

OXFORD INDUSTRIES INC  
Form 10-K  
March 31, 2015

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

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

For the fiscal year ended January 31, 2015

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-4365

OXFORD INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Georgia

58-0831862

(State or other jurisdiction of incorporation or  
organization)

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

999 Peachtree Street, N.E., Suite 688, Atlanta, Georgia 30309

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:

(404) 659-2424

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

Title of each class	Name of each exchange on which registered
Common Stock, \$1 par value	New York Stock Exchange

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

NONE

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No   
As of August 1, 2014 which is the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting stock held by non-affiliates of the registrant (based upon the closing price for the common stock on the New York Stock Exchange on that date) was \$864,154,887. For purposes of this calculation only, shares of voting stock directly and indirectly attributable to executive officers, directors and holders of 10% or more of the registrant's voting stock (based on Schedule 13G filings made as of or prior to August 1, 2014) are excluded. This determination of affiliate status and the calculation of the shares held by any such person are not necessarily conclusive determinations for other purposes.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Title of Each Class	Number of Shares Outstanding as of March 18, 2015
Common Stock, \$1 par value	16,478,438

Documents Incorporated by Reference

Portions of our proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A relating to the Annual Meeting of Shareholders of Oxford Industries, Inc. to be held on June 17, 2015 are incorporated by reference in Part III of this Form 10-K.

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## CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

Our SEC filings and public announcements may include forward-looking statements about future events. Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "project," "will" and similar expressions identify forward-looking statements, which generally are not historical in nature. We intend for all forward-looking statements contained herein, in our press releases or on our website, and all subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf, to be covered by the safe harbor provisions for forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (which Sections were adopted as part of the Private Securities Litigation Reform Act of 1995). Such statements are subject to a number of risks, uncertainties and assumptions including, without limitation, the uncertainties related to any potential sale transaction involving Ben Sherman being identified or consummated (including, among others, the timing of any transaction and the ultimate impact of any transaction on our business and operating results) and assumptions regarding the impact of economic conditions on consumer demand and spending, particularly in light of general economic uncertainty that continues to prevail, demand for our products, competitive conditions, timing of shipments requested by our wholesale customers, expected pricing levels, retention of and disciplined execution by key management, the timing and cost of store openings and of planned capital expenditures, weather, costs of products as well as the raw materials used in those products, costs of labor, acquisition and disposition activities, expected outcomes of pending or potential litigation and regulatory actions, access to capital and/or credit markets and the impact of foreign losses on our effective tax rate. Forward-looking statements reflect our current expectations, based on currently available information, and are not guarantees of performance. Although we believe that the expectations reflected in such forward-looking statements are reasonable, these expectations could prove inaccurate as such statements involve risks and uncertainties, many of which are beyond our ability to control or predict. Should one or more of these risks or uncertainties, or other risks or uncertainties not currently known to us or that we currently deem to be immaterial, materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. Important factors relating to these risks and uncertainties include, but are not limited to, those described in Part I, Item 1A. Risk Factors and elsewhere in this report and those described from time to time in our future reports filed with the SEC. We caution that one should not place undue reliance on forward-looking statements, which speak only as of the date on which they are made. We disclaim any intention, obligation or duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## DEFINITIONS

As used in this report, unless the context requires otherwise, "our," "us" or "we" means Oxford Industries, Inc. and its consolidated subsidiaries; "SG&A" means selling, general and administrative expenses; "SEC" means U.S. Securities and Exchange Commission; "FASB" means Financial Accounting Standards Board; "ASC" means the FASB Accounting Standards Codification; and "GAAP" means generally accepted accounting principles in the United States. Additionally, the terms listed below reflect the respective period noted:

Fiscal 2015	52 weeks ending January 30, 2016
Fiscal 2014	52 weeks ended January 31, 2015
Fiscal 2013	52 weeks ended February 1, 2014
Fiscal 2012	53 weeks ended February 2, 2013
Fiscal 2011	52 weeks ended January 28, 2012
Fiscal 2010	52 weeks ended January 29, 2011
Fourth quarter Fiscal 2014	13 weeks ended January 31, 2015
Third quarter Fiscal 2014	13 weeks ended November 1, 2014
Second quarter Fiscal 2014	13 weeks ended August 2, 2014
First quarter Fiscal 2014	13 weeks ended May 3, 2014
Fourth quarter Fiscal 2013	13 weeks ended February 1, 2014
Third quarter Fiscal 2013	13 weeks ended November 2, 2013
Second quarter Fiscal 2013	13 weeks ended August 3, 2013

First quarter Fiscal 2013

13 weeks ended May 4, 2013

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## PART I

### Item 1. Business

#### BUSINESS AND PRODUCTS

##### Overview

We are a global apparel company that designs, sources, markets and distributes products bearing the trademarks of our company-owned lifestyle brands, as well as certain licensed and private label apparel products. Our portfolio of brands includes Tommy Bahama®, Lilly Pulitzer® and Ben Sherman®. We distribute our company-owned lifestyle branded products through our direct to consumer channel, consisting of our retail stores and e-commerce sites, and our wholesale distribution channel, which includes better department stores and specialty stores. During Fiscal 2014, 90% of our net sales were from products bearing brands that we own, and 61% of our net sales were sales of our products through our direct to consumer channels of distribution, which includes our 206 owned retail stores, our e-commerce websites and our 15 Tommy Bahama restaurants. In Fiscal 2014, approximately 90% of our consolidated net sales were to customers located in the United States, with the sales outside the United States primarily being sales of our Ben Sherman products in the United Kingdom and continental Europe as well as sales of our Tommy Bahama products in Canada and the Asia-Pacific region.

Our business strategy is to develop and market compelling lifestyle brands and products that evoke a strong emotional response from our target consumers. We strive to exploit the potential of our existing brands and products domestically and internationally. We consider "lifestyle" brands to be those brands that have a clearly defined and targeted point of view inspired by an appealing lifestyle or attitude, such as the Tommy Bahama, Lilly Pulitzer and Ben Sherman brands. We believe that lifestyle branded products that create an emotional connection with consumers can command greater loyalty and higher price points at retail, resulting in higher earnings. We also believe a successful lifestyle brand opens up greater opportunities for direct to consumer operations as well as licensing opportunities in product categories beyond our core business.

We believe that the attraction of a lifestyle brand to consumers is dependent on maintaining appropriate product quality and design, appropriately restricting distribution to a select tier of retailers and effectively communicating the respective lifestyle brand message. Our design-led, commercially informed lifestyle brand operations strive to provide compelling, differentiated products each season. We seek to maintain the integrity of our lifestyle brands by limiting promotional activity in our full price retail stores and e-commerce websites. Accordingly, we target select wholesale customers that typically follow this same approach in their stores. In order to further strengthen each lifestyle brand's connections with consumers, we attempt to communicate regularly with consumers via the use of electronic media, and other media, in a manner intended to engage consumers and guide them to our retail stores, e-commerce websites and wholesale customers in search of our brands. Following our principles and continuing appropriate practices to maintain and enhance the images of each of our lifestyle brands, we believe that our lifestyle brands are ideally suited to succeed and thrive in the long-term while managing the various challenges facing the industry, including rapidly changing technology, consumer shopping patterns and an increasingly promotional apparel retail environment.

Our direct to consumer operations provide us with the opportunity to interact directly with our customers, present to them the full line of our current season products and provide an opportunity for a consumer to be immersed in the theme of the lifestyle brand. We believe that presenting our products in a setting specifically designed to showcase the lifestyle on which the brands are based enhances the image of our brands. We believe that our owned retail stores provide high visibility for our brands and products, and allow us to stay close to the preferences of our consumers, while also providing a platform for long-term growth for the brands. Additionally, our e-commerce websites for our lifestyle brands provide the opportunity to increase revenues by reaching a larger population of consumers and at the same time allow our brands to provide a broader range of products. We anticipate further investments in Tommy Bahama and Lilly Pulitzer to increase the number of retail stores of each of the brands and to further enhance each brand's e-commerce operations.

In addition to operating e-commerce websites for each of our lifestyle brands, as of January 31, 2015, we operated 157 Tommy Bahama, 28 Lilly Pulitzer and 21 Ben Sherman retail locations, including outlet locations for Tommy Bahama and Ben Sherman. Our Tommy Bahama and Ben Sherman outlets and our Tommy Bahama and Lilly Pulitzer

e-commerce flash clearance sales on our websites play an important role in overall inventory management by allowing us to sell discontinued and out-of-season products at better prices than are otherwise available from outside parties. Our wholesale operations complement our direct to consumer operations and provide access to a larger group of consumers. Our wholesale distribution channels include better department stores, specialty stores, national chains, warehouse clubs, mass merchants and Internet retailers. We value our long-standing relationships with our wholesale customers and are

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committed to working with them to enhance the success of our products within their stores. Our 10 largest customers represented 22% of our consolidated net sales for Fiscal 2014, with no individual customer representing more than 10% of our consolidated net sales.

Within our Lanier Clothes operating group, we sell apparel products under certain brands that are licensed to us and certain private label apparel products, as well as products bearing brands that we own. During Fiscal 2014, on a consolidated basis, sales of products from licensed brands and private label products accounted for 6% and 4%, respectively, of our net sales.

We operate in highly competitive domestic and international markets in which numerous U.S.-based and foreign apparel firms compete. No single apparel firm or small group of apparel firms dominates the apparel industry and our direct competitors vary by operating group and distribution channel. We believe that the principal competitive factors in the apparel industry are the reputation, value and image of brand names; design; consumer preference; price; quality; marketing; and customer service. We believe that our ability to compete successfully in styling and marketing is directly related to our proficiency in foreseeing changes and trends in fashion and consumer preference, and presenting appealing products for consumers. In some instances, a retailer that is our customer may compete directly with us by offering certain of its own products in its retail stores. Additionally, the apparel industry is cyclical and dependent upon the overall level of discretionary consumer spending, which changes as regional, domestic and international economic conditions change. Often, negative economic conditions have a longer and more severe impact on the apparel and retail industry than these conditions have on other industries.

We believe the global economic conditions and resulting economic uncertainty that have prevailed in recent years continue to impact each of our operating groups, and the apparel industry as a whole. Although some signs of economic improvements exist, the apparel retail environment remains increasingly promotional and economic uncertainty remains. We anticipate that sales of our products may continue to be impacted negatively as long as the retail apparel environment remains promotional and there is an elevated level of economic uncertainty in the geographies in which we operate. Additionally, we have been impacted in recent years by pricing pressures on raw materials, transportation, labor and other costs necessary for the production and sourcing of apparel products, most of which appear to be permanent cost increases.

On March 24, 2015, our Board of Directors authorized our management to pursue a sale of the Ben Sherman business. We have engaged Financo, Ltd. as our financial advisor to assist in the transaction process. We plan to continue to operate the Ben Sherman business during the process, and although we expect to complete a sale within Fiscal 2015 no specific timetable has been set for consummation of a transaction. There can be no assurance that a transaction will take place, and our Board of Directors may consider other alternatives for the Ben Sherman business that it believes are in the best interest of shareholders.

Important factors relating to certain risks, many of which are beyond our ability to control or predict, which could impact our business include, but are not limited to, competition, economic factors and others as described in Part I, Item 1A. Risk Factors of this report.

#### Investments and Opportunities

We believe that our Tommy Bahama® and Lilly Pulitzer® lifestyle brands have significant growth opportunities in their direct to consumer businesses through expansion of our retail store operations, as we add additional retail store locations and increase comparable store sales, and higher sales in our e-commerce operations, which are likely to grow at a faster rate than comparable brick and mortar retail store sales. We also believe that these lifestyle brands provide an opportunity for moderate sales increases in their wholesale businesses in the long-term primarily from our current customers adding to their existing door count and the selective addition of new wholesale customers who generally follow a full-price retail model. Additionally, we believe that there are opportunities for modest sales growth for Lanier Clothes through new product programs; however, we also believe that the tailored clothing environment will continue to be very challenging.



We believe that we must continue to invest in our Tommy Bahama and Lilly Pulitzer lifestyle brands in order to take advantage of their long-term growth opportunities. Investments include capital expenditures primarily related to the direct to consumer operations such as retail store build-out and remodels, technology enhancements and distribution center and administrative office expansion initiatives, as well as increased employment, advertising and other costs in key functions to support the ongoing business operations and fuel future net sales growth. We expect that the investments may continue to put downward pressure on our operating margins in the near future until we have sufficient sales to leverage the operating costs.

We continue to believe that it is important to maintain a strong balance sheet and liquidity. We believe that positive cash flow from operations in the future coupled with the strength of our balance sheet and liquidity will provide us with sufficient resources to fund future investments in our lifestyle brands. While we believe that we have significant opportunities

to appropriately deploy our capital and resources in our existing lifestyle brands, in the future, we may also add additional lifestyle brands to our portfolio, if we identify appropriate targets which meet our investment criteria.

#### Operating Groups

Our business is primarily operated through our operating groups: Tommy Bahama, Lilly Pulitzer, Lanier Clothes and Ben Sherman, each of which is described below. We identify our operating groups based on the way our management organizes the components of our business for purposes of allocating resources and assessing performance. Our operating group structure reflects a brand-focused management approach, emphasizing operational coordination and resource allocation across each brand's direct to consumer, wholesale and licensing operations. Corporate and Other is a reconciling category for reporting purposes and includes our corporate offices, substantially all financing activities, elimination of inter-segment sales, LIFO inventory accounting adjustments, other costs that are not allocated to the operating groups and operations of our other businesses which are not included in our four operating groups.

The table below presents net sales and operating information about our operating groups (in thousands).

	Fiscal 2014	Fiscal 2013
Net Sales		
Tommy Bahama	\$ 627,498	\$ 584,941
Lilly Pulitzer	167,736	137,943
Lanier Clothes	112,934	109,530
Ben Sherman	77,481	67,218
Corporate and Other	12,157	17,465
Total	\$ 997,806	\$ 917,097
Operating Income (Loss)		
Tommy Bahama	\$ 71,132	\$ 72,207
Lilly Pulitzer	32,190	25,951
Lanier Clothes	10,849	10,828
Ben Sherman	(10,832)	(13,131)
Corporate and Other (1)	(19,736)	(11,185)
Total operating income	\$ 83,603	\$ 84,670

The Fiscal 2014 operating loss for Corporate and Other included \$2.1 million of LIFO accounting charges, with no (1) significant LIFO accounting impact in Fiscal 2013. Additionally, Fiscal 2013 included a gain on sale of property of \$1.6 million with no such gain in Fiscal 2014.

The table below presents the total assets of each of our operating groups (in thousands).

	January 31, 2015	February 1, 2014
Assets		
Tommy Bahama	\$ 428,835	\$ 408,599
Lilly Pulitzer	108,969	101,704
Lanier Clothes	35,152	39,989
Ben Sherman	78,568	79,299
Corporate and Other	(6,457)	(2,286)
Total	\$ 645,067	\$ 627,305

Total assets for Corporate and Other include a LIFO reserve of \$58.6 million and \$56.7 million as of January 31, 2015 and February 1, 2014, respectively. For more details on each of our operating groups, see Note 2 of our consolidated financial statements and Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, both included in this report. For financial information by geographic areas, see Note 2 of our consolidated financial statements, included in this report.



## Tommy Bahama

Tommy Bahama designs, sources, markets and distributes men's and women's sportswear and related products. The target consumers of Tommy Bahama are primarily affluent men and women age 35 and older who embrace a relaxed and casual approach to daily living. Tommy Bahama products can be found in our Tommy Bahama stores and on our Tommy Bahama e-commerce website, [tommybahama.com](http://tommybahama.com), as well as in better department stores and independent specialty stores throughout the United States. We also operate Tommy Bahama restaurants and license the Tommy Bahama name for various product categories. During Fiscal 2014, 95% of Tommy Bahama's sales were to customers within the United States, with 3% of Tommy Bahama's sales in Canada and the remaining sales being in Australia and Asia.

We believe that the attraction of the Tommy Bahama brand to our consumers is a reflection of our efforts over many years of maintaining appropriate quality and design of our Tommy Bahama apparel, accessories and licensed products, limiting the distribution of Tommy Bahama products to a select tier of retailers and effectively communicating the relaxed and casual Tommy Bahama lifestyle to consumers. We expect to continue to follow this approach for the brand in the future. We believe that the retail sales value of all Tommy Bahama branded products sold during Fiscal 2014, including our estimate of retail sales by our wholesale customers and other third party retailers, exceeded \$1.1 billion.

We believe there is ample opportunity to expand the reach of the Tommy Bahama brand, while at the same time maintaining the select distribution that Tommy Bahama has historically maintained. We believe that in order to take advantage of opportunities for long-term growth, we must continue to invest in the Tommy Bahama brand both domestically and internationally. These investments include amounts associated with capital expenditures and pre-opening expenses of new stores and restaurants; the remodeling of existing stores and restaurants; capital expenditures and ongoing expenses to enhance e-commerce and other technology capabilities; and capital expenditures related to sales, administration and distribution facilities.

While we believe there are abundant opportunities for continued growth in the United States, in recent years we have begun expansion of the Tommy Bahama brand into international markets. These efforts have included the acquisition of the assets and operations of the Tommy Bahama business from our former licensees in Australia in Fiscal 2012 and Canada in Fiscal 2013. The operations of these licensees in each of these countries had developed a certain level of brand awareness, but we determined that after considering the potential direct to consumer and wholesale growth opportunities, it was appropriate for us to re-acquire the rights to these operations.

We also commenced operations in Asia by opening retail store locations in Hong Kong, Macau, Singapore in Fiscal 2012 and Japan beginning in Fiscal 2013. The operations in Asia thus far have generated operating losses as we developed a significant Hong Kong-based team and infrastructure to support a larger Asia retail operation. The roll-out of retail stores in Asia has been at a modest pace as we have attempted to focus on improving store operations in Asia prior to engaging in a significant roll-out of additional stores. As a lifestyle brand which desires to remain primarily a full-price brand, we continue to believe it is appropriate that in certain key markets we initially set the tone for the brand rather than engaging a partner. However, in the future, in certain markets we may engage a local partner to accelerate growth.

At this time, we anticipate our near term focus in the Asia-Pacific region will be on our direct to consumer operations in Australia and Japan while at the same time reducing our infrastructure costs in Hong Kong to better align with our current Asia retail operations. By focusing on a limited number of international markets and increasing the store count in those locations, we believe we can do a better job of increasing brand awareness and sales by focusing our marketing spend in a location where the consumer has a variety of options for purchasing Tommy Bahama product, including our own retail stores, our wholesale customers' stores and an in-country Tommy Bahama website, which in the case of Japan launched in early Fiscal 2015. While we believe there are significant long-term opportunities for our Tommy Bahama operations in the Asia-Pacific region, we believe that the operating losses and capital expenditures associated with these operations will continue to put downward pressure on our operating margin in the near future until we have sufficient sales to leverage the operating costs.

Design, Sourcing, Marketing and Distribution

Tommy Bahama products are designed by product specific teams who focus on the target consumer. The design process includes feedback from buyers, consumers and sales agents, along with market trend research. Our Tommy Bahama apparel products generally incorporate fabrics made of cotton, silk, linen, nylon, leather, tencel and other natural and man-made fibers, or blends of two or more of these materials.

We operate a buying office located in Hong Kong to manage the production and sourcing of the substantial majority of our Tommy Bahama products. During Fiscal 2014, we utilized approximately 240 suppliers, which are primarily located in China, to manufacture our Tommy Bahama products. In Fiscal 2014, 80% of Tommy Bahama's product purchases were from manufacturers in China. The largest 10 suppliers of Tommy Bahama products provided 46% of the products acquired during Fiscal 2014.

We believe that advertising and marketing are an integral part of the long-term strategy of the Tommy Bahama brand, and we therefore devote significant resources to advertising and marketing. While the advertising for Tommy Bahama promotes our products, the primary emphasis is on brand image and brand lifestyle. We intend that Tommy Bahama's advertising will engage individuals within the brand's consumer demographic and guide them on a regular basis to our retail stores, e-commerce websites or wholesale customers' stores in search of our products. The marketing of the Tommy Bahama brand includes traditional media such as print, catalogs and other correspondence with customers, as well as moving media and trade show initiatives. However, an increasing amount of Tommy Bahama's marketing focus involves email, Internet and social media advertising. As a lifestyle brand, we believe that it is very important that Tommy Bahama communicate regularly with consumers via the use of email, Internet and social media about product offerings or other brand events in order to maintain and strengthen Tommy Bahama's connections with its consumers.

We also believe that highly visible retail store locations with creative design, broad merchandise selection and brand appropriate visual presentation are key enticements for customers to visit our retail stores and buy merchandise. We intend that our retail stores enhance the shopping experience of our customers, which we believe will increase consumer brand loyalty. Marketing initiatives at certain of our retail stores may include special event promotions and a variety of public relations activities designed to create awareness of our stores and products. At certain times during the year, two integral components of the marketing plan for Tommy Bahama include mailing loyalty gift cards to some of our loyal consumers for use in our stores during a specified time period and our "flip-side" events whereby if certain spending thresholds are achieved by the consumer in one transaction during a specified time period, the consumer earns a gift card to be used in our retail stores or on-line at a future date. We believe that our retail store operations as well as our traditional and electronic media communications increase the sales of our own retail stores and e-commerce operations, as well as the sales of our products for our wholesale customers.

For certain of our wholesale customers, we also provide point-of-sale materials and signage to enhance the presentation of our branded products at their retail locations and/or participate in cooperative advertising programs. We operate a Tommy Bahama distribution center in Auburn, Washington, which serves our North American direct to consumer and wholesale operations. Activities at the distribution center include receiving finished goods from suppliers, inspecting the products and shipping the products to our Tommy Bahama stores, our wholesale customers and our e-commerce customers. We seek to maintain sufficient levels of Tommy Bahama inventory at the distribution center to support our direct to consumer operations, as well as pre-booked orders and some limited replenishment ordering for our wholesale customers. We utilize local third party distribution centers for our Asia-Pacific operations.

#### Direct to Consumer Operations

A key component of our Tommy Bahama growth strategy is to operate our own stores and e-commerce website, which we believe permits us to develop and build brand awareness by presenting our products in a setting specifically designed to showcase the aspirational lifestyle on which the products are based. Our Tommy Bahama direct to consumer channels, which consist of retail store, e-commerce and restaurant operations, in the aggregate, represented 74% of Tommy Bahama's net sales in Fiscal 2014. We expect the percentage of our Tommy Bahama sales which are direct to consumer sales will increase slightly in future years as we anticipate that the direct to consumer distribution channel will grow at a faster pace than the wholesale distribution channel. Retail store, e-commerce and restaurant net sales accounted for 50%, 14% and 10%, respectively, of Tommy Bahama's net sales in Fiscal 2014.

For Tommy Bahama's domestic full-price retail stores and restaurant-retail locations operating for the full Fiscal 2014 year, sales per gross square foot, excluding restaurant sales and restaurant space, were approximately \$680 during Fiscal 2014, compared to \$695 for stores operating for the full Fiscal 2013 year, with the decrease primarily reflecting Fiscal 2013 store openings having a lower sales per square foot than the overall average, partially offset by slightly favorable domestic comparable store sales on stores opened prior to Fiscal 2013. For international full-price retail stores and restaurant-retail locations located in Canada, Australia and Asia operating for the full Fiscal 2014 year, sales per gross square foot, excluding restaurant sales and restaurant space, were approximately \$390 during Fiscal 2014. These per square foot sales amounts exclude the sales and square feet of our outlet stores. In Fiscal 2014, our domestic outlet stores and international outlet stores generated approximately \$375 and \$320, respectively, of sales per square foot for outlets open for the entire 2014 fiscal year. For relocated stores or outlets, for which the

square feet changed during the year, if any, we included, for the purposes of the calculation above, the square feet of the relocated store based on the weighted average month-end square feet for the relocated store. During Fiscal 2014, 65% and 30% of our full-price retail store sales were sales of Tommy Bahama men's product and women's product, respectively with the remainder of the full-price retail store sales being home products and other accessories.

Our direct to consumer strategy for the Tommy Bahama brand includes locating and operating full-price retail stores in upscale malls, lifestyle shopping centers, resort destinations and brand appropriate street locations. Generally, we seek malls and shopping areas with high-profile or luxury consumer brands for our full-price retail stores. As of January 31, 2015, approximately 40% of our full-price Tommy Bahama retail locations are in regional malls, with the remainder primarily being

stores in street-front locations or lifestyle centers. Our full-price retail stores allow us the opportunity to carry a full line of current season merchandise, including apparel, home products and accessories, all presented in an aspirational, island-inspired atmosphere designed to be relaxed, comfortable and unique. We believe that the Tommy Bahama retail stores provide high visibility for the brand and products, and allow us to stay close to the preferences of our consumers. Further, we believe that our presentation of products and our strategy to operate the retail stores as full-price stores with limited in-store promotional activities are good for the Tommy Bahama brand and, in turn, enhance business with our wholesale customers. Generally, we believe there are opportunities for retail stores in warmer and colder climates, as we believe the more important consideration is whether the location attracts the affluent consumer that we are targeting. Further, as recent new store openings have enhanced e-commerce sales within the local geographic area, we believe that there are ample opportunities for additional Tommy Bahama retail store locations.

Our Tommy Bahama outlet stores, which generated 11% of our total Tommy Bahama net sales in Fiscal 2014, are generally located in outlet shopping centers that include upscale retailers and serve an important role in overall inventory management by allowing us to sell discontinued and out-of-season products at better prices than are otherwise available from outside parties. We believe that this approach helps us protect the integrity of the Tommy Bahama brand by allowing our full-price retail stores to limit promotional activity and controlling the distribution of discontinued and out-of-season product. To supplement the clearance items sold in Tommy Bahama outlets, approximately 20% of the product sold in our Tommy Bahama outlets was made specifically for our outlets. At this time and based on our anticipated proportion of clearance versus made for items in our outlet stores, we anticipate that we would generally operate one outlet for approximately every three full-price stores.

As of January 31, 2015 we operated 15 restaurants, generally adjacent to a Tommy Bahama full-price retail store location, which together we often refer to as islands. These restaurant-retail locations provide us with the opportunity to immerse customers in the ultimate Tommy Bahama experience. We do not anticipate that most of our retail locations will have an adjacent restaurant; however, in select high-profile, brand appropriate locations, such as Naples and Jupiter, Florida, and New York City, as well as the Waikiki, Hawaii location scheduled to open in Fiscal 2015, we have determined that an adjacent restaurant can further enhance the image of the brand. The net sales per square foot in our domestic full-price retail stores which are adjacent to a restaurant are on average two times the sales per square foot of our domestic full-price retail stores not adjacent to a restaurant. We believe that the experience of a meal or drink in a Tommy Bahama restaurant may entice the customer to purchase additional Tommy Bahama merchandise and potentially provide a memorable consumer experience that further enhances the relationship between Tommy Bahama and the consumer.

As of January 31, 2015, the total square feet of space utilized for our Tommy Bahama full-price retail store and outlet store operations was 0.6 million with another 0.1 million of total square feet utilized in our Tommy Bahama restaurant operations. The table below provides certain information regarding Tommy Bahama retail stores operated by us as of January 31, 2015.

	Full-Price Retail Stores	Outlet Stores	Restaurant-Retail Locations	Total
Florida	20	4	5	29
California	15	5	3	23
Texas	5	4	1	10
Hawaii	4	1	2	7
Nevada	3	1	1	5
Maryland	3	2	—	5
Other states	34	18	2	54
Total domestic	84	35	14	133
Canada	6	3	—	9
Total North America	90	38	14	142
Australia	7	1	—	8
Japan	1	1	1	3



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Other international	3	1	—	4
Total	101	41	15	157
Average square feet per store(1)	3,500	4,600	11,300	
Total square feet at year end	350,000	190,000	170,000	

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(1) Average square feet for restaurant-retail locations include average retail space and restaurant space of 4,000 and 7,300 square feet, respectively.

The table below reflects the changes in store count for Tommy Bahama stores during Fiscal 2014.

	Full-Price Retail Stores	Outlet Stores	Restaurant-Retail Locations	Total
Open as of beginning of fiscal year	91	36	14	141
Opened during fiscal year	10	5	1	16
Open as of end of fiscal year	101	41	15	157

During Fiscal 2014, the average total gross square feet, calculated as the average of the total gross square feet at the beginning and end of each quarter during the year, of full-price retail space, including the retail portion of our Tommy Bahama restaurant-retail locations, used in our domestic and international retail operations for Tommy Bahama was approximately 385,000 square feet, while the average total gross square feet of space used in our domestic and international Tommy Bahama outlet operations was approximately 175,000 square feet. In Fiscal 2015 and beyond, we currently expect to open approximately eight to 10 domestic retail locations per year. The majority of these locations in Fiscal 2015 are expected to be full-price stores along with one restaurant-retail location in Waikiki, Hawaii. Additionally, we expect to open two or three international stores in Fiscal 2015.

The operation of full-price retail stores, outlet stores and restaurant-retail locations requires a greater amount of initial capital investment than wholesale operations, as well as greater ongoing operating costs. We estimate that we will spend approximately \$1.0 million and \$0.5 million on average in connection with the build-out of a domestic full-price retail store and domestic outlet store, respectively. However, individual locations, particularly those in urban locations, may require investments greater than these amounts depending on a variety of factors, including the location and size of the store. Recently, we have opened certain stores using a smaller footprint of approximately 2,500 square feet in select locations, which allows us to minimize the cost of the store build-out on these stores. The cost of a restaurant-retail location is significantly more than the cost of a retail store and can vary significantly depending on a variety of factors. Historically, the cost of our restaurant-retail locations has been approximately \$5 million; however, we have spent significantly more than that amount for certain locations. For the Waikiki, Hawaii restaurant-retail location which we expect to open in late Fiscal 2015, we anticipate a cost of approximately \$12 million. Also, the international retail store and outlet store locations that we open in the future may be more expensive than our domestic retail stores depending on the location and size of the store as well as the impact of foreign currency exchange rates and other factors. For most of our stores, the landlord provides certain incentives to fund a portion of our capital expenditures.

We also incur capital expenditures when a lease expires and we determine it is appropriate to relocate a store to a new location in the same vicinity as the previous store. The cost of store relocations is generally comparable to the costs of opening a new full-price retail store or outlet store. Additionally, we also incur capital expenditure costs related to periodic remodels of existing stores, particularly when we renew or extend a lease beyond the original lease term, or otherwise determine that a remodel of a store is appropriate. As we reach the expirations of more of our lease agreements in the near future, we anticipate that the capital expenditures for relocations and remodels, in the aggregate, may increase in future periods.

In addition to our full-price retail stores and outlet stores, our direct to consumer approach includes various e-commerce websites, including the [tommybahama.com](http://tommybahama.com) website and the [tommybahama.jp](http://tommybahama.jp) website, which launched in February 2015. During Fiscal 2014, e-commerce sales represented 14% of Tommy Bahama's net sales. Our Tommy Bahama websites allow consumers to buy Tommy Bahama products directly from us via the Internet. These websites also enable us to increase our database of consumer contacts, which allows us to communicate directly and frequently with consenting consumers. As we reach more customers in the future, we anticipate that our e-commerce distribution channel for Tommy Bahama will continue to grow at a faster pace than our domestic retail store operations or wholesale operations. Also, we expect to continue to have a select number of e-commerce flash clearance sales, which represented 9% of Tommy Bahama e-commerce sales in Fiscal 2014, using our [outlettommybahama.com](http://outlettommybahama.com) website as a means of complementing our outlets in liquidating discontinued or out-of-season inventory, in a brand appropriate

manner.

#### Wholesale Operations

To complement our direct to consumer operations and have access to a larger group of consumers, including those who may wish to shop at specialty stores or department stores, we continue to maintain our wholesale operations for Tommy Bahama through better department stores and specialty stores that generally follow a full-price retail model approach with

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limited discounting. We value our long-standing relationships with our wholesale customers and are committed to working with them to enhance the success of the Tommy Bahama brand within their stores. We believe that the integrity and continued success of the Tommy Bahama brand, including its direct to consumer operations, is dependent, in part, upon the continued controlled wholesale distribution with careful selection of the retailers through which Tommy Bahama products are sold. As a result of this approach to limiting our wholesale customers, we believe that sales growth in our men's apparel wholesale business, which represented approximately 81% of Tommy Bahama's wholesale sales in Fiscal 2014, may be somewhat limited domestically. However, we believe that we have significant opportunities for wholesale sales increases for our Tommy Bahama women's business, which represented approximately 16% of Tommy Bahama's wholesale sales in Fiscal 2014, and our Tommy Bahama footwear business. Overall, we expect that the Tommy Bahama wholesale business will grow at a slower rate than the direct to consumer distribution channel.

Wholesale sales for Tommy Bahama accounted for 26% of Tommy Bahama's net sales in Fiscal 2014. During Fiscal 2014, 15% of Tommy Bahama's net sales were to Tommy Bahama's five largest wholesale customers, with its largest customer representing 6% of Tommy Bahama's net sales. Approximately half of Tommy Bahama's wholesale business reflects sales to its two largest customers, in the aggregate, with the remaining wholesale sales being sales to other department and specialty stores. Tommy Bahama products are available in more than 2,000 retail locations. We maintain Tommy Bahama apparel sales offices and showrooms in New York and Seattle, as well as other locations, to facilitate sales to our wholesale customers. Our Tommy Bahama wholesale operations utilize a sales force predominantly consisting of independent commissioned sales representatives.

#### Licensing Operations

We believe licensing is an attractive business opportunity for the Tommy Bahama brand. For an established lifestyle brand, licensing typically requires modest additional investment but can yield high-margin income. It also affords the opportunity to enhance overall brand awareness and exposure. In evaluating a licensee for Tommy Bahama, we typically consider the candidate's experience, financial stability, sourcing expertise and marketing ability. We also evaluate the marketability and compatibility of the proposed licensed products with other Tommy Bahama products. Our agreements with Tommy Bahama licensees are for specific geographic areas and expire at various dates in the future, and in limited cases include contingent renewal options. Generally, the agreements require minimum royalty payments as well as additional royalty payments and, in some cases, advertising payments and/or obligations to expend certain funds towards marketing the brand on an approved basis calculated as specified percentages of the licensee's net sales of the licensed products. Our license agreements generally provide us the right to approve all products, advertising and proposed channels of distribution.

Third party license arrangements for our Tommy Bahama products include the following product categories:

Men's and women's watches	Ceiling fans	Indoor furniture
Men's and women's headwear	Rugs	Outdoor furniture and related products
Men's socks	Fabrics	Bedding and bath linens
Mattresses	Belts, leather goods and gifts	Table top accessories
Sleepwear	Luggage	Suncare products
Shampoo, soap and bath amenities	Fragrances	

In addition to our licenses for the specific product categories listed above, we may enter into certain international license agreements which allow those licensees to distribute certain Tommy Bahama branded products within certain countries or regions. As of January 31, 2015, we have one such agreement for the Middle East. Substantially all of the products sold by the licensee are identical to the products sold in our own Tommy Bahama stores. In addition to selling Tommy Bahama goods to wholesale accounts, the licensee operates four retail stores.

#### Seasonal Aspects of Business

Tommy Bahama's operating results are impacted by seasonality as the demand by specific product or style, as well as by distribution channel, may vary significantly depending on the time of year. The following table presents the percentage of net sales and operating income for Tommy Bahama by quarter for Fiscal 2014:



	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
Net sales	25	% 25	% 20	% 30	%
Operating income	28	% 31	%—	% 41	%

As the timing of certain unusual or non-recurring items, economic conditions, wholesale product shipments or other factors affecting the business may vary from one year to the next, we do not believe that net sales or operating income for any particular quarter or the distribution of net sales and operating income for Fiscal 2014 are necessarily indicative of anticipated results for the full fiscal year or expected distribution in future years.

The timing of Tommy Bahama's sales in the direct to consumer and wholesale distribution channels generally varies. Typically, the demand in the direct to consumer operations, including sales at our own stores and e-commerce site, for Tommy Bahama products in our principal markets is generally higher in the spring, summer and holiday seasons and lower in the fall season. However, wholesale product shipments are generally shipped prior to each of the retail selling seasons. As the allocation of sales within a quarter is impacted by the seasonality of direct to consumer and wholesale sales, we have presented in the following table the proportion of net sales for each quarter represented by each distribution channel for Fiscal 2014, which may not necessarily be indicative of the allocation of sales within any particular quarter in future periods:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year	
Full price retail stores and outlets	46	% 54	% 47	% 51	% 50	%
E-commerce	11	% 15	% 11	% 19	% 14	%
Restaurant	12	% 10	% 10	% 9	% 10	%
Wholesale	31	% 21	% 32	% 21	% 26	%
Total	100	% 100	% 100	% 100	% 100	%

#### Lilly Pulitzer

Lilly Pulitzer designs, sources, markets and distributes upscale collections of women's and girl's dresses, sportswear and related products. The Lilly Pulitzer brand was originally created in the late 1950's by Lilly Pulitzer and is an affluent brand with a heritage and aesthetic based on the Palm Beach resort lifestyle. The brand is somewhat unique among women's brands in that it has demonstrated multi-generational appeal, including young women in college or recently graduated from college; young mothers with their daughters; and women who are not tied to the academic calendar. Lilly Pulitzer products can be found in our owned Lilly Pulitzer stores, in Lilly Pulitzer Signature Stores, which are described below, and on our Lilly Pulitzer website, [lilypulitzer.com](http://lilypulitzer.com), as well as in better department and independent specialty stores. During Fiscal 2014, 42% and 38% of Lilly Pulitzer's net sales were for women's sportswear and dresses, respectively, with the remaining sales consisting of Lilly Pulitzer accessories, including scarves, bags, jewelry and belts; children's apparel; footwear; and licensed products. We also license the Lilly Pulitzer name for various product categories.

We acquired the Lilly Pulitzer brand on December 21, 2010 and anticipate growth in the brand's retail, e-commerce, wholesale and licensing operations in the future. We believe that there is significant opportunity to expand the reach of the Lilly Pulitzer brand, while at the same time maintaining the exclusive distribution that Lilly Pulitzer has historically maintained. We believe that in order to take advantage of opportunities for long-term growth, we must continue to invest in the Lilly Pulitzer brand. These investments include amounts associated with the opening of new stores, costs to enhance e-commerce and other technology capabilities, an expansion and other enhancements of Lilly Pulitzer's facilities in King of Prussia, Pennsylvania and an increase in employment costs to continue to support a growing business. While we believe that these investments will generate long-term benefits, the investments may have a short-term negative impact on Lilly Pulitzer's operating margin.

We believe the attraction of the Lilly Pulitzer brand to our consumers is a reflection of years of maintaining appropriate quality and design of the Lilly Pulitzer apparel, accessories and licensed products, restricting the distribution of the Lilly Pulitzer products to a select tier of retailers and effectively communicating the message of Lilly's optimistic Palm Beach resort chic lifestyle. We believe this approach to quality, design, distribution and communication has been critical in allowing us to achieve the current retail price points for Lilly Pulitzer products. We believe that the retail sales value of all Lilly Pulitzer branded products sold during Fiscal 2014, including our

estimate of retail sales by our wholesale customers and other third party retailers, exceeded \$225 million.

**Design, Sourcing, Marketing and Distribution**

Lilly Pulitzer's products are developed by our dedicated design teams primarily located at the Lilly Pulitzer headquarters in King of Prussia, Pennsylvania. Our Lilly Pulitzer design teams focus on the target consumer, and the design process

combines feedback from buyers, consumers and our sales force, along with market trend research. Lilly Pulitzer apparel products are designed to incorporate various fiber types, including cotton, silk, linen and other natural and man-made fibers, or blends of two or more of these materials.

Lilly Pulitzer utilizes a combination of in-house employees in our King of Prussia and Hong Kong offices and third party buying agents primarily based in Asia to manage the production and sourcing of the Lilly Pulitzer apparel products. Through its buying agents and direct sourcing, Lilly Pulitzer used approximately 45 suppliers, with the largest 10 suppliers providing 63% of the Lilly Pulitzer products acquired during Fiscal 2014. In Fiscal 2014, 66% of Lilly Pulitzer's product purchases were from manufacturers located in China.

We believe that advertising and marketing are an integral part of the long-term strategy of the Lilly Pulitzer brand, and we therefore devote significant resources to advertising and marketing. We intend that Lilly Pulitzer's advertising will engage individuals within the brand's consumer demographic and guide them on a regular basis to our retail stores, e-commerce websites and wholesale customers' stores in search of our products. The marketing of the Lilly Pulitzer brand includes traditional media such as print, catalogs and other correspondence with customers, as well as moving media and trade show initiatives. However, an increasing amount of Lilly Pulitzer's marketing focus involves email, Internet and social media advertising. We believe that it is very important that a lifestyle brand effectively communicate with consumers on a regular basis via the use of email, Internet and social media about product offerings or other brand events in order to maintain and strengthen the brands' connections with consumers.

In addition to our ongoing Lilly Pulitzer marketing initiatives, we are also excited about a specific one-time marketing program for Fiscal 2015. This initiative is a single delivery design collaboration with the Target Corporation where Lilly Pulitzer provided certain designs and prints to Target, and Target used those prints on a collection of 250 pieces spanning apparel, accessories and shoes for women and girls, as well as home accents, outdoor entertaining accessories, beach gear and travel essentials. This single delivery program launches in April in all domestic Target locations and on the Target website. Target will highlight the collaboration in its marketing materials in connection with the launch. This marketing program will provide a significant amount of national exposure for the Lilly Pulitzer brand. We believe that this marketing exposure will introduce the Lilly Pulitzer brand to new potential consumers both on the East Coast where the brand has a very strong brand recognition and also west of the Mississippi River, where Lilly Pulitzer generated approximately 10% of its Fiscal 2014 sales. From a financial perspective, we do not expect a significant impact on our Fiscal 2015 operating results as we will not recognize any product sales or have inventory exposure related to the program; however, we believe that in the long-term, the collaboration will enhance the awareness of the Lilly Pulitzer brand.

We believe that highly visible retail store locations with creative design, broad merchandise selection and brand appropriate visual presentation are key enticements for customers to visit our retail stores and buy merchandise. We intend that our retail stores enhance the shopping experience of our customers, which we believe will increase consumer brand loyalty. Marketing initiatives at certain of our retail stores may include special event promotions and a variety of public relations activities designed to create awareness of our stores and products. At certain times during the year, an integral part of the marketing plan for Lilly Pulitzer includes certain gift with purchase programs where the consumer earns the right to a Lilly Pulitzer gift product if certain spending thresholds are achieved by the consumer. We believe that our retail store operations as well as our traditional and electronic media communications increase the sales of our own retail stores and e-commerce operations, as well as the sales of our products for our wholesale customers.

For certain of our wholesale customers, we also provide point-of-sale materials and signage to enhance the presentation of our branded products at their retail locations and/or participate in cooperative advertising programs. Lilly Pulitzer operates a distribution center in King of Prussia, Pennsylvania for its operations. Activities at the distribution center include receiving finished goods from suppliers, inspecting the products and shipping the products to wholesale customers, Lilly Pulitzer full-price retail stores and our e-commerce customers. We seek to maintain sufficient levels of inventory at the distribution center to support our direct to consumer operations, as well as pre-booked orders and some limited replenishment ordering for our wholesale customers.

Direct to Consumer Operations



A key component of our Lilly Pulitzer growth strategy is to operate our own stores and e-commerce website which we believe permits us to develop and build brand awareness by presenting products in a setting specifically designed to showcase the aspirational lifestyle on which they are based. The distribution channels included in Lilly Pulitzer's direct to consumer strategy consist of full-price retail store and e-commerce operations and represented 62% of Lilly Pulitzer's net sales in Fiscal 2014, compared to 57% in Fiscal 2013. We expect the percentage of our Lilly Pulitzer sales which are direct to consumer sales will increase in future years as we anticipate that the full-price retail and e-commerce components of the Lilly Pulitzer business will continue to grow at a faster rate than the wholesale distribution channel.

Our direct to consumer strategy for the Lilly Pulitzer brand includes operating full-price retail stores in higher-end malls, lifestyle shopping centers, resort destinations and brand-appropriate street locations. As of January 31, 2015, 14 of the Lilly Pulitzer stores were located in indoor regional malls and eight of the Lilly Pulitzer stores were located in outdoor regional lifestyle centers with the remaining locations being street locations. Each retail store carries a wide range of merchandise, including apparel, footwear and accessories, all presented in a manner intended to enhance the Lilly Pulitzer image, brand awareness and acceptance. Our Lilly Pulitzer retail stores allow us to present Lilly Pulitzer's full line of current season products. We believe our Lilly Pulitzer retail stores provide high visibility for the brand and products and also enable us to stay close to the needs and preferences of consumers. Also, we believe that our presentation of products and our strategy to operate the retail stores as full-price stores with limited promotional activities complement our business with our wholesale customers. Generally, we believe there are opportunities for retail stores in warmer and colder climates, as we believe the more important consideration is whether the location attracts the affluent consumer that we are targeting.

Lilly Pulitzer's retail store sales per gross square foot for Fiscal 2014 were approximately \$730 for the 23 retail stores which were open the full Fiscal 2014 year compared to approximately \$645 for the 19 Lilly Pulitzer stores open for the full Fiscal 2013 year. For relocated stores, if any, for which the square feet changed during the year, we included, for the purposes of the calculation above, the square feet of the relocated store based on the weighted average month-end square feet for the relocated store. The increase in sales per gross square foot from the prior year was primarily due to higher comparable store sales in stores open prior to Fiscal 2013 as well as the favorable impact of the inclusion of the stores opened in Fiscal 2013 in the Fiscal 2014 calculation.

The table below provides certain information regarding Lilly Pulitzer retail stores as of January 31, 2015.

	Number of Full-Price Retail Stores
Florida	9
New York	3
Maryland	2
North Carolina	2
Ohio	2
Pennsylvania	2
Texas	2
Other	6
Total	28
Average square feet per store	2,800
Total square feet at year-end	79,000

The table below reflects the changes in store count for Lilly Pulitzer stores during Fiscal 2014.

	Full-Price Retail Stores
Open as of beginning of fiscal year	23
Opened during fiscal year	5
Open as of end of fiscal year	28

During Fiscal 2014, the average total gross square feet, calculated as the average of the total gross square feet at the beginning and end of each quarter during the year, of retail space was approximately 75,000 square feet. In Fiscal 2015, we expect to open six retail stores, and we expect to maintain a pace of four to six stores a year after Fiscal 2015. Although the timing of all of our store openings have not been finalized, we anticipate opening full-price retail store locations in Kiawah Island, South Carolina; Nashville, Tennessee; Chicago, Illinois; and Orlando, Coral Gables and Coconut Point, Florida in Fiscal 2015. All but one of these stores is expected to open in the first half of the year. The operation of full-price retail stores requires a greater amount of initial capital investment than wholesale operations, as well as greater ongoing operating costs. We anticipate that most future full-price retail store openings will generally be 2,500 square feet on average; however, many stores will be larger or smaller than 2,500 square feet

with the determination of size of the store depending on a variety of criteria. To open a 2,500 square foot Lilly Pulitzer full-price retail store, we anticipate

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capital expenditures of approximately \$0.7 million on average. For most of our retail stores, the landlord provides certain incentives to fund a portion of our capital expenditures.

In addition to new store openings, we also incur capital expenditure costs related to remodels of existing stores, particularly when we renew or extend a lease beyond the original lease term, or otherwise determine that a remodel of a store is appropriate. We may also incur capital expenditures if a lease expires, or otherwise, and we determine it is appropriate to relocate a store to a new location in the same vicinity as the previous store. The cost of store relocations, if any, will generally be comparable to the cost of opening a new store.

In addition to operating Lilly Pulitzer full-price retail stores, another key element of our direct to consumer strategy is the lillypulitzer.com website, which represented 28% of Lilly Pulitzer's net sales in Fiscal 2014 compared to 25% in Fiscal 2013. The Lilly Pulitzer e-commerce business has experienced significant growth in recent years and we anticipate that the rate of growth of the e-commerce business will remain strong in the future.

We also utilize the Lilly Pulitzer website as an effective means of liquidating discontinued or out-of-season inventory, which is an ongoing part of any apparel business, in a brand appropriate manner. Usually, we have two e-commerce flash clearance sales per year, both of which are in typical industry end of season promotional periods. These sales are brand appropriate events that create a significant amount of excitement with loyal Lilly Pulitzer consumers, who are looking for an opportunity to purchase Lilly Pulitzer products at a discounted price. Each of these two e-commerce flash clearance sales are for a very limited number of days, allowing the Lilly Pulitzer website to essentially remain full-price for the remainder of the year. During Fiscal 2014, approximately 36% of Lilly Pulitzer's e-commerce sales were e-commerce flash clearance sales.

#### Wholesale Operations

To complement our direct to consumer operations and have access to a larger group of consumers, including those who may wish to shop at a specialty store or department store, we continue to maintain our wholesale operations for Lilly Pulitzer through better department stores and specialty stores that generally follow a full-price retail model approach with limited discounting. Although we do not expect that the Lilly Pulitzer wholesale business will grow at the same pace as the direct to consumer distribution channel, we value our long-standing relationships with our wholesale customers and are committed to working with them to enhance the success of the Lilly Pulitzer brand within their stores. We believe that the integrity and continued success of the Lilly Pulitzer brand, including its direct to consumer operations, is dependent, in part, upon controlled wholesale distribution with careful selection of the retailers through which Lilly Pulitzer products are sold. During Fiscal 2014, 38% of Lilly Pulitzer's net sales were sales to wholesale customers, with Lilly Pulitzer products available in more than 600 retail locations.

During Fiscal 2014, almost half of Lilly Pulitzer's wholesale sales were to certain wholesale customers, which we refer to as Lilly Pulitzer Signature Stores. For these stores, we enter into agreements whereby we grant the other party the right to independently operate one or more stores as a Lilly Pulitzer Signature Store, subject to certain conditions, including designating substantially all the store specifically for Lilly Pulitzer products and adhering to certain trademark usage requirements. These agreements are generally for a one- or two-year period. We sell products to these Lilly Pulitzer Signature Stores on a wholesale basis and do not receive royalty income associated with these sales. As of January 31, 2015, there were 71 Lilly Pulitzer Signature Stores.

The remaining wholesale sales were to better department stores and specialty stores. Lilly Pulitzer's net sales to its five largest wholesale customers represented 16% of Lilly Pulitzer's net sales in Fiscal 2014 with its largest customer representing 6% of Lilly Pulitzer's net sales.

We maintain Lilly Pulitzer apparel sales offices and showrooms in both King of Prussia, Pennsylvania and New York City. Our wholesale operations for Lilly Pulitzer utilize a sales force consisting of salaried sales employees.

#### Licensing Operations

We license the Lilly Pulitzer trademark to licensees in categories beyond Lilly Pulitzer's core product categories. In the long-term, we believe licensing may be an attractive business opportunity for the Lilly Pulitzer brand, particularly once our direct to consumer presence has expanded. Once a brand is established, licensing requires modest additional investment but can yield high-margin income. It also affords the opportunity to enhance overall brand awareness and exposure. In evaluating a potential Lilly Pulitzer licensee, we consider the candidate's experience, financial stability, manufacturing performance and marketing ability. We also evaluate the marketability and compatibility of the

proposed products with other Lilly Pulitzer brand products.

Our agreements with Lilly Pulitzer licensees are for specific geographic areas and expire at various dates in the future. Generally, the agreements require minimum royalty payments as well as royalty and advertising payments based on specified

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percentages of the licensee's net sales of the licensed products. Our license agreements generally provide us the right to approve all products, advertising and proposed channels of distribution.

Third party license arrangements for Lilly Pulitzer products include the following product categories: bedding and home fashions; home furnishing fabrics; stationery and gift products; and eyewear.

#### Seasonal Aspects of Business

Lilly Pulitzer's operating results are impacted by seasonality as the demand by specific product or style as well as demand by distribution channel may vary significantly depending on the time of year. The following table presents the percentage of net sales and operating income for Lilly Pulitzer by quarter for Fiscal 2014:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
Net sales	30	%28	%21	%21	%
Operating income	46	%35	%13	%6	%

As the timing of certain unusual or non-recurring items, economic conditions, wholesale product shipments or other factors affecting the business may vary from one year to the next, we do not believe that net sales or operating income for any particular quarter or the distribution of net sales for Fiscal 2014 are necessarily indicative of anticipated results for the full fiscal year or expected distribution in future years.

The timing of Lilly Pulitzer's sales in the direct to consumer and wholesale distribution channels generally varies. Typically, the demand in the direct to consumer operations, including sales for our own stores and e-commerce sites, for Lilly Pulitzer products in our principal markets is generally higher in the spring, summer and resort seasons and lower in the fall season. However, wholesale product shipments are generally shipped prior to each of the retail selling seasons. Further, in the third quarter of our fiscal year, which has not historically been a strong direct to consumer or wholesale quarter for Lilly Pulitzer, Lilly Pulitzer has historically held a significant e-commerce flash clearance sale which results in e-commerce sales representing a larger percentage of total sales than in other fiscal quarters. As the allocation of sales within a quarter is impacted by the seasonality of direct to consumer and wholesale sales, we have presented in the following table the proportion of net sales for each quarter represented by each distribution channel for Fiscal 2014, which may not be indicative of the allocation of sales by distribution channel in future periods: