

ABERCROMBIE & FITCH CO /DE/

Form 10-Q

September 07, 2011

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

FORM 10-Q

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

For the quarterly period ended July 30, 2011

OR

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

For the transition period from _____ to _____

Commission File Number 1-12107

ABERCROMBIE & FITCH CO.

(Exact name of Registrant as specified in its charter)

Delaware

31-1469076

(State or other jurisdiction of incorporation or organization)

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

6301 Fitch Path, New Albany, Ohio 43054

(Address of principal executive offices) (Zip Code)

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

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(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 Exchange Act). Yes No

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

Class A Common Stock

Outstanding at September 2, 2011

\$.01 Par Value

86,940,167 Shares

ABERCROMBIE & FITCH CO.
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ITEM 1. FINANCIAL STATEMENTSABERCROMBIE & FITCH CO.
CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME
(Thousands, except share and per share amounts)
(Unaudited)

| | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|--|----------------------|---------------|------------------------|---------------|
| | July 30, | July 31, 2010 | July 30, | July 31, 2010 |
| | 2011 | | 2011 | |
| NET SALES | \$ 916,763 | \$ 745,798 | \$ 1,753,437 | \$ 1,433,602 |
| Cost of Goods Sold | 333,721 | 260,450 | 626,734 | 516,838 |
| GROSS PROFIT | 583,042 | 485,348 | 1,126,703 | 916,764 |
| Stores and Distribution Expense | 425,325 | 364,482 | 824,426 | 718,892 |
| Marketing, General and Administrative Expense | 109,999 | 95,206 | 217,650 | 191,838 |
| Other Operating Expense (Income), Net | 544 | (1,900) | (1,292) | (2,814) |
| OPERATING INCOME | 47,174 | 27,560 | 85,919 | 8,848 |
| Interest Expense, Net | 985 | 807 | 1,935 | 1,632 |
| INCOME FROM CONTINUING OPERATIONS BEFORE TAXES | 46,189 | 26,753 | 83,984 | 7,216 |
| Tax Expense (Benefit) from Continuing Operations | 14,158 | 7,274 | 27,608 | (435) |
| NET INCOME FROM CONTINUING OPERATIONS | \$ 32,031 | \$ 19,479 | \$ 56,376 | \$ 7,651 |
| INCOME FROM DISCONTINUED OPERATIONS, Net of Tax | \$ | \$ | \$ 796 | \$ |
| NET INCOME | \$ 32,031 | \$ 19,479 | \$ 57,172 | \$ 7,651 |
| NET INCOME PER SHARE FROM CONTINUING OPERATIONS: | | | | |
| BASIC | \$ 0.37 | \$ 0.22 | \$ 0.65 | \$ 0.09 |
| DILUTED | \$ 0.35 | \$ 0.22 | \$ 0.62 | \$ 0.09 |
| NET INCOME PER SHARE FROM DISCONTINUED OPERATIONS: | | | | |
| BASIC | \$ | \$ | \$ 0.01 | \$ |
| DILUTED | \$ | \$ | \$ 0.01 | \$ |
| NET INCOME PER SHARE: | | | | |
| BASIC | \$ 0.37 | \$ 0.22 | \$ 0.66 | \$ 0.09 |

| | | | | |
|--|------------|-----------|-----------|------------|
| DILUTED | \$ 0.35 | \$ 0.22 | \$ 0.63 | \$ 0.09 |
| WEIGHTED-AVERAGE SHARES OUTSTANDING: | | | | |
| BASIC | 87,267 | 88,220 | 87,274 | 88,157 |
| DILUTED | 90,353 | 89,386 | 90,397 | 89,561 |
| DIVIDENDS DECLARED PER SHARE | \$ 0.175 | \$ 0.175 | \$ 0.35 | \$ 0.35 |
| OTHER COMPREHENSIVE INCOME | | | | |
| Foreign Currency Translation Adjustments | \$ (1,982) | \$ 2,448 | \$ 16,504 | \$ (2,235) |
| Gain on Marketable Securities, net of taxes of \$(566) and \$(2,128) for the thirteen-week periods ended July 30, 2011 and July 31, 2010, respectively, and \$(957) and \$(1,965) for the twenty-six week periods ended July 30, 2011 and July 31, 2010, respectively | 965 | 3,624 | 1,630 | 3,346 |
| Unrealized gain (loss) on derivative financial instruments, net of taxes of \$(1,644) and \$397 for the thirteen-week periods ended July 30, 2011 and July 31, 2010, respectively and \$263 and \$(324) for the twenty-six week periods ended July 30, 2011 and July 31, 2010 | 2,799 | (676) | (447) | 553 |
| Other Comprehensive Income | \$ 1,782 | \$ 5,396 | \$ 17,687 | \$ 1,664 |
| COMPREHENSIVE INCOME | \$ 33,813 | \$ 24,875 | \$ 74,859 | \$ 9,315 |

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

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

| | July 30, 2011 | January 29, 2011 |
|--|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and Equivalents | \$ 539,613 | \$ 826,353 |
| Receivables | 96,863 | 81,264 |
| Inventories | 516,128 | 385,857 |
| Deferred Income Taxes | 47,884 | 60,405 |
| Other Current Assets | 96,967 | 79,389 |
| TOTAL CURRENT ASSETS | 1,297,455 | 1,433,268 |
| PROPERTY AND EQUIPMENT, NET | 1,196,585 | 1,144,940 |
| NON-CURRENT MARKETABLE SECURITIES | 101,923 | 100,534 |
| OTHER ASSETS | 330,084 | 269,160 |
| TOTAL ASSETS | \$ 2,926,047 | \$ 2,947,902 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts Payable | \$ 221,004 | \$ 137,235 |
| Accrued Expenses | 300,648 | 306,587 |
| Deferred Lease Credits | 42,244 | 41,538 |
| Income Taxes Payable | 16,951 | 73,491 |
| TOTAL CURRENT LIABILITIES | 580,847 | 558,851 |
| LONG-TERM LIABILITIES: | | |
| Deferred Income Taxes | 23,519 | 33,515 |
| Deferred Lease Credits | 194,586 | 192,619 |
| Long-Term Debt | 26,288 | 68,566 |
| Other Liabilities | 213,937 | 203,567 |
| TOTAL LONG-TERM LIABILITIES | 458,330 | 498,267 |
| STOCKHOLDERS EQUITY: | | |
| Class A Common Stock \$0.01 par value: 150,000 shares authorized and 103,300 shares issued at each of July 30, 2011 and January 29, 2011 | 1,033 | 1,033 |
| Paid-In Capital | 347,101 | 349,258 |

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| | | |
|--|--------------|--------------|
| Retained Earnings | 2,294,867 | 2,272,317 |
| Accumulated Other Comprehensive Income (Loss), net of tax | 11,171 | (6,516) |
| Treasury Stock, at Average Cost 16,334 and 16,054 shares at July 30, 2011 and January 29, 2011, respectively | (767,302) | (725,308) |
| TOTAL STOCKHOLDERS EQUITY | 1,886,870 | 1,890,784 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 2,926,047 | \$ 2,947,902 |

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

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

| | Twenty-Six Weeks Ended | |
|--|------------------------|-----------------|
| | July 30, 2011 | July 31, 2010 |
| OPERATING ACTIVITIES: | | |
| Net Income | \$ 57,172 | \$ 7,651 |
| Impact of Other Operating Activities on Cash Flows: | | |
| Depreciation and Amortization | 116,397 | 112,403 |
| Loss on Disposal / Write-off of Assets | 3,156 | 1,835 |
| Amortization of Deferred Lease Credits | (21,609) | (23,173) |
| Share-Based Compensation | 24,396 | 19,919 |
| Tax Benefit (Deficiency) from Share-Based Compensation | 2,939 | (2,236) |
| Deferred Taxes | 1,802 | (12,784) |
| Lessor Construction Allowances | 19,244 | 18,227 |
| Non-Cash Charge for Asset Impairment | | 2,247 |
| Changes in Assets and Liabilities: | | |
| Inventories | (129,142) | (169,453) |
| Accounts Payable and Accrued Expenses | 38,682 | 33,628 |
| Income Taxes | (56,488) | 22,233 |
| Other Assets and Liabilities | (57,110) | (49,361) |
| NET CASH USED FOR OPERATING ACTIVITIES | (561) | (38,864) |
| INVESTING ACTIVITIES: | | |
| Capital Expenditures | (133,022) | (59,754) |
| Purchase of Trust-Owned Life Insurance Policies | | (11,583) |
| Proceeds from Sales of Marketable Securities | 1,375 | 63,567 |
| Other Investing | (19,757) | |
| NET CASH USED FOR INVESTING ACTIVITIES | (151,404) | (7,770) |
| FINANCING ACTIVITIES: | | |
| Proceeds from Share-Based Compensation | 25,066 | 494 |
| Purchase of Treasury Stock | (89,868) | |
| Repayments of Borrowings Under the Credit Agreement | (45,002) | |
| Change in Outstanding Checks and Other | 1,629 | (6,302) |
| Dividends Paid | (30,633) | (30,836) |
| NET CASH USED FOR FINANCING ACTIVITIES | (138,808) | (36,644) |
| EFFECT OF EXCHANGE RATES ON CASH | 4,033 | (344) |

| | | |
|--|------------|----------|
| NET DECREASE IN CASH AND EQUIVALENTS: | (286,740) | (83,622) |
| Cash and Equivalents, Beginning of Period | 826,353 | 680,113 |
| | | |
| CASH AND EQUIVALENTS, END OF PERIOD | \$ 539,613 | 596,491 |
| | | |
| SIGNIFICANT NON-CASH INVESTING ACTIVITIES: | | |
| Change in Accrual for Construction in Progress | \$ 22,997 | 13,512 |

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

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ABERCROMBIE & FITCH CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

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

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

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

The Consolidated Financial Statements as of July 30, 2011 and for the thirteen and twenty-six week periods ended July 30, 2011 and July 31, 2010 are unaudited and are presented pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, these Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto contained in A&F s Annual Report on Form 10-K for Fiscal 2010 filed on March 29, 2011. The January 29, 2011 consolidated balance sheet data were derived from audited consolidated financial statements, but do not include all disclosures required by accounting principles generally accepted in the United States of America (U.S. GAAP).

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

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

The Consolidated Financial Statements as of July 30, 2011 and for the thirteen and twenty-six week periods ended July 30, 2011 and July 31, 2010 included herein have been reviewed by PricewaterhouseCoopers LLP, an independent registered public accounting firm, and the report of such firm follows the notes to the consolidated financial statements.

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

2. SEGMENT REPORTING

The Company determines its operating segments on the same basis that it uses to evaluate performance internally. Operating segments have been aggregated and are reported as one reportable segment because they have similar economic characteristics and meet the required aggregation criteria. The Company believes its operating segments may be aggregated for financial reporting purposes because they are similar in each of the following areas: class of consumer, economic characteristics, nature of products, nature of production processes, and distribution methods.

Table of Contents*Geographic Information*

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

Net Sales:

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

| (in thousands): | Thirteen Weeks Ended | | Twenty-Six Weeks Ended | |
|-----------------|----------------------|---------------|------------------------|---------------|
| | July 30, 2011 | July 31, 2010 | July 30, 2011 | July 31, 2010 |
| United States | \$ 684,892 | \$ 612,588 | \$ 1,325,841 | \$ 1,181,379 |
| Europe | 182,432 | 88,452 | 334,864 | 168,099 |
| Other | 49,439 | 44,758 | 92,732 | 84,124 |
| Total | \$ 916,763 | \$ 745,798 | \$ 1,753,437 | \$ 1,433,602 |

Long-Lived Assets:

| (in thousands): | July 30, 2011 | January 29, 2011 |
|-----------------|---------------|------------------|
| United States | \$ 914,393 | \$ 959,777 |
| Europe | 253,482 | 169,313 |
| Other | 151,054 | 127,741 |
| Total | \$ 1,318,929 | \$ 1,256,831 |

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

3. SHARE-BASED COMPENSATION*Financial Statement Impact*

The Company recognized share-based compensation expense of \$13.5 million and \$24.4 million for the thirteen and twenty-six week periods ended July 30, 2011, respectively, and \$10.4 million and \$19.9 million for the thirteen and twenty-six week periods ended July 31, 2010, respectively. The Company also recognized \$5.1 million and \$9.2 million in tax benefits related to share-based compensation expense for the thirteen and twenty-six week periods ended July 30, 2011, respectively, and \$3.8 million and \$7.1 million for the thirteen and twenty-six week periods ended July 31, 2010, respectively.

The fair value of share-based compensation awards is recognized as compensation expense on a straight-line basis over the awards' requisite service period, net of forfeitures. For awards that are expected to result in a tax deduction, a deferred tax asset is recorded in the period in which share-based compensation expense is recognized. If the tax deduction, which arises upon the vesting of restricted stock units or the exercise of stock options/stock appreciation rights, which is principally measured at the award's intrinsic value, is greater than the recorded deferred tax asset, the tax benefit associated with any excess deduction is considered a windfall tax benefit and is recognized as additional paid-in capital. If the tax deduction is less than the recorded deferred tax asset, the resulting difference, or shortfall, is first charged first to additional paid-in capital, to the extent of the pool of windfall tax benefits, with any remainder recognized as tax expense. The amount of the Company's pool of windfall tax benefits was approximately \$83.8 million as of July 30, 2011, which is sufficient to fully absorb any shortfall which may develop associated with awards currently outstanding.

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The Company adjusts share-based compensation expense on a quarterly basis for actual forfeitures and for changes to the estimate of expected award forfeitures. The effect of adjusting the forfeiture rate is recognized in the period the forfeiture estimate is changed. The effect of adjustments for forfeitures during the twenty-six weeks ended July 30, 2011 was an expense of \$1.5 million. The effect of adjustments for forfeitures during the twenty-six weeks ended July 31, 2010 was income of \$3.2 million.

Pursuant to an employment agreement, the Chairman and Chief Executive Officer (CEO) is eligible to receive semi-annual grants, as defined in the agreement. The semi-annual grants vest in equal annual installments over the four year period following the grant date, with the condition that each award becomes fully vested no later than February 1, 2014, except for the final semi-annual grant, which will become fully vested on the date of the grant. A&F issues shares of Common Stock from treasury stock upon exercise of stock options and stock appreciation rights and vesting of restricted stock units. As of July 30, 2011, A&F had sufficient treasury stock available to settle stock options, stock appreciation rights and restricted stock units outstanding. Settlement of stock awards in Common Stock also requires that the Company has sufficient shares available in stockholder-approved plans at the applicable time. In the event, at any reporting date during which share-based compensation awards remain outstanding, there are not sufficient shares of Common Stock available to be issued under the 2005 Long-Term Incentive Plan (the 2005 LTIP) and the Amended and Restated 2007 Long-Term Incentive Plan (the Amended and Restated 2007 LTIP), or under a successor or replacement plan, the Company may be required to designate some portion of the outstanding awards to be settled in cash, which would result in liability classification of such awards.

Plans

As of July 30, 2011, A&F had two primary share-based compensation plans: the 2005 LTIP, under which A&F grants stock options, stock appreciation rights and restricted stock units to associates of the Company and non-associate members of the A&F Board of Directors, and the Amended and Restated 2007 LTIP, under which A&F grants stock options, stock appreciation rights and restricted stock units to associates of the Company. A&F also has four other share-based compensation plans under which it granted stock options and restricted stock units to associates of the Company and non-associate members of the A&F Board of Directors in prior years.

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

Table of Contents*Fair Value Estimates*

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

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

Stock Options

The Company did not grant any stock options during the twenty-six weeks ended July 30, 2011 or July 31, 2010.

Below is a summary of stock option activity for the twenty-six weeks ended July 30, 2011:

| | Number of Shares | Weighted- Average Exercise Price | Aggregate Intrinsic Value | Weighted-Average Remaining Contractual Life |
|---|---------------------|---|------------------------------|---|
| Stock Options Outstanding at January 29, 2011 | 2,316,648 | \$ 39.51 | | |
| Granted | | | | |
| Exercised | (776,328) | 32.22 | | |
| Forfeited or cancelled | (19,600) | 42.31 | | |
| Outstanding at July 30, 2011 | 1,520,720 | \$ 43.20 | \$ 47,009,327 | 2.8 |
| Stock options exercisable at July 30, 2011 | 1,427,670 | \$ 42.20 | \$ 45,328,427 | 2.5 |
| Stock options expected to become exercisable in the future as of July 30, 2011 | 88,757 | \$ 58.46 | \$ 1,602,972 | 6.9 |

The total intrinsic value of stock options exercised during the twenty-six weeks ended July 30, 2011 was \$27.0 million. The total intrinsic value of stock options exercised during the twenty-six weeks ended July 31, 2010 was immaterial.

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The grant date fair value of stock options vested during the twenty-six weeks ended July 30, 2011 and July 31, 2010 was \$2.3 million and \$3.7 million, respectively.

As of July 30, 2011, there was \$0.9 million of total unrecognized compensation cost, net of estimated forfeitures, related to stock options. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 0.4 years.

Stock Appreciation Rights

The weighted-average estimated fair value of stock appreciation rights granted during the twenty-six weeks ended July 30, 2011 and July 31, 2010, and the weighted-average assumptions used in calculating such fair value, on the date of grant, were as follows:

| | Twenty-Six Weeks Ended | | | | | |
|-------------------------|--------------------------------------|---------------|--------------------------|---------------|----------------------|---------------|
| | Chairman and Chief Executive Officer | | Other Executive Officers | | All Other Associates | |
| | July 30, 2011 | July 31, 2010 | July 30, 2011 | July 31, 2010 | July 30, 2011 | July 31, 2010 |
| Grant date market price | \$ 54.87 | \$ 44.86 | \$ 54.87 | \$ 44.86 | \$ 54.87 | \$ 44.86 |
| Exercise price | \$ 54.87 | \$ 44.86 | \$ 54.87 | \$ 44.86 | \$ 54.87 | \$ 44.86 |
| Fair value Assumpti | \$ 22.09 | \$ 16.96 | \$ 22.29 | \$ 16.99 | \$ 21.86 | \$ 16.68 |