ABERCROMBIE & FITCH CO /DE/
Form 10-K
March 28, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)

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

For the fiscal year ended January 30, 2016
or

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

For the transition period from to

Commission file number 001-12107

ABERCROMBIE & FITCH CO.

(Exact name of registrant as specified in its charter)

Delaware	31-1469076
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6301 Fitch Path, New Albany, Ohio	43054
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Class A Common Stock, $0.01 Par Value	New York Stock Exchange

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x 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 x 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. x 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). x Yes ¨ No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements

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

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 x 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 x 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 July 31, 2015: $1,366,862,497.

Number of shares outstanding of the Registrant's common stock as of March 23, 2016: 67,585,850 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 16, 2016, are incorporated by reference into Part III of this Annual Report on Form 10-K.

Table of Contents

ABERCROMBIE & FITCH CO.
TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1. BUSINESS.

GENERAL.

Abercrombie & Fitch Co. (“A&F”), a company incorporated in Delaware in 1996, through its subsidiaries (collectively, A&F and its subsidiaries are referred to as “Abercrombie & Fitch” or the “Company”), is a specialty retailer that primarily operates stores and direct-to-consumer operations. Through these channels, the Company sells a broad array of products, including: 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. As of January 30, 2016, the Company operated 754 stores in the United States (“U.S.”) and 178 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. 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 2015” represent the fifty-two week fiscal year ended January 30, 2016; to “Fiscal 2014” represent the fifty-two week fiscal year ended January 31, 2015; and to “Fiscal 2013” represent the fifty-two week fiscal year ended February 1, 2014. In addition, all references herein to “Fiscal 2016” represent the fifty-two week fiscal year that will end on January 28, 2017.

A&F makes available free of charge on its Internet website, 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. 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.

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 “RESULTS OF OPERATIONS” 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 by brand and by geography.

Table of Contents

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 operating segments sell a similar group of products — casual sportswear apparel, personal care products and accessories for men, women and kids. During the first quarter of Fiscal 2015, the Company substantially completed its transition to a branded organizational structure. In conjunction with the change, the Company determined its brand-based operating segments as of January 30, 2016 to be Abercrombie, which includes the Company's Abercrombie & Fitch and abercrombie kids brands, and Hollister. These operating segments have similar economic characteristics, class of consumers, products and production and distribution methods, and have been aggregated into one reportable segment. Refer to Note 18, “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 operating segments and reportable segment.

STORE OPERATIONS.

At the end of Fiscal 2015, the Company operated 932 stores. The following table details the number of retail stores operated by the Company at January 30, 2016:

	Abercrombie[1]	Hollister	Total
U.S.	340	414	754
International	39	139	178
Total	379	553	932

[1] Includes Abercrombie & Fitch and abercrombie kids brands.

DIRECT-TO-CONSUMER AND OMNICHANNEL 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 $840.2 million for Fiscal 2015, representing 24% of total net sales. The Company operates 42 websites, including both desktop and mobile versions. In addition, the websites are available in 10 languages, accept 29 currencies and ship to over 120 countries.

As our customers increasingly shop across multiple channels, we have developed, and continue to expand, our omnichannel capabilities. These capabilities include "ship-from-store," "order-in-store," "reserve-in-store" and "in-store-pickup." The Company continues to invest in these and other omnichannel initiatives in order to create a more seamless and convenient shopping experience.

MARKETING AND ADVERTISING.

The Company's customer engagement strategy includes the in-store and digital experience which are designed to reinforce the lifestyle represented by each brand. The brands also have a strong base of globally diverse followers on key social platforms, such as Facebook, Twitter, Instagram, Snapchat and Weibo. The brands engage with customers 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 2015, 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 2015. The Company pursues a global sourcing strategy that includes relationships with vendors in 11 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 supplier product quality standards.

Table of Contents

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 Conduct, and all factories go through social audits, which include a factory walk-through to appraise the physical working conditions and health and safety practices, as well as payroll and age documentation review. Social audits of the factories are performed at least every two years after the initial audit. The Company strives to partner with suppliers that respect local laws and share our dedication to utilizing 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. During Fiscal 2015, the Company completed a $50 million conversion of one of its New Albany DCs to a dedicated direct-to-consumer facility. 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 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.

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 trademarks Abercrombie & Fitch®, abercrombie®, Hollister®, Gilly Hicks® and the "Moose" and "Seagull" logos 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.

Table of Contents

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 24, 2016, the Company employed approximately 49,000 associates, of which approximately 41,000 were part-time associates, which equates to approximately 5,000 full-time equivalents. On average, the Company employed approximately 16,000 full-time equivalents during Fiscal 2015.

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 the Company's capital expenditures, earnings or competitive position based on information and circumstances known to us at this time.

Table of Contents

EXECUTIVE OFFICERS OF THE REGISTRANT.

Set forth below is certain information regarding the executive officers of A&F as of March 24, 2016:

Jonathan E. Ramsden, 51, 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 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.

Robert E. Bostrom, 63, 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, 60, 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, 52, has been Executive Vice President and Chief Financial Officer of A&F since May 2014 and a member of the Office of the Chairman of A&F since October 2015. 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, 52, has been President & Chief Merchandising Officer for all brands of A&F since December 2015 and a member of the Office of the Chairman of A&F since December 2014. Ms. Horowitz held the position of Brand President of Hollister from October 2014 to December 2015. 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.

The Office of the Chairman is responsible for overseeing and providing strategic direction to management. The executive officers serve at the pleasure of the Board of Directors of A&F.

7

Table of Contents

ITEM 1A. RISK FACTORS

FORWARD-LOOKING STATEMENTS AND RISK FACTORS.

We caution that any forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in this Annual Report on Form 10-K or made by us, our management or our spokespeople involve risks and uncertainties and are subject to change based on various factors, many of which may be beyond our control. Words such as "estimate," "project," "plan," "believe," "expect," "anticipate," "intend" and similar expressions may id 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;
- our inability to anticipate customer demand and changing fashion trends and to manage our inventory commensurately could adversely impact our sales levels and profitability;
- 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 affect the profitability of our international operations;
- direct-to-consumer sales channels are a significant component 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 market share may be negatively impacted by increasing competition and pricing pressures from companies with brands or merchandise competitive with ours;
- we have currently suspended our search for a new Chief Executive Officer and the continuance of our interim governance structure may create uncertainty;
- our inability to successfully implement our strategic plans could have a negative impact on our growth and profitability;
- our failure to protect our reputation could have a material adverse effect on our brands;
- 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 reputation loss;
- fluctuations in foreign currency exchange rates could adversely impact our financial condition and results of operations;
- fluctuations in the cost, availability and quality of raw materials, labor and transportation, could cause manufacturing delays and increase our costs;
- we depend upon independent third parties for the manufacture and delivery of all our merchandise, and a disruption of the manufacture or delivery of our merchandise could result in lost sales and could increase our costs;
- our ability to attract customers to our stores depends, in part, on the success of the shopping malls or area attractions that our stores are located in or around;
- 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 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 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;
- extreme weather conditions and the seasonal nature of our business may cause net sales to fluctuate and negatively impact our results of operations;
- 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;
- 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.

Table of Contents

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, changes in consumer preferences and discretionary spending habits may 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.

Our inability to anticipate customer demand and changing fashion trends and to manage our inventory commensurately 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. 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.

A significant component of our growth strategy is international expansion, which may require significant capital investment, the success of which is dependent on a number of factors that could affect the profitability of our international operations.

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, maintaining good relations with individual associates and groups of associates and establishing online retail presence. 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. We are subject to domestic laws, including the Foreign Corrupt Practices Act, in addition to the laws of the foreign countries in which we operate. 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.

Table of Contents

We may be unable to successfully grow our international business, or we may face operational issues that delay our intended pace of international growth and, in any such case, our growth may be limited, unless we can:

- 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;
- identify suitable markets and sites for store locations;
- 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.;
- integrate new stores into existing operations and expand infrastructure to accommodate growth;
- hire, train and retain qualified personnel;
- avoid work stoppages or other labor-related issues in our European stores where associates are represented by workers' councils and unions;
- gain and retain acceptance from foreign customers;
- localize our online brand experience and e-commerce capabilities;
- secure franchise or other business venture partners;
- foster current relationships and develop new relationships with vendors that are capable of supplying a greater volume of merchandise;
- manage inventory effectively to meet the needs of new and existing stores on a timely basis;
- achieve acceptable operating margins from new store and online operations;
- generate sufficient operating cash flows or secure adequate capital on commercially reasonable terms to fund our expansion plan; and,
- manage foreign currency exchange risks effectively.

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 significant component 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 makes us vulnerable to shifting consumer traffic patterns, customer data breaches, direct-to-consumer buying trends and strength of brand perception. As omnichannel retailing continues to grow and evolve, our customers increasingly interact with our brands through a variety of mediums including smart phones and tablets, and our success depends on our ability to introduce innovative means of engaging 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 and service 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. Changes in foreign governmental regulations may also negatively impact our ability to deliver product to our customers. 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.

10

Table of Contents

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 effective marketing of 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.

We have currently suspended our search for a new Chief Executive Officer and the continuance of our interim governance structure may create uncertainty.
In December 2014 we initiated a selection process to identify a new Chief Executive Officer. At that time, our Board of Directors appointed Arthur C. Martinez to serve as Executive Chairman of the Company and created the Office of the Chairman as our interim governance structure. The Chief Executive Officer selection process was suspended one year later as a result of our encouraging performance under the leadership of the Office of the Chairman. We are not currently actively conducting a search for a Chief Executive Officer. The continuance of our interim governance structure for an extended period of time may create uncertainty.

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

Our long-term strategy includes six key objectives: putting the customer at the center of everything we do, delivering compelling and differentiated assortments, optimizing our brand reach and channel performance, defining clear positionings for our brands, continuing to improve efficiency and reduce expense, and ensuring we are organized to succeed. 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 acceptance 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.

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, if any third parties with which we have a business relationship fail to represent our brands in a manner consistent with our brand image and customer experience standards 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.

Table of Contents

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

We rely heavily on our information technology systems to operate our websites; record and process transactions; respond to customer inquiries; manage inventory; purchase, sell and ship merchandise on a timely basis; and maintain cost-efficient operations. Given the significant number of transactions that are completed annually, it is vital to maintain constant operation of our computer hardware and software systems and maintain cyber security. Despite efforts to prevent such an occurrence, our information technology systems may be vulnerable from time to time to damage or interruption from computer viruses, power outages, third-party intrusions, inadvertent or intentional breach by our employees 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 reputation loss.

In the standard course of business, we process customer information, including payment information, through our stores and direct-to-consumer programs. Rapidly evolving technologies and types of cyber-attacks may result in this information being compromised or breached. The retail industry in particular has been the target of many recent cyber-attacks, and as a result, there is heightened 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 the Company by, but not limited to, reputation loss, regulatory fines and penalties, legal liability and costs of litigation.

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 entity operates, while 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. Furthermore, we purchase substantially all of our inventory in U.S. Dollars. As a result, our sales and gross profit rate from international operations will be negatively impacted during periods of a strengthened U.S. dollar relative to the functional currencies of our foreign subsidiaries, as was the case in Fiscal 2015. 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.

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 sales, 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.

Table of Contents

We depend upon independent third parties for the manufacture and delivery of all our merchandise, and a disruption of the manufacture or delivery of our merchandise 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. 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 disrupt the timely delivery of our merchandise include new trade law provisions or regulations, reliance on a limited number of shipping carriers, significant labor disputes and significant delays in the delivery of cargo due to port security considerations. 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.

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

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 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.

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 the involvement of multiple senior executives, our business could be adversely affected. 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.

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 rely on two distribution centers domestically and four third-party distributions centers internationally to manage the receipt, storage, sorting, packing and distribution of our merchandise. Our two distribution centers located in New Albany, Ohio, service 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 service 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 service our stores and direct-to-consumer customers in Asia; and a third-party distribution center in the United Arab Emirates to service 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.

Table of Contents

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

We, along with third parties we do business with, 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 be impacted by litigation trends, 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 existing 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.

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.

Table of Contents

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

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.

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.

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, as amended, expires on August 7, 2019 and our Term Loan Agreement, as amended, 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.

Table of Contents

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, in July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("the Dodd-Frank Act"), was enacted. There are significant corporate governance and executive compensation related provisions in the Dodd-Frank Act that have required the SEC to adopt additional rules and regulations in these areas.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

ITEM 2. PROPERTIES

The Company's headquarters and support functions occupy 501 acres, consisting of the home office, distribution and shipping facilities centralized on a campus-like setting in New Albany, Ohio, 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 24, 2016, are located in leased facilities, primarily in shopping centers. The leases expire at various dates, between 2016 and 2031.

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

As of March 24, 2016, the Company's 927 stores were located as follows:

U.S. & U.S. Territories:					
Alabama	4	Kentucky	8	North Dakota	1
Alaska	1	Louisiana	5	Ohio	25
Arizona	15	Maine	3	Oklahoma	4
Arkansas	5	Maryland	14	Oregon	8
California	108	Massachusetts	30	Pennsylvania	33
Colorado	6	Michigan	20	Rhode Island	2
Connecticut	14	Minnesota	9	South Carolina	9
Delaware	5	Mississippi	3	Tennessee	14
District Of Columbia	1	Missouri	5	Texas	69
Florida	69	Montana	1	Utah	6
Georgia	21	Nebraska	2	Vermont	2
Hawaii	4	Nevada	10	Virginia	21
Idaho	2	New Hampshire	9	Washington	17
Illinois	28	New Jersey	38	West Virginia	3
Indiana	10	New Mexico	3	Wisconsin	9
Iowa	5	New York	41	Puerto Rico	2
Kansas	5	North Carolina	20		

International:					
Austria	6	Hong Kong	4	Republic of Korea	4
Belgium	3	Ireland	2	Singapore	1
Canada	18	Italy	11	Spain	12
China	17	Japan	10	Sweden	3
Denmark	1	Kuwait	2	United Kingdom	34
France	15	Netherlands	4	United Arab Emirates	5
Germany	25	Poland	1		

17

Table of Contents

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 losses are deemed probable and reasonably estimable. 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. As of January 30, 2016, the Company had an accrual of approximately $19 million for certain legal contingencies. In addition, there are certain claims and legal proceedings pending against the Company for which accruals have not been established. 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.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

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 2015 and Fiscal 2014:

	Sales Price	
	High	Low
Fiscal 2015		
4th quarter	$28.21	$18.55
3rd quarter	$22.25	$15.42
2nd quarter	$23.72	$19.36
1st quarter	$26.50	$19.34
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

Dividends are declared at the discretion of A&F's Board of Directors. A quarterly dividend, of $0.20 per share outstanding, was declared in each of February, May, August and November in Fiscal 2015 and Fiscal 2014. Dividends were paid in each of March, June, September and December in Fiscal 2015. 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 23, 2016, there were approximately 3,300 stockholders of record. However, when including investors holding shares in broker accounts under street name A&F estimates that there are approximately 37,200 stockholders.

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 30, 2016:

Period (fiscal month)	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	Maximum Number of Shares that May Yet be Purchased under the Plans or Programs[3]
November 1, 2015 through November 28, 2015	4,296	$20.30	—	6,503,656
November 29, 2015 through January 2, 2016	82,638	$25.49	—	6,503,656
January 2, 2016 through January 30, 2016	6,074	$26.61	—	6,503,656
Total	93,008	$25.32	—	6,503,656

(1)

All of the 93,008 shares of A&F’s Common Stock purchased during the thirteen-week period ended January 30, 2016 represented shares which were withheld for tax payments due upon the exercise of employee stock appreciation rights and the vesting of restricted stock units and restricted share awards.

(2) No shares were repurchased during the thirteen-week period ended January 30, 2016 pursuant to A&F’s publicly 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.

(3) The number shown represents, as of the end of each period, the maximum number of shares of Common Stock that 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 2015, A&F repurchased approximately 2.5 million shares of A&F’s Common Stock in the open market with a cost of approximately $50.0 million. 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. Repurchases made during Fiscal 2015 and Fiscal 2014 were pursuant to authorizations of A&F’s Board of Directors.

Table of Contents

The following graph shows the changes, over the five-year period ended January 30, 2016 (the last day of A&F’s Fiscal 2015) 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[1]

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 1/29/11 in stock or 1/31/11 in index, including reinvestment of dividends. Indexes calculated on month-end basis.
Copyright© 2016 S&P, a division of McGraw Hill Financial. All rights reserved.

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.

[1] 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.

Table of Contents

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 "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION" and the Company's Consolidated Financial Statements and notes thereto included in "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA" of this Annual Report on Form 10-K. 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 data)

	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2012[1]	Fiscal 2011
Statements of operations data					
Net sales	$3,518,680	$3,744,030	$4,116,897	$4,510,805	$4,158,058
Gross profit	$2,157,543	$2,313,570	$2,575,435	$2,816,709	$2,550,224
Operating income	$72,838	$113,519	$80,823	$374,233	$221,384
Net income attributable to A&F	$35,576	$51,821	$54,628	$237,011	$143,934
Net income per basic share attributable to A&F	$0.52	$0.72	$0.71	$2.89	$1.66
Net income per diluted share attributable to A&F	$0.51	$0.71	$0.69	$2.85	$1.61
Basic weighted-average shares outstanding	68,880	71,785	77,157	81,940	86,848
Diluted weighted-average shares outstanding	69,417	72,937	78,666	83,175	89,537
Cash dividends declared per share	$0.80	$0.80	$0.80	$0.70	$0.70
Balance sheet data					
Working capital[2]	$644,277	$679,016	$752,344	$617,023	$858,248
Current ratio[3]	2.20	2.40	2.32	1.89	2.23
Total assets	$2,433,039	$2,505,167	$2,850,997	$2,987,401	$3,117,032
Borrowings, net	$286,235	$293,412	$135,000	$—	$—
Leasehold financing obligations	$47,440	$50,521	$60,726	$63,942	$57,851
Total stockholders' equity	$1,295,722	$1,389,701	$1,729,493	$1,818,268	$1,931,335
Return on average stockholders' equity[4]	3%	3%	3%	13%	7%
Other financial and operating data					
Net cash provided by operating activities	$309,941	$312,480	$175,493	$684,171	$365,219
Net cash used for investing activities	$(122,567)	$(175,074)	$(173,861)	$(247,238)	$(340,689)
Net cash used for financing activities	$(106,875)	$(181,453)	$(40,831)	$(380,071)	$(265,329)
Capital expenditures	$143,199	$174,624	$163,924	$339,862	$318,598
Free cash flow[5]	$166,742	$137,856	$11,569	$344,309	$46,621
Comparable sales[6]	(3)%	(8)%	(11)%	(1)%	5%
Net store sales per average gross square foot	$360	$381	$417	$485	$463
Total number of stores open	932	969	1,006	1,041	1,045
Total store square footage at end of period	7,292	7,517	7,736	7,958	7,778

(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 attributable to A&F by the average stockholders' equity balance.

(5) 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 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 sales is defined as the aggregate of: (1) year-over-year sales for stores that have been open as the same brand at least one year and whose square footage has not been expanded or reduced by more than 20% within the past year, with prior year's net sales converted at the current year's exchange rate to remove the impact of currency fluctuation, and (2) year-over-year direct-to-consumer 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 Fiscal 2011 have not been restated and only include comparable store sales.

Table of Contents

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

OVERVIEW

BUSINESS SUMMARY

The Company is a specialty retailer that operates stores in North America, Europe, Asia and the Middle East and direct-to-consumer operations in North America, Europe and Asia that serve its customers 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'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. 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 30, 2016 is compared to the fifty-two week period ended January 31, 2015 and the fifty-two week period ended January 31, 2015 is compared to the fifty-two week period ended February 1, 2014.

During the first quarter of Fiscal 2015, the Company substantially completed its transition to a branded organizational structure. In conjunction with the change, the Company determined its brand-based operating segments to be Abercrombie, which includes the Company's Abercrombie & Fitch and abercrombie kids brands, and Hollister. These operating segments have similar economic characteristics, classes of consumers, products and production and distribution methods, and have been aggregated into one reportable segment.

For Fiscal 2015, net sales decreased 6% to $3.519 billion from $3.744 billion for Fiscal 2014. The gross profit rate was 61.3% for Fiscal 2015, compared to 61.8% for Fiscal 2014. Operating income was $72.8 million for Fiscal 2015, compared to operating income of $113.5 million for Fiscal 2014. Net income and net income per diluted share attributable to A&F was $35.6 million and $0.51, respectively, for Fiscal 2015, compared to net income and net income per diluted share attributable to A&F of $51.8 million and $0.71, respectively, for Fiscal 2014.

Excluding certain items, the adjusted non-GAAP gross profit rate was 61.9%, operating income was $136.5 million and net income and net income per diluted share attributable to Abercrombie & Fitch Co. was $78.0 million and $1.12, respectively, for Fiscal 2015, compared to an adjusted non-GAAP gross profit rate of 61.8%, operating income of $191.7 million and net income and net income per diluted share attributable to Abercrombie & Fitch Co. of $112.3 million and $1.54, respectively, for Fiscal 2014.

As of January 30, 2016, the Company had $588.6 million in cash and equivalents, and $293.3 million in gross borrowings outstanding under its term loan facility. Net cash provided by operating activities was $309.9 million for Fiscal 2015. The Company also used cash of $143.2 million for capital expenditures, $50.0 million to repurchase approximately 2.5 million shares of A&F's Common Stock and $55.1 million to pay dividends during Fiscal 2015.

REPORTING AND USE OF GAAP AND NON-GAAP MEASURES

The Company believes that the non-GAAP financial measures presented in this "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" are useful to investors as they provide the ability to measure the Company's operating performance as compared to historical periods, excluding the effect of certain items which the Company believes do not reflect its future operating outlook. Management used these non-GAAP financial measures during the periods presented to assess the Company's performance and to develop expectations for future operating performance. In addition, the Company provides certain financial information on a constant currency basis to enhance investors' understanding of underlying business trends and operating performance. These non-GAAP financial measures should be used in conjunction with, not as an alternative to, the Company's GAAP financial results. Such financial measures are presented on both a GAAP and non-GAAP basis under "RESULTS OF OPERATIONS," with excluded items specifically identified.

Table of Contents

The tables below reconcile certain GAAP financial measures to non-GAAP financial measures for Fiscal 2015 and Fiscal 2014.

	Fiscal 2015		
(in thousands, except gross profit rate and per share amounts)	GAAP	Excluded Items[1]	Non-GAAP
Gross profit rate	61.3 %	0.6 %	61.9 %
Operating income	$72,838	$63,657	$136,495
Net income attributable to A&F	$35,576	$42,471	$78,047
Net income per diluted share attributable to A&F	$0.51	$0.61	$1.12

	Fiscal 2014		
(in thousands, except gross profit rate and per share amounts)	GAAP	Excluded Items[1]	Non-GAAP
Gross profit rate	61.8 %	— %	61.8 %
Operating income	$113,519	$78,174	$191,693
Net income attributable to A&F	$51,821	$60,488	$112,309
Net income per diluted share attributable to A&F	$0.71	$0.83	$1.54

(1) Refer to "RESULTS OF OPERATIONS" for details on excluded items.

Table of Contents

CURRENT TRENDS AND OUTLOOK

2015 was a year of tremendous change for Abercrombie & Fitch. We completed our transition to a brand-based organizational structure, strengthened our teams and improved our core processes. More importantly, we evolved our assortment and refocused our attention on our customer through greater accountability and empowerment at the store level, and through changes in our in-store experience. In addition, we continued to invest in direct-to-consumer and omnichannel and execute our store closure program. While we made progress across all of our strategic initiatives, our work to fulfill the potential of our brands is not done.

Our ongoing efforts to improve our business are focused on:

- Putting the customer at the center of everything we do.
- Delivering compelling and differentiated assortments.
- Optimizing our brand reach and channel performance.
- Defining clear positionings for our brands.
- Continuing to improve efficiency and reduce expense.
- Ensuring we are organized to succeed.

As we look ahead to Fiscal 2016, it is likely to remain a challenging retail environment, but we believe our ongoing efforts are laying the foundation for future growth and profitability.

For Fiscal 2016, we expect:

- Flat to slightly positive comparable sales.
- Adverse effects from foreign currency exchange rates on sales.
- A gross margin rate approximately flat to Fiscal 2015's adjusted non-GAAP rate of 61.9%, but up on a constant currency basis.
- Slight leverage in operating expense relative to last year's adjusted non-GAAP rate of 58.3%.
- An improvement over Fiscal 2015's adjusted non-GAAP operating income, despite an adverse effect from foreign currency exchange rates; the effect from foreign currency exchange rates, calculated on a constant currency basis, is determined by applying Fiscal 2016 forecasted rates to Fiscal 2015 results and is net of the year-over-year impact from hedging.
- An effective tax rate in the mid-to-upper 30s.
- A weighted average diluted share count of approximately 68 million shares, excluding the effect of potential share buybacks.

With regard to capital allocation, we are targeting capital expenditures in the range of $150 million to $175 million for Fiscal 2016, including approximately $70 million for new stores and store updates and approximately $70 million for direct-to-consumer/omnichannel and IT investments to support growth and continuous profit improvement initiatives.

We plan to open approximately 15 full-price stores in Fiscal 2016, including approximately 10 in international markets, primarily China, and approximately five in the U.S. We also plan to open approximately 10 new outlet stores, primarily in the U.S. In addition, we anticipate closing approximately 60 stores in the U.S. during Fiscal 2016 through natural lease expirations.

Excluded from our Fiscal 2016 outlook are the impacts of potential events, such as those related to impairments, which may affect our results of operations.

Table of Contents

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 sales, defined as the aggregate of: (1) year-over-year sales for stores that have been open as the same brand at least one year and whose square footage has not been expanded or reduced by more than 20% within the past year, with prior year's net sales converted at the current year's foreign currency exchange rate to remove the impact of currency fluctuation, and (2) year-over-year direct-to-consumer sales with prior year's net sales converted at the current year's foreign currency exchange rate to remove the impact of currency fluctuation;
- Comparative results of operations with prior year's results converted at the current year's foreign currency exchange rate to remove the impact of currency fluctuation;
- Gross profit and gross margin rate;
- Cost of sales, exclusive of depreciation and amortization, as a percentage of net sales;
- Selling margin, defined as sales price less original cost, by brand and 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 and net income attributable to A&F;
- Inventory per gross square foot and inventory to sales ratio;
- Cash flow and liquidity determined by the Company's current ratio, working capital and free cash flow;
- Store metrics such as sales per gross square foot, average number of transactions per store and store contribution (defined as store sales less direct costs of operating the store);
- Transactional metrics such as traffic and conversion, average unit retail price, average unit cost, average units per transaction and average transaction values; 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 within this Management's Discussion and Analysis of Financial Condition and Results of Operations.

RESULTS OF OPERATIONS

FISCAL 2015 COMPARED TO FISCAL 2014

Net Sales

	Fiscal 2015		Fiscal 2014			
(in thousands)	Net Sales	Change in Comparable Sales	Net Sales	Change in Comparable Sales	Net Sales $ Change	Net Sales % Change
Abercrombie[1]	$1,640,992	(6)%	$1,771,299	(5)%	$(130,307)	(7)%
Hollister	1,877,688	—%	1,947,869	(10)%	(70,181)	(4)%
Other[2]	—	—%	24,862	—%	(24,862)	-
Total net sales	$3,518,680	(3)%	$3,744,030	(8)%	$(225,350)	(6)%
U.S.	$2,282,040	(3)%	$2,408,427	(6)%	$(126,387)	(5)%
International	1,236,640	(1)%	1,335,603	(12)%	(98,963)	(7)%
Total net sales	$3,518,680	(3)%	$3,744,030	(8)%	$(225,350)	(6)%

(1) Includes Abercrombie & Fitch and abercrombie kids brands.

(2) Represents net sales from the Company's Gilly Hicks operations. See Note 16, "GILLY HICKS RESTRUCTURING," of the Notes to Consolidated Financial Statements included in "ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA," for additional information on the Company's exit from Gilly Hicks branded stores.

Net sales for Fiscal 2015 decreased 6% compared to Fiscal 2014. The decrease in net sales was largely attributable to the adverse effect from changes in foreign currency exchange rates (based on converting prior year sales at current year foreign currency exchange rates) of approximately $153 million, or approximately 4%, and a 3% decrease in comparable sales, partially offset by the net impact of store openings, closings and remodels.

Cost of Sales, Exclusive of Depreciation and Amortization

(in thousands)	Fiscal 2015	% of Net Sales	Fiscal 2014	% of Net Sales
Cost of sales, exclusive of depreciation and amortization	$1,361,137	38.7%	$1,430,460	38.2%
Inventory write-down, net(1)	20,647	0.6%	—	—%
Adjusted non-GAAP cost of sales, exclusive of depreciation and amortization	$1,340,490	38.1%	$1,430,460	38.2%
Gross profit	$2,157,543	61.3%	$2,313,570	61.8%
Inventory write-down, net(1)	20,647	0.6%	—	—%
Adjusted non-GAAP gross profit	$2,178,190	61.9%	$2,313,570	61.8%

(1) Includes net charges related to a write-down of the value of inventory to net realizable value as the Company elected to accelerate the disposition of certain aged merchandise that no longer supported the Company's brand positioning strategy.

Cost of sales, exclusive of depreciation and amortization as a percentage of net sales increased by approximately 50 basis points for Fiscal 2015 compared to Fiscal 2014. The increase in rate was primarily due to the adverse effects from changes in foreign currency exchange rates and a net inventory write-down charge of $20.6 million, partially offset by an increase in average unit retail on a constant currency basis (based on converting prior year sales at current year foreign currency exchange rates, divided by number of units sold) and a decrease in average unit cost. Excluding the net inventory write-down charge, adjusted non-GAAP cost of sales, exclusive of depreciation and amortization as a percentage of net sales decreased by approximately 10 basis points for Fiscal 2015 compared to Fiscal 2014.

Stores and Distribution Expense

(in thousands)	Fiscal 2015	% of Net Sales	Fiscal 2014	% of Net Sales
Stores and distribution expense	$1,604,214	45.6%	$1,703,051	45.5%
Store fixture disposal(1)	(4,200)	(0.1)%	—	—%
Lease termination and store closure costs(2)	(1,756)	—%	(5,612)	(0.1)%
Profit improvement initiative(3)	(709)	—%	(2,723)	(0.1)%
Adjusted non-GAAP stores and distribution expense	$1,597,549	45.4%	$1,694,716	45.3%

(1) Includes accelerated depreciation and disposal charges related to the discontinued use of certain store fixtures associated with changes to the Abercrombie and Hollister store experiences.
(2) Includes charges related to lease terminations and store closures.
(3) Includes charges related to the Company's profit improvement initiative.

Stores and distribution expense as a percentage of net sales and adjusted non-GAAP stores and distribution expense as a percent of net sales increased by approximately 10 basis points for Fiscal 2015 compared to Fiscal 2014. The increase as a percentage of net sales was primarily due to the deleveraging effect from lower net sales and higher direct-to-consumer expense, partially offset by a benefit from expense reduction efforts.

Shipping and handling costs, including costs incurred to store, move and prepare the products for shipment and costs incurred to physically move the product to the customer, associated with direct-to-consumer operations were $115.0 million for Fiscal 2015 compared to $108.1 million for Fiscal 2014.

Handling costs, including costs incurred to store, move and prepare the products for shipment to stores, were $44.5 million for Fiscal 2015 compared to $52.2 million for Fiscal 2014.

Shipping and handling costs are included in stores and distribution expense on the Consolidated Statements of Operations and Comprehensive Income (Loss).

Table of Contents

Marketing, General and Administrative Expense

(in thousands)	Fiscal 2015	% of Net Sales	Fiscal 2014	% of Net Sales
Marketing, general and administrative expense	$470,321	13.4%	$458,820	12.3%
Legal settlement charges[1]	(15,753)	(0.4)%	—	—%
Profit improvement initiative[2]	(1,770)	(0.1)%	(3,776)	(0.1)%
Corporate governance matters[3]	—	—%	(12,644)	(0.3)%
Adjusted non-GAAP marketing, general and administrative expense	$452,798	12.9%	$442,400	11.8%

(1) Includes charges related to certain proposed legal settlements.
(2) Includes charges related to the Company's profit improvement initiative.
(3) Includes legal, advisory and other charges related to certain corporate governance matters.

Marketing, general and administrative expense as a percentage of net sales and adjusted non-GAAP marketing, general and administrative expense as a percentage of net sales increased by approximately 110 basis points for Fiscal 2015 compared to Fiscal 2014. The increase in rate was primarily due to the deleveraging effect from lower net sales, higher compensation related expense and certain proposed legal settlement charges of $15.8 million, partially offset by the year-over-year impact of corporate governance matters related charges and expense reduction efforts.

Restructuring (Benefit) Charge

The Company recognized a restructuring benefit of $1.6 million for Fiscal 2015 from better than expected lease exit terms associated with the restructuring of the Gilly Hicks brand. Restructuring charges associated with the closure of the Gilly Hicks stand-alone stores for Fiscal 2014 were $8.4 million.

Asset Impairment

The Company incurred non-cash asset impairment charges of $18.2 million for Fiscal 2015, compared to $45.0 million for Fiscal 2014 primarily related to stores whose asset carrying values were determined not to be recoverable and exceeded fair value. For Fiscal 2015, the non-cash asset impairment charges primarily related to the Company's Abercrombie & Fitch flagship store in Hong Kong as well as certain fixtures that were removed in connection with changes to the Abercrombie and Hollister store experiences. For Fiscal 2014, store-related asset impairment charges 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, the Company incurred charges of approximately $11.3 million in Fiscal 2014 to record the expected loss on the sale of the Company-owned aircraft.

Other Operating Income, Net

(in thousands)	Fiscal 2015	% of Net Sales	Fiscal 2014	% of Net Sales
Other operating income, net	$6,441	0.2%	$15,239	0.4%
Lease termination and store closure costs[1]	2,211	0.1%	—	—%
Adjusted non-GAAP other operating income, net	$8,652	0.2%	$15,239	0.4%

(6) Includes charges related to a release of cumulative translation adjustment as the Company substantially completed the liquidation of its Australian operations.

Other operating income, net was $6.4 million for Fiscal 2015 compared to $15.2 million for Fiscal 2014. For Fiscal 2015, other operating income, net included income of $2.2 million related to insurance recoveries and $4.7 million related to gift card breakage, partially offset by losses of $1.5 million related to foreign currency transactions. For Fiscal 2014, other operating income, net included income of $10.2 million related to insurance recoveries and $5.8 million related to gift card breakage, and losses of $2.0 million related to foreign currency transactions.

Table of Contents

Operating Income

	Fiscal 2015		Fiscal 2014	
(in thousands)		% of Net Sales		% of Net Sales
Operating income	$72,838	2.1%	$113,519	3.0%
Inventory write-down, net(1)	20,647	0.6%	—	—%
Asset impairment(2)	18,209	0.5%	44,988	1.2%
Legal settlement charges(3)	15,753	0.4%	—	—%
Store fixture disposal(4)	4,200	0.1%	—	—%
Profit improvement initiative(5)	2,479	0.1%	6,499	0.2%
Lease termination and store closure costs(6)	3,967	0.1%	5,612	0.1%
Restructuring (benefit) charges(7)	(1,598)	—%	8,431	0.2%
Corporate governance matters(8)	—	—%	12,644	0.3%
Adjusted non-GAAP operating income	$136,495	3.9%	$191,693	5.1%

(1) Includes net inventory write-down charges related to a decision to accelerate the disposition of certain aged merchandise.

(2) Includes impairment charges related to stores whose asset carrying values were determined not to be recoverable and exceeded fair value, for Fiscal 2014, a fair value adjustment to the Company-owned aircraft, and for Fiscal 2015, certain store fixtures in connection with changes to the Abercrombie and Hollister store experiences.

(3) Includes charges related to certain proposed legal settlements.

(4)