

# Abercrombie & Fitch

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**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 “Abercrombie & Fitch” or 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 consolidated financial statements include the historical financial statements of, and transactions applicable to, A&F and its wholly-owned subsidiaries and reflect the assets, liabilities, results of operations and cash flows on a historical cost basis.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**PRINCIPLES OF CONSOLIDATION** The consolidated financial statements include the accounts of A&F. All significant intercompany balances and transactions have been eliminated in consolidation.

**FISCAL YEAR** 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. The results for fiscal years 2002 and 2001 represent the fifty-two week periods ended February 1, 2003 and February 2, 2002. The results for fiscal year 2000 represent the fifty-three week period ended February 3, 2001.

**CASH AND EQUIVALENTS** Cash and equivalents include amounts on deposit with financial institutions and investments with original maturities of less than 90 days.

**MARKETABLE SECURITIES** All investments with original maturities of greater than 90 days are accounted for in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 115, “Accounting for Certain Investments in Debt and Equity Securities.” The Company determines the appropriate classification at the time of purchase. At February 1, 2003, the Company held investments in marketable securities that were classified as held to maturity based on the Company’s positive intent and ability to hold the securities to maturity. Primarily all securities held by the Company at February 1, 2003 were municipal debt securities that mature within one year and are stated at amortized cost that approximates market value.

**INVENTORIES** Inventories are principally valued at the lower of average cost or market, on a first-in first-out basis, utilizing the retail method.

**STORE SUPPLIES** The initial inventory of supplies for new stores including, but not limited to, hangers, signage, security tags and point-of-sale supplies are capitalized at the store opening date. Subsequent shipments are expensed except for new merchandise presentation programs, which are capitalized.

**PROPERTY AND EQUIPMENT** Depreciation and amortization of property and equipment are computed for financial reporting purposes on a straight-line basis, using service lives ranging principally from 10-15 years for leasehold improvements and 3-10 years for other property and equipment. Beneficial leaseholds represent the present value of the excess of fair market rent over contractual rent of existing stores as of the 1988 purchase of the Abercrombie & Fitch business by The Limited, Inc. (now known as Limited Brands, Inc. “The Limited”) and are being amortized over the lives of the related leases. The cost of assets sold or retired and the related accumulated depreciation or amortization are removed from the accounts with any resulting gain or loss included in net income. Maintenance and repairs are charged to expense as incurred. Major renewals and betterments that extend service lives are capitalized. Long-lived assets are reviewed at the store level at least annually for impairment or whenever events or changes in circumstances indicate that full recoverability of net assets through future cash flows is in question. Factors used in the evaluation include, but are not limited to, management’s plans for future operations, recent operating results and projected cash flows.

**INCOME TAXES** Income taxes are calculated in accordance with SFAS No. 109, “Accounting for Income Taxes,” which requires the use of the liability method. Deferred tax assets and liabilities are recognized based on the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred tax assets and liabilities are measured using enacted tax rates in effect in the years in which those temporary differences are expected to reverse. Under SFAS No. 109, the effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.