ABERCROMBIE & FITCH CO /DE/
Form 10-Q
September 05, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 28, 2012

OR

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

For the transition period from to

Commission File Number 1-12107

ABERCROMBIE & FITCH CO.

(Exact name of Registrant as specified in its charter)

Delaware	**31-1469076**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**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. x Yes ¨ No

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

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

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

Class A Common Stock	Outstanding at August 24, 2012
$.01 Par Value	82,572,765 Shares

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ABERCROMBIE & FITCH CO.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ABERCROMBIE & FITCH CO.

CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME

(Thousands, except share and per share amounts)

(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
NET SALES	$ 951,407	$ 916,763	$ 1,872,625	$ 1,753,437
Cost of Goods Sold	357,000	333,721	701,859	626,734
GROSS PROFIT	594,407	583,042	1,170,766	1,126,703
Stores and Distribution Expense	458,085	425,325	913,817	824,426
Marketing, General and Administrative Expense	111,293	109,999	228,182	217,650
Other Operating (Income) Expense, Net	(1,933)	544	(4,519)	(1,292)
OPERATING INCOME	26,962	47,174	33,286	85,919
Interest Expense, Net	1,546	985	2,636	1,935
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	25,416	46,189	30,650	83,984
Tax Expense from Continuing Operations	9,897	14,158	12,146	27,608
NET INCOME FROM CONTINUING OPERATIONS	$ 15,519	$ 32,031	$ 18,504	$ 56,376
INCOME FROM DISCONTINUED OPERATIONS, Net of Tax	$	$	$	$ 796
NET INCOME	$ 15,519	$ 32,031	$ 18,504	$ 57,172
NET INCOME PER SHARE FROM CONTINUING OPERATIONS:				
BASIC	$ 0.19	$ 0.37	$ 0.22	$ 0.65
DILUTED	$ 0.19	$ 0.35	$ 0.22	$ 0.62
NET INCOME PER SHARE FROM DISCONTINUED OPERATIONS:				
BASIC	$	$	$	$ 0.01
DILUTED	$	$	$	$ 0.01
NET INCOME PER SHARE:				
BASIC	$ 0.19	$ 0.37	$ 0.22	$ 0.66
DILUTED	$ 0.19	$ 0.35	$ 0.22	$ 0.63

WEIGHTED-AVERAGE SHARES OUTSTANDING:				
BASIC	82,555	87,267	83,574	87,274
DILUTED	83,441	90,353	84,813	90,397
DIVIDENDS DECLARED PER SHARE	$ 0.175	$ 0.175	$ 0.35	$ 0.35
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign Currency Translation Adjustments	$ (19,452)	$ (1,982)	$ (16,068)	$ 16,504
Gain on Marketable Securities, net of taxes of $(566) for the thirteen-week period ended July 30, 2011 and $(957) for the twenty-six week period ended July 30, 2011		965		1,630
Unrealized Gain (Loss) on Derivative Financial Instruments, net of taxes of $(724) and $(1,644) for the thirteen-week periods ended July 28, 2012 and July 30, 2011, respectively and $212 and $263 for the twenty-six week periods ended July 28, 2012 and July 30, 2011, respectively	9,231	2,799	2,086	(447)
Other Comprehensive Income (Loss)	$ (10,221)	$ 1,782	$ (13,982)	$ 17,687
COMPREHENSIVE INCOME	$ 5,298	$ 33,813	$ 4,522	$ 74,859

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

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ABERCROMBIE & FITCH CO.

CONSOLIDATED BALANCE SHEETS

(Thousands, except par value amounts)

	(unaudited) July 28, 2012	January 28, 2012
ASSETS		
CURRENT ASSETS:		
Cash and Equivalents	$ 312,153	$ 583,495
Marketable Securities	20,110	84,650
Receivables	95,267	89,350
Inventories	621,740	569,818
Deferred Income Taxes	86,186	77,120
Other Current Assets	91,205	84,342
TOTAL CURRENT ASSETS	1,226,661	1,488,775
PROPERTY AND EQUIPMENT, NET	1,280,239	1,197,271
NON-CURRENT MARKETABLE SECURITIES		14,858
OTHER ASSETS	362,338	347,249
TOTAL ASSETS	$ 2,869,238	$ 3,048,153
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts Payable	$ 186,447	$ 211,368
Accrued Expenses	350,075	369,073
Deferred Lease Credits	39,996	41,047
Borrowings	75,000	
Income Taxes Payable	36,062	77,918
TOTAL CURRENT LIABILITIES	687,580	699,406
LONG-TERM LIABILITIES:		
Deferred Lease Credits	176,875	183,022
Leasehold Financing Obligations	62,827	57,851
Other Liabilities	246,120	245,418
TOTAL LONG-TERM LIABILITIES	485,822	486,291
STOCKHOLDERS EQUITY:		
Class A Common Stock - $0.01 par value: 150,000 shares authorized and 103,300 shares issued at each of July 28, 2012 and January 28, 2012	1,033	1,033
Paid-In Capital	378,100	369,171
Retained Earnings	2,309,614	2,320,571
Accumulated Other Comprehensive (Loss) Income, net of tax	(7,527)	6,455
Treasury Stock, at Average Cost - 20,733 and 17,662 shares at July 28, 2012 and January 28, 2012, respectively	(985,384)	(834,774)
TOTAL STOCKHOLDERS EQUITY	1,695,836	1,862,456

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 2,869,238	$ 3,048,153

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

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ABERCROMBIE & FITCH CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands)

(Unaudited)

	Twenty-Six Weeks Ended	
	July 28, 2012	July 30, 2011
OPERATING ACTIVITIES:		
Net Income	$ 18,504	$ 57,172
Impact of Other Operating Activities on Cash Flows:		
Depreciation and Amortization	109,347	116,397
Loss on Disposal / Write-off of Assets	5,184	3,156
Lessor Construction Allowances	8,394	19,244
Amortization of Deferred Lease Credits	(23,339)	(21,609)
Deferred Taxes	(20,374)	1,802
Share-Based Compensation	25,450	24,396
Net Tax (Deficiency) Benefit from Share-Based Compensation	(467)	2,745
Excess Tax Benefit from Share-Based Compensation	(1,054)	(4,551)
Changes in Assets and Liabilities:		
Inventories	(53,421)	(129,142)
Accounts Payable and Accrued Expenses	(44,329)	38,682
Income Taxes	(41,974)	(56,294)
Other Assets and Liabilities	(6,212)	(57,110)
NET CASH USED FOR OPERATING ACTIVITIES	(24,291)	(5,112)
INVESTING ACTIVITIES:		
Capital Expenditures	(199,958)	(133,022)
Proceeds from Sales of Marketable Securities	80,693	1,375
Other Investing	(6,048)	(19,757)
NET CASH USED FOR INVESTING ACTIVITIES	(125,313)	(151,404)
FINANCING ACTIVITIES:		
Proceeds from Share-Based Compensation	106	25,066
Excess Tax Benefit from Share-Based Compensation	1,054	4,551
Purchase of Treasury Stock	(161,215)	(89,868)
Repayments of Borrowings Under the Credit Agreement		(45,002)
Proceeds from Borrowings Under the Credit Agreement	75,000	
Change in Outstanding Checks and Other	(3,457)	1,629
Dividends Paid	(29,260)	(30,633)
NET CASH USED FOR FINANCING ACTIVITIES	(117,772)	(134,257)
EFFECT OF EXCHANGE RATES ON CASH	(3,966)	4,033
NET DECREASE IN CASH AND EQUIVALENTS:	(271,342)	(286,740)
Cash and Equivalents, Beginning of Period	583,495	826,353
CASH AND EQUIVALENTS, END OF PERIOD	$ 312,153	$ 539,613

SIGNIFICANT NON-CASH INVESTING ACTIVITIES:		
Change in Accrual for Construction in Progress	$ 6,728	$ 22,997

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

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ABERCROMBIE & FITCH CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

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

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

The Company s fiscal year ends on the Saturday closest to January 31. Fiscal years are designated in the consolidated financial statements and notes by the calendar year in which the fiscal year commences. All references herein to Fiscal 2012 represent the 53-week fiscal year that will end on February 2, 2013, and to Fiscal 2011 represent the 52-week fiscal year that ended January 28, 2012.

The Consolidated Financial Statements as of July 28, 2012 and for the thirteen and twenty-six week periods ended July 28, 2012 and July 30, 2011 are unaudited and are presented pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, these Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto contained in A&F s Annual Report on Form 10-K for Fiscal 2011 filed on March 27, 2012. The January 28, 2012 consolidated balance sheet data were derived from audited consolidated financial statements, but do not include all disclosures required by accounting principles generally accepted in the United States of America (U.S. GAAP).

In the opinion of management, the accompanying Consolidated Financial Statements reflect all adjustments (which are of a normal recurring nature) necessary to present fairly, in all material respects, the financial position and results of operations and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for Fiscal 2012.

Certain prior period amounts have been reclassified to conform to current year presentation. In addition, the classification of the Excess Tax Benefit from Share-Based Compensation was corrected on the Consolidated Statements of Cash Flows for the twenty-six weeks ended July 30, 2011, which resulted in a decrease in cash flows from operating activities of $4.6 million and an increase in cash flows from financing activities of $4.6 million. The Company believes these classification errors were immaterial to the previously issued financial statements.

The Consolidated Financial Statements as of July 28, 2012 and for the thirteen and twenty-six week periods ended July 28, 2012 and July 30, 2011 included herein have been reviewed by PricewaterhouseCoopers LLP, an independent registered public accounting firm, and the report of such firm follows the notes to the consolidated financial statements.

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

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2. SEGMENT REPORTING

The Company determines its segments on the same basis that it uses to allocate resources and assess performance. All of the Company s segments sell a similar group of products casual sportswear apparel, personal care products and accessories for men, women and kids and bras, underwear and sleepwear for girls. The Company has three reportable segments; U.S. Stores, International Stores, and Direct-to-Consumer. Corporate functions, interest income and expense, and other income and expense are evaluated on a consolidated basis and are not allocated to the Company s segments, and thefore are included in Other.

The U.S. Stores reportable segment includes the results of store operations in the United States and Puerto Rico. The International Stores reportable segment includes the results of store operations in Canada, Europe and Asia. The Direct-to-Consumer reportable segment includes the results of operations directly associated with the on-line operations, both domestic and international.

Operating income is the primary measure of profit the Company uses to make decisions on allocating resources to its operating segments. For the U.S. Stores and International Stores reportable segments, operating income is defined as aggregate income directly attributable to individual stores on a four-wall basis. Four-wall expense includes all expenses contained within the four walls of the stores. These include expenses such as cost of merchandise, selling payroll and related costs, rent, utilities, depreciation, repairs and maintenance, supplies and packaging and other store sales-related expenses including credit card and bank fees and taxes. Operating income also reflects pre-opening charges related to stores not yet in operation and period-end markdown reserves. For the Direct-to-Consumer reportable segment, operating income is defined as aggregate income attributable to the direct-to-consumer business, less fulfillment and shipping expense, charge card fees and direct-to-consumer operations management and support expenses. The U.S. Stores, International Stores and Direct-to-Consumer segments exclude marketing, general and administrative expense, store management and support functions such as regional and district management and other functions not dedicated to an individual store, distribution center costs and markdowns on merchandise held in distribution centers. All costs excluded from the three reportable segments are included in Other.

Reportable segment assets include those used directly in or resulting from the operations of each reportable segment. Total assets for the U.S. Stores and International Stores reportable segments primarily consist of store cash, credit card receivables, prepaid rent, store packaging and supplies, lease deposits, merchandise inventory, leasehold acquisition costs, restricted cash and the net book value of store long-lived assets. Total assets for International Stores also include VAT receivables. Total assets for the Direct-to-Consumer reportable segment primarily consist of credit card receivables, merchandise inventory, and the net book value of long-lived assets. Total assets for Other include cash and cash equivalents, investments, distribution center inventory, the net book value of home office and distribution center long-lived assets, foreign currency hedge assets and tax-related assets.

The following table provides the Company s segment information as of, and for, the thirteen and twenty-six week periods ended July 28, 2012 and July 30, 2011:

	U.S. Stores	International Stores	Direct-to-Consumer Operations	Segment Total	Other[(1)]	Total
			(In thousands):			
Thirteen Weeks Ended July 28, 2012						
Net Sales	$ 560,508	$ 254,764	$ 127,677	$ 942,949	$ 8,458	$ 951,407
Operating Income (Loss)	82,661	65,557	55,567	203,785	(176,823)	26,962
Thirteen Weeks Ended July 30, 2011						
Net Sales	$ 613,085	$ 197,962	$ 102,088	$ 913,135	$ 3,628	$ 916,763
Operating Income (Loss)	110,254	66,993	46,454	223,701	(176,527)	47,174

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	U.S. Stores	International Stores	Direct-to-Consumer Operations	Segment Total	Other(1)	Total
			(In thousands):			
Twenty-Six Weeks Ended July 28, 2012						
Net Sales	$ 1,104,389	$ 479,791	$ 275,906	$ 1,860,086	$ 12,539	$ 1,872,625
Operating Income (Loss)	167,609	117,527	120,548	405,684	(372,398)	33,286
Twenty-Six Weeks Ended July 30, 2011						
Net Sales	$ 1,179,796	$ 356,657	$ 207,860	$ 1,744,313	$ 9,124	$ 1,753,437
Operating Income (Loss)	205,458	115,044	100,527	421,029	(335,110)	85,919

(1) Includes corporate functions such as Design, Merchandising, Sourcing, Planning, Allocation, Store Management and Support, Marketing, Distribution Center Operations, Information Technology, Real Estate, Finance, Legal, Human Resources and other corporate overhead. Net Sales consist of third party sell-off of inventory. Operating Income includes: marketing, general and administrative expense, store management and support functions such as regional and district management and other functions not dedicated to an individual store; distribution center costs; and markdowns on merchandise held in distribution centers.

The Total Assets as of July 28, 2012, were $605.2 million for U.S. Stores, $779.4 million for International Stores, $67.4 million for Direct-to-Consumer Operations and $1.417 billion for Other.

The Total Assets reported in the Form 10-Q for the quarter ended April 28, 2012, as amended on June 7, 2012, included an allocation error between U.S. Stores, International Stores, Direct-to-Consumer and Other. The Company believes these classification errors were immaterial to the previously issued financial statements. The Total Assets reported as of April 28, 2012 was $796.7 million for U.S. Stores, $740.0 million for International Stores, $98.0 million for Direct-to-Consumer Operations and $1.099 billion for Other. The Total Assets reported as of April 28, 2012 should have been $609.2 million for U.S. Stores, $739.0 million for International Stores, $56.2 million for Direct-to-Consumer Operations and $1.330 billion for Other.

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Geographic Information

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

Net Sales:

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
(in thousands):	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
United States	$ 648,017	$ 684,892	$ 1,292,277	$ 1,325,841
Europe	250,339	182,432	469,925	334,864
Other	53,051	49,439	110,423	92,732
Total	$ 951,407	$ 916,763	$ 1,872,625	$ 1,753,437

Long-Lived Assets:

(in thousands):	July 28, 2012	January 28, 2012
United States	$ 785,780	$ 794,723
Europe	437,668	366,647
Other	179,165	156,361
Total	$ 1,402,613	$ 1,317,731

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

3. SHARE-BASED COMPENSATION

Financial Statement Impact

The Company recognized share-based compensation expense of $12.6 million and $25.5 million for the thirteen and twenty-six week periods ended July 28, 2012, respectively and $13.5 million and $24.4 million for the thirteen and twenty-six week periods ended July 30, 2011, respectively. The Company also recognized $4.8 million and $9.7 million in tax benefits related to share-based compensation expense for the thirteen and twenty-six week periods ended July 28, 2012, respectively and $5.1 million and $9.2 million for the thirteen and twenty-six week periods ended July 30, 2011, respectively.

The fair value of share-based compensation awards is recognized as compensation expense primarily on a straight-line basis over the awards requisite service period, net of forfeitures. For awards that are expected to result in a tax deduction, a deferred tax asset is recorded in the period in which share-based compensation expense is recognized. A current tax deduction arises upon the vesting of restricted stock units or the exercise of stock options and stock appreciation rights and is principally measured at the award s intrinsic value. If the tax deduction is greater than the recorded deferred tax asset, the tax benefit associated with any excess deduction is considered a windfall tax benefit and is recognized as additional paid-in capital. If the tax deduction is less than the recorded deferred tax asset, the resulting difference, or shortfall, is first charged to additional paid in capital, to the extent of the pool of windfall tax benefits, with any remainder recognized as tax expense. The Company s pool of windfall tax benefits as of July 28, 2012 is sufficient to fully absorb any shortfall which may develop associated with awards currently outstanding.

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The Company adjusts share-based compensation expense on a quarterly basis for actual forfeitures and for changes to the estimate of expected award forfeitures. The effect of adjusting the forfeiture rate is recognized in the period the forfeiture estimate is changed. The effect of adjustments for forfeitures during the twenty-six weeks ended July 28, 2012 was immaterial. The effect of adjustments for forfeitures during the twenty-six weeks ended July 30, 2011 was an expense of $1.5 million.

Pursuant to an employment agreement, the Chairman and Chief Executive Officer (CEO) is eligible to receive semi-annual grants, as defined in the agreement. The semi-annual grants vest in equal annual installments over the four-year period following the grant date except that each award becomes fully vested no later than February 1, 2014, except for the final semi-annual grant, which will become fully vested on the date of the grant. On May 7, 2012, the Company amended the CEO employment agreement and for future grants, the portion of the semi-annual grant awarded in the form of restricted stock or restricted stock units will vest according to the above schedule if and to the extent the performance-based vesting criteria described in Amendment No. 3 to the employment agreement are met.

A&F issues shares of Common Stock from treasury stock upon exercise of stock options and stock appreciation rights and vesting of restricted stock units. As of July 28, 2012, A&F had sufficient treasury stock available to settle stock options, stock appreciation rights and restricted stock units outstanding. Settlement of stock awards in Common Stock also requires that the Company has sufficient shares available in stockholder-approved plans at the applicable time.

In the event, at any reporting date during which share-based compensation awards remain outstanding, there are not sufficient shares of Common Stock available to be issued under the 2005 Long-Term Incentive Plan (the 2005 LTIP) and the Amended and Restated 2007 Long-Term Incentive Plan (the Amended and Restated 2007 LTIP), or under a successor or replacement plan, the Company may be required to designate some portion of the outstanding awards to be settled in cash, which would result in liability classification of such awards.

Plans

As of July 28, 2012, A&F had two primary share-based compensation plans: the 2005 LTIP, under which A&F grants stock options, stock appreciation rights and restricted stock units to associates of the Company and non-associate members of the A&F Board of Directors, and the Amended and Restated 2007 LTIP, under which A&F grants stock options, stock appreciation rights and restricted stock units to associates of the Company. A&F also has four other share-based compensation plans under which it granted stock options and restricted stock units to associates of the Company and non-associate members of the A&F Board of Directors in prior years.

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

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Fair Value Estimates

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

In the case of restricted stock units, the Company calculates the fair value of the restricted stock units granted using the market price of the underlying Common Stock on the date of grant adjusted for anticipated dividend payments during the vesting period. In determining the fair value of restricted stock units the Company does not take into account any performance-based requirements. The performance-based requirements are taken into account in determining the number of awards expected to vest.

Stock Options

The Company did not grant any stock options during the twenty-six weeks ended July 28, 2012 or July 30, 2011.

Below is a summary of stock option activity for the twenty-six weeks ended July 28, 2012:

Stock Options	Number of Underlying Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Contractual Life
Outstanding at January 28, 2012	714,997	$ 60.72		
Granted				
Exercised	(4,000)	26.77		
Forfeited or cancelled	(26,400)	77.91		
Outstanding at July 28, 2012	684,597	$ 60.25	$ 2,032,747	4.1
Stock options exercisable at July 28, 2012	668,597	$ 61.20	$ 1,774,217	4.1
Stock options expected to become exercisable in the future as of July 28, 2012	15,665	$ 20.59	$ 253,206	6.4

The total intrinsic value of stock options which were exercised during the twenty-six weeks ended July 28, 2012 was immaterial. The total intrinsic value of stock options exercised during the twenty-six weeks ended July 30, 2011 was $27.0 million.

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The grant date fair value of stock options which vested during the twenty-six weeks ended July 28, 2012 and July 30, 2011 was $1.2 million and $2.3 million, respectively.

As of July 28, 2012, there was an immaterial amount of total unrecognized compensation cost, net of estimated forfeitures, related to stock options.

Stock Appreciation Rights

The weighted-average estimated fair value of stock appreciation rights granted during the twenty-six weeks ended July 28, 2012 and July 30, 2011, and the weighted-average assumptions used in calculating such fair value, on the date of grant, were as follows:

	Twenty-Six Weeks Ended					
	Chairman and Chief Executive Officer		Other Executive Officers		All Other Associates	
	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011
Grant date market price	$ n/a	$ 54.87	$ 52.89	$ 54.87	$ 52.66	$ 54.87
Exercise price	$ n/a	$ 54.87	$ 52.89	$ 54.87	$ 52.66	$ 54.87
Fair value	$ n/a	$ 22.09	$ 23.53	$ 22.29	$ 23.01	$ 21.86
Assumptions:						
Price volatility	n/a	53%	56%	53%	61%	55%
Expected term (Years)	n/a	4.6	5.0	4.7	4.1	4.1
Risk-free interest rate						