ABERCROMBIE & FITCH CO /DE/
Form 10-Q/A
April 12, 2005

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

FORM 10-Q/A
(AMENDMENT NO. 1)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 30, 2004

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 incorporation or organization)	(I.R.S. Employer Identification No.)

6301 Fitch Path, New Albany, OH	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 [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (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 December 3, 2004

$.01 Par Value	87,149,083 Shares

EXPLANATORY NOTE

This Amendment No. 1 to this Quarterly Report on Form 10-Q/A ("Form 10-Q/A") is being filed in order to correct the previously issued condensed consolidated financial statements of Abercrombie & Fitch Co. (the "Company") for the quarterly period ended October 30, 2004, initially filed with the Securities and Exchange Commission (the "SEC") on December 9, 2004 (the "Original Filing"). The corrections are to properly account for landlord construction allowances in accordance with Statement of Financial Accounting Standards No.13, "Accounting for Leases" and Financial Accounting Standards Board Technical Bulletin No. 88-1, "Issues Relating to Accounting for Leases"; and rent holidays in accordance with Financial Accounting Standards Board Technical Bulletin No. 85-3, "Accounting for Operating Leases with Scheduled Rent Increases." See Note 2: "Restatement and Reclassification of Financial Statements" under Notes to Condensed Consolidated Financial Statements included in Item 1, "Financial Statements" of this Form 10-Q/A for additional discussion and a summary of the effect of these changes on the Company's condensed consolidated financial statements as of October 30, 2004 and January 31, 2004 and for the interim periods ended October 30, 2004 and November 1, 2003.

This Form 10-Q/A amends and restates only Items 1, 2 and 4 of Part I and Item 6 of Part II of the Original Filing to reflect the effects of this restatement of our financial statements for the period presented or as deemed necessary in connection with the completion of restated financial statements. The remaining Items contained within this Amendment No. 1 on Form 10-Q/A consist of all other Items originally contained on Form 10-Q for the fiscal quarter ended October 30, 2004. These remaining Items are not amended hereby, but are included for the convenience of the reader. Except for the forgoing amended information, this Form 10-Q/A continues to describe conditions as of the date of the Original Filing, and we have not updated the disclosures contained herein to reflect events that occurred at a later date.

In connection with the preparation of this Form 10-Q/A, the Company concluded that it was appropriate to classify our investments in auction rate securities as marketable securities. Previously, such investments had been classified as cash and equivalents. Accordingly, we have revised the classification to report these investments as marketable securities on the consolidated balance sheets as of October 30, 2004 and January 31, 2004. The Company has also made corresponding adjustments to the consolidated statements of cash flows for the thirty-nine weeks ended October 30, 2004 and November 1, 2003, to reflect the gross purchases and sales of these investments as investing activities rather than as a component of cash and equivalents. See Note 2: "Restatement and Reclassification of Financial Statements" under Notes to Condensed Consolidated Financial Statements included in Item 1, "Financial Statements" of this Form 10-Q/A for additional discussion on the effects of the change in classification.

2

ABERCROMBIE & FITCH CO.

TABLE OF CONTENTS

Page No.

Part I. Financial Information

Item 1. Financial Statements

Condensed Consolidated Statements of Income - (Restated) Thirteen and Thirty-Nine Weeks Ended October 30, 2004 and November 1, 2003 4

Condensed Consolidated Balance Sheets - (Restated) October 30, 2004 and January 31, 2004 5

Condensed Consolidated Statements of Cash Flows - (Restated) Thirty-Nine Weeks Ended October 30, 2004 and November 1, 2003 6

Notes to Condensed Consolidated Financial Statements - (Restated) 7

Report of Independent Registered Public Accounting Firm 18

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 19

Item 3. Quantitative and Qualitative Disclosures About Market Risk 34

Item 4. Controls and Procedures 35

Part II. Other Information

Item 1. Legal Proceedings 37

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 40

Item 5. Other Information 41

Item 6. Exhibits 43

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ABERCROMBIE & FITCH

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Thousands except per share amounts)

(Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 30, 2004	November 1, 2003	October 30, 2004	November 1, 2003
	(Restated, See Note 2)			
NET SALES	$ 520,724	$ 444,979	$ 1,333,999	$ 1,147,421

Cost of Goods Sold, Occupancy and Buying Costs	294,187	261,986	760,830	692,000
GROSS INCOME	226,537	182,993	573,169	455,421
General, Administrative and Store Operating Expenses	164,559	102,415	395,709	279,030
OPERATING INCOME	61,978	80,578	177,460	176,391
Interest Income, Net	(1,574)	(757)	(3,919)	(2,610)
INCOME BEFORE INCOME TAXES	63,552	81,335	181,379	179,001
Provision for Income Taxes	23,641	31,401	69,263	68,754
NET INCOME	$ 39,911	$ 49,934	$ 112,116	$ 110,247
NET INCOME PER SHARE:				
BASIC	$ 0.43	$ 0.52	$ 1.19	$ 1.14
DILUTED	$ 0.42	$ 0.50	$ 1.16	$ 1.10
WEIGHTED-AVERAGE SHARES OUTSTANDING:				
BASIC	93,449	96,407	94,490	97,076
DILUTED	95,351	99,102	96,522	100,095
DIVIDENDS PER SHARE	$ 0.13	$ 0.00	$ 0.50	$ 0.00

The accompanying notes are an integral part of these condensed consolidated financial statements.

4

ABERCROMBIE & FITCH

CONDENSED CONSOLIDATED BALANCE SHEETS

(Thousands)

(Unaudited)

	October 30, 2004	January 31, 2004
	(Restated, See Note 2)	

ASSETS		
CURRENT ASSETS:		
Cash and Equivalents	$ 74,591	$ 56,373
Marketable Securities	368,815	464,700
Receivables	20,027	7,197
Inventories	209,002	170,703
Store Supplies	35,432	29,993
Other	28,531	23,689
TOTAL CURRENT ASSETS	736,398	752,655
PROPERTY AND EQUIPMENT, NET	684,784	630,022
OTHER ASSETS	7,840	552
TOTAL ASSETS	$ 1,429,022	$ 1,383,229
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts Payable & Outstanding Checks	$ 138,740	$ 91,364
Accrued Expenses	227,722	163,389
Deferred Lease Credits	30,939	26,627
Income Taxes Payable	13,756	29,692
TOTAL CURRENT LIABILITIES	411,157	311,072
DEFERRED INCOME TAXES	42,638	31,236
LONG-TERM DEFERRED LEASE CREDITS	165,626	154,768
OTHER LONG-TERM LIABILITIES	32,135	28,388
SHAREHOLDERS' EQUITY:		
Class A Common Stock - $.01 par value: 150,000,000 shares authorized and 103,300,000 shares issued at October 30, 2004 and January 31, 2004, respectively	1,033	1,033
Paid-In Capital	141,656	139,139
Retained Earnings	971,336	906,085
	1,114,025	1,046,257
Less: Treasury Stock, at Average Cost, 12,744,016 and 8,692,501 shares at October 30, 2004 and January 31, 2004, respectively	(336,559)	(188,492)
TOTAL SHAREHOLDERS' EQUITY	777,466	857,765
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,429,022	$ 1,383,229

The accompanying notes are an integral part of these condensed consolidated financial statements.

ABERCROMBIE & FITCH

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands)

(Unaudited)

	Thirty-Nine Weeks Ended	
	October 30, 2004	November 1, 2003
	(Restated, See Noted)	
OPERATING ACTIVITIES:		
Net Income	$ 112,116	$ 110,247
Impact of Other Operating Activities on Cash Flows:		
Depreciation and Amortization	76,989	64,480
Amortization of Deferred Lease Credits	(22,546)	(18,095)
Loss on Retirement of Property and Equipment	2,553	-
Non-cash Charge for Deferred Compensation	7,670	4,083
Deferred Taxes	(9,983)	11,731
Lessor Construction Allowances	35,028	36,122
Changes in Assets and Liabilities:		
Inventories	(31,147)	(49,875)
Accounts Payable and Accrued Expenses	91,689	22,043
Income Taxes	17,285	(7,340)
Other Assets and Liabilities	(24,492)	167
NET CASH PROVIDED BY OPERATING ACTIVITIES	255,162	173,563
INVESTING ACTIVITIES:		
Capital Expenditures Including Capital Lease Obligations	(141,071)	(119,753)
Purchases of Marketable Securities	(3,630,880)	(2,731,842)
Proceeds from Sale of Marketable Securities	3,726,765	2,776,096
NET CASH USED FOR INVESTING ACTIVITIES	(45,186)	(75,499)
FINANCING ACTIVITIES:		
Change in Cash Overdraft	8,518	(1,686)
Stock Option Exercises and Other	33,162	18,162
Purchases of Treasury Stock	(197,892)	(68,746)
Dividends Paid	(35,546)	-

NET CASH USED FOR FINANCING ACTIVITIES	(191,758)	(52,270)
NET INCREASE IN CASH AND EQUIVALENTS	18,218	45,794
Cash and Equivalents, Beginning of Year	56,373	43,355
CASH AND EQUIVALENTS, END OF PERIOD	$ 74,591	$ 89,149
SIGNIFICANT NON-CASH INVESTING ACTIVITIES:		
Change in Accrual for Construction in Progress	($ 7,295)	$ 24,921
SIGNIFICANT NON-CASH FINANCING ACTIVITIES:		
Declaration of Cash Dividend to be Paid	$ 11,319	-

The accompanying notes are an integral part of these condensed consolidated financial statements.

ABERCROMBIE & FITCH

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION

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

The condensed consolidated financial statements include the accounts of A&F and all significant subsidiaries that are more than 50 percent owned and controlled. All significant intercompany balances and transactions have been eliminated in consolidation.

Certain amounts have been reclassified to conform with the current year presentation. The amounts reclassified did not have an effect on the Company's results of operations or shareholders' equity.

The condensed consolidated financial statements as of October 30, 2004 and for the thirteen and thirty-nine week periods ended October 30, 2004 and November 1, 2003 are unaudited and are presented pursuant to the rules and regulations of the Securities and Exchange Commission. 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/A for the fiscal year ended January 31, 2004 (the "2003 fiscal year"). 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 the fiscal year ending January 29, 2005 (the "2004 fiscal year").

The condensed consolidated financial statements as of October 30, 2004 and for the thirteen and thirty-nine week periods ended October 30, 2004 and

November 1, 2003 included herein have been reviewed by the independent registered public accounting firm of PricewaterhouseCoopers LLP 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 its report on the condensed consolidated financial statements because that report is not a "report" within the meaning of Sections 7 and 11 of the Act.

7

2. RESTATEMENT AND RECLASSIFICATION OF FINANCIAL STATEMENTS

Subsequent to the issuance of the Company's fiscal 2003 consolidated financial statements, the Company reviewed its accounting practices with respect to leasing transactions and determined that its then-current method of accounting for construction allowances was not in accordance with Statement of Financial Accounting Standards No.13, "Accounting for Leases" and Financial Accounting Standards Board Technical Bulletin No. 88-1, "Issues Relating to Accounting for Leases"; and its then-current method of accounting for rent holidays was not in accordance with Financial Accounting Standards Board Technical Bulletin No. 85-3, "Accounting for Operating Leases with Scheduled Rent Increases." As a result, the Company restated its consolidated financial statements as of January 31, 2004 and February 1, 2003 and for the fiscal years ended January 31, 2004, February 1, 2003 and February 2, 2002; and its consolidated financial statements as of and for the interim periods ended October 30, 2004, July 31, 2004, May 1, 2004, November 1, 2003, August 2, 2003 and May 3, 2003.

Historically, the Company's consolidated balance sheets have reflected the unamortized portion of construction allowances received from landlords of properties leased by the Company for its stores as a reduction of property and equipment instead of as a deferred lease credit. Excluding tax impacts, the effect of the revised accounting for construction allowances requires the Company to increase property and equipment and establish a corresponding deferred lease credit. Further, historically, the Company's consolidated statements of cash flows have reflected construction allowances as a reduction of capital expenditures within investing activities rather than as an increase in deferred lease credits within operating activities. The impact of the revised accounting is to increase both net cash provided by operating activities and net cash used for investing activities by equal amounts.

In addition, the Company has historically recognized the straight line rent expense for leases beginning on the commencement date of the lease rather than on the date the Company takes possession. This approach had the effect of excluding the build-out period of the Company's stores from the calculation of the period over which it expenses rent. The build-out period is generally three to four months prior to store opening date. Excluding tax impacts, the effect of the revised accounting for rent holidays requires the Company to increase accrued expenses and adjust retained earnings on the consolidated balance sheets, as well as correct amortization in cost of goods sold, occupancy and buying costs in the consolidated statements of income.

The cumulative effect of these accounting changes is a reduction of retained earnings of $11.0 million as of the beginning of fiscal 2001 and decreases to retained earnings of $2.1 million, $181 thousand and $272 thousand as of the end of the fiscal years 2001, 2002 and 2003, respectively.

The following is a summary of the effects of these changes on the Company's consolidated balance sheets as of October 30, 2004 and January 31, 2004, as well as the effect of these changes on the Company's consolidated statements of income and cash flows for the fiscal quarter ended October 30, 2004 and November 1, 2003 (thousands, except per share amounts):

Consolidated Statements of Income

	As Previously Reported	Adjustments	As Restated
Thirteen weeks ended October 30, 2004			
Cost of Goods Sold, Occupancy and Buying Costs	$ 293,888	$ 299	$ 294,187
Gross Income	226,836	(299)	226,537
Operating Income	62,277	(299)	61,978
Income Before Income Taxes	63,851	(299)	63,552
Provision for Income Taxes	23,760	(119)	23,641
Net Income	40,091	(180)	39,911
Net Income Per Share - Basic	$ 0.43	$ -	$ 0.43
Net Income Per Share - Diluted	$ 0.42	$ -	$ 0.42
Thirty-nine weeks ended October 30, 2004			
Cost of Goods Sold, Occupancy and Buying Costs	$ 759,987	$ 843	$ 760,830
Gross Income	574,012	(843)	573,169
Operating Income	178,303	(843)	177,460
Income Before Income Taxes	182,222	(843)	181,379
Provision for Income Taxes	69,600	(337)	69,263
Net Income	112,622	(506)	112,116
Net Income Per Share - Basic	$ 1.19	$ -	$ 1.19
Net Income Per Share - Diluted	$ 1.17	$ (0.01)	$ 1.16
Thirteen weeks ended November 1, 2003			
Cost of Goods Sold, Occupancy and Buying Costs	$ 261,114	$ 872	$ 261,986
Gross Income	183,865	(872)	182,993
Operating Income	81,450	(872)	80,578
Income Before Income Taxes	82,207	(872)	81,335
Provision for Income Taxes	31,750	(349)	31,401
Net Income	50,457	(523)	49,934
Net Income Per Share - Basic	$ 0.52	$ -	$ 0.52
Net Income Per Share - Diluted	$ 0.51	$ (0.01)	$ 0.50
Thirty-nine weeks ended November 1, 2003			
Cost of Goods Sold, Occupancy and Buying Costs	$ 691,035	$ 965	$ 692,000
Gross Income	456,386	(965)	455,421
Operating Income	177,356	(965)	176,391
Income Before Income Taxes	179,966	(965)	179,001
Provision for Income Taxes	69,140	(386)	68,754
Net Income	110,826	(579)	110,247
Net Income Per Share - Basic	$ 1.14	$ -	$ 1.14
Net Income Per Share - Diluted	$ 1.11	$ (0.01)	$ 1.10

Consolidated Balance Sheets

	As Previously Reported	Adjustments	As Restated
October 30, 2004			
Property and Equipment, Net	$ 484,163	$ 200,621	$ 684,784
Total Assets	1,228,401	200,621	1,429,022
Accrued Expenses	200,337	27,385	227,722
Deferred Lease Credits	-	30,939	30,939
Income Taxes Payable	37,086	(23,330)	13,756
Total Current Liabilities	376,163	34,994	411,157
Deferred Income Taxes	28,640	13,998	42,638
Long-Term Deferred Lease Credits	-	165,626	165,626
Retained Earnings	985,333	(13,997)	971,336
Total Shareholders' Equity	791,463	(13,997)	777,466
Total Liabilities and Shareholders' Equity	1,228,401	200,621	1,429,022
January 31, 2004			
Property and Equipment, Net	$ 445,956	$ 184,066	$ 630,022
Total Assets	1,199,163	184,066	1,383,229
Accrued Expenses	138,232	25,157	163,389
Deferred Lease Credits	-	26,627	26,627
Income Taxes Payable	50,406	(20,714)	29,692
Total Current Liabilities	280,002	31,070	311,072
Deferred Income Taxes	19,516	11,720	31,236
Long-Term Deferred Lease Credits	-	154,768	154,768
Retained Earnings	919,577	(13,492)	906,085
Total Shareholders' Equity	871,257	(13,492)	857,765
Total Liabilities and Shareholders' Equity	1,199,163	184,066	1,383,229

Consolidated Statements of Cash Flows

	As Previously Reported (1)	Adjustments	As Restated
Thirty-nine weeks ended October 30, 2004			
Net Cash Provided by Operating Activites	$ 220,134	$ 35,028	$ 255,162
Net Cash Used for Investing Activites	(10,158)	(35,028)	(45,186)
Thirty-nine weeks ended November 1, 2003			
Net Cash Provided by Operating Activites	$ 137,441	$ 36,122	$ 173,563
Net Cash Used for Investing Activites	(39,377)	(36,122)	(75,499)

(1) The "As Previously Reported" amounts for "Net Cash Used for Investing Activities" have been adjusted to account for the effects of reclassification of certain securities, as discussed below.

Further, the Company concluded that it was appropriate to classify our investments in auction rate municipal bonds as marketable securities. Previously, such investments had been classified as cash and equivalents. Accordingly, we have revised the classification to report these investments as marketable securities on the consolidated balance sheets as of October 30, 2004 and January 31, 2004. The Company has also made corresponding adjustments to the consolidated statements of cash flows for the thirty-nine weeks ended October 30, 2004 and November 1, 2003, to reflect the gross purchases and sales of these investments as investing activities rather than as a component of cash and equivalents.

As of October 30, 2004 and January 31, 2004, $368.8 million and $454.7 million, respectively, of these investments were classified as cash and equivalents on the consolidated balance sheets. These balances are in addition to the marketable securities balances previously reported.

For the thirty-nine weeks ended October 30, 2004 and November 1, 2003, net cash provided by investing activities related to these investments of $85.9 million and $34.3 million, respectively, were included in cash and equivalents in our consolidated statements of cash flows. These investing activities related to marketable securities are in addition to those previously reported.

11

3. STOCK-BASED COMPENSATION

The Company reports stock-based compensation through the disclosure-only requirements of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement 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 recognizes compensation expense related to restricted share and stock unit awards. If compensation expense related to options for the thirteen and thirty-nine week periods ended October 30, 2004, and November 1, 2003, respectively, had been determined based on the estimated fair value of options granted, 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 amounts)

	Thirteen Weeks Ended		Thirty-Nine Week	
	October 30, 2004	November 1, 2003	October 30, 2004	No
Net income:				
As reported	$ 39,911	$ 49,934	$ 112,116	$
Stock-based compensation expense included in reported net income, net of tax	1,424	868	4,361	

Stock-based compensation expense determined under fair value based method, net of tax(1)	(6,564)	(6,918)	(19,481)	
Pro forma	$ 34,771	$ 43,884	$ 96,996	$
Basic net income per share:				
As reported	$ 0.43	$ 0.52	$ 1.19	$
Pro forma	$ 0.37	$ 0.46	$ 1.03	$
Diluted net income per share:				
As reported	$ 0.42	$ 0.50	$ 1.16	$
Pro forma	$ 0.36	$ 0.45	$ 1.00	$

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

The weighted-average fair value of options granted during the third quarter of the 2004 fiscal year and the 2003 fiscal year was $13.93 and $14.35, respectively. The fair value of each option, which is included in the pro forma results above, was estimated using the Black-Scholes option-pricing model. For purposes of the valuation, the following weighted-average assumptions were used: a 1.28% dividend yield in 2004 and no dividends in 2003; price volatility of 55.3% in 2004 and 61.7% in 2003; risk-free interest rates of 3.1% in 2004 and 3.2% in 2003; assumed forfeiture rates of 26.4% in 2004 and 23.0% in 2003 and expected lives of four years in 2004 and 2003, respectively.

12

4. NET INCOME PER SHARE

Weighted-Average Shares Outstanding (in thousands):

	Thirteen Weeks Ended	
	October 30, 2004	November 1,
Shares of Class A Common Stock issued	103,300	103,300
Treasury shares	(9,851)	(6,893)
Basic shares	93,449	96,407
Dilutive effect of options and restricted shares	1,902	2,695
Diluted shares	95,351	99,102

	Thirty-Nine Weeks Ended	
	October 30, 2004	November 1,

Shares of Class A Common Stock issued	103,300	103,300
Treasury shares	(8,810)	(6,224)
Basic shares	94,490	97,076
Dilutive effect of options and restricted shares	2,032	3,019
Diluted shares	96,522	100,095

Options to purchase 5,639,984 shares of Class A Common Stock during both the thirteen and thirty-nine week periods ended October 30, 2004 and 6,019,000 and 6,005,000 shares of Class A Common Stock during the thirteen and thirty-nine week periods ended November 1, 2003, respectively, were outstanding but were not included in the computation of net income per diluted share because the options' exercise prices were greater than the average market price of the underlying shares.

5. INVENTORIES

Inventories are principally valued at the lower of average cost or market, on a first-in-first-out basis, utilizing the retail method. 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 fiscal year is comprised of two principal selling seasons: spring (the first and second quarters) and fall (the third and fourth quarters). The Company further reduces inventory at season end by recording an additional markdown reserve using the retail carrying value of inventory from the season just passed. Markdowns on this carryover inventory represent estimated future anticipated selling price declines. Additionally, inventory valuation at the end of the first and third quarters reflects adjustments for inventory markdowns for the total season. Further, as part of inventory valuation, inventory shrinkage estimates are made based on historical trends, which reduce the inventory value for lost or stolen items.

The inventory reserve for markdowns and valuations was $25.5 million, $5.5 million and $17.2 million at October 30, 2004, January 31, 2004 and November 1, 2003, respectively. The shrink reserve was $3.6 million, $3.3 million and $4.3 million at October 30, 2004, January 31, 2004 and November 1, 2003, respectively. The inventory valuations at January 31, 2004, reflect adjustments for inventory markdowns for the end of the season.

6. PROPERTY AND EQUIPMENT, NET

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

	October 30, 2004	January 31, 2004

Property and equipment, at cost	$ 1,071,444	$ 961,817
Accumulated depreciation and amortization	(386,660)	(331,795)
Property and equipment, net	$ 684,784	$ 630,022

7. INCOME TAXES

The provision for income taxes is based on the current estimate of the annual effective tax rate. Income taxes paid during the thirty-nine weeks ended October 30, 2004 and November 1, 2003, approximated $62.3 million and $64.7 million, respectively.

8. LONG-TERM DEBT

The Company entered into a $250 million syndicated unsecured credit agreement (the "Credit Agreement") on November 14, 2002. The primary purposes of the Credit Agreement are for trade and stand-by letters of credit and working capital. The Credit Agreement is due to expire on November 14, 2005. The Credit Agreement has several borrowing options, including interest rates that are based on the agent bank's "Alternate Base Rate," or a LIBOR Rate. Facility fees payable under the Credit Agreement are based on the Company's ratio (the "leverage ratio") of the sum of total debt plus 800% of forward minimum rent commitments to consolidated EBITDAR for the trailing four-fiscal-quarter period and currently accrues at .225% of the committed amounts per annum. The Credit Agreement contains limitations on indebtedness, liens, sale-leaseback transactions, significant corporate changes including mergers and acquisitions with third parties, investments, restricted payments (including dividends and stock repurchases), hedging transactions and transactions with affiliates. The Credit Agreement also contains financial covenants requiring a minimum ratio, on a consolidated basis, of EBITDAR for the trailing four-fiscal-quarter period to the sum of interest expense and minimum rent for such period, as well as a maximum leverage ratio.

14

On September 15, 2004, the Company entered into a Second Amendment in respect of the Credit Agreement in order to permit additional share repurchases. The Second Amendment allows the Company to repurchase shares of A&F Class A Common Stock for cash in any amount so long as no loans (as defined in the Credit Agreement) have been made pursuant to the Credit Agreement. If loans have at any time been made, the Company may repurchase shares of A&F Class A Common Stock (i) in any fiscal year, in an aggregate amount not in excess of 40% of "consolidated net income" (as defined in the Credit Agreement) for the immediately preceding fiscal year less the aggregate amount of any repurchases made in such fiscal year pursuant to clause (ii) below, plus (ii) an aggregate cumulative amount of $250,000,000 less the aggregate cumulative amount of any repurchases made pursuant to clause (i) above and any repurchases made after September 15, 2004 and prior to the making of loans pursuant to the Credit Agreement. Letters of credit are not considered to be "loans" for purposes of the Credit Agreement.

On November 8, 2004, the Company executed a letter of intent to enter into an amended credit agreement that will replace the Credit Agreement (see Note 11).

Letters of credit totaling approximately $66.8 million and $62.3 million were outstanding under the Credit Agreement at October 30, 2004 and at November 1, 2003, respectively. No loans were outstanding under the Credit Agreement at October 30, 2004 or at November 1, 2003.

9. RELATED PARTY TRANSACTIONS

Shahid & Company, Inc. has provided advertising and design services for the Company since 1995. Sam N. Shahid, Jr., who serves on A&F's Board of Directors, has been President and Creative Director of Shahid & Company, Inc. since 1993. Fees paid to Shahid & Company, Inc. for services provided during the thirteen and thirty-nine week periods ended October 30, 2004, were approximately $700 thousand and $1.9 million, respectively. For services provided during the thirteen and thirty-nine week periods ended November 1, 2003, the fees paid to Shahid & Company, Inc. were approximately $500 thousand and $1.5 million, respectively. The amounts do not include reimbursements to Shahid & Company, Inc. for expenses incurred while performing these services.

10. CONTINGENCIES

The Company is involved in a number of legal proceedings that arise out of, and are incidental to, the conduct of its business.

In 2003, five actions were filed under various states' laws on behalf of purported classes of employees and former employees of the Company alleging that the Company required its associates to wear and pay for a "uniform" in violation of applicable law. Two of the actions have been ordered coordinated. In each case, the plaintiff, on behalf of his or her purported class, seeks injunctive relief and unspecified amounts of economic and liquidated damages. For certain of the cases, the parties are in the process of discovery. In one case, the Company has filed a motion to dismiss; while in all other cases, answers have been filed. Two of those cases have been stayed, and the plaintiffs in those cases have been joined in the action described immediately below.

15

In 2003, an action was filed in the U.S. District Court for the Western District of Pennsylvania, in which the plaintiff alleges that the "uniform," when purchased, drove associates' wages below the federal minimum wage. The complaint purports to state a collective action on behalf of part-time associates under the Fair Labor Standards Act. Recently, the plaintiff amended the complaint and added new named plaintiffs, asserting claims under the laws of six states as well as the Fair Labor Standards Act. The parties are in the process of settling this case and two of the five state court cases described in the immediately preceding paragraph (see Note 12).

As previously mentioned, three of the above-described cases are in the process of being settled. The Company does not believe it is feasible to predict the outcome of the other legal proceedings described above and intends to vigorously defend against each of them. The timing of the final resolution of each of these proceedings is also uncertain. Accordingly, the Company cannot estimate a range of potential loss, if any, for any of these legal proceedings.

In each of 2003 and 2002, one action was filed against the Company involving overtime compensation. In each action, the plaintiffs, on behalf of their respective purported class, seek injunctive relief and unspecified amounts of economic and liquidated damages. The Company has filed a motion to dismiss in one of the cases. In the other case, the parties are in the process of discovery, and the trial court has ordered a class of store managers in California certified for limited purposes.

In 2003, one lawsuit was filed in the U.S. District Court for the Northern District of California on behalf of a purported class alleged to be discriminated against in hiring or employment decisions due to race and/or national origin. The plaintiffs in this lawsuit sought, on behalf of their purported class, injunctive relief and unspecified amounts of economic, compensatory and punitive damages. On November 8, 2004, the Company signed a consent decree settling this lawsuit and two related class action employment discrimination lawsuits (see Note 12).

The Company accrues amounts related to legal matters if reasonably estimable and reviews these amounts at least quarterly. During the first quarter of fiscal 2004, the Company recorded an $8.0 million charge (net of expected proceeds of $10 million from insurance) resulting from an increase in expected defense costs related to the purported class action employment discrimination lawsuit described in the preceding paragraph. The monetary terms of the consent decree are described in Note 12.

The Company has standby letters of credit in the amount of $4.7 million that are set to expire during the fourth quarter of the fiscal year ending January 28, 2006 (the "2005 fiscal year"). The beneficiary, a merchandise supplier, has the right to draw upon the standby letters of credit if the Company has authorized or filed a voluntary petition in bankruptcy. To date, the beneficiary has not drawn upon the standby letters of credit.

The Company enters into agreements with professional services firms, in the ordinary course of business and, in most agreements, indemnifies these firms from any harm. There is no financial impact on the Company related to these indemnification agreements.

11. SUBSEQUENT EVENTS

On November 8, 2004, the Company executed a commitment letter in respect of a contemplated amended and restated credit agreement, (the "Amended Credit Agreement"). The Amended Credit Agreement will mature five years from the date of executing the definitive Amended Credit Agreement. The commitment letter contemplates that the facility fees payable under the Amended Credit Agreement will be based on the Company's ratio (the "leverage ratio") of the sum of total debt plus 600% of forward minimum rent commitments to consolidated EBITDAR for the trailing four-fiscal-quarter period and the facility fees are projected to accrue at .175% of the committed amounts per annum. The remaining terms are expected to be largely similar to the current Credit Agreement (see Note 9).

In addition to the class action employment discrimination lawsuit described in Note 11, two other class action employment discrimination lawsuits have been filed in the U.S. District Court for the Northern District of California, both on November 8, 2004. One alleges gender (female) discrimination in hiring or employment decisions and seeks, on behalf of the purported class, injunctive relief and unspecified amounts of economic, compensatory and punitive damages. The other was brought by the Equal Employment Opportunity Commission (the "EEOC") alleging race, ethnicity, and gender (female) discrimination in hiring or employment decisions. The EEOC complaint seeks injunctive relief and, on behalf of the purported class, unspecified amounts of economic, compensatory and punitive damages. On November 8, 2004, the Company signed a consent decree settling these three related class action discrimination lawsuits, subject to judicial review and approval. The monetary terms of the consent decree provide that the Company will set aside $40.0 million to pay to the class, approximately $7.5 million for attorneys' fees, and approximately $2.5 million for monitoring and administrative costs to carry out the settlement. As a result, the Company accrued a non-recurring charge of $32.9 million, which was included in general, administrative and store operating expenses for the thirteen weeks ended October 30, 2004. This is in addition to amounts accrued during the first quarter of fiscal 2004 when the Company recorded an $8.0 million charge (net of expected proceeds of $10 million from insurance) resulting from an increase in expected defense costs related to the Gonzalez case. The preliminary approval order was signed by Judge Susan Illston of the U.S. District Court for the Northern District of California on November 16, 2004, and that order scheduled a final fairness and approval hearing for April 14, 2005.

Also on November 9, 2004, A&F announced that the Board of Directors had authorized the extension of A&F's stock repurchase program to permit the repurchase of an additional 6 million shares of A&F Class A Common Stock.

On November 17, 2004, the court hearing the action filed in the U.S. District Court for the Western District of Pennsylvania gave final approval of the settlement. The settlement resolves all claims of hourly employees in the states of Colorado, Connecticut, Illinois, Minnesota, New Jersey and Pennsylvania under their respective state laws and their claims under the Fair Labor Standards Act. The settlement did not have a material impact to the consolidated financial statements.

Report of Independent Registered Public Accounting Firm

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

We have reviewed the accompanying restated condensed consolidated balance sheet of Abercrombie & Fitch Co. and its subsidiaries as of October 30, 2004, and the related restated condensed consolidated statements of income for each of the thirteen and thirty-nine week periods ended October 30, 2004 and November 1, 2003 and the restated condensed consolidated statements of cash flows for the thirty-nine week periods ended October 30, 2004 and November 1, 2003. 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, 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 January 31, 2004, and the related consolidated statements of income, of shareholders' equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 17, 2004, except for Note 2, as to which the date is April 4, 2005 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 January 31, 2004, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

Columbus, Ohio
December 2, 2004, except for Note 2, as to which
the date is April 4, 2005

18

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

RESTATEMENT AND RECLASSIFICATION OF FINANCIAL STATEMENTS

Subsequent to the issuance of the Company's fiscal 2003 consolidated financial statements, the Company reviewed its accounting practices with respect to leasing transactions and determined that its then-current method of accounting for construction allowances was not in accordance with Statement of Financial Accounting Standards No. 13, "Accounting for Leases" and Financial Accounting Standards Board Technical Bulletin No. 88-1, "Issues Relating to Accounting for Leases"; and its then-current method of accounting for rent holidays was not in accordance with Financial Accounting Standards Board Technical Bulletin No. 85-3, "Accounting for Operating Leases with Scheduled Rent Increases." As a result, the Company restated its consolidated financial statements as of January 31, 2004 and February 1, 2003 and for the fiscal years ended January 31, 2004, February 1, 2003 and February 2, 2002; and its consolidated financial statements as of and for the interim periods ended October 30, 2004, July 31, 2004, May 1, 2004, November 1, 2003, August 2, 2003 and May 3, 2003.

Historically, the Company's consolidated balance sheets have reflected the unamortized portion of construction allowances received from landlords of properties leased by the Company for its stores as a reduction of property and equipment instead of as a deferred lease credit. Excluding tax impacts, the effect of the revised accounting for construction allowances requires the Company to increase property and equipment and establish a corresponding deferred lease credit. Further, historically, the Company's consolidated statements of cash flows have reflected construction allowances as a reduction of capital expenditures within investing activities rather than as an increase in deferred lease credits within operating activities. The impact of the revised accounting is to increase both net cash provided by operating activities and net cash used for investing activities by equal amounts.

Also, historically, the Company had recognized the straight line rent expense for leases beginning on the commencement date of the lease rather than on the date when the Company takes possession, which had the effect of excluding the build-out period of its stores from the calculation of the period over which it expenses rent. The build-out period is generally three to four months prior to store opening date. Excluding tax impacts, the effect of the revised accounting for rent holidays requires the Company to increase accrued expenses and adjust retained earnings on the consolidated balance sheets, as well as correct amortization in cost of goods sold, occupancy and buying costs in the consolidated statements of income.

The cumulative effect of these accounting changes is a reduction of retained earnings of $11.0 million as of the beginning of fiscal 2001 and decreases to retained earnings of $2.1 million, $181 thousand and $272 thousand as of the end of the fiscal years 2001, 2002 and 2003, respectively.

See Note 2: "Restatement and Reclassification of Financial Statements" under Notes to Condensed Consolidated Financial Statements included in Item 1, "Financial Statements" of this Form 10-Q/A for a summary of the effect of these changes on the Company's consolidated financial statements as of October 30, 2004 and January 31, 2004 and for the fiscal quarters ended October 30, 2004 and November 1, 2003. The accompanying Management's Discussion and Analysis gives effect to these corrections.

In addition, the Company concluded that it was appropriate to classify our investments in auction rate securities as marketable securities. Previously, such investments had been classified as cash and equivalents. Accordingly, we have revised the classification to report these investments as marketable securities on the consolidated balance sheets as of October 30, 2004 and January 31, 2004. The Company has also made corresponding adjustments to the consolidated statements of cash flows for the thirty-nine weeks ended October 30, 2004 and November 1, 2003, to reflect the gross purchases and sales of these investments as investing activities rather than as a component of cash and equivalents. See Note 2: "Restatement and Reclassification of Financial Statements" under Notes to Condensed Consolidated Financial Statements included in Item 1, "Financial Statements" of this Form 10-Q/A for additional discussion on the effects of the change in classification.

OVERVIEW

The Company operates four brands: Abercrombie & Fitch, a fashion-oriented casual apparel business directed at men and women with a youthful lifestyle, targeted at 18 to 22 year-old college students; abercrombie, a fashion-oriented casual apparel brand in the tradition of Abercrombie & Fitch style and quality, targeted at 7 to 14 year-old boys and girls; Hollister, a West Coast oriented lifestyle brand targeted at 14 to 17 year-old high school guys and girls, at lower price points than Abercrombie & Fitch; and RUEHL, a fashion-oriented mix of business casual and trend fashion displaying high quality clothing, leather goods, and lifestyle accessories, targeted at 22 to 30 year-old modern-minded, post-college consumers. In addition to predominantly mall-based store locations, Abercrombie & Fitch, abercrombie and Hollister also offer Web sites, where products comparable to those carried at the corresponding stores can be purchased.

RESULTS OF OPERATIONS

During the third quarter of the 2004 fiscal year, net sales increased 17% to $520.7 million from $445.0 million in the third quarter of the 2003 fiscal year. Operating income decreased to $62.0 million in the third quarter of 2004 from $80.6 million in the third quarter of 2003. Operating income included a one-time accrual of $32.9 million for the settlement of three related class action employment discrimination lawsuits, which was included in general, administrative and store operating expenses. Net income decreased to $39.9 million in the third quarter of 2004 compared to $49.9 million in the third quarter of 2003. Net income per diluted share was $.42 in the third quarter of 2004 compared to $.50 in the third quarter of 2003. The settlement accrual, net of the related tax effect, reduced reported net income per fully diluted share in the third quarter of the 2004 fiscal year by $.22.

The following data represent the amounts shown in the Company's condensed consolidated statements of income for the thirteen and thirty-nine week periods ended October 30, 2004 and November 1, 2003, expressed as a percentage of net sales:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ende	
	October 30, 2004	November 1, 2003	October 30, 2004	November 2003
NET SALES	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold, Occupancy and Buying Costs	56.5	58.9	57.0	60.3
GROSS INCOME	43.5	41.1	43.0	39.7
General, Administrative and Store Operating Expenses	31.6	23.0	29.7	24.3
OPERATING INCOME	11.9	18.1	13.3	15.4
Interest Income, Net	(0.3)	(0.2)	(0.3)	(0.2)
INCOME BEFORE INCOME TAXES	12.2	18.3	13.6	15.6
Provision for Income Taxes	4.5	7.1	5.2	6.0
NET INCOME	7.7%	11.2%	8.4%	9.6%

20

Financial Summary

The following summarized financial and statistical data compare the thirteen and thirty-nine week periods ended October 30, 2004, to the comparable periods of the 2003 fiscal year:

	Thirteen Weeks Ended			Thirty-Nine
	October 30, 2004	November 1, 2003	% Change	October 30, 2004
Net sales (millions)	$ 521	$ 445	17%	$ 1,334
Increase (decrease)in comparable store sales	1%	(9)%		(1)%
Retail sales increase attributable to new and remodeled stores, catalogue and Web sites	16%	15%		17%
Retail sales per average gross square foot	$ 92	$ 91	1%	$ 240
Retail sales per average store				

(thousands)	$	655	$	659	(1)%	$	1,712
Average store size at period-end (gross square feet)		7,118		7,233	(2)%		n/a
Gross square feet at period-end (thousands)		5,438		4,709	15%		n/a
Sales statistics per average store							
Number of transactions							
Abercrombie & Fitch		10,516		11,997	-12%		32,175
abercrombie		5,262		5,563	-5%		14,735
Hollister		13,597		14,008	-3%		39,679
RUEHL		4,171		n/a			4,171
Average transaction value							
Abercrombie & Fitch	$	74.09	$	67.50	10%	$	65.31
abercrombie	$	63.49	$	60.51	5%	$	55.42
Hollister	$	52.39	$	48.68	8%	$	46.98
RUEHL	$	107.98		n/a		$	107.98
Units per transaction							
Abercrombie & Fitch		2.17		2.21	-2%		2.26
abercrombie		2.78		2.63	6%		2.75
Hollister		2.23		2.19	2%		2.23
RUEHL		2.33		n/a			2.33
Average unit value							
Abercrombie & Fitch	$	34.14	$	30.54	12%	$	28.90
abercrombie	$	22.84	$	23.01	-1%	$	20.15
Hollister	$	23.49	$	22.23	6%	$	21.07
RUEHL	$	46.34		n/a		$	46.34

21

Current Trends and Outlook

While the Company is pleased with the recent trend improvement in sales and comparable store sales, defined as sales in stores that have been open for at least one year, the Company remains cautious about its outlook for the remainder of the year. The Company's decision not to anniversary holiday promotions this year may impact holiday sales levels. The Company's focus is on building, maintaining and controlling its brands because they express a lifestyle to which their customer aspires. Management believes that this strategy allows the Company to maintain high margins over the long term while driving the Company's growth in sales and profits through the development of new brands. As a result, comparable store sales may decline in the Company's more mature business as the Company strives to maintain its brands' aspirational qualities and high margins.

In order to achieve and maintain the aspirational quality of the brands, the Company is increasing expenditures to maintain and enhance the current store base. Additionally, the Company is increasing its store-based personnel to provide better customer service and reduce levels of inventory shrink. Depending on the sales performance of the Company during the remainder of the fall season, the initiatives may have a short-term impact on the operating margin.

Finally, the Company is hoping to capitalize on its success in international sales through its Web sites by investigating opportunities to enter international markets in the near future. The Company is currently evaluating opportunities to enter both the Canadian and European markets by the end of the 2005 fiscal year.

THIRD QUARTER RESULTS

Net Sales

Net sales for the third quarter of 2004 were $520.7 million, an increase of 17% over last year's third quarter net sales of $445.0 million. The net sales increase was attributable to the net addition of 113 stores and a 1% comparable store sales increase.

By brand, comparable store sales for the quarter versus the same quarter last year were as follows: Abercrombie & Fitch declined 2% with mens comparable store sales increasing by a high-single digit percentage and womens declining by a high-single digit percentage. In abercrombie, comparable store sales decreased 3% with both girls and boys comparable store sales declining by the same low-single digit percentage. In Hollister, comparable store sales increased by 13% with both guys and girls achieving similar mid-teen digit increases for the quarter.

On a regional basis, comparable store sales results were strongest in the West and Northeast and weakest in the Midwest and South. Stores located in the New York metropolitan area and Southern California had the best comparable store sales performance for the third quarter.

In Abercrombie & Fitch, mens achieved positive comparable store sales during the quarter driven by strong results in denim, woven shirts and polos. Womens had comparable store sales decreases in polos, pants and graphic tees that were not offset by increases in denim and fleece when compared to third quarter 2003.

In the kids' business, girls comparable store sales increased during the third quarter of 2004 compared to the same quarter last year in knits and denim but these results could not offset decreases in graphic tees and pants. Boys had comparable store sales decreases in conversation tees, pants and fleece. Increases in knits and denim were not sufficient to offset the weaker performing boys categories.

In Hollister, guys achieved stronger comparable store sales than girls. In guys, increases in conversation tees, denim, woven shirts and fleece during the quarter more than offset decreases in knits. In girls, knits, denim, fleece and sweaters had comparable store sales increases; however, graphic tees and pants declined.

The impact of opening three RUEHL stores was immaterial to the Company's total results for the third quarter of the 2004 fiscal year.

Direct to consumer merchandise net sales through the Company's Web sites and catalogue for the third quarter of the 2004 fiscal year were $27.6 million, an increase of 28.4% over last year's third quarter net sales of $21.5 million. Shipping and handling revenue for the corresponding periods was $4.0 million in 2004 and $2.8 million in 2003. The direct to consumer business accounted for 6.1% of net sales in the third quarter of the 2004 fiscal year compared to 5.5% in the third quarter of fiscal 2003.

Gross Income

The Company's gross income may not be comparable to that of other retailers since all significant costs related to the Company's distribution network, excluding direct shipping costs related to the e-commerce and catalogue sales, are included in general, administrative and store operating expenses (see "General, Administrative and Store Operating Expenses" section below).

Gross income for the third quarter of the 2004 fiscal year was $226.5 million compared to $183.0 million in the comparable period during the 2003 fiscal year. The gross income rate (gross income divided by net sales) for the third quarter of the 2004 fiscal year was 43.5%, up 240 basis points from last year's rate of 41.1%. The increase in gross income rate resulted largely from an increase in initial markup (IMU). The improvement in IMU during the third quarter was as a result of higher unit retail pricing in Abercrombie & Fitch and Hollister. All three brands had IMU improvements compared to the third quarter of 2003 and are operating at similar margins.

The Company ended the third quarter of the 2004 fiscal year with inventories, at cost, down 15% per gross square foot versus the third quarter of the 2003 fiscal year. The inventory decrease reflects a shift in the timing of deliveries during the quarter coupled with stronger sales this year compared to weaker sales last year.

General, Administrative and Store Operating Expenses

General, administrative and store operating expenses during the third quarter of the 2004 fiscal year were $164.6 million compared to $102.4 million during the same period in the 2003 fiscal year. For the third quarter of the 2004 fiscal year, the general, administrative and store operating expense rate (general, administrative and store operating expenses divided by net sales) was 31.6% compared to 23.0% in the third quarter of the 2003 fiscal year. The increase in rate versus the 2003 comparable period was primarily due to the following: a one-time accrual for the settlement of three related class action employment discrimination lawsuits which represented 630 basis points of the increase and higher store expenses due to an increase in aggregate payroll which represented 160 basis points of the increase. Wage levels, in all three brands, decreased compared to the third quarter of 2003. The decrease in wage levels was due to an increase in part-time hours in order to provide better customer service at the stores.

The distribution center continued to achieve record levels of productivity during the third quarter of the 2004 fiscal year. Productivity, as measured in units processed per labor hour, was 2% higher than the third quarter of the 2003 fiscal year. Costs related to the distribution center, excluding direct shipping costs related to the e-commerce and catalogue sales, included in general, administrative and store operating expenses were $5.3 million for the third quarter of the 2004 fiscal year compared to $4.9 million for the third quarter of the 2003 fiscal year.

Operating Income

Operating income for the third quarter of the 2004 fiscal year decreased to $62.0 million from $80.6 million in the 2003 fiscal year third quarter, a decrease of 23.1%. The operating income rate (operating income divided by net sales) was 11.9% for the third quarter of the 2004 fiscal year compared to 18.1% for the third quarter of the 2003 fiscal year. The decrease in the operating income during the third quarter of fiscal 2004 was a result of higher general, administrative and store operating expenses during the quarter, partially offset by higher IMU resulting from higher unit retail pricing in Abercrombie & Fitch and Hollister.

Interest Income and Income Tax Expense

Third quarter net interest income was $1.6 million in 2004 compared to $757 thousand last year. The increase in net interest income was due to higher rates during the third quarter of the 2004 fiscal year when compared to the same period in the prior year. The Company continued to invest in tax-free securities. The effective tax rate for the third quarter was 37.2% compared to 38.6% for the 2003 comparable period. The reduction in rate was primarily due to the favorable settlement of state tax matters during the third quarter.

Off-Balance Sheet Arrangements and Contractual Obligations

The Company does not have off-balance sheet arrangements or debt obligations. The contractual obligations of the Company as of October 30, 2004, have not significantly changed from the ones disclosed in A&F's Annual Report on Form 10-K/A for the fiscal year ended January 31, 2004. There have been changes in the ordinary course of the Company's business during the quarterly period ended October 30, 2004 in the Company's contractual obligations included within both the "operating leases" category and the "purchase obligations and other" category.

24

YEAR-TO-DATE RESULTS

Net Sales

Year-to-date net sales in 2004 were $1.334 billion, an increase of 16.3% over last year's net sales of $1.147 billion for the same period. The net sales increase was attributable to the net addition of 113 stores, offset by a 1% comparable store sales decrease.

Year-to-date comparable store sales by merchandise concept were as follows: Abercrombie & Fitch comparable store sales declined 3%, abercrombie comparable stores sales declined 4% and Hollister achieved a 9% comparable store sales increase. The women's business in each brand continued to be more significant than mens. Year-to-date, womens and girls represented over 60% of the net sales for each of the brands. In Abercrombie & Fitch, womens had a mid-single digit decline in comparable store sales year-to-date, while in abercrombie, girls had a low-single digit decline. Hollister girls achieved a high-single digit comparable store sales increase on a year-to-date basis.

For the 2004 year-to-date period, sales per square foot in Hollister stores were approximately 137% of the sales per square foot of Abercrombie & Fitch stores in the same malls compared to 116% for the 2003 year-to-date period.

Direct to consumer merchandise net sales through the Company's Web sites and catalogue for the 2004 year-to-date period were $70.5 million, an increase of 42.4% over last year's net sales of $49.5 million for the comparable period. Shipping and handling revenue for the corresponding periods was $10.1 million in 2004 and $6.7 million in 2003. The direct to consumer business accounted for 6.0% of net sales compared to 4.9% for the year-to-date periods ended October 30, 2004 and November 1, 2003, respectively.

The impact of opening three RUEHL stores was immaterial to the Company's total results for the year-to-date period of the 2004 fiscal year.

Gross Income

The Company's gross income may not be comparable to that of other retailers since all significant costs related to the Company's distribution network, excluding direct shipping costs related to the e-commerce and catalogue sales, are included in general, administrative and store operating expenses (see "General, Administrative and Store Operating Expenses" section below).

Year-to-date gross income increased to $573.2 million for the 2004 fiscal year from $455.4 million in the comparable period during the 2003 fiscal year. The gross income rate (gross income divided by net sales) for the period was 43.0%, up 330 basis points from last year's rate of 39.7%. The increase was driven by improvements in IMU across all three brands due to higher average unit retail pricing, especially in Abercrombie & Fitch, which was partially offset by increased markdowns, as a percentage of net sales.

As previously mentioned, improved sourcing has been an important factor in improving IMU in all three concepts. The markdown rate was higher for the 2004 year-to-date period than the comparable period in 2003 due to the Company's strategy of clearing merchandise quickly in order to add more items to the selling floor.

General, Administrative and Store Operating Expenses

Year-to-date general, administrative and store operating expenses at the end of the third quarter of the 2004 fiscal year were $395.7 million versus $279.0 million for the same time period the previous year. The general, administrative and store operating expense rate in 2004 was 29.7% versus 24.3% in 2003. The increased rate in the 2004 year-to-date period was primarily due to higher home office and store expenses. Home office expenses increased largely due to the accrual for the settlement of three related class action employment discrimination lawsuits which represented 310 basis points, higher payroll, higher bonus accruals resulting from improved financial performance during the spring season, and expenses related to the retirement of an executive officer. Store expenses increased due to an increase in aggregate payroll. Wage levels, in all three brands, decreased compared to the comparable period last year. The decrease in wage levels was due to an increase in part-time hours in order to provide better customer service at the stores.

Costs related to the distribution center, excluding direct shipping costs related to the e-commerce and catalogue sales, included in general, administrative and store operating expenses were $14.2 million and $13.7 million for the year-to-date periods ended October 30, 2004 and November 1, 2003, respectively.

Operating Income

Year-to-date operating income for the 2004 fiscal year increased to $177.5 million from $176.4 million in the 2003 fiscal year comparable period, an increase of 1%. The operating income rate (operating income divided by net sales) was 13.3% for the 2004 year-to-date period compared to 15.4% for the comparable period in the 2003 fiscal year. The decrease was primarily due to the accrual for the settlement of three related class action employment discrimination lawsuits, partially offset by sales increases due to new stores, higher gross margin and increases in average unit retail pricing in all three brands.

Interest Income and Income Tax Expense

Year-to-date net interest income for the 2004 fiscal year was $3.9 million compared to $2.6 million for the comparable period in 2003. The increase in net interest income was due to higher rates and higher average cash balances for the year-to-date period of the 2004 fiscal year when compared to the same period of the prior year. The Company continued to invest in tax-free securities. The effective tax rate for the 2004 year-to-date period was 38.2% compared to 38.4% for the 2003 comparable period.

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):

	October 30, 2004	January 31, 2004
Working capital	$325,241	$441,583
Capitalization:		
Shareholders' equity	$777,466	$857,765

Net cash provided by operating activities, the Company's primary source of liquidity, totaled $255.2 million for the thirty-nine weeks ended October 30, 2004 versus $173.6 million in the comparable period of 2003. Cash was provided primarily by current year net income adjusted for depreciation and amortization, lessor construction allowances and increases in accounts payable and accrued expenses. Uses of cash primarily consisted of increases in inventories and other assets and liabilities.

Accounts payable increased to support the cost of growth in the number of new stores, the declaration of the third quarter dividend payment and the timing of payments. Accrued expenses also increased for items such as higher legal accruals related to the settlement of three related class action employment discrimination lawsuits, higher payroll, accruals related to the retirement of an executive officer and accruals related to store repairs and maintenance in preparation for the holiday season.

Inventories increased as a result of preparation for the holiday season as well as growth in the store base during the first three quarters of 2004. Other assets and liabilities increased primarily as a result of an increase in accounts receivables related to expected proceeds from an insurance claim pertaining to legal expenses and an increase in supplies as a result of the growth in the store base.

The Company's operations are seasonal in nature and typically peak during the back-to-school and Christmas selling periods. Accordingly, cash requirements for inventory expenditures are highest during these periods.

Cash outflows for investing activities were for capital expenditures (see the discussion in the "Capital Expenditures" section below) related primarily to new stores and construction in process and purchases of marketable securities. Cash inflows from investing activities consisted of proceeds from the sale of marketable securities. As of October 30, 2004, the Company held $368.8 million of marketable securities with original maturities of greater than 90 days.

Financing activities for the thirty-nine week period ended October 30, 2004, consisted of $33.2 million received in connection with stock option exercises, $35.5 million for the payment of the quarterly $0.125 dividends on March 30, 2004, June 22, 2004 and September 21, 2004, respectively, $197.9 million for the repurchase of A&F's Class A Common Stock and $8.5 million for cash overdrafts which are outstanding checks reclassified from cash to accounts payable.

During the third quarter of 2004, the Company repurchased 5.4 million shares of A&F's Class A Common Stock at an average cost of $33.47 per share for a total of $179.3 million pursuant to the July 29, 2004 A&F Board of Directors' authorization to repurchase 6 million shares of A&F's Class A Common Stock. On November 8, 2004, A&F's Board of Directors authorized the repurchase of 6 million shares of A&F's Class A Common Stock in addition to the remaining balance of the July 29, 2004 authorization.

The Company expects that substantially all future capital expenditures will be funded with cash from operations. In addition, the Company has $250 million available (less outstanding letters of credit) under its current Credit Agreement to support operations.

Letters of credit totaling approximately $66.8 million and $62.3 million were outstanding under the current Credit Agreement at October 30, 2004 and November 1, 2003, respectively. No loans were outstanding under the current Credit Agreement on October 30, 2004 or November 1, 2003.

The Company has standby letters of credit in the amount of $4.7 million that are set to expire during the fourth quarter of the 2005 fiscal year. The beneficiary, a merchandise supplier, has the right to draw upon the standby letters of credit if the Company authorizes or files a voluntary petition in bankruptcy. To date, the beneficiary has not drawn upon the standby letters of credit.

Store Count and Gross Square Feet

Store count and gross square footage by brand were as follows:

	Thirteen Weeks Ended		Thirty
	October 30, 2004	November 1, 2003	October 3 2004
Number of stores and gross square feet by brand			
Abercrombie & Fitch:			
Stores at beginning of period	359	346	357
Opened	6	6	11
Closed	(2)	-	(5)
Stores at end of period	363	352	363

Gross square feet (thousands)	3,191	3,128	
abercrombie:			
Stores at beginning of period	171	167	171
Opened	3	3	5
Closed	-	-	(2)
Stores at end of period	174	170	174
Gross square feet (thousands)	767	753	
Hollister:			
Stores at beginning of period	197	112	172
Opened	27	17	52
Closed	-	-	-
Stores at end of period	224	129	224
Gross square feet (thousands)	1,452	828	
RUEHL			
Stores at beginning of period	-	-	-
Opened	3	-	3
Closed	-	-	-
Stores at end of period	3	-	3
Gross square feet (thousands)	28	-	

29

Capital Expenditures and Landlord Construction Allowances

Capital expenditures totaled $141.1 million and $119.8 million for the thirty-nine weeks ended October 30, 2004 and November 1, 2003, respectively. Additionally, the non-cash accrual for construction in progress decreased $7.3 million and increased $24.9 million for the thirty-nine week periods ended October 30, 2004, and November 1, 2003, respectively. Capital expenditures related primarily to new store construction, including the non-cash accrual for construction in progress. The balance of capital expenditures related primarily to miscellaneous store remodeling projects.

Construction allowances are an integral part of the decision making process for assessing the viability of new store leases. In making the decision whether to invest in a store location, the Company calculates the estimated future return on its investment based on the cost of construction, less any construction allowances to be received from the landlord. For the thirty-nine week periods ended October 30, 2004, and November 1, 2003, the Company received $35.0 million and $36.1 million in construction allowances, respectively. For accounting purposes, the Company treats construction allowances as a deferred lease credit which reduces rent expense in accordance with Statement of Financial Accounting Standards No.13, "Accounting for Leases" and Financial Accounting Standards Board Technical Bulletin No. 88-1, "Issues Relating to Accounting for Leases".

The Company anticipates spending $175.0 million to $185.0 million in the 2004 fiscal year for capital expenditures, of which $135.0 million to $145.0 million will be for new/remodel store construction. The balance of the capital expenditures will primarily relate to home office and distribution center projects and other miscellaneous projects.

The Company intends to have added approximately 700,000 gross square feet of store space in the 2004 fiscal year, which will represent a 14% increase over year-end 2003. It is anticipated that the increase will result from the addition of approximately 12 new Abercrombie & Fitch stores, 9 new abercrombie stores, 85 new Hollister stores and four RUEHL stores by the end of the 2004 fiscal year versus last year. The Company will also have remodeled approximately 15 Abercrombie & Fitch stores by the end of the 2004 fiscal year.

The Company estimates that the average cost for leasehold improvements and furniture and fixtures for Abercrombie & Fitch stores opened during the 2004 fiscal year will approximate $625,000 per store, net of construction allowances. In addition, initial inventory purchases are expected to average approximately $270,000 per store.

The Company estimates that the average cost for leasehold improvements and furniture and fixtures for abercrombie stores opened during the 2004 fiscal year will approximate $541,000 per store, net of construction allowances. In addition, initial inventory purchases are expected to average approximately $130,000 per store.

The Company estimates that the average cost for leasehold improvements and furniture and fixtures for Hollister stores opened during the 2004 fiscal year will approximate $597,000 per store, net of construction allowances. In addition, initial inventory purchases are expected to average approximately $190,000 per store.

Although the Company opened three RUEHL stores during the third quarter, it believes that the costs it has incurred to-date for the stores is not representative of the future average cost of opening a store.

The Company expects that substantially all future capital expenditures will be funded with cash from operations. In addition, the Company has $250 million available (less outstanding letters of credit) under its current Credit Agreement to support operations.

Critical Accounting Policies and Estimates

The Company's significant and critical accounting policies and estimates can be found in the Notes to Consolidated Financial Statements contained in Item 8 of A&F's Annual Report on Form 10-K/A for the fiscal year ended January 31, 2004 (see Note 3). Additionally, the Company believes that the following policies are critical to the portrayal of the Company's financial condition and results of operations for interim periods.

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 direct shipping 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.

Inventory Valuation - Inventories are principally valued at the lower of average cost or market, on a first-in first-out basis, utilizing the retail method. The retail method of inventory valuation is an averaging technique applied to different categories of inventory. At the Company, the averaging is determined at the stock keeping unit ("SKU") level by averaging all costs for each SKU. An initial markup ("IMU") 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 use of the retail method and the recording of markdowns effectively values inventory at the lower of cost or market. The Company further reduces inventory at season end by recording an additional markdown reserve using the retail carrying value of inventory from the season just passed. Markdowns on this carryover inventory represent estimated future anticipated selling price declines. Additionally, inventory valuation at the end of the first and third quarters reflects adjustments for inventory markdowns for the total season.

Further, as part of inventory valuation, an inventory shrinkage estimate is made each period that reduces the value of inventory for lost or stolen items. Inherent in the retail method calculation are certain significant judgments and estimates including, among others, initial markup, markdowns and shrinkage, which could significantly impact the ending inventory valuation at cost as well as the resulting gross margins. Management believes that this inventory valuation method is appropriate since it preserves the cost-to-retail relationship in ending inventory.

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. Inherent in the measurement of deferred balances are certain judgments and interpretations of enacted tax law and published guidance with respect to applicability to the Company's operations. Significant examples of this concept include capitalization policies for various tangible and intangible costs, income and expense recognition and inventory valuation methods. No valuation allowance has been provided for deferred tax assets because management believes the full amount of the net deferred tax assets will be realized in the future. The effective tax rate utilized by the Company reflects management's judgment of the expected tax liabilities within the various taxing jurisdictions.

Contingencies - In the normal course of business, the Company must make continuing estimates of potential future legal obligations and liabilities, which requires the use of management's judgment on the outcome of various issues. Management may also use outside legal advice to assist in the estimating process. However, the ultimate outcome of various legal issues could be different than management estimates, and adjustments may be required.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

A&F cautions that any forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) contained in this Quarterly Report on Form 10-Q/A or made by management of A&F involve risks and uncertainties and are subject to change based on various important factors, many of which may be beyond the Company's control. Words such as "estimate," "project," "plan," "believe," "expect," "anticipate," "intend," and similar expressions may identify forward-looking statements. The following factors, in addition to those included in the disclosure under the heading "RISK FACTORS" in "ITEM 1. BUSINESS" of A&F's Annual Report on Form 10-K/A for the fiscal year ended January 31, 2004, in some cases have affected and in the future could affect the Company's financial performance and could cause actual results for the 2004 fiscal year and beyond to differ materially from those expressed or implied in any of the forward-looking statements included in this Quarterly Report on Form 10-Q/A or otherwise made by management:

- changes in consumer spending patterns and consumer preferences;
- the effects of political and economic events and conditions domestically and in foreign jurisdictions in which the Company operates, including, but not limited to, acts of terrorism or war;
- the impact of competition and pricing;
- changes in weather patterns;
- postal rate increases and changes;
- paper and printing costs;
- market price of key raw materials;
- ability to source product from its global supplier base;
- political stability;
- currency and exchange risks and changes in existing or potential duties, tariffs or quotas;
- availability of suitable store locations at appropriate terms;
- ability to develop new merchandise; and
- ability to hire, train and retain associates.

Future economic and industry trends that could potentially impact revenue and profitability are difficult to predict. Therefore, there can be no assurance that the forward-looking statements included in this Quarterly Report on Form 10-Q/A will prove to be accurate. In light of the significant uncertainties in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company, or any other person, that the objectives of the Company will be achieved. The forward-looking statements herein are based on information presently available to the management of the Company. Except as may be required by applicable law, the Company assumes no obligation to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

33

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The market risk of the Company's financial instruments as of October 30, 2004 has not significantly changed since January 31, 2004. The Company's market risk profile as of January 31, 2004 is disclosed in "Item 7A - Quantitative and Qualitative Disclosures about Market Risk" of A&F's Annual Report on Form 10-K/A for the fiscal year ended January 31, 2004.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to provide reasonable assurance that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Chairman and Chief Executive Officer and the Senior Vice President - Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosures. Because of inherent limitations, disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of disclosure controls and procedures are met.

The Company's management, with the participation of the Chairman and Chief Executive Officer and the Senior Vice President - Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's design and operation of its disclosure controls and procedures as of the end of the period covered by this Form 10-Q/A. The evaluation included consideration of facts and circumstances surrounding corrections of the Company's lease accounting practices. These corrections resulted in the restatement of the Company's consolidated financial statements as of October 30, 2004 and January 31, 2004 and for the interim periods ended October 30, 2004 and November 1, 2003, as described in Note 2: "Restatement and Reclassification of Financial Statements" under Notes to Condensed Consolidated Financial Statements included in Item 1, "Financial Statements" of this Form 10-Q/A. As a result of the restatements and the related material weakness discussed below, the Chief Executive Officer and the Chief Financial Officer concluded that, as of October 30, 2004, the Company's disclosure controls and procedures were not effective at a reasonable level of assurance. Notwithstanding this material weakness discussed below, the Company's management has concluded that the restated consolidated financial statements included in this report present fairly, in all material respects the Company's financial position and results of operations and cash flows for the periods presented in conformity with generally accepted accounting principles.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As of October 30, 2004, the Company's controls over the selection and application of its lease accounting policies related to construction allowances and the recording of rent between the date the Company takes possession of the property and the commencement date of the lease were ineffective to ensure that such leasing transactions were recorded in accordance with generally accepted accounting principles. Specifically, because of the deficiency in the Company's controls over the selection and application of its lease accounting policies, the Company failed to identify and properly classify and account for property and equipment, deferred lease credits from landlords, rent expense, depreciation expense and the related impact of these items on cash provided by operating activities and cash used for investing activities in the consolidated statements of cash flows, which resulted in restatements of the Company's consolidated financial statements as of October 30, 2004 and January 31, 2004. Additionally, if the control deficiency is not remediated it could result in a misstatement of the aforementioned financial statement accounts and disclosures that would result in a material misstatement to annual or interim financial statements that would not be prevented or detected. Accordingly, management of the Company has concluded that this control deficiency constitutes a material weakness and that internal controls over financial reporting was not effective as of October 30, 2004.

Changes in Internal Control Over Financial Reporting

In the first quarter of 2005, the Company remediated the material weakness in internal control over financial reporting by correcting its method of accounting for construction allowances and recording of rent between the date the Company takes possession of the property and the commencement date of the lease. The Company implemented controls to ensure that all future leases are reviewed and accounted for in accordance with Statement of Financial Accounting Standards No.13, "Accounting for Leases" and Financial Accounting Standards Board Technical Bulletin No. 88-1, "Issues Relating to Accounting for Leases"; and Financial Accounting Standards Board Technical Bulletin No. 85-3, "Accounting for Operating Leases with Scheduled Rent Increases."

Other than the foregoing, there have been no changes in the Company's internal control over financial reporting that occurred since October 30, 2004 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is a defendant in lawsuits arising in the ordinary course of business.

A&F is aware of 20 actions that have been filed against A&F and certain of its officers and directors on behalf of a purported, but as yet uncertified, class of shareholders who purchased A&F's Class A Common Stock between October 8, 1999 and October 13, 1999. These 20 actions have been filed in the United States District Courts for the Southern District of New York and the Southern District of Ohio, Eastern Division, alleging violations of the federal securities laws and seeking unspecified damages. On April 12, 2000, the Judicial Panel on Multidistrict Litigation issued a Transfer Order transferring the 20 pending actions to the Southern District of New York for consolidated pretrial proceedings under the caption In re Abercrombie & Fitch Securities Litigation. On November 16, 2000, the Court signed an Order appointing the Hicks Group, a group of seven unrelated investors in A&F's securities, as lead plaintiff, and appointing lead counsel in the consolidated action. On December 14, 2000, plaintiffs filed a Consolidated Amended Class Action Complaint (the "Amended Complaint") in which they did not name as defendants Lazard Freres & Co. and Todd Slater, who had formerly been named as defendants in certain of the 20 complaints. A&F and other defendants filed motions to dismiss the Amended Complaint on February 14, 2001. On November 14, 2003, the motions to dismiss the

Amended Complaint were denied. On December 2, 2003, A&F moved for reconsideration or reargument of the November 14, 2003 order denying the motions to dismiss. The motions for reconsideration or reargument were fully briefed and submitted to the Court on January 9, 2004. The motions were denied on February 23, 2004.

A&F is aware of six actions that have been filed on behalf of purported classes of employees and former employees of the Company alleging that the Company required its associates to wear and pay for a "uniform" in violation of applicable law. In each case, the plaintiff, on behalf of his or her purported class, seeks injunctive relief and unspecified amounts of economic and liquidated damages. Two of these cases, Jennifer M. Solis v. Abercrombie & Fitch Stores, Inc. and A&F California, LLC and Sarah Stevenson v. Abercrombie & Fitch Co., allege violations of California law and were filed on February 10, 2003 and February 4, 2003 in the California Superior Courts for Los Angeles County and San Francisco County, respectively. An answer was filed in the Solis case on March 26, 2003. Pursuant to a Petition for Coordination, the Solis and the Stevenson cases were coordinated by order issued November 17, 2003. Shelby Port v. Abercrombie & Fitch Stores, Inc., which alleges violations of Washington law, was filed on or about July 18, 2003 in the Washington Superior Court of King County. The defendant filed a motion to dismiss the complaint in the Port case on September 5, 2003. The plaintiff filed an amended complaint on or about August 9, 2004, adding three new named plaintiffs and subsequently filed a second amended complaint on or about October 20, 2004. The defendant filed its answer to the second amended complaint on or about November 19, 2004. The plaintiffs filed a motion to certify a class of employees in the state of Washington on or about November 10, 2004. The defendant intends to oppose that motion. The Company does not believe it is feasible to predict the outcome of the legal proceedings identified in this paragraph and intends to defend vigorously against them. The timing of the final resolution of each of these proceedings is also uncertain. Accordingly, the Company cannot estimate a range of potential loss, if any, for any of these legal proceedings.

37

Jadii Mohme v. Abercrombie & Fitch, which alleges violations of Illinois law, was filed on July 18, 2003 in the Illinois Circuit Court of St. Clair County. A first amended complaint was filed in the Mohme case on September 10, 2003 to change the defendant to "Abercrombie & Fitch Stores, Inc." from "Abercrombie & Fitch." An answer to the first amended complaint was filed in the Mohme case on September 26, 2003. Holly Zemany v. Abercrombie & Fitch, which alleges violations of Pennsylvania law, was filed on July 18, 2003 in the Pennsylvania Court of Common Pleas of Allegheny County. A first amended complaint was filed in the Zemany case on September 9, 2003 to change the defendant to "Abercrombie & Fitch Stores, Inc." from "Abercrombie & Fitch." A second amended complaint was filed on November 10, 2003, adding some factual allegations. The defendant filed an answer to the second amended complaint on January 22, 2004. In Michael Gualano v. Abercrombie & Fitch, which was filed in the United States District Court for the Western District of Pennsylvania on March 14, 2003, the plaintiff alleges that the "uniform," when purchased, drove associates' wages below the federal minimum wage. The complaint purports to state a collective action on behalf of part-time associates under the Fair Labor Standards Act. A first amended complaint was filed in the Gualano case on September 9, 2003, to change the defendant to "Abercrombie & Fitch Stores, Inc." from "Abercrombie & Fitch." An answer to the first amended complaint was filed in the Gualano case on or about September 24, 2003. Jadii Mohme and Holly Zemany have stayed their claims in state court and joined their claims with Michael Gualano along with four other named plaintiffs in four other states in a second amended complaint, which the defendant has answered. The parties are in the process of settling these claims. On November 17, 2004, the United States District Court for the Western District of Pennsylvania gave final approval of the settlement, and dismissal of the case with prejudice was entered. The Mohme and Zemany cases are in the process of being dismissed with prejudice pursuant to the terms of the settlement. The settlement resolves all claims of hourly employees in the states of Colorado, Connecticut, Illinois, Minnesota, New Jersey and Pennsylvania under their respective state laws and their claims under the Fair Labor Standards Act. The Company does not expect the settlement to be material to the consolidated financial statements.

A&F is aware of two actions that have been filed against the Company involving overtime compensation. In each action, the plaintiffs, on behalf of their respective purported class, seek injunctive relief and unspecified amounts of economic and liquidated damages. In Bryan T. Kimbell, Individually and on Behalf of All Others Similarly Situated and on Behalf of the Public v. Abercrombie & Fitch Stores, Inc., which was filed on July 10, 2002 in the California Superior Court for Los Angeles County, the plaintiffs allege that California general and store managers were entitled to receive overtime pay as "non-exempt" employees under California wage and hour laws. An answer was filed in the Kimbell case on September 4, 2002 and the parties are in the process of discovery. The trial court has ordered a class of store managers in California certified for limited purposes. In Melissa Mitchell, et al. v. Abercrombie & Fitch Co. and Abercrombie & Fitch Stores, Inc., which was filed on June 13, 2003 in the United States District Court for the Southern District of Ohio, the plaintiffs allege that assistant managers and store managers were not paid overtime compensation in violation of the Fair Labor Standards Act and Ohio law. The defendants filed a motion to dismiss the Mitchell case on July 28, 2003. The case was transferred from the Western Division to the Eastern Division of the Southern District of Ohio on April 21, 2004. The plaintiffs filed an amended complaint to add Scott Oros as a named plaintiff on October 28, 2004. The defendants subsequently renewed their motion to dismiss, which is pending.

The Company does not believe it is feasible to predict the outcome of the legal proceedings described in the immediately preceding paragraph and intends to defend vigorously against them. The timing of the final resolution of each of these proceedings is also uncertain. Accordingly, the Company cannot estimate a range of potential loss, if any, for any of these legal proceedings.

A&F is aware of three actions that have been filed on behalf of a purported class alleged to be discriminated against in hiring or employment decisions due to race, national origin and/or gender. Eduardo Gonzalez, et al. v. Abercrombie & Fitch Co. was filed on June 16, 2003 in the United States District Court for the Northern District of California. The plaintiffs subsequently amended their complaint to add A&F California, LLC, Abercrombie & Fitch Stores, Inc. and A&F Ohio, Inc. as defendants. The plaintiffs allege, on behalf of their purported class, that they were discriminated against in hiring and employment decisions due to their race and/or national origin. The plaintiffs seek, on behalf of their purported class, injunctive relief and unspecified amounts of economic, compensatory and punitive damages. A second amended complaint, which added two additional plaintiffs, was filed on or about January 9, 2004. The defendants filed an answer to the second amended complaint on or about January 26, 2004. A third amended complaint was filed June on 10, 2004, restating the original claims and adding two individual, but not class, claims of gender discrimination. The defendants filed an answer on or about June 21, 2004. On November 8, 2004, the plaintiffs filed a fourth amended complaint, adding an additional plaintiff and claims on behalf of those who asserted they were discriminated against in hiring and employment decisions as managers due to their race and/or national origin. On November 11, 2004, the defendants answered the fourth amended complaint. Two other class action employment discrimination lawsuits have been filed in the United States District Court for the Northern District of California, both on November 8, 2004. In Elizabeth West, et al. v.

Abercrombie & Fitch Stores, Inc., et al., the plaintiffs allege gender (female) discrimination in hiring or employment decisions and seek, on behalf of their purported class, injunctive relief and unspecified amounts of economic, compensatory and punitive damages. The other was brought by the Equal Employment Opportunity Commission (the "EEOC") and alleges race, ethnicity and gender (female) discrimination in hiring or employment decisions. The EEOC complaint seeks injunctive relief and, on behalf of the purported class, unspecified amounts of economic, compensatory and punitive damages. On November 8, 2004, the Company signed a consent decree settling these three related class action discrimination lawsuits, subject to judicial review and approval. The monetary terms of the consent decree provide that the Company will set aside $40.0 million to pay to the class, approximately $7.5 million for attorneys' fees, and approximately $2.5 million for monitoring and administrative costs to carry out the settlement. As a result, the Company accrued a non-recurring charge of $32.9 million, which was included in general, administrative and store operating expenses for the thirteen weeks ended October 30, 2004. This is in addition to amounts accrued during the first quarter of fiscal 2004 when the Company recorded an $8.0 million charge (net of expected proceeds of $10 million from insurance) resulting from an increase in expected defense costs related to the Gonzalez case. As part of the consent decree, the Company also agreed to implement a series of programs and initiatives that are designed to achieve greater diversity throughout its stores. The preliminary approval order was signed by Judge Susan Illston of the United States District Court for the Northern District of California on November 16, 2004, and that order scheduled a final fairness and approval hearing for April 14, 2005.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Not applicable

(b) Not applicable

(c) The following table provides information regarding A&F's purchase of its Class A Common Stock during each fiscal month of the quarterly period ended October 30, 2004:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maxi of Sha Yet b under Progr
August 1 through August 28, 2004	1,220,000	8,846,270 shares		
were outstanding; and				

1,738,619 shares of preferred

stock, par value $1.00 per share, of which 100,000 shares have been designated as Series A Junior Participating Preferred Stock and reserved for future issuance in connection with our shareholder rights plan and no shares of preferred stock were outstanding.

COMMON STOCK

Voting rights

Holders of our common stock are entitled to one vote for each share held by them at all meetings of the shareholders and are not entitled to cumulate their votes for the election of directors.

Dividend rights and limitations

Holders of our common stock may receive dividends when declared by our board of directors. Because we are a holding company, the funds we use to pay any dividends on our common stock are derived predominantly from the dividends that we receive from our subsidiaries and the dividends they receive from their subsidiaries. Therefore, our ability to pay dividends to holders of our common stock depends upon our subsidiaries earnings, financial condition and ability to pay dividends. Most of our subsidiaries are subject to regulation by state utility commissions and the amounts of their earnings and dividends are affected by the manner in which they are regulated. In addition, they are subject to restrictions on the payment of dividends contained in their various debt agreements. Under our most restrictive debt agreements, the amount available for payment of dividends to us as of September 30, 2005 was approximately $280 million of Aqua Pennsylvania s retained earnings and $66 million of the retained earnings of certain other subsidiaries. Payment of dividends on our common stock is also subject to the preferential rights of the holders of any outstanding preferred stock.

Liquidation rights

In the event that we liquidate, dissolve or wind-up, the holders of our common stock are entitled to share ratably in all of the assets that remain after we pay our liabilities. This right is subject, however, to the prior distribution rights of any outstanding preferred stock.

PREFERRED STOCK

Under our certificate of incorporation, we are authorized to issue up to 1,738,619 shares of preferred stock of which 100,000 shares have been designated and reserved for issuance as Series A Junior Participating Preferred Stock, $1.00 par value per share, in connection with our shareholder rights plan. As of December 8, 2005, no shares of preferred stock were outstanding.

Our board of directors has the authority, from time to time and without further action by our shareholders, to divide our unissued capital stock into one or more classes and one or more series within any class and to make determinations of the designation and number of shares of any class or series and determinations of the voting rights, preferences, limitations and special rights, if any, of the

Table of Contents

Description of capital stock

shares of any class or series. The rights, preferences, limitations and special rights of different classes of capital stock may differ with respect to dividend rates, amounts payable on liquidation, voting rights, conversion rights, redemption provisions, sinking fund provisions and other matters. The rights, preferences, privileges and restrictions of each series may be fixed by the designations of that series set forth in either a restated version of the certificate of incorporation or a certificate of designations relating to that series.

The issuance of preferred stock may have the effect of delaying, deferring or preventing a change of control of us without further action by our shareholders. The issuance of preferred stock with voting and conversion rights may also adversely affect the voting power of the holders of our common stock. In certain circumstances, an issuance of preferred stock could have the effect of decreasing the market price of our common stock.

Whenever preferred stock is to be sold pursuant to this prospectus, we will file a prospectus supplement relating to that sale which will specify:

- the number of shares in the series of preferred stock;
- the designation for the series of preferred stock by number, letter or title that will distinguish the series from any other series of preferred stock;
- the dividend rate, if any, and whether dividends on that series of preferred stock will be cumulative, noncumulative or partially cumulative;
- the voting rights of that series of preferred stock, if any;
- any conversion provisions applicable to that series of preferred stock;
- any redemption or sinking fund provisions applicable to that series of preferred stock;
- the liquidation preference per share of that series of preferred stock; and
- the terms of any other preferences or rights, if any, applicable to that series of preferred stock.

Shareholder rights plan

Pursuant to our shareholders rights plan, current or future holders of our common stock have the right to purchase a fraction of a share of our Series A Junior Participating Preferred Stock for each of outstanding share of common stock held by them. Upon the occurrence of certain events, each right would entitle the holder to purchase from us one one-thousandth of a share of Series A Junior Participating Preferred Stock at an exercise price of $90 per one-thousandth of a share, subject to adjustment. The rights are exercisable in certain circumstances, such as when a person or group acquires 20% or more of our common stock or if the holder of 20% or more of our common stock engages in certain transactions with us. In the latter case, the right to purchase Series A Junior Participating Preferred Stock would be exercisable by each holder, but not the acquiring person, to purchase shares of our common stock at a substantial discount from the market price. Additionally, pursuant to our shareholders rights plan, if, after the date that a person has become the holder of 20% or more of our common stock, any person or group merges with us or engages in certain other transactions with us, each holder of a right, other than the acquirer, will have the right to purchase common stock of the surviving corporation at a substantial discount from the market price. These rights are subject to redemption by us in certain circumstances. These rights have no voting or dividend rights and, until exercisable, cannot trade separately from our common stock and have no dilutive effect on our earnings. This plan expires on March 1, 2008.

Anti-takeover provisions

Pennsylvania State Law Provisions

We are subject to various anti-takeover provisions of the Pennsylvania Business Corporation Law of 1988, as amended. Generally, these provisions are triggered if any person or group acquires, or

10

Description of capital stock

discloses an intent to acquire, 20% or more of a corporation s voting power, unless the acquisition is under a registered firm commitment underwriting or, in certain cases, approved by the board of directors. These provisions:

- provide the other shareholders of the corporation with certain rights against the acquiring group or person;
- prohibit the corporation from engaging in a broad range of business combinations with the acquiring group or person; and
- restrict the voting and other rights of the acquiring group or person.

In addition, as permitted by Pennsylvania law, an amendment to our articles of incorporation or other corporate action that is approved by shareholders may provide mandatory special treatment for specified groups of nonconsenting shareholders of the same class. For example, an amendment to our articles of incorporation or other corporate action may provide that shares of common stock held by designated shareholders of record must be cashed out at a price determined by the corporation, subject to applicable dissenters rights.

Articles of Incorporation and Bylaw Provisions

Certain provisions of our articles of incorporation and bylaws may have the effect of discouraging unilateral tender offers or other attempts to take over and acquire our business. These provisions might discourage some potentially interested purchaser from attempting a unilateral takeover bid for us on terms which some shareholders might favor. Our articles of incorporation require that certain fundamental transactions must be approved by the holders of 75% of the outstanding shares of our capital stock entitled to vote on the matter unless at least 50% of the members of the board of directors has approved the transaction, in which case the required shareholder approval will be the minimum approval required by applicable law. The fundamental transactions that are subject to this provision are those transactions that require approval by shareholders under applicable law or the articles of incorporation. These transactions include certain amendments of our articles of incorporation or bylaws, certain sales or other dispositions of our assets, certain issuances of our capital stock, or certain transactions involving our merger, consolidation, division, reorganization, dissolution, liquidation or winding up. Our articles of incorporation and bylaws provide that:

- a special meeting of shareholders may only be called by the chairman, the president, the board of directors or shareholders entitled to cast a majority of the votes which all shareholders are entitled to cast at the particular meeting;
- nominations for election of directors may be made by any shareholder entitled to vote for election of directors if the name of the nominee and certain information relating to the nominee is filed with our corporate secretary not less than 14 days nor more than 50 days before any meeting of shareholders to elect directors; and
- certain advance notice procedures must be met for shareholder proposals to be made at annual meetings of shareholders. These advance notice procedures generally require a notice to be delivered not less than 90 days nor more than 120 days before the anniversary date of the immediately preceding annual meeting of shareholders.

Transfer agent and registrar

The transfer agent and registrar for our common stock is Computershare, Ltd.

Table of Contents

Description of depository shares

We may, at our option, offer fractional shares of our preferred stock, rather than whole shares of our preferred stock. In the event we do so, we will issue receipts for depositary shares, each of which will represent a fraction (to be set forth in the prospectus supplement relating to offering of the depositary shares) of a share of the related series of preferred stock.

The shares of our preferred stock represented by depositary shares will be deposited under a deposit agreement between us and a bank or trust company selected by us having its principal office in the United States and having a combined capital and surplus of at least $50,000,000. Subject to the terms of the deposit agreement, each owner of a depositary share will be entitled, in proportion to the applicable fraction of a share of preferred stock, represented by the depositary share to all of the rights and preferences of the preferred stock represented by the depositary shares (including dividend, voting, redemption, conversion and liquidation rights).

The above description of depositary shares is only a summary, is not complete and is subject to, and is qualified in its entirety by the description in the applicable prospectus supplement and the provisions of the deposit agreement, which will contain the form of depository receipt. A copy of the deposit agreement will be filed with the SEC as an exhibit to or incorporated by reference in the registration statement of which this prospectus is a part.

Description of debt securities

Please note that in this section entitled Description of Debt Securities, references to we, us, ours or our refer only to Aqua America, Inc. and not to its consolidated subsidiaries. Also, in this section, references to holders mean those who own debt securities registered in their own names, on the books that we maintain or the trustee maintains for this purpose, and not those who own beneficial interests in debt securities registered in street name or in debt securities issued in book-entry form through one or more depositaries. Owners of beneficial interests in the debt securities should read the section below entitled Book-Entry Procedures and Settlement.

GENERAL

The debt securities offered by this prospectus will be our unsecured obligations, except as otherwise set forth in an accompanying prospectus supplement, and will be either senior or subordinated debt. We will issue senior debt under a senior debt indenture, and we will issue subordinated debt under a subordinated debt indenture. We sometimes refer to the senior debt indenture and the subordinated debt indenture individually as an indenture and collectively as the indentures. We have filed forms of the indentures with the SEC as exhibits to the registration statement of which this prospectus forms a part. You can obtain copies of the indentures by following the directions outlined in Where You Can Find More Information, or by contacting the applicable indenture trustee.

A form of each debt security, reflecting the particular terms and provisions of a series of offered debt securities, will be filed with the SEC at the time of the offering and incorporated by reference as exhibits to the registration statement of which this prospectus forms a part.

The following briefly summarizes certain material provisions that may be included in the indentures. Other terms, including pricing and related terms, will be disclosed for a particular issuance in an accompanying prospectus supplement. You should read the more detailed provisions of the applicable indenture, including the defined terms, for provisions that may be important to you. You should also read the particular terms of a series of debt securities, which will be described in more detail in an

Description of debt securities

accompanying prospectus supplement. So that you may easily locate the more detailed provisions, the numbers in parentheses below refer to sections in the applicable indenture or, if no indenture is specified, to sections in each of the indentures. Wherever particular sections or defined terms of the applicable indenture are referred to, such sections or defined terms are incorporated into this prospectus by reference, and the statement in this prospectus is qualified by that reference.

The trustee under each indenture will be determined at the time of issuance of debt securities, and the name of the trustee will be provided in an accompanying prospectus supplement.

The indentures provide that our senior or subordinated debt securities may be issued in one or more series, with different terms, in each case as we authorize from time to time. We also have the right to reopen a previous issue of a series of debt securities by issuing additional debt securities of such series without the consent of the holders of debt securities of the series being reopened or any other series. Any additional debt securities of the series being reopened will have the same ranking, interest rate, maturity and other terms as the previously issued debt securities of that series. These additional debt securities, together with the previously issued debt securities of that series, will constitute a single series of debt securities under the terms of the applicable indenture.

TYPES OF DEBT SECURITIES

We may issue fixed or floating rate debt securities. Fixed rate debt securities will bear interest at a fixed rate described in the prospectus supplement. This type includes zero coupon debt securities, which bear no interest and are often issued at a price lower than the principal amount. United States federal income tax consequences and other special considerations applicable to any debt securities issued at a discount will be described in the applicable prospectus supplement.

Upon the request of the holder of any floating rate debt security, the calculation agent will provide the interest rate then in effect for that debt security, and, if determined, the interest rate that will become effective on the next interest reset date. The calculation agent s determination of any interest rate, and its calculation of the amount of interest for any interest period, will be final and binding in the absence of manifest error.

All percentages resulting from any interest rate calculation relating to a debt security will be rounded upward or downward, as appropriate, to the next higher or lower one hundred-thousandth of a percentage point. All amounts used in or resulting from any calculation relating to a debt security will be rounded upward or downward, as appropriate, to the nearest cent, in the case of U.S. dollars, or to the nearest corresponding hundredth of a unit, in the case of a currency other than U.S. dollars, with one-half cent or one-half of a corresponding hundredth of a unit or more being rounded upward.

In determining the base rate that applies to a floating rate debt security during a particular interest period, the calculation agent may obtain rate quotes from various banks or dealers active in the relevant market, as described in the prospectus supplement. Those reference banks and dealers may include the calculation agent itself and its affiliates, as well as any underwriter, dealer or agent participating in the distribution of the relevant floating rate debt securities and its affiliates.

INFORMATION IN THE PROSPECTUS SUPPLEMENT

The prospectus supplement for any offered series of debt securities will describe the following terms, as applicable:

- the title;
- whether the debt is senior or subordinated;
- whether the debt securities are secured or unsecured and, if secured, the collateral securing the debt;

Description of debt securities

the total principal amount offered;

the percentage of the principal amount at which the debt securities will be sold and, if applicable, the method of determining the price;

the maturity date or dates;

whether the debt securities are fixed rate debt securities or floating rate debt securities;

if the debt securities are fixed rate debt securities, the yearly rate at which the debt security will bear interest, if any, and the interest payment dates;

if the debt security is an original issue discount debt security, the yield to maturity;

if the debt securities are floating rate debt securities, the interest rate basis; any applicable index currency or maturity, spread or spread multiplier or initial, maximum or minimum rate; the interest reset, determination, calculation and payment dates, and the day count used to calculate interest payments for any period;

the date or dates from which any interest will accrue, or how such date or dates will be determined, and the interest payment dates and any related record dates;

if other than in U.S. dollars, the currency or currency unit in which payment will be made;

the denominations in which the currency or currency unit of the securities will be issuable if other than denominations of $1,000 and integral multiples thereof;

the terms and conditions on which the debt securities may be redeemed at our option;

any obligation we may have to redeem, purchase or repay the debt securities at the option of a holder upon the happening of any event and the terms and conditions of redemption, purchase or repayment;

the names and duties of the trustee and any co-trustees, depositaries, authenticating agents, calculation agents, paying agents, transfer agents or registrars for the debt securities;

any material provisions of the applicable indenture described in this prospectus that do not apply to the debt securities;

a discussion of United States federal income tax, accounting and special considerations, procedures and limitations with respect to the debt securities;

whether and under what circumstances we will pay additional amounts to holders in respect of any tax assessment or government charge, and, if so, whether we will have the option to redeem the debt securities rather than pay such additional amounts; and

any other specific terms of the debt securities that are consistent with the provisions of the indenture.

The terms on which a series of debt securities may be convertible into or exchangeable for other of our securities or any other entity will be set forth in the prospectus supplement relating to such series. Such terms will include provisions as to whether conversion or exchange is mandatory, at the option of the holder or at our option. The terms may include provisions pursuant to which the number of other securities to be received by the holders of such series of debt securities may be adjusted.

We will issue the debt securities only in registered form. As currently anticipated, debt securities of a series will trade in book-entry form, and global notes will be issued in physical (paper) form, as described below under Book-Entry Procedures and Settlement. Unless otherwise provided in the

14

Description of debt securities

accompanying prospectus supplement, we will issue debt securities denominated in U.S. dollars and only in denominations of $1,000 and integral multiples thereof.

The prospectus supplement relating to offered debt securities denominated in a foreign or composite currency will specify the denomination of the offered debt securities.

The debt securities may be presented for exchange, and debt securities other than a global security may be presented for registration of transfer, at the principal corporate trust office of the trustee named in the applicable prospectus supplement. Holders will not have to pay any service charge for any registration of transfer or exchange of debt securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with such registration of transfer (Section 3.05).

PAYMENT AND PAYING AGENTS

Distributions on the debt securities other than those represented by global notes will be made in the designated currency against surrender of the debt securities at the principal corporate trust office of the trustee named in the applicable prospectus supplement. Payment will be made to the registered holder at the close of business on the record date for such payment. Interest payments will be made at the principal corporate trust office of the trustee named in the applicable prospectus supplement, or by a check mailed to the holder at his registered address. Payments in any other manner will be specified in the applicable prospectus supplement.

CALCULATION AGENTS

Calculations relating to floating rate debt securities and indexed debt securities will be made by the calculation agent, an institution that we appoint as our agent for this purpose. We may appoint one of our affiliates as calculation agent. We may appoint a different institution to serve as calculation agent from time to time after the original issue date of the debt security without your consent and without notifying you of the change. The initial calculation agent will be identified in the applicable prospectus supplement.

SENIOR DEBT

We may issue senior debt securities under the senior debt indenture. Senior debt will rank on a basis equal in priority with all our other debt except our subordinated debt.

SUBORDINATED DEBT

We may issue subordinated debt securities under the subordinated debt indenture. Subordinated debt will rank subordinated and junior in right of payment, to the extent set forth in the subordinated debt indenture, to all our senior debt.

If we default in the payment of any principal of, or premium, if any, or interest on any senior debt when it becomes due and payable after any applicable grace period, then, unless and until the default is cured or waived or ceases to exist, we cannot make a payment on account of or redeem or otherwise acquire the subordinated debt securities.

If there is any insolvency, bankruptcy, liquidation or other similar proceeding relating to us or our property, then all senior debt must be paid in full before any payment may be made to any holders of subordinated debt securities.

Furthermore, if we default in the payment of the principal of and accrued interest on any subordinated debt securities that is declared due and payable upon an event of default under the subordinated debt

Description of debt securities

indenture, holders of all our senior debt will first be entitled to receive payment in full in cash before holders of such subordinated debt can receive any payments.

Except as may be otherwise set forth in an accompanying prospectus supplement, senior debt means:

- the principal, premium, if any, and interest in respect of indebtedness for money borrowed and indebtedness evidenced by securities, notes, debentures, bonds or other similar instruments issued, including, as to us, the senior debt securities;
- all capitalized lease obligations;
- all obligations representing the deferred purchase price of property; and
- all deferrals, renewals, extensions and refundings of obligations of the type referred to above.

However, senior debt does not include:

- the subordinated debt securities;
- any indebtedness that by its terms is subordinated to, or ranks in priority on an equal basis with, subordinated debt securities; and
- items of indebtedness (other than capitalized lease obligations) that would not appear as liabilities on a balance sheet prepared in accordance with accounting principles generally accepted in the United States of America.

COVENANTS

The accompanying prospectus supplement will contain any covenants applicable to the debt securities.

MODIFICATION OF THE INDENTURES

The indentures will provide that we and the relevant trustee may enter into supplemental indentures to establish the form and terms of any new series of debt securities without obtaining the consent of any holder of debt securities.

We and the trustee may, with the consent of the holders of at least a majority in aggregate outstanding principal amount of the debt securities of a series, modify the applicable indenture or the rights of the holders of the securities of such series.

No such modification may, without the consent of each holder of an affected security:

- extend the fixed maturity of any such security;
- reduce the rate or change the time of payment of interest on such security;
- reduce the principal amount of such securities or the premium, if any, on such security;
- change any obligation of ours to pay additional amounts with respect to such security;
- reduce the amount of the principal payable on acceleration of such security if issued originally at a discount;
- adversely affect the right of repayment or repurchase of such security at the option of the holder;
- reduce or postpone any sinking fund or similar provision with respect to such security;
- change the currency or currency unit in which such security is payable or the right of selection thereof;

Description of debt securities

- impair the right to sue for the enforcement of any payment with respect to such security on or after the maturity of such security;

- reduce the percentage of the aggregate outstanding principal amount of debt securities of the series referred to above whose holders need to consent to the modification or a waiver without the consent of such holders; or

- change any obligation of ours with respect to such security to maintain an office or agency.

DEFAULTS

Except as may be otherwise set forth in an accompanying prospectus supplement, each indenture will provide that events of default regarding any series of debt securities will be:

- our failure to pay for 30 days required interest on any debt security of such series;

- our failure to pay principal or premium, if any, on any debt security of such series when due;

- our failure to make any required scheduled installment payment for 30 days on debt securities of such series;

- our failure to perform for 90 days after notice any other covenant in the relevant indenture other than a covenant included in the relevant indenture solely for the benefit of a series of debt securities other than such series; and

- certain events of bankruptcy or insolvency, whether voluntary or not (Section 5.01).

Except as may be otherwise set forth in an accompanying prospectus supplement, if an event of default regarding debt securities of any series issued under the indentures should occur and be continuing, either the trustee or the holders of 25% in the principal amount of outstanding debt securities of such series may declare each debt security of that series due and payable (Section 5.02). We may be required to file annually with the trustee a statement of an officer as to the fulfillment by us of our obligations under the indenture during the preceding year.

No event of default regarding one series of debt securities issued under an indenture is necessarily an event of default regarding any other series of debt securities.

Holders of a majority in aggregate principal amount of the outstanding debt securities of any series will be entitled to control certain actions of the trustee under the indentures and to waive past defaults regarding such series (Sections 5.12 and 5.13). The holders of debt securities generally will not be able to require the trustee to take any action, unless one or more of such holders provides to the trustee reasonable security or indemnity (Section 6.02).

If an event of default occurs and is continuing regarding a series of debt securities, the trustee may use any sums that it holds under the relevant indenture for its own reasonable compensation and expenses incurred prior to paying the holders of debt securities of such series (Section 5.06).

Before any holder of any series of debt securities may institute action for any remedy, except payment on such holder s debt security when due, the holders of not less than 25% in principal amount of the debt securities of that series outstanding must request the trustee to take action. Holders must also offer and give the satisfactory security and indemnity against liabilities incurred by the trustee for taking such action (Sections 5.07 and 5.08).

DEFEASANCE

Except as may otherwise be set forth in an accompanying prospectus supplement, after we have deposited with the trustee, cash or government securities, in trust for the benefit of the holders

Description of debt securities

sufficient to pay the principal of, premium, if any, and interest on the debt securities of such series when due, and satisfied certain other conditions, including receipt of an opinion of counsel that holders will not recognize taxable gain or loss for United States federal income tax purposes, then:

we will be deemed to have paid and satisfied our obligations on all outstanding debt securities of such series, which is known as defeasance and discharge (Section 14.02); or

we will cease to be under any obligation, other than to pay when due the principal of, premium, if any, and interest on such debt securities, relating to the debt securities of such series, which is known as covenant defeasance (Section 14.03).

When there is a defeasance and discharge, the applicable indenture will no longer govern the debt securities of such series, we will no longer be liable for payments required by the terms of the debt securities of such series and the holders of such debt securities will be entitled only to the deposited funds. When there is a covenant defeasance, however, we will continue to be obligated to make payments when due if the deposited funds are not sufficient.

GOVERNING LAW

Unless otherwise stated in the prospectus supplement, the debt securities and the indentures will be governed by Pennsylvania law.

CONCERNING THE TRUSTEE UNDER THE INDENTURES

We may have banking and other business relationships with the trustee named in the prospectus supplement, or any subsequent trustee, in the ordinary course of business.

FORM, EXCHANGE AND TRANSFER

We will issue debt securities only in registered form; no debt securities will be issued in bearer form. We will issue each debt security in book-entry form only, unless otherwise specified in the applicable prospectus supplement. We will issue any common stock issuable upon conversion of any debt security being offered in both certificated and book-entry form, unless otherwise specified in the applicable prospectus supplement. Debt securities in book-entry form will be represented by a global security registered in the name of a depositary, which will be the holder of all the debt securities represented by the global security. Those who own beneficial interests in a global security will do so through participants in the depositary s system, and the rights of these indirect owners will be governed solely by the applicable procedures of the depositary and its participants. Only the depositary will be entitled to transfer or exchange a debt security in global form, since it will be the sole holder of the debt security. These book-entry securities are described below under Book-Entry Procedures and Settlement.

If any debt securities are issued in non-global form or cease to be book-entry securities (in the circumstances described in the next section), the following will apply to them:

The debt securities will be issued in fully registered form in denominations stated in the prospectus supplement. You may exchange debt securities for debt securities of the same series in smaller denominations or combined into fewer debt securities of the same series of larger denominations, as long as the total amount is not changed.

You may exchange, transfer, present for payment or exercise debt securities at the office of the relevant trustee or agent indicated in the prospectus supplement. You may also replace lost, stolen, destroyed or mutilated debt securities at that office. We may appoint another entity to perform these functions or may perform them.

Description of debt securities

You will not be required to pay a service charge to transfer or exchange the debt securities, but you may be required to pay any tax or other governmental charge associated with the transfer or exchange. The transfer or exchange, and any replacement, will be made only if our transfer agent is satisfied with your proof of legal ownership. The transfer agent may also require an indemnity before replacing any debt securities.

If we have the right to redeem, accelerate or settle any debt securities before their maturity or expiration, and we exercise that right as to less than all those debt securities, we may block the transfer or exchange of those debt securities during the period beginning 15 days before the day we mail the notice of exercise and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers of or exchange any debt security selected for early settlement, except that we will continue to permit transfers and exchanges of the unsettled portion of any debt security being partially settled.

If fewer than all of the debt securities represented by a certificate that are payable or exercisable in part are presented for payment or exercise, a new certificate will be issued for the remaining amount of securities.

BOOK-ENTRY PROCEDURES AND SETTLEMENT

Most offered debt securities will be book-entry (global) securities. Upon issuance, all book-entry securities will be represented by one or more fully registered global securities, without coupons. Each global security will be deposited with, or on behalf of, The Depository Trust Company, or DTC, a securities depository, and will be registered in the name of DTC or a nominee of DTC. DTC will thus be the only registered holder of these debt securities.

Purchasers of debt securities may only hold interests in the global notes through DTC if they are participants in the DTC system. Purchasers may also hold interests through a securities intermediary banks, brokerage houses and other institutions that maintain securities accounts for customers that has an account with DTC or its nominee. DTC will maintain accounts showing the security holdings of its participants, and these participants will in turn maintain accounts showing the security holdings of their customers. Some of these customers may themselves be securities intermediaries holding securities for their customers. Thus, each beneficial owner of a book-entry security will hold that debt security indirectly through a hierarchy of intermediaries, with DTC at the top and the beneficial owner s own securities intermediary at the bottom.

The debt securities of each beneficial owner of a book-entry security will be evidenced solely by entries on the books of the beneficial owner s securities intermediary. The actual purchaser of the debt securities will generally not be entitled to have the debt securities represented by the global securities registered in its name and will not be considered the owner under the declaration. In most cases, a beneficial owner will also not be able to obtain a paper certificate evidencing the holder s ownership of debt securities. The book-entry system for holding securities eliminates the need for physical movement of certificates and is the system through which most publicly traded common stock is held in the United States. However, the laws of some jurisdictions require some purchasers of securities to take physical delivery of their securities in definitive form. These laws may impair the ability to transfer book-entry securities.

A beneficial owner of book-entry securities represented by a global security may exchange the securities for definitive (paper) securities only if:

DTC is unwilling or unable to continue as depositary for such global security and we do not appoint a qualified replacement for DTC within 90 days; or

Table of Contents

Description of debt securities

We in our sole discretion decide to allow some or all book-entry securities to be exchangeable for definitive securities in registered form.

Unless we indicate otherwise, any global security that is exchangeable will be exchangeable in whole for definitive securities in registered form, with the same terms and of an equal aggregate principal amount. Definitive securities will be registered in the name or names of the person or persons specified by DTC in a written instruction to the registrar of the securities. DTC may base its written instruction upon directions that it receives from its participants.

In this prospectus, for book-entry securities, references to actions taken by security holders will mean actions taken by DTC upon instructions from its participants, and references to payments and notices of redemption to security holders will mean payments and notices of redemption to DTC as the registered holder of the securities for distribution to participants in accordance with DTC s procedures.

DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered under section 17A of the Securities Exchange Act of 1934. The rules applicable to DTC and its participants are on file with the SEC.

We will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interest in the book-entry securities or for maintaining, supervising or reviewing any records relating to the beneficial ownership interests.

Table of Contents

Description of common stock purchase contracts and common stock purchase units

We may issue stock purchase contracts, representing contracts entitling or obligating holders to purchase from us, and us to sell to the holders, a specified number of shares or amount of common stock at a future date or dates. The price per share of common stock may be fixed at the time each contract is issued or may be determined by reference to a specific formula set forth in the contract. Each common stock purchase contract may be issued separately or as a part of a unit, which is referred to in this prospectus as a common stock purchase unit, each consisting of a common stock purchase contract and, as security for the holder s obligation to purchase the common stock under the contract, the following:

our senior debt securities or subordinated debt securities described under Description of Debt Securities;

debt obligations of third parties, including U.S. Treasury securities;

any other asset as security described in the applicable prospectus supplement; or

any combination of the foregoing.

Each common stock purchase contract may require us to make periodic payments to the holder of the common stock purchase unit or vice versa, and such payments may be unsecured or prefunded on some basis discussed in the applicable prospectus supplement. Each common stock purchase contract may require holders to secure their obligations thereunder in a specified manner and, in certain circumstances, we may deliver a newly issued prepaid common stock purchase contract, which is referred to as a prepaid security, upon release to a holder of any collateral securing such holder s obligations under the original contract.

The applicable prospectus supplement will describe the terms of any common stock purchase contract or common stock purchase unit and, if applicable, prepaid security. The description in the prospectus supplement will not purport to be complete and will be qualified in its entirety by reference to the contracts, units, the collateral arrangements and depositary arrangements, if applicable, relating to such contracts or units and, if applicable, the prepaid securities and the documents pursuant to which such prepaid securities will be issued. The applicable prospectus supplement will also describe the material United States federal income tax considerations applicable to the common stock purchase contracts and common stock purchase units.

Table of Contents

Where you can find more information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC s public reference room at 100 F. Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. You may also obtain our SEC filings from the SEC s Web site at http://www.sec.gov.

We have filed with the SEC a shelf registration statement on Form S-3 under the Securities Act of 1933 relating to the securities that may be offered by this prospectus. This prospectus is a part of that registration statement, but does not contain all of the information in the registration statement. We have omitted certain parts of the registration statement in accordance with rules and regulations of the SEC. Statements made in this prospectus as to the contents of any contract, agreement or other documents are not necessarily complete, and, in each instance, we refer you to a copy of such document filed as an exhibit to the registration statement, of which this prospectus is a part, or otherwise filed with the SEC. For more detail about us and any securities that may be offered by this prospectus, you may examine the registration statement on Form S-3 and the exhibits filed with it at the locations listed in the previous paragraph.

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus. When we file information with the SEC in the future, that information will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we will make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until we sell all of the securities covered by this prospectus; *provided, however,* that we are not incorporating, in each case, any documents or information deemed to have been furnished and not filed in accordance with SEC rules:

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2004, including portions of our 2004 Annual Report to Shareholders and our definitive Proxy Statement for the 2005 Annual Meeting of Shareholders incorporated therein by reference;

Our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005;

Our Current Reports on Form 8-K filed on January 21, 2005, March 7, 2005, May 25, 2005, October 7, 2005, December 12, 2005 and December 16, 2005; and

The description of our common stock set forth in our Registration Statement on Form 8-A, including any amendments or reports filed for the purpose of updating such description.

You may request a copy of any documents that we incorporate by reference at no cost, by writing or telephoning us at:

Aqua America, Inc.
762 W. Lancaster Avenue
Bryn Mawr, PA 19010-3489
Telephone: 610-527-8000
Attention: Roy H. Stahl, Corporate Secretary

You should rely only on the information contained in or incorporated by reference in this prospectus and any supplements to this prospectus. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on

Table of Contents

Where you can find more information

it. You should not assume that the information provided in this prospectus or incorporated by reference in this prospectus is accurate as of any date other than the date on the front of this prospectus or the date of those documents. Our business, financial condition, results of operations and prospects may have changed since those dates.

Legal matters

The validity of the securities that may be offered hereby will be passed upon for us by Morgan, Lewis & Bockius LLP, Philadelphia, Pennsylvania.

Experts

The consolidated financial statements and management s assessment of the effectiveness of internal control over financial reporting (which is included in Management s Report on Internal Control over Financial Reporting) incorporated in this prospectus by reference to the Annual Report on Form 10-K for the year ended December 31, 2004 have been so incorporated in reliance on the report (which contained an explanatory paragraph indicating that management has excluded from its assessment of and PricewaterhouseCoopers LLP has excluded from its audit of internal control over financial reporting Heater Utilities, Inc. as it was acquired by Aqua America in a purchase business combination during 2004) of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

Table of Contents

1,750,000 Shares
Aqua America, Inc.
Common Stock

A.G. Edwards	**Janney Montgomery Scott llc**

The date of this prospectus supplement is June , 2006.