SHAREHOLDERS' EQUITY At February 1, 2003 and February 2, 2002, there were 150 million shares of $.01 par value Class A Common Stock authorized, of which 97.3 million and 98.9 million shares were outstanding at February 1, 2003 and February 2, 2002, respectively, and 106.4 million shares of $.01 par value Class B Common Stock authorized, none of which were outstanding at February 1, 2003 or February 2, 2002. In addition, 15 million shares of $.01 par value Preferred Stock were authorized, none of which have been issued. See Note 13 for information about Preferred Stock Purchase Rights.

Holders of Class A Common Stock generally have identical rights to holders of Class B Common Stock, except that holders of Class A Common Stock are entitled to one vote per share while holders of Class B Common Stock are entitled to three votes per share on all matters submitted to a vote of shareholders.

REVENUE RECOGNITION The Company recognizes retail sales at the time the customer takes possession of the merchandise and purchases are paid for, primarily with either cash or credit card. Catalogue and e-commerce sales are recorded upon customer receipt of merchandise. Amounts relating to shipping and handling billed to customers in a sale transaction are classified as revenue and the related costs are classified as cost of goods sold. Employee discounts are classified as a reduction of revenue. The Company reserves for sales returns through estimates based on historical experience and various other assumptions that management believes to be reasonable.

CATALOGUE AND ADVERTISING COSTS Costs related to the *A&F Quarterly*, a catalogue/magazine, primarily consist of catalogue production and mailing costs and are expensed as incurred. Advertising costs consist of in-store photographs and advertising in selected national publications and are expensed when the photographs or publications first appear. Catalogue and advertising costs amounted to $33.4 million in 2002, $30.7 million in 2001 and $30.4 million in 2000.

STORE PREOPENING EXPENSES Preopening expenses related to new store openings are charged to operations as incurred.

FAIR VALUE OF FINANCIAL INSTRUMENTS The recorded values of current assets and current liabilities, including receivables, marketable securities and accounts payable, approximate fair value due to the short maturity and because the average interest rate approximates current market origination rates.

STOCK-BASED COMPENSATION The Company reports stock-based compensation through the disclosure-only requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation–Transition and Disclosure–an Amendment to FASB No. 123," but elects to measure compensation expense using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation expense for options has been recognized as all options are granted at fair market value at the grant date. The Company does recognize compensation expense related to restricted share awards. If compensation expense related to options had been determined based on the estimated fair value of options granted in 2002, 2001 and 2000, consistent with the methodology in SFAS No. 123, the pro forma effect on net income and net income per basic and diluted share would have been as follows:

(Thousands except per share amount)	2002	2001	2000
Net Income:			
As reported	$194,935	$168,672	$158,133
Stock-based compensation expense included in reported net income, net of tax	1,414	2,401	2,626
Stock-based compensation expense determined under fair value based method, net of tax(1)	(25,979)	(22,453)	(21,706)
Pro forma	$170,370	$148,620	$139,053
Basic earnings per share:			
As reported	$1.99	$1.70	$1.58
Pro forma	$1.74	$1.50	$1.39
Diluted earnings per share:			
As reported	$1.94	$1.65	$1.55
Pro forma	$1.73	$1.48	$1.38

(1) Includes stock-based compensation expense related to restricted share awards actually recognized in earnings in each period presented.

The pro forma effect on net income for 2002, 2001 and 2000 is not representative of the pro forma effect on net income in future years because it takes into consideration pro forma compensation expense related only to those grants made subsequent to May 19, 1998.

The weighted-average fair value of all options granted during fiscal 2002, 2001 and 2000 was $12.07, $14.96 and $8.90, respectively.