ABERCROMBIE & FITCH CO /DE/
Form 10-Q
September 09, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended August 3, 2013
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 1-12107

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
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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 (§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). x Yes ¨ No
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 | ¨ (Do not check if a smaller reporting company) | Smaller reporting company | ¨ |

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class A Common Stock | Outstanding at August 30, 2013 |
| --- | --- |
| $.01 Par Value | 76,392,808 Shares |

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ABERCROMBIE & FITCH CO.
CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)
(Thousands, except share and per share amounts)
(Unaudited)

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| | August 3, 2013 | July 28, 2012 | August 3, 2013 | July 28, 2012 |
| | | (Restated - see Note 3) | | (Restated - see Note 3) |
| NET SALES | $945,698 | $951,407 | $1,784,467 | $1,872,625 |
| Cost of Goods Sold | 341,576 | 358,956 | 627,178 | 739,082 |
| GROSS PROFIT | 604,122 | 592,451 | 1,157,289 | 1,133,543 |
| Stores and Distribution Expense | 471,722 | 458,085 | 920,848 | 913,817 |
| Marketing, General and Administrative Expense | 117,646 | 111,293 | 236,425 | 228,182 |
| Other Operating Income, Net | (4,411) | (1,933) | (5,228) | (4,519) |
| OPERATING INCOME (LOSS) | 19,165 | 25,006 | 5,244 | (3,937) |
| Interest Expense, Net | 1,750 | 1,546 | 3,378 | 2,636 |
| INCOME (LOSS) BEFORE TAXES | 17,415 | 23,460 | 1,866 | (6,573) |
| Tax Expense (Benefit) | 6,045 | 6,409 | (2,301) | (2,319) |
| NET INCOME (LOSS) | $11,370 | $17,051 | $4,167 | $(4,254) |
| NET INCOME (LOSS) PER SHARE: | | | | |
| BASIC | $0.15 | $0.21 | $0.05 | $(0.05) |
| DILUTED | $0.14 | $0.20 | $0.05 | $(0.05) |
| WEIGHTED-AVERAGE SHARES OUTSTANDING: | | | | |
| BASIC | 77,382 | 82,555 | 77,853 | 83,574 |
| DILUTED | 79,267 | 83,441 | 79,709 | 83,574 |
| DIVIDENDS DECLARED PER SHARE | $0.200 | $0.175 | $0.400 | $0.350 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Foreign Currency Translation Adjustments | $(2,229) | $(19,688) | $(19,489) | $(16,501) |
| Unrealized Gain (Loss) on Derivative Financial Instruments, net of taxes of $(177) and $(724) for the thirteen-week periods ended August 3, 2013 and July 28, 2012, respectively and $(1,180) and $212 for the twenty-six week periods ended August 3, 2013 and July 28, 2012, respectively. | 364 | 9,231 | 9,859 | 2,086 |
| Other Comprehensive Income (Loss) | $(1,865) | $(10,457) | $(9,630) | $(14,415) |
| COMPREHENSIVE INCOME (LOSS) | $9,505 | $6,594 | $(5,463) | $(18,669) |

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

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

| | (unaudited) August 3, 2013 | February 2, 2013 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and Equivalents | $335,023 | $643,505 |
| Receivables | 92,886 | 99,622 |
| Inventories | 633,483 | 426,962 |
| Deferred Income Taxes | 47,057 | 32,558 |
| Other Current Assets | 107,621 | 105,177 |
| TOTAL CURRENT ASSETS | 1,216,070 | 1,307,824 |
| PROPERTY AND EQUIPMENT, NET | 1,252,841 | 1,308,232 |
| OTHER ASSETS | 373,932 | 371,345 |
| TOTAL ASSETS | $2,842,843 | $2,987,401 |
| LIABILITIES AND STOCKHOLDERS’ EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts Payable | $195,728 | $140,396 |
| Accrued Expenses | 291,772 | 398,868 |
| Deferred Lease Credits | 36,994 | 39,054 |
| Income Taxes Payable | 39,733 | 112,483 |
| Short-Term Portion of Borrowings | 15,000 | — |
| TOTAL CURRENT LIABILITIES | 579,227 | 690,801 |
| LONG-TERM LIABILITIES: | | |
| Deferred Lease Credits | 157,956 | 168,397 |
| Long-Term Portion of Borrowings | 127,500 | — |
| Leasehold Financing Obligations | 61,126 | 63,942 |
| Other Liabilities | 233,369 | 245,993 |
| TOTAL LONG-TERM LIABILITIES | 579,951 | 478,332 |
| STOCKHOLDERS’ EQUITY: | | |
| Class A Common Stock - $0.01 par value: 150,000 shares authorized and 103,300 shares issued at each of August 3, 2013 and February 2, 2013 | 1,033 | 1,033 |
| Paid-In Capital | 410,412 | 403,271 |
| Retained Earnings | 2,536,499 | 2,567,261 |
| Accumulated Other Comprehensive Income (Loss), net of tax | (22,918) | (13,288) |
| Treasury Stock, at Average Cost - 26,915 and 24,855 shares at August 3, 2013 and February 2, 2013, respectively | (1,241,361) | (1,140,009) |
| TOTAL STOCKHOLDERS’ EQUITY | 1,683,665 | 1,818,268 |
| TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY | $2,842,843 | $2,987,401 |

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

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

| | Twenty-Six Weeks Ended | |
|---|---|---|
| | August 3, 2013 | July 28, 2012 (Restated - see Note 3) |
| OPERATING ACTIVITIES: | | |
| Net Income (Loss) | $4,167 | $(4,254) |
| Impact of Other Operating Activities on Cash Flows: | | |
| Depreciation and Amortization | 120,313 | 109,347 |
| Loss on Disposal / Write-off of Assets | 2,338 | 5,184 |
| Lessor Construction Allowances | 13,296 | 8,394 |
| Amortization of Deferred Lease Credits | (20,940) | (23,339) |
| Deferred Taxes | (26,227) | (34,839) |
| Share-Based Compensation | 26,950 | 25,450 |
| Changes in Assets and Liabilities: | | |
| Inventories | (207,674) | (15,765) |
| Accounts Payable and Accrued Expenses | (48,055) | (44,329) |
| Income Taxes | (73,681) | (43,495) |
| Other Assets and Liabilities | 793 | (6,645) |
| NET CASH USED FOR OPERATING ACTIVITIES | (208,720) | (24,291) |
| INVESTING ACTIVITIES: | | |
| Capital Expenditures | (81,231) | (199,958) |
| Proceeds from Sales of Marketable Securities | — | 80,693 |
| Other Investing | (5,312) | (6,048) |
| NET CASH USED FOR INVESTING ACTIVITIES | (86,543) | (125,313) |
| FINANCING ACTIVITIES: | | |
| Proceeds from Share-Based Compensation | 191 | 106 |
| Excess Tax Benefit from Share-Based Compensation | 2,370 | 1,054 |
| Purchase of Treasury Stock | (115,806) | (161,215) |
| Repayments of Borrowings | (7,500) | — |
| Proceeds from Borrowings | 150,000 | 75,000 |
| Change in Outstanding Checks and Other | (3,756) | (3,457) |
| Dividends Paid | (31,364) | (29,260) |
| NET CASH USED FOR FINANCING ACTIVITIES | (5,865) | (117,772) |
| EFFECT OF EXCHANGE RATES ON CASH | (7,354) | (3,966) |
| NET DECREASE IN CASH AND EQUIVALENTS: | (308,482) | (271,342) |
| Cash and Equivalents, Beginning of Period | 643,505 | 583,495 |
| CASH AND EQUIVALENTS, END OF PERIOD | $335,023 | $312,153 |
| SIGNIFICANT NON-CASH INVESTING ACTIVITIES: | | |
| Change in Accrual for Construction in Progress | $(598) | $6,728 |

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

ABERCROMBIE & FITCH CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 1. BASIS OF PRESENTATION

Abercrombie & Fitch Co. (“A&F”), through its wholly-owned subsidiaries (collectively, A&F and its wholly-owned subsidiaries are referred to as the “Company”), is a specialty retailer of high-quality, casual apparel for men, women and kids with an active, youthful lifestyle.

The accompanying Consolidated Financial Statements include the historical financial statements of, and transactions applicable to, the Company and reflect its assets, liabilities, results of operations and cash flows.

The Company’s fiscal year ends on the Saturday closest to January 31. Fiscal years are designated in the consolidated financial statements and notes by the calendar year in which the fiscal year commences. All references herein to “Fiscal 2013” represent the 52-week fiscal year that will end on February 1, 2014, and to “Fiscal 2012” represent the 53-week fiscal year that ended February 2, 2013.

The Consolidated Financial Statements as of August 3, 2013 and for the thirteen and twenty-six week periods ended August 3, 2013 and July 28, 2012 are unaudited and are presented pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, these Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto contained in A&F’s Annual Report on Form 10-K for Fiscal 2012 filed on April 2, 2013. The February 2, 2013 consolidated balance sheet data were derived from audited consolidated financial statements, but do not include all disclosures required by accounting principles generally accepted in the United States of America (“U.S. GAAP”).

In the opinion of management, the accompanying Consolidated Financial Statements reflect all adjustments (which are of a normal recurring nature) necessary to state fairly, in all material respects, the financial position and results of operations and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for Fiscal 2013.

Certain prior period amounts have been reclassified to conform to current year presentation. In addition, the thirteen and twenty-six week periods ended August 3, 2013 include the correction of certain errors relating to prior periods. The thirteen week period ended August 3, 2013 includes a reduction of stores and distribution expense of $4.5 million related to prior periods. The twenty-six week period ended August 3, 2013 includes a reduction of pre-tax expense of $5.5 million, consisting of $4.4 million of stores and distribution expense and $1.1 million in gross margin, and an unrelated tax charge of $1.2 million related to prior periods. The Company does not believe these corrections were material to any current or prior interim or annual periods that were affected.

The Consolidated Financial Statements as of August 3, 2013 and for the thirteen and twenty-six week periods ended August 3, 2013 and July 28, 2012 included herein have been reviewed by PricewaterhouseCoopers LLP, an independent registered public accounting firm, and the report of such firm follows the Notes to Consolidated Financial Statements.

PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 (the “Act”) for their report on the consolidated financial statements because their report is not a “report” or a “part” of a registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Act.

## 2. SEGMENT REPORTING

The Company determines its segments on the same basis that it uses to allocate resources and assess performance. All of the Company’s segments sell a similar group of products—casual sportswear apparel, personal care products and accessories for men, women and kids and bras, underwear and sleepwear for girls. The Company has three reportable segments: U.S. Stores, International Stores, and Direct-to-Consumer. Corporate functions, interest income and expense, and other income and expense are evaluated on a consolidated basis and are not allocated to the Company’s segments, and therefore are included in Other.

The U.S. Stores reportable segment includes the results of store operations in the United States and Puerto Rico. The International Stores reportable segment includes the results of store operations in Canada, Europe, Asia and Australia. The Direct-to-Consumer reportable segment includes the results of operations directly associated with on-line operations, both domestic and international.

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Operating income is the primary measure of profit the Company uses to make decisions regarding the allocation of resources to its segments. For the U.S. Stores and International Stores reportable segments, operating income is defined as aggregate income directly attributable to individual stores on a four-wall basis plus sell-off of excess merchandise to authorized third-party resellers. Four-wall operating income includes: net sales, cost of merchandise, selling payroll and related costs, rent, utilities, depreciation, repairs and maintenance, supplies and packaging and other store sales-related expenses including credit card and bank fees and taxes. Operating income also reflects pre-opening charges related to stores not yet in operation. For the Direct-to-Consumer reportable segment, operating income is defined as aggregate income attributable to the direct-to-consumer business: net sales, shipping and handling revenue, call center costs, fulfillment and shipping expense, charge card fees and direct-to-consumer operations management and support expenses. The U.S. Stores, International Stores and Direct-to-Consumer segments exclude marketing, general and administrative expense; store management and support functions such as regional and district management and other functions not dedicated to an individual store; and distribution center costs. All costs excluded from the three reportable segments are included in Other.

The following table provides the Company's segment information as of, and for the thirteen and twenty-six week periods ended August 3, 2013 and July 28, 2012.

| | U.S. Stores | International Stores | Direct-to-Consumer Operations | Segment Total | Other[1] | Total |
|---|---|---|---|---|---|---|
| | (in thousands): | | | | | |
| Thirteen Weeks Ended August 3, 2013 | | | | | | |
| Net Sales | $504,674 | $286,727 | $154,297 | $ 945,698 | $— | $945,698 |
| Operating Income (Loss) | 58,871 | 66,647 | 55,008 | 180,526 | (161,361) | 19,165 |
| Thirteen Weeks Ended July 28, 2012 | | | | | | |
| Net Sales | $562,105 | $261,625 | $127,677 | $ 951,407 | $— | $951,407 |
| Operating Income (Loss) [2] | 70,658 | 74,302 | 43,456 | 188,416 | (163,410) | 25,006 |

| | U.S. Stores | International Stores | Direct-to-Consumer Operations | Segment Total | Other[1] | Total |
|---|---|---|---|---|---|---|
| | (in thousands): | | | | | |
| Twenty-Six Weeks Ended August 3, 2013 | | | | | | |
| Net Sales | 953,290 | 544,161 | 287,016 | 1,784,467 | — | 1,784,467 |
| Operating Income (Loss) | 98,693 | 120,180 | 111,191 | 330,064 | (324,820) | 5,244 |
| Twenty-Six Weeks Ended July 28, 2012 | | | | | | |
| Net Sales | 1,105,986 | 490,733 | 275,906 | 1,872,625 | — | 1,872,625 |
| Operating Income (Loss) [2] | 114,612 | 124,601 | 88,754 | 327,967 | (331,904) | (3,937) |

(1) Includes corporate functions such as Design, Merchandising, Sourcing, Planning, Allocation, Store Management and Support, Marketing, Distribution Center Operations, Information Technology, Real Estate, Finance, Legal, Human Resources and other corporate overhead. Operating Income includes: marketing, general and administrative expense; store management and support functions such as regional and district management and other functions not dedicated to an individual store; and distribution center costs.

(2)

Results reported above have been adjusted based on the change in accounting principle as noted in Note 3, “CHANGE IN ACCOUNTING PRINCIPLE”.

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Geographic Information

Financial information relating to the Company’s operations by geographic area is as follows:

Net Sales:

Net sales includes net merchandise sales through stores and direct-to-consumer operations, including shipping and handling revenue. Net sales are reported by geographic area based on the location of the customer.

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| (in thousands): | August 3, 2013 | July 28, 2012 | August 3, 2013 | July 28, 2012 |
| United States | $597,259 | $648,017 | $1,132,156 | $1,292,277 |
| Europe | 267,764 | 250,339 | 504,418 | 469,925 |
| Other | 80,675 | 53,051 | 147,893 | 110,423 |
| Total | $945,698 | $951,407 | $1,784,467 | $1,872,625 |

3. CHANGE IN ACCOUNTING PRINCIPLE

The Company elected to change its method of accounting for inventory from the lower of cost or market utilizing the retail method to the lower of cost or market under the weighted-average cost method effective February 2, 2013. In accordance with generally accepted accounting principles, all periods have been retroactively adjusted to reflect the period-specific effects of the change to the weighted-average cost method. The Company believes that accounting under the weighted-average cost method is preferable as it better aligns with the Company's focus on realized selling margin and improves the comparability of the Company's financial results with those of its competitors. Additionally, it will improve the matching of cost of goods sold with the related net sales and reflect the acquisition cost of inventory outstanding at each balance sheet date.

As a result of the retroactive application of the change in accounting for inventory, the following items in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss) and Consolidated Statements of Cash Flows have been restated:

Thirteen Weeks Ended July 28, 2012 (in thousands, except per share data)

| | As Reported | Effect of Change | As Restated |
|---|---|---|---|
| Net Sales | $951,407 | $— | $951,407 |
| Cost of Goods Sold | 357,000 | 1,956 | 358,956 |
| Gross Profit | 594,407 | (1,956) | 592,451 |
| Operating Income (Loss) | 26,962 | (1,956) | 25,006 |
| Income (Loss) Before Taxes | 25,416 | (1,956) | 23,460 |
| Tax Expense (Benefit) | 9,897 | (3,488) | 6,409 |
| Net Income (Loss) | 15,519 | 1,532 | 17,051 |
| Net Income (Loss) Per Share: | | | |
| Basic | $0.19 | $0.02 | $0.21 |
| Diluted | $0.19 | $0.01 | $0.20 |
| Foreign Currency Translation Adjustments | (19,452) | (236) | (19,688) |
| Other Comprehensive Income (Loss) | (10,221) | (236) | (10,457) |
| Comprehensive Income (Loss) | 5,298 | 1,296 | 6,594 |

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Twenty-Six Weeks Ended July 28, 2012 (in thousands, except per share data)

| | As Reported | Effect of Change | As Restated |
|---|---|---|---|
| Net Sales | $1,872,625 | $— | $1,872,625 |
| Cost of Goods Sold | 701,859 | 37,223 | 739,082 |
| Gross Profit | 1,170,766 | (37,223) | 1,133,543 |
| Operating Income (Loss) | 33,286 | (37,223) | (3,937) |
| Income (Loss) Before Taxes | 30,650 | (37,223) | (6,573) |
| Tax Expense (Benefit) | 12,146 | (14,465) | (2,319) |
| Net Income (Loss) | 18,504 | (22,758) | (4,254) |
| Net Income (Loss) Per Share: | | | |
| Basic | $0.22 | $(0.27) | $(0.05) |
| Diluted | $0.22 | $(0.27) | $(0.05) |
| Foreign Currency Translation Adjustments | (16,068) | (433) | (16,501) |
| Other Comprehensive Income (Loss) | (13,982) | (433) | (14,415) |
| Comprehensive Income (Loss) | 4,522 | (23,191) | (18,669) |

Twenty-Six Weeks Ended July 28, 2012 (in thousands, except per share data)

| | As Reported | Effect of Change | As Restated |
|---|---|---|---|
| Cash flow from operating activities: | | | |
| Net Income (Loss) | $18,504 | $(22,758) | $(4,254) |
| Deferred Taxes | (20,374) | (14,465) | (34,839) |
| Inventories | (53,421) | 37,656 | (15,765) |

4. SHARE-BASED COMPENSATION

Financial Statement Impact

The Company recognized share-based compensation expense of $13.6 million and $26.9 million for the thirteen and twenty-six week periods ended August 3, 2013, respectively, and $12.6 million and $25.5 million for the thirteen and twenty-six week periods ended July 28, 2012, respectively. The Company also recognized $5.2 million and $10.2 million in tax benefits related to share-based compensation expense for the thirteen and twenty-six week periods ended August 3, 2013, respectively, and $4.8 million and $9.7 million for the thirteen and twenty-six week periods ended July 28, 2012, respectively.

The fair value of share-based compensation awards is recognized as compensation expense primarily on a straight-line basis over the awards’ requisite service period, net of forfeitures, with the exception of performance share awards. Performance share award expense is primarily recognized in the dependency period of the awards' requisite service period. For awards that are expected to result in a tax deduction, a deferred tax asset is recorded in the period in which share-based compensation expense is recognized. A current tax deduction arises upon the vesting of restricted stock units and performance share awards or the exercise of stock options and stock appreciation rights and is principally measured at the award’s intrinsic value. If the tax deduction is greater than the recorded deferred tax asset, the tax benefit associated with any excess deduction is considered a “windfall tax benefit” and is recognized as additional paid-in capital. If the tax deduction is less than the recorded deferred tax asset, the resulting difference, or shortfall, is first charged to additional paid in capital, to the extent of the pool of “windfall tax benefits,” with any remainder recognized as tax expense. The Company’s pool of “windfall tax benefits” as of August 3, 2013 is sufficient to fully absorb any shortfall which may develop associated with awards currently outstanding.

The Company adjusts share-based compensation expense on a quarterly basis for actual forfeitures and for changes to the estimate of expected award forfeitures. The effect of adjusting the forfeiture rate is recognized in the period the forfeiture estimate is changed. The effect of adjustments for forfeitures during both the twenty-six weeks ended August 3, 2013 and July 28, 2012 was insignificant.

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A&F issues shares of Common Stock from treasury stock upon exercise of stock options and stock appreciation rights and vesting of restricted stock units, including those converted from performance share awards. As of August 3, 2013, A&F had sufficient treasury stock available to settle stock options, stock appreciation rights, restricted stock units and performance share awards outstanding. Settlement of stock awards in Common Stock also requires that the Company has sufficient shares available in stockholder-approved plans at the applicable time.

In the event, at each reporting date during which share-based compensation awards remain outstanding, there are not sufficient shares of Common Stock available to be issued under the Amended and Restated Abercrombie & Fitch Co. 2007 Long-Term Incentive Plan (the "2007 LTIP") and the Abercrombie & Fitch Co. 2005 Long-Term Incentive Plan (the "2005 LTIP"), or under a successor or replacement plan, the Company may be required to designate some portion of the outstanding awards to be settled in cash, which would result in liability classification of such awards. The fair value of liability-classified awards is re-measured each reporting date until such awards no longer remain outstanding or until sufficient shares of Common Stock become available to be issued under the 2007 LTIP, or under a successor or replacement plan. As long as the awards are required to be classified as a liability, the change in fair value would be recognized in current period expense based on the requisite service period rendered.

Plans

As of August 3, 2013, A&F had two primary share-based compensation plans: the 2005 LTIP, under which A&F grants stock appreciation rights, restricted stock units and performance share awards to associates of the Company and non-associate members of the A&F Board of Directors, and the 2007 LTIP, under which A&F grants stock appreciation rights, restricted stock units and performance share awards to associates of the Company. A&F also has four other share-based compensation plans under which it granted stock options and restricted stock units to associates of the Company and non-associate members of the A&F Board of Directors in prior years.

The 2007 LTIP, a stockholder-approved plan, permits A&F to annually grant awards covering up to 2.0 million of underlying shares of A&F's Common Stock for each type of award, per eligible participant, plus any unused annual limit from prior years. The 2005 LTIP, a stockholder-approved plan, permits A&F to annually grant awards covering up to 250,000 of underlying shares of A&F's Common Stock for each award type to any associate of the Company (other than the Chairman and Chief Executive Officer (the "CEO")) who is subject to Section 16 of the Securities Exchange Act of 1934, as amended, at the time of the grant, plus any unused annual limit from prior years. In addition, any non-associate director of A&F is eligible to receive awards under the 2005 LTIP. Under both plans, stock appreciation rights and restricted stock units vest primarily over four years for associates, while performance share awards are primarily earned and vest over three years. Under the 2005 LTIP, restricted stock units typically vest after approximately one year for non-associate directors of A&F. Awards granted to the CEO under the 2007 LTIP have a vesting period defined as the shorter of four years or the period from the award date through the end of the CEO's employment agreement subject to the satisfaction of performance-based criteria for awards granted subsequent to May 7, 2012. Under both plans, stock options have a 10-year term and stock appreciation rights have up to a 10-year term, subject to forfeiture under the terms of the plans. The plans provide for accelerated vesting if there is a change of control as defined in the plans.

Fair Value Estimates

The Company estimates the fair value of stock appreciation rights using the Black-Scholes option-pricing model, which requires the Company to estimate the expected term of the stock appreciation rights and expected future stock price volatility over the expected term. Estimates of expected terms, which represent the expected periods of time the Company believes stock appreciation rights will be outstanding, are based on historical experience. Estimates of expected future stock price volatility are based on the volatility of A&F's Common Stock price for the most recent historical period equal to the expected term of the stock appreciation right, as appropriate. The Company calculates the volatility as the annualized standard deviation of the differences in the natural logarithms of the weekly stock closing price, adjusted for stock splits and dividends.

In the case of restricted stock units and performance share awards, the Company calculates the fair value of awards granted using the market price of the underlying Common Stock on the date of grant adjusted for anticipated dividend payments during the vesting period. In determining the fair value, the Company does not take into account any

performance-based requirements. The performance-based requirements are taken into account in determining the number of awards expected to vest.

Stock Options

The Company did not grant any stock options during the twenty-six week periods ended August 3, 2013 or July 28, 2012.

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Below is a summary of stock option activity for the twenty-six weeks ended August 3, 2013:

| Stock Options | Number of Underlying Shares | Weighted-Average Exercise Price | Aggregate Intrinsic Value | Weighted-Average Remaining Contractual Life |
|---|---|---|---|---|
| Outstanding at February 2, 2013 | 569,400 | $ 65.40 | | |
| Granted | — | — | | |
| Exercised | (6,750) | 28.18 | | |
| Forfeited or expired | (20,000) | 76.04 | | |
| Outstanding at August 3, 2013 | 542,650 | $ 65.47 | $2,187,260 | 3.8 |
| Stock options exercisable at August 3, 2013 | 542,650 | $ 65.47 | $2,187,260 | 3.8 |
| Stock options expected to become exercisable in the future as of August 3, 2013 | — | — | — | — |

The total intrinsic value of stock options which were exercised during the twenty-six week periods ended August 3, 2013 and July 28, 2012 was insignificant.

The grant date fair value of stock options which vested during the twenty-six week periods ended August 3, 2013 and July 28, 2012 was insignificant and $1.2 million, respectively.

As of August 3, 2013, all compensation cost related to stock options had been recognized.

Stock Appreciation Rights

The weighted-average estimated fair value of stock appreciation rights granted during the twenty-six week periods ended August 3, 2013 and July 28, 2012, and the weighted-average assumptions used in calculating such fair value, on the date of grant, were as follows:

| | Twenty-Six Weeks Ended | | | | | |
|---|---|---|---|---|---|---|
| | Chairman and Chief Executive Officer | | Other Executive Officers | | All Other Associates | |
| | August 3, 2013 | July 28, 2012 | August 3, 2013 | July 28, 2012 | August 3, 2013 | July 28, 2012 |
| Grant date market price | — | $— | $46.57 | $52.89 | $45.85 | $52.66 |
| Exercise price | — | $— | $46.57 | $52.89 | $45.85 | $52.66 |
| Fair value | — | $— | $20.34 | $23.53 | $16.98 | $23.01 |
| Assumptions: | | | | | | |
| Price volatility | — | — % | 61 % | 56 % | 54 % | 61 % |
| Expected term (years) | — | — | 4.7 | 5.0 | 4.1 | 4.1 |
| Risk-free interest rate | — | — % | 0.7 % | 1.3 % | 0.6 % | 1.0 % |
| Dividend yield | — | — % | 1.8 % | 1.1 % | 1.8 % | 1.1 % |

Below is a summary of stock appreciation rights activity for the twenty-six weeks ended August 3, 2013:

| Stock Appreciation Rights | Number of Underlying Shares | Weighted-Average Exercise Price | Aggregate Intrinsic Value | Weighted-Average Remaining Contractual Life |
|---|---|---|---|---|
| Outstanding at February 2, 2013 | 9,246,859 | $ 40.17 | | |
| Granted: | | | | |
| Chairman and Chief Executive Officer | — | — | | |
| Other Executive Officers | 189,700 | 46.57 | | |
| All Other Associates | 100,500 | 45.85 | | |
| Exercised | (510,875) | 31.99 | | |
| Forfeited or expired | (18,000) | 50.81 | | |
| Outstanding at August 3, 2013 | 9,008,184 | $ 40.81 | $110,679,725 | 4.0 |

| | | | | |
|---|---|---|---|---|
| Stock appreciation rights exercisable at August 3, 2013 | 2,657,297 | $ 46.69 | $17,804,140 | 4.8 |
| Stock appreciation rights expected to become exercisable in the future as of August 3, 2013 | 6,292,065 | $ 38.26 | $92,638,072 | 3.6 |

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The total intrinsic value of stock appreciation rights exercised during the twenty-six week periods ended August 3, 2013 and July 28, 2012 was $8.5 million and insignificant, respectively.

The grant date fair value of stock appreciation rights which vested during the twenty-six week periods ended August 3, 2013 and July 28, 2012 was $19.7 million and $18.7 million, respectively.

As of August 3, 2013, there was $27.2 million of total unrecognized compensation cost, net of estimated forfeitures, related to stock appreciation rights. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 10 months.

Restricted Stock Units

Below is a summary of restricted stock unit activity for the twenty-six weeks ended August 3, 2013:

| Restricted Stock Units | Number of Underlying Shares | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Non-vested at February 2, 2013 | 1,198,680 | $46.88 |
| Granted [1] | 632,750 | 44.07 |
| Vested | (343,678) | 40.65 |
| Forfeited | (84,689) | 45.41 |
| Non-vested at August 3, 2013 | 1,403,063 | $47.30 |

(1) Number of shares granted includes approximately 103,000 shares related to the grant of performance share awards ("PSAs") in Fiscal 2013. This reflects the target amount granted, however the number of PSAs that ultimately are earned would vary from 0% - 200% of target depending on the level of growth of adjusted diluted earnings per share. The number also includes 15,000 of additional shares earned above the Fiscal 2012 target due to the achievement above target.

The total fair value of restricted stock units and performance share awards granted during the twenty-six week periods ended August 3, 2013 and July 28, 2012 was $27.9 million and $27.5 million, respectively.

The total grant date fair value of restricted stock units and performance share awards which vested during the twenty-six week periods ended August 3, 2013 and July 28, 2012 was $14.0 million and $18.1 million, respectively.

As of August 3, 2013, there was $37.0 million of total unrecognized compensation cost, net of estimated forfeitures, related to non-vested restricted stock units and performance share awards. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 17 months.

## 5. NET INCOME (LOSS) PER SHARE

Net income (loss) per basic share is computed based on the weighted-average number of outstanding shares of Common Stock. Net income (loss) per diluted share is computed based on the weighted-average dilutive effect of stock options, stock appreciation rights, restricted stock units and performance share awards.

Weighted-Average Shares Outstanding and Anti-Dilutive Shares (in thousands):

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| | August 3, 2013 | July 28, 2012 | August 3, 2013 | July 28, 2012 |
| Shares of Common Stock issued | 103,300 | 103,300 | 103,300 | 103,300 |
| Treasury shares | (25,918) | (20,745) | (25,447) | (19,726) |
| Weighted-Average—Basic Shares | 77,382 | 82,555 | 77,853 | 83,574 |
| Dilutive effect of stock options, stock appreciation rights, restricted stock units and performance share awards | 1,885 | 886 | 1,856 | — |
| Weighted-Average—Diluted Shares | 79,267 | 83,441 | 79,709 | 83,574 |
| Anti-Dilutive Shares [1] | 3,613 | 6,280 | 3,580 | 11,221 |

(1) Reflects the number of shares subject to outstanding stock options, stock appreciation rights, restricted stock units and performance share awards but excluded from the computation of net income (loss) per diluted share because the impact would be anti-dilutive.

6. CASH AND EQUIVALENTS

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Cash and equivalents consisted of (in thousands):

| | August 3, 2013 | February 2, 2013 |
|---|---|---|
| Cash and equivalents: | | |
| Cash | $331,454 | $398,508 |
| Cash equivalents | 3,569 | 244,997 |
| Total cash and equivalents | $335,023 | $643,505 |

Cash and equivalents include amounts on deposit with financial institutions, United States treasury bills, and other investments, primarily held in money market accounts, with original maturities of less than three months. Any cash that is legally restricted from use is recorded in Other Assets on the Consolidated Balance Sheets. The restricted cash balance was $29.5 million on August 3, 2013 and $31.1 million on February 2, 2013, respectively. Restricted cash includes various cash deposits with international banks that are used as collateral for customary non-debt banking commitments and deposits into trust accounts to conform with standard insurance security requirements.

## 7. RABBI TRUST ASSETS

Rabbi Trust assets are included in Other Assets on the Consolidated Balance Sheets and are restricted as to their use and consist of (in thousands):

| | August 3, 2013 | February 2, 2013 |
|---|---|---|
| Rabbi Trust assets: | | |
| Money market funds | 23 | 22 |
| Trust-owned life insurance policies (at cash surrender value) | 89,202 | 87,575 |
| Total Rabbi Trust assets | 89,225 | 87,597 |

The irrevocable rabbi trust (the “Rabbi Trust”) is intended to be used as a source of funds to match respective funding obligations to participants in the Abercrombie & Fitch Co. Nonqualified Savings and Supplemental Retirement Plan I, the Abercrombie & Fitch Co. Nonqualified Savings and Supplemental Retirement Plan II and the Chief Executive Officer Supplemental Executive Retirement Plan. The Rabbi Trust assets primarily consist of trust-owned life insurance policies which are recorded at cash surrender value. The Rabbi Trust assets are included in Other Assets on the Consolidated Balance Sheets and are restricted as to their use as noted above. The change in cash surrender value of the trust-owned life insurance policies held in the Rabbi Trust resulted in insignificant realized gains for each of the thirteen weeks ended August 3, 2013 and July 28, 2012 and $1.6 million and $1.7 million for the twenty-six weeks ended August 3, 2013 and July 28, 2012, respectively, recorded in Interest Expense, Net on the Consolidated Statements of Operations and Comprehensive Income (Loss).

## 8. FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The inputs used to measure fair value are prioritized based on a three-level hierarchy. The three levels of inputs to measure fair value are as follows:

- Level 1—inputs are unadjusted quoted prices for identical assets or liabilities that are available in active markets.
- Level 2—inputs are other than quoted market prices included within Level 1 that are observable for assets or liabilities, directly or indirectly.
- Level 3—inputs to the valuation methodology are unobservable.

The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. The three levels of the hierarchy and the distribution of the Company’s assets and liabilities, measured at fair value, within it were as follows:

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| | Assets and Liabilities at Fair Value as of August 3, 2013 (in thousands): | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| ASSETS: | | | | |
| Money market funds | $3,592 | $— | $— | $3,592 |
| Derivative financial instruments | — | 3,414 | — | 3,414 |
| Total assets measured at fair value | $3,592 | $3,414 | $— | $7,006 |
| LIABILITIES: | | | | |
| Derivative financial instruments | — | 1,407 | — | 1,407 |
| Total liabilities measured at fair value | $— | $1,407 | $— | $1,407 |

| | Assets and Liabilities at Fair Value as of February 2, 2013 (in thousands): | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| ASSETS: | | | | |
| Money market funds | $245,019 | $— | $— | $245,019 |
| Derivative financial instruments | — | 2,493 | — | 2,493 |
| Total assets measured at fair value | $245,019 | $2,493 | $— | $247,512 |
| LIABILITIES: | | | | |
| Derivative financial instruments | — | 9,987 | — | 9,987 |
| Total liabilities measured at fair value | $— | $9,987 | $— | $9,987 |

The level 2 assets and liabilities consist of derivative financial instruments, primarily forward foreign currency exchange contracts. The fair value of forward foreign currency exchange contracts is determined by using quoted market prices of the same or similar instruments, adjusted for counterparty risk.

Disclosures of Fair Value of Other Assets and Liabilities:

The Company’s borrowings under its Term Loan Agreement are carried at historical cost in the accompanying Consolidated Balance Sheets. For disclosure purposes, the Company estimates the fair value of borrowings under the Term Loan Agreement using discounted cash flow analysis based on market rates obtained from independent third parties for similar types of debt. The inputs used to value the borrowings under the Term Loan Agreement are considered to be Level 2 instruments. The carrying amount of borrowings outstanding under the Term Loan Agreement as of August 3, 2013 was approximately $142.5 million. The fair value of borrowings outstanding under the Term Loan Agreement as of August 3, 2013 was approximately $142.5 million. There were no borrowings outstanding under the Amended and Restated Credit Agreement or Term Loan Agreement at February 2, 2013. See Note 13, “BORROWINGS,” for further discussion on the Amended and Restated Credit Agreement and Term Loan Agreement.

## 9. INVENTORIES

During the fourth quarter of Fiscal 2012, the Company elected to change its inventory valuation method from the lower of cost or market utilizing the retail method to the lower of cost or market under the weighted-average cost method. The Company believes the new method is preferable as it is consistent with the practices of other specialty retailers and better aligns with the way the Company manages its business with a focus on the actual margin realized. See Note 3, “CHANGE IN ACCOUNTING PRINCIPLE,” for further details on the accounting change.

Inventories are principally valued at the lower of cost or market on a weighted-average cost basis. The Company writes down inventory through a lower of cost or market adjustment, the impact of which is reflected in Cost of Goods Sold on the Consolidated Statements of Operations and Comprehensive Income (Loss). This adjustment is based on management's judgment regarding future demand and market conditions and analysis of historical experience. The lower of cost or market adjustment to inventory was $9.4 million and $9.9 million at August 3, 2013 and February 2,

2013, respectively.

Additionally, as part of inventory valuation, inventory shrinkage estimates based on historical trends from actual physical inventories are made each period that reduce the inventory value for lost or stolen items. The Company performs physical inventories on a periodic basis and adjusts the shrink reserve accordingly. The shrink reserve was $11.8 million at August 3, 2013 and February 2, 2013.

The inventory balance, net of reserves, was $633.5 million and $427.0 million at August 3, 2013 and February 2, 2013, respectively.

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10. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consisted of (in thousands):

| | August 3, 2013 | February 2, 2013 |
|---|---|---|
| Property and equipment, at cost | $2,950,692 | $2,915,072 |
| Accumulated depreciation and amortization | (1,697,851) | (1,606,840) |
| Property and equipment, net | $1,252,841 | $1,308,232 |

Long-lived assets, primarily comprised of property and equipment, are reviewed periodically for impairment or whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Factors used in the evaluation include, but are not limited to, management's plans for future operations, recent operating results, and projected cash flows.

The Company has adopted Accounting Standards Codification 820-10, "Fair Value Measurements and Disclosures." Store-related assets are considered level 3 assets in the fair value hierarchy and the fair values are determined at the store level, primarily using a discounted cash flow model. The estimation of future cash flows from operating activities requires significant estimates of factors that include future sales, gross margin performance and operating expenses. In instances where the discounted cash flow analysis indicates a negative value at the store level, and impairment charges are taken, the market exit price based on historical experience is used to determine the fair value by asset type. Significant unobservable inputs of store-related assets will be disclosed when required due to impairment. There were no impairments during the twenty-six week periods ended August 3, 2013 or July 28, 2012.

In certain lease arrangements, the Company is involved in the construction of the building. If it is determined that the Company has substantially all of the risks of ownership during construction of the leased property and therefore is deemed to be the owner of the construction project, the Company records an asset for the amount of the total project costs and an amount related to the value attributed to the pre-existing, leased building in Property and Equipment, Net and the related financing obligation in Leasehold Financing Obligations on the Consolidated Balance Sheets. Once construction is complete, if it is determined that the asset does not qualify for sale-leaseback accounting treatment, the Company continues to amortize the obligation over the lease term and depreciates the asset over its useful life. The Company had $52.6 million and $55.2 million of construction project assets in Property and Equipment, Net at August 3, 2013 and February 2, 2013, respectively.

11. DEFERRED LEASE CREDITS

Deferred lease credits are derived from payments received from landlords to wholly or partially offset store construction costs and are classified between current and long-term liabilities. The amounts, which are amortized over the respective lives of the related leases, consisted of the following (in thousands):

| | August 3, 2013 | February 2, 2013 |
|---|---|---|
| Deferred lease credits | $554,340 | $550,527 |
| Amortized deferred lease credits | (359,390) | (343,076) |
| Total deferred lease credits, net | $194,950 | $207,451 |

12. INCOME TAXES

The provision for income taxes is based on the current estimate of the annual effective tax rate adjusted to reflect the impact of discrete items. The effective tax rates for the thirteen weeks ended August 3, 2013 and July 28, 2012 were 34.7% and 27.3%, respectively. The effective tax rates for the twenty-six weeks ended August 3, 2013 and July 28, 2012 were a benefit of 123.3% and 35.3%, respectively. The Fiscal 2013 year-to-date effective tax rate reflects a benefit resulting from the settlement of certain state tax audits.

Cash payments of income taxes made during the thirteen weeks ended August 3, 2013 and July 28, 2012 were approximately $7.3 million and $9.6 million, respectively. Cash payments of income taxes made during the twenty-six weeks ended August 3, 2013 and July 28, 2012 were approximately $104.3 million and $79.7 million, respectively.

13. BORROWINGS

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On July 28, 2011, the Company entered into an unsecured Amended and Restated Credit Agreement, as amended by Amendment No. 1, made as of February 24, 2012, and Amendment No. 2, made as of January 23, 2013 (the “Amended and Restated Credit Agreement”) under which up to $350 million is available. As stated in the Amended and Restated Credit Agreement, the primary purposes of the agreement are for trade and stand-by letters of credit in the ordinary course of business, as well as to fund working capital, capital expenditures, acquisitions and investments, and other general corporate purposes, including repurchases of A&F's Common Stock.

The Amended and Restated Credit Agreement has several borrowing options, including interest rates that are based on: (i) a defined Base Rate, plus a margin based on the Leverage Ratio, payable quarterly; (ii) an Adjusted Eurodollar Rate (as defined in the Amended and Restated Credit Agreement) plus a margin based on the Leverage Ratio, payable at the end of the applicable interest period for the borrowing and, for interest periods in excess of three months, on the date that is three months after the commencement of the interest period; or (iii) an Adjusted Foreign Currency Rate (as defined in the Amended and Restated Credit Agreement) plus a margin based on the Leverage Ratio, payable at the end of the applicable interest period for the borrowing and, for interest periods in excess of three months, on the date that is three months after the commencement of the interest period. The Base Rate represents a rate per annum equal to the highest of (a) PNC Bank, National Association’s then publicly announced prime rate, (b) the Federal Funds Open Rate (as defined in the Amended and Restated Credit Agreement) as then in effect plus 1/2 of 1.0% or (c) the Daily Adjusted Eurodollar Rate (as defined in the Amended and Restated Credit Agreement) as then in effect plus 1.0%.

The facility fees payable under the Amended and Restated Credit Agreement are based on the Company’s Leverage Ratio (i.e., the ratio, on a consolidated basis, of (a) the sum of total debt (excluding specified permitted foreign bank guarantees and trade letters of credit) plus 600% of forward minimum rent commitments to (b) consolidated earnings, as adjusted, before interest, taxes, depreciation, amortization and rent (“Consolidated EBITDAR”) for the trailing four-consecutive-fiscal-quarter periods. The facility fees accrue at a rate of 0.125% to 0.30% per annum based on the Leverage Ratio for the most recent determination date. The Amended and Restated Credit Agreement requires that the Leverage Ratio not be greater than 3.75 to 1.00 at the end of each testing period. The Amended and Restated Credit Agreement also requires that the “Coverage Ratio” for A&F and its subsidiaries on a consolidated basis of (i) Consolidated EBITDAR for the trailing four-consecutive-fiscal-quarter period to (ii) the sum of, without duplication, (x) net interest expense for such period, (y) scheduled payments of long-term debt due within twelve months of the date of determination and (z) the sum of minimum rent and contingent store rent, not be less than 1.75 to 1.00.

The Amended and Restated Credit Agreement will mature on July 27, 2016. The Company had no trade letters of credit outstanding at August 3, 2013 and February 2, 2013. Stand-by letters of credit outstanding under the Amended and Restated Credit Agreement on August 3, 2013 and February 2, 2013 were insignificant.

As of August 3, 2013 and February 2, 2013, the Company had no borrowings outstanding under the Amended and Restated Credit Agreement.

On February 24, 2012, the Company entered into a $300 million Term Loan Agreement. On January 23, 2013, the Company entered into Amendment No. 1 to the Term Loan Agreement (the "Term Loan Agreement") lowering its availability to $150 million. In conjunction with the Term Loan Agreement Amendment, the Company amended the Amended and Restated Credit Agreement (via Amendment No. 2 thereto) on January 23, 2013, which lowered the required Coverage Ratio to 1.75 to 1.00. On February 21, 2013, the Company elected to draw down the full amount available under the Term Loan Agreement. Repayments of $3.75 million are due on the last day of each quarter beginning May 2013, with the final repayment of $90.0 million due upon maturity at February 23, 2017. Interest on borrowings may be determined under several alternative methods including LIBOR plus a margin based upon the Company’s Leverage Ratio, as defined above. The Company was in compliance with the applicable ratio requirements and other covenants under both agreements at August 3, 2013.

As of August 3, 2013, the Company had $142.5 million in borrowings outstanding under the Term Loan Agreement. The Company had no borrowings under the Term Loan Agreement as of February 2, 2013.

Total interest expense and fees associated with borrowing agreements were $1.1 million and insignificant for the thirteen weeks ended August 3, 2013 and July 28, 2012, respectively, and $2.1 million and $1.5 million for the twenty-six weeks ended August 3, 2013 and July 28, 2012, respectively.

The terms of both the Amended and Restated Credit Agreement and Term Loan Agreement include customary events of default such as payment defaults, cross-defaults to other material indebtedness, undischarged material judgments, bankruptcy and insolvency, the occurrence of a defined change in control, or the failure to observe the negative covenants and other covenants related to the operation and conduct of the business of A&F and its subsidiaries. Upon an event of default: (i) the lenders under the Amended and Restated Credit Agreement will not be obligated to make loans or other extensions of credit and may, among other things, terminate their commitments to the Company; and (ii) the lenders under the Amended and Restated Credit Agreement and the lenders under the Term Loan Agreement may declare any then outstanding loans due and payable immediately.

14. LEASEHOLD FINANCING OBLIGATIONS

As of August 3, 2013 and February 2, 2013, the Company had $61.1 million and $63.9 million, respectively, of long-term liabilities related to leasehold financing obligations. In certain lease arrangements, the Company is involved in the construction of the building. If it is determined that the Company has substantially all of the risks of ownership during construction of the leased property and therefore is deemed to be the owner of the construction project, the Company records an asset for the amount of the total project costs and an amount related to the value attributed to the pre-existing leased building in Property and Equipment, Net and the related financing obligation in Leasehold Financing Obligations on the Consolidated Balance Sheets. Once construction is complete, if it is determined that the asset does not qualify for sale-leaseback accounting treatment, the Company continues to amortize the obligation over the lease term and depreciates the asset over its useful life. The Company does not report rent expense for the portion of the rent payment determined to be related to the assets which are determined to be owned for accounting purposes. Rather, this portion of the rental payments under the lease are recognized as a reduction of the financing obligation and interest expense.

Total interest expense related to landlord financing obligations was $1.6 million and $1.7 million for the thirteen weeks ended August 3, 2013 and July 28, 2012, respectively. Total interest expense related to landlord financing obligations was $3.3 million for each of the twenty-six weeks ended August 3, 2013 and July 28, 2012.

15. DERIVATIVES

The Company is exposed to risks associated with changes in foreign currency exchange rates and uses derivatives, primarily forward contracts, to manage the financial impacts of these exposures. The Company does not use forward contracts to engage in currency speculation and does not enter into derivative financial instruments for trading purposes.

In order to qualify for hedge accounting treatment, a derivative must be considered highly effective at offsetting changes in either the hedged item’s cash flows or fair value. Additionally, the hedge relationship must be documented to include the risk management objective and strategy, the hedging instrument, the hedged item, the risk exposure, and how hedge effectiveness will be assessed prospectively and retrospectively. The extent to which a hedging instrument has been, and is expected to continue to be, effective at offsetting changes in fair value or cash flows is assessed and documented at least quarterly. Any hedge ineffectiveness is reported in current period earnings and hedge accounting is discontinued if it is determined that the derivative is not highly effective.

For derivatives that either do not qualify for hedge accounting or are not designated as hedges, all changes in the fair value of the derivative are recognized in earnings. For qualifying cash flow hedges, the effective portion of the change in the fair value of the derivative is recorded as a component of Other Comprehensive Income (Loss) (“OCI”) and recognized in earnings when the hedged cash flows affect earnings. The ineffective portion of the derivative gain or loss, as well as changes in the fair value of the derivative’s time value are recognized in current period earnings. The effectiveness of the hedge is assessed based on changes in the fair value attributable to changes in spot prices. The changes in the fair value of the derivative contract related to the changes in the difference between the spot price and the forward price are excluded from the assessment of hedge effectiveness and are also recognized in current period earnings. If the cash flow hedge relationship is terminated, the derivative gains or losses that are deferred in OCI will be recognized in earnings when the hedged cash flows occur. However, for cash flow hedges that are terminated because the forecasted transaction is not expected to occur in the original specified time period, or a two-month period thereafter, the derivative gains or losses are immediately recognized in earnings.

The Company uses derivative instruments, primarily forward contracts designated as cash flow hedges, to hedge the foreign currency exposure associated with forecasted foreign-currency-denominated intercompany inventory sales to foreign subsidiaries and the related settlement of the foreign-currency-denominated intercompany receivable. Fluctuations in exchange rates will either increase or decrease the Company’s U.S. dollar equivalent cash flows and affect the Company’s U.S. dollar earnings. Gains or losses on the foreign currency exchange forward contracts that are used to hedge these exposures are expected to partially offset this variability. Foreign currency exchange forward

contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed-upon settlement date. As of August 3, 2013, the typical length of time over which forecasted foreign-currency-denominated intercompany inventory sales were hedged was 12 months. The sale of the inventory to the Company's customers will result in the reclassification of related derivative gains and losses that are reported in Accumulated Other Comprehensive Income (Loss). Substantially all of the remaining unrealized gains or losses related to foreign-currency-denominated intercompany inventory sales that have occurred as of August 3, 2013 will be recognized in cost of goods sold over the following two months at the values at the date the inventory was sold to the respective subsidiary.

The Company presents its derivative assets and derivative liabilities at their gross fair values on the Consolidated Balance Sheets. However, our master netting and other similar arrangements allow net settlements under certain conditions.

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As of August 3, 2013, the Company had outstanding the following foreign currency exchange forward contracts that were entered into to hedge either a portion, or all, of forecasted foreign-currency-denominated intercompany inventory sales, the resulting settlement of the foreign-currency-denominated intercompany accounts receivable, or both:

| | Notional Amount[1] |
|---|---|
| Euro | $104,456 |
| British Pound | $43,808 |
| Canadian Dollar | $12,428 |

[1] Amounts are reported in thousands and in U.S. Dollar equivalent as of August 3, 2013.

The Company also uses foreign currency exchange forward contracts to hedge certain foreign-currency-denominated net monetary assets/liabilities. Examples of monetary assets/liabilities include cash balances, receivables and payables. Fluctuations in exchange rates result in transaction gains/(losses) being recorded in earnings as U.S. GAAP requires that monetary assets/liabilities be remeasured at the spot exchange rate at quarter-end or upon settlement. The Company has chosen not to apply hedge accounting to these instruments because there are no differences in the timing of gain or loss recognition on the hedging instrument and the hedged item.

As of August 3, 2013, the Company had outstanding the following foreign currency forward contracts that were entered into to hedge foreign currency denominated net monetary assets/liabilities:

| | Notional Amount[1] |
|---|---|
| Euro | $29,662 |
| Swiss Franc | $17,098 |

[1] Amounts are reported in thousands and in U.S. Dollar equivalent as of August 3, 2013.

The location and amounts of derivative fair values on the Consolidated Balance Sheets as of August 3, 2013 and February 2, 2013 were as follows:

| | Balance Sheet | Asset Derivatives | | Balance Sheet | Liability Derivatives | |
|---|---|---|---|---|---|---|
| (in thousands): | Location | August 3, 2013 | February 2, 2013 | Location | August 3, 2013 | February 2, 2013 |
| Derivatives Designated as Hedging Instruments: | | | | | | |
| Foreign Currency Exchange Forward Contracts | Other Current Assets | $3,285 | $1,967 | Other Liabilities | $1,176 | $9,270 |
| Derivatives Not Designated as Hedging Instruments: | | | | | | |
| Foreign Currency Exchange Forward Contracts | Other Current Assets | $129 | $526 | Other Liabilities | $231 | $717 |
| Total | Other Current Assets | $3,414 | $2,493 | Other Liabilities | $1,407 | $9,987 |

Refer to Note 8, "FAIR VALUE," for further discussion of the determination of the fair value of derivatives.

The location and amounts of derivative gains and losses for the thirteen and twenty-six weeks ended August 3, 2013 and July 28, 2012 on the Consolidated Statements of Operations and Comprehensive Income (Loss) were as follows:

| | | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|---|
| | | August 3, 2013 | July 28, 2012 | August 3, 2013 | July 28, 2012 |
| (in thousands): | Location | Gain/(Loss) | Gain/(Loss) | Gain/(Loss) | Gain/(Loss) |
| Derivatives not designated as Hedging Instruments: | | | | | |
| Foreign Exchange Forward Contracts | Other Operating (Income) Expense, Net | $(44) | $3,617 | $1,260 | $4,457 |

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| (in thousands): | Amount of Gain (Loss) Recognized in OCI on Derivative Contracts (Effective Portion) (a) | | Location of Gain (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) | Amount of Gain (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) (b) | | Location of Gain (Loss) Recognized in Earnings on Derivative Contracts (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of Gain (Loss) Recognized in Earnings on Derivative Contracts (Ineffective Portion and Amount Excluded from Effectiveness Testing) (c) | |
|---|---|---|---|---|---|---|---|---|
| | Thirteen Weeks Ended | | | | | | | |
| (in thousands): | August 3, 2013 | July 28, 2012 | | August 3, 2013 | July 28, 2012 | | August 3, 2013 | July 28, 2012 |
| Derivatives in Cash Flow Hedging Relationships | | | | | | | | |
| Foreign Currency Exchange Forward Contracts | $1,493 | $13,939 | Cost of Goods Sold | $ 952 | $ 3,984 | Other Operating (Income) Expense, Net | $ 79 | $ (98 ) |
| | Twenty-Six Weeks Ended | | | | | | | |
| (in thousands): | August 3, 2013 | July 28, 2012 | | August 3, 2013 | July 28, 2012 | | August 3, 2013 | July 28, 2012 |
| Derivatives in Cash Flow Hedging Relationships | | | | | | | | |
| Foreign Currency Exchange Forward Contracts | $11,262 | $10,713 | Cost of Goods Sold | $ 223 | $ 8,839 | Other Operating (Income) Expense, Net | $ 176 | $ (212 ) |

(a) The amount represents the change in fair value of derivative contracts due to changes in spot rates.

(b) The amount represents reclassification from OCI into earnings that occurs when the hedged item affects earnings, which is when merchandise is sold to the Company’s customers.

(c) The amount represents the change in fair value of derivative contracts due to changes in the difference between the spot price and forward price that is excluded from the assessment of hedge effectiveness and, therefore, recognized in earnings.

16. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The activity in accumulated other comprehensive income (loss), net of tax, for the thirteen and twenty-six weeks ended August 3, 2013 is as follows (in thousands):

| | Thirteen Weeks Ended August 3, 2013 | | |
|---|---|---|---|
| | Derivative Financial Instruments | Foreign Currency Translation | Total |

| | | | |
|---|---|---|---|
| Beginning balance at May 4, 2013 | 2,275 | (23,328) | (21,053) |
| Other comprehensive income (loss) before reclassifications | 1,194 | (2,229) | (1,035) |
| Reclassified from accumulated other comprehensive income (loss) [1] | (830) | — | (830) |
| Net current-period other comprehensive income (loss) | 364 | (2,229) | (1,865) |
| Ending balance at August 3, 2013 | 2,639 | (25,557) | (22,918) |

[1] For the thirteen weeks ended August 3, 2013, the gain or loss was reclassified from Other Comprehensive Income (Loss) to the Cost of Goods Sold line item on the Consolidated Statement of Operations and Comprehensive Income (Loss).

| | Twenty-Six Weeks Ended August 3, 2013 | | |
|---|---|---|---|
| | Derivative Financial Instruments | Foreign Currency Translation | Total |
| Beginning balance at February 2, 2013 | (7,220) | (6,068) | (13,288) |
| Other comprehensive income (loss) before reclassifications | 10,019 | (19,489) | (9,470) |
| Reclassified from accumulated other comprehensive income (loss) [1] | (160) | — | (160) |
| Net current-period other comprehensive income (loss) | 9,859 | (19,489) | (9,630) |
| Ending balance at August 3, 2013 | 2,639 | (25,557) | (22,918) |

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[1] For the twenty-six weeks ended August 3, 2013, the gain or loss was reclassified from Other Comprehensive Income (Loss) to the Cost of Goods Sold line item on the Consolidated Statement of Operations and Comprehensive Income (Loss).

## 17. CONTINGENCIES

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

## 18. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the FASB issued ASU 2013-02, which amends Accounting Standards Codification Topic 220, "Comprehensive Income." The ASU contains new requirements related to the presentation and disclosure of items that are reclassified out of other comprehensive income. The new requirements will give financial statement users a more comprehensive view of items that are reclassified out of other comprehensive income. ASU 2013-02 is effective for the Company's fiscal year and interim periods beginning after December 15, 2012, and is to be applied prospectively. The adoption did not have a material effect on the Company's consolidated financial statements.

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Report of Independent Registered Public Accounting Firm
To the Board of Directors and
Stockholders of Abercrombie & Fitch Co.:

We have reviewed the accompanying consolidated balance sheet of Abercrombie & Fitch Co. and its subsidiaries as of August 3, 2013 and the related consolidated statements of operations and comprehensive income (loss) for the thirteen and twenty-six week periods ended August 3, 2013 and July 28, 2012 and the consolidated statements of cash flows for the twenty-six week periods ended August 3, 2013 and July 28, 2012. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of February 2, 2013, and the related consolidated statements of operations and comprehensive income, of stockholders' equity and of cash flows for the year then ended (not presented herein), and in our report dated April 2, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of February 2, 2013, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP
Columbus, Ohio
September 9, 2013

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

### OVERVIEW

The Company's fiscal year ends on the Saturday closest to January 31. Fiscal years are designated in the consolidated financial statements and notes by the calendar year in which the fiscal year commences. All references herein to "Fiscal 2013" represent the 52-week fiscal year that will end on February 1, 2014, and to "Fiscal 2012" represent the 53-week fiscal year that ended February 2, 2013.

The Company is a specialty retailer that operates stores in North America, Europe, Asia and Australia and direct-to-consumer operations in North America and Europe that service its brands throughout the world. The Company sells casual sportswear apparel, including knit tops and woven shirts, graphic t-shirts, fleece, jeans and woven pants, shorts, sweaters, outerwear, personal care products and accessories for men, women and kids under the Abercrombie & Fitch, abercrombie kids and Hollister brands. In addition, the Company operates stores and direct-to-consumer operations under the Gilly Hicks brand offering bras, underwear, personal care products, sleepwear and at-home products for girls.

Abercrombie & Fitch is rooted in East Coast traditions and Ivy League heritage, the essence of privilege and casual luxury. Abercrombie & Fitch is a combination of classic and sexy creating an atmosphere that is confident and just a bit provocative. abercrombie kids directly follows in the footsteps of its older sibling, Abercrombie & Fitch. abercrombie kids has an energetic attitude and is popular, wholesome and athletic – the signature of All-American cool. Hollister is young, spirited, with a sense of humor and brings Southern California to the world. Gilly Hicks is the cheeky cousin of Abercrombie & Fitch, inspired by the free spirit of Sydney, Australia. Gilly Hicks is classic and vibrant, always confident and is the All-American brand with a Sydney sensibility.

### RESULTS OF OPERATIONS

During the second quarter of Fiscal 2013, net sales decreased 1% to $945.7 million from $951.4 million for the second quarter of Fiscal 2012. The gross profit rate for the second quarter of Fiscal 2013 was 63.9% compared to 62.3% for the second quarter of Fiscal 2012. Operating income was $19.2 million for the second quarter of Fiscal 2013 compared to $25.0 million for the second quarter of Fiscal 2012. The Company had net income of $11.4 million and net income per diluted share of $0.14 for the second quarter of Fiscal 2013 compared to net income of $17.1 million and net income per diluted share of $0.20 for the second quarter of Fiscal 2012. Net income per diluted share for the thirteen weeks ended August 3, 2013 includes $0.02 in charges related to the implementation of the on-going profit improvement initiative.

During the Fiscal 2013 year-to-date period, net sales decreased 5% to $1.784 billion from $1.873 billion for the comparable period of Fiscal 2012. The gross profit rate for the Fiscal 2013 year-to-date period was 64.9% compared to 60.5% for the comparable period of Fiscal 2012. Operating income was $5.2 million for the Fiscal 2013 year-to-date period compared to an operating loss of $3.9 million for the comparable period of Fiscal 2012. The Company had net income of $4.2 million and net income per diluted share of $0.05 for the Fiscal 2013 year-to-date period compared to a net loss of $4.3 million and a net loss per basic and diluted share of $0.05 for the comparable period of Fiscal 2012.

As of August 3, 2013, the Company had $335.0 million in cash and equivalents and $142.5 million in borrowings outstanding under the Term Loan Agreement. Net cash used for operating activities was $208.7 million for the twenty-six weeks ended August 3, 2013 primarily to acquire inventory. The Company also used cash of $81.2 million for capital expenditures, $115.8 million to repurchase approximately 2.4 million shares of A&F's Common Stock and $31.4 million for dividends paid during the twenty-six weeks ended August 3, 2013.

Due to the seasonal nature of the retail apparel industry, the results of operations for any current period are not necessarily indicative of the results expected for the full fiscal year. The seasonality of the Company's operations may also lead to significant fluctuations in certain asset and liability accounts.

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The following data represents the amounts shown in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss) for the thirteen and twenty-six week periods ended August 3, 2013 and July 28, 2012, expressed as a percentage of net sales:

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| | August 3, 2013 | July 28, 2012 (Restated) | August 3, 2013 | July 28, 2012 (Restated) |
| NET SALES | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Cost of Goods Sold | 36.1 % | 37.7 % | 35.1 % | 39.5 % |
| GROSS PROFIT | 63.9 % | 62.3 % | 64.9 % | 60.5 % |
| Stores and Distribution Expense | 49.9 % | 48.1 % | 51.6 % | 48.8 % |
| Marketing, General and Administrative Expense | 12.4 % | 11.7 % | 13.2 % | 12.2 % |
| Other Operating Income, Net | (0.5 )% | (0.2 )% | (0.3 )% | (0.2 )% |
| OPERATING INCOME (LOSS) | 2.0 % | 2.6 % | 0.3 % | (0.2 )% |
| Interest Expense, Net | 0.2 % | 0.2 % | 0.2 % | 0.1 % |
| INCOME (LOSS) BEFORE TAXES | 1.8 % | 2.5 % | 0.1 % | (0.4 )% |
| Tax Expense (Benefit) | 0.6 % | 0.7 % | (0.1 )% | (0.1 )% |
| NET INCOME (LOSS) | 1.2 % | 1.8 % | 0.2 % | (0.2 )% |

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Financial Summary

The following summarized financial and statistical data compare the thirteen and twenty-six week periods ended August 3, 2013 to the thirteen and twenty-six week periods ended July 28, 2012:

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|---|---|---|---|---|
| | August 3, 2013 | July 28, 2012 | August 3, 2013 | July 28, 2012 |
| Net sales by segment (millions) | $945.7 | $951.4 | $1,784.5 | $1,872.6 |
| U.S. Stores | $504.7 | $562.1 | $953.3 | $1,106.0 |
| International Stores | $286.7 | $261.6 | $544.2 | $490.7 |
| Direct-to-Consumer | $154.3 | $127.7 | $287.0 | $275.9 |
| Net sales as a % of total sales | | | | |
| U.S. Stores | 54 % | 59 % | 53 % | 59 % |
| International Stores | 30 % | 28 % | 31 % | 26 % |
| Direct-to-Consumer | 16 % | 13 % | 16 % | 15 % |
| Net sales by brand (millions) | $945.7 | $951.4 | $1,784.5 | $1,872.6 |
| Abercrombie & Fitch | $356.6 | $362.5 | $681.6 | $722.9 |
| abercrombie | $76.0 | $76.3 | $149.0 | $154.0 |
| Hollister | $488.5 | $485.6 | $909.7 | $949.3 |
| Gilly Hicks** | $24.6 | $27.0 | $44.2 | $46.5 |
| Increase (decrease) in comparable sales* | (10 )% | (6 )% | (12 )% | (2 )% |
| Abercrombie & Fitch | (6 )% | (8 )% | (10 )% | (4 )% |
| abercrombie | (3 )% | (4 )% | (4 )% | (4 )% |
| Hollister | (13 )% | (5 )% | (15 )% | (2 )% |
| U.S. | (11 )% | (3 )% | (13 )% | 0 % |
| International | (7 )% | (16 )% | (11 )% | (12 )% |

* A store is included in comparable sales when it has been open as the same brand 12 months or more and its square footage has not been expanded or reduced by more than 20% within the past year. Comparable sales include comparable direct-to-consumer sales. Due to the fifty-third week in Fiscal 2012, second quarter comparable sales are compared to the thirteen and twenty-six week periods ended August 4, 2012.

** Net sales for the thirteen and twenty-six week periods ended August 3, 2013 and July 28, 2012, reflect the activity of 28 and 25 stores, respectively.

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## CURRENT TRENDS AND OUTLOOK

Our results for the second quarter of Fiscal 2013 reflect a six cent decline in earnings per share versus the comparable period last year, reflective of a decline in comparable sales partially offset by new store sales and gross margin rate improvement.

Sales for the quarter were lower than expected due to weaker traffic, particularly in July, and continued softness in the female business. While we believe that much of the weakness in sales is macro driven, we are working hard to improve the trend for the back half of the year. In addition, we are pleased by strong growth in our direct-to-consumer business and continued strong sales growth in China.

With regard to gross margin, despite a highly promotional environment, we generated a healthy margin rate improvement. The increase in gross profit was primarily driven by lower product costs. Going forward, we intend to continue our ongoing initiative to identify opportunities to increase our average unit retail, particularly in the U.S. stores and U.S. direct-to-consumer operations, which should also help improve our gross margins over time.

We continue to make progress on our profit improvement initiative, which includes a detailed review of our operational processes. The initiative is divided into seven work-streams covering general non-merchandise expense, marketing, supply chain, merchandise planning and allocation, home office, store operations, and real estate and construction. Based on our progress thus far, we now expect savings from these initiatives to exceed $100 million on an annualized basis. We plan to conduct in-store pilot studies over the next few months which will provide insight into additional savings opportunities.

Beyond the two initiatives above, we are nearing completion of our long-term strategic review and are confident that this will provide us with a clear roadmap for sustainable and meaningful improvements in our operating margin and return on invested capital.

The Company's third quarter diluted earnings per share projection of $0.40 to $0.45 is based on an assumption that third quarter comparable sales will be down slightly more than the second quarter percentage decline. Due to the lack of visibility given the recent traffic trends, we are not providing guidance beyond the third quarter. Our projected diluted earnings per share guidance does not include the impact of any potential impairment and store closure charges or additional charges related to the implementation of the profit improvement initiative.

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## SECOND QUARTER AND YEAR-TO-DATE RESULTS

### Net Sales

Net sales for the second quarter of Fiscal 2013 were $945.7 million, a decrease of 1% from net sales of $951.4 million during the second quarter of Fiscal 2012. The net sales decrease was attributable to a 10% decrease in total comparable sales partially off-set by new international stores and the impact of the calendar shift, that resulted from the 53-week fiscal year in Fiscal 2012. Including direct-to-consumer sales, U.S. sales decreased 8% to $597.3 million and international sales increased 15% to $348.4 million. The impact of changes in foreign currency benefited sales by approximately $3.4 million for the thirteen weeks ended August 3, 2013 (based on converting prior year sales at current year exchange rates).

Year-to-date net sales in Fiscal 2013 were $1.784 billion, a decrease of 5% from net sales of $1.873 billion during the comparable period in Fiscal 2012. The net sales decrease was attributable to a 12% decrease in total comparable sales partially off-set by new international stores and the impact of the calendar shift. Including direct-to-consumer sales, U.S. sales decreased 12% to $1.132 billion and international sales increased 12% to $652.3 million. The impact of changes in foreign currency adversely affected sales by approximately $1.5 million for the twenty-six weeks ended August 3, 2013.

By brand, comparable sales for the second quarter of Fiscal 2013, including direct-to-consumer, were as follows: Abercrombie & Fitch decreased 6%, abercrombie kids decreased 3% and Hollister decreased 13%. Across the brands, the male business performed significantly better than the female business.

Total comparable sales for the quarter, including direct-to-consumer sales, decreased 10% with comparable U.S. sales decreasing 11% and international decreasing 7%. Within the quarter, comparable sales were weakest in July.

Due to the 53rd week in Fiscal 2012, second quarter comparable sales are compared to the thirteen and twenty-six week period ended August 4, 2012. The thirteen-week period ended August 4, 2012 included approximately $44 million of additional sales versus the reported thirteen-week period ended July 28, 2012.

Direct-to-consumer sales, including shipping and handling revenue, for the second quarter of Fiscal 2013 were $154.3 million, an increase of 21% from Fiscal 2012 second quarter direct-to-consumer sales of $127.7 million. The direct-to-consumer sales increase was primarily driven by an increase in the international business. The direct-to-consumer business, including shipping and handling revenue, accounted for 16.3% of total net sales in the second quarter of Fiscal 2013 compared to 13.4% in the second quarter of Fiscal 2012.

Direct-to-consumer sales, including shipping and handling revenue, for the Fiscal 2013 year-to-date period were $287.0 million, an increase of 4% from Fiscal 2012 year-to-date direct-to-consumer sales of $275.9 million. The direct-to-consumer business, including shipping and handling revenue, accounted for 16.1% of total net sales for the year-to-date period of Fiscal 2013 compared to 14.7% in the Fiscal 2012 year-to-date period.

### Gross Profit

Gross profit for the second quarter of Fiscal 2013 was $604.1 million compared to $592.5 million for the comparable period in Fiscal 2012. The gross profit rate (gross profit divided by net sales) for the second quarter of Fiscal 2013 was 63.9%, up 160 basis points from the second quarter of Fiscal 2012 rate of 62.3%.

The increase in the gross profit rate for the second quarter was primarily driven by a decrease in product costs and product related costs.

Year-to-date gross profit for Fiscal 2013 was $1.157 billion compared to $1.134 billion for the comparable period in Fiscal 2012. The gross profit rate for the year-to-date period of Fiscal 2013 was 64.9%, up 440 basis points from the year-to-date period of Fiscal 2012 rate of 60.5%.

The increase in the gross profit rate for the year-to-date period was primarily driven by a selling mix benefit and a decrease in product costs.

### Stores and Distribution Expense

Stores and distribution expense for the second quarter of Fiscal 2013 was $471.7 million compared to $458.1 million for the comparable period in Fiscal 2012. The stores and distribution expense rate (stores and distribution expense divided by net sales) for the second quarter of Fiscal 2013 was 49.9% compared to 48.1% in the second quarter of

Fiscal 2012. Included in stores and distribution expense for the second quarter of Fiscal 2013 is a reduction of expense of $4.5 million related to prior periods.



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Stores and distribution expense for the Fiscal 2013 year-to-date period was $920.8 million compared to $913.8 million for the comparable period in Fiscal 2012. The stores and distribution expense rate for the year-to-date period of Fiscal 2013 was 51.6% compared to 48.8% for the Fiscal 2012 year-to-date period. Included in stores and distribution expense for the year-to-date period of Fiscal 2013 is a reduction of expense of $4.4 million related to prior periods. Expense savings in store payroll, repairs and maintenance and other stores and distribution expense, enacted in response to sales trends, were more than offset by the deleveraging effect of negative comparable sales during the second quarter and year-to-date periods of Fiscal 2013.

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 $19.4 million for the thirteen weeks ended August 3, 2013 compared to $14.7 million for the thirteen weeks ended July 28, 2012 and $34.2 million for the twenty-six weeks ended August 3, 2013 compared to $31.2 million for the twenty-six weeks ended July 28, 2012. These amounts are recorded in Stores and Distribution Expense on the Consolidated Statements of Operations and Comprehensive Income (Loss).

Handling costs, including costs incurred to store, move and prepare the products for shipment to stores were $14.4 million for the thirteen weeks ended August 3, 2013 compared to $13.8 million for the thirteen weeks ended July 28, 2012 and $26.0 million for the twenty-six weeks ended August 3, 2013 compared to $29.1 million for the twenty-six weeks ended July 28, 2012. These amounts are recorded in Stores and Distribution Expense on the Consolidated Statements of Operations and Comprehensive Income (Loss).

Marketing, General and Administrative Expense

Marketing, general and administrative expense during the second quarter of Fiscal 2013 increased 6% to $117.6 million compared to $111.3 million during the same period in Fiscal 2012.

The increase in marketing, general and administrative expense for the second quarter was primarily driven by increases in consulting and other services. The second quarter includes $2.6 million in charges related to the implementation of the on-going profit improvement initiative.

Marketing, general and administrative expense during the Fiscal 2013 year-to-date period increased 4% to $236.4 million compared to $228.2 million during the same period in Fiscal 2012.

The increase in marketing, general and administrative expense for the year-to-date period was primarily driven by increases in consulting and other services, including charges related to the implementation of the profit improvement initiative and information technology, partially offset by savings in travel and marketing.

Other Operating Income, Net

Second quarter other operating income, net for Fiscal 2013 was $4.4 million compared to other operating income, net, of $1.9 million for the second quarter of Fiscal 2012. The increase is due primarily to insurance proceeds included in the Fiscal 2013 amounts.

Year-to-date other operating income, net for Fiscal 2013 was $5.2 million compared to $4.5 million for the year-to-date period of Fiscal 2012.

Operating Income (Loss)

Operating income for the second quarter of Fiscal 2013 was $19.2 million, a decrease of 23% from operating income of $25.0 million during the second quarter of Fiscal 2012. The reduction in operating income was primarily driven by the deleveraging effect of negative comparable store sales, partially offset by new international stores, direct-to-consumer operations and expense reductions.

Year-to-date operating income in Fiscal 2013 was $5.2 million, compared to an operating loss of $3.9 million during the comparable period of Fiscal 2012. The increase in operating income was driven by new international stores, direct-to-consumer operations, gross margin improvement and expense reductions, partially offset by the deleveraging effect of negative comparable store sales.

Interest Expense, Net and Tax Expense (Benefit)

Second quarter interest expense was $2.7 million in Fiscal 2013, offset by interest income of $1.0 million, compared to interest expense of $2.6 million, offset by interest income of $1.0 million in the second quarter of Fiscal 2012.

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Year-to-date interest expense was $5.5 million in Fiscal 2013, offset by interest income of $2.1 million, compared to interest expense of $4.7 million in Fiscal 2012, offset by interest income of $2.1 million.
The effective tax rate for the second quarter of Fiscal 2013 was 34.7% compared to 27.3% for the Fiscal 2012 comparable period.
The effective tax rate for the year-to-date period of Fiscal 2013 was a benefit of 123.3% compared to a benefit of 35.3% for the Fiscal 2012 comparable period.
The Fiscal 2013 effective tax rate reflects a benefit resulting from the settlement of state income tax audits.
On a full-year basis, the Company expects the effective tax rate in the mid 30's. The rate remains sensitive to the domestic/international profit mix, including the effect of foreign currencies.
As of August 3, 2013, there were approximately $22.2 million of net deferred tax assets in Japan. The realization of the net deferred tax assets is dependent upon the future generation of sufficient taxable profits in Japan. While the Company believes it is more likely than not that the net deferred tax assets will be realized, it is not certain. Should circumstances change, the net deferred tax assets not currently subject to a valuation allowance may become subject to one in the future. Additional valuation allowances would result in additional tax expense.
Net Income (Loss) and Net Income (Loss) per Share
Net income for the second quarter of Fiscal 2013 was $11.4 million compared to $17.1 million for the second quarter of Fiscal 2012. Net income per diluted share for the second quarter of Fiscal 2013 was $0.14 compared to $0.20 for the same period of Fiscal 2012.
Net income for the year-to-date period of Fiscal 2013 was $4.2 million compared to a net loss of $4.3 million for the year-to-date period of Fiscal 2012. Net income per diluted share for the year-to-date period of Fiscal 2013 was $0.05 compared to a net loss per basic and diluted share of $0.05 for the same period in Fiscal 2012.

FINANCIAL CONDITION
Liquidity and Capital Resources
Historical Sources and Uses of Cash
Seasonality of Cash Flows
The Company’s business has two principal selling seasons: the Spring season which includes the first and second fiscal quarters (“Spring”) and the Fall season which includes the third and fourth fiscal quarters ("Fall"). As is typical in the apparel industry, the Company experiences its greatest sales activity during the Fall season due to Back-to-School and Holiday sales periods, particularly in the U.S. The Company relies on excess operating cash flows, which are largely generated in the Fall season, to fund operating expenses throughout the year and to reinvest in the business to support future growth. The Company also has a credit facility available as a source of additional funding.
Credit Agreements
On July 28, 2011, the Company entered into an unsecured amended and restated credit agreement (the “Amended and Restated Credit Agreement”) under which up to $350 million is available. The Company had no borrowings outstanding under the Amended and Restated Credit Agreement on August 3, 2013 or February 2, 2013.
On February 24, 2012, the Company entered into a $300 million Term Loan Agreement. On January 23, 2013, the Company amended both the Amended and Restated Credit Agreement and Term Loan Agreement to reduce the amount available for borrowing under the Term Loan Agreement to $150 million and lower the applicable Coverage Ratio to 1.75 to 1.00. The Company had $142.5 million in borrowings outstanding under the Term Loan Agreement on August 3, 2013. Repayments of $3.75 million are due on the last day of each quarter beginning May 2013, with the final repayment of $90.0 million due upon maturity at February 23, 2017. The Company had no borrowings outstanding under the Term Loan Agreement as of February 2, 2013.
The Amended and Restated Credit Agreement and the Term Loan Agreement are described in Note 13, “BORROWINGS,” of the Notes to Consolidated Financial Statements.
The Amended and Restated Credit Agreement and the Term Loan Agreement have a Leverage Ratio covenant and a Coverage Ratio financial covenant. The Company was in compliance with the applicable ratio requirements and other covenants at August 3, 2013.

Stand-by letters of credit outstanding on August 3, 2013 and February 2, 2013 were insignificant.

Operating Activities

Net cash used for operating activities was $208.7 million for the twenty-six weeks ended August 3, 2013 compared to $24.3 million for the twenty-six weeks ended July 28, 2012. The increase in cash used for operating activities was primarily to acquire inventory. Inventory decreased 9% from $694.2 million in the second quarter of Fiscal 2012 to $633.5 million at the end of the second quarter of Fiscal 2013.

Investing Activities

Cash outflows for investing activities for the twenty-six week periods ended August 3, 2013 and July 28, 2012 were used primarily for capital expenditures related to new store construction and information technology investments. Cash outflows for capital expenditures were lower in Fiscal 2013 than in Fiscal 2012, due to fewer new international stores, as well as a decrease in home office, distribution centers and information technology infrastructure projects. Cash inflows from investing activities for the twenty-six weeks ended July 28, 2012 included proceeds from sales of auction rate marketable securities.

Financing Activities

For the twenty-six week periods ended August 3, 2013 and July 28, 2012, cash outflows for financing activities consisted primarily of the repurchase of A&F's Common Stock and the payment of dividends. For the twenty-six weeks ended August 3, 2013, cash inflows from financing activities consisted primarily of proceeds from borrowings under the Term Loan Agreement.

During the twenty-six weeks ended August 3, 2013, A&F repurchased approximately 2.4 million shares of A&F's Common Stock in the open market with a market value of approximately $115.8 million. During the twenty-six weeks ended July 28, 2012, A&F repurchased approximately 3.3 million shares of A&F's Common Stock in the open market with a market value of approximately $161.2 million. Repurchases of A&F's Common Stock were made pursuant to the A&F Board of Directors' authorizations.

As of August 3, 2013, A&F had approximately 16.3 million remaining shares available for repurchase as part of the A&F Board of Directors' previously approved authorizations.

Future Cash Requirements and Sources of Cash

Over the next twelve months, the Company's primary cash requirements will be to fund operating activities, including the acquisition of inventory, and obligations related to compensation, rent, taxes and other operating activities, as well as to fund capital expenditures and quarterly dividends to stockholders subject to the A&F Board of Directors' approval. The Company has availability under the Amended and Restated Credit Agreement as a source of additional funding.

Subject to suitable market conditions and available liquidity, A&F expects to continue to repurchase shares of its Common Stock. The Company anticipates funding these cash requirements with available cash and, as appropriate, borrowings under the Amended and Restated Credit Agreement.

The Company is not dependent on dividends from its foreign subsidiaries to fund its U.S. operations or make distributions to A&F's shareholders. Unremitted earnings from foreign subsidiaries, which are considered to be invested indefinitely, would become subject to income tax if they were remitted as dividends or were lent to A&F or a U.S. affiliate.

Off-Balance Sheet Arrangements

As of August 3, 2013, the Company did not have any off-balance sheet arrangements.

Contractual Obligations

The Company's contractual obligations consist primarily of operating leases, purchase orders for merchandise inventory, unrecognized tax benefits, certain retirement obligations, lease deposits and other agreements to purchase goods and services that are legally binding and that require minimum quantities to be purchased. These contractual obligations impact the Company's short- and long-term liquidity and capital resource needs. During the twenty-six weeks ended August 3, 2013, there were no material changes in the contractual obligations as of February 2, 2013, with the exception of those obligations which occurred in the normal course of business (primarily changes in the Company's merchandise inventory-related purchases and lease obligations, which fluctuate throughout the year as a

result of the seasonal nature of the Company’s operations) and the borrowings under the Term Loan Agreement.

Store Activity

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During the second quarter ending August 3, 2013, the Company opened four international Hollister chain stores, including two stores in China, and a combined Abercrombie & Fitch and abercrombie kids outlet store in each of the U.K and U.S.

The Company continues to anticipate opening an Abercrombie & Fitch flagship store in Seoul, as well as approximately 20 international Hollister chain stores throughout the year. In addition, the Company will open a small number of international and U.S. outlet stores during the year. The planned opening of an Abercrombie & Fitch flagship store in Shanghai is now expected in the spring of 2014.

The Company expects total capital expenditures for Fiscal 2013 to be approximately $200 million, predominately related to new stores and investments in IT initiatives. Capital expenditures totaled $81.2 million and $200.0 million for the twenty-six week periods ended August 3, 2013 and July 28, 2012, respectively.

During the twenty-six weeks ended August 3, 2013, the Company closed seven U.S. and one Canadian store. For Fiscal 2013, the Company anticipates closing a total of approximately 40-50 U.S. stores, inclusive of the seven which were closed in the first half of Fiscal 2013. The remaining store closures are expected to be through natural lease expirations and will occur at the end of the fiscal year.

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Second Quarter Store Count and Gross Square Feet

Store count and gross square footage by brand for the thirteen weeks ended August 3, 2013 and July 28, 2012, respectively, were as follows:

| Store Activity | Abercrombie & Fitch | abercrombie | Hollister | Gilly Hicks | Total |
|---|---|---|---|---|---|
| U.S. Stores | | | | | |
| May 4, 2013 | 264 | 144 | 481 | 20 | 909 |
| New | 1 | 1 | — | — | 2 |
| Closed | — | (1) | (3) | — | (4) |
| August 3, 2013 | 265 | 144 | 478 | 20 | 907 |
| Gross Square Feet at August 3, 2013 | 2,367 | 675 | 3,260 | 169 | 6,471 |
| International Stores | | | | | |
| May 4, 2013 | 19 | 5 | 112 | 8 | 144 |
| New | 1 | 1 | 4 | — | 6 |
| Closed | — | — | — | — | — |
| August 3, 2013 | 20 | 6 | 116 | 8 | 150 |
| Gross Square Feet at August 3, 2013 | 408 | 65 | 1,013 | 49 | 1,535 |
| Total Stores | 285 | 150 | 594 | 28 | 1,057 |
| Total Gross Square Feet at August 3, 2013 | 2,775 | 740 | 4,273 | 218 | 8,006 |

| Store Activity | Abercrombie & Fitch | abercrombie | Hollister | Gilly Hicks | Total |
|---|---|---|---|---|---|
| U.S. Stores | | | | | |
| April 28, 2012 | 279 | 154 | 491 | 18 | 942 |
| New | — | — | — | — | — |
| Closed | (1) | — | (5) | — | (6) |
| July 28, 2012 | 278 | 154 | 486 | 18 | 936 |
| Gross Square Feet at July 28, 2012 | 2,495 | 727 | 3,317 | 176 | 6,715 |
| International Stores | | | | | |
| April 28, 2012 | 15 | 5 | 84 | 3 | 107 |
| New | — | — | 8 | 4 | 12 |
| Closed | — | — | — | — | — |
| July 28, 2012 | 15 | 5 | 92 | 7 | 119 |
| Gross Square Feet at July 28, 2012 | 286 | 59 | 793 | 47 | 1,185 |
| Total Stores | 293 | 159 | 578 | 25 | 1,055 |
| Total Gross Square Feet at July 28, 2012 | 2,781 | 786 | 4,110 | 223 | 7,900 |

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Year-To-Date Store Count and Gross Square Feet
Store count and gross square footage by brand for the twenty-six weeks ended August 3, 2013 and July 28, 2012, respectively, were as follows:

| Store Activity | Abercrombie & Fitch | abercrombie | Hollister | Gilly Hicks | Total |
|---|---|---|---|---|---|
| U.S. Stores | | | | | |
| February 2, 2013 | 266 | 144 | 482 | 20 | 912 |
| New | 1 | 1 | — | — | 2 |
| Closed | (2) | (1) | (4) | — | (7) |
| August 3, 2013 | 265 | 144 | 478 | 20 | 907 |
| Gross Square Feet at August 3, 2013 | 2,367 | 675 | 3,260 | 169 | 6,471 |
| International Stores | | | | | |
| February 2, 2013 | 19 | 6 | 107 | 7 | 139 |
| New | 1 | 1 | 9 | 1 | 12 |
| Closed | — | (1) | — | — | (1) |
| August 3, 2013 | 20 | 6 | 116 | 8 | 150 |
| Gross Square Feet at August 3, 2013 | 408 | 65 | 1,013 | 49 | 1,535 |
| Total Stores | 285 | 150 | 594 | 28 | 1,057 |
| Total Gross Square Feet at August 3, 2013 | 2,775 | 740 | 4,273 | 218 | 8,006 |

| Store Activity | Abercrombie & Fitch | abercrombie | Hollister | Gilly Hicks | Total |
|---|---|---|---|---|---|
| U.S. Stores | | | | | |
| January 28, 2012 | 280 | 154 | 494 | 18 | 946 |
| New | 1 | — | — | — | 1 |
| Closed | (3) | — | (8) | — | (11) |
| July 28, 2012 | 278 | 154 | 486 | 18 | 936 |
| Gross Square Feet at July 28, 2012 | 2,495 | 727 | 3,317 | 176 | 6,715 |
| International Stores | | | | | |
| January 28, 2012 | 14 | 5 | 77 | 3 | 99 |
| New | 1 | — | 15 | 4 | 20 |
| Closed | — | — | — | — | — |
| July 28, 2012 | 15 | 5 | 92 | 7 | 119 |
| Gross Square Feet at July 28, 2012 | 286 | 59 | 793 | 47 | 1,185 |
| Total Stores | 293 | 159 | 578 | 25 | 1,055 |
| Total Gross Square Feet at July 28, 2012 | 2,781 | 786 | 4,110 | 223 | 7,900 |

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Recent Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-02, which amends Accounting Standards Codification Topic 220, "Comprehensive Income." The ASU contains new requirements related to the presentation and disclosure of items that are reclassified out of other comprehensive income. The new requirements will give financial statement users a more comprehensive view of items that are reclassified out of other comprehensive income. ASU 2013-02 is effective for the Company's fiscal year and interim periods beginning after December 15, 2012, and is to be applied prospectively. The adoption did not have a material effect on the Company's consolidated financial statements.

Critical Accounting Estimates

We describe our significant accounting policies in Note 3, “SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES” of the Notes to Consolidated Financial Statements contained in “ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA” of A&F’s Annual Report on Form 10-K for Fiscal 2012. We discuss our critical accounting estimates in "ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS", in our Annual Report on Form 10-K for Fiscal 2012. There have been no significant changes in our significant accounting policies or critical accounting estimates since the end of Fiscal 2012.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

The Company cautions that any forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in this Quarterly Report on Form 10-Q or made by the Company, its management or spokespeople involve risks and uncertainties and are subject to change based on various important factors, many of which may be beyond the Company’s control. Words such as “estimate,” “project,” “plan,” “believe,” “expect “anticipate,” “intend,” and similar expressions may identify forward-looking statements.

The following factors, including the disclosures under the heading “FORWARD-LOOKING STATEMENTS AND RISK FACTORS” in “ITEM 1A. RISK FACTORS” of A&F’s Annual Report on Form 10-K for Fiscal 2012 filed on April 2, 2013, in some cases have affected and in the future could affect the Company’s financial performance and could cause actual results for Fiscal 2013 and beyond to differ materially from those expressed or implied in any of the forward-looking statements included in this Quarterly Report on Form 10-Q or otherwise made by management:

- changes in economic and financial conditions, and the resulting impact on consumer confidence and consumer spending, could have a material adverse effect on our business, results of operations and liquidity;
- changing fashion trends and consumer preferences, and the ability to manage our inventory commensurate with customer demand, could adversely impact our sales levels and profitability;
- fluctuations in the cost, availability and quality of raw materials, labor and transportation, could cause manufacturing delays and increase our costs;
- our growth strategy relies significantly on international expansion, which requires significant capital investment, adds complexity to our operations and may strain our resources and adversely impact current store performance;
- our international expansion plan is dependent on a number of factors, any of which could delay or prevent successful penetration into new markets or could adversely affect the profitability of our international operations;
- our direct-to-consumer operations are subject to numerous risks that could adversely impact sales;
- equity-based compensation awarded under the employment agreement with our Chief Executive Officer could adversely impact our cash flows, financial position or results of operations and could have a dilutive effect on our outstanding Common Stock;
- our development of a new brand concept such as Gilly Hicks could have a material adverse effect on our financial condition or results of operations;
- fluctuations in foreign currency exchange rates could adversely impact our financial condition and results of operations;
- our business could suffer if our information technology systems are disrupted or cease to operate effectively;
- comparable sales, including direct-to-consumer, may continue to fluctuate on a regular basis and impact the volatility of the price of our Common Stock;

- our market share may be negatively impacted by increasing competition and pricing pressures from companies with brands or merchandise competitive with ours;
- our ability to attract customers to our stores depends, in part, on the success of the shopping malls or area attractions in which most of our stores are located;
- our net sales fluctuate on a seasonal basis, causing our results of operations to be susceptible to changes in Back-to-School and Holiday shopping patterns;
- our failure to protect our reputation could have a material adverse effect on our brands;

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- 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;
- interruption in the flow of merchandise from our key vendors and international manufacturers could disrupt our supply chain, which could result in lost sales and could increase our costs;
- in a number of our European stores, associates are represented by workers' councils and unions, whose demands could adversely affect our profitability or operating standards for our brands;
- we depend upon independent third parties for the manufacture and delivery of all our merchandise;
- our reliance on two distribution centers domestically and two third-party distribution centers internationally makes us susceptible to disruptions or adverse conditions affecting our distribution centers;
- we may be exposed to risks and costs associated with credit card fraud and identity theft that would cause us to incur unexpected expenses and loss of revenues;
- our facilities, systems and stores, as well as the facilities and systems of our vendors and manufacturers, are vulnerable to natural disasters, pandemic disease and other unexpected events, any of which could result in an interruption to our business and adversely affect our operating results;
- our litigation exposure could have a material adverse effect on our financial condition and results of operations;
- our inability or failure to adequately protect our trademarks could have a negative impact on our brand image and limit our ability to penetrate new markets;
- fluctuations in our tax obligations and effective tax rate may result in volatility in our operating results;
- the effects of war or acts of terrorism could have a material adverse effect on our operating results and financial condition;
- our inability to obtain commercial insurance at acceptable prices or our failure to adequately reserve for self-insured exposures might increase our expenses and adversely impact our financial results;
- operating results and cash flows at the store level may cause us to incur impairment charges;
- we are subject to customs, advertising, consumer protection, privacy, zoning and occupancy and labor and employment laws that could require us to modify our current business practices, incur increased costs or harm our reputation if we do not comply;
- changes in the regulatory or compliance landscape could adversely affect our business and results of operations;
- our unsecured Amended and Restated Credit Agreement (the "Amended and Restated Credit Agreement") and our Term Loan Agreement include financial and other covenants that impose restrictions on our financial and business operations;
- 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; and
- our inability to implement our profit improvement plan across all work-streams could have a negative impact on our financial results.

Future economic and industry trends that could potentially impact revenue and profitability are difficult to predict. Therefore, there can be no assurance that the forward-looking statements included in this Quarterly Report on Form 10-Q will prove to be accurate. In light of the significant uncertainties in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company, or any other person, that the objectives of the Company will be achieved. The forward-looking statements included herein are based on information presently available to the management of the Company. Except as may be required by applicable law, the Company assumes no obligation to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

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## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Investment Securities

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

The irrevocable rabbi trust (the "Rabbi Trust") is intended to be used as a source of funds to match respective funding obligations to participants in the Abercrombie & Fitch Co. Nonqualified Savings and Supplemental Retirement Plan I, the Abercrombie & Fitch Co. Nonqualified Savings and Supplemental Retirement Plan II and the Chief Executive Officer Supplemental Executive Retirement Plan. The Rabbi Trust assets are consolidated and recorded at fair value, with the exception of the trust-owned life insurance policies which are recorded at cash surrender value. The Rabbi Trust assets are included in Other Assets on the Consolidated Balance Sheets and are restricted as to their use as noted above. The change in cash surrender value of the trust-owned life insurance policies held in the Rabbi Trust resulted in insignificant realized gains for each of the thirteen week periods ended August 3, 2013 and July 28, 2012 and realized gains of $1.6 million and $1.7 million for the twenty-six week periods ended August 3, 2013 and July 28, 2012, respectively.

### Interest Rate Risks

As of August 3, 2013, the Company had $142.5 million in borrowings outstanding under its Term Loan Agreement. These borrowing and any future borrowings will bear interest at negotiated rates and would be subject to interest rate risk. Interest on borrowings may be determined under several alternative methods including LIBOR plus a margin based upon the Company's Leverage Ratio, which represents the ratio of (a) the sum of total debt (excluding specified permitted foreign bank guarantees and trade letters of credit) plus 600% of forward minimum rent commitments to (b) Consolidated EBITDAR (as defined in the Term Loan Agreement) for the trailing four-consecutive-fiscal-quarter period. Covenants are generally consistent with those in the Company's Amended and Restated Credit Agreement. The average interest rate was 1.70% for the thirteen-week period ended August 3, 2013. Additionally, as of August 3, 2013, the Company had $350 million available, less outstanding letters of credit, under its Amended and Restated Credit Agreement. Assuming no changes in the Company's financial structure as it stands at August 3, 2013, if market interest rates average an increase of 100 basis points over the next twenty-six week period compared to the interest rates being incurred for the twenty-six week period ended August 3, 2013, there would be an insignificant change in interest expense. This amount was determined by calculating the effect of the average hypothetical interest rate increase on the Company's variable rate Term Loan Agreement. This hypothetical increase in interest rate for the fifty-two week period ended February 1, 2014 may be different from the actual increase in interest expense due to varying interest rate reset dates under the Company's Term Loan Agreement.

### Foreign Exchange Rate Risk

A&F's international subsidiaries generally operate with functional currencies other than the U.S. Dollar. The Company's Consolidated Financial Statements are presented in U.S. Dollars. Therefore, the Company must translate revenues, expenses, assets and liabilities from functional currencies into U.S. Dollars at exchange rates in effect during or at the end of the reporting period. The fluctuation in the value of the U.S. Dollar against other currencies affects the reported amounts of revenues, expenses, assets and liabilities. The potential impact of currency fluctuation increases as international expansion increases.

A&F and its subsidiaries have exposure to changes in currency exchange rates associated with foreign currency transactions and forecasted foreign currency transactions, including the sale of inventory between subsidiaries and foreign denominated assets and liabilities. Such transactions are denominated primarily in U.S. Dollars, Australian Dollars, British Pounds, Canadian Dollars, Chinese Yuan, Danish Kroner, Euros, Hong Kong Dollars, Japanese Yen, Polish Zloty, South Korean Won, Singapore Dollars, Swedish Kroner, Swiss Francs and UAE Dirham. The Company has established a program that primarily utilizes foreign currency forward contracts to partially offset the risks associated with the effects of certain foreign currency transactions and forecasted transactions. Under this program, increases or decreases in foreign currency exposures are partially offset by gains or losses on forward contracts, to mitigate the impact of foreign currency gains or losses. The Company does not use forward contracts to engage in currency speculation. All outstanding foreign currency forward contracts are recorded at fair value at the end of each

fiscal period.

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## ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

A&F maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to provide reasonable assurance that information required to be disclosed in the reports that A&F files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to A&F's management, including the Chairman and Chief Executive Officer of A&F (the principal executive officer) and the Executive Vice President and Chief Financial Officer of A&F (the principal financial officer), as appropriate to allow timely decisions regarding required disclosures. Because of inherent limitations, disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of disclosure controls and procedures are met.

A&F's management, including the Chairman and Chief Executive Officer of A&F and the Executive Vice President and Chief Financial Officer of A&F, evaluated the effectiveness of A&F's design and operation of its disclosure controls and procedures as of the end of the fiscal quarter ended August 3, 2013. Based upon that evaluation, the Chairman and Chief Executive Officer of A&F and the Executive Vice President and Chief Financial Officer of A&F concluded that A&F's disclosure controls and procedures were effective at a reasonable level of assurance as of August 3, 2013, the end of the period covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control Over Financial Reporting

There were no changes in A&F's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during A&F's fiscal quarter ended August 3, 2013 that materially affected, or are reasonably likely to materially affect, A&F's internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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ITEM 1A. RISK FACTORS

The Company's risk factors as of August 3, 2013 have not changed materially from those disclosed in Part I, "ITEM 1A. RISK FACTORS" of A&F's Annual Report on Form 10-K for Fiscal 2012 filed on April 2, 2013.

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

There were no sales of equity securities during the second quarter of Fiscal 2013 that were not registered under the Securities Act of 1933.

The following table provides information regarding the purchase of shares of 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 thirteen-week period ended August 3, 2013:

| Period (Fiscal Month) | Total Number of Shares Purchased (1) | Average Price Paid per Share (2) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3) | Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs (4) |
|---|---|---|---|---|
| May 5, 2013 through June 1, 2013 | 35,459 | $51.12 | — | 18,321,379 |
| June 2, 2013 through July 6, 2013 | 2,051,939 | $48.92 | 2,033,040 | 16,288,339 |
| July 7, 2013 through August 3, 2013 | 18,594 | $48.67 | — | 16,288,339 |
| Total | 2,105,992 | $48.95 | 2,033,040 | 16,288,339 |

(1) An aggregate of 72,952 of the shares of A&F’s Common Stock purchased during the thirteen-week period ended August 3, 2013 represented shares which were withheld for tax payments due upon the vesting of employee restricted stock unit and restricted share awards and upon the exercise of employee stock appreciation rights.

(2) The average price paid per share includes broker commissions, as applicable.

(3) The reported shares were repurchased pursuant to A&F’s publicly announced stock repurchase authorizations. On May 15, 2012, A&F’s Board of Directors authorized the repurchase of an aggregate of 10.0 million shares of A&F’s Common Stock. On August 14, 2012, A&F's Board of Directors authorized the repurchase of an additional 10.0 million shares of A&F’s Common Stock.

(4) 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 authorizations described in footnote 3 above. The shares may be purchased, from time-to-time, depending on market conditions.

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ITEM 6. EXHIBITS

| Exhibit No. | Document |
|---|---|
| 10.1 | Agreement dated as of July 19, 2013 between Ronald A. Robins, Jr. and Abercrombie & Fitch Management Co.* |
| 10.2 | Summary of Compensation Structure for Non-Associate Members of Board of Directors of A&F (Effective as of February 2, 2014).* |
| 15 | Letter re: Unaudited Interim Financial Information to Securities and Exchange Commission re: Inclusion of Report of Independent Registered Public Accounting Firm – PricewaterhouseCoopers LLP.* |
| 31.1 | Certifications by Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 31.2 | Certifications by Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 32 | Certifications by Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.** |
| 101 | The following materials from Abercrombie & Fitch Co.'s Quarterly Report on Form 10-Q for the quarterly period ended August 3, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations and Comprehensive Income (Loss) for the Thirteen and Twenty-Six Weeks Ended August 3, 2013 and July 28, 2012; (ii) Consolidated Balance Sheets at August 3, 2013 and February 2, 2013; (iii) Consolidated Statements of Cash Flows for the Twenty-Six Weeks Ended August 3, 2013 and July 28, 2012; and (iv) Notes to Consolidated Financial Statements*** |

* Filed herewith.
** Furnished herewith.
*** Electronically submitted herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | ABERCROMBIE & FITCH CO. |
|---|---|
| Date: September 9, 2013 | By /s/ JONATHAN E. RAMSDEN |
| | Jonathan E. Ramsden |
| | Executive Vice President and Chief Financial Officer |
| | (Principal Financial Officer and Authorized Officer) |

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*Filed herewith.
**Furnished herewith.
***Electronically submitted herewith