

ABERCROMBIE & FITCH CO /DE/  
Form 10-K  
March 30, 2015  
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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

(State or other jurisdiction of incorporation or organization)

31-1469076

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

6301 Fitch Path, New Albany, Ohio

(Address of principal executive offices)

43054

(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

Class A Common Stock, \$0.01 Par Value

Name of each exchange on which registered

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

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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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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

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## 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.

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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.

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### 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.

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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.

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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;

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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.

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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;

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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.

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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

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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.

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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.

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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.

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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.

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## 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
Kansas	5	North Carolina	22		

## International Stores:

Australia	2	Germany	27	Poland	1
Austria	6	Hong Kong	3	Republic of Korea	4
Belgium	3	Ireland	2	Singapore	1
Canada	18	Italy	13	Spain	12
China	11	Japan	7	Sweden	3
Denmark	1	Kuwait	1	United Kingdom	34
France	15	Netherlands	4	United Arab Emirates	3



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ITEM 3. LEGAL PROCEEDINGS.

The Company is a defendant in lawsuits and other adversary proceedings arising in the ordinary course of business. Legal costs incurred in connection with the resolution of claims and lawsuits are generally expensed as incurred, and the Company establishes reserves for the outcome of litigation where it deems appropriate to do so under applicable accounting rules. The Company's assessment of the current exposure could change in the event of the discovery of additional facts with respect to legal matters pending against the Company or determinations by judges, juries, administrative agencies or other finders of fact that are not in accordance with the Company's evaluation of claims. Actual liabilities may exceed the amounts reserved, and there can be no assurance that final resolution of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows. The Company has established accruals for certain matters where losses are deemed probable and reasonably estimable. There are other claims and legal proceedings pending against the Company for which accruals have not been established.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

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## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

A&F's Class A Common Stock (the "Common Stock") is traded on the New York Stock Exchange under the symbol "ANF." The table below sets forth the high and low sales prices of A&F's Common Stock on the New York Stock Exchange for Fiscal 2014 and Fiscal 2013:

	Sales Price	
	High	Low
Fiscal 2014		
4th Quarter	\$35.14	\$25.52
3rd Quarter	\$44.32	\$31.47
2nd Quarter	\$42.89	\$34.54
1st Quarter	\$40.99	\$32.02
Fiscal 2013		
4th Quarter	\$38.31	\$31.72
3rd Quarter	\$51.66	\$33.19
2nd Quarter	\$54.41	\$43.46
1st Quarter	\$52.07	\$45.17

Dividends are declared at the discretion of A&F's Board of Directors. A quarterly dividend, of \$0.20 per share, was declared in each of February, May, August and November in Fiscal 2014 and Fiscal 2013. Dividends were paid in each of March, June, September and December in Fiscal 2014. A&F's Board of Directors reviews the dividend on a quarterly basis and establishes the dividend rate based on A&F's financial condition, results of operations, capital requirements, current and projected cash flows, business prospects and other factors which the directors deem relevant.

As of March 26, 2015, there were approximately 3,500 stockholders of record. However, when including investors holding shares in broker accounts under street name, active associates of the Company who participate in A&F's stock purchase plan, and associates of the Company who own shares through A&F-sponsored retirement plans, A&F estimates that there are approximately 40,300 stockholders.

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The following table provides information regarding the purchase of shares of the Common Stock of A&F made by or on behalf of A&F or any “affiliated purchaser” as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended, during each fiscal month of the quarterly period ended January 31, 2015:

Period (Fiscal Month)	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup>	Maximum Number of Shares that May Yet be Purchased under the Plans or Programs <sup>(3)</sup>
November 2, 2014 through November 29, 2014	2,444	\$29.51	—	8,964,176
November 30, 2014 through January 3, 2015	454	\$30.03	—	8,964,176
January 4, 2015 through January 31, 2015	1,790	\$27.36	—	8,964,176
Total	4,688	\$28.74	—	8,964,176

All of the 4,688 shares of A&F’s Common Stock purchased during the thirteen-week period ended January 31,

(1) 2015 represented shares which were withheld for tax payments due upon the vesting of employee restricted stock units and restricted share awards which vested.

No shares were repurchased during the thirteen-week period ended January 31, 2015 pursuant to A&F’s publicly (2) announced stock repurchase authorization. On August 14, 2012, A&F’s Board of Directors authorized the repurchase of 10.0 million shares of A&F’s Common Stock, which was announced on August 15, 2012.

The number shown represents, as of the end of each period, the maximum number of shares of Common Stock that (3) may yet be purchased under A&F’s publicly announced stock repurchase authorization described in footnote 2 above. The shares may be purchased, from time-to-time, depending on market conditions.

During Fiscal 2014, A&F repurchased approximately 7.3 million shares of A&F’s Common Stock in the open market with a cost of approximately \$285.0 million. During Fiscal 2013, A&F repurchased approximately 2.4 million shares of A&F’s Common Stock in the open market with a cost of approximately \$115.8 million. Repurchases made during Fiscal 2014 and Fiscal 2013 were pursuant to authorizations of A&F’s Board of Directors.

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The following graph shows the changes, over the five-year period ended January 31, 2015 (the last day of A&F's Fiscal 2014) in the value of \$100 invested in (i) shares of A&F's Common Stock; (ii) the Standard & Poor's 500 Stock Index (the "S&P 500 Index"); (iii) the Standard & Poor's Midcap 400 Stock Index (the "S&P Midcap 400 Index"); and (iv) the Standard & Poor's Apparel Retail Composite Index (the "S&P Apparel Retail Index"), including reinvestment of dividends. The plotted points represent the closing price on the last trading day of the fiscal year indicated.

PERFORMANCE GRAPH<sup>(1)</sup>

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN\*

Among Abercrombie & Fitch Co., the S&P 500 Index, the S&P Midcap 400 Index and the S&P Apparel Retail Index \*\$100 invested on 1/30/10 in stock or 1/31/10 in index, including reinvestment of dividends. Indexes calculated on a month-end basis.

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In Fiscal 2013, A&F was removed as a component of the S&P 500 Index and became a component of the S&P Midcap 400 Index.

<sup>(1)</sup> This graph shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to SEC Regulation 14A or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), except to the extent that A&F specifically requests that the graph be treated as soliciting material or specifically incorporates it by reference into a filing under the Securities Act of 1933, as amended, or the Exchange Act.

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## ITEM 6. SELECTED FINANCIAL DATA.

The following financial information is derived from our Consolidated Financial Statements. The information presented below should be read in conjunction with "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION" in Item 7 and the Company's Consolidated Financial Statements and notes thereto included in Item 8. We have also included certain non-financial information to enhance the understanding of our business.

(Thousands, except per share and per square foot amounts, ratios and store and associate data)

	Fiscal 2014	Fiscal 2013	Fiscal 2012 <sup>(1)</sup>	Fiscal 2011	Fiscal 2010	
Statement of Operations Data						
Net Sales	\$3,744,030	\$4,116,897	\$4,510,805	\$4,158,058	\$3,468,777	
Gross Profit	\$2,313,570	\$2,575,435	\$2,816,709	\$2,550,224	\$2,217,429	
Operating Income	\$113,519	\$80,823	\$374,233	\$221,384	\$237,180	
Net Income	\$51,821	\$54,628	\$237,011	\$143,934	\$155,709	
Net Income per Basic Share	\$0.72	\$0.71	\$2.89	\$1.66	\$1.77	
Net Income per Diluted Share	\$0.71	\$0.69	\$2.85	\$1.61	\$1.73	
Basic Weighted-Average Shares Outstanding	71,785	77,157	81,940	86,848	88,061	
Diluted Weighted-Average Shares Outstanding	72,937	78,666	83,175	89,537	89,851	
Cash Dividends Declared Per Share	\$0.80	\$0.80	\$0.70	\$0.70	\$0.70	
Balance Sheet Data						
Working Capital <sup>(2)</sup>	\$679,016	\$752,344	\$617,023	\$858,248	\$927,024	
Current Ratio <sup>(3)</sup>	2.40	2.32	1.89	2.23	2.68	
Total Assets	\$2,505,167	\$2,850,997	\$2,987,401	\$3,117,032	\$2,994,022	
Borrowings, Net	\$293,412	135,000	\$—	\$—	\$43,805	
Leasehold Financing Obligations	\$50,521	\$60,726	\$63,942	\$57,851	\$24,761	
Total Stockholders' Equity	\$1,389,701	\$1,729,493	\$1,818,268	\$1,931,335	\$1,943,391	
Return on Average Stockholders' Equity <sup>(4)</sup>	3	% 3	% 13	% 7	% 8	%
Other Financial and Operating Data						
Net Cash Provided by Operating Activities	\$312,480	\$175,493	\$684,171	\$365,219	\$391,789	
Net Cash Used for Investing Activities	\$(175,074 )	\$(173,861 )	\$(247,238 )	\$(340,689 )	\$(92,976 )	
Net Cash Used for Financing Activities	\$(181,453 )	\$(40,831 )	\$(380,071 )	\$(265,329 )	\$(145,333 )	
Capital Expenditures	\$174,624	\$163,924	\$339,862	\$318,598	\$160,935	
Free Cash Flow <sup>(5)</sup>	\$137,856	\$11,569	\$344,309	\$46,621	\$230,854	
Comparable Sales <sup>(6)</sup>	(8 )	)% (11 )	)% (1 )	)% 5	)% 7	)%
Net Store Sales Per Average Gross Square Foot	\$381	\$417	\$485	\$463	\$390	
Total Number of Stores Open	969	1,006	1,041	1,045	1,069	
Total Store Square Footage at End of Period	7,517	7,736	7,958	7,778	7,756	

(1) Fiscal 2012 was a fifty-three week year.

(2) Working Capital is computed by subtracting current liabilities from current assets.

- (3) Current Ratio is computed by dividing current assets by current liabilities.
- (4) Return on Average Stockholders' Equity is computed by dividing net income by the average stockholders' equity balance.

Free Cash Flow is computed by subtracting Capital Expenditures from the GAAP financial measure of Net Cash Provided by Operating Activities, both of which are disclosed above in the table immediately preceding the measure of Free Cash Flow. The Company believes that the non-GAAP measure of Free Cash Flow is useful to investors to understand available cash flows generated from operations less cash flows used for capital expenditures. The closest GAAP financial measure is Net Cash Provided by Operating Activities. The non-GAAP financial measure of Free Cash Flow should not be used in isolation or as an alternative to Net Cash Provided by Operating Activities or an indicator of the ongoing performance of the Company. It is also not intended to supersede or replace the Company's GAAP financial measure.

- (6) Comparable store sales is defined as year-over-year sales for a store that has been open as the same brand at least one year and its square footage has not been expanded or reduced by more than 20% within the past year and prior year's net sales are converted at the current year's exchange rate to remove the impact of currency fluctuation. Direct-to-Consumer comparable sales is defined as year-over-year sales with prior year's net sales converted at the current year's exchange rate to remove the impact of currency fluctuation. Beginning with Fiscal 2012, comparable sales include comparable direct-to-consumer sales. Figures for years prior to Fiscal 2012 have not been restated and only include comparable store sales.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

The Company is a specialty retailer that operates stores in North America, Europe, Asia, Australia and the Middle East and direct-to-consumer operations in North America, Europe and Asia that service its brands throughout the world. The Company sells casual sportswear apparel, including knit tops 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.

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. A store is included in comparable sales when it has been open as the same brand at least one year and its square footage has not been expanded or reduced by more than 20% within the past year. Additionally, beginning with Fiscal 2012, comparable direct-to-consumer sales were included in comparable sales. Direct-to-Consumer comparable sales is computed using net sales in current and prior years converted at the current year's exchange rate to remove the impact of currency fluctuation.

For purposes of this "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS," the fifty-two week period ended January 31, 2015 is compared to the fifty-two week period ended February 1, 2014 and the fifty-two week period ended February 1, 2014 is compared to the fifty-three week period ended February 2, 2013.

On December 8, 2014, Michael S. Jeffries retired from his position as Chief Executive Officer and resigned as a Director of the Company, effective immediately. The Company's Board of Directors did not appoint an Interim Chief Executive Officer, but appointed Arthur C. Martinez, the Non-Executive Chairman of the Board, to serve as Executive Chairman of the Board and appointed Jonathan E. Ramsden, the Company's Chief Operating Officer, to serve as Interim Principal Executive Officer. The Company's Board of Directors also formed an Office of the Chairman, whose members are Arthur C. Martinez, Jonathan E. Ramsden, Christos E. Angelides, Brand President of Abercrombie & Fitch and abercrombie kids, and Fran Horowitz, Brand President of Hollister, until a new Chief Executive Officer is appointed.

Mr. Jeffries' employment with the Company terminated on December 31, 2014. In connection with his retirement, Mr. Jeffries entered into a Retirement Agreement with the Company, providing him compensation as if his employment had been terminated without cause pursuant to his Employment Agreement dated December 9, 2013. As a result and in addition to any benefits Mr. Jeffries is entitled to upon retirement, as set forth in the Company's most recent definitive proxy statement on Schedule 14A, filed with the SEC on May 13, 2014, Mr. Jeffries will also receive payments of approximately \$5.5 million in cash and benefits continuation, and the Company incurred a pre-tax charge of approximately \$4.7 million in the fourth quarter of Fiscal 2014.

The Company had net sales of \$3.744 billion for Fiscal 2014, a decrease of 9% from net sales of \$4.117 billion for Fiscal 2013. For Fiscal 2014, U.S. Stores net sales decreased 13% to \$1.879 billion, International Stores net sales decreased 12% to \$1.033 billion and Direct-to-Consumer net sales, including shipping and handling revenue, increased 7% to \$832.5 million.

Operating income was \$113.5 million for Fiscal 2014, compared to operating income of \$80.8 million for Fiscal 2013. For Fiscal 2014, operating income for U.S. Stores increased 34% to \$261.4 million, International Stores decreased

18% to \$204.3 million and Direct-to-Consumer decreased 9% to \$269.6 million. Operating loss not attributable to a segment decreased 6% to \$621.8 million.

Net income was \$51.8 million and net income per diluted share was \$0.71 in Fiscal 2014 compared to net income of \$54.6 million and net income per diluted share of \$0.69 in Fiscal 2013.

Excluding certain charges detailed in the GAAP to non-GAAP financial measures reconciliation below, the Company reported adjusted non-GAAP operating income of \$191.7 million, net income of \$112.3 million and net income per diluted shares of \$1.54 for Fiscal 2014, compared to adjusted non-GAAP operating income of \$222.9 million, net income of \$150.6 million and net income per diluted share of \$1.91 for Fiscal 2013.

The Company believes that the non-GAAP financial measures discussed above are useful to investors as they provide the ability to measure the Company's operating performance and compare it against that of prior periods without reference to the impact of charges related to asset impairment, store closures, restructuring of the Gilly Hicks brand, CEO transition costs, the Company's



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profit improvement initiative, and corporate governance matters. These non-GAAP financial measures should not be used as alternatives to operating income, net income or net income per diluted share and are also not intended to be indicators of the ongoing operating performance of the Company or to supersede or replace the Company's GAAP financial measures.

The table below reconciles the GAAP financial measures to the non-GAAP financial measures for the fiscal years ended January 31, 2015, February 1, 2014 and February 2, 2013.

	(in thousands, except per share amounts)								
	Fiscal 2014		Net Income per Diluted Share <sup>(2)</sup>	Fiscal 2013		Net Income per Diluted Share <sup>(2)</sup>	Fiscal 2012		Net Income per Diluted Share <sup>(2)</sup>
	Operating Income	Net Income		Operating Income	Net Income		Operating Income	Net Income	
GAAP	\$ 113,519	\$ 51,821	\$ 0.71	\$ 80,823	\$ 54,628	\$ 0.69	\$ 374,233	\$ 237,011	\$ 2.85
Excluded Charges <sup>(1)</sup>	78,174	60,488	0.83	142,054	95,991	1.22	7,407	4,592	0.06
Non-GAAP	\$ 191,693	\$ 112,309	\$ 1.54	\$ 222,877	\$ 150,619	\$ 1.91	\$ 381,640	\$ 241,603	\$ 2.90

Excluded charges for Fiscal 2014 included \$45.0 million in pre-tax charges related to asset impairment, \$12.7 million in pre-tax charges related to certain corporate governance matters and CEO transition costs, \$8.4 million in pre-tax charges related to the restructuring of the Gilly Hicks brand, \$6.5 million in pre-tax charges related to the Company's profit improvement initiative and \$5.6 million in pre-tax charges related to lease terminations and store closures. Excluded charges for Fiscal 2013 included \$81.5 million in pre-tax charges related to the restructuring of the Gilly Hicks brand, \$46.7 million in pre-tax charges related to asset impairment and \$13.8 million in pre-tax charges related to the Company's profit improvement initiative. Excluded charges for Fiscal 2012 include \$7.4 million in pre-tax charges related to asset impairments.

<sup>(2)</sup> Adjusted non-GAAP net income per diluted share is based on diluted weighted-average shares outstanding of 72.9 million, 78.7 million and 83.2 million for Fiscal 2014, Fiscal 2013 and Fiscal 2012, respectively.

As of January 31, 2015, the Company had \$520.7 million in cash and equivalents, and \$299.3 million in gross borrowings outstanding under its term loan facility. Net cash provided by operating activities, the Company's primary source of liquidity, was \$312.5 million for Fiscal 2014. The Company used cash of \$174.6 million for capital expenditures, \$285.0 million to repurchase approximately 7.3 million shares of A&F's Common Stock and \$57.4 million to pay dividends during Fiscal 2014. In addition, the Company had net proceeds from borrowings of \$161.3 million during Fiscal 2014.

The following data represents the amounts shown in the Company's Consolidated Statements of Operations and Comprehensive (Loss) Income for the last three fiscal years, expressed as a percentage of net sales:

	Fiscal 2014	Fiscal 2013	Fiscal 2012
NET SALES	100.0%	100.0%	100.0%
Cost of Goods Sold	38.2%	37.4%	37.6%
GROSS PROFIT	61.8%	62.6%	62.4%
Stores and Distribution Expense	45.5%	46.3%	43.9%
Marketing, General and Administrative Expense	12.3%	11.7%	10.5%
Restructuring Charges	0.2%	2.0%	—%
Asset Impairment	1.2%	1.1%	0.2%
Other Operating Income, Net	(0.4)%	(0.6)%	(0.4)%

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OPERATING INCOME	3.0%	2.0%	8.3%
Interest Expense, Net	0.4%	0.2%	0.2%
INCOME BEFORE TAXES	2.6%	1.8%	8.1%
Tax Expense	1.3%	0.5%	2.9%
NET INCOME	1.4%	1.3%	5.3%

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## FINANCIAL SUMMARY

The following summarized financial and statistical data compare Fiscal 2014, Fiscal 2013 and Fiscal 2012:

	Fiscal 2014	Fiscal 2013	Fiscal 2012	
Net sales by segment (millions)	\$3,744.0	\$4,116.9	\$4,510.8	
U.S. Stores	\$1,878.5	\$2,161.2	\$2,615.1	
International Stores	\$1,032.9	\$1,178.8	\$1,195.0	
Direct-to-Consumer	\$832.5	\$776.9	\$700.7	
Net sales as a % of total sales				
U.S. Stores	50	% 52	% 58	%
International Stores	28	% 29	% 26	%
Direct-to-Consumer	22	% 19	% 16	%
Net sales by brand (millions)*	\$3,744.0	\$4,116.9	\$4,510.8	
Abercrombie & Fitch	\$1,449.9	\$1,547.2	\$1,704.2	
abercrombie	\$321.4	\$346.7	\$382.5	
Hollister	\$1,947.9	\$2,127.8	\$2,314.5	
Gilly Hicks**	\$24.9	\$95.1	\$109.6	
Increase (decrease) in comparable sales***	(8	)% (11	)% (1	)%
Abercrombie & Fitch	(4	)% (10	)% (3	)%
abercrombie	(7	)% (5	)% 0	%
Hollister	(10	)% (14	)% (1	)%
Increase (decrease) in comparable sales by geography***				
U.S.	(6	)% (11	)% 1	%
International	(12	)% (11	)% (8	)%
Increase (decrease) in comparable sales by channel***				
Total Stores	(12	)% (16	)% (5	)%
U.S. Stores	(9	)% (15	)% (1	)%
International Stores	(18	)% (19	)% (19	)%
Direct-to-Consumer	8	% 13	% 24	%

\*Totals may not foot due to rounding.

\*\*Net sales reflects the activity of stores open during the period and direct-to-consumer sales.

Comparable store sales is defined as year-over-year sales for a store that has been open as the same brand at least one year and its square footage has not been expanded or reduced by more than 20% within the past year and prior year's net sales are converted at the current year's exchange rate to remove the impact of currency fluctuation.

\*\*\*Direct-to-Consumer comparable sales is defined as year-over-year sales with prior year's net sales converted at the current year's exchange rate to remove the impact of currency fluctuation. Comparable sales include comparable direct-to-consumer sales. Fiscal 2012 included a fifty-third week and, therefore, Fiscal 2013 comparable sales are compared to the fifty-two week period ended February 2, 2013.

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CURRENT TRENDS AND OUTLOOK

2014 was a year of significant transition for Abercrombie & Fitch. Our Board of Directors was reconstituted, with new members bringing significant retail and other relevant experience. We undertook a significant change to a brand-driven organization, and recruited two brand presidents with significant retail experience to lead that transformation. Our now former CEO, Michael Jeffries, departed at the end of the year and we are moving forward with a selection process for a new CEO.

As we move into 2015, we continue to evolve our business and respond to major changes and challenges in the macroeconomic and consumer environment. While our efforts may take some time to show meaningful results, we are confident that we are taking the right steps to enable our brands to deliver their full potential.

Our strategic priorities for Fiscal 2015 include:

- Improving comparable store sales trends
- Continuing to invest in DTC and omnichannel capabilities
- Ongoing process improvement and cost management
- Pursuing additional opportunities to expand our brand reach, and
- Ensuring we are properly organized for the next phase of growth and increase accountability to the bottom line

We believe that the aggregate effect of these changes will enable us to improve our performance as we go forward.

In what remains a very difficult consumer and competitive environment we expect the first half of Fiscal 2015 to be challenging. Foreign-currency exchange rates are expected to be a significant headwind to our results for Fiscal 2015. We expect a negative impact from reduced sales of heavy logo merchandise to modestly abate in the first half of the year, and then neutralize in the second half of the year. We expect gross margin rate to be flat to slightly up.

With regard to operating expense, we expect the benefit from foreign exchange rates and expected savings from our profit improvement initiative to be offset by the restoration of normal incentive compensation accruals and increased investment in DTC and omnichannel. Excluded from our operating expense outlook are potential impairment and store closing charges and other potential business transformation and restructuring charges.

In addition, we are projecting a full year weighted average share count of approximately 70 million shares, excluding the effect of potential share buybacks.

We plan to open 15 full-price stores in Fiscal 2015 in the key growth markets of China, Japan and the Middle East, and four full price stores in North America. We also plan to open 11 new outlet stores in the U.S. In addition, the Company anticipates closing approximately 60 stores in the U.S. during the fiscal year through natural lease expirations.

With regard to capital allocation, we are targeting Fiscal 2015 capital expenditures of approximately \$150 million, which are prioritized towards new stores and store updates as well as DTC and IT investments to support our growth initiatives.

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### KEY BUSINESS INDICATORS

The following measurements are among the key business indicators reviewed by various members of management to gauge the Company's results:

- Comparable store sales, defined as year-over-year sales for a store that has been open as the same brand at least one year and its square footage has not been expanded or reduced by more than 20% within the past year, and with prior year's net sales converted at the current year's exchange rate to remove the impact of currency fluctuation;
- Comparable direct-to-consumer sales, defined as year-over-year sales with prior year's net sales converted at the current year's exchange rate to remove the impact of currency fluctuation;
- Comparable sales, defined as comparable store sales combined with comparable direct-to-consumer sales;
- U.S. and International store performance;
- Store productivity;
- Gross margin;
- Selling margin, defined as sales price less original cost, by brand and by product category;
- Stores and distribution expense as a percentage of net sales;
- Marketing, general and administrative expense as a percentage of net sales;
- Operating income and operating income as a percentage of net sales;
- Net income;
- Inventory per gross square foot and inventory to sales ratio;
- Cash flow and liquidity determined by the Company's working capital and free cash flow;
- Store metrics such as sales per gross square foot, sales per selling square foot, average unit retail, average number of transactions per store, average units per transaction, average transaction values, and store contribution (defined as store sales less direct costs of operating the store); and,
- Return on invested capital and return on equity.

While not all of these metrics are disclosed publicly by the Company due to the proprietary nature of the information, the Company publicly discloses and discusses many of these metrics as part of its "Financial Summary" and in several sections within this Management's Discussion and Analysis of Financial Condition and Results of Operations.

### RESULTS OF OPERATIONS

#### FISCAL 2014 COMPARED TO FISCAL 2013

##### Net Sales

Net sales for Fiscal 2014 were \$3.744 billion, a decrease of 9% from Fiscal 2013 net sales of \$4.117 billion. The net sales decrease was attributable to an 8% decrease in comparable sales, which equated to a 7% decrease in net sales, 37 net store closures and the adverse effects of changes in foreign currency exchange rates (based on converting prior year sales at current year exchange rates) of approximately \$19.2 million.

U. S. Stores net sales for Fiscal 2014 were \$1.879 billion, a decrease of 13% from Fiscal 2013 U.S. Stores net sales of \$2.161 billion. The decrease in U.S. Stores net sales was primarily due to a 9% decrease in comparable U.S. Stores sales, which equated into an 8% decrease in U.S. Stores net sales, and a 5% decrease in U.S. Stores sales attributable to net closure of 44 stores.

International Stores net sales for Fiscal 2014 were \$1.033 billion, a decrease of 12% from Fiscal 2013 International Stores net sales of \$1.179 billion. The decrease in International Stores net sales was primarily due to an 18% decrease in comparable International Stores sales, which equated into an 16% decrease in International Stores net sales, and the

adverse effects of changes in foreign currency exchange rates of approximately \$10.0 million, which were partially offset by a 5% increase in International Stores net sales attributable to net opening of 7 stores.

Direct-to-Consumer net sales for Fiscal 2014, including shipping and handling revenue, were \$832.5 million, an increase of 7% from Fiscal 2013 Direct-to-Consumer net sales of \$776.9 million. The increase in Direct-to-Consumer net sales was primarily due to an 11% increase in comparable international Direct-to-Consumer sales and a 6% increase in comparable U.S. Direct-to-Consumer sales, which together equated into an 8% increase in Direct-to-Consumer net sales, partially offset by the adverse effects of changes in foreign currency exchange rates of approximately \$9.2 million. The Direct-to-Consumer business, including shipping and handling revenue, accounted for 22% of total net sales in Fiscal 2014 compared to 19% in Fiscal 2013.

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For Fiscal 2014, comparable sales by brand, including direct-to-consumer sales, decreased 4% for Abercrombie & Fitch, decreased 7% for abercrombie kids, and decreased 10% for Hollister.

### Gross Profit

Gross profit was \$2.314 billion for Fiscal 2014 compared to \$2.575 billion for Fiscal 2013. The gross profit rate (gross profit divided by net sales) for Fiscal 2014 was 61.8%, down 80 basis points from the Fiscal 2013 rate of 62.6%.

The decrease in the gross profit rate was primarily driven by increased promotional activity, including shipping promotions in the direct-to-consumer business, partially offset by lower average unit cost.

### Stores and Distribution Expense

Stores and distribution expense was \$1.703 billion for Fiscal 2014 compared to \$1.908 billion for Fiscal 2013. Stores and distribution expense included \$8.3 million of charges for Fiscal 2014 and \$1.1 million of charges for Fiscal 2013 related to lease terminations, store closures and the Company's profit improvement initiative. Excluding these charges, the stores and distribution expense rate was 45.3% of net sales for Fiscal 2014, down 100 basis points from 46.3% of net sales for Fiscal 2013.

The decrease in stores and distribution expense as a percent of net sales was driven primarily by savings from the Company's profit improvement initiative, largely in store payroll and other controllable store expense, partially offset by the deleveraging effect of negative comparable sales and higher direct-to-consumer expense.

Shipping and handling costs, including costs incurred to store, move and prepare merchandise for shipment and costs incurred to physically move merchandise to customers, associated with direct-to-consumer operations were \$108.1 million for Fiscal 2014 compared to \$93.4 million for Fiscal 2013. These amounts are included in Stores and Distribution Expense on the Consolidated Statements of Operations and Comprehensive (Loss) Income.

Handling costs, including costs incurred to store, move and prepare merchandise for shipment to stores were \$52.2 million for Fiscal 2014 compared to \$53.9 million for Fiscal 2013. These amounts are included in Stores and Distribution Expense on the Consolidated Statements of Operations and Comprehensive (Loss) Income.

### Marketing, General and Administrative Expense

Marketing, general and administrative expense was \$458.8 million for Fiscal 2014 compared to \$481.8 million for Fiscal 2013. Marketing, general and administrative expense included \$16.4 million of charges for Fiscal 2014 and \$12.7 million of charges for Fiscal 2013 related to the Company's profit improvement initiative. Excluding these charges, marketing, general and administrative expense was \$442.4 million for Fiscal 2014 compared to \$469.1 million for Fiscal 2013, a decrease of \$26.7 million.

The decrease in marketing, general and administrative expense was driven primarily by a decrease in compensation expense, partially offset by an increase in marketing expenses.

### Restructuring Charges

Charges associated with the restructuring of the Gilly Hicks brand were \$8.4 million for Fiscal 2014, of which \$6.0 million related to lease terminations and \$2.1 million related to asset impairment. Charges associated with the restructuring of the Gilly Hicks brand were \$81.5 million for Fiscal 2013, of which \$42.7 million related to lease terminations and \$37.9 million related to asset impairment.

## Asset Impairment

The Company incurred non-cash asset impairment charges of \$45.0 million for Fiscal 2014 related to 51 stores whose asset carrying values were determined to not be recoverable and exceeded fair value. Store-related asset impairment charges for Fiscal 2014 primarily related to the Company's Abercrombie & Fitch flagship store locations in Tokyo, Japan and Seoul, Korea, as well as nine Hollister stores and nine abercrombie kids stores. Additionally, in connection with the Company's plan to sell the corporate aircraft, the Company incurred charges of approximately \$11.3 million to record the expected loss on the disposal of the asset. For Fiscal 2013, the Company incurred non-cash asset impairment charges of \$46.7 million primarily related to 97 stores whose asset carrying values were determined to not be recoverable and exceeded fair value.



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### Other Operating Income, Net

Other operating income, net was \$15.2 million for Fiscal 2014 compared to other operating income, net of \$23.1 million for Fiscal 2013. Other operating income, net included income of \$10.2 million related to insurance recoveries and \$5.8 million related to gift card breakage, partially offset by losses of \$2.0 million related to foreign currency transactions for Fiscal 2014, compared to income of \$9.0 million related to insurance recoveries, income of \$8.8 million related to gift card breakage and gains of \$2.9 million related to foreign currency transactions for Fiscal 2013.

### Operating Income

Operating income was \$113.5 million for Fiscal 2014 compared to operating income of \$80.8 million for Fiscal 2013. Adjusted non-GAAP operating income was \$191.7 million for Fiscal 2014 compared to adjusted non-GAAP operating income of \$222.9 million for Fiscal 2013, excluding pre-tax charges for Gilly Hicks restructuring, asset impairment, store closures, lease terminations, CEO transition costs, corporate governance matters, and the profit improvement initiative for Fiscal 2014 and Fiscal 2013 of \$78.2 million and \$142.1 million, respectively. The decrease in adjusted non-GAAP operating income excluding the specified charges was primarily driven by the deleveraging effect of negative comparable store sales, both U.S. and international, and investment in direct-to-consumer operations partially offset by expense reductions primarily related to the Company's profit improvement initiative.

U.S. Stores operating income was \$261.4 million for Fiscal 2014 compared to \$194.6 million for Fiscal 2013. The increase in U.S. Stores operating income for Fiscal 2014 was primarily due to a year-over-year decrease of \$88.8 million in charges related to the restructuring of the Gilly Hicks brand, the Company's profit improvement initiative and asset impairment, as well as expense reductions related to the Company's profit improvement initiative, partially offset by a 9% decrease in comparable U.S. Stores sales, which had a deleveraging effect.

International Stores operating income was \$204.3 million for Fiscal 2014 compared to \$249.3 million for Fiscal 2013. The decrease in International Stores operating income for Fiscal 2014 was primarily due to an 18% decrease in comparable International Stores sales, which had a deleveraging effect and incremental charges of \$10.3 million for Fiscal 2014 as compared to Fiscal 2013 related to the restructuring of the Gilly Hicks brand and asset impairment, partially offset by expense reductions primarily related to the Company's profit improvement initiative and net opening of 7 stores.

Direct-to-Consumer operating income was \$269.6 million for Fiscal 2014 compared to \$295.0 million for Fiscal 2013. The decrease in Direct-to-Consumer operating income was primarily due to increased digital marketing and shipping expenses, partially offset by a 7% increase in Direct-to-Consumer net sales.

Operating loss not attributable to a segment ("Other") was \$621.8 million for Fiscal 2014 compared to \$658.0 million for Fiscal 2013. The decrease in Other operating loss was attributable to expense reductions primarily related to the Company's profit improvement initiative, which was partially offset by incremental charges of \$14.3 million related to certain corporate governance matters, asset impairment and the Company's profit improvement initiative.

### Interest Expense, Net and Tax Expense

Interest expense was \$18.3 million, partially offset by interest income of \$3.9 million, for Fiscal 2014, compared to interest expense of \$11.1 million, partially offset by interest income of \$3.6 million, for Fiscal 2013. The increase in interest expense was primarily due to a higher principal balance and interest rate on debt outstanding in Fiscal 2014.

The effective tax rate was 47.7% for Fiscal 2014 compared to 25.5% for Fiscal 2013. The increase in effective tax rate for Fiscal 2014 was primarily driven by an unfavorable change in the mix of earnings on a jurisdictional basis, a \$6.1

million valuation allowance established in Fiscal 2014 for net operating loss carryforwards for which the Company has determined based on the currently available evidence it is more likely than not that the associated deferred tax asset will not be realized, as well as a benefit of \$6.7 million in Fiscal 2013 resulting from the settlement of certain state tax audits and other discrete matters.

Excluding the effect of excluded charges, detailed in the GAAP to non-GAAP financial measures reconciliation provided under "OVERVIEW," the Company's effective tax rate was 36.7% for Fiscal 2014 compared to 30.1% for Fiscal 2013.

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As of January 31, 2015, there were approximately \$15.9 million of net deferred tax assets in Japan. The realization of the net deferred tax assets is dependent upon the future generation of sufficient taxable profits in Japan. While the Company believes it is more likely than not that the net deferred tax assets will be realized, it is not certain. Should circumstances change, the net deferred tax assets may become subject to a valuation allowance in the future. Additional valuation allowances would result in additional tax expense.

### Net Income and Net Income per Diluted Share

Net income was \$51.8 million for Fiscal 2014 compared to net income of \$54.6 million for Fiscal 2013. The Company reported net income per diluted share of \$0.71 and \$0.69 for Fiscal 2014 and Fiscal 2013, respectively. Excluding certain charges, detailed in the GAAP to non-GAAP financial measures reconciliation provided under "OVERVIEW," the Company reported adjusted non-GAAP net income of \$112.3 million and \$150.6 million and adjusted non-GAAP net income per diluted share of \$1.54 and \$1.91 for Fiscal 2014 and Fiscal 2013, respectively.

### FISCAL 2013 COMPARED TO FISCAL 2012

#### Net Sales

Net sales for Fiscal 2013 were \$4.117 billion, a decrease of 9% from Fiscal 2012 net sales of \$4.511 billion. The net sales decrease was attributable to an 11% decrease in comparable sales, which equated to an 11% decrease in net sales, partially offset by growth from opening new international stores.

U.S. Stores net sales for Fiscal 2013 were \$2.161 billion, a decrease of 17% from Fiscal 2012 U.S. Stores net sales of \$2.615 billion. The decrease in U.S. Stores net sales was primarily due to a 15% decrease in comparable U.S. Stores sales, which equated into a 14% decrease in U.S. Stores net sales, and a 3% decrease in U.S. Stores sales attributable to net closure of 59 stores.

International Stores net sales for Fiscal 2013 were \$1.179 billion, a decrease of 1% from Fiscal 2012 International Stores net sales of \$1.195 billion. The decrease in International Stores net sales was primarily due to a 19% decrease in comparable International Stores sales, which equated into an 18% decrease in International Stores net sales, which was largely offset by a 17% increase in International Stores net sales attributable to net opening of 24 stores.

Direct-to-Consumer net sales for Fiscal 2013, including shipping and handling revenue, were \$776.9 million, an increase of 11% from Fiscal 2012 Direct-to-Consumer net sales of \$700.7 million. The increase in Direct-to-Consumer net sales was primarily due to a 25% increase in comparable international Direct-to-Consumer net sales and a 7% increase in comparable U.S. Direct-to-Consumer sales, which together equated into a 13% increase in Direct-to-Consumer sales. The Direct-to-Consumer business, including shipping and handling revenue, accounted for 19% of total net sales in Fiscal 2013 compared to 16% in Fiscal 2012.

The impact of changes in foreign currency (based on converting prior year sales at current year exchange rates) benefited sales by approximately \$13.4 million in Fiscal 2013, which primarily related to the International Stores segment.

The Fiscal 2012 retail year included a fifty-third week and, therefore, Fiscal 2013 comparable sales are compared to the fifty-two week period ended February 2, 2013. The net sales for the fifty-two week period ended February 2, 2013 were approximately \$63 million less than the net sales for the reported fifty-three week period ended February 2, 2013.

For Fiscal 2013, comparable sales by brand, including direct-to-consumer sales, decreased 10% for Abercrombie & Fitch, decreased 5% for abercrombie kids, and decreased 14% for Hollister.

#### Gross Profit

Gross profit was \$2.575 billion for Fiscal 2013 compared to gross profit of \$2.817 billion for Fiscal 2012. The gross profit rate (gross profit divided by net sales) for Fiscal 2013 was 62.6%, up 20 basis points from the Fiscal 2012 rate of 62.4%.

#### Stores and Distribution Expense

Stores and distribution expense was \$1.908 billion for Fiscal 2013 compared to \$1.981 billion for Fiscal 2012. The stores and distribution expense rate (stores and distribution expense divided by net sales) for Fiscal 2013 was 46.3% compared to 43.9% for Fiscal 2012. Stores and distribution expense for the full year included \$1.1 million of charges related to the profit improvement initiative. Savings in store payroll, store management and support and other stores and distribution expenses, including savings

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from the profit improvement initiative, were more than offset by the deleveraging effect of negative comparable sales and higher direct-to-consumer expense.

Shipping and handling costs, including costs incurred to store, move and prepare merchandise for shipment and costs incurred to physically move the merchandise to the customer, associated with direct-to-consumer operations were \$93.4 million and \$78.6 million for Fiscal 2013 and Fiscal 2012, respectively. The increase in shipping and handling costs in Fiscal 2013 was primarily driven by increased sales volume and a higher international mix component. These amounts are recorded in Stores and Distribution Expense in our Consolidated Statements of Operations and Comprehensive (Loss) Income.

Handling costs, including costs incurred to store, move and prepare merchandise for shipment to stores were \$53.9 million and \$59.4 million for Fiscal 2013 and Fiscal 2012, respectively. These amounts are recorded in Stores and Distribution Expense in our Consolidated Statements of Operations and Comprehensive (Loss) Income.

### Marketing, General and Administrative Expense

Marketing, general and administrative expense was \$481.8 million for Fiscal 2013 compared to \$473.9 million for Fiscal 2012. Marketing, general and administrative expense for Fiscal 2013 included \$12.7 million in charges related to the profit improvement initiative. Excluding these charges, marketing, general and administrative expense was \$469.1 million for Fiscal 2013.

### Restructuring Charges

On November 1, 2013, A&F's Board of Directors approved the closure of the Company's 24 stand-alone Gilly Hicks branded stores. In connection with the strategic review, the Company decided to focus the future development of the Gilly Hicks brand through Hollister stores and direct-to-consumer channels. Restructuring charges associated with the store closures for the full year were \$81.5 million, of which \$42.7 million related to lease terminations and store closure costs and \$37.9 million for asset impairments.

### Asset Impairment

The Company recorded asset impairment charges of \$46.7 million for Fiscal 2013 primarily related to 97 stores, and \$7.4 million for Fiscal 2012 primarily related to 17 stores.

### Other Operating Expense (Income), Net

Other operating income, net was \$23.1 million for Fiscal 2013 compared to other operating expense, net of \$19.3 million for Fiscal 2012. Other operating income, net included income of \$9.0 million and \$4.8 million related to insurance recoveries for Fiscal 2013 and Fiscal 2012, respectively.

### Operating Income

Operating income was \$80.8 million for Fiscal 2013 compared to operating income of \$374.2 million for Fiscal 2012. Adjusted non-GAAP operating income was \$222.9 million for Fiscal 2013 was compared to adjusted non-GAAP operating income of \$381.6 million for Fiscal 2012, excluding pre-tax charges for Gilly Hicks restructuring, asset impairment and the profit improvement initiative for Fiscal 2013 and Fiscal 2012 of \$142.1 million and \$7.4 million, respectively. The decrease in adjusted non-GAAP operating income excluding charges was primarily driven by the deleveraging effect of negative comparable store sales, both U.S. and international, partially offset by new international stores, direct-to-consumer operations and expense reductions primarily related to the Company's profit

improvement initiative.

U.S. Stores operating income was \$194.6 million for Fiscal 2013 compared to \$432.0 million for Fiscal 2012. The decrease in U.S. Stores operating income was primarily due to a 15% decrease in comparable U.S. Stores sales, which had a deleveraging effect, and incremental charges of \$87.5 million for Fiscal 2013 as compared to Fiscal 2012 related to the restructuring of the Gilly Hicks brand, store-related asset impairment and the Company's profit improvement initiative, partially offset by expense reductions primarily related to the Company's profit improvement initiative.

International Stores operating income was \$249.3 million for Fiscal 2013 compared to \$350.9 million for Fiscal 2012. The decrease in International Stores operating income was primarily due to a 19% decrease in comparable International Stores sales, which had a deleveraging effect, increased promotional activity and charges of \$33.3 million related to the restructuring of the Gilly Hicks brand and store-related asset impairment, partially offset by expense reductions primarily related to the Company's profit improvement initiative and net opening of 24 stores.

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Direct-to-Consumer operating income was \$295.0 million for Fiscal 2013 compared to \$269.5 million for Fiscal 2012. The increase in Direct-to-Consumer operating income was primarily due to an 11% increase in Direct-to-Consumer net sales, partially offset by increased digital marketing and other direct costs.

Operating loss not attributable to a segment ("Other") was \$658.0 million for Fiscal 2013 compared to \$678.2 million for Fiscal 2012. The decrease in Other operating loss was primarily attributable to expense reductions primarily related to the Company's profit improvement initiative, which was partially offset by charges of \$13.8 million related to the Company's profit improvement initiative and the restructuring of the Gilly Hicks brand.

### Interest Expense (Income), Net and Tax Expense

Interest expense was \$11.1 million, offset by interest income of \$3.6 million, for Fiscal 2013, compared to interest expense of \$10.5 million, partially offset by interest income of \$3.2 million, for Fiscal 2012.

The effective tax rate was 25.5% for Fiscal 2013. Excluding the effect of charges related to restructuring plans for Gilly Hicks, other store-related asset impairment charges, and charges related to the Company's profit improvement initiative, the effective tax rate was 30.1% compared to 35.4% for Fiscal 2012. The Fiscal 2013 effective tax rate included a benefit of \$6.7 million primarily resulting from the settlement of certain state tax audits and other discrete tax matters.

As of February 1, 2014, there were approximately \$15.8 million of net deferred tax assets in Japan. The realization of the net deferred tax assets will depend upon the future generation of sufficient taxable profits in Japan. While the Company believes it is more likely than not that the net deferred tax assets will be realized, it is not certain. Should circumstances change, the net deferred tax assets not currently subject to a valuation allowance may become subject to one in the future. Additional valuation allowances would result in additional tax expense.

### Net Income and Net Income per Diluted Share

Net income was \$54.6 million for Fiscal 2013 compared to net income of \$237.0 million for Fiscal 2012. Net income included charges of approximately \$96.0 million and \$4.6 million in Fiscal 2013 and Fiscal 2012, respectively. Net income per diluted share was \$0.69 for Fiscal 2013 compared to net income per diluted share of \$2.85 for Fiscal 2012. Net income per diluted share included charges of approximately \$1.22 per diluted share and \$0.06 per diluted share in Fiscal 2013 and Fiscal 2012, respectively. Refer to the GAAP reconciliation table provided under "OVERVIEW" for a reconciliation of net income per diluted share on a GAAP basis to net income per diluted share on a non-GAAP basis, excluding charges for the Gilly Hicks restructuring, asset impairment and charges related to the profit improvement initiative.

## FINANCIAL CONDITION

### LIQUIDITY AND CAPITAL RESOURCES

#### Historical Sources and Uses of Cash

#### Seasonality of Cash Flows

The Company's business 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 Back-to-School and

Holiday sales periods, particularly in the U.S. The Company relies on excess operating cash flows, which are largely generated in the Fall season, to fund operating expenses throughout the year and to reinvest in the business to support future growth. The Company also has a senior secured revolving credit facility of up to \$400 million (the "ABL Facility") available as a source of additional funding.

#### Asset-Based Revolving Credit Facility and Term Loan Facility

On August 7, 2014, the Company entered into an asset-based revolving credit agreement. The agreement provides for a senior secured revolving credit facility of up to \$400 million (the "ABL Facility"), subject to a borrowing base. The ABL Facility is available for working capital, capital expenditures and other general corporate purposes.

The Company also entered into a term loan agreement on August 7, 2014, which provides for a term loan facility of \$300 million (the "Term Loan Facility" and, together with the ABL Facility, the "2014 Credit Facilities"). A portion of the proceeds of the Term



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Loan Facility were used to repay the outstanding balance of approximately \$127.5 million under the Company's 2012 term loan agreement, to repay outstanding borrowings of approximately \$60 million under the Company's 2011 credit agreement and to pay fees and expenses associated with the transaction.

### Maturity, Amortization, Prepayments and Interest

The ABL Facility will mature on August 7, 2019. The Term Loan Facility will mature on August 7, 2021 and amortizes at a rate equal to 0.25% of the original principal amount per quarter, beginning with the fourth quarter of Fiscal 2014. The Term Loan Facility is subject to (a) beginning in 2016, an annual mandatory prepayment in an amount equal to 0% to 50% of the Company's excess cash flows in the preceding fiscal year, depending on the Company's leverage ratio and (b) certain other mandatory prepayments upon receipt by the Company of proceeds of certain debt issuances, asset sales and casualty events, subject to certain exceptions specified therein, including reinvestment rights. The interest rate on borrowings under the Term Loan Facility was 4.75% as of January 31, 2015. The gross amount outstanding under the Term Loan Facility was \$299.3 million as of January 31, 2015.

The Company's credit facilities are described in Note 12, "BORROWINGS" of the Notes to the Consolidated Financial Statements included in "ITEM 8. FINANCIAL STATEMENT AND SUPPLEMENTARY DATA," of this Annual Report on Form 10-K.

### Operating Activities

Net cash provided by operating activities was \$312.5 million for Fiscal 2014 compared to \$175.5 million for Fiscal 2013 and \$684.2 million for Fiscal 2012. The increase in net cash provided by operating activities from Fiscal 2013 was primarily driven by changes in inventory and accounts payable and accrued expenses. The decrease in net cash provided by operating activities in Fiscal 2013 from Fiscal 2012 was primarily driven by lower net income, adjusted for non-cash items, including asset impairment charges, and changes in inventory and income taxes.

### Investing Activities

Cash outflows for investing activities in Fiscal 2014, Fiscal 2013 and Fiscal 2012 were used primarily for capital expenditures related to new stores, store refreshes and remodels, information technology, distribution center and other home office projects.

### Financing Activities

For Fiscal 2014, cash outflows for financing activities consisted primarily of the repurchase of A&F's Common Stock of \$285.0 million, the repayment of borrowings of \$195.8 million and the payment of dividends of \$57.4 million. For Fiscal 2013, cash outflows for financing activities consisted primarily of the repurchase of A&F's Common Stock of \$115.8 million, the payment of dividends of \$61.9 million and the repayment of borrowings of \$15.0 million. For Fiscal 2012, cash outflows for financing activities consisted primarily of the repurchase of A&F's Common Stock of \$321.7 million, the repayment of borrowings of \$135.0 million and the payment of dividends of \$57.6 million. For Fiscal 2014, Fiscal 2013, and Fiscal 2012, cash inflows from financing activities consisted primarily of proceeds from borrowings of \$357.0 million, \$150.0 million and \$135.0 million, respectively.

During Fiscal 2014, A&F repurchased approximately 7.3 million shares of A&F's Common Stock, of which approximately 3.5 million shares with a market value of approximately \$135.0 million were purchased in the open market and approximately 3.8 million shares with an aggregate cost of \$150.0 million were purchased pursuant to an accelerated share repurchase agreement. During Fiscal 2013, A&F repurchased approximately 2.4 million shares of A&F's Common Stock in the open market with a market value of \$115.8 million. During Fiscal 2012, A&F

repurchased approximately 7.5 million shares of A&F's Common Stock in the open market with a market value of \$321.7 million. Repurchase of A&F's Common Stock were made pursuant to the A&F Board of Directors' authorizations.

As of January 31, 2015, A&F had approximately 9.0 million remaining shares available for repurchase as part of the A&F Board of Directors' previously approved authorization.

#### Future Cash Requirements and Sources of Cash

Over the next 12 months, the Company's primary cash requirements will be to fund operating activities, including the acquisition of inventory, and obligations related to compensation, leases, taxes and other operating activities, as well as to fund capital expenditures and quarterly dividends to stockholders subject to approval by the Company's Board of Directors. The Company has availability under the ABL Facility as a source of additional funding.

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The Company may continue to repurchase shares of its Common Stock and would anticipate funding these cash requirements utilizing free cash flow generated from operations.

The Company is not dependent on dividends from its foreign subsidiaries to fund its U.S. operations or make distributions to A&F's stockholders. Unremitted earnings from foreign subsidiaries, which are considered to be invested indefinitely, would become subject to U.S. income tax if they were remitted as dividends or were lent to A&F or a U.S. affiliate. Although the Company has no intent to repatriate cash held in Europe and Asia, the Company has the ability to repatriate current Europe and Asia cash balances without the occurrence of a taxable dividend in the United States.

## Off-Balance Sheet Arrangements

The Company uses in the ordinary course of business stand-by letters of credit under the existing ABL Facility. The Company had \$9.2 million in stand-by letters of credit outstanding as of January 31, 2015. The Company has no other off-balance sheet arrangements.

## Contractual Obligations

(in thousands)	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt Obligations	\$299,250	\$3,000	\$6,000	\$6,000	\$ 284,250
Capital Lease Obligations	2,792	734	1,468	590	—
Operating Lease Obligations <sup>(1)</sup>	2,016,639	412,317	651,669	377,225	575,428
Purchase Obligations	254,742	225,213	29,362	167	—
Other Obligations	31,849	1,338	2,328	8,627	19,556
Dividends	—	—	—	—	—
Totals	\$2,605,272	\$642,602	\$690,827	\$392,609	\$ 879,234

<sup>(1)</sup> Includes leasehold financing obligations of \$50.5 million and related interest. Refer to Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES," 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 additional information.

Long-term debt obligations consist of principal payments under the Term Loan Agreement. Refer to Note 12, "BORROWINGS," 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 additional information.

Operating lease obligations consist primarily of non-cancelable future minimum lease commitments related to store operating leases. See Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--LEASED FACILITIES," 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. Excluded from the obligations above are amounts related to portions of lease terms that are currently cancelable at the Company's discretion. While included in the obligations above, in many instances, the Company has options to terminate certain leases if stated sales volume levels are not met or the Company ceases operations in a given country. Operating lease obligations do not include common area maintenance ("CAM"), insurance, marketing or tax payments for which the Company is also obligated. Total expense related to CAM, insurance, marketing and taxes was \$172.3 million in Fiscal 2014.

The purchase obligations category represents purchase orders for merchandise to be delivered during Fiscal 2015 and commitments for fabric expected to be used during upcoming seasons. In addition, purchase obligations include

agreements to purchase goods or services including information technology contracts and third-party distribution center service contracts.

Other obligations consist primarily of asset retirement obligations and the Supplemental Executive Retirement Plan. See Note 16, "RETIREMENT BENEFITS," 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.

Due to uncertainty as to the amounts and timing of future payments, the contractual obligations table above does not include tax (including accrued interest and penalties) of \$4.6 million related to uncertain tax positions at January 31, 2015. Deferred taxes are also not included in the preceding table. For further discussion, see Note 11, "INCOME TAXES," of the Notes to Consolidated Financial Statements included in "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA" of this Annual Report on Form 10-K.

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A&F has historically paid quarterly dividends on its Common Stock. There are no amounts included in the above table related to dividends due to the fact that dividends are subject to determination and approval by A&F's Board of Directors.

## Gilly Hicks Restructuring

As previously announced, on November 1, 2013, A&F's Board of Directors approved the closure of the Company's 24 stand-alone Gilly Hicks stores. The Company substantially completed the store closures as planned by the end of the first quarter of Fiscal 2014. The Company continues to offer Gilly Hicks products through the Hollister direct-to-consumer channel.

As a result of exiting the Gilly Hicks branded stores, the Company currently estimates that it will incur aggregate pre-tax charges of approximately \$91.2 million, of which \$8.4 million in charges, primarily related to lease terminations and asset impairment, was recognized during Fiscal 2014 and \$81.5 million was recognized during Fiscal 2013.

Below is a summary of the aggregate pre-tax charges incurred through January 31, 2015 related to the closure of the Gilly Hicks branded stores (in thousands):

Lease terminations and store closure costs	\$48,665
Asset impairment	40,036
Other	1,230
Total charges <sup>(1)</sup>	\$89,931

<sup>(1)</sup> As of January 31, 2015, the Company incurred aggregate pre-tax charges related to restructuring plans for the Gilly Hicks brand of \$50.4 million for the U.S. Stores segment and \$39.5 million for the International Stores segment.

The remaining charges, primarily lease-related, including the net present value of payments related to lease terminations, potential sub-lease losses and other lease-related costs of approximately \$1.3 million, are expected to be recognized over the remaining lease terms. These estimates are based on a number of significant assumptions and could change materially.

Costs associated with exit or disposal activities are recorded when the liability is incurred. Below is a roll forward of the liabilities recognized on the Consolidated Balance Sheet as of January 31, 2015, related to the closure of the Gilly Hicks stores (in thousands):

Accrued liability as of February 1, 2014	\$42,507	
Costs incurred	11,631	
Cash payments	(48,141	)
Accrued liability as of January 31, 2015	\$5,997	

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## Store Activity

During the year, the Company opened seven international Hollister chain stores, three international Abercrombie & Fitch chain stores, including its first in the Middle East, and opened a Hollister chain store and an abercrombie kids store in the U.S. In addition, the Company opened its first Abercrombie & Fitch flagship store in Shanghai and its first international abercrombie kids flagship store in London. The Company also opened nine outlet stores during the year, three internationally, in Europe and Asia, and six in the U.S. In addition, the Company closed 52 U.S. stores and eight international stores, seven of which were Gilly Hicks stores.

## Year-To-Date Store Count and Gross Square Feet

Store count and gross square footage by brand for Fiscal 2014 and Fiscal 2013, respectively, were as follows:

Store Activity	Abercrombie & Fitch	abercrombie	Hollister	Gilly Hicks	Total
(Gross square feet amounts in thousands)					
U.S. Stores					
February 1, 2014	253	131	458	1	843
New	5	1	2	—	8
Closed	(8	) (16	) (27	) (1	) (52
January 31, 2015	250	116	433	—	799
Gross Square Feet at January 31, 2015	2,209	589	2,988	—	5,786
International Stores					
February 1, 2014	22	5	129	7	163
New	7	1	7	—	15
Closed	—	—	(1	) (7	) (8
January 31, 2015	29	6	135	—	170
Gross Square Feet at January 31, 2015	479	81	1,171	—	1,731
Total Stores	279	122	568	—	969
Total Gross Square Feet at January 31, 2015	2,688	670	4,159	—	7,517

Store Activity	Abercrombie & Fitch	abercrombie	Hollister	Gilly Hicks	Total
(Gross square feet amounts in thousands)					
U.S. Stores					
February 2, 2013	266	141	478	17	902
New	2	—	1	—	3
Closed	(15)	(10)	(21)	(16	) (62
February 1, 2014	253	131	458	1	843
Gross Square Feet at February 1, 2014	2,267	635	3,156	7	6,065
International Stores					
February 2, 2013	19	6	107	7	139
New	3	—	22	—	25
Closed	—	(1	) —	—	(1
February 1, 2014	22	5	129	7	163

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Gross Square Feet at February 1, 2014	423	66	1,133	49	1,671
Total Stores	275	136	587	8	1,006
Total Gross Square Feet at February 1, 2014	2,690	701	4,289	56	7,736

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## Capital Expenditures

Capital expenditures totaled \$174.6 million, \$163.9 million and \$339.9 million for Fiscal 2014, Fiscal 2013 and Fiscal 2012, respectively. A summary of capital expenditures is as follows:

Capital Expenditures (in millions)	Fiscal 2014	Fiscal 2013	Fiscal 2012
New Store Construction, Store Refreshes and Remodels	\$86.3	\$101.4	\$245.3
Home Office, Distribution Centers and Information Technology	88.3	62.5	94.6
Total Capital Expenditures	\$174.6	\$163.9	\$339.9

During Fiscal 2015, the Company expects capital expenditures of approximately \$150 million, which are prioritized toward new stores and store updates, as well as direct-to-consumer and information technology investments to support growth initiatives.

## Recent Accounting Pronouncements

See Note 2, "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - RECENT ACCOUNTING PRONOUNCEMENTS" of the Notes to the Consolidated Financial Statements included in "ITEM 8. FINANCIAL STATEMENT AND SUPPLEMENTARY DATA," of this Annual Report on Form 10-K for recent accounting pronouncements, including the expected dates of adoption and estimate effects on our Consolidated Financial Statements.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Since actual results may differ from those estimates, the Company revises its estimates and assumptions as new information becomes available.

The Company believes the following policies are the most critical to the portrayal of the Company's financial condition and results of operations.

Policy	Effect if Actual Results Differ from Assumptions
Revenue Recognition	
The Company reserves for sales returns through estimates based on historical experience and various other assumptions that management believes to be reasonable.	The Company has not made any material changes in the accounting methodology used to determine the sales return reserve over the past three fiscal years.
	The Company does not expect material changes in the near term to the underlying assumptions used to measure the sales return reserve as of January 31, 2015. However, changes in these assumptions do occur, and, should those changes be significant, the Company may be exposed to gains or losses that could be material.
Inventory Valuation	
The Company reduces the inventory valuation when the cost of specific inventory items on hand exceeds the amount expected to be realized from the ultimate sale or disposal of the goods through a lower of cost or market	The Company does not expect material changes in the near term to the underlying assumptions used to determine the shrink reserve or the LCM reserve as of January 31, 2015. However, changes in these assumptions do occur, and,



("LCM") reserve.

should those changes be significant, they could significantly impact the ending inventory valuation at cost, as well as the resulting gross margin.

An increase or decrease in the LCM reserve of 10% would have affected pre-tax income by approximately \$1.3 million for Fiscal 2014.

Additionally, as part of inventory valuation, an inventory shrink estimate is made each period that reduces the value of inventory for lost or stolen items.

An increase or decrease in the inventory shrink accrual of 10% would have affected pre-tax income by approximately \$1.1 million for Fiscal 2014.

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Policy

Property and Equipment

Long-lived assets, primarily comprising of property and equipment, are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount of the long-lived asset might not be recoverable. On at least a quarterly basis, the Company reviews for indicators of impairment. In addition, the Company conducts an annual impairment analysis in the fourth quarter of each year. For the purposes of the annual review, the Company reviews long-lived assets associated with stores that have an operating loss in the current year or otherwise display an indicator of impairment.

The Company's impairment assessment requires management to make assumptions and judgments related to factors used in the evaluation for impairment, including, but not limited to, management's expectations for future operations and projected cash flows. The key assumptions used in the Company's undiscounted future cash flow model include sales, gross margin and, to a lesser extent, operating expenses.

Income Taxes

The provision for income taxes is determined using the asset and liability approach. Tax laws often require items to be included in tax filings at different times than the items are being reflected in the financial statements. A current liability is recognized for the estimated taxes payable for the current year. Deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. Deferred taxes are adjusted for enacted changes in tax rates and tax laws. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

A provision for U.S. income tax has not been recorded on undistributed profits of non-U.S. subsidiaries that the Company has determined to be indefinitely reinvested outside the U.S. Determination of the amount of unrecognized deferred U.S. income tax liability on these unremitted earnings is not practicable because of the complexities associated with this hypothetical calculation.

Effect if Actual Results Differ from Assumptions

Based on the impact of current sales trends, a number of stores were tested for impairment during the third quarter. In addition, the Company performed the annual review during the fourth quarter. The stores that were tested and not impaired had a net asset group value of \$3.6 million and had undiscounted cash flows which were in the range of 100% to 150% of their respective net asset values.

A 10% decrease in the sales assumption used to project future cash flows in the fourth quarter of Fiscal 2014 impairment test would have increased the impairment charge by approximately \$2.0 million.

The Company does not expect material changes in the judgments, assumptions or interpretations used to calculate the tax provision for Fiscal 2014. However, changes in these assumptions may occur and should those changes be significant, they could have a material impact on the Company's income tax provision.

If the Company's intention or U.S. and/or international tax law changes in the future, there may be a material negative impact on the provision for income taxes to record an incremental tax liability in the period the change occurs.

The Company recognizes accrued interest and penalties related to uncertain tax positions as a component of tax expense upon settlement, law changes or expiration of statute of limitations.

Of the total uncertain tax positions, it is reasonably possible that \$1.5 million to \$2.5 million could change in the next 12 months due to audit settlements, expiration of statutes of limitations or other resolution of uncertainties. Due to the uncertain and complex application of tax laws and/or regulations, it is possible that the ultimate resolution of audits may result in amounts which could be different from this estimate. In such case, the Company will record an adjustment in the period in which such matters are effectively settled.

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Policy

Equity Compensation Expense

The Company's equity compensation expense related to stock appreciation rights granted is estimated using the Black-Scholes option-pricing model to determine the fair value of the stock appreciation right grants, which requires the Company to estimate the expected term of the stock appreciation right grants and expected future stock price volatility over the expected term.

Supplemental Executive Retirement Plan

Effective February 2, 2003, the Company established a Supplemental Executive Retirement Plan to provide additional retirement income to its former CEO. On December 8, 2014, the former CEO retired from his position as A&F's Chief Executive Officer. Mr. Jeffries' employment with the Company terminated on December 31, 2014. In connection with his Employment Agreement, the former CEO will receive a monthly benefit equal to 50% of his final average compensation (as defined in the SERP) for life. The Company's accrual for the SERP requires management to make assumptions and judgments related to the CEO's life expectancy and discount rate.

Legal Contingencies

The Company is a defendant in lawsuits and other adversarial proceedings arising in the ordinary course of business. Legal costs incurred in connection with the resolution of claims and lawsuits are expensed as incurred, and the Company establishes reserves for the outcome of litigation where it deems appropriate to do so under applicable accounting rules.

Effect if Actual Results Differ from Assumptions

During Fiscal 2014, the Company granted stock appreciation rights covering an aggregate of 512,216 shares. A 10% increase in the assumed expected term would have yielded a 4% increase in the Black-Scholes valuation for stock appreciation rights granted during the year, while a 10% increase in assumed stock price volatility would have yielded a 9% increase in the Black-Scholes valuation for stock appreciation rights granted during the year. This would result in an increase to expense by an insignificant amount.

The Company does not expect material changes in the near term to the underlying assumptions used to determine the accrual for the SERP. However, changes in these assumptions do occur, and, should those changes be significant, the Company may be exposed to gains or losses that could be material.

A 50 basis point increase in the discount rate would decrease the SERP accrual by an insignificant amount.

Actual liabilities may exceed or be less than the amounts reserved, and there can be no assurance that the final resolution of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Investment Securities

The Company maintains its cash equivalents in financial instruments, primarily money market funds and United States treasury bills, with original maturities of three months or less.

The irrevocable rabbi trust (the "Rabbi Trust") is intended to be used as a source of funds to match respective funding obligations to participants in the Abercrombie & Fitch Co. Nonqualified Savings and Supplemental Retirement Plan I, the Abercrombie & Fitch Co. Nonqualified Savings and Supplemental Retirement Plan II and the Supplemental Executive Retirement Plan. The Rabbi Trust assets primarily consist of trust-owned life insurance policies which are recorded at cash surrender value. The change in cash surrender value of the trust-owned life insurance policies held in

the Rabbi Trust resulted in realized gains of \$3.2 million, \$2.6 million and \$2.4 million for Fiscal 2014, Fiscal 2013 and Fiscal 2012, respectively, recorded in Interest Expense, Net on the Consolidated Statements of Operations and Comprehensive (Loss) Income.

The Rabbi Trust assets are included in Other Assets on the Consolidated Balance Sheets and are restricted in their use as noted above.

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Interest Rate Risks

On August 7, 2014, the Company entered into new credit agreements and all amounts outstanding under the Company's previously existing term loan facility and revolving credit facility were repaid in full. The Company has approximately \$299.3 million in gross borrowings outstanding under its new term loan facility (the "Term Loan Facility") and no borrowings outstanding under its new senior secured revolving credit facility (the "ABL Facility" and, together with the Term Loan Facility, the "2014 Credit Facilities"). The 2014 Credit Facilities carry interest rates that are tied to LIBOR or an alternate base rate plus a margin. The interest rate on the Term Loan Facility has a 100 basis point LIBOR floor, and assuming no changes in the Company's financial structure as it stands, an increase in market interest rates of 100 basis points would not have a material effect on annual interest expense. This hypothetical analysis for Fiscal 2014 may differ from the actual change in interest expense due to various conditions which may result in changes in interest rates under the Company's 2014 Credit Facilities.

Foreign Exchange Rate Risk

A&F's international subsidiaries generally operate with functional currencies other than the U.S. Dollar. The Company's Consolidated Financial Statements are presented in U.S. Dollars. Therefore, the Company 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. The fluctuation in the value of the U.S. Dollar against other currencies affects the reported amounts of revenues, expenses, assets and liabilities. The potential impact of currency fluctuation increases as international expansion increases.

A&F and its subsidiaries have exposure to changes in currency exchange rates associated with foreign currency transactions and forecasted foreign currency transactions, including the sale of inventory between subsidiaries and foreign denominated assets and liabilities. Such transactions are denominated primarily in U.S. Dollars, 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 UAE Dirhams. The Company has established a program that primarily utilizes foreign currency forward contracts to partially offset the risks associated with the effects of certain foreign currency transactions and forecasted transactions. Under this program, increases or decreases in foreign currency exposures are partially offset by gains or losses on forward contracts, to mitigate the impact of foreign currency gains or losses. The Company does not use forward contracts to engage in currency speculation. All outstanding foreign currency forward contracts are recorded at fair value at the end of each fiscal period.

The fair value of outstanding foreign currency exchange forward contracts included in Other Current Assets was \$10.3 million and \$1.0 million as of January 31, 2015 and February 1, 2014, respectively. The fair value of outstanding foreign currency exchange forward contracts included in Other Liabilities was insignificant as of January 31, 2015, and \$2.6 million as of February 1, 2014. Foreign currency exchange forward contracts are sensitive to changes in foreign currency exchange rates. The Company assessed the risk of loss in fair values from the effect of a hypothetical 10% devaluation of the U.S. Dollar against the exchange rates for foreign currencies under contract. The results would decrease derivative contract fair values by approximately \$7.9 million. As the Company's foreign currency exchange forward contracts are primarily designated as cash flow hedges of forecasted transactions, the hypothetical change in fair value would be largely offset by the net change in the fair values of the underlying hedged items.

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## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## ABERCROMBIE &amp; FITCH CO.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

(Thousands, except per share amounts)

	2014	2013	2012
NET SALES	\$3,744,030	\$4,116,897	\$4,510,805
Cost of Goods Sold	1,430,460	1,541,462	1,694,096
GROSS PROFIT	2,313,570	2,575,435	2,816,709
Stores and Distribution Expense	1,703,051	1,907,687	1,980,519
Marketing, General and Administrative Expense	458,820	481,784	473,883
Restructuring Charges	8,431	81,500	—
Asset Impairment	44,988	46,715	7,407
Other Operating Income, Net	(15,239	) (23,074	) (19,333
OPERATING INCOME	113,519	80,823	374,233
Interest Expense, Net	14,365	7,546	7,288
INCOME BEFORE TAXES	99,154	73,277	366,945
Tax Expense	47,333	18,649	129,934
NET INCOME	\$51,821	\$54,628	\$237,011
NET INCOME PER SHARE:			
BASIC	\$0.72	\$0.71	\$2.89
DILUTED	\$0.71	\$0.69	\$2.85
WEIGHTED-AVERAGE SHARES OUTSTANDING:			
BASIC	71,785	77,157	81,940
DILUTED	72,937	78,666	83,175
DIVIDENDS DECLARED PER SHARE	\$0.80	\$0.80	\$0.70
OTHER COMPREHENSIVE (LOSS) INCOME			
Foreign Currency Translation Adjustments	\$(77,929	) \$(12,683	) \$(427
Unrealized Gain (Loss) on Derivative Financial Instruments, net of taxes	15,266	5,054	(19,152
Other Comprehensive Loss	(62,663	) (7,629	) (19,579
COMPREHENSIVE (LOSS) INCOME	\$(10,842	) \$46,999	\$217,432

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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ABERCROMBIE & FITCH CO.  
CONSOLIDATED BALANCE SHEETS  
(Thousands, except par value amounts)

	January 31, 2015	February 1, 2014
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and Equivalents	\$520,708	\$600,116
Receivables	52,910	67,965
Inventories	460,794	530,192
Deferred Income Taxes, Net	13,986	21,835
Other Current Assets	116,574	100,458
<b>TOTAL CURRENT ASSETS</b>	<b>1,164,972</b>	<b>1,320,566</b>
<b>PROPERTY AND EQUIPMENT, NET</b>	<b>967,001</b>	<b>1,131,341</b>
<b>OTHER ASSETS</b>	<b>373,194</b>	<b>399,090</b>
<b>TOTAL ASSETS</b>	<b>\$2,505,167</b>	<b>\$2,850,997</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts Payable	\$141,685	\$130,715
Accrued Expenses	282,736	322,834
Short-Term Portion of Deferred Lease Credits	26,629	36,165
Income Taxes Payable	32,804	63,508
Short-Term Portion of Borrowings, Net	2,102	15,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>485,956</b>	<b>568,222</b>
<b>LONG-TERM LIABILITIES:</b>		
Long-Term Portion of Deferred Lease Credits	106,393	140,799
Long-Term Portion of Borrowings, Net	291,310	120,000
Leasehold Financing Obligations	50,521	60,726
Other Liabilities	181,286	231,757
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>629,510</b>	<b>553,282</b>
<b>STOCKHOLDERS' EQUITY:</b>		
Class A Common Stock — \$0.01 par value: 150,000 shares authorized and 103,300 shares issued at each of January 31, 2015 and February 1, 2014	1,033	1,033
Paid-In Capital	434,137	433,620
Retained Earnings	2,550,673	2,556,270
Accumulated Other Comprehensive Loss, net of tax	(83,580)	(20,917)
Treasury Stock, at Average Cost — 33,948 and 26,898 shares at January 31, 2015 and February 1, 2014, respectively	(1,512,562)	(1,240,513)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>1,389,701</b>	<b>1,729,493</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$2,505,167</b>	<b>\$2,850,997</b>

The accompanying Notes are an integral part of these Consolidated Financial Statements.



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## ABERCROMBIE &amp; FITCH CO.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Thousands, except per share amounts)

	Common Stock		Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock		Total Stockholders' Equity
	Shares Outstanding	Par Value				Shares	At Average Cost	
Balance, January 28, 2012	85,638	\$ 1,033	\$369,171	\$2,389,614	\$6,291	17,662	\$(834,774)	\$1,931,335
Net Income	—	—	—	237,011	—	—	—	237,011
Purchase of Common Stock	(7,548)	—	—	—	—	7,548	(321,665)	(321,665)
Dividends (\$0.70 per share)	—	—	—	(57,634)	—	—	—	(57,634)
Share-Based Compensation Issuances and Exercises	355	—	(18,356)	(1,730)	—	(355)	16,430	(3,656)
Tax Effect of Share-Based Compensation Issuances and Exercises	—	—	(466)	—	—	—	—	(466)
Share-Based Compensation Expense	—	—	52,922	—	—	—	—	52,922
Net Change in Unrealized Gains or Losses on Derivative Financial Instruments	—	—	—	—	(19,152)	—	—	(19,152)
Foreign Currency Translation Adjustments	—	—	—	—	(427)	—	—	(427)
Balance, February 2, 2013	78,445	\$ 1,033	\$403,271	\$2,567,261	\$(13,288)	24,855	\$(1,140,009)	\$1,818,268
Net Income	—	—	—	54,628	—	—	—	54,628
Purchase of Common Stock	(2,383)	—	—	—	—	2,383	(115,806)	(115,806)
Dividends (\$0.80 per share)	—	—	—	(61,923)	—	—	—	(61,923)
Share-Based Compensation Issuances and Exercises	340	—	(19,363)	(3,696)	—	(340)	15,302	(7,757)
Tax Effect of Share-Based Compensation Issuances and Exercises	—	—	(3,804)	—	—	—	—	(3,804)
Share-Based Compensation Expense	—	—	53,516	—	—	—	—	53,516
Net Change in Unrealized Gains or Losses on Derivative Financial Instruments	—	—	—	—	5,054	—	—	5,054
Foreign Currency Translation Adjustments	—	—	—	—	(12,683)	—	—	(12,683)
Balance, February 1, 2014	76,402	\$ 1,033	\$433,620	\$2,556,270	\$(20,917)	26,898	\$(1,240,513)	\$1,729,493
Net Income	—	—	—	51,821	—	—	—	51,821
Purchase of Common Stock	(7,324)	—	—	—	—	7,324	(285,038)	(285,038)
Dividends (\$0.80 per share)	—	—	—	(57,362)	—	—	—	(57,362)
Share-Based Compensation Issuances and Exercises	274	—	(17,884)	(56)	—	(274)	12,989	(4,951)
	—	—	(4,626)	—	—	—	—	(4,626)

Tax Effect of Share-Based  
Compensation Issuances  
and Exercises

Share-Based Compensation Expense	—	—	23,027	—	—	—	—	23,027
Net Change in Unrealized Gains or Losses on Derivative Financial Instruments	—	—	—	—	15,266	—	—	15,266
Foreign Currency Translation Adjustments	—	—	—	—	(77,929 )	—	—	(77,929 )
Balance, January 31, 2015	69,352	\$ 1,033	\$ 434,137	\$ 2,550,673	\$ (83,580)	33,948	\$ (1,512,562)	\$ 1,389,701

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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ABERCROMBIE & FITCH CO.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Thousands)

	2014	2013	2012
<b>OPERATING ACTIVITIES:</b>			
Net Income	\$51,821	\$54,628	\$237,011
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and Amortization	226,421	235,240	224,245
Non-Cash Charge for Asset Impairment	47,084	84,655	7,407
Loss on Disposal / Write-off of Assets	5,794	16,909	11,866
Lessor Construction Allowances	13,182	20,523	22,522
Amortization of Deferred Lease Credits	(38,437)	(45,895)	(45,942)
Provision for (Benefit from) Deferred Income Taxes	1,676	(41,263)	(21,543)
Share-Based Compensation	23,027	53,516	52,922
Gain on Auction Rate Securities	—	—	(2,454)
Changes in Assets and Liabilities:			
Inventories	62,854	(103,304)	253,650
Accounts Payable and Accrued Expenses	(37,394)	(73,749)	(34,692)
Income Taxes	(34,659)	(55,456)	35,964
Other Assets	6,888	44,138	(34,318)
Other Liabilities	(15,777)	(14,449)	(22,467)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>312,480</b>	<b>175,493</b>	<b>684,171</b>
<b>INVESTING ACTIVITIES:</b>			
Capital Expenditures	(174,624)	(163,924)	(339,862)
Proceeds from Sales of Marketable Securities	—	—	101,963
Other Investing	(450)	(9,937)	(9,339)
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<b>(175,074)</b>	<b>(173,861)</b>	<b>(247,238)</b>
<b>FINANCING ACTIVITIES:</b>			
Proceeds from Share-Based Compensation	254	213	2,676
Excess Tax Benefit from Share-Based Compensation	304	2,480	1,198
Proceeds from Borrowings	357,000	150,000	135,000
Repayment of Borrowings	(195,750)	(15,000)	(135,000)
Debt Issuance Costs	(861)	—	—
Purchase of Treasury Stock	(285,038)	(115,806)	(321,665)
Dividends Paid	(57,362)	(61,923)	(57,634)
Other Financing	—	(795)	(4,646)
<b>NET CASH USED FOR FINANCING ACTIVITIES</b>	<b>(181,453)</b>	<b>(40,831)</b>	<b>(380,071)</b>
<b>EFFECT OF EXCHANGE RATES ON CASH</b>	<b>(35,361)</b>	<b>(4,190)</b>	<b>3,148</b>
<b>NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS:</b>	<b>(79,408)</b>	<b>(43,389)</b>	<b>60,010</b>
Cash and Equivalents, Beginning of Period	600,116	643,505	583,495
<b>CASH AND EQUIVALENTS, END OF PERIOD</b>	<b>\$520,708</b>	<b>\$600,116</b>	<b>\$643,505</b>
<b>SIGNIFICANT NON-CASH INVESTING ACTIVITIES:</b>			
Change in Accrual for Construction in Progress	\$6,525	\$10,820	\$(12,919)
<b>SUPPLEMENTAL INFORMATION:</b>			
Cash Paid for Interest	\$18,609	\$4,565	\$4,217

The accompanying Notes are an integral part of these Consolidated Financial Statements.



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### ABERCROMBIE & FITCH CO. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. NATURE OF BUSINESS

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. The Company operates stores in North America, Europe, Asia, Australia and the Middle East and direct-to-consumer operations in North America, Europe and Asia that service its brands throughout the world.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of A&F and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

##### FISCAL YEAR

The Company’s fiscal year ends on the Saturday closest to January 31. All references herein to “Fiscal 2014” represent the 52-week fiscal year ended January 31, 2015; to “Fiscal 2013” represent the 52-week fiscal year ended February 1, 2014; and to “Fiscal 2012” represent the 53-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.

##### REVISIONS AND RECLASSIFICATIONS

The fifty-two week periods ended January 31, 2015 and February 1, 2014 included the correction of certain immaterial errors relating to prior periods. The out-of-period correction of errors resulted in a reduction to income before taxes of \$2.9 million, or \$1.8 million after tax, and an unrelated tax charge of \$0.4 million, for a combined reduction to net income of \$2.2 million for the fifty-two week period ended January 31, 2015. The out-of-period correction of errors resulted in an increase to income before taxes of \$2.6 million, or \$0.8 million after tax, and an unrelated tax charge of \$0.9 million, for a combined reduction to net income of \$0.1 million for the fifty-two week period ended February 1, 2014. In addition, amounts recorded out-of-period included a reduction to net cash provided by operating activities of \$11.8 million for the fifty-two week period ended January 31, 2015. The Company does not believe these corrections were material to any current or prior interim or annual periods that were affected.

##### USE OF ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting period. Due to the inherent uncertainty involved with

estimates, actual results may differ.

CASH AND EQUIVALENTS