

AMERICAN EAGLE OUTFITTERS INC  
Form 10-K  
March 15, 2012  
Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-K**

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

**For the Fiscal Year Ended January 28, 2012  
OR**

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

**Commission File Number: 1-33338**

**American Eagle Outfitters, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*  
**77 Hot Metal Street, Pittsburgh, PA**  
*(Address of principal executive offices)*

**No. 13-2721761**  
*(I.R.S. Employer*

*Identification No.)*

**15203-2329**  
*(Zip Code)*

**Registrant's telephone number, including area code:**

**(412) 432-3300**

**Securities registered pursuant to Section 12(b) of the Act:**

Common Shares, \$0.01 par value

New York Stock Exchange

Edgar Filing: AMERICAN EAGLE OUTFITTERS INC - Form 10-K

(Title of class)

(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Sections 15(d) of the Act. YES  NO

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 the filing requirements for at the past 90 days. YES  NO

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES  NO

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of July 30, 2011 was \$2,334,798,008.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 194,539,858 Common Shares were outstanding at March 12, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Part III Proxy Statement for 2012 Annual Meeting of Stockholders, in part, as indicated.

**Table of Contents**

**AMERICAN EAGLE OUTFITTERS, INC.**

**TABLE OF CONTENTS**

|   | <b>Page<br/>Number</b> |
|---|------------------------|
| <b>PART I</b>   |                        |
| Item 1. <u>Business</u>   | 2                      |
| Item 1A. <u>Risk Factors</u>  | 9                      |
| Item 1B. <u>Unresolved Staff Comments</u>   | 12                     |
| Item 2. <u>Properties</u>   | 12                     |
| Item 3. <u>Legal Proceedings</u>  | 13                     |
| Item 4. <u>Mine Safety Disclosures</u>  | 13                     |
| <b>PART II</b>  |                        |
| Item 5. <u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 14                     |
| Item 6. <u>Selected Consolidated Financial Data</u>   | 17                     |
| Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                            | 18                     |
| Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 32                     |
| Item 8. <u>Financial Statements and Supplementary Data</u>  | 33                     |
| Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>                             | 68                     |
| Item 9A. <u>Controls and Procedures</u>   | 68                     |
| Item 9B. <u>Other Information</u>   | 70                     |
| <b>PART III</b>   |                        |
| Item 10. <u>Directors, Executive Officers and Corporate Governance</u>  | 70                     |
| Item 11. <u>Executive Compensation</u>  | 70                     |
| Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>                  | 70                     |
| Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>                                       | 70                     |
| Item 14. <u>Principal Accounting Fees and Services</u>  | 70                     |
| <b>PART IV</b>  |                        |
| Item 15. <u>Exhibits, Financial Statement Schedules</u>   | 70                     |

---

**Table of Contents**

**PART I**

**ITEM 1. BUSINESS.**

**General**

American Eagle Outfitters, Inc. a Delaware corporation (the Company), operates under the American Eagle® aerie® by American Eagle®, and 77kids by american eagle® brands. The Company operated the MARTIN+OSA® brand ( M+O ) until its closure during Fiscal 2010.

Founded in 1977, American Eagle Outfitters® is a leading specialty retailer that operates more than 1,000 retail stores in the U.S. and Canada, and online at ae.com®. Through our family of brands, American Eagle Outfitters, Inc. offers high quality, on-trend clothing, accessories and personal care products at affordable prices. Our online business, AEO Direct, ships to 77 countries worldwide.

As used in this report, all references to we, our and the Company refer to American Eagle Outfitters, Inc. ( AEO, Inc. ) and its wholly-owned subsidiaries. American Eagle Outfitters, American Eagle, AE and the AE Brand refer to our U.S. and Canadian American Eagle® Outfitters stores. AEO Direct refers to our e-commerce operations, ae.comerie.com and 77kids.com. MARTIN+OSA or M+O refers to the MARTIN+OSA stores and e-commerce operation which we operated until its closure during Fiscal 2010.

Our financial year is a 52/53 week year that ends on the Saturday nearest to January 31. As used herein, Fiscal 2012 refers to the 53 week period ending February 2, 2013. Fiscal 2011, Fiscal 2010, Fiscal 2009, Fiscal 2008 and Fiscal 2007 refer to the 52 week periods ended January 28, 2012, January 29, 2011, January 30, 2010, January 31, 2009 and February 2, 2008, respectively. Fiscal 2006 refers to the 53 week period ended February 3, 2007.

On March 5, 2010, our Board of Directors (the Board) approved management's recommendation to proceed with the closure of the M+O brand. We completed the closure of M+O stores and its e-commerce operation during the second quarter of Fiscal 2010. The Consolidated Financial Statements reflect the presentation of M+O as a discontinued operation. Refer to Note 15 to the Consolidated Financial Statements for additional information regarding the discontinued operations of M+O.

As of January 28, 2012, we operated 911 American Eagle Outfitters stores, 158 aerie stand-alone stores and 21 77kids stores. We also had 21 franchised stores operated by our franchise partners in 10 countries.

Information concerning our segments and certain geographic information is contained in Note 2 of the Consolidated Financial Statements included in this Form 10-K and is incorporated herein by reference. Additionally, a five-year summary of certain financial and operating information can be found in Part II, Item 6, Selected Consolidated Financial Data, of this Form 10-K. See also Part II, Item 8, Financial Statements and Supplementary Data.

**Growth Strategy**

Our primary growth strategies are focused on the following key areas of opportunity:

***AE Brand***

The American Eagle Outfitters® brand targets 15 to 25-year old men and women. Denim is the cornerstone of the American Eagle® product assortment, which is complemented by other key categories including sweaters, graphic t-shirts, fleece, outerwear and accessories. American Eagle® is honest, real, individual and fun. American Eagle® is priced to be worn by everyone, everyday, delivering value through quality and style.

## **Table of Contents**

Gaining market share in key categories, such as knit tops and fleece, is a primary focus within the AE Brand. In addition, we will build upon our leading position in denim. Delivering value, variety and versatility to our customers remains a top priority. We will offer value at all levels of the assortment, punctuated with promotions. We are reducing production lead-times, which enables us to react more quickly to emerging trends. Finally, we continue to innovate our store experience to be more impactful from front to back.

### ***erie by American Eagle***

In the fall of 2006, the Company launched aerie<sup>®</sup> by American Eagle<sup>®</sup> ( aerie ), a collection of Dormwear<sup>®</sup> intimates and personal care products for the AE<sup>®</sup> girl. The collection is available in 158 stand-alone aerie stores throughout the United States and Canada, online at aerie.com and at select American Eagle<sup>®</sup> stores. aerie, with intimates at the core, is beautiful, feminine, soft, sensuous, yet comfortable.

### ***77kids by american eagle***

Introduced in October of 2008 as an online-only brand, 77kids by american eagle<sup>®</sup> ( 77kids ) offers on-trend, high-quality clothing and accessories for kids ages two to 14 and babies under the brand name little77<sup>™</sup>. 77kids is available in 21 stores throughout the United States. The brand draws from the strong heritage of American Eagle Outfitters<sup>®</sup>, with a point-of-view that is thoughtful, playful and real. Like American Eagle<sup>®</sup> clothing, 77kids focuses on great fit, value and style. All 77kids<sup>®</sup> clothing is backed by the brand's 77wash<sup>™</sup> and 77soft<sup>™</sup> guarantees to maintain size, shape and quality and to be extremely soft and comfortable through dozens of washes.

### ***AEO Direct***

We sell merchandise via our e-commerce operations, ae.com<sup>®</sup>, aerie.com and 77kids.com, which are extensions of the lifestyle that we convey in our stores. We currently ship to 77 countries. In addition to purchasing items online, customers can experience AEO Direct in-store through Store-to-Door. Store-to-Door enables store associates to sell any item available online to an in-store customer in a single transaction. Customers are taking advantage of Store-to-Door by purchasing extended sizes that are not available in-store, as well as finding a certain size or color that happens to be out-of-stock at the time of their visit. The ordered items are shipped to the customer's home free of charge. We accept PayPal<sup>®</sup> and Bill Me Later<sup>®</sup> as a means of payment from our ae.com<sup>®</sup>, aerie.com and 77kids.com customers. We are continuing to focus on the growth of AEO Direct through various initiatives, including improved site efficiency and faster check-out, expansion of sizes and styles, on-line specialty shops and targeted marketing strategies.

### ***Real Estate***

We continue to remain focused on the real-estate strategies that we have in place to grow our business and strengthen our financial performance utilizing our most productive formats.

We continue the expansion of our brands throughout the United States. At the end of Fiscal 2011, we operated in all 50 states, Puerto Rico and Canada. During Fiscal 2011, we opened 33 new stores, consisting of 11 AE stores, 10 aerie stores and 12 77kids stores. These store openings, partially offset by 29 store closings, increased our total store base to 1,090 stores.

Our stores average approximately 5,870 gross square feet and approximately 4,690 on a selling square foot basis. Our gross square footage increased by approximately 1% during Fiscal 2011, with approximately 54% attributable to the incremental square footage from store remodels and the remaining 46% attributable to new store openings.

During Fiscal 2011, we remodeled and refurbished a total of 106 AE stores. Five stores were remodeled with an expansion to their existing locations, 10 stores were relocated to a larger space within the mall, two stores were remodeled within their existing locations and 89 stores were refurbished as discussed below.

**Table of Contents**

Remodeling of our AE stores into our current store format is important to enhance our customer's shopping experience. In order to maintain a balanced presentation and to accommodate additional product categories, we selectively enlarge our stores during the remodeling process to an average of 6,400 gross square feet, either within their existing location or by upgrading the store location within the mall. We believe the larger format can better accommodate our expansion of merchandise categories. We select stores for expansion or relocation based on market demographics and store volume forecasts.

We maintain a cost effective store refurbishment program targeted towards our lower volume stores, typically located in smaller markets. Stores selected as part of this program maintain their current location and size but are updated to include certain aspects of our current store format, including paint and new fixtures.

In Fiscal 2012, we plan to open approximately 14 AE and one 77kids store. We also plan to remodel and refurbish approximately 100 existing AE stores and close approximately 20 to 30 stores. Our square footage growth is expected to decrease slightly in Fiscal 2012. We believe that there are attractive retail locations where we can continue to open American Eagle stores and our other brands in enclosed regional malls, urban areas and lifestyle centers.

The table below shows certain information relating to our historical store growth from continuing operations.

|   | Fiscal<br>2011 | Fiscal<br>2010 | Fiscal<br>2009 | Fiscal<br>2008 | Fiscal<br>2007 |
|---|----------------|----------------|----------------|----------------|----------------|
| Consolidated stores at beginning of period        | 1,086          | 1,075          | 1,070          | 968            | 906            |
| Consolidated stores opened during the period      | 33             | 34             | 29             | 112            | 66             |
| Consolidated stores closed during the period      | (29)           | (23)           | (24)           | (10)           | (4)            |
| <b>Total consolidated stores at end of period</b> | <b>1,090</b>   | <b>1,086</b>   | <b>1,075</b>   | <b>1,070</b>   | <b>968</b>     |
|   | Fiscal<br>2011 | Fiscal<br>2010 | Fiscal<br>2009 | Fiscal<br>2008 | Fiscal<br>2007 |
| AE Brand stores at beginning of period            | 929            | 938            | 954            | 929            | 903            |
| AE Brand stores opened during the period          | 11             | 14             | 8              | 35             | 30             |
| AE Brand stores closed during the period          | (29)           | (23)           | (24)           | (10)           | (4)            |
| <b>Total AE Brand stores at end of period</b>     | <b>911</b>     | <b>929</b>     | <b>938</b>     | <b>954</b>     | <b>929</b>     |
|   | Fiscal<br>2011 | Fiscal<br>2010 | Fiscal<br>2009 | Fiscal<br>2008 | Fiscal<br>2007 |
| aerie stores at beginning of period               | 148            | 137            | 116            | 39             | 3              |
| aerie stores opened during the period             | 10             | 11             | 21             | 77             | 36             |
| aerie stores closed during the period             |                |                |                |                |                |
| <b>Total aerie stores at end of period</b>        | <b>158</b>     | <b>148</b>     | <b>137</b>     | <b>116</b>     | <b>39</b>      |
|   | Fiscal<br>2011 | Fiscal<br>2010 | Fiscal<br>2009 | Fiscal<br>2008 | Fiscal<br>2007 |
| 77kids stores at beginning of period              | 9              |                |                |                |                |
| 77kids stores opened during the period            | 12             | 9              |                |                |                |
| 77kids stores closed during the period            |                |                |                |                |                |
| <b>Total 77kids stores at end of period</b>       | <b>21</b>      | <b>9</b>       |                |                |                |



**Table of Contents****Consolidated Store Locations**

As of January 28, 2012, we operated 1,090 stores in the United States and Canada under the American Eagle Outfitters, aerie and 77kids brands as shown below:

***United States, including the Commonwealth of Puerto Rico 994 stores***

|             |    |               |    |                |    |                |    |
|-------------|----|---------------|----|----------------|----|----------------|----|
| Alabama     | 17 | Indiana       | 22 | Nebraska       | 7  | Rhode Island   | 4  |
| Alaska      | 5  | Iowa          | 12 | Nevada         | 4  | South Carolina | 17 |
| Arizona     | 16 | Kansas        | 9  | New Hampshire  | 9  | South Dakota   | 3  |
| Arkansas    | 8  | Kentucky      | 14 | New Jersey     | 28 | Tennessee      | 25 |
| California  | 71 | Louisiana     | 14 | New Mexico     | 3  | Texas          | 73 |
| Colorado    | 11 | Maine         | 5  | New York       | 70 | Utah           | 11 |
| Connecticut | 20 | Maryland      | 19 | North Carolina | 31 | Vermont        | 3  |
| Delaware    | 5  | Massachusetts | 35 | North Dakota   | 4  | Virginia       | 28 |
| Florida     | 52 | Michigan      | 34 | Ohio           | 37 | Washington     | 19 |
| Georgia     | 32 | Minnesota     | 22 | Oklahoma       | 12 | West Virginia  | 9  |
| Hawaii      | 4  | Mississippi   | 8  | Oregon         | 12 | Wisconsin      | 19 |
| Idaho       | 4  | Missouri      | 19 | Pennsylvania   | 65 | Wyoming        | 2  |
| Illinois    | 34 | Montana       | 2  | Puerto Rico    | 5  |                |    |

***Canada 96 stores***

|                  |    |               |   |              |    |
|------------------|----|---------------|---|--------------|----|
| Alberta          | 13 | New Brunswick | 4 | Ontario      | 49 |
| British Columbia | 13 | Newfoundland  | 1 | Quebec       | 9  |
| Manitoba         | 2  | Nova Scotia   | 3 | Saskatchewan | 2  |

**International Expansion**

We have entered into franchise agreements with multiple partners to expand our brands internationally. Through these franchise agreements, we plan to open and operate a series of American Eagle stores in the Middle East, Northern Africa, Eastern Europe, Hong Kong, China, Israel and Japan. As of January 28, 2012, we had 21 franchised stores operated by our franchise partners in 10 countries. These franchise agreements do not involve a capital investment from AEO and require minimal operational involvement. We continue to evaluate additional opportunities to expand internationally. International franchise stores are not included in the consolidated store data or the total gross square feet calculation.

**Purchasing**

We purchase merchandise from suppliers who either manufacture their own merchandise, supply merchandise manufactured by others or both. During Fiscal 2011, we purchased a majority of our merchandise from non-North American suppliers.

All of our merchandise suppliers receive a vendor compliance manual that describes our quality standards and shipping instructions. We maintain a quality control department at our distribution centers to inspect incoming merchandise shipments for uniformity of sizes and colors and for overall quality of manufacturing. Periodic inspections are also made by our employees and agents at manufacturing facilities to identify quality problems prior to shipment of merchandise.

***Corporate Responsibility***

The Company is firmly committed to the principle that the people who make our clothes should be treated with dignity and respect. We seek to work with apparel suppliers throughout the world who share our commitment to providing safe and healthy workplaces. At a minimum, we require our suppliers to maintain a workplace environment that complies with local legal requirements and meets universally-accepted human rights standards.





## **Table of Contents**

Our Vendor Code of Conduct (the Code ), which is based on universally-accepted human rights principles, sets forth our expectations for suppliers. The Code must be posted in every factory that manufactures our clothes in the local language of the workers. All suppliers must agree to abide by the terms of our Code before we will place production with them.

We maintain an extensive factory inspection program, through our Hong Kong compliance office, to monitor compliance with our Code. The Hong Kong team validates the inspection reporting of our third-party vendor compliance auditors and works with new and existing factories on remediation of issues. New garment factories must pass an initial inspection in order to do business with us. Once new factories are approved, we then strive to re-inspect them at least once a year. We review the outcome of these inspections with factory management with the goal of helping them to continuously improve their performance. Although our primary goal is to remediate issues and build long term relationships with our vendors, in cases where a factory is unable or unwilling to meet our standards, we will take steps up to and including the severance of our business relationship.

In September 2011, we published our first publicly available Corporate Responsibility Report, AE Better World, on our website at [www.ae.com](http://www.ae.com). This Report focuses on four key areas of our company: Supply Chain, Environment, Associates and Communities. Where possible, the report references relevant indicators from the Global Reporting Initiative ( GRI ) G3 Guidelines and GRI Apparel & Footwear Sector Supplement.

### ***Security Compliance***

During recent years, there has been an increasing focus within the international trade community on concerns related to global terrorist activity. Various security issues and other terrorist threats have brought increased demands from the Bureau of Customs and Border Protection ( CBP ) and other agencies within the Department of Homeland Security that importers take responsible action to secure their supply chains. In response, we became a certified member of the Customs - Trade Partnership Against Terrorism program ( C-TPAT ) during 2004. C-TPAT is a voluntary program offered by CBP in which an importer agrees to work with CBP to strengthen overall supply chain security. Our internal security procedures were reviewed by CBP during February 2005 and a validation of processes with respect to our external partners was completed in June 2005 and then re-evaluated in June 2008. We received formal written validations of our security procedures from CBP during Fiscal 2006 and Fiscal 2008, each indicating the highest level of benefits afforded to C-TPAT members.

Historically, we took significant steps to expand the scope of our security procedures, including, but not limited to: a significant increase in the number of factory audits performed; a revision of the factory audit format to include a review of all critical security issues as defined by CBP; and a requirement that all of our international logistics partners, including forwarders, consolidators, shippers and brokers be certified members of C-TPAT. In Fiscal 2007, we further increased the scope of our inspection program to strive to include pre-inspections of all potential production facilities. In Fiscal 2009, we again expanded the program to require all suppliers that have passed pre-inspections and reached a satisfactory level of security compliance through annual factory re-audits to provide us with security self-assessments on at least an annual basis. Additionally, in Fiscal 2009, we began evaluating additional oversight options for high-risk security countries and among other things, implemented full third-party audits on an annual basis.

### ***Trade Compliance***

We act as the importer of record for substantially all of the merchandise we purchase overseas from foreign suppliers. Accordingly, we have an affirmative obligation to comply with the rules and regulations established for importers by the CBP regarding issues such as merchandise classification, valuation and country of origin. We have developed and implemented a comprehensive series of trade compliance procedures to assure that we adhere to all CBP requirements. In its most recent review and audit of our import operations and procedures, CBP found no material, unacceptable risks of non-compliance.

## **Table of Contents**

### ***Product Safety***

We are strongly committed to the safety and well being of our customers. We require our products to meet U.S. state and federal and Canadian national laws and regulations. In certain cases, we also voluntarily adopt industry standards and best practices that may be higher than legally required or where no clear laws exist.

To ensure compliance with our product safety standards, we maintain an extensive set of testing protocols for each category of products. All of the products we sell are tested by an independent testing laboratory in accordance with applicable regulatory requirements. In rare cases where a safety issue has been discovered in a product that has reached our store shelves, we respond with a comprehensive recall process for all of our brands. In accordance with Consumer Product Safety Commission requirements, we publicly maintain a list of product recalls conducted on our e-commerce website.

### **Merchandise Inventory, Replenishment and Distribution**

Merchandise is generally shipped directly from our vendors and routed through third-party transloaders at key ports of entry to our three U.S. distribution centers, one in Warrendale, Pennsylvania and the other two in Ottawa, Kansas, or to our Canadian distribution center in Mississauga, Ontario. Additionally, certain product is eligible to be shipped directly to stores, by-passing our distribution centers.

Upon receipt at one of our distribution centers, merchandise is processed and prepared for shipment to the stores or forwarded to a warehouse holding area to be used as store replenishment goods. The allocation of merchandise among stores varies based upon a number of factors, including geographic location, customer demographics and store size. Merchandise is shipped to our stores two to five times per week depending upon the season and store requirements.

The expansion of our Kansas distribution center in Fiscal 2007 enabled us to bring fulfillment services for AEO Direct in-house. The second phase of this expansion was completed in Fiscal 2008 to enhance operating efficiency and support our future growth.

### **Customer Credit and Returns**

We offer a co-branded credit card (the AEO Visa Card ) and a private label credit card (the AEO Credit Card ) under the AE, aerie and 77kids brands. These credit cards are issued by a third-party bank (the Bank ), and we have no liability to the Bank for bad debt expense, provided that purchases are made in accordance with the Bank's procedures. Once a customer is approved to receive the AEO Visa Card or the AEO Credit Card and the card is activated, the customer is eligible to participate in our credit card rewards program. Customers who make purchases at AE, aerie and 77kids earn discounts in the form of savings certificates when certain purchase levels are reached. Also, AEO Visa Card customers who make purchases at other retailers where the card is accepted earn additional discounts. Savings certificates are valid for 90 days from issuance. AEO Credit Card holders will also receive special promotional offers and advance notice of all American Eagle in-store sales events. The AEO Credit Card is accepted at all of our U.S. stores and at ae.com, aerie.com and 77kids.com. The AEO Visa Card is accepted in all of our stores and AEO Direct sites as well as merchants worldwide that accept Visa®.

Customers in our U.S. and Canada stores may also pay for their purchases with American Express®, Discover®, MasterCard®, Visa®, bank debit cards, cash or check. Our AEO Direct customers may pay for their purchases using American Express®, Discover®, MasterCard® and Visa®. They may also pay for their purchases using PayPal® and Bill Me Later®.

Customers may also use gift cards to pay for their purchases. AE, aerie and 77kids gift cards can be purchased in our American Eagle, aerie and 77kids stores, respectively, and can be used both in-store and online. In addition, AE, aerie and 77kids gift cards are available for purchase through ae.com, aerie.com or 77kids.com. When the recipient uses the gift card, the value of the purchase is electronically deducted from the card and any remaining value can be used for future purchases. Our gift cards do not expire and we do not charge a service fee on inactive gift cards.

## **Table of Contents**

We offer our retail customers a hassle-free return policy. We believe that our competitors offer similar credit card and customer service policies.

### **Competition**

The retail apparel industry, including retail stores and e-commerce, is highly competitive. We compete with various individual and chain specialty stores, as well as the casual apparel and footwear departments of department stores and discount retailers, primarily on the basis of quality, fashion, service, selection and price.

### **Trademarks and Service Marks**

We have registered AMERICAN EAGLE OUTFITTERS<sup>®</sup>, AMERICAN EAGLE<sup>®</sup>, AE<sup>®</sup> and AEO<sup>®</sup> with the United States Patent and Trademark Office. We have also registered or have applied to register these trademarks with the registries of the foreign countries in which our stores and/or manufacturers are located and/or where our product is shipped.

We have registered AMERICAN EAGLE OUTFITTERS<sup>®</sup> and AMERICAN EAGLE<sup>®</sup> with the Canadian Intellectual Property Office. In addition, we are exclusively licensed in Canada to use AE<sup>™</sup> and AEO<sup>®</sup> in connection with the sale of a wide range of clothing products.

In the United States and around the world, we have also registered, or have applied to register, a number of other marks used in our business, including aerie<sup>®</sup>, 77kids by american eagle<sup>®</sup> and little77 by american eagle<sup>®</sup>.

These trademarks are renewable indefinitely and their registrations are properly maintained in accordance with the laws of the country in which they are registered. We believe that the recognition associated with these trademarks makes them extremely valuable and, therefore, we intend to use and renew our trademarks in accordance with our business plans.

### **Employees**

As of January 28, 2012, we had approximately 39,600 employees in the United States and Canada, of whom approximately 33,100 were part-time and seasonal hourly employees. We consider our relationship with our employees to be good.

### **Seasonality**

Historically, our operations have been seasonal, with a large portion of net sales and operating income occurring in the third and fourth fiscal quarters, reflecting increased demand during the back-to-school and year-end holiday selling seasons, respectively. As a result of this seasonality, any factors negatively affecting us during the third and fourth fiscal quarters of any year, including adverse weather or unfavorable economic conditions, could have a material adverse effect on our financial condition and results of operations for the entire year. Our quarterly results of operations also may fluctuate based upon such factors as the timing of certain holiday seasons, the number and timing of new store openings, the acceptability of seasonal merchandise offerings, the timing and level of markdowns, store closings and remodels, competitive factors, weather and general economic conditions.

### **Available Information**

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports are available, free of charge, under the "About AEO, Inc." section of our website at [www.ae.com](http://www.ae.com). These reports are available as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission (the "SEC").

## **Table of Contents**

Our corporate governance materials, including our corporate governance guidelines, the charters of our audit, compensation, and nominating and corporate governance committees, and our code of ethics may also be found under the About AEO, Inc. section of our website at [www.ae.com](http://www.ae.com). Any amendments or waivers to our code of ethics will also be available on our website. A copy of the corporate governance materials is also available upon written request.

Additionally, our investor presentations are available under the About AEO, Inc. section of our website at [www.ae.com](http://www.ae.com). These presentations are available as soon as reasonably practicable after they are presented at investor conferences.

## **Certifications**

As required by the New York Stock Exchange ( NYSE ) Corporate Governance Standards Section 303A.12(a), on July 5, 2011 our Chief Executive Officer submitted to the NYSE a certification that he was not aware of any violation by the Company of NYSE corporate governance listing standards. Additionally, we filed with this Form 10-K, the Principal Executive Officer and Principal Financial Officer certifications required under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

## **ITEM 1A. RISK FACTORS**

### **Our ability to anticipate and respond to changing consumer preferences, fashion trends and a competitive environment in a timely manner**

Our future success depends, in part, upon our ability to identify and respond to fashion trends in a timely manner. The specialty retail apparel business fluctuates according to changes in the economy and customer preferences, dictated by fashion and season. These fluctuations especially affect the inventory owned by apparel retailers because merchandise typically must be ordered well in advance of the selling season. While we endeavor to test many merchandise items before ordering large quantities, we are still susceptible to changing fashion trends and fluctuations in customer demands.

In addition, the cyclical nature of the retail business requires that we carry a significant amount of inventory, especially during our peak selling seasons. We enter into agreements for the manufacture and purchase of our private label apparel well in advance of the applicable selling season. As a result, we are vulnerable to changes in consumer demand, pricing shifts and the timing and selection of merchandise purchases. The failure to enter into agreements for the manufacture and purchase of merchandise in a timely manner could, among other things, lead to a shortage of inventory and lower sales. Changes in fashion trends, if unsuccessfully identified, forecasted or responded to by us, could, among other things, lead to lower sales, excess inventories and higher markdowns, which in turn could have a material adverse effect on our results of operations and financial condition.

### **The effect of economic pressures and other business factors**

The success of our operations depends to a significant extent upon a number of factors relating to discretionary consumer spending, including economic conditions affecting disposable consumer income such as employment, consumer debt, interest rates, increases in energy costs and consumer confidence. There can be no assurance that consumer spending will not be further negatively affected by general or local economic conditions, thereby adversely impacting our continued growth and results of operations.

### **Our ability to react to raw material, labor and energy cost increases**

Increases in our costs, such as raw materials, labor and energy, may reduce our overall profitability. Specifically, fluctuations in the price of cotton that is used in the manufacture of merchandise we purchase from our suppliers has negatively impacted our cost of sales. We have strategies in place to help mitigate the rising cost of raw materials and our overall profitability depends on the success of those strategies. Additionally, increases in other costs, including labor and energy, could further reduce our profitability if not mitigated.

## **Table of Contents**

### **Our ability to grow through new store openings and existing store remodels and expansions**

Our continued growth and success will depend in part on our ability to open and operate new stores and expand and remodel existing stores on a timely and profitable basis. During Fiscal 2012, we plan to open approximately 14 new American Eagle stores in the U.S. and Canada and one 77kids store. Additionally, we plan to remodel and refurbish approximately 100 existing American Eagle stores during Fiscal 2012.

Accomplishing our new and existing store expansion goals will depend upon a number of factors, including the ability to obtain suitable sites for new and expanded stores at acceptable costs, the hiring and training of qualified personnel, particularly at the store management level, the integration of new stores into existing operations and the expansion of our buying and inventory capabilities. There can be no assurance that we will be able to achieve our store expansion goals, manage our growth effectively, successfully integrate the planned new stores into our operations or operate our new and remodeled stores profitably.

### **Our ability to achieve planned store financial performance**

The results achieved by our stores may not be indicative of long-term performance or the potential performance of stores in other locations. The failure of stores to achieve acceptable results could result in additional store asset impairment charges, which could adversely affect our continued growth and results of operations.

### **Our ability to grow through the internal development of new brands**

We launched our new brand concepts, aerie and 77kids, during Fiscal 2006 and Fiscal 2008, respectively. Our ability to succeed in these new brands requires significant expenditures and management attention. Additionally, any new brand is subject to certain risks including customer acceptance, competition, product differentiation, the ability to attract and retain qualified personnel, including management and designers, and the ability to obtain suitable sites for new stores at acceptable costs. There can be no assurance that these new brands will grow or become profitable. If we are unable to succeed in developing profitable new brands, this could adversely impact our continued growth and results of operations.

### **Our international merchandise sourcing strategy**

Substantially all of our merchandise is purchased from foreign suppliers. Although we purchase a significant portion of our merchandise through a single foreign buying agent, we do not maintain any exclusive commitments to purchase from any vendor. Since we rely on a small number of foreign sources for a significant portion of our purchases, any event causing the disruption of imports, including the insolvency of a significant supplier or a significant labor dispute, could have an adverse effect on our operations. Other events that could also cause a disruption of imports include the imposition of additional trade law provisions or import restrictions, such as increased duties, tariffs, anti-dumping provisions, increased CBP enforcement actions, or political or economic disruptions.

We have a Vendor Code of Conduct (the Code ) that provides guidelines for all of our vendors regarding working conditions, employment practices and compliance with local laws. A copy of the Code is posted on our website, [www.ae.com](http://www.ae.com), and is also included in our vendor manual in English and multiple other languages. We have a factory compliance program to audit for compliance with the Code. However, there can be no assurance that our factory compliance program will be fully effective in discovering all violations. Publicity regarding violation of our Code or other social responsibility standards by any of our vendor factories could adversely affect our sales and financial performance.

We believe that there is a risk of terrorist activity on a global basis, and such activity might take the form of a physical act that impedes the flow of imported goods or the insertion of a harmful or injurious agent to an imported shipment. We have instituted policies and procedures designed to reduce the chance or impact of such actions including, but not limited to, factory audits and self-assessments, including audit protocols on all critical

## **Table of Contents**

security issues; the review of security procedures of our other international trading partners, including forwarders, consolidators, shippers and brokers; and the cancellation of agreements with entities who fail to meet our security requirements. In addition, the United States CBP has recognized us as a validated, tier three member of the Customs - Trade Partnership Against Terrorism program, a voluntary program in which an importer agrees to work with customs to strengthen overall supply chain security. However, there can be no assurance that terrorist activity can be prevented entirely and we cannot predict the likelihood of any such activities or the extent of their adverse impact on our operations.

### **Our reliance on external vendors**

Given the volatility and risk in the current markets, our reliance on external vendors leaves us subject to certain risks should one or more of these external vendors become insolvent. Although we monitor the financial stability of our key vendors and plan for contingencies, the financial failure of a key vendor could disrupt our operations and have an adverse effect on our cash flows, results of operations and financial condition.

### **Seasonality**

Historically, our operations have been seasonal, with a large portion of net sales and operating income occurring in the third and fourth fiscal quarters, reflecting increased demand during the back-to-school and year-end holiday selling seasons, respectively. As a result of this seasonality, any factors negatively affecting us during the third and fourth fiscal quarters of any year, including adverse weather or unfavorable economic conditions, could have a material adverse effect on our financial condition and results of operations for the entire year. Our quarterly results of operations also may fluctuate based upon such factors as the timing of certain holiday seasons, the number and timing of new store openings, the acceptability of seasonal merchandise offerings, the timing and level of markdowns, store closings and remodels, competitive factors, weather and general economic conditions.

### **Our reliance on our ability to implement and sustain information technology systems**

We regularly evaluate our information technology systems and are currently implementing modifications and/or upgrades to the information technology systems that support our business. Modifications include replacing legacy systems with successor systems, making changes to legacy systems or acquiring new systems with new functionality. We are aware of inherent risks associated with replacing and modifying these systems, including inaccurate system information and system disruptions. We believe we are taking appropriate action to mitigate the risks through testing, training, staging implementation and in-sourcing certain processes, as well as securing appropriate commercial contracts with third-party vendors supplying such replacement and redundancy technologies. Information technology system disruptions and inaccurate system information, if not anticipated and appropriately mitigated, could have a material adverse effect on our results of operations.

### **Our ability to safeguard against any security breach with respect to our information technology systems**

During the course of business, we regularly obtain and transmit confidential customer information through our information technology systems. If our information technology systems are breached, an unauthorized third party may obtain access to confidential customer information. Any compromise or breach of our systems that results in unauthorized access to confidential customer information could cause us to incur significant legal and financial liabilities, damage to our reputation and a loss of customer confidence. These impacts could have a material adverse effect on our business and results of operations.

### **Our reliance on key personnel**

Our success depends to a significant extent upon the continued services of our key personnel, including senior management, as well as our ability to attract and retain qualified key personnel and skilled employees in the future. Our operations could be adversely affected if, for any reason, one or more key executive officers ceased to be active in our management.

## **Table of Contents**

### **Failure to comply with regulatory requirements**

As a public company, we are subject to numerous regulatory requirements. Our policies, procedures and internal controls are designed to comply with all applicable laws and regulations, including those imposed by the Sarbanes-Oxley Act of 2002, the SEC and the NYSE. Failure to comply with such laws and regulations could have a material adverse effect on our reputation, financial condition and on the market price of our common stock.

### **Our ability to obtain and/or maintain our credit facilities**

We believe that we have sufficient cash flows from operating activities to meet our operating requirements. In addition, the banks participating in our various credit facilities are currently rated as investment grade, and all of the amounts under the credit facilities are currently available to us at the discretion of the respective financial institutions. We draw on our credit facilities to increase our cash position to add financial flexibility. Although we expect to continue to generate positive cash flow despite the current economy, there can be no assurance that we will be able to successfully generate positive cash flow in the future. Continued negative trends in the credit markets and/or continued financial institution failures could lead to lowered credit availability as well as difficulty in obtaining financing. In the event of limitations on our access to credit facilities, our liquidity, continued growth and results of operations could be adversely affected.

### **Our efforts to expand internationally**

We have entered into franchise agreements with multiple franchisees to open and operate stores throughout the Middle East, Northern Africa, Eastern Europe, Hong Kong, China, Israel and Japan over the next several years. While the franchise arrangements do not involve a capital investment from us and require minimal operational involvement, the effect of these arrangements on our business and results of operations is uncertain and will depend upon various factors, including the demand for our products in new markets internationally. Furthermore, although we provide store operation training, literature and support, to the extent that the franchisee does not operate its stores in a manner consistent with our requirements regarding our brand and customer experience standards, the value of our brand could be negatively impacted. A failure to protect the value of our brand or any other adverse actions by a franchisee could have an adverse effect on our results of operations and our reputation.

### **Other risk factors**

Additionally, other factors could adversely affect our financial performance, including factors such as: our ability to successfully acquire and integrate other businesses; any interruption of our key infrastructure systems; any disaster or casualty resulting in the interruption of service from our distribution centers or in a large number of our stores; any interruption of our business related to an outbreak of a pandemic disease in a country where we source or market our merchandise; changes in weather patterns; the effects of changes in current exchange rates and interest rates; and international and domestic acts of terror.

The impact of any of the previously discussed factors, some of which are beyond our control, may cause our actual results to differ materially from expected results in these statements and other forward-looking statements we may make from time-to-time.

### **ITEM 1B. *UNRESOLVED STAFF COMMENTS.***

Not applicable.

### **ITEM 2. *PROPERTIES.***

We own two buildings in urban Pittsburgh, Pennsylvania which house our corporate headquarters. These buildings total 186,000 square feet and 150,000 square feet, respectively. We lease one location near our headquarters, which is used primarily for store and corporate support services, totaling approximately 51,000 square feet. This lease expires in 2024.



## **Table of Contents**

We own a 423,000 square foot building located in a suburban area near Pittsburgh, Pennsylvania, which houses our distribution center and contains approximately 120,000 square feet of office space. We also own a 45,000 square foot building, which houses our data center and additional office space. We lease an additional location of approximately 18,000 square feet, which is used for storage space. This lease expires in 2015.

We rent approximately 131,000 square feet of office space in New York, New York for our designers and sourcing and production teams. The lease for this space expires in May 2016. We also lease an additional 47,300 square feet of office space in New York, New York, with various terms expiring through 2018.

We own a distribution facility in Ottawa, Kansas consisting of approximately 1,220,000 total square feet, including two expansions of 544,000 square feet and 280,000 square feet, respectively. This expanded facility is used to support new and existing growth initiatives, including AEO Direct, aerie and 77kids.

We lease a building in Mississauga, Ontario with approximately 294,000 square feet, which houses our Canadian distribution center. The lease expires in 2017.

We lease our flagship store in the Times Square area of New York, New York. The 25,000 square foot location has an initial term of 15 years with three options to renew for five years each. This flagship store opened in November 2009 and the initial lease term expires in 2024.

All of our stores in the United States and Canada are leased. The store leases generally have initial terms of 10 years. Certain leases also include early termination options, which can be exercised under specific conditions. Most of these leases provide for base rent and require the payment of a percentage of sales as additional contingent rent when sales reach specified levels. Under our store leases, we are typically responsible for tenant occupancy costs, including maintenance and common area charges, real estate taxes and certain other expenses. We have generally been successful in negotiating renewals as leases near expiration.

### **ITEM 3. *LEGAL PROCEEDINGS.***

We are a party to various legal actions incidental to our business, including certain actions in which we are the plaintiff. At this time, our management does not expect the results of any of the legal actions to be material to our financial position or results of operations.

### **ITEM 4. *MINE SAFETY DISCLOSURES.***

Not applicable.

**Table of Contents****PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

Our common stock is traded on the NYSE under the symbol AEO. As of March 12, 2012, there were 590 stockholders of record. However, when including associates who own shares through our employee stock purchase plan, and others holding shares in broker accounts under street name, we estimate the stockholder base at approximately 45,000. The following table sets forth the range of high and low closing prices of the common stock as reported on the NYSE during the periods indicated.

| For the Quarters Ended | Market Price |          | Cash Dividends         |
|------------------------|--------------|----------|------------------------|
|                        | High         | Low      | per<br>Common<br>Share |
| January 28, 2012       | \$ 15.72     | \$ 12.89 | \$ 0.11                |
| October 29, 2011       | \$ 13.60     | \$ 10.17 | \$ 0.11                |
| July 30, 2011          | \$ 15.71     | \$ 12.49 | \$ 0.11                |
| April 30, 2011         | \$ 16.18     | \$ 14.46 | \$ 0.11                |
| January 29, 2011       | \$ 17.16     | \$ 14.02 | \$ 0.61                |
| October 30, 2010       | \$ 17.36     | \$ 12.04 | \$ 0.11                |
| July 31, 2010          | \$ 17.13     | \$ 11.60 | \$ 0.11                |
| May 1, 2010            | \$ 19.34     | \$ 15.73 | \$ 0.10                |

During Fiscal 2011 and Fiscal 2010, we paid quarterly dividends as shown in the table above. Cash dividends per common share for the quarter ended January 29, 2011 consisted of a regular quarterly dividend of \$0.11 per common share and a special cash dividend of \$0.50 per common share. The payment of future dividends is at the discretion of our Board and is based on future earnings, cash flow, financial condition, capital requirements, changes in U.S. taxation and other relevant factors. It is anticipated that any future dividends paid will be declared on a quarterly basis.

**Table of Contents****Performance Graph**

*The following Performance Graph and related information shall not be deemed soliciting material or to be filed with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference into such filing.*

The following graph compares the changes in the cumulative total return to holders of our common stock with that of the S&P Midcap 400 and the Dynamic Retail Intellidex. The comparison of the cumulative total returns for each investment assumes that \$100 was invested in our common stock and the respective index on February 3, 2007 and includes reinvestment of all dividends. The plotted points are based on the closing price on the last trading day of the fiscal year indicated.

|  | 2/3/07        | 2/2/08       | 1/31/09      | 1/30/10      | 1/29/11       | 1/28/12       |
|--|---------------|--------------|--------------|--------------|---------------|---------------|
| <b>American Eagle Outfitters, Inc.</b> | <b>100.00</b> | <b>73.96</b> | <b>29.19</b> | <b>52.89</b> | <b>51.49</b>  | <b>51.13</b>  |
| <b>S&amp;P Midcap 400</b>              | <b>100.00</b> | <b>97.77</b> | <b>61.62</b> | <b>88.34</b> | <b>117.90</b> | <b>121.10</b> |
| <b>Dynamic Retail Intellidex</b>       | <b>100.00</b> | <b>90.69</b> | <b>59.97</b> | <b>85.41</b> | <b>114.86</b> | <b>154.71</b> |

**Table of Contents**

The following table provides information regarding our repurchases of common stock during the three months ended January 28, 2012.

**Issuer Purchases of Equity Securities**

| <b>Period</b>  | <b>Total Number of Shares Purchased(1)</b> | <b>Average Price Paid Per Share(2)</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Programs(1)(3)</b> | <b>Maximum Number of Shares that May Yet be Purchased Under the Program(3)</b> |
|--|--|--|--|--|
| Month #1 (October 30, 2011 through November 26, 2011)  |  | \$                                     |  | 13,134,545   |
| Month #2 (November 27, 2011 through December 31, 2011) |  | \$                                     |  | 13,134,545   |
| Month #3 (January 1, 2012 through January 28, 2012)    |  | \$                                     |  | 13,134,545   |
| Total  |  | \$                                     |  | 13,134,545   |

(1) There were no shares repurchased as part of our publicly announced share repurchase program during the three months ended January 28, 2012 and there were no shares repurchased for the payment of taxes in connection with the vesting of share-based payments.

(2) Average price paid per share excludes any broker commissions paid.

(3) In January 2008, our Board authorized the repurchase of 60.0 million shares of our common stock. The authorization of the remaining 13.1 million shares that may yet be purchased has been extended through the end of Fiscal 2012.

The following table sets forth additional information as of the end of Fiscal 2011, about shares of our common stock that may be issued upon the exercise of options and other rights under our existing equity compensation plans and arrangements, divided between plans approved by our stockholders and plans or arrangements not submitted to our stockholders for approval. The information includes the number of shares covered by and the weighted average exercise price of, outstanding options and other rights and the number of shares remaining available for future grants excluding the shares to be issued upon exercise of outstanding options, warrants and other rights.

**Equity Compensation Plan Table**

|  | <b>Column (a)</b>   | <b>Column (b)</b>   | <b>Column (c)</b>  |
|--|---|---|--|
|  | <b>Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)</b> | <b>Weighted-average exercise price of outstanding options, warrants and rights(1)</b> | <b>Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a))(1)</b> |
| Equity compensation plans approved by stockholders | 11,197,595  | \$ 15.31  | 25,251,492   |

## Edgar Filing: AMERICAN EAGLE OUTFITTERS INC - Form 10-K

Equity compensation plans not approved by stockholders

|       |            |    |       |            |
|-------|------------|----|-------|------------|
| Total | 11,197,595 | \$ | 15.31 | 25,251,492 |
|-------|------------|----|-------|------------|

- (1) Equity compensation plans approved by stockholders include the 1994 Stock Option Plan, the 1999 Stock Incentive Plan and the 2005 Stock Award and Incentive Plan, as amended (the 2005 Plan ).

**Table of Contents****ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.**

The following Selected Consolidated Financial Data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, included under Item 7 below and the Consolidated Financial Statements and Notes thereto, included in Item 8 below. Most of the selected data presented below is derived from our Consolidated Financial Statements, if applicable, which are filed in response to Item 8 below. The selected Consolidated Statement of Operations data for the years ended January 31, 2009 and February 2, 2008 and the selected Consolidated Balance Sheet data as of January 30, 2010, January 31, 2009 and February 2, 2008 are derived from audited Consolidated Financial Statements not included herein.

|  | For the Years Ended(1) |                     |                     |                     |                     |
|--|------------------------|---------------------|---------------------|---------------------|---------------------|
|  | January 28,<br>2012    | January 29,<br>2011 | January 30,<br>2010 | January 31,<br>2009 | February 2,<br>2008 |
| (In thousands, except per share amounts, ratios and other financial information) |                        |                     |                     |                     |                     |
| <b>Summary of Operations(2)</b>  |                        |                     |                     |                     |                     |
| Net sales  | \$ 3,159,818           | \$ 2,967,559        | \$ 2,940,269        | \$ 2,948,679        | \$ 3,041,158        |
| Comparable store sales increase (decrease)(3)                                    | 3%                     | (1)%                | (4)%                | (10)%               | 1%                  |
| Gross profit   | \$ 1,128,341           | \$ 1,170,959        | \$ 1,173,430        | \$ 1,197,186        | \$ 1,438,236        |
| Gross profit as a percentage of net sales  | 35.7%                  | 39.5%               | 39.9%               | 40.6%               | 47.3%               |
| Operating income   | \$ 231,136             | \$ 317,261          | \$ 310,392          | \$ 382,797          | \$ 652,201          |
| Operating income as a percentage of net sales                                    | 7.3%                   | 10.7%               | 10.6%               | 13.0%               | 21.4%               |
| Income from continuing operations  | \$ 151,705             | \$ 181,934          | \$ 213,398          | \$ 229,984          | \$ 433,507          |
| Income from continuing operations as a percentage of net sales                   | 4.8%                   | 6.1%                | 7.3%                | 7.8%                | 14.3%               |
| <b>Per Share Results</b>   |                        |                     |                     |                     |                     |
| Income from continuing operations per common share-basic                         | \$ 0.78                | \$ 0.91             | \$ 1.04             | \$ 1.12             | \$ 2.01             |
| Income from continuing operations per common share-diluted                       | \$ 0.77                | \$ 0.90             | \$ 1.02             | \$ 1.11             | \$ 1.97             |
| Weighted average common shares outstanding basic                                 | 194,445                | 199,979             | 206,171             | 205,169             | 216,119             |
| Weighted average common shares outstanding diluted                               | 196,314                | 201,818             | 209,512             | 207,582             | 220,280             |
| Cash dividends per common share  | \$ 0.44                | \$ 0.93             | \$ 0.40             | \$ 0.40             | \$ 0.38             |
| <b>Balance Sheet Information</b>   |                        |                     |                     |                     |                     |
| Total cash and short-term investments  | \$ 745,044             | \$ 734,695          | \$ 698,635          | \$ 483,853          | \$ 619,939          |
| Long-term investments  | \$ 847                 | \$ 5,915            | \$ 197,773          | \$ 251,007          | \$ 165,810          |
| Total assets   | \$ 1,950,802           | \$ 1,879,998        | \$ 2,138,148        | \$ 1,963,676        | \$ 1,867,680        |
| Short-term debt  | \$                     | \$                  | \$ 30,000           | \$ 75,000           | \$                  |
| Long-term debt   | \$                     | \$                  | \$                  | \$                  | \$                  |
| Stockholders' equity   | \$ 1,416,851           | \$ 1,351,071        | \$ 1,578,517        | \$ 1,409,031        | \$ 1,340,464        |
| Working capital  | \$ 882,087             | \$ 786,573          | \$ 758,075          | \$ 523,596          | \$ 644,656          |
| Current ratio  | 3.18                   | 3.03                | 2.85                | 2.30                | 2.71                |
| Average return on stockholders' equity   | 11.0%                  | 9.6%                | 11.3%               | 13.0%               | 29.0%               |

**Table of Contents**

|  | For the Years Ended(1)   |             |             |             |             |
|--|--|-------------|-------------|-------------|-------------|
|  | January 28,  | January 29, | January 30, | January 31, | February 2, |
|  | 2012   | 2011        | 2010        | 2009        | 2008        |
|  | (In thousands, except per share amounts, ratios and other financial information) |             |             |             |             |
| <b>Other Financial Information(2)</b>        |  |             |             |             |             |
| Total stores at year-end                     | 1,090  | 1,086       | 1,075       | 1,070       | 968         |
| Capital expenditures                         | \$ 100,135   | \$ 84,259   | \$ 127,080  | \$ 243,564  | \$ 249,640  |
| Net sales per average selling square foot(4) | \$ 545   | \$ 524      | \$ 526      | \$ 563      | \$ 644      |
| Total selling square feet at end of period   | 5,115,770  | 5,067,489   | 4,981,595   | 4,920,285   | 4,492,198   |
| Net sales per average gross square foot(4)   | \$ 436   | \$ 420      | \$ 422      | \$ 452      | \$ 522      |
| Total gross square feet at end of period     | 6,398,034  | 6,339,469   | 6,215,355   | 6,139,663   | 5,581,769   |
| Number of employees at end of period         | 39,600   | 39,900      | 38,800      | 36,900      | 38,400      |

- (1) All fiscal years presented include 52 weeks.
- (2) All amounts presented are from continuing operations and exclude MARTIN+OSA's results of operations for all periods. Refer to Note 15 to the accompanying Consolidated Financial Statements for additional information regarding the discontinued operations of MARTIN+OSA.
- (3) The comparable store sales increase for the period ended February 2, 2008 is compared to the corresponding 52 week period in Fiscal 2006.
- (4) Net sales per average square foot is calculated using retail store sales for the year divided by the straight average of the beginning and ending square footage for the year.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

*The following discussion and analysis of financial condition and results of operations are based upon our Consolidated Financial Statements and should be read in conjunction with those statements and notes thereto.*

This report contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which represent our expectations or beliefs concerning future events, including the following:

the planned opening of approximately 14 new American Eagle stores and one new 77kids store during Fiscal 2012;

the selection of approximately 100 American Eagle stores in the United States and Canada for remodeling and refurbishing during Fiscal 2012;

the potential closure of approximately 20 to 30 American Eagle stores in the United States and Canada during Fiscal 2012;

the planned opening of approximately 31 new franchised American Eagle stores during Fiscal 2012;

the success of aerie by American Eagle and aerie.com;

the success of 77kids by american eagle and 77kids.com;

the expected payment of a dividend in future periods;

the possibility of engaging in future franchise agreements, growth through acquisitions, and/or internally developing additional new brands;

the possibility that our credit facilities may not be available for future borrowings;

the possibility that rising prices of raw materials, labor, energy and other inputs to our manufacturing process, if unmitigated, will continue to have a significant impact to our profitability; and



## **Table of Contents**

the possibility that we may be required to take additional store impairment charges related to underperforming stores. We caution that these forward-looking statements, and those described elsewhere in this report, involve material risks and uncertainties and are subject to change based on factors beyond our control, as discussed within Part I, Item 1A of this Form 10-K. Accordingly, our future performance and financial results may differ materially from those expressed or implied in any such forward-looking statement.

### **Critical Accounting Policies**

Our Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States ( GAAP ), which require us to make estimates and assumptions that may affect the reported financial condition and results of operations should actual results differ from these estimates. We base our estimates and assumptions on the best available information and believe them to be reasonable for the circumstances. We believe that of our significant accounting policies, the following involve a higher degree of judgment and complexity. Refer to Note 2 to the Consolidated Financial Statements for a complete discussion of our significant accounting policies. Management has reviewed these critical accounting policies and estimates with the Audit Committee of our Board.

*Revenue Recognition.* We record revenue for store sales upon the purchase of merchandise by customers. Our e-commerce operation records revenue upon the estimated customer receipt date of the merchandise. Revenue is not recorded on the purchase of gift cards. A current liability is recorded upon purchase, and revenue is recognized when the gift card is redeemed for merchandise.

Revenue is recorded net of estimated and actual sales returns and deductions for coupon redemptions and other promotions. The estimated sales return reserve is based on projected merchandise returns determined through the use of historical average return percentages. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our sales return reserve. However, if the actual rate of sales returns increases significantly, our operating results could be adversely affected.

We estimate gift card breakage and recognize revenue in proportion to actual gift card redemptions as a component of net sales. We determine an estimated gift card breakage rate by continuously evaluating historical redemption data and the time when there is a remote likelihood that a gift card will be redeemed.

We recognize royalty revenue generated from our franchise agreements based upon a percentage of merchandise sales by the franchisee. This revenue is recorded as a component of net sales when earned.

*Merchandise Inventory.* Merchandise inventory is valued at the lower of average cost or market, utilizing the retail method. Average cost includes merchandise design and sourcing costs and related expenses. The Company records merchandise receipts at the time merchandise is delivered to the foreign shipping port by the manufacturer (FOB port). This is the point at which title and risk of loss transfer to us.

We review our inventory in order to identify slow-moving merchandise and generally use markdowns to clear merchandise. Additionally, we estimate a markdown reserve for future planned markdowns related to current inventory. If inventory exceeds customer demand for reasons of style, seasonal adaptation, changes in customer preference, lack of consumer acceptance of fashion items, competition, or if it is determined that the inventory in stock will not sell at its currently ticketed price, additional markdowns may be necessary. These markdowns may have a material adverse impact on earnings, depending on the extent and amount of inventory affected.

We estimate an inventory shrinkage reserve for anticipated losses for the period between the last physical count and the balance sheet date. The estimate for the shrinkage reserve is calculated based on historical

**Table of Contents**

percentages and can be affected by changes in merchandise mix and changes in actual shrinkage trends. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our inventory shrinkage reserve. However, if actual physical inventory losses differ significantly from our estimate, our operating results could be adversely affected.

*Asset Impairment.* In accordance with Financial Accounting Standards Board ( FASB ) Accounting Standard Codification ( ASC ) 360, *Property, Plant, and Equipment*, we evaluate long-lived assets for impairment at the individual store level, which is the lowest level at which individual cash flows can be identified. Impairment losses are recorded on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of the assets. When events such as these occur, the impaired assets are adjusted to their estimated fair value and an impairment loss is recorded separately as a component of operating income under loss on impairment of assets.

Our impairment loss calculations require management to make assumptions and to apply judgment to estimate future cash flows and asset fair values, including forecasting useful lives of the assets and selecting the discount rate that reflects the risk inherent in future cash flows. We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate long-lived asset impairment losses. However, if actual results are not consistent with our estimates and assumptions, our operating results could be adversely affected.

*Investment Securities.* In accordance with ASC 820, *Fair Value Measurements and Disclosures* ( ASC 820 ), we measure our investment securities using Level 1, Level 2 and Level 3 inputs. Level 1 and Level 2 inputs are valued using quoted market prices while we use a discounted cash flow ( DCF ) model to determine the fair value of our Level 3 investments. The assumptions in our DCF model include different recovery periods depending on the type of security and varying discount factors for yield and illiquidity. These assumptions are subjective and they are based on our current judgment and our view of current market conditions. The use of different assumptions would result in a different valuation and related charge. Future adverse changes in market conditions, continued poor operating results of underlying investments or other factors could result in further losses that may not be reflected in an investment's current carrying value, possibly requiring an additional net impairment loss recognized in earnings in the future.

We evaluate our investments for impairment in accordance with ASC 320, *Investments - Debt and Equity Securities* ( ASC 320 ). ASC 320 provides guidance for determining when an investment is considered impaired, whether impairment is other-than-temporary, and measurement of an impairment loss. An investment is considered impaired if the fair value of the investment is less than its cost. If, after consideration of all available evidence to evaluate the realizable value of its investment, impairment is determined to be other-than-temporary, then an impairment loss is recognized in the Consolidated Statement of Operations equal to the difference between the investment's cost and its fair value. Additionally, ASC 320 requires additional disclosures relating to debt and equity securities both in the interim and annual periods as well as requires us to present total other-than-temporary impairment ( OTTI ) with an offsetting reduction for any non-credit loss impairment amount recognized in other comprehensive income ( OCI ).

*Share-Based Payments.* We account for share-based payments in accordance with the provisions of ASC 718, *Compensation - Stock Compensation* ( ASC 718 ). To determine the fair value of our stock option awards, we use the Black-Scholes option pricing model, which requires management to apply judgment and make assumptions to determine the fair value of our awards. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (the expected term ) and the estimated volatility of the price of our common stock over the expected term.

We calculate a weighted-average expected term based on historical experience. Expected stock price volatility is based on a combination of historical volatility of our common stock and implied volatility. We chose

## **Table of Contents**

to use a combination of historical and implied volatility as we believe that this combination is more representative of future stock price trends than historical volatility alone. Changes in these assumptions can materially affect the estimate of the fair value of our share-based payments and the related amount recognized in our Consolidated Financial Statements.

*Income Taxes.* We calculate income taxes in accordance with ASC 740, *Income Taxes* ( ASC 740 ), which requires the use of the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on the difference between the Consolidated Financial Statement carrying amounts of existing assets and liabilities and their respective tax bases as computed pursuant to ASC 740. Deferred tax assets and liabilities are measured using the tax rates, based on certain judgments regarding enacted tax laws and published guidance, in effect in the years when those temporary differences are expected to reverse. A valuation allowance is established against the deferred tax assets when it is more likely than not that some portion or all of the deferred taxes may not be realized. Changes in our level and composition of earnings, tax laws or the deferred tax valuation allowance, as well as the results of tax audits, may materially impact the effective income tax rate.

We evaluate our income tax positions in accordance with ASC 740 which prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return, including a decision whether to file or not to file in a particular jurisdiction. Under ASC 740, a tax benefit from an uncertain position may be recognized only if it is more likely than not that the position is sustainable based on its technical merits.

The calculation of the deferred tax assets and liabilities, as well as the decision to recognize a tax benefit from an uncertain position and to establish a valuation allowance require management to make estimates and assumptions. We believe that our assumptions and estimates are reasonable, although actual results may have a positive or negative material impact on the balances of deferred tax assets and liabilities, valuation allowances or net income.

## **Key Performance Indicators**

Our management evaluates the following items, which are considered key performance indicators, in assessing our performance:

*Comparable store sales* Comparable store sales provide a measure of sales growth for stores open at least one year over the comparable prior year period. In fiscal years following those with 53 weeks, including Fiscal 2007, the prior year period is shifted by one week to compare similar calendar weeks. A store is included in comparable store sales in the thirteenth month of operation. However, stores that have a gross square footage increase of 25% or greater due to a remodel are removed from the comparable store sales base, but are included in total sales. These stores are returned to the comparable store sales base in the thirteenth month following the remodel. Sales from American Eagle, aerie and 77kids stores are included in comparable store sales. Sales from AEO Direct and franchise stores are not included in comparable store sales.

Our management considers comparable store sales to be an important indicator of our current performance. Comparable store sales results are important to achieve leveraging of our costs, including store payroll, store supplies, rent, etc. Comparable store sales also have a direct impact on our total net sales, cash and working capital.

*Gross profit* Gross profit measures whether we are optimizing the price and inventory levels of our merchandise and achieving an optimal level of sales. Gross profit is the difference between net sales and cost of sales. Cost of sales consists of: merchandise costs, including design, sourcing, importing and inbound freight costs, as well as markdowns, shrinkage, certain promotional costs and buying, occupancy and warehousing costs. Buying, occupancy and warehousing costs consist of: compensation, employee benefit expenses and travel for our buyers and certain senior merchandising executives; rent and utilities related to our stores, corporate headquarters, distribution centers and other office space; freight from our

## **Table of Contents**

distribution centers to the stores; compensation and supplies for our distribution centers, including purchasing, receiving and inspection costs; and shipping and handling costs related to our e-commerce operation. Merchandise profit is the difference between net sales and merchandise costs. The inability to obtain acceptable levels of sales, initial markups or any significant increase in our use of markdowns could have an adverse effect on our gross profit and results of operations.

*Operating income* Our management views operating income as a key indicator of our success. The key drivers of operating income are comparable store sales, gross profit, our ability to control selling, general and administrative expenses and our level of capital expenditures.

*Store productivity* Store productivity, including net sales per average square foot, sales per productive hour, average unit retail price ( AUR ), conversion rate, the number of transactions per store, the number of units sold per store and the number of units per transaction, is evaluated by our management in assessing our operational performance.

*Inventory turnover* Our management evaluates inventory turnover as a measure of how productively inventory is bought and sold. Inventory turnover is important as it can signal slow moving inventory. This can be critical in determining the need to take markdowns on merchandise.

*Cash flow and liquidity* Our management evaluates cash flow from operations, investing and financing in determining the sufficiency of our cash position. Cash flow from operations has historically been sufficient to cover our uses of cash. Our management believes that cash flow from operations will be sufficient to fund anticipated capital expenditures and working capital requirements.

## **Results of Operations**

### ***Overview***

We delivered positive top-line sales performance as a result of investments in key categories and a revenue driving promotional strategy in the fourth quarter. Total comparable stores sales for the year increased 3%, in contrast to the 4% decrease recorded in the first half of the year, driven by the 10% comparable store sales growth in the fourth quarter. For the year, AE comparable store sales increased 3%, aerie comparable store sales increased 2% and sales for AEO Direct increased 15%.

The increased sales levels partially offset higher product costs. Increased product costs and our second half promotional activity resulted in pressure on merchandise margin for the year, which declined 360 basis points as a rate to sales. Operating expenses were well controlled leading to 70 basis points of improvement in selling, general and administrative expense as a rate to sales. SG&A dollars increased due to variable expense related to the sales increase and planned investments in advertising.

Operating income for the year was \$231.1 million, which includes \$20.7 million in store impairment charges and \$5.5 million of executive transition costs. Income from continuing operations was \$0.77 per diluted share, and includes a \$0.07 per diluted share impact from the store impairment and a \$0.02 per diluted share impact from executive transition costs. This compares to income from continuing operations of \$0.90 per diluted share last year, which includes a realized loss from the sale of investment securities of \$0.12 per diluted share.

We ended Fiscal 2011 with \$745.9 million in cash, short-term and long-term investments, an increase of \$5.3 million from last year. During the year, we generated \$239.3 million of cash from operations. The cash from operations was offset by \$100.1 million of capital expenditures, a \$34.2 million purchase of intangible assets, and value returned to shareholders through share repurchases of \$15.2 million and dividend payments of \$85.6 million. Merchandise inventory at the end of Fiscal 2011 was \$378.4 million, an increase of 24% on a cost per square foot basis. The increase reflects a high single-digit increase in the ending average cost per unit driven by increased cotton costs.

**Table of Contents**

The following table shows, for the periods indicated, the percentage relationship to net sales of the listed items included in our Consolidated Statements of Operations.

|   | For the Fiscal Years Ended |                     |                     |
|---|----------------------------|---------------------|---------------------|
|   | January 29,<br>2012        | January 29,<br>2011 | January 30,<br>2010 |
| Net sales   | 100.0%                     | 100.0%              | 100.0%              |
| Cost of sales, including certain buying, occupancy and warehousing expenses | 64.3                       | 60.5                | 60.1                |
| Gross profit  | 35.7                       | 39.5                | 39.9                |
| Selling, general and administrative expenses                                | 23.3                       | 24.0                | 24.6                |
| Loss on impairment of assets  | 0.7                        |                     |                     |
| Depreciation and amortization expense                                       | 4.4                        | 4.8                 | 4.7                 |
| Operating income  | 7.3                        | 10.7                | 10.6                |
| Realized loss on sale of investment securities                              |                            | (0.8)               | (0.1)               |
| Other income (expense), net   | 0.2                        |                     | (0.1)               |
| Income before income taxes  | 7.5                        | 9.9                 | 10.4                |
| Provision for income taxes  | 2.7                        | 3.8                 | 3.1                 |
| Income from continuing operations   | 4.8                        | 6.1                 | 7.3                 |
| Loss from discontinued operations, net of tax                               |                            | (1.4)               | (1.5)               |
| Net income  | 4.8%                       | 4.7%                | 5.8%                |

Our operations are conducted in one reportable segment, which includes our 911 U.S. and Canadian AE retail stores, 158 aerie by American Eagle retail stores, 21 77kids by american eagle retail stores and AEO Direct, as of January 28, 2012.

**Comparison of Fiscal 2011 to Fiscal 2010****Net Sales**

Net sales increased 6% to \$3.160 billion compared to \$2.968 billion last year. For Fiscal 2011, comparable stores sales increased 3% compared to a 1% decrease last year. By brand, AE comparable store sales increased 3% and aerie increased 2%. AEO Direct sales increased 15%. AE men's comparable store sales increased in the mid single-digits and AE women's comparable store sales increased in the low single-digits.

For the year, a mid single-digit increase in transactions and a low single-digit increase in AUR, slightly offset by a low single-digit decrease in the units per transaction, contributed to the overall 3% comparable store sales increase.

**Gross Profit**

Gross profit decreased 4% to \$1.128 billion from \$1.171 billion in Fiscal 2010. Gross profit as a percent to net sales decreased by 380 basis points to 35.7% from 39.5% last year. The percentage decrease was attributed to a 360 basis point decrease in merchandise margin and a 20 basis point increase in buying, occupancy and warehousing costs, as a percent to net sales. The decrease in merchandise margin was primarily the result of average unit cost increases, driven by higher product costs, and increased markdowns from our promotional activity. Buying, occupancy and warehousing expenses increased as a rate to sales as a result of the impact of increased rent, partially offset by the 3% increase in comparable store sales for the year.

There was \$5.5 million of share-based payment expense, consisting of time-based awards, included in gross profit this year compared to \$8.4 million last year.



---

## **Table of Contents**

Our gross profit may not be comparable to that of other retailers, as some retailers include all costs related to their distribution network, as well as design costs in cost of sales. Other retailers may exclude a portion of these costs from cost of sales, including them in a line item such as selling, general and administrative expenses. Refer to Note 2 to the Consolidated Financial Statements for a description of our accounting policy regarding cost of sales, including certain buying, occupancy and warehousing expenses.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expense increased 3% to \$735.8 million, compared to \$713.2 million last year, and includes \$5.5 million of executive transition costs. As a rate to net sales, selling, general and administrative expenses improved 70 basis points to 23.3%, compared to 24.0% last year. Expense reduction efforts, partially offset by new store growth, variable expense related to the sales increase and a planned investment in advertising contributed to the improvement in the rate.

There was \$6.9 million of share-based payment expense, consisting of time-based awards, included in selling, general and administrative expenses this year compared to \$17.1 million last year.

### ***Loss on Impairment of Assets***

The loss on impairment of assets of \$20.7 million resulted from our evaluation of under performing stores which exhibited an unanticipated increase in negative cash flow trends driven by fourth quarter 2011 results. This impairment consisted of 59 retail stores, largely related to the aerie brand.

### ***Depreciation and Amortization Expense***

Depreciation and amortization expense increased slightly to \$140.6 million from \$140.5 million last year. This increase is primarily due to a greater property and equipment base driven by our level of capital expenditures, partially offset by disposals related to 29 store closures during the year. As a percent to net sales, depreciation and amortization expense decreased to 4.4% from 4.8% as a result of higher comparable store sales for the period.

### ***Realized Loss on Sale of Investment Securities***

There was no realized loss on sale of investment securities this year, compared to \$24.4 million, or \$0.12 per diluted share, last year. The loss in Fiscal 2010 was primarily due to the liquidation of 95% of our Auction Rate Security investment portfolio.

### ***Other Income, Net***

Other income, net increased to \$5.9 million from \$2.2 million last year. The change is primarily due to additional proceeds received from the ARS Call Option this year.

### ***Provision for Income Taxes***

The effective income tax rate from continuing operations decreased to approximately 36.0% in Fiscal 2011 from 38.3% in Fiscal 2010. The higher effective income tax rate in Fiscal 2010 was primarily due to losses on the sale of certain ARS investments for which no income tax benefit was recognized.

Refer to Note 14 to the Consolidated Financial Statements for additional information regarding our accounting for income taxes.

### ***Income from Continuing Operations***

Income from continuing operations for Fiscal 2011 was \$151.7 million, or \$0.77 per diluted share, and includes a \$0.07 per diluted share impact related to store impairment charges and a \$0.02 per diluted share

## **Table of Contents**

impact related to executive transition costs. Income from continuing operations for Fiscal 2010 was \$181.9 million, or \$0.90 per diluted share, and includes a \$0.12 per diluted share loss from the sale of investment securities related to our ARS liquidation.

### ***Loss from Discontinued Operations***

We completed the closure of M+O stores and related e-commerce operations during Fiscal 2010. Accordingly, the after-tax operating results appear in Loss from Discontinued Operations on the Consolidated Statements of Operations for all periods presented. Loss from Discontinued Operations, net of tax, was \$41.3 million for Fiscal 2010. The Loss from Discontinued Operations for Fiscal 2010 includes pre-tax closure charges of \$43.4 million. Included in the pre-tax charges were \$15.4 million of lease-related items, \$7.6 million for severance and other employee-related charges, \$2.4 million in inventory charges and a non-cash asset impairment charge of \$18.0 million. There was no loss from discontinued operations during Fiscal 2011.

Refer to Note 15 to the Consolidated Financial Statements for additional information regarding the discontinued operations of M+O.

### ***Net Income***

Net income increased to \$151.7 million in Fiscal 2011 from \$140.6 million in Fiscal 2010. As a percent to net sales, net income was 4.8% and 4.7% for Fiscal 2011 and Fiscal 2010, respectively. Net income per diluted share was \$0.77, compared to \$0.70 last year. The increase in net income was attributable to the factors noted above.

### **Comparison of Fiscal 2010 to Fiscal 2009**

#### ***Net Sales***

Net sales increased 1% to \$2.968 billion compared to \$2.940 billion in Fiscal 2009. For Fiscal 2010, comparable stores sales decreased 1%, compared to a 4% decrease in Fiscal 2009. AE men's and women's comparable store sales both declined in the low-single digits compared to Fiscal 2009. A decrease in the number of transactions was driven by lower traffic, partially offset by a slight increase in customer conversion.

#### ***Gross Profit***

Gross profit decreased slightly to \$1.171 billion from \$1.173 billion in Fiscal 2009. Gross profit as a percent to net sales decreased by 40 basis points to 39.5% from 39.9%. The percentage decrease was attributed to a 50 basis point increase in buying, occupancy and warehousing costs as a percent to net sales, partially offset by a 10 basis point improvement in merchandise margin as a rate to sales. Buying, occupancy and warehousing expenses increased as a rate to sales as a result of negative comparable store sales and the impact of new store openings.

Share-based payment expense included in gross profit decreased to approximately \$8.4 million compared to \$11.6 million in Fiscal 2009.

Our gross profit may not be comparable to that of other retailers, as some retailers include all costs related to their distribution network, as well as design costs in cost of sales. Other retailers may exclude a portion of these costs from cost of sales, including them in a line item such as selling, general and administrative expenses. Refer to Note 2 to the Consolidated Financial Statements for a description of our accounting policy regarding cost of sales, including certain buying, occupancy and warehousing expenses.

#### ***Selling, General and Administrative Expenses***

Selling, general and administrative expense decreased 2% to \$713.2 million compared to \$725.3 million in Fiscal 2009. The decrease was due to a combination of reduced incentive compensation expense recorded in the year, as well as the net savings resulting from our corporate profit initiative.



## **Table of Contents**

Share-based payment expense included in selling, general and administrative expense decreased to \$17.1 million compared to \$23.0 million in Fiscal 2009.

### ***Depreciation and Amortization Expense***

Depreciation and amortization expense increased 2% to \$140.5 million from \$137.8 million in Fiscal 2009. This increase is primarily due to a greater property and equipment base driven by our level of capital expenditures. As a percent to net sales, depreciation and amortization expense increased to 4.8% from 4.7% due to the increased expense as well as the impact of the comparable store sales decline.

### ***Realized Loss on Sale of Investment Securities***

The realized loss on sale of investment securities was \$24.4 million, or approximately \$0.12 per diluted share, for Fiscal 2010. This compares to a loss of \$2.7 million, or \$0.01 per diluted share, in Fiscal 2009.

The loss in Fiscal 2010 was primarily due to the liquidation of 95% of our ARS investment portfolio. Our ARS investment portfolio was originally purchased as highly liquid short-term instruments. Due to the deterioration of the ARS market and ARS investments experiencing failed auctions or long-term auction resets, our ARS investment portfolio was subsequently classified as long-term, with a weighted average contractual maturity of approximately 26 years. This liquidation allowed us to convert substantially our entire ARS investment portfolio to short-term liquid assets, with total cash proceeds of \$149.6 million plus accrued interest and a net realized loss of \$24.2 million for the liquidation.

Additionally, in the first half of Fiscal 2010, we liquidated \$28.1 million of ARS investments for proceeds of \$27.9 million and a total realized loss of \$0.2 million.

### ***Other Income (Expense), Net***

Other income (expense), net increased to \$2.2 million from \$(3.3) million in Fiscal 2009, due primarily to a non-cash, non-operating foreign currency loss related to holding U.S. dollars in our Canadian subsidiary in anticipation of repatriation recorded in Fiscal 2009.

### ***Provision for Income Taxes***

The effective income tax rate from continuing operations increased to approximately 38.3% in Fiscal 2010 from 29.9% in Fiscal 2009. The lower effective income tax rate in Fiscal 2009 was primarily the result of the tax benefit associated with the repatriation of foreign earnings from Canada as well as federal and state income tax settlements and other changes in income tax reserves. Additionally, the Fiscal 2010 effective income tax rate was higher due to losses on the sale of certain ARS investments in which no income tax benefit was recognized. The repatriation of foreign earnings from Canada in Fiscal 2009 was a discrete event and has not changed the Company's intention to indefinitely reinvest the earnings of our Canadian subsidiaries to the extent not repatriated.

Refer to Note 14 to the Consolidated Financial Statements for additional information regarding our accounting for income taxes.

### ***Income From Continuing Operations***

Income from continuing operations for Fiscal 2010 was \$181.9 million, or \$0.90 per diluted share, and includes a \$0.12 per diluted share loss from the sale of investment securities related to our ARS liquidation as discussed above. Income from continuing operations for Fiscal 2009 was \$213.4 million, or \$1.02 per diluted share, and includes \$0.11 per diluted share of tax benefits and a \$0.01 per diluted share realized loss on the sale of investment securities.

## **Table of Contents**

### ***Loss from Discontinued Operations***

We completed the closure of M+O stores and its related e-commerce operations during Fiscal 2010. Accordingly, the after-tax operating results and closure charges appear in Loss from Discontinued Operations on the Consolidated Statements of Operations for all periods presented. Loss from Discontinued Operations, net of tax, was \$41.3 million and \$44.4 million for Fiscal 2010 and Fiscal 2009, respectively. The Loss from Discontinued Operations for Fiscal 2010 includes pre-tax closure charges of \$43.4 million. Included in the pre-tax charges were \$15.4 million of lease-related items, \$7.6 million for severance and other employee-related charges, \$2.4 million in inventory charges and a non-cash asset impairment charge of \$18.0 million.

Refer to Note 15 to the Consolidated Financial Statements for additional information regarding the discontinued operations of M+O.

### ***Net Income***

Net income decreased to \$140.6 million in Fiscal 2010 from \$169.0 million in Fiscal 2009. As a percent to net sales, net income was 4.7% and 5.8% for Fiscal 2010 and Fiscal 2009, respectively. Net income per diluted share was \$0.70 compared to \$0.81 in Fiscal 2009. The decrease in net income was attributable to the factors noted above.

### ***Fiscal 2012 Outlook***

Looking ahead to Fiscal 2012, we will focus on sustaining competitive top-line growth through merchandise improvements, increasing inventory productivity to deliver higher margins, and leveraging our assets. While product cost inflation will pressure merchandise margins in the first half of Fiscal 2012, we expect lower product costs to benefit margins in the second half. Additionally, we expect inventories to moderate as we approach mid-year and decline in the second half. We believe that our current cash holdings and cash generated from operations in Fiscal 2011 will be sufficient to fund anticipated capital expenditures and working capital requirements.

### ***Fair Value Measurements***

ASC 820 defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. Fair value is defined under ASC 820 as the exit price associated with the sale of an asset or transfer of a liability in an orderly transaction between market participants at the measurement date.

### ***Financial Instruments***

Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. In addition, ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The tiers include:

*Level 1* Quoted prices in active markets for identical assets or liabilities.

*Level 2* Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

*Level 3* Unobservable inputs (i.e., projections, estimates, interpretations, etc.) that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

As of January 28, 2012, we held certain assets that are required to be measured at fair value on a recurring basis. These include cash equivalents and short and long-term investments, including ARS.



**Table of Contents**

In accordance with ASC 820, the following table represents the fair value hierarchy for our financial assets (cash equivalents and investments) measured at fair value on a recurring basis as of January 28, 2012:

|                                 | Fair Value Measurements at January 28, 2012 |   |   |   |
|---------------------------------|---|---|---|---|
|                                 | Carrying Amount                             | Quoted Market Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|                                 | (In thousands)                              |   |   |   |
| Cash and cash equivalents       |   |   |   |   |
| Cash                            | \$ 548,728                                  | \$ 548,728  | \$  | \$  |
| Money-market                    | 131,785                                     | 131,785   |   |   |
| Commercial paper                | 29,998                                      | 29,998  |   |   |
| Treasury bills                  | 9,034                                       | 9,034   |   |   |
| Total cash and cash equivalents | \$ 719,545                                  | \$ 719,545  | \$  | \$  |
| Short-term investments          |   |   |   |   |
| Treasury bills                  | \$ 19,999                                   | \$ 19,999   | \$  | \$  |
| State and local government ARS  | 5,500                                       |   |   | 5,500                                     |
| Total short-term investments    | \$ 25,499                                   | \$ 19,999   | \$  | \$ 5,500                                  |
| Long-term investments           |   |   |   |   |
| ARS Call Option                 | \$ 847                                      | \$  | \$  | \$ 847                                    |
| Total long-term investments     | \$ 847                                      | \$  | \$  | \$ 847                                    |
| Total                           | \$ 745,891                                  | \$ 739,544  | \$  | \$ 6,347                                  |
| Percent to total                | 100.0%                                      | 99.1%   | %   | 0.9%                                      |

We used a discounted cash flow ( DCF ) model to value our Level 3 investments. For Fiscal 2011, the assumptions in our model for Level 3 investments, excluding the ARS Call Option, included a recovery period of five months, a discount factor for yield of 0.1% and illiquidity of 0.5%. These assumptions are subjective. They are based on our current judgment and our view of current market conditions. The use of different assumptions (i.e., an increase in the recovery period by one year or an increase to the discount rate and illiquidity premium of 100 basis points) would not result in a material change to the valuation.

The fair value of the ARS Call Option described in Note 3 to the Consolidated Financial Statements was also estimated using a discounted cash flow model. The model considered potential changes in yields for securities with similar characteristics to the underlying ARS and evaluated possible future refinancing opportunities of the issuers of the ARS. The analysis then assessed the likelihood that the options would be exercisable as a result of the underlying ARS being redeemed or traded in a secondary market at an amount greater than the exercise price prior to the end of the option term. Future changes in the fair values of the ARS Call Option will be recorded within the Consolidated Statements of Operations.

Refer to Notes 3 and 4 to the Consolidated Financial Statements for additional information on our investment securities, including a description of the securities and a discussion of the uncertainties relating to their liquidity.

**Liquidity and Capital Resources**

Our uses of cash are generally for working capital, the construction of new stores and remodeling of existing stores, information technology upgrades, distribution center improvements and expansion, the purchase of both short and long-term investments, the repurchase of common stock and the payment of dividends. Historically,



**Table of Contents**

these uses of cash have been funded with cash flow from operations and existing cash on hand. Additionally, our uses of cash include the development of the aerie and 77kids brands. We expect to be able to fund our future cash requirements in the U.S. and Canada through current cash holdings as well as cash generated from operations. In the future, we expect that our uses of cash will also include further development of the aerie and 77kids brands.

Our growth strategy includes internally developing new brands and the possibility of further international expansion or acquisitions. We periodically consider and evaluate these options to support future growth. In the event we do pursue such options, we could require additional equity or debt financing. There can be no assurance that we would be successful in closing any potential transaction, or that any endeavor we undertake would increase our profitability.

The following sets forth certain measures of our liquidity:

|                            | January 28,<br>2012 | January 29,<br>2011 |
|----------------------------|---------------------|---------------------|
| Working Capital (in 000 s) | \$ 882,087          | \$ 786,573          |
| Current Ratio              | 3.18                | 3.03                |

The \$95.5 million increase in our working capital and corresponding increase in the current ratio as of January 28, 2012 compared to January 29, 2011, resulted primarily from net income, net of non-cash adjustments, offset by the use of cash for investing and financing activities. Investing and financing activities include capital expenditures, the purchase of intangible assets, the payment of dividends and the repurchase of common stock.

***Cash Flows from Operating Activities of Continuing Operations***

Net cash provided by operating activities totaled \$239.3 million during Fiscal 2011 compared to \$402.6 million during Fiscal 2010 and \$400.3 million during Fiscal 2009. Our major source of cash from operations was merchandise sales. Our primary outflows of cash from operations were for the purchase of merchandise inventory and the payment of operational costs. Merchandise inventory at the end of Fiscal 2011 was \$378.4 million, an increase of 24% on a cost per foot basis. The increase reflects a high single-digit increase in the ending average cost per unit driven by higher product costs.

***Cash Flows from Investing Activities of Continuing Operations***

Investing activities for Fiscal 2011 included \$100.1 million in capital expenditures for property and equipment, \$34.2 million for the acquisition of intangible assets primarily related to our international expansion strategy and \$193.9 million of investment purchases, partially offset by \$240.8 million of proceeds from the sale of investments classified as available-for-sale. Investing activities for Fiscal 2010 included \$177.5 million of proceeds from the sale of investments classified as available for sale, partially offset by \$84.3 million used for capital expenditures and \$62.8 million for the purchase of short-term investments. Investing activities for Fiscal 2009 included \$127.1 million for capital expenditures, partially offset by \$80.4 million from the sale of investments classified as available-for-sale. For further information on capital expenditures, refer to the Capital Expenditures for Property and Equipment caption below.

***Cash Flows from Financing Activities of Continuing Operations***

During Fiscal 2011, cash used for financing activities resulted primarily from \$85.6 million for the payment of dividends and \$15.2 million for the repurchase of 1.4 million shares as part of our publicly announced repurchase program. During Fiscal 2010, cash used for financing activities resulted primarily from \$216.1 million for the repurchase of 15.5 million shares as part of our publicly announced repurchase program, \$183.2 million for the payment of dividends, \$30.0 million for the full repayment of our demand line borrowings and \$18.0 million for the repurchase of common stock from employees for the payment of taxes in connection with the vesting of share-based payments. During Fiscal 2009, cash used for financing activities resulted primarily from \$83.0 million used for the payment of dividends and the partial repayment of \$45.0 million in borrowings against our demand line of credit.

---

## **Table of Contents**

ASC 718 requires that cash flows resulting from the benefits of tax deductions in excess of recognized compensation cost for share-based payments be classified as financing cash flows. Accordingly, for Fiscal 2011, for Fiscal 2010 and Fiscal 2009, the excess tax benefits from share-based payments of \$0.4 million, \$12.5 million and \$2.8 million, respectively, are classified as financing cash flows.

### ***Capital Expenditures for Property and Equipment***

Fiscal 2011 capital expenditures were \$100.1 million, compared to \$84.3 million in Fiscal 2010. Fiscal 2011 expenditures included \$70.9 million related to investments in our AE stores, including 33 new AE, aerie and 77kids stores in the United States and Canada, 106 remodeled and refurbished stores, and fixtures and visual investments. Additionally, we continued to support our infrastructure growth by investing in information technology (\$12.5 million), the expansion and improvement of our distribution centers (\$9.8 million) and other home office projects (\$6.9 million).

For Fiscal 2012, we expect capital expenditures to be approximately \$100.0 million related to stores, information technology and investments in e-commerce. New store growth is primarily related to outlet centers, which are among our most productive format. Additionally, we plan to remodel and refurbish approximately 100 AE stores with average operating results above the chain average.

### ***Credit Facilities***

During Fiscal 2011, we had borrowing agreements with four separate financial institutions under which an aggregate of \$245.0 million United States dollars ( USD ) and \$25.0 million Canadian dollars ( CAD ) was available. Of this amount, \$135.0 million USD was available for letter of credit issuances, \$50.0 million USD and \$25.0 million CAD was available for demand line borrowings and the remaining \$60.0 million USD was available for either letters of credit or demand line borrowings at the Company's discretion. These lines were provided at the discretion of the respective financial institutions and were subject to their periodic review.

As of January 28, 2012, we had outstanding letters of credit of \$25.2 million USD and no demand line borrowings.

On March 2, 2012, we entered into a five-year, \$150.0 million syndicated, unsecured, revolving credit agreement (the Credit Agreement ). The primary purpose of the Credit Agreement is to provide additional access to capital for general corporate purposes and the issuance of letters of credit. The Credit Agreement replaced the uncommitted demand lines in the aggregate amount of \$110.0 million USD and \$25.0 million CAD. The \$135.0 million USD of credit lines for letter of credit issuances continue to remain in place as of March 15, 2012.

The Credit Agreement will mature on March 2, 2017. Stand-by letters of credit totaling approximately \$8.5 million were outstanding under the Credit Agreement on March 15, 2012. No borrowings were outstanding under the Credit Agreement on March 15, 2012.

### ***Stock Repurchases***

During Fiscal 2011, we repurchased 1.4 million shares as part of our publicly announced share repurchase program for approximately \$15.2 million, at a weighted average price of \$11.10 per share. During Fiscal 2010, we repurchased 15.5 million shares as part of our publicly announced repurchase programs for approximately \$216.1 million, at a weighted average price of \$13.94 per share. We did not repurchase any common stock as part of our publicly announced repurchase program during Fiscal 2009. As of January 28, 2012, we had 13.1 million shares remaining authorized for repurchase. These shares may be repurchased at our discretion through February 2, 2013.

During Fiscal 2011, Fiscal 2010 and Fiscal 2009, we repurchased approximately 0.1 million, 1.0 million and 18,000 shares, respectively, from certain employees at market prices totaling \$2.2 million, \$18.0 million and \$0.2 million, respectively. These shares were repurchased for the payment of taxes, not in excess of the minimum statutory withholding requirements, in connection with the vesting of share-based payments, as permitted under the 2005 Stock Award and Incentive Plan, as amended.

**Table of Contents**

The aforementioned share repurchases have been recorded as treasury stock.

**Dividends**

An \$0.11 per share dividend was paid for each quarter of Fiscal 2011. During the fourth quarter of Fiscal 2010, our Board declared and paid a \$0.50 per share special cash dividend along with a regular quarterly cash dividend of \$0.11 per share. An \$0.11 per share dividend was paid during both the second and third quarters of Fiscal 2010. A \$0.10 per share dividend was paid during the first quarter of Fiscal 2010. Subsequent to the fourth quarter of Fiscal 2011, our Board declared a quarterly cash dividend of \$0.11 per share, payable on April 9, 2012 to stockholders of record at the close of business on March 26, 2012. The payment of future dividends is at the discretion of our Board and is based on future earnings, cash flow, financial condition, capital requirements, changes in U.S. taxation and other relevant factors. It is anticipated that any future dividends paid will be declared on a quarterly basis.

**Obligations and Commitments****Disclosure about Contractual Obligations**

The following table summarizes our significant contractual obligations as of January 28, 2012:

|                               | Payments Due by Period |                     |                                |              |                         |
|-------------------------------|------------------------|---------------------|--------------------------------|--------------|-------------------------|
|                               | Total                  | Less than<br>1 Year | 1-3<br>Years<br>(In thousands) | 3-5<br>Years | More<br>than<br>5 Years |
| Operating Leases(1)           | \$ 1,724,071           | \$ 255,576          | \$ 464,809                     | \$ 391,129   | \$ 612,557              |
| Unrecognized Tax Benefits(2)  | 39,430                 | 3,959               |                                |              | 35,471                  |
| Purchase Obligations(3)       | 478,942                | 466,165             | 5,617                          | 3,020        | 4,140                   |
| Total Contractual Obligations | \$ 2,242,443           | \$ 725,700          | \$ 470,426                     | \$ 394,149   | \$ 652,168              |

- (1) Operating lease obligations consist primarily of future minimum lease commitments related to store operating leases (Refer to Note 10 to the Consolidated Financial Statements). Operating lease obligations do not include common area maintenance, insurance or tax payments for which we are also obligated.
- (2) The amount of unrecognized tax benefits as of January 28, 2012 was \$39.4 million, including approximately \$7.9 million of accrued interest and penalties. Unrecognized tax benefits are positions taken or expected to be taken on an income tax return that may result in additional payments to tax authorities. The Company anticipates \$4.0 million of unrecognized tax benefits will be realized within one year. The remaining balance of the unrecognized tax benefits of \$35.4 million is included in the More than 5 Years column as we are not able to reasonably estimate the timing of the potential future payments.
- (3) Purchase obligations primarily include binding commitments to purchase merchandise inventory, as well as other legally binding commitments, made in the normal course of business that are enforceable and specify all significant terms. Included in the above purchase obligations are inventory commitments guaranteed by outstanding letters of credit, as shown in the table below.

**Disclosure about Commercial Commitments**

The following table summarizes our significant commercial commitments as of January 28, 2012:



Edgar Filing: AMERICAN EAGLE OUTFITTERS INC - Form 10-K

|                              | Amount of Commitment Expiration Per Period |                     |              |              |                         |
|------------------------------|--|---------------------|--------------|--------------|-------------------------|
|                              | Total<br>Amount<br>Committed               | Less than<br>1 Year | 1-3<br>Years | 3-5<br>Years | More<br>than<br>5 Years |
| Trade Letters of Credit(1)   | \$ 25,197                                  | \$ 25,197           |              |              |                         |
| Total Commercial Commitments | \$ 25,197                                  | \$ 25,197           |              |              |                         |

- (1) Trade letters of credit represent commitments, guaranteed by a bank, to pay vendors for merchandise, as well as other commitments, upon presentation of documents demonstrating that the merchandise has shipped.

## **Table of Contents**

### ***Off-Balance Sheet Arrangements***

We are not a party to any off-balance sheet arrangements.

### **Recent Accounting Pronouncements**

Recent accounting pronouncements are disclosed in Note 2 of the Consolidated Financial Statements.

### **Certain Relationships and Related Party Transactions**

Refer to Part III, Item 13 of this Form 10-K for information regarding related party transactions.

### **Impact of Inflation**

Increases in the price of raw materials used in the manufacture of merchandise we purchase from suppliers has negatively impacted our cost of sales. Continued increases in these costs, in addition to increases in the price of labor, energy and other inputs to the manufacture of our merchandise, could further negatively impact our business and the industry in the future.

### **ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

We have market risk exposure related to interest rates and foreign currency exchange rates. Market risk is measured as the potential negative impact on earnings, cash flows or fair values resulting from a hypothetical change in interest rates or foreign currency exchange rates over the next year.

#### **Interest Rate Risk**

Our earnings are affected by changes in market interest rates as a result of our short and long-term investments. If our Fiscal 2011 average yield rate decreases by 10% in Fiscal 2012, our income before taxes will decrease by approximately \$0.1 million. Comparatively, if our Fiscal 2010 average yield rate decreased by 10% in Fiscal 2011, our income before taxes would decrease by approximately \$0.2 million. These amounts are determined by considering the impact of the hypothetical yield rates on our cash, short-term and long-term investment balances and assumes no change in our investment structure.

#### **Foreign Exchange Rate Risk**

We are exposed to the impact of foreign exchange rate risk primarily through our Canadian operations where the functional currency is the Canadian dollar. We do not utilize hedging instruments to mitigate foreign currency exchange risks. We believe our foreign currency translation risk is minimal as a hypothetical 10% change in the Canadian foreign exchange rate would not materially affect our results of operations or cash flows.

**Table of Contents**

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

**Index to Consolidated Financial Statements**

|  |    |
|--|----|
| <u>Report of Independent Registered Public Accounting Firm</u> | 34 |
| <u>Consolidated Balance Sheets</u>                             | 35 |
| <u>Consolidated Statements of Operations</u>                   | 36 |
| <u>Consolidated Statements of Comprehensive Income</u>         | 37 |
| <u>Consolidated Statements of Stockholders' Equity</u>         | 38 |
| <u>Consolidated Statements of Cash Flows</u>                   | 39 |
| <u>Notes to Consolidated Financial Statements</u>              | 40 |

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of

American Eagle Outfitters, Inc.

We have audited the accompanying consolidated balance sheets of American Eagle Outfitters, Inc. (the Company) as of January 28, 2012 and January 29, 2011, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended January 28, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Eagle Outfitters, Inc. at January 28, 2012 and January 29, 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 28, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), American Eagle Outfitters, Inc.'s internal control over financial reporting as of January 28, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania

March 15, 2012

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****CONSOLIDATED BALANCE SHEETS**

|  | January 28,<br>2012                         | January 29,<br>2011 |
|--|---|---------------------|
|  | (In thousands, except per<br>share amounts) |                     |
| <b>Assets</b>  |   |                     |
| Current assets:  |   |                     |
| Cash and cash equivalents  | \$ 719,545                                  | \$ 667,593          |
| Short-term investments   | 25,499                                      | 67,102              |
| Merchandise inventory  | 378,426                                     | 301,208             |
| Accounts receivable  | 40,310                                      | 36,721              |
| Prepaid expenses and other   | 74,947                                      | 53,727              |
| Deferred income taxes  | 48,761                                      | 48,059              |
| <b>Total current assets</b>  | <b>1,287,488</b>                            | <b>1,174,410</b>    |
| Property and equipment, at cost, net of accumulated depreciation   | 582,162                                     | 643,120             |
| Intangible assets, at cost, net of accumulated amortization  | 39,832                                      | 7,485               |
| Goodwill   | 11,469                                      | 11,472              |
| Non-current deferred income taxes  | 13,467                                      | 19,616              |
| Other assets   | 16,384                                      | 23,895              |
| <b>Total assets</b>  | <b>\$ 1,950,802</b>                         | <b>\$ 1,879,998</b> |
| <b>Liabilities and Stockholders Equity</b>   |   |                     |
| Current liabilities:   |   |                     |
| Accounts payable   | \$ 183,783                                  | \$ 167,723          |
| Accrued compensation and payroll taxes   | 42,625                                      | 34,954              |
| Accrued rent   | 76,921                                      | 70,390              |
| Accrued income and other taxes   | 20,135                                      | 32,468              |
| Unredeemed gift cards and gift certificates  | 44,970                                      | 41,001              |
| Current portion of deferred lease credits  | 15,066                                      | 16,203              |
| Other liabilities and accrued expenses   | 21,901                                      | 25,098              |
| <b>Total current liabilities</b>   | <b>405,401</b>                              | <b>387,837</b>      |
| Non-current liabilities:   |   |                     |
| Deferred lease credits   | 71,880                                      | 78,606              |
| Non-current accrued income taxes   | 35,471                                      | 38,671              |
| Other non-current liabilities  | 21,199                                      | 23,813              |
| <b>Total non-current liabilities</b>   | <b>128,550</b>                              | <b>141,090</b>      |
| Commitments and contingencies  |   |                     |
| Stockholders equity:   |   |                     |
| Preferred stock, \$0.01 par value; 5,000 shares authorized; none issued and outstanding  |   |                     |
| Common stock, \$0.01 par value; 600,000 shares authorized; 249,566 and 249,566 shares issued; 193,848 and 194,366 shares outstanding, respectively | 2,496                                       | 2,496               |

Edgar Filing: AMERICAN EAGLE OUTFITTERS INC - Form 10-K

|   |                     |                     |
|---|---------------------|---------------------|
| Contributed capital   | 552,797             | 546,597             |
| Accumulated other comprehensive income                          | 28,659              | 28,072              |
| Retained earnings   | 1,771,464           | 1,711,929           |
| Treasury stock, 55,718 and 55,200 shares, respectively, at cost | (938,565)           | (938,023)           |
| <b>Total stockholders' equity</b>                               | <b>1,416,851</b>    | <b>1,351,071</b>    |
| <b>Total liabilities and stockholders' equity</b>               | <b>\$ 1,950,802</b> | <b>\$ 1,879,998</b> |

Refer to Notes to Consolidated Financial Statements

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

|   | For the Years Ended                      |                     |                     |
|---|--|---------------------|---------------------|
|   | January 28,<br>2012                      | January 29,<br>2011 | January 30,<br>2010 |
|   | (In thousands, except per share amounts) |                     |                     |
| Net sales   | \$ 3,159,818                             | \$ 2,967,559        | \$ 2,940,269        |
| Cost of sales, including certain buying, occupancy and warehousing expenses | 2,031,477                                | 1,796,600           | 1,766,839           |
| Gross profit  | 1,128,341                                | 1,170,959           | 1,173,430           |
| Selling, general and administrative expenses                                | 735,828                                  | 713,197             | 725,278             |
| Loss on impairment of assets  | 20,730                                   |                     |                     |
| Depreciation and amortization expense                                       | 140,647                                  | 140,501             | 137,760             |
| Operating income  | 231,136                                  | 317,261             | 310,392             |
| Realized loss on sale of investment securities                              |  | (24,426)            | (2,749)             |
| Other income (expense), net   | 5,874                                    | 2,249               | (3,268)             |
| Income before income taxes  | 237,010                                  | 295,084             | 304,375             |
| Provision for income taxes  | 85,305                                   | 113,150             | 90,977              |
| Income from continuing operations   | 151,705                                  | 181,934             | 213,398             |
| Loss from discontinued operations, net of tax                               |  | (41,287)            | (44,376)            |
| Net income  | \$ 151,705                               | \$ 140,647          | \$ 169,022          |
| Basic income per common share:  |  |                     |                     |
| Income from continuing operations   | \$ 0.78                                  | \$ 0.91             | \$ 1.04             |
| Loss from discontinued operations   |  | \$ (0.21)           | \$ (0.22)           |
| Basic net income per common share   | \$ 0.78                                  | \$ 0.70             | \$ 0.82             |
| Diluted income per common share:  |  |                     |                     |
| Income from continuing operations   | \$ 0.77                                  | \$ 0.90             | \$ 1.02             |
| Loss from discontinued operations   |  | (0.20)              | (0.21)              |
| Diluted net income per common share   | \$ 0.77                                  | \$ 0.70             | \$ 0.81             |
| Weighted average common shares outstanding basic                            | 194,445                                  | 199,979             | 206,171             |
| Weighted average common shares outstanding diluted                          | 196,314                                  | 201,818             | 209,512             |

Refer to Notes to Consolidated Financial Statements

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

|   | <b>January 28,<br/>2012</b> | <b>For the Years Ended<br/>January 29,<br/>2011<br/>(In thousands)</b> | <b>January 30,<br/>2010</b> |
|---|-----------------------------|--|-----------------------------|
| Net income  | \$ 151,705                  | \$ 140,647   | \$ 169,022                  |
| Other comprehensive income:   |                             |  |                             |
| Temporary (impairment) recovery related to investment securities, net of tax                                  |                             | (1,140)  | 14,506                      |
| Reclassification adjustment for realized losses in net income related to investment securities,<br>net of tax |                             | 7,541  | 940                         |
| Foreign currency translation gain   | 587                         | 4,833  | 15,781                      |
| Other comprehensive income  | 587                         | 11,234   | 31,227                      |
| Comprehensive income  | \$ 152,292                  | \$ 151,881   | \$ 200,249                  |

Refer to Notes to Consolidated Financial Statements



Table of Contents

## AMERICAN EAGLE OUTFITTERS, INC.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

|   | Shares<br>Outstanding<br>(1) | Common<br>Stock | Contributed<br>Capital | Retained<br>Earnings | Treasury<br>Stock(2) | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Stockholders<br>Equity |
|---|------------------------------|-----------------|------------------------|----------------------|----------------------|---|------------------------|
| (In thousands, except per share amounts)                          |                              |                 |                        |                      |                      |   |                        |
| <b>Balance at January 31, 2009</b>                                | <b>205,281</b>               | <b>\$ 2,485</b> | <b>\$ 513,574</b>      | <b>\$ 1,694,161</b>  | <b>\$ (786,800)</b>  | <b>\$ (14,389)</b>  | <b>\$ 1,409,031</b>    |
| Stock awards  | 41                           | 1               | 39,903                 |                      |                      |   | 39,904                 |
| Repurchase of common stock from employees                         | (18)                         |                 |                        |                      | (247)                |   | (247)                  |
| Reissuance of treasury stock                                      | 1,528                        |                 |                        | (15,228)             | 27,792               |   | 12,564                 |
| Net income  |                              |                 |                        | 169,022              |                      |   | 169,022                |
| Other comprehensive income, net of tax                            |                              |                 |                        |                      |                      | 31,227  | 31,227                 |
| Cash dividends and dividend equivalents (\$0.40 per share)        |                              |                 | 922                    | (83,906)             |                      |   | (82,984)               |
| <b>Balance at January 30, 2010</b>                                | <b>206,832</b>               | <b>\$ 2,486</b> | <b>\$ 554,399</b>      | <b>\$ 1,764,049</b>  | <b>\$ (759,255)</b>  | <b>\$ 16,838</b>  | <b>\$ 1,578,517</b>    |
| Stock awards  | 997                          | 10              | 36,229                 |                      |                      |   | 36,239                 |
| Repurchase of common stock as part of publicly announced programs | (15,500)                     |                 |                        |                      | (216,070)            |   | (216,070)              |
| Repurchase of common stock from employees                         | (1,035)                      |                 |                        |                      | (18,041)             |   | (18,041)               |
| Reissuance of treasury stock                                      | 3,072                        |                 | (45,841)               | (7,791)              | 55,343               |   | 1,711                  |
| Net income  |                              |                 |                        | 140,647              |                      |   | 140,647                |
| Other comprehensive income, net of tax                            |                              |                 |                        |                      |                      | 11,234  | 11,234                 |
| Cash dividends and dividend equivalents (\$0.93 per share)        |                              |                 | 1,810                  | (184,976)            |                      |   | (183,166)              |
| <b>Balance at January 29, 2011</b>                                | <b>194,366</b>               | <b>\$ 2,496</b> | <b>\$ 546,597</b>      | <b>\$ 1,711,929</b>  | <b>\$ (938,023)</b>  | <b>\$ 28,072</b>  | <b>\$ 1,351,071</b>    |
| Stock awards  |                              |                 | 10,532                 |                      |                      |   | 10,532                 |
| Repurchase of common stock as part of publicly announced programs | (1,365)                      |                 |                        |                      | (15,160)             |   | (15,160)               |
| Repurchase of common stock from employees                         | (145)                        |                 |                        |                      | (2,189)              |   | (2,189)                |
| Reissuance of treasury stock                                      | 992                          |                 | (5,997)                | (4,261)              | 16,807               |   | 6,549                  |
| Net income  |                              |                 |                        | 151,705              |                      |   | 151,705                |
| Other comprehensive income, net of tax                            |                              |                 |                        |                      |                      | 587   | 587                    |
| Cash dividends and dividend equivalents (\$0.44 per share)        |                              |                 | 1,665                  | (87,909)             |                      |   | (86,244)               |
| <b>Balance at January 28, 2012</b>                                | <b>193,848</b>               | <b>\$ 2,496</b> | <b>\$ 552,797</b>      | <b>\$ 1,771,464</b>  | <b>\$ (938,565)</b>  | <b>\$ 28,659</b>  | <b>\$ 1,416,851</b>    |

## Edgar Filing: AMERICAN EAGLE OUTFITTERS INC - Form 10-K

- (1) 600,000 authorized, 249,566 issued and 193,848 outstanding, \$0.01 par value common stock at January 28, 2012; 600,000 authorized, 249,566 issued and 194,366 outstanding, \$0.01 par value common stock at January 29, 2011; 600,000 authorized, 249,561 issued and 206,832 outstanding (excluding 992 shares of non-vested restricted stock), \$0.01 par value common stock at January 30, 2010; The Company has 5,000 authorized, with none issued or outstanding, \$0.01 par value preferred stock at January 28, 2012, January 29, 2011 and January 30, 2010.
  
- (2) 55,718 shares, 55,200 shares, and 41,737 shares at January 28, 2012, January 29, 2011 and January 30, 2010, respectively. During Fiscal 2011, Fiscal 2010 and Fiscal 2009, 992 shares, 3,072 shares and 1,528 shares, respectively, were reissued from treasury stock for the issuance of share-based payments.

Refer to Notes to Consolidated Financial Statements

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

|  | For the Years Ended |                                       |                     |
|--|---------------------|---------------------------------------|---------------------|
|  | January 28,<br>2012 | January 29,<br>2011<br>(In thousands) | January 30,<br>2010 |
| <b>Operating activities:</b>   |                     |                                       |                     |
| Net income   | \$ 151,705          | \$ 140,647                            | \$ 169,022          |
| Loss from discontinued operations, net of tax  |                     | 41,287                                | 44,376              |
| Income from continuing operations  | \$ 151,705          | \$ 181,934                            | \$ 213,398          |
| Adjustments to reconcile net income to net cash provided by operating activities       |                     |                                       |                     |
| Depreciation and amortization  | 143,156             | 145,548                               | 139,832             |
| Share-based compensation   | 12,341              | 25,457                                | 34,615              |
| Provision for deferred income taxes  | 4,207               | 11,885                                | (36,027)            |
| Tax benefit from share-based payments  | 356                 | 15,648                                | 7,995               |
| Excess tax benefit from share-based payments   | (373)               | (12,499)                              | (2,812)             |
| Foreign currency transaction (gain) loss   | (325)               | 117                                   | 6,477               |
| Loss on impairment of assets   | 20,730              |                                       |                     |
| Realized investment losses   |                     | 25,674                                | 3,689               |
| Changes in assets and liabilities:   |                     |                                       |                     |
| Merchandise inventory  | (77,311)            | 18,713                                | (33,699)            |
| Accounts receivable  | (3,589)             | (3,790)                               | 6,656               |
| Prepaid expenses and other   | (21,261)            | (9,045)                               | 12,916              |
| Other assets   | 2,444               | (1,380)                               | 1,146               |
| Accounts payable   | 17,934              | 5,232                                 | 8,358               |
| Unredeemed gift cards and gift certificates  | 3,979               | 1,713                                 | (3,591)             |
| Deferred lease credits   | (7,837)             | (7,451)                               | 4,667               |
| Accrued compensation and payroll taxes   | 7,677               | (19,618)                              | 25,841              |
| Accrued income and other taxes   | (15,515)            | 11,999                                | 12,858              |
| Accrued liabilities  | 938                 | 12,457                                | (1,993)             |
| <b>Total adjustments</b>   | <b>87,551</b>       | <b>220,660</b>                        | <b>186,928</b>      |
| <b>Net cash provided by operating activities from continuing operations</b>            | <b>239,256</b>      | <b>402,594</b>                        | <b>400,326</b>      |
| <b>Investing activities:</b>   |                     |                                       |                     |
| Capital expenditures for property and equipment  | (100,135)           | (84,259)                              | (127,080)           |
| Acquisition of intangible assets   | (34,187)            | (2,801)                               | (2,003)             |
| Purchase of available-for-sale securities  | (193,851)           | (62,797)                              |                     |
| Sale of available-for-sale securities  | 240,797             | 177,472                               | 80,353              |
| <b>Net cash (used for) provided by investing activities from continuing operations</b> | <b>(87,376)</b>     | <b>27,615</b>                         | <b>(48,730)</b>     |
| <b>Financing activities:</b>   |                     |                                       |                     |
| Payments on capital leases   | (3,256)             | (2,590)                               | (2,015)             |
| Repayment of note payable  |                     | (30,000)                              | (45,000)            |
| Repurchase of common stock as part of publicly announced programs                      | (15,160)            | (216,070)                             |                     |
| Repurchase of common stock from employees  | (2,189)             | (18,041)                              | (247)               |
| Net proceeds from stock options exercised  | 5,098               | 7,272                                 | 9,044               |
| Excess tax benefit from share-based payments   | 373                 | 12,499                                | 2,812               |
| Cash used to net settle equity awards  |                     | (6,434)                               | (1,414)             |
| Cash dividends paid  | (85,592)            | (183,166)                             | (82,985)            |
| <b>Net cash used for financing activities from continuing operations</b>               | <b>(100,726)</b>    | <b>(436,530)</b>                      | <b>(119,805)</b>    |

Edgar Filing: AMERICAN EAGLE OUTFITTERS INC - Form 10-K

|   |               |                 |                 |
|---|---------------|-----------------|-----------------|
| Effect of exchange rates on cash                            | 798           | 1,394           | 3,030           |
| Cash flows of discontinued operations                       |               |                 |                 |
| Net cash used for operating activities                      |               | (21,434)        | (13,864)        |
| Net cash used for investing activities                      |               | (6)             | (339)           |
| Net cash used for financing activities                      |               |                 |                 |
| Effect of exchange rates on cash                            |               |                 |                 |
| <b>Net cash used for discontinued operations</b>            |               | <b>(21,440)</b> | <b>(14,203)</b> |
| <b>Net increase (decrease) in cash and cash equivalents</b> | <b>51,952</b> | <b>(26,367)</b> | <b>220,618</b>  |
| Cash and cash equivalents beginning of period               | 667,593       | 693,960         | 473,342         |
| Cash and cash equivalents end of period                     | \$ 719,545    | \$ 667,593      | \$ 693,960      |

Refer to Notes to Consolidated Financial Statements

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED JANUARY 28, 2012****1. Business Operations**

American Eagle Outfitters, Inc. (the Company), a Delaware corporation, operates under the American Eagle® (AE), ae® by American Eagle® (aerie), and 77kids by american eagle® (77kids) brands. The Company operated the MARTIN+OSCAR brand (M+O) until its closure during Fiscal 2010.

Founded in 1977, American Eagle Outfitters is a leading apparel and accessories retailer that operates more than 1,000 retail stores in the U.S. and Canada, and online at ae.com. Through its family of brands, the Company offers high quality, on-trend clothing, accessories and personal care products at affordable prices. The Company's online business, AEO Direct, ships to 77 countries worldwide.

**Merchandise Mix**

The following table sets forth the approximate consolidated percentage of net sales attributable to each merchandise group for each of the periods indicated:

|   | <b>For the Years Ended</b>  |                             |                             |
|---|-----------------------------|-----------------------------|-----------------------------|
|   | <b>January 28,<br/>2012</b> | <b>January 29,<br/>2011</b> | <b>January 30,<br/>2010</b> |
| Men's apparel and accessories                     | 40%                         | 40%                         | 40%                         |
| Women's apparel and accessories (excluding aerie) | 51%                         | 51%                         | 51%                         |
| aerie   | 8%                          | 9%                          | 9%                          |
| Kid's apparel and accessories                     | 1%                          | %                           | %                           |
| <b>Total</b>                                      | <b>100%</b>                 | <b>100%</b>                 | <b>100%</b>                 |

**2. Summary of Significant Accounting Policies****Principles of Consolidation**

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. At January 28, 2012, the Company operated in one reportable segment.

On March 5, 2010, the Company's Board of Directors (the Board) approved management's recommendation to proceed with the closure of the M+O brand. The Company completed the closure of the M+O stores and e-commerce operation during Fiscal 2010. These Consolidated Financial Statements reflect the results of M+O as a discontinued operation for all periods presented.

**Fiscal Year**

The Company's financial year is a 52/53 week year that ends on the Saturday nearest to January 31. As used herein, Fiscal 2012 refers to the 53 week period ending February 2, 2013. Fiscal 2011, Fiscal 2010, Fiscal 2009, Fiscal 2008 and Fiscal 2007 refer to the 52 week periods ended January 28, 2012, January 29, 2011, January 30, 2010, January 31, 2009 and February 2, 2008, respectively.

**Estimates**

## Edgar Filing: AMERICAN EAGLE OUTFITTERS INC - Form 10-K

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ( GAAP ) requires the Company s management to make estimates and assumptions

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, our management reviews its estimates based on currently available information. Changes in facts and circumstances may result in revised estimates.

***Recent Accounting Pronouncements***

In June 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2011-05, *Presentation of Comprehensive Income* ( ASU 2011-05 ). ASU 2011-05 requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income and the total of comprehensive income. In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income* ( ASU 2011-12 ). ASU 2011-12 defers the requirement to present reclassifications out of accumulated other comprehensive income as required by ASU 2011-05. For public entities, the amendments in ASU 2011-05 and ASU 2011-12 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and are to be applied retrospectively, with early adoption permitted. The Company is currently evaluating the impact of ASU 2011-05 and ASU 2011-12 on its financial statement presentation of comprehensive income and will adopt in Fiscal 2012.

In September 2011, the FASB issued ASU 2011-08, *Testing Goodwill for Impairment* ( ASU 2011-08 ). ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. ASU 2011-08 applies to all companies that have goodwill reported in their financial statements. The provisions of ASU 2011-08 are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company will adopt ASU 2011-08 in Fiscal 2012. As a result of the adoption, the Company does not expect an impact to its Consolidated Financial Statements.

***Foreign Currency Translation***

The Canadian dollar is the functional currency for the Canadian business. In accordance with Accounting Standards Codification ( ASC ) 830, *Foreign Currency Matters*, assets and liabilities denominated in foreign currencies were translated into U.S. dollars (the reporting currency) at the exchange rate prevailing at the balance sheet date. Revenues and expenses denominated in foreign currencies were translated into U.S. dollars at the monthly average exchange rate for the period. Gains or losses resulting from foreign currency transactions are included in the results of operations, whereas, related translation adjustments are reported as an element of other comprehensive income in accordance with ASC 220, *Comprehensive Income* (refer to Note 11 to the Consolidated Financial Statements).

***Cash and Cash Equivalents, Short-term Investments and Long-term Investments***

Cash includes cash equivalents. The Company considers all highly liquid investments purchased with a remaining maturity of three months or less to be cash equivalents.

As of January 28, 2012, short-term investments include treasury bills purchased with a maturity of greater than three months, but less than one year. It also includes auction rate securities ( ARS ) classified as available for sale that the Company expects to be redeemed at par within 12 months.

**Table of Contents**

**AMERICAN EAGLE OUTFITTERS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of January 28, 2012, long-term investments include the Company's ARS Call Option related to investment sales during Fiscal 2010. Long-term investments are included within other assets on the Company's Consolidated Balance Sheets. The ARS Call Option expires on October 29, 2013.

Unrealized gains and losses on the Company's available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders' equity, within accumulated other comprehensive income, until realized. The components of other-than-temporary impairment ( OTTI ) losses related to credit losses are considered by the Company to be realized and are recorded in earnings. When available-for-sale securities are sold, the cost of the securities is specifically identified and is used to determine any realized gain or loss.

Refer to Note 3 to the Consolidated Financial Statements for information regarding cash and cash equivalents, short-term investments and long-term investments.

***Other-than-Temporary Impairment***

The Company evaluates its investments for impairment in accordance with ASC 320, *Investments - Debt and Equity Securities* ( ASC 320 ). ASC 320 provides guidance for determining when an investment is considered impaired, whether impairment is other-than-temporary, and measurement of an impairment loss. An investment is considered impaired if the fair value of the investment is less than its cost. If, after consideration of all available evidence to evaluate the realizable value of its investment, impairment is determined to be other-than-temporary, then an impairment loss is recognized in the Consolidated Statement of Operations equal to the difference between the investment's cost and its fair value. Additionally, ASC 320 requires additional disclosures relating to debt and equity securities both in the interim and annual periods as well as requires the Company to present total OTTI with an offsetting reduction for any non-credit loss impairment amount recognized in other comprehensive income ( OCI ).

There was no net impairment loss recognized in earnings during Fiscal 2011. During Fiscal 2010, there was \$1.2 million of net impairment loss recognized in earnings which consisted of gross other-than-temporary losses of \$5.0 million, partially offset by \$3.8 million of OTTI losses recognized in other comprehensive income. During Fiscal 2009, there was \$0.9 million of net impairment loss recognized in earnings which consisted of gross other-than-temporary losses of \$4.4 million, partially offset by \$3.5 million of OTTI losses recognized in other comprehensive income.

Refer to Note 4 to the Consolidated Financial Statements for additional information regarding net impairment losses recognized in earnings.

***Merchandise Inventory***

Merchandise inventory is valued at the lower of average cost or market, utilizing the retail method. Average cost includes merchandise design and sourcing costs and related expenses. The Company records merchandise receipts at the time merchandise is delivered to the foreign shipping port by the manufacturer (FOB port). This is the point at which title and risk of loss transfer to the Company.

The Company reviews its inventory levels to identify slow-moving merchandise and generally uses markdowns to clear merchandise. Additionally, the Company estimates a markdown reserve for future planned permanent markdowns related to current inventory. Markdowns may occur when inventory exceeds customer demand for reasons of style, seasonal adaptation, changes in customer preference, lack of consumer acceptance of fashion items, competition, or if it is determined that the inventory in stock will not sell at its currently



**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

ticketed price. Such markdowns may have a material adverse impact on earnings, depending on the extent and amount of inventory affected. The Company also estimates a shrinkage reserve for the period between the last physical count and the balance sheet date. The estimate for the shrinkage reserve, based on historical results, can be affected by changes in merchandise mix and changes in actual shrinkage trends.

***Property and Equipment***

Property and equipment is recorded on the basis of cost with depreciation computed utilizing the straight-line method over the assets' estimated useful lives. The useful lives of our major classes of assets are as follows:

|                        |   |
|------------------------|---|
| Buildings              | 25 years                                    |
| Leasehold improvements | Lesser of 10 years or the term of the lease |
| Fixtures and equipment | 5 years                                     |

In accordance with ASC 360, *Property, Plant, and Equipment*, the Company's management evaluates the value of leasehold improvements and store fixtures associated with retail stores, which have been open for a period of time sufficient to reach maturity. The Company evaluates long-lived assets for impairment at the individual store level, which is the lowest level at which individual cash flows can be identified. Impairment losses are recorded on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of the assets. When events such as these occur, the impaired assets are adjusted to their estimated fair value and an impairment loss is recorded separately as a component of operating income under loss on impairment of assets.

During Fiscal 2011, the Company recorded asset impairment charges of \$20.7 million consisting of 59 retail stores, largely related to the aerie brand, which is recorded as a loss on impairment of assets in the Consolidated Statements of Operations. Based on the Company's review of the operating performance and projections of future performance of these stores, the Company determined that they would not be able to generate sufficient cash flow over the life of the related leases to recover the Company's initial investment in them.

During Fiscal 2010, the Company recorded asset impairment charges of \$18.0 million related to the impairment of 18 M+O stores. Additionally, during Fiscal 2009, the Company recorded asset impairment charges of \$18.0 million related primarily to the impairment of 10 M+O stores. The asset impairment charges in Fiscal 2010 and Fiscal 2009 related to the 28 M+O stores are recorded within loss from discontinued operations, net of tax in the Consolidated Statements of Operations.

Refer to Note 15 to the Consolidated Financial Statements for additional information regarding the discontinued operations for M+O.

When the Company closes, remodels or relocates a store prior to the end of its lease term, the remaining net book value of the assets related to the store is recorded as a write-off of assets within depreciation and amortization expense.

Refer to Note 7 to the Consolidated Financial Statements for additional information regarding property and equipment.

***Goodwill***

The Company's goodwill is primarily related to the acquisition of its importing operations and Canadian business. In accordance with ASC 350, *Intangibles- Goodwill and Other* (ASC 350), the Company evaluates

---

**Table of Contents**

**AMERICAN EAGLE OUTFITTERS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

goodwill for possible impairment on at least an annual basis and last performed an annual impairment test as of January 28, 2012. As a result of the Company's annual goodwill impairment test, the Company concluded that its goodwill was not impaired.

***Intangible Assets***

Intangible assets are recorded on the basis of cost with amortization computed utilizing the straight-line method over the assets' estimated useful lives. The Company's intangible assets, which primarily include trademark assets, are amortized over 15 to 25 years.

The Company evaluates intangible assets for impairment in accordance with ASC 350 when events or circumstances indicate that the carrying value of the asset may not be recoverable. Such an evaluation includes the estimation of undiscounted future cash flows to be generated by those assets. If the sum of the estimated future undiscounted cash flows are less than the carrying amounts of the assets, then the assets are impaired and are adjusted to their estimated fair value. No intangible asset impairment charges were recorded during Fiscal 2011, Fiscal 2010 or Fiscal 2009.

Refer to Note 8 to the Consolidated Financial Statements for additional information regarding intangible assets.

***Deferred Lease Credits***

Deferred lease credits represent the unamortized portion of construction allowances received from landlords related to the Company's retail stores. Construction allowances are generally comprised of cash amounts received by the Company from its landlords as part of the negotiated lease terms. The Company records a receivable and a deferred lease credit liability at the lease commencement date (date of initial possession of the store). The deferred lease credit is amortized on a straight-line basis as a reduction of rent expense over the term of the original lease (including the pre-opening build-out period) and any subsequent renewal terms. The receivable is reduced as amounts are received from the landlord.

***Self-Insurance Liability***

The Company is self-insured for certain losses related to employee medical benefits and worker's compensation. Costs for self-insurance claims filed and claims incurred but not reported are accrued based on known claims and historical experience. Management believes that it has adequately reserved for its self-insurance liability, which is capped through the use of stop loss contracts with insurance companies. However, any significant variation of future claims from historical trends could cause actual results to differ from the accrued liability.

***Co-branded Credit Card and Customer Loyalty Program***

The Company offers a co-branded credit card (the AEO Visa Card) and a private label credit card (the AEO Credit Card) under the AE, aerie and 77kids brands. These credit cards are issued by a third-party bank (the Bank), and the Company has no liability to the Bank for bad debt expense, provided that purchases are made in accordance with the Bank's procedures. Once a customer is approved to receive the AEO Visa Card or the AEO Credit Card and the card is activated, the customer is eligible to participate in the credit card rewards program. Customers who make purchases at AE, aerie and 77kids earn discounts in the form of savings certificates when certain purchase levels are reached. Also, AEO Visa Card customers who make purchases at other retailers where the card is accepted earn additional discounts. Savings certificates are valid for 90 days from issuance.

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Points earned under the credit card rewards program on purchases at AE, aerie and 77kids are accounted for by analogy to ASC 605-25, Revenue Recognition, *Multiple Element Arrangements* ( ASC 605-25 ). The Company believes that points earned under its point and loyalty programs represent deliverables in a multiple element arrangement rather than a rebate or refund of cash. Accordingly, the portion of the sales revenue attributed to the award points is deferred and recognized when the award is redeemed or when the points expire. Additionally, credit card reward points earned on non-AE, aerie or 77kids purchases are accounted for in accordance with ASC 605-25. As the points are earned, a current liability is recorded for the estimated cost of the award, and the impact of adjustments is recorded in cost of sales.

The Company offers its customers the AEREWARDS<sup>sm</sup> loyalty program (the Program ). Under the Program, customers accumulate points based on purchase activity and earn rewards by reaching certain point thresholds during three-month earning periods. Rewards earned during these periods are valid through the stated expiration date, which is approximately one month from the mailing date of the reward. These rewards can be redeemed for a discount on a purchase of merchandise. Rewards not redeemed during the one-month redemption period are forfeited. The Company determined that rewards earned using the Program should be accounted for in accordance with ASC 605-25. Accordingly, the portion of the sales revenue attributed to the award credits is deferred and recognized when the awards are redeemed or expire.

***Income Taxes***

The Company calculates income taxes in accordance with ASC 740, *Income Taxes* ( ASC 740 ), which requires the use of the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on the difference between the Consolidated Financial Statement carrying amounts of existing assets and liabilities and their respective tax bases as computed pursuant to ASC 740. Deferred tax assets and liabilities are measured using the tax rates, based on certain judgments regarding enacted tax laws and published guidance, in effect in the years when those temporary differences are expected to reverse. A valuation allowance is established against the deferred tax assets when it is more likely than not that some portion or all of the deferred taxes may not be realized. Changes in the Company's level and composition of earnings, tax laws or the deferred tax valuation allowance, as well as the results of tax audits, may materially impact the Company's effective income tax rate.

The Company evaluates its income tax positions in accordance with ASC 740 which prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return, including a decision whether to file or not to file in a particular jurisdiction. Under ASC 740, a tax benefit from an uncertain position may be recognized only if it is more likely than not that the position is sustainable based on its technical merits.

The calculation of the deferred tax assets and liabilities, as well as the decision to recognize a tax benefit from an uncertain position and to establish a valuation allowance require management to make estimates and assumptions. The Company believes that its assumptions and estimates are reasonable, although actual results may have a positive or negative material impact on the balances of deferred tax assets and liabilities, valuation allowances or net income.

***Revenue Recognition***

Revenue is recorded for store sales upon the purchase of merchandise by customers. The Company's e-commerce operation records revenue upon the estimated customer receipt date of the merchandise. Shipping and handling revenues are included in net sales. Sales tax collected from customers is excluded from revenue and is included as part of accrued income and other taxes on the Company's Consolidated Balance Sheets.

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Revenue is recorded net of estimated and actual sales returns and deductions for coupon redemptions and other promotions. The Company records the impact of adjustments to its sales return reserve quarterly within net sales and cost of sales. The sales return reserve reflects an estimate of sales returns based on projected merchandise returns determined through the use of historical average return percentages.

|                   | January 28,<br>2012 | For the Years Ended<br>January 29,<br>2011<br>(In thousands) | January 30,<br>2010 |
|-------------------|---------------------|--|---------------------|
| Beginning balance | \$ 3,691            | \$ 4,690   | \$ 3,981            |
| Returns           | (77,656)            | (70,789)   | (71,705)            |
| Provisions        | 76,896              | 69,790   | 72,414              |
| Ending balance    | \$ 2,931            | \$ 3,691   | \$ 4,690            |

Revenue is not recorded on the purchase of gift cards. A current liability is recorded upon purchase, and revenue is recognized when the gift card is redeemed for merchandise. Additionally, the Company recognizes revenue on unredeemed gift cards based on an estimate of the amounts that will not be redeemed ( gift card breakage ), determined through historical redemption trends. Gift card breakage revenue is recognized in proportion to actual gift card redemptions as a component of net sales. For further information on the Company's gift card program, refer to the Gift Cards caption below.

The Company recognizes royalty revenue generated from its franchise agreements based upon a percentage of merchandise sales by the franchisee. This revenue is recorded as a component of net sales when earned.

The Company sells off end-of-season, overstock, and irregular merchandise to a third-party. The proceeds from these sales are presented on a gross basis, with proceeds and cost of sell-offs recorded in net sales and cost of sales, respectively.

|   | January 28,<br>2012 | For the Years Ended<br>January 29,<br>2011<br>(In thousands) | January 30,<br>2010 |
|---|---------------------|--|---------------------|
| Proceeds from sell-offs                                   | \$ 17,556           | \$ 25,593  | \$ 29,347           |
| Marked-down cost of merchandise disposed of via sell-offs | \$ 17,441           | \$ 24,728  | \$ 29,023           |

***Cost of Sales, Including Certain Buying, Occupancy and Warehousing Expenses***

Cost of sales consists of merchandise costs, including design, sourcing, importing and inbound freight costs, as well as markdowns, shrinkage and certain promotional costs (collectively merchandise costs) and buying, occupancy and warehousing costs. Buying, occupancy and warehousing costs consist of compensation, employee benefit expenses and travel for our buyers and certain senior merchandising executives; rent and utilities related to our stores, corporate headquarters, distribution centers and other office space; freight from our distribution centers to the stores; compensation and supplies for our distribution centers, including purchasing, receiving and inspection costs; and shipping and handling costs related to our e-commerce operation. Merchandise profit is the difference between net sales and merchandise costs. Gross profit is the difference between net sales and cost of sales.

***Selling, General and Administrative Expenses***

Selling, general and administrative expenses consist of compensation and employee benefit expenses, including salaries, incentives and related benefits associated with our stores and corporate headquarters. Selling,



**Table of Contents**

**AMERICAN EAGLE OUTFITTERS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

general and administrative expenses also include advertising costs, supplies for our stores and home office, communication costs, travel and entertainment, leasing costs and services purchased. Selling, general and administrative expenses do not include compensation, employee benefit expenses and travel for our design, sourcing and importing teams, our buyers and our distribution centers as these amounts are recorded in cost of sales.

***Advertising Costs***

Certain advertising costs, including direct mail, in-store photographs and other promotional costs are expensed when the marketing campaign commences. As of January 28, 2012 and January 29, 2011, the Company had prepaid advertising expense of \$7.7 million and \$5.4 million, respectively. All other advertising costs are expensed as incurred. The Company recognized \$73.1 million, \$64.9 million and \$60.9 million in advertising expense during Fiscal 2011, Fiscal 2010 and Fiscal 2009, respectively.

***Design Costs***

The Company has certain design costs, including compensation, rent, depreciation, travel, supplies and samples, which are included in cost of sales as the respective inventory is sold.

***Store Pre-Opening Costs***

Store pre-opening costs consist primarily of rent, advertising, supplies and payroll expenses. These costs are expensed as incurred.

***Other Income (Expense), Net***

Other income (expense), net consists primarily of interest income/expense, foreign currency transaction gain/loss and realized investment gains/losses other than those realized upon the sale of investment securities, which are recorded separately on the Consolidated Statements of Operations.

***Gift Cards***

The value of a gift card is recorded as a current liability upon purchase and revenue is recognized when the gift card is redeemed for merchandise. The Company estimates gift card breakage and recognizes revenue in proportion to actual gift card redemptions as a component of net sales. The Company determines an estimated gift card breakage rate by continuously evaluating historical redemption data and the time when there is a remote likelihood that a gift card will be redeemed. The company recorded gift card breakage of \$6.5 million, \$5.5 million and \$6.8 million during Fiscal 2011, Fiscal 2010 and Fiscal 2009, respectively.

***Legal Proceedings and Claims***

The Company is subject to certain legal proceedings and claims arising out of the conduct of its business. In accordance with ASC 450, *Contingencies* ( ASC 450 ), the Company records a reserve for estimated losses when the loss is probable and the amount can be reasonably estimated. If a range of possible loss exists and no anticipated loss within the range is more likely than any other anticipated loss, the Company records the accrual at the low end of the range, in accordance with ASC 450. As the Company believes that it has provided adequate reserves, it anticipates that the ultimate outcome of any matter currently pending against the Company will not materially affect the consolidated financial position, results of operations or consolidated cash flows of the Company.

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Supplemental Disclosures of Cash Flow Information**

The table below shows supplemental cash flow information for cash amounts paid during the respective periods:

|                                   | January 28,<br>2012 | For the Years Ended<br>January 29,<br>2011<br>(In thousands) | January 30,<br>2010 |
|-----------------------------------|---------------------|--|---------------------|
| Cash paid during the periods for: |                     |  |                     |
| Income taxes                      | \$ 99,756           | \$ 45,737  | \$ 61,869           |
| Interest                          | \$                  | \$ 191   | \$ 1,879            |

**Segment Information**

In accordance with ASC 280, *Segment Reporting* ( ASC 280 ), the Company has identified four operating segments (American Eagle® Brand US and Canadian stores, aerie® by American Eagle® retail stores, 77kids by american eagle® retail stores and AEO Direct) that reflect the basis used internally to review performance and allocate resources. All of the operating segments have been aggregated and are presented as one reportable segment, as permitted by ASC 280.

The following tables present summarized geographical information:

|                 | January 28,<br>2012 | For the Years Ended<br>January 29,<br>2011<br>(In thousands) | January 30,<br>2010 |
|-----------------|---------------------|--|---------------------|
| Net sales:      |                     |  |                     |
| United States   | \$ 2,849,248        | \$ 2,675,992   | \$ 2,665,655        |
| Foreign(1)      | 310,570             | 291,567  | 274,614             |
| Total net sales | \$ 3,159,818        | \$ 2,967,559   | \$ 2,940,269        |

- (1) Amounts represent sales from American Eagle and aerie Canadian retail stores, AEO Direct sales that are billed to and/or shipped to foreign countries and international franchise revenue.

|                              | January 28,<br>2012 | January 29,<br>2011<br>(In thousands) |
|------------------------------|---------------------|---------------------------------------|
| Long-lived assets, net:      |                     |                                       |
| United States                | \$ 580,161          | \$ 615,049                            |
| Foreign                      | 53,302              | 47,028                                |
| Total long-lived assets, net | \$ 633,463          | \$ 662,077                            |

***Reclassifications***

Certain reclassifications have been made to the Consolidated Financial Statements for prior periods in order to conform to the current period presentation.



**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. Cash and Cash Equivalents, Short-term Investments and Long-term Investments**

The following table summarizes the fair market value of our cash and marketable securities, which are recorded on the Consolidated Balance Sheets:

|  | January 28,<br>2012 | January 29,<br>2011 |
|--|---------------------|---------------------|
|  | (In thousands)      |                     |
| <b>Cash and cash equivalents:</b>      |                     |                     |
| Cash                                   | \$ 548,728          | \$ 122,578          |
| Money-market                           | 131,785             | 397,440             |
| Commercial Paper                       | 29,998              | 40,884              |
| Treasury bills                         | 9,034               | 102,996             |
| Corporate bonds                        |                     | 3,695               |
| <b>Total cash and cash equivalents</b> | <b>\$ 719,545</b>   | <b>\$ 667,593</b>   |
| <b>Short-term investments:</b>         |                     |                     |
| Treasury bills                         | \$ 19,999           | \$                  |
| State and local government ARS         | 5,500               | 3,700               |
| Term-deposits                          |                     | 63,402              |
| <b>Total short-term investments</b>    | <b>\$ 25,499</b>    | <b>\$ 67,102</b>    |
| <b>Long-term investments:</b>          |                     |                     |
| ARS Call Option                        | \$ 847              | \$ 415              |
| State and local government ARS         |                     | 5,500               |
| <b>Total long-term investments</b>     | <b>\$ 847</b>       | <b>\$ 5,915</b>     |
| <b>Total</b>                           | <b>\$ 745,891</b>   | <b>\$ 740,610</b>   |

Proceeds from the sale of available-for-sale securities were \$240.8 million, \$177.5 million and \$80.4 million for Fiscal 2011, Fiscal 2010 and Fiscal 2009, respectively. The purchases of available-for-sale securities for Fiscal 2011 and Fiscal 2010 were \$193.9 million and \$62.8 million, respectively. There were no purchases of available-for-sale securities during Fiscal 2009. At January 28, 2012 and January 29, 2011, the fair value of all available for sale securities approximated par, with no gross unrealized holding gains or losses.

During Fiscal 2010, the Company liquidated ARS investments with \$191.4 million of carrying value for proceeds of \$177.5 million and a realized loss of \$24.4 million (of which \$10.9 million had previously been included in OCI on the Company's Consolidated Balance Sheets). The ARS securities sold during Fiscal 2010 included \$119.7 million of par value ARS securities whereby the Company entered into a settlement agreement under which a financial institution (the purchaser) purchased the ARS at a discount to par, plus accrued interest. Additionally, under this agreement, the Company retained a right (the ARS Call Option), for a period ending October 29, 2013 to: (a) repurchase any or all of the ARS securities sold at the agreed upon purchase prices received from the purchaser plus accrued interest; and/or (b) receive additional proceeds from the purchaser upon certain redemptions of the ARS securities sold. The ARS Call Option is cancelable by the purchaser for additional cash consideration.

The Company is required to assess the value of the ARS Call Option at the end of each reporting period, with any changes in fair value recorded within the Consolidated Statement of Operations. Upon origination, the Company determined that the fair value was \$0.4 million. The fair value of the ARS Call Option was included as an offsetting amount within the net loss on liquidation of \$24.4 million referenced above. As of January 28, 2012, the Company determined that the fair value of the ARS Call Option, which is classified as a long-term investment, was \$0.8 million.



**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. Fair Value Measurements**

ASC 820, *Fair Value Measurement Disclosures* ( ASC 820 ), defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. Fair value is defined under ASC 820 as the exit price associated with the sale of an asset or transfer of a liability in an orderly transaction between market participants at the measurement date.

**Financial Instruments**

Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. In addition, ASC 820 establishes this three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

*Level 1* Quoted prices in active markets for identical assets or liabilities.

*Level 2* Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

*Level 3* Unobservable inputs (i.e., projections, estimates, interpretations, etc.) that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

As of January 28, 2012 and January 29, 2011, the Company held certain assets that are required to be measured at fair value on a recurring basis. These include cash equivalents and short and long-term investments, including ARS.

In accordance with ASC 820, the following tables represent the fair value hierarchy for the Company's financial assets (cash equivalents and investments) measured at fair value on a recurring basis as of January 28, 2012 and January 29, 2011:

|                                 | Fair Value Measurements at January 28, 2012 |   |   |   |
|---------------------------------|---|---|---|---|
|                                 | Carrying Amount                             | Quoted Market Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|                                 | (In thousands)                              |   |   |   |
| Cash and cash equivalents       |   |   |   |   |
| Cash                            | \$ 548,728                                  | \$ 548,728  | \$  | \$  |
| Money-market                    | 131,785                                     | 131,785   |   |   |
| Commercial paper                | 29,998                                      | 29,998  |   |   |
| Treasury bills                  | 9,034                                       | 9,034   |   |   |
| Total cash and cash equivalents | \$ 719,545                                  | \$ 719,545  | \$  | \$  |
| Short-term investments          |   |   |   |   |
| Treasury bills                  | \$ 19,999                                   | \$ 19,999   | \$  | \$  |

Edgar Filing: AMERICAN EAGLE OUTFITTERS INC - Form 10-K

|                                |            |            |    |          |
|--------------------------------|------------|------------|----|----------|
| State and local government ARS | 5,500      |            |    | 5,500    |
| Total short-term investments   | \$ 25,499  | \$ 19,999  | \$ | \$ 5,500 |
| Long-term investments          |            |            |    |          |
| ARS Call Option                | \$ 847     | \$         | \$ | \$ 847   |
| Total long-term investments    | \$ 847     | \$         | \$ | \$ 847   |
| Total                          | \$ 745,891 | \$ 739,544 | \$ | \$ 6,347 |

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|  | Fair Value Measurements at January 29, 2011 |   |   |   |
|--|---|---|---|---|
|  | Carrying Amount                             | Quoted Market Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| (In thousands)                         |   |   |   |   |
| Cash and cash equivalents              |   |   |   |   |
| Cash                                   | \$ 122,578                                  | \$ 122,578  | \$  | \$  |
| Money-market                           | 397,440                                     | 397,440   |   |   |
| Treasury bills                         | 102,996                                     | 102,996   |   |   |
| Commercial paper                       | 40,884                                      | 40,884  |   |   |
| Corporate bonds                        | 3,695                                       | 3,695   |   |   |
| <b>Total cash and cash equivalents</b> | <b>\$ 667,593</b>                           | <b>\$ 667,593</b>   | <b>\$</b>                                     | <b>\$</b>                                 |
| Short-term investments                 |   |   |   |   |
| Term deposits                          | \$ 63,402                                   | \$ 63,402   | \$  | \$  |
| State and local government ARS         | 3,700                                       |   |   | 3,700                                     |
| <b>Total short-term investments</b>    | <b>\$ 67,102</b>                            | <b>\$ 63,402</b>  | <b>\$</b>                                     | <b>\$ 3,700</b>                           |
| Long-term investments                  |   |   |   |   |
| State and local government ARS         | \$ 5,500                                    | \$  | \$  | \$ 5,500                                  |
| ARS Call Option                        | 415   |   |   | 415                                       |
| <b>Total long-term investments</b>     | <b>\$ 5,915</b>                             | <b>\$</b>   | <b>\$</b>                                     | <b>\$ 5,915</b>                           |
| <b>Total</b>                           | <b>\$ 740,610</b>                           | <b>\$ 730,995</b>   | <b>\$</b>                                     | <b>\$ 9,615</b>                           |

The Company uses a discounted cash flow ( DCF ) model to value its Level 3 investments. For Fiscal 2011, the assumptions in the Company's model for Level 3 investments, excluding the ARS Call Option, included a recovery period of five months, a discount factor for yield of 0.1% and illiquidity of 0.5%. For Fiscal 2010, the assumptions in the Company's model included different recovery periods, ranging from five to 17 months depending on the type of security, and discount factors for yield of 0.2% and illiquidity of 0.5%. These assumptions are subjective and are based on the Company's current judgment and view of current market conditions. The use of different assumptions would not result in a material change to the valuation.

As a result of the discounted cash flow analysis, no impairment loss on investment securities was recorded for Fiscal 2011. For Fiscal 2010, the Company recognized net impairment loss of \$0.6 million, (\$0.4 million, net of tax), which increased the total cumulative impairment recognized in OCI from \$10.3 million (\$6.4 million, net of tax) at the end of Fiscal 2009 to \$10.9 million (\$6.8 million, net of tax) prior to the Company's liquidation of auction rate securities during the third quarter of Fiscal 2010. Additionally, during Fiscal 2010, as a result of a credit rating downgrade on student-load backed ARS, the Company recorded a net impairment loss in earnings of \$1.2 million, which is recorded within Other Expense on the Consolidated Statements of Operations.

The fair value of the ARS Call Option described in Note 3 to the Consolidated Financial Statements was also estimated using a discounted cash flow model. The model considered potential changes in yields for securities with similar characteristics to the underlying ARS and evaluated possible future refinancing opportunities for the issuers of the ARS. The analysis then assessed the likelihood that the options would be exercisable as a result of the underlying ARS being redeemed or traded in a secondary market at an amount greater than the exercise price prior to the end of the option term. Future changes in the fair values of the ARS Call Option will be recorded within the Consolidated Statements of

Operations.

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The reconciliation of our assets measured at fair value on a recurring basis using unobservable inputs (Level 3) is as follows:

|                             | Total      | Level 3 (Unobservable inputs)     |   |                                   | ARS Call Option |
|-----------------------------|------------|-----------------------------------|---|-----------------------------------|-----------------|
|                             |            | Auction-Rate Municipal Securities | Student Loan-Backed Auction-Rate Securities | Auction-Rate Preferred Securities |                 |
|                             |            |                                   | (In thousands)                              |                                   |                 |
| Balance at January 30, 2010 | \$ 202,448 | \$ 40,244                         | \$ 149,431                                  | \$ 12,773                         | \$              |
| Settlements                 | (177,472)  | (29,101)                          | (141,246)                                   | (7,125)                           |                 |
| Gains and (losses):         |            |                                   |   |                                   |                 |
| Reported in earnings        | (25,674)   | (2,399)                           | (16,755)                                    | (6,935)                           | 415             |
| Reported in OCI             | 10,313     | 456                               | 8,570                                       | 1,287                             |                 |
| Balance at January 29, 2011 | \$ 9,615   | \$ 9,200                          | \$  | \$                                | \$ 415          |
| Settlements                 | (3,700)    | (3,700)                           |   |                                   |                 |
| Gains and (losses):         |            |                                   |   |                                   |                 |
| Reported in earnings        | 432        |                                   |   |                                   | 432             |
| Balance at January 28, 2012 | \$ 6,347   | \$ 5,500                          | \$  | \$                                | \$ 847          |

**Non-Financial Assets**

The Company's non-financial assets, which include goodwill, intangible assets and property and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required and the Company is required to evaluate the non-financial instrument for impairment, a resulting asset impairment would require that the non-financial asset be recorded at the estimated fair value. As a result of the Company's annual goodwill impairment test performed as of January 28, 2012, the Company concluded that its goodwill was not impaired.

Certain long-lived assets were measured at fair value on a nonrecurring basis using Level 3 inputs as defined in ASC 820. During Fiscal 2011, certain long-lived assets related to the Company's retail stores were determined to be unable to recover their respective carrying values and were written down to their fair value, resulting in a loss of \$20.7 million, which is recorded as a loss on impairment of assets within the Consolidated Statements of Operations.

Additionally, based on the Company's decision to close all M+O stores in Fiscal 2010, the Company determined that the M+O stores not previously impaired would not be able to generate sufficient cash flow over the life of the related leases to recover the Company's initial investment in them. Therefore, during Fiscal 2010, the M+O stores not previously impaired were written down to their fair value, resulting in a loss on impairment of assets of \$18.0 million. During Fiscal 2009, certain long-lived assets primarily related to M+O stores were determined to be unable to recover their respective carrying values and were written down to their fair value, resulting in a loss on impairment of assets of \$18.0 million. The loss on impairment of M+O assets for all periods presented is included within Loss from Discontinued Operations.

The fair value of the Company's stores were determined by estimating the amount and timing of net future cash flows and discounting them using a risk-adjusted rate of interest. The Company estimates future cash flows based on its experience and knowledge of the market in which the store is located.





**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Refer to Note 15 to the Consolidated Financial Statements for additional information regarding the discontinued operations for M+O.

**5. Earnings per Share**

The following is a reconciliation between basic and diluted weighted average shares outstanding:

|  | January 28,<br>2012                      | For the Years Ended<br>January 29,<br>2011 | January 30,<br>2010 |
|--|--|--|---------------------|
|  | (In thousands, except per share amounts) |  |                     |
| <b>Weighted average common shares outstanding:</b>               |  |  |                     |
| Basic number of common shares outstanding                        | 194,445                                  | 199,979                                    | 206,171             |
| Dilutive effect of stock options and non-vested restricted stock | 1,869                                    | 1,839                                      | 3,341               |
| <br>Dilutive number of common shares outstanding                 | <br>196,314                              | <br>201,818                                | <br>209,512         |

Equity awards to purchase approximately 7.2 million, 7.9 million and 6.6 million shares of common stock during the Fiscal 2011, Fiscal 2010 and Fiscal 2009, respectively, were outstanding, but were not included in the computation of weighted average diluted common share amounts as the effect of doing so would have been anti-dilutive.

Additionally, for Fiscal 2011, Fiscal 2010 and Fiscal 2009, approximately 1.9 million, 0.7 million and 0.4 million shares, respectively, of performance-based restricted stock awards were not included in the computation of weighted average diluted common share amounts because the number of shares ultimately issued is contingent on the Company's performance compared to pre-established performance goals.

ASC 260-10-45, *Participating Securities and the Two-Class Method* (ASC 260-10-45), addresses whether awards granted in invested share-based payment transactions that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and therefore are included in computing earnings per share under the two-class method, as described in ASC 260, *Earnings Per Share*. Participating securities are securities that may participate in dividends with common stock and the two-class method is an earnings allocation formula that treats a participating security as having rights to earnings that would otherwise have been available to common shareholders. Under the two-class method, earnings for the period are allocated between common shareholders and other shareholders, based on their respective rights to receive dividends. Restricted stock awards granted to certain employees under the Company's 2005 Plan are considered participating securities as these employees receive non-forfeitable dividends at the same rate as common stock. There were no participating securities outstanding during Fiscal 2011. During Fiscal 2010 and Fiscal 2009, the allocation of earnings to participating securities was not significant. For Fiscal 2011, Fiscal 2010 and Fiscal 2009, the application of ASC 260-10-45 resulted in no material change to basic or diluted income from continuing operations per common share.

Refer to Note 12 to the Consolidated Financial Statements for additional information regarding share-based compensation.

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. Accounts Receivable**

Accounts receivable are comprised of the following:

|                                  | January 28,<br>2012 | January 29,<br>2011 |
|----------------------------------|---------------------|---------------------|
|                                  | (In thousands)      |                     |
| Franchise receivable             | \$ 20,108           | \$ 5,183            |
| Marketing cost reimbursements    | 4,182               | 3,553               |
| Gift card receivable             | 4,113               | 3,567               |
| Landlord construction allowances | 3,672               | 11,739              |
| Insurance claims receivable      | 2,071               | 4,374               |
| Merchandise sell-offs            | 1,955               | 4,539               |
| Taxes                            | 1,076               | 1,239               |
| Other                            | 3,133               | 2,527               |
| <b>Total</b>                     | <b>\$ 40,310</b>    | <b>\$ 36,721</b>    |

**7. Property and Equipment**

Property and equipment consists of the following:

|                                 | January 28,<br>2012 | January 29,<br>2011 |
|---------------------------------|---------------------|---------------------|
|                                 | (In thousands)      |                     |
| Land                            | \$ 6,364            | \$ 6,364            |
| Buildings                       | 153,538             | 152,984             |
| Leasehold improvements          | 638,496             | 624,479             |
| Fixtures and equipment          | 656,337             | 647,346             |
| Construction in progress        | 3,787               | 1,629               |
| Property and equipment, at cost | \$ 1,458,522        | \$ 1,432,802        |
| Less: Accumulated depreciation  | (876,360)           | (789,682)           |
| Property and equipment, net     | \$ 582,162          | \$ 643,120          |

Depreciation expense is summarized as follows:

|                      | For the Years Ended |                     |                     |
|----------------------|---------------------|---------------------|---------------------|
|                      | January 28,<br>2012 | January 29,<br>2011 | January 30,<br>2010 |
|                      | (In thousands)      |                     |                     |
| Depreciation expense | \$ 137,934          | \$ 139,169          | \$ 137,045          |

## Edgar Filing: AMERICAN EAGLE OUTFITTERS INC - Form 10-K

Additionally, during Fiscal 2011, Fiscal 2010 and Fiscal 2009, the Company recorded \$3.4 million, \$2.7 million and \$2.3 million, respectively, related to asset write-offs within depreciation and amortization expense.

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. Intangible Assets**

Intangible assets include costs to acquire and register the Company's trademark assets. During the Fiscal 2011, the Company purchased \$34.2 million of trademark assets primarily to support its international expansion strategy. The following table represents intangible assets as of January 28, 2012 and January 29, 2011:

|                                | January 28,<br>2012 | January 29,<br>2011 |
|--------------------------------|---------------------|---------------------|
|                                | (In thousands)      |                     |
| Trademarks, at cost            | \$ 44,142           | \$ 9,967            |
| Less: Accumulated amortization | (4,310)             | (2,482)             |
| <b>Intangible assets, net</b>  | <b>\$ 39,832</b>    | <b>\$ 7,485</b>     |

Amortization expense is summarized as follows:

|                      | January 28,<br>2012 | For the Years Ended |                     |
|----------------------|---------------------|---------------------|---------------------|
|                      |                     | January 29,<br>2011 | January 30,<br>2010 |
|                      |                     | (In thousands)      |                     |
| Amortization expense | \$ 1,828            | \$ 625              | \$ 509              |

The table below summarizes the estimated future amortization expense for intangible assets existing as of January 28, 2012 for the next five Fiscal Years:

|      | Future<br>Amortization<br>(In thousands) |
|------|--|
| 2012 | \$ 1,961                                 |
| 2013 | 1,956                                    |
| 2014 | 1,956                                    |
| 2015 | 1,956                                    |
| 2016 | 1,911                                    |

**9. Other Credit Arrangements**

The Company has borrowing agreements with four separate financial institutions under which it may borrow an aggregate of \$245.0 million United States dollars ( USD ) and \$25.0 million Canadian dollars ( CAD ). Of this amount, \$135.0 million USD can be used for letter of credit issuances, \$50.0 million USD and \$25.0 million CAD can be used for demand line borrowings and the remaining \$60.0 million USD can be used for either letters of credit or demand line borrowings at the Company's discretion. These lines are provided at the discretion of the respective financial institutions and are subject to their periodic review.

As of January 28, 2012, the Company had outstanding letters of credit of \$25.2 million USD and no demand line borrowings.

## Edgar Filing: AMERICAN EAGLE OUTFITTERS INC - Form 10-K

The availability of any future borrowings is subject to acceptance by the respective financial institutions.

Refer to Note 17 to the Consolidated Financial Statements for a subsequent event footnote related to the Company's credit facilities.

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. Leases**

The Company leases all store premises, some of its office space and certain information technology and office equipment. The store leases generally have initial terms of 10 years and are classified as operating leases. Most of these store leases provide for base rentals and the payment of a percentage of sales as additional contingent rent when sales exceed specified levels. Additionally, most leases contain construction allowances and/or rent holidays. In recognizing landlord incentives and minimum rent expense, the Company amortizes the items on a straight-line basis over the lease term (including the pre-opening build-out period).

A summary of fixed minimum and contingent rent expense for all operating leases follows:

|   | January 28,<br>2012 | For the Years Ended<br>January 29,<br>2011<br>(In thousands) | January 30,<br>2010 |
|---|---------------------|--|---------------------|
| <b>Store rent:</b>  |                     |  |                     |
| Fixed minimum   | \$ 251,504          | \$ 230,277   | \$ 218,785          |
| Contingent  | 7,618               | 8,182  | 7,873               |
| <br>  |                     |  |                     |
| Total store rent, excluding common area maintenance charges, real estate taxes and certain other expenses | \$ 259,122          | \$ 238,459   | \$ 226,658          |
| Offices, distribution facilities, equipment and other   | 17,405              | 16,722   | 17,391              |
| <br>  |                     |  |                     |
| Total rent expense  | \$ 276,527          | \$ 255,181   | \$ 244,049          |

In addition, the Company is typically responsible under its store, office and distribution center leases for tenant occupancy costs, including maintenance costs, common area charges, real estate taxes and certain other expenses.

The table below summarizes future minimum lease obligations, consisting of fixed minimum rent, under operating leases in effect at January 28, 2012:

| Fiscal years: | Future Minimum<br>Lease<br>Obligations<br>(In thousands) |
|---------------|--|
| 2012          | \$ 255,576   |
| 2013          | 241,878  |
| 2014          | 222,931  |
| 2015          | 207,248  |
| 2016          | 183,881  |
| Thereafter    | 612,557  |
| <br>          |  |
| Total         | \$ 1,724,071   |

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11. Other Comprehensive Income (Loss)**

The accumulated balances of other comprehensive (loss) income included as part of the Consolidated Statements of Stockholders' Equity follow:

|  | Before<br>Tax<br>Amount | Tax<br>Benefit<br>(Expense)<br>(In thousands) | Accumulated<br>Other<br>Comprehensive<br>(Loss) Income |
|--|-------------------------|---|--|
| <b>Balance at January 31, 2009</b>   | <b>\$ (27,835)</b>      | <b>\$ 13,446</b>                              | <b>\$ (14,389)</b>                                     |
| Temporary reversal of impairment related to ARS  | 24,041                  | (9,535)                                       | 14,506   |
| Reclassification adjustment for realized losses in net income related to investment securities | 940                     |   | 940  |
| Foreign currency translation gain  | 15,781                  |   | 15,781   |
| <b>Balance at January 30, 2010</b>   | <b>\$ 12,927</b>        | <b>\$ 3,911</b>                               | <b>\$ 16,838</b>                                       |
| Temporary impairment related to ARS  | (1,830)                 | 690   | (1,140)  |
| Reclassification adjustment for realized losses in net income related to investment securities | 12,142                  | (4,601)                                       | 7,541  |
| Foreign currency translation gain  | 4,833                   |   | 4,833  |
| <b>Balance at January 29, 2011</b>   | <b>\$ 28,072</b>        | <b>\$</b>                                     | <b>\$ 28,072</b>                                       |
| Foreign currency translation gain  | 587                     |   | 587  |
| <b>Balance at January 28, 2012</b>   | <b>\$ 28,659</b>        | <b>\$</b>                                     | <b>\$ 28,659</b>                                       |

Accumulated other comprehensive income consists only of foreign currency translation adjustment as of January 28, 2012 and January 29, 2011.

**12. Share-Based Payments**

The Company accounts for share-based compensation under the provisions of ASC 718, *Compensation - Stock Compensation* (ASC 718), which requires the Company to measure and recognize compensation expense for all share-based payments at fair value. Total share-based compensation expense included in the Consolidated Statements of Operations for Fiscal 2011, Fiscal 2010 and Fiscal 2009 was \$12.3 million (\$7.6 million, net of tax), \$25.5 million (\$15.7 million, net of tax) and \$34.6 million (\$21.4 million, net of tax), respectively.

ASC 718 requires recognition of compensation cost under a non-substantive vesting period approach for awards containing provisions that accelerate or continue vesting upon retirement. Accordingly, for awards with such provisions, the Company recognizes compensation expense over the period from the grant date to the date retirement eligibility is achieved, if that is expected to occur during the nominal vesting period. Additionally, for awards granted to retirement eligible employees, the full compensation cost of an award must be recognized immediately upon grant.

At January 28, 2012, the Company had awards outstanding under three share-based compensation plans, which are described below.

***Share-based compensation plans***

*1994 Stock Option Plan*

On February 10, 1994, the Company's Board adopted the American Eagle Outfitters, Inc. 1994 Stock Option Plan (the 1994 Plan). The 1994 Plan provided for the grant of 12.2 million incentive or non-qualified



**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

options to purchase common stock. The 1994 Plan was subsequently amended to increase the shares available for grant to 24.3 million shares. Additionally, the amendment provided that the maximum number of options that may be granted to any individual may not exceed 8.1 million shares. The options granted under the 1994 Plan were approved by the Compensation Committee of the Board, primarily vest over five years, and expire 10 years from the date of grant. The 1994 Plan terminated on January 2, 2004 with all rights of the optionees and all unexpired options continuing in force and operation after the termination.

*1999 Stock Incentive Plan*

The 1999 Stock Option Plan (the 1999 Plan) was approved by the stockholders on June 8, 1999. The 1999 Plan authorized 18.0 million shares for issuance in the form of stock options, stock appreciation rights (SAR), restricted stock awards, performance units or performance shares. The 1999 Plan was subsequently amended to increase the shares available for grant to 33.0 million. Additionally, the 1999 Plan provided that the maximum number of shares awarded to any individual may not exceed 9.0 million shares. The 1999 Plan allowed the Compensation Committee to determine which employees and consultants received awards and the terms and conditions of these awards. The 1999 Plan provided for a grant of 1,875 stock options quarterly (not to be adjusted for stock splits) to each director who is not an officer or employee of the Company starting in August 2003. The Company ceased making these quarterly stock option grants in June 2005. Under this plan, 33.2 million non-qualified stock options and 6.7 million shares of restricted stock were granted to employees and certain non-employees (without considering cancellations to date of awards for 9.7 million shares). Approximately 33% of the options granted were to vest over eight years after the date of grant but were accelerated as the Company met annual performance goals. Approximately 34% of the options granted under the 1999 Plan vest over three years, 23% vest over five years and the remaining grants vest over one year. All options expire after 10 years. Performance-based restricted stock was earned if the Company met established performance goals. The 1999 Plan terminated on June 15, 2005 with all rights of the awardees and all unexpired awards continuing in force and operation after the termination.

*2005 Stock Award and Incentive Plan*

The 2005 Plan was approved by the stockholders on June 15, 2005. The 2005 Plan authorized 18.4 million shares for issuance, of which 6.4 million shares are available for full value awards in the form of restricted stock awards, restricted stock units or other full value stock awards and 12.0 million shares are available for stock options, SAR, dividend equivalents, performance awards or other non-full value stock awards. The 2005 Plan was subsequently amended in Fiscal 2009 to increase the shares available for grant to 31.9 million without taking into consideration 9.1 million non-qualified stock options, 2.9 million shares of restricted stock and 0.2 million shares of common stock that had been previously granted under the 2005 plan to employees and directors (without considering cancellations as of January 31, 2009 of awards for 2.9 million shares). The 2005 Plan provides that the maximum number of shares awarded to any individual may not exceed 6.0 million shares per year for options and SAR and no more than 4.0 million shares may be granted with respect to each of restricted shares of stock and restricted stock units plus any unused carryover limit from the previous year. The 2005 Plan allows the Compensation Committee of the Board to determine which employees receive awards and the terms and conditions of the awards that are mandatory under the 2005 Plan. The 2005 Plan provides for grants to directors who are not officers or employees of the Company, which are not to exceed 20,000 shares per year (not to be adjusted for stock splits). Through January 28, 2012, 14.4 million non-qualified stock options, 8.0 million shares of restricted stock and 0.5 million shares of common stock had been granted under the 2005 Plan to employees and directors (without considering cancellations to date of awards for 7.5 million shares). Approximately 99% of the options granted under the 2005 Plan vest over three years and 1% vest over five years. Options were granted for ten and seven year terms. Approximately 62% of the restricted stock awards are performance-based and are earned if the Company meets established performance goals. The remaining 38% of the restricted stock awards are time-based and vest over three years.

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Stock Option Grants**

The Company grants both time-based and performance-based stock options under the 2005 Plan. Time-based stock option awards vest over the requisite service period of the award or to an employee's eligible retirement date, if earlier. Performance-based stock option awards vest over three years and are earned if the Company meets pre-established performance goals during each year.

A summary of the Company's stock option activity under all plans for Fiscal 2011 follows:

|                             |                     | For the Year Ended January 28, 2012 |                                 |   |                           |
|-----------------------------|---------------------|-------------------------------------|---------------------------------|---|---------------------------|
|                             |                     | Options                             | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|                             |                     | (In thousands)                      |                                 | (In years)                                  | (In thousands)            |
| Outstanding                 | January 29, 2011    | 12,124                              | \$ 15.25                        |   |                           |
| Granted                     |                     | 47                                  | \$ 15.02                        |   |                           |
| Exercised(1)                |                     | (544)                               | \$ 9.38                         |   |                           |
| Cancelled                   |                     | (430)                               | \$ 21.18                        |   |                           |
| Outstanding                 | January 28, 2012    | 11,197                              | \$ 15.31                        | 2.2   | \$ 29,567                 |
| Vested and expected to vest | January 28, 2012    | 11,077                              | \$ 15.33                        | 2.2   | \$ 29,303                 |
| Exercisable                 | January 28, 2012(2) | 3,691                               | \$ 6.87                         | 1.5   | \$ 26,264                 |

(1) Options exercised during Fiscal 2011 ranged in price from \$4.54 to \$12.30.

(2) Options exercisable represent in-the-money vested options based upon the weighted average exercise price of vested options compared to the Company's stock price at January 28, 2012.

The weighted-average grant date fair value of stock options granted during Fiscal 2011, Fiscal 2010 and Fiscal 2009 was \$4.73, \$5.19 and \$3.86, respectively. The aggregate intrinsic value of options exercised during Fiscal 2011, Fiscal 2010 and Fiscal 2009 was \$2.8 million, \$11.7 million and \$11.7 million, respectively. Cash received from the exercise of stock options and the actual tax benefit realized from share-based payments was \$5.1 million and \$0.4 million, respectively, for Fiscal 2011. Cash received from the exercise of stock options and the actual tax benefit realized from share-based payments was \$7.3 million and \$15.6 million, respectively, for Fiscal 2010. Cash received from the exercise of stock options and the actual tax benefit realized from share-based payments was \$9.0 million and \$8.0 million, respectively, for Fiscal 2009.

The fair value of stock options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

| Black-Scholes Option Valuation Assumptions | January 28, | For the Years Ended |             |
|--|-------------|---------------------|-------------|
|  | 2012        | January 29,         | January 30, |
|  |             | 2011                | 2010        |

## Edgar Filing: AMERICAN EAGLE OUTFITTERS INC - Form 10-K

|  |           |           |           |
|--|-----------|-----------|-----------|
| Risk-free interest rates(1)  | 2.1%      | 2.3%      | 1.7%      |
| Dividend yield   | 2.6%      | 2.1%      | 3.4%      |
| Volatility factors of the expected market price of the Company's common stock(2) | 42.7%     | 40.2%     | 56.9%     |
| Weighted-average expected term(3)  | 5.0 years | 4.5 years | 4.1 years |
| Expected forfeiture rate(4)  | 8.0%      | 8.0%      | 8.0%      |

(1) Based on the U.S. Treasury yield curve in effect at the time of grant with a term consistent with the expected life of our stock options.

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- (2) Based on a combination of historical volatility of the Company's common stock and implied volatility.
- (3) Represents the period of time options are expected to be outstanding. The weighted average expected option term for the years ended January 28, 2012, January 29, 2011 and January 30, 2010 were determined based on historical experience.

- (4) Based on historical experience.

As of January 28, 2012, there was \$1.3 million of unrecognized compensation expense related to nonvested stock option awards that is expected to be recognized over a weighted average period of 11 months.

**Restricted Stock Grants**

Time-based restricted stock awards are comprised of time-based restricted stock units. These awards vest over three years; however, they may be accelerated to vest over one year if the Company meets pre-established performance goals in the year of grant. Time-based restricted stock units receive dividend equivalents in the form of additional time-based restricted stock units, which are subject to the same restrictions and forfeiture provisions as the original award.

Performance-based restricted stock awards include performance-based restricted stock units. These awards cliff vest at the end of a three year period based upon the Company's achievement of pre-established goals throughout the term of the award. Performance-based restricted stock units receive dividend equivalents in the form of additional performance-based restricted stock units, which are subject to the same restrictions and forfeiture provisions as the original award.

The grant date fair value of all restricted stock awards is based on the closing market price of the Company's common stock on the date of grant.

A summary of the activity of the Company's restricted stock is presented in the following tables:

|                     |                  | Time-Based Restricted<br>Stock Units   |                          | Performance-Based Restricted<br>Stock Units |                          |
|---------------------|------------------|--|--------------------------|---|--------------------------|
|                     |                  | For the year ended<br>January 28, 2012 |                          | For the year ended<br>January 28, 2012      |                          |
|                     |                  | Weighted-Average                       |                          | Weighted-Average                            |                          |
|                     |                  | Shares                                 | Grant Date<br>Fair Value | Shares                                      | Grant Date<br>Fair Value |
|                     |                  | (Shares in thousands)                  |                          |   |                          |
| Nonvested           | January 29, 2011 | 877                                    | \$ 17.45                 | 630   | \$ 12.59                 |
| Granted             |                  | 1,406                                  | 15.03                    | 1,240                                       | 15.03                    |
| Vested              |                  | (372)                                  | 17.45                    |   |                          |
| Cancelled/Forfeited |                  | (127)                                  | 16.04                    | (108)                                       | 12.64                    |
| Nonvested           | January 28, 2012 | 1,784                                  | \$ 15.73                 | 1,762                                       | \$ 14.23                 |

As of January 28, 2012, there was \$17.3 million of unrecognized compensation expense related to nonvested time-based restricted stock unit awards that is expected to be recognized over a weighted average period of 1.8 years. The total fair value of restricted stock awards vested during Fiscal 2011, Fiscal 2010 and Fiscal 2009 was \$5.6 million, \$46.2 million and \$0.6 million, respectively.

As of January 28, 2012, the Company had 25.3 million shares available for all equity grants.



**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Retirement Plan and Employee Stock Purchase Plan**

The Company maintains a profit sharing and 401(k) plan (the Retirement Plan). Under the provisions of the Retirement Plan, full-time employees and part-time employees are automatically enrolled to contribute 3% of their salary if they have attained 20 1/2 years of age. In addition, full-time employees need to have completed 60 days of service and part-time employees must complete 1,000 hours worked to be eligible. Individuals can decline enrollment or can contribute up to 50% of their salary to the 401(k) plan on a pretax basis, subject to IRS limitations. After one year of service, the Company will match 100% of the first 3% of pay plus an additional 50% of the next 3% of pay that is contributed to the plan. Contributions to the profit sharing plan, as determined by the Board, are discretionary. The Company recognized \$9.1 million, \$11.7 million and \$5.9 million in expense during Fiscal 2011, Fiscal 2010 and Fiscal 2009, respectively, in connection with the Retirement Plan.

The Employee Stock Purchase Plan is a non-qualified plan that covers all full-time employees and part-time employees who are at least 18 years old and have completed 60 days of service. Contributions are determined by the employee, with the Company matching 15% of the investment up to a maximum investment of \$100 per pay period. These contributions are used to purchase shares of Company stock in the open market.

**14. Income Taxes**

The components of income before income taxes from continuing operations were:

|              | January 28,<br>2012 | For the Years Ended<br>January 29,<br>2011<br>(In thousands) | January 30,<br>2010 |
|--------------|---------------------|--|---------------------|
| U.S.         | \$ 218,153          | \$ 258,408   | \$ 269,932          |
| Foreign      | 18,857              | 36,676   | 34,443              |
| <b>Total</b> | <b>\$ 237,010</b>   | <b>\$ 295,084</b>  | <b>\$ 304,375</b>   |

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The significant components of the Company's deferred tax assets and liabilities were as follows:

|  | January 28,<br>2012 | January 29,<br>2011 |
|--|---------------------|---------------------|
|  | (In thousands)      |                     |
| <b>Deferred tax assets:</b>                              |                     |                     |
| Deferred compensation                                    | \$ 31,379           | \$ 30,801           |
| Rent   | 27,642              | 25,145              |
| Foreign tax credits                                      | 22,302              | 25,498              |
| Capital loss carryforward                                | 18,440              | 20,381              |
| Inventories  | 11,734              | 10,432              |
| Foreign and state income taxes                           | 6,723               | 7,575               |
| Employee compensation and benefits                       | 6,345               | 4,942               |
| State tax credits  | 6,105               | 5,866               |
| Other  | 9,650               | 8,547               |
| <b>Gross deferred tax assets</b>                         | <b>140,320</b>      | <b>139,187</b>      |
| Valuation allowance                                      | (18,440)            | (20,381)            |
| <b>Total deferred tax assets</b>                         | <b>\$ 121,880</b>   | <b>\$ 118,806</b>   |
| <b>Deferred tax liabilities:</b>                         |                     |                     |
| Property and equipment                                   | \$ (55,503)         | \$ (47,852)         |
| Prepaid expenses   | (4,149)             | (3,279)             |
| <b>Total deferred tax liabilities</b>                    | <b>\$ (59,652)</b>  | <b>\$ (51,131)</b>  |
| <b>Total deferred tax assets, net</b>                    | <b>\$ 62,228</b>    | <b>\$ 67,675</b>    |
| <b>Classification in the Consolidated Balance Sheet:</b> |                     |                     |
| Current deferred tax assets                              | \$ 48,761           | \$ 48,059           |
| Noncurrent deferred tax assets                           | 13,467              | 19,616              |
| <b>Total deferred tax assets</b>                         | <b>\$ 62,228</b>    | <b>\$ 67,675</b>    |

The net decrease in deferred tax assets and liabilities was primarily due to an increase in the deferred tax liability for property and equipment basis differences.

Significant components of the provision for income taxes from continuing operations were as follows:

|                 | For the Years Ended |                     |                     |
|-----------------|---------------------|---------------------|---------------------|
|                 | January 28,<br>2012 | January 29,<br>2011 | January 30,<br>2010 |
|                 | (In thousands)      |                     |                     |
| <b>Current:</b> |                     |                     |                     |

Edgar Filing: AMERICAN EAGLE OUTFITTERS INC - Form 10-K

|                                   |                  |                   |                  |
|-----------------------------------|------------------|-------------------|------------------|
| Federal                           | \$ 63,631        | \$ 89,110         | \$ 92,074        |
| Foreign taxes                     | 6,621            | 13,429            | 14,526           |
| State                             | 10,841           | 9,610             | 13,575           |
| <b>Total current</b>              | <b>81,093</b>    | <b>112,149</b>    | <b>120,175</b>   |
| Deferred:                         |                  |                   |                  |
| Federal                           | \$ 7,158         | \$ (310)          | \$ (32,361)      |
| Foreign taxes                     | (1,120)          | (991)             | 6,513            |
| State                             | (1,826)          | 2,302             | (3,350)          |
| <b>Total deferred</b>             | <b>4,212</b>     | <b>1,001</b>      | <b>(29,198)</b>  |
| <b>Provision for income taxes</b> | <b>\$ 85,305</b> | <b>\$ 113,150</b> | <b>\$ 90,977</b> |



**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As a result of additional tax deductions related to share-based payments, tax benefits have been recognized as contributed capital for Fiscal 2011, Fiscal 2010 and Fiscal 2009 in the amounts of \$0.4 million, \$15.6 million and \$8.0 million, respectively.

During Fiscal 2009, the Company approved and repatriated \$91.7 million from its Canadian subsidiaries. The proceeds from the repatriation were used for general corporate purposes. The Company plans to indefinitely reinvest accumulated earnings of our Canadian subsidiaries outside of the United States to the extent not repatriated in Fiscal 2009. Accordingly, no provision for U.S. income taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to income and withholding taxes offset by foreign tax credits. As of January 28, 2012 and January 29, 2011, the unremitted earnings of our Canadian subsidiaries were \$72.0 million (USD) and \$57.1 million (USD), respectively.

As of January 28, 2012, the gross amount of unrecognized tax benefits was \$31.6 million, of which \$22.8 million would affect the effective income tax rate if recognized. The gross amount of unrecognized tax benefits as of January 29, 2011 was \$31.1 million, of which \$22.7 million would affect the effective income tax rate if recognized.

The following table summarizes the activity related to our unrecognized tax benefits:

|   | January 28,<br>2012 | For the Years Ended |                     |
|---|---------------------|---------------------|---------------------|
|   |                     | January 29,<br>2011 | January 30,<br>2010 |
|   |                     | (In thousands)      |                     |
| Unrecognized tax benefits, beginning of the year balance  | \$ 31,108           | \$ 31,649           | \$ 41,080           |
| Increases in tax positions of prior periods               | 932                 | 1,069               | 1,679               |
| Decreases in tax positions of prior periods               | (2,106)             | (3,801)             | (13,457)            |
| Increases in current period tax positions                 | 2,782               | 2,707               | 14,842              |
| Settlements   | (1,073)             | (6)                 | (6,204)             |
| Lapse of statute of limitations                           | (65)                | (510)               | (6,291)             |
| <b>Unrecognized tax benefits, end of the year balance</b> | <b>\$ 31,578</b>    | <b>\$ 31,108</b>    | <b>\$ 31,649</b>    |

Unrecognized tax benefits increased by \$0.5 million during Fiscal 2011 and decreased by \$0.5 million during Fiscal 2010. Over the next twelve months the Company believes that it is reasonably possible that unrecognized tax benefits may decrease by approximately \$2.9 million due to settlements, expiration of statute of limitations or other changes in unrecognized tax benefits.

The Company records accrued interest and penalties related to unrecognized tax benefits in income tax expense. Accrued interest and penalties related to unrecognized tax benefits included in the Consolidated Balance Sheet were \$7.9 million and \$7.6 million as of January 28, 2012 and January 29, 2011, respectively. During Fiscal 2009, the Company recognized a net benefit of \$3.3 million in the provision for income taxes related to the reversal of accrued interest and penalties primarily due to federal and state income tax settlements. An immaterial amount of interest and penalties were recognized in the provision for income taxes during Fiscal 2011 and Fiscal 2010.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Internal Revenue Service ( IRS ) examination of the Company's U.S. federal income tax returns for the tax years ended July 2008 and January 2009 was completed in April of 2011. Accordingly, all years prior to January 2010 are no longer subject to U.S. federal income tax examinations by tax

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

authorities. An IRS examination of the January 2010 federal income tax return is scheduled to be completed in Fiscal 2012. The Company does not anticipate that any adjustments will result in a material change to its financial position, results of operations or cash flow. With respect to state and local jurisdictions and countries outside of the United States, with limited exceptions, generally, the Company and its subsidiaries are no longer subject to income tax audits for tax years before 2005. Although the outcome of tax audits is always uncertain, the Company believes that adequate amounts of tax, interest and penalties have been provided for any adjustments that are expected to result from these years.

The Company has foreign tax credit carryovers in the amount of \$22.3 million and \$25.5 million as of January 28, 2012 and January 29, 2011, respectively. The foreign tax credit carryovers expire in Fiscal 2019 to the extent not utilized. No valuation allowance has been recorded on the foreign tax credit carryovers as the Company believes it is more likely than not the foreign tax credits will be utilized prior to expiration.

The Company has been certified to qualify for nonrefundable incentive tax credits in Kansas for additional expenditures related to the Ottawa, Kansas distribution center. As a result, the Company has a deferred tax asset related to Kansas tax credit carryforwards of \$6.1 million (net of federal income taxes) as of January 28, 2012. These tax credits can be utilized to offset future Kansas income taxes and have a carryforward period of 10-16 years. They will begin to expire in Fiscal 2018. Due to a favorable incentive agreement with the Kansas Department of Commerce in Fiscal 2010, the Company released a \$5.0 million valuation allowance that had been previously recorded related to the Company's Kansas tax credit carryforward.

During Fiscal 2010 and 2009, the Company recorded a valuation allowance against deferred tax assets arising from the disposition or other than temporary impairment of certain investment securities. The disposition of the investment securities results in a capital loss that can only be utilized to the extent of capital gains. These capital losses are subject to a three year carryback period and a five year carryforward period for tax purposes. The capital losses generally will expire in Fiscal 2014 through Fiscal 2015. Due to the contingencies related to the future use of these capital losses, we believe it is more likely than not that the full benefit of this asset will not be realized within the carryforward period. Thus, the Company has recorded a valuation allowance against the deferred tax assets arising from the other than temporary impairment or disposition of these investment securities. The valuation allowance related to these investment securities was \$18.4 million and \$20.4 million as of January 28, 2012 and January 29, 2011, respectively.

A reconciliation between the statutory federal income tax rate and the effective income tax rate from continuing operations follows:

|  | <b>January 28,<br/>2012</b> | <b>For the Years Ended<br/>January 29,<br/>2011</b> | <b>January 30,<br/>2010</b> |
|--|-----------------------------|---|-----------------------------|
| Federal income tax rate                              | 35%                         | 35%   | 35%                         |
| State income taxes, net of federal income tax effect | 3                           | 3   | 3                           |
| Valuation allowance changes, net                     | (1)                         | 1   | 1                           |
| Tax settlements                                      | (1)                         | (1)   | (4)                         |
| Canadian earnings repatriation                       |                             |   | (5)                         |
|  | 36%                         | 38%   | 30%                         |

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****15. Discontinued Operations**

On March 5, 2010, the Company's Board approved management's recommendation to proceed with the closure of the M+O brand. The Company completed the closure of the M+O stores and e-commerce operation during the second quarter of Fiscal 2010. These Consolidated Financial Statements reflect the results of M+O as discontinued operations for all periods presented.

Costs associated with exit or disposal activities are recorded when incurred. A summary of the exit and disposal costs recognized within Loss from Discontinued Operations on the Consolidated Income Statement for Fiscal 2010 are included in the table as follows. There were no exit or disposal costs recognized in Fiscal 2011 or Fiscal 2009. The Loss from Discontinued Operations for Fiscal 2010 and Fiscal 2009 includes pre-tax asset impairment charges of \$18.0 million in both years.

|                          | <b>For the Year Ended</b> |               |
|--------------------------|---------------------------|---------------|
|                          | <b>January 29,</b>        |               |
|                          | <b>2011</b>               |               |
|                          | <b>(In thousands)</b>     |               |
| Non-cash charges         |                           |               |
| Asset impairments        | \$                        | 17,980        |
| Cash charges             |                           |               |
| Lease-related charges(1) |                           | 15,377        |
| Inventory charges        |                           | 2,422         |
| Severance charges        |                           | 7,660         |
| <b>Total charges</b>     | <b>\$</b>                 | <b>43,439</b> |

(1) Presented net of the reversal of non-cash lease credits.

The table below presents the significant components of M+O's results included in Loss from Discontinued Operations on the Consolidated Statements of Operations for the years ended January 29, 2011 and January 30, 2010, respectively. There was no loss from discontinued operations for the year ended January 28, 2012.

|  | <b>For the Years Ended</b> |                    |
|--|----------------------------|--------------------|
|  | <b>January 29,</b>         | <b>January 30,</b> |
|  | <b>2011</b>                | <b>2010</b>        |
|  | <b>(In thousands)</b>      |                    |
| Net sales  | \$ 21,881                  | \$ 50,251          |
| Loss from discontinued operations, before income taxes | \$ (66,959)                | \$ (71,984)        |
| Income tax benefit                                     | 25,672                     | 27,608             |
| Loss from discontinued operations, net of tax          | \$ (41,287)                | \$ (44,376)        |
| Loss per common share from discontinued operations:    |                            |                    |
| Basic  | \$ (0.21)                  | \$ (0.22)          |
| Diluted  | \$ (0.20)                  | \$ (0.21)          |

There were no assets or liabilities included in the Consolidated Balance Sheets for M+O as of January 28, 2012 or January 29, 2011.



**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****16. Quarterly Financial Information Unaudited**

The sum of the quarterly EPS amounts may not equal the full year amount as the computations of the weighted average shares outstanding for each quarter and the full year are calculated independently.

|                                     | Fiscal 2011<br>Quarters Ended            |                  |                     |                     |
|-------------------------------------|--|------------------|---------------------|---------------------|
|                                     | April 30,<br>2011                        | July 30,<br>2011 | October 29,<br>2011 | January 28,<br>2012 |
|                                     | (In thousands, except per share amounts) |                  |                     |                     |
| Net sales                           | \$ 609,562                               | \$ 675,703       | \$ 831,826          | \$ 1,042,727        |
| Gross profit                        | \$ 231,761                               | \$ 232,061       | \$ 308,967          | \$ 355,552          |
| Income from continuing operations   | 28,325                                   | 19,669           | 52,427              | 51,284              |
| Loss from discontinued operations   |  |                  |                     |                     |
| Net income                          | \$ 28,325                                | \$ 19,669        | \$ 52,427           | \$ 51,284           |
| Basic per common share amounts:     |  |                  |                     |                     |
| Income from continuing operations   | \$ 0.15                                  | \$ 0.10          | \$ 0.27             | \$ 0.26             |
| Loss from discontinued operations   |  |                  |                     |                     |
| Basic net income per common share   | \$ 0.15                                  | \$ 0.10          | \$ 0.27             | \$ 0.26             |
| Diluted per common share amounts:   |  |                  |                     |                     |
| Income from continuing operations   | \$ 0.14                                  | \$ 0.10          | \$ 0.27             | \$ 0.26             |
| Loss from discontinued operations   |  |                  |                     |                     |
| Diluted net income per common share | \$ 0.14                                  | \$ 0.10          | \$ 0.27             | \$ 0.26             |

|                                   | Fiscal 2010<br>Quarters Ended            |                  |                     |                     |
|-----------------------------------|--|------------------|---------------------|---------------------|
|                                   | May 1,<br>2010                           | July 31,<br>2010 | October 30,<br>2010 | January 29,<br>2011 |
|                                   | (In thousands, except per share amounts) |                  |                     |                     |
| Net sales                         | \$ 648,462                               | \$ 651,502       | \$ 751,507          | \$ 916,088          |
| Gross profit                      | \$ 257,696                               | \$ 239,708       | \$ 312,309          | \$ 361,246          |
| Income from continuing operations | 35,862                                   | 25,843           | 33,191              | 87,038              |
| Loss from discontinued operations | (24,940)                                 | (16,180)         | (167)               |                     |
| Net income                        | \$ 10,922                                | \$ 9,663         | \$ 33,024           | \$ 87,038           |

Basic per common share amounts:

Edgar Filing: AMERICAN EAGLE OUTFITTERS INC - Form 10-K

|  |                |                |                |                |
|--|----------------|----------------|----------------|----------------|
| Income from continuing operations          | \$ 0.17        | \$ 0.13        | \$ 0.17        | \$ 0.45        |
| Loss from discontinued operations          | (0.12)         | (0.08)         |                |                |
| <b>Basic net income per common share</b>   | <b>\$ 0.05</b> | <b>\$ 0.05</b> | <b>\$ 0.17</b> | <b>\$ 0.45</b> |
| Diluted per common share amounts:          |                |                |                |                |
| Income from continuing operations          | \$ 0.17        | \$ 0.13        | \$ 0.17        | \$ 0.44        |
| Loss from discontinued operations          | (0.12)         | (0.08)         |                |                |
| <b>Diluted net income per common share</b> | <b>\$ 0.05</b> | <b>\$ 0.05</b> | <b>\$ 0.17</b> | <b>\$ 0.44</b> |

**Table of Contents**

**AMERICAN EAGLE OUTFITTERS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**17. Subsequent Events**

On March 2, 2012, the Company entered into a five-year, \$150.0 million syndicated, unsecured, revolving credit agreement (the Credit Agreement). The primary purpose of the Credit Agreement is to provide additional access to capital for general corporate purposes and the issuance of letters of credit. The Credit Agreement replaced the uncommitted demand lines in the aggregate amount of \$110.0 million USD and \$25.0 million CAD.

The Credit Agreement will mature on March 2, 2017. Stand-by letters of credit totaling approximately \$8.5 million were outstanding under the Credit Agreement on March 15, 2012. No borrowings were outstanding under the Credit Agreement on March 15, 2012.

Refer to Note 9 to the Consolidated Financial Statements for additional information regarding other credit arrangements.

## **Table of Contents**

### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

### **ITEM 9A. CONTROLS AND PROCEDURES.**

#### **Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the management of American Eagle Outfitters, Inc. (the Management), including our Principal Executive Officer and our Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, Management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

In connection with the preparation of this Annual Report on Form 10-K as of January 28, 2012, an evaluation was performed under the supervision and with the participation of our Management, including the Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based upon that evaluation, our Principal Executive Officer and our Principal Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this Annual Report on Form 10-K.

#### **Management's Annual Report on Internal Control Over Financial Reporting**

Our Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is designed to provide a reasonable assurance to our Management and our Board regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our Management assessed the effectiveness of our internal control over financial reporting as of January 28, 2012. In making this assessment, our Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on this assessment, our Management concluded that we maintained effective internal control over financial reporting as of January 28, 2012.

The Company's independent registered public accounting firm that audited the financial statements included in this Annual Report issued an attestation report on the Company's internal control over financial reporting.

#### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting during the three months ended January 28, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



---

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of

American Eagle Outfitters, Inc.

We have audited American Eagle Outfitters, Inc.'s internal control over financial reporting as of January 28, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). American Eagle Outfitters, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, American Eagle Outfitters, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 28, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of American Eagle Outfitters, Inc. as of January 28, 2012 and January 29, 2011 and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended January 28, 2012 of American Eagle Outfitters, Inc. and our report dated March 15, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania

March 15, 2012

**Table of Contents**

**ITEM 9B. OTHER INFORMATION.**

Not applicable.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

The information appearing under the captions Proposal One: Election of Directors, Executive Officers, Section 16(a) Beneficial Ownership Reporting Compliance, Corporate Governance Information, and Board Committees in our Proxy Statement relating to our 2012 Annual Meeting of Stockholders is incorporated herein by reference.

**ITEM 11. EXECUTIVE COMPENSATION.**

The information appearing under the caption Compensation Discussion and Analysis, Executive Officer Compensation, Director Compensation, and Compensation Committee Interlocks and Insider Participation in our Proxy Statement relating to our 2012 Annual Meeting of Stockholders is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The information appearing under the captions Security Ownership of Principal Stockholders and Management in our Proxy Statement relating to our 2012 Annual Meeting of Stockholders is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

The information appearing under the caption Certain Relationships and Related Transactions and Board Committees in our Proxy Statement relating to our 2012 Annual Meeting of Stockholders is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.**

The information appearing under the caption Independent Registered Public Accounting Firm Fees and Services in our Proxy Statement relating to our 2012 Annual Meeting of Stockholders is incorporated herein by reference.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.**

(a)(1) The following consolidated financial statements are included in Item 8:

Consolidated Balance Sheets as of January 28, 2012 and January 29, 2011  
Consolidated Statements of Operations for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010  
Consolidated Statements of Comprehensive Income for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010  
Consolidated Statements of Stockholders' Equity for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010  
Consolidated Statements of Cash Flows for the fiscal years ended January 28, 2012, January 29, 2011 and January 30, 2010  
Notes to Consolidated Financial Statements

(a)(2) Financial statement schedules have been omitted because either they are not required or are not applicable or because the information required to be set forth therein is not material.



**Table of Contents**

(a)(3) Exhibits

**Exhibit**

| <b>Number</b> | <b>Description</b>   |
|---------------|--|
| 3.1           | Amended and Restated Certificate of Incorporation, as amended(1)   |
| 3.2           | Amended and Restated Bylaws(2)   |
| 4.1           | See Amended and Restated Certificate of Incorporation, as amended, in Exhibit 3.1 hereof   |
| 4.2           | See Amended and Restated Bylaws in Exhibit 3.2 hereof  |
| 10.1^         | Form of the Registrant s 1994 Stock Option Plan(3)   |
| 10.2^         | Form of Indemnification Agreement(4)   |
| 10.3^         | Employee Stock Purchase Plan(5)  |
| 10.4^         | Form of the Registrant s 1999 Stock Incentive Plan, as amended(6)  |
| 10.5^         | Employment Agreement between the Registrant and LeAnn Nealz dated March 31, 2004(7)  |
| 10.6^         | Deferred Compensation Plan, as amended(8)  |
| 10.7^         | Employment Agreement between the Registrant and Thomas DiDonato, dated June 29, 2005(9)  |
| 10.8^         | Form of Director Deferred Compensation Agreement(10)   |
| 10.9^         | Form of 409A Addendum(11)  |
| 10.10^        | Form of Long Term Incentive Compensation Plan Confidentiality, non-solicitation, non-competition and Intellectual Property Agreement(12) |
| 10.11^        | Employment Agreement between the Registrant and Dennis Parodi, dated February 18, 2003(13)   |
| 10.12^        | Amendment to the Employment Agreement between the Registrant and Dennis Parodi, dated February 6, 2006(14)                               |
| 10.13^        | Employment Agreement between the Registrant and Joan Hilson, dated July 18, 2005(15)   |
| 10.14^        | 2005 Stock Award and Incentive Plan, as amended(16)  |
| 10.15^        | Employment Agreement between the Registrant and James V. O Donnell, as amended, dated January 11, 2010(17)                               |
| 10.16^        | Form of Change in Control Agreement dated April 21, 2010(18)   |
| 10.17^        | Retirement Agreement between the Registrant and Joseph Kerin, dated November 24, 2010(19)  |
| 10.18^        | Form of RSU Confidentiality, Non-Solicitation, Non-Competition and Intellectual Property Agreement(20)                                   |
| 10.19^        | Chief Executive Officer Employment Agreement between the Registrant and Robert L. Hanson, dated November 14, 2011(21)                    |
| 10.20^        | Change in Control Agreement between the Registrant and Robert L. Hanson, dated November 14, 2011(22)                                     |
| 10.21^        | Succession Agreement between the Registrant and James V. O Donnell, dated January 28, 2012(23)   |
| 10.22^        | Second Amended and Restated Employment Agreement between the Registrant and Roger S. Markfield, dated February 24, 2012(24)              |

**Table of Contents**

**Exhibit**

| <b>Number</b> | <b>Description</b>   |
|---------------|--|
| 10.23         | Credit Agreement, dated March 2, 2012 among American Eagle Outfitters, Inc. and certain of its subsidiaries as borrowers, each lender from time to time party thereto, and HSBC Bank USA, N.A. as administrative agent for the lenders, and certain other parties and agents(25) |
| 10.24^*       | Form of Notice of Grant of Stock Options and Option Agreement  |
| 10.25^*       | Form of Notice of Grant of Restricted Stock Units and Restricted Stock Units Awards Agreement  |
| 10.26^*       | Form of Notice of Long Term Incentive Grant of Restricted Stock Units and Long Term Incentive Restricted Stock Units Award Agreement   |
| 21*           | Subsidiaries   |
| 23*           | Consent of Independent Registered Public Accounting Firm   |
| 24*           | Power of Attorney  |
| 31.1*         | Certification by Robert L. Hanson pursuant to Rule 13a-14(a) or Rule 15d-14(a)   |
| 31.2*         | Certification by Joan Holstein Hilson pursuant to Rule 13a-14(a) or Rule 15d-14(a)   |
| 32.1**        | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 32.2**        | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  |
| 101**         | Interactive Data File  |

- (1) Previously filed as Exhibit 3.1 to the Form 10-Q dated August 4, 2007, filed September 6, 2007 and incorporated herein by reference.
- (2) Previously filed as Exhibit 3.1 to the Form 8-K dated November 20, 2007, filed November 26, 2007 and incorporated herein by reference.
- (3) Previously filed as Exhibit 4(a) to Registration Statement on Form S-8 (file no. 33-79358), filed May 25, 1994, as amended on Form S-8 (file no. 333-12643), filed September 25, 1996 and Form S-8 (file no. 333-44759), filed January 22, 1998 and incorporated herein by reference.
- (4) Previously filed as Exhibit 10.7 to Registration Statement on Form S-1 (file no. 33-75294), filed February 14, 1994, as amended, and incorporated herein by reference.
- (5) Previously filed as Exhibit 4(a) to Registration Statement on Form S-8 (file no. 33-33278), filed April 5, 1996 and incorporated herein by reference.
- (6) Previously filed as Exhibit 10.5 to the Form 10-K dated February 3, 2007, filed April 4, 2007 and incorporated herein by reference.
- (7) Previously filed as Exhibit 10.12 to the Form 10-Q for the period ended July 31, 2004, filed September 3, 2004 and incorporated herein by reference.

## Edgar Filing: AMERICAN EAGLE OUTFITTERS INC - Form 10-K

- (8) Previously filed as Exhibit 10.2 to the Form 8-K dated December 17, 2008, filed December 23, 2008 and incorporated herein by reference.
- (9) Previously filed as Exhibit 10.1 to the Form 10-Q for the period ended October 29, 2005, filed December 5, 2005 and incorporated herein by reference.
- (10) Previously filed as Exhibit 10.1 to the Form 8-K dated December 30, 2005, filed January 5, 2006 and incorporated herein by reference.

**Table of Contents**

- (11) Previously filed as Exhibit 10.3 to the Form 8-K dated December 17, 2008, filed December 23, 2008 and incorporated herein by reference.
- (12) Previously filed as Exhibit 10.1 to the Form 8-K dated May 20, 2008, filed May 23, 2008 and incorporated herein by reference.
- (13) Previously filed as Exhibit 10.1 to the Form 8-K dated February 28, 2006, filed March 7, 2006 and incorporated herein by reference.
- (14) Previously filed as Exhibit 10.2 to the Form 8-K dated February 28, 2006, filed March 7, 2006 and incorporated herein by reference.
- (15) Previously filed as Exhibit 10.1 to the Form 8-K dated April 18, 2006, filed April 24, 2006 and incorporated herein by reference.
- (16) Previously filed as Appendix A to the Definitive Proxy Statement for the 2009 Annual Meeting of Stockholders held on June 16, 2009 held on June 16, 2009, filed May 4, 2009 and incorporated herein by reference.
- (17) Previously filed as Exhibit 10.1 to the Form 8-K dated January 11, 2010, filed January 12, 2010 and incorporated herein by reference.
- (18) Previously filed as Exhibit 10.1 to the Form 8-K dated April 21, 2010, filed April 26, 2010 and incorporated herein by reference.
- (19) Previously filed as Exhibit 10.24 to the Form 10-K dated January 29, 2011, filed March 11, 2011 and incorporated herein by reference.
- (20) Previously filed as Exhibit 10.25 to the Form 10-K dated January 29, 2011, filed on March 11, 2011 and incorporated herein by reference.
- (21) Previously filed as Exhibit 10.1 to the Form 8-K dated November 14, 2011, filed November 18, 2011 and incorporated herein by reference.
- (22) Previously filed as Exhibit 10.2 to the Form 8-K dated November 14, 2011, filed November 18, 2011 and incorporated herein by reference.
- (23) Previously filed as Exhibit 10.1 to the Form 8-K dated January 18, 2012, filed January 20, 2012 and incorporated herein by reference.
- (24) Previously filed as Exhibit 10.1 to the Form 8-K dated February 24, 2012, filed February 24, 2012 and incorporated herein by reference.
- (25) Previously filed as Exhibit 10.1 to the Form 8-K dated March 2, 2012, filed March 8, 2012 and incorporated herein by reference.

^ Management contract or compensatory plan or arrangement.

\* Filed herewith.

\*\* Furnished herewith.

(b) Exhibits

The exhibits to this report have been filed herewith.

(c) Financial Statement Schedules

None.



**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERICAN EAGLE OUTFITTERS, INC.

By: /s/ Robert L. Hanson  
 Robert L. Hanson  
 Chief Executive Officer

Dated March 15, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities indicated on March 15, 2012.

| Signature                | Title                                      |
|--------------------------|--|
| /s/ Robert L. Hanson     | Chief Executive Officer and Director       |
| Robert L. Hanson         | (Principal Executive Officer)              |
| /s/ Joan Holstein Hilson | Executive Vice President and               |
| Joan Holstein Hilson     | Chief Financial Officer                    |
|                          | (Principal Financial Officer and Principal |
|                          | Accounting Officer)                        |
| *                        | Chairman of the Board and Director         |
| Jay L. Schottenstein     |  |
| *                        | Director                                   |
| Michael G. Jesselson     |  |
| *                        | Director                                   |
| Thomas R. Ketteler       |  |
| *                        | Director                                   |
| Roger S. Markfield       |  |
| *                        | Director                                   |
| Cary D. McMillan         |  |

Edgar Filing: AMERICAN EAGLE OUTFITTERS INC - Form 10-K

\*

Director

Janice E. Page

\*

Director

Noel J. Spiegel

\*

Director

Gerald E. Wedren

\*By: /s/ Joan Holstein Hilson  
Joan Holstein Hilson,  
*Attorney-in-Fact*