ABERCROMBIE & FITCH CO /DE/
Form 10-K
March 30, 2007

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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 February 3, 2007

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, Inc.
Series A Participating Cumulative Preferred Stock Purchase Rights	New York Stock Exchange, Inc.

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 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Act. (Check one):

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange 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 as of July 29, 2006: $4,633,463,729.

Number of shares outstanding of the Registrant s common stock as of March 29, 2007: 87,691,478 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 13, 2007, 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 that was 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 selling casual apparel, such as knit shirts, graphic t-shirts, jeans, woven shirts and personal care and other accessories for men, women and kids under the Abercrombie & Fitch, abercrombie, Hollister and RUEHL brands. As of February 3, 2007, the Company operated 944 stores in the United States and Canada.

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 financial statements and notes by the calendar year in which the fiscal year commences. All references herein to Fiscal 2006 represent the results of the 53-week fiscal year ended February 3, 2007; to Fiscal 2005 represent the 52-week fiscal year ended January 28, 2006; and to Fiscal 2004 represent the 52-week fiscal year ended January 29, 2005. In addition, all references herein to Fiscal 2007 represent the 52-week fiscal year that will end on February 2, 2008.

The Company makes available free of charge on or through its web site, www.abercrombie.com, its annual reports on Form 10-K, annual meeting proxy statements, 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 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 an internet site that contains electronic filings at http://www.sec.gov. In addition, the public may read and copy any materials the Company files with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain the information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

The Company has included its web site addresses throughout this filing as textual references only. The information contained on these web sites is not incorporated into this Form 10-K.

Description of Operations.

Brands.

The Abercrombie & Fitch brand was established in 1892 and became well known as a supplier of rugged, high-quality outdoor gear. Famous for outfitting the safaris of Teddy Roosevelt and Ernest Hemingway and the expeditions of Admiral Byrd to the North and South Poles, Abercrombie & Fitch goods were renowned for their durability and dependability.

In 1992, a new management team began repositioning Abercrombie & Fitch as a fashion-oriented casual apparel business directed at 18 to 22 year-old male and female college students with a product assortment reflecting a youthful lifestyle based upon an East Coast heritage and Ivy League traditions. In reestablishing the Abercrombie & Fitch brand, the Company s goal was to combine its historical reputation for high quality with a new emphasis on casual American style and youthfulness.

In 1998, the Company launched abercrombie, a brand directed at seven to 14 year-old boys and girls, based on the traditions of Abercrombie & Fitch.

The Company launched its next brand, Hollister, in 2000. Hollister is a West Coast oriented lifestyle brand targeted at 14 to 18 year-old high school aged guys (dudes) and girls (bettys) that embodies the laid-back California surf lifestyle.
The RUEHL brand, targeted at 22 to 35 year-old men and women, was launched in 2004. RUEHL s product assortment is a mix of casual sportswear and trendy fashion created to appeal to the modern-minded, post-college customer. The RUEHL concept is inspired by New York City s Greenwich Village. The store appearance is based on a Greenwich Village townhouse and conveys an aura of sophistication through its creative use of interconnected rooms, fine furniture, lighting, vintage books, photography and music.
The Company s brands, Abercrombie & Fitch, abercrombie, Hollister and RUEHL, represent different American lifestyles and are targeted to appeal to the same type of customer through different stages of his or her life from elementary school through post-college. This is consistent with the Company s belief that trend transcends age.
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 utilizes visual presentation of merchandise, in-store marketing, music, fragrances 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, Hollister or RUEHL 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 uniform execution of the Company-wide merchandising strategy. Standardization of each brand s store design and merchandise presentation creates the opportunity for cost savings in store furnishings, maximizing the productivity of selling space, and enabling the Company to open new stores efficiently.

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At the end of Fiscal 2006, the Company operated 944 stores. The following table details the number of retail stores, operated by the Company for the past two fiscal years:

	Abercrombie & Fitch	abercrombie	Hollister	RUEHL	Total
Fiscal 2005					
Beginning of Year	357	171	256	4	788
New	15	5	57	4	81
Remodels/Conversions (net activity as of year-end)	(1)	(1)	6		4
Closed	(10)[(1)]	(11)	(1)[(1)]		(22)
End of Year	361	164	318	8	851
Fiscal 2006					
Beginning of Year	361	164	318	8	851
New	8	19	70	7	104
Remodels/Conversions (net activity as of year-end)	(2)[(2)]		5[(2)]	(1)[(3)]	2
Closed	(7)	(6)			(13)
End of Year	360	177	393	14	944

(1) Includes one Abercrombie & Fitch store and one Hollister store temporarily closed due to hurricane damage.

(2) Includes one Abercrombie & Fitch store and one Hollister store reopened after repair from hurricane damage.

(3) Includes one RUEHL store temporarily closed due to fire damage.

Direct-to-Consumer Business.

In 1998, the Company launched a web-based store for the Abercrombie & Fitch brand featuring lifestyle productions, such as *A&F Film*, located at its web site, www.abercrombie.com. The abercrombie brand introduced a lifestyle web-based store, www.abercrombiekids.com in 2000, and the Hollister lifestyle web-based store, www.hollisterco.com, was established in 2003. Products offered at individual stores can be purchased through the web sites. Each of the three web sites reinforces the particular brand s lifestyle and is designed to complement the in-store experience. The Company also distributes a direct mail catalogue for its Abercrombie & Fitch brand. Since the introduction of the web sites, aggregate merchandise net sales through the direct-to-consumer business have grown consistently year-over-year to $174.1 million (5.2% of net sales) in Fiscal 2006. The Company believes its web sites have broadened its market and brand recognition worldwide.

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Marketing and Advertising.

The Company considers the in-store experience to be its main form of marketing. Additionally, the Company produces a catalogue for Abercrombie & Fitch and advertises on billboards and in select national publications.

Merchandise Suppliers.

During Fiscal 2006, the Company purchased merchandise from approximately 258 factories and suppliers located throughout the world, primarily in Southeast Asia and Central and South America. In Fiscal 2006, the Company did not source more than 5% of its apparel 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. Any event causing a sudden disruption, either political or financial, in these sourcing operations could have a material adverse effect on the Company s operations. A substantial portion of the Company s foreign purchases of merchandise are negotiated and settled in U.S. dollars.

Distribution and Merchandise Inventory.

A substantial portion of the Company s merchandise and related materials are shipped to the Company s two distribution centers (DC) in New Albany, Ohio where it is received and inspected. Merchandise and related materials are then distributed to the Company s stores primarily using one contract carrier. Any event causing a sudden disruption in carrier operations could have a material adverse effect on the Company s operations.

The Company s policy is to maintain sufficient quantities of inventory on hand in its retail stores and DCs so that it can offer customers a full selection of current merchandise. The Company attempts to balance in-stock levels and inventory turnover and takes 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. In addition, the Company invests in best practice technologies that are expected to provide a clear competitive advantage.

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Seasonal Business.

The retail apparel market has two principal selling seasons, first and second fiscal quarters (Spring) and third and fourth fiscal quarters (Fall). As is generally the case in the apparel industry, the Company experiences its greatest sales activity during the Fall season. This seasonal sales pattern, in which approximately 40% of the Company s sales are realized in the Spring season and 60% in the Fall, results in increased inventory during the Back-to-School and Holiday selling periods. During Spring of Fiscal 2006, the highest level of inventory, approximately $434.3 million at cost, was reached at the end of July 2006 and the lowest level of inventory, approximately $330.5 million at cost, was reached at the end of May 2006. During Fall of Fiscal 2006, the highest level of inventory, approximately $445.8 million at cost, was reached at the end of November 2006 and the lowest level of inventory, approximately $390.7 million at cost, was reached at the end of September 2006.

Trademarks.

The Abercrombie & Fitch®, abercrombie®, Hollister Co.® and Ruehl No. 925® trademarks have been registered with the United States Patent and Trademark Office and the registries of countries where stores are located or may be located in the future. These trademarks are also either registered or have applications pending with the registries of many of the foreign countries in which its manufacturers are located. The Company has also registered or has applied to register certain other trademarks in the United States (U.S.) and around the world. The Company believes that its products are identified by its trademarks and, thus, 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 the use of each of its trademarks and to renew each of its registered trademarks.

Financial Information about Segments.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information,* the Company determined its operating segments on the same basis that it uses internally to evaluate performance. The operating segments identified by the Company, Abercrombie & Fitch, abercrombie, Hollister and RUEHL, have been aggregated and are reported as one reportable financial segment. The Company aggregates its operating segments because they meet the aggregation criteria set forth in paragraph 17 of SFAS No. 131. The Company believes its operating segments may be aggregated for financial reporting purposes because they are similar in each of the following areas: class of consumer, economic characteristics, nature of products, nature of production processes and distribution methods. Revenues relating to the Company s international sales in Fiscal 2006 were not material and are not reported separately from domestic revenues.

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 Management s Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report on Form 10-K.

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Competition.

The sale of apparel and personal care products through retail stores and direct-to-consumer channels is a highly competitive business with numerous participants, including individual and chain fashion specialty stores and department 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 that it can sustain its premium pricing position.

Associate Relations.

As of March 23, 2007, the Company employed approximately 86,400 associates, none of whom were party to a collective bargaining agreement. Approximately 77,900 of these associates were part-time employees, including temporary associates hired during peak periods, such as the Back-to-School and Holiday seasons.

On average, the Company employed approximately 22,000 full-time equivalents during Fiscal 2006, which includes approximately 14,000 full-time equivalents comprised of part-time employees. On average, during the non-peak periods the Company employed approximately 20,000 full-time equivalents during Fiscal 2006, which includes approximately 13,000 full-time equivalents comprised of part-time employees.

The Company believes its relationship with its associates is good. However, in the normal course of business, the Company is party to lawsuits involving its former and current associates. (See Item 3. Legal Proceedings.)

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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 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 its control. Words such as estimate, project, plan, believe, expect, anticipate, intend, and similar expressions may identify forward-looking statements. Except as may be required by applicable law, the Company assumes no obligation to publicly update or revise its forward-looking statements.

The 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:

- changes in consumer spending patterns and consumer preferences;
- the impact of competition and pricing pressures;
- disruptive weather conditions affecting consumers ability to shop;
- unseasonal weather conditions affecting consumer preferences;
- availability and market prices of key raw materials;
- ability of manufacturers to comply with applicable laws, regulations and ethical business practices;
- currency and exchange risks and changes in existing or potential duties, tariffs or quotas;
- availability of suitable store locations on appropriate terms;
- ability to develop innovative, high-quality new merchandise in response to changing fashion trends;
- loss of the services of skilled senior executive officers;
- ability to hire, train and retain qualified associates; and
- the 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.

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.

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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 its 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 and Michael W. Kramer, Executive Vice President and Chief Financial Officer, 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 and retain a sufficient number of qualified senior executive officers in future periods.

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 be able to continue to successfully anticipate consumer demands 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 and 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, which could have a material adverse effect on the Company s financial condition or results of operations.

Comparable Store Sales Will Fluctuate on a Regular Basis, Which in Turn May Cause Volatility in the Price of the Company s Common Stock.

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, the comparable sales results have fluctuated as follows: (a) from 2% to 26% for the annual results; (b) from (5%) to 30% for the quarterly results; and (c) from (9%) to 38% for the monthly results. 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, such as the opening of the New York City Flagship store, and calendar shifts of holiday periods. Comparable store sales fluctuations may have in the past been an important factor in the volatility of the price of the Company s common stock, and it is likely that future comparable store sales fluctuations will contribute to future stock volatility.

The Company s Market Share May Be Adversely Impacted at any Time by a Significant Number of Competitors.
The specialty retail industry is highly competitive. The Company competes primarily on brand differentiation. It competes against a diverse group of retailers, including national and local specialty retail stores, traditional department stores and mail-order retailers. The Company faces a variety of competitive challenges, including:

- maintaining favorable brand recognition and effectively marketing its products to consumers in several diverse market segments; and
- sourcing merchandise efficiently.

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

The Interruption of the Flow of Merchandise from Key International Manufacturers Could Disrupt the Company s Supply Chain.
The Company purchases the majority of its merchandise from outside the United States through arrangements with approximately 258 foreign manufacturers located throughout the world, primarily in Asia and Central and South America. In addition, many of its domestic manufacturers maintain production facilities overseas. Political, social or economic instability in Asia or 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 United States. Other events that could also cause disruptions to exports to the United States 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; and
- significant labor disputes, such as dock strikes.

Historically, a substantial portion of the merchandise the Company imports has been subject to quotas restricting the quantity of textile or apparel products that can be imported into the United States annually from a given country, and a significant majority of the Company s purchases of such products was from World Trade Organization (WTO) member countries. The United States has agreed, as of January 1, 2005, to a phase out of import quotas for WTO member countries. As a result, the Company should be able to freely import textile and apparel products from WTO member countries in which its suppliers have their manufacturing facilities. However, the United States and Europe have made agreements with China to place quantitative restrictions on a number of products, including many textiles and apparel products. The outcome of this agreement could have a significant impact on worldwide sourcing patterns in Fiscal 2007 and beyond. The extent of this impact, if any, and the possible effect on the Company s purchasing patterns and costs, cannot be determined at this time.

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 additional trade restrictions imposed by the United States or other foreign governments, including the likelihood, type or effect of any such restrictions. Trade restrictions, including increased tariffs or quotas, embargoes, safeguards and customs restrictions against apparel items, as well as U.S. or foreign labor strikes, 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 s Reliance on Two Distribution Centers Located in the Same Vicinity Makes It Susceptible to Disruptions or Adverse Conditions Affecting Its Distribution Centers.

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

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

The Company s growth strategy largely depends on opening new stores, remodeling existing stores in a timely manner and operating them profitably. For Fiscal 2007, the Company expects to open approximately 110 to 120 new stores and remodel ten to 20 stores. Successful implementation of the Company s growth strategy depends on a number of factors including, but not limited to, obtaining desirable prime store locations, negotiating acceptable leases, completing projects on budget, supplying proper levels of merchandise and the hiring and training of store managers and sales associates. Additionally, the new stores may place increased demands on the Company s operational, managerial and administrative resources, which could cause the Company to operate less effectively. Furthermore, there is a possibility that new stores opened 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 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, reflecting 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 typically are lower due, in part, to the traditional retail slowdown 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. In addition, 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. Also, in order to prepare for the Back-to-School and Holiday selling seasons, the Company must order and keep in stock significantly more merchandise than it would carry during other parts of the year. 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.

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, negatively affect consumer confidence in the quality and value of the Company s brands and negatively impact the Company s competitive position and could have a material adverse effect on the Company s financial condition or results of operations.

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. In addition, factors beyond the Company s control impact shopping center traffic, such as general economic conditions and consumer spending levels. A slowdown in the U.S. economy could negatively affect consumer spending and reduce shopping center traffic. A significant decrease in shopping center traffic could have a material adverse effect on the Company s financial condition or results of operations. Furthermore, in pursuing its growth strategy, the Company will be competing with other retailers for prominent locations within successful shopping centers. If the Company is unable to secure these locations or is unable to renew store leases on acceptable terms as they expire from time-to-time it may not be able to continue to attract the number or quality of customers it normally has attracted or would need to attract to sustain its projected growth. All these factors may also 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.

The Company s Reliance on Third Parties To Deliver Merchandise from Its Distribution Centers to Its Stores Could Result in Disruptions to Its Business.

The efficient operation of the Company s stores depends on the timely receipt of merchandise from the Company s DCs. An independent third party transportation company delivers a substantial portion of the Company s merchandise to its stores. The independent third party employs personnel represented by labor unions. Disruptions in the delivery of merchandise or work stoppages by employees or contractors of this third party 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 this third party to respond adequately to the Company s distribution needs would disrupt its operations and could have a material adverse effect on its financial condition or results of operations.

The Company s Litigation Exposure Could Exceed Expectations, Having a Material Adverse Effect on Its 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. In addition, the Company is involved in several purported class action lawsuits and several shareholder derivative actions, as well as an SEC investigation, all regarding trading in the Company s Class A Common Stock in the summer of Fiscal 2005 (collectively, the Securities Matters) (See Item 3. Legal Proceedings.) 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 accord with management s evaluation of the claims. Should management s evaluation prove incorrect, particularly in regard to the class action overtime compensation and other employment related claims and the Securities Matters, the Company s exposure could greatly exceed expectations and have a material adverse effect upon the financial condition, results of operations or statements of cash flows.

The Company s Failure To Adequately Protect Its Trademarks, Abercrombie & Fitch®, abercrombie®, Hollister Co.® and Ruehl No. 925® Could Have a Negative Impact on Its Brand Image and Limit Its Ability To Penetrate New Markets.

The Company believes that its trademarks Abercrombie & Fitch®, abercrombie®, Hollister Co.®, Ruehl No. 925®, the Moose and Seagull logos and trademarks related to its newest concept are an essential element of the Company s strategy. The Company has obtained or applied for federal registration of these trademarks, has pending trademark registration applications for other trademarks in the United States and has applied for or obtained registrations in many foreign countries in which its manufacturers are located. There can be no assurance that the Company will obtain such registrations 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 now or may in the future source or offer its merchandise, its international expansion and its merchandising of products using these marks could be limited. For example, the Company cannot assure that others will not try to block the manufacture, export or sale of its products as violative 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 which 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 registration applications are pending or unclear, for a third party owner of the national trademark registration for a similar mark to enjoin the manufacture, sale or exportation of branded goods in or from that country. If the Company is unable to reach a licensing arrangement with these parties, 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.

In Fiscal 2006, the Company launched a new anti-counterfeiting program, under the auspices of the Abercrombie & Fitch Brand Protection Team, whose goal is to eliminate the supply of illicit Abercrombie & Fitch Co. 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 Long-Term Growth Strategy Depends on the Development of New Brand Concepts.

Historically, the Company has grown by adding new brand concepts every several years and may continue to do so in the future. Each new brand concept requires management s focus and attention as well as significant capital investments. Furthermore, each 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. Even though the Company s past brand concepts have been successful, there is no assurance that new brand concepts will achieve similar results. Any new brand concept that is not successfully launched could have a material adverse effect on the Company s financial condition or results of operations.

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 its information technology systems supporting the business. Modifications will involve 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 replacing and changing these systems, including accurately capturing data and system disruptions and 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, if not anticipated and appropriately mitigated, could have a material adverse effect on its financial condition or results of operations. Additionally, there is no assurance that a successfully implemented system will deliver value to the Company.

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The Company s International Expansion Plan Is Dependent on a Number of Factors, Any of Which Could Delay or Prevent the 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, and are not limited to, obtaining prime locations for stores, setting up foreign offices and DCs and hiring experienced management. The Company will 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 its 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 its infrastructure to accommodate growth;
- generate sufficient operating cash flows or secure adequate capital on commercially reasonable terms to fund its expansion plan; and
- manage its foreign exchange risks effectively.

In addition, the Company s proposed international expansion will place increased demands on its operational, managerial and administrative resources. These increased demands may cause the Company to operate its business less effectively, which in turn could cause deterioration in the performance of its stores. Furthermore, the Company s ability to conduct business in international markets may be affected by legal, regulatory, political and economic risks.

Direct-to-Consumer Sales Include Risks that Could Have a Material Adverse Effect on the Company s Financial Condition or Results from Operations.

The Company s direct-to-consumer operations are subject to numerous risks that could have a material adverse effect on its operational results. Risks include, but are not limited to, the following: (a) diversion of sales from the Company s stores, which may impact comparable store sales figures; (b) difficulty in recreating the in-store experience on a web site; (c) domestic or international resellers purchasing merchandise and re-selling it overseas outside the Company s control; and (d) risks related to the failure of the systems that operate the web sites and their related support systems, including computer viruses, theft of customer information, telecommunication failures and electronic break-ins and similar disruptions.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES.

The Company s headquarters and support functions (consisting of home office and distribution and shipping facilities) are centralized in a 467-acre campus-like setting in New Albany, Ohio that is owned by the Company. The Company leases small facilities to house its design and sourcing support centers in the United Kingdom (U.K.), Hong Kong, New York City and Santa Monica, California as well as offices in Switzerland and Italy for its European operations.

All of the retail stores operated by the Company, as of March 23, 2007, are located in leased facilities, primarily in shopping centers throughout the United States, Canada and the U.K.. The leases expire at various dates, principally between 2007 and 2022.

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

As of March 23, 2007, the Company s 950 stores were located in 49 states, the District of Columbia, Canada and the U.K., as follows:

Alabama	15	Kentucky	15	North Dakota	2
Alaska	1	Louisiana	15	Ohio	40
Arizona	16	Maine	3	Oklahoma	10
Arkansas	7	Maryland	15	Oregon	13
California	120	Massachusetts	25	Pennsylvania	43
Colorado	9	Michigan	34	Rhode Island	4
Connecticut	18	Minnesota	18	South Carolina	13
Delaware	3	Mississippi	5	South Dakota	2
District of Columbia	1	Missouri	20	Tennessee	21
Florida	59	Montana	2	Texas	76
Georgia	27	Nebraska	5	Utah	7
Hawaii	5	Nevada	8	Vermont	2
Idaho	3	New Hampshire	6	Virginia	26
Illinois	43	New Jersey	31	Washington	21
Indiana	25	New Mexico	4	West Virginia	4
Iowa	6	New York	44	Wisconsin	15
Kansas	7	North Carolina	29	Canada	6
				U.K.	1

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ITEM 3. LEGAL PROCEEDINGS.

A&F is a defendant in lawsuits arising in the ordinary course of business.

The Company previously reported that it was aware of 20 actions that had been filed against it and certain of its current and former officers and directors on behalf of a purported class of shareholders who purchased A&F s Common Stock between October 8, 1999 and October 13, 1999. These actions originally were filed in the United States District Courts for the Southern District of New York and the Southern District of Ohio, Eastern Division, alleging violations of the federal securities laws and seeking unspecified damages, and were later transferred to the Southern District of New York for consolidated pretrial proceedings under the caption In re Abercrombie & Fitch Securities Litigation. The parties have reached a settlement of these matters. According to the terms of the settlement, the Company s insurance company, on behalf of the defendants, has paid $6.1 million into a settlement fund in full consideration for the settlement and release of all claims that were asserted or could have been asserted in the action by the plaintiffs and the other members of the settlement class. The settlement will not have a material adverse effect on the Company s financial statements. The judge who was presiding over the cases, after notice to the settlement class and a hearing held on January 30, 2007, determined that the proposed settlement was fair, reasonable and adequate and approved the settlement as final and binding.

The Company has been named as a defendant in five class action lawsuits (as described in more detail below) regarding overtime compensation. Four of the cases were previously reported. Of these four, one was dismissed and not appealed, another was dismissed and unsuccessfully appealed, the parties have tentatively agreed to a settlement of a third and a fourth remains pending. In addition, a fifth class action has been filed against the Company involving overtime compensation. In each overtime compensation action, the plaintiffs, on behalf of their respective purported class, seek injunctive relief and unspecified amounts of economic and liquidated damages.

In Melissa Mitchell, et al. v. Abercrombie & Fitch Co. and Abercrombie & Fitch Stores, Inc., which was filed on June 13, 2003 in the United States District Court for the Southern District of Ohio, the plaintiffs allege that assistant managers and store managers were not paid overtime compensation in violation of the Fair Labor Standards Act (FLSA) and Ohio law. On March 31, 2006, the Court issued an order granting defendants motions for summary judgment on all of the claims of each of the three plaintiffs. All three plaintiffs filed a Notice of Appeal to the Sixth Circuit Court of Appeals on April 28, 2006. The matter was fully briefed on October 26, 2006. Oral arguments before the Sixth Circuit Court of Appeals were held on March 15, 2007, and on March 29, 2007, that court affirmed the summary judgment in favor of the Company.

In Eltrich v. Abercrombie & Fitch Stores, Inc., which was filed on November 22, 2005 in the Washington Superior Court of King County, the plaintiff alleges that store managers, assistant managers and managers in training were misclassified as exempt from the overtime compensation requirements of the State of Washington, and improperly denied overtime compensation. The complaint seeks relief on a class-wide basis for unpaid overtime compensation, liquidated damages, attorneys fees and costs and injunctive relief. The defendant filed an answer to the complaint on or about January 27, 2006. The defendant filed a motion for summary judgment as to all of Eltrich s claims on July 5, 2006. The court granted the motion for summary judgment to Eltrich s individual claims on October 6, 2006, dismissing Eltrich s individual claims with prejudice. On October 31, 2006, the court dismissed the claims of putative class members without prejudice. Eltrich did not appeal and, accordingly, this case is terminated.

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 on June 23, 2006. Three plaintiffs allege, on behalf of a putative class of California store managers employed in Hollister and abercrombie stores, that they were entitled to receive overtime pay as non-exempt employees under California wage and hour laws. The complaint seeks injunctive relief, equitable relief, unpaid overtime compensation, unpaid benefits, penalties, interest and attorneys fees and costs. The defendants filed an answer to the complaint on August 21, 2006. The parties are engaging in discovery.

Mitchell Green, et al. v. Abercrombie & Fitch Co., Abercrombie & Fitch Stores, Inc. and Abercrombie & Fitch Trading Co., was filed in the United States District Court for the Southern District of New York on November 2, 2006. Five plaintiffs allege, on behalf of a putative class of nation-wide loss prevention agents employed by the Company, that they were entitled to receive overtime pay as non-exempt employees under the FLSA and New York wage and hour laws. The complaint seeks injunctive relief, unpaid overtime compensation, liquidated damages, interest, and attorneys fees and costs. The parties have tentatively agreed to a settlement which will not have a material effect on the financial statements.

Edrik Diaz v. Abercrombie & Fitch Stores, Inc. was filed in the United States District Court for the Southern District of Florida on February 8, 2007. Diaz alleges, on behalf of a putative class of managers in training and assistant managers, that the Company did not properly pay overtime compensation. The complaint seeks liquidated damages, interest, and attorneys fees and costs.

On September 2, 2005, a purported class action, styled Robert Ross v. Abercrombie & Fitch 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, and seek unspecified monetary damages, as a result of a decline in the price of A&F s Common Stock during the summer of 2005. 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 was filed on August 14, 2006. On October 13, 2006, all defendants moved to dismiss that complaint. The motion has been fully briefed and is pending.

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On September 16, 2005, a derivative action, styled The Booth Family Trust v. Michael S. Jeffries, et al., was filed in the United States District Court for the Southern District of Ohio, naming A&F as a nominal defendant and seeking to assert claims for unspecified damages against nine of A&F s present and former directors, alleging various breaches of the directors fiduciary duty and seeking equitable and monetary relief. In the following three months (October, November and December of 2005), 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 and seeking equitable and monetary relief. A&F is also a nominal defendant in each of the four later derivative actions. On November 4, 2005, a motion to consolidate all of the federal court derivative actions with the purported securities law class actions described in the preceding paragraph was filed. On March 22, 2006, the motion to consolidate was granted, and the federal court derivative actions have been consolidated with the aforesaid purported securities law class actions for purposes of motion practice, discovery and pretrial proceedings. A consolidated amended derivative complaint was filed in the federal proceeding on July 10, 2006. A&F has filed a motion to stay the consolidated federal derivative case and that motion has been granted. The state court action has also been stayed. On February 16, 2007, A&F announced its Board of Directors received a report of its Special Litigation Committee established by the Board to investigate and act with respect to claims asserted in certain previously disclosed derivative lawsuits brought against current and former directors and management, including Chairman and Chief Executive Officer Michael S. Jeffries. The Special Litigation Committee has concluded that there is no evidence to support the asserted claims and directed the Company to seek dismissal of the derivative actions. A&F has advised both the federal and state courts in which the derivative actions are pending, that it believes the derivative cases should be stayed until the pending motion to dismiss the related consolidated securities cases has been finally decided, as described in the preceding paragraph.

In December 2005, the Company received a formal order of investigation from the SEC concerning trading in shares of A&F s Common Stock. The SEC has requested information from A&F and certain of its current and former officers and directors. The Company and its personnel are cooperating fully with the SEC.

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

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

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SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT.

Set forth below is certain information regarding the executive officers of A&F as of March 23, 2007.

Michael S. Jeffries, 62, has been Chairman and Chief Executive Officer of A&F since May 1998. Mr. Jeffries has been Chief Executive Officer of the Company since February 1992. From February 1992 to May 1998, Mr. Jeffries held the position of President of A&F. Under the terms of the Amended and Restated Employment Agreement, dated as of January 30, 2003, between the Company and Mr. Jeffries, the Company is obligated to cause Mr. Jeffries to be nominated as a director of A&F during his employment term.

Diane Chang, 51, has been Executive Vice President Sourcing of A&F since May 2004. Prior thereto, Ms. Chang held the position of Senior Vice President Sourcing 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, 46, 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 from February 2000 to May 2004 and the position of Vice President Planning & Allocation of A&F from February 1994 to February 2000.

Michael W. Kramer, 42, has been Executive Vice President and Chief Financial Officer since November 2006. He joined the Company in August 2005 as Senior Vice President and Chief Financial Officer. Prior to this he served as Chief Financial Officer, Apple Retail for Apple Computer, Inc. since April 2001.

The executive officers serve at the pleasure of the Board of Directors of Abercrombie & Fitch 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 2006 and Fiscal 2005:

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

Beginning in Fiscal 2004, the Board of Directors voted to initiate a cash dividend, at an annual rate of $0.50 per share. A quarterly dividend, of $0.125 per share, was paid in March and June 2005. In August 2005, the Board of Directors increased the quarterly dividend to $0.175 per share, which was paid in September and December of Fiscal 2005. A quarterly dividend, of $0.175 per share, was paid in March, June, September and December of Fiscal 2006. The Company expects to continue to pay a dividend, subject to the Board of Directors review of the Company s cash position and results of operations.

As of March 23, 2007, there were approximately 5,140 shareholders of record. However, when including investors holding shares in broker accounts under street name, active associates who participate in A&F s stock purchase plan and associates who own shares through A&F-sponsored retirement plans. A&F estimates that there are approximately 65,000 shareholders.

During Fiscal 2006 the Company did not repurchase shares of A&F s Common Stock. During Fiscal 2005 and Fiscal 2004, the Company repurchased shares of its outstanding Common Stock having a value of approximately $103.3 million and $434.7 million, respectively, pursuant to the Board of Directors authorizations. The majority of the Fiscal 2005 repurchases were completed under previous Board of Directors authorizations. In August 2005, the Board of Directors authorized the Company to purchase an additional 6.0 million shares. As of February 3, 2007, the remaining aggregate number of shares of Common Stock authorized for repurchase was approximately 5.7 million shares.

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

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PERFORMANCE GRAPH [1]

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Abercrombie & Fitch Co., The S & P Midcap 400 Index
The S & P 500 Index And The S & P Apparel Retail Index

* $100 invested on 2/2/02 in stock or on 1/31/02 in index-including reinvestment of dividends. Index calculated on month-end basis.

(1) This graph is being furnished and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liability of that section. This graph shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except as otherwise noted in such filing.

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The number of securities to be issued and remaining available under equity compensation plans as of February 3, 2007 are set forth in the table below:

Equity Compensation Plans Information

	Number of shares to be issued upon exercise of outstanding stock options and restricted stock units	Weighted-average exercise price of outstanding stock options and	Number of shares remaining available for future issuance under equity compensation plans (excluding shares