APPENDIX B

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	**No. 13-2721761**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
77 Hot Metal Street, Pittsburgh, PA	**15203-2329**
(Address of principal executive offices)	*(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
(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 ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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.

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.com ®, aerie.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.

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.

aerie by American Eagle

In the fall of 2006, the Company launched aerie ® by American Eagle ® ("aerie"), a collection of Dormwear ®, intimates and personal care products for the AE® 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® 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® ("77kids") offers on-trend, high-quality clothing and accessories for kids ages two to 14 and babies under the brand name little77 ™. 77kids is available in 21 stores throughout the United States. The brand draws from the strong heritage of American Eagle Outfitters®, with a point-of-view that is thoughtful, playful and real. Like American Eagle ® clothing, 77kids focuses on great fit, value and style. All 77kids® clothing is backed by the brand's 77wash™ and 77soft™ 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 ®, 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 ® and Bill Me Later® as a means of payment from our ae.com®, 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.

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 2011	Fiscal 2010	Fiscal 2009	Fiscal 2008	Fiscal 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)
Total consolidated stores at end of period	**1,090**	**1,086**	**1,075**	**1,070**	**968**

	Fiscal 2011	Fiscal 2010	Fiscal 2009	Fiscal 2008	Fiscal 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)
Total AE Brand stores at end of period	**911**	**929**	**938**	**954**	**929**

	Fiscal 2011	Fiscal 2010	Fiscal 2009	Fiscal 2008	Fiscal 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	—	—	—	—	—
Total aerie stores at end of period	**158**	**148**	**137**	**116**	**39**

	Fiscal 2011	Fiscal 2010	Fiscal 2009	Fiscal 2008	Fiscal 2007
77kids stores at beginning of period	9	—	—	—	—
77kids stores opened during the period	12	9	—	—	—
77kids stores closed during the period	—	—	—	—	—
Total 77kids stores at end of period	**21**	**9**	**—**	**—**	**—**

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.

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. 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.

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.

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®, AMERICAN EAGLE®, AE® and AEO® 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® and AMERICAN EAGLE® with the Canadian Intellectual Property Office. In addition, we are exclusively licensed in Canada to use AE™ and AEO® 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®, 77kids by american eagle® and little77 by american eagle®.

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. These reports are available as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission (the “SEC”).

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. 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. 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.

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, 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 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.

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 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, 2012	January 29, 2011	January 30, 2010	January 31, 2009	February 2, 2008
	(In thousands, except per share amounts, ratios and other financial information)				
***Summary of Operations*(2)**					
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%
Per Share Results					
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
Balance Sheet Information					
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%

	For the Years Ended(1)				
	January 28, 2012	January 29, 2011	January 30, 2010	January 31, 2009	February 2, 2008
	(In thousands, except per share amounts, ratios and other financial information)				
Other Financial Information **(2)**					
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 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.*

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

AMERICAN EAGLE OUTFITTERS, INC.
CONSOLIDATED BALANCE SHEETS

	January 28, 2012	January 29, 2011
	(In thousands, except per share amounts)	
Assets		
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
Total current assets	1,287,488	1,174,410
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
Total assets	$ 1,950,802	$1,879,998
Liabilities and Stockholders' Equity		
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
Total current liabilities	405,401	387,837
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
Total non-current liabilities	128,550	141,090
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
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)
Total stockholders' equity	1,416,851	1,351,071
Total liabilities and stockholders' equity	$ 1,950,802	$1,879,998

Refer to Notes to Consolidated Financial Statements

AMERICAN EAGLE OUTFITTERS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended		
	January 28, 2012	January 29, 2011	January 30, 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

AMERICAN EAGLE OUTFITTERS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Years Ended		
	January 28, 2012	January 29, 2011	January 30, 2010
		(In thousands)	
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, 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

AMERICAN EAGLE OUTFITTERS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Shares Outstanding (1)	Common Stock	Contributed Capital	Retained Earnings	Treasury Stock(2)	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity
				(In thousands, except per share amounts)			
Balance at January 31, 2009	**205,281**	**$ 2,485**	**$513,574**	**$1,694,161**	**$ (786,800)**	**$ (14,389)**	**$ 1,409,031**
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 ($0.40 per share)	—	—	922	(83,906)	—	—	(82,984)
Balance at January 30, 2010	**206,832**	**$ 2,486**	**$ 554,399**	**$ 1,764,049**	**$ (759,255)**	**$ 16,838**	**$1,578,517**
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 ($0.93 per share)	—	—	1,810	(184,976)	—	—	(183,166)
Balance at January 29, 2011	**194,366**	**$ 2,496**	**$ 546,597**	**$1,711,929**	**$ (938,023)**	**$ 2 8,072**	**$1,351,071**
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 ($0.44 per share)	—	—	1,665	(87,909)	—	—	(86,244)
Balance at January 28, 2012	**193,848**	**$ 2,496**	**$552,797**	**$1,771,464**	**$ (938,565)**	**$ 28,659**	**$ 1,416,851**

(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

AMERICAN EAGLE OUTFITTERS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended		
	January 28, 2012	January 29, 2011	January 30, 2010
		(In thousands)	
Operating activities:			
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)
Total adjustments	87,551	220,660	186,928
Net cash provided by operating activities from continuing operations	**239,256**	**402,594**	**400,326**
Investing activities:			
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
Net cash (used for) provided by investing activities from continuing operations	**(87,376)**	**27,615**	**(48,730)**
Financing activities:			
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)
Net cash used for financing activities from continuing operations	**(100,726)**	**(436,530)**	**(119,805)**
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	—	—	—
Net cash used for discontinued operations	**—**	**(21,440)**	**(14,203)**
Net increase (decrease) in cash and cash equivalents	**51,952**	**(26,367)**	**220,618**
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

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"), aerie® by American Eagle® ("aerie"), and 77kids by american eagle® ("77kids") 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 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:

	For the Years Ended		
	January 28, 2012	January 29, 2011	January 30, 2010
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%	—%	—%
Total	100%	100%	100%

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

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 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.

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

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 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.

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 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.

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

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 AEREWARD$sm 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.

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.

	For the Years Ended		
	January 28, 2012	January 29, 2011	January 30, 2010
		(In thousands)	
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

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

	For the Years Ended		
	January 28, 2012	January 29, 2011	January 30, 2010
		(In thousands)	
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, 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.

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

Supplemental Disclosures of Cash Flow Information

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

	For the Years Ended		
	January 28, 2012	January 29, 2011	January 30, 2010
		(In thousands)	
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:

	For the Years Ended		
	January 28, 2012	January 29, 2011	January 30, 2010
		(In thousands)	
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, 2012	January 29, 2011
	(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.

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, 2012	January 29, 2011
	(In thousands)	
Cash and cash equivalents:		
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
Total cash and cash equivalents	$719,545	$667,593
Short-term investments:		
Treasury bills	$ 19,999	$ —
State and local government ARS	5,500	3,700
Term-deposits	—	63,402
Total short-term investments	$ 25,499	$ 67,102
Long-term investments:		
ARS Call Option	$ 847	$ 415
State and local government ARS	—	5,500
Total long-term investments	$ 847	$ 5,915
Total	$745,891	$740,610

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.

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.

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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	$ —	$ —
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

		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	—	—
Total cash and cash equivalents	$667,593	$667,593	$ —	$ —
Short-term investments				
Term deposits	$ 63,402	$ 63,402	$ —	$ —
State and local government ARS	3,700	—	—	3,700
Total short-term investments	$ 67,102	$ 63,402	$ —	$ 3,700
Long-term investments				
State and local government ARS	$ 5,500	$ —	$ —	$ 5,500
ARS Call Option	415	—	—	415
Total long-term investments	$ 5,915	$ —	$ —	$ 5,915
Total	$740,610	$730,995	$ —	$ 9,615

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

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

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

	Level 3 (Unobservable inputs)				
	Total	Auction-Rate Municipal Securities	Student Loan-Backed Auction-Rate Securities	Auction-Rate Preferred Securities	ARS Call Option
			(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.

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:

	For the Years Ended		
	January 28, 2012	January 29, 2011	January 30, 2010
	(In thousands, except per share amounts)		
Weighted average common shares outstanding:			
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
Dilutive number of common shares outstanding	196,314	201,818	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.

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 unvested 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.

6. Accounts Receivable

Accounts receivable are comprised of the following:

	January 28, 2012	January 29, 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
Total	$ 40,310	$36,721

7. Property and Equipment

Property and equipment consists of the following:

	January 28, 2012	January 29, 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, 2012	January 29, 2011	January 30, 2010
		(In thousands)	
Depreciation expense	$137,934	$139,169	$137,045

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.

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, 2012	January 29, 2011
	(In thousands)	
Trademarks, at cost	$ 44,142	$ 9,967
Less: Accumulated amortization	(4,310)	(2,482)
Intangible assets, net	$ 39,832	$ 7,485

Amortization expense is summarized as follows:

	For the Years Ended		
	January 28, 2012	January 29, 2011	January 30, 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 Amortization
	(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.

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.

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:

	For the Years Ended		
	January 28, 2012	January 29, 2011	January 30, 2010
		(In thousands)	
Store rent:			
Fixed minimum	$251,504	$230,277	$218,785
Contingent	7,618	8,182	7,873
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
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 Lease Obligations (In thousands)
2012	$ 255,576
2013	241,878
2014	222,931
2015	207,248
2016	183,881
Thereafter	612,557
Total	$1,724,071

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 Tax Amount	Tax Benefit (Expense)	Accumulated Other Comprehensive (Loss) Income
		(In thousands)	
Balance at January 31, 2009	**$(27,835)**	**$ 13,446**	**$(14,389)**
Temporary reversal of impairment related to ARS	24,041	(9,535)	14,506
Reclassification adjustment for realized losses in net income related to investment securities	940	—	940
Foreign currency translation gain	15,781	—	15,781
Balance at January 30, 2010	**$ 12,927**	**$ 3,911**	**$ 16,838**
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
Balance at January 29, 2011	**$ 28,072**	**$ —**	**$ 28,072**
Foreign currency translation gain	587	—	587
Balance at January 28, 2012	**$ 28,659**	**$ —**	**$ 28,659**

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 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.

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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.

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 (In thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (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:

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

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(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.

(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 Stock Units		Performance-Based Restricted Stock Units	
	For the year ended January 28, 2012		For the year ended January 28, 2012	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date 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.

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.

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

14. Income Taxes

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

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

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

	January 28, 2012	January 29, 2011
	(In thousands)	
Deferred tax assets:		
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
Gross deferred tax assets	140,320	139,187
Valuation allowance	(18,440)	(20,381)
Total deferred tax assets	$ 121,880	$118,806
Deferred tax liabilities:		
Property and equipment	$ (55,503)	$ (47,852)
Prepaid expenses	(4,149)	(3,279)
Total deferred tax liabilities	$(59,652)	$ (51,131)
Total deferred tax assets, net	$ 62,228	$ 67,675
Classification in the Consolidated Balance Sheet:		
Current deferred tax assets	$ 48,761	$ 48,059
Noncurrent deferred tax assets	13,467	19,616
Total deferred tax assets	$ 62,228	$ 67,675

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, 2012	January 29, 2011	January 30, 2010
		(In thousands)	
Current:			
Federal	$63,631	$ 89,110	$ 92,074
Foreign taxes	6,621	13,429	14,526
State	10,841	9,610	13,575
Total current	81,093	112,149	120,175
Deferred:			
Federal	$ 7,158	$ (310)	$ (32,361)
Foreign taxes	(1,120)	(991)	6,513
State	(1,826)	2,302	(3,350)
Total deferred	4,212	1,001	(29,198)
Provision for income taxes	$85,305	$113,150	$ 90,977

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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 benfits 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:

	For the Years Ended		
	January 28, 2012	January 29, 2011	January 30, 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)
Unrecognized tax benefits, end of the year balance	$31,578	$ 31,108	$31,649

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 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	For the Years Ended		
	January 28, 2012	January 29, 2011	January 30, 2010
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%

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.

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

(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.

	For the Years Ended	
	January 29, 2011	January 30, 2010
	(In thousands)	
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.

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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 Quarters Ended			
	April 30, 2011	July 30, 2011	October 29, 2011	January 28, 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 Quarters Ended			
	May 1, 2010	July 31, 2010	October 30, 2010	January 29, 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:				
Income from continuing operations	$ 0.17	$ 0.13	$ 0.17	$ 0.45
Loss from discontinued operations	(0.12)	(0.08)	—	—
Basic net income per common share	$ 0.05	$ 0.05	$ 0.17	$ 0.45
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)	—	—
Diluted net income per common share	$ 0.05	$ 0.05	$ 0.17	$ 0.44

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.