ABERCROMBIE & FITCH CO /DE/
Form 10-Q
December 06, 2011

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

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended October 29, 2011
OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________.
Commission File Number 1-12107
ABERCROMBIE & FITCH CO.
(Exact name of Registrant as specified in its charter)

Delaware	31-1469076
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6301 Fitch Path, New Albany, Ohio 43054
(Address of principal executive offices) (Zip Code)
Registrant s telephone number, including area code (614) 283-6500
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

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

Class A Common Stock	Outstanding at December 2, 2011

$.01 Par Value	85,960,568 Shares

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
NET SALES	$ 1,075,856	$ 885,778	$ 2,829,292	$ 2,319,381
Cost of Goods Sold	429,334	321,346	1,056,067	838,186
GROSS PROFIT	646,522	564,432	1,773,225	1,481,195
Stores and Distribution Expense	461,683	385,135	1,286,108	1,104,027
Marketing, General and Administrative Expense	107,844	102,612	325,493	294,450
Other Operating Income, Net	(2,855)	(1,692)	(4,146)	(4,507)
OPERATING INCOME	79,850	78,377	165,770	87,225
Interest Expense, Net	533	671	2,469	2,303
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	79,317	77,706	163,301	84,922
Tax Expense from Continuing Operations	28,412	27,666	56,019	27,232
NET INCOME FROM CONTINUING OPERATIONS	$ 50,905	$ 50,040	$ 107,282	$ 57,690
INCOME FROM DISCONTINUED OPERATIONS, Net of Tax	$	$	$ 796	$
NET INCOME	$ 50,905	$ 50,040	$ 108,078	$ 57,690
NET INCOME PER SHARE FROM CONTINUING OPERATIONS:				
BASIC	$ 0.59	$ 0.57	$ 1.23	$ 0.65
DILUTED	$ 0.57	$ 0.56	$ 1.19	$ 0.64
NET INCOME PER SHARE FROM DISCONTINUED OPERATIONS:				
BASIC	$	$	$ 0.01	$
DILUTED	$	$	$ 0.01	$
NET INCOME PER SHARE:				
BASIC	$ 0.59	$ 0.57	$ 1.24	$ 0.65

DILUTED	$ 0.57	$ 0.56	$ 1.20	$ 0.64
WEIGHTED-AVERAGE SHARES OUTSTANDING:				
BASIC	86,962	88,236	87,170	88,184
DILUTED	89,707	90,069	90,167	89,731
DIVIDENDS DECLARED PER SHARE	$ 0.175	$ 0.175	$ 0.525	$ 0.525
OTHER COMPREHENSIVE INCOME				
Foreign Currency Translation Adjustments	$ (6,012)	$ 8,866	$ 10,492	$ 6,631
Gain (Loss) on Marketable Securities, net of taxes of $513 and $543 for the thirteen-week periods ended October 29, 2011 and October 30, 2010, respectively, and $(444) and $(1,422) for the thirty-nine week periods ended October 29, 2011 and October 30, 2010, respectively	(873)	(925)	757	2,421
Unrealized gain (loss) on derivative financial instruments, net of taxes of $(589) and $1,170 for the thirteen-week periods ended October 29, 2011 and October 30, 2010, respectively and $(326) and $846 for the thirty-nine week periods ended October 29, 2011 and October 30, 2010	2,914	(1,991)	2,467	(1,438)
Other Comprehensive Income (Loss)	$ (3,971)	$ 5,950	$ 13,716	$ 7,614
COMPREHENSIVE INCOME	$ 46,934	$ 55,990	$ 121,794	$ 65,304

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

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

	October 29, 2011	January 29, 2011
ASSETS		
CURRENT ASSETS:		
Cash and Equivalents	$ 488,341	$ 826,353
Receivables	89,622	81,264
Inventories	679,341	385,857
Deferred Income Taxes	55,059	60,405
Other Current Assets	86,518	79,389
TOTAL CURRENT ASSETS	1,398,881	1,433,268
PROPERTY AND EQUIPMENT, NET	1,237,430	1,144,940
NON-CURRENT MARKETABLE SECURITIES	100,334	100,534
OTHER ASSETS	344,876	269,160
TOTAL ASSETS	$ 3,081,521	$ 2,947,902
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts Payable	$ 281,775	$ 137,235
Accrued Expenses	311,693	306,587
Deferred Lease Credits	43,181	41,538
Income Taxes Payable	43,301	73,491
TOTAL CURRENT LIABILITIES	679,950	558,851
LONG-TERM LIABILITIES:		
Deferred Income Taxes	34,833	33,515
Deferred Lease Credits	192,130	192,619
Long-Term Debt	26,321	68,566
Other Liabilities	217,057	203,567
TOTAL LONG-TERM LIABILITIES	470,341	498,267
STOCKHOLDERS EQUITY:		
Class A Common Stock $0.01 par value: 150,000 shares authorized and 103,300 shares issued at each of October 29, 2011 and January 29, 2011	1,033	1,033

Paid-In Capital		357,593		349,258
Retained Earnings		2,325,452		2,272,317
Accumulated Other Comprehensive Income (Loss), net of tax		7,200		(6,516)
Treasury Stock, at Average Cost - 16,142 and 16,054 shares at October 29, 2011 and January 29, 2011, respectively		(760,048)		(725,308)
TOTAL STOCKHOLDERS EQUITY		1,931,230		1,890,784
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	3,081,521	$	2,947,902

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

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

	Thirty-Nine Weeks Ended	
	October 29, 2011	October 30, 2010
OPERATING ACTIVITIES:		
Net Income	$ 108,078	$ 57,690
Impact of Other Operating Activities on Cash Flows:		
Lessor Construction Allowances	30,976	26,769
Depreciation and Amortization	173,569	167,756
Loss on Disposal / Write-off of Assets	5,128	2,702
Amortization of Deferred Lease Credits	(33,019)	(34,744)
Share-Based Compensation	38,089	30,136
Tax Benefit (Deficiency) from Share-Based Compensation	3,031	(1,770)
Deferred Taxes	6,623	(23,135)
Non-Cash Charge for Asset Impairment		2,247
Changes in Assets and Liabilities:		
Inventories	(292,839)	(200,362)
Accounts Payable and Accrued Expenses	102,741	28,877
Income Taxes	(30,209)	47,731
Other Assets and Liabilities	(47,712)	(51,375)
NET CASH PROVIDED BY OPERATING ACTIVITIES	64,457	52,522
INVESTING ACTIVITIES:		
Capital Expenditures	(227,574)	(116,965)
Purchase of Trust-Owned Life Insurance Policies		(11,583)
Proceeds from Sales of Marketable Securities	1,700	64,917
Other Investing	(22,267)	
NET CASH USED FOR INVESTING ACTIVITIES	(248,141)	(63,631)
FINANCING ACTIVITIES:		
Proceeds from Share-Based Compensation	33,779	5,985
Purchase of Treasury Stock	(98,703)	(29,207)
Repayments of Borrowings Under the Credit Agreement	(45,002)	
Change in Outstanding Checks and Other	(1,083)	(7,356)
Dividends Paid	(45,847)	(46,285)
NET CASH USED FOR FINANCING ACTIVITIES	(156,856)	(76,863)
EFFECT OF EXCHANGE RATES ON CASH	2,528	1,150

NET DECREASE IN CASH AND EQUIVALENTS:		(338,012)	(86,822)
Cash and Equivalents, Beginning of Period		826,353	680,113
CASH AND EQUIVALENTS, END OF PERIOD	$	488,341	593,291
SIGNIFICANT NON-CASH INVESTING ACTIVITIES:			
Change in Accrual for Construction in Progress	$	31,593	17,479

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

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ABERCROMBIE & FITCH CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

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

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

The Company s fiscal year ends on the Saturday closest to January 31. Fiscal years are designated in the consolidated financial statements and notes by the calendar year in which the fiscal year commences. All references herein to Fiscal 2011 represent the 52-week fiscal year that will end on January 28, 2012, and to Fiscal 2010 represent the 52-week fiscal year that ended January 29, 2011.

The Consolidated Financial Statements as of October 29, 2011 and for the thirteen and thirty-nine week periods ended October 29, 2011 and October 30, 2010 are unaudited and are presented pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, these Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto contained in A&F s Annual Report on Form 10-K for Fiscal 2010 filed on March 29, 2011. The January 29, 2011 consolidated balance sheet data were derived from audited consolidated financial statements, but do not include all disclosures required by accounting principles generally accepted in the United States of America (U.S. GAAP).

In the opinion of management, the accompanying Consolidated Financial Statements reflect all adjustments (which are of a normal recurring nature) necessary to present fairly, in all material respects, the financial position and results of operations and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for Fiscal 2011.

Certain prior period amounts have been reclassified to conform to the current year presentation.

The Consolidated Financial Statements as of October 29, 2011 and for the thirteen and thirty-nine week periods ended October 29, 2011 and October 30, 2010 included herein have been reviewed by PricewaterhouseCoopers LLP, an independent registered public accounting firm, and the report of such firm follows the notes to the consolidated financial statements.

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

2. SEGMENT REPORTING

The Company determines its operating segments on the same basis that it uses to evaluate performance internally. Operating segments have been aggregated and are reported as one reportable segment because they have similar economic characteristics and meet the required aggregation criteria. 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, nature of production processes, and distribution methods.

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Geographic Information

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

Net Sales:

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
(in thousands):	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
United States	$ 820,188	$ 721,950	$ 2,146,029	$ 1,903,329
Europe	193,566	110,044	528,429	278,142
Other	62,102	53,785	154,833	137,910
Total	$ 1,075,856	$ 885,778	$ 2,829,292	$ 2,319,381

Long-Lived Assets:

(in thousands):	October 29, 2011	January 29, 2011
United States	$ 883,731	$ 959,777
Europe	335,652	169,313
Other	163,324	127,741
Total	$ 1,382,707	$ 1,256,831

Long-lived assets in the table above include primarily property and equipment (net), store supplies and lease deposits.

3. SHARE-BASED COMPENSATION

Financial Statement Impact

The Company recognized share-based compensation expense of $13.7 million and $38.1 million for the thirteen and thirty-nine week periods ended October 29, 2011, respectively, and $10.2 million and $30.1 million for the thirteen and thirty-nine week periods ended October 30, 2010, respectively. The Company also recognized $5.1 million and $14.3 million in tax benefits related to share-based compensation expense for the thirteen and thirty-nine week periods ended October 29, 2011, respectively, and $3.7 million and $10.8 million for the thirteen and thirty-nine week periods ended October 30, 2010, respectively.

The fair value of share-based compensation awards is recognized as compensation expense on a straight-line basis over the awards requisite service period, net of forfeitures. For awards that are expected to result in a tax deduction, a deferred tax asset is recorded in the period in which share-based compensation expense is recognized. A current tax deduction arises upon the vesting of restricted stock units or the exercise of stock options and stock appreciation rights and is principally measured at the award s intrinsic value. If the tax deduction is greater than the recorded deferred tax asset, the tax benefit associated with any excess deduction is considered a windfall tax benefit and is recognized as additional paid-in capital. If the tax deduction is less than the recorded deferred tax asset, the resulting difference, or shortfall, is first charged to additional paid-in capital, to the extent of the pool of windfall tax benefits, with any remainder recognized as tax expense. The amount of the Company s pool of windfall tax benefits was approximately $83.9 million as of October 29, 2011, which is sufficient to fully absorb any shortfall which may develop associated with awards currently outstanding.

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The Company adjusts share-based compensation expense on a quarterly basis for actual forfeitures and for changes to the estimate of expected award forfeitures. The effect of adjusting the forfeiture rate is recognized in the period the forfeiture estimate is changed. The effect of adjustments for forfeitures during the thirty-nine weeks ended October 29, 2011 was an expense of $1.3 million. The effect of adjustments for forfeitures during the thirty-nine weeks ended October 30, 2010 was income of $4.1 million.

Pursuant to an employment agreement, the Chairman and Chief Executive Officer (CEO) is eligible to receive semi-annual grants, as defined in the agreement. The semi-annual grants vest in equal annual installments over the four-year period following the grant date with the condition that each award becomes fully vested no later than February 1, 2014, except for the final semi-annual grant, which will become fully vested on the date of the grant.

A&F issues shares of Common Stock from treasury stock upon exercise of stock options and stock appreciation rights and vesting of restricted stock units. As of October 29, 2011, A&F had sufficient treasury stock available to settle stock options, stock appreciation rights and restricted stock units outstanding. Settlement of stock awards in Common Stock also requires that the Company has sufficient shares available in stockholder-approved plans at the applicable time.

In the event, at any reporting date during which share-based compensation awards remain outstanding, there are not sufficient shares of Common Stock available to be issued under the 2005 Long-Term Incentive Plan (the 2005 LTIP) and the Amended and Restated 2007 Long-Term Incentive Plan (the Amended and Restated 2007 LTIP), or under a successor or replacement plan, the Company may be required to designate some portion of the outstanding awards to be settled in cash, which would result in liability classification of such awards.

Plans

As of October 29, 2011, A&F had two primary share-based compensation plans: the 2005 LTIP, under which A&F grants stock options, stock appreciation rights and restricted stock units to associates of the Company and non-associate members of the A&F Board of Directors, and the Amended and Restated 2007 LTIP, under which A&F grants stock options, stock appreciation rights and restricted stock units to associates of the Company. A&F also has four other share-based compensation plans under which it granted stock options and restricted stock units to associates of the Company and non-associate members of the A&F Board of Directors in prior years.

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

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Fair Value Estimates

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

In the case of restricted stock units, the Company calculates the fair value of the restricted stock units granted using the market price of the underlying Common Stock on the date of grant adjusted for anticipated dividend payments during the vesting period.

Stock Options

The Company did not grant any stock options during the thirty-nine weeks ended October 29, 2011 or October 30, 2010.

Below is a summary of stock option activity for the thirty-nine weeks ended October 29, 2011:

Stock Options	Number of Underlying Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Life
Outstanding at January 29, 2011	2,316,648	$ 39.51		
Granted				
Exercised	(1,094,103)	30.94		
Forfeited or cancelled	(27,100)	52.71		
Outstanding at October 29, 2011	1,195,445	$ 47.06	$ 36,048,435	3.1
Stock options exercisable at October 29, 2011	1,102,395	$ 46.10	$ 34,241,480	2.8
Stock options expected to become exercisable in the future as of October 29, 2011	90,358	$ 58.54	$ 1,746,708	6.6

The total intrinsic value of stock options which were exercised during the thirty-nine weeks ended October 29, 2011 was $38.6 million. The total intrinsic value of stock options exercised during the thirty-nine weeks ended October 30, 2010 was $2.7 million.

The grant date fair value of stock options which vested during the thirty-nine weeks ended October 29, 2011 and October 30, 2010 was $2.3 million and $3.8 million, respectively.

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As of October 29, 2011, there was $0.6 million of total unrecognized compensation cost, net of estimated forfeitures, related to stock options. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 0.3 years.

Stock Appreciation Rights

The weighted-average estimated fair value of stock appreciation rights granted during the thirty-nine weeks ended October 29, 2011 and October 30, 2010, and the weighted-average assumptions used in calculating such fair value, on the date of grant, were as follows:

	Thirty-Nine Weeks Ended					
	Chairman and Chief Executive Officer		Other Executive Officers		All Other Associates	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Grant date market price	$ 56.86	$ 44.86	$ 54.87	$ 44.86	$ 54.93	$ 44.28
Exercise price	$ 56.86	$ 44.86	$ 54.87	$ 44.86	$ 54.93	$ 44.28
Fair value	$ 22.99	$ 16.96	$ 22.29	$ 16.99	$ 21.89	$ 16.49
Assumptions:						
Price volatility	53%	50%	53%	51%	55%	53%
Expected term (Years)	4.6	4.7	4.7	4.5	4.1	4.1
Risk-free interest rate	1.8%	2.3%	2.0%	2.3%	1.7%	2.0%
Dividend yield	1.5%	2.1%	1.6%	2.1%	1.6%	2.1%

Below is a summary of stock appreciation rights activity for the thirty-nine weeks ended October 29, 2011:

Stock Appreciation Rights	Number of Underlying Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Life
Outstanding at January 29, 2011	7,136,189	$ 34.08		
Granted:				
Chairman and Chief Executive Officer	1,879,195	56.86		
Other Executive Officers	217,000	54.87		
All Other Associates	156,700	54.93		
Exercised	(287,600)	32.99		
Forfeited or cancelled	(54,375)	41.14		
Outstanding at October 29, 2011	9,047,109	$ 39.66	$ 336,075,490	5.4
Stock appreciation rights exercisable at October 29, 2011	853,157	$ 36.84	$ 34,103,192	5.5
Stock appreciation rights expected to become exercisable in the future as of October 29, 2011	8,090,112	$ 39.89	$ 298,673,670	5.3

The total intrinsic value of stock appreciation rights exercised during the thirty-nine weeks ended October 29, 2011 was $11.0 million. The total intrinsic value of stock appreciation rights exercised during the thirty-nine weeks ended October 30, 2010 was immaterial.

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The grant date fair value of stock appreciation rights which vested during the thirty-nine weeks ended October 29, 2011 and October 30, 2010 was $11.2 million and $5.0 million, respectively.

As of October 29, 2011, there was $73.7 million of total unrecognized compensation cost, net of estimated forfeitures, related to stock appreciation rights. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 1.1 years.

Restricted Stock Units

Below is a summary of restricted stock unit activity for the thirty-nine weeks ended October 29, 2011:

Restricted Stock Units	Number of Underlying Shares		Weighted-Average Grant Date Fair Value
Non-vested at January 29, 2011	1,147,754	$	49.59
Granted	558,450		54.38
Vested	(393,728)		59.59
Forfeited	(94,848)		43.26
Non-vested at October 29, 2011	1,217,628	$	49.01

The total fair value of restricted stock units granted during the thirty-nine weeks ended October 29, 2011 and October 30, 2010 was $30.4 million and $17.5 million, respectively.

The total grant date fair value of restricted stock units and restricted shares which vested during the thirty-nine weeks ended October 29, 2011 and October 30, 2010 was $23.5 million.

As of October 29, 2011, there was $39.8 million of total unrecognized compensation cost, net of estimated forfeitures, related to non-vested restricted stock units. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 1.1 years.

4. NET INCOME PER SHARE

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

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Shares of Common Stock issued	103,300	103,300	103,300	103,300
Treasury shares	(16,338)	(15,064)	(16,130)	(15,116)
Weighted-Average Basic Shares	86,962	88,236	87,170	88,184
Dilutive effect of stock options, stock appreciation rights and restricted stock units	2,745	1,833	2,997	1,547
Weighted-Average Diluted Shares	89,707	90,069	90,167	89,731
Anti-Dilutive Shares	2,403(1)	5,271(1)	2,137(1)	5,098(1)

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

5. CASH AND EQUIVALENTS

Cash and equivalents consisted of (in thousands):

		October 29, 2011		January 29, 2011
Cash and equivalents:				
Cash	$	317,603	$	300,624
Cash equivalents		170,738		525,729
Total cash and equivalents	$	488,341	$	826,353

Cash and equivalents include amounts on deposit with financial institutions, United States treasury bills, and other investments, primarily held in money market accounts, with original maturities of less than three months. Any cash that is legally restricted from use is recorded in Other Assets on the Consolidated Balance Sheets. The restricted cash balance was $31.7 million on October 29, 2011 and $26.3 million on January 29, 2011. Restricted cash includes various cash deposits with international banks that are used as collateralization for customary non-debt banking commitments and deposits into trust accounts to conform with standard insurance security requirements.

6. INVESTMENTS

Investments consisted of (in thousands):

		October 29, 2011		January 29, 2011
Marketable securities Non-Current:				
Available-for-sale securities:				
Auction rate securities student loan backed	$	84,897	$	85,732
Auction rate securities municipal authority bonds		15,437		14,802
Total available-for-sale securities		100,334		100,534
Rabbi Trust assets: (1)				
Money market funds		774		343
Municipal notes and bonds		11,572		11,870
Trust-owned life insurance policies (at cash surrender value)		72,472		70,288
Total Rabbi Trust assets		84,818		82,501
Total Investments	$	185,152	$	183,035

(1) Rabbi Trust assets are included in Other Assets on the Consolidated Balance Sheets and are restricted as to their use.

At October 29, 2011, the Company s investment grade auction rate securities (ARS) consisted of insured student loan backed securities and municipal authority bonds, with maturities ranging from 17 to 32 years. Each investment in student loans is insured by (1) the U.S. government under the Federal Family Education Loan Program, (2) a private insurer or (3) a combination of both. The percentage of insurance coverage of the outstanding principal and interest of the ARS varies by security.

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The par and carrying values, and related cumulative temporary impairment charges for the Company s available-for-sale marketable securities as of October 29, 2011 were as follows:

(in thousands)	Par Value	Temporary Impairment	Carrying Value
Available-for-sale securities:			
Auction rate securities student loan backed	$ 93,925	$ (9,028)	$ 84,897
Auction rate securities municipal authority bonds	19,975	(4,538)	15,437
Total available-for-sale securities	$ 113,900	$ (13,566)	$ 100,334

See Note 7, *Fair Value,* for further discussion on the valuation of the ARS.

An impairment is considered to be other-than-temporary if an entity (i) intends to sell the security, (ii) more likely than not will be required to sell the security before recovering its amortized cost basis, or (iii) does not expect to recover the security s entire amortized cost basis, even if there is no intent to sell the security. The Company has not incurred any credit-related losses on available-for-sale ARS and, furthermore, the issuers continued to perform under their respective obligations, including making scheduled interest payments, and the Company expects that this will continue going forward.

The irrevocable rabbi trust (the Rabbi Trust) is intended to be used as a source of funds to match respective funding obligations to participants in the Abercrombie & Fitch Co. Nonqualified Savings and Supplemental Retirement Plan I, the Abercrombie & Fitch Co. Nonqualified Savings and Supplemental Retirement Plan II and the Chief Executive Officer Supplemental Executive Retirement Plan. The Rabbi Trust assets are consolidated and recorded at fair value, with the exception of the trust-owned life insurance policies which are recorded at cash surrender value. The Rabbi Trust assets are included in Other Assets on the Consolidated Balance Sheets and are restricted as to their use as noted above. Net unrealized gains and losses related to the municipal notes and bonds held in the Rabbi Trust were not material for the thirteen and thirty-nine week periods ended October 29, 2011 and October 30, 2010. The change in cash surrender value of the trust-owned life insurance policies held in the Rabbi Trust resulted in a realized gain of $0.7 million for both the thirteen weeks ended October 29, 2011 and October 30, 2010 and realized gains of $2.2 million and $1.8 million for the thirty-nine weeks ended October 29, 2011 and October 30, 2010, respectively, recorded as part of Interest Expense, Net on the Consolidated Statements of Operations and Comprehensive Income.

7. FAIR VALUE

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

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

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

	Assets and Liabilities at Fair Value as of October 29, 2011 (in thousands)			
	Level 1	Level 2	Level 3	Total
ASSETS:				
Money market funds(1)	$ 171,513	$	$	$ 171,513
ARS available-for-sale student loan backed			84,897	84,897
ARS available-for-sale municipal authority bonds			15,437	15,437
Municipal notes and bonds held in the Rabbi Trust	11,572			11,572
Derivative financial instruments		1,457		1,457
Total assets measured at fair value	$ 183,085	$ 1,457	$ 100,334	$ 284,876
LIABILITIES:				
Derivative financial instruments		922		922
Total liabilities measured at fair value	$	$ 922	$	$ 922

(1) Includes $170.7 million of money market funds included in Cash and Equivalents and $0.8 million of money market funds held in the Rabbi Trust included in Other Assets on the Consolidated Balance Sheet.

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

The level 3 assets include investments in insured student loan backed ARS and insured municipal authority bond ARS which are available-for-sale.

The Company measures the fair value of its ARS primarily using a discounted cash flow model as well as a comparison to similar securities in the market. Certain significant inputs into the model are unobservable in the market including the periodic coupon rate, market rate of return and expected term.

As of October 29, 2011, approximately 47% of the Company s ARS were AAA rated, approximately 20% were AA rated, and approximately 33% were A- rated, in each case as rated by one or more of the major credit rating agencies.

The table below includes a roll-forward of the Company s level 3 assets and liabilities from January 29, 2011 to October 29, 2011. When a determination is made to classify an asset or liability within level 3, the determination is based upon the lack of significance of the observable parameters to the overall fair value measurement. However, the fair value determination for level 3 financial assets and liabilities may include observable components.

(in thousands)	Available-for-sale ARS - Student Loans	Available-for-sale ARS - Muni Bonds	Total
Fair value, January 29, 2011	$ 85,732	$ 14,802	$ 100,534
Redemptions	(1,700)		(1,700)
Gains and (losses), net:			
Reported in Other Comprehensive Income	865	635	1,500
Fair value, October 29, 2011	$ 84,897	$ 15,437	$ 100,334

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8. 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. 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. At first and third fiscal quarter end, the Company reduces inventory value by recording a valuation reserve that represents the expected future markdowns on current season inventory. At second and fourth fiscal quarter end, the Company reduces inventory value by recording a valuation reserve that represents the expected future markdowns on any remaining carryover inventory from the season then ending. The valuation reserve was $38.1 million, $24.4 million and $34.3 million at October 29, 2011, January 29, 2011 and October 30, 2010, respectively.

Additionally, as part of inventory valuation, inventory shrinkage estimates based on historical trends from actual physical inventories are made that reduce the inventory value for lost or stolen items. The Company performs physical inventories on a periodic basis and adjusts the shrink reserve accordingly. The shrink reserve was $4.4 million, $7.6 million and $2.9 million at October 29, 2011, January 29, 2011 and October 30, 2010, respectively.

The inventory balance, net of the above mentioned reserves, was $679.3 million, $385.9 million and $511.8 million at October 29, 2011, January 29, 2011 and October 30, 2010, respectively.

9. PROPERTY AND EQUIPMENT, NET

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

	October 29, 2011	January 29, 2011
Property and equipment, at cost	$ 2,649,636	$ 2,451,414
Accumulated depreciation and amortization	(1,412,206)	(1,306,474)
Property and equipment, net	$ 1,237,430	$ 1,144,940

Long-lived assets, primarily comprised of property and equipment, are reviewed periodically for impairment or whenever events or changes in circumstances indicate that full recoverability of net asset balances 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 results, and projected cash flows.

Store-related assets are considered level 3 assets in the fair value hierarchy and the fair values were determined at the store level, primarily using a discounted cash flow model. The estimation of future cash flows from operating activities requires significant estimates of factors that include future sales, gross margin performance and operating expenses. In instances where the discounted cash flow analysis indicated a negative value at the store level, the market exit price based on historical experience was used to determine the fair value by asset type. Included in property and equipment, net, are store-related assets previously impaired and measured at fair value of $10.7 million and $14.6 million, net of accumulated depreciation, as of October 29, 2011 and January 29, 2011, respectively.

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10. DEFERRED LEASE CREDITS

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

		October 29, 2011		January 29, 2011
Deferred lease credits	$	577,064	$	544,223
Amortized deferred lease credits		(341,753)		(310,066)
Total deferred lease credits, net	$	235,311	$	234,157

11. INCOME TAXES

The provision for income taxes is based on the current estimate of the annual effective tax rate adjusted to reflect the impact of items discrete to the thirteen weeks ended October 29, 2011. The effective tax rate from continuing operations for the thirteen weeks ended October 29, 2011 was 35.8% compared to 35.6% for the thirteen weeks ended October 30, 2010. The effective tax rate from continuing operations for the thirty-nine weeks ended October 29, 2011 was 34.3% compared to 32.1% for the thirty-nine weeks ended October 30, 2010.

Cash payments of income taxes made during the thirteen weeks ended October 29, 2011 and October 30, 2010 were approximately $6.2 million and $11.8 million, respectively. Cash payments of income taxes made during the thirty-nine weeks ended October 29, 2011 and October 30, 2010 were approximately $107.8 million and $29.7 million, respectively.

12. LONG-TERM DEBT

On July 28, 2011, the Company entered into an Amended and Restated Credit Agreement (the Amended and Restated Credit Agreement) under which up to $350 million is available. This Amended and Restated Credit Agreement serves to amend and restate in its entirety the syndicated unsecured credit agreement dated April 15, 2008 as previously amended (the Prior Credit Agreement). The primary reasons for entering into this agreement are to extend the termination date from April 12, 2013 to July 27, 2016 and to reduce fees and interest rates. As stated in the Amended and Restated Credit Agreement, the primary purposes of the agreement are for trade and stand-by letters of credit in the ordinary course of business, as well as to fund working capital, capital expenditures, acquisitions and investments, and other general corporate purposes.

The facility fees payable under the Amended and Restated Credit Agreement are based on the Company s Leverage Ratio (i.e., the ratio, on a consolidated basis, of (a) the sum of total debt (excluding trade letters of credit) plus 600% of forward minimum rent commitments to (b) consolidated earnings, as adjusted, before interest, taxes, depreciation, amortization and rent (Consolidated EBITDAR) for the trailing four-consecutive-fiscal-quarter periods. The facility fees accrue at a rate of 0.125% to 0.30% per annum based on the Leverage Ratio for the most recent determination date. The Amended and Restated Credit Agreement requires that the Leverage Ratio not be greater than 3.75 to 1.00 at the end of each testing period. The Amended and Restated Credit Agreement also requires that the Coverage Ratio for A&F and its subsidiaries on a consolidated basis of (i) Consolidated EBITDAR for the trailing four-consecutive-fiscal-quarter period to (ii) the sum of, without duplication, (x) net interest expense for such period, (y) scheduled payments of long-term debt due within twelve months of the date of determination and (z) the sum of minimum rent and contingent store rent, not be less than 2.00 to 1.00. The Company was in compliance with the applicable ratio requirements and other covenants at October 29, 2011. Interest rates on borrowings under the Amended and Restated Credit Agreement are generally based upon market rates plus a margin based on the Leverage Ratio.

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

The Amended and Restated Credit Agreement will mature on July 27, 2016. The Company had no trade letters of credit outstanding at October 29, 2011 and January 29, 2011. Stand-by letters of credit outstanding, under either the Amended and Restated Credit Agreement or Prior Credit Agreement as applicable, on October 29, 2011 and January 29, 2011 were immaterial.

As of October 29, 2011 the Company did not have any borrowing under the Amended and Restated Credit Agreement and had $43.8 million outstanding under the Prior Credit Agreement as of January 29, 2011. The amounts outstanding under the Prior Credit Agreement were denominated in Japanese Yen and were fully repaid during the thirty-nine weeks ended October 29, 2011.

As of October 29, 2011 and January 29, 2011, the Company also had $26.3 million and $24.8 million, respectively, of long-term debt related to the landlord financing obligation for certain leases where the Company is deemed the owner of the project for accounting purposes, as substantially all of the risk of ownership during construction of a leased property is held by the Company. The landlord financing obligation is amortized over the life of the related lease.

As of October 29, 2011, the carrying value of the Company s long-term debt approximated fair value. Total interest expense was $1.8 million and $1.9 million for the thirteen weeks ended October 29, 2011 and October 30, 2010, respectively, and $6.2 million and $5.7 million for the thirty-nine weeks ended October 29, 2011 and October 30, 2010, respectively. There was no long-term debt recorded under the Amended & Restated Credit Agreement for the thirteen weeks ended October 29, 2011. The average interest rate for the long-term debt that has been previously outstanding under the Prior Credit Agreement was 2.4% for the thirty-nine weeks ended October 29, 2011.

13. DERIVATIVES

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

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

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

The Company uses derivative instruments, primarily forward contracts designated as cash flow hedges, to hedge the foreign currency exposure associated with forecasted foreign-currency-denominated intercompany inventory sales to foreign subsidiaries and the related settlement of the foreign-currency-denominated inter-company receivable. Fluctuations in exchange rates will either increase or decrease the Company s U.S. dollar equivalent cash flows and affect the Company s U.S. dollar earnings. Gains or losses on the foreign exchange forward contracts that are used to hedge these exposures are expected to partially offset this variability. Foreign exchange forward contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed-upon settlement date. As of October 29, 2011, the maximum length of time over which forecasted foreign-currency-denominated inter-company inventory sales were hedged was twelve months. The sale of the inventory to the Company s customers will result in the reclassification of related derivative gains and losses that are reported in Accumulated Other Comprehensive Income (Loss). Substantially all of the remaining unrealized gains or losses related to foreign-currency-denominated inter-company inventory sales that have occurred as of October 29, 2011 will be recognized in costs of goods sold over the following two months at the values at the date the inventory was sold to the respective subsidiary.

The Company nets derivative assets and liabilities on the Consolidated Balance Sheets to the extent that master netting arrangements meet the specific accounting requirements set forth by U.S. GAAP.

As of October 29, 2011, the Company had the following outstanding foreign exchange forward contracts that were entered to hedge either a portion or all of forecasted foreign-currency-denominated inter-company inventory sales, the resulting settlement of the foreign-currency-denominated inter-company accounts receivable, or both:

		Notional Amount[1]
Euro	$	53,699
British Pound	$	34,001
Canadian Dollar	$	14,853

[1] Amounts are reported in thousands and in U.S. Dollars equivalent as of October 29, 2011.

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

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As of October 29, 2011, the Company had the following outstanding currency forward contracts that were entered into to hedge foreign currency denominated net monetary assets/liabilities:

	Notional Amount[1]
Japanese Yen	$ 16,921
Euro	$ 9,584
British Pound	$ 4,706

[1] Amounts are reported in thousands and in U.S. Dollars equivalent as of October 29, 2011.

The location and amounts of derivative fair values on the Consolidated Balance Sheets as of October 29, 2011 and January 29, 2011 were as follows:

(in thousands)	Balance Sheet Location	**Asset Derivatives** October 29, 2011	January 29, 2011	Balance Sheet Location	**Liability Derivatives** October 29, 2011	January 29, 2011
Derivatives Designated as Hedging Instruments:						
Foreign Exchange Forward Contracts	Other Current Assets	$ 1,457	$ 727	Other Liabilities	$ 227	$ 763
Derivates Not Designated as Hedging Instruments:						
Foreign Exchange Forward Contracts	Other Current Assets	$	$	Other Liabilities	$ 695	$ 380
Total	Other Current Assets	$ 1,457	$ 727	Other Liabilities	$ 922	$ 1,143

Refer to Note 7, *Fair Value,* for further discussion of the determination of the fair value of derivatives.

The location and amounts of derivative gains and losses for the thirteen and thirty-nine weeks ended October 29, 2011 and October 30, 2010 on the Consolidated Statements of Operations and Comprehensive Income were as follows:

		Thirteen Weeks Ended		**Thirty-Nine Weeks Ended**	
(in thousands)	Location	October 29, 2011 Gain/(Loss)	October 30, 2010 Gain/(Loss)	October 29, 2011 Gain/(Loss)	October 30, 2010 Gain/(Loss)
Derivatives not designated as Hedging Instruments:					
Foreign Exchange Forward Contracts	Other Operating Income, Net	$ (150)	$ (801)	$ (1,529)	$ (1,368)

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(in thousands)	Amount of Gain (Loss) Recognized in OCI on Derivative Contracts (Effective Portion) (a)		Location of Gain (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Earnings (Effective Portion) (b)		Location of Gain (Loss) Recognized in Earnings on Derivative Contracts (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Earnings on Derivative Contracts (Ineffective Portion and Amount Excluded from Effectiveness Testing) (c)	
				Thirteen Weeks Ended				
	October 29, 2011	October 30, 2010		October 29, 2011	October 30, 2010		October 29, 2011	October 30, 2010
Derivatives in Cash Flow Hedging Relationships								
Foreign Exchange Forward Contracts	$ 2,907	$ (1,574)	Cost of Goods Sold	$ (596)	$ 1,587	Other Operating Expense (Income), Net	$ (331)	$ 27
				Thirty-Nine Weeks Ended				
(in thousands)	October 29, 2011	October 30, 2010		October 29, 2011	October 30, 2010		October 29, 2011	October 30, 2010
Derivatives in Cash Flow Hedging Relationships								
Foreign Exchange Forward Contracts	$ 805	$ (94)	Cost of Goods Sold	$ (1,988)	$ 2,190	Other Operating Expense (Income), Net	$ (830)	$ 155

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

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

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

14. DISCONTINUED OPERATIONS

On June 16, 2009, A&F s Board of Directors approved the closure of the Company s 29 RUEHL branded stores and related direct-to-consumer operations. The Company completed the closure of the RUEHL branded stores and related direct-to-consumer operations during the fourth quarter of Fiscal 2009. Accordingly, the results of operations of RUEHL are reflected in Income from Discontinued Operations, Net of Tax on the Consolidated Statements of Operations and Comprehensive Income for the thirty-nine weeks ended October 29, 2011 and October 30, 2010. Net income for the thirty-nine weeks ended October 29, 2011, included net income per diluted share of $0.01 from discontinued operations related to the settlement of outstanding lease obligations. Results from discontinued operations for the thirty-nine weeks ended October 30, 2010, were immaterial.

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Costs associated with exit or disposal activities are recorded when the liability is incurred. Below is a roll forward from January 29, 2011 of the liabilities recognized on the Consolidated Balance Sheet as of October 29, 2011 related to the closure of RUEHL branded stores and related direct-to-consumer operations (in millions):

	Thirty-Nine Weeks Ended October 29, 2011	
Beginning Balance	$	17.2
Interest Accretion / Other, Net[1]		(1.3)
Cash Payments		(15.7)
Ending Balance[2]	$	0.2

(1) Other includes an accrual adjustment related to the settlement of outstanding lease obligations.

(2) Ending balance reflects the obligations due under signed lease termination agreements. As of October 29, 2011, the entire amount is recorded as a current liability in Accrued Expenses on the Consolidated Balance Sheet.

15. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

Effective February 2, 2003, the Company established a Chief Executive Officer Supplemental Executive Retirement Plan (the SERP) to provide additional retirement income to its Chairman and Chief Executive Officer (CEO). Subject to service requirements, the CEO will receive a monthly benefit equal to 50% of his final average compensation (as defined in the SERP) for life. The final average compensation used for the calculation is based on actual compensation, base salary and cash incentive compensation, averaged over the last 36 consecutive full calendar months ending before the CEO s retirement. The Company recorded expense of $0.1 million and $1.6 million for the thirteen and thirty-nine weeks ended October 29, 2011, respectively, associated with the SERP. The Company recorded expense of $0.5 million and $2.4 million for the thirteen and thirty-nine weeks ended October 30, 2010, respectively, associated with the SERP.

The expense for the thirty-nine weeks ended October 30, 2010, included an expense of $2.1 million to correct a cumulative under accrual of the SERP relating to prior periods, primarily Fiscal 2008. The Company does not believe this correction was material to the periods affected.

16. CONTINGENCIES

A&F is a defendant in lawsuits and other adversary proceedings arising in the ordinary course of business. Legal costs incurred in connection with the resolution of claims and lawsuits are generally expensed as incurred, and the Company establishes reserves for the outcome of litigation where it deems appropriate to do so under applicable accounting rules. Actual liabilities may exceed the amounts reserved, and there can be no assurance that final resolution of these matters will not have a material adverse effect on the Company s financial condition, results of operations or cash flows.

The Company intends to defend the following pending matters vigorously, as appropriate. The Company is unable to quantify the potential exposure of the following pending matters. However, the Company s assessment of the current exposure could change in the event of the discovery of additional facts with respect to legal matters pending against the Company or determinations by judges, juries, administrative agencies or other finders of fact that are not in accordance with the Company s evaluation of the claims. The Company s identified contingencies include the following matters:

On June 23, 2006, Lisa Hashimoto, et al. v. Abercrombie & Fitch Co. and Abercrombie & Fitch Stores, Inc., was filed in the Superior Court of the State of California for the County of Los Angeles. In that action, plaintiffs alleged, on behalf of a putative class of California store managers employed in Hollister and abercrombie kids stores, that they were entitled to receive overtime pay as non-exempt employees under California wage and hour laws. The complaint sought injunctive relief, equitable relief, unpaid overtime compensation, unpaid benefits, penalties, interest and attorneys fees and costs. The defendants answered the complaint on August 21, 2006, denying liability. On June 23, 2008, the defendants settled all claims of Hollister and abercrombie kids store managers who served in stores from June 23, 2002 through April 30, 2004, but continued to oppose the plaintiffs remaining claims. On January 29, 2009, the Court certified a class consisting of all store managers who served at Hollister and abercrombie kids stores in California from May 1, 2004 through the future date upon which the action concludes. The parties then continued to litigate the claims of that putative class. On May 24, 2010, plaintiffs filed a notice that they did not intend to continue to pursue their claim that members of the class did not exercise independent managerial judgment and discretion. They also asked the Court to vacate the August 9, 2010 trial date previously set by the Court. On July 20, 2010, the trial court vacated the trial date and the defendants then moved to decertify the putative class. On April 7, 2011, the trial court granted defendants motion and decertified the putative class. The parties continued to litigate the claims of the individual plaintiffs until November of 2011, when all of those claims were settled for an immaterial amount and released.

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On September 16, 2005, a derivative action, styled The Booth Family Trust v. Michael S. Jeffries, et al., was filed in the United States District Court for the Southern District of Ohio, naming A&F as a nominal defendant and seeking to assert claims for unspecified 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, four similar derivative actions were filed (three in the United States District Court for the Southern District of Ohio and one in the Court of Common Pleas for Franklin County, Ohio) against present and former directors of A&F alleging various breaches of the directors fiduciary duty allegedly arising out of antecedent employment law and securities class actions brought against the Company. A consolidated amended derivative complaint was filed in the federal proceeding on July 10, 2006. On February 16, 2007, A&F announced that its Board of Directors had received a report of the Special Litigation Committee established by the Board to investigate and act with respect to claims asserted in the derivative cases, which concluded that there was no evidence to support the asserted claims and directed the Company to seek dismissal of the derivative cases. On September 10, 2007, the Company moved to dismiss the federal derivative cases on the authority of the Special Litigation Committee Report. On March 12, 2009, the Company s motion was granted and, on April 10, 2009, plaintiffs filed an appeal from the order of dismissal in the United States Court of Appeals for the Sixth Circuit. On April 5, 2011, a panel of the United States Court of Appeals for the Sixth Circuit reversed the decision of the District Court and remanded the action for further proceedings. The state court has stayed further proceedings in the state-court derivative action until resolution of the consolidated federal derivative cases. On November 1, 2011, the District Court entered an order which gave preliminary approval to a proposed settlement of the consolidated derivative litigation. The District Court also set a hearing (the Fairness Hearing) for December 13, 2011 to determine whether the proposed settlement, which provides for revisions to certain of the Company s corporate governance regulations, should be finally approved and to consider an award of fees and expenses to plaintiffs counsel. The District Court also directed that notice be given to the Company s stockholders concerning the proposed settlement and their right to be heard in connection with the Fairness Hearing.

On December 21, 2007, Spencer de la Cruz, a former employee, filed an action against Abercrombie & Fitch Co. and Abercrombie & Fitch Stores, Inc. (collectively, the Defendants) in the Superior Court of Orange County, California. He sought to allege, on behalf of himself and a putative class of past and present employees in the period beginning on December 19, 2003, claims for failure to provide meal breaks, for waiting time penalties, for failure to keep accurate employment records, and for unfair business practices. By successive amendments, plaintiff added 10 additional plaintiffs and additional claims seeking injunctive relief, unpaid wages, penalties, interest, and attorney s fees and costs. Defendants have denied the material allegations of plaintiffs complaints throughout the litigation and have asserted numerous affirmative defenses. On July 23, 2010, plaintiffs moved for class certification in the action. On December 9, 2010, after briefing and argument, the trial court granted in part and denied in part plaintiffs motion, certifying sub-classes to pursue meal break claims, meal premium pay claims, work related travel claims, travel expense claims, termination pay claims, reporting time claims, bag check claims, pay record claims, and minimum wage claims. The parties are continuing to litigate questions relating to the Court s certification order and to the merits of plaintiffs claims.

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17. RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Codification 820-10 Fair Value Measurements and Disclosures, (ASC 820-10) was amended in January 2010 to require additional disclosures related to recurring and nonrecurring fair value measurements. The guidance requires disclosure of transfers of assets and liabilities between Levels 1 and 2 of the fair value hierarchy, including the reasons and the timing of the transfers; and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of the assets and liabilities measured under Level 3 of the fair value hierarchy. The guidance was effective for the Company beginning on January 31, 2010. The disclosure guidance adopted on January 31, 2010, did not have a material impact on our consolidated financial statements.

In May 2011, ASC 820-10 was further amended to clarify certain disclosure requirements and improve consistency with international reporting standards. This amendment is to be applied prospectively and is effective for the Company beginning January 28, 2012. The Company does not expect its adoption to have a material effect on its consolidated financial statements.

Accounting Standards Codification Topic 220, Comprehensive Income, was amended in June 2011 to require entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendment does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income under current GAAP. This guidance is effective for the Company s fiscal year and interim periods beginning January 29, 2012. The Company does not expect its adoption to have a material effect on its consolidated financial statements.

Report of Independent Registered Public Accounting Firm

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

We have reviewed the accompanying consolidated balance sheet of Abercrombie & Fitch Co. and its subsidiaries as of October 29, 2011 and the related consolidated statements of operations and comprehensive income for each of the thirteen and thirty-nine week periods ended October 29, 2011 and October 30, 2010 and the consolidated statements of cash flows for the thirty-nine week periods ended October 29, 2011 and October 30, 2010. These interim financial statements are the responsibility of the Company s management.

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

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

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of January 29, 2011, and the related consolidated statements of operations and comprehensive income, of stockholders equity and of cash flows for the year then ended (not presented herein), and in our report dated March 29, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of January 29, 2011, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/PricewaterhouseCoopers LLP
Columbus, Ohio
December 6, 2011

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

OVERVIEW

The Company s fiscal year ends on the Saturday closest to January 31. Fiscal years are designated in the consolidated financial statements and notes by the calendar year in which the fiscal year commences. All references herein to Fiscal 2011 represent the 52-week fiscal year that will end on January 28, 2012, and to Fiscal 2010 represent the 52-week fiscal year that ended January 29, 2011.

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

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

RESULTS OF OPERATIONS

During the third quarter of Fiscal 2011, net sales increased 21% to $1.076 million from $885.8 million for the third quarter of Fiscal 2010. The impact of foreign currency on sales (based on converting prior year sales at current year exchange rates) for the thirteen weeks ended October 29, 2011 was a benefit of approximately 0.6% of sales. The gross profit rate for the third quarter of Fiscal 2011 was 60.1% compared to 63.7% for the third quarter of Fiscal 2010. Operating income was $79.9 million for the third quarter of Fiscal 2011 compared to $78.4 million for the third quarter of Fiscal 2010. The Company had net income of $50.9 million for the third quarter of Fiscal 2011 compared to net income of $50.0 million for the third quarter of Fiscal 2010. Net income per diluted share was $0.57 for the third quarter of Fiscal 2011 compared to $0.56 for the third quarter of Fiscal 2010. Results from discontinued operations were immaterial for the thirteen weeks ended October 29, 2011 and October 30, 2010.

During the Fiscal 2011 year-to-date period, net sales increased 22% to $2.829 billion from $2.319 billion in Fiscal 2010. The impact of foreign currency on sales for the thirty-nine weeks ended October 29, 2011 was a benefit of approximately 1.0% of sales. The gross profit rate for the Fiscal 2011 year-to-date period was 62.7% compared to 63.9% for the comparable year-to-date period for Fiscal 2010. Operating income was $165.8 million in the Fiscal 2011 year-to-date period, compared to $87.2 million in Fiscal 2010. The Company had net income of $108.1 million in the Fiscal 2011 year-to-date period compared to net income of $57.7 million in Fiscal 2010. Net income per diluted share was $1.20 in the Fiscal 2011 year-to-date period compared to $0.64 in Fiscal 2010. Fiscal 2010 year-to-date net income per share included a charge of $0.02 per diluted share associated with store closures. Fiscal 2011 year-to-date net income per share included a benefit of $0.01 per diluted share from discontinued operations. Results from discontinued operations were immaterial for the Fiscal 2010 year-to-date period.

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As of October 29, 2011, the Company had $488.3 million in cash and equivalents, no borrowings under the credit agreement and immaterial outstanding letters of credit, compared to $593.3 million in cash and equivalents, borrowings under the credit agreement of $57.2 million and outstanding letters of credit of $10.6 million as of October 30, 2010. The decrease in letters of credit outstanding is related to an adjustment to vendor payment terms.
Net cash provided by operating activities was $64.5 million for the thirty-nine weeks ended October 29, 2011. In addition, the Company used cash of $227.6 million for capital expenditures, $45.0 million for the repayment of the outstanding balance under the credit agreement, $45.8 million for dividends, and $98.7 million to repurchase 1.5 million shares of A&F s Common Stock during the thirty-nine weeks ended October 29, 2011.
Total inventory, at cost, was $679.3 million as of October 29, 2011, compared to $511.8 million as of October 30, 2010, an 33% increase.
Due to seasonal variations in the retail industry, the results of operations for any current period are not necessarily indicative of the results expected for the full fiscal year. The seasonality of the Company s operations may also lead to significant fluctuations in certain asset and liability accounts.
The following data represents the amounts shown in the Company s Consolidated Statements of Operations and Comprehensive Income for the thirteen and thirty-nine week periods ended October 29, 2011 and October 30, 2010, expressed as a percentage of net sales:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
NET SALES	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	39.9%	36.3%	37.3%	36.1%
GROSS PROFIT	60.1%	63.7%	62.7%	63.9%
Stores and Distribution Expense	42.9%	43.5%	45.5%	47.6%
Marketing, General and Administrative Expense	10.0%	11.6%	11.5%	12.7%
Other Operating Income, Net	(0.3)%	(0.2)%	(0.1)%	(0.2)%
OPERATING INCOME	7.4%	8.8%	5.9%	3.8%
Interest Expense, Net	0.0%	0.1%	0.1%	0.1%
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	7.4%	8.8%	5.8%	3.7%
Tax Expense from Continuing Operations	2.6%	3.1%	2.0%	1.2%
NET INCOME FROM CONTINUING OPERATIONS	4.7%	5.6%	3.8%	2.5%
INCOME FROM DISCONTINUED OPERATIONS, Net of Tax			0.0%	
NET INCOME	4.7%	5.6%	3.8%	2.5%

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Financial Summary

The following summarized financial and statistical data compare the thirteen and thirty-nine week periods ended October 29, 2011 to the thirteen and thirty-nine week periods ended October 30, 2010:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Net sales by brand (millions)	**$ 1,075.9**	**$ 885.8**	**$ 2,829.3**	**$ 2,319.4**
Abercrombie & Fitch	$ 436.1	$ 384.1	$ 1,161.1	$ 1,023.4
abercrombie	$ 104.2	$ 99.9	$ 274.1	$ 257.7
Hollister	$ 518.0	$ 392.5	$ 1,346.7	$ 1,012.9
Gilly Hicks*	$ 17.6	$ 9.3	$ 47.4	$ 25.4
Increase in net sales from prior year	**21%**	**18%**	**22%**	**16%**
Abercrombie & Fitch	14%	18%	13%	17%
abercrombie	4%	10%	6%	11%
Hollister	32%	18%	33%	16%
Gilly Hicks	89%	79%	87%	50%
Increase in comparable store sales**	**7%**	**7%**	**8%**	**5%**
Abercrombie & Fitch	4%	8%	5%	7%
abercrombie	6%	2%	8%	3%
Hollister	8%	7%	10%	3%
Increase in net sales from prior year	**21%**	**18%**	**22%**	**16%**
U.S.***	14%	8%	13%	7%
International***	56%	87%	64%	90%
Direct-to-consumer sales (including shipping & handling)	41%	31%	34%	39%

* Net sales for the thirteen and thirty-nine week periods ended October 29, 2011 and October 30, 2010, reflect the activity of 19 and 17 stores, respectively. Other operational data was deemed immaterial for inclusion in the table.

** A store is included in comparable store sales when it has been open as the same brand 12 months or more and its square footage has not been expanded or reduced by more than 20% within the past year.

*** Includes direct-to-consumer

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CURRENT TRENDS AND OUTLOOK

During the third quarter of Fiscal 2011, our results were adversely affected by a number of factors, including a significant escalation in sourcing costs, a slowing sales trend in our highly profitable European business, and continued underperformance in Japan and Canada. However, we remain focused on the long-term drivers of the business and our strategy and stated financial objectives are unchanged.

We have a long-term strategic objective to leverage the global power of our brands to build a highly profitable, sustainable global business. We have identified a number of growth vehicles that will support our strategic objective over the next few years and our focus remains on execution against our strategy and the key roadmap components. We believe maintaining a long-term outlook is even more critical today, given the continuing uncertainty in the macro-economic environment.

We plan to continue opening Abercrombie & Fitch international flagship stores in key locations around the world. We expect to open four additional international Abercrombie & Fitch flagship locations in the fourth quarter of Fiscal 2011, which will bring us to a total of ten locations by the end of the fiscal year. The additional four international flagship locations will be in Madrid, Dusseldorf, Brussels and Singapore. We now have four confirmed flagship location openings in 2012, comprising Hamburg, Hong Kong, Amsterdam and Munich.

We continue to expect to open up to 40 international mall-based Hollister stores during Fiscal 2011, of which 25 had opened as of the end of the third quarter. The majority of the stores will be opened in Europe and the total also includes our first stores in mainland China and Hong Kong. We expect a similar or greater number of openings in 2012.

Recognizing the profitable growth potential of the direct-to-consumer business, we have a number of initiatives that we are working on to drive this business and increase the share of our business mix it represents. In addition, we expect the direct-to-consumer business to benefit from our growing international presence.

Improving average U.S. store productivity levels, both through same store sales growth and as a result of the closure of underperforming stores, remains an important objective. We are targeting a return to around 90% of 2007 U.S. store productivity levels by 2012. We expect to close approximately 55 to 60 U.S. stores during Fiscal 2011 through natural lease expirations, and this figure may increase somewhat as a result of buyouts or other early closures. During the fourth quarter of Fiscal 2011, we will review underperforming real estate and conduct our annual analysis of long-lived asset impairment. The real estate review and impairment analysis could result in fourth quarter charges.

In addition to our established brands, we continue to believe that Gilly Hicks has significant potential as a long-term growth vehicle.

From a margin standpoint, we see an improvement in the sourcing environment during 2012 as a result of lower raw material costs.

In general, we continue to expect macroeconomic uncertainty to affect our business. However, we expect that continued sales growth, coupled with disciplined control of expenses, will enable us to continue growing our operating income. We continue to believe that our diluted earnings per share target of $4.75 for Fiscal 2012 is a realistic objective.

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THIRD QUARTER AND YEAR-TO-DATE RESULTS

Net Sales

Net sales for the third quarter of Fiscal 2011 were $1.076 billion, an increase of 21% from net sales of $885.8 million during the third quarter of Fiscal 2010. The net sales increase was attributable to a 7% increase in total comparable store sales, a 41% increase in the direct-to-consumer business, including shipping and handling revenue, and new stores, primarily international. The impact of foreign currency on sales (based on converting prior year sales at current year exchange rates) for the thirteen weeks ended October 29, 2011 was a benefit of approximately $4.9 million. Including direct-to-consumer sales, U.S. sales increased 14% to $820.2 million and international sales increased 56% to $255.7 million.

Year-to-date net sales in Fiscal 2011 were $2.829 billion, an increase of 22% from net sales of $2.319 billion during the comparable period in Fiscal 2010. The net sales increase was attributable to an 8% increase in total comparable store sales, a 34% increase in the direct-to-consumer business, including shipping and handling revenue, and new stores, primarily international. The impact of foreign currency on sales for the thirty-nine weeks ended October 29, 2011 was a benefit of approximately $22.5 million. Including direct-to-consumer sales, U.S. sales increased 13% to $2.146 billion and international sales increased 64% to $683.3 million.

Comparable store sales by brand for the third quarter of Fiscal 2011 were as follows: Abercrombie & Fitch increased 4%, abercrombie kids increased 6% and Hollister increased 8%. Female comparable store sales increased by a high single digit, while male comparable store sales increased by a mid single digit.

Comparable same store sales for the third quarter reflected an acceleration in the trend for U.S. chain stores, particularly in the Southern and Western regions, which was more than offset by a slowing trend in Europe, including negative comps for flagship stores. Canada, and more significantly Japan, had negative comparative store sales.

Direct-to-consumer net merchandise sales for the third quarter of Fiscal 2011 were $119.6 million, an increase of 47% from Fiscal 2010 third quarter direct-to-consumer net merchandise sales of $81.4 million. Shipping and handling revenue for the corresponding periods was $12.8 million in Fiscal 2011 and $12.6 million in Fiscal 2010. The direct-to-consumer business, including shipping and handling revenue, accounted for 12.3% of total net sales in the third quarter of Fiscal 2011 compared to 10.6% in the third quarter of Fiscal 2010.

Direct-to-consumer net merchandise sales for the Fiscal 2011 year-to-date period were $302.4 million, an increase of 38% from Fiscal 2010 year-to-date direct-to-consumer net merchandise sales of $219.1 million. Shipping and handling revenue for the corresponding periods was $37.9 million in Fiscal 2011 and $34.9 million in Fiscal 2010. The direct-to-consumer business, including shipping and handling revenue, accounted for 12.0% of total net sales for the year-to-date Fiscal 2011 compared to 11.0% in the Fiscal 2010 year-to-date period.

From a merchandise classification standpoint, for the male business, fleece, active wear and sweaters were stronger performing categories; while woven shirts was a weaker performing category. In the female business, sweaters, pants and knit tops were stronger performing categories; while graphics was a weaker performing category.

Gross Profit

Gross profit for the third quarter of Fiscal 2011 was $646.5 million compared to $564.4 million for the comparable period in Fiscal 2010. The gross profit rate (gross profit divided by net sales) for the third quarter of Fiscal 2011 was 60.1%, down 360 basis points from the third quarter of Fiscal 2010 rate of 63.7%.

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The decrease in the gross profit rate for the third quarter of Fiscal 2011 was primarily driven by an increase in average unit cost, due to increased raw materials cost, combined with an approximately flat average unit retail.

Year-to date gross profit for Fiscal 2011 was $1.773 billion compared to $1.481 billion for the comparable period in Fiscal 2010. The gross profit rate for the year-to-date period of Fiscal 2011 was 62.7%, down 120 basis points from the year-to-date Fiscal 2010 rate of 63.9%.

The decrease in the gross profit rate for Fiscal 2011 year-to-date period was primarily driven by an increase in average unit cost combined with an approximately flat average unit retail, partially offset by favorable foreign currency impact, and benefits from other gross margin items, such as freight.

Stores and Distribution Expense

Stores and distribution expense for the third quarter of Fiscal 2011 was $461.7 million compared to $385.1 million for the comparable period in Fiscal 2010. The stores and distribution expense rate (stores and distribution expense divided by net sales) for the third quarter of Fiscal 2011 was 42.9% compared to 43.5% in the third quarter of Fiscal 2010.

Stores and distribution expense for the Fiscal 2011 year-to-date period was $1.286 billion compared to $1.104 billion for the comparable period in Fiscal 2010. The stores and distribution expense rate for the year-to-date period of Fiscal 2011 was 45.5% compared to 47.6% for the Fiscal 2010 year-to-date period.

The decrease in the stores and distribution expense rate for the third quarter and the Fiscal 2011 year-to-date period was primarily driven by lower store occupancy costs as a percentage of net sales.

Total direct-to-consumer expense included in stores and distribution expense was $22.4 million and $57.9 million for the thirteen and thirty-nine weeks ended October 29, 2011, respectively, compared to $16.8 million and $42.5 million for the thirteen and thirty-nine weeks ended October 30, 2010, respectively.

Marketing, General and Administrative Expense

Marketing, general and administrative expense during the third quarter of Fiscal 2011 was $107.8 million compared to $102.6 million during the same period in Fiscal 2010, a 5% increase. For the third quarter of Fiscal 2011, the marketing, general and administrative expense rate (marketing, general and administrative expense divided by net sales) was 10.0% compared to 11.6% for the third quarter of Fiscal 2010.

The increase in marketing, general and administrative expense for the thirteen weeks ended October 29, 2011 was due to increases in compensation, including equity compensation, and outside services, partially offset by a decrease in incentive compensation expense.

Marketing, general, and administrative expense during the Fiscal 2011 year-to-date period was $325.5 million compared to $294.5 million during the same period in Fiscal 2010, a 11% increase. For the year-to-date period of Fiscal 2011, the marketing, general and administrative expense rate was 11.5% compared to 12.7% for the Fiscal 2010 year-to-date period.

The increase in marketing, general and administrative expense for the thirty-nine weeks ended October 29, 2011 was primarily due to increases in compensation and benefits, including incentive and equity compensation, marketing and other expenses, and the net effect of prior year favorable legal settlements, partially offset by a prior year charge to correct an under accrual of the supplemental executive retirement plan.

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Other Operating Expense (Income), Net

Third quarter other operating income, net for Fiscal 2011 was $2.9 million compared to other operating income, net, of $1.7 million for the third quarter of Fiscal 2010.

Year-to-date other operating income, net for Fiscal 2011 was $4.1 million compared to $4.5 million for the year-to-date period of Fiscal 2010.

Interest Expense, Net and Tax Expense (Benefit) from Continuing Operations

Third quarter interest expense was $1.8 million in Fiscal 2011, offset by interest income of $1.2 million, compared to interest expense of $1.9 million, offset by interest income of $1.2 million in the third quarter of Fiscal 2010.

Year-to-date interest expense was $6.2 million in Fiscal 2011, offset by interest income of $3.7 million, compared to interest expense of $5.7 million in Fiscal 2010, offset by interest income of $3.4 million.

The effective tax rate for continuing operations for the third quarter of Fiscal 2011 was 35.8% compared to 35.6% for the Fiscal 2010 comparable period.

The effective tax rate for continuing operations for the thirty-nine weeks ended October 29, 2011 was 34.3% compared to 32.1% for the thirty nine weeks ended October 30, 2010.

On a full-year basis, the Company expects the effective tax rate to be approximately 35%. The rate remains sensitive to the domestic/international profit mix, including the effect of foreign currencies. In addition, the rate does not include the potential valuation allowances related to net operating loss carry forwards.

Net Income from Discontinued Operations

The Company completed the closure of its RUEHL branded stores and related direct-to-consumer operations in the fourth quarter of Fiscal 2009. Accordingly, the after-tax operating results of RUEHL appear in Income from Discontinued Operations, Net of Tax on the Consolidated Statements of Operations and Comprehensive Income for the thirteen and thirty-nine weeks ended October 29, 2011 and October 30, 2010. Net income from discontinued operations for the thirteen and thirty-nine weeks ended October 29, 2011 and October 30, 2010 was immaterial. Refer to Note 14, *Discontinued Operations,* of the Notes to Consolidated Financial Statements for further discussion.

Net Income and Net Income per Share

Net income for the third quarter of Fiscal 2011 was $50.9 million compared to $50.0 million for the third quarter of Fiscal 2010. Net income per diluted share for the third quarter of Fiscal 2011 was $0.57 compared to $0.56 for the same period of Fiscal 2010.

Net income for the year-to-date period of Fiscal 2011 was $108.1 million compared to net income of $57.7 million for the year-to-date period of Fiscal 2010. Net income per diluted share for the year-to-date period of Fiscal 2011 was $1.20 compared to $0.64 for the same period of Fiscal 2010. Net income per diluted share for the year-to-date period of Fiscal 2011 included net income of $0.01 per diluted share from discontinued operations related to the settlement of outstanding lease obligations. Net income for the Fiscal 2010 year-to-date period included a charge of $0.02 per diluted share associated with store closures.

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FINANCIAL CONDITION

Liquidity and Capital Resources

Historical Sources and Uses of Cash

Seasonality of Cash Flows

The retail business has two principal selling seasons: the Spring season which includes the first and second fiscal quarters (Spring) and the Fall season which includes the third and fourth fiscal quarters (Fall). As is typical in the apparel industry, the Company experiences its greatest sales activity during the Fall season due to Back-to-School and Holiday sales periods, particularly in the United States. The Company relies on excess operating cash flows, which are largely generated in the Fall season, to fund operating expenses and to reinvest in the business to support future growth throughout the year. The Company also has available a credit facility as a source for additional funding.

Credit Agreement

On July 28, 2011, the Company entered into an amended and restated credit agreement (the Amended and Restated Credit Agreement) under which up to $350 million will be available. The Amended and Restated Credit Agreement serves to amend and restate in its entirety the credit agreement dated April 15, 2008 as previously amended (the Prior Credit Agreement). The primary reasons for entering into the Amended and Restated Credit Agreement were to extend the termination date from April 12, 2013 to July 27, 2016 and to reduce fees and interest rates.

As of December 2, 2011, the Company had approximately $350.0 million available under its unsecured Amended and Restated Credit Agreement. The Company had no borrowings outstanding under its Amended and Restated Credit Agreement on October 29, 2011. The Company had $43.8 million outstanding under the Prior Credit Agreement on January 29, 2011 denominated in Japanese Yen. There was no long-term debt recorded under the Amended & Restated Credit Agreement for the thirteen weeks ended October 29, 2011. The average interest rate for the thirty-nine weeks ended October 29, 2011 was 2.4%.

The Amended and Restated Credit Agreement requires that the Leverage Ratio not be greater than 3.75 to 1.00 at the end of each testing period. The Amended and Restated Credit Agreement also requires that the Coverage Ratio for A&F and its subsidiaries on a consolidated basis of (i) Consolidated EBITDAR for the trailing four-consecutive-fiscal-quarter period to (ii) the sum of, without duplication, (x) net interest expense for such period, (y) scheduled payments of long-term debt due within twelve months of the date of determination and (z) the sum of minimum rent and contingent store rent, not be less than 2.00 to 1.00. The Company was in compliance with the applicable ratio requirements and other covenants at October 29, 2011.

The Amended and Restated Credit Agreement is described in Note 12, *Long-Term Debt,* of the Notes to Consolidated Financial Statements.

Stand-by letters of credit outstanding on October 29, 2011 and January 29, 2011 were immaterial.

Operating Activities

Net cash provided by operating activities was $64.5 million for the thirty-nine weeks ended October 29, 2011 compared to $52.5 million for thirty-nine weeks ended October 30, 2010. The change in cash provided by operating activities was primarily driven by an increase in net income, an increase in accounts payable and accrued expenses, partially off-set by an increase in inventories and cash outflows due to the timing of tax payments. The increases in accounts payable and inventories were primarily due to an increase in average unit cost.

Investing Activities

Cash outflows for investing activities for the thirty-nine weeks ended October 29, 2011 and October 30, 2010 were used primarily for capital expenditures related to new store construction and information technology investments, as well as the acquisition of intangible assets. Cash outflows for capital expenditures were higher in Fiscal 2011 than in Fiscal 2010, due to an increase in the number of international retail locations, as well as IT and Home Office infrastructure projects. Cash inflows from investing activities were less in Fiscal 2011 due to a reduction in proceeds from sales of marketable securities.

Financing Activities

For the thirty-nine weeks ended October 29, 2011, cash outflows for financing activities consisted primarily of the repurchase of A&F s Common Stock, the payment of dividends, repayments of outstanding borrowings under the Prior Credit Agreement, partially off-set by cash inflows from the receipt of proceeds associated with the exercise of share-based compensation awards. For the thirty-nine weeks ended October 30, 2010, financing activities consisted mainly of the payment of dividends and the repurchase of A&F s Common Stock.

During the thirty-nine weeks ended October 29, 2011, A&F repurchased approximately 1.5 million shares of A&F s Common Stock in the open market with a market value of approximately $98.7 million. A&F repurchased 669,100 shares of A&F s Common Stock in the open market with a market value of $29.2 million during the thirty-nine weeks ended October 30, 2010. Both the Fiscal 2011 and Fiscal 2010 repurchases were pursuant to the A&F Board of Directors November 20, 2007 authorization.

As of October 29, 2011, A&F had approximately 8.2 million remaining shares available for repurchase as part of the November 20, 2007 A&F Board of Directors authorization to repurchase 10.0 million shares of A&F s Common Stock.

Future Cash Requirements and Sources of Cash

Over the next twelve months, the Company s primary cash requirements will be to fund operating activities, including the acquisition of inventory, and obligations related to compensation, rent, taxes and other operating activities, as well as increasing capital expenditures and paying of quarterly dividend payments to stockholders subject to A&F Board of Directors approval. In addition, subject to the availability of cash and suitable market conditions, A&F expects to continue to repurchase shares of its Common Stock. The Company anticipates funding these cash requirements with cash generated from operations. The Company also has availability under the Amended and Restated Credit Agreement as a source of additional funding.

Off-Balance Sheet Arrangements

As of October 29, 2011, the Company did not have any off-balance sheet arrangements.

Contractual Obligations

The Company s contractual obligations consist primarily of operating leases, purchase orders for merchandise inventory, unrecognized tax benefits, certain retirement obligations, lease deposits and other agreements to purchase goods and services that are legally binding and that require minimum quantities to be purchased. These contractual obligations impact the Company s short- and long-term liquidity and capital resource needs.

During the thirty-nine weeks ended October 29, 2011, changes to the contractual obligations from those as of January 29, 2011 included the repayment of the outstanding balance of the Prior Credit Agreement and the payment of $15.7 million in previously accrued charges related to the closure of RUEHL branded stores and related direct-to-consumer operations. There were no other material changes in contractual obligations as of October 29, 2011, with the exception of those obligations which occurred in the normal course of business (primarily changes in the Company s merchandise inventory-related purchases and lease obligations, which fluctuate throughout the year as a result of the seasonal nature of the Company s operations).

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Third Quarter Store Count and Gross Square Feet

Store count and gross square footage by brand for the thirteen weeks ended October 29, 2011 and October 30, 2010, respectively, were as follows:

	Abercrombie & Fitch	abercrombie	Hollister	Gilly Hicks	Total
Store Activity					
July 30, 2011	326	183	545	19	1,073
New			19		19
Closed					
October 29, 2011	326	183	564	19	1,092
Gross Square Feet (thousands)					
July 30, 2011	2,970	870	3,778	183	7,801
New			166		166
Remodels/Conversions (net activity)					
Closed					
October 29, 2011	2,970	870	3,944	183	7,967
Average Store Size	9,110	4,754	6,993	9,632	7,296

	Abercrombie & Fitch	abercrombie	Hollister	Gilly Hicks	Total
Store Activity					
July 31, 2010	345	206	530	17	1,098
New	2	1	7		10
Remodels/Conversions (net activity)		(2)			(2)
Closed					
October 30, 2010	347	205	537	17	1,106
Gross Square Feet (thousands)					
July 31, 2010	3,097	976	3,629	166	7,868
New	15	6	54		75
Remodels/Conversions (net activity)	6	(10)	1		(3)
Closed					
October 30, 2010	3,118	972	3,684	166	7,940
Average Store Size	8,986	4,741	6,860	9,765	7,179

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Year-To-Date Store Count and Gross Square Feet

Store count and gross square footage by brand for the thirty-nine weeks ended October 29, 2011 and October 30, 2010, respectively, were as follows:

	Abercrombie & Fitch	abercrombie	Hollister	Gilly Hicks	Total
Store Activity					
January 29, 2011	325	185	540	19	1,069
New	1		25		26
Remodels/Conversions (net activity)					
Closed		(2)	(1)		(3)
October 29, 2011	326	183	564	19	1,092
Gross Square Feet (thousands)					
January 29, 2011	2,955	879	3,739	183	7,756
New	22		212		234
Remodels/Conversions (net activity)	(7)	(1)			(8)
Closed		(8)	(7)		(15)
October 29, 2011	2,970	870	3,944	183	7,967
Average Store Size	9,110	4,754	6,993	9,632	7,296

	Abercrombie & Fitch	abercrombie	Hollister	Gilly Hicks	Total
Store Activity					
January 30, 2010	346	209	525	16	1,096
New	5	3	13	1	22
Remodels/Conversions (net activity)	1	(2)			(1)
Closed	(5)	(5)	(1)		(11)
October 30, 2010	347	205	537	17	1,106
Gross Square Feet (thousands)					
January 30, 2010	3,110	979	3,597	161	7,847
New	41	25	97	5	168
Remodels/Conversions (net activity)	9	(9)	(3)		(3)
Closed	(42)	(23)	(7)		(72)
October 30, 2010	3,118	972	3,684	166	7,940
Average Store Size	8,986	4,741	6,860	9,765	7,179

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CAPITAL EXPENDITURES

During the third quarter of Fiscal 2011, the Company opened 19 international Hollister stores. During Fiscal 2011, the Company expects to open four additional international Abercrombie & Fitch flagship locations, as well as a total of up to 40 international mall-based Hollister stores, of which 25 had opened as of October 29, 2011. The majority of the stores will open in Europe.

The Company also expects to close approximately 55 to 60 domestic stores during Fiscal 2011, primarily at the end of the year through natural lease expirations. The Company expects total capital expenditures for 2011 to be approximately $350 million, predominately related to new stores, store refreshes, and remodels.

Capital expenditures totaled $227.6 million and $117.0 million for the thirty-nine weeks ended October 29, 2011 and October 30, 2010, respectively. A summary of capital expenditures is as follows:

Capital Expenditures (in millions)		**October 29, 2011**		**October 30, 2010**
New Store Construction, Store Refreshes and Remodels	$	183.7	$	86.6
Home Office, Distribution Centers and Information Technology		43.9		30.4
Total Capital Expenditures	$	227.6	$	117.0

CLOSURE OF RUEHL BRANDED STORES AND RELATED DIRECT-TO-CONSUMER OPERATIONS

On June 16, 2009, A&F s Board of Directors approved the closure of the Company s 29 RUEHL branded stores and related direct-to-consumer operations. The Company completed the closure of the RUEHL branded stores and related direct-to-consumer operations during the fourth quarter of Fiscal 2009.

Costs associated with exit or disposal activities are recorded when the liability is incurred. As of October 29, 2011, the Company expected to make gross cash payments totaling approximately $15.9 million in Fiscal 2011, related primarily to the final lease termination agreements associated with the closure of RUEHL branded stores.

$15.7 million of the $15.9 million was paid during the thirty-nine weeks ended October 29, 2011.

Recent Accounting Pronouncements

Accounting Standards Codification 820-10 Fair Value Measurements and Disclosures, (ASC 820-10) was amended in January 2010 to require additional disclosures related to recurring and nonrecurring fair value measurements. The guidance requires disclosure of transfers of assets and liabilities between Levels 1 and 2 of the fair value hierarchy, including the reasons and the timing of the transfer; and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of the assets and liabilities measured under Level 3 of the fair value hierarchy. The guidance was effective for the Company beginning on January 31, 2010. The disclosure guidance adopted on January 31, 2010, did not have a material impact on our consolidated financial statements.

In May 2011, ASC 820-10 was further amended to clarify certain disclosure requirements and improve consistency with international reporting standards. This amendment is to be applied prospectively and is effective for the Company beginning January 28, 2012. The Company does not expect its adoption to have a material effect on its consolidated financial statements.

Accounting Standards Codification Topic 220, Comprehensive Income, was amended in June 2011 to require entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendment does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income under current GAAP. This guidance is effective for the Company s fiscal year and interim periods beginning January 29, 2012. The Company does not expect its adoption to have a material effect on its consolidated financial statements.

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Critical Accounting 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 accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements 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 Note 2, *Summary of Significant Accounting Policies* of the Notes to Consolidated Financial Statements contained in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA of A&F s Annual Report on Form 10-K for Fiscal 2010 filed on March 29, 2011. The Company believes the following policies are the most critical to the portrayal of the Company s financial condition and results of operations.

Policy	**Effect if Actual Results Differ from Assumptions**
Revenue Recognition	
The Company recognizes retail sales at the time the customer takes possession of the merchandise. The Company reserves for sales returns through estimates based on historical experience and various other assumptions that management believes to be reasonable. The value of point of sale coupons that result in a reduction of the price paid by the customer is recorded as a reduction of sales. The Company sells gift cards in its stores and through direct-to-consumer operations. The Company accounts for gift cards sold to customers by recognizing a liability at the time of sale. 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, known as breakage (recognized as other operating income), based on historical redemption patterns.	The Company has not made any material changes in the accounting methodology used to determine the sales return reserve and revenue recognition for gift cards over the past three fiscal years. The Company does not expect material changes in the near term to the underlying assumptions used to measure the sales return reserve or to measure the timing and amount of future gift card redemptions as of October 29, 2011. However, changes in these assumptions do occur, and, should those changes be significant, the Company may be exposed to gains or losses that could be material. A 10% change in the sales return reserve as of October 29, 2011 would have affected pre-tax income by approximately $1.1 million. A 10% change in the assumption of the redemption pattern for gift cards as of October 29, 2011 would have affected pre-tax income by an immaterial amount.

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Policy	Effect if Actual Results Differ from Assumptions
Auction Rate Securities (ARS)	
As a result of the market failure and lack of liquidity in the current ARS market, the Company measures the fair value of its ARS primarily using a discounted cash flow model as well as a comparison to similar securities in the market. Certain significant inputs into the model are unobservable in the market including the periodic coupon rate adjusted for the marketability discount, market required rate of return and expected term.	The Company has not made any material changes in the accounting methodology used to determine the fair value of the ARS. The Company does not expect material changes in the near term to the underlying assumptions used to determine the unobservable inputs used to calculate the fair value of the ARS as of October 29, 2011. However, changes in these assumptions do occur, and, should those changes be significant, the Company may be exposed to gains or losses that could be material. Assuming all other assumptions disclosed in Note 7, Fair Value, being equal, a 50 basis point increase in the market required rate of return will yield approximately a 15% increase in impairment and a 50 basis point decrease in the market required rate of return will yield approximately a 15% decrease in impairment.
Inventory Valuation	
Inventories are principally valued at the lower of average cost or market utilizing the retail method. The Company reduces inventory value by recording a valuation reserve that represents estimated future permanent markdowns necessary to sell-through the inventory. Additionally, as part of inventory valuation, an inventory shrink estimate is made each period that reduces the value of inventory for lost or stolen items.	The Company has not made any material changes in the accounting methodology used to determine the shrink reserve or the valuation reserve over the past three fiscal years. The Company does not expect material changes in the near term to the underlying assumptions used to determine the shrink reserve or valuation reserve as of October 29, 2011. However, changes in these assumptions do occur, and, should those changes be significant, they could significantly impact the ending inventory valuation at cost, as well as the resulting gross margin(s). An increase or decrease in the valuation reserve of 10% would have affected pre-tax income by approximately $3.8 million for the third quarter of Fiscal 2011. An increase or decrease in the inventory shrink accrual of 10% would have been immaterial to pre-tax income for the third quarter of Fiscal 2011.

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Policy	Effect if Actual Results Differ from Assumptions
Property and Equipment	
Long-lived assets, primarily comprised of property and equipment, are reviewed periodically for impairment or whenever events or changes in circumstances indicate that full recoverability of net asset balances through future cash flows is in question. The Company s impairment calculation requires management to make assumptions and judgments related to factors used in the evaluation for impairment, including, but not limited to, management s expectations for future operations and projected cash flows.	The Company has not made any material changes in the accounting methodology used to determine impairment loss over the past three fiscal years. The Company does not expect material changes in the near term to the assumptions underlying its impairment calculations as of October 29, 2011. However, changes in these assumptions do occur, and, should those changes be significant, they could have a material impact on the Company s determination of whether or not there has been an impairment.
Income Taxes	
The provision for income taxes is determined using the asset and liability approach. Tax laws often require items to be included in tax filings at different times than the items are being reflected in the financial statements. A current liability is recognized for the estimated taxes payable for the current year. Deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. Deferred taxes are adjusted for enacted changes in tax rates and tax laws. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. A provision for U.S. income tax has not been recorded on undistributed profits of non-U.S. subsidiaries that the Company has determined to be indefinitely reinvested outside the U.S. Determination of the amount of unrecognized deferred U.S. income tax liability on these unremitted earnings is not practicable because of the complexities associated with this hypothetical calculation.	The Company does not expect material changes in the judgments, assumptions or interpretations used to calculate the tax provision for the thirteen and thirty-nine weeks ended October 29, 2011. However, changes in these assumptions may occur and should those changes be significant, they could have a material impact on the Company s income tax provision. If the Company s intention or U.S. tax law changes in the future, there may be a significant negative impact on the provision for income taxes to record an incremental tax liability in the period the change occurs.

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Policy	Effect if Actual Results Differ from Assumptions
Equity Compensation Expense	
The Company s equity compensation expense related to stock options and stock appreciation rights is estimated using the Black-Scholes option-pricing model to determine the fair value of the stock option and stock appreciation right grants, which requires the Company to estimate the expected term of the stock option and stock appreciation right grants and expected future stock price volatility over the expected term.	The Company does not expect material changes in the near term to the underlying assumptions used to calculate equity compensation expense for the thirty-nine weeks ended October 29, 2011. However, changes in these assumptions do occur, and, should those changes be significant, they could have a material impact on the Company s equity compensation expense. During the thirty-nine weeks ended October 29, 2011, the Company granted stock appreciation rights covering an aggregate of 2,252,895 shares and no stock options. A 10% increase in the expected term would yield a 4% increase in the Black-Scholes valuation for stock appreciation rights granted during the year, while a 10% increase in stock price volatility would yield a 9% increase in the Black-Scholes valuation for stock appreciation rights granted during the year.
Supplemental Executive Retirement Plan	
Effective February 2, 2003, the Company established a Chief Executive Officer Supplemental Executive Retirement Plan to provide additional retirement income to its Chairman and Chief Executive Officer. Subject to service requirements, the CEO will receive a monthly benefit equal to 50% of his final average compensation (as defined in the SERP) for life. The final average compensation used for the calculation is based on actual compensation (base salary and actual annual cash incentive compensation) averaged over the last 36 consecutive full calendar months ending before the CEO s retirement. The Company s accrual for the SERP requires management to make assumptions and judgments related to the CEO s final average compensation, life expectancy and discount rate.	The Company does not expect material changes in the near term to the underlying assumptions used to determine the accrual for the SERP as of October 29, 2011. However, changes in these assumptions do occur, and, should those changes be significant, the Company may be exposed to gains or losses that could be material. A 10% increase in final average compensation as of October 29, 2011 would increase the SERP accrual by approximately $1.5 million. A 50 basis point increase in the discount rate as of October 29, 2011 would decrease the SERP accrual by an immaterial amount.
Legal Contingencies	
The Company is a defendant in lawsuits and other adversary proceedings arising in the ordinary course of business. Legal costs	Actual liabilities may exceed or be less than the amounts reserved, and there can be no assurance that final resolution of these matters will not have a material adverse effect on the

incurred in connection with the resolution of claims and lawsuits are expensed as incurred, and the Company establishes reserves for the outcome of litigation where it deems appropriate to do so under applicable accounting rules.

Company s financial condition, results of operations or cash flows.

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

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

The following factors, included in the disclosure under the heading FORWARD-LOOKING STATEMENTS AND RISK FACTORS in ITEM 1A. RISK FACTORS of A&F s Annual Report on Form 10-K for Fiscal 2010 filed on March 29, 2011, in some cases have affected and in the future could affect the Company s financial performance and could cause actual results for Fiscal 2011 and beyond to differ materially from those expressed or implied in any of the forward-looking statements included in this Quarterly Report on Form 10-Q or otherwise made by management:

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

comparable store sales will continue to fluctuate on a regular basis and impact the volatility of the price of our Common Stock;
our market share may be negatively impacted by increasing competition and pricing pressures from companies with brands or merchandise competitive with ours;
our ability to attract customers to our stores depends, in part, on the success of the shopping malls in which most of our stores are located;
our net sales fluctuate on a seasonal basis, causing our results of operations to be susceptible to changes in Back-to-School and Holiday shopping patterns;
our inability to accurately plan for product demand and allocate merchandise effectively could have a material adverse effect on our results;
our failure to protect our reputation could have a material adverse effect on our brands;
we rely on the experience and skills of our senior executive officers, the loss of whom could have a material adverse effect on our business;
interruption in the flow of merchandise from our key vendors and international manufacturers could disrupt our supply chain, which could result in lost sales and could increase our costs;
we do not own or operate any manufacturing facilities and, therefore, depend upon independent third parties for the manufacture of all our merchandise;
our reliance on two distribution centers domestically and two third-party distribution center internationally makes us susceptible to disruptions or adverse conditions affecting our distribution centers;
our reliance on third parties to deliver merchandise from our distribution centers to our stores and direct-to-consumer customers could result in disruptions to our business;
we may be exposed to risks and costs associated with credit card fraud and identity theft that would cause us to incur unexpected expenses and loss of revenues;
modifications and/or upgrades to our information technology systems may disrupt our operations;
our facilities, systems and stores as well as the facilities and systems of our vendors and manufacturers, are vulnerable to natural disasters and other unexpected events, any of which could result in an interruption in our business and adversely affect our operating results;
our litigation exposure could exceed expectations, having a material adverse effect on our financial condition and results of operations;
our inability or failure to adequately protect our trademarks could have a negative impact on our brand image and limit our ability to penetrate new markets;

- fluctuations in our tax obligations and effective tax rate may result in volatility in our operating results;
- the effects of war or acts of terrorism could have a material adverse effect on our operating results and financial condition;
- our inability to obtain commercial insurance at acceptable prices or our failure to adequately reserve for self-insured exposures might increase our expenses and adversely impact our financial results;
- reduced operating results and cash flows at the store level may cause us to incur impairment charges;
- we are subject to customs, advertising, consumer protection, privacy, zoning and occupancy and labor and employment laws that could require us to modify our current business practices, incur increased costs or harm our reputation if we do not comply;
- changes in the regulatory or compliance landscape could adversely affect our business and results of operations;
- our unsecured credit agreement includes financial and other covenants that impose restrictions on our financial and business operations; and
- our operations may be affected by regulatory changes related to climate change and greenhouse gas emissions.

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Investment Securities

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

The Company also holds investments in investment grade auction rate securities (ARS) that have maturities ranging from 17 to 32 years. The par and carrying values, and related cumulative temporary impairment charges for the Company s available-for-sale marketable securities as of October 29, 2011 were as follows:

(in thousands)	Par Value	Temporary Impairment	Carrying Value
Available-for-sale securities:			
Auction rate securities student loan backed	$ 93,925	$ (9,028)	$ 84,897
Auction rate securities municipal authority bonds	19,975	(4,538)	15,437
Total available-for-sale securities	$ 113,900	$ (13,566)	$ 100,334

As of October 29, 2011, approximately 47% of the Company s ARS were AAA rated, approximately 20% of the Company s ARS were AA rated, and approximately 33% of the Company s ARS were A- rated, in each case as rated by one or more of the major credit rating agencies. The ratings take into account insurance policies guaranteeing both the principal and accrued interest. Each investment in student loans is insured by (1) the U.S. government under the Federal Family Education Loan Program, (2) a private insurer or (3) a combination of both. The percentage of insurance coverage of the outstanding principal and interest of the ARS varies by security. The credit ratings may change over time and would be an indicator of the default risk associated with the ARS and could have a material effect on the value of the ARS. If the Company expects that it will not recover the entire cost basis of the available-for-sale ARS, intends to sell the available-for-sale ARS, or it becomes more than likely that the Company will be required to sell the available-for-sale ARS before recovery of their cost basis, which may be at maturity, the Company may be required to record an other-than-temporary impairment or additional temporary impairment to write down the assets fair value. The Company has not incurred any credit losses on available-for-sale ARS, and furthermore, the issuers continued to perform under the obligations, including making scheduled interest payments, and the Company expects that this will continue in the future.

The irrevocable rabbi trust (the Rabbi Trust) is intended to be used as a source of funds to match respective funding obligations to participants in the Abercrombie & Fitch Co. Nonqualified Savings and Supplemental Retirement Plan I, the Abercrombie & Fitch Co. Nonqualified Savings and Supplemental Retirement Plan II and the Chief Executive Officer Supplemental Executive Retirement Plan. As of October 29, 2011, total assets held in the Rabbi Trust were $84.8 million, which included $11.6 million of municipal notes and bonds with maturities that ranged from two months to 18 months, trust-owned life insurance policies with a cash surrender value of $72.5 million and $0.8 million held in money market funds. The Rabbi Trust assets are consolidated and recorded at fair value, with the exception of the trust-owned life insurance policies which are recorded at cash surrender value, in Other Assets on the Consolidated Balance Sheet and are restricted as to their use as noted above. Net unrealized gains or losses related to the municipal notes and bonds held in the Rabbi Trust were not material for the thirteen and thirty-nine week periods ended October 29, 2011 and October 30, 2010. The change in cash surrender value of the trust-owned life insurance policies held in the Rabbi Trust resulted in a realized gain of $0.7 million for both the thirteen weeks ended October 29, 2011 and October 30, 2010. The change in cash surrender value of the trust-owned life insurance policies held in the Rabbi Trust resulted in realized gains of $2.2 million and $1.8 million for the thirty-nine weeks ended October 29, 2011 and October 30, 2010, respectively.

Interest Rate Risks

As of October 29, 2011, the Company had no long-term debt outstanding under the Amended and Restated Credit Agreement. The interest rate for borrowings under the Amended and Restated Credit Agreement is generally based upon market rates plus a margin based on the Leverage Ratio. There was no long-term debt recorded under the Amended & Restated Credit Agreement for the thirteen weeks ended October 29, 2011. The average interest rate was 2.4% for the thirty-nine weeks ended October 29, 2011. Additionally, as of October 29, 2011, the Company had $350.0 million available, less outstanding letters of credit, under its Amended and Restated Credit Agreement.

Foreign Exchange Rate Risk

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

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

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ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

A&F s management, including the Chairman and Chief Executive Officer of A&F and the Executive Vice President and Chief Financial Officer of A&F, evaluated the effectiveness of A&F s design and operation of its disclosure controls and procedures as of the end of the fiscal quarter ended October 29, 2011. Based upon that evaluation, the Chairman and Chief Executive Officer of A&F and the Executive Vice President and Chief Financial Officer of A&F concluded that A&F s disclosure controls and procedures were effective at a reasonable level of assurance as of October 29, 2011, the end of the period covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control Over Financial Reporting

There were no changes in A&F s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during A&F s fiscal quarter ended October 29, 2011 that materially affected, or are reasonably likely to materially affect, A&F s internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

A&F is a defendant in lawsuits and other adversary proceedings arising in the ordinary course of business. Legal costs incurred in connection with the resolution of claims and lawsuits are generally expensed as incurred, and the Company establishes reserves for the outcome of litigation where it deems appropriate to do so under applicable accounting rules. Actual liabilities may exceed the amounts reserved, and there can be no assurance that final resolution of these matters will not have a material adverse effect on the Company s financial condition, results of operations or cash flows.

The Company intends to defend the following pending matters vigorously, as appropriate. The Company is unable to quantify the potential exposure of the following pending matters. However, the Company s assessment of the current exposure could change in the event of the discovery of additional facts with respect to legal matters pending against the Company or determinations by judges, juries, administrative agencies or other finders of fact that are not in accordance with the Company s evaluation of the claims. The Company s identified contingencies include the following matters:

On June 23, 2006, Lisa Hashimoto, et al. v. Abercrombie & Fitch Co. and Abercrombie & Fitch Stores, Inc., was filed in the Superior Court of the State of California for the County of Los Angeles. In that action, plaintiffs alleged, on behalf of a putative class of California store managers employed in Hollister and abercrombie kids stores, that they were entitled to receive overtime pay as non-exempt employees under California wage and hour laws. The complaint sought injunctive relief, equitable relief, unpaid overtime compensation, unpaid benefits, penalties, interest and attorneys fees and costs. The defendants answered the complaint on August 21, 2006, denying liability. On June 23, 2008, the defendants settled all claims of Hollister and abercrombie kids store managers who served in stores from June 23, 2002 through April 30, 2004, but continued to oppose the plaintiffs remaining claims. On January 29, 2009, the Court certified a class consisting of all store managers who served at Hollister and abercrombie kids stores in California from May 1, 2004 through the future date upon which the action concludes. The parties then continued to litigate the claims of that putative class. On May 24, 2010, plaintiffs filed a notice that they did not intend to continue to pursue their claim that members of the class did not exercise independent managerial judgment and discretion. They also asked the Court to vacate the August 9, 2010 trial date previously set by the Court. On July 20, 2010, the trial court vacated the trial date and the defendants then moved to decertify the putative class. On April 7, 2011, the trial court granted defendants motion and decertified the putative class. The parties continued to litigate the claims of the individual plaintiffs until November of 2011, when all of those claims were settled for an immaterial amount and released.

On September 16, 2005, a derivative action, styled The Booth Family Trust v. Michael S. Jeffries, et al., was filed in the United States District Court for the Southern District of Ohio, naming A&F as a nominal defendant and seeking to assert claims for unspecified 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, four similar derivative actions were filed (three in the United States District Court for the Southern District of Ohio and one in the Court of Common Pleas for Franklin County, Ohio) against present and former directors of A&F alleging various breaches of the directors fiduciary duty allegedly arising out of antecedent employment law and securities class actions brought against the Company. A consolidated amended derivative complaint was filed in the federal proceeding on July 10, 2006. On February 16, 2007, A&F announced that its Board of Directors had received a report of the Special Litigation Committee established by the Board to investigate and act with respect to claims asserted in the derivative cases, which concluded that there was no evidence to support the asserted claims and directed the Company to seek dismissal of the derivative cases. On September 10, 2007, the Company moved to dismiss the federal derivative cases on the authority of the Special Litigation

Committee Report. On March 12, 2009, the Company s motion was granted and, on April 10, 2009, plaintiffs filed an appeal from the order of dismissal in the United States Court of Appeals for the Sixth Circuit. On April 5, 2011, a panel of the United States Court of Appeals for the Sixth Circuit reversed the decision of the District Court and remanded the action for further proceedings. The state court has stayed further proceedings in the state-court derivative action until resolution of the consolidated federal derivative cases. On November 1, 2011, the District Court entered an order which gave preliminary approval to a proposed settlement of the consolidated derivative litigation. The District Court also set a hearing (the Fairness Hearing) for December 13, 2011 to determine whether the proposed settlement, which provides for revisions to certain of the Company s corporate governance regulations, should be finally approved and to consider an award of fees and expenses to plaintiffs counsel. The District Court also directed that notice be given to the Company s stockholders concerning the proposed settlement and their right to be heard in connection with the Fairness Hearing.

On December 21, 2007, Spencer de la Cruz, a former employee, filed an action against Abercrombie & Fitch Co. and Abercrombie & Fitch Stores, Inc. (collectively, the Defendants) in the Superior Court of Orange County, California. He sought to allege, on behalf of himself and a putative class of past and present employees in the period beginning on December 19, 2003, claims for failure to provide meal breaks, for waiting time penalties, for failure to keep accurate employment records, and for unfair business practices. By successive amendments, plaintiff added 10 additional plaintiffs and additional claims seeking injunctive relief, unpaid wages, penalties, interest, and attorney s fees and costs. Defendants have denied the material allegations of plaintiffs complaints throughout the litigation and have asserted numerous affirmative defenses. On July 23, 2010, plaintiffs moved for class certification in the action. On December 9, 2010, after briefing and argument, the trial court granted in part and denied in part plaintiffs motion, certifying sub-classes to pursue meal break claims, meal premium pay claims, work related travel claims, travel expense claims, termination pay claims, reporting time claims, bag check claims, pay record claims, and minimum wage claims. The parties are continuing to litigate questions relating to the Court s certification order and to the merits of plaintiffs claims.

ITEM 1A. RISK FACTORS

The Company s risk factors as of October 29, 2011 have not changed materially from those disclosed in Part I, ITEM 1A. RISK FACTORS of A&F s Annual Report on Form 10-K for Fiscal 2010 filed on March 29, 2011.

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

There were no unregistered sales of equity securities during the third quarter of Fiscal 2011.

The following table provides information regarding A&F s purchases of its Common Stock during the thirteen-week period ended October 29, 2011:

Period (Fiscal Month)	Total Number of Shares Purchased (1)	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	Maximum Number of Shares that May Yet be Purchased under the Plans or Programs (4)
July 31, 2011 through August 27, 2011	164,627	$ 58.94	150,000	8,236,258
August 28, 2011 through October 1, 2011	2,195	$ 65.46		8,236,258
October 2, 2011 through October 29, 2011	221	$ 53.21		8,236,258
Total	167,043	$ 59.02	150,000	8,236,258

(1) An aggregate of 17,043 of the shares of A&F s Common Stock purchased during the quarterly period (thirteen-week period) ended October 29, 2011 represented shares which were withheld for tax payments due upon the vesting of employee restricted stock unit and restricted share awards and upon the exercise of employee stock appreciation rights. All other shares of A&F Common Stock purchased during the quarterly period were purchased pursuant to A&F s publicly announced stock repurchase authorization described in footnote 3 below.

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

(3) The reported shares were purchased pursuant to A&F s publicly announced stock repurchase authorization. On November 21, 2007, A&F announced the November 20, 2007 authorization by A&F s Board of Directors to repurchase 10.0 million shares of A&F s Common Stock.

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

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ITEM 6. EXHIBITS

Exhibit No.	Document
3.1	Certificate regarding Approval of Amendments to Sections 1.09 and 2.04 of Amended and Restated Bylaws of Abercrombie & Fitch Co. by Board of Directors of Abercrombie & Fitch Co. on November 15, 2011 (incorporated herein by reference to Exhibit 3.1 to A&F s Current Report on Form 8-K dated and filed November 21, 2011 (File No. 001-12107))
3.2	Amended and Restated Bylaws of Abercrombie & Fitch Co. reflecting amendments through November 15, 2011 *[This document represents the Amended and Restated Bylaws of Abercrombie & Fitch Co. in compiled form incorporating all amendments.]**
4.1	Supplement No. 1 to Amended and Restated Guaranty of Payment (Domestic Credit Parties), dated as of August 31, 2011, between NSOP, LLC, as a New Guarantor, and PNC Bank, National Association, as global agent (incorporated herein by reference to Exhibit 4.3 to A&F s Quarterly Report on Form 10-Q for the quarterly period ended July 30, 2011 (File No. 001-12107))
15	Letter re: Unaudited Interim Financial Information to Securities and Exchange Commission re: Inclusion of Report of Independent Registered Public Accounting Firm PricewaterhouseCoopers LLP.*
31.1	Certifications by Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certifications by Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32	Certifications by Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
101	The following materials from Abercrombie & Fitch Co. s Quarterly Report on Form 10-Q for the quarterly period ended October 29, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations and Comprehensive Income for the thirteen and thirty-nine weeks ended October 29, 2011 and October 30, 2010; (ii) Consolidated Balance Sheets at October 29, 2011 and January 29, 2011; (iii) Consolidated Statements of Cash Flows for the Thirty-Nine Weeks Ended October 29, 2011 and October 30, 2010; and (iv) Notes to Consolidated Financial Statements***

* Filed herewith.

** Furnished herewith.

*** Pursuant to Rule 406T of SEC Regulation S-T, the Interactive Data Files included as Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange

Act of 1934, as amended, and otherwise are not subject to liability under these Sections.

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SIGNATURES

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

ABERCROMBIE & FITCH CO.

Date: December 6, 2011

By: /s/ JONATHAN E. RAMSDEN
Jonathan E. Ramsden
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Authorized Officer)

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