## Abercrombie \& Fitch



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am delighted to report that our company again achieved record financial results. Briefly put, 2006 was another excell ent year for Abercrombie \& Fitch. As we have noted in the past, our success is largely due to our effective brand positioning and the strength of our business model.

The underlying driver of our success is thinking on a long-term basis while closely monitoring the short term. Proper execution of our unique strategy enables us to attain, and then subsequently, to strengthen the iconic status of our brands.

The Abercrombie \& Fitch brand has worked hard to achieve its high standards by staying focused on its core customer, the 18 to 22 year old, and by exemplifying E ast C oast traditions and an Ivy League heritage. Ever since, we have reinforced its brand attributes, and today, Abercrombie \& Fitch is better positioned then it has ever been.

We have successfully applied our strategy to our other brands as well. At H ollister, while its iconic status is not yet that of Abercrombie \& Fitch, its logo and brand identity are commonplace in high schools across the United States, and is now sought after internationally. The unique understanding of building iconic brands, our competitive advantage, is what differentiates us from the competition and will continue to deliver benefits as we manage our existing brands and launch new businesses.

Our success is reflected in the financial results we posted in 2006. N et income per diluted share increased $25 \%$ to $\$ 4.59$ on net sales of $\$ 3.318$ billion, which increased $19 \%$, while also increasing the gross profit rate to $66.6 \%$. These strong financial results enabled us to make significant investments in five key areas of our organization.

The first area of investment is in new concepts and the expansion of our existing brands to new markets. RUEH L is a good example of a new concept that is starting to drive sales growth; the average RUEH $L$ store generated over $\$ 3.2$ million in sales in 2006. Transactions per store increased $47 \%$ over the prior year, and the brand generated a comparable store sales increase of $14 \%$. We have also reduced the markdown rate and are improving inventory turns, and target RUEHL to achieve gross margin parity with our other brands by the end of 2007. M oreover, we accomplished all of this while enhancing brand standards.

Our new concept will open in January 2008. It has been in development for two years. We invested approximately $\$ 7.5$ million in 2006 in home office startup activities, and expect to invest from $\$ 12$ to $\$ 15$ million in the concept in 2007.

The second area of investment relates to international growth. We entered Canada by opening three Abercrombie \& Fitch and three H oll ister stores. The stores performed exceptionally well in 2006, generating approximately three times more sales per square foot and more than three times the four-wall profit than our average U .S. store. We are expanding our kids stores into C anada in 2008.

We opened our L ondon flagship store on M arch 22, and judging from the media attention and customer trafic, this store may become one of our most productive and profitable stores. We are also aggressively pursuing
real estate in both Tokyo and key European markets for Abercrombie \& Fitch and Hollister.
Third, we are reinvesting in our existing domestic store base. Since the store experience is a key brand attribute, enhancing the store environment is critical for our long-term success. Rather than let stores wear down to the point of requiring a full remodel, we refresh stores with upgrade projects including new floors, sound systems, fixtures and signage. In 2006, we invested $\$ 40$ million to refresh existing Abercrombie \& Fitch, abercrombie, and H ollister stores, and in 2007 the investment will be approximately $\$ 60$ million.

The fourth area of investment relates to our home office infrastructure, an investment that supports growth and generates operating efficiencies. In 2006, we opened a second distribution center with capacity to accommodate the addition of approximately 800 new stores. Located on our campus, this new distribution center will service all H ollister stores, as well as our fifth concept. In 2006, we also opened an on-campus merchandise research and development center called the Innovation Design Center, or IDC. The IDC has a dedi cated team that utilizes quality assurance, wash, lab and graphics machines to produce product samples for quick approval. Once finalized, the designs are packaged for production, which reduces cost and time to market.

Finally, we increased investment in our technology platform compared to prior years. In 2006 we invested $\$ 25$ million in information technology, and plan to continue this investment in 2007 by investing approximately $\$ 40$ million in technology initiatives. Our approach is focused on upgrading core systems and the pursuit of best practice technology. Upgrading merchandise planning, allocation and sourcing systems improves efficiency and accuracy in producing and delivering products to stores. Implementation of best practice technology is intended to generate payback in terms of sales growth and operating margin.

In 2006, we invested approximately $\$ 400$ million in capital expenditures and approximately $\$ 50$ million in growth initiatives. By managing the bottom line prudently, we were able to make these investments while meeting our financial goals. In 2007, we plan to continue to make strategic investments that help drive long-term growth while continuing to maintain discipline on the bottom line.

While the company's financial results reflect strong returns on invested capital, our dedication manifests itself in our product. Each assortment is the result of the coll aborative effort of our associates. Their commitment to protecting and enhancing the quality of every aspect of our brands is our driving force. We operate and succeed as a team, obsessive about the future of our brands. I am grateful for that passion and our performance shows that our consumers also appreciate this attention.

## hike

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| (Thousands except per share, per square foot amounts, ratios and tore and associate data) |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Fiscal Year | 2006* | 2005 | 2004 | 2003 | 2002 |
| Summary of Operations |  |  |  |  |  |
| $N$ et Sales | \$3,318,158 | \$2,784,711 | \$2,021,253 | \$1,707,810 | \$1,595,757 |
| Gross Profit | \$2,209,006 | \$1,851,416 | \$1,341,224 | \$1,083,170 | \$ 980,555 |
| Operating Income | \$ 658,090 | \$ 542,738 | \$ 347,635 | \$ 331,180 | \$ 312,315 |
| 0 perating Income as a |  |  |  |  |  |
| N et Income | \$ 422,186 | \$ 333,986 | \$ 216,376 | \$ 204,830 | 194,754 |
| N et Income as a Percentage of $N$ et Sales | 12.7\% | 12.0\% | 10.7\% | 12.0\% | 12.2\% |
| Dividends D eclared Per Share | 0.70 | 0.60 | \$ 0.50 | - | - |
| Net Income Per Weighted-Average Share Results |  |  |  |  |  |
| Basic | 4.79 | \$ 3.83 | \$ 2.33 | \$ 2.12 | \$ 1.98 |
| Diluted | 4.59 | \$ 3.66 | \$ 2.28 | \$ 2.06 | \$ 1.94 |
| Diluted Weighted-Average Shares O utstanding | 92,010 | 91,221 | 95,110 | 99,580 | 100,631 |
| Other Financial Information Total Assets | \$2,248,067 | \$1,789,718 | \$1,386,791 | \$1,401,369 | \$1,190,615 |
| Return on Average Assets | 21\% | 21\% | 16\% | 16\% | 18\% |
| Capital Expenditures | \$ 403,476 | \$ 256,422 | \$ 185,065 | \$ 159,777 | \$ 145,662 |
| Long-Term D ebt | - | - | - | - | - |
| Shareholders' Equity | \$1,405,297 | \$ 995,117 | \$ 669,326 | \$ 857,764 | \$ 736,307 |
| Return on Average Shareholders' Equity | 35\% | 40\% | 28\% | 26\% | 30\% |
| Comparable Store Sales** | 2\% | 26\% | 2\% | (9)\% | (5)\% |
| N et Retail Sales Per Average G ross Square Foot | \$ 500 | \$ 464 | \$ 360 | \$ 345 | 379 |
| Stores at End of Year and Average Associates |  |  |  |  |  |
| Total N umber of Stores Open | 944 | 851 | 788 | 700 | 597 |
| Gross Square Feet | 6,693,000 | 6,025,000 | 5,590,000 | 5,016,000 | 4,358,000 |
| Average N umber of Associates | 80,100 | 69,100 | 48,500 | 30,200 | 22,000 |

 Fisal 2006 comparabl e sore sale are compared to the comparable tore sale for the fifty-three weaks ended February 4 , 2006

OVERVIEW The Company's fiscal year ends on the Saturday closes o January 31, typically resulting in a fifty-two week year, but occasionally giving rise to an additional week, resulting in a fifty-three week year. calendar year in which the fiscal year commences. All references herein calendar year in which the fiscal year commences. All references herein
to "Fiscal 2006" represent the results of the 53 -week fiscal year ended February 3, 2007; to "Fiscal 2005" represent the 52-week fiscal year ended January 28, 2006; and to "Fiscal 2004" represent the 52-week fiscal year represent the 52 -week fiscal year that will end on February 2,2008 Fiscal 2006 includes fifty-three weeks and Fiscal 2005 includes fity wo weeks. For purposes of "M anagement's Discussion and Analysis of Financial Condition and Results of Operations", the fourteen and fifty-three week periods ended February 3,2007 are compared to the thirteen and fity-two week periods ended January 28, 2006. Comparable store sales however, compare the fourteen and fifty-three week periods ended February 3, 2007 to the fourteen and fifty-three week periods ended February 4, 2006.
nded February 3, 2007, up 19.1\% from $\$ 2785$ billion for the fifteets ended February 3, 2007, up 19.1\% from $\$ 2.785$ billion for the fifty-two
weeks ended January 28, 2006. Operating income for Fiscal 2006 weeks ended January increased $_{21.3 \%}$ to $\$ 658.1$ million from $\$ 542.7$ million for Fiscal 2005. Operating income results for Fiscal 2006 included $\$ 14.1$ million of expense related to SFAS No. 123 (Revised 2004), "Share Based Payment" ("SFAS No. $123(\mathrm{R})$ "). Operating income results for Fiscal 2005 included a non-recurring charge of $\$ 13.5$ million related to a severance agreement of an executive officer. Net income was $\$ 422.2$ million in Fiscal 2006, up $26.4 \%$ from $\$ 334.0$ million in Fiscal 2005 . Net income per diluted weighted-average share was $\$ 4.59$
The C ompany generated cash from operations of $\$ 582.2$ million in Fiscal 2006 versus $\$ 453.6$ million in Fiscal 2005, resulting primarily from strong sales and income growth. During Fiscal 2006 , theC ompany used cash from operations to finance its growth strategy, opening 70 new H ol ilister stores, 19 new abercrombie stores, eight new Abercrombie \& Fitch stores, as well as refreshing existing Abercrombie \& Fitch, abercrombie and H ollister stores.
The C ompany also used excess cash in Fiscal 2006 to pay dividends or a total of $\$ 61.6$ million. The Company pelieves that share repur chases and dividends are an important way for the Company to deliver shareholder value, but the Company's priority will be to invest in the business to support its domestic and international growth plans. The Company continues to be committed to maintaining sufficient cash on the balance sheet to support the needs of the business and withstand unanticipated business volatility.

FINANCIAL SUMMMARY The following summarized financial Fiscal 2005 to Fiscala compares Fiscal 2006 to Fiscal 2005 and


The foll lowing data represents the C ompany's consolidated statements of net incomefor thelast threefiscal years, expressed as a percentage of net sales:

| Net Sales <br> Cost of Goods Sold | $\begin{aligned} & 100.0 \% \\ & 3.4 \end{aligned}$ | $100.0 \%$ 33.5 | 100.08 33.6 |
| :---: | :---: | :---: | :---: |
| Gross Profit | 66.6 | 66.5 | 66.4 |
| Stores and Distribution Expense | 35.8 | 35.9 | 36.5 |
| M arketing, General and Administrative Expense | 11.3 | 11.3 | 12.9 |
| Other Operating Income, N et | (0.3) | (0.2) | (0.2) |
| Operating Income | 19.8 | 19.5 | 17.2 |
| Interest Income, Net | (0.4) | (0.2) | ${ }^{(0.3)}$ |
| Income Before Income Taxes | 20.3 | 19.7 | 17.5 |
| Provision for Income Taxes | 7.5 | 7.7 | 6.8 |
| Net Income | 12.7\% | 12.0\% | 10.7 |

*Fiscal 2006 isa fifty-three wek year.
CURRENT TRENDSAND OUTLOOK In Fiscal 2006, the C ompany continued to grow the business. Despite performance that was very challenging to build on in Fiscal 2005, the C ompany achieved a 2\% Fiscal 2006. The increase in net sales was driven by a combination of new store growth, an increase in the direct-to-consumer business increases in transactions per store and a fifty-three week year in Fiscal 2006 versus a fifty-two week year in Fiscal 2005. Overall, the C ompany was able to make significant investments in future growth while improving operating income, as a percentage of sales, to $19.8 \%$. These investments are summarized below.
The first major area of investment was strengthening the iconic nature of the Company's brands. During Fiscal 2006, the Company eliminated distinct seasonal sales events to ensure that full price merto the next. In addition, the Company refreshed sel Fitch stores with the objective of replicating certain aspects of the Fifth Avenue Flagship store experience. Finally, the Company increased salary levels in several store manager categories in an effort to continue attracting and retaining strong management teams.
The second major area of investment was international growth. During Fiscal 2006 the Company expanded its C anadian operations from two stores to six. The C anadian stores generated approximately three times the sales per square foot of an average U.S. store. As a result of the success of the Canadian stores, the C ompany is exploring Fiscal 2007. During Fiscal 2006 the Company also invested its resources and focus on building and staffing its U.K. London flagship Abercrombie \& Fitch store. The store opened on M arch 22, 2007 and the initial results exceeded the C ompany's expectations.
The third major area of investment was infrastructure to support the future growth of the Company. In Fiscal 2006, the Company opened its second distribution center ("DC") which increased the Company's capacity to support stores by approximately 800 stores. In addition, the Company continued to invest in staffing on both the creative and adminmentive in prior years. For Fiscal 2007 , the Company does not anticipate additions to headcount at the same rate as in Fiscal 2006. The C ompany
also opened an on-campus merchandise research and development center known as the Innovation D esign Center ("IDC"). The IDC produces graphic and wash samples for quick approval, and the final designs are packaged for vendor production. The IDC enables the Company to reduce the time to markee for the latest fashion trends, saving time and expense while limiting the competition's ability to copy its designs. The fourth major area of investment was information technology
The Company invested in the upgrade of core systems to help run allocation, planning, sourcing and merchandising. Thesystem upgrades are expected to make the Company more scalable, efficient and accurate in the production and delivery of merchandise to stores. The Company also continues to invest in best practicetechnologies that are expected to provide a clear competitive advantage.
The Company views the $H$ oll ister brand as having a growing iconic status and as a significant growth vehicle in the future. Hollister's success in Canada and the growth in international web sales have resulted in the C ompany investigating the acceleration of its international store rollout. Abercrombie \& Fitch is a maturing brand with an
opportunity for future growth dependent on prime locations for its stores along with brand expansion outside of the U inted States. The Company is pursuing real estate in both Tokyo and key European markets for the next phase of international expansion for Abercrombie \& Fitch and H ol lister stores. abercrombie is viewed as having growth opportunities within the United States, and the C ompany expects to grow the brand to about 250 locations, as well as possible expansion into Canada. RUEHL performed well in Fiscal 2006 with stron trends in many areas. Transactions per store increased and the bran achieved a $14 \%$ increase in comparable store sales, which the Company believes indicates RUEHL is building a strong customer base. The the other brands as well as profitability by the end of Fiscal 2007. Additionally, the Company plans to introduce its next concept with the opening of approximately three stores in January 2008 and approx imately four additional stores by M arch 2008.
For Fiscal 2007, the Company will be faced with the challenge of improving on Fiscal 2006's performance. From agross margin standpoint , Company does not anticipate IMU improvements in its forecasts. The Company expects to leverage marketing, general and administrative minimum wage increases, store manager payroll increseses, new as store pre opening costs and incremental costs of operating the second DC the Company does not anticipate leveraging stores and distribution expense on a flat to slightly positive comparable store sales increase in Fiscal 2007. The Company ended the fourth quarter of Fiscal 2006 with inven ories, at cost, up 6\% per gross square foot versus the fourth quarter of siscal 2005. The Company believes it will end the first quarter of iscal 2007 with inventory flat to slightly positive on a per gross squar foot, at cost, when compared to the first quarter of Fiscal 2006
During Fiscal 2007, the Company anticipates capital expenditures of this amount is allocated to new store construction and full sore remodels. Approximately $\$ 60$ million is expected to be allocated to
refresh existing stores. The store refresh will includenew floors, sound systems and fixture replacements at Abercrombie \& Fitch and aber crombie stores. In addition, the store refresh will include the addition of video walls at existing H ollister stores and fixtures to stores throughout the Hollister chain. The Company is planning approximately $\$ 85$ million in capital expenditures at the home office related to new office buildings, information technology investment and new direc-co-consumer distribution and logistics systems. millich for the purchase of an airplane. With planned expansion in Europe and Asia over thenext several years, the Company concluded that acquiring a plane is more beneficial than continuing multiple fractional share ownership programs in meeting the business travel needs of its Chief Executive Officer and senior management team.
The foll owing measurements are among the key business indicators reviewed by various members of management to gauge the C ompany's results:
C omparable store sales by brand, by product and by store, defined as year-over-year sales for a store that has been open as the same or reduced by more than $20 \%$ within the past year IMU;
Selling margin, defined as sales priceless original cost, by brand and by product category;
Store metrics such as sales per gross square foot, average unit retail, average transaction values, store contribution (defined as store sales less direct costs of running the store) and average units per transaction;

- G ross profit rate;
- O perating income
- Net income;

Inventory per gross square foot; and
C ash flow and liquidity determined by the Company's current ratio
and cash provided by operations.
While not all of these metrics are disclosed publicly by the Company, due to the proprietary nature of the information, the Company publicly discloses and discuses severa of these meries spar iscussion mand sum

FISCAL 2006 COMPARED TO FISCAL 2005: FOURT QUARTER RESULTS: NET SALES N et sales for the fourt uarter of Fiscal 2006 were $\$ 1.139$ billion, up $18.5 \%$ versus last year's ourth quarter net sales of $\$ 961.4$ million. The net sales increase was primarily attributed to the net addition of 93 stores, including the full quarter impact of the Abercrombie \& Fitch Fifth Avenue Flagship store and six stores in Canada; a $58 \%$ increase in direct-to-consume business (including shipping and handling revenue); and a fourteen week quarter in F scal 2006 versus a thirteen week quarter in F iscal
Comparable store sales by brand for the fourth quarter of Fiscal

2006 versus the same quarter in Fiscal 2005 were as follows: Abercrombie \& Fitch decreased $6 \%$ with women's comparable store sales decreasing by a high single digit and mens decreasing by a mid single-digit; abercrombie increased $2 \%$ with boys achieving a mid singledigit increase and girls flat; H ollister was flat with bettys flat and dudes posting a decrease in the low singledigits; and RUEH L increased $6 \%$ with womens realizing a mid single digit increase and mens posting a low single-digit increase
On a regional basis, comparable store sales for the Company ranged from decreases in the high singledigits to increases in the low single-
digits. Stores located in the N ew York and M id-Atlantic regions had the strongest comparable store sales performance and stores located in the West region had the weakest comparable store sales performance on a consolidated basis.
From a merchandise classification standpoint across all brands, stronger performing masculine categories included fleece, knit tops and underwear, while jeans, pants and sweaters posted negative comparable store sales. In the feminine businesses, across all brands, while jeans, skirts and pants posted negative comparable store sales, Direct-to-consumer merchandise net sales, which are sold through the Company's web sites and catalogue, in the fourth quarter of Fiscal 2006 were $\$ 74.8$ million, an increase of $57.5 \%$ versus last year's fourth quarter net sales of $\$ 47.5$ million. Shipping and handling revenue for the corresponding periods was $\$ 9.8$ milition in Fiscal 2006 and $\$ 6.2$ million in Fiscal 2005. The direct-to-consumer business, including shipping and handling revenue, accounted for $7.4 \%$ of net sales in the fourth quarter of Fiscal 2006 compared to $5.6 \%$ in the fourth quarter of Fiscal 2005

GROSS PROFIT Gross profit during the fourth quarter of Fiscal 2006 was $\$ 755.6$ million compared to $\$ 639.4$ million in Fiscal 2005. The gross profit rate (gross profit divided by net sales) for the fourth quarter of Fiscal 2006 was $66.4 \%$, down 10 basis points from last year's fourth quarter rate of $66.5 \%$. The decrease in gross profit rate largely resulted from higher shrink and a slightly higher markdown rate compared to The Company is targeting RUEH LMU prity with the other brands by the end of Fiscal 2007.

STORES AND DISTRIBUTION EXPENSE Stores and distribution expense for the fourth quarter of Fiscal 2006 was $\$ 349.8$ milion compared to $\$ 293.5$ million for the comparable period in Fiscal 2005. The stores and distribution expense rate (stores and distribution expense divided by net sales) for the fourth quarter of Fiscal 2006 was $30.7 \%$ up 20 basis points from $30.5 \%$ in the fourth quarter of Fiscal 2005. The increase in rate is primarily related to addational DC tional in the fourth quarter and direct-to-consumer expenses, which increased due to higher internet sales as a percentage of total sales. These increases were partially offset by decreased store expenses as a percentage of sales. Selling payroll, driven by management salary increases, state minimum wage increases and additional floor coverage to address shrink concerns increased as a percentage of sales. H owever, the increase in selling payroll was more than offset by leveraging other store related control lable expenses
The DC productivity level, measured in units processed per labor hour ("UPH "), was $9 \%$ higher in the fourth quarter of Fiscal 2006 ver-
sus the fourth quarter of Fiscal 2005. TheUPH rateincrease wasdueto the second DC becoming fully operational during the fourth quater The Company expets the UPH level to increase during Fiscal 2007

MARKETING,GENERAL AND ADMINISTRATIVE EXPENSE M arketing, general and administrative expense during the fourth quarter of Fiscal 2006 was $\$ 101.6$ miliion compared to $\$ 80.8$ miliion during the same period in Fiscal 2005. For the fourth quarter of Fiscal 2006, the marketing, general and administrative expense rate (marketing, general and administrative expense divided by net sales) was $8.9 \%$ compared to 8.4eneral and administrative expense rate was due to higher home office payrol and consulting expenses

OTHER OPERATING INCOME, NET Fourth quarter net other operating income for Fiscal 2006 was $\$ 4.6$ million compared to $\$ 2.3$ million for the fourth quarter of Fiscal 2005. Other operating income primarily related to thegift cards for which the Company has determined the likelihood of redemption to be remote.

OPERATING INCOME O perating income during the fourth quarter of Fiscal 2006 increased to $\$ 308.8$ million from $\$ 267.5$ million in income divided by net sales) for the fourth quarter of Fiscal 2006 was
$27.1 \%$ compared to $27.8 \%$ for the fourth quarter of Fiscal 2005.
INTEREST INCOME, NET AND INCOME TAXES Fourth quarter net interest income was $\$ 4.7$ million in Fiscal 2006 compared to $\$ 2.4$ million during the comparable period in Fiscal 2005. The increase in net interest income was due to higher interest rates and higher available investment balances during the fourth quarter of The effective tax rate for the fourth quarter of Fiscal 2006 was $36.8 \%$ as compared to $39.0 \%$ for the Fiscal 2005 comparable period The decrease in the effective tax rate was primarily related to favorable settlements of tax audits during the fourth quarter and the change in estimates of potential outcomes of certain state tax matters.

NET INCOME AND NET INCOME PER SHARE Net income for the fourth quarter of Fiscal 2006 was $\$ 198.2$ million versus $\$ 164.6$ mil lion for the fourth quarter of Fiscal 2005, an increase of $20.4 \%$. Net quarter of Fiscal 2006 was $\$ 214$ induding $\$ 0.01$ reted to SFAS 123(R), versus $\$ 1.80$ for the same period last year, an increase of $18.9 \%$.

FISCAL 2006 RESULTS: NET SALES Net sales for Fiscal 2006 were $\$ 3.318$ billion, an increase of $19.1 \%$ versus Fiscal 2005 net sales of $\$ 2.785$ billion. The net sales increase was attributed to the combination of the net addition of 93 stores, including the full year impact of the Abercrombie \& Fitch Fifth Avenue Flagship storeand sixstores in C anada a $2 \%$ comparable storesales increase; a $42 \%$ increase in direct-to-consume business (including shipping and handling revenue); and a fifty-three week year in Fiscal 2006 versus a fifty-two week year in Fiscal 2005
Abercrombie\&Fitch decreased 4\%; abercrombieincreased $10 \%$ : Hollist increased 5\%; and RUEHL increased 14\%. In addition, the women's, girls' and bettys' businesses continued to be more significant than th mens, boys and dudes. During Fiscal 2006, women, girls and bettys represented over $60 \%$ of the net sales for each of their corresponding brands. C omparable store sales by brand for the year for womens, girl and bettys were as follows: RUEH L women increased by the hig fifties; H oll ister bettys posted a mid-twenties increase; abercrombi girls had a mid-teens increase; and Abercrombie \& Fitch women had a low single digit increase.
Direct-o-consumer merchandise net sales in Fiscal 2006 wer $\$ 122.5$ million for the comparable period. Shipping and handling revenuewas $\$ 24.9$ million in Fiscal 2006 and $\$ 17.6$ million in Fiscal 2005. The direct-to-consumer business, including shipping and handling revenue, accounted for $6.0 \%$ of net sales in Fiscal 2006 compared to $5.0 \%$ of net sales in Fiscal 2005.
GROSS PROFIT For Fiscal 2006, gross profit increased to $\$ 2.209$ bil
 was $66.6 \%$ versus $66.5 \%$ the previous year, an increase of 10 basis points.

STORESAND DISTRIBUTION EXPENSE Stores and distribution
expense for Fiscal 2006 was $\$ 1.187$ billion compared to $\$ 1.001$ billion for Fiscal 2005. For Fiscal 2006, the stores and distribution expense rate was $35.8 \%$ compared to $35.9 \%$ in the previous year. The decrease in the rate primarily resulted from the Company's ability to leverage store related costs on a $2 \%$ increase in comparable store sales.
The DC's UPH rate for the year was flat in Fiscal 2006 versus Fiscal 2005. D uring Fiscal 2006, while the second DC was being built, the overall DC's UPH was impacted by the Company's first DC flowing inventory to stores throughout the year. TheC ompany expects the UPH level to increase during Fiscal 2007.

MARKETING, GENERAL AND ADMINISTRATIVE EXPENSE M arketing, general and administrative expense during Fiscal 2006 was $\$ 373.8$ million compared to $\$ 313.5$ million in Fiscal 2005. For the current year, the marketing, general and administrative expense rate was $11.3 \%$ flat compared to Fiscal 2005. Fiscal 2006 included a charge of $\$ 13$ milion related to the adoption or SFAS 123(R). Fiscal 2005 included a of

OTHER OPERATING INCOME, NET Other operating income or Fiscal 2006 was $\$ 10.0$ million compared to $\$ 5.5$ million for Fiscal 2005. The increase was related to gift cards for which the Company has determined the likelihood of redemption to be remote and insurance reimbursements received during the first and second quarters for Fiscal 2006 related to stores damaged by fire and $H$ urricane $K$ atrina, respectively.
OPERATING INCOME Fiscal 2006 operating income was $\$ 658.1$ million compared to $\$ 542.7$ million for Fiscal 2005, an increase of $21.3 \%$. The operating income rate for Fiscal 2006 was $19.8 \%$ versus $19.5 \%$ in the previous year.

INTEREST INCOME, NET AND INCOME TAXESN et interest income for Fiscal 2006 was $\$ 13.9$ million compared to $\$ 6.7$ million for Fiscal 2005. The increase in net interest income was due to higher interest rates and higher avail able investment balances during Fiscal 2006 compared to Fiscal 2005.
The effective tax rate for Fiscal 2006 was $37.2 \%$ compared to $39.2 \%$ for Fiscal 2005 . Thedecreasein the effective tax ratere ated primarily to favorable settlements of tax audits, favorable changes in estimates of potential during Fiscal 2006. Fiscal 2005 tax expenser reflected a charge related to the Company's changein estimate of the potential outcome of certain statetax matters. The Company estimates that the annual effective tax rate for Fiscal 2007 will be approximately $39 \%$.
NET INCOME AND NET INCOME PER SHARE Net income for Fiscal 2006 was $\$ 422.2$ million versus $\$ 334.0$ million in Fiscal 2005 , an increase of $26.4 \%$. Net income included after-tax charges of $\$ 9.9$
million in Fiscal 2006 related to the adoption of SFAS 123(R) and non-recurring charges of $\$ 8.2$ million in Fiscal 2005 related to a sever-
ance agreement of an executive officer. Net income per diluted weighted-average share was $\$ 4.59$ in Fiscal 2006 versus $\$ 3.66$ in Fiscal 2005, an increase of $25.4 \%$.
FISCAL 2005 COMPARED TO FISCAL 2004: FOURTH QUARTER RESULTS: NET SALESN et sales for the fourth quarter of Fiscal 2005 were $\$ 961.4$ million, up $39.9 \%$ versus net sales of $\$ 687.3$ milifion in the fourth quarter of iscal 2004. The net sales of $28 \%$ for the quarter the net addition of 63 stores during Fiscal 2005 , and an increase in direct-to-consumer business net sales (including shipping and handling revenue) of $\$ 8.1$ million versus the comparable period in the fourth quarter of Fiscal 2004.
By merchandise brand, comparable store sales for the quarter were as foll ows: Abercrombie \&Fitch increased $18 \%$ with women's comparable store sales increasing by a low-twenties percentage and mens increasing by a mid-teen percentage; abercrombie achieved a $59 \%$ increase in comparable store sales with girls achieving a high-sixties increase and boys posting a high-thirties increase; and H oili ster increased by $34 \%$
for the fourth quarter with bettys increasing comparable store sales by a mid-thirties percentage and dudes realizing an increase in the low-thirties. In RUEHL, there were eight stores open in Fiscal 2005 and four stores open in Fiscal 2004. As a result comparable store sales results were not meaningful.
On a regional basis, comparable store sales increases for the Company ranged from the mid-twenties to the low-thirties across the United States. Stores located in the N orth Atlantic and Southwest had the best comparable store sales performance on a consolidated basis
In Abercrombie \& Fitch, the women's comparable store sales increase for the quarter was driven by strong performances in pol os, fleece, outer-
wear and sweaters. The men's comparable store sales growth was driven by increases in polos, graphic tees, jeans and personal care, offset by decreases in woven shirts and accessories
In the kids' business, the girls' comparable store sales increased as a result of strong sales performances across the majority of the categories, led by polos, fleece, graphic tees and jeans. Boys' comparable store sales increase was driven by the following categories: polos, jeans, graphic tees and fleece, offset by slight decreases in the woven shirt and activewear categories.
In H ollister, bettys had strong comparable store sales increases in pol os, flecee, sweaters and graphic tees. The increase in dudes' comparablestore personal care categories for the quarter, offset by decreases in woven shirts and sweaters.
Direct-to-consumer merchandisenet sales, which are sold through the Company's web sites and catalogue, in the fourth quarter of Fiscal 2005 were $\$ 47.5$ million, an increase of $18.5 \%$ versus net sales of $\$ 40.1$ million in the fourth quarter of Fiscal 2004. Shipping and handling revenue for the corresponding periods was $\$ 6.2$ million in Fiscal 2005 and $\$ 5.5$ million in Fiscal 2004. The direct-to-consumer business, including shipping and handiling revenue, accounted for $5.6 \%$ of net sales in the fourth quarThe decreasein sales penetration was due to theimplementation of brand
protection initiatives that reduced the amount of sale merchandise available on the web sites and limited the customer's ability to purchase large quantities of the same item.

GROSS PROFIT G ross profit during the fourth quarter of Fiscal 2005 was $\$ 639.4$ million compared to $\$ 455.8$ million in Fiscal 2000 . The gross profit rate for the fourth quarter of Fiscal 2005 was $66.5 \%$, 2004. The increase in gross profit rate resulted largely from a fisher IMU during the fourth quarter of Fiscal 2005 and a reduction in shrink versus the fourth quarter of Fiscal 2004, partially offset by a slightly higher markdown rate. The improvement in IMU during the fourth quarter was a result of higher average unit retail pricing across all brands. Abercrombie \& Fitch, abercrombie and H ollister all operated at similar IMU margins.
STORES AND DISTRIBUTION EXPENSE Stores and distribution expense for the fourth quarter of Fiscal 2005 was $\$ 293.5$ million The stores and distribution expenserate for the fourth quarter of Fiscal 2005 was $30.5 \%$ compared to $32.6 \%$ in the fourth quarter of Fiscal 2004
The Company's total store and distribution expense, as a percent of net sales, during the fourth quarter of Fiscal 2005 decreased 210 basis points versus the comparable period during Fiscal 2004 as a result of the Company's ability to leverage fixed costs due to significant comparable store sales increases partially offset by increases in store management and loss prevention programs during Fiscal 2005. The leveraging of fixed costs included store payroll expense, rent, utilities and other landlord expense, depreciation and amortization and repairs and maintenance expense. The Company believes increases in sales and reducing shrink levels during the quarter, which had afavorable impact on the Company's gross profit rate.
The DC productivity level, measured in UPH, was $20 \%$ lower in the fourth quarter of Fiscal 2005 versus thefourth quarter of Fiscal 2004. The UPH rate decrease resulted from increases in inventory and from a change in the way the Company flowed merchandise to its stores. Merchandise was routed to the stores in a more gradual process in order to avoid stockroom congestion at the stores. This resulted in the DC approaching capacity levels, which in turn resulted in a lower productivity

MARKETING, GENERAL AND ADMINISTRATIVE EXPENSE Marketing, general and administrative expense during the fourth quarter of Fiscal 2005 was $\$ 80.8$ million compared to $\$ 66.1$ million during the same period in Fiscal 2004. For the fourth quarter of Fiscal 2005, the marketing, general and administrative expense rate was $8.4 \%$ compared to $9.6 \%$ in the fourth quarter of Fiscal 2004. The decrease in the marketing, general and administrative expense rate was due to the Company's ability to leverage home office payroil, and a reduction in sample expenses and marketing expenses
due to timing of photo shoots, offset by increases in outside services mostly due to legal costs.

OTHER OPERATING INCOME, NET Fourth quarter othe operating income for Fiscal 2005 was $\$ 2.3$ million compared to $\$ 4.3$ mil lion for the fourth quarter of Fiscal 2004. The decrease was related to gift cards for which the Company has determined the likelihood of redemption to be remote.
OPERATING INCOME Operating income during the fourth quarter of Fiscal 2005 increased to $\$ 267.5$ million from $\$ 170.2$ million in Fiscal 2004, an increase of 57 2\% $\$ 267.5$ million from $\$ 10.2$ milin ion the fiscal quarter of Fiscal 2005 was $27.8 \%$ compared to $24.8 \%$ for the fourth quarter of Fiscal 2004.

INTEREST INCOME, NET AND INCOME TAXES Fourth quarter net interest income was $\$ 2.4$ million in Fiscal 2005 com pared to $\$ 1.3$ million during the comparable period in Fiscal 2004 The increase in net interest income was due to higher rates on investments, partially offset by lower average investment balances during the fourth quarter of Fiscal 2005 when compared to the same ment grade municipal notes and bonds and investment grade auc tion rate securities. The effective tax rate for the fourth quarter of Fiscal 2005 was $39.0 \%$ compared to $39.2 \%$ for the Fiscal 2004 com parable period.

NET I INCOME AND NET I INCOME PER SHARE Net income for the fourth quarter of Fiscal 2005 was $\$ 164.6$ million versus $\$ 104.3$ million for the fourth quarter of Fiscal 2004, an increase of $57.8 \%$. Net income per diluted weighted-average share outstanding for the fourth quarter of Fiscal 2005 was $\$ 1.80$ versus $\$ 1.15$ for the comparable period in Fiscal 2004 , an increase of $56.5 \%$.

FISCAL 2005 RESULTS: NET SALES Net sales for Fiscal 2005 were $\$ 2.785$ billion, an increase of $37.8 \%$ versus Fiscal 2004 net sales of $\$ 2.021$ billion. The net sales increase was attributable to an increase in comparable store sales of $26 \%$ for the year, the net addition of 63 stores during Fiscal 2005, and a $\$ 13.9$ million increase in net sales (including shi ipping and handling revenue) for the direct-toconsumer business.
For the fiscal year, comparable store sales by brand were as folIows: Abercrombie \& Fitch increased 18\%; abercrombie increased $54 \%$;
H ollister increased $29 \%$. In addition, the women's, girls' and betty' busi$H$ ollister increased $29 \%$. In addition, the women's', girls' and bettys busiDuring Fiscal 2005, women, girls and bettys represented over $60 \%$ of the net sales for each of their corresponding brands. abercrombie girls achieved a mid-sixties increase, H ollister bettys achieved a low-thirties increase and Abercrombie \& Fitch women had a high-teens increase. Direct-to-consumer merchandise net sales in Fiscal 2005 were $\$ 122.5$ million, an increase of $10.8 \%$ versus Fiscal 2004 net sales of $\$ 110.6$ million. Shipping and handling revenue was $\$ 17.6$ million in Fiscal 2005 in Fiscal 2005 compared to $62 \%$ of net sales in Fiscal 2004 . The decrease in sales penetration during Fiscal 2005 was due to the implementation of brand protection initiatives throughout the year that reduced the amount of sale merchandise available on the web sites and limited the customer's ability to purchase large quantities of the same item.

GROSS PROFIT For Fiscal 2005, gross profit increased to $\$ 1.851$ billion from $\$ 1.341$ billion in Fiscal 2004. The gross profit rate for Fisca 2005 was $66.5 \%$ versus $66.4 \%$ the previous year. The gross profit rate shrink partially offsed by a slightly higher markdown rane in Fiscal 2004

STORES AND DISTRIBUTION EXPENSE Stores and distribution expense for Fiscal 2005 was $\$ 1.001$ billion compared to $\$ 7382$ million for Fiscal 2004. For Fiscal 2005, the stores and distribution expense rate was $35.9 \%$ compared to $36.5 \%$ in the previous year.
The Company's total store and distribution expense, as a percent of net sales, during Fiscal 2005 decreased 60 basis points versus Fiscal 2004 as a result of the Company's ability to leverage fixed costs, due to significant comparable store sales increases, partially offset by increased store payroll and store management expense. The leveraging of fixed costs induded and repairs and maintenancee expense. Fiscal 2004. The UPH rate decrease resulted from increases in inventory and changes in the way the Company flowed merchandise to its stores. M erchandise was routed to the stores in a more gradual process in order to avoid stockroom congestion at the stores. This resulted in the DC approaching capacity levels, which in turn resulted in a lower productivity rate due to increased inventory handling.
MARKETING, GENERAL AND ADMINISTRATIVE EXPENSE Marketing, general and administrative expense during Fiscal 2005 was $\$ 313.5$ million compared to $\$ 259.8$ million in Fiscal 2004. For Fiscal

2005, the marketing, general and administrative expense rate was $11.3 \%$ compared to $12.9 \%$ in Fiscal 2004. The decrease in the marketing, general and administrative expense rate was due to a non-recurring charge of $\$ 40.9$ million in Fiscal 2004 related to a legal settlement and leverage in the home office payroll expense, offset by a non-recurring charge of $\$ 13.5$ million related to a severance agreement of an executive officer and legal costs.

OTHER OPERATING INCOME, NET Other operating income for Fiscal 2005 was $\$ 5.5$ million compared to $\$ 4.5$ million for Fiscal 2004. The increase in other operating income was related to the favorwhich the Company was a class member and lease buyout payments from landlords, partially offset by a lower amount of gift card liability recognized as other income for gift cards for which the C ompany has determined the likelihood of redemption to be remote.
OPERATING INCOME Fiscal 2005 operating income was $\$ 542.7$ million compared to $\$ 347.6$ million for Fiscal 2004, an increase of $56.1 \%$. The operating income rate for Fiscal 2005 was $19.5 \%$ versus $17.2 \%$ in the previous year.

INTEREST INCOME, NET AND INCOME TAXES N et interest income for Fiscal 2005 was $\$ 6.7$ million compared to $\$ 5.2$ million for the previous year. The increase in net interest income was due to the C ompany receiving higher rates on its investments, partially offset by lower average investment balances during Fiscal 2005 when compared to Fiscal 2004. The effective tax rate for Fiscal 2005 was $39.2 \%$ compared to $38.7 \%$ for Fiscal 2004. The increase in the annual effective tax rate
was due to the Company's change of estimates in the potential outcomes of certain state tax matters in Fiscal 2005.

NET INCOME AND NET I NCOME PER SHARE Net income for Fiscal 2005 was $\$ 334.0$ million versus $\$ 216.4$ million in Fiscal 2004, an increase of $54.3 \%$. Net income included afte-tax non-recurring charges of $\$ 8.2$ million in Fiscal 2005 related to a severance agreement of an executive officer and $\$ 25.6$ million in Fiscal 2004 related to a legal settlement. Net income per diluted weighted-average share was $\$ 3.66$ in Fiscal 2005 versus $\$ 2.28$ in Fiscal 2004, an increase of $60.5 \%$. The percentage increase in net income per diluted share outstanding was greater than the percentage
increasein net incomedueto the impact of the Company's sharerepurchase program. In Fiscal 2005, the Company repurchased 18 million shares

FINANCIAL CONDITION Continued growth in netincome resulted in higher cash provided by operating activities. A more detailed discussion of liquidity, capital resources and capital requirements follows.

LIQUIDITY AND CAPITAL RESOURCES The Company believes cash provided by operating activities and cash on hand will continue to provide adequate resourcesto support operations, including projected growth, seasonal requirements and capital expenditures. will fund dividends currently being paid at a rate of $\$ 0.175$ per share
per quarter. The Board of Directors will review the C ompany's cash position and results of operations and address the appropriateness of future dividend amounts.
A summary of the Company's working capital (current assets less current liabilities) position and capitalization for the last three fiscal years follows (thousands)

|  | 2006 | 2005 | 2004 |
| :--- | ---: | ---: | ---: |
| Working capital | $\$ 581,451$ | $\$ 455,530$ | $\$ 241,572$ |
| Capitalization |  |  |  |
| Sharenolders' equity | $\$ 1,405,297$ | $\$ 995,117$ | $\$ 669,326$ |

Theincrease in working capital during Fiscal 2006 versus Fiscal 2005 was the result of higher cash and marketable securities, resulting primarily from the Company's net income increase and decreases in incometaxes payable, partially offset by an increase in accrued expenses. The increase in working capital in Fiscal 2005 versus Fiscal 2004 was the result of iomer cash and marketable securties, resulting primarily from the offset by an increase in income taxes payable.
The C ompany considers the foll owing to be measures of its liquidity and capital resources for the last three fiscal years:

## 2006

sets divided by current liabilities) $\qquad$ 1.93 Net cash provided by by *Fiscal 2006 isa fity y-three week year.

OPERATING ACTIVITIIES Net cash provided by operating activities, the Company's primary source of liquidity, increased to $\$ 582.2$ million for Fiscal 2006 from $\$ 453.6$ million in Fiscal 2005. Cash in Fiscal 2006 was provided primarily by current year net income, adjust-
ed for depreciation and amortization, share based compensation charges and lessor construction allowances collected. Uses of cash in Fiscal 2006 consisted primarily of increases in inventory and payment of income taxes. Cash in Fiscal 2005 was provided primarily by net pensation charges, lessor construction all owances collected and decreases in payments of income taxes. Uses of cash in Fiscal 2005 consisted primarily of increases in inventory.
Net cash provided by operating activities increased to $\$ 453.6$ million for Fiscal 2005 from $\$ 423.8$ million in Fiscal 2004. Cash in Fiscal 2004 was provided primarily by net income adjusted for depreciation and amortization, sharebased compensation charges and lessor construction allowances collected and increases in accounts payable and accrued expenses. Uses of cash in Fiscal 2004 consisted primarily of increases in inventory and other assets and liabilities.
the Back-to-School and Holiday selling periods. Accordingly cash
requirements for inventory expenditures are highest in the second and third fiscal quarters as the C ompany builds inventory in anticipation of these selling periods.
INVESTING ACTIVITIIES C ash outflows for Fiscal 2006 were primarily for purchases of marketable securities, purchase of trust owned life insurance policies and capital expenditures. As of February 3, 2007 and January 28, 2000, the Company held $\$ 466.1$ milion and $\$ 411.2$ million, greater than 90 days. Of the $\$ 466.1$ million of available for-sale securities held as of February 3, 2007, \$447.8 million were classified as marketable securities while $\$ 18.3$ million were held in an irrevocable rabbi trust (the "Rabbi Trust") and were classified as other assets.

Cash outflows for Fiscal 2005 were primarily for purchases of mar ketable securities and capital expenditures. As of January 28, 2006, the Company held $\$ 411.2$ milifion of available for-sale securities with origi nal maturities of greater than 90 days classified as marketable securities C ash inflows for Fiscal 2004 were primarily the result of proceeds from
sales of marketable securities, offset by capital expenditures Seic apital Expenditures and Lessor Construction Allowances" for additional information. As of lanuary 29, 2005, all investments had maturities of less than 90 days and accordingly were classified as cash equivalents.

FINANCING ACTIVITIES Cash outflows related to financing activities consisted primarily of the payment of dividends and a change in outstanding checks in Fiscal 2006. C ash outtlows related to financing activities consisted primarily of the repurchase of the Company's Class A Common Stock and the payment of dividends in Fiscal 2005 and Fiscal 2004. Cash inflows consisted of stock option exercises an estricted stock issuances.
The Company did not repurchase shares in Fiscal 2006. The Company repurchased approximately 1.8 million shares and approx-
imately 11.2 million shares of its Class A Common Stock pursuant to previously authorized stock repurchase programs in Fiscal 2005 and Fiscal 2004, respectively. As of February 3, 2007, the Company had approximately 5.7 million shares available to repurchase under the 6.0 million shares authorized by the Board of Directors in August 2005.
On December 15, 2004, the Company entered into an amended "Amended C redit Agreement"). The primary purposes of the Amended Credit Agreement are for trade and stand-by letters of cred it and working capital. The Amended Credit Agreement has severa borrowing options, including an option where interest rates are based on the agent bank's "Alternate Base Rate," and another using the L ondon Interbank Offered Rate. The facility fees payable under the Amended Credit Agreement are based on the ratio of the C ompany leveraged total debt plus $600 \%$ of forward minimum rent commitments to con solidated earnings before interest, taxes, depreciation, amortization and rent for the trailing four fiscal quarter periods. The committed a prounts per annum The Amended Credit Agrement contains limitations on indehtedness, liens, saleleaseback transac
tions, significant corporate changes including mergers and acquisitions with third parties, investments, restricted payments (including dividends and stock repurchases) and transactions with affiliates. The Amended Credit Agreement will mature on December 15, 2009. Trade letters of credit totaling approximately $\$ 48.8$ million and $\$ 40.6$ million were outstanding under the Amended Credit Agreement on February 3, 2007 and January 28, 2006, respectively. No borrowings , 2007 or on January 28,2006 3, 2007 or on January 28,2006

Standby letters of credit totaling approximately $\$ 4.9$ million and $\$ 4.5$ million were outstanding on February 3, 2007 and January 28, 2006. The standby letters of credit are set to expire primarily during the fourth quarter of Fiscal 2007. The beneficiary, a merchandise supplier, has the right to draw upon the standby letters of credit if the Company authorizes or files a voluntary petition in bankruptcy. To date, the beneficiary has not drawn upon the standby letters of credit.
OFF-BALANCE SHEET ARRANGEMENTST he Company does not have any off-balance sheet arrangements or debt obligations.

CONTRACTUAL OBLIGATIONS As of February 3, 2007, the Company's contractual obligations were as foll ows:

|  | Payments due by period (thousands) |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Contractual Obligations | Total | $\begin{aligned} & \text { Less than } \\ & 1 \text { vear } \end{aligned}$ | $1-3$ years | 3.5 years | More than 5 years |
| $\begin{aligned} & \text { Operating } \\ & \text { Leasegations } \\ & \text { Obligation } \end{aligned}$ | \$1,671,681 | \$215,499 | \$422,500 | \$373,454 | \$660,228 |
| Purchase Obligations | \$ 216,899 | \$216,899 | - |  | - |
| 0ther <br> Obligations | \$ 77,332 | \$ 66,449 | \$ 10,883 | - | - |
| Totals | \$1,965,912 | \$498,847 | \$433,383 | \$373,454 | 5660,228 |

Operating lease obligations consist primarily of future minimum ease commitments related to store operating leases (See N ote 7 of the $N$ otes to C onsolidated Financial Statements). Operating lease obligations do not include common area maintenance ("CAM"), insurance or tax payments for which the Company is also obligated. Total expense
related to C AM, insurance and taxes was $\$ 107.4$ million in Fiscal 2006 . The purchase obligations category represents purchase orders for merchandise to be delivered during Spring 2007 and commitments for fabric to be used during the next season. O ther obligations primarily represent preventive maintenance contracts for Fiscal 2007 and letters of credit outstanding as of February 3, 2007 (See N ote 11 of the Notes to Consolidated Financial Statements). TheC ompany expects to fund all of these obligations with cash provided from operations.
STORES AND GROSS SQUARE FEET Store count and gross square footage by brand were as foll lows for the fourteen weeks ended ebruary 3, 2007 and the thirteen weeks ended January 28, 2006 respectively:

Store count and gross square footage by brand were as follows for the the new DC, home office expansion, information technology invest filty-three weeks ended February 3, 2007 and the fifty-two weeks ended January 28, 2006, respectively:


| G ross Square Feet (thousands) | Abecrambie $\&$ Fitch | abercrombie | Hollister | RUEHL |  |
| :---: | :---: | :---: | :---: | :---: | :---: |


| January 29, 2006 | 3,157 | 716 | 2,083 | 69 | 6,025 |
| :--- | ---: | ---: | ---: | ---: | ---: |
| New | 66 | 94 | 482 | 70 | 712 |


| Remodels/Conversions (net activity) | $3^{110}$ | - | $39^{\prime \prime \prime}$ | (9) ${ }^{4}$ |
| :---: | :---: | :---: | :---: | :---: |
| Closed | (55) | (22) | - | - (77) |
| February 3, 2007 | 3,71 | 788 | 2,604 | $130 \quad 6,69$ |


| Average Store Size | 8,808 | 4,452 | 6,626 | 9,286 | 7,009 |
| :--- | :--- | :--- | :--- | :--- | :--- |



| Store Ativity | ercrombie | abercrombie | Hollister | RUE |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| January 30, 2005 | 357 | 171 | 256 | 4 | 788 |
| New | 15 | 5 | 57 | 4 | 81 |
| Remodeds/Conversions (net activity) | (1) | (1) | 6 |  |  |
| Closed | (10) ${ }^{(9)}$ | (11) | (1) ${ }^{19}$ |  | (22) |
| January 28,2006 | 361 | 164 | 318 | 8 | 851 |
| G ross Square Feet (thousands) | $\begin{array}{r} \hline \text { Abercrombie } \\ \& \text { Fitch } \\ \hline \end{array}$ | abercrombie | Hollister | RUEHL | Tota |
| January 30, 2005 | 3.138 | 752 | 1,663 | 37 | 5,590 |
| New | 146 | 20 | 389 | 32 | 587 |
| Remodels/Conversions (net activity) | (46) | (4) | 38 | . | (12) |
| Closed | $(81)^{19}$ | (52) | (7) ${ }^{19}$ | - | (140) |
| January 28, 2006 | 3,157 | 716 | 2,083 | 69 | 6,025 |
| Average Store Size | 8,745 | 4,366 | 6,550 | 8,625 | 7,080 |

CAPITAL EXPENDITURESAND LESSOR CONSTRUCTION ALLOWANCES C apital expenditures totaled $\$ 403.5$ million, $\$ 256.4$ milion and $\$ 185.1$ milition for Fiscal 2006, Fiscal 2005 and Fiscal 2004, respectively.
in Fiscal 2006 total capital expenditures were $\$ 403.5$ million of which $\$ 253.7$ million was used for store related projects related to store refresh, new construction, remodels and conversions, including
approximately $\$ 40$ million rel ated to the refresh of existing Abercrombie \&Fitch, abercrombie and Hollister stores The remain ing $\$ 149.8$ million was used for projects at the home office, including

In Fiscal 2005 total capital expenditures were $\$ 256.4$ million of which $\$ 204.7$ million was used for store related projects, including new store construction, remodels, conversions and other projects. Th remaining $\$ 51.7$ million was used for projects at the home office including home office expansion, information technology inves ments, DC improvements and other projects.
In Fiscal 2 204 total capitar expenditures were $\$ 185.1$ million of store construction, remodels, conversions and other projects. Th remaining $\$ 15.4$ million was used for projects at the home office, including home office improvements, information technology investments, DC improvements and other projects.
Lessor construction allowances are an integral part of the decision making process for assessing the viability of new store leases. In making the decision whether to invest in a store location, the Company cal culates the estimated future return on its investment based on the from the landlord. The C ompany received $\$ 49.4$ million, $\$ 42.3$ million and $\$ 55.0$ million in construction allowances during Fiscal 2006 Fiscal 2005 and Fiscal 2004, respectively.
During Fiscal 2007, the Company anticipates capital expenditures between $\$ 395$ million and $\$ 405$ million. Approximately $\$ 22$ million of this amount is allocated to new store construction and ful store remodels. Approximately $\$ 60$ milition is expected to be allocated to refresh existing stores. The store refresh will include new floors, sound systems and fixture replacements at Abercrombie \& Fitch and abercrombie stores. In addition, the store refresh wil fixtures to stores throughout the H oll ister chain. The C ompany is planning approximately $\$ 85$ million in capital expenditures at the home office related to new office buildings, information technology investment and new direct-to-consumer distribution and logistic systems. In M arch 2007, the C ompany decided to al locate approxi mately $\$ 35$ million for the purchase of an airplane. With planned expansion in Europe and Asia over the next several years, th Company concluded that acquiring a plane is more beneficial tha continuing multiple fractional share ownership programs in meeting he business travel needs of its Chief Executive Officer and senior man gement team
Tss square fey intends to add approximately 750,000 to 800,000 gross square feet of stores during Fiscal 2007, which will represent an inticieates throximately $11 \%$ to $12 \%$ over Fiscal 2006. The Company tion of approximately 67 new H oll ister stores, 27 abercrombie stores six Abercrombie \& Fitch stores and ten RUEHL stores. Additionally the Company plans to introduce its next concept with the opening of approximately three stores in January 2008 and approximately four diditional stores by M arch 2008.
cost per square foot not of construction Holl ister stores to increase from last year's actual cos of approximately
$\$ 130$ to approximately $\$ 147$. The Company expects the average construction cost per square foot, net of construction al lowances for new abercrombie stores to decrease from last year's actual cost of approximately $\$ 169$ to approximately $\$ 164$. The change from last year' s estimates for H ollister and abercrombie were driven by a number of factors, including store location, construction material pricing, landiord allowance evels, and furniture and fixture additions. During foot, net of construction allowances, for new non-flagship Abercrombie \& Fitch stores to be approximately $\$ 115$ and for new RUEHL stores to be approximately $\$ 274$ per square foot, net of construction allowances. The Company believes that the construction costs for Abercrombie \& Fitch and RUEHL stores in Fiscal 2006 were not representative of the costs the C ompany expects to incur in Fiscal 2007 and therefore comparisons with these numbers would not be meaningful. TheC ompany expects initial inventory purchases for the stores to average approximately $\$ 0.4$ million, $\$ 0.2$ million, $\$ 0.3$ million and $\$ 0.5$ million per store for A bercrombie \& Fitch, abercrombie, H oll ister and RUEHL, respectively
The C ompany expects that substantially all future capital expendihas $\$ 250$ million available (less outstanding letters of credit) under its Amended Credit Agreement to support operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with ("GAAP"). The preparation of these financial thatements requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Since actual results may differ from those estimates, the Company revises its estimates and assumptions as new information becomes available. The Company's significant accounting policies can be found in the $N$ otes to C onsolidated Financial Statements (see $N$ ote 2 of the $N$ otes to C onsolidated Financial Statements). The Company believes that the following policies are most critical to the portrayal of the C ompany's financial condition and results of operations.

REVENUE RECOGNITION T he Company recognizes retail sales at the time the customer takes possession of the merchandise and purchases are paid for, primarily with either cash or credit card. merchandise. Amounts relating to shipping and handling billed to customers in a sale transaction are classified as revenue and the related direct shipping and handling costs are classified as stores and distribution expense. Associate discounts are classified as a reduction of revenue. The Company reserves for sales returns through estimates based on historical experience and various other assumptions that management believesto be reasonable. The Company's gift cards do accounts for gift cards by recognizing a liabil ity at the time a gift card
is sold. The liability remains on the C ompany's books until the earlier of redemption (recognized as revenue) or when the Company determines the likelihood of redemption is remote (recognized as other operating income). The Company determines the probability of the gift card being redeemed to be remote based on historical redemption patterns and at these times recognizes the remaining balance as other operating income. At February 3,2007 and January 28,2006 , the gift card liabiity on the Company'sCon solidated Balance Sheet was $\$ 65.0$ million and $\$ 53.2$ million, respectively.
he company is not required by law to escheat the value of unreFiscal 2005 and Fiscal 2004, the C ompany recognized other income for adjustments to the gift card liability of $\$ 5.2$ million, $\$ 2.4$ million and $\$ 4.3$ million, respectively.
I INVENTORY VALUATION Inventories are principally valued at the lower of average cost or market utilizing the retail method. The Company determines market value as the anticipated future sell ing
price of the merchandise less a normal margin. An initial markup is applied to inventory at cost in order to establ ish a cost-to-retail ratio Permanent markdowns, when taken, reduce both the retail and cost components of inventory on hand so as to maintain the already established cost-to-retail relationship. At first and third fiscal quarter end, the Company reduces inventory value by recording a markdown reserve that represents the estimated future anticipated selling price decreases necessary to sell-through the current season inventory. At second and fourth fiscal quarter end, the C ompany reduces inventory value by recording a markdown reserve that represents the estimated future selling price decreases necessary to sell-through any remaining
carryover inventory from the season just passed. carryover inventory from the season just passed.
mate is made each period that reduces the value of inventory shrink or stolen items. The Company performs physical inventories throughout the year and adjusts the shrink reserve accordingly.

Inherent in the retail method calculation are certain significant judgments and estimates including, among others, markdowns and shrinkage, which could significantly impact the ending inventory valuation at cost as well as the resulting gross margins. An increase or decrease in the inventory shrink estimate of $10 \%$ would not have a material impact on the Company's results of operations. M anagement serves the cost-to-retail relationship in ending inventory.

PROPERTY AND EQUIPMENT Depreciation and amortization of property and equipment are computed for financial reporting purposes on a straight-line basis, using service lives ranging principally from 30 years for buildings, the lesser of ten years or the life of the lease for leasehold improvements and three to ten years for other property and equipment. The cost of assets sold or retired and the related accumulated depreciation or amortization are removed from the accounts with any resulting gain or loss included in net income.
$M$ aintenance and repairs are charged to expense as incurred. remodels and improvements that extend service lives of the assets are
capitalized. Long-lived assets are reviewed at the store level periodically for impairment or whenever events or changes in circumstances indicate that full recoverability of net assets through future cash flows is in question. Factors used in the evaluation include, but are not lim-
ited to, management's plans for future operations, recent operating teed to, management's plans for
results and projected cash flow.

I NCOME TAXES Income taxes are cal culated in accordance with SFAS N o. 109, "Accounting for Income Taxes," which requires the use recognized based on the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using current enacted tax rates in effect for the years in which those temporary differences are expected to reverse. Inherent in the measurement of deferred balan ces are certain judgments and interpretations of enacted tax law and published guidance with respect to applicability to the Company's operations. A valuation allowance has been provided for countries No other valuation allowances have been provided for deferred tax assets because management beli eves that it is morel likely than not that the full amount of the net deferred tax assets will be realized in the future. The effective tax rate utilized by the Company reflects management's judgment of the expected tax liabilities within the various taxing jurisdictions.
The provision for income taxes is based on the current estimate of the annual effective tax rate adjusted to reflect the tax impact of items discrete to the quarter. The Company records tax expense or benefit that does not relate to ordinary income in the current fiscal year disof APB Opinion N 0.28 , "Interim Financial Reporting" and Financial Accounting Standards Board issued Interpretation ("FIN") 18, "Accounting for Income Taxesin Interim Periods- an Interpretation of APB Opinion No. 28." Examples of such types of discrete items include, but are not limited to, changes in estimates of the outcome of tax matters related to prior years, provision-to-return adjustments, tax-exempt income and the settlement of tax audits.
FOREIGN CURRENCY TRANSLATION Someof theCompany's international operations use local currencies as the functional currency. liabi ities denominated in foreign currencies weretranslated into U.S. dollars (the reporting currency) at the exchange rate prevail ing at the balance sheet date. Revenues and expenses denominated in foreign currencies were translated into U.S. dollars at the monthly average exchange rate for the period. G ains and losses resulting from foreign currency transactions are included in the results of operations, whereas related translation adjustments are reported as an element of other comprenensive income in accordance with SFAS N o. 130, "Reporting Comprehensive Income."

CONTINGENCIES In the normal course of business, the C ompany must make continuing estimates of potential future legal obigations and liabilities, which requires the use of management's judgment on
the outcome of various issues. Management may also use outside legal advice to assist in the estimating process. However, the ultimat outcome of various legal issues could be different than management estimates, and adjustments may be required. The C ompany accrues for its legal obligations for outstanding bills, expected defense costs and if appropriate, settlements. Accruals are made for personnel, genera litigation and intellectual property cases.

EQUITY COMPENSATION EXPENSE Prior to January 29, 2006, the Company reported share-based compensation through the di scl osure-only requirements of SFAS N o. 123 , "A ccounting for Stock Stock-B ased Compensation-Transition and Disclosure- an Amendmen of FASB No. 123," but elected to measure compensation expense using the intrinsic value method in accordance with APB Opinion No. 25 "Accounting for Stock Issued to Employees," for which no expense was recognized for stock options if the exercise price was equal to the marke value of the underlying Common Stock on the date of grant, and No. 123, "Accounting for Stock-B ased Compenstion" ("SFAS NO 123"), as amended.
EffectiveJ anuary 29, 2006, the C ompany adopted the provisions o SFAS $N 0.123(R)$ which requires stock options to be accounted for under the fair value method and requires the use of an option-pricing model for estimating fair value. Accordingly, share-based compensa tion is measured at the grant date, based on the fair value of the award The C ompany's equity compensation expense related to stock options is estimated using the Black-Scholes option-pricing model to determine the fair value of the stock option grants, which requires the
C ompany to estimatethe expected term of the stock option grants and expected future stock price volatility over the term. The term repre sents the expected period of time the Company believes the options will be outstanding based on historical information. Estimates of expected future stock price volatility are based on the historic volatility of th Company's stock for the period equal to the expected term of the stock option. The C ompany calculates the historic volatility as the annualized standard deviation of the differences in the natural logarithm of the weekly stock closing price, adjusted for stock splits.
The fair value calculation under the Black-Scholes valuation model is particularly sensitive to changes in the term and volatility
assumptions. Increases in term or volatility will result in a higher fair valuation of stock option grants. Assuming all other assumptions disclosed in Note 4 of the $N$ otes to the Consolidated Financial Statements, "Share Based Compensation," being equal, a $10 \%$ increas in term will yield a $5 \%$ increase in the Black-Scholes valuation, while a $10 \%$ increase in volatility will yield a $7 \%$ increase in the Black scholes valuation. The Company believes that changes in term and volatility would not have a material effect on the Company's result since the number of stock options granted during the periods pre sented was not material

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS In July 2006, the FASB released Interpretation No. 48, "Accounting for
ncertainty in Income Taxes - an Interpretation of FASB Statement prehensive model for how a ${ }^{\text {( }}$ "FIN 48"). FIN 48 provides a compresent and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 defines the threshold for recognizing tax return positions in the financial statements as "more likely than not" that the position is sustainable based on its merits. FIN 48 also provides guidance on the measurefinancial statements. FIN 48 is effective for the firstreporting period beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to the beginning balance of retained earnings in the period of adoption. An analysis of the impact of this interpretation is not yet complete; however, the Company expects to record an adjustment to reduce opening retained earnings in the first quarter of Fiscal 2007 by an amount which is not material to its financial statements.
In September 2006, the Securities and Exchange Commission Effects of Prior Year Mi istatements when Quantifying Mistatements in Current Year Financial Statements." SAB N o. 108 requires a "dual approach" for quantifications of errors using both a method that focuses on the income statement impact, including the cumulative effect of prior years' misstatements, and a method that focuses on the period-end balance sheet. SAB No. 108 was effective for the C ompany on February 3, 2007. The adoption of SAB $N O .108$ did not have any impact on the C ompany's consolidated financial statements.
In September 2006, the FASB released FASB Statement No. 157, "Fair iniue Measurenents (SFAS 15I). SFAS 157 estabishes a common defmeasuring fair value and expands disclosure requirements about such far value measurements. SFAS 157 will be effective for the Company on February 3,2008 . The Company is currently evaluating the potential impact on the consolidated financial statements of adopting SFAS 157. In February 2007, the FASB released FASB Statement No. 159, "The Fair ValueOption for Financial Assetsand Financial Liabilities" "SFAS 159"). SFAS 159 permits companies to measure many financial instruments and certain other assets and liabilities at fair value on an instrument by instrument basis. SFAS 159 also establishes presentation and disclosure requirements to facilitate comparisons between companies that select difSFAS 159 will be effective for the C ompany on February 3, 2008. The Company is currently evaluating the potential impact on the consolidated financial statements of adopting SFAS 159.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS The C ompany cautions that any forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in this Annual Report or made by the Company, its management or spokespeople involve risks and uncertainties and are beyond its control. Words such as "estimate" "project", "plan" "believe," "expect," "anticipate," "intend," and similar expressions
may identify forward-looking statements. Except as may be required by applicable law, the Company assumes no obligation to publicly update or revise its forward-looking statements.
The foll owing factors could affect the Company's financial performance and could cause actual results to differ materially from those expressed or implied in any of the forward-looking statements:

- changes in consumer spending patterns and consumer preferences; - the impact of competition and pricing pressures;
- disruptive weather conditions affecting consumers' ability to shop; - avail ability and market prices of key raw materials;
- ability of manufacturers to comply with applicable laws,
regulations and ethical business practices,
currency and exchange risks and changes in existing or potential duties, tariffs or quotas;
- avail ability of suitable store locations on appropriate terms;
- ability to develop innovative, high-quality new merchandise in response to changing fashion trends;
- absility to hire, train and retain qualified associatec;
- ability to hire, train and retain qualified associates; and
- the effects of political and economic events and condition
domestically and in foreign jurisdictions in which the Company operates, including, but not limited to, acts of terrorism or war.

Refer to "Item 1A. Risk Factors" of the Company's Annual Report on Form 10-K filed M arch 30, 2007 for a description of certain risk factors that the Company believes may be relevant to an understanding of
the Company and its business. These risk factors in addition to the the Company and its business. These risk factors, in addition to the
factors set forth above, could cause actual results to differ materially from those expressed or implied in any of the Company's forwardlooking statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK The Company maintains its cash equivalents in financial instruments with original maturities of 90 days or less. TheC ompany also holds investments in marketable securities, which primarily consist of investment grade municipal notes and bonds and investment grade auction rate securities, all classified as avail able forsale and have maturities ranging from three months to forty years. These
securities are consistent with the investment objectives contained within the investment policy established by the Company's B oard of Directors. The basic objectives of the investment policy are the preservation of capital, maintaining sufficient liquidity to meet operating requirements and maximizing net after-tax yield.
Investments in municipal notes and bonds have early redemption provisions at predetermined prices. Taking these provisions into account, none of these investments extend beyond five years. The Company believes that a significant increase in interest rates could result in a material loss if the Company sells the investment prior to ized gains or losses, and as of February 3 , 2007, net unrealized holding losses were approximately $\$ 0.7$ million.

Despite the underlying long-term maturity of auction rate securities, from the investor's perspective, such securities are priced and subsequently traded as short-term investments because of the interest rate reset feature. Interest rates are reset through an auction process at predetermined periods ranging from seven to 49 days. Failed auctions rarely occur. As of February 3, 2007, the Company held approximately $\$ 447.8$ million in available-for-sale securities classified as marketable securities.
The Company does not enter into financial instruments for trading purposes.
third quarter of Fistablished an irrevocable rabbi trust during the match respective fund 2006, the purpose is to be a source of funds to \& Fitch N onqualified Savings and Supplemental Retirement Plan and the Chief Executive Officer Supplemental Executive Retirement Plan. As of February 3, 2007, total assets related to the Rabbi Trust were $\$ 33.5$ million, which included $\$ 18.3$ million of available for-sale securities and $\$ 15.3$ million related to the cash surrender value of trust in accordance with Emerging I ssues Task Force $97-14$ ("EITF 97-14") and recorded at fair value in other assets on the Consolidated Balance Sheet and were restricted as to their use as noted above.

As of February 3, 2007 the Company had no long-term debt outstanding. Future borrowings would bear interest at negotiated rates and would be subject to interest rate risk.
The Company has exposure to adverse changes in exchange rates associated with revenues and operating expenses of foreign operations, which are denominated in Euros, Canadian Dollars and British Pounds, but believes this exposure is im financial statements.
isk profile as of February 3, 2007 has not significantly changed since January $28,2006$.

Abercrombie \& Fitch

## CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

| (Thousnds except per share amounts) | 2006* | 2005 | 2004 |
| :---: | :---: | :---: | :---: |
| Net Sales | \$3,318,158 | \$2,784,711 | \$2,021,253 |
| C ost of G oods Sold | 1,109,152 | 933,295 | 680,029 |
| Gross Profit | 2,209,006 | 1,851,416 | 1,341,224 |
| Stores and Distribution Expense | 1,187,071 | 1,000,755 | 738,244 |
| M arketing, G eneral \& Administrative Expense | 373,828 | 313,457 | 259,835 |
| Other O perating Income, N et | $(9,983)$ | $(5,534)$ | $(4,490)$ |
| Operating Income | 658,090 | 542,738 | 347,635 |
| Interest Income, N et | $(13,896)$ | $(6,674)$ | $(5,218)$ |
| Income Before Income Taxes | 671,986 | 549,412 | 352,853 |
| Provision for Income Taxes | 249,800 | 215,426 | 136,477 |
| Net Income | \$422,186 | \$333,986 | \$216,376 |
| Net Income Per Share: |  |  |  |
| Basic | \$4.79 | \$3.83 | \$2.33 |
| Diluted | \$4.59 | \$3.66 | \$2.28 |
| Weighted-Average Shares Outstanding: |  |  |  |
| Basic | 88,052 | 87,161 | 92,777 |
| Diluted | 92,010 | 91,221 | 95,110 |
| Dividends Declared Per Share | \$0.70 | \$0.60 | \$0.50 |
| Other Comprehensive Income |  |  |  |
| Cumulative Foreign Currency Translation Adjustments | \$(239) | \$(78) | - |
| U nrealized G ains (L osses) on M arketable Securities, net of taxes of $\$ 20$ and $\$ 0$ for Fiscal 2006 and Fiscal 2005, respectively | 41 | (718) |  |
| Other Comprehensive Loss | \$(198) | \$(796) | - |
| Comprehensive Income | \$421,988 | \$333,190 | \$216,376 |

The accompanying $N$ otes are an integral part of these C onsolidated Financial Statements.


[^1]Abercrombie \& Fitch
CONSOLIDATED BALANCE SHEETS

| (Thousands, except share amounts) | February 3, 2007 | January 28, 2006 |
| :---: | :---: | :---: |
| Assets |  |  |
| Current Assets |  |  |
| Cash and Equivalents | \$ 81,959 | \$ 50,687 |
| M arketable Securities | 447,793 | 411,167 |
| Receivables | 43,240 | 41,855 |
| Inventories | 427,447 | 362,536 |
| D eferred Income Taxes | 33,170 | 29,654 |
| Other Current Assets | 58,469 | 51,185 |
| Total Current Assets | 1,092,078 | 947,084 |
| Property and Equipment, Net | 1,092,282 | 813,603 |
| Other Assets | 63,707 | 29,031 |
| Total Assets | \$ 2,248,067 | \$1,789,718 |
|  |  |  |
| Liabilities and Shareholders' Equity |  |  |
| Current Liabilities |  |  |
| Accounts Payable | \$ 100,919 | \$ 86,572 |
| Outstanding Checks | 27,391 | 58,741 |
| Accrued Expenses | 260,219 | 215,034 |
| D eferred L ease C redits | 35,423 | 31,727 |
| Income Taxes Payable | 86,675 | 99,480 |
| Total Current Liabilities | 510,627 | 491,554 |
| Long-Term Liabilities |  |  |
| D eferred Income Taxes | 30,394 | 38,496 |
| D eferred L ease C redits | 203,943 | 191,225 |
| Commitments | - | - |
| Other Liabilities | 97,806 | 73,326 |
| Total Long-Term Liabilities | 332,143 | 303,047 |
| Shareholders' Equity |  |  |
| Class A C ommon Stock - $\$ 0.01$ par value: $150,000,000$ shares authorized and 103,300,000 shares issued at February 3, 2007 and January 28, 2006, respectively |  |  |
| Paid-In Capital | 289,732 | 229,261 |
| Retained Earnings | 1,646,290 | 1,290,208 |
| Accumulated Other Comprehensive Income | (994) | (796) |
| D eferred C ompensation | - | 26,206 |
| Treasury Stock, at Average C ost |  |  |
| 14,999,945 and 15,573,789 shares at February 3, 2007 and January 28,2006 , respectively | $(530,764)$ | $(550,795)$ |
| Total Shareholders' Equity | 1,405,297 | 995,117 |
| Total Liabilities and Shareholders' Equity | \$2,248,067 | \$1,789,718 |


| (Thousands) 0 | Common Stock |  | Paid-InCapital | Retained Earnings | Deferred Compensation | $\begin{aligned} & \text { Other } \\ & \text { Compre- } \\ & \text { hensive } \\ & \text { Income } \end{aligned}$ | Treasury Stock |  | Total <br> Shareholders Equity |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{array}{r} \text { Shares } \\ \text { Outstanding } \end{array}$ | $\begin{gathered} \text { Par } \\ \text { Value } \end{gathered}$ |  |  |  |  | Shares | At Average Cost |  |
| Balance, J anuary 31, 2004 | 94,607 | \$1,033 | \$159,244 | 885,980 | \$ 6,265 | - | 8,692 | \$(194,758) | \$ 857,764 |
| Purchase of Treasury Stock | $(11,151)$ | - | - | - | - | - | 11,151 | $(434,658)$ | $(434,658)$ |
| N et Income | - | - | - | 216,376 | - | - | - | - | 216,376 |
| Restricted Stock U nit I ssuance | 24 | - | - | 108 | $(1,578)$ | - | (24) | 542 | (928) |
| Restricted Stock U nit Expense | - |  | - | - | 10,361 | - | - |  | 10,361 |
| Stock Option Exercises | 2,556 | - | - | $(16,304)$ | - | - | $(2,556)$ | 65,845 | 49,541 |
| D ividends (\$0.50 per share) | - |  | - | $(46,438)$ | - | - | - | - | $(46,438)$ |
| Tax Benefit from Exercise of Stock Options and I ssuance of Restricted Stock U nits | of | - | 17,308 | - | - | - | - | - | 17,308 |
| Balance, J anuary 29, 2005 | 86,036 | \$1,033 | \$176,552 | \$1,039,722 | \$15,048 | - | 17,263 | \$(563,029) | \$ 669,326 |
| Purchase of Treasury Stock | $(1,765)$ | - | - | - | - | - | 1,765 | $(103,296)$ | (103,296) |
| N et Income | - | - | - | 333,986 | - | - | - | - | 333,986 |
| Restricted Stock U nit I ssuance | 166 | - | - | $(4,297)$ | $(12,966)$ | - | (166) | 5,650 | (11,613) |
| Restricted Stock U nit Expense |  | - | - | - | 24,124 | - | - | - | 24,124 |
| Stock Option Exercises | 3,289 | - | - | $(26,985)$ | - | - | $(3,289)$ | 109,880 | 82,895 |
| Dividends ( $\$ 0.60$ per share) | - | - | - | $(52,218)$ | - | - | - | - | $(52,218)$ |
| Unrealized Losses on M arketable Securities | - | - | - | - | - | (718) | - | - | (718) |
| Cumulative Foreign Currency Translation Adjustments |  | - | - | - | - | (78) | - | - | (78) |
| Tax Benefit from Exercise of Stock Options and Issuance o Restricted Stock Units | of | - | 52,709 | - | - | - | - | - | 52,709 |
| Balance, J anuary 28, 2006 | 87,726 | \$1,033 | \$229,261 | \$1,290,208 | \$26,206 | \$(796) | 15,574 | \$( 550,795$)$ | \$ 995,117 |
| D eferred C ompensation Reclassification | - | - | 26,206 | - | $(26,206)$ | - | - | - | - |
| N et Income | - | - | - | 422,186 | - | - | - | - | 422,186 |
| Restricted Stock U nit Issuance | 145 | - | $(7,710)$ | $(1,011)$ | - | - | (145) | 4,302 | $(4,419)$ |
| Restricted Stock U nit Expense |  | - | 19,964 | - | - | - | - | - | 19,964 |
| Stock Option Exercises | 429 | - | 1,384 | $(3,470)$ | - | - | (429) | 15,729 | 13,643 |
| Stock Option Expense | - | - | 15,155 | - | - | - | - | - | 15,155 |
| Dividends ( $\$ 0.70$ per share) | - | - | - | $(61,623)$ | - | - | - | - | (61,623) |
| U nrealized Gains on M arketable Securities | - | - | - | - | - | 41 | - | - | 41 |
| Cumulative Foreign Currency Translation Adjustments |  | - | - | - | - | (239) | - | - | (239) |
| Tax Benefit from Exercise of Stock Options and Issuance of Restricted Stock U nits | of | - | 5,472 | - | - | - | - | - | 5,472 |
| Balance, February 3, 2007 | 88,300 | \$1,033 | \$289,732 | \$1,646,290 | - | \$(994) | 15,000 | \$(530,764) | \$1,405,297 |


| (Thousands) | 2006* | 2005 | 2004 |
| :---: | :---: | :---: | :---: |
| Operating Activities: |  |  |  |
| N et Income | \$422,186 | \$333,986 | \$216,376 |
| Impact of Other Operating Activities on Cash Flows: |  |  |  |
| Depreciation and Amortization | 146,156 | 124,206 | 105,814 |
| Amortization of D eferred L ease Credits | $(34,485)$ | $(32,527)$ | $(32,794)$ |
| Share Based Compensation | 35,119 | 24,124 | 10,372 |
| Tax Benefit from Share-Based Compensation | 5,472 | 52,709 | 17,308 |
| Excess Tax Benefit from Share-Based C ompensation | $(3,382)$ | - | - |
| D eferred Taxes | $(11,638)$ | $(2,099)$ | 3,942 |
| N on-cash Charge for Asset Impairment | 298 | 272 | 1,190 |
| L oss on Disposal of Assets | 6,261 | 7,386 | 4,664 |
| Lessor Construction Allowances | 49,387 | 42,336 | 55,009 |
| Changes in Assets and Liabilities: |  |  |  |
| Inventories | $(61,940)$ | $(146,314)$ | $(34,445)$ |
| Accounts Payable and Accrued Expenses | 24,579 | $(2,912)$ | 99,388 |
| Income Taxes | $(12,805)$ | 43,893 | 1,659 |
| Other Assets and Liabilities | 16,963 | 8,530 | $(24,699)$ |
| Net Cash Provided by Operating Activities | 582,171 | 453,590 | 423,784 |
| Investing Activities: |  |  |  |
| Capital Expenditures | $(403,476)$ | $(256,422)$ | $(185,065)$ |
| Purchases of Trust Owned Life Insurance Policies | $(15,258)$ | - | - |
| Purchases of M arketable Securities | (1,459,835) | $(1,016,986)$ | $(4,314,070)$ |
| Proceeds of Sales of M arketable Securities | 1,404,805 | 605,101 | 4,778,770 |
| Net Cash (Used for) Provided by Investing Activities | $(473,764)$ | $(668,307)$ | 279,635 |
| Financing Activities: |  |  |  |
| Dividends Paid | $(61,623)$ | $(52,218)$ | $(46,438)$ |
| Change in Outstanding Checks and Other | $(31,770)$ | 8,467 | 19,383 |
| Proceeds from Share-Based Compensation | 12,876 | 73,716 | 49,948 |
| Excess Tax Benefit from Share-Based C ompensation | 3,382 | - | - |
| Purchase of Treasury Stock | - | $(103,296)$ | $(434,658)$ |
| Net Cash Used For Financing Activities | $(77,135)$ | $(73,331)$ | (411,765) |
| Net Increase (Decrease) in Cash and Equivalents | 31,272 | $(288,048)$ | 291,654 |
| Cash and Equivalents, Beginning of Year | 50,687 | 338,735 | 47,081 |
| Cash and Equivalents, End of Year | \$ 81,959 | \$ 50,687 | \$338,735 |
| Significant Non-Cash Investing Activities: |  |  |  |
| Change in Accrual for Construction in Progress | \$ 28,455 | \$ 3,754 | \$(15,513) |

The accompanying $N$ otes are an integral part of these C onsolidated Financial Statements.

1. BASIS OF PRESENTATION Abercrombie \& Fitch Co. ("A\&F"), through its wholly-owned subsidiaries (collectively, A\&F and its whol $y$-owned subsidiaries are referred to as "Abercrombie \& Fitch" or th "Company"), is a specialty retailer of high-quality, casual apparel for men, women and kids wis an active, youthfu lifestyle. The business was established in 1892
The accompanying consol idated financial statements include the historical financial statements of, and transactions applicable to, A \&F and its wholly-owned subsidiaries and reflect the assets, liabilities, Tesuts of operations sind cash flows on a historical cost basis
The Company's fiscal year ends on the Saturday closest to J anuary 31,
typically resulting in a fifty-two week year, but occasionall y iving rise an additional week, resulting in a fifty-three week year. Fiscal years are designated in the financial statements and notes by the calendar year in which the fiscal year commences. All references herein to "Fiscal 2006 represent the results of the 53 -week fiscal year ended February 3, 2007 to "Fiscal 2005" represent the 52 -week fiscal year ended J anuary 28,2006 and to "Fiscal 2004" represent the 52 -week fiscal year ended January 29,
2. In addition, all references herein to "Fiscal 2007 " represent the 52week fiscal year that will end on February 2, 2008.

RECLASSI FICATIONS C ertain amounts have been reclassified to onform with the current year presentation. The Company periodica y acquires shares of its Class A Common Stock, par value $\$ 0.01$ p share ("C ommon Stock") under various Board of Directors authorize share buy-back plans. The shares acquired are held as treasury stock and are not retired. The Company utilizes the treasury stock whe ssuing shares for stock option exercises and restricted stock unit vest ings. In accordance with the Accounting Principles Board ("APB") sales of treasury stock not previously accounted for as constructively retired should be credited to paid-in capital: "losses" may be charged to paid-in capital to the extent of previous net "gains" from sales or retire ments of the same class of stock, otherwise to retained earnings. On the C onsolidated Balance Sheet for the year ended January 28, 2006, th C ompany reclassified cumulative treasury stock "losses" of $\$ 67.6 \mathrm{mil}$ ion to retained earnings that were previously netted against paid-in capital. On the C onsolidated Statements of Shareholders' Equity for the year ended January 31 , 2004 , the C ompany reclassified cumulative previously netted against paid-in capital In addition on the Consolidated Statements of Shareholders' Equity for the years ended anuary 29,2005 and January 28,2006 , the C ompany recl assified treas ury stock "losses" of $\$ 16.2$ million and $\$ 31.3$ million, respectively retained earnings that were previously netted against paid-in capita Amounts reclassified did not have an effect on the Company's results of operations or C onsolidated Statements of Cash Flows.
SEGMENT REPORTING In accordance with Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosure abour Segnts of and it uses to evaluate performance internally. The operating segments
identified by the Company, Abercrombie \& Fitch, abercrombie, H oli ister and RUE HL, have been aggregated and are reported as one reportable financial segment. The C ompany aggregates its operating segments because they meet the aggregation criteria set forth in paragraph 17 of SFAS N 0.131 . The Company believes its operating segments may be aggregated for financial reporting purposes because they are similar in each of the following areas: class of consumer, economic characteristics, nature of products, and distribution methods. Revenues relating to the Company'sinternational sales in Fiscal 2006 were not material and are not reported separately from domestic revenues.
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION The consolidated financial statements include the accounts of A\&F and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.
CASH AND EQUIVALENTS C ash and equival ents include amounts on deposit with financial institutions and investments with original maturities of less than 90 days. Outstanding checks at year-end are

INVESTMENTS Investments with original maturities greater than 90 days are accounted for in accordance with SFAS No. 115, "Accounting for Certain Invesments in Debt and Equity Securities," and are classified accordingly by the Company at the time of purchase. At February 3, 2007, the Company's investments in marketable securities consisted primarily of investment grade municipal notes and bonds and investment
grade auction ratesecurities, all classified as avai ablefor-sale and reported at fair value based on the market, with maturities that could range from one month to 40 years.
The Company began investing in municipal notes and bonds during Fiscal 2005. These investments have early redemption provisions at predetermined prices. For the fiscal years ended February 3, 2007 and January 28,2006 , there were no realized gains or losses. Net unrealized holding losses were approximately $\$ 0.7$ million for both the fiscal years ended February 3, 2007 and January 28, 2006.
For the Company's investments in auction rate securities, the interest rates reset through an auction process at predetermined periods feature, the investment's market price approximates itsfair value' there fore, there are no realized or unrealized gains or losses associated with these marketable securities
The Company held approximately $\$ 447.8$ million and $\$ 411.2$ million in marketable securities as of February 3, 2007 and January 28, 2006, respectively.
As of February
As of February 3, 2007 and January 28, 2006, approximately $\$ 346.1$ million and $\$ 285.4$ million, respectively, of marketable securities were invested in auction rate securities. As of February 3,2007 and J anuary
28,2006 , approximately $\$ 97.1$ million and $\$ 120.8$ million, respec28, bonds. As of February 3,2007 and January 28,2006, approximately
$\$ 4.6$ million and $\$ 5.0$ million, respectively, of the marketable securities were invested in dividend received deduction.
The C ompany establi ished an irrevocable rabbi trust during the third quarter of Fiscal 2006, the purpose is to be a source of funds to match respective funding obligations to participants in the Abercrombie \& Fitch $N$ onqualified Savings and Supplemental Retirement Plan and the Chief Executive Officer Supplemental Executive Retirement Plan $\$ 33.5$ million which included $\$ 18.3$ million of available-for-sale securities and $\$ 153$ million related to the cash surrender value of trust owned life insurance poli cies. The Rabbi Trust assets are consolidated in accordance with Emerging I ssues Task Force 97-14 ("EITF 97-14") and recorded at fair value in other assets on the C onsol idated Balance Sheet and were restricted as to their use as noted above.
CREDIT CARD RECEIVABLES As part of the normal course of business, the Company has approximately two to three days of sales point The Company classifies these outstanding balances as receivables

INVENTORIES Inventories are principally valued at the lower of average cost or market utilizing the retail method. The Company determines market value as the anticipated future selling price of the merchandise less a normal margin. Therefore, an initial markup is applied to inventory at cost in order to establish a cost-to-retail ratio. Permanent markdowns, when taken, reduce both the retail and cost components of inventory on hand so as to maintain the already established cost-to-retail relationship.
The fiscal year is comprised of two principal selling seasons: Spring
(the firstand second The Company classifies its inventory into three categories; spring fash ion fall fashion and basic. The Company reduces inventory valuation at the end of the first and third quarters to reserve for projected inventory markdowns required to sell through the current season inventory prior to the beginning of the following season. Additionally, the Company reduces inventory at season end by recording a markdown reserve that represents the estimated future anticipated selling price decreases necessary to sell through the remaining carryover fashion inventory for the season just passed. Further, as part of inventory valuation, Muystary inventories are made that reduce the inventory val for lost or stolen items. The are throughout the year and adjusts the shrink reserve accordingly.
The markdown reserve was $\$ 6.8$ million, $\$ 10.0$ million and $\$ 6$. million at February 3, 2007, January 28,2006 and January 29, 2005, respec tively. The shrink reserve was $\$ 7.7$ million, $\$ 3.8$ million and $\$ 2.9$ million at February 3,2007 , January 28,2006 and January 29, 2005, respectively.
STORE SUPPLI ES The initial inventory of supplies for new stores including, but not limited to, hangers, signage, security tags and point-ofsale supplies are capitadized at the storeopening date. In Neu of amortizexpenses all subsequent replacements and adiusts the initial balance,
appropriate, for changes in store quantities or replacement cost. This pol icy approximatesthe expense that would have been recognized under generally accepted accounting principles ("GAAP"). Store supply categorie are classified as current or non-current based on their estimated useful lives. Packaging is expensed as used. Current store supplies were $\$ 20.0$ million and $\$ 16.1$ million at February 3, 2007 and January 28, 2006 respectively. Non-current store supplies were $\$ 20.6$ million at both ebruary 3, 2007 and January 28,2006

PROPERTY AND EQUIPMENT Depreciation and amortization of property and equipment are computed for financial reporting pur poses on a straight-line basis, using service lives ranging principally from 30 years for buildings, the lesser of ten years or the life of the lease for leasehold improvements and three to ten years for other property and equipment. The cost of assets sold or retired and the related accumulated depreciation or amortization are removed from the accounts with any resulting gain or loss included in net income. M aintenance and repairs are charged to expense as incurred. M aj
lived asets are rie the sored.
ong-lived assets are reve or athe store level periodically for that full recoverability of net assets through future cash flows is in question. Factors used in the evaluation include, but are not limited to management's plans for future operations, recent operating result ts and projected cash flows. The C ompany incurred impairment charges of approximately $\$ 0.3$ million for both Fiscal 2006 and Fiscal 2005.
INCOME TAXES Income taxes are calculated in accordance with SFAS No. 109, "Accounting for Income Taxes" which requires the use of ognized based on the difference between the financial satement carrying amounts of existing assets and liabilities and their respective tax bases D eferred tax assets and liabil ities are measured using current enacted tax rates in effect in the years in which those temporary differences ar expected to reverse. Inherent in the measurement of deferred balances ar certain judgments and interpretations of enacted tax law and published guidance with respect to applicability to the Company's operations. A valuation allowance has been provided for losses related to the start-up costs associated with operations in foreign countries. No other valuation ment believes that it is more likely than not that the full amount of the net deferred tax assels will be realized in the future The effective tax rate utilized by the Company reflects management's judgment of the expected tax liabilities within the various taxing jurisdictions.

FOREIGN CURRENCYTRANSLATION Some of the Company's international operations use local currencies as the functional currenc In accordance win SFAS No. 52, Foreign Currency Transation", assets and liabilities denominated in foreign currencies were translated into U.S dollars (the reporting currency) at the exchange rate prevailing at the ance steet date. Revenues and expenses denominated in foreign cur rate for the period. Gains and losses resulting from foreign currency trans-
actions are included in the results of operations, whereas reated translation adjustments are reported as an element of other comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income."

CONTINGENCIES In the normal course of business, the Company must make continuing estimates of potential future legal obligations and liabilities, which require management's judgment on the outcome of varlousissues. Management may also use outside legal advice to assist is could be different than management estimates, and adjustments may be required. The Company accrues for its legal obligations for outstanding bills, expected defense costs and, if appropriate, settlements. Accruals are made for personnel, general litigation and intellectual property cases.

SHAREHOLDERS' EQUITY At February 3, 2007 and January 28 2006 , there were 150 million shares of $\$ 0.01$ par value C lass A C ommo Stock authorized, of which 88.3 million and 87.7 million shares were outstanding at February 3,2007 and January 28,2006 , respectively, and zed noneof which wereoutstanding at February 32007 or anuary 28 2006. In addition, 15 million shares of $\$ 0.01$ par value Preferred Stock were authorized, none of which have been issued. See N ote 15 of the Notes to Consolidated Financial Statements for information about Preferred Stock Purchase Rights.
H olders of Class A C ommon Stock generally have identical rights to holders of Class B Common Stock, except that holders of Class A Common Stock are entitled to one vote per share while holders of Class B Common Stock are entitled to three votes per share on all matters submitted to a vote of shareholders.

REVENUE RECOGNITION The Company recognizes retail sales at the time the customer takes possession of the merchandise and purchases are paid for, primarily with either cash or credit card. Direct-o-consumer sales are recorded upon customer receipt of merchandise. manstion handling costs are classified as stores and distribution expense. Associate discounts are classified as a reduction of revenue. The Company reserves for sales returns through estimates based on historical experience and various other assumptions that management believes to be reasonable. February 3 2007, Janury 282006 and lanury 29,2005 respectively The Company's gift cards do not expire or lose value over period of inactivity. The Company accounts for gift cards by recognizing a liability at the time a gift card is sold. The liability remains on the Company's books until the earlier of redemption (recognized as revenue) or when the Company determines the likelihood of redemption is remote (recognized as other operating income). The C ompany determinesthe probability of the gift card being redeemed to be remote based on historical redemption patterns and at these times recognizes the anuary 28 , 2006 the gift card liability on the Company's Consolidated Balance Sheet was $\$ 65.0$ million and $\$ 53.2$ million, respectively.

The C ompany is not required by law to escheat the value of unre2006, Fiscal 2005 and Fiscal 2004, the Company recognized other operating income for adjustments to the gift card liability of $\$ 5.2$ million, $\$ 2.4$ million and $\$ 4.3$ million, respectively.
The Company does not include tax amounts collected as part of
the sales transaction in its net sales results. the sales transaction in its net sales results.
COST OF GOODS SOLD Cost of goods sold includes among others, cost of merchandise, markdowns, inventory shrink and valuation reserves and freight expenses.

STORES AND DISTRIBUTION EXPENSE Stores and distribution expense includes store payroll, store management, rent, utilities and other landlord expenses, depreciation and amortization, repairs and maintenance and other store support functions and direct-to-consumer and DC expenses.
MARKETING, GENERAL \& ADMINISTRATIVE EXPENSE M arketing, general and administrative expense includes photography and media ads, store marketing, home office payroll, except for those technology, outsideservicessuch as legal and consulting, relocation and employment and travel expenses.

OTHER OPERATING INCOME, NET Other operating income consists primarily of gift card balances whose likelihood of redemption has been determined to be remote and are therefore recognized as income. Other operating income in Fiscal 2006 also included nonrecurn H urica K atrina

CATALOGUE AND ADVERTISING COStS Catalogue costs consist primarily of catalogue production and mailing costs and are expensed as incurred as a component of "Stores and Distribution Expense." Advertising costs consist of in-store photographs and advertising in selected national publications and billboards and are expensed as part of "Marketing, General and Administrative Expense" when the photographs or publications first appear. C atalogue and advertising costs, which include photo shoot costs, and $\$ 33.8$ million in Fiscal 2004.

OPERATING LEASES The C ompany leases property for its stores under operating leases, M Mst lease agreements contain construction all owances, rent escalation clauses and/or contingent rent provisions. For construction allowances, the C ompany records a deferred lease creait on the consolidated balance sheet and amortizes the deferred lease credit as a reduction of rent expense on the consolidated statement of net income and comprehensive income over the terms of the leases. For scheduled rent escalation clauses during the lease terms, the
Company records minimum rental expenses on a straight-line basis over the terms of the leases on the consolidated statement of net income
and comprehensive income. The term of the lease over which the Company amortizes construction allowances and minimum rental expenses on a straight-line basis begins on the date of initial possession, which is generally when the C ompany enters the space and begins to make improvements in preparation for intended use.
Certain leases provide for contingent rents, which are deter-
mined as a percentage mined as a percentage of gross sales in excess of specified levels. The the Consolidated Balance Sheet and the corresponding rent sespense when management determines that achieving the specified levels during the fiscal year is probable.

STORE PRE-OPENING EXPENSES Pre-opening expenses related to new store openings are charged to operations as incurred.
DESIGN AND DEVELOPMENT COsts Costs to design and develop the Company's merchandise are expensed as incurred and are reflected as a component of "M arketing, General and Administrative Expense.

FAIR VALUE OF FINANCIAL INSTRUMENTS The recorded values of current assets and current liabilities, including receivables, marketable securities, other assets and accounts payable, approximate
fair value due to the short maturity and because the average interest rate approximates current market origination rates

EARNINGS PER SHARE Net income per share is computed in accordance with SFAS No. 128 , "E arnings Per Share." Net income per basic share is computed based on the weighted-average number of outincludes the weighted-average effect of dilutive stock options and restricted stock units.

|  | 2006 | 2005 | 2004 |
| :---: | :---: | :---: | :---: |
| Shares of Class A Common Stock issued | 103,300 | 103,300 | 103,300 |
| Treasury shares outstanding | $(15,248)$ | (16,139) | (10,523) |
| Basic shares outstanding | 88,052 | 87,161 | 92,77 |
| Dilutive effect of options and restricted stock units | 3,958 | 4,060 | 2,333 |
|  |  |  |  |

Options to purchase 0.1 million 0.2 million and 5.2 million shares of Class A Common Stock were outstanding for Fiscal 2006, Fiscal 2005 and Fiscal 2004, respectively, but were not included in the computation of net income per diluted share because the options' exercise prices were greater than the average market price of theunderlying shares.

SHARE-BASED COMPENSATION See N ote 4 of the $N$ otes to Consolidated Financial Statements.

USE OF ESTIMATES IN THE PREPARATION OF FINAN CIAL STATEMENTS The preparation of financial statements in
conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Since actual results may differ from those estimates, the C ompany revises its estimates and assumptions as new information becomes available.
3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS In July 2006, the FASB released Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement 109 ,
Accounting for IncomeTaxes" ("FIN 48"). FIN 48 provides a comprehen Accounting for nocome axes a company should recoognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 defines th threshold for recognizing tax return positions in the financial statements as "more likely than not" that the position is sustainable, based on its merits. FIN 48 also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. FIN 48 2006 with the cumulative effect of the change in accounting princip recorded as an adjustment to the beginning balance of retained earning in the period of adoption. An analysis of the impact of this interpretation is not yet complete; however, the Company expects to record an adjust ment to reduce opening retained earnings in the first quarter of Fisca 2007 by an amount which is not material to its financial statements. In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 108, "C onsidering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current quar Financial Statements" SAB No. 108 requires a "dual approach" for incomestatement impact including the cumulative effect of prior years misstatements, and a method that focuses on the period-end balance sheet. SAB N o. 108 was effective for the C ompany for Fiscal 2006. Th adoption of SAB No. 108 did not have any impact on the Company's consolidated financial statements.
In September 2006, the FASB released FASB Statement No. 157 "Fair Value M easurements" ("SFAS 157"). SFAS 157 establishes a common definition for fair value under GAAP, establishes a framework for measuring fair value and expands disclosure requirements
about such fair value measurements. SFAS 157 will be effective for the Company on February 3, 2008. ThFAS 157 will be effective for rating the potential impat on the consolidated financial statement of adopting SFAS 157.
In February 2007, the FASB released FASB Statement No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"). SFAS 159 permits companies to measure many financial instruments and certain other assets and liabilities at fair value on an instrument by instrument basis. SFAS 159 also establishes presentation and disclosure requirements to facilitate comparisons between companies that select different measurement attributes for similar types of February 3 iabiities. SFAS 159 will be effective for the Company on impact on the consolidated financial statements of adopting SFAS 159.

## 4. SHARE-BASED COMPENSATION

BACKGROUND On January 29, 2006, the Company adopted SFAS No. 123 (Revised 2004), "Share B ased Payment" ("SFAS No. 123(R)"), which requires share-based compensation to be measured based on estimated fair values at the date of grant using an option-pricing model. Previously, the Company accounted for share based compensation 25, "Accounting for Stock 1 sued to Employecs " and related interneretations, for which no expense was recoognized for stock options if the exercise price was equal to the market value of the underlying common stock on the date of grant, and if the C ompany provided the required pro forma disclosures in accordance with SFAS No. 123, "Accounting for StockBased Compensation" ("SFAS No. 123"), as amended.
The Company adopted SFAS NO. 123(R) using the modified prospective transition method, which requires share based compensation to be recognized for all unvested share-based awards beginning in the first quarter of adoption. Accordingly, prior period information pre fair value method of expensing stock options. Under the modified prospective method, compensation expenserecognized for thefifty-three weeks ended February 3,2007 includes compensation expense for: a) all share based awards granted prior to, but not yet vested as of, January 29, 2006 , based on the grant-date fair value estimated in accordance with the original provisions of SFAS N 0.123 and b) all share based awards granted subsequent to January 29, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS $N o .123(\mathrm{R})$.

FINANCIAL STATEMENT IMPACT Total share based compensation expense recognized under SFAS $N$ o. $123(\mathrm{R})$ was $\$ 35.1$ million compensation expenseof $\$ 24.1$ million and $\$ 10.4$ million was recognized for the fifty-two week periods ended January 28,2006 and January 29 , 2005, under APB 25.
The Company also realized $\$ 5.5$ million, $\$ 52.7$ million and $\$ 17.3$ million in cash tax benefits for the fifty-three week period ended February 3, 2007 and the fifty-two week periods ended J anuary 28, 2006 and January 29, 2005, respectively, related to stock option exercises and restricted stock issuances
The following table summarizes the incremental effect of the statements for the fifty-three weeks ended February 3, 2007:

TT housands except per share amounts)

| $\begin{array}{c}\text { Fifty-Three Weeks } \\ \text { February } 3,2007\end{array}$ |
| :---: |


|  | 2007 |
| :---: | :---: |
| Stores and distribution expense | 463 |
| Markeitig, general and administrative expense | 13,627 |
| Operating income | 14,0 |
| Provision for income taxes | (4,210) |
| Netincome | 9,880 |
| Net income per basic share | 0.11 |
| Neti income eere diluted share | 0.11 |
| Net cash used for operating ativities | \$(3,382 |
| Net cash provided by financing ativities | \$ 3,382 |

The foll owing table is presented for comparative purposes and illustrates the pro forma effect on net income and net income per share for the fity-two weeks ended January 28,2006 and January 29, 2005, as if N O. 123 to stock options granted under the Company's share based No. 123 to stock options granted under the
compensation plans prior to J anuary 29, 2006:

| (Thousnds except per share amounts) | Fifty-Two Weeks Ende | Fifty-Two Weeks Ended |
| :---: | :---: | :---: |
|  | January 28, 2006 | January 29, 2005 |
| Net income: | \$333,986 | \$226,376 |
| Share based compensation expense included in reported net income, net of tax | 14,716 | 6,358 |
| Share based compensation expense determined under fair value based method, net of tax | $(36,689)$ | (27,720) |
| Pro forma | \$312,013 | \$195,014 |
| Net income per basic share: As reported | ${ }^{53.83}$ | \$2.33 |
| Pro forma | \$3.58 | 92.10 |
| Net income per diluted share: As reported | \$3.66 | 52.28 |
| Pro forma | \$3,38 | \$2.05 |

${ }^{11}$ Indudes share based compenstion expenerer ataed to restitded dock unit awards actull y recognized in net income in each period preested using the intrinisic value method.

Share based compensation expense is recognized, net of estimated forfeitures, over the requisite service period on a straight line basis. The Company adjusts share-based compensation on a quarterly basis for actual forfeitures and on a periodic basis for changes to the estimate of expected forfeitures based on actual forfeiture experience. The effect of estimate is changed. The effect of forfeiture adjustments during the fifty-three week period ended February 3, 2007 was immaterial.
Upon adoption of SFAS No. $123(\mathrm{R})$, the C ompany began pre ing the deferred compensation for share-based compensation in the C ondensed C onsolidated Balance Sheet as part of paid-in capital and the related tax benefit in paid-in capital. Additionally, the Company began presenting the excess tax benefit in the C onsolidated Statement of C ash Flows as part of the financing activities. Prior to adoption of SFAS No. 123 (R), the deferred compensation was presented in the Condensed Consolidated Balance Sheet as deferred compensation C onsolidated Statement of Cash Flows in operating activities.

PLANSAs of February 3, 2007, the Company had two primary share based compensation plans, the 2002 Stock Plan for Associates (the "2002 Plan") and the 2005 Long-Term Incentive Plan (the "2005 LTIP"), under which it grants stock options and restricted stock units to its associates and non-associate board members. The Company also has three other share-based compensation plans under which it granted stock options and restricted stock units to its associates and nonassociate board members in prior years.
Company to grant up to approximately 20 million shan, permits the

Common Stock to the majority of associates who are subject to Section 16 of the Securities Exchange Act of 1934, as amended, and any nonassociate directors of the Company. The 2002 Plan, which is not a shareholder approved plan, permits the Company to grant up to 7.0
million shares of A\&F's Common Stock to any associate. Under both million shares of A\&F's C ommon Stock to any associate. Under both plans, stock options and restricted stock units vest primarily over four years for associates. Under the 2005 LTIP, stock options and restricted stock units vest over one year for non-associate directors. Stock options vesting if there is a change of control as defined in the plans.
The Company issues shares for stock option exercises and restricted stock unit vestings from treasury stock. As of February 3, 2007, the Company had enough treasury stock available to cover stock options and restricted stock units outstanding without having to repurchase additional stock.
FAIR VALUE ESTI IMATES The Company estimates the fair value of stock options granted using the Black-Scholes option-pricing model, which requires the Company to estimate the expected term of the term. The term represents the expected period of time the C ompany believes the options will be outstanding based on historical experience. Estimates of expected future stock price volatility are based on the historic volatility of the C ompany's stock for the period equal to the expected term of the stock option. The C ompany calculates the volatility as the annualized standard deviation of the differences in the natural logarithms of the weekly stock closing price, adjusted for stock splits.
The weighted-average estimated fair values of stock options granted
during the fifty-three wek period fifty-two week periods ended January 28, 2006 and January 29, 2005, as well as the weighted-average assumptions used in calculating such values, on the date of grant, were as follows:

|  | Fifty-ThreeWeeks Ended |  | Fifty-Two | $\begin{gathered} \text { Fifty-Two } \\ \text { Weeks Ended } \end{gathered}$ |
| :---: | :---: | :---: | :---: | :---: |
|  | Febru | 3,2007 | January 28, 2006 | January 29, 2005 |
|  | Executive Officers | $\begin{gathered} \text { Sther } \\ \text { Assocites } \end{gathered}$ | $\begin{aligned} & \text { Exicective } \\ & \text { Otherficess asd } \\ & \text { Othociates } \end{aligned}$ | $\begin{array}{r} \text { Efxecutive } \\ \text { Other Ascers ind } \end{array}$ |
| Exercise price | 558.22 | 55.12 | 560.10 | \$36.49 |
| Fairvalue | \$24.92 | \$20.69 | \$23.01 | \$14.56 |
| Assumptions: |  |  |  |  |
| Price volatility | 47\% | 42\% | 47\% | 56\% |
| Expected term (Years) | 5 | 4 | 4 | 4 |
| Risk-free interet rate | 4.9\% | 4.9\% | 4.0\% | 3.2\% |
| Dividend yield | 1.2\% | 1.2\% | 1.1\% | $1.3{ }^{3}$ |

In the case of restricted stock units, the Company calculates the fair value of the restricted stock units granted as the market price of the ipated dividend payments during the vesting period.

STOCK OPTION ACTIVITY Below is the summary of stock option activity for Fiscal 2006:

| Fifty-T hree Weeks Ended February 3, 2007 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
| $\begin{aligned} & \text { Stock } \\ & \text { Options } \end{aligned}$ | Number of Shares | $\begin{gathered} \text { Weighted- } \\ \text { Average } \\ \text { Exercise Price } \end{gathered}$ | $\begin{gathered} \text { Agogreate } \\ \text { Intinicic } \\ \text { valu } \end{gathered}$ | Weighted-Averag Remainin Contractual Life |
| Outstanding at <br> January 29, 2006 | 9,060,831 | \$37.18 |  |  |
| Granted | 411,300 | 58.16 |  |  |
| Exercised | (440,457) | 31.74 |  |  |
| Forfeited or expired | $(226,950)$ | 53.18 |  |  |
| Outstanding at <br> February 3, 2007 | 8,804,724 | \$38.07 | \$375,970,520 | 3.7 |
| Options expected to vest at February 3, 2007 | 625,242 | \$54.92 | \$ 10,162,506 | 8.4 |
| Options exercisable at February 3, 2007 | 8,136,922 | \$36.67 | \$358,856,161 | 3.4 |

The total intrinsic value of stock options exercised during thefifty-three weeks ended February 3, 2007 and the fifty-two weeks ended January 28,2006 and January 29,2005 was $\$ 15.2$ million, $\$ 139.9$ million and $\$ 46.8$ million, respectively
The total fair value of stock options vested during the fifty-three weeks ended February 3, 2007 and the fifty-two weeks ended January $\$ 31.0$ million, respectively

As of February 3, 2007, the Ased February 3 , 2007, there was $\$ 11.0$ million of total unrecog options. The unrecognized nost is expected to forestures, related to stock weighted-average period of 1.4 years

RESTRICTED STOCK UNIT ACTIVITY A summary of the status of the Company's restricted stock units as of February 3, 2007 and changes during the fifty-three week period ended February 3, 200

| Restricted <br> Stock Units | Number of <br> Shares | Weighted-Average <br> Grant <br> Fair ale |
| :--- | ---: | ---: |
| Value |  |  |

The total fair value of restricted stock units granted during the fifty-three weeks ended February 3, 2007 and fifty-two weeks ended January 28,2006 and January 29,2005 was $\$ 35.5$ million, $\$ 36.3$ mil lion and $\$ 16.0$ million, respectively.
The total fair value of restricted stock units vested during the fiftythree weeks ended February 3, 2007 and fifty-two weeks ended January 28,2006 and January 29, 2005 was $\$ 8.6$ million $\$ 50$ million and $\$ 1.0$ million, respectively.
As of February 3, 2007, there was $\$ 46.4$ million of total unrecog-
nized compensation cost, net of estimated forfeitures, related to nonvested restricted stock units. The unrecognized cost is expected to be recognized over a weighted-average period of 1.3 years.
5. PROPERTY AND EQUIPMENT Property and equipment, at cost, consisted of (thousands)

2006

|  | 2006 | 2005 |
| :---: | :---: | :---: |
| Land | 32,291 | \$ 15,985 |
| Building | 181,111 | 117,398 |
| Furniture, fixtures and equipment | 568,564 | 444,540 |
| Leasehold improvements | 754,224 | 625,732 |
| Construction in progress | 122,695 | 79,480 |
| Other | 10,168 | 3,248 |
| Total | \$1,69,053 | \$1,286,383 |
| Less: Accumulated depreciation and amortization | (576,771) | (472,780) |
| Property and equipment, net | \$1,092,82 | \$ 813,603 |

6. DEFERRED LEASE CREDITS, NET D eferred lease credits are derived from payments received from landlords to partially offset store construction costs and are reclassified between current and long-term ed leases, consisted of the following (thousands):

|  | 2006 | 2005 |
| :---: | :---: | :---: |
| Deferred lease credits | \$423,390 | \$376,460 |
|  | (184,024) | (153,508) |
| Total defered lease credits, net | \$239,366 | \$222,952 |

7. LEASED FACILITIES AND COMMITMENTS Annual store rent is comprised of a fixed minimum amount, plus contingent rent based on a percentage of sales exceeding a stipulated amount. Store lease terms generally require additional payments covering taxes, common area costs and certain other expenses.
A summary of rent expense follows (thousands):

$$
2006^{*}
$$

$\qquad$ 2004

| A summary of | expense for | usan |  | 2004 | The effect of temporary differences which give rise to deferred |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | 2006* | 2005 |  | income tax assets (liabilities) w |  | ousands): |  |  |
| Store rent: |  |  |  |  |  |  |  |  |  |
| Fixed minimum |  | \$196,690 | \$170,009 | \$141,450 |  |  | 200 |  | 2005 |
|  |  | 20,192 |  |  | Deferred tax assets: |  |  |  |  |
| Total store rent |  | \$216,882 | \$186,187 | \$148,382 | Deferred compensation |  | 37,725 | \$ | 24,046 |
| Buildings, equipme | nd other | 5,646 | 3,241 | 1,663 | Rent |  | 76,890 |  | 88,399 |
| Total rent expense |  | \$222,528 | \$189,428 | \$150,045 | Accrued expenses |  | 15,003 |  | 14,317 |
| *Fisal 2006 isa fifty- | eweak year. |  |  |  | Inventory |  | 5,642 |  | 3,982 |
|  |  |  |  |  | Foreign net operation losses |  | 2,709 |  |  |
|  |  |  |  |  | Valuation allowance on foreign net operation losses |  |  |  |  |
| leases with rema | ng terms of | 15 years. | summary | of operating | Total deferred tax assets |  | 135,260 |  | 130,744 |
| lease commitmen | under non- | be leases fol | ess (thousa |  |  |  |  |  |  |
|  |  |  |  |  |  |  | (11,578) |  | (10,851) |
| Fiscal 2007 | \$215,499 |  |  | \$195,007 | Property and equipment |  | (120,906) |  | (128,735) |
| Fiscal 2008 | \$215,670 |  |  | \$178,448 | Total deferred tax liabilities |  | (132,484) |  | (139,586) |
|  |  |  |  |  | Net deferred income tax liabilities | \$ | 2,776 |  | (8,842) |
| Fiscal 2009 | \$206,830 |  |  | \$660,22 |  |  |  |  |  |

At February 3, 2007, the Company had foreign net operating loss Carryovers that could be utilized to reduce future years' tax liabilities. and some have an indefinite carryfforward period. The C ompany has established a valuation all owance to reflect the uncertainty of real izing the benefits of these net operating losses in foreign jurisdictions. No other valuation allowance has been provided for deferred tax assets full amount
11. LONG-TERM DEBT On December 15, 2004, the Company entered into an amended and restated $\$ 250$ million syndicated unsecured credit agreement (the "Amended C redit Agreement"). The primary purposes of the Amended Credit Agreement are for trade and stand-by letters of creait and working capital. The Amended Credit Agreement has several borrowing options, including an option where interest rates are based on the agent bank's "Alternate Base Rate," and another using the L ondon Interbank Offered Rate. The facility fees of the Company's leveraged total debt plus $600 \%$ of forward minimum rent commitments to consolidated earnings before interest, taxes, depreciation, amortization and rent for the trailing four fiscal quarter periods. The facility fees are projected to accrue at either $0.15 \%$ or $0.175 \%$ on the committed amounts per annum. The Amended Credit Agreement contains limitations on indebtedness, liens, sale-leaseback transactions, significant corporate changes including mergers and acquisitions with third parties, investments, restricted payments (including dividends and stock repurchases) and transactions with affiliates. The Amended Credit Agreement will mature on December $\$ 45.1$ million were outstanding under the Amended C redit Agreement on February 3, 2007 and January 28, 2006, respectively. No borrowings were outstanding under the Amended Credit Agreement on February 3,2007 or on January 28, 2006.
12. RELATED PARTY TRANSACTIONS There were no material related party transactions in Fiscal 2006. Shahid \& C ompany, Inc. has provided advertising and design services for the Company since 1995. Sam N. Shahid, Jr., who served on A\&F 's Board of Directors until June 15, 2005, has been President and Creative Director of Shahid \& services provided during his tenure as a Director in Fiscal 2005 and Fiscal 2004 were approximately $\$ 0.9$ million and $\$ 2.1$ million respectively. These amounts do not include reimbursements to Shahid \& Company, Inc. for expenses incurred while performing these services.
13. RETIREMENT BENEFITS The Company maintains the Abercrombie \& Fitch Co. Savings \& Retirement Plan, a qualified plan. All associates are eligible to participate in this plan if they are at least 21 years of age and have completed a year of employment with 1,000 or more hours of service. In addition, the Company maintains the Retirement Plan. Participation in this plan is based on service and
compensation. The Company's contributions are based on a percent age of associates' eligible annual compensation. The cost of these plans was $\$ 15.0$ million in Fiscal 2006, $\$ 10.5$ million in Fiscal 2005 and $\$ 9.9$ million in Fiscal 2004.
Effective February 2, 2003, the Company established a Chie "Executive Officer Supplemental Executive Retirement Plan (th "SERP") to provide additional retirement income to its Chairman and CEO will receive a monthly benefit equal to $50 \%$ of his final average compensation (as defined in the SERP) for life. The SERP has been actuarially valued by an independent third party and the expense associated with the SERP is being accrued over the stated term of th Amended and Restated Employment Agreement, dated as of Augus 15,2005 , between the Company and its CEO. The cost of this plan was $\$ 6.6$ million in Fiscal 2006, $\$ 2.5$ million in Fiscal 2005 and $\$ 1.9$
million in million in Fiscal 2004.
The Company establ ished the rabbi trust during the third quarter of Fiscal 2006, the purpose is to be a source of funds to match respec Nonqualified Savings and Supplemental Retirement Plan and the Chief Executive Officer Supplemental Executive Retirement Plan. A of February 3, 2007, total assets related to the Rabbi Trust were $\$ 33.5$ million, which included $\$ 18.3$ million of availablefor-sale securities and $\$ 15.3$ million related to the cash surrender value of trust owned lif insurance policies.
14. CONTI NGENCI ESA\&F is a defendant in lawsuits arising in th ordinary course of business.
The Company previously reported that it was aware of 20 actions cers and directors on behalf of a purported class of shareholders who purchased A\&F's Common Stock between 0 ctober 8,1999 and 0 ctober 13, 1999. These actions originally were filed in the United States D istric Courts for the Southern District of New York and the Southern D istric of Ohio, Eastern Division, alleging violations of the federal securities laws and seeking unspecified damages, and were later transferred to th Southem District of New York for consolidated pretrial proceedings under the caption In re Abercrombie \& Fitch Securities Litigation. The parties have reached a settlement of these matters. According to the terms of the settlement, the Company's insurance company, on behal
of the defendants, has paid $\$ 6.1$ million into a settlement fund in ful consideration for the settlement and release of all claims that wer asserted or could have been asserted in the action by the plaintiffs an the other members of the settlement class. The settlement will not hav a material effect on the Company's financial statements. The judg who was presiding over the cases, after notice to the settlement class and a hearing held on January 30, 2007, determined that the proposed set tlement was fair, reasonable and adequate and approved the settlemen as final and binding.
The Company has been named as a defendant in five class action pensation. Four of the more detail below) regarding overtime com one was dismissed and not appealed, another was dismissed and unsuc

Cessfully appealed, the parties have tentatively agreed to a settlement of a third and a fourth remains pending. In addition, a fifth class action has been filed against the Company involving overtime compensation. In each overtime compensation action, the plaintiffs, on behalf of their
respective purported class, seek injunctive relief and unspecified respective purported class, seek injunctive
amounts of economic and liquidated damages amounts of economic and liquidated damages.
In M elissa M itchell, et al. v. Abercrombie \&Fitch Co. and Abercrombie \& Fitch Stores, Inc., which was filed on June 13, 2003 in the U nited allege that assistant managers and store managers were not paid overtime compensation in violation of the Fair Labor Standards Act ("FLSA") and Ohio law. On M arch 31, 2006, the C ourt issued an order granting defendants' motions for summary judgment on all of the claims of each of the three plaintiffs. All three plaintiff filed a $N$ otice of Appeal to the Sixth Circuit C ourt of Appeals on A pril 28, 2006. The matter was fully briefed on 0 ctober 26, 2006. O ral arguments before the Sixth Circuit Court of Appeals were held on M arch 15, 2007, and on M arch 29, 2007, that court afired the sum mary judgement favor of the Company.
ovember 22, 2005 in N ovember 22, 2005 in the Washington Superior Court of King Count
the plaintiff alleges that store managers, assistant managers and man agers in training were misclassified as exempt from the overtime com pensation requirements of the State of Washington, and improper denied overtime compensation. The complaint seeks relief on a class wide basis for unpaid overtime compensation, liquidated damages, attorneys' fees and costs and injunctive relief. The defendant filed an answer to the complaint on or about January 27,2006 . The defendant filed a motion for summary judgment asto all of Eltrich's claims on July Eltrich's individual daimson October 62006 dismissing Eltrich's individual claims with prejudice. On O ctober 31, 2006, the court dismissed the claims of putative class members without prejudice. Eltrich did not appeal and, accordingly, this case is terminated.
Lisa H ashimoto, et al. v. Abercrombie \& Fitch Co. and A bercrombie \& Fitch Stores, Inc., was filed in the Superior Court of the State of California for the County of Los Angeles on June 23, 2006. Three plaintiffs allege, on behalf of a putative class of California store managers employed in H ollister and abercrombie stores, that they were entitled to receive overtime pay as "non-exempt" employees under
California wage and hour laws. The complaint seeks injunctive relief, equitable relief, unpaid overtime compensation, unpaid benefits, penalties, interest and attorneys' fees and costs. The defendants filed an answer to the complaint on August 21, 2006. The parties are engaging in discovery.

Mitchell Green, et al. v. Abercrombie \& Fitch Co., Abercrombie \& Fitch Stores, Inc. and Abercrombie \& Fitch Trading Co., was filed in on Nited States D istrict C ourt for the Southern District of New York class of nation-wideloss prevention agents employed by the a putative that they were entitled to receive overtime pay as "non-exempt" employees under the FLSA and N ew York wage and hour laws. The complaint seeks injunctive relief, unpaid overtime compensation, liquidated damages, interest, and attorneys' fees and costs. The parties have tentatively agreed to a settlement which will not have a material effect on the financial statements.
Edrik Diaz v. Abercrombie \& Fitch Stores, Inc. was filed in the United States District Court for the Southern District of Florida on February 8,2007 . Diaz alleges, on behalf of a putative class of managers in training and assistant managers, that the C ompany did not properly pay overtime compensation. The complaint seeks liquidated damages, interest, and attorneys' fees and costs.
On September 2, 2005, a purported class action, styled Robert Ross v. Abercrombie \& Fitch C ompany, et al., was filed against A\&F and certain
of its officers in the United States District Court for the Southern of its officers in the United States District Court for the Southern
District of O hio on behalf of a purported dlass of all persons who purDistrict of Ohio on behalf of a purported class of all persons who pur-
chased or acquired shares of A\&F's Common Stock between June 2, 2005 and August 16,2005 . In September and O Ctober of 2005, five other purported class actions were subsequently filed against A\&F and other defendants in the same Court. All six securities cases allege claims under the federal securities laws, and seek unspecified monetary damages, as a result of a decline in the price of A\&F's C ommon Stock during the summer of 2005. On N ovember 1, 2005, a motion to consolidate all of these purported class actions into the first-filed case was filed
by some of the plaintiffs. A\&F joined in that motion. On March 22, 2006, the motions to consolidate were granted, and these actions (together with the federal court derivative cases described in the foll owing paragraph) were consolidated for purposes of motion practice, discovery and pretrial proceedings. A consolidated amended securities class action complaint was filed on August 14, 2006. On October 13, 2006, all defendants moved to dismiss that complaint. The motion has been fully briefed and is pending.
On September 16, 2005, a derivative action, styled The Booth Family Trust v. Michael S. Jeffries, et al., was filed in the United States D istrict Court for the Southern District of Ohio, naming A\&F damages against nine of A\&F's present and former directors, alleging various breaches of the directors' fiduciary duty and seeking equitable and monetary relief. In the following three months (October, $N$ ovember and December of 2005), four similar derivative actions
were filed (three in the U nited States District C ourt for the Southern District of Ohio and one in the C ourt of C ommon Pleas for Franklin County, O hio) against present and former directors of A\&F all eging various breaches of the directors' fiduciary duty and seeking equitable
and monetary relief. A\&F is also a nominal defendant in each of the and monetary relief. A\&F is also a nominal defendant in each of the
four later derivative actions. On N ovember 4,2005 , a motion to consol idate all of the federal court derivative actions with the purported securities law class actions described in the preceding paragraph was filed. On M arch 22,2006 , the motion to consolidate was granted, and the federal court derivative actions have been consolidated with the aforesaid purported securities law class actions for purposes of motion practice, discovery and pretrial proceedings. A consolidated July 10 derivative complaint was filed in the federal proceeding on Jul derivative case and that motion has been granted. The state court action has also been stayed. On February 16, 2007, A\&F announced its Board of Directors received a report of its Special Litigation Committee established by the Board to investigate and act with lawsuits brought against current and former directors and danage ment, indluding Chairman and Chief Executive Officer Michael S Jeffries. The Special Litigation Committee has concluded that there is no evidence to support the asserted claims and directed the Company to seek dismissal of the derivative actions. A\&F has advised both the federal and state courts in which the derivative actions are pending, thatit believes the derivative cases should be stayed until the pending motion to dismiss the related consolidated securities case has been finally decided, as described in the preceding paragraph In December 2005, the C ompany received a formal order of investiStock. TheSEC has requested information from A\&F and certain of its current and former officers and directors. The Company and its personnel are cooperating fully with the SEC
M anagement intends to defend the aforessaid matters vigorously, as appropriate. Management is unable to assess the potential exposure of the aforesaid matters. However, management's assessment of the Company's 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 or other finders of f
15. PREFERRED STOCK PURCHASE RIGHTS On July 16 1998, A\&F's Board of Directors declared a dividend of one Series A Participating Cumulative Preferred Stock Purchase Right (the "Rights") for each outstanding share of Class A C ommon Stock, par
value $\$ 0.01$ per share (the "C ommon Stock"), of A\&F. The dividend was paid on July 28,1998 to shareholders of record on that date Shares of C ommon Stock issued after uly 28, 1998 and prior to Ma 25, 1999 were issued with one Right attached. A\&F's Board of Directors declared a two-for-one stock split (the "Stock Split") on A\&F's Common Stock, payable on June 15, 1999 to the holders of record at the close of business on May 25, 1999. In connection with Common Stock outstanding as of the close of business on M ay 25 , 1999, or issued or delivered after May 25, 1999 and prior to the "D istribution Date" (as defined below), was proportionately adjusted from one Right to 0.50 Right. Each share of Common Stock issued after May 25, 1999 and prior to the Distribution Date has been and will be issued with 0.50 Right attached so that all shares of Common Stock outstanding prior to the Distribution D ate will have 0.50 Right attached.

The Rights initially will be attached to the shares of Common Stock The Rights will separate from the Common Stock after a Distributio the close of business on the 10th day after the date (the "Share Acquisition D ate") of the first public announcement that a person or group (other than A\&F or any of A\&F's subsidiaries or any employee benefit plan of A\&F or of any of A\&F's subsidiaries) has acquired bene ficial ownership of $20 \%$ or more of A\&F's outstanding shares of Common Stock (an "Acquiring Person") or (ii) the close of business on the 10th business day (or such later date as A\&F's Board of Directors may designate before any person has become an Acquiring Person) after the date of the commencement of a tender or exchange offer by any person which would, if consummated, result in such person becoming an D ate. After the Distribution Date, each whole Right may be exercised to purchase, at an initial exercise price of $\$ 250$, one one thousandth of a share of Series A Participating Cumulative Preferred Stock.
At any time after any person becomes an Acquiring Person (but before the occurrence of any of the events described in the immediate ly following paragraph), each holder of a Right (other than the Acquiring Person and certain affiliated persons) will be entitled to purchase, upon exercise of the Right, shares of Common Stock having a market value of twice the exercise price of the Right. At any time after any person becomes an Acquiring Person (but before any person
becomes the beneficial owner of $50 \%$ or more of the outstanding shares of Common Stock or the occurrence of any of the events described in the immediately following paragraph). A\&F's Board of Directors may exchange all or part of the Rights (other than Rights beneficially owned by an Acquiring Person and certain affiliated per-
sons) for shares of Common Stock at an exchange ratio of one share of Common Stock per 0.50 Right.
If, after any person has become an Acquiring Person, (i) A\&F is involved in a merger or other business combination transaction in which A\&F is not the surviving corporation or A\&F's Common Stock is exchanged for other securities or assets or (ii) A\&F and/or one or more ff A\&F's subsidiaries sell or otherwise transfer $50 \%$ or more of the assets or earning power of A\&F and its subsidiaries, taken as a whole, each ed persons) will be entitled to buy for the exercise price of the Rights, the number of shares of common stock of the other party to the business combination or sale (or in certain circumstances, an affiliate) which at the time of such transaction will have a market value of twice the exercise price of the Right.
The Rights will expire on July 16, 2008, unless earlier exchanged or redeemed. A\&F may redeem all of the Rights at a price of $\$ 0.01$ per whole Right at any time before any person becomes an Acquiring Person. Rights holders have no rights as a shareholder of A\&F, including the ight to vote and to receive dividends.
16. QUARTERLY FINANCIAL DATA (UNAUDITED) Summarized unaudited quarterly financial results for Fiscal 2006 and Fiscal 2005 follow (thousands, except per share amounts):

| Fiscal 2006 Quarter | First | Second | Third | Fourth |
| :---: | :---: | :---: | :---: | :---: |
| Net sales | \$667,271 | \$658,696 | \$863,448 | \$1,138,743 |
| sss profit | \$429,915 | 5,2, | 568,18 | \$ 755,635 |
| Operating income | \$ 83,885 | \$102,429 | \$162,841 | \$ 300,834 |
| ome | \$ 56,240 | \$ 65,722 | \$102,031 | \$ 198,192 |
| Net income per basic share | \$ | \$ 0.75 | \$ 1.16 | \$ 2.25 |
| Netincome per diluted share \$ | \$ 0.62 | 0.72 | 1.11 |  |


| NFouth Quarter Fiscal 2006 isa fourten week quarter. |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Fiscal 2005 Quarter | First | Second | Third | Fourth |


| Fiscal 2005 Quarter | First | Second | Third | Fourth |
| :--- | ---: | ---: | ---: | ---: |
| Net sales | $\$ 546,810$ | $\$ 571,591$ | $\$ 704,918$ | $\$ 961,392$ |
| Gross profit | $\$ 357,252$ | $\$ 389,660$ | $\$ 465,086$ | $\$ 639,418$ |
| Operating income | $\$ 68,289$ | $\$ 91,087$ | $\$ 115,874$ | $\$ 267,488$ |
| Net income | $\$ 40,359$ | $\$ 57,401$ | $\$ 71,600$ | $\$ 164,626$ |
| Netincome per basic share | $\$$ | 0.47 | $\$ 0.66$ | $\$$ |

17. SUBSEQUENT EVENT As of March 29, 2007, the Company repurchased approximately 1.0 miliion shares of its outstanding Common Stock having a value of approximately $\$ 79.0$ million pursuant the Board of Directors authorization.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING The management of the Company is responsible for establishing and maintaining adequate
internal control over financial reporting. The Company's internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Al so, projections of that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
M anagement evaluated the effectiveness of the Company's internal control over financial reporting as of February 3,2007 using criteria establ ished in the Internal Control-Integrated Framework issued by the Committee of Sponsoring O rganizations of the Treadway C ommission ("COSO"). Based on the assessment of the C ompany's internal control over financial reporting, management has concluded that, as of
February 3,2007 the Company's internal control over financial reportFebruary 3,2007, the ing was effective
The Company's independent registered public accounting firm, PricewaterhouseC Oopers LLP, has audited management's assessment
of the effectiveness of the C ompany's internal control over financial reporting as of February 3, 2007 as stated in their report, which is included herein.
MARKET FOR COMPANY'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF "EQUITY SECURITIES A\&F 's Class A Common Stock (the the symbol "AN F." The table below sets forth the high and low sales prices of A\&F's Common Stock on the $N$ ew York Stock Exchange for Fiscal 2006 and Fiscal 2005:

|  | Sales Price |  |
| :--- | :---: | :---: |
| Fiscal 2006 | High | Low |
|  |  |  |
| 4th Quarter | $\$ 81.70$ | $\$ 65.75$ |
| 3rd Quarter | $\$ 79.42$ | $\$ 51.76$ |
| 2nd Quarter | $\$ 65.19$ | $\$ 49.98$ |
| Ist Quarter | $\$ 70.94$ | $\$ 54.50$ |
| Fiscal 2005 |  |  |
| 4th Quarter | $\$ 68.25$ | $\$ 50.25$ |
| 3rd Quarter | $\$ 72.66$ | $\$ 44.17$ |
| 2nd Quarter | $\$ 74.10$ | $\$ 52.51$ |
| 1st Quarter | $\$ 59.98$ | $\$ 49.74$ |

Beginning in Fiscal 2004, the Board of Directors voted to initiate cash dividend, at an annual rate of $\$ 0.50$ per share. A quarterly

August 2005, the Board of Directors increased the quarterly dividend to $\$ 0.175$ per share, which was paid in September and D ecember of Fiscal 2005. A quarterly dividend, of $\$ 0.175$ per share, was paid in M arch, June, September and D ecember of Fiscal 2006. The Company expects to continue to pay a dividend, subject to the Board of Directors' review of the Company's cash position and results of operations.
As H 23,2007 , there were approximately 5,140 shareholders of record. H owever, when including investors holding shares in broker accounts under street name, active associates who participate in
A\&F's stock purchase plan and associates who own shares through A\&F-sponsored retirement plans. A\&F estimates that there are approximately 65,000 shareholders.
During Fiscal 2006 the Company did not repurchase shares of A\&F's Common Stock. During Fiscal 2005 and Fiscal 2004, the Company repurchased shares of its outstanding Common Stock having a value of approximately $\$ 103.3$ million and $\$ 434.7$ million, respectively, pursuant to the Board of Directors authorizations. The ous Board of Directors authorizations. In August 2005, the Board of Directors authorized the Company to purchase an additional 6.0 million shares. As of February 3, 2007, the remaining aggregate number of shares of C ommon Stock authorized for repurchase was approximately 5.7 million shares.

COMPARISON OF 5 YEAR
CUMULATIVE TOTAL RETURN
Among Abercrombie \& Fitch Co., The S\&P Midcap 400 Index The S\&P 500 I ndex And The S\&P Apparel Retail Index



## Abercrombie\& Fitch

REPORT OFINDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF ABERCROMBIE \& FITCH CO.: We have completed integrated audits of Abercrombie \& Fitch Co.'s consolidated financial statements and of its internal control over financial reporting as of February 3, 2007, in accordance with the standards of the Public Company Accounting O versight Board (U nited States). Our opinions, based on our audits, are presented below.

CONSOLI DATED FINANCIAL STATEMENTS In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of net income and comprehensive income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Abercrombie \& Fitch Co. and its subsidiaries at February 3, 2007 and January 28, 2006, and the results of their operations and their cash flows for each of the three years in the period ended February 3, 2007 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting O versight Board (U nited States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in N ote 4 to the consolidated financial statements, effective January 29, 2006, the Company changed the manner in which it accounts for share-based compensation.

Internal control over financial reporting Also, in our opinion, management's assessment, included in the accompanying M anagement's Report on Internal Control over Financial Reporting, that the Company maintained effective internal control over financial reporting as of February 3, 2007 based on criteria established in Internal C ontrol - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway C ommission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 3, 2007, based on criteria established in Internal Control - Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and

## Abercrombie \& Fitch

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting O versight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## Pricantathoselapea RIP

PricewaterhouseC oopers LLP
Columbus, Ohio
M arch 30, 2007

CORPORATE INFORMATION
Abercrombie \& Fitch
6301 Fitch Path
N ew Albany, Ohio 4305
(614) 283-6500
www.abercrombie.com
ABERCROMBIE \& FITCH
Initial Public Offering: September 26, 1996
N umber of Associates: 86,400
Approximate Shareholder Base: 65,000
ANNUAL MEETING
The Annual M eeting of Shareholders is scheduled for 10:00 A.M., Wednesday, June 13, 2007 at:
Abercrombie \& Fitch H eadquarters,
6301 Fitch Path
N ew Albany, Ohio 43054
stock exchange listing New York Stock Exchange (Trading Symbol "AN F")
commonly listed in newspapers as AberFit

INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM PricewaterhouseC oopers Columbus, Ohio

INVESTOR RELATIONS
For further information on Abercrombie \&
Fitch, additional copies of this report,
Form $10-\mathrm{K}$ or other financial information,
contact:
Thomas Lennox
Vice President Corporate Communications
Abercrombie \& Fitch
P.O. Box 182168

Columbus, Ohio 43218
You may also contact us by sending an e-mal to: Investor Relations@ abercrombie.com or by visiting the Investor section of

A\&F's web site.
STOCK TRANSFER AGENT REGISTRAR AND DIVIDEND AGENT $N$ ational City Bank Corporate Trust Operations Dept 5352, P.O. Box 9230
Cleveland, Ohio 44193

HIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER CERTI FICATIONS T he certification of Abercrombie \& Fitch Co.'s Chief Executive Officer and Chief Financial Officer, required under Section 302 of the Sarbanes-O xley Act of 2002, have been filed as exhibits to Abercrombie \& Fitch Co.'s 2006 Annual Report F Form 10-K filed on M arch 30, 2007. In addition, in 2006, the Company's Chief Executive Officer submit ted an annual certification to the $N$ ew York Stock Exchange regarding the Company's compliance with the N YSE 's corporate governance listing standards.

OUR COMMITMENT TO INCLUSION At Abercrombie \& Fitch we are committed to increasing and leveraging he diversity of our associates and management across the organization. We support those differences through a culture of inclusion, so that we understand our customers, enhance organizational effectiveness, capitalize on the talents of our workforce and represent the communities in which we do business.

Abercrombie \& Fitch leads this effort by: 1. Promoting how diversity and inclusion yield creativity and innova tion, which helps to maintain our market position as a casual luxury brand. 2. Driving business results through creating and fostering external relationships. 3. Working toward making A\&F an inclusive environment that values the differences of all of its associates. 4. Providing perspective on how to attract a more diverse customer, associate and shareholder.

MICHAEL S. JEFFRIES* Chairman and Chief Executive 0 fficer
DIANE CHANG * Executive Vice President - Sourcing
LesLeE K. HERRO * Executive Vice President - Planning and Allocation
MICHAEL W KRAMER * Executive Vice President and Chief Financial 0 fficer
RON GRZYMKOWSKI Senior Vice President - H uman Resources
beverly r. HOUSE Senior Vice President and General Manager
MOLLY HUNT Senior Vice President - Design
MARK D. KABBES Senior Vice President - Technical Design
ABED W. KARATE Senior Vice President - Store C onstruction CHARLES F. KESSLER Senior Vice President and General Manager of H ollister

REBECCA F. LEE Senior Vice President - Allocation
JEFFREY R. SINKEY Senior Vice President - Real Estate

## BOARD OF DIRECTORS

MICHAEL S. JEFFRIES Chairman and Chief Executive 0 fficer JAMES B. BACHMANN Retired Columbus Managing Partner, Emst \& Young LLP DANIEL J. BRESTLE Chief Operating Officer, Estée Lauder Companies, Inc.

LAUREN J. BRISKY Vice Chancellor for Administration and Chief Financial Officer, Vanderbilt University
russell M. gertmenian Managing Partner, Vorys, Sater, Seymour and Pease LLP
JOHN A. GOLDEN President, John A. Golden Associates, Inc
ARCHIE M. GRIFFIN President and Chief Executive 0 fficer, The Ohio State University Alumni Association, Inc.

## JOHN W. KESSLER O wner, John W. Kessler Company

EDWARD F. LIMATO Co-President, International Creative Management, Inc.
ALLAN A. TUTTLE Retired General Counsel, Gucci Group N.V.

* Executive Officer of the C ompany



[^0]:    Michael S. Jeffries
    Chairman and Chief Executive Officer

[^1]:    *F Fisal 2006 isa fity-three werk year.

