

AMERICAN EAGLE OUTFITTERS INC

Form 10-K

March 11, 2011

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K**

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended January 29, 2011
OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission File Number: 1-33338
American Eagle Outfitters, Inc.
(Exact name of registrant as specified in its charter)**

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

No. 13-2721761
*(I.R.S. Employer
Identification No.)*
15203-2329
(Zip Code)

**Registrant's telephone number, including area code:
(412) 432-3300**

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

Common Shares, \$0.01 par value
(Title of class)

New York Stock Exchange
(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 a shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at the past 90 days. YES NO

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

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

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

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

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of July 31, 2010 was \$2,196,680,330.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 194,690,703 Common Shares were outstanding at March 7, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

Part III Proxy Statement for 2011 Annual Meeting of Stockholders, in part, as indicated.

AMERICAN EAGLE OUTFITTERS, INC.

TABLE OF CONTENTS

	Page Number
<u>PART I</u>	
<u>Item 1.</u>	<u>Business</u> 2
<u>Item 1A.</u>	<u>Risk Factors</u> 9
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u> 12
<u>Item 2.</u>	<u>Properties</u> 12
<u>Item 3.</u>	<u>Legal Proceedings</u> 13
<u>Item 4.</u>	<u>Reserved</u> 13
<u>PART II</u>	
<u>Item 5.</u>	<u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> 13
<u>Item 6.</u>	<u>Selected Consolidated Financial Data</u> 16
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 17
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 31
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u> 32
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> 69
<u>Item 9A.</u>	<u>Controls and Procedures</u> 69
<u>Item 9B.</u>	<u>Other Information</u> 71
<u>PART III</u>	
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u> 71
<u>Item 11.</u>	<u>Executive Compensation</u> 71
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> 71
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u> 71
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u> 71
<u>PART IV</u>	
<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u> 71
<u>EX-10.24</u>	
<u>EX-10.25</u>	
<u>EX-21</u>	
<u>EX-23</u>	
<u>EX-24</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	

[EX-101 LABELS LINKBASE DOCUMENT](#)

[EX-101 PRESENTATION LINKBASE DOCUMENT](#)

[EX-101 DEFINITION LINKBASE DOCUMENT](#)

Table of Contents

PART I

ITEM 1. BUSINESS.

General

American Eagle Outfitters, Inc., a Delaware corporation, (the Company) operates under the American Eagle® brand, aerie® by American Eagle®, and 77kids by american eagle® brands. The Company operated the MARTIN+OSA® brand (M+O) until its closure during the 52 weeks ended January 29, 2011.

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, 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 76 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 the 52 week period ended January 29, 2011. NLS refers to National Logistics Services which we operated in Canada prior to its disposition during the 53 week period ended February 3, 2007.

Our financial year is a 52/53 week year that ends on the Saturday nearest to January 31. As used herein, Fiscal 2011 refers to the 52 week period ending January 28, 2012. Fiscal 2010, Fiscal 2009, Fiscal 2008 and Fiscal 2007 refer to the 52 week periods ended 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, the Company's Board of Directors (the Board) approved management's recommendation to proceed with the closure of the M+O brand. We notified employees and issued a press release announcing this decision on March 9, 2010. The decision to take this action resulted from an extensive evaluation of the brand and review of strategic alternatives, which revealed that it was not achieving performance levels that warranted further investment. We completed the closure of M+O stores and its e-commerce operation during the 13 weeks ended July 31, 2010. The Consolidated Financial Statements reflect the presentation of M+O as a discontinued operation. Refer to Note 14 to the Consolidated Financial Statements for additional information regarding the discontinued operations of M+O.

As of January 29, 2011, we operated 929 American Eagle Outfitters stores, 148 aerie stand-alone stores and nine 77kids stores.

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.

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, achieving the perfect combination of American prep and current fashion. 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 number one 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 compelling,

Table of Contents

pre-planned promotions that are profitable to the business. We are reducing production lead-times, which enables us to react more quickly to emerging trends. Finally, we continue to innovate our store experience to be more impactful from front to back.

erie by American Eagle

In the fall of 2006, the Company launched erie® by American Eagle® (erie), a collection of Dormwear® intimates and personal care products for the AE® girl. What started as a sub-brand quickly became a standalone concept in its own right. The collection is available in 148 standalone erie stores throughout the United States and Canada, online at erie.com, and at select American Eagle® stores. erie is being repositioned as a more complete lifestyle brand with intimates as the inspiration. erie is a lifestyle brand for a modern 21-year-old girl that is beautiful, feminine, soft, sensuous, yet comfortable. It is simple and stylish apparel that is made to live in and wear out.

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 10 and babies under the brand name little77™. Beginning in Fiscal 2010, nine 77kids® stores were opened. 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®, erie.com and 77kids.com, which are extensions of the lifestyle that we convey in our stores. We currently ship to 76 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®, erie.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 are continuing to take a more cautious stance on real estate growth in light of the current economic environment. However, we remain focused on the real-estate strategies that we have in place to grow our business and strengthen our financial performance.

We are continuing the expansion of our brands throughout the United States. At the end of Fiscal 2010, we operated in all 50 states, Puerto Rico and Canada. During Fiscal 2010, we opened 34 new stores, consisting of 14 AE stores, 11 erie stores and nine 77kids stores. These store openings, offset by 51 store closings that include all 28 M+O stores, decreased our total store base to 1,086 stores.

Our gross square footage increased by approximately 2% during Fiscal 2010, excluding the impact of M+O closings, with approximately 71% attributable to new store openings and the remaining 29% attributable to the incremental square footage from 29 store remodels and refurbishes.

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 6,500 gross square feet, either within their existing location or by upgrading the store location within the mall. We believe the larger format can better

Table of Contents

accommodate our expansion of merchandise categories. We select stores for expansion or relocation based on market demographics and store volume forecasts.

During Fiscal 2010, we remodeled 18 stores, including 17 AE stores and one aerie store. Of the 18 remodeled stores, nine stores were remodeled or refurbished with an expansion to their existing locations, six stores were relocated to a larger space within the mall and three stores were remodeled within their existing locations. Additionally, 11 stores were refurbished as discussed below.

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 2011, we plan to open approximately 14 AE, 10 aerie and 12 77kids stores. We also plan to remodel between 55 and 75 existing AE stores. Our square footage growth is expected to increase slightly in Fiscal 2011. 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.

	Fiscal 2010	Fiscal 2009	Fiscal 2008	Fiscal 2007	Fiscal 2006
Consolidated stores at beginning of period	1,103	1,098	987	911	869
Consolidated stores opened during the period	34	29	122	80	50
Consolidated stores closed during the period	(51)	(24)	(11)	(4)	(8)
Total consolidated stores at end of period	1,086	1,103	1,098	987	911

	Fiscal 2010	Fiscal 2009	Fiscal 2008	Fiscal 2007	Fiscal 2006
AE Brand stores at beginning of period	938	954	929	903	869
AE Brand stores opened during the period	14	8	35	30	42
AE Brand stores closed during the period	(23)	(24)	(10)	(4)	(8)
Total AE Brand stores at end of period	929	938	954	929	903

	Fiscal 2010	Fiscal 2009	Fiscal 2008	Fiscal 2007	Fiscal 2006
aerie stores at beginning of period	137	116	39	3	
aerie stores opened during the period	11	21	77	36	3
aerie stores closed during the period					

Total aerie stores at end of period	148	137	116	39	3
	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal
	2010	2009	2008	2007	2006
77kids stores at beginning of period					
77kids stores opened during the period	9				
77kids stores closed during the period					
Total 77kids stores at end of period	9				

Table of Contents

	Fiscal 2010	Fiscal 2009	Fiscal 2008	Fiscal 2007	Fiscal 2006
M+O stores at beginning of period	28	28	19	5	
M+O stores opened during the period			10	14	5
M+O stores closed during the period	(28)		(1)		
Total M+O stores at end of period		28	28	19	5

Consolidated Store Locations

Our stores average approximately 5,800 gross square feet and approximately 4,700 on a selling square foot basis. As of January 29, 2011, we operated 1,086 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	18	Indiana	22	Nebraska	8	Rhode Island	4
Alaska	5	Iowa	13	Nevada	4	South Carolina	16
Arizona	16	Kansas	10	New Hampshire	8	South Dakota	3
Arkansas	8	Kentucky	12	New Jersey	29	Tennessee	25
California	81	Louisiana	14	New Mexico	3	Texas	72
Colorado	12	Maine	5	New York	64	Utah	12
Connecticut	18	Maryland	18	North Carolina	30	Vermont	3
Delaware	5	Massachusetts	32	North Dakota	4	Virginia	28
Florida	50	Michigan	33	Ohio	39	Washington	19
Georgia	34	Minnesota	22	Oklahoma	12	West Virginia	9
Hawaii	4	Mississippi	8	Oregon	11	Wisconsin	18
Idaho	4	Missouri	19	Pennsylvania	66	Wyoming	2
Illinois	35	Montana	2	Puerto Rico	5		

Canada 92 stores

Alberta	14	New Brunswick	4	Ontario	46
British Columbia	12	Newfoundland	1	Quebec	9
Manitoba	2	Nova Scotia	2	Saskatchewan	2

International Expansion

In Fiscal 2009, we entered into an international franchise agreement with Alshaya Trading Co. to open a series of American Eagle stores in the Middle East, Northern Africa and Eastern Europe over the next several years. The first three franchised stores opened during Fiscal 2010 in Dubai and Kuwait City and are not included in the table above.

During Fiscal 2010, we entered into a franchise agreement with Dickson Concepts (International) Limited to open a series of American Eagle stores in Hong Kong, China and Macau beginning in Fiscal 2011. Additionally, we entered

into franchise agreements with Sumikin Bussan Corporation and Fox-Wizel, Ltd. to open a series of American Eagle and aerie stores in Japan and Israel, respectively. The first stores are scheduled to be opened in Fiscal 2012. These franchise arrangements do not involve a capital investment from AEO and require minimal operational involvement.

Table of Contents

Purchasing

We purchase merchandise from suppliers who either manufacture their own merchandise, supply merchandise manufactured by others or both. During Fiscal 2010, 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. 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.

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; a review of security procedures of our other international trading partners, including forwarders, consolidators, shippers and brokers; and a requirement that all of our

international trading partners be 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.

Table of Contents

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 unacceptable risks of non-compliance.

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 American Eagle, 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 that was implemented on January 1, 2010. 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 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.

Table of Contents

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 many 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 have applied to register 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 29, 2011, we had approximately 39,900 employees in the United States and Canada, of whom approximately 33,000 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 quarter, 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.

Table of Contents

Certifications

As required by the New York Stock Exchange (NYSE) Corporate Governance Standards Section 303A.12(a), on June 30, 2010 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 and fashion trends 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 global economic crisis that began during the second half of 2008 continues to cause uncertainty and a wide-ranging lack of liquidity in the credit markets. This market uncertainty continues to result in a lack of consumer confidence and spending.

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 cost increases, labor and energy prices

Increases in our costs, such as raw materials, labor and fuel, 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 have begun to negatively impact our cost of sales. We have strategies in place to 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 2011, we plan to open 14 new American Eagle stores in the U.S. and Canada, 10 aerie stand-alone stores and 12 77kids stores. Additionally, we plan to remodel or expand between 55 and 75 existing American Eagle stores during Fiscal 2011. Accomplishing our new and existing store expansion goals will depend upon a number of factors, including the ability to obtain suitable sites

Table of Contents

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 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.

Table of Contents

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 quarter, 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 and staging implementation, as well as securing appropriate commercial contracts with third-party vendors supplying such replacement 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 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. 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.

Table of Contents

Our efforts to expand internationally through franchising

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

Other risk factors

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

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

ITEM 1B. *UNRESOLVED STAFF COMMENTS.*

Not applicable.

ITEM 2. *PROPERTIES.*

We own two buildings in urban Pittsburgh, Pennsylvania which house our corporate headquarters. These buildings total 186,000 square feet and 150,000 square feet, respectively. We lease two locations near our headquarters, which are used primarily for store and corporate support services, totaling approximately 60,000 square feet. These leases expire with various terms through 2024.

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

We rent approximately 131,000 square feet of office space in New York, New York for our designers and sourcing and production teams. The lease for this space expires in May 2016. We also lease an additional 55,000 square feet of office space in New York, New York, with various terms expiring through 2018.

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

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

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

Table of Contents

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

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. RESERVED.**PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

Our common stock is traded on the NYSE under the symbol AEO. As of March 7, 2011, there were 628 stockholders of record. However, when including associates who own shares through our employee stock purchase plan, and others holding shares in broker accounts under street name, we estimate the stockholder base at approximately 50,000. The following table sets forth the range of high and low closing prices of the common stock as reported on the NYSE during the periods indicated.

For the Quarters Ended	Market Price		Cash Dividends per Common Share
	High	Low	
January 29, 2011	\$ 17.16	\$ 14.02	\$ 0.61
October 30, 2010	\$ 17.36	\$ 12.04	\$ 0.11
July 31, 2010	\$ 17.13	\$ 11.60	\$ 0.11
May 1, 2010	\$ 19.34	\$ 15.73	\$ 0.10
January 30, 2010	\$ 18.06	\$ 14.54	\$ 0.10
October 31, 2009	\$ 19.62	\$ 13.37	\$ 0.10
August 1, 2009	\$ 15.53	\$ 12.80	\$ 0.10
May 2, 2009	\$ 15.60	\$ 8.44	\$ 0.10

During Fiscal 2010 and Fiscal 2009, we paid quarterly dividends as shown in the table above. Cash dividends per common share for the quarter ended January 29, 2011 consisted of a regular quarterly dividend of \$0.11 per common share and a special cash dividend of \$0.50 per common share. The payment of future dividends is at the discretion of our Board and is based on future earnings, cash flow, financial condition, capital requirements, changes in U.S. taxation and other relevant factors. It is anticipated that any future dividends paid will be declared on a quarterly basis.

Table of Contents**Performance Graph**

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

The following graph compares the changes in the cumulative total return to holders of our common stock with that of the S&P Midcap 400 and the Dynamic Retail Intellidex. The comparison of the cumulative total returns for each investment assumes that \$100 was invested in our common stock and the respective index on January 28, 2006 and includes reinvestment of all dividends. The plotted points are based on the closing price on the last trading day of the fiscal year indicated.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN
Among American Eagle Outfitters, Inc., The S&P Midcap 400 Index
And A Peer Group**

	1/28/06	2/3/07	2/2/08	1/31/09	1/30/10	1/29/11
American Eagle Outfitters, Inc.	100.00	187.99	139.04	54.88	99.42	96.79
S&P Midcap 400	100.00	107.97	105.56	66.53	95.38	127.30
Dynamic Retail Intellidex	100.00	105.85	92.90	65.75	94.22	121.79

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights(1)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights(1)	Number of Securities Remaining Available for Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))(1)
Equity compensation plans approved by stockholders	12,124,456	\$ 15.25	25,697,047
Equity compensation plans not approved by stockholders			
Total	12,124,456	\$ 15.25	25,697,047

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

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

The following Selected Consolidated Financial Data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, included under Item 7 below and the Consolidated Financial Statements and Notes thereto, included in Item 8 below. Most of the selected data presented below is derived from our Consolidated Financial Statements, if applicable, which are filed in response to Item 8 below. The selected Consolidated Statement of Operations data for the years ended February 2, 2008 and February 3, 2007 and the selected Consolidated Balance Sheet data as of January 31, 2009, February 2, 2008 and February 3, 2007 are derived from audited Consolidated Financial Statements not included herein.

	For the Years Ended(1)				
	January 29, 2011	January 30, 2010	January 31, 2009	February 2, 2008	February 3, 2007
	(In thousands, except per share amounts, ratios and other financial information)				
Summary of Operations(2)					
Net sales	\$ 2,967,559	\$ 2,940,269	\$ 2,948,679	\$ 3,041,158	\$ 2,790,976
Comparable store sales (decrease) increase(3)	(1)%	(4)%	(10)%	1%	12%
Gross profit	\$ 1,170,959	\$ 1,173,430	\$ 1,197,186	\$ 1,438,236	\$ 1,353,703
Gross profit as a percentage of net sales	39.5%	39.9%	40.6%	47.3%	48.5%
Operating income(4)	\$ 317,261	\$ 310,392	\$ 382,797	\$ 652,201	\$ 629,240
Operating income as a percentage of net sales	10.7%	10.6%	13.0%	21.4%	22.5%
Income from continuing operations	\$ 181,934	\$ 213,398	\$ 229,984	\$ 433,507	\$ 413,583
Income from continuing operations as a percentage of net sales	6.1%	7.3%	7.8%	14.3%	14.8%
Per Share Results(5)					
Income from continuing operations per common share-basic	\$ 0.91	\$ 1.04	\$ 1.12	\$ 2.01	\$ 1.86
Income from continuing operations per common share-diluted	\$ 0.90	\$ 1.02	\$ 1.11	\$ 1.97	\$ 1.81
Weighted average common shares outstanding basic	199,979	206,171	205,169	216,119	222,662
Weighted average common shares outstanding diluted	201,818	209,512	207,582	220,280	228,384
Cash dividends per common share	\$ 0.93	\$ 0.40	\$ 0.40	\$ 0.38	\$ 0.28

**Balance Sheet
Information**

Total cash and short-term investments	\$ 734,695	\$ 698,635	\$ 483,853	\$ 619,939	\$ 813,813
Long-term investments	\$ 5,915	\$ 197,773	\$ 251,007	\$ 165,810	\$ 264,944
Total assets	\$ 1,879,998	\$ 2,138,148	\$ 1,963,676	\$ 1,867,680	\$ 1,979,558
Short-term debt	\$	\$ 30,000	\$ 75,000	\$	\$
Long-term debt	\$	\$	\$	\$	\$
Stockholders equity	\$ 1,351,071	\$ 1,578,517	\$ 1,409,031	\$ 1,340,464	\$ 1,417,312
Working capital	\$ 786,573	\$ 758,075	\$ 523,596	\$ 644,656	\$ 724,490
Current ratio	3.03	2.85	2.30	2.71	2.56
Average return on stockholders equity	9.6%	11.3%	13.0%	29.0%	30.1%

Table of Contents

	For the Years Ended(1)				
	January 29, 2011	January 30, 2010	January 31, 2009	February 2, 2008	February 3, 2007
	(In thousands, except per share amounts, ratios and other financial information)				
<i>Other Financial Information(2)</i>					
Total stores at year-end	1,086	1,075	1,070	968	906
Capital expenditures	\$ 84,259	\$ 127,080	\$ 243,564	\$ 249,640	\$ 210,082
Net sales per average selling square foot(6)	\$ 524	\$ 526	\$ 563	\$ 644	\$ 644
Total selling square feet at end of period	5,067,489	4,981,595	4,920,285	4,492,198	4,191,973
Net sales per average gross square foot(6)	\$ 420	\$ 422	\$ 452	\$ 522	\$ 525
Total gross square feet at end of period	6,339,469	6,215,355	6,139,663	5,581,769	5,136,962
Number of employees at end of period	39,900	38,800	36,900	38,400	27,400

- (1) Except for the fiscal year ended February 3, 2007, which includes 53 weeks, 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 14 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. The comparable store sales increase for the period ended February 3, 2007 is compared to the corresponding 53 week period in the preceding fiscal year.
- (4) All amounts presented exclude gift card service fee income, which was reclassified to other income, net during Fiscal 2006. Refer to Note 2 to the accompanying Consolidated Financial Statements for additional information regarding gift cards.
- (5) Per share results for all periods presented reflect the three-for-two stock split distributed on December 18, 2006.
- (6) Net sales per average square foot is calculated using retail store sales for the year divided by the straight average of the beginning and ending square footage for the year.

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

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

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

the planned opening of 14 new American Eagle stores, 10 new aerie stores and 12 new 77kids stores in the United States and Canada during Fiscal 2011;

the selection of approximately 55 to 75 American Eagle stores in the United States and Canada for remodeling during Fiscal 2011;

the planned closure of 15 to 25 American Eagle stores in the United States and Canada during Fiscal 2011;

the planned opening of 20 new franchised American Eagle stores during Fiscal 2011;

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

Table of Contents

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

the expected payment of a dividend in future periods;

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

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

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

the possibility that we may be required to take store impairment charges related to underperforming stores.

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

Critical Accounting Policies

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

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

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

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

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.

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

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

Table of Contents

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

Asset Impairment. In accordance with Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 360, *Property, Plant, and Equipment*, we evaluate long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset might not be recoverable. Assets are evaluated for impairment by comparing the projected undiscounted future cash flows of the asset, over its remaining useful life, to the carrying value. If the future undiscounted cash flows are projected to be less than the carrying value of the asset, we adjust the asset value to its estimated fair value and an impairment loss is recorded as a component of operating income within selling, general and administrative expense.

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

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

We evaluate our investments for impairment in accordance with ASC 320, *Investments – Debt and Equity Securities* (ASC 320). ASC 320 provides guidance for determining when an investment is considered impaired, whether impairment is other-than-temporary, and measurement of an impairment loss. An investment is considered impaired if the fair value of the investment is less than its cost. If, after consideration of all available evidence to evaluate the realizable value of its investment, impairment is determined to be other-than-temporary, then an impairment loss is recognized in the Consolidated Statement of Operations equal to the difference between the investment's cost and its fair value. As of May 3, 2009, we adopted ASC 320-10-65, *Transition Related to FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary-Impairments* (ASC 320-10-65), which modifies the requirements for recognizing other-than-temporary impairment (OTTI) and changes the impairment model for debt securities. In addition, ASC 320-10-65 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 in the Consolidated Statements of Operations, with an offsetting reduction for any non-credit loss impairment amount recognized in other comprehensive income (OCI).

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

We calculate a weighted-average expected term based on historical experience. Expected stock price volatility is based on a combination of historical volatility of our common stock and implied volatility. We chose to use a combination of historical and implied volatility as we believe that this combination is more representative of future stock price trends than historical volatility alone. Changes in these assumptions can materially affect the estimate of

Table of Contents

the fair value of our share-based payments and the related amount recognized in our Consolidated Financial Statements.

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

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

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

Key Performance Indicators

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

Comparable store sales Comparable store sales provide a measure of sales growth for stores open at least one year over the comparable prior year period. In fiscal years following those with 53 weeks, including Fiscal 2007, the prior year period is shifted by one week to compare similar calendar weeks. A store is included in comparable store sales in the thirteenth month of operation. However, stores that have a gross square footage increase of 25% or greater due to a remodel are removed from the comparable store sales base, but are included in total sales. These stores are returned to the comparable store sales base in the thirteenth month following the remodel. Sales from American Eagle and aerie stores are included in comparable store sales. Sales from AEO Direct are not included in comparable store sales. Sales from 77kids stores will be included in comparable store sales upon achieving 13 months of operations.

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

Gross profit Gross profit measures whether we are optimizing the price and inventory levels of our merchandise and achieving an optimal level of sales. Gross profit is the difference between net sales and cost of sales. Cost of sales consists of: merchandise costs, including design, sourcing, importing and inbound freight costs, as well as markdowns, shrinkage, certain promotional costs and buying, occupancy and warehousing costs. Buying, occupancy and warehousing costs consist of: compensation, employee benefit expenses and travel for our buyers and certain senior merchandising executives; rent and utilities related to our stores, corporate headquarters, distribution centers and other office space; freight from our 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. The inability to obtain acceptable levels of sales, initial markups or any significant increase in our use of markdowns could have an adverse effect on our gross profit and results of operations.

Table of Contents

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

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

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

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

Results of Operations

Overview

In Fiscal 2010, we took action to strategically manage our business in what continued to be a challenging retail environment. During the second quarter, we commenced our corporate profit initiative, aimed at reducing costs, creating efficiencies and improving inventory turns. Additionally, we have strengthened our assortments and realigned talent. We continue to make progress implementing our corporate profit initiatives, and are driving positive changes across the Company, including supply chain and production operations.

Fiscal 2010 net sales of \$2.968 billion increased 1% compared to \$2.940 billion in Fiscal 2009. Annual comparable store sales decreased 1%, compared to a 4% decline last year. A higher merchandise margin reflected lower markdowns. However, buying, occupancy and warehousing expenses increased as a rate to sales as a result of negative comparable store sales and the impact of new store openings. Total selling, general and administrative expenses decreased 2% due to a combination of lower incentive compensation expense recorded in the year and savings resulting from our corporate profit initiative.

Operating income increased as a percent to net sales to 10.7% for Fiscal 2010 compared to 10.6% for Fiscal 2009.

For Fiscal 2010, income from continuing operations was \$181.9 million and includes \$24.4 million of realized losses from the sale of investment securities. As a percent to net sales, income from continuing operations was 6.1% during Fiscal 2010 and 7.3% during Fiscal 2009. Fiscal 2010 income from continuing operations per diluted share was \$0.90, which includes a \$0.12 per diluted share loss from sale of investment securities. Fiscal 2009 income from continuing operations per diluted share was \$1.02, which includes \$0.11 per diluted share of tax benefits, partially offset by a \$0.01 per diluted share loss on sale of investment securities.

We ended Fiscal 2010 with \$740.6 million in cash, short-term and long-term investments, a decrease of \$155.8 million from last year. During the year, we generated approximately \$402.6 million of cash from operations. The cash from operations was offset by \$84.3 million of capital expenditures, a \$30.0 million repayment of our outstanding notes payable balance, and value returned to shareholders through share repurchases of \$216.1 million and dividend payments of \$183.2 million.

Table of Contents

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

	For the Fiscal Years Ended		
	January 29, 2011	January 30, 2010	January 31, 2009
Net sales	100.0%	100.0%	100.0%
Cost of sales, including certain buying, occupancy and warehousing expenses	60.5	60.1	59.4
Gross profit	39.5	39.9	40.6
Selling, general and administrative expenses	24.0	24.6	23.4
Depreciation and amortization expense	4.8	4.7	4.2
Operating income	10.7	10.6	13.0
Realized loss on sale of investment securities	(0.8)	(0.1)	
Other income (expense), net	0.1	(0.1)	0.6
Net impairment loss recognized in earnings	(0.1)		(0.8)
Income before income taxes	9.9	10.4	12.8
Provision for income taxes	3.8	3.1	5.0
Income from continuing operations	6.1	7.3	7.8
Loss from discontinued operations, net of tax	(1.4)	(1.5)	(1.7)
Net income	4.7%	5.8%	6.1%

Our operations are conducted in one reportable segment, which includes our 929 U.S. and Canadian AE retail stores, 148 aerie by American Eagle retail stores, nine 77kids by american eagle retail stores and AEO Direct, as of January 29, 2011.

Comparison of Fiscal 2010 to Fiscal 2009***Net Sales***

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

Gross Profit

Gross profit decreased slightly to \$1.171 billion from \$1.173 billion in Fiscal 2009. Gross profit as a percent to net sales decreased by 40 basis points to 39.5% from 39.9% last year. The percentage decrease was attributed to a 50 basis point increase in buying, occupancy and warehousing costs as a percent to net sales, partially offset by a 10 basis point improvement in merchandise margin as a rate to sales.

Buying, occupancy and warehousing expenses increased as a rate to sales as a result of negative comparable store sales and the impact of new store openings. Share-based payment expense included in gross profit decreased to approximately \$8.4 million compared to \$11.6 million last year.

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

Table of Contents

Selling, General and Administrative Expenses

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

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

Depreciation and Amortization Expense

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

Other Income (Expense), Net

Other income (expense), net increased to \$3.5 million from \$(2.3) million last year, due primarily to a non-cash, non-operating foreign currency loss related to holding U.S. dollars in our Canadian subsidiary in anticipation of repatriation recorded last year.

Realized Loss on Sale of Investment Securities

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

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

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

Net Impairment Loss Recognized in Earnings

Net impairment loss recognized in earnings relating to our investment securities was \$1.2 million for Fiscal 2010, compared to \$0.9 million for Fiscal 2009.

Provision for Income Taxes

The effective income tax rate from continuing operations increased to approximately 38.3% in Fiscal 2010 from 29.9% in Fiscal 2009. The lower effective income tax rate in Fiscal 2009 was primarily the result of the tax benefit associated with the repatriation of foreign earnings from Canada as well as federal and state income tax settlements and other changes in income tax reserves. Additionally, the Fiscal 2010 effective income tax rate was higher due to

losses on the sale of certain ARS investments in which no income tax benefit was recognized. The repatriation of foreign earnings from Canada in Fiscal 2009 was a discrete event and has not changed the Company's intention to indefinitely reinvest the earnings of our Canadian subsidiaries to the extent not repatriated.

Refer to Note 13 to the Consolidated Financial Statements for additional information regarding our accounting for income taxes.

Table of Contents

Income From Continuing Operations

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

Loss from Discontinued Operations

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

Refer to Note 14 to the Consolidated Financial Statements for additional information regarding the discontinued operations of M+O.

Net Income

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

Comparison of Fiscal 2009 to Fiscal 2008

Net Sales

Fiscal 2009 net sales were \$2.940 billion compared to \$2.949 billion in Fiscal 2008. Fiscal 2009 results included an increase in our conversion rate driven primarily by strong holiday sales. For Fiscal 2009, comparable store sales declined in the mid-single digits for both the AE Brand women's and men's business compared to Fiscal 2008.

Gross Profit

Gross profit decreased 2% to \$1.173 billion from \$1.197 billion in Fiscal 2008. Gross profit as a percent to net sales decreased by 70 basis points to 39.9% from 40.6% in Fiscal 2008. The percentage decrease was attributed to a 140 basis point increase in buying, occupancy and warehousing costs as a percent to net sales, partially offset by a 70 basis point increase in the merchandise margin rate as a percent to net sales. Merchandise margin increased for Fiscal 2009 due primarily to decreased markdowns.

Buying, occupancy and warehousing expenses increased 140 basis points as a percent to net sales. This was primarily due to a 120 basis point increase in rent as a percent to net sales, driven by new store openings. Share-based payment expense included in gross profit increased to approximately \$11.6 million in Fiscal 2009 compared to \$5.7 million in Fiscal 2008.

Our gross profit may not be comparable to that of other retailers, as some retailers include all costs related to their distribution network, as well as design costs in cost of sales. Other retailers may exclude a portion of these costs from

cost of sales, including them in a line item such as selling, general and administrative expenses. Refer to Note 2 to the Consolidated Financial Statements for a description of our accounting policy regarding cost of sales, including certain buying, occupancy and warehousing expenses.

Table of Contents

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 5% to \$725.3 million from \$690.8 million. As a percent to net sales, selling, general and administrative expenses increased by 120 basis points to 24.6% from 23.4% in Fiscal 2008.

The higher rate in Fiscal 2009 is primarily due to an increase in incentive compensation of 100 basis points partially offset by improvement in advertising and travel expenses. Share-based payment expense included in selling, general and administrative expenses increased to approximately \$23.0 million in Fiscal 2009 compared to \$13.0 million in Fiscal 2008.

Depreciation and Amortization Expense

Depreciation and amortization expense increased 11% to \$137.8 million from \$123.6 million in Fiscal 2008. This increase is primarily due to a greater property and equipment base driven by our level of capital expenditures. As a percent to net sales, depreciation and amortization expense increased to 4.7% from 4.2% due to the increased expense as well as the impact of the comparable store sales decline.

Other (Expense) Income, Net

Other (expense) income, net decreased to \$(2.3) million from \$18.9 million, due primarily to lower interest income, driven by decreased interest rates and a lower investment balance. Additionally, a non-cash, non-operating foreign currency loss related to holding U.S. dollars in our Canadian subsidiary in anticipation of repatriation was recorded in Fiscal 2009.

Realized Loss on Sale of Investment Securities

The realized loss on sale of investment securities was \$2.7 million for Fiscal 2009. This compares to a loss of \$1.1 million for Fiscal 2008.

Net Impairment Loss Recognized in Earnings

Net impairment loss recognized in earnings relating to our investment securities was \$0.9 million for Fiscal 2009, compared to \$22.9 million for Fiscal 2008.

Provision for Income Taxes

The effective income tax rate from continuing operations decreased to approximately 29.9% in Fiscal 2009 from 39.1% in Fiscal 2008. The decrease in the effective income tax rate was primarily the result of the tax benefit associated with the repatriation of foreign earnings from Canada as well as federal and state income tax settlements and other changes in income tax reserves. Additionally, the effective income tax rate was higher in Fiscal 2008 primarily as a result of the impairment charge recorded in connection with the valuation of certain ARS and auction rate preferred securities (ARPS) in which no income tax benefit was recognized. The repatriation of foreign earnings from Canada in Fiscal 2009 was a discrete event and has not changed the Company's intention to indefinitely reinvest the earnings of our Canadian subsidiaries to the extent not repatriated.

Refer to Note 13 to the Consolidated Financial Statements for additional information regarding our accounting for income taxes.

Income from Continuing Operations

Income from continuing operations for Fiscal 2009 was \$213.4 million, or \$1.02 per diluted share, and includes \$0.11 per diluted share of tax benefits partially offset by a \$0.01 per diluted share realized loss on the sale of investment securities. Income from continuing operations for Fiscal 2008 was \$230.0 million, or \$1.11 per diluted share, and includes \$0.11 per diluted share net investment impairment loss recognized in earnings.

Table of Contents

Loss on Discontinued Operations

We completed the closure of M+O stores and related e-commerce operations during Fiscal 2010. Accordingly, the after-tax operating results and closure charges appear in Loss from Discontinued Operations on the Consolidated Statements of Operations for all periods presented. Loss from Discontinued Operations, net of tax, was \$44.4 million and \$50.9 million for Fiscal 2009 and Fiscal 2008, respectively. The Loss from Discontinued Operations included asset impairment charges of \$18.0 million and \$6.7 million for Fiscal 2009 and Fiscal 2008, respectively.

Refer to Note 14 to the Consolidated Financial Statements for additional information regarding the discontinued operations of M+O.

Net Income

Net income decreased to \$169.0 million in Fiscal 2009 from \$179.1 million in Fiscal 2008. As a percent to net sales, net income was 5.8% and 6.1% for Fiscal 2009 and Fiscal 2008, respectively. Net income per diluted share was \$0.81 compared to \$0.86 last year. The decrease in net income was attributable to the factors noted above.

Fiscal 2011 Outlook

Looking ahead to Fiscal 2011, we have numerous opportunities and are enthusiastic about our long-term growth plans. We are continuing to strengthen assortments, achieve expense efficiencies and challenge all areas of the business to produce additional savings. However, we face numerous headwinds, which include rising product costs primarily in the second half of the year. Our strategies to mitigate rising product costs include a targeted reduction in markdowns, selective price increases and on-going expense savings. We believe that our current cash holdings and cash generated from operations in Fiscal 2011 will be sufficient to fund anticipated capital expenditures and working capital requirements.

Fair Value Measurements

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

Financial Instruments

Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. In addition, ASC 820 establishes 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 29, 2011, we held certain assets that are required to be measured at fair value on a recurring basis. These include cash equivalents and short and long-term investments, including ARS.

Table of Contents

In accordance with ASC 820, the following table represents the fair value hierarchy for our financial assets (cash equivalents and investments) measured at fair value on a recurring basis as of January 29, 2011:

	Fair Value Measurements at January 29, 2011			
	Carrying Amount	Quoted Market Prices in Active Markets for Identical Assets (Level 1) (In thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents				
Cash	\$ 122,578	\$ 122,578	\$	\$
Commercial paper	40,884	40,884		
Corporate bonds	3,695	3,695		
Treasury bills	102,996	102,996		
Money-market	397,440	397,440		
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
Percent to total	100.0%	98.7%	%	1.3%

We used a discounted cash flow (DCF) model to value our Level 3 investments. For Fiscal 2010, the assumptions in our 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. They are based on our current judgment and our view of current market conditions. The use of different assumptions would result in a different valuation. For example, an increase in the recovery period by one year would reduce the fair value of our investment in ARS by approximately \$0.2 million. An increase to the discount rate and illiquidity premium of 100 basis points would reduce the estimated fair value of our investment in auction rate securities by approximately \$0.2 million.

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

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

Liquidity and Capital Resources

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

Table of Contents

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

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

The following sets forth certain measures of our liquidity:

	January 29, 2011	January 30, 2010
Working Capital (in 000 s)	\$ 786,573	\$ 758,075
Current Ratio	3.03	2.85

The increase in our working capital and current ratio as of January 29, 2011, compared to January 30, 2010, is primarily related to the combined increase in cash and cash equivalents and short-term investments as a result of cash generated from operations as well as the liquidation of long-term investments, partially offset by share repurchases, cash dividends paid and capital expenditures. Additionally, current liabilities are lower due to the repayment of our outstanding notes payable balance in Fiscal 2010 and a lower accrued compensation balance this year.

Cash Flows from Operating Activities of Continuing Operations

Net cash provided by operating activities totaled \$402.6 million during Fiscal 2010 compared to \$400.3 million during Fiscal 2009 and \$345.1 million during Fiscal 2008. Our major source of cash from operations was merchandise sales. Our primary outflows of cash from operations were for operational costs.

The increase in net cash provided by operating activities of \$2.3 million in Fiscal 2010 was driven by an increase in income from continuing operations adjusted for non-cash items and a reduction in inventory levels. This was partially offset by a decrease in accrued compensation due to the payment of incentive compensation accrued during Fiscal 2009, as well as an increase in prepaid expenses due to the timing of payments.

Cash Flows from Investing Activities of Continuing Operations

Investing activities for Fiscal 2010 included \$177.5 million of proceeds from the sale of investments classified as available for sale, partially offset by \$84.3 million used for capital expenditures and \$62.8 million for the purchase of short-term investments. Investing activities for Fiscal 2009 included \$127.1 million for capital expenditures, partially offset by \$80.4 million from the sale of investments classified as available-for-sale. Investing activities for Fiscal 2008 primarily included \$393.6 million from the net sale of investments classified as available-for-sale, partially offset by \$243.6 million for capital expenditures.

Cash Flows from Financing Activities of Continuing Operations

During Fiscal 2010, cash used for financing activities resulted primarily from \$216.1 million for the repurchase of 15.5 million shares as part of our publicly announced repurchase program, \$183.2 million for the payment of dividends, \$30.0 million for the full repayment of our demand line borrowings and \$18.0 million for the repurchase of common stock from employees for the payment of taxes in connection with the vesting of share-based payments. During Fiscal 2009, cash used for financing activities resulted primarily from \$83.0 million used for the payment of dividends and the partial repayment of \$45.0 million in borrowings against our demand line of credit. During Fiscal 2008, cash used for financing activities resulted primarily from \$82.4 million used for the payment of dividends partially offset by \$75.0 million in borrowings against our demand line of credit.

ASC 718 requires that cash flows resulting from the benefits of tax deductions in excess of recognized compensation cost for share-based payments be classified as financing cash flows. Accordingly, for Fiscal 2010,

Table of Contents

Fiscal 2009 and 2008, the excess tax benefit from share-based payments of \$12.5 million, \$2.8 million and \$0.7 million, respectively, are classified as financing cash flows.

Capital Expenditures

Fiscal 2010 capital expenditures were \$84.3 million, compared to \$127.1 million in Fiscal 2009. Fiscal 2010 expenditures included \$56.2 million related to investments in our AE stores, including 34 new AE, aerie and 77kids stores in the United States and Canada, 18 remodeled stores, and fixtures and visual investments. Additionally, we continued to support our infrastructure growth by investing in home office projects including the construction of our corporate headquarters in Pittsburgh, Pennsylvania (\$2.9 million), the expansion and improvement of our distribution centers (\$14.0 million) and information technology (\$11.2 million).

For Fiscal 2011, we will continue with our reduced spending plan. We expect capital expenditures to be in the range of \$90.0 million to \$100.0 million with approximately half of the amount relating to store growth and renovation.

Credit Facilities

The Company has borrowing agreements with four separate financial institutions under which it may borrow an aggregate of \$310.0 million United States dollars (USD) and \$25.0 million Canadian dollars (CAD). Of this amount, \$200.0 million USD can be used for letters 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.

The letters of credit facilities of \$150.0 million USD and \$50.0 million USD expire November 1, 2011 and May 27, 2011, respectively. The \$50.0 million USD and \$25.0 million CAD demand lines expire on April 20, 2011 and December 13, 2011, respectively. The remaining \$60.0 million USD facility expires on May 22, 2011.

As of January 29, 2011, we had outstanding letters of credit of \$30.0 million USD and no demand line borrowings.

The availability of any future borrowings is subject to acceptance by the respective financial institutions. The average borrowing rate on the demand line for outstanding borrowings during Fiscal 2010 was 2.1%.

Stock Repurchases

During Fiscal 2007, our Board authorized a total of 60.0 million shares of our common stock for repurchase under our share repurchase program with expiration dates extending into Fiscal 2010. We repurchased 18.7 million shares during Fiscal 2007 and the authorization related to 11.3 million shares expired in Fiscal 2009. At the beginning of Fiscal 2010, the Company had 30.0 million shares remaining authorized for repurchase.

During Fiscal 2010, we repurchased 15.5 million shares as part of our publicly announced repurchase programs for approximately \$216.1 million, at a weighted average price of \$13.94 per share. As of January 29, 2011, we had 14.5 million shares remaining authorized for repurchase. These shares may be repurchased at our discretion. Our Board extended the current remaining share repurchase authorization through February 2, 2013. We did not repurchase any common stock as part of our publicly announced repurchase program during Fiscal 2009 or Fiscal 2008.

During Fiscal 2010 and Fiscal 2009, we repurchased approximately 1.0 million and 18,000 shares, respectively, from certain employees at market prices totaling \$18.0 million and \$0.2 million, respectively. These shares were repurchased for the payment of taxes, not in excess of the minimum statutory withholding requirements, in connection

with the vesting of share-based payments, as permitted under the 2005 Stock Award and Incentive Plan, as amended.

The aforementioned share repurchases have been recorded as treasury stock.

Dividends

During the fourth quarter of Fiscal 2010, our Board declared and paid a \$0.50 per share special cash dividend along with a regular quarterly cash dividend of \$0.11 per share. An \$0.11 per share dividend was paid during both

Table of Contents

the second and third quarters of Fiscal 2010. A \$0.10 per share dividend was paid during the first quarter of Fiscal 2010 and each quarter of Fiscal 2009. Subsequent to the fourth quarter of Fiscal 2010, our Board declared a quarterly cash dividend of \$0.11 per share, payable on April 8, 2011, to stockholders of record at the close of business on March 28, 2011. The payment of future dividends is at the discretion of our Board and is based on future earnings, cash flow, financial condition, capital requirements, changes in U.S. taxation and other relevant factors. It is anticipated that any future dividends paid will be declared on a quarterly basis.

Obligations and Commitments**Disclosure about Contractual Obligations**

The following table summarizes our significant contractual obligations as of January 29, 2011:

	Total	Payments Due by Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
		(In thousands)			
Operating Leases(1)	\$ 1,773,240	\$ 243,798	\$ 453,360	\$ 388,995	\$ 687,087
Unrecognized tax benefits(2)	38,671				38,671
Purchase Obligations(3)	457,398	436,103	12,340	3,547	5,408
Total Contractual Obligations	\$ 2,269,309	\$ 679,901	\$ 465,700	\$ 392,542	\$ 731,166

- (1) Operating lease obligations consist primarily of future minimum lease commitments related to store operating leases (Refer to Note 9 to the Consolidated Financial Statements). Operating lease obligations do not include common area maintenance, insurance or tax payments for which we are also obligated.
- (2) The amount of unrecognized tax benefits as of January 29, 2011 was \$38.7 million, including approximately \$7.6 million of accrued interest and penalties. Unrecognized tax benefits are positions taken or expected to be taken on an income tax return that may result in additional payments to tax authorities. The Company does not anticipate that any significant unrecognized tax benefits will be realized within one year. Accordingly, the balance of the unrecognized tax benefits are included in the More than 5 Years column as we are not able to reasonably estimate the timing of the potential future payments.
- (3) Purchase obligations primarily include binding commitments to purchase merchandise inventory, as well as other legally binding commitments, made in the normal course of business that are enforceable and specify all significant terms. Included in the above purchase obligations are inventory commitments guaranteed by outstanding letters of credit, as shown in the table below.

Disclosure about Commercial Commitments

The following table summarizes our significant commercial commitments as of January 29, 2011:

Amount of Commitment Expiration Per Period

	Total Amount Committed	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(In thousands)				
Letters of Credit(1)	\$ 29,981	\$ 29,981			
Total Commercial Commitments	\$ 29,981	\$ 29,981			

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

Off-Balance Sheet Arrangements

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

Table of Contents

Recent Accounting Pronouncements

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

Certain Relationships and Related Party Transactions

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

Impact of Inflation/Deflation

We do not believe that inflation has had a significant effect on our net sales or our profitability. However, substantial increases in costs, including the price of raw materials, labor, energy and other inputs to the manufacture of our merchandise, could have a significant impact on our business and the industry in the future. Additionally, while deflation could positively impact our merchandise costs, it could have an adverse effect on our average unit retail price, resulting in lower sales and profitability.

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

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

Interest Rate Risk

Our earnings are affected by changes in market interest rates as a result of our short and long-term investments. If our Fiscal 2010 average yield rate decreases by 10% in Fiscal 2011, our income before taxes will decrease by approximately \$0.2 million. Comparatively, if our Fiscal 2009 average yield rate had decreased by 10% in Fiscal 2010, our income before taxes would have decreased by approximately \$0.2 million. These amounts are determined by considering the impact of the hypothetical yield rates on our cash, short-term and long-term investment balances and assumes no change in our investment structure.

Foreign Exchange Rate Risk

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

Table of Contents

ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.*

Index to Consolidated Financial Statements

<u>Report of Independent Registered Public Accounting Firm</u>	33
<u>Consolidated Balance Sheets</u>	34
<u>Consolidated Statements of Operations</u>	35
<u>Consolidated Statements of Comprehensive Income</u>	36
<u>Consolidated Statements of Stockholders' Equity</u>	37
<u>Consolidated Statements of Cash Flows</u>	38
<u>Notes to Consolidated Financial Statements</u>	39

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
American Eagle Outfitters, Inc.

We have audited the accompanying consolidated balance sheets of American Eagle Outfitters, Inc. (the Company) as of January 29, 2011 and January 30, 2010, 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 29, 2011. 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 29, 2011 and January 30, 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 29, 2011, 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 29, 2011, 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 11, 2011 expressed an unqualified opinion.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania
March 11, 2011

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

	January 29, 2011	January 30, 2010
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 667,593	\$ 693,960
Short-term investments	67,102	4,675
Merchandise inventory	301,208	326,454
Accounts receivable	36,721	34,746
Prepaid expenses and other	53,727	47,039
Deferred income taxes	48,059	60,156
Total current assets	1,174,410	1,167,030
Property and equipment, at cost, net of accumulated depreciation and amortization	643,120	713,142
Goodwill	11,472	11,210
Long-term investments	5,915	197,773
Non-current deferred income taxes	19,616	27,305
Other assets, net	25,465	21,688
Total assets	\$ 1,879,998	\$ 2,138,148
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 167,723	\$ 158,526
Note payable		30,000
Accrued compensation and payroll taxes	34,954	55,144
Accrued rent	70,390	68,866
Accrued income and other taxes	32,468	20,585
Unredeemed gift cards and gift certificates	41,001	39,389
Current portion of deferred lease credits	16,203	17,388
Other liabilities and accrued expenses	25,098	19,057
Total current liabilities	387,837	408,955
Non-current liabilities:		
Deferred lease credits	78,606	89,591
Non-current accrued income taxes	38,671	38,618
Other non-current liabilities	23,813	22,467
Total non-current liabilities	141,090	150,676

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 249,561 shares issued; 194,366 and 206,832 shares outstanding, respectively

Contributed capital	2,496	2,486
Accumulated other comprehensive income	546,597	554,399
Retained earnings	28,072	16,838
Treasury stock, 55,200 and 41,737 shares, respectively, at cost	1,711,929	1,764,049
	(938,023)	(759,255)

Total stockholders' equity	1,351,071	1,578,517
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Total liabilities and stockholders' equity	\$ 1,879,998	\$ 2,138,148
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Refer to Notes to Consolidated Financial Statements

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

	For the Years Ended		
	January 29, 2011	January 30, 2010	January 31, 2009
	(In thousands, except per share amounts)		
Net sales	\$ 2,967,559	\$ 2,940,269	\$ 2,948,679
Cost of sales, including certain buying, occupancy and warehousing expenses	1,796,600	1,766,839	1,751,493
Gross profit	1,170,959	1,173,430	1,197,186
Selling, general and administrative expenses	713,197	725,278	690,787
Depreciation and amortization expense	140,501	137,760	123,602
Operating income	317,261	310,392	382,797
Realized loss on sale of investment securities	(24,426)	(2,749)	(1,117)
Other income (expense), net	3,497	(2,328)	18,908
Total other-than-temporary impairment losses	(5,089)	(4,413)	(22,889)
Portion of loss recognized in other comprehensive income, before tax	3,841	3,473	
Net impairment loss recognized in earnings	(1,248)	(940)	(22,889)
Income before income taxes	295,084	304,375	377,699
Provision for income taxes	113,150	90,977	147,715
Income from continuing operations	181,934	213,398	229,984
Loss from discontinued operations, net of tax	(41,287)	(44,376)	(50,923)
Net income	\$ 140,647	\$ 169,022	\$ 179,061
Basic income per common share:			
Income from continuing operations	\$ 0.91	\$ 1.04	\$ 1.12
Loss from discontinued operations	\$ (0.21)	\$ (0.22)	\$ (0.25)
Basic income per common share	\$ 0.70	\$ 0.82	\$ 0.87
Diluted income per common share:			
Income from continuing operations	\$ 0.90	\$ 1.02	\$ 1.11
Loss from discontinued operations	(0.20)	(0.21)	(0.25)
Diluted income per common share	\$ 0.70	\$ 0.81	\$ 0.86
Weighted average common shares outstanding basic	199,979	206,171	205,169

Weighted average common shares outstanding	diluted	201,818	209,512	207,582
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Refer to Notes to Consolidated Financial Statements

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

	For the Years Ended		
	January 29, 2011	January 30, 2010	January 31, 2009
	(In thousands)		
Net income	\$ 140,647	\$ 169,022	\$ 179,061
Other comprehensive income (loss):			
Temporary (impairment) recovery related to investment securities, net of tax	(1,140)	14,506	(23,173)
Reclassification adjustment for realized losses in net income related to investment securities, net of tax	7,541	940	948
Foreign currency translation gain (loss)	4,833	15,781	(27,649)
Other comprehensive income (loss)	11,234	31,227	(49,874)
Comprehensive income	\$ 151,881	\$ 200,249	\$ 129,187

Refer to Notes to Consolidated Financial Statements

Table of Contents

AMERICAN EAGLE OUTFITTERS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Shares Outstanding (1)	Common Stock	Contributed Capital (In thousands, except per share amounts)	Retained Earnings	Treasury Stock(2)	Accumulated Other Comprehensive Income (Loss)	Stockholders Equity
Balance at February 2, 2008	204,480	\$ 2,481	\$ 493,395	\$ 1,601,784	\$ (792,681)	\$ 35,485	\$ 1,340,464
Stock awards	453	4	20,179	420			20,603
Repurchase of common stock from employees	(164)				(3,432)		(3,432)
Reissuance of treasury stock	512			(4,710)	9,313		4,603
Net income				179,061			179,061
Other comprehensive loss, net of tax						(49,874)	(49,874)
Cash dividends (\$0.40 per share)				(82,394)			(82,394)
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			922	(83,906)			(82,984)

equivalents
(\$0.40 per
share)

**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) \$ 28,072 \$ 1,351,071

(1) 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; 600,000 authorized, 249,328 issued and 205,281 outstanding (excluding 799 shares of non-vested restricted stock), \$0.01 par value common stock at January 31, 2009; The Company has 5,000 authorized, with none issued or outstanding, \$0.01 par value preferred stock at January 29, 2011, January 30, 2010 and January 31, 2009.

(2) 55,200 shares, 41,737 shares, and 43,248 shares at January 29, 2011, January 30, 2010, and January 31, 2009, respectively. During Fiscal 2010, Fiscal 2009, and Fiscal 2008, 3,072 shares, 1,528 shares and 512 shares, respectively, were reissued from treasury stock for the issuance of share-based payments.

Refer to Notes to Consolidated Financial Statements

Table of Contents

AMERICAN EAGLE OUTFITTERS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended		
	January 29, 2011	January 30, 2010	January 31, 2009
	(In thousands)		
Operating activities:			
Net income	\$ 140,647	\$ 169,022	\$ 179,061
Loss from discontinued operations	41,287	44,376	50,923
Income from continuing operations	\$ 181,934	\$ 213,398	\$ 229,984
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	145,548	139,832	126,362
Share-based compensation	25,457	34,615	18,731
Provision for deferred income taxes	11,885	(36,027)	24,473
Tax benefit from share-based payments	15,648	7,995	1,121
Excess tax benefit from share-based payments	(12,499)	(2,812)	(693)
Foreign currency transaction loss (gain)	117	6,477	(1,141)
Net impairment loss recognized in earnings	1,248	940	22,889
Realized loss on sale of investment securities	24,426	2,749	1,117
Changes in assets and liabilities:			
Merchandise inventory	18,713	(33,699)	(5,634)
Accounts receivable	(3,790)	6,656	(10,019)
Prepaid expenses and other	(9,045)	12,916	(23,184)
Other assets, net	(1,380)	1,146	390
Accounts payable	5,232	8,358	(3,467)
Unredeemed gift cards and gift certificates	1,713	(3,591)	(11,495)
Deferred lease credits	(7,451)	4,667	16,622
Accrued compensation and payroll taxes	(19,618)	25,841	(18,223)
Accrued income and other taxes	11,999	12,858	(20,791)
Accrued liabilities	12,457	(1,993)	(1,930)
Total adjustments	220,660	186,928	115,128
Net cash provided by operating activities from continuing operations	402,594	400,326	345,112
Investing activities:			
Capital expenditures	(84,259)	(127,080)	(243,564)
Purchase of available-for-sale securities	(62,797)		(48,655)
Sale of available-for-sale securities	177,472	80,353	393,559
Other investing activities	(2,801)	(2,003)	(2,297)
	27,615	(48,730)	99,043

Net cash provided by (used for) investing activities from continuing operations

Financing activities:			
Payments on capital leases	(2,590)	(2,015)	(2,177)
Proceeds from issuance of note payable			75,000
Repayment of note payable	(30,000)	(45,000)	
Repurchase of common stock as part of publicly announced programs	(216,070)		
Repurchase of common stock from employees	(18,041)	(247)	(3,432)
Net proceeds from stock options exercised	7,272	9,044	3,799
Excess tax benefit from share-based payments	12,499	2,812	693
Cash used to net settle equity awards	(6,434)	(1,414)	
Cash dividends paid	(183,166)	(82,985)	(82,394)
Net cash used for financing activities from continuing operations	(436,530)	(119,805)	(8,511)
Effect of exchange rates on cash	1,394	3,030	(14,790)
Cash flows of discontinued operations			
Net cash used for operating activities	(21,434)	(13,864)	(41,802)
Net cash used for investing activities	(6)	(339)	(21,771)
Net cash used for financing activities			
Effect of exchange rates on cash			
Net cash used for discontinued operations	(21,440)	(14,203)	(63,573)
Net (decrease) increase in cash and cash equivalents	(26,367)	220,618	357,281
Cash and cash equivalents beginning of period	693,960	473,342	116,061
Cash and cash equivalents end of period	\$ 667,593	\$ 693,960	\$ 473,342

Refer to Notes to Consolidated Financial Statements

Table of Contents**AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JANUARY 29, 2011****1. Business Operations**

American Eagle Outfitters, Inc. (the Company), a Delaware corporation, operates under the American Eagle® (AE), 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 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 76 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 29, 2011	January 30, 2010	January 31, 2009
Men's apparel and accessories	40%	40%	42%
Women's apparel and accessories (excluding aerie)	51%	51%	50%
aerie	9%	9%	8%
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 29, 2011, the Company operated in one reportable segment.

Fiscal Year

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

Discontinued Operations

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 notified employees and issued a press release announcing this decision on March 9, 2010. The decision to take this action resulted from an extensive evaluation of the brand and review of strategic alternatives, which revealed that it was not achieving performance levels that warranted further investment. The Company completed the closure of the M+O stores and e-commerce operation during the second quarter of Fiscal 2010 and these Consolidated Financial Statements reflect the results of M+O as a discontinued operation for all periods presented.

Table of Contents

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 September 2009, the Financial Accounting Standards Board (FASB) approved the consensus on Emerging Issues Task Force (EITF) 08-1, *Revenue Arrangements with Multiple Deliverables*, primarily codified under Accounting Standards Codification (ASC) 605, *Revenue Recognition*, as Accounting Standards Update (ASU) 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements (ASU 2009-13)*. ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated among the various deliverables in a multi-element transaction using the relative selling price method. This guidance is effective for revenue arrangements entered into or materially modified in fiscal years beginning after June 15, 2010. The Company will adopt ASU 2009-13 in Fiscal 2011 and does not expect an impact to its Consolidated Financial Statements.

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures Topic 820: Improving Disclosures about Fair Value Measurements (ASU 2010-06)*. ASU 2010-06 requires new disclosures regarding transfers in and out of the Level 1 and 2 and activity within Level 3 fair value measurements and clarifies existing disclosures of inputs and valuation techniques for Level 2 and 3 fair value measurements. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure of activity within Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010, and for interim reporting periods within those years. The Company adopted the new disclosures effective January 31, 2010, except for the disclosure of activity within Level 3 fair value measurements. The Level 3 disclosures are effective for the Company at the beginning of Fiscal 2011. The adoption of ASU 2010-06 did not have a material impact on the disclosures within the Company s Consolidated Financial Statements.

In December 2010, the FASB issued ASU 2010-28, *Intangibles – Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (ASU 2010-28)*. ASU 2010-28 provides amendments to Topic 350 to modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts to clarify that, for those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. For public entities, the amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The adoption of ASU 2010-28 will not have an impact on the Company s Fiscal 2011 Consolidated Financial Statements.

Foreign Currency Translation

The Canadian dollar is the functional currency for the Canadian business. In accordance with 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,

Table of Contents

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

whereas, related translation adjustments are reported as an element of other comprehensive income in accordance with ASC 220, *Comprehensive Income* (refer to Note 10 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 29, 2011, short-term investments included short-term deposits purchased with a maturity of greater than three months but less than one year and auction rate securities (ARS) classified as available for sale that the Company expects to be redeemed at par within 12 months, based on notice from the issuer.

As of January 29, 2011, long-term investments included investments with remaining maturities of greater than 12 months and consisted of ARS classified as available-for-sale. It also includes the Company's ARS Call Option related to investment sales during Fiscal 2010. The remaining contractual maturities of our long-term ARS investments are approximately 17 months and 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, as defined by ASC 320 *Investments - Debt and Equity Securities* (ASC 320), are considered by the Company to be a net impairment loss recognized 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. Realized gains or losses are recognized separately on the Company's Consolidated Statements of Operations as a realized gain or loss on sale of investment securities.

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. As of May 3, 2009, the Company adopted ASC 320-10-65, *Transition Related to FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary-Impairments* (ASC 320-10-65), which modifies the requirements for recognizing OTTI and changes the impairment model for debt securities. In addition, ASC 320-10-65 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 in the Consolidated Statements of Operations, with an offsetting reduction for any non-credit loss impairment amount recognized in other comprehensive income (OCI). During Fiscal 2010, the Company recorded a net impairment loss recognized in earnings related to credit losses on its investment securities of \$1.2 million. During Fiscal 2009, the Company recorded a net impairment loss recognized in earnings related to credit losses on its investment securities of

\$0.9 million. During Fiscal 2008, the Company recorded a net impairment loss of \$22.9 million in earnings related to certain investment securities.

Refer to Notes 3 and 4 to the Consolidated Financial Statements for additional information regarding net impairment losses recognized in earnings.

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

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 as a component of operating income within selling, general and administrative expense.

During Fiscal 2010, the Company recorded asset impairment charges of \$18.0 million related to the impairment of M+O stores. Based on the Company's decision to close all M+O stores in Fiscal 2010, the Company determined that 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. During Fiscal 2009, the Company recorded asset impairment charges of \$18.0 million related primarily to the impairment of 10 M+O stores. During Fiscal 2008, the Company recorded asset impairment charges of \$6.7 million related primarily to the impairment of five M+O stores.

Refer to Note 14 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. During Fiscal 2010, Fiscal 2009 and Fiscal 2008, the Company recorded \$2.7 million, \$2.3 million and \$4.9 million related to asset write-offs within depreciation and amortization expense.

Table of Contents

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Goodwill

As of January 29, 2011, the Company had approximately \$11.5 million of goodwill compared to \$11.2 million as of January 30, 2010. The Company's goodwill is primarily related to the acquisition of its importing operations on January 31, 2000, as well as the acquisition of its Canadian business on November 29, 2000. The increase in goodwill is due to the fluctuation in the foreign exchange spot rate at which the Canadian goodwill is translated. In accordance with ASC 350, *Intangibles- Goodwill and Other*, the Company evaluates goodwill for possible impairment on at least an annual basis and last performed an annual impairment test as of January 29, 2011. Resulting from the Company's annual goodwill impairment test performed as of January 29, 2011, the Company concluded that its goodwill was not impaired.

Other Assets, Net

Other assets, net consist primarily of assets related to our deferred compensation plans and trademark costs, net of accumulated amortization. Trademark costs are amortized over five to 15 years.

Deferred Lease Credits

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

Self-Insurance Liability

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

Co-branded Credit Card and Customer Loyalty Program

The Company offers a co-branded credit card (the AEO Visa Card) and a private label credit card (the AEO Credit Card) under the American Eagle, 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 our credit card rewards program. Under the rewards program that expired on December 31, 2009, points were earned on purchases made with the AEO Visa Card at AE and aerie, and at other retailers where the card is accepted. Points earned under this credit card reward program resulted in the issuance of an AE gift card when a certain point threshold was reached. The AE gift card does not expire. On January 1, 2010, the Company modified the benefits on the AEO Visa and AEO Credit Card programs to

make both credit cards a part of the 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

Table of Contents

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

Through December 31, 2009, the Company offered its customers the AE All-Access Pass[®], a customer loyalty program. On January 1, 2010, the Company replaced the AE All-Access Pass[®] with the AEREWARDSsm loyalty program (the Program). Under either loyalty 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. 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 AE All-Access Pass[®] and 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.

Stock Repurchases

During Fiscal 2007, the Company's Board authorized a total of 60.0 million shares of our common stock for repurchase under its share repurchase program with expiration dates extending into Fiscal 2010. The Company repurchased 18.7 million shares during Fiscal 2007 and the authorization related to 11.3 million shares expired in Fiscal 2009. At the beginning of Fiscal 2010, the Company had 30.0 million shares remaining authorized for repurchase.

During Fiscal 2010, the Company repurchased 15.5 million shares as part of its publicly announced repurchase programs for approximately \$216.1 million, at a weighted average price of \$13.94 per share. As of January 29, 2011, the Company had 14.5 million shares remaining authorized for repurchase. These shares may be repurchased at the Company's discretion. The Company's Board extended the current remaining share repurchase authorization through February 2, 2013. The Company did not repurchase any common stock as part of its publicly announced repurchase program during Fiscal 2009 or Fiscal 2008.

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

The aforementioned share repurchases have been recorded as treasury stock.

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.

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

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 29, 2011	January 30, 2010
	(In thousands)	
Beginning balance	\$ 4,690	\$ 3,981
Returns	(70,789)	(71,705)
Provisions	69,790	72,414
Ending balance	\$ 3,691	\$ 4,690

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

The Company recognizes royalty revenue generated from its franchise agreements based upon royalty percentages on sales of merchandise by the franchisee. Royalty 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.

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

	For the Years Ended		
	January 29, 2011	January 30, 2010	January 31, 2009
	(In thousands)		
Proceeds from sell-offs	\$ 25,593	\$ 29,347	\$ 36,086
Marked-down cost of merchandise disposed of via sell-offs	\$ 24,728	\$ 29,023	\$ 35,336

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 margin 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 29, 2011 and January 30, 2010, the Company had prepaid advertising expense of \$5.4 million. All other advertising costs are expensed as incurred. The Company recognized \$64.9 million, \$60.9 million, and \$70.9 million in advertising expense during Fiscal 2010, Fiscal 2009 and Fiscal 2008, 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 and foreign currency transaction gain/loss.

46

Table of Contents**AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****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 \$5.5 million, \$6.8 million and \$12.2 million during Fiscal 2010, Fiscal 2009 and Fiscal 2008, respectively.

Legal Proceedings and Claims

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

Supplemental Disclosures of Cash Flow Information

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

	January 29, 2011	For the Years Ended January 30, 2010	January 31, 2009
		(In thousands)	
Cash paid during the periods for:			
Income taxes	\$ 45,737	\$ 61,869	\$ 132,234
Interest	\$ 191	\$ 1,879	\$ 1,947

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 29,	January 30,	January 31,

	2011	2010	2009
	(In thousands)		
Net sales:			
United States	\$ 2,675,992	\$ 2,665,655	\$ 2,667,074
Foreign(1)	291,567	274,614	281,605
Total net sales	\$ 2,967,559	\$ 2,940,269	\$ 2,948,679

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

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

	January 29, 2011	January 30, 2010
	(In thousands)	
Long-lived assets, net:		
United States	\$ 607,564	\$ 678,385
Foreign	47,028	45,967
Total long-lived assets, net	\$ 654,592	\$ 724,352

Reclassifications

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

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 as cash and cash equivalents, short-term investments and long-term investments on the Consolidated Balance Sheets:

	Balance	January 29, 2011 Unrealized Holding Gains (In thousands)	Unrealized Holding Losses
Cash and cash equivalents:			
Cash	\$ 122,578	\$	\$
Commercial paper	40,884		
Corporate bonds	3,695		
Treasury bills	102,996		
Money-market	397,440		
Total cash and cash equivalents	\$ 667,593	\$	\$
Short-term investments:			
Term-deposits	\$ 63,402	\$	\$
State and local government ARS	3,700		
Total short-term investments	\$ 67,102	\$	\$
Long-term investments:			
State and local government ARS	\$ 5,500	\$	\$
ARS Call Option	415		

Total long-term investments	\$ 5,915	\$	\$
Total	\$ 740,610	\$	\$

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

	Balance	January 30, 2010 Unrealized Holding Gains (In thousands)}	Unrealized Holding Losses
Cash and cash equivalents:			
Cash	\$ 144,391	\$	\$
Commercial paper	25,420		
Treasury bills	119,988		
Money-market	404,161		
Total cash and cash equivalents	\$ 693,960	\$	\$
Short-term investments:			
Student-loan backed ARS	\$ 400	\$	\$
State and local government ARS	4,275		
Total short-term investments	\$ 4,675	\$	\$
Long-term investments:			
Student-loan backed ARS	\$ 149,031	\$	\$ (8,569)
State and local government ARS	35,969		(456)
Auction rate preferred securities	12,773		(1,287)
Total long-term investments	\$ 197,773	\$	\$ (10,312)
Total	\$ 896,408	\$	\$ (10,312)

Proceeds from the sale of available-for-sale securities were \$177.5 million, \$80.4 million and \$393.6 million for Fiscal 2010, Fiscal 2009 and Fiscal 2008, respectively. The proceeds from the sale of available-for-sale securities for Fiscal 2010 and Fiscal 2008 are offset against purchases of \$62.8 million and \$48.7 million, respectively. There were no purchases of available-for-sale securities during Fiscal 2009.

The following table presents the length of time available-for-sale securities were in continuous unrealized loss positions but were not deemed to be other-than-temporarily impaired. At January 29, 2011, the fair value of all available-for-sale securities approximated par, with no gross unrealized holding losses.

Less Than 12 Months		Greater Than or Equal to 12 Months	
Gross Unrealized Holding Losses	Fair Value	Gross Unrealized Holding Losses	Fair Value

(In thousands)

January 30, 2010

Student-loan backed ARS	\$	(1,643)	\$	9,203	\$	(6,926)	\$	50,228
State and local government ARS		(273)		8,096		(183)		20,922
Auction rate preferred securities						(1,287)		12,773
Total(1)	\$	(1,916)	\$	17,299	\$	(8,396)	\$	83,923

(1) Fair value excludes \$101.2 million as of January 30, 2010 of investments whose fair value approximates par.

As of January 29, 2011, we had a total of \$740.6 million in cash and cash equivalents, short-term and long-term investments, which included \$9.2 million of investments in ARS. The carrying value of the investments in ARS equals their par value with no impairment in OCI or previously recognized in earnings.

In the first half of Fiscal 2010, the Company sold \$28.1 million of ARS investments for proceeds of \$27.9 million and a realized loss of \$0.2 million. During the third quarter of Fiscal 2010, the Company liquidated

Table of Contents

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

\$176.4 million par value (\$163.3 million carrying value) of its available-for-sale securities. The Company received proceeds of \$149.6 million plus accrued interest and recognized a net loss in its Consolidated Statements of Operation of \$24.2 million, of which \$10.9 million was previously included in OCI on the Company's Consolidated Balance Sheet. The total realized loss on the sale of investment securities in Fiscal 2010 was \$24.4 million.

The \$176.4 million of par value ARS securities sold during the third quarter of 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 \$24.2 million referenced above and is classified as a long-term investment on the Consolidated Balance Sheet as of January 29, 2011. As of January 29, 2011, the Company determined the value of the ARS Call Option was \$0.4 million.

The Company continues to monitor the market for ARS and consider the impact, if any, on the fair value of its investments. If current market conditions deteriorate further, or the anticipated recovery in market values does not occur, the Company may be required to record impairment charges on its remaining ARS investments.

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 29, 2011 and January 30, 2010, 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 and ARPS.

Table of Contents**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 29, 2011 and January 30, 2010:

Fair Value Measurements at January 29, 2011

	Carrying Amount	Quoted Market Prices in Active Markets for Identical Assets (Level 1) (In thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents				
Cash	\$ 122,578	\$ 122,578	\$	\$
Commercial paper	40,884	40,884		
Corporate bonds	3,695	3,695		
Treasury bills	102,996	102,996		
Money-market	397,440	397,440		
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

Table of Contents

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair Value Measurements at January 30, 2010

	Carrying Amount	Quoted Market Prices in Active Markets for Identical Assets (Level 1) (In thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents				
Cash	\$ 144,391	\$ 144,391	\$	\$
Commercial paper	25,420	25,420		
Treasury bills	119,988	119,988		
Money-market	404,161	404,161		
Total cash and cash equivalents	\$ 693,960	\$ 693,960	\$	\$
Short-term investments				
Student-loan backed ARS	\$ 400	\$	\$	\$ 400
State and local government ARS	4,275			4,275
Total short-term investments	\$ 4,675	\$	\$	\$ 4,675
Long-term investments				
Student-loan backed ARS	\$ 149,031	\$	\$	\$ 149,031
State and local government ARS	35,969			35,969
Auction rate preferred securities	12,773			12,773
Total long-term investments	\$ 197,773	\$	\$	\$ 197,773
Total	\$ 896,408	\$ 693,960	\$	\$ 202,448

The Company used a discounted cash flow (DCF) model to value its Level 3 investments. 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%. For Fiscal 2009, the assumptions in the Company's model included different recovery periods, ranging from 0.5 year to 11 years, depending on the type of security and varying discount factors for yield, ranging from 0.3% to 6.6%, and illiquidity, ranging from 0.3% to 4.0%. These assumptions are subjective. They are based on the Company's current judgment and view of current market conditions. The use of different assumptions would result in a different valuation and related charge.

As a result of the discounted cash flow analysis for Fiscal 2010, the Company recognized net impairment of \$0.6 million in OCI. The total cumulative impairment recognized in OCI prior to the Company's liquidation of \$176.4 million par value (\$163.3 million carrying value) available-for-sale securities during the third quarter of Fiscal 2010 was \$10.9 million (\$6.8 million, net of tax). Total cumulative impairment recognized in OCI as of January 30, 2010 was \$10.3 million (\$6.4 million, net of tax). The increase in temporary impairment was primarily driven by unfavorable changes in the discount rate. These amounts were previously recorded in OCI and resulted in a decrease in the investments' fair values. As a result of a credit rating downgrade on student-loan backed ARS, the Company also recorded a net impairment loss in earnings of \$1.2 million during Fiscal 2010.

As previously described in Note 3 to the Consolidated Financial Statements, the Company liquidated \$176.4 million par value (\$163.3 million carrying value) of its available-for-sale securities in the third quarter of Fiscal 2010. Through the liquidation, the Company received proceeds of \$149.6 million plus accrued interest and recognized a loss in its Consolidated Statements of Operation of \$24.2 million, net of the ARS Call Option gain of \$0.4 million. The recognized loss included all \$10.9 million of cumulative impairment which was previously included in OCI on the Consolidated Balance Sheet.

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

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

The following table presents a rollforward of the amount of net impairment loss recognized in earnings related to credit losses:

	For the Year Ended January 29, 2011 (In thousands)	
Beginning balance of credit losses previously recognized in earnings	\$	940
Year-to-date OTTI credit losses recognized in earnings		1,248
Ending balance of cumulative credit losses recognized in earnings	\$	2,188

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

	Total	Level 3 (Unobservable inputs)			ARS Call Option
		Auction- Rate Municipal Securities	Student Loan- Backed Auction- Rate Securities (In thousands)	Auction-Rate Preferred Securities	
Carrying value at January 31, 2009	\$ 251,007	\$ 69,970	\$ 169,254	\$ 11,783	\$
Settlements	(72,600)	(29,900)	(42,700)		
Gains and (losses):					
Reported in earnings	(940)			(940)	
Reported in OCI	24,981	174	22,877	1,930	
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

Non-Financial Assets

The Company's non-financial assets, which include goodwill 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. Resulting from the Company's annual goodwill impairment test performed as of January 29, 2011, the Company concluded that its goodwill was not impaired.

Table of Contents

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Certain long-lived assets were measured at fair value on a nonrecurring basis using Level 3 inputs as defined in ASC 820. 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. Additionally, during Fiscal 2009 and Fiscal 2008, 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 and \$6.7 million, respectively. The loss on impairment of M+O assets for all periods presented is included within Loss from Discontinued Operations. The fair value of those 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 14 to the Consolidated Financial Statements for additional information regarding the discontinued operations for M+O.

5. Earnings per Share

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. ASC 260-10-45 was adopted and retrospectively applied at the beginning of Fiscal 2009. For Fiscal 2010, Fiscal 2009 and Fiscal 2008, the application of ASC 260-10-45 resulted in no material change to basic or diluted income from continuing operations per common share.

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

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

	For the Years Ended		
	January 29, 2011	January 30, 2010	January 31, 2009
	(In thousands, except per share amounts)		
Weighted average common shares outstanding:			
Basic number of common shares outstanding	199,979	206,171	205,169
Dilutive effect of stock options and non-vested restricted stock	1,839	3,341	2,413
Dilutive number of common shares outstanding	201,818	209,512	207,582
Basic income from continuing operations per common share			
Income from continuing operations	\$ 181,934	\$ 213,398	\$ 229,984
Less: Income allocated to participating securities	74	365	364
Income from continuing operations available to common shareholders	\$ 181,860	\$ 213,033	\$ 229,620
Basic income from continuing operations per common share	\$ 0.91	\$ 1.03	\$ 1.12
Dilutive income from continuing operations per common share			
Income from continuing operations	\$ 181,934	\$ 213,398	\$ 229,984
Less: Income allocated to participating securities	74	360	360
Income from continuing operations available to common shareholders	\$ 181,860	\$ 213,038	\$ 229,624
Dilutive income from continuing operations per common share	\$ 0.90	\$ 1.02	\$ 1.11

Equity awards to purchase approximately 7.9 million, 6.6 million and 7.6 million shares of common stock during the Fiscal 2010, Fiscal 2009 and Fiscal 2008, respectively, were outstanding, but were not included in the computation of weighted average diluted common share amounts as the effect of doing so would have been anti-dilutive.

Additionally, for Fiscal 2010, Fiscal 2009 and Fiscal 2008, approximately 0.7 million, 0.4 million and 0.8 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.

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

Accounts receivable are comprised of the following:

	January 29, 2011	January 30, 2010
	(In thousands)	
Landlord construction allowances	\$ 11,739	\$ 11,132
Merchandise sell-offs	4,539	8,063
Marketing cost reimbursements	3,553	2,556
Credit card receivable		7,832
Gift card receivable	3,567	1,413
Franchise receivable	5,183	1,419
Insurance claims receivable	4,374	
Other	3,766	2,331
Total	\$ 36,721	\$ 34,746

7. Property and Equipment

Property and equipment consists of the following:

	January 29, 2011	January 30, 2010
	(In thousands)	
Land	\$ 6,364	\$ 6,364
Buildings	152,984	151,484
Leasehold improvements	624,479	645,794
Fixtures and equipment	647,346	590,610
Construction in progress	1,629	554
Property and equipment at cost	\$ 1,432,802	\$ 1,394,806
Less: Accumulated depreciation and amortization	(789,682)	(681,664)
Net property and equipment	\$ 643,120	\$ 713,142

Depreciation expense is summarized as follows:

	For the Years Ended		
	January 29, 2011	January 30, 2010	January 31, 2009
	(In thousands)		

Depreciation expense	\$ 139,169	\$ 137,045	\$ 123,218
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8. Note Payable and Other Credit Arrangements

The Company has borrowing agreements with four separate financial institutions under which it may borrow an aggregate of \$310.0 million United States dollars (USD) and \$25.0 million Canadian dollars (CAD). Of this amount, \$200.0 million USD can be used for letters 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.

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

The letters of credit facilities of \$150.0 million USD and \$50.0 million USD expire November 1, 2011 and May 27, 2011, respectively. The \$50.0 million USD and \$25.0 million CAD demand lines expire on April 20, 2011 and December 13, 2011, respectively. The remaining \$60.0 million USD facility expires on May 22, 2011.

As of January 29, 2011, the Company had outstanding demand letters of credit of \$30.0 million USD and no demand line borrowings.

The availability of any future borrowings is subject to acceptance by the respective financial institutions. The average borrowing rate on the demand line for outstanding borrowings during Fiscal 2010 was 2.1%.

9. 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. 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 charges on a straight-line basis over the lease term (including the pre-opening build-out period). These leases are classified as operating leases.

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

	For the Years Ended		
	January 29, 2011	January 30, 2010	January 31, 2009
	(In thousands)		
Store rent:			
Fixed minimum	\$ 230,277	\$ 218,785	\$ 188,112
Contingent	8,182	7,873	11,765
Total store rent, excluding common area maintenance charges, real estate taxes and certain other expenses	\$ 238,459	\$ 226,658	\$ 199,877
Offices, distribution facilities, equipment and other	16,722	17,391	16,902
Total rent expense	\$ 255,181	\$ 244,049	\$ 216,779

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 29, 2011:

Fiscal years:	Future Minimum Lease Obligations (In thousands)
2011	\$ 243,798
2012	233,279
2013	220,081
2014	201,761
2015	187,234
Thereafter	687,087
Total	\$ 1,773,240

Table of Contents

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Other Comprehensive Income (Loss)

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

	Before Tax Amount	Tax (Expense) Benefit (In thousands)	Accumulated Other Comprehensive Income (Loss)
Balance at February 2, 2008	\$ 35,714	\$ (229)	\$ 35,485
Temporary impairment related to ARS	(37,432)	14,259	(23,173)
Reclassification adjustment for realized losses in net income related to investment securities	1,532	(584)	948
Foreign currency translation loss	(27,649)		(27,649)
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

The components of accumulated other comprehensive income (loss) were as follows:

	For the Years Ended	
	January 29, 2011	January 30, 2010
	(In thousands)	
Net unrealized loss on available-for-sale securities, net of tax(1)	\$	\$ (6,401)

Foreign currency translation adjustment	28,072	23,239
Accumulated other comprehensive income	\$ 28,072	\$ 16,838

(1) Amount is shown net of tax of \$3.9 million for Fiscal 2009.

11. 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 2010, Fiscal 2009 and Fiscal 2008 was \$25.5 million (\$15.7 million, net of tax), \$34.6 million (\$21.4 million, net of tax) and \$18.7 million (\$11.5 million, net of tax), respectively.

Table of Contents

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 29, 2011, 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 7.9 million shares). Approximately 33% of the options granted were to vest over eight years after the date of grant but were accelerated as the Company met annual performance goals. Approximately 34% of the options granted under the 1999 Plan vest over three years, 23% vest over five years and the remaining grants vest over one year. All options expire after 10 years. Performance-based restricted stock was earned if the Company met established performance goals. The 1999 Plan terminated on June 15, 2005 with all rights of the awardees and all unexpired awards continuing in force and operation after the termination.

2005 Stock Award and Incentive Plan

The 2005 Plan was approved by the stockholders on June 15, 2005. The 2005 Plan authorized 18.4 million shares for issuance, of which 6.4 million shares are available for full value awards in the form of restricted stock awards,

restricted stock units or other full value stock awards and 12.0 million shares are available for stock options, SAR, dividend equivalents, performance awards or other non-full value stock awards. The 2005 Plan was subsequently amended in Fiscal 2009 to increase the shares available for grant to 31.9 million without taking into consideration 9.1 million non-qualified stock options, 2.9 million shares of restricted stock and 0.2 million shares of common stock that had been previously granted under the 2005 plan to employees and

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

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 29, 2011, 14.4 million non-qualified stock options, 7.2 million shares of restricted stock and 0.4 million shares of common stock had been granted under the 2005 Plan to employees and directors (without considering cancellations to date of awards for 7.0 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 65% of the restricted stock awards are performance-based and are earned if the Company meets established performance goals. The remaining 35% 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 2010 follows:

		For the Year Ended January 29, 2011			
		Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value (In thousands)
Outstanding	January 30, 2010	14,904,942	\$ 15.01		
Granted		1,763,562	\$ 17.04		
Exercised(1)		1,307,881	\$ 8.60		
Cancelled/Forfeited		3,236,167	\$ 15.80		
Outstanding	January 29, 2011	12,124,456	\$ 15.25	3.5	\$ 34,921
Vested and expected to vest	January 29, 2011	11,877,942	\$ 15.27	3.5	\$ 34,336
Exercisable	January 29, 2011	3,612,641	\$ 6.92	2.0	\$ 27,607

(1) Options exercised during Fiscal 2010 ranged in price from \$4.54 to \$17.51.

The weighted-average grant date fair value of stock options granted during Fiscal 2010, Fiscal 2009 and Fiscal 2008 was \$5.19, \$3.86 and \$7.16, respectively. The aggregate intrinsic value of options exercised during Fiscal 2010, Fiscal 2009 and Fiscal 2008 was \$11.7 million, \$11.7 million and \$3.9 million, respectively. 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. Cash received from the exercise of stock options and the actual tax benefit realized from share-based payments was \$3.8 million and \$1.1 million, respectively, for Fiscal 2008.

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

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

Black-Scholes Option Valuation Assumptions	For the Years Ended		
	January 29, 2011	January 30, 2010	January 31, 2009
Risk-free interest rates(1)	2.3%	1.7%	2.5%
Dividend yield	2.1%	3.4%	1.7%
Volatility factors of the expected market price of the Company's common stock(2)	40.2%	56.9%	44.4%
Weighted-average expected term(3)	4.5 years	4.1 years	4.3 years
Expected forfeiture rate(4)	8.0%	8.0%	8.0%

- (1) Based on the U.S. Treasury yield curve in effect at the time of grant with a term consistent with the expected life of our stock options.
- (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 29, 2011, January 30, 2010 and January 31, 2009 were determined based on historical experience.
- (4) Based on historical experience.

As of January 29, 2011, there was \$4.1 million of unrecognized compensation expense related to nonvested stock option awards that is expected to be recognized over a weighted average period of 1.5 years.

Restricted Stock Grants

Time-based restricted stock awards include two types of awards; time-based restricted stock and time-based restricted stock units. Time-based restricted stock awards vest over three years and participate in nonforfeitable dividends. Time-based restricted stock units 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 two types of awards; performance-based restricted stock and performance-based restricted stock units. Performance-based restricted stock awards vest over one year based upon the Company's achievement of pre-established goals and participate in nonforfeitable dividends. Performance-based restricted stock units cliff vest at the end of a three year period based upon the Company's achievement of pre-established goals. 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 as the original award.

The grant date fair value of restricted stock awards is based on the closing market price of the Company's common stock on the date of grant. Historically, the Company has granted only restricted stock awards that entitled the holders to receive nonforfeitable dividends prior to vesting. Beginning with Fiscal 2009 restricted stock awards, the Company began to also grant restricted stock unit awards to its employees. The restricted stock unit awards differ from the restricted stock awards in that they do not contain nonforfeitable rights to dividends and are therefore not considered participating securities in accordance with ASC 260-10-45.

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

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

		Time-Based Restricted Stock For the Year Ended January 29, 2011		Performance-Based Restricted Stock For the Year Ended January 29, 2011	
		Weighted-Average Grant Date		Weighted-Average Grant Date	
		Shares	Fair Value	Shares	Fair Value
Nonvested	January 30, 2010	1,883	\$ 13.28	989,664	\$ 9.66
Granted					
Vested				(989,664)	9.66
Cancelled/Forfeited		1,883	13.28		
Nonvested	January 29, 2011		\$		\$

		Time-Based Restricted Stock Units For the Year Ended January 29, 2011		Performance-Based Restricted Stock Units For the Year Ended January 29, 2011	
		Weighted-Average Grant Date		Weighted-Average Grant Date	
		Shares	Fair Value	Shares	Fair Value
Nonvested	January 30, 2010	1,668,092	\$ 9.79	406,231	\$ 9.82
Granted		1,098,844	17.39	312,363	17.24
Vested		(1,650,077)	9.79		
Cancelled/Forfeited		(239,839)	16.60	(88,977)	16.26
Nonvested	January 29, 2011	877,020	\$ 17.45	629,617	\$ 12.59

As of January 29, 2011, there was \$10.6 million of unrecognized compensation expense related to nonvested restricted stock awards that is expected to be recognized over a weighted average period of two years. The total fair value of restricted stock awards vested during Fiscal 2010, Fiscal 2009 and Fiscal 2008 was \$9.6 million, \$0.6 million and \$9.6 million, respectively.

As of January 29, 2011, the Company had 25.7 million shares available for all equity grants.

12. 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 \$11.7 million, \$5.9 million and \$5.1 million in expense during Fiscal 2010, Fiscal 2009 and Fiscal 2008, 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.

Table of Contents**AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Income Taxes**

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

	For the Years Ended		
	January 29, 2011	January 30, 2010	January 31, 2009
	(In thousands)		
U.S.	\$ 258,408	\$ 269,932	\$ 325,287
Foreign	36,676	34,443	52,412
Total	\$ 295,084	\$ 304,375	\$ 377,699

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

	January 29, 2011	January 30, 2010
	(In thousands)	
Deferred tax assets:		
Deferred compensation	\$ 30,801	\$ 36,018
Foreign tax credits	25,498	26,745
Rent	25,145	24,498
Investment securities	20,381	10,677
Inventories	10,432	11,422
Foreign and state income taxes	7,575	7,484
State tax credits	5,866	5,011
Employee compensation and benefits	4,942	10,669
Other	8,547	12,295
Gross deferred tax assets	139,187	144,819
Valuation allowance	(20,381)	(15,688)
Total deferred tax assets	\$ 118,806	\$ 129,131
Deferred tax liabilities:		
Property and equipment	\$ (47,852)	\$ (37,896)
Prepaid expenses	(3,279)	(3,774)
Total deferred tax liabilities	\$ (51,131)	\$ (41,670)

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Total deferred tax assets, net	\$ 67,675	\$ 87,461
Classification in the Consolidated Balance Sheet:		
Current deferred tax assets	\$ 48,059	\$ 60,156
Noncurrent deferred tax assets	19,616	27,305
Total deferred tax assets	\$ 67,675	\$ 87,461

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.

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

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

	For the Years Ended		
	January 29, 2011	January 30, 2010	January 31, 2009
	(In thousands)		
Current:			
Federal	\$ 89,110	\$ 92,074	\$ 94,328
Foreign taxes	13,429	14,526	16,341
State	9,610	13,575	9,698
Total current	112,149	120,175	120,367
Deferred:			
Federal	\$ (310)	\$ (32,361)	\$ 24,579
Foreign taxes	(991)	6,513	(340)
State	2,302	(3,350)	3,109
Total deferred	1,001	(29,198)	27,348
Provision for income taxes	\$ 113,150	\$ 90,977	\$ 147,715

As a result of additional tax deductions related to share-based payments, tax benefits have been recognized as contributed capital for Fiscal 2010, Fiscal 2009 and Fiscal 2008 in the amounts of \$15.6 million, \$8.0 million and \$1.1 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 29, 2011 and January 30, 2010, the unremitted earnings of our Canadian subsidiaries were \$57.1 million (USD) and \$28.0 million (USD), respectively.

As of January 29, 2011, the gross amount of unrecognized tax benefits was \$31.1 million, of which \$22.7 million would affect the effective income tax rate if recognized. The gross amount of unrecognized tax benefits as of January 30, 2010 was \$31.6 million, of which \$23.4 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 29, 2011	January 30, 2010	January 31, 2009
		(In thousands)	
Unrecognized tax benefits, beginning of the year balance	\$ 31,649	\$ 41,080	\$ 42,953
Increases in tax positions of prior periods	1,069	1,679	205
Decreases in tax positions of prior periods	(3,801)	(13,471)	(1,705)
Increases in current period tax positions	2,707	14,842	4,221
Settlements	(6)	(6,204)	(4,529)
Lapse of statute of limitations	(510)	(6,291)	(30)
Translation adjustment		14	(35)
Unrecognized tax benefits, end of the year balance	\$ 31,108	\$ 31,649	\$ 41,080

Table of Contents

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unrecognized tax benefits decreased by \$0.5 million and \$9.5 million during Fiscal 2010 and 2009, respectively. The decrease in Fiscal 2009 was primarily due to federal and state income tax settlements and statute of limitation lapses. The Company does not anticipate any significant changes to the unrecognized tax benefits recorded at the balance sheet date over the next twelve months.

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 \$7.6 million and \$7.0 million as of January 29, 2011 and January 30, 2010, 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 2010 and Fiscal 2008.

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 2006 and July 2007 were completed in November of 2009. Accordingly, all years prior to July 2008 are no longer subject to U.S. federal income tax examinations by tax authorities. During Fiscal 2008, the Company changed its tax year end to a 52/53 week year that ends on the Saturday nearest January 31 from the Saturday nearest July 31 to conform to its financial statement year end. This change was effective for the tax year ended January 31, 2009. An IRS examination of the July 2008 and January 2009 federal income tax returns is scheduled to be completed in Fiscal 2011. 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 2004. 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 \$25.5 million and \$26.7 million as of January 29, 2011 and January 30, 2010, 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 because we believe 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 \$5.9 million (net of federal income taxes) as of January 29, 2011. These tax credits can be utilized to offset future Kansas income taxes and will generally expire in seven years. Due to a favorable incentive agreement with the Kansas Department of Commerce in Fiscal 2010, the Company released the valuation allowance that had been previously recorded related to the Company s Kansas tax credit carryforward. A deferred tax asset of \$5.0 million with an offsetting full valuation allowance was recorded as of January 30, 2010 related to the 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 2013 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 \$20.4 million and \$10.7 million as of January 29, 2011 and January 30, 2010, respectively.

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

During Fiscal 2009, the Company did not record a valuation allowance on the temporary impairment of the investment securities recorded in other comprehensive income. This treatment was consistent with the Company's intent and ability to hold debt securities to recovery.

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

	For the Years Ended		
	January 29, 2011	January 30, 2010	January 31, 2009
Federal income tax rate	35%	35%	35%
State income taxes, net of federal income tax effect	3	3	3
Valuation allowance increase, net	1	1	2
Tax settlements	(1)	(4)	
Canadian earnings repatriation		(5)	
Tax impact of tax exempt interest			(1)
	38%	30%	39%

14. 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 notified employees and issued a press release announcing this decision on March 9, 2010. The decision to take this action resulted from an extensive evaluation of the brand and review of strategic alternatives, which revealed that it was not achieving performance levels that warranted further investment. The Company completed the closure of the M+O stores and e-commerce operation during the second quarter of Fiscal 2010 and the 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 2009 or Fiscal 2008. The Loss from Discontinued Operations for Fiscal 2009 and Fiscal 2008 includes pre-tax asset impairment charges of \$18.0 million and \$6.7 million, respectively.

	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
Severance charges			7,660
Total charges		\$	43,439

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

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

A rollforward of the liabilities recognized in the Consolidated Balance Sheet is as follows:

	January 29, 2011 (In thousands)
Accrued liability as of January 30, 2010	\$
Add: Costs incurred, excluding non-cash charges	30,879
Less: Cash payments	(30,879)
Accrued liability as of January 29, 2011	\$

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 and January 31, 2009, respectively.

	For the Years Ended		
	January 29, 2011	January 30, 2010	January 31, 2009
	(In thousands)		
Net sales	\$ 21,881	\$ 50,251	\$ 40,187
Loss from discontinued operations, before income taxes	\$ (66,959)	\$ (71,984)	\$ (80,658)
Income tax benefit	25,672	27,608	29,735
Loss from discontinued operations, net of tax	\$ (41,287)	\$ (44,376)	\$ (50,923)
Loss per common share from discontinued operations:			
Basic	\$ (0.21)	\$ (0.22)	\$ (0.25)
Diluted	\$ (0.20)	\$ (0.21)	\$ (0.25)

The major classes of assets and liabilities included in the Consolidated Balance Sheets for M+O as of January 29, 2011 and January 30, 2010 is as follows:

	January 29, 2011	January 30, 2010
	(In thousands)	
Current assets	\$	\$ 13,378

Non-current assets			21,227
Total assets		\$	\$ 34,605
Total current liabilities		\$	\$ 6,110
Total non-current liabilities			4,604
Total liabilities		\$	\$ 10,714

Table of Contents

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. 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 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 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 income per common share	\$ 0.05	\$ 0.05	\$ 0.17	\$ 0.44

	Fiscal 2009			
	Quarters Ended			
	May 2, 2009	August 1, 2009	October 31, 2009	January 30, 2010
	(In thousands, except per share amounts)			
Net sales	\$ 601,679	\$ 646,798	\$ 736,011	\$ 955,781
Gross profit	\$ 223,603	\$ 253,898	\$ 304,175	\$ 391,754

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Income from continuing operations	29,076	36,757	67,948	79,617
Loss from discontinued operations	(7,109)	(8,185)	(8,789)	(20,293)
Net income	\$ 21,967	\$ 28,572	\$ 59,159	\$ 59,324
Basic per common share amounts:				
Income from continuing operations	\$ 0.14	\$ 0.18	\$ 0.33	\$ 0.39
Loss from discontinued operations	(0.03)	(0.04)	(0.04)	(0.10)
Basic income per common share	\$ 0.11	\$ 0.14	\$ 0.29	\$ 0.29
Diluted per common share amounts:				
Income from continuing operations	\$ 0.14	\$ 0.18	\$ 0.32	\$ 0.38
Loss from discontinued operations	(0.03)	(0.04)	(0.04)	(0.10)
Diluted income per common share	\$ 0.11	\$ 0.14	\$ 0.28	\$ 0.28

16. Subsequent Event

The Company has evaluated the existence of subsequent events through the filing date of this Annual Report on Form 10-K.

Table of Contents

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

None.

ITEM 9A. *CONTROLS AND PROCEDURES.*

Disclosure Controls and Procedures

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

In connection with the preparation of this Annual Report on Form 10-K as of January 29, 2011, an evaluation was performed under the supervision and with the participation of our Management, including the Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based upon that evaluation, our Principal Executive Officer and our Principal Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this Annual Report on Form 10-K.

Management's Annual Report on Internal Control Over Financial Reporting

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

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

Our Management assessed the effectiveness of our internal control over financial reporting as of January 29, 2011. In making this assessment, our Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on this assessment, our Management concluded that we maintained effective internal control over financial reporting as of January 29, 2011.

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended January 29, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
American Eagle Outfitters, Inc.

We have audited American Eagle Outfitters, Inc.'s internal control over financial reporting as of January 29, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). American Eagle Outfitters, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, American Eagle Outfitters, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 29, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of American Eagle Outfitters, Inc. as of January 29, 2011 and January 30, 2010 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 29, 2011 of American Eagle Outfitters, Inc. and our report dated March 11, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania

March 11, 2011

Table of Contents

ITEM 9B. *OTHER INFORMATION.*

Not applicable.

PART III

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

The information appearing under the captions Proposal One: Election of Directors, Executive Officers, Section 16(a) Beneficial Ownership Reporting Compliance, Corporate Governance Information, and Board Committees in our Proxy Statement relating to our 2011 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 11. *EXECUTIVE COMPENSATION.*

The information appearing under the caption Compensation Discussion and Analysis, Executive Officer Compensation, Director Compensation, and Compensation Committee Interlocks and Insider Participation in our Proxy Statement relating to our 2011 Annual Meeting of Stockholders is incorporated herein by reference.

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

The information appearing under the captions Security Ownership of Principal Stockholders and Management in our Proxy Statement relating to our 2011 Annual Meeting of Stockholders is incorporated herein by reference.

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

The information appearing under the caption Certain Relationships and Related Transactions and Board Committees in our Proxy Statement relating to our 2011 Annual Meeting of Stockholders is incorporated herein by reference.

ITEM 14. *PRINCIPAL ACCOUNTING FEES AND SERVICES.*

The information appearing under the caption Independent Registered Public Accounting Firm Fees and Services in our Proxy Statement relating to our 2011 Annual Meeting of Stockholders is incorporated herein by reference.

PART IV

ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.*

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

Consolidated Balance Sheets as of January 29, 2011 and January 30, 2010

Consolidated Statements of Operations for the fiscal years ended January 29, 2011, January 30, 2010, and January 31, 2009

Consolidated Statements of Comprehensive Income for the fiscal years ended January 29, 2011, January 30, 2010, and January 31, 2009

Consolidated Statements of Stockholders' Equity for the fiscal years ended January 29, 2011, January 30, 2010, and January 31, 2009

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Consolidated Statements of Cash Flows for the fiscal years ended January 29, 2011, January 30, 2010, and
January 31, 2009

Notes to Consolidated Financial Statements

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

Table of Contents

(a)(3) Exhibits

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation, as amended(1)
3.2	Amended and Restated Bylaws(2)
4.1	See Amended and Restated Articles of Incorporation, as amended, in Exhibit 3.1 hereof
4.2	See Amended and Restated Bylaws in Exhibit 3.2 hereof
10.1^	Form of the Registrant's 1994 Stock Option Plan(3)
10.2^	Form of Restricted Stock Agreement(4)
10.3	Form of Indemnification Agreement(5)
10.4^	Employee Stock Purchase Plan(6)
10.5^	Form of the Registrant's 1999 Stock Incentive Plan, as amended(7)
10.6^	Management Incentive Plan(8)
10.7^	Employment Agreement between the Registrant and LeAnn Nealz dated March 31, 2004(9)
10.8^	Profit Sharing and 401(k) Plan(10)
10.9^	Deferred Compensation Plan, as amended(11)
10.10^	Employment Agreement between the Registrant and Thomas DiDonato, dated June 29, 2005(12)
10.11^	Form of Director Deferred Compensation Agreement(13)
10.12^	Restricted Stock Exchange and Deferral Agreement, dated July 12, 2006(14)
10.13^	Form of 409A Addendum(15)
10.14^	Form of Long Term Incentive Compensation Plan Confidentiality, non-solicitation, non-competition and Intellectual Property Agreement(16)
10.15^	Employment Agreement between the Registrant and Dennis Parodi, dated February 18, 2003(17)
10.16^	Amendment to the Employment Agreement between the Registrant and Dennis Parodi, dated February 6, 2006(18)
10.17^	Employment Agreement between the Registrant and Joan Hilson, dated July 18, 2005(19)
10.18^	Separation Agreement Release Susan P. McGalla, dated August 27, 2008(20)
10.19^	Employment Agreement between the Registrant and Roger S. Markfield, dated January 13, 2009(21)
10.20^	Separation Agreement and Release between the Registrant and Kathy J. Savitt, dated January 20, 2009(22)
10.21^	2005 Stock Award and Incentive Plan, as amended(23)
10.22^	Employment Agreement between the Registrant and James V. O'Donnell, as amended, dated January 11, 2010(24)
10.23^	Form of Change in Control Agreement between the Registrant and the Officers dated April 21, 2010(25)
10.24^*	Retirement Agreement between the Registrant and Joseph Kerin, dated November 24, 2010
10.25^*	Form of RSU Confidentiality, Non-Solicitation, Non-Competition and Intellectual Property Agreement
21*	Subsidiaries
23*	Consent of Independent Registered Public Accounting Firm
24*	Power of Attorney
31.1*	Certification by James V. O'Donnell pursuant to Rule 13a-14(a) or Rule 15d-14(a)
31.2*	Certification by Joan Holstein Hilson pursuant to Rule 13a-14(a) or Rule 15d-14(a)
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	

Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101**

Interactive Data File

Table of Contents

- (1) Previously filed as Exhibit 3.1 to the Form 10-Q dated August 4, 2007, filed September 6, 2007 and incorporated herein by reference.
- (2) Previously filed as Exhibit 3.1 to the Form 8-K dated November 20, 2007, filed November 26, 2007 and incorporated herein by reference.
- (3) Previously filed as Exhibit 4(a) to Registration Statement on Form S-8 (file no. 33-79358), filed May 25, 1994, as amended on Form S-8 (file no. 333-12643), filed September 25, 1996 and Form S-8 (file no. 333-44759), filed January 22, 1998 and incorporated herein by reference.
- (4) Previously filed as Exhibit 4(a) to Registration Statement on Form S-8 (file no. 33-79358), filed May 25, 1994 and incorporated herein by reference.
- (5) Previously filed as Exhibit 10.7 to Registration Statement on Form S-1 (file no. 33-75294), filed February 14, 1994, as amended, and incorporated herein by reference.
- (6) Previously filed as Exhibit 4(a) to Registration Statement on Form S-8 (file no. 33-33278), filed April 5, 1996 and incorporated herein by reference.
- (7) Previously files as Exhibit 10.5 to the Form 10-K dated February 3, 2007, filed April 4, 2007 and incorporated herein by reference.
- (8) Previously filed as Appendix A to the Definitive Proxy Statement for the 2003 Annual Meeting of Stockholders held on May 27, 2003, filed April 14, 2003 and incorporated herein by reference.
- (9) Previously filed as Exhibit 10.12 to the Form 10-Q for the period ended July 31, 2004, filed September 3, 2004 and incorporated herein by reference.
- (10) Previously filed as Exhibit 4(a) to Registration Statement on Form S-8 (file no. 333-121641), filed December 23, 2004, as amended and incorporated herein by reference.
- (11) Previously filed as Exhibit 10.2 to the Form 8-K dated December 17, 2008, filed December 23, 2008 and incorporated herein by reference.
- (12) Previously filed as Exhibit 10.1 to the Form 10-Q for the period ended October 29, 2005, filed December 5, 2005 and incorporated herein by reference.
- (13) Previously filed as Exhibit 10.1 to the Form 8-K dated December 30, 2005, filed January 5, 2006 and incorporated herein by reference.
- (14) Previously filed as Exhibit 10.1 to the Form 8-K dated July 12, 2006, filed July 18, 2006 and incorporated herein by reference.
- (15) Previously filed as Exhibit 10.3 to the Form 8-K dated December 17, 2008, filed December 23, 2008 and incorporated herein by reference.
- (16) Previously filed as Exhibit 10.1 to the Form 8-K dated May 20, 2008, filed May 23, 2008 and incorporated herein by reference.

- (17) Previously filed as Exhibit 10.1 to the Form 8-K dated February 28, 2006, filed March 7, 2006 and incorporated herein by reference.
- (18) Previously filed as Exhibit 10.2 to the Form 8-K dated February 28, 2006, filed March 7, 2006 and incorporated herein by reference.
- (19) Previously filed as Exhibit 10.1 to the Form 8-K dated April 18, 2006, filed April 24, 2006 and incorporated herein by reference.

Table of Contents

- (20) Previously filed as Exhibit 10.1 to the Form 8-K dated August 27, 2008, filed August 29, 2008 and incorporated herein by reference.
- (21) Previously filed as Exhibit 10.1 to the Form 8-K dated January 13, 2009, filed January 15, 2009 and incorporated herein by reference.
- (22) Previously filed as Exhibit 10.1 to the Form 8-K dated January 20, 2009, filed January 23, 2009 and incorporated herein by reference.
- (23) Previously filed as Appendix A to the Definitive Proxy Statement for the 2009 Annual Meeting of Stockholders held on June 16, 2009 held on June 16, 2009, filed May 4, 2009 and incorporated herein by reference.
- (24) Previously filed as Exhibit 10.1 to the Form 8-K dated January 11, 2010, filed January 12, 2010 and incorporated herein by reference.
- (25) Previously filed as Exhibit 10.1 to the Form 8-K dated April 21, 2010, filed April 26, 2010 and incorporated herein by reference.

^Management contract or compensatory plan or arrangement.

* Filed herewith.

** Furnished herewith.

(b) Exhibits

The exhibits to this report have been filed herewith.

(c) Financial Statement Schedules

None.

Table of Contents

SIGNATURES

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

AMERICAN EAGLE OUTFITTERS, INC.

By: /s/ James V. O Donnell

James V. O Donnell
Chief Executive Officer

Dated March 11, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities indicated on March 11, 2011.

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

* Director

Janice E. Page

* Director

Gerald E. Wedren

*By: /s/ Joan Holstein Hilson

Joan Holstein Hilson,
Attorney-in-Fact