ABERCROMBIE & FITCH CO /DE/
Form 10-K
March 29, 2010

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

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended January 30, 2010

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, $.01 Par Value	New York Stock Exchange
Series A Participating Cumulative Preferred Stock Purchase Rights	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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 during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes o No o

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

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. (Check one):

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

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

Aggregate market value of the Registrant s Class A Common Stock (the only outstanding common equity of the Registrant) held by non-affiliates of the Registrant (for this purpose, executive officers and directors of the Registrant are considered affiliates) as of July 31, 2009: $2,513,290,835.

Number of shares outstanding of the Registrant s common stock as of March 19, 2010: 88,171,337 shares of Class A Common Stock.

DOCUMENT INCORPORATED BY REFERENCE:

Portions of the Registrant s definitive proxy statement for the Annual Meeting of Stockholders, to be held on June 9, 2010, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

ITEM 1. *BUSINESS.*

General.

Abercrombie & Fitch Co. (A&F), a company incorporated in Delaware in 1996, through its subsidiaries (collectively, A&F and its subsidiaries are referred to as Abercrombie & Fitch or the Company), is a specialty retailer that operates stores and direct-to-consumer operations selling casual sportswear apparel, including knit 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 offering bras, underwear, personal care products, sleepwear and at-home products for women under the Gilly Hicks brand. As of January 30, 2010, the Company operated 1,096 stores in North America, Europe and Asia.

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 determination to take this action was based on a comprehensive review and evaluation of the performance of the RUEHL branded stores and related direct-to-consumer operations, as well as the related real estate portfolio. 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 Net Loss from Discontinued Operations on the Consolidated Statements of Operations and Comprehensive Income for all periods presented.

The Company s fiscal year ends on the Saturday closest to January 31, typically resulting in a fifty-two week year, but occasionally giving rise to an additional week, resulting in a fifty-three week year. 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 2009 represent the results of the 52-week fiscal year ended January 30, 2010; to Fiscal 2008 represent the results of the 52-week fiscal year ended January 31, 2009; and to Fiscal 2007 represent the results of the 52-week fiscal year ended February 2, 2008. In addition, all references herein to Fiscal 2010 represent the 52-week fiscal year that will end on January 29, 2011.

A&F makes available free of charge on its website, www.abercrombie.com, under Investors, SEC Filings , its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as well as A&F s definitive annual meeting proxy materials filed pursuant to Section 14 of the Exchange Act, as soon as reasonably practicable after A&F electronically files such material with, or furnishes it to, the Securities and Exchange Commission (SEC). The SEC maintains a website that contains electronic filings at www.sec.gov. In addition, the public may read and copy any materials A&F files with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

The Company has included its website addresses throughout this filing as textual references only. The information contained within these websites is not incorporated into this Annual Report on Form 10-K.

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Description of Operations.

Brands.

Abercrombie & Fitch. Rooted in East Coast traditions and Ivy League heritage, Abercrombie & Fitch is the essence of privilege and casual luxury. The Adirondacks supply a clean and rugged inspiration to this youthful All-American lifestyle. A combination of classic and sexy creates a charged atmosphere that is confident and just a bit provocative. Idolized and respected, Abercrombie & Fitch is timeless and always cool.

abercrombie kids. The essence of privilege and prestigious East Coast prep schools, abercrombie kids directly follows in the footsteps of Abercrombie & Fitch. With a flirtatious and energetic attitude, abercrombie kids is popular, wholesome and athletic. Rugged and casual with a vintage-inspired style, abercrombie kids aspires to be like its older sibling, Abercrombie & Fitch. The perfect combination of maturity and mischief, abercrombie kids is the signature of All-American cool.

Hollister. Hollister is the fantasy of Southern California. It is the feeling of chilling on the beach with your friends. Young, spirited, and with a sense of humor, Hollister never takes itself too seriously. The laidback lifestyle and wholesome image combine to give Hollister an energy that s effortlessly cool. Hollister brings Southern California to the world.

Gilly Hicks. Gilly Hicks is the cheeky cousin of Abercrombie & Fitch, inspired by the free spirit of Sydney, Australia. Gilly makes cute bras and underwear for the young, naturally beautiful and always confident girl. Classic and vibrant with a little tomboy sexiness, Gilly never takes herself too seriously. It s the wholesome, All-American brand with a Sydney sensibility.

Though each of the Company s brands embodies its own heritage and handwriting, they share common elements and characteristics. The brands are classic, casual, confident, intelligent, privileged and possess a sense of humor.

Refer to the Financial Summary in ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS of this Annual Report on Form 10-K for information regarding net sales and other financial and operational data by brand.

In-Store Experience and Store Operations.

The Company views the customer s in-store experience as the primary vehicle for communicating the spirit of each brand. The Company emphasizes the senses of sight, sound, smell, touch and energy by utilizing visual presentation of merchandise, in-store marketing, music, fragrances, rich fabrics and its sales associates to reinforce the aspirational lifestyles represented by the brands.

The Company s in-store marketing is designed to convey the principal elements and personality of each brand. The store design, furniture, fixtures and music are all carefully planned and coordinated to create a shopping experience that reflects the Abercrombie & Fitch, abercrombie kids, Hollister or Gilly Hicks lifestyle.

The Company s sales associates and managers are a central element in creating the atmosphere of the stores. In addition to providing a high level of customer service, sales associates and managers reflect the casual, energetic and aspirational attitude of the brands.

Every brand displays merchandise uniformly to ensure a consistent store experience, regardless of location. Store managers receive detailed plans designating fixture and merchandise placement to ensure

coordinated execution of the Company-wide merchandising strategy. In addition, standardization of each brand s store design and merchandise presentation enables the Company to open new stores efficiently.

At the end of Fiscal 2009, the Company operated 1,096 stores. The following table details the number of retail stores operated by the Company for the past two fiscal years:

	Abercrombie & Fitch	**abercrombie kids**	**Hollister**	**Gilly Hicks**	**Total**
Fiscal 2008					
Beginning of Year	359	201	450	3	1,013
New	2	12	66	11	91
Remodels/Conversions (net activity as of year-end)	2	1			3
Closed	(7)	(2)	(1)		(10)
End of Year	356	212	515	14	1,097
Fiscal 2009					
Beginning of Year	356	212	515	14	1,097
New	2	5	14	2	23
Remodels/Conversions (net activity as of year-end)					
Closed	(12)	(8)	(4)		(24)
End of Year	346	209	525	16	1,096

At the end of Fiscal 2009, the Company operated 340 Abercrombie & Fitch stores, 205 abercrombie kids stores, 507 Hollister stores and 16 Gilly Hicks stores domestically. The Company also operated six Abercrombie & Fitch stores, four abercrombie kids stores and 18 Hollister stores internationally. At the end of Fiscal 2008, the Company operated 352 Abercrombie & Fitch stores, 210 abercrombie kids stores, 507 Hollister stores and 14 Gilly Hicks stores domestically. The Company also operated four Abercrombie & Fitch stores, two abercrombie kids stores and eight Hollister stores internationally.

Direct-to-Consumer Business.

During Fiscal 2009, the Company operated, and continues to operate a number of websites, including: www.abercrombie.com; www.abercrombiekids.com; www.hollisterco.com; and www.gillyhicks.com. Products offered at individual stores can be purchased through the respective websites. Each of the four websites reinforces the particular brand s lifestyle and is designed to complement the in-store experience. Aggregate total net sales through direct-to-consumer operations, including shipping and handling revenue, was $290.1 million for Fiscal 2009, representing 9.9% of total net sales. The Company believes its direct-to-consumer operations have broadened its market and brand recognition worldwide.

Marketing and Advertising.

The Company considers the in-store experience to be its main form of marketing. The Company emphasizes the senses to reinforce the aspirational lifestyles represented by the brands. The Company s flagship stores represent the pinnacle of the Company s in-store branding efforts. The Company also engages its customers through social media and mobile commerce in ways that reinforce the aspirational lifestyle of the brands. Flagship stores and social media both attract a substantial number of international consumers, and have significantly contributed to the Company s worldwide status as an iconic brand.

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Merchandise Suppliers.

During Fiscal 2009, the Company purchased merchandise from approximately 209 vendors located throughout the world; primarily in Asia and Central and South America. In Fiscal 2009, the Company did not source more than 5% of its merchandise from any single factory or supplier. The Company pursues a global sourcing strategy that includes relationships with vendors in 37 countries and the United States (the U.S.). The Company s foreign purchases of merchandise are negotiated and settled in U.S. dollars.

All product sources, including independent manufacturers and suppliers, must achieve and maintain the Company s high quality standards, which are an integral part of the Company s identity. The Company has established supplier product quality standards to ensure the high quality of fabrics and other materials used in the Company s products. The Company utilizes both home office and field employees to help monitor compliance with the Company s product quality standards.

Distribution and Merchandise Inventory.

A majority of the Company s merchandise and related materials is shipped to the Company s two distribution centers (DCs) in New Albany, Ohio where they are received and inspected. The Company also uses a third-party DC in the Netherlands for the distribution of merchandise to stores located in Europe and Asia. The Company uses primarily one contract carrier to ship merchandise and related materials to its North American stores and all direct-to-consumer customers, and a separate contract carrier for its European and Asian stores.

The Company maintains sufficient quantities of inventory on hand in its retail stores and DCs to offer customers a full selection of current merchandise. The Company attempts to balance in-stock levels and inventory turnover, and to take markdowns when required to keep merchandise fresh and current with fashion trends.

Information Systems.

The Company s management information systems consist of a full range of retail, financial and merchandising systems. The systems include applications related to point-of-sale, inventory management, supply chain, planning, sourcing, merchandising and financial reporting. The Company continues to invest in technology to upgrade core systems to make the Company scalable, efficient and more accurate in the production and delivery of merchandise to stores, including to support its international roll-out.

Seasonal Business.

The retail apparel market 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 the Back-to-School (August) and Holiday (November and December) selling periods.

Trademarks.

The Abercrombie & Fitch®, abercrombie®, Hollister Co.®, Gilly Hicks® and Gilly Hicks Sydney® trademarks have been registered with the U.S. Patent and Trademark Office and the registries of countries where stores are located or likely to be located in the future. These trademarks are either registered, or have applications for registration pending with the registries of many of the foreign countries in which the

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manufacturers of the Company s products are located. The Company has also registered, or has applied to register, certain other trademarks in the U.S. and around the world. The Company believes that its products are identified by its trademarks and, therefore, its trademarks are of significant value. Each registered trademark has a duration of ten to 20 years, depending on the date it was registered and the country in which it is registered, and is subject to an infinite number of renewals for a like period upon continued use and appropriate application. The Company intends to continue using its core trademarks and to renew each of its registered trademarks that remain in use.

Financial Information about Segments.

The Company determines its operating segments on the same basis that it uses to evaluate performance internally. The operating segments identified by the Company are Abercrombie & Fitch, abercrombie kids, Hollister and Gilly Hicks. The 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. Refer to Note 1, *Basis of Presentation* of Notes to Consolidated Financial Statements for further discussion, including the break-out of geographic information for net sales and long-lived assets.

Other Information.

Additional information about the Company s business, including its revenues and profits for the last three fiscal years and gross square footage of stores, is set forth under ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS of this Annual Report on Form 10-K.

Competition.

The sale of apparel and personal care products through brick-and-mortar stores and direct-to-consumer channels is a highly competitive business with numerous participants, including individual and chain fashion specialty stores, as well as regional and national department stores. As the Company continues expanding internationally, it also faces competition in European, Asian and other international markets from established regional and national chains, as well as specialty stores. Brand recognition, fashion, price, service, store location, selection and quality are the principal competitive factors in retail store and direct-to-consumer sales.

The competitive challenges facing the Company include anticipating and quickly responding to changing fashion trends; and maintaining the aspirational positioning of its brands so it can sustain its premium pricing position. Furthermore, the Company faces additional competitive challenges as many retailers continue promotional activities as a result of economic conditions. In response to these conditions, the Company has increased its promotional activity while continuing to focus on preserving the value of its brands.

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Associate Relations.

As of March 19, 2010, the Company employed approximately 80,000 associates, only 855 of whom were party to a collective bargaining agreement in Italy. Approximately 71,000 of these associates were part-time employees.

On average, including employees from RUEHL operations, the Company employed approximately 19,000 full-time equivalents during Fiscal 2009 which included approximately 10,000 full-time equivalents comprised of part-time employees, including temporary associates hired during peak periods, such as the Back-to-School and Holiday seasons.

The Company believes it maintains a good relationship with its associates. However, in the normal course of business, the Company is party to lawsuits involving former and current associates. Refer to ITEM 3. LEGAL PROCEEDINGS in this Annual Report on Form 10-K.

Environmental Matters.

Compliance with federal, state and local regulations related to environmental matters has not had, nor is it expected to have, any material effect on capital expenditures, earnings or competitive position based on information and circumstances known to us at this time.

ITEM 1A. *RISK FACTORS.*

Forward-Looking Statements And Risk Factors.

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 Annual Report on Form 10-K or made by the Company, its management or spokespeople involve risks and uncertainties and are subject to change based on various factors, many of which may be beyond the Company s control. Words such as estimate, project, plan, believe, expect, antici intend and similar expressions may identify forward-looking statements. Except as may be required by applicable law, the Company assumes no obligation to publicly update or revise its forward-looking statements.

The following factors could affect the Company s financial performance and could cause actual results to differ materially from those expressed or implied in any of the forward-looking statements:

effects of general economic and financial conditions which impact consumer behavior and spending and may exacerbate some of the risks noted below including consumer demand, strain on available resources, international growth strategy, store growth, interruption of the flow of merchandise from key vendors and manufacturers and foreign currency exchange rate fluctuations;

changes in consumer spending patterns and consumer preferences, including changes as a result of instability in economic conditions, which could affect the reputation and appeal of the Company s brands;

the impact of competition and pricing pressures;

inability to achieve acceptable operating profits from the execution of the Company s international expansion as a result of many factors, including the inability to successfully penetrate new markets and the potential strain on resources caused by the expansion;

effects of changes in credit and lending market conditions;

loss of services of skilled senior executive officers and/or inadequate succession planning for key positions;

ability to hire, train and retain qualified associates;

ability to develop innovative, high-quality new merchandise in response to changing fashion trends;

availability and market prices of key raw materials;

interruption of the flow of merchandise from key vendors and manufacturers and the flow of merchandise to and from distributors;

ability of manufacturers to comply with applicable laws and regulations and ethical business practices;

availability of suitable store locations under appropriate terms;

currency and exchange risks and changes in existing or potential duties, tariffs or quotas;

effects of political and economic events and conditions domestically, and in foreign jurisdictions in which the Company operates, including, but not limited to, acts of terrorism or war;

unseasonable weather conditions affecting consumer preferences;

disruptive weather conditions affecting consumers ability to shop;

effect of litigation or adversary proceeding exposure potentially exceeding expectations; and

potential disruption of the Company s business due to the occurrence of, or fear of, a health pandemic.

The following sets forth a description of certain risk factors that the Company believes may be relevant to an understanding of the Company and its business. These risk factors, in addition to the factors set forth above, could cause actual results to differ materially from those expressed or implied in any of the Company s forward-looking statements.

General Economic and Financial Conditions Could Have a Material Adverse Effect on the Company s Business, Results of Operations and Liquidity.

Consumer purchases of discretionary items, including the Company s merchandise, generally decline during recessionary periods and other periods where disposable income is adversely affected. The Company s performance is subject to factors that affect worldwide economic conditions including employment, consumer debt, reductions in net worth based on declines in the financial, residential real estate and mortgage markets, taxation, fuel and energy prices, interest rates, consumer confidence, value of the U.S. dollar versus foreign currencies and other macroeconomic factors. Over the past several years, the combination of these factors has caused consumer spending to deteriorate significantly and may cause levels of spending to remain depressed for the foreseeable future. These factors may cause consumers to purchase products from lower priced competitors or to defer purchases of apparel and personal care products altogether.

The economic uncertainty could have a material effect on the Company s results of operations and its liquidity and capital resources. It could also impact the Company s ability to fund its growth and/or result in the Company becoming reliant on external financing, the availability of which may be uncertain.

In addition, the economic environment may exacerbate some of the risks noted below, including consumer demand, strain on available resources, international growth strategy, store growth, interruption of the flow of merchandise from key vendors and manufacturers, and foreign exchange rate fluctuations. The risks could be exacerbated individually or collectively.

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The Loss of the Services of Skilled Senior Executive Officers Could Have a Material Adverse Effect on the Company s Business.

The Company s senior executive officers closely supervise all aspects of its business in particular, the design of its merchandise and the operation of its stores. The Company s senior executive officers have substantial experience and expertise in the retail business and have made significant contributions to the growth and success of the Company s brands. If the Company were to lose the benefit of their involvement, in particular the services of any one or more of Michael S. Jeffries, Chairman and Chief Executive Officer, Diane Chang, Executive Vice President Sourcing, Leslee K. Herro, Executive Vice President Planning and Allocation, Jonathan E. Ramsden, Executive Vice President and Chief Financial Officer and David S. Cupps, Senior Vice President, General Counsel and Secretary, its business could be adversely affected. Competition for such senior executive officers is intense, and the Company cannot be sure it will be able to attract, retain and develop a sufficient number of qualified senior executive officers in future periods.

Equity-Based Compensation Awarded Under the Employment Agreement with the Company s Chief Executive Officer Could Adversely Impact the Company s Cash Flows, Financial Position or Results of Operations and Could Have a Dilutive Effect on the Company s Outstanding Common Stock.

Under the Employment Agreement, entered into as of December 19, 2008, between the Company and Michael S. Jeffries, the Company s Chairman and Chief Executive Officer (the Jeffries Employment Agreement), Mr. Jeffries received grants (the Retention Grants) of stock appreciation rights. In addition to the Retention Grants, Mr. Jeffries is also eligible to receive two equity-based grants during each fiscal year of the term of the Jeffries Employment Agreement starting with Fiscal 2009 (the Semi-Annual Grant). If a Semi-Annual Grant is earned, it will be awarded within 75 days following the end of the Company s second quarter or fiscal year, as applicable, subject to Mr. Jeffries continuous employment with the Company (and, with respect to the final Semi-Annual Grant, continued service on the Company s Board of Directors) through the applicable grant date. The value of the Semi-Annual Grants are uncertain and dependent on future market price of the Company s Common Stock and the financial performance of the Company.

In connection with the Semi-Annual Grants contemplated by the Jeffries Employment Agreement, the related compensation expense could significantly impact the Company s results of operations. Further, the significant number of shares of Common Stock which could be issued upon exercise and/or vesting of the Retention Grant and the Semi-Annual Grants is uncertain and dependent on the future market price of the Company s Common Stock and the financial performance of the Company, and would, if issued, have a dilutive effect with respect to the Company s outstanding shares of Common Stock, which may adversely affect the market price of the Company s Common Stock. Depending on the number of shares of Common Stock which could be issued under the Retention Grant and Semi-Annual Grants, the Company may deem it necessary or appropriate to seek shareholder approval of additional long-term incentive compensation plans in order to be able to settle the awards in Common Stock.

In the event that there are not sufficient shares of Common Stock available to be issued under the Company s 2007 Long-Term Incentive Plan (the 2007 LTIP), or under a successor or replacement plan at the time these equity-based awards are ultimately settled, the Company will be required to settle some portion of the awards in cash, which could have an adverse impact on the Company s cash flow from operations, financial position, results of operations. Furthermore, the awards may not be deductible pursuant to Internal Revenue Code Section 162(m). In addition, under applicable accounting rules, if the Company s stock price increases to a point where, as of any measurement date, the Company would be unable to settle outstanding equity-based awards in shares of Common Stock from its existing plans, the Company will be required to

classify and account for all or a portion of the equity-based awards as liabilities. This could further adversely impact the Company s results of operations.

The Failure to Anticipate, Identify and Respond to Changing Consumer Preferences and Fashion Trends in a Timely Manner Could Cause the Company s Profitability to Decline.

The Company s success largely depends on its ability to anticipate and gauge the fashion preferences of its customers and provide merchandise that satisfies constantly shifting demands in a timely manner. The merchandise must appeal to each brand s corresponding target market of consumers whose preferences cannot be predicted with certainty and are subject to rapid change. Because the Company enters into agreements for the manufacture and purchase of merchandise well in advance of the applicable selling season, it is vulnerable to changes in consumer preference and demand, pricing shifts, and the sub-optimal selection and timing of merchandise purchases. There can be no assurance that the Company will continue to anticipate consumer demands successfully in the future. To the extent that the Company fails to anticipate, identify and respond effectively to changing consumer preferences and fashion trends, its sales will be adversely affected. Inventory levels for certain merchandise styles no longer considered to be on trend may increase, leading to higher markdowns to reduce excess inventory or increases in inventory valuation reserves. A distressed economic and retail environment, in which many of the Company s competitors are engaging in aggressive promotional activities, increases the importance of reacting appropriately to changing consumer preferences and fashion trends. Each of these could have a material adverse effect on the Company s financial condition or results of operations.

The Company s Market Share may be Adversely Impacted at any Time by a Significant Number of Competitors.

The sale of apparel and personal care products through brick-and-mortar stores and direct-to-consumer channels is a highly competitive business with numerous participants, including individual and chain fashion specialty stores, as well as regional and national department stores. The Company faces a variety of competitive challenges, including:

- maintaining favorable brand recognition and effectively marketing its products to consumers in several diverse demographic markets;
- sourcing merchandise efficiently; and
- countering the aggressive promotional activities of many of the Company s competitors without diminishing the aspirational nature of the Company s brands and brand equity.

There can be no assurance that the Company will be able to compete successfully in the future.

The Company s International Expansion Plan is Dependent on a Number of Factors, any of Which Could Delay or Prevent Successful Penetration into New Markets and Strain its Resources.

As the Company expands internationally, it may incur significant costs related to starting up and maintaining foreign operations. Costs may include, but are not limited to, obtaining prime locations for stores, setting up foreign offices and DCs, as well as hiring experienced management. The Company may be unable to open and operate new stores successfully, and its growth will be limited, unless it can:

- identify suitable markets and sites for store locations;
- negotiate acceptable lease terms;

- hire, train and retain competent store personnel;
- gain acceptance from foreign customers;
- foster current relationships and develop new relationships with vendors that are capable of supplying a greater volume of merchandise;
- manage inventory effectively to meet the needs of new and existing stores on a timely basis;
- expand infrastructure to accommodate growth;
- generate sufficient operating cash flows or secure adequate capital on commercially reasonable terms to fund its expansion plan;
- manage foreign currency exchange risks effectively; and
- achieve acceptable operating margins from new stores.

In addition, the Company s international expansion plan will place increased demands on its operational, managerial and administrative resources. These increased demands may cause the Company to operate its business less efficiently, which in turn could cause deterioration in the performance of its existing stores. Furthermore, the Company s ability to conduct business in international markets may be affected by legal, regulatory, political and economic risks. The Company s international expansion strategy and success could also be adversely impacted by the global economy.

The Company s Growth Strategy Relies on the Addition of New Stores, Which May Strain the Company s Resources and Adversely Impact Current Store Performance.

The Company s growth strategy largely depends on the opening of new stores, particularly internationally; and remodeling existing stores in a timely manner and operating them profitably. Additional factors required for successful implementation of the Company s growth strategy include, but are not limited to: obtaining desirable prime store locations; negotiating acceptable leases; completing projects on budget; supplying proper levels of merchandise; and successfully hiring and training store managers and sales associates. Additionally, the Company s growth strategy may place increased demands on the Company s operational, managerial and administrative resources, which could cause the Company to operate less efficiently. Furthermore, there is a possibility new stores opening in existing markets may have an adverse effect on previously existing stores in such markets. Failure to properly implement the Company s growth strategy could have a material adverse effect on the Company s financial condition or results of operations.

The Company May Incur Costs Related to Store Closures.

The Company may incur costs associated with store closures resulting from, among other things, lease termination agreements associated with closing stores prior to the store s lease expiration date. These costs could be significant and could have a material adverse effect on the Company s financial condition or results of operations.

The Interruption of the Flow of Merchandise from Key Vendors and International Manufacturers Could Disrupt the Company s Supply Chain.

The Company purchases the majority of its merchandise outside of the U.S. through arrangements with approximately 209 vendors which include 305 foreign manufacturers located throughout the world, primarily

in Asia and Central and South America. In addition, many of the Company s domestic manufacturers maintain production facilities overseas. Political, social or economic instability in Asia, Central or South America, or in other regions in which the Company s manufacturers are located, could cause disruptions in trade, including exports to the U.S. Other events that could also cause disruptions to exports to the U.S. include:

- the imposition of additional trade law provisions or regulations;
- the imposition of additional duties, tariffs and other charges on imports and exports;
- quotas imposed by bilateral textile agreements;
- foreign currency fluctuations;
- restrictions on the transfer of funds;
- the potential of manufacturer financial instability, inability to access needed liquidity or bankruptcy; and
- significant labor disputes, such as dock strikes.

In addition, the Company cannot predict whether the countries in which its merchandise is manufactured, or may be manufactured in the future, will be subject to new or additional trade restrictions imposed by the U.S. or other foreign governments, including the likelihood, type or effect of any such restrictions. Trade restrictions, including new or increased tariffs or quotas, embargoes, safeguards and customs restrictions against apparel items, as well as U.S. or foreign labor strikes and work stoppages or boycotts, could increase the cost or reduce the supply of apparel available to the Company and adversely affect its business, financial condition or results of operations.

The Company Does not Own or Operate any Manufacturing Facilities and Therefore Depends Upon Independent Third Parties for the Manufacture of all its Merchandise.

The Company does not own or operate any manufacturing facilities. As a result, the continued success of the Company s operations is tied to its timely receipt of quality merchandise from third-party manufacturers. A manufacturer s inability to ship orders in a timely manner or meet the Company s quality standards could cause delays in responding to consumer demands and negatively affect consumer confidence in the quality and value of the Company s brands or negatively impact the Company s competitive position, all of which could have a material adverse effect on the Company s financial condition or results of operations. Furthermore, the Company is susceptible to increases in sourcing costs from manufacturers which the Company may not be able to pass on to the customer and could adversely affect the Company s financial condition or results of operations.

Additionally, while the Company utilizes third-party compliance auditors to visit and monitor the operations of the Company s manufacturers, the Company does not have control of the independent manufacturers or their labor practices. A violation of labor laws or other laws, including consumer and product safety laws, by the Company or its manufacturers, could adversely affect the Company s reputation and sales.

The Company s Reliance on Two Distribution Centers Domestically Located in the Same Vicinity, and One Distribution Center Internationally, Makes it Susceptible to Disruptions or Adverse Conditions Affecting its Distribution Centers.

The Company s two domestic DCs, located in New Albany, Ohio, manage the receipt, storage, sorting, packing and distribution of merchandise to its stores and direct-to-consumer customers, both regionally and internationally. The Company also uses a third-party DC in the Netherlands for the distribution of merchandise delivered to its stores located outside of North America. As a result, the Company s operations are susceptible to local and regional factors, such as system failures, accidents, economic and weather conditions, natural disasters, and demographic and population changes, as well as other unforeseen events and circumstances. If the Company s distribution operations were disrupted, its ability to replace inventory in its stores and process direct-to-consumer orders could be interrupted and sales could be negatively impacted.

The Company s Reliance on Third Parties to Deliver Merchandise from its Distribution Centers to its Stores and Direct-to-Consumer Customers Could Result in Disruptions to its Business.

The efficient operations of the Company s stores and direct-to-consumer operations depend on the timely receipt of merchandise from the Company s DCs. The Company delivers its merchandise to its stores and direct-to-consumer customers using independent third parties. The Company uses primarily one contract carrier for domestic store deliveries and all direct-to-consumer deliveries and a separate contract carrier for international store deliveries. The independent third parties employ personnel that may be represented by labor unions. Disruptions in the delivery of merchandise or work stoppages by employees or contractors of any of these third parties could delay the timely receipt of merchandise. There can be no assurance that such stoppages or disruptions will not occur in the future. Any failure by a third party to respond adequately to the Company s distribution needs would disrupt the Company s operations and could have a material adverse effect on its financial condition or results of operations. Furthermore, the Company is susceptible to increases in fuel costs which may increase the cost of distribution which the Company may not be able to pass onto the customer and could adversely affect the Company s financial condition or results of operations.

The Company s Development of New Brand Concepts Could Have a Material Adverse Effect on the Company s Financial Condition or Results of Operations.

Historically, the Company has internally developed and launched new brands that have contributed to sales growth. The Company s most recent brand is Gilly Hicks which offers bras, underwear, personal care products, sleepwear and at-home products for women. Brand concepts such as Gilly Hicks require management s focus and attention, as well as significant capital investments. Furthermore, a new brand concept is susceptible to risks that include lack of customer acceptance, competition from existing or new retailers, product differentiation, production and distribution inefficiencies and unanticipated operating issues. There is no assurance that a new brand concept, including Gilly Hicks, will achieve successful results. The failure of Gilly Hicks or another new brand concept to be successfully launched could have a material adverse effect on the Company s financial condition or results of operations. In addition, the ongoing development of new concepts may place a strain on available resources.

Fluctuations in Foreign Currency Exchange Rates Could Adversely Impact Financial Results.

The Company s international subsidiaries generally use local currencies as the functional currency, which includes Euros, Canadian Dollars, Japanese Yen, Hong Kong Dollars and British Pounds. The Company s Consolidated Financial Statements are presented in U.S. dollars (USD). 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 could impact the Company s financial results.

Furthermore, the Company purchases substantially all of its inventory in USD. Therefore, the Company s gross margin rate from international operations is subject to volatility from movements in exchange rates over time, which could have an adverse effect on the Company s financial condition or results of operations.

The Company s Net Sales and Inventory Levels Fluctuate on a Seasonal Basis, Causing its Results of Operations to be Particularly Susceptible to Changes in Back-to-School and Holiday Shopping Patterns.

Historically, the Company s operations have been seasonal, with a significant amount of net sales and net income occurring in the fourth fiscal quarter, due to the increased sales during the Holiday selling season and, to a lesser extent, the third fiscal quarter, reflecting increased sales during the Back-to-School selling season. The Company s net sales and net income during the first and second fiscal quarters are typically lower, due, in part, to the traditional slowdown in retail sales immediately following the Holiday season. As a result of this seasonality, net sales and net income during any fiscal quarter cannot be used as an accurate indicator of the Company s annual results. Any factors negatively affecting the Company during the third and fourth fiscal quarters of any year, including adverse weather or unfavorable economic conditions, could have a material adverse effect on its financial condition or results of operations for the entire year.

Furthermore, in order to prepare for the Back-to-School and Holiday selling seasons, the Company must order and keep significantly more merchandise in stock than it would carry during other parts of the year. Therefore, the inability to accurately plan for product demand and allocate merchandise effectively could have a material adverse effect on the Company s financial condition or results of operations. High inventory levels due to unanticipated decreases in demand for the Company s products during peak selling seasons, misidentification of fashion trends, or excess inventory purchases could require the Company to sell merchandise at a substantial markdown, which could reduce its net sales and gross margins and negatively impact its profitability. Low levels of inventory due to conservative planning could also affect product offering in the stores and affect net sales and negatively impact profitability.

The Company s Ability to Attract Customers to its Stores Depends Heavily on the Success of the Shopping Centers in Which They are Located.

In order to generate customer traffic, the Company locates many of its stores in prominent locations within successful shopping centers. The Company cannot control the development of new shopping centers; the availability or cost of appropriate locations within existing or new shopping centers; competition with other retailers for prominent locations; or the success of individual shopping centers. All of these factors may impact the Company s ability to meet its growth targets and could have a material adverse effect on its financial condition or results of operations.

Comparable Store Sales will Continue to Fluctuate on a Regular Basis.

The Company s comparable store sales, defined as year-over-year sales for a store that has been open as the same brand at least one year and the square footage of which has not been expanded or reduced by more than 20%, have fluctuated significantly in the past on an annual, quarterly and monthly basis and are expected

to continue to fluctuate in the future. During the past three fiscal years, comparable sales results have fluctuated as follows: (a) from (23)% to (1)% for annual results; (b) from (30)% to 1% for quarterly results; and (c) from (34%) to 8% for monthly results. The Company s comparable store sales were adversely affected by, among other factors, the economy and competitors promotional activities throughout Fiscal 2008 and Fiscal 2009. The Company believes that a variety of factors affect comparable store sales results including, but not limited to, fashion trends, actions by competitors, economic conditions, weather conditions, opening and/or closing of Company stores near each other, and the calendar shifts of tax free and holiday periods.

Comparable store sales fluctuations may impact the Company s ability to leverage fixed direct expenses, including store rent and store asset depreciation, which may adversely affect the Company s financial condition or results of operations.

In addition, comparable store sales fluctuations may have been an important factor in the volatility of the price of the Company s Class A Common Stock in the past, and it is likely that future comparable store sales fluctuations will contribute to stock price volatility in the future.

The Company s Net Sales are Affected by Direct-to-Consumer Sales.

The Company sells merchandise over the Internet through its websites: www.abercrombie.com; www.abercrombiekids.com; www.hollisterco.com; and www.gillyhicks.com. The Company s Internet operations may be affected by reliance on third-party hardware and software providers, technology changes, risks related to the failure of computer systems that operate the Internet business, telecommunications failures, electronic break-ins, security breaches and similar disruptions. Furthermore, the Company s ability to conduct business on the Internet may be affected by liability for on-line content and state, federal and international privacy laws. The Company s failure to successfully respond to these risks might adversely affect sales in the Company s Internet business, as well as damage the Company s reputation and brands.

The Company May be Exposed to Risks and Costs Associated with Credit Card Fraud and Identity Theft.

The Company collects certain customer data during the course of business, such as credit card information. The Company and other parties involved in processing customer transactions must be able to transmit confidential information, including credit card information, securely over public networks. Although the Company has security measures related to its systems and the privacy of its customers, the Company cannot guarantee these measures will effectively prevent a security breach of customer transaction data. A security breach could cause customers to lose confidence in the security of the Company s systems and could expose the Company to risks of data loss, litigation and liability and could seriously disrupt operations and harm the Company s reputation, any of which could adversely affect the Company s financial condition or results of operations.

In addition, states and federal government are enacting laws and regulations to protect consumers against identity theft. These laws will likely increase the costs of doing business and if the Company fails to implement appropriate security measures, the Company could be subject to potential claims for damages and other remedies, which could adversely affect the Company s business or results from operations.

The Company s Litigation Exposure Could Exceed Expectations, Having a Material Adverse Effect on the Company s Financial Condition or Results of Operations.

The Company is involved, from time-to-time, in litigation incidental to its business, such as litigation regarding overtime compensation and other employment related matters. Additionally, the Company is involved in several purported class action lawsuits and several shareholder derivative actions alleged to have arisen out of trading in the Company s Class A Common Stock in the summer of Fiscal 2005 (collectively, the Securities Matters, see ITEM 3. LEGAL PROCEEDINGS of this Annual Report on Form 10-K). Management is unable to assess the potential exposure of the aforesaid matters. The Company s current exposure could change in the event of the discovery of damaging facts with respect to legal matters pending against the Company or determinations by judges, juries or other finders of fact that are not in accordance with management s evaluation of the claims. Should management s evaluation prove incorrect, the Company s exposure could greatly exceed expectations and have a material adverse effect on the financial condition, results of operations, or cash flows of the Company.

The Company s Failure to Adequately Protect Its Trademarks Could Have a Negative Impact on Its Brand Image and Limit Its Ability to Penetrate New Markets.

The Company believes its trademarks, Abercrombie & Fitch®, abercrombie®, Hollister Co.®, Gilly Hicks®, Gilly Hicks Sydney® and the Moose, Seagull and Koala logos, are an essential element of the Company s strategy. The Company has obtained or applied for federal registration of these trademarks with the U.S. Patent and Trademark Office and the registries of countries where stores are located or likely to be located in the future. In addition, the Company owns registrations and pending applications for other trademarks in the U.S. and has applied for or obtained registrations from the registries in many foreign countries in which its manufacturers are located. There can be no assurance that the Company will obtain registrations that have been applied for or that the registrations the Company obtains will prevent the imitation of its products or infringement of its intellectual property rights by others. If any third party copies the Company s products in a manner that projects lesser quality or carries a negative connotation, the Company s brand image could be materially adversely affected.

Because the Company has not yet registered all of its trademarks in all categories, or in all foreign countries in which it sources or offers its merchandise now, or may in the future, its international expansion and its merchandising of products using these marks could be limited. For example, the Company cannot ensure that others will not try to block the manufacture, export or sale of its products as a violation of their trademarks or other proprietary rights. The pending applications for international registration of various trademarks could be challenged or rejected in those countries because third parties of whom the Company is not currently aware have already registered similar marks in those countries. Accordingly, it may be possible, in those foreign countries where the status of various applications is pending or unclear, for a third-party owner of the national trademark registration for a similar mark to prohibit the manufacture, sale or exportation of branded goods in or from that country. If the Company is unable to reach an arrangement with any such party, the Company s manufacturers may be unable to manufacture its products, and the Company may be unable to sell in those countries. The Company s inability to register its trademarks or purchase or license the right to use its trademarks or logos in these jurisdictions could limit its ability to obtain supplies from, or manufacture in, less costly markets or penetrate new markets should the Company s business plan include selling its merchandise in those non-U.S. jurisdictions.

The Company has an anti-counterfeiting program, under the auspices of the Abercrombie & Fitch Brand Protection Team, whose goal is to eliminate the supply of illegal pieces of the Company s products. The Brand

Protection Team interacts with investigators, customs officials and law enforcement entities throughout the world to combat the illegal use of the Company s trademarks. Although brand security initiatives are being taken, the Company cannot guarantee that its efforts against the counterfeiting of its brands will be successful.

The Company s Unsecured Credit Agreement Includes Financial and Other Covenants that Impose Restrictions on its Financial and Business Operations.

The Company s unsecured credit agreement expires on April 12, 2013 and market conditions could potentially impact the size and terms of a replacement facility.

In addition, the unsecured credit agreement contains financial covenants that require the Company to maintain a minimum coverage ratio and a maximum leverage ratio. If the Company fails to comply with the covenants and is unable to obtain a waiver or amendment, an event of default would result, and the lenders could declare outstanding borrowings immediately due and payable. If that should occur, the Company cannot guarantee that it would have sufficient liquidity at that time to repay or refinance borrowings under the unsecured credit agreement.

The inability to obtain credit on commercially reasonable terms, or a default under the current unsecured credit agreement, could adversely impact liquidity and results of operations.

Changes in Taxation Requirements Could Adversely Impact Financial Results.

The Company is subject to income tax in numerous jurisdictions, including international and domestic locations. In addition, the Company s products are subject to import and excise duties, and/or sales, consumption, or value-added taxes in many jurisdictions. Fluctuations in tax rates and duties could have a material adverse effect on the financial condition, results of operations, or cash flows of the Company.

The Company s Inability to Obtain Commercial Insurance at Acceptable Prices or Failure to Adequately Reserve for Self-Insured Exposures Might Increase Expenses and Adversely Impact Financial Results.

The Company believes that commercial insurance coverage is prudent for risk management in certain areas of the business. Insurance costs may increase substantially in the future and may be affected by natural catastrophes, fear of terrorism, financial irregularities and other fraud at publicly-held companies, intervention by the government and a decrease in the number of insurance carriers. In addition, for certain types or levels of risk, such as risks associated with earthquakes, hurricanes or terrorist attacks, the Company may determine that we cannot obtain commercial insurance at acceptable prices, if at all. Therefore, the Company may choose to forego or limit the purchase of relevant commercial insurance, choosing instead to self-insure one or more types of risk. The Company is primarily self-insured for workers compensation and employee health benefits. If the Company suffers a substantial loss that is not covered by commercial insurance or self-insurance reserves, the loss and attendant expenses could harm its business and operating results. In addition, exposures exist for which no insurance may be available and for which the Company has not reserved.

Modifications and/or Upgrades to Information Technology Systems may Disrupt Operations.

The Company regularly evaluates its information technology systems and requirements and is currently implementing modifications and/or upgrades to the information technology systems that support the business. Modifications include replacing legacy systems with successor systems, making changes to legacy systems, or acquiring new systems with new functionality. The Company is aware of inherent risks associated with

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replacing and modifying these systems, including inaccurate system information and system disruptions. The Company believes it is taking appropriate action to mitigate the risks through testing, training, and staging implementation, as well as securing appropriate commercial contracts with third-party vendors supplying such replacement technologies. Information technology system disruptions and inaccurate system information, if not anticipated and appropriately mitigated, could have a material adverse effect on the Company s financial condition or results of operations. Additionally, there is no assurance that a successfully implemented system will deliver value to the Company.

The Company Could Suffer if the Company s Computer Systems are Disrupted or Cease to Operate Effectively.

The Company relies heavily on its computer systems to record and process transactions and manage and operate the Company s operations. Given the significant number of transactions that are completed annually, it is vital to maintain constant operation of the computer hardware and software systems. Despite efforts to prevent such an occurrence, the Company s systems are vulnerable from time-to-time to damage or interruption from computer viruses, power outages, third party intrusions and other technical malfunctions. If the Company s systems are damaged or fail to function properly, the Company may have to make monetary investments to repair or replace the systems and the Company could endure delays in its operations. Any material interruption could have a material adverse effect on the Company s business or results of operations.

Changes in the Regulatory or Compliance Landscape Could Adversely Affect the Company s Business or Results of Operations.

Laws and regulations at the state, federal and international levels frequently change and the ultimate cost of compliance cannot be precisely estimated. Changes in regulations, the imposition of additional regulations, or the enactment of any new legislation including those related to health care, taxes, environmental issues, trade, product safety and employment labor, could adversely affect the Company s business or results of operations.

The Company s Operations may be Effected by Greenhouse Emissions and Climate Change.

The Company s operations may be effected by regulatory changes related to climate change and greenhouse gas emissions. The Company is uncertain how the United States and international economies will be affected by potential legislation and public reactions. As a result, the affect this could have on the Company s operations is currently unknown.

ITEM 1B. ***UNRESOLVED STAFF COMMENTS***

None.

ITEM 2. ***PROPERTIES.***

The Company s headquarters and support functions occupy 474 acres, consisting of the home office, distribution and shipping facilities centralized on a campus-like setting in New Albany, Ohio and an additional small distribution and shipping facility located in the Columbus, Ohio area, all of which are owned by the Company. Additionally, the Company leases small facilities to house its design and sourcing support centers in Hong Kong, New York City and Los Angeles, California, as well as offices in the United Kingdom and Switzerland for its European operations.

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All of the retail stores operated by the Company, as of March 19, 2010, are located in leased facilities, primarily in shopping centers in North America, Europe and Asia. The leases expire at various dates, between 2010 and 2028.

The Company s home office, distribution and shipping facilities, design support centers and stores are generally suitable and adequate.

As of March 19, 2010, the Company s 1,098 stores were located in North America, Europe and Asia as follows:

Alabama	13	Kentucky	14	North Dakota	2
Alaska	1	Louisiana	15	Ohio	40
Arizona	17	Maine	4	Oklahoma	10
Arkansas	7	Maryland	19	Oregon	14
California	133	Massachusetts	33	Pennsylvania	48
Colorado	12	Michigan	33	Rhode Island	4
Connecticut	22	Minnesota	22	South Carolina	15
Delaware	4	Mississippi	5	South Dakota	2
District of Columbia	1	Missouri	18	Tennessee	24
Florida	73	Montana	3	Texas	98
Georgia	25	Nebraska	5	Utah	7
Hawaii	4	Nevada	14	Vermont	2
Idaho	4	New Hampshire	11	Virginia	28
Illinois	48	New Jersey	41	Washington	24
Indiana	26	New Mexico	4	West Virginia	5
Iowa	8	New York	56	Wisconsin	16
Kansas	6	North Carolina	30		

Canada	12
United Kingdom	11
Germany	1
Italy	3
Japan	1

ITEM 3. *LEGAL PROCEEDINGS.*

A&F is a defendant in lawsuits and other adversary proceedings arising in the ordinary course of business.

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 seeks 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 are continuing to litigate the claims of that putative class.

On September 2, 2005, a purported class action, styled Robert Ross v. Abercrombie & Fitch Company, et al., was filed against A&F and certain of its officers in the United States District Court for the Southern District of Ohio on behalf of a purported class of all persons who purchased or acquired shares of A&F s Common Stock between June 2, 2005 and August 16, 2005. In September and October of 2005, five other purported class actions were subsequently filed against A&F and other defendants in the same Court. All six securities cases allege claims under the federal securities laws related to sales of Common Stock by certain defendants and to a decline in the price of A&F s Common Stock during the summer of 2005, allegedly as a result of misstatements attributable to A&F. Plaintiffs seek unspecified monetary damages. On November 1, 2005, a motion to consolidate all of these purported class actions into the first-filed case was filed by some of the plaintiffs. A&F joined in that motion. On March 22, 2006, the motions to consolidate were granted, and these actions (together with the federal court derivative cases described in the following paragraph) were consolidated for purposes of motion practice, discovery and pretrial proceedings. A consolidated amended securities class action complaint (the Complaint) was filed on August 14, 2006. On October 13, 2006, all defendants moved to dismiss that Complaint. On August 9, 2007, the Court denied the motions to dismiss. On September 14, 2007, defendants filed answers denying the material allegations of the Complaint and asserting affirmative defenses. On October 26, 2007, plaintiffs moved to certify their purported class. After briefing and argument, the motion was submitted on March 24, 2009, and granted on May 21, 2009. On June 5, 2009, defendants petitioned the Sixth Circuit for permission to appeal the class certification order and on August 24, 2009, the Sixth Circuit granted leave to appeal.

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 the same matters alleged in the Ross case and seeking equitable and monetary relief on behalf of A&F. In March of 2006, the federal court derivative actions were consolidated with the Ross actions for purposes of motion practice, discovery and pretrial proceedings. 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 lawsuit, 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. The state court has stayed further proceedings in the state-court derivative action until resolution of the consolidated federal derivative cases.

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

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ITEM 4. ***[Reserved]***

SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT.

Set forth below is certain information regarding the executive officers of A&F as of March 19, 2010:

Michael S. Jeffries, 65, has been Chairman of A&F since May 1998. Mr. Jeffries has been Chief Executive Officer of A&F since February 1992. From February 1992 to May 1998, Mr. Jeffries held the position of President of A&F. Under the terms of the Employment Agreement, entered into as of December 19, 2008, between A&F and Mr. Jeffries, A&F is obligated to cause Mr. Jeffries to be nominated as a director of A&F during his employment term.

Diane Chang, 54, has been Executive Vice President Sourcing of A&F since May 2004. Prior thereto, Ms. Chang held the position of Senior Vice President Sourcing of A&F from February 2000 to May 2004 and the position of Vice President Sourcing of A&F from May 1998 to February 2000.

Leslee K. Herro, 49, has been Executive Vice President Planning and Allocation of A&F since May 2004. Prior thereto, Ms. Herro held the position of Senior Vice President Planning and Allocation of A&F from February 2000 to May 2004 and the position of Vice President Planning & Allocation of A&F from February 1994 to February 2000.

Jonathan E. Ramsden, 45, joined A&F in December 2008 as Executive Vice President and Chief Financial Officer. From December 1998 to December 2008, Mr. Ramsden served as Chief Financial Officer and a member of the Executive Committee of TBWA Worldwide, a large advertising agency network and a division of Omnicom Group Inc. Prior to becoming Chief Financial Officer of TWBA Worldwide, he served as Controller and Principal Accounting Officer of Omnicom Group Inc. from June 1996 to December 1998.

David S. Cupps, 73, has been Senior Vice President, General Counsel and Secretary of A&F since April 2007. Prior thereto, he was a partner in the law firm of Vorys, Sater, Seymour and Pease LLP from January 1974 through December 2006 and Of Counsel to that law firm from January 2007 through March 2007.

The executive officers serve at the pleasure of the Board of Directors of A&F and, in the case of Mr. Jeffries, pursuant to an employment agreement.

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PART II

ITEM 5. *MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.*

A&F s Class A Common Stock (the Common Stock) is traded on the New York Stock Exchange under the symbol ANF. The table below sets forth the high and low sales prices of A&F s Common Stock on the New York Stock Exchange for Fiscal 2009 and Fiscal 2008:

	Sales Price	
	High	**Low**
Fiscal 2009		
4th Quarter	$ 42.31	$ 29.88
3rd Quarter	$ 37.80	$ 28.76
2nd Quarter	$ 32.83	$ 22.70
1st Quarter	$ 28.06	$ 16.95
Fiscal 2008		
4th Quarter	$ 29.97	$ 13.66
3rd Quarter	$ 56.74	$ 23.75
2nd Quarter	$ 77.25	$ 51.45
1st Quarter	$ 82.06	$ 69.55

A quarterly dividend, of $0.175 per share, was paid in March, June, September and December of Fiscal 2007, Fiscal 2008 and Fiscal 2009. A&F expects to continue to pay a dividend, subject to the Board of Directors review of the Company s cash position and results of operations.

As of March 19, 2010, there were approximately 4,413 stockholders of record. However, when including investors holding shares in broker accounts under street name, active associates of the Company who participate in A&F s stock purchase plan, and associates of the Company who own shares through A&F-sponsored retirement plans, A&F estimates that there are approximately 53,100 stockholders.

The following table provides information regarding the purchase of shares of the Common Stock of A&F made by or on behalf of A&F or any affiliated purchaser as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended, during each fiscal month of the quarterly period ended January 30, 2010:

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)**

November 1, 2009 November 28, 2009	1,838	$	40.36	11,346,900
November 29, 2009 January 2, 2010	2,375	$	39.85	11,346,900
January 3, 2010 January 30, 2010	1,322	$	34.71	11,346,900
Total	5,535	$	38.79	11,346,900

(1) Included in the total number of shares of A&F s Common Stock purchased during the quarterly period (thirteen-week period) ended January 30, 2010 were an aggregate of 5,535 shares which were withheld for tax payments due upon the vesting of employee restricted stock units and restricted stock awards.

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

(3) There were no shares purchased pursuant to A&F s publicly announced stock repurchase authorizations during the quarterly period (thirteen-week period) ended January 30, 2010. On August 16, 2005, A&F announced the August 15, 2005 authorization by A&F s Board of Directors to repurchase 6.0 million shares of A&F s Common Stock. 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, in addition to the approximately 2.0 million shares of A&F s Common Stock which remained available under the August 2005 authorization as of November 20, 2007.

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

A&F did not repurchase any shares of A&F s Common Stock in the open market during Fiscal 2009. During Fiscal 2008, A&F repurchased approximately 0.7 million shares of A&F s Common Stock in the open market with a value of approximately $50.0 million. During Fiscal 2007, A&F repurchased approximately 3.6 million shares of A&F s Common Stock in the open market with a value of approximately $287.9 million. Both the Fiscal 2008 and the Fiscal 2007 repurchases were pursuant to A&F Board of Directors authorizations.

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The following graph shows the changes, over the five-year period ended January 30, 2010 (the last day of A&F s 2009 fiscal year), in the value of $100 invested in (i) shares of A&F s Common Stock; (ii) the Standard & Poor s 500 Stock Index (the S&P 500 Index) and (iii) the Standard & Poor s Apparel Retail Composite Index (the S&P Apparel Retail Index), including reinvestment of dividends. The plotted points represent the closing price on the last day of the fiscal year indicated (and if such day was not a trading day, the closing price on the last day immediately preceding a trading day).

PERFORMANCE GRAPH[1]

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Abercrombie & Fitch Co., The S&P 500 Index
And The S&P Apparel Retail Index

* $100 invested on 1/29/05 in stock or 1/31/05 in index, including reinvestment of dividends.

Indexes calculated on month-end basis.

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[1] This graph shall not be deemed to be soliciting material or to be filed with the SEC or subject to SEC Regulation 14A or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), except to the extent that A&F specifically requests that the graph be treated as soliciting material or specifically incorporates it by reference into a filing under the Securities Act of 1933, as amended, or the Exchange Act.

ITEM 6. ***SELECTED FINANCIAL DATA.***

ABERCROMBIE & FITCH CO.
FINANCIAL SUMMARY

Summary of Operations

(Information below excludes amounts related to discontinued operations, except where otherwise noted)

	2009	2008	2007	2006(1)	2005
	(Thousands, except per share and per square foot amounts, ratios and store and associate data)				
Net Sales	$ 2,928,626	$ 3,484,058	$ 3,699,656	$ 3,284,176	$ 2,768,164
Gross Profit	$ 1,883,598	$ 2,331,095	$ 2,488,166	$ 2,200,668	$ 1,854,186
Operating Income	$ 117,912	$ 498,262	$ 778,909	$ 697,990	$ 577,817
Net Income from Continuing Operations	$ 78,953	$ 308,169	$ 499,127	$ 446,525	$ 355,382
Net Loss from Discontinued Operations (net of taxes)(2)	$ (78,699)	$ (35,914)	$ (23,430)	$ (24,339)	$ (21,398)
Net Income(2)	$ 254	$ 272,255	$ 475,697	$ 422,186	$ 333,984
Dividends Declared Per Share	$ 0.70	$ 0.70	$ 0.70	$ 0.70	$ 0.60
Net Income Per Share from Continuing Operations					
Basic	$ 0.90	$ 3.55	$ 5.72	$ 5.07	$ 4.08
Diluted	$ 0.89	$ 3.45	$ 5.45	$ 4.85	$ 3.90
Net Loss Per Share from Discontinued Operations (2)					
Basic	$ (0.90)	$ (0.41)	$ (0.27)	$ (0.28)	$ (0.25)
Diluted	$ (0.89)	$ (0.40)	$ (0.26)	$ (0.26)	$ (0.23)
Net Income Per Share (2)					
Basic	$ 0.00	$ 3.14	$ 5.45	$ 4.79	$ 3.83
Diluted	$ 0.00	$ 3.05	$ 5.20	$ 4.59	$ 3.66
Basic Weighted-Average Shares Outstanding	87,874	86,816	87,248	88,052	87,161
Diluted Weighted-Average Shares Outstanding	88,609	89,291	91,523	92,010	91,221
Other Financial Information					
Total Assets (including discontinued operations)	$ 2,821,866	$ 2,848,181	$ 2,567,598	$ 2,248,067	$ 1,789,718
Return on Average Assets(3)	0%	10%	20%	21%	21%
Working Capital(4)	$ 786,474	$ 622,213	$ 585,575	$ 571,089	$ 447,102

Current Ratio(5)	2.75	2.38	2.08	2.12	1.91
Net Cash Provided by Operating Activities(2)	$ 402,200	$ 490,836	$ 817,524	$ 582,171	$ 453,590
Capital Expenditures	$ 175,472	$ 367,602	$ 403,345	$ 403,476	$ 256,422
Long-Term Debt	$ 71,213	$ 100,000			
Shareholders Equity (including discontinued operations)	$ 1,827,917	$ 1,845,578	$ 1,618,313	$ 1,405,297	$ 995,117
Return on Average Shareholders Equity(6)	0%	16%	31%	35%	40%
Comparable Store Sales(7)	(23)%	(13)%	(1)%	1%	26%
Net Retail Sales Per Average Gross Square Foot	$ 339	$ 432	$ 503	$ 509	$ 474
Stores at End of Year and Average Associates					
Total Number of Stores Open	1,096	1,097	1,013	930	843
Gross Square Feet	7,848	7,760	7,133	6,563	5,956
Average Number of Associates(8)	83,000	96,200	94,600	80,100	69,100

(1) Fiscal 2006 was a fifty-three week year.

(2) Includes results of operations from RUEHL branded stores and related direct-to-consumer operations.

(3) Return on average assets is computed by dividing net income (including discontinued operations) by the average asset balance (including discontinued operations).

(4) Working capital is computed by subtracting current liabilities (including discontinued operations) from current assets (including discontinued operations).

(5) Current Ratio is computed by dividing current assets (including discontinued operations) by current liabilities (including discontinued operations).

(6) Return on Average Shareholders Equity is computed by dividing net income (including discontinued operations) by the average shareholders equity balance (including discontinued operations).

(7) A store is included in comparable store sales when it has been open as the same brand at least one year and its square footage has not been expanded or reduced by more than 20% within the past year. Note that Fiscal 2006 comparable store sales are compared to store sales for the comparable fifty-three weeks ended February 4, 2006.

(8) Includes employees from RUEHL operations.

ITEM 7. *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, typically resulting in a fifty-two week year, but occasionally giving rise to an additional week, resulting in a fifty-three week year. A store is included in comparable store sales when it has been open as the same brand at least one year and its square footage has not been expanded or reduced by more than 20% within the past year.

For purposes of this ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, the fifty-two week period ended January 30, 2010 is compared to the fifty-two week period ended January 31, 2009. Fiscal 2009 comparable store sales compare the fifty-two week period ended January 30, 2010 to the fifty-two week period ended January 31, 2009. Fiscal 2008 comparable store sales compare the fifty-two week period ended January 31, 2009 to the fifty-two week period ended February 2, 2008. For Fiscal 2007, the fifty-two week period ended February 2, 2008 is compared to the fifty-three week period ended February 3, 2007.

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 determination to take this action was based on a comprehensive review and evaluation of the performance of the RUEHL branded stores and related direct-to-consumer operations, as well as the related real estate portfolio. 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 Net Loss from Discontinued Operations on the Consolidated Statements of Operations and Comprehensive Income for all periods presented.

The Company had net sales of $2.929 billion for the fifty-two weeks ended January 30, 2010, down 15.9% from $3.484 billion for the fifty-two weeks ended January 31, 2009. Operating income for Fiscal 2009 was $117.9 million, which was down from $498.3 million in Fiscal 2008. Net income from continuing operations was $79.0 million and net income per diluted share from continuing operations was $0.89 in Fiscal 2009, compared to net income from

continuing operations of $308.2 million and net income per diluted share from continuing operations of $3.45 in Fiscal 2008. Net income per diluted share from continuing operations

included non-cash, store-related asset impairment charges of $0.23 and $0.06 for Fiscal 2009 and Fiscal 2008, respectively.

Net loss from discontinued operations was $78.7 million in Fiscal 2009 and net loss per diluted share from discontinued operations was $0.89 in Fiscal 2009, compared to net loss from discontinued operations of $35.9 million and net loss per diluted share from discontinued operations of $0.40 in Fiscal 2008. Net loss from discontinued operations included an after-tax charge of $34.2 million, or $0.39 per diluted share, associated with the closure of the RUEHL business in Fiscal 2009, and after-tax charges of $31.4 million, or $0.35 per diluted share, and $13.6 million, or $0.15 per diluted share, associated with the impairment of Ruehl-related store assets for Fiscal 2009 and Fiscal 2008, respectively.

Net income was $0.3 million and net income per diluted share was $0.00 in Fiscal 2009, compared to net income of $272.3 million and net income per diluted share of $3.05 in Fiscal 2008.

Excluding net loss from discontinued operations and non-cash impairment charges, the Company reported non-GAAP net income per diluted share of $1.12 for Fiscal 2009 compared to non-GAAP net income per diluted share of $3.51 for Fiscal 2008. The Company believes that this non-GAAP financial measure is useful to investors as it provides the ability to measure the Company s operating performance and compare it against that of prior periods without reference to the Consolidated Statements of Operations and Comprehensive Income, impact of Net Loss from Discontinued Operations and non-cash, store related asset impairment charges. This non-GAAP financial measure should not be used as an alternative to net income per diluted share as an indicator of the ongoing operating performance of the Company and is also not intended to supersede or replace the Company s GAAP financial measures. The table below reconciles the GAAP financial measures to the non-GAAP financial measures discussed above.

	Fifty-Two Weeks Ended			
	January 30, 2010		January 31, 2009	
Net income per diluted share on a GAAP basis	$	0.00	$	3.05
Plus: Net loss from discontinued operations(1)	$	0.89	$	0.40
Plus: Non-cash, store-related asset impairment charges(2)	$	0.23	$	0.06
Net income per diluted share on a non-GAAP basis	$	1.12	$	3.51

(1) Net loss from discontinued operations for the fiscal year includes the operating results, exit charges and non-cash impairment charges associated with RUEHL branded stores and related direct-to-consumer operations, as summarized in Note 14, *Discontinued Operations* of the Consolidated Financial Statements.

(2) The non-cash, store-related asset impairment charges relate to stores whose asset carrying value exceeded the fair value. For Fiscal 2009 the charge was associated with 34 Abercrombie & Fitch, 46 abercrombie kids and 19 Hollister stores. For Fiscal 2008 the charge was associated with 11 Abercrombie & Fitch, six abercrombie kids and three Hollister stores.

Net cash provided by operating activities, the Company s primary source of liquidity, was $402.2 million for Fiscal 2009. This source of cash was primarily driven by results from operations adjusted for non-cash items including depreciation and amortization and impairment charges. The Company used $175.5 million of cash for capital

expenditures and had proceeds from the sale of marketable securities of $77.5 million during Fiscal 2009. During Fiscal 2009, the Company repaid U.S. dollar denominated borrowings of $100.0 million

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under the unsecured Amended Credit Agreement and separately drew down approximately $48.0 million in borrowings denominated in Japanese Yen, used to fund international lease and capital expenditure commitments. The Company also paid dividends totaling $61.5 million during Fiscal 2009. As of January 30, 2010, the Company had $680.1 million in cash and equivalents, and outstanding debt and letters of credit of $100.9 million.

The following data represents the Company s Consolidated Statements of Operations for the last three fiscal years, expressed as a percentage of net sales:

	2009	2008	2007
NET SALES	100.0%	100.0%	100.0%
Cost of Goods Sold	35.7	33.1	32.7
GROSS PROFIT	64.3	66.9	67.3
Stores and Distribution Expense	48.7	41.2	36.3
Marketing, General and Administrative Expense	12.1	11.6	10.2
Other Operating Income, Net	(0.5)	(0.3)	(0.3)
OPERATING INCOME	4.0	14.3	21.1
Interest Income, Net	(0.1)	(0.3)	(0.5)
Income from Continuing Operations before Income Taxes	4.1	14.6	21.6
Income Tax Expense from Continuing Operations	1.4	5.8	8.1
Net Income from Continuing Operations	2.7	8.8	13.5
Net Loss from Discontinued Operations	(2.7)	(1.0)	(0.6)
NET INCOME	0.0%	7.8%	12.9%

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FINANCIAL SUMMARY

The following summarized financial and statistical data compares Fiscal 2009 to Fiscal 2008 and Fiscal 2008 to Fiscal 2007:

	2009	2008	2007
Net sales by brand (thousands)	**$ 2,928,626**	**$ 3,484,058**	**$ 3,699,656**
Abercrombie & Fitch	$ 1,272,287	$ 1,531,480	$ 1,638,929
abercrombie kids	$ 343,164	$ 420,518	$ 471,045
Hollister	$ 1,287,241	$ 1,514,204	$ 1,589,452
Gilly Hicks**	$ 25,934	$ 17,856	$ 230
Increase (decrease) in net sales from prior year	**(16)%**	**(6)%**	**13%**
Abercrombie & Fitch	(17)%	(7)%	8%
abercrombie kids	(18)%	(11)%	16%
Hollister	(15)%	(5)%	17%
Gilly Hicks**	45%	NM	NM
Decrease in comparable store sales*	**(23)%**	**(13)%**	**(1)%**
Abercrombie & Fitch	(19)%	(8)%	0%
abercrombie kids	(23)%	(19)%	0%
Hollister	(27)%	(17)%	(2)%
Net retail sales increase attributable to new and remodeled stores, and websites	7%	7%	14%
Net retail sales per average store (thousands)	**$ 2,412**	**$ 3,041**	**$ 3,546**
Abercrombie & Fitch	$ 3,193	$ 3,878	$ 4,073
abercrombie kids	$ 1,453	$ 1,823	$ 2,230
Hollister	$ 2,299	$ 2,962	$ 3,550
Net retail sales per average gross square foot	**$ 339**	**$ 432**	**$ 503**
Abercrombie & Fitch	$ 359	$ 438	$ 463
abercrombie kids	$ 313	$ 397	$ 493
Hollister	$ 338	$ 442	$ 531
Change in transactions per average retail store	**(14)%**	**(16)%**	**(2)%**
Abercrombie & Fitch	(14)%	(11)%	(2)%
abercrombie	(14)%	(20)%	(2)%
Hollister	(16)%	(18)%	(4)%
Change in average retail transaction value	**(7)%**	**2%**	**1%**
Abercrombie & Fitch	(4)%	5%	5%
abercrombie	(7)%	1%	1%
Hollister	(8)%	1%	(1)%
Change in average units per retail transaction	**0%**	**0%**	**2%**
Abercrombie & Fitch	(2)%	0%	3%
abercrombie	(1)%	(2)%	2%
Hollister	0%	(1)%	2%
Change in average unit retail sold	**(7)%**	**2%**	**(1)%**
Abercrombie & Fitch	(2)%	5%	2%
abercrombie	(7)%	3%	0%
Hollister	(8)%	1%	(2)%

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

** Net sales for the fifty-two week periods ended January 30, 2010, January 31, 2009 and February 2, 2008 reflect the activity of 16, 14 and three stores, respectively. In Fiscal 2007, all three stores opened in January 2008. Operational data was deemed immaterial for inclusion in the table above.

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CURRENT TRENDS AND OUTLOOK

While 2009 was a challenging year for the Company, it was one in which the Company believes it made significant progress in laying the foundations for future success. The Company continues to work hard to improve the performance of its domestic business while continuing to be pleased with the progress of its international rollout strategy.

The Company s objective in Fiscal 2010 and subsequent years is to increase its operating margin back towards historical levels, which the Company believes will require a combination of the following factors.

First, returning gross margin to historic levels. The Company believes the factors in achieving this will be optimizing its average unit retails, achieving further reductions in average unit cost, and benefiting from international operations with higher gross margins. In the short-term there may be further erosion of the gross profit rate, to the extent that the Company believes that further reduction in average unit retail can enable the Company to improve productivity levels.

Second, improvements in domestic productivity levels and the closure of negative contribution stores. The Company is in the process of reviewing negative contribution stores and, to the extent it does not foresee a recovery for applicable stores, plans to address these stores through a combination of natural lease expirations, rent relief negotiations with landlords and, potentially early closures of certain underperforming stores.

Third, the Company continues with its plan for accelerated international openings in Fiscal 2010, and will potentially accelerate further beyond that to achieve profitable international growth. In Fiscal 2010, the Company remains on track to open Abercrombie & Fitch flagship stores in Fukuoka and Copenhagen. Going forward, the format of flagship stores is likely to be a combination of the original flagship model and a smaller store format similar to the template being used in Copenhagen. The Company currently plans to open approximately 30 international mall-based Hollister stores, including in two or more new countries, in 2010. The Hollister openings will predominantly be in the third, and particularly the fourth quarters.

The Company is also focusing significant attention on improving the productivity of its Gilly Hicks brand, which the Company believes is a necessary precursor to expanding the store count for the brand and having a path to profitability.

Finally, the Company will continue to maintain tight control over expenses and to seek greater efficiencies in its operations.

In Fiscal 2010, the Company will continue to concentrate on protecting the brands, while seeking to drive improvement in its domestic business, and continue its international growth.

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The following measurements are among the key business indicators reviewed by various members of management to gauge the Company s results:

Comparable store sales by brand, by product, and by store, defined as year-over-year sales for a store that has been open as the same brand at least one year and its square footage has not been expanded or reduced by more than 20% within the past year;

Direct-to-consumer sales growth;

International and flagship store performance;

Store productivity;

Initial Mark Up (IMU);

Markdown rate;

Gross profit rate;

Selling margin, defined as sales price less original cost, by brand and by product category;

Stores and distribution expense as a percentage of net sales;

Marketing, general and administrative expense as a percentage of net sales;

Operating income and operating income as a percentage of net sales;

Net income;

Inventory per gross square foot;

Cash flow and liquidity determined by the Company s current ratio and cash provided by operations; and

Store metrics such as sales per gross square foot, sales per selling square foot, average unit retail, average number of transactions per store, average transaction values, store contribution (defined as store sales less direct costs of running the store), and average units per transaction.

While not all of these metrics are disclosed publicly by the Company due to the proprietary nature of the information, the Company publicly discloses and discusses many of these metrics as part of its Financial Summary and in several sections within this Management s Discussion and Analysis of Financial Condition and Results of Operations.

FISCAL 2009 COMPARED TO FISCAL 2008

Net Sales

Net sales for Fiscal 2009 were $2.929 billion, a decrease of 15.9% from Fiscal 2008 net sales of $3.484 billion. The net sales decrease was attributed primarily to a 23% decrease in comparable store sales and a 5.6% decrease in net direct-to-consumer sales, including shipping and handling revenue.

Comparable store sales by brand for Fiscal 2009 were as follows: Abercrombie & Fitch decreased 19% with men s decreasing by a low double-digit and women s decreasing by a mid twenty; abercrombie kids decreased 23% with boys decreasing by a mid teen and girls decreasing by a mid twenty; and Hollister decreased 27% with dudes decreasing by a high teen and bettys decreasing by a low thirty.

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On a regional basis for Fiscal 2009, comparable store sales were down in all U.S. regions and Canada. Comparable store sales were positive in the United Kingdom.

For Fiscal 2009, across all brands, the masculine categories continued to out-pace the feminine categories. From a merchandise classification standpoint, across all brands, for the male business, fragrance and sweaters were stronger performing categories, while knit tops and graphic tees were the weaker performing categories. For the female business, woven shirts and dresses were stronger performing categories, while sweaters and knit tops were weaker categories.

Direct-to-consumer net merchandise sales in Fiscal 2009 were $249.4 million, a decrease of 5.6% from Fiscal 2008 net merchandise sales of $264.3 million. Shipping and handling revenue was $40.7 million in Fiscal 2009 and $42.9 million in Fiscal 2008. The direct-to-consumer business, including shipping and handling revenue, accounted for 9.9% of total net sales in Fiscal 2009 compared to 8.8% of total net sales in Fiscal 2008.

Gross Profit

Gross profit during Fiscal 2009 decreased to $1.884 billion from $2.331 billion in Fiscal 2008. The gross profit rate (gross profit divided by net sales) for Fiscal 2009 was 64.3% versus 66.9% the previous year, a decrease of 260 basis points. The decrease in the gross profit rate was primarily driven by a lower average unit retail, partially offset by a reduction in average unit cost.

Stores and Distribution Expense

Stores and distribution expense for Fiscal 2009 was $1.426 billion compared to $1.436 billion in Fiscal 2008. For Fiscal 2009, the stores and distribution expense rate (stores and distribution expense divided by net sales) was 48.7% compared to 41.2% for Fiscal 2008. For the fifty-two weeks ended January 30, 2010 and January 31, 2009, stores and distribution expense included non-cash, pre-tax asset impairment charges related to 99 stores of $33.2 million, or 1.1% of net sales, and non-cash, pre-tax asset impairment charges related to 20 stores of $8.3 million, or 0.2% of net sales, respectively. Excluding the effect of impairment charges, the increase in the stores and distribution expense rate was primarily attributable to higher store occupancy costs, including rent, depreciation and other occupancy costs.

Marketing, General and Administrative Expense

Marketing, general and administrative expense for Fiscal 2009 decreased 12.8% to $353.3 million compared to $405.2 million in Fiscal 2008. The decrease in expense was related to reductions in employee compensation and benefits, travel, and outside services. The marketing, general and administrative expense rate (marketing, general and administrative expense divided by net sales) was 12.1% for Fiscal 2009, an increase of 50 basis points compared to 11.6% for Fiscal 2008.

Other Operating Income, Net

Other operating income for Fiscal 2009 was $13.5 million compared to $8.8 million for Fiscal 2008. The increase was primarily driven by gains on foreign currency transactions for Fiscal 2009 compared to losses on foreign currency transactions for Fiscal 2008, as well as an increase in income related to gift cards for which the Company has determined the likelihood of redemption to be remote. In Fiscal 2009, other operating income also included a $9.2 million reduction of other-than-temporary impairments related to the Company s trading auction rate securities, partially offset by a reduction of the related put option of $7.7 million as

compared to an other-than-temporary impairment of $14.0 million related to the Company s trading auction rate securities, offset by a gain on the related put option of $12.3 million in Fiscal 2008.

Interest Income, Net and Income Tax Expense

Fiscal 2009 interest income was $8.2 million, offset by interest expense of $6.6 million compared to interest income of $14.8 million, offset by interest expense of $3.4 million for Fiscal 2008. The decrease in interest income was due primarily to a lower average rate of return on investments. The increase in interest expense was due primarily to imputed interest expense related to certain store lease transactions.

The income tax expense rate for continuing operations for Fiscal 2009 was 33.9% compared to 39.5% for Fiscal 2008. The Fiscal 2009 rate benefited from foreign operations. Additionally, Fiscal 2008 included a $9.9 million charge related to the execution of the Chairman and Chief Executive Officer s new employment agreement, which resulted in certain non-deductible amounts pursuant to Section 162(m) of the Internal Revenue Code.

Net Loss 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 appear in Net Loss from Discontinued Operations on the Consolidated Statements of Operations and Comprehensive Income for all fiscal years presented. Net loss from discontinued operations, net of tax, was $78.7 million and $35.9 million for Fiscal 2009 and Fiscal 2008, respectively. Net loss from discontinued operations includes after-tax charges of $34.2 million associated with the closure of the RUEHL business for 2009, and after-tax charges of $31.4 million and $13.6 million associated with the impairment of RUEHL-related store assets for Fiscal 2009 and Fiscal 2008, respectively.

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 Fiscal 2009 was $0.3 million compared to $272.3 million for Fiscal 2008. Net income per diluted share was $0.00 in Fiscal 2009 versus $3.05 in Fiscal 2008. Net income per diluted share included $0.89 of net loss per diluted share from discontinued operations and an after-tax charge of approximately $0.23 per diluted share associated with the impairment of store-related assets for Fiscal 2009 and $0.40 of net loss per diluted share from discontinued operations and an after-tax charge of approximately $0.06 per diluted share associated with the impairment of store-related assets for Fiscal 2008.

FISCAL 2008 COMPARED TO FISCAL 2007

Net Sales

Net sales for Fiscal 2008 were $3.484 billion, a decrease of 5.8% from Fiscal 2007 net sales of $3.700 billion. The net sales decrease was attributed primarily to the 13% decrease in comparable store sales, partially offset by a net addition of 84 stores and a 3.1% increase in direct-to-consumer business, including shipping and handling revenue.

For Fiscal 2008, comparable store sales by brand were as follows: Abercrombie & Fitch decreased 8%; abercrombie kids decreased 19%; and Hollister decreased 17%.

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On a regional basis for Fiscal 2008, comparable store sales were down in all U.S. regions and Canada. Comparable store sales were stronger in the flagship stores, particularly in the United Kingdom.

Direct-to-consumer net merchandise sales in Fiscal 2008 were $264.3 million, an increase of 2.1% over Fiscal 2007 net merchandise sales of $258.8 million. Shipping and handling revenue was $42.9 million in Fiscal 2008 and $39.1 million in Fiscal 2007. The direct-to-consumer business, including shipping and handling revenue, accounted for 8.8% of total net sales in Fiscal 2008 compared to 8.1% of total net sales in Fiscal 2007.

Gross Profit

Gross profit for Fiscal 2008 decreased to $2.331 billion from $2.488 billion in Fiscal 2007. The gross profit rate for Fiscal 2008 was 66.9% versus 67.2% the previous year, a decrease of 30 basis points. The decrease in gross profit rate was attributable to a higher IMU rate being more than offset by an increase in markdown rate versus Fiscal 2007. The higher markdown rate resulted from the need to clear through seasonal merchandise as a result of declining sales and the Company s limited ability to reduce fourth quarter of Fiscal 2008 deliveries.

Stores and Distribution Expense

Stores and distribution expense for Fiscal 2008 was $1.436 billion compared to $1.344 billion for Fiscal 2007. For Fiscal 2008, the stores and distribution expense rate was 41.2% compared to 36.3% for Fiscal 2007. The increase in rate resulted primarily from the Company s limited ability to leverage fixed expenses due to negative comparable store sales. Additionally, stores and distribution expense in Fiscal 2008 also included additional direct expenses related to flagship pre-o