ABERCROMBIE & FITCH CO /DE/
Form 10-Q
December 11, 2007

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

FORM 10-Q

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

For the quarterly period ended November 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

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 þ No 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 Exchange 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

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

Class A Common Stock	Outstanding at December 7, 2007
$.01 Par Value	86,152,517 Shares

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

ABERCROMBIE & FITCH
CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME
AND COMPREHENSIVE INCOME
(Thousands, except per share amounts)
(Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
NET SALES	$ 973,930	$ 863,448	$ 2,520,878	$ 2,179,415
Cost of Goods Sold	328,887	295,250	835,128	726,043
GROSS PROFIT	645,043	568,198	1,685,750	1,453,372
Stores and Distribution Expense	355,770	308,456	998,425	837,302
Marketing, General and Administrative Expense	103,996	97,167	292,611	272,206
Other Operating Income, Net	(1,310)	(266)	(8,715)	(5,392)
OPERATING INCOME	186,587	162,841	403,429	349,256
Interest Income, Net	(4,618)	(3,252)	(12,472)	(9,183)
INCOME BEFORE INCOME TAXES	191,205	166,093	415,901	358,439
Provision for Income Taxes	73,620	64,062	156,960	134,445
NET INCOME	$ 117,585	$ 102,031	$ 258,941	$ 223,994
NET INCOME PER SHARE:				
BASIC	$ 1.35	$ 1.16	$ 2.96	$ 2.55
DILUTED	$ 1.29	$ 1.11	$ 2.82	$ 2.44
WEIGHTED-AVERAGE SHARES OUTSTANDING:				
BASIC	86,895	88,106	87,623	87,982
DILUTED	91,133	92,146	91,937	91,675

DIVIDENDS DECLARED PER SHARE	$ 0.175	$ 0.175	$ 0.525	$ 0.525
OTHER COMPREHENSIVE INCOME				
Cumulative Foreign Currency Translation Adjustments	$ 4,731	$ 469	$ 9,148	$ 579
Unrealized (Loss) Gain on Available-For-Sale Securities, net of taxes of ($3) and $207 for the thirteen week periods ended November 3, 2007 and October 28, 2006, respectively, and ($61) and ($6) for the thirty-nine week periods ended November 3, 2007 and October 28, 2006, respectively	(5)	309	(97)	(14)
	$ 4,726	$ 778	$ 9,051	$ 565
COMPREHENSIVE INCOME	$ 122,311	$ 102,809	$ 267,992	$ 224,559

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

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ABERCROMBIE & FITCH
CONDENSED CONSOLIDATED BALANCE SHEETS
(Thousands)
(Unaudited)

	November 3, 2007	February 3, 2007
ASSETS		
CURRENT ASSETS:		
Cash and Equivalents	$ 83,514	$ 81,959
Marketable Securities	277,704	447,793
Receivables	65,282	43,240
Inventories	407,123	427,447
Deferred Income Taxes	35,369	33,170
Other Current Assets	73,293	58,469
TOTAL CURRENT ASSETS	942,285	1,092,078
PROPERTY AND EQUIPMENT, NET	1,286,606	1,092,282
OTHER ASSETS	80,247	63,707
TOTAL ASSETS	$ 2,309,138	$ 2,248,067
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts Payable	$ 171,003	$ 100,919
Outstanding Checks	26,209	27,391
Accrued Expenses	260,453	260,219
Deferred Lease Credits	37,489	35,423
Income Taxes Payable	20,773	86,675
TOTAL CURRENT LIABILITIES	515,927	510,627
LONG-TERM LIABILITIES:		
Deferred Income Taxes	18,176	30,394
Deferred Lease Credits	216,481	203,943
Other Liabilities	152,836	97,806
TOTAL LONG-TERM LIABILITIES	387,493	332,143
SHAREHOLDERS EQUITY:		

Class A Common Stock $0.01 par value: 150,000 shares authorized and 103,300 shares issued at each of November 3, 2007 and February 3, 2007		1,033		1,033
Paid-In Capital		310,758		289,732
Retained Earnings		1,851,531		1,646,290
Accumulated Other Comprehensive Income (Loss)		8,057		(994)
Treasury Stock, at Average Cost - 17,252 and 15,000 shares at November 3, 2007 and February 3, 2007, respectively		(765,661)		(530,764)
TOTAL SHAREHOLDERS EQUITY		1,405,718		1,405,297
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	2,309,138	$	2,248,067

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

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

	Thirty-Nine Weeks Ended	
	November 3, 2007	October 28, 2006
OPERATING ACTIVITIES:		
Net Income	$ 258,941	$ 223,994
Impact of Other Operating Activities on Cash Flows:		
Depreciation and Amortization	134,155	104,979
Amortization of Deferred Lease Credits	(27,911)	(25,510)
Share-Based Compensation	22,068	28,717
Tax Benefit from Share-Based Compensation	17,605	4,239
Excess Tax Benefit from Share-Based Compensation	(14,214)	(2,972)
Deferred Taxes	(14,417)	(9,899)
Loss on Disposal of Assets and Non-Cash Charge for Asset Impairment	7,042	6,034
Lessor Construction Allowances	29,763	32,940
Foreign Currency Gain	(965)	
Changes in Assets and Liabilities:		
Inventories	28,204	(68,528)
Accounts Payable and Accrued Expenses	35,057	18,680
Income Taxes	(65,450)	(48,541)
Other Assets and Liabilities	5,012	5,376
NET CASH PROVIDED BY OPERATING ACTIVITIES	414,890	269,509
INVESTING ACTIVITIES:		
Capital Expenditures	(303,091)	(302,852)
Purchases of Marketable Securities	(911,542)	(1,008,143)
Proceeds from Sales of Marketable Securities	1,082,499	1,088,429
NET CASH USED FOR INVESTING ACTIVITIES	(132,134)	(222,566)
FINANCING ACTIVITIES:		
Proceeds from Share-Based Compensation	35,874	9,541
Excess Tax Benefit from Share-Based Compensation	14,214	2,972
Purchase of Treasury Stock	(287,915)	
Change in Outstanding Checks and Other	(1,878)	1,507
Dividends Paid	(46,254)	(46,184)
NET CASH USED FOR FINANCING ACTIVITIES	(285,959)	(32,164)

EFFECT OF EXCHANGE RATE ON CASH		4,758		
NET INCREASE IN CASH AND EQUIVALENTS:		1,555		14,779
Cash and Equivalents, Beginning of Year		81,959		50,687
CASH AND EQUIVALENTS, END OF PERIOD	$	83,514	$	65,466
SIGNIFICANT NON-CASH INVESTING ACTIVITIES:				
Change in Accrual for Construction in Progress	$	23,399	$	53,340

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

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ABERCROMBIE & FITCH

NOTES TO CONDENSED 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 business was established in 1892.

The accompanying condensed consolidated financial statements include the historical financial statements of, and transactions applicable to, the Company and reflect the 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 financial statements and notes by the calendar year in which the fiscal year commences. All references herein to Fiscal 2007 represent the 52-week fiscal year that will end on February 2, 2008, and to Fiscal 2006 represent the 53-week fiscal year that ended February 3, 2007.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS No. 131), the Company determined its operating segments on the same basis 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 for the thirteen and thirty-nine week periods ended November 3, 2007 and October 28, 2006 were not material and therefore are not reported separately from domestic revenues.

The condensed consolidated financial statements as of November 3, 2007 and for the thirteen and thirty-nine week periods ended November 3, 2007 and October 28, 2006 are unaudited and are presented pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, these condensed 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 2006 filed on March 30, 2007. The year-end condensed balance sheet data were derived from audited financial statements, but do not include all disclosures required by accounting principles generally accepted in the United States of America.

In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments (which are of a normal recurring nature) necessary to present fairly 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 2007.

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In connection with the Company s adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109* (FIN 48) on February 4, 2007, a $2.8 million cumulative effect adjustment was recorded as a reduction to beginning of the year retained earnings. See Note 8 for information about the adoption of FIN 48.

The condensed consolidated financial statements as of November 3, 2007 and for the thirteen and thirty-nine week periods ended November 3, 2007 and October 28, 2006 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 condensed 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 condensed 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. SHARE-BASED COMPENSATION

The Company accounts for share-based compensation under the provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)), which requires share-based compensation related to stock options to be measured based on estimated fair values at the date of grant using an option-pricing model.

Financial Statement Impact

The following table summarizes share-based compensation expense (in thousands):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
Stores and distribution expense	$ 530	$ 750	$ 1,056	$ 1,806
Marketing, general and administrative expense	8,178	7,368	21,012	26,911
Share-based compensation expense	$ 8,708	$ 8,118	$ 22,068	$ 28,717

The Company also recognized $3.5 million and $8.6 million in tax benefits related to share-based compensation for the thirteen and thirty-nine week periods ended November 3, 2007, respectively, and $3.1 million and $9.6 million in tax benefits related to share-based compensation for the thirteen and thirty-nine week periods ended October 28, 2006, respectively.

The Company adjusts share-based compensation expense on a quarterly basis for actual forfeitures and for changes to the estimate of expected award forfeitures based on actual forfeiture experience. The effect of adjustments for forfeitures during the thirteen and thirty-nine week periods ended November 3, 2007 and October 28, 2006 was immaterial.

A&F issues shares of Class A Common Stock (Common Stock) for stock option exercises and restricted stock unit vestings from treasury stock. As of November 3, 2007, A&F had enough treasury stock available to cover stock options and restricted stock units outstanding without having to repurchase additional shares.

Fair Value Estimates

The Company estimates the fair value of stock options granted using the Black-Scholes option-pricing model, which requires the Company to estimate the expected term of stock option grants and expected future stock price volatility over the expected term. Estimates of expected term, which represents the period of time the Company expects the stock options 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. The Company calculates 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.

The weighted-average estimated fair value of stock options granted during the thirty-nine weeks ended November 3, 2007 and October 28, 2006, as well as the assumptions used in calculating such values on the date of grant, were as follows:

	Thirty-Nine Weeks Ended November 3, 2007		Thirty-Nine Weeks Ended October 28, 2006	
	Executive Officers	Other Associates	Executive Officers	Other Associates
Exercise price	$74.02	$74.02	$58.22	$58.04
Fair value	$22.63	$22.63	$24.92	$20.67
Assumptions:				
Price volatility	34%	34%	47%	42%
Expected term (years)	4	4	5	4
Risk-free interest rate	4.5%	4.5%	4.9%	4.9%
Dividend yield	1.0%	1.0%	1.2%	1.2%

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

Stock Option Activity

Below is the summary of stock option activity for the thirty-nine weeks ended November 3, 2007:

Stock Options	Number of Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Life
Outstanding at February 3, 2007	8,804,724	$ 38.07		
Granted	331,750	74.02		
Exercised	(1,218,937)	28.91		
Forfeited or cancelled	(82,625)	60.93		
Outstanding at November 3, 2007	7,834,912	$ 40.78	$ 289,990,699	3.2
Options expected to vest as of November 3, 2007	586,751	$ 65.17	$ 7,408,101	8.6
Options exercisable at November 3, 2007	7,151,112	$ 38.41	$ 281,624,664	2.6

The total intrinsic value of stock options exercised during the thirty-nine weeks ended November 3, 2007 and October 28, 2006 was $59.6 million and $11.9 million, respectively.

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As of November 3, 2007, there was $13.0 million of total unrecognized compensation cost, net of estimated forfeitures, related to stock options. The unrecognized cost is expected to be recognized over a weighted-average period of 1.4 years.

Restricted Stock Unit Activity

Below is the summary of restricted stock unit activity for the thirty-nine weeks ended November 3, 2007:

Restricted Stock Units	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested at February 3, 2007	2,043,456	$ 40.65
Granted	698,900	$ 72.60
Vested	(279,220)	$ 49.69
Forfeited	(137,595)	$ 59.91
Non-vested at November 3, 2007	2,325,541	$ 47.66

The total fair value of restricted stock units granted during the thirty-nine weeks ended November 3, 2007 and October 28, 2006 was $50.7 million and $33.6 million, respectively.

The total fair value of restricted stock units vested during the thirty-nine weeks ended November 3, 2007 and October 28, 2006 was $13.9 million and $8.2 million, respectively.

As of November 3, 2007, there was $70.5 million of total unrecognized compensation cost, net of estimated forfeitures, related to non-vested restricted stock units. The unrecognized cost is expected to be recognized over a weighted-average period of 1.4 years.

3. NET INCOME PER SHARE AND SHAREHOLDERS EQUITY

Net income per share is computed in accordance with SFAS No. 128, *Earnings Per Share.* Net income per basic share is computed based on the weighted-average number of outstanding shares of Common Stock. Net income per diluted share includes the weighted-average effect of dilutive stock options and restricted stock units.

Weighted-Average Shares Outstanding (in thousands):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
Shares of Common Stock issued	103,300	103,300	103,300	103,300
Treasury shares	(16,405)	(15,194)	(15,677)	(15,318)
Basic shares outstanding	86,895	88,106	87,623	87,982
Dilutive effect of stock options and restricted stock units	4,238	4,040	4,314	3,693
Diluted shares outstanding	91,133	92,146	91,937	91,675

Stock options to purchase approximately 18,000 and 119,000 shares of Common Stock during the thirteen week periods ended November 3, 2007 and October 28, 2006, respectively, and approximately 18,000 and 167,000 shares of Common Stock during the thirty-nine week periods ended November 3, 2007 and October 28, 2006, respectively, were outstanding, but were not included in the computation of net income per diluted share because the impact of such stock options would be anti-dilutive.

A&F repurchased approximately 2.6 million and 3.6 million shares of A&F s Common Stock for the thirteen and thirty-nine weeks ended November 3, 2007, respectively. As of November 3, 2007, approximately 2.0 million shares were available for repurchase as part of the A&F Board of Directors August 2005 authorization to repurchase 6.0 million shares of A&F s Common Stock.

A&F did not repurchase any shares of A&F s Common Stock during Fiscal 2006.

On November 20, 2007, the Board of Directors authorized the repurchase of 10.0 million shares of A&F s Common Stock. This authorization is in addition to the approximately 2.0 million shares of A&F s Common Stock which remained available as of November 3, 2007 under the August 2005 repurchase authorization.

4. INVESTMENTS

Investments with original maturities greater than 90 days are accounted for in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* and are classified accordingly by the Company at the time of purchase. As of November 3, 2007, the Company s investments in marketable securities consisted primarily of investment grade municipal notes and bonds and investment grade auction rate securities, all classified as available-for-sale and reported at fair market value, with maturities that range from seven days to 40 years.

The interest rates of auction rate securities reset through an auction process at predetermined periods ranging from seven to 49 days. Due to the frequent nature of the reset feature, the value of the investments at the balance sheet date approximates their fair market value; therefore, there are no realized or unrealized gains or losses associated with these marketable securities.

The Company held $277.7 million and $447.8 million in marketable securities as of November 3, 2007 and February 3, 2007, respectively.

The Company established an irrevocable rabbi trust (the Rabbi Trust) during the third quarter of Fiscal 2006, the purpose of which is to be a source of funds to match respective funding obligations to participants in the Abercrombie & Fitch Nonqualified Savings and Supplemental Retirement Plan and the Chief Executive Officer Supplemental Executive Retirement Plan. As of November 3, 2007, total assets held in the Rabbi Trust were $35.7 million, which included $17.9 million of available-for-sale municipal notes and bonds, trust-owned life insurance policies with a cash surrender value of $16.5 million and $1.3 million held in money market accounts. As of February 3, 2007, total assets held in the Rabbi Trust were $33.5 million, which included $18.3 million of money market accounts and $15.3 million related to the cash surrender value of trust-owned life insurance policies. The Rabbi Trust assets are consolidated in accordance with Emerging Issues Task Force Issue No. 97-14, *Accounting for Deferred Compensation Arrangements Where Amounts Earned are Held in a Rabbi Trust and Invested,* and recorded at fair value in other assets on the Condensed Consolidated Balance Sheets and are restricted as to their use as noted above.

Municipal notes and bonds may have early redemption provisions at predetermined prices. There were $0.4 million in realized losses for the thirteen and thirty-nine week periods ended November 3, 2007 and no realized gains or losses for the thirteen and thirty-nine week periods ended October 28, 2006. Net unrealized holding losses were approximately $0.8 million and $0.7 million as of November 3, 2007 and February 3, 2007, respectively.

5. INVENTORIES

Inventories are principally valued at the lower of average cost or market utilizing the retail method. The Company determines market value as the anticipated future selling price of the merchandise less a normal margin. Therefore, an initial markup is applied to inventory at cost in order to establish a cost-to-retail ratio. Permanent markdowns, when taken, reduce both the retail and cost components of inventory on hand so as to maintain the already established cost-to-retail relationship. The inventory balance was $407.1 million, $427.4 million and $431.0 million at November 3, 2007, February 3, 2007 and October 28, 2006, respectively.

The fiscal year is comprised of two principal selling seasons: Spring (the first and second fiscal quarters) and Fall (the third and fourth fiscal quarters). The Company classifies its inventory into three categories: spring fashion, fall fashion and basic. The Company reduces inventory valuation at the end of the first and third quarters to reserve for projected inventory markdowns required to sell through the current season inventory prior to the beginning of the following season. Additionally, the Company reduces inventory at season end by recording a markdown reserve that represents the estimated future selling price decreases necessary to sell through the remaining carryover fashion inventory for the season just passed. The markdown reserve was $36.9 million, $6.8 million and $28.5 million at November 3, 2007, February 3, 2007 and October 28, 2006, respectively. The inventory valuation at February 3, 2007 primarily reflects the estimated markdowns necessary to sell through fashion carryover inventory on hand at the end of the Fall season.

Further, as part of inventory valuation, inventory shrink estimates, based on historical trends from actual physical inventories, are made that reduce the inventory value for lost or stolen items. The Company performs physical inventories throughout the year and adjusts the shrink reserve accordingly. The shrink reserve was $4.7 million, $7.7 million and $5.4 million at November 3, 2007, February 3, 2007 and October 28, 2006, respectively.

6. PROPERTY AND EQUIPMENT, NET

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

	November 3, 2007	February 3, 2007
Property and equipment, at cost	$ 1,981,448	$ 1,669,053
Accumulated depreciation and amortization	(694,842)	(576,771)
Property and equipment, net	$ 1,286,606	$ 1,092,282

7. DEFERRED LEASE CREDITS

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

	November 3, 2007	February 3, 2007
Deferred lease credits	$ 465,795	$ 423,390
Amortized deferred lease credits	(211,825)	(184,024)
Total deferred lease credits, net	$ 253,970	$ 239,366

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8. INCOME TAXES

The provision for income tax is based on the current estimate of the annual effective tax rate adjusted to reflect the tax impact of discrete items. The effective tax rate for the thirteen weeks ended November 3, 2007 was 38.5% compared to 38.6% for the Fiscal 2006 comparable period. The effective tax rate for the thirty-nine weeks ended November 3, 2007 was 37.7% compared to 37.5% for the Fiscal 2006 comparable period.

Cash payments of income taxes made during the thirteen weeks ended November 3, 2007 and October 28, 2006 were approximately $57.9 million and $46.8 million, respectively. Cash payments of income taxes made during the thirty-nine weeks ended November 3, 2007 and October 28, 2006 were approximately $188.2 million and $190.7 million, respectively.

In June 2006, the FASB issued FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a Company s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

In connection with the Company s adoption of FIN 48 on February 4, 2007, a $2.8 million cumulative effect adjustment was recorded as a reduction to beginning of the year retained earnings. The Company s unrecognized tax benefits as of February 4, 2007 (excluding interest and penalties) were $29.6 million, which were reclassified from current income taxes payable to other long- term liabilities. These amounts, if recognized, would affect the Company s effective tax rate.

The statute of limitations for income tax examinations by the Internal Revenue Service has expired for the fiscal years prior to the fiscal year ending January 29, 2005. The Company files income tax returns in various state, local and foreign jurisdictions with varying statute of limitations.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. The Company s policy did not change as a result of adopting FIN 48. The total amount of interest and penalties accrued on February 4, 2007, the date of adoption, was $7.3 million.

As of November 3, 2007, the amount of unrecognized tax benefits had not materially changed from the date of adoption of FIN 48. The Company does not expect material adjustments to the total amount of unrecognized tax benefits within the next 12 months, but the outcome of tax matters is uncertain and unforeseen results can occur.

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9. LONG-TERM DEBT

On December 15, 2004, the Company entered into an amended and restated $250 million syndicated unsecured credit agreement (the Credit Agreement). The primary purposes of the Credit Agreement are for trade and stand-by letters of credit and working capital. The Credit Agreement has several borrowing options, including an option where interest rates are based on the agent bank s Alternate Base Rate, and another using the London Interbank Offered Rate. The facility fees payable under the Credit Agreement are based on the leverage ratio of the Company s total debt plus 600% of forward minimum rent commitments to consolidated earnings before interest, taxes, depreciation, amortization and rent for the trailing four fiscal quarter periods. The facility fees are projected to accrue at either 0.15% or 0.175% on the committed amounts per annum. The Credit Agreement contains limitations, subject to negotiated carve-outs, on indebtedness, liens, sale-leaseback transactions, significant corporate changes (including mergers and acquisition transactions with third parties), investments, restricted payments (including dividends and stock repurchases) and transactions with affiliates. The Credit Agreement has a maturity date of December 15, 2009. Letters of credit totaling approximately $91.1 million and $53.7 million were outstanding under the Credit Agreement on November 3, 2007 and February 3, 2007, respectively. No borrowings were outstanding under the Credit Agreement on November 3, 2007 or February 3, 2007.

10. CONTINGENCIES

A&F is a defendant in lawsuits 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, 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.

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 (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 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 were 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 filed a motion to stay the consolidated federal derivative case and that motion was granted. The state court action was also 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 concluded that there is no evidence to support the asserted claims and directed the Company to seek dismissal of the derivative actions. On September 10, 2007, the Company moved to dismiss the federal derivative cases on the authority of the Special Litigation Committee report and on October 18, 2007, the state court stayed further proceedings until resolution of the consolidated federal derivative cases.

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 have cooperated 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.

11. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB released SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 establishes a common definition for fair value under accounting principles generally accepted in the United States of America and also establishes a framework for measuring fair value and expands disclosure requirements about such fair value measurements. In November 2007, the FASB authorized its staff to draft a proposed FASB Staff Position (Proposed FSP) that would partially defer the effective date of SFAS No. 157 for one year for non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. If the Proposed FSP is approved, SFAS No. 157 will be effective for the Company on February 3, 2008, for financial assets and liabilities carried at fair value and non-financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis and on February 1, 2009, for non-recurring non-financial assets and liabilities that are recognized or disclosed at fair value. The Company is currently evaluating the potential impact of adopting SFAS No. 157 on the consolidated results of operations and consolidated financial condition.

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In February 2007, the FASB released SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of SFAS No. 115* (SFAS No. 159). SFAS No. 159 permits companies to measure many financial instruments and certain other assets and liabilities at fair value on an instrument by instrument basis. SFAS No. 159 also establishes presentation and disclosure requirements to facilitate comparisons between companies that select different measurement attributes for similar types of assets and liabilities. SFAS No. 159 will be effective for the Company on February 3, 2008, for Fiscal 2008. The Company is currently evaluating the potential impact of adopting SFAS No. 159 on the consolidated results of operations and consolidated financial condition.

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Report of Independent Registered Public Accounting Firm

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

We have reviewed the accompanying condensed consolidated balance sheet of Abercrombie & Fitch Co. and its subsidiaries as of November 3, 2007, and the related condensed consolidated statements of net income and comprehensive income for the thirteen and thirty-nine week periods ended November 3, 2007 and October 28, 2006 and the condensed consolidated statements of cash flows for the thirty-nine week periods ended November 3, 2007 and October 28, 2006. These interim financial statements are the responsibility of the Company s management.

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

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

We previously audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of February 3, 2007, and the related consolidated statements of net income and comprehensive income, of shareholders equity, and of cash flows for the year then ended (not presented herein), and in our report dated March 30, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of February 3, 2007, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers LLP
Columbus, Ohio
December 11, 2007

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

OVERVIEW

The Company s fiscal year ends on the Saturday closest to January 31. Fiscal years are designated in the financial statements and notes by the calendar year in which the fiscal year commences. All references herein to Fiscal 2007 represent the 52-week fiscal year that will end on February 2, 2008, and to Fiscal 2006 represent the 53-week fiscal year that ended February 3, 2007.

For purposes of Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations, the thirteen and thirty-nine week periods ended November 3, 2007 are compared to the thirteen and thirty-nine week periods ended October 28, 2006, except for comparable store sales results, which compare the thirteen and thirty-nine week periods ended November 3, 2007 to the thirteen and thirty-nine week periods ended November 4, 2006.

The Company operates four brands: Abercrombie & Fitch, a fashion-oriented casual apparel business directed at 18 to 22 year-old collegiate men and women with a youthful lifestyle; abercrombie, a fashion-oriented casual apparel brand in the tradition of Abercrombie & Fitch style and quality, targeted at seven to 14 year-old boys and girls; Hollister, a West Coast-oriented lifestyle brand targeted at 14 to 17 year-old high school guys (dudes) and girls (bettys), at lower price points than Abercrombie & Fitch; and RUEHL, a fashion-oriented mix of traditional casual and trend fashion including high quality clothing, leather goods and lifestyle accessories, targeted at 22 to 35 year-old modern-minded, post-college consumers. In addition to predominantly mall-based store locations, Abercrombie & Fitch, abercrombie and Hollister also offer websites where products comparable to those carried at the stores can be purchased. RUEHL offers a website where handbags, cologne and perfume can be purchased.

RESULTS OF OPERATIONS

During the third quarter of Fiscal 2007, net sales increased 13% to $973.9 million from $863.4 million in the third quarter of Fiscal 2006. Operating income increased to $186.6 million in the third quarter of Fiscal 2007 from $162.8 million in the third quarter of Fiscal 2006. Net income increased to $117.6 million in the third quarter of Fiscal 2007 compared to $102.0 million in the third quarter of Fiscal 2006. Net income per diluted weighted-average share increased 16% to $1.29 in the third quarter of Fiscal 2007 compared to $1.11 in the third quarter of Fiscal 2006.

Due to seasonal variations in the retail industry, the results of operations for any current period are not necessarily indicative of the results expected for the full fiscal year or of future financial results. The seasonality of the Company s operations may also lead to significant fluctuations in certain asset and liability accounts.

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The following data represent the amounts shown in the Company s statements of income for the thirteen and thirty-nine week periods ended November 3, 2007 and October 28, 2006, expressed as a percentage of net sales:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 3, 2007	October 28, 2006	November 3, 2007	October 28, 2006
NET SALES	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	33.8%	34.2%	33.1%	33.3%
GROSS PROFIT	66.2%	65.8%	66.9%	66.7%
Stores and Distribution Expense	36.5%	35.7%	39.6%	38.4%
Marketing, General and Administrative Expense	10.7%	11.3%	11.6%	12.5%
Other Operating Income, Net	(0.1)%	(0.0)%	(0.3)%	(0.2)%
OPERATING INCOME	19.2%	18.9%	16.0%	16.0%
Interest Income, Net	(0.5)%	(0.4)%	(0.5)%	(0.4)%
INCOME BEFORE INCOME TAXES	19.6%	19.2%	16.5%	16.4%
Provision for Income Taxes	7.6%	7.4%	6.2%	6.2%
NET INCOME	12.1%	11.8%	10.3%	10.3%

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Financial Summary

The following summarized financial and statistical data compare the thirteen and thirty-nine week periods ended November 3, 2007 to the thirteen and thirty-nine week periods ended October 28, 2006, except for comparable store sales information, which compares the thirteen and thirty-nine week periods ended November 3, 2007 to the thirteen and thirty-nine week periods ended November 4, 2006. The financial and statistical information related to net sales reflects the impact of the calendar shift due to Fiscal 2006 being a 53-week fiscal year:

	Thirteen Weeks Ended			Thirty-Nine Weeks Ended		
	November 3, 2007	October 28, 2006	% Change	November 3, 2007	October 28, 2006	% Change
Net sales by brand (in thousands)	**$973,930**	**$863,448**	**13%**	**$2,520,878**	**$2,179,415**	**16%**
Abercrombie & Fitch	$419,267	$382,136	10%	$1,116,495	$1,011,112	10%
abercrombie	$127,571	$109,129	17%	$ 311,198	$ 261,334	19%
Hollister	$414,488	$364,034	14%	$1,058,586	$ 886,396	19%
RUEHL*	$ 12,604	$ 8,149	55%	$ 34,599	$ 20,573	68%
Increase (decrease) in comparable store sales**	**1%**	**5%**		**(1)%**	**4%**	
Abercrombie & Fitch	3%	1%		(1)%	(2)%	
abercrombie	3%	8%		1%	15%	
Hollister	(1)%	8%		(3)%	8%	
RUEHL	(7)%	20%		(3)%	20%	
Retail sales increase attributable to new and remodeled stores, websites and catalogue***	**12%**	**17%**		**17%**	**16%**	
Net retail sales per average store (in thousands)	**$ 905**	**$ 916**	**(1)%**	**$ 2,416**	**$ 2,339**	**3%**
Abercrombie & Fitch	$ 1,057	$ 1,002	5%	$ 2,827	$ 2,659	6%
abercrombie	$ 599	$ 610	(2)%	$ 1,538	$ 1,463	5%
Hollister	$ 925	$ 974	(5)%	$ 2,466	$ 2,442	1%
RUEHL*	$ 689	$ 798	(14)%	$ 2,058	$ 1,949	6%
Net retail sales per average gross square foot	**$ 128**	**$ 129**	**(1)%**	**$ 340**	**$ 331**	**3%**
Abercrombie & Fitch	$ 120	$ 114	5%	$ 320	$ 303	6%
abercrombie	$ 132	$ 139	(5)%	$ 342	$ 333	3%
Hollister	$ 138	$ 148	(7)%	$ 370	$ 372	(1)%
RUEHL*	$ 74	$ 89	(17)%	$ 220	$ 218	1%

Transactions per average retail store		**12,968**		**13,326**	**(3)%**		**37,510**		**37,153**	1%
Abercrombie & Fitch		12,188		12,540	(3)%		35,368		35,956	(2)%
abercrombie		8,362		8,625	(3)%		23,426		22,819	3%
Hollister		15,933		16,382	(3)%		46,225		45,575	1%
RUEHL*		8,174		8,986	(9)%		26,033		22,858	14%
Average retail transaction value	**$**	**69.81**	**$**	**68.71**	**2%**	**$**	**64.42**	**$**	**62.95**	**2%**
Abercrombie & Fitch	$	86.71	$	79.90	9%	$	79.92	$	73.94	8%
abercrombie	$	71.65	$	70.72	1%	$	65.65	$	64.12	2%
Hollister	$	58.05	$	59.48	(2)%	$	53.35	$	53.57	nm
RUEHL	$	84.32	$	88.79	(5)%	$	79.06	$	85.27	(7)%
Average units per retail transaction		**2.48**		**2.42**	**2%**		**2.45**		**2.37**	**3%**
Abercrombie & Fitch		2.39		2.28	5%		2.39		2.27	5%
abercrombie		2.94		2.95	nm		2.90		2.82	3%
Hollister		2.43		2.40	1%		2.39		2.34	2%
RUEHL		2.44		2.53	(4)%		2.54		2.54	nm
Average unit retail sold	**$**	**28.15**	**$**	**28.39**	**(1)%**	**$**	**26.29**	**$**	**26.56**	**(1)%**
Abercrombie & Fitch	$	36.28	$	35.04	4%	$	33.44	$	32.57	3%
abercrombie	$	24.37	$	23.97	2%	$	22.64	$	22.74	nm
Hollister	$	23.89	$	24.78	(4)%	$	22.32	$	22.89	(2)%
RUEHL	$	34.56	$	35.09	(2)%	$	31.13	$	33.57	(7)%

* Net sales for RUEHL, and the related statistics, reflect the activity of 20 stores open as of November 3, 2007 and 11 stores open as of October 28, 2006. As a result, year-over-year comparisons may not be meaningful.

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

*** The retail sales increase in Fiscal 2007 also reflects the impact of the calendar shift due to Fiscal 2006 being a 53-week year.

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CURRENT TRENDS AND OUTLOOK

During the third quarter of Fiscal 2007, the Company delivered year over year earnings growth which was primarily driven by increased sales across all brands, an increased gross profit rate, and a lower marketing, general and administrative expense rate. The increase in gross profit rate can be attributed to a higher initial mark up rate coupled with a lower merchandise shrink rate, partially offset by an increased markdown rate.

Currently, the Company is focused on expanding the Abercrombie and Fitch brand internationally and the Hollister brand both domestically and internationally. Expansion is currently planned in Canada for both the Abercrombie and Fitch and Hollister brands and in the United Kingdom for the Hollister brand. Construction is currently underway for the Abercrombie and Fitch flagship in Tokyo s Ginza district, with a planned opening in late 2009. Opportunities are also being assessed for the Abercrombie and Fitch and Hollister brands in continental Europe and other international locations.

As a result of the historical success of the Company s domestic brands, as well as the substantial success of the Abercrombie and Fitch s and Hollister s existing international store and internet business, the Company currently views international expansion as relatively low risk from a brand acceptance perspective. Canadian Abercrombie and Fitch and Hollister stores continue to generate three times the sales and operating margin dollars compared with the average United States store. The Abercrombie and Fitch New York flagship, which is heavily shopped by European tourists, is projected to surpass $100 million in total annual sales. The Abercrombie and Fitch London flagship continues to produce sales per selling square foot similar to that of the Abercrombie and Fitch New York flagship. Both the Hollister and Abercrombie and Fitch stores in Hawaii are among the top performing stores in the chain, driven by strong business from Japanese tourists. Finally, international direct-to-consumer sales increased by 75% from the third quarter of Fiscal 2006 in both Abercrombie and Fitch and Hollister.

In addition to expanding the Abercrombie and Fitch and Hollister brands, the Company launched the RUEHL website (www.RUEHL.com) in the third quarter of Fiscal 2007. The website offers handbags and fragrance for purchase and it allows customers to view a photo gallery of featured products, search for store locations and register to receive e-mail announcements. It is expected an assortment of men s and women s casual apparel, jeans, outerwear and gift cards will be offered through the RUEHL website in Spring 2008. Although the Company has made substantial progress in improving the gross margin, operating expense margin and store construction cost profile of RUEHL, the brand will not achieve profitability in the fourth quarter of Fiscal 2007, as previously anticipated, unless the sales trend exhibited in the third quarter improves significantly.

The Company s plan to introduce its fifth concept with the opening of four stores in January 2008 remains on schedule.

The Company ended the third quarter of Fiscal 2007 with a decrease in inventory per square foot, at cost, of approximately 15% compared to the third quarter of Fiscal 2006. The Company expects the fourth quarter of Fiscal 2007 inventory per square foot, at cost, to decrease at a rate equal to or slightly higher than that in the third quarter. Those results reflect a continued reduction in inventory levels, primarily in the basic inventory category.

The Company continues to make progress on numerous information technology initiatives. Specifically, major implementations in planning, merchandising and allocation systems over the next year should generate efficiencies and process improvements to enhance the ability to effectively execute the Company s growth strategy.

THIRD QUARTER RESULTS

Net Sales

Net sales for the third quarter of Fiscal 2007 were $973.9 million, an increase of 13% over net sales of $863.4 million during the third quarter of Fiscal 2006. The net sales increase was attributed to a combination of the net addition of 102 stores, including the Abercrombie & Fitch London flagship, a 48% increase in the direct-to-consumer business and a 1% increase in comparable store sales, partially offset by the impact of the calendar shift due to Fiscal 2006 being a 53-week fiscal year.

Abercrombie & Fitch comparable store sales increased 3% with men s comparable store sales increasing by a high single-digit and women s comparable store sales decreasing by a low single-digit. At abercrombie, comparable store sales increased 3% with boys and girls posting low single-digit increases. In Hollister, comparable store sales decreased 1% with dudes posting a high single-digit increase and bettys declining by a mid single-digit. RUEHL comparable store sales decreased 7% with women s comparable store sales decreasing by a high single-digit and men s comparable store sales decreasing by a low double-digit.

Domestically, comparable store sales were strongest in the Northeast region and the tax-free holiday impacted states of Florida and Texas. Comparable store sales were weakest in the West and Midwest regions.

Net direct-to-consumer merchandise sales through the Company s websites and catalogue for the third quarter of Fiscal 2007 were $61.3 million, an increase of 48% over Fiscal 2006 third quarter net sales of $41.3 million. Shipping and handling revenue for the third quarter of Fiscal 2007 was $9.2 million compared to $5.9 million for the corresponding period in Fiscal 2006. The total direct-to-consumer business accounted for 7.2% of net sales in the third quarter of Fiscal 2007 compared to 5.5% in the third quarter of Fiscal 2006. This increase was driven by store expansion, both domestically and internationally, improved in-stock inventory availability and increased sales as a result of a targeted e-mail marketing strategy and improved website functionality.

Gross Profit

Gross profit for the third quarter of Fiscal 2007 was $645.0 million compared to $568.2 million for the comparable period in Fiscal 2006. The gross profit rate (gross profit divided by net sales) for the third quarter of Fiscal 2007 was 66.2%, up 40 basis points from the third quarter of Fiscal 2006 rate of 65.8%. The increase in the gross profit rate was primarily driven by a higher initial markup (IMU) rate and a lower merchandise shrink rate, partially offset by a higher markdown rate.

Stores and Distribution Expense

Stores and distribution expense for the third quarter of Fiscal 2007 was $355.8 million compared to $308.5 million for the comparable period in Fiscal 2006. For the third quarter of Fiscal 2007, the stores and distribution expense rate (stores and distribution expense divided by net sales) was 36.5% compared to 35.7% in the third quarter of Fiscal 2006. The increase in the rate resulted primarily from increased store-related expenses, including minimum wage and store manager salary increases, as well as higher store fixed costs and store packaging expenses. Direct-to-consumer order processing expenses were also higher as a percentage of total Company sales compared with last year due to the sales growth rate of direct-to-consumer sales exceeding the sales growth rate of the total Company.

Distribution center productivity, as measured in units processed per labor hour (UPH), increased by 13% during the third quarter of Fiscal 2007 as compared to the third quarter of Fiscal 2006, reflecting greater efficiencies in operating the second distribution center.

Marketing, General and Administrative Expense

Marketing, general and administrative expense during the third quarter of Fiscal 2007 was $104.0 million compared to $97.2 million during the same period in Fiscal 2006. For the third quarter of Fiscal 2007, the marketing, general and administrative expense rate (marketing, general and administrative expense divided by net sales) was 10.7% compared to 11.3% for the third quarter of Fiscal 2006. The decrease in the rate was primarily due to reductions in travel, in-store marketing expenses and the use of outside services.

Other Operating Income, Net

Third quarter other operating income for Fiscal 2007 was $1.3 million compared to $0.3 million for the third quarter of Fiscal 2006. The increase relates to favorable foreign currency gains resulting from remeasurement of foreign inter-company loans and foreign held cash accounts for the Company s Swiss and United Kingdom operations in compliance with Statement of Financial Accounting Standards (SFAS) No. 52, *Foreign Currency Translation* (SFAS No. 52).

Operating Income

Operating income for the third quarter of Fiscal 2007 increased to $186.6 million from $162.8 million in the third quarter of Fiscal 2006, an increase of 15%. The operating income rate (operating income divided by net sales) was 19.2% for the third quarter of Fiscal 2007 compared to 18.9% for the third quarter of Fiscal 2006.

Interest Income, Net and Income Tax Expense

Third quarter net interest income was $4.6 million in Fiscal 2007 compared to $3.3 million in the third quarter of Fiscal 2006. The increase in net interest income was due to higher interest rates and higher investment balances during the third quarter of Fiscal 2007 compared to the third quarter of Fiscal 2006.

The effective tax rate for the thirteen weeks ended November 3, 2007 was 38.5% as compared to 38.6% for the Fiscal 2006 comparable period.

Net Income and Net Income per Share

Net income for the third quarter of Fiscal 2007 was $117.6 million versus $102.0 million for the third quarter of Fiscal 2006, an increase of 15%. Net income per diluted weighted-average share outstanding for the third quarter of Fiscal 2007 was $1.29 versus $1.11 for the same period of Fiscal 2006.

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YEAR-TO-DATE RESULTS

Net Sales

Year-to-date net sales in Fiscal 2007 were $2.521 billion, an increase of 16% over net sales of $2.179 billion for the comparable period of Fiscal 2006. The net sales increase was attributed to the combination of the net addition of 102 stores, including the Abercrombie & Fitch London flagship, a 51% increase in the direct-to-consumer business and the calendar shift due to Fiscal 2006 being a 53-week fiscal year, partially offset by a 1% decrease in comparable store sales.

Year-to-date comparable store sales by brand were as follows: Abercrombie & Fitch decreased 1%, abercrombie increased 1%, Hollister decreased 3% and RUEHL posted a 3% decrease. The female business in each concept continued to be more significant than the male business. Year-to-date, womens, bettys and girls represented over 60% of net sales for each of their corresponding brands.

Net direct-to-consumer merchandise sales through the Company s websites and catalogue for the year-to-date period of Fiscal 2007 were $150.3 million, an increase of 51% over the Fiscal 2006 comparable period net sales of $99.3 million. Shipping and handling revenue for the corresponding periods was $23.5 million in Fiscal 2007 and $15.2 million in Fiscal 2006. The total direct-to-consumer business accounted for 6.9% of net sales for the Fiscal 2007 year-to-date period compared to 5.3% in the Fiscal 2006 year-to-date period. This increase was driven by store expansion, both domestically and internationally, improved website functionality, improved in-stock inventory availability and increased sales due to a targeted e-mail marketing strategy.

Gross Profit

Year-to-date gross profit in Fiscal 2007 was $1.686 billion compared to $1.453 billion for the comparable period in Fiscal 2006. The gross profit rate for the year-to-date period of Fiscal 2007 was 66.9%, up 20 basis points compared to the Fiscal 2006 year-to-date rate of 66.7%. The increase in the gross profit rate was driven primarily by a higher IMU rate, partially offset by a higher markdown rate.

Stores and Distribution Expense

Stores and distribution expense for the Fiscal 2007 year-to-date period was $998.4 million compared to $837.3 million for the comparable period in Fiscal 2006. The stores and distribution expense rate was 39.6% compared to 38.4% in the corresponding period of Fiscal 2006. The increase in the rate resulted primarily from store payroll, including minimum wage and store manager salary increases, higher store fixed costs and store packaging and supply expenses. Distribution center productivity, as measured in UPH, increased by 8% during the year-to-date period of Fiscal 2007 as compared to the corresponding period of Fiscal 2006, reflecting greater efficiencies obtained in the second distribution center during Fiscal 2007. With the two distribution centers fully operational, the Company expects the UPH level to continue to increase for the remainder of Fiscal 2007.

Marketing, General and Administrative Expense

Marketing, general and administrative expense for the Fiscal 2007 year-to-date period was $292.6 million compared to $272.2 million during the same period in Fiscal 2006. The marketing, general and administrative expense rate was 11.6% compared to 12.5% for the year-to-date period of Fiscal 2006. The decrease in the rate was primarily due to reductions in the use of outside services, travel, and in-store marketing expenses, partially offset by increases in home office payroll expense.

Other Operating Income, Net

Year-to-date other operating income for Fiscal 2007 was $8.7 million compared to $5.4 million for the comparable period of Fiscal 2006. The increase was primarily related to gift cards for which the Company has determined the likelihood of redemption to be remote and gains related to foreign currency transactions. The comparable year-to-date period in Fiscal 2006 included other operating income related to insurance reimbursements for a fire-damaged store and a store damaged by Hurricane Katrina.

Operating Income

For the Fiscal 2007 year-to-date period, operating income was $403.4 million compared to $349.3 million for the Fiscal 2006 comparable period, an increase of 15%. The operating income rate for the Fiscal 2007 year-to-date period was 16.0%, which was flat to the Fiscal 2006 comparable period.

Interest Income, Net and Income Tax Expense

Year-to-date net interest income for Fiscal 2007 was $12.5 million compared to $9.2 million for the Fiscal 2006 comparable period. The increase in net interest income was due to higher interest rates during the first three quarters of Fiscal 2007 and a higher available investment balance during the second and third quarters of Fiscal 2007 when compared to the Fiscal 2006 comparable period.

The effective tax rate for the thirty-nine weeks ended November 3, 2007 was 37.7% as compared to 37.5% for the Fiscal 2006 comparable period. The effective tax rates for both year-to-date periods of Fiscal 2007 and Fiscal 2006 reflect the favorable impact from the settlement of tax audits.

Net Income and Net Income per Share

For the Fiscal 2007 year-to-date period, net income was $258.9 million compared to $224.0 million for the comparable period in Fiscal 2006, an increase of 16%. Fiscal 2007 year-to-date net income per diluted weighted-average share outstanding was $2.82 versus $2.44 for the comparable period of Fiscal 2006.

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FINANCIAL CONDITION

Liquidity and Capital Resources

Cash provided by operating activities provides the resources to support operations, including projected growth, seasonal requirements and capital expenditures. A summary of the Company s working capital position and capitalization follows (in thousands):

	November 3, 2007	February 3, 2007
Working capital	$ 426,358	$ 581,451
Capitalization:		
Shareholders equity	$ 1,405,718	$ 1,405,297

Operating Activities

Net cash provided by operating activities, the Company s primary source of liquidity, totaled $414.9 million for the thirty-nine weeks ended November 3, 2007 versus $269.5 million for the comparable period in Fiscal 2006. Cash was provided primarily by current year net income, adjusted for non-cash items including depreciation and amortization, amortization of deferred lease credits and share-based compensation charges, collection of lessor construction allowances, a reduction primarily in basic category inventory levels and an increase in accounts payable and accrued expenses. Uses of cash consisted primarily of decreases in income taxes payable due to payments during the quarter.

Investing Activities

Cash inflows from investing activities were generated by sales of marketable securities. Cash outflows for investing activities were for purchases of marketable securities and capital expenditures (see the discussion in Capital Expenditures and Lessor Construction Allowances) primarily related to new store construction, store remodels, the purchase of an airplane and other various store, home office and distribution center projects. As of November 3, 2007, the Company held $277.7 million of marketable securities with original maturities of greater than 90 days.

Financing Activities

Financing activities for the thirty-nine week period ended November 3, 2007 consisted primarily of $287.9 million used for the repurchase of treasury stock during the first and third quarters of Fiscal 2007, $46.3 million used for the pa