

ABERCROMBIE & FITCH CO /DE/

Form 10-Q

December 07, 2015

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 31, 2015

OR

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

For the transition period from _____ to _____

Commission File Number 1-12107

ABERCROMBIE & FITCH CO.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

31-1469076

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

6301 Fitch Path, New Albany, Ohio

(Address of principal executive offices)

43054

(Zip Code)

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

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. Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (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 No

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

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Class A Common Stock
\$.01 Par Value

Outstanding at December 3, 2015
67,204,664 Shares

Table of Contents

ABERCROMBIE & FITCH CO.
TABLE OF CONTENTS

| | Page No. |
|--|-----------|
| <u>Part I. Financial Information</u> | |
| <u>Item 1. Financial Statements</u> | |
| <u>Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)</u> | <u>3</u> |
| <u>Condensed Consolidated Balance Sheets</u> | <u>4</u> |
| <u>Condensed Consolidated Statements of Cash Flows</u> | <u>5</u> |
| <u>Notes to Condensed Consolidated Financial Statements</u> | <u>6</u> |
| <u>Report of Independent Registered Public Accounting Firm</u> | <u>19</u> |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>20</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | <u>36</u> |
| <u>Item 4. Controls and Procedures</u> | <u>37</u> |
| <u>Part II. Other Information</u> | |
| <u>Item 1. Legal Proceedings</u> | <u>38</u> |
| <u>Item 1A. Risk Factors</u> | <u>38</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>38</u> |
| <u>Item 6. Exhibits</u> | <u>39</u> |

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | Thirteen Weeks Ended | | Thirty-nine Weeks Ended | |
|---|----------------------|-------------|-------------------------|-------------|
| | October 31, | November 1, | October 31, | November 1, |
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | \$878,572 | \$911,453 | \$2,405,750 | \$2,624,486 |
| Cost of goods sold | 318,785 | 344,383 | 924,552 | 992,801 |
| Gross profit | 559,787 | 567,070 | 1,481,198 | 1,631,685 |
| Stores and distribution expense | 392,942 | 413,551 | 1,173,773 | 1,257,422 |
| Marketing, general and administrative expense | 117,698 | 104,981 | 345,077 | 339,595 |
| Restructuring (benefit) charge | — | — | (1,598 |) 6,053 |
| Asset impairment | 12,076 | 16,706 | 18,209 | 16,706 |
| Other operating income, net | (3,919 |) (1,534 |) (7,018 |) (9,444 |
| Operating income (loss) | 40,990 | 33,366 | (47,245 |) 21,353 |
| Interest expense, net | 4,586 | 5,572 | 13,792 | 9,589 |
| Income (loss) before taxes | 36,404 | 27,794 | (61,037 |) 11,764 |
| Income tax (benefit) expense | (5,881 |) 9,567 | (40,688 |) 4,331 |
| Net income (loss) | 42,285 | 18,227 | (20,349 |) 7,433 |
| Less: Net income attributable to noncontrolling interests | 394 | — | 1,816 | — |
| Net income (loss) attributable to Abercrombie & Fitch Co. | \$41,891 | \$18,227 | \$(22,165 |) \$7,433 |
| Net income (loss) per share attributable to Abercrombie & Fitch Co. | | | | |
| Basic | \$0.61 | \$0.26 | \$(0.32 |) \$0.10 |
| Diluted | \$0.60 | \$0.25 | \$(0.32 |) \$0.10 |
| Weighted-average shares outstanding | | | | |
| Basic | 68,866 | 70,814 | 69,363 | 72,577 |
| Diluted | 69,265 | 72,128 | 69,363 | 73,870 |
| Dividends declared per share | \$0.20 | \$0.20 | \$0.60 | \$0.60 |
| Other comprehensive loss | | | | |
| Foreign currency translation | \$(1,491 |) \$(39,119 |) \$(11,362 |) \$(35,545 |
| Derivative financial instruments, net of tax | (2,952 |) 9,071 | (11,288 |) 11,345 |

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| | | | | | |
|---|----------|-----------|-------------|-------------|---|
| Other comprehensive loss | (4,443 |) (30,048 |) (22,650 |) (24,200 |) |
| Comprehensive income (loss) | 37,842 | (11,821 |) (42,999 |) (16,767 |) |
| Less: Comprehensive income attributable to noncontrolling interests | 394 | — | 1,816 | — | |
| Comprehensive income (loss) attributable to Abercrombie & Fitch Co. | \$37,448 | \$(11,821 |) \$(44,815 |) \$(16,767 |) |

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

3

Table of Contents

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

| | (unaudited) | |
|---|------------------|------------------|
| | October 31, 2015 | January 31, 2015 |
| Assets | | |
| Current assets: | | |
| Cash and equivalents | \$405,611 | \$520,708 |
| Receivables | 62,132 | 52,910 |
| Inventories, net | 601,541 | 460,794 |
| Deferred income taxes, net | 34,344 | 13,986 |
| Other current assets | 109,527 | 116,574 |
| Total current assets | 1,213,155 | 1,164,972 |
| Property and equipment, net | 918,926 | 967,001 |
| Other assets | 380,663 | 373,194 |
| Total assets | \$2,512,744 | \$2,505,167 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$303,992 | \$141,685 |
| Accrued expenses | 309,209 | 282,736 |
| Short-term portion of deferred lease credits | 25,031 | 26,629 |
| Income taxes payable | 4,665 | 32,804 |
| Short-term portion of borrowings, net | 1,513 | 2,102 |
| Total current liabilities | 644,410 | 485,956 |
| Long-term liabilities: | | |
| Long-term portion of deferred lease credits | 96,993 | 106,393 |
| Long-term portion of borrowings, net | 288,091 | 291,310 |
| Leasehold financing obligations | 48,370 | 50,521 |
| Other liabilities | 166,002 | 181,286 |
| Total long-term liabilities | 599,456 | 629,510 |
| Stockholders' equity | | |
| Class A Common Stock - \$0.01 par value: 150,000 shares authorized and 103,300 shares issued at each of October 31, 2015 and January 31, 2015 | 1,033 | 1,033 |
| Paid-in capital | 428,651 | 434,137 |
| Retained earnings | 2,485,878 | 2,550,673 |
| Accumulated other comprehensive loss, net of tax | (106,230 |) (83,580 |
| Treasury stock, at average cost: 36,147 and 33,948 shares at October 31, 2015 and January 31, 2015, respectively | (1,544,168 |) (1,512,562 |
| Total Abercrombie & Fitch Co. stockholders' equity | 1,265,164 | 1,389,701 |
| Noncontrolling interests | 3,714 | — |
| Total stockholders' equity | 1,268,878 | 1,389,701 |
| Total liabilities and stockholders' equity | \$2,512,744 | \$2,505,167 |

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

Table of Contents

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

| | Thirty-nine Weeks Ended | |
|---|-------------------------|------------------|
| | October 31, 2015 | November 1, 2014 |
| Operating activities | | |
| Net (loss) income | \$ (20,349 |) \$ 7,433 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities | | |
| Depreciation and amortization | 160,364 | 174,966 |
| Asset impairment | 18,209 | 16,706 |
| Loss on disposal | 6,312 | 3,580 |
| Amortization of deferred lease credits | (21,482 |) (29,525 |
| Benefit from deferred income taxes | (36,747 |) (1,408 |
| Share-based compensation | 21,681 | 17,396 |
| Changes in assets and liabilities | | |
| Inventories, net | (141,725 |) (90,485 |
| Accounts payable and accrued expenses | 148,832 | 3,049 |
| Lessor construction allowances | 4,743 | 11,669 |
| Income taxes | (34,249 |) (55,239 |
| Other assets | (9,268 |) (15,739 |
| Other liabilities | (29,781 |) (12,939 |
| Net cash provided by operating activities | 66,540 | 29,464 |
| Investing activities | | |
| Purchases of property and equipment | (105,216 |) (132,183 |
| Proceeds from sale of property and equipment | 11,109 | — |
| Other investing activities | 9,544 | — |
| Net cash used for investing activities | (84,563 |) (132,183 |
| Financing activities | | |
| Purchase of treasury stock | (50,033 |) (285,038 |
| Repayments of borrowings | (2,250 |) (195,000 |
| Proceeds from borrowings | — | 357,000 |
| Other financing activities | 147 | 579 |
| Dividends paid | (41,704 |) (43,494 |
| Net cash used for financing activities | (93,840 |) (165,953 |
| Effect of exchange rates on cash | (3,234 |) (10,880 |
| Net decrease in cash and equivalents | (115,097 |) (279,552 |
| Cash and equivalents, beginning of period | 520,708 | 600,116 |
| Cash and equivalents, end of period | \$ 405,611 | \$ 320,564 |
| Significant non-cash investing activities | | |
| Change in accrual for construction in progress | \$ 22,882 | \$ 1,054 |
| Supplemental information | | |
| Cash paid for interest | \$ 12,220 | \$ 12,554 |

| | | |
|--|----------|----------|
| Cash paid for income taxes, net of refunds | \$45,100 | \$68,357 |
|--|----------|----------|

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

5

Table of Contents

ABERCROMBIE & FITCH CO.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

Nature of Business

Abercrombie & Fitch Co. (“A&F”), through its subsidiaries (collectively, A&F and its subsidiaries are referred to as “Abercrombie & Fitch” or the “Company”), is a specialty retailer of branded apparel and accessories. The Company operates stores in North America, Europe, Asia and the Middle East and direct-to-consumer operations in North America, Europe and Asia that serve its customers throughout the world.

Principles of Consolidation

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

The Company has interests in a United Arab Emirates business venture and in a Kuwait business venture with Majid al Futtaim Fashion L.L.C. (“MAF”), each of which meets the definition of a variable interest entity (“VIE”). The Company is deemed to be the primary beneficiary of these VIEs; therefore, the Company has consolidated the operating results, assets and liabilities of these VIEs, with MAF's portion of net income presented as net income attributable to noncontrolling interests (“NCI”) in the Company's Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) and MAF's portion of equity presented as NCI in the Condensed Consolidated Balance Sheets. The Company began presenting income attributable to NCI in the second quarter of Fiscal 2015. Income attributable to NCI of \$1.8 million for the thirty-nine weeks ended October 31, 2015 included \$0.8 million related to Fiscal 2014.

Fiscal Year

The Company’s fiscal year ends on the Saturday closest to January 31. All references herein to “Fiscal 2015” and “Fiscal 2014” represent the 52-week fiscal years ending on January 30, 2016 and January 31, 2015, respectively.

Interim Financial Statements

The Condensed Consolidated Financial Statements as of October 31, 2015, and for the thirteen and thirty-nine week periods ended October 31, 2015 and November 1, 2014, are unaudited and are presented pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Accordingly, these Condensed 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 2014 filed with the SEC on March 30, 2015. The January 31, 2015 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 Condensed 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 2015.

Net income attributable to A&F for the thirteen and thirty-nine weeks ended October 31, 2015 included a benefit of \$1.2 million and a charge of \$0.1 million, respectively, related to the correction of certain errors from prior periods. Net income attributable to A&F for the thirteen and thirty-nine weeks ended November 1, 2014 included a charge of \$0.8 million and \$2.4 million, respectively, related to the correction of certain errors from prior periods. The Company does not believe these corrections were material to any current or prior interim or annual periods that were affected.

The Condensed Consolidated Financial Statements as of October 31, 2015 and for the thirteen and thirty-nine week periods ended October 31, 2015 and November 1, 2014 included herein have been reviewed by PricewaterhouseCoopers LLP, an independent registered public accounting firm, and the report of such firm follows the Notes to Condensed Consolidated Financial Statements.

Table of Contents

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 Condensed 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.

Recent Accounting Pronouncements

The following table provides a brief description of recent accounting pronouncements that could affect the Company's financial statements:

| Standard | Description | Date of Adoption | Effect on the Financial Statements or Other Significant Matters |
|--|--|-------------------|--|
| Standard adopted | | | |
| ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs | This standard amends ASC 835, Interest—Imputation of Interest. The amendment provides guidance on the financial statement presentation of debt issuance costs as a direct reduction of a liability when associated with a liability. | February 1, 2015 | The adoption of this guidance impacted the Company's consolidated financial statements by approximately \$0.6M. |
| ASU 2015-15, Simplifying the Presentation of Debt Issuance Costs | This standard amends ASC 835, Interest—Imputation of Interest. The amendment provides guidance on the financial statement presentation of debt issuance costs associated with line-of-credit arrangements as an asset regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. | August 2, 2015 | The adoption of this guidance did not have any impact on the Company's consolidated financial statements. |
| Standards not yet adopted | | | |
| ASU 2014-09, Revenue from Contracts with Customers | This standard supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)." The new ASC guidance requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration which the entity expects to be entitled to in exchange for those goods or services. | February 4, 2018 | The Company is currently evaluating the potential impact of this standard. |
| ASU 2015-11, Simplifying the Measurement of Inventory | This standard amends ASC 330, Inventory. This amendment applies to inventory measured using first-in, first-out (FIFO) or average cost. Under this amendment, inventory should be measured at the lower of cost and net realizable | January 29, 2017* | The adoption of this amendment is not expected to have a material impact on the Company's consolidated financial statements. |

| | | | |
|---|--|----------------------|---|
| ASU 2015-17, Income Taxes: Balance Sheet Classification of Deferred Taxes | value, which is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This standard requires that deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. | January 29, 2017* | The adoption of this standard will result in the reclassification of all current deferred tax assets and liabilities to noncurrent in the Company's consolidated balance sheets. |
|---|--|----------------------|---|

* Early adoption is permitted.

Table of Contents

2. NET INCOME (LOSS) PER SHARE

Net income (loss) per basic and diluted share is computed based on the weighted-average number of outstanding shares of common stock.

The following table presents weighted-average shares outstanding and anti-dilutive shares:

| (in thousands) | Thirteen Weeks Ended | | Thirty-nine Weeks Ended | |
|--|----------------------|------------------|-------------------------|------------------|
| | October 31, 2015 | November 1, 2014 | October 31, 2015 | November 1, 2014 |
| Shares of common stock issued | 103,300 | 103,300 | 103,300 | 103,300 |
| Weighted-average treasury shares | (34,434) | (32,486) | (33,937) | (30,723) |
| Weighted-average — basic shares | 68,866 | 70,814 | 69,363 | 72,577 |
| Dilutive effect of share-based compensation awards | 399 | 1,314 | — | 1,293 |
| Weighted-average — diluted shares | 69,265 | 72,128 | 69,363 | 73,870 |
| Anti-dilutive shares ⁽¹⁾ | 10,205 | 5,566 | 12,154 | 5,621 |

Reflects the total number of shares related to outstanding share-based compensation awards that have been ⁽¹⁾ excluded from the computation of net income (loss) per diluted share because the impact would have been anti-dilutive.

During the third quarter of Fiscal 2015, A&F repurchased approximately 2.5 million additional shares of A&F's Common Stock in the open market at a market value of approximately \$50 million.

3. 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 that the Company can access at the measurement date.

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.

Table of Contents

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 within it of the Company's assets and liabilities, measured at fair value on a recurring basis, were as follows:

| (in thousands) | Assets and Liabilities at Fair Value as of October 31, 2015 | | | |
|--|---|----------|---------|-----------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Money market funds | \$79,212 | \$— | \$— | \$79,212 |
| Derivative financial instruments | — | 1,769 | — | 1,769 |
| Total assets measured at fair value | \$79,212 | \$1,769 | \$— | \$80,981 |
| Liabilities: | | | | |
| Derivative financial instruments | — | 396 | — | 396 |
| Total liabilities measured at fair value | \$— | \$396 | \$— | \$396 |
| (in thousands) | Assets and Liabilities at Fair Value as of January 31, 2015 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Money market funds | \$122,047 | \$— | \$— | \$122,047 |
| Derivative financial instruments | — | 10,293 | — | 10,293 |
| Total assets measured at fair value | \$122,047 | \$10,293 | \$— | \$132,340 |
| Liabilities: | | | | |
| Derivative financial instruments | — | — | — | — |
| Total liabilities measured at fair value | \$— | \$— | \$— | \$— |

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 the Company's credit facilities are carried at historical cost in the accompanying Condensed Consolidated Balance Sheets. For disclosure purposes, the Company estimated the fair value of borrowings outstanding using a 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 outstanding are considered to be Level 2 instruments.

The carrying amount and fair value of the Company's term loan facility were as follows:

| (in thousands) | October 31, 2015 | January 31, 2015 |
|---|------------------|------------------|
| Gross borrowings outstanding, carrying amount | \$297,000 | \$299,250 |
| Gross borrowings outstanding, fair value | \$289,575 | \$295,135 |

No borrowings were outstanding under the Company's senior secured revolving credit facility as of October 31, 2015 or January 31, 2015.

4. INVENTORIES, NET

Inventories, net consisted of:

| (in thousands) | October 31, 2015 | January 31, 2015 |
|----------------|------------------|------------------|
| Inventories | \$635,967 | \$484,865 |

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| | | | |
|---------------------------------------|-----------|-----------|---|
| Less: Lower of cost or market reserve | (29,303 |) (12,707 |) |
| Less: Shrink reserve | (5,123 |) (11,364 |) |
| Inventories, net | \$601,541 | \$460,794 | |

Inventories are valued at the lower of cost or market on a weighted-average cost basis. The Company reduces the carrying value of inventory through a lower of cost or market adjustment, the impact of which is reflected in cost of goods sold on the Condensed

9

Table of Contents

Consolidated Statements of Operations and Comprehensive Income (Loss). The lower of cost or market reserve is based on an analysis of historical experience, composition and aging of the inventory and management's judgment regarding future demand and market conditions.

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.

5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of:

| (in thousands) | October 31, 2015 | January 31, 2015 |
|---|------------------|------------------|
| Property and equipment, at cost | \$2,830,013 | \$2,797,250 |
| Less: Accumulated depreciation and amortization | (1,911,087 |) (1,830,249 |
| Property and equipment, net | \$918,926 | \$967,001 |

Long-lived assets, primarily comprised of property and equipment, are tested for impairment periodically 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 undiscounted projected cash flows.

Fair value of the Company's store-related assets is determined at the individual store level, primarily using a discounted cash flow model that utilizes Level 3 inputs. 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, the market exit price based on historical experience, and other comparable market data where applicable, is used to determine the fair value by asset type.

Store-related assets are considered level 3 assets in the fair value hierarchy and the fair values were determined at the individual 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 indicated an impairment at the store level, the market exit price based on historical experience was used to determine the fair value by asset type.

In the third quarter of 2015, the Company incurred non-cash asset impairment charges of \$12.1 million as it was determined that the carrying value of certain assets would not be recoverable and exceeded fair value. The asset impairment charges primarily related to the Company's Abercrombie & Fitch flagship store in Hong Kong. The Company incurred \$18.2 million in asset impairment charges for the thirty-nine weeks ended October 31, 2015.

In the third quarter of Fiscal 2014, the Company incurred non-cash asset impairment charges of \$16.7 million, as it was determined that the carrying value of certain store-related assets would not be recoverable and exceeded fair value. The asset impairment charges primarily related to the Company's Abercrombie & Fitch flagship store in Tokyo, Japan, as well as three other Abercrombie & Fitch stores, five Hollister stores and nine abercrombie kids stores.

In certain lease arrangements, the Company is involved in the construction of a building and is deemed to be the owner of the construction project. In those instances, the Company records an asset for the amount of the total project costs, including the portion funded by the landlord, and an amount related to the value of the pre-existing leased

building in property and equipment, net, and a corresponding financing obligation in leasehold financing obligations, on the Condensed Consolidated Balance Sheets. Once construction is complete, if it is determined that the asset does not qualify for sale-leaseback accounting treatment, the amounts remain on the Company's Condensed Consolidated Balance Sheets and the Company continues to amortize the obligation over the lease term and depreciates the asset over its useful life. The Company had \$38.2 million and \$40.1 million of construction project assets in property and equipment, net at October 31, 2015 and January 31, 2015, respectively.

Table of Contents

6. INCOME TAXES

The Company's quarterly tax provision and quarterly estimate of the annual effective tax rate are subject to significant variation due to several factors. These include variability in the pre-tax jurisdictional mix of earnings, changes in how the Company does business such as entering into new businesses or geographies, changes in foreign currency exchange rates, changes in laws, regulations, and administrative practices, relative changes in expenses or losses for which tax benefits are not recognized, and the impact of discrete items. The impact of these items on the effective tax rate will be greater at lower levels of pre-tax income (loss).

The effective tax rates for the thirteen and thirty-nine weeks ended October 31, 2015 reflect benefits related to a change in the estimated annual effective tax rate and discrete benefits of \$9.7 million and \$8.6 million, respectively. The discrete benefits include the release of \$5.9 million of valuation allowance established on certain net operating losses, as the Company believes it is more likely than not these deferred tax assets will be utilized due to the expectation of future taxable income in the related jurisdiction.

A provision for U.S. income tax has not been recorded on undistributed profits generated through the third quarter of Fiscal 2015 of non-U.S. subsidiaries that the Company has determined to be indefinitely reinvested outside the U.S. Determination of the amount of unrecognized deferred U.S. income tax liability on these unremitted earnings is not practicable because of the complexities associated with this hypothetical calculation. Unremitted earnings from foreign subsidiaries generated after October 31, 2015 are not considered to be invested indefinitely, and the Company plans to recognize deferred U.S. income taxes on these earnings.

7. SHARE-BASED COMPENSATION

The Company issues stock appreciation rights and restricted stock units, including those with service, performance and market vesting conditions. The Company recognized share-based compensation expense of \$7.6 million and \$21.7 million for the thirteen and thirty-nine weeks ended October 31, 2015, respectively, and \$6.0 million and \$17.4 million for the thirteen and thirty-nine weeks ended November 1, 2014, respectively. The Company also recognized tax benefits related to share-based compensation of \$2.6 million and \$7.4 million for the thirteen and thirty-nine weeks ended October 31, 2015, respectively, and \$2.3 million and \$6.6 million for the thirteen and thirty-nine weeks ended November 1, 2014, respectively.

Stock Options

The following table summarizes stock option activity for the thirty-nine weeks ended October 31, 2015:

| | Number of Underlying Shares | Weighted-Average Exercise Price | Aggregate Intrinsic Value | Weighted-Average Remaining Contractual Life |
|---|-----------------------------------|------------------------------------|------------------------------|---|
| Outstanding at January 31, 2015 | 328,100 | \$ 64.64 | | |
| Granted | — | — | | |
| Exercised | — | — | | |
| Forfeited or expired | (34,300 |) 69.71 | | |
| Outstanding at October 31, 2015 | 293,800 | \$ 64.05 | \$— | 1.9 |
| Stock options exercisable at October 31, 2015 | 293,800 | \$ 64.05 | \$— | 1.9 |

The Company did not grant any stock options during the thirty-nine weeks ended October 31, 2015 or November 1, 2014. No stock options were exercised during the thirty-nine weeks ended October 31, 2015. The intrinsic value of stock options exercised was insignificant during the thirty-nine weeks ended November 1, 2014.

As of October 31, 2015, there was no unrecognized compensation cost related to currently outstanding stock options.

Table of Contents

Stock Appreciation Rights

The following table summarizes stock appreciation rights activity for the thirty-nine weeks ended October 31, 2015:

| | Number of Underlying Shares | Weighted-Average Exercise Price | Aggregate Intrinsic Value | Weighted-Average Remaining Contractual Life |
|---|-----------------------------------|------------------------------------|------------------------------|---|
| Outstanding at January 31, 2015 | 8,953,675 | \$ 40.28 | | |
| Granted | 709,758 | 21.90 | | |
| Exercised | — | — | | |
| Forfeited or expired | (165,150) | 39.70 | | |
| Outstanding at October 31, 2015 | 9,498,283 | \$ 38.92 | \$— | 2.3 |
| Stock appreciation rights exercisable at October 31, 2015 | 8,326,609 | \$ 40.31 | \$— | 1.4 |
| Stock appreciation rights expected to become exercisable in the future as of October 31, 2015 | 1,039,928 | \$ 29.31 | \$— | 8.9 |

The Company estimates the fair value of stock appreciation rights using the Black-Scholes option-pricing model. The weighted-average assumptions used in the Black-Scholes option-pricing model for stock appreciation rights granted during the thirty-nine weeks ended October 31, 2015 and November 1, 2014, were as follows:

| | Executive Officers | | All Other Associates | | |
|-------------------------|---------------------|---------------------|----------------------|---------------------|---|
| | October 31, 2015 | November 1, 2014 | October 31, 2015 | November 1, 2014 | |
| Grant date market price | \$22.46 | \$37.85 | \$21.99 | \$38.58 | |
| Exercise price | \$22.46 | \$38.44 | \$21.99 | \$38.79 | |
| Fair value | \$9.11 | \$14.04 | \$7.84 | \$13.56 | |
| Assumptions: | | | | | |
| Price volatility | 49 | % 50 | % 49 | % 50 | % |
| Expected term (years) | 6.1 | 4.9 | 4.4 | 4.1 | |
| Risk-free interest rate | 1.5 | % 1.6 | % 1.3 | % 1.4 | % |
| Dividend yield | 1.7 | % 2.0 | % 1.7 | % 1.9 | % |

Compensation expense for stock appreciation rights is recognized on a straight-line basis over the awards' requisite service period, net of forfeitures. As of October 31, 2015, there was \$8.8 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 17 months.

No stock appreciation rights were exercised during the thirty-nine weeks ended October 31, 2015. The total intrinsic value of stock appreciation rights exercised during the thirty-nine weeks ended November 1, 2014 was \$1.5 million. The grant date fair value of stock appreciation rights that vested during the thirty-nine weeks ended October 31, 2015 and November 1, 2014 was \$4.5 million and \$7.3 million, respectively.

Table of Contents

Restricted Stock Units

The following table summarizes activity for restricted stock units for the thirty-nine weeks ended October 31, 2015:

| | Service-based Restricted Stock Units | | Performance-based Restricted Stock Units | | Market-based Restricted Stock Units | |
|---|--------------------------------------|--|--|--|-------------------------------------|--|
| | Number of Underlying Shares | Weighted-Average Grant Date Fair Value | Number of Underlying Shares | Weighted-Average Grant Date Fair Value | Number of Underlying Shares | Weighted-Average Grant Date Fair Value |
| Unvested at January 31, 2015 | 1,566,272 | \$37.81 | 205,420 | \$32.05 | 36,374 | \$40.13 |
| Granted ⁽¹⁾ | 1,060,293 | 20.49 | 113,331 | 20.10 | 113,337 | 19.04 |
| Adjustments for performance achievement | — | — | (28,250) | 36.14 | — | — |
| Vested | (437,946) | 41.00 | (48,668) | 38.24 | — | — |
| Forfeited | (181,378) | 35.62 | (30,208) | 36.19 | (7,000) | 28.31 |
| Unvested at October 31, 2015 | 2,007,241 | \$28.16 | 211,625 | \$23.09 | 142,711 | \$23.96 |

⁽¹⁾ Includes 226,668 shares granted at 100% of their target vesting amount related to restricted stock units with performance vesting conditions.

Fair value of both service-based and performance-based restricted stock units is calculated using the market price of the underlying common stock on the date of grant reduced for anticipated dividend payments on unvested shares. In determining fair value, the Company does not take into account performance-based vesting requirements. Performance-based vesting requirements are taken into account in determining the number of awards expected to vest. For market-based restricted stock units, fair value is calculated using a Monte Carlo simulation with the number of shares that ultimately vest dependent on the Company's total stockholder return measured against the total stockholder return of a select group of peer companies over a three-year period. For an award with performance-based or market-based vesting requirements, the number of shares that ultimately vest can vary from 0% to 200% of target depending on the level of achievement of performance criteria.

Service-based restricted stock units are expensed on a straight-line basis over the total requisite service period, net of forfeitures. Performance-based restricted stock units subject to graded vesting are expensed on an accelerated attribution basis, net of forfeitures. Market-based restricted stock units without graded vesting features are expensed on a straight-line basis over the requisite service period, net of forfeitures.

As of October 31, 2015, there was \$31.6 million, \$1.9 million and \$2.2 million of total unrecognized compensation cost, net of estimated forfeitures, related to service-based, performance-based and market-based restricted stock units, respectively. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 15 months, 14 months and 13 months for service-based, performance-based and market-based restricted stock units, respectively.

Additional information pertaining to restricted stock units for the thirty-nine weeks ended October 31, 2015 and November 1, 2014 follows:

(in thousands)

October 31, 2015

November 1, 2014

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| | | |
|---|----------|----------|
| Service-based restricted stock units: | | |
| Total grant date fair value of awards granted | \$21,725 | \$20,847 |
| Total grant date fair value of awards vested | 17,956 | 16,470 |
| Performance-based restricted stock units: | | |
| Total grant date fair value of awards granted | \$2,278 | \$4,470 |
| Total grant date fair value of awards vested | 1,861 | 515 |
| Market-based restricted stock units: | | |
| Total grant date fair value of awards granted | \$2,158 | \$3,576 |
| Total grant date fair value of awards vested | — | — |

Table of Contents

The weighted-average assumptions used for market-based restricted stock units used in the Monte Carlo simulation during the thirty-nine weeks ended October 31, 2015 and November 1, 2014 were as follows:

| | October 31, 2015 | November 1, 2014 | | |
|---|------------------|------------------|--|---|
| Grant date market price | \$22.46 | \$38.50 | | |
| Fair value | \$19.04 | \$46.86 | | |
| Assumptions: | | | | |
| Price volatility | 45 | % 50 | | % |
| Expected term (years) | 2.8 | 2.8 | | |
| Risk-free interest rate | 0.9 | % 0.8 | | % |
| Dividend yield | 3.5 | % 2.1 | | % |
| Average volatility of peer companies | 34.0 | % 37.3 | | % |
| Average correlation coefficient of peer companies | 0.3288 | 0.3786 | | |

8. DERIVATIVES

The Company is exposed to risks associated with changes in foreign currency exchange rates and uses derivative instruments, 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 instrument 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 instrument is not highly effective.

For derivative instruments that either do not qualify for hedge accounting or are not designated as hedges, all changes in the fair value of the derivative instrument are recognized in earnings. For qualifying cash flow hedges, the effective portion of the change in the fair value of the derivative instrument 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 instrument gain or loss, as well as changes in the fair value of the derivative's time value is 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 instrument 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 instrument 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 instrument 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 inter-company inventory sales to foreign subsidiaries and the related settlement of the foreign-currency-denominated inter-company receivables. Fluctuations in exchange rates will either increase or decrease the Company's inter-company 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. These forward contracts typically have a maximum term of twelve 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 loss ("AOCL"). Substantially all of the unrealized gains or losses related to designated cash flow hedges as of October 31, 2015 will be recognized in cost of goods sold over the next twelve months.

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

Table of Contents

As of October 31, 2015, 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:

| (in thousands) | Notional Amount ⁽¹⁾ |
|-----------------|--------------------------------|
| Euro | \$68,803 |
| British pound | \$22,992 |
| Canadian dollar | \$11,027 |

⁽¹⁾ Amounts are reported in U.S. Dollar equivalent as of October 31, 2015.

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 October 31, 2015, the Company had outstanding the following foreign currency forward contracts that were entered into to hedge foreign currency denominated net monetary assets/liabilities:

| (in thousands) | Notional Amount ⁽¹⁾ |
|------------------|--------------------------------|
| Euro | \$18,772 |
| Japanese yen | \$13,232 |
| British pound | \$6,887 |
| Singapore dollar | \$6,449 |
| Hong Kong dollar | \$1,936 |

⁽¹⁾ Amounts are reported in U.S. Dollar equivalent as of October 31, 2015.

The location and amounts of derivative fair values on the Condensed Consolidated Balance Sheets as of October 31, 2015 and January 31, 2015 were as follows:

| (in thousands) | Asset Derivatives | | Liability Derivatives | | | |
|--|----------------------|------------------|-----------------------|------------------|------------------|------------------|
| | Location | October 31, 2015 | January 31, 2015 | Location | October 31, 2015 | January 31, 2015 |
| Derivatives designated as hedging instruments: | | | | | | |
| Foreign currency exchange forward contracts | Other current assets | \$1,688 | \$10,283 | Accrued expenses | \$305 | \$— |
| Derivatives not designated as hedging instruments: | | | | | | |
| Foreign currency exchange forward contracts | Other current assets | \$81 | \$10 | Accrued expenses | \$91 | \$— |
| Total | Other current assets | \$1,769 | \$10,293 | Accrued expenses | \$396 | \$— |

Refer to Note 3, "FAIR VALUE," for further discussion of the determination of the fair value of derivative instruments.

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The location and amounts of derivative gains and losses for the thirteen and thirty-nine weeks ended October 31, 2015 and November 1, 2014 on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) were as follows:

| (in thousands) | Location | Thirteen Weeks Ended | | Thirty-nine Weeks Ended | |
|--|-----------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | | October 31, 2015 Gain/(Loss) | November 1, 2014 Gain/(Loss) | October 31, 2015 Gain/(Loss) | November 1, 2014 Gain/(Loss) |
| Derivatives not designated as hedging instruments: | | | | | |
| Foreign currency exchange forward contracts | Other operating income, net | \$ 10 | \$ 793 | \$ 434 | \$ 564 |

15

Table of Contents

| | Effective Portion | | Location of Gain (Loss) Reclassified from AOCL into Earnings | Amount of Gain (Loss) Reclassified from AOCL into Earnings (b) | | Location of Gain Recognized in Earnings on Derivative Contracts | Ineffective Portion and Amount Excluded from Effectiveness Testing | |
|---|---|---------|--|--|-----------|---|--|-------|
| | Amount of Gain (Loss) Recognized in OCI on Derivative Contracts (a) | | | Amount of Gain (Loss) Reclassified from AOCL into Earnings (b) | | | Amount of Gain Recognized in Earnings on Derivative Contracts (c) | |
| | Thirteen Weeks Ended | | | October 31, November 1, | | | October 31, November 1, | |
| (in thousands) | 2015 | 2014 | | 2015 | 2014 | | 2015 | 2014 |
| Derivatives in cash flow hedging relationships: | | | | | | | | |
| Foreign currency exchange forward contracts | \$933 | \$9,265 | Cost of goods sold | \$2,886 | \$(856) | Other operating income, net | \$58 | \$78 |
| | | | | | | | | |
| | Thirty-nine Weeks Ended | | | October 31, November 1, | | | October 31, November 1, | |
| (in thousands) | 2015 | 2014 | | 2015 | 2014 | | 2015 | 2014 |
| Derivatives in cash flow hedging relationships: | | | | | | | | |
| Foreign currency exchange forward contracts | \$3,318 | \$8,128 | Cost of goods sold | \$13,761 | \$(4,212) | Other operating income, net | \$297 | \$248 |

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

(b) The amount represents the reclassification from AOCL into earnings 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.

9. ACCUMULATED OTHER COMPREHENSIVE LOSS

The activity in accumulated other comprehensive loss for the thirteen and thirty-nine weeks ended October 31, 2015 was as follows:

| (in thousands) | Thirteen Weeks Ended October 31, 2015 | | |
|-------------------------------------|--|---|-------------|
| | Unrealized Gain (Loss) on Derivative Financial Instruments | Foreign Currency Translation Adjustment | Total |
| Beginning balance at August 1, 2015 | \$4,764 | \$(106,551) | \$(101,787) |

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| | | | | |
|--|--|------------------|--------------|---|
| Other comprehensive income (loss) before reclassifications | (123 |) (1,384 |) (1,507 |) |
| Reclassified from accumulated other comprehensive income (loss) ⁽¹⁾ | (2,886 |) — | (2,886 |) |
| Tax effect on other comprehensive income (loss) | 57 | (107 |) (50 |) |
| Other comprehensive loss | (2,952 |) (1,491 |) (4,443 |) |
| Ending balance at October 31, 2015 | \$1,812 | \$ (108,042 |) \$(106,230 |) |
| | Thirty-nine Weeks Ended October 31, 2015 | | | |
| | Unrealized Gain | | | |
| (in thousands) | (Loss) on | Foreign Currency | | |
| | Derivative | Translation | Total | |
| | Financial | Adjustment | | |
| | Instruments | | | |
| Beginning balance at January 31, 2015 | \$13,100 | \$ (96,680 |) \$(83,580 |) |
| Other comprehensive income (loss) before reclassifications | 2,263 | (11,255 |) (8,992 |) |
| Reclassified from accumulated other comprehensive income (loss) ⁽¹⁾ | (13,761 |) — | (13,761 |) |
| Tax effect on other comprehensive income (loss) | 210 | (107 |) 103 | |
| Other comprehensive loss | (11,288 |) (11,362 |) (22,650 |) |
| Ending balance at October 31, 2015 | \$1,812 | \$ (108,042 |) \$(106,230 |) |

⁽¹⁾ For the thirteen and thirty-nine weeks ended October 31, 2015, a gain was reclassified from other comprehensive income (loss) to the cost of goods sold line item on the Condensed Consolidated Statement of Operations and Comprehensive Income (Loss).

Table of Contents

The activity in accumulated other comprehensive loss for the thirteen and thirty-nine weeks ended November 1, 2014 was as follows:

| (in thousands) | Thirteen Weeks Ended November 1, 2014 | | |
|--|--|------------------|-------------|
| | Unrealized Gain | | |
| | (Loss) on | Foreign Currency | Total |
| | Derivative | Translation | |
| | Financial | Adjustment | |
| | Instruments | | |
| Beginning balance at August 2, 2014 | \$ 108 | \$(15,177) | \$(15,069) |
| Other comprehensive income (loss) before reclassifications | 9,265 | (39,119) | (29,854) |
| Reclassified from accumulated other comprehensive income (loss) ⁽²⁾ | 856 | — | 856 |
| Tax effect on other comprehensive income (loss) | (1,050) | — | (1,050) |
| Other comprehensive income (loss) | 9,071 | (39,119) | (30,048) |
| Ending balance at November 1, 2014 | \$9,179 | \$(54,296) | \$(45,117) |
| (in thousands) | Thirty-nine Weeks Ended November 1, 2014 | | |
| | Unrealized Gain | | |
| | (Loss) on | Foreign Currency | Total |
| | Derivative | Translation | |
| | Financial | Adjustment | |
| | Instruments | | |
| Beginning balance at February 1, 2014 | \$(2,166) | \$(18,751) | \$(20,917) |
| Other comprehensive income (loss) before reclassifications | 8,128 | (35,545) | (27,417) |
| Reclassified from accumulated other comprehensive income (loss) ⁽²⁾ | 4,212 | — | 4,212 |
| Tax effect on other comprehensive income (loss) | (995) | — | (995) |
| Other comprehensive income (loss) | 11,345 | (35,545) | (24,200) |
| Ending balance at November 1, 2014 | \$9,179 | \$(54,296) | \$(45,117) |

For the thirteen and thirty-nine weeks ended November 1, 2014, a loss was reclassified from other comprehensive ⁽²⁾ income (loss) to cost of goods sold on the Condensed Consolidated Statement of Operations and Comprehensive Income (Loss).

10. GILLY HICKS RESTRUCTURING

On November 1, 2013, A&F's Board of Directors approved the closure of the Company's 24 stand-alone Gilly Hicks stores. The Company substantially completed the store closures as planned by the end of the first quarter of Fiscal 2014. As a result of exiting the Gilly Hicks branded stores, approximately \$88.3 million of cumulative pre-tax charges have been incurred to date, including a benefit of \$1.6 million for the thirty-nine weeks ended October 31, 2015, primarily related to better than expected lease exit terms. During Fiscal 2015, the Company's liability related to the Gilly Hicks restructuring decreased from approximately \$6.0 million to approximately \$2.6 million as of October 31, 2015 as a result of lease termination benefits and cash payments applied against the liability.

11. SEGMENT REPORTING

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

Table of Contents

The following table provides the Company's net sales by operating segment for the thirteen and thirty-nine weeks ended October 31, 2015 and November 1, 2014.

| (in thousands) | Thirteen Weeks Ended | | Thirty-nine Weeks Ended | |
|----------------------|----------------------|---------------------|-------------------------|---------------------|
| | October 31, 2015 | November 1, 2014 | October 31, 2015 | November 1, 2014 |
| Abercrombie | \$411,259 | \$439,702 | \$1,131,626 | \$1,246,486 |
| Hollister | 467,313 | 468,118 | 1,274,040 | 1,354,330 |
| Other ⁽¹⁾ | — | 3,633 | 84 | 23,670 |
| Total | \$878,572 | \$911,453 | \$2,405,750 | \$2,624,486 |

(1) Represents net sales from the Company's Gilly Hicks operations. See Note 10, "GILLY HICKS RESTRUCTURING," for additional information on the Company's exit from Gilly Hicks branded stores.

The following table provides the Company's net sales by geographic area for the thirteen and thirty-nine weeks ended October 31, 2015 and November 1, 2014.

| (in thousands) | Thirteen Weeks Ended | | Thirty-nine Weeks Ended | |
|----------------|----------------------|---------------------|-------------------------|---------------------|
| | October 31, 2015 | November 1, 2014 | October 31, 2015 | November 1, 2014 |
| United States | \$572,736 | \$594,713 | \$1,536,151 | \$1,645,354 |
| Europe | 206,538 | 222,631 | 572,772 | 706,641 |
| Other | 99,298 | 94,109 | 296,827 | 272,491 |
| Total | \$878,572 | \$911,453 | \$2,405,750 | \$2,624,486 |

12. CONTINGENCIES

The Company is a defendant in lawsuits and other adversary proceedings arising in the ordinary course of business. Legal costs incurred in connection with the resolution of claims and lawsuits are generally expensed as incurred, and the Company establishes reserves for the outcome of litigation where losses are deemed probable and reasonably estimable. The Company's assessment of the current exposure could change in the event of the discovery of additional facts with respect to legal matters pending against the Company or determinations by judges, juries, administrative agencies or other finders of fact that are not in accordance with the Company's evaluation of claims. 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.

As of October 31, 2015, the Company had accrued charges of approximately \$18 million for certain legal contingencies. In addition, there are certain claims and legal proceedings pending against the Company for which accruals have not been established.

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of Abercrombie & Fitch Co.:

We have reviewed the accompanying condensed consolidated balance sheet of Abercrombie & Fitch Co. as of October 31, 2015, and the related condensed consolidated statements of operations and comprehensive income (loss) for the thirteen and thirty-nine week periods ended October 31, 2015 and November 1, 2014 and the condensed consolidated statements of cash flows for the thirty-nine week periods ended October 31, 2015 and November 1, 2014. 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 condensed 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 January 31, 2015, and the related consolidated statements of operation and comprehensive income, of stockholders' equity, and of cash flows for the year then ended (not presented herein), and in our report dated March 30, 2015, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet information as of January 31, 2015, 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
December 7, 2015

Table of Contents

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

OVERVIEW

BUSINESS SUMMARY

The Company is a specialty retailer that operates stores in North America, Europe, Asia and the Middle East and direct-to-consumer operations in North America, Europe and Asia that service its brands throughout the world. The Company sells casual sportswear apparel, including knit tops and woven shirts, graphic t-shirts, fleece, jeans and woven pants, shorts, sweaters, and outerwear; personal care products; and accessories for men, women and kids under the Abercrombie & Fitch, abercrombie kids and Hollister brands.

The Company'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 2015" represent the 52-week fiscal year that will end on January 30, 2016, and to "Fiscal 2014" represent the 52-week fiscal year that ended January 31, 2015.

For the third quarter of Fiscal 2015, net sales decreased 4% to \$878.6 million from \$911.5 million for the third quarter of Fiscal 2014. The gross profit rate for the third quarter of Fiscal 2015 was 63.7% compared to 62.2% for the third quarter of Fiscal 2014. Operating income was \$41.0 million for the third quarter of Fiscal 2015 compared to \$33.4 million for the third quarter of Fiscal 2014. Net income and net income per diluted share attributable to Abercrombie & Fitch Co. was \$41.9 million and \$0.60, respectively, for the third quarter of Fiscal 2015, compared to net income and net income per diluted share attributable to Abercrombie & Fitch Co. of \$18.2 million and \$0.25, respectively, for the third quarter of Fiscal 2014.

For the Fiscal 2015 year-to-date period, net sales decreased 8% to \$2.406 billion from \$2.624 billion for the comparable period of Fiscal 2014. The gross profit rate for the Fiscal 2015 year-to-date period was 61.6% compared to 62.2% for the comparable period of Fiscal 2014. Operating loss was \$47.2 million for the Fiscal 2015 year-to-date period compared to operating income of \$21.4 million for the comparable period of Fiscal 2014. Net loss and net loss per diluted share attributable to Abercrombie & Fitch Co. was \$22.2 million and \$0.32, respectively, for the Fiscal 2015 year-to-date period, compared to net income and net income per diluted share attributable to Abercrombie & Fitch Co. of \$7.4 million and \$0.10, respectively, for the comparable period of Fiscal 2014.

Excluding certain items, adjusted non-GAAP gross profit rate was 63.4%, operating income was \$51.1 million and net income and net income per diluted share attributable to Abercrombie & Fitch Co. was \$32.9 million and \$0.48, respectively, for the third quarter of Fiscal 2015, compared to adjusted non-GAAP gross profit rate of 62.2%, operating income of \$53.6 million, and net income and net income per diluted share attributable to Abercrombie & Fitch Co. of \$30.4 million and \$0.42, respectively, for the third quarter of Fiscal 2014. Excluding certain items, adjusted non-GAAP gross profit rate was 62.5%, operating income was \$15.2 million and net income and net income per diluted share attributable to Abercrombie & Fitch Co. was \$4.3 million and \$0.06, respectively, for the year-to-date period of Fiscal 2015, compared to adjusted non-GAAP gross profit rate of 62.2%, operating income of \$59.6 million and net income and net income per diluted share attributable to Abercrombie & Fitch Co. of \$31.5 million and \$0.43, respectively, for the year-to-date period of Fiscal 2014.

The Company believes that non-GAAP financial measures presented above, and under "RESULTS OF OPERATIONS," are useful to investors as they provide the ability to measure the Company's operating performance and compare it against that of prior periods excluding certain items which affect the comparability of our financial information. See "RESULTS OF OPERATIONS," for additional discussion on non-GAAP financial measures.

Table of Contents

The table below reconciles GAAP financial measures to non-GAAP financial measures for the thirteen and thirty-nine week periods ended October 31, 2015 and November 1, 2014.

| (in thousands, except gross profit rate and per share amounts) | October 31, 2015 | | | |
|---|------------------|-------------------------------|------------|---|
| | GAAP | Excluded Items ⁽¹⁾ | Non-GAAP | |
| Thirteen Weeks Ended | | | | |
| Gross profit rate | 63.7 | % (0.3 |)% 63.4 | % |
| Operating income | \$40,990 | \$10,086 | \$51,076 | |
| Net income attributable to Abercrombie & Fitch Co. | \$41,891 | \$(8,974 |) \$32,917 | |
| Net income per diluted share attributable to Abercrombie & Fitch Co. | \$0.60 | \$(0.12 |) \$0.48 | |
| Thirty-nine Weeks Ended | | | | |
| Gross profit rate | 61.6 | % 0.9 | % 62.5 | % |
| Operating (loss) income | \$(47,245 |) \$62,466 | \$15,221 | |
| Net (loss) income attributable to Abercrombie & Fitch Co. | \$(22,165 |) \$26,505 | \$4,340 | |
| Net (loss) income per diluted share attributable to Abercrombie & Fitch Co. | \$(0.32 |) \$0.38 | \$0.06 | |
| (in thousands, except gross profit rate and per share amounts) | November 1, 2014 | | | |
| | GAAP | Excluded Items ⁽¹⁾ | Non-GAAP | |
| Thirteen Weeks Ended | | | | |
| Gross profit rate | 62.2 | % — | % 62.2 | % |
| Operating income | \$33,366 | \$20,268 | \$53,634 | |
| Net income attributable to Abercrombie & Fitch Co. | \$18,227 | \$12,179 | \$30,406 | |
| Net income per diluted share attributable to Abercrombie & Fitch Co. | \$0.25 | \$0.17 | \$0.42 | |
| Thirty-nine Weeks Ended | | | | |
| Gross profit rate | 62.2 | % — | % 62.2 | % |
| Operating income | \$21,353 | \$38,249 | \$59,602 | |
| Net income attributable to Abercrombie & Fitch Co. | \$7,433 | \$24,056 | \$31,489 | |
| Net income per diluted share attributable to Abercrombie & Fitch Co. | \$0.10 | \$0.33 | \$0.43 | |

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

As of October 31, 2015, the Company had \$405.6 million in cash and equivalents, and \$297.0 million in gross borrowings outstanding under its term loan facility. Net cash provided by operating activities was \$66.5 million for the thirty-nine weeks ended October 31, 2015. The Company also used cash of \$105.2 million for capital expenditures, \$50.0 million to repurchase approximately 2.5 million shares of A&F's Common Stock and \$41.7 million to pay dividends during the thirty-nine weeks ended October 31, 2015.

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.

Table of Contents

CURRENT TRENDS AND OUTLOOK

Our third quarter results reflected positive customer response to actions we have been taking on a number of fronts and provided the strongest validation yet that our initiatives are working. A number of key metrics turned positive during the quarter, including comparable sales for our Hollister brand and across our international business. In addition, our gross margin rate increased year-over-year, as promotional frequency and intensity were moderated, which resulted in meaningful adjusted non-GAAP operating income growth over last year on a constant currency basis. We have continued our efforts to reduce expenses, and we remain intensely focused on continuing to execute against our strategic initiatives.

Our ongoing efforts to improve our business are focused on:

- Putting the customer at the center of everything we do.
- Delivering a compelling and differentiated assortment.
- Optimizing our brand reach domestically and internationally and optimizing our performance in each channel.
- Defining a clear positioning for our brands.
- Continuing to improve efficiency and reduce expense.
- Ensuring we are organized to succeed.

We remain cautious given the mixed signals coming from the retail sector; however, we are confident that the work we are doing is laying the foundation for long-term profitability and growth.

For the fourth quarter of Fiscal 2015, we expect:

- Comparable sales to be approximately flat.
- Continued adverse effects from foreign currency exchange rates.
- Gross margin rate to be approximately flat with last year on a constant currency basis, resulting in a reduction in relation to last year's reported gross margin rate.
- Operating expense dollars to be approximately flat to last year after absorbing a provision for the restoration of incentive compensation.
- A weighted average diluted share count of approximately 68 million shares, excluding effects of potential share buybacks.

On a full year basis, we expect the adjusted non-GAAP effective tax rate to be in the mid-to-upper 30s, including discrete benefits relating to the release of a valuation allowance and other discrete tax items recognized through the third quarter. On a go-forward basis, we expect the annual effective tax rate to be in the upper 30s.

We expect capital expenditures of approximately \$150 million for the full year.

In addition to the 23 new stores opened year-to-date, we expect to open seven new stores in the fourth quarter, including five international stores and two North American stores. Also, in addition to the 19 stores closed year-to-date, we anticipate closing approximately 40 stores in the U.S. in the fourth quarter through natural lease expirations.

Excluded from our outlook for the remainder of Fiscal 2015 are potential charges related to impairments and store closings and other potential charges related to its restructuring efforts and related tax effects.

Table of Contents

RESULTS OF OPERATIONS

REPORTING AND USE OF GAAP AND NON-GAAP MEASURES

The Company's reported results are presented in accordance with GAAP. The reported cost of goods sold, stores and distribution expense, marketing, general and administrative expense, operating income (loss), tax (benefit) expense, net income (loss) and net income (loss) per diluted share attributable to Abercrombie & Fitch Co. for the thirteen and thirty-nine week periods ended October 31, 2015 and November 1, 2014 reflect certain items affecting the comparability of our financial information. This financial information is also presented on a non-GAAP basis for the periods presented to exclude the impact of these items.

The Company believes that non-GAAP measures are useful to investors as they provide the ability to assess the Company's operating performance and compare it against that of prior periods excluding certain items which affect the comparability of our financial information. These non-GAAP measures should not be used as alternatives to cost of goods sold, stores and distribution expense, marketing, general and administrative expense, operating income (loss), tax (benefit) expense, and net income (loss) and net income (loss) per diluted share attributable to Abercrombie & Fitch Co. and are also not intended to be indicators of ongoing operating performance of the Company or to supersede or replace the Company's GAAP reported results.

Table of Contents

STORE ACTIVITY

Store count and gross square footage by brand for the thirteen weeks ended October 31, 2015 and November 1, 2014, respectively, were as follows:

| Store activity | Abercrombie ⁽¹⁾ | Hollister ⁽²⁾ | Total | |
|--|----------------------------|--------------------------|-------|---|
| U.S. stores | | | | |
| August 1, 2015 | 354 | 429 | 783 | |
| New | 7 | 2 | 9 | |
| Closed | (2 |) — | (2 |) |
| October 31, 2015 | 359 | 431 | 790 | |
| Gross square feet at October 31, 2015 (in thousands) | 2,743 | 2,966 | 5,709 | |
| International stores | | | | |
| August 1, 2015 | 34 | 137 | 171 | |
| New | 2 | 2 | 4 | |
| Closed | — | — | — | |
| October 31, 2015 | 36 | 139 | 175 | |
| Gross square feet at October 31, 2015 (in thousands) | 584 | 1,185 | 1,769 | |
| Total stores | 395 | 570 | 965 | |
| Total gross square feet at October 31, 2015 (in thousands) | 3,327 | 4,151 | 7,478 | |
| Store activity | | | | |
| U.S. stores | | | | |
| August 2, 2014 | 377 | 454 | 831 | |
| New | 2 | — | 2 | |
| Closed | (2 |) (2 |) (4 |) |
| November 1, 2014 | 377 | 452 | 829 | |
| Gross square feet at November 1, 2014 (in thousands) | 2,884 | 3,119 | 6,003 | |
| International stores | | | | |
| August 2, 2014 | 27 | 131 | 158 | |
| New | 3 | 2 | 5 | |
| Closed | — | — | — | |
| November 1, 2014 | 30 | 133 | 163 | |
| Gross square feet at November 1, 2014 (in thousands) | 550 | 1,162 | 1,712 | |
| Total stores | 407 | 585 | 992 | |
| Total gross square feet at November 1, 2014 (in thousands) | 3,434 | 4,281 | 7,715 | |

⁽¹⁾ Includes Abercrombie & Fitch and abercrombie kids brands. Prior period store counts have been restated to combine abercrombie kids carveouts with Abercrombie & Fitch stores into one store. The change reduced total stores by eight stores as of August 2, 2014 and November 1, 2014.

⁽²⁾ Excludes two franchise stores.

Table of Contents

Store count and gross square footage by brand for the thirty-nine weeks ended October 31, 2015 and November 1, 2014, respectively, were as follows:

| Store activity | Abercrombie ⁽¹⁾ | Hollister ⁽²⁾ | Total |
|--|----------------------------|--------------------------|-------|
| U.S. stores | | | |
| January 31, 2015 | 361 | 433 | 794 |
| New | 11 | 2 | 13 |
| Closed | (13 |) (4 |) (17 |
| October 31, 2015 | 359 | 431 | 790 |
| Gross square feet at October 31, 2015 (in thousands) | 2,743 | 2,966 | 5,709 |
| International stores | | | |
| January 31, 2015 | 32 | 135 | 167 |
| New | 4 | 6 | 10 |
| Closed | — | (2 |) (2 |
| October 31, 2015 | 36 | 139 | 175 |
| Gross square feet at October 31, 2015 (in thousands) | 584 | 1,185 | 1,769 |
| Total stores | 395 | 570 | 965 |
| Total gross square feet at October 31, 2015 (in thousands) | 3,327 | 4,151 | 7,478 |
| Store activity | | | |
| U.S. stores | | | |
| February 1, 2014 | 381 | 458 | 839 |
| New | 3 | 1 | 4 |
| Closed | (7 |) (7 |) (14 |
| November 1, 2014 | 377 | 452 | 829 |
| Gross square feet at November 1, 2014 (in thousands) | 2,884 | 3,119 | 6,003 |
| International stores | | | |
| February 1, 2014 | 24 | 129 | 153 |
| New | 6 | 4 | 10 |
| Closed | — | — | — |
| November 1, 2014 | 30 | 133 | 163 |
| Gross square feet at November 1, 2014 (in thousands) | 550 | 1,162 | 1,712 |
| Total stores | 407 | 585 | 992 |
| Total gross square feet at November 1, 2014 (in thousands) | 3,434 | 4,281 | 7,715 |

⁽¹⁾ Includes Abercrombie & Fitch and abercrombie kids brands. Prior period store counts have been restated to combine abercrombie kids carveouts with Abercrombie & Fitch stores into one store. The change reduced total stores by eight stores as of January 31, 2015 and November 1, 2014, and by six stores as of February 1, 2014.

⁽²⁾ Excludes two franchise stores.

Table of Contents

Net Sales

| (in thousands) | Thirteen Weeks Ended October 31, 2015 | | | November 1, 2014 | | |
|----------------------------|---|---|-------------|---|------------------------|-----------------------|
| | Net Sales | Change in Comparable Sales ⁽¹⁾ | Net Sales | Change in Comparable Sales ⁽¹⁾ | Net Sales \$ Change | Net Sales % Change |
| Abercrombie ⁽²⁾ | \$411,259 | (5)% | \$439,702 | (7)% | \$(28,443) |) (6)% |
| Hollister | 467,313 | 3% | 468,118 | (12)% | (805) |) —% |
| Other ⁽³⁾ | — | | 3,633 | | (3,633) |) (100)% |
| Total net sales | \$878,572 | (1)% | \$911,453 | (10)% | \$(32,881) |) (4)% |
| U.S. | \$572,736 | (3)% | \$594,713 | (7)% | \$(21,977) |) (4)% |
| International | 305,836 | 1% | 316,740 | (15)% | (10,904) |) (3)% |
| Total net sales | \$878,572 | (1)% | \$911,453 | (10)% | \$(32,881) |) (4)% |
| (in thousands) | Thirty-nine Weeks Ended October 31, 2015 | | | November 1, 2014 | | |
| | Net Sales | Change in Comparable Sales ⁽¹⁾ | Net Sales | Change in Comparable Sales ⁽¹⁾ | Net Sales \$ Change | Net Sales % Change |
| Abercrombie ⁽²⁾ | \$1,131,626 | (7)% | \$1,246,486 | (4)% | \$(114,860) |) (9)% |
| Hollister | 1,274,040 | (2)% | 1,354,330 | (10)% | (80,290) |) (6)% |
| Other ⁽³⁾ | 84 | | 23,670 | | (23,586) |) (100)% |
| Total net sales | \$2,405,750 | (4)% | \$2,624,486 | (7)% | \$(218,736) |) (8)% |
| U.S. | \$1,536,151 | (5)% | \$1,645,354 | (6)% | \$(109,203) |) (7)% |
| International | 869,599 | (4)% | 979,132 | (10)% | (109,533) |) (11)% |
| Total net sales | \$2,405,750 | (4)% | \$2,624,486 | (7)% | \$(218,736) |) (8)% |

Changes in comparable sales are calculated on a constant currency basis by converting prior year store and online (1) sales at current year exchange rates. For the purpose of this calculation, a store must have been open as the same brand at least one year and its square footage must not have been expanded or reduced by more than 20% within the past year.

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

Represents net sales from the Company's Gilly Hicks operations. See Note 10, "GILLY HICKS

(3) RESTRUCTURING," of the Notes to Condensed Consolidated Financial Statements included in "ITEM 1.

FINANCIAL STATEMENTS," for additional information on the Company's exit from Gilly Hicks branded stores.

Net sales for the third quarter of Fiscal 2015 decreased 4% compared to the third quarter of Fiscal 2014. The decrease in net sales was largely attributable to the adverse effect from changes in foreign currency exchange rates (based on converting prior year sales at current year exchange rates) of approximately \$33 million and a 1% decrease in comparable sales, partially offset by the net impact of store openings, closings and remodels.

Net sales for the year-to-date period of Fiscal 2015 decreased 8% compared to the year-to-date period of Fiscal 2014. The decrease in net sales was largely attributable to the adverse effect from changes in foreign currency exchange rates (based on converting prior year sales at current year exchange rates) of approximately \$124 million, and a 4% decrease in comparable sales, partially offset by the net impact of store openings, closings and remodels.

Table of Contents

Cost of Goods Sold

| | Thirteen Weeks Ended | | | |
|--|-------------------------|----------------|------------------|----------------|
| | October 31, 2015 | | November 1, 2014 | |
| (in thousands) | | % of Net Sales | | % of Net Sales |
| Cost of goods sold | \$318,785 | 36.3% | \$344,383 | 37.8% |
| Recovery on inventory write-down | 2,573 | 0.3% | — | —% |
| Adjusted non-GAAP cost of goods sold | \$321,358 | 36.6% | \$344,383 | 37.8% |
| Gross profit | \$559,787 | 63.7% | \$567,070 | 62.2% |
| Recovery on inventory write-down | (2,573) | (0.3)% | — | —% |
| Adjusted non-GAAP gross profit | \$557,214 | 63.4% | \$567,070 | 62.2% |
| | Thirty-nine Weeks Ended | | | |
| | October 31, 2015 | | November 1, 2014 | |
| (in thousands) | | % of Net Sales | | % of Net Sales |
| Cost of goods sold | \$924,552 | 38.4% | \$992,801 | 37.8% |
| Inventory write-down, net ⁽¹⁾ | (21,667) | (0.9)% | — | —% |
| Adjusted non-GAAP cost of goods sold | \$902,885 | 37.5% | \$992,801 | 37.8% |
| Gross profit | \$1,481,198 | 61.6% | \$1,631,685 | 62.2% |
| Inventory write-down, net ⁽¹⁾ | 21,667 | 0.9% | — | —% |
| Adjusted non-GAAP gross profit | \$1,502,865 | 62.5% | \$1,631,685 | 62.2% |

⁽¹⁾ Inventory write-down charges related to a first quarter of Fiscal 2015 decision to accelerate the disposition of certain aged merchandise, net of higher than expected recoveries realized during the second and third quarters of Fiscal 2015.

Cost of goods sold as a percentage of net sales decreased by approximately 150 basis points for the third quarter of Fiscal 2015 compared to the third quarter of Fiscal 2014. The decrease was primarily due to a decrease in average unit cost coupled with an increase in average unit retail, as lower promotional activity more than offset the adverse effect from changes in foreign currency exchange rates. Excluding a benefit of \$2.6 million related to better than expected recovery on previously written down inventory, adjusted non-GAAP cost of goods sold as a percentage of net sales decreased by approximately 120 basis points for the third quarter of Fiscal 2015 compared to third quarter of Fiscal 2014.

Cost of goods sold as a percentage of net sales increased by approximately 60 basis points for the year-to-date period of Fiscal 2015 compared to the year-to-date period of Fiscal 2014. The increase was primarily due to a decrease in average unit retail driven by adverse effects from changes in foreign currency exchange rates and a net inventory write-down charge of \$21.7 million, partially offset by a decrease in average unit cost. Excluding the net inventory write-down charge, adjusted non-GAAP cost of goods sold as a percentage of net sales decreased by approximately 30 basis points for the year-to-date period of Fiscal 2015 compared to the year-to-date period of Fiscal 2014.

Table of Contents

Stores and Distribution Expense

| (in thousands) | Thirteen Weeks Ended | | | |
|--|-------------------------|----------------|------------------|----------------|
| | October 31, 2015 | | November 1, 2014 | |
| | | % of Net Sales | | % of Net Sales |
| Stores and distribution expense | \$392,942 | 44.7% | \$413,551 | 45.4% |
| Store fixture disposal ⁽¹⁾ | (583 |) (0.1)% | — | —% |
| Lease termination and store closure costs ⁽²⁾ | — | —% | (2,252 |) (0.2)% |
| Profit improvement initiative ⁽³⁾ | — | —% | (105 |) (0.0)% |
| Adjusted non-GAAP stores and distribution expense | \$392,359 | 44.7% | \$411,194 | 45.1% |
| (in thousands) | Thirty-nine Weeks Ended | | | |
| | October 31, 2015 | | November 1, 2014 | |
| | | % of Net Sales | | % of Net Sales |
| Stores and distribution expense | \$1,173,773 | 48.8% | \$1,257,422 | 47.9% |
| Store fixture disposal ⁽¹⁾ | (4,200 |) (0.2)% | — | —% |
| Lease termination and store closure costs ⁽²⁾ | (1,756 |) (0.1)% | (2,252 |) (0.1)% |
| Profit improvement initiative ⁽³⁾ | (709 |) —% | (2,114 |) (0.1)% |
| Adjusted non-GAAP stores and distribution expense | \$1,167,108 | 48.5% | \$1,253,056 | 47.7% |

(1) Accelerated depreciation and disposal costs related to the discontinued use of certain store fixtures.

(2) Charges related to lease terminations and store closures.

(3) Costs related to the Company's profit improvement initiative.

Stores and distribution expense as a percentage of net sales decreased by approximately 60 basis points for the third quarter of Fiscal 2015 compared to the third quarter of Fiscal 2014. The decrease was primarily due to expense reduction efforts, partially offset by higher direct-to-consumer expense and the deleveraging effect from negative comparable sales. Excluding certain items, as presented above, adjusted non-GAAP stores and distribution expense as a percentage of net sales decreased by approximately 50 basis points for the third quarter of Fiscal 2015 compared to the third quarter of Fiscal 2014.

Stores and distribution expense as a percentage of net sales increased by approximately 90 basis points for the year-to-date period of Fiscal 2015 compared to the year-to-date period of Fiscal 2014. The increase was primarily due to the deleveraging effect from negative comparable sales and higher direct-to-consumer expense, partially offset by expense reduction efforts. Excluding certain items, as presented above, adjusted non-GAAP stores and distribution expense as a percent of net sales increased by approximately 80 basis points for the year-to-date period of Fiscal 2015 compared to the year-to-date period of Fiscal 2014.

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 \$24.9 million for the thirteen weeks ended October 31, 2015 compared to \$24.0 million for the thirteen weeks ended November 1, 2014 and \$72.6 million for the thirty-nine weeks ended October 31, 2015 compared to \$69.7 million for the thirty-nine weeks ended November 1, 2014.

Handling costs, including costs incurred to store, move and prepare the products for shipment to stores, were \$11.1 million for the thirteen weeks ended October 31, 2015 compared to \$12.1 million for the thirteen weeks ended November 1, 2014 and \$33.0 million for the thirty-nine weeks ended October 31, 2015 compared to \$39.7 million for the thirty-nine weeks ended November 1, 2014.

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

Table of Contents

Marketing, General and Administrative Expense

| (in thousands) | Thirteen Weeks Ended | | | |
|---|-------------------------|----------------|------------------|----------------|
| | October 31, 2015 | | November 1, 2014 | |
| | | % of Net Sales | | % of Net Sales |
| Marketing, general and administrative expense | \$ 117,698 | 13.4% | \$ 104,981 | 11.5% |
| Profit improvement initiative ⁽²⁾ | — | —% | (566) | (0.1)% |
| Corporate governance matters ⁽³⁾ | — | —% | (639) | (0.1)% |
| Adjusted non-GAAP marketing, general and administrative expense | \$ 117,698 | 13.4% | \$ 103,776 | 11.4% |
| | Thirty-nine Weeks Ended | | | |
| | October 31, 2015 | | November 1, 2014 | |
| | | % of Net Sales | | % of Net Sales |
| Marketing, general and administrative expense | \$ 345,077 | 14.3% | \$ 339,595 | 12.9% |
| Legal settlement charges ⁽¹⁾ | (15,753) | (0.7)% | — | —% |
| Profit improvement initiative ⁽²⁾ | (1,770) | (0.1)% | (3,583) | (0.1)% |
| Corporate governance matters ⁽³⁾ | — | —% | (7,542) | (0.3)% |
| Adjusted non-GAAP marketing, general and administrative expense | \$ 327,554 | 13.6% | \$ 328,470 | 12.5% |

(1) Charges related to certain proposed legal settlements.

(2) Costs related to the Company's profit improvement initiative.

(3) Legal, advisory and other charges related to certain corporate governance matters.

Marketing, general and administrative expense as a percentage of net sales increased by approximately 190 basis points for the third quarter of Fiscal 2015 compared to the third quarter of Fiscal 2014. The increase was primarily due to higher compensation expense. Excluding certain items, as presented above, adjusted non-GAAP marketing, general and administrative expense as a percentage of net sales increased by approximately 200 basis points for the third quarter of Fiscal 2015 compared to the third quarter of Fiscal 2014.

Marketing, general and administrative expense as a percentage of net sales increased by approximately 140 basis points for the year-to-date period of Fiscal 2015 compared to the year-to-date period of Fiscal 2014. The increase was primarily due to the deleveraging effect from negative comparable sales and from adverse changes in foreign currency exchange rates, certain legal settlement charges of \$15.8 million and higher compensation expense, partially offset by expense reduction efforts. Excluding certain items, as presented above, adjusted non-GAAP marketing, general and administrative expense increased as a percent of net sales by approximately 110 basis points for the year-to-date period of Fiscal 2015 compared to the year-to-date period of Fiscal 2014.

Restructuring (Benefit) Charge

The Company recognized a restructuring benefit of \$1.6 million for the year-to-date period of Fiscal 2015 from better than expected lease exit terms associated with the restructuring of the Gilly Hicks brand. Restructuring charges associated with the closure of the Gilly Hicks stand-alone stores for the year-to-date period of Fiscal 2014 were \$6.1 million.

Asset Impairment

The Company incurred non-cash asset impairment charges of \$12.1 million for the third quarter of Fiscal 2015, compared to \$16.7 million for the third quarter of Fiscal 2014, related to stores whose asset carrying values were

determined to not be recoverable and exceeded fair value. For the third quarter of Fiscal 2015, the asset impairment charges primarily related to the Company's Abercrombie & Fitch flagship store in Hong Kong. For the third quarter of Fiscal 2014, the asset impairment charges primarily related to the Company's Abercrombie & Fitch flagship store in Tokyo, Japan, as well as three other Abercrombie & Fitch stores, five Hollister stores and nine abercrombie kids stores.

The Company incurred non-cash asset impairment charges of \$18.2 million for the year-to-date period of Fiscal 2015, compared to \$16.7 million for the year-to-date period of Fiscal 2014 related to stores whose asset carrying values were determined not to be recoverable and exceeded fair value. For the year-to-date period of Fiscal 2015, the non-cash asset impairment charges also related to certain fixtures that were removed in connection with changes to the Abercrombie and Hollister store experiences, and a fair value adjustment to the Company-owned aircraft which was sold in the second quarter of Fiscal 2015.

Table of Contents

Other Operating Income, Net

Other operating income, net for the third quarter and year-to-date period of Fiscal 2015 was \$3.9 million and \$7.0 million, respectively, and included income of approximately \$2.1 million related to insurance recoveries for both the third quarter and year-to-date period of Fiscal 2015. Other operating income for the third quarter and year-to-date period of Fiscal 2014 was \$1.5 million and \$9.4 million, respectively, and included income of approximately \$1.5 million and \$7.6 million related to insurance recoveries for the third quarter and year-to-date period of Fiscal 2014, respectively.

Operating Income (Loss)

| (in thousands) | Thirteen Weeks Ended | | November 1, 2014 | |
|---|-------------------------|----------------|------------------|----------------|
| | October 31, 2015 | % of Net Sales | | % of Net Sales |
| Operating income | \$40,990 | 4.7% | \$33,366 | 3.7% |
| Asset impairment ⁽²⁾ | 12,076 | 1.4% | 16,706 | 1.8% |
| Store fixture disposal ⁽⁴⁾ | 583 | 0.1% | — | —% |
| Recovery on inventory write-down ⁽¹⁾ | (2,573) |) (0.3)% | — | —% |
| Lease termination and store closures costs ⁽⁶⁾ | — | —% | 2,252 | 0.2% |
| Profit improvement initiative ⁽⁵⁾ | — | —% | 671 | 0.1% |
| Corporate governance matters ⁽⁸⁾ | — | —% | 639 | 0.1% |
| Adjusted non-GAAP operating income | \$51,076 | 5.8% | \$53,634 | 5.9% |
| (in thousands) | Thirty-nine Weeks Ended | | November 1, 2014 | |
| | October 31, 2015 | % of Net Sales | | % of Net Sales |
| Operating (loss) income | \$(47,245) |) (2.0)% | \$21,353 | 0.8% |
| Inventory write-down, net ⁽¹⁾ | 21,667 | 0.9% | — | —% |
| Asset impairment ⁽²⁾ | 18,209 | 0.8% | 16,706 | 0.6% |
| Legal settlement charges ⁽³⁾ | 15,753 | 0.7% | — | —% |
| Store fixture disposal ⁽⁴⁾ | 4,200 | 0.2% | — | —% |
| Profit improvement initiative ⁽⁵⁾ | 2,479 | 0.1% | 5,697 | 0.2% |
| Lease termination and store closures costs ⁽⁶⁾ | 1,756 | 0.1% | 2,252 | 0.1% |
| Restructuring (benefit) charges ⁽⁷⁾ | (1,598) |) (0.1)% | 6,053 | 0.2% |
| Corporate governance matters ⁽⁸⁾ | — | —% | 7,542 | 0.3% |
| Adjusted non-GAAP operating income | \$15,221 | 0.6% | \$59,603 | 2.3% |

(1) Inventory write-down charges related to a first quarter of Fiscal 2015 decision to accelerate the disposition of certain aged merchandise, net of higher than expected recoveries.

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

(3) Charges related to certain proposed legal settlements.

(4) Accelerated depreciation and disposal costs related to the discontinued use of certain store fixtures.

(5) Costs related to the Company's profit improvement initiative.

(6) Costs related to lease terminations and store closures.

(7) Restructuring charges (benefit) associated with the closure of the Gilly Hicks stand-alone stores, net of better than expected lease exit terms.

(8) Legal, advisory and other charges related to certain corporate governance matters.

Operating income as a percentage of net sales increased by approximately 100 basis points for the third quarter of Fiscal 2015 compared to the third quarter of Fiscal 2014. The increase was primarily driven by the net year-over-year impact of certain items, as presented above, as an increase in gross profit rate was largely offset by operating expense deleverage. Excluding certain items, as presented above, adjusted non-GAAP operating income as a percentage of sales decreased by approximately 10 basis points for the third quarter of Fiscal 2015 compared to the third quarter of Fiscal 2014.

The Company incurred an operating loss as a percent of net sales of approximately 200 basis points for the year-to-date period of Fiscal 2015 compared to operating income as a percent of net sales of approximately 80 basis points for the year-to-date period of Fiscal 2014. The year-over-year change was primarily due to the deleveraging effect from adverse changes in foreign currency exchange rates and from negative comparable sales, a net inventory write-down charge of \$21.7 million and certain legal settlement charges of \$15.8 million, partially offset by a decrease in average unit cost and expense reduction efforts. Excluding certain items,

Table of Contents

as presented above, adjusted non-GAAP income as a percentage of net sales decreased approximately 170 basis points for the year-to-date period of Fiscal 2015 compared to the year-to-date period of Fiscal 2014.

Interest Expense, Net

| (in thousands) | Thirteen Weeks Ended | | November 1, 2014 | |
|-----------------------|-------------------------|----------------|------------------|----------------|
| | October 31, 2015 | % of Net Sales | November 1, 2014 | % of Net Sales |
| Interest expense | \$5,653 | 0.6% | \$6,597 | 0.7% |
| Interest income | (1,067) | (0.1)% | (1,025) | (0.1)% |
| Interest expense, net | \$4,586 | 0.5% | \$5,572 | 0.6% |
| (in thousands) | Thirty-nine Weeks Ended | | November 1, 2014 | |
| | October 31, 2015 | % of Net Sales | November 1, 2014 | % of Net Sales |
| Interest expense | \$16,976 | 0.7% | \$12,524 | 0.5% |
| Interest income | (3,184) | (0.1)% | (2,935) | (0.1)% |
| Interest expense, net | \$13,792 | 0.6% | \$9,589 | 0.4% |

The increase in interest expense for the year-to-date period of Fiscal 2015 was primarily due to a higher average principal balance and a higher interest rate on debt outstanding compared to the year-to-date period of Fiscal 2014.

Tax (Benefit) Expense

| (in thousands, except ratios) | Thirteen Weeks Ended | | November 1, 2014 | |
|---|-------------------------|--------------------|------------------|--------------------|
| | October 31, 2015 | Effective Tax Rate | November 1, 2014 | Effective Tax Rate |
| Tax (benefit) expense | \$(5,881) | (16.2)% | \$9,567 | 34.4% |
| Tax effect of excluded items ⁽¹⁾ | 19,060 | | 8,089 | |
| Adjusted non-GAAP tax expense | \$13,179 | 28.3% | \$17,656 | 36.7% |
| (in thousands, except ratios) | Thirty-nine Weeks Ended | | November 1, 2014 | |
| | October 31, 2015 | Effective Tax Rate | November 1, 2014 | Effective Tax Rate |
| Tax (benefit) expense | \$(40,688) | 66.7% | \$4,331 | 36.8% |
| Tax effect of excluded items ⁽¹⁾ | 35,961 | | 14,193 | |
| Adjusted non-GAAP tax (benefit) expense | \$(4,727) | (330.8)% | \$18,524 | 37.0% |

⁽¹⁾ Refer to "OPERATING INCOME" for details of excluded items.

With respect to the Company's determination of its estimated annual effective tax rate, undistributed profits generated by foreign subsidiaries after October 31, 2015 are no longer considered to be indefinitely invested outside of the U.S. Accordingly, the Company plans to recognize deferred U.S. income taxes on these earnings. This change is reflected in the Company's income tax benefit recognized for the third quarter and year-to-date period of Fiscal 2015. In addition, the Company's effective tax rate remains sensitive to the underlying mix and level of earnings.

The effective tax rate was negative 16.2% for the third quarter of Fiscal 2015 compared to 34.4% for the third quarter of Fiscal 2014. Excluding certain items, as presented above, the adjusted non-GAAP effective tax rate for the quarter was 28.3% for the third quarter of Fiscal 2015 compared to 36.7% for the third quarter of Fiscal 2014. Both the effective tax rate and the adjusted non-GAAP effective tax rate for the third quarter of Fiscal 2015 reflect benefits

related to the change in the estimated annual effective tax rate, as well as discrete benefits of \$9.7 million and \$7.7 million, respectively, related to a release of a valuation allowance of \$5.9 million and other discrete tax items.

The change in the effective tax rate for the year-to-date period of Fiscal 2015 as compared to the year-to-date period of Fiscal 2014 was primarily due to discrete tax benefits of \$8.6 million related to a release of a valuation allowance of \$5.9 million and other discrete tax items, and the change in the Company's estimated annual effective tax rate.

Table of Contents

Net Income (Loss) and Net Income (Loss) per Share Attributable to Abercrombie & Fitch Co.

Net income and net income per diluted share attributable to Abercrombie & Fitch Co. was \$41.9 million and \$0.60, respectively, for the third quarter of Fiscal 2015 compared to net income and net income per diluted share attributable to Abercrombie & Fitch Co. of \$18.2 million and \$0.25, respectively, for the third quarter of Fiscal 2014. Excluding certain items, presented in the GAAP to non-GAAP financial measures reconciliation provided under "BUSINESS SUMMARY," adjusted non-GAAP net income and net income per diluted share attributable to Abercrombie & Fitch Co. was \$32.9 million and \$0.48, respectively, for the third quarter of Fiscal 2015 compared to adjusted non-GAAP net income and net income per diluted share attributable to Abercrombie & Fitch Co. of \$30.4 million and \$0.42, respectively, for the third quarter of Fiscal 2014.

Net loss and net loss per diluted share attributable to Abercrombie & Fitch Co. was \$22.2 million and \$0.32, respectively, for the year-to-date period of Fiscal 2015 compared to net income and net income per diluted share attributable to Abercrombie & Fitch Co. of \$7.4 million and \$0.10, respectively, for the year-to-date period of Fiscal 2014. Excluding certain items, detailed in the GAAP to non-GAAP financial measures reconciliation provided under "BUSINESS SUMMARY," adjusted non-GAAP net income and net income per diluted share attributable to Abercrombie & Fitch Co. was \$4.3 million and \$0.06, respectively, for the year-to-date period of Fiscal 2015 compared to adjusted non-GAAP net income and net income per diluted share attributable to Abercrombie & Fitch Co. of \$31.5 million and \$0.43, respectively, for the year-to-date period of Fiscal 2014.

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 the ABL facility available as a source of additional funding.

Asset-Based Revolving Credit Facility

The Company has a senior secured revolving credit facility with availability of up to \$400 million (the "ABL Facility"), subject to a borrowing base. The ABL Facility is available for working capital, capital expenditures and other general corporate purposes. The ABL Facility will mature on August 7, 2019. No borrowings were outstanding under the ABL Facility as of October 31, 2015.

Amounts borrowed under the ABL Facility bear interest, at the Company's option, at either an adjusted LIBOR rate plus a margin of 1.25% to 1.75% per annum, or an alternate base rate plus a margin of 0.25% to 0.75% per annum based on average historical excess availability during the preceding quarter. The Company is also required to pay a fee of 0.25% per annum on undrawn commitments under the ABL Facility. Customary agency fees and letter of credit fees are also payable in respect of the ABL Facility.

As of October 31, 2015, the borrowing base on the ABL Facility was \$391.1 million. As of December 3, 2015, the Company had not drawn on the ABL Facility, but had approximately \$8.7 in outstanding stand-by letters of credit under the ABL Facility.

Term Loan Facility

The Company is also party to a term loan agreement, which provides for a term loan facility of \$300 million (the “Term Loan Facility” and, together with the ABL Facility, the “2014 Credit Facilities”). The Term Loan Facility was issued at a \$3 million or 1.0% discount. In addition, the Company recorded deferred financing fees associated with the issuance of the 2014 Credit Facilities of \$5.8 million in aggregate, of which \$3.2 million was paid to lenders. The Company is amortizing the debt discount and deferred financing fees over the respective contractual terms of the 2014 Credit Facilities. The Company's Term Loan debt is presented in the Consolidated Balance Sheets, net of the unamortized discount and fees paid to lenders. Net borrowings as of October 31, 2015 were as follows:

32

Table of Contents

| (in thousands) | October 31, 2015 |
|---|------------------|
| Borrowings, gross at carrying amount | \$297,000 |
| Unamortized discount | (2,464) |
| Unamortized fees | (4,932) |
| Borrowings, net | 289,604 |
| Less: short-term portion of borrowings, net of discount and fees of \$1,487 | (1,513) |
| Long-term portion of borrowings, net | \$288,091 |

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

At the Company's option, borrowings under the Term Loan Facility will bear interest at either (a) an adjusted LIBOR rate no lower than 1.00% plus a margin of 3.75% per annum or (b) an alternate base rate plus a margin of 2.75% per annum. Customary agency fees are also payable in respect of the Term Loan Facility. The interest rate on borrowings under the Term Loan Facility was 4.75% as of October 31, 2015.

Operating Activities

Net cash provided by operating activities was \$66.5 million for the thirty-nine weeks ended October 31, 2015 compared to \$29.5 million for the thirty-nine weeks ended November 1, 2014. The year-over-year change in cash flow associated with operating activities was primarily the result of a change in accounts payable and accrued expenses in connection with the Company's extension of vendor payment terms and lower cash payments related to the Gilly Hicks restructuring, partially offset by a reduction in earnings, adjusted for non-cash items.

Investing Activities

Cash outflows for investing activities for the thirty-nine weeks ended October 31, 2015 and November 1, 2014 were used primarily for the purchase of property and equipment related to new store construction, information technology, and direct-to-consumer capabilities. The thirty-nine weeks ended October 31, 2015 also included proceeds from the sale of the Company-owned aircraft.

Financing Activities

For the thirty-nine weeks ended October 31, 2015, cash outflows for financing activities consisted primarily of the repurchase of A&F's Common Stock of \$50.0 million and the payment of dividends of \$41.7 million. For the thirty-nine weeks ended November 1, 2014, cash outflows for financing activities consisted primarily of the repurchase of A&F's Common Stock of \$285.0 million, the payment of dividends of \$43.5 million, partially offset by \$162.0 million in net proceeds from borrowings.

As of October 31, 2015, A&F had approximately 6.5 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, leases, taxes and other operating activities, as well as to fund capital expenditures and quarterly dividends to stockholders subject to approval by A&F's Board of Directors. The Company has availability under the ABL Facility as a source of additional funding.

The Company expects total capital expenditures for Fiscal 2015 to be approximately \$150 million, which are being prioritized toward new stores and store updates, as well as direct-to-consumer and IT investments to support growth initiatives.

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

The Company is not dependent on dividends from its foreign subsidiaries to fund its U.S. operations or make distributions to A&F's stockholders. Unremitted earnings from foreign subsidiaries generated through the third quarter of Fiscal 2015 are considered to

Table of Contents

be invested indefinitely and would become subject to U.S. income tax if they were remitted as dividends or were lent to A&F or a U.S. affiliate. Unremitted earnings from foreign subsidiaries generated after October 31, 2015 are not considered to be invested indefinitely, and the Company plans to recognize deferred U.S. income taxes on these earnings.

OFF-BALANCE SHEET ARRANGEMENTS

The Company uses in the ordinary course of business stand-by letters of credit under the existing ABL Facility. The Company had \$8.9 million in stand-by letters of credit outstanding as of October 31, 2015. The Company has no other 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 thirty-nine weeks ended October 31, 2015, there were no material changes in the contractual obligations as of January 31, 2015, 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 repayments under the Term Loan Facility.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1, "BASIS OF PRESENTATION--RECENT ACCOUNTING PRONOUNCEMENTS" of the Notes to Condensed Consolidated Financial Statements included in "ITEM 1. FINANCIAL STATEMENTS," of this Quarterly Report on Form 10-Q for recent accounting pronouncements, including the expected dates of adoption and estimated effects on our Consolidated Financial Statements.

CRITICAL ACCOUNTING ESTIMATES

We describe our significant accounting policies in Note 2, "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 2014. 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 2014. There have been no significant changes in our significant accounting policies or critical accounting estimates since the end of Fiscal 2014 with the exception of the items below.

The Company has not made any material changes in the accounting methodology used to determine the write-down of inventory to fair value over the past three fiscal years. The Company reduces the inventory valuation when the cost of specific inventory items on hand exceeds the amount expected to be realized from the ultimate sale or disposal of the goods through a lower of cost or market ("LCM") reserve. The total LCM reserve increased by approximately \$13.0 million from January 31, 2015, primarily related to the Company's decision to accelerate the disposition of certain aged inventory resulting in its write-down to estimated net realizable value.

A provision for U.S. income tax has not been recorded on undistributed profits generated through the third quarter of Fiscal 2015 of non-U.S. subsidiaries that the Company has determined to be indefinitely reinvested outside the U.S.

Determination of the amount of unrecognized deferred U.S. income tax liability on these unremitted earnings is not practicable because of the complexities associated with this hypothetical calculation. Unremitted earnings from foreign subsidiaries generated after October 31, 2015 are not considered to be invested indefinitely, and the Company plans to recognize deferred U.S. income taxes on these earnings. The Company does not expect material changes in the judgments, assumptions or interpretations used to calculate the tax provision for Fiscal 2015. However, changes in these assumptions may occur and should those changes be significant, they could have a material impact on the Company's income tax provision.

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

Table of Contents

control. Words such as “estimate,” “project,” “plan,” “believe,” “expect,” “anticipate,” “intend,” and similar expressions may indicate 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 2014 filed on March 30, 2015, in some cases have affected and in the future could affect the Company’s financial performance and could cause actual results for Fiscal 2015 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 global economic and financial conditions, and the resulting impact on consumer confidence and consumer spending, as well as other changes in consumer discretionary spending habits, could have a material adverse effect on our business, results of operations and liquidity;

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

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

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

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

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

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

our inability to successfully implement our strategic plans, including our restructuring efforts, could have a negative impact on our growth and profitability;

fluctuations in foreign currency exchange rates could adversely impact our financial condition and results of operations;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

our Asset-Based Revolving Credit Agreement and our Term Loan Agreement include restrictive covenants that limit our flexibility in operating our business; and, compliance with changing regulations and standards for accounting, corporate governance and public disclosure could adversely affect our business, results of operations and reported financial results.

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.

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 Supplemental Executive Retirement Plan. The Rabbi Trust assets primarily consist of trust-owned life insurance policies which are recorded at cash surrender value. The change in cash surrender value of the trust-owned life insurance policies held in the Rabbi Trust resulted in realized gains of \$0.8 million for each of the thirteen weeks ended October 31, 2015 and November 1, 2014 and \$2.4 million for each of the thirty-nine weeks ended October 31, 2015 and November 1, 2014, recorded in interest expense, net on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

The Rabbi Trust assets are included in other assets on the Condensed Consolidated Balance Sheets as of October 31, 2015 and January 31, 2015, and are restricted in their use as noted above.

Interest Rate Risks

The Company has approximately \$297.0 million in gross borrowings outstanding under its term loan facility (the "Term Loan Facility") and no borrowings outstanding under its senior secured revolving credit facility (the "ABL Facility" and, together with the Term Loan Facility, the "2014 Credit Facilities"). The 2014 Credit Facilities carry interest rates that are tied to LIBOR, or an alternate base rate, plus a margin. The interest rate on the Term Loan Facility has a 100 basis point LIBOR floor, and assuming no changes in the Company's financial structure as it stands, an increase in market interest rates of 100 basis points would not have a material effect on annual interest expense. This hypothetical analysis for the fifty-two weeks ending January 30, 2016 may differ from the actual change in interest expense due to various conditions which may result in changes in interest rates under the Company's 2014 Credit Facilities.

Foreign Exchange Rate Risk

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

A&F and its subsidiaries have exposure to changes in currency exchange rates associated with foreign currency transactions and forecasted foreign currency transactions, including the sale of inventory between subsidiaries and foreign denominated assets and liabilities. Such transactions are denominated primarily in U.S. Dollars, Australian Dollars, British Pounds, Canadian Dollars, Chinese Yuan, Danish Kroner, Euros, Hong Kong Dollars, Japanese Yen, Kuwaiti Dinars, New Taiwan Dollars, Polish Zloty, Singapore Dollars, South Korean Won, Swedish Kronor, Swiss Francs and United Arab Emirates Dirhams. The Company has established a program that primarily utilizes foreign currency forward contracts to partially offset the risks associated with the

Table of Contents

effects of certain foreign currency transactions and forecasted transactions. Under this program, increases or decreases in foreign currency exposures are partially offset by gains or losses on forward contracts, to mitigate the impact of foreign currency gains or losses. The Company does not use forward contracts to engage in currency speculation. All outstanding foreign currency forward contracts are recorded at fair value at the end of each fiscal period.

The fair value of outstanding foreign currency exchange forward contracts included in other current assets was \$1.7 million and \$10.3 million as of October 31, 2015 and January 31, 2015, respectively. The fair value of outstanding foreign currency exchange forward contracts included in other liabilities was \$0.3 million as of October 31, 2015, and insignificant as of January 31, 2015. Foreign currency exchange forward contracts are sensitive to changes in foreign currency exchange rates. The Company assessed the risk of loss in fair values from the effect of a hypothetical 10% devaluation of the U.S. Dollar against the exchange rates for foreign currencies under contract. The results would decrease derivative contract fair values by approximately \$10.1 million. As the Company's foreign currency exchange forward contracts are primarily designated as cash flow hedges of forecasted transactions, the hypothetical change in fair value would be largely offset by the net change in fair values of the underlying hedged items.

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 Interim Principal Executive Officer of A&F and the Executive Vice President and Chief Financial Officer of A&F, 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 Interim Principal 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 October 31, 2015. Based upon that evaluation, the Interim Principal 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 October 31, 2015, 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 October 31, 2015 that materially affected, or are reasonably likely to materially affect, A&F's internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is a defendant in lawsuits and other adversary proceedings arising in the ordinary course of business. Legal costs incurred in connection with the resolution of claims and lawsuits are generally expensed as incurred, and the Company establishes reserves for the outcome of litigation where losses are deemed probable and reasonably estimable. The Company's assessment of the current exposure could change in the event of the discovery of additional facts with respect to legal matters pending against the Company or determinations by judges, juries, administrative agencies or other finders of fact that are not in accordance with the Company's evaluation of claims. 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.

As of October 31, 2015, the Company had accrued charges of approximately \$18 million for certain legal contingencies. In addition, there are certain claims and legal proceedings pending against the Company for which accruals have not been established.

ITEM 1A. RISK FACTORS

The Company's risk factors as of October 31, 2015 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 2014 filed on March 30, 2015.

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

There were no sales of equity securities during the third quarter of Fiscal 2015 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 weeks ended October 31, 2015:

| Period (Fiscal Month) | Total Number of Shares Purchased ⁽¹⁾ | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾ | Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs ⁽³⁾ |
|--|---|------------------------------|---|---|
| August 2, 2015 through August 29, 2015 | 2,601 | \$ 19.02 | — | 8,964,176 |
| August 30, 2015 through October 3, 2015 | 1,427,422 | \$ 20.43 | 1,425,550 | 7,538,626 |
| October 4, 2015 through October 31, 2015 | 1,036,035 | \$ 20.20 | 1,034,970 | 6,503,656 |
| Total | 2,466,058 | \$ 20.33 | 2,460,520 | 6,503,656 |

5,538 of the shares of A&F's Common Stock purchased during the thirteen weeks ended October 31,

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

2,460,520 shares were repurchased during the thirteen weeks ended October 31, 2015 pursuant to A&F's publicly
(2) announced stock repurchase authorization. On August 14, 2012, A&F's Board of Directors authorized the repurchase of 10.0 million shares of A&F's Common Stock, which was announced on August 15, 2012.

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

Table of Contents

ITEM 6. EXHIBITS

| Exhibit No. | Document |
|-------------|--|
| 10.1 | Agreement entered into between Abercrombie & Fitch Management Co. and Joanne C. Crevoiserat as of October 15, 2015, the execution date by Abercrombie & Fitch Management Co., incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K of Abercrombie & Fitch Co., filed October 19, 2015 (File No. 001-12107). |
| 10.2 | Abercrombie & Fitch Co. Nonqualified Savings and Supplemental Retirement Plan (II), as amended and restated effective as of January 1, 2014, incorporated herein by reference to Exhibit 10.3 to the Current Report on Form 8-K of Abercrombie & Fitch Co., filed October 19, 2015 (File No. 001-12107). |
| 10.3 | First Amendment to the Abercrombie & Fitch Co. Nonqualified Savings and Supplemental Retirement Plan (II), as approved on October 14, 2015, incorporated herein by reference to Exhibit 10.4 to the Current Report on Form 8-K of Abercrombie & Fitch Co., filed October 19, 2015 (File No. 001-12107). |
| 10.4 | First Amendment to Credit Agreement, dated as of September 10, 2015, entered into by Abercrombie & Fitch Management Co., as the Lead Borrower, and the other Borrowers and Guarantors party thereto, with the Lenders party thereto and Wells Fargo Bank, National Association, as administrative agent for the Lenders.* |
| 10.5 | First Amendment to Term Loan Credit Agreement, dated as of September 10, 2015, entered into by Abercrombie & Fitch Management Co., as Borrower, Abercrombie & Fitch Co., as Parent, and the other Guarantors party thereto, with the Lenders party thereto and Wells Fargo Bank, National Association, as administrative agent for the Lenders.* |
| 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 Chief Operating Officer (Interim Principal Executive Officer) pursuant to Rule 13a-14(a) or Rule 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 Rule 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 Chief Operating Officer (Interim 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 October 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the Thirteen and Thirty-nine Weeks Ended October 31, 2015 and November 1, 2014; (ii) Condensed Consolidated Balance Sheets at October 31, 2015 and January 31, 2015; (iii) Condensed Consolidated Statements of Cash Flows for the Thirty-nine Weeks Ended October 31, 2015 and November 1, 2014; and (iv) Notes to Condensed Consolidated Financial Statements* |

* Filed herewith.

**Furnished herewith.

Table of Contents

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.

Date: December 7, 2015

ABERCROMBIE & FITCH CO.

By /s/ Joanne C. Crevoiserat

Joanne C. Crevoiserat

Executive Vice President and Chief Financial Officer

(Principal Financial Officer and Authorized Officer)

Table of Contents

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