failure to successfully implement our long-term strategy could have a negative impact on our growth and profitability.

Fluctuations in foreign currency exchange rates could adversely impact our financial condition and results of operations.

The functional currency of our foreign subsidiaries is generally the local currency in which each operates, which includes Australian Dollars, British Pounds, Canadian Dollars, Chinese Yuan, Danish Kroner, Euros, Hong Kong Dollars, Japanese Yen, Kuwaiti Dinars, New Taiwan Dollars, Polish Zloty, Singapore Dollars, South Korean Won, Swedish Kronor, Swiss Francs and United Arab Emirates Dirhams. Our consolidated financial statements are presented in U.S. Dollars. Therefore, we must translate revenues, expenses, assets and liabilities from functional

currencies into U.S. Dollars at exchange rates in effect during, or at the end of the reporting period. In addition, our international subsidiaries transact in currencies other than their functional currency, including intercompany transactions, which results in foreign currency transaction gains or losses. The fluctuation in the value of the U.S. Dollar against other currencies has, at times, adversely impacted, and may continue to adversely impact, our financial results. Additionally, tourism spending may be affected by changes in currency exchange rates, and as a result, sales in our flagship stores and other stores with higher tourism traffic have, at times, been adversely impacted, and may continue to be adversely impacted, by fluctuations in currency exchange rates.

Furthermore, we purchase substantially our entire inventory in U.S. Dollars. As a result, our gross margin rate from international operations is subject to volatility from movements in exchange rates over time, which could have an adverse effect on our financial condition and results of operations and profitability from the growth desired from international operations.

## Table of Contents

Our business could suffer if our information technology systems are disrupted or cease to operate effectively.

We rely heavily on our information technology systems to operate our websites; record and process transactions; respond to customer inquiries; manage inventory; purchase, sell and ship merchandise on a timely basis; and maintain cost-efficient operations. Given the significant number of transactions that are completed annually, it is vital to maintain constant operation of our computer hardware and software systems and maintain cyber security. Despite efforts to prevent such an occurrence, our information technology systems may be vulnerable from time to time to damage or interruption from computer viruses, power outages, third-party intrusions and other technical malfunctions. If our systems are damaged, or fail to function properly, we may have to make monetary investments to repair or replace the systems, and we could endure delays in our operations.

While we regularly evaluate our information technology systems and requirements, we are aware of the inherent risks associated with replacing and modifying these systems, including inaccurate system information, system disruptions and user acceptance and understanding. Any material disruption or slowdown of our systems, including a disruption or slowdown caused by our failure to successfully upgrade our systems, could cause information, including data related to customer orders, to be lost or delayed. Such a loss or delay, especially if the disruption or slowdown occurred during our peak selling seasons, could have a material adverse effect on our results of operations.

We may be exposed to risks and costs associated with cyber-attacks, credit card fraud and identity theft that would cause us to incur unexpected expenses and loss of revenues.

In the standard course of business, we process customer information, including payment information, through our stores and direct-to-consumer programs. There is an increased concern over the security of personal information transmitted over the Internet, consumer identity theft and user privacy. We endeavor to protect consumer identity and payment information through the implementation of security technologies, processes and procedures. It is possible that an individual or group could defeat our security measures and access sensitive customer and associate information. Actual or anticipated cyber-attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protective technologies, train employees, and engage third-party experts and consultants. Exposure of customer data through any means could materially harm A&F by, but not limited to, reputation loss, regulatory fines and penalties, legal liability and costs of litigation.

Our market share may be negatively impacted by increasing competition and pricing pressures from companies with brands or merchandise competitive with ours.

The sale of apparel and personal care products through stores and direct-to-consumer channels is a highly competitive business with numerous participants, including individual and chain fashion specialty stores, as well as regional, national and international department stores. The substantial sales growth in the direct-to-consumer channel within the last few years has encouraged the entry of many new competitors and an increase in competition from established companies. We face a variety of competitive challenges, including:

- anticipating and quickly responding to changing consumer demands or preferences better than our competitors;
- maintaining favorable brand recognition and effectively marketing our products to consumers in several diverse demographic markets;
- sourcing merchandise efficiently;
- developing innovative, high-quality merchandise in styles that appeal to our consumers and in ways that favorably distinguish us from our competitors; and
- countering the aggressive pricing and promotional activities of many of our competitors without diminishing the aspirational nature of our brands and brand equity.

In light of the competitive challenges we face, we may not be able to compete successfully in the future. Further, increases in competition could reduce our sales and harm our operating results and business.

Our ability to attract customers to our stores depends, in part, on the success of the shopping malls or area attractions in which most of our stores are located.

In order to generate customer traffic, we locate many of our stores in prominent locations within successful shopping malls or street locations. Our stores benefit from the ability of the malls' "anchor" tenants, generally large department stores and other area attractions, to generate consumer traffic in the vicinity of our stores. We cannot control the loss of an anchor or other significant tenant in a shopping mall in which we have a store; the development of new shopping malls in the U.S. or around the world; the availability or cost of appropriate locations; competition with other retailers for prominent locations; or the success of individual shopping malls. All of these factors may impact our ability to meet our productivity targets for our domestic stores and our growth

## Table of Contents

objectives for our international stores and could have a material adverse effect on our financial condition or results of operations. In addition, some malls that were in prominent locations when we opened our stores may cease to be viewed as prominent. If this trend continues or if the popularity of mall shopping continues to decline generally among our customers, our sales may decline, which would impact our gross profits and net income.

Part of our future growth is dependent on our ability to operate stores in desirable locations with capital investment and lease costs providing the opportunity to earn a reasonable return. We cannot be sure as to when or whether such desirable locations will become available at reasonable costs.

Our failure to protect our reputation could have a material adverse effect on our brands.

Our ability to maintain our reputation is critical to our brands. Our reputation could be jeopardized if we fail to maintain high standards for merchandise quality and integrity, if our third-party vendors fail to comply with our vendor code of conduct or as a result of a cyber-attack. Any negative publicity about these types of concerns may reduce demand for our merchandise. Failure to comply with ethical, social, product, labor, health and safety, accounting or environmental standards, or related political considerations, could also jeopardize our reputation and potentially lead to various adverse consumer actions, including boycotts. Public perception about our products or our stores, whether justified or not, could impair our reputation, involve us in litigation, damage our brands and have a material adverse effect on our business. Damage to our reputation or loss of consumer confidence for any of these or other reasons could have a material adverse effect on our results of operations and financial condition, as well as require additional resources to rebuild our reputation.

We rely on the experience and skills of our senior executive officers, the loss of whom could have a material adverse effect on our business.

Our senior executive officers closely supervise all aspects of our business including the design of our merchandise and the operation of our stores. Our senior executive officers have substantial experience and expertise in the retail business and have an integral role in the growth and success of our brands. If we were to lose the benefit of their involvement, our business could be adversely affected. In addition, the new leadership for our major brands will play an important role in enhancing brand engagement and profitability. Competition for such senior executive officers is intense, and we cannot be sure we will be able to attract, retain and develop a sufficient number of qualified senior executive officers in future periods.

We depend upon independent third parties for the manufacture and delivery of all our merchandise, a disruption of which could result in lost sales and could increase our costs.

We do not own or operate any manufacturing facilities. As a result, the continued success of our operations is tied to our timely receipt of quality merchandise from third-party manufacturers. We source the majority of our merchandise outside of the U.S. through arrangements with approximately 150 vendors which includes foreign manufacturers located throughout the world, primarily in Asia and Central America. In addition, many of our domestic manufacturers maintain production facilities overseas. Political, social or economic instability in Asia and Central America, or in other regions in which our manufacturers are located, could cause disruptions in trade, including exports to the U.S. A manufacturer's inability to ship orders in a timely manner or meet our quality standards could cause delays in responding to consumer demands and negatively affect consumer confidence or negatively impact our competitive position, any of which could have a material adverse effect on our financial condition and results of operations. Other events that could also cause disruptions to exports to the U.S. include the imposition of additional trade law provisions or regulations, reliance on a limited number of shipping and air carriers, significant labor disputes and significant delays in the delivery of cargo due to port security considerations. In addition, trade restrictions, including new or increased tariffs or quotas, embargoes, safeguards and customs restrictions against apparel items, as

well as U.S. or foreign labor strikes and work stoppages or boycotts, could increase the cost or reduce the supply of apparel available to us and adversely affect our business, financial condition or results of operations.

In addition, the efficient operation of our stores and direct-to-consumer business depends on the timely receipt of merchandise from our distribution centers. We deliver our merchandise to our stores and direct-to-consumer customers using independent third parties. The independent third parties employ personnel that may be represented by labor unions. Disruptions in the delivery of merchandise or work stoppages by associates or contractors of any of these third parties could delay the timely receipt of merchandise. There can be no assurance that such stoppages or disruptions will not occur in the future. Any failure by a third-party to respond adequately to our distribution needs would disrupt our operations and could have a material adverse effect on our financial condition or results of operations. Furthermore, we are susceptible to increases in fuel costs which may increase the cost of distribution. If we are not able to pass this cost on to our customers, our financial condition and results of operations could be adversely affected.

## Table of Contents

Our reliance on two distribution centers domestically and third-party distribution centers internationally makes us susceptible to disruptions or adverse conditions affecting our distribution centers.

Our two distribution centers located in New Albany, Ohio, manage the receipt, storage, sorting, packing and distribution of merchandise to our North American stores and direct-to-consumer customers outside of Europe and Asia. We also use a third-party distribution center in the Netherlands to manage the receipt, storage, sorting, packing and distribution of merchandise delivered to our stores and direct-to-consumer customers in Europe; a third-party distribution center in Hong Kong and a third-party distribution center in China to manage receipt, storage, sorting, packing and distribution of merchandise delivered to our stores in Asia and Australia and direct-to-consumer customers in Asia; and a third-party distribution center in the United Arab Emirates to manage, receipt, storage, sorting, packing and distribution of merchandise delivered to our stores in the Middle East. As a result, our operations are susceptible to local and regional factors, such as system failures, accidents, economic and weather conditions, natural disasters, demographic and population changes, as well as other unforeseen events and circumstances. If our distribution operations were disrupted, our ability to replace inventory in our stores and process direct-to-consumer orders could be interrupted and sales could be negatively impacted.

We may be exposed to liabilities under the Foreign Corrupt Practices Act, and any determination that we violated the Foreign Corrupt Practices Act could have a material adverse effect on our business.

As we continue to expand our overseas operations, we are subject to certain U.S. laws, including the Foreign Corrupt Practices Act, in addition to the laws of the foreign countries in which we operate. We must use all commercially reasonable efforts to ensure our associates comply with these laws. If any of our overseas operations, or our associates or agents, violate such laws, we could become subject to sanctions or other penalties that could negatively affect our reputation, business and operating results. Since we use third parties to assist with our international expansion, we may be exposed to liability for the acts of those third parties, if taken on our behalf, and if in violation of certain U.S. laws, including the Foreign Corrupt Practices Act.

In a number of our European stores, associates are represented by workers' councils and unions, whose demands could adversely affect our profitability or operating standards for our brands.

In a number of our European stores, particularly in France, Germany, Italy and Spain, associates are represented by workers' councils and unions. These workers' councils and unions, as well as government officials who support their positions, may make demands that could adversely affect our profitability or have a negative effect on the operating standards we believe are critical to our brands. We are committed to working with all of our associates, whether they are represented by a workers' council or union or not, and we believe we maintain good relations with our associates; however, there can be no assurance that we will not experience work stoppages or other labor-related issues that could have an adverse effect on our profitability or on our operating standards.

Our facilities, systems and stores, as well as the facilities and systems of our vendors and manufacturers, are vulnerable to natural disasters, pandemic disease and other unexpected events, any of which could result in an interruption to our business and adversely affect our operating results.

Our retail stores, corporate offices, distribution centers, infrastructure projects and direct-to-consumer operations, as well as the operations of our vendors and manufacturers, are vulnerable to damage from natural disasters, pandemic disease and other unexpected events. If any of these events result in damage to our facilities, systems or stores, or the facilities or systems of our vendors or manufacturers, we may experience interruptions in our business until the damage is repaired, resulting in the potential loss of customers and revenues. In addition, we may incur costs in repairing any damage which exceeds our applicable insurance coverage.

Our litigation exposure could have a material adverse effect on our financial condition and results of operations.

We are involved, from time to time, in litigation arising in the ordinary course of business. Litigation matters may include, but are not limited to, contract disputes, employment-related actions, labor relations, commercial litigation, intellectual property rights and shareholder actions. Any litigation that we become a party to could be costly and time consuming and could divert our management and key personnel from our business operations. Our current litigation exposure could change in the event of the discovery of damaging facts with respect to legal matters pending against us or determinations by judges, juries or other finders of fact that are not in accordance with management's evaluation of the claims. Should management's evaluation prove incorrect, our exposure could greatly exceed expectations and have a material adverse effect on our financial condition, results of operations or cash flows.

## Table of Contents

Our inability or failure to adequately protect our trademarks could have a negative impact on our brand image and limit our ability to penetrate new markets.

We believe our core trademarks, Abercrombie & Fitch®, abercrombie®, Hollister®, Gilly Hicks® and the “Moose” and “Seagull” logos, are an essential element of our strategy. We have obtained or applied for federal registration of these trademarks with the U.S. Patent and Trademark Office and the registries of countries where stores are located or likely to be located in the future. In addition, we own registrations and have pending applications for other trademarks in the U.S. and have applied for or obtained registrations from the registries in many foreign countries in which our stores or our manufacturers are located. There can be no assurance that we will obtain registrations that have been applied for or that the registrations we obtain will prevent the imitation of our products or infringement of our intellectual property rights by others. Although brand security initiatives are in place, we cannot guarantee that our efforts against the counterfeiting of our brands will be successful. If a third-party copies our products in a manner that projects lesser quality or carries a negative connotation, our brand image could be materially adversely affected.

Because we have not yet registered all of our trademarks in all categories, or in all foreign countries in which we source or offer our merchandise now, or may in the future, our international expansion and our merchandising of products using these marks could be limited. The pending applications for international registration of various trademarks could be challenged or rejected in those countries because third parties of whom we are not currently aware have already registered similar marks in those countries. Accordingly, it may be possible, in those foreign countries where the status of various applications is pending or unclear, for a third-party owner of the national trademark registration for a similar mark to prohibit the manufacture, sale or exportation of branded goods in or from that country. Our inability to register our trademarks or purchase or license the right to use our trademarks or logos in these jurisdictions could limit our ability to obtain supplies from, or manufacture in, less costly markets or penetrate new markets should our business plan include selling our merchandise in those non-U.S. jurisdictions.

Fluctuations in our tax obligations and effective tax rate may result in volatility in our operating results.

We are subject to income taxes in many U.S. and foreign jurisdictions. In addition, our products are subject to import and excise duties and/or sales, consumption or value-added taxes (“VAT”) in many jurisdictions. We record tax expense based on our estimates of future payments, which include reserves for estimates of probable settlements of foreign and domestic tax audits. At any one time, many tax years are subject to audit by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. As a result, we expect that throughout the year there could be ongoing variability in our quarterly tax rates as taxable events occur and exposures are evaluated. In addition, our effective tax rate in any given financial reporting period may be materially impacted by changes in the mix and level of earnings or losses by taxing jurisdictions or by changes to existing accounting rules or regulations. Fluctuations in duties could also have a material impact on our financial condition, results of operations or cash flows. In some international markets, we are required to hold and submit VAT to the appropriate local tax authorities. Failure to correctly calculate or submit the appropriate amounts could subject us to substantial fines and penalties that could have an adverse effect on our financial condition, results of operations or cash flows. In addition, tax law may be enacted in the future, domestically or abroad, that impacts our current or future tax structure and effective tax rate.

Extreme weather conditions and the seasonal nature of our business may cause net sales to fluctuate and negatively impact our results of operations.

Historically, our operations have been seasonal, with a significant amount of net sales and operating income occurring in the fourth fiscal quarter. Severe weather conditions and changes in weather patterns can influence customer trends, consumer traffic and shopping habits. Unseasonably warm temperatures in the winter or cool temperatures in the summer may diminish demand for our seasonal merchandise. In addition, severe weather can also decrease customer

traffic in our stores and reduce sales and profitability. As a result of this seasonality, net sales and net income during any fiscal quarter cannot be used as an accurate indicator of our annual results. Any factors negatively affecting us during the third and fourth fiscal quarters of any year, including inclement weather, could have a material adverse effect on our financial condition and results of operations for the entire year.

## Table of Contents

The impact of war or acts of terrorism could have a material adverse effect on our operating results and financial condition.

The continued threat of terrorism and the associated heightened security measures and military actions in response to acts of terrorism have disrupted commerce. Further acts of terrorism or future conflicts may disrupt commerce and undermine consumer confidence and consumer spending by causing domestic and/or tourist traffic in malls and the Company's flagship and other stores to decline, which could negatively impact our sales revenue. Furthermore, an act of terrorism or war, or the threat thereof, or any other unforeseen interruption of commerce, could negatively impact our business by interfering with our ability to obtain merchandise from foreign manufacturers. Our inability to obtain merchandise from our foreign manufacturers or substitute other manufacturers, at similar costs and in a timely manner, could adversely affect our operating results and financial condition.

Changes in the regulatory or compliance landscape could adversely affect our business and results of operations.

We are subject to numerous laws and regulations, including customs, truth-in-advertising, securities laws, consumer protection, general privacy, health information privacy, identity theft, online privacy, employee health and safety, international minimum wage laws, unsolicited commercial communication and zoning and occupancy laws and ordinances that regulate retailers generally and/or govern the importation, intellectual property, promotion and sale of merchandise and the operation of retail stores, direct-to-consumer operations and distribution centers. Laws and regulations at the state, federal and international levels frequently change, and the ultimate cost of compliance cannot be precisely estimated. If these laws and regulations were to change, or were violated by our management, associates, suppliers, vendors or other parties with whom we do business, the costs of certain merchandise could increase, or we could experience delays in shipments of our merchandise, be subject to fines or penalties, temporary or permanent store closures, increased regulatory scrutiny or suffer reputational harm, which could reduce demand for our merchandise and adversely affect our business and results of operations. Any changes in regulations, the imposition of additional regulations, or the enactment of any new or more stringent legislation including the areas referenced above, could adversely affect our business and results of operations.

Our Asset-Based Revolving Credit Agreement and our Term Loan Agreement include restrictive covenants that limit our flexibility in operating our business.

Our Asset-Based Revolving Credit Agreement expires on August 7, 2019 and our Term Loan Agreement has a maturity date of August 7, 2021. Both our Asset-Based Revolving Credit Agreement and our Term Loan Agreement contain restrictive covenants that, subject to specified exemptions, restrict our ability to incur indebtedness, grant liens, make certain investments, pay dividends or distributions on our capital stock and engage in mergers. The inability to obtain credit on commercially reasonable terms in the future when these facilities expire could adversely impact our liquidity and results of operations. In addition, market conditions could potentially impact the size and terms of a replacement facility or facilities.

Compliance with changing regulations and standards for accounting, corporate governance and public disclosure could adversely affect our business, results of operations and reported financial results.

Changing regulatory requirements for corporate governance and public disclosure, including SEC regulations and the Financial Accounting Standards Board's accounting standards requirements are creating additional complexities for public companies. For example, the Dodd-Frank Act contains provisions governing "conflict minerals," certain minerals originating from the Democratic Republic of Congo and adjoining countries. As a result, the SEC adopted annual disclosure and reporting requirements for those companies who use conflict minerals mined in the named countries. There are costs associated with complying with the disclosure requirements, including diligence to determine the sources of minerals used in our products and possible changes to sources of our inputs.

Stockholder activism, the current political environment, financial reform legislation and the current high level of government intervention and regulatory reform may lead to substantial new regulations and disclosure obligations. In addition, the expected future requirement to transition to, or converge with, international financial reporting standards may create uncertainty and additional complexities. These changing regulatory requirements may lead to additional compliance costs, as well as the diversion of our management's time and attention from strategic business activities and could have a significant effect on our reported results for the affected periods.

ITEM 1B.UNRESOLVED STAFF COMMENTS.

None.

Table of Contents

## ITEM 2. PROPERTIES.

The Company's headquarters and support functions occupy 501 acres, consisting of the home office, distribution and shipping facilities centralized on a campus-like setting in New Albany, Ohio and an additional small storage facility located in the Columbus, Ohio area, all of which are owned by the Company. Additionally, the Company leases small facilities to house its design and sourcing support centers in Hong Kong, New York City, New York and Los Angeles, California, as well as offices in the United Kingdom, Japan, Switzerland, Italy, Hong Kong and China.

All of the retail stores operated by the Company, as of March 26, 2015, are located in leased facilities, primarily in shopping centers. The leases expire at various dates, between 2015 and 2031.

The Company's home office, distribution and shipping facilities, design support centers and stores are currently suitable and adequate.

As of March 26, 2015, the Company's 965 stores were located as follows:

## U.S. &amp; U.S. Territories:

Alabama	4	Kentucky	7	North Dakota	1
Alaska	1	Louisiana	6	Ohio	25
Arizona	16	Maine	3	Oklahoma	4
Arkansas	6	Maryland	17	Oregon	8
California	113	Massachusetts	31	Pennsylvania	38
Colorado	7	Michigan	22	Rhode Island	2
Connecticut	16	Minnesota	9	South Carolina	10
Delaware	5	Mississippi	2	Tennessee	15
District Of Columbia	1	Missouri	8	Texas	73
Florida	70	Montana	1	Utah	6
Georgia	20	Nebraska	2	Vermont	2
Hawaii	4	Nevada	11	Virginia	21
Idaho	2	New Hampshire	9	Washington	18
Illinois	32	New Jersey	39	West Virginia	4
Indiana	13	New Mexico	3	Wisconsin	9
Iowa	5	New York	45	Puerto Rico	1