

AMERICAN EAGLE OUTFITTERS INC
Form 10-K
March 13, 2014
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

**For the Fiscal Year Ended February 1, 2014
OR**

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

Commission File Number: 1-33338

American Eagle Outfitters, Inc.

(Exact name of registrant as specified in its charter)

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

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

Identification No.)

15203-2329
(Zip Code)

Registrant's telephone number, including area code:

(412) 432-3300

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

Common Shares, \$0.01 par value

New York Stock Exchange

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

(Title of class)

(Name of each exchange on which registered)

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

None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at the past 90 days. YES NO

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

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

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

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

(Do not check if a smaller reporting company)

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of August 3, 2013 was \$3,602,480,041.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 193,824,031 Common Shares were outstanding at March 10, 2014.

DOCUMENTS INCORPORATED BY REFERENCE

Part III Proxy Statement for 2014 Annual Meeting of Stockholders, in part, as indicated.

Table of Contents

AMERICAN EAGLE OUTFITTERS, INC.

TABLE OF CONTENTS

	Page Number
PART I	
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	10
Item 1B. <u>Unresolved Staff Comments</u>	14
Item 2. <u>Properties</u>	14
Item 3. <u>Legal Proceedings</u>	15
Item 4. <u>Mine Safety Disclosures</u>	15
PART II	
Item 5. <u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	16
Item 6. <u>Selected Consolidated Financial Data</u>	19
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	35
Item 8. <u>Financial Statements and Supplementary Data</u>	36
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	70
Item 9A. <u>Controls and Procedures</u>	70
Item 9B. <u>Other Information</u>	72
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	72
Item 11. <u>Executive Compensation</u>	72
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	72
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	72
Item 14. <u>Principal Accounting Fees and Services</u>	72
PART IV	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	72

Table of Contents

PART I

ITEM 1. BUSINESS.

General

American Eagle Outfitters, Inc., a Delaware corporation (the Company), operates under the American Eagle Outfitters® and aerie® by American Eagle Outfitters® brands. Founded in 1977, we are a leading global specialty retailer offering high-quality, on-trend clothing, accessories and personal care products at affordable prices.

We have company operated stores in the United States, Canada, Mexico, Hong Kong and China. American Eagle Outfitters® and aerie® merchandise is also available at international store locations managed by third party operators. As of February 1, 2014, we operated 944 American Eagle Outfitters stores and 122 aerie stand-alone stores. Our third party operated store base has grown to 66 stores in 12 countries and products purchased through our online business, AEO Direct, ship to 81 countries worldwide.

We operated the 77kids by American Eagle Outfitters® brand until the exit of the business during Fiscal 2012. Our Consolidated Financial Statements reflect the results of 77kids as discontinued operations for all periods presented.

As used in this report, all references to we, our and the Company refer to American Eagle Outfitters, Inc. and its wholly owned subsidiaries.

American Eagle Outfitters, AEO and the AEO Brand refer to our company operated American Eagle Outfitters stores. aerie refers to our aerie by American Eagle Outfitters® stores. AEO Direct refers to our e-commerce operations, ae.com and aerie.com.

Our financial year is a 52/53 week year that ends on the Saturday nearest to January 31. As used herein, Fiscal 2014 refers to the 52 week period ending January 31, 2015. Fiscal 2013 refers to the 52 week period ended February 1, 2014. Fiscal 2012 refers to the 53 week period ended February 2, 2013. Fiscal 2011, Fiscal 2010 and Fiscal 2009 refer to the 52 week periods ended January 28, 2012, January 29, 2011 and January 30, 2010, respectively.

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

Brands

AEO Brand

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

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

Table of Contents

aerie by American Eagle Outfitters

The aerie® by American Eagle Outfitters® (aerie) brand is a collection of intimates and personal care products for the AEGirl. The collection is available in 122 stand-alone aerie stores throughout the United States and Canada, online at aerie.com and at select American Eagle Outfitters® stores. aerie, with intimates at the core, is beautiful, feminine, soft, sensuous, yet comfortable.

Growth Strategy

We are focused on delivering results through our five near-term priorities: (1) driving a competitive top line; (2) generating margin flow-through from improved inventory management; (3) rebalancing our store fleet; (4) accelerating our online business; and (5) gaining leverage on our infrastructure.

Our strategic plan is built around the following pillars:

Fortify our brands, processes and capabilities;

Grow North America through under-penetrated U.S. markets, factory stores, Mexico and e-commerce;

Transform our Company into an omni-channel retailer with both domestic and international presence; and

Return value to our shareholders through profitable growth.

AEO Direct

We sell merchandise via our e-commerce operations, ae.com and aerie.com, which are online extensions of the lifestyle that we convey in our stores. In addition to purchasing items online, customers can experience AEO Direct in-store through our Store-to-Door program. This program 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 are focused on delivering an omni-channel approach to customer engagement, which will eventually lead to a single view of the customer and inventory. We have made investments including a re-launched mobile app and enhanced websites. We will continue to invest in initiatives geared towards integration of our shopping channels. In Fiscal 2014, we will be capable of fulfilling online orders at stores through our Buy Online Ship from Store program and we plan to enhance our websites, increase CRM capabilities through personalization, segmentation and customer lifecycle management.

International Operations

We have agreements with multiple third party operators to expand our brands internationally. Through these agreements, a series of franchised, licensed or other brand-dedicated American Eagle Outfitters stores have opened and will continue to open in areas including Eastern Europe, the Middle East, Central and South America, Northern Africa and parts of Asia. These agreements do not involve a significant capital investment or operational involvement from the Company. We continue to increase the number of countries in which we enter into these types of arrangements as part of our strategy to expand internationally. As of February 1, 2014, we had 66 stores operated by our third party operators in 12 countries. International third party operated stores are not included in the consolidated store data or the total gross square feet calculation.

As of February 1, 2014, we had 96 company-operated stores in Canada, six in Mexico, three in Hong Kong, four in China and six in Puerto Rico. We continue to evaluate further opportunities to expand internationally, which may include additional company-operated stores in Mexico, Asia and the United Kingdom as well as stores operated by third party operators under license, franchise and/or joint venture agreements.

Table of Contents**Real Estate**

We remain focused on real-estate strategies to grow our business and strengthen our financial performance utilizing our most productive formats in the right markets, including AEO Factory stores and aerie side-by-side locations.

At the end of Fiscal 2013, we operated in all 50 states, Puerto Rico, Canada, Mexico, Hong Kong and China. During Fiscal 2013, we opened 58 new stores, consisting largely of AEO Factory stores and acquired 6 franchised AEO Brand stores in Hong Kong and China. These store openings, offset by 42 store closings, increased our total store base to 1,066 stores.

Our stores average approximately 6,100 gross square feet and approximately 4,900 on a selling square foot basis. Our gross square footage increased by approximately 5% during Fiscal 2013.

During Fiscal 2013, we renovated a total of 56 AEO stores through remodels, refurbishes and refreshes. We evaluate each store and determine the appropriate capital spend based on financial performance and non-financial factors including the location and condition of the store, the center and competitors. Remodels result in a newly constructed store, sometimes larger in size, in the most current store design including new storefront, floors, fixtures, marketing and lighting. Refurbishes consist of selective changes that include new store front, floors and fixtures. Refreshes include certain aspects of our current store format, including paint and new fixtures.

In Fiscal 2014, we plan to open approximately 25 AEO stores in the Factory store format in North America and continue our international expansion in Mexico, Asia and the United Kingdom. We also plan to remodel and refurbish approximately 45 existing AEO stores and close approximately 15 to 20 AEO stores and 25 to 30 aerie stores. Our square footage is expected to increase slightly in Fiscal 2014.

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

	Fiscal 2013	Fiscal 2012	Fiscal 2011	Fiscal 2010	Fiscal 2009
Consolidated stores at beginning of period	1,044	1,069	1,077	1,075	1,070
Consolidated stores opened during the period	64	16	21	25	29
Consolidated stores closed during the period	(42)	(41)	(29)	(23)	(24)
Total consolidated stores at end of period	1,066	1,044	1,069	1,077	1,075
	Fiscal 2013	Fiscal 2012	Fiscal 2011	Fiscal 2010	Fiscal 2009
AEO Brand stores at beginning of period	893	911	929	938	954
AEO Brand stores opened during the period	64	16	11	14	8
AEO Brand stores closed during the period	(13)	(34)	(29)	(23)	(24)
Total AE Brand stores at end of period	944	893	911	929	938
	Fiscal 2013	Fiscal 2012	Fiscal 2011	Fiscal 2010	Fiscal 2009
aerie stores at beginning of period	151	158	148	137	116
aerie stores opened during the period			10	11	21
aerie stores closed during the period	(29)	(7)			
Total aerie stores at end of period	122	151	158	148	137

Table of Contents**Consolidated Store Locations**

As of February 1, 2014, we operated 1,066 stores in the United States, Canada, Mexico, Hong Kong and China under the American Eagle Outfitters and aerie brands as shown below:

United States, including the Commonwealth of Puerto Rico 957 stores

Alabama	16	Indiana	22	Nebraska	6	Rhode Island	3
Alaska	5	Iowa	12	Nevada	4	South Carolina	17
Arizona	13	Kansas	9	New Hampshire	10	South Dakota	3
Arkansas	8	Kentucky	14	New Jersey	27	Tennessee	26
California	66	Louisiana	13	New Mexico	3	Texas	72
Colorado	11	Maine	6	New York	64	Utah	10
Connecticut	14	Maryland	21	North Carolina	29	Vermont	2
Delaware	5	Massachusetts	31	North Dakota	4	Virginia	26
Florida	57	Michigan	29	Ohio	36	Washington	19
Georgia	34	Minnesota	18	Oklahoma	13	West Virginia	9
Hawaii	4	Mississippi	9	Oregon	11	Wisconsin	19
Idaho	4	Missouri	18	Pennsylvania	61	Wyoming	2
Illinois	34	Montana	2	Puerto Rico	6		

Canada 96 stores

Alberta	12	New Brunswick	3	Ontario	50
British Columbia	13	Newfoundland	1	Quebec	10
Manitoba	2	Nova Scotia	3	Saskatchewan	2

International 13 stores

China	4	Hong Kong	3	Mexico	6
-------	---	-----------	---	--------	---

Purchasing

We purchase merchandise from suppliers who either manufacture their own merchandise, supply merchandise manufactured by others or both. During Fiscal 2013, we purchased substantially all of our merchandise from non-North American suppliers.

All of our merchandise suppliers must agree to the terms and conditions of our Master Purchase Agreement (MPA) and to conduct business with us in accordance with the policies and procedures set forth in our Corporate Vendor Manual (the Manual). The Manual includes, but is not limited to, policies and procedures covering the following topics: social responsibility; quality assurance; product safety and testing; product labeling and other regulatory requirements; supply chain security; our intellectual property; and our shipping process.

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 issues prior to shipment of merchandise.

Corporate Responsibility

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

Table of Contents

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

We maintain an extensive factory inspection program to monitor compliance with our Code. New garment factories must pass an initial inspection in order to do business with us. Once new factories are approved, we continue to review their social compliance performance both through internal audits by our compliance team, and through the use of third-party monitors. We review the outcome of these inspections with factory management with the goal of helping them to continuously improve their performance. Although our primary goal is to remediate issues and build long term relationships with our vendors, in cases where a factory is unable or unwilling to meet our standards, we will take steps up to and including the severance of our business relationship.

In July 2013, AEO signed the Accord on Fire and Building Safety, aligning with nearly 100 brands, non-governmental organizations (NGOs) and trade unions, to improve workplace safety in Bangladesh. The International Labor Organization (ILO), an organization that gives equal voice to workers, employers and unions, is Chair of the Steering Committee of the Accord. The Accord is a five-year program that will establish in-factory training; facilitate the creation of factory health and safety committees; review existing building regulations and enforcement; and develop a worker complaint process and mechanism for workers to report health and safety risks. AEO is also engaged with the ILO on Better Work programs in Cambodia, Haiti, Indonesia and Vietnam and is a member of the Better Work Buyers Partners.

Security Compliance

During recent years, there has been an increasing focus within the international trade community on concerns related to global terrorist activity and protecting the supply chain. 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. We have been a certified member of the Customs Trade Partnership Against Terrorism program (C-TPAT) since 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. As part of this program, we are subject to validations by CBP.

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 requirement that all of our international logistics partners, including forwarders, consolidators, shippers and brokers be certified members of C-TPAT; and pre-inspections of all potential production facilities. Additionally, we also evaluate additional oversight options for high-risk security countries and among other things, implemented full third-party audits on an annual basis. In Fiscal 2013, we took the audits one step further, and conducted security audits of our own to validate the results we receive from the third-party audits. We also implemented security training for our domestic logistics partners, along with conducting periodic audits on their facilities as well.

Trade Compliance

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

Table of Contents

In addition to CBP requirements, we also ensure compliance with all other government agencies and their corresponding regulations including but not limited to the Federal Trade Commission (FTC), the Consumer Product Safety Commission (CPSC), the Food and Drug Administration (FDA) and U.S. Fish and Wildlife services. We have policies and procedures in place for labeling, packaging, product testing, obtaining required documentation and making appropriate declarations to reduce the risk of non-compliance.

Product Safety

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

To ensure compliance with our product safety standards, we maintain an extensive set of testing protocols for each category of products. All of the products we sell are tested by an independent testing laboratory in accordance with applicable regulatory requirements. In rare cases where a safety issue has been discovered in a product that has reached our store shelves, we respond with a comprehensive recall process.

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 U.S. distribution centers in Warrendale, Pennsylvania and Ottawa, Kansas, or to our Canadian distribution center in Mississauga, Ontario. Additionally, an increasing amount of product is shipped directly to stores from our transloaders, by-passing our distribution centers which reduces transit times and lowers operating costs. In 2013, we opened third-party distribution centers in Mexico City, Hong Kong and Shanghai, to support our Mexico and Asian international store and e-commerce growth. We will open a new 1,000,000 square foot omni-channel distribution center in Hazleton, PA in July 2014, and phase out our distribution center in Warrendale, Pennsylvania in 2015.

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 for store sales replenishment. 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. Our current e-commerce distribution center, located in Ottawa, Kansas, ships merchandise directly to customers in all 50 states and 81 countries worldwide.

Customer Credit

We offer a co-branded credit card (the AEO Visa Card) and a private label credit card (the AEO Credit Card) under the AEO and aerie brands. These credit cards are issued by a third-party bank (the Bank), and we have no liability to the Bank for bad debt expense, provided that purchases are made in accordance with the Bank's procedures. Once a customer is approved to receive the AEO Visa Card or the AEO Credit Card and the card is activated, the customer is eligible to participate in our credit card rewards program. Customers who make purchases at AEO and aerie 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 Outfitters in-store sales events. The AEO Credit Card is accepted at all of our U.S. stores and at ae.com and aerie.com. The AEO Visa Card is accepted in all of our stores and AEO Direct sites as well as merchants worldwide that accept Visa®.

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.

Table of Contents

Trademarks and Service Marks

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

We have registered AMERICAN EAGLE OUTFITTERS®, AMERICAN EAGLE®, AEO®, LIVE YOUR LIFE®, aerie® and the Flying Eagle Design with the Canadian Intellectual Property Office. In addition, we have acquired rights in AE™ for clothing products and registered AE® in connection with certain non-clothing products.

In the United States and in other countries around the world, we also have registered, or have applied to register, a number of other marks used in our business, including our pocket stitch designs and the aerie Bird design.

These registered 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 February 1, 2014, we had approximately 40,000 employees in the United States, Canada, Mexico, Hong Kong and China, 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 total net revenue and operating income occurring in the third and fourth fiscal quarters, reflecting increased demand during the back-to-school and year-end holiday selling seasons, respectively. As a result of this seasonality, any factors negatively affecting us during the third and fourth fiscal quarters of any year, including adverse weather or unfavorable economic conditions, could have a material adverse effect on our financial condition and results of operations for the entire year. Our quarterly results of operations also may fluctuate based upon such factors as the timing of certain holiday seasons, the number and timing of new store openings, the acceptability of seasonal merchandise offerings, the timing and level of markdowns, store closings and remodels, competitive factors, weather and general economic conditions.

Available Information

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

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

Table of Contents

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

Certifications

As required by the New York Stock Exchange (NYSE) Corporate Governance Standards Section 303A.12(a), on June 20, 2013 our Chief Executive Officer submitted to the NYSE a certification that he was not aware of any violation by the Company of NYSE corporate governance listing standards. Additionally, we filed with this Form 10-K, the Principal Executive Officer and Principal Financial Officer certifications required under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

ITEM 1A. RISK FACTORS

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

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

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

The effect of economic pressures and other business factors

The success of our operations depends to a significant extent upon a number of factors relating to discretionary consumer spending, including economic conditions affecting disposable consumer income such as payroll taxes, 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, local or international economic conditions, thereby adversely impacting our business and results of operations.

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

Increases in our costs, such as raw materials, labor and energy may reduce our overall profitability. Specifically, fluctuations in the cost associated with the manufacture of merchandise we purchase from our suppliers impacts our cost of sales. We have strategies in place to help mitigate these costs 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 rebalance our store fleet and grow through new store openings and existing store remodels and expansions

Our growth and success will depend in part on our ability to rebalance our store fleet and expand and remodel existing stores on a timely and profitable basis. During Fiscal 2014, we plan to open approximately 25

Table of Contents

new American Eagle Outfitters stores in the Factory store format in North America and continue our international expansion in Mexico, Asia and the United Kingdom. Additionally, we plan to remodel and refurbish 45 existing American Eagle Outfitters stores during Fiscal 2014. Accomplishing our new and existing store rebalancing and expansion goals will depend upon a number of factors, including the ability to obtain suitable sites for new and expanded stores at acceptable costs, the hiring and training of qualified personnel, particularly at the store management level, the integration of new stores into existing operations and the expansion of our buying and inventory capabilities. There can be no assurance that we will be able to achieve our store expansion and rebalancing goals, manage our growth effectively, successfully integrate the planned new stores into our operations or operate our new and remodeled stores profitably.

Our efforts to expand internationally

We are actively pursuing additional international expansion initiatives, which include wholly-owned stores and stores operated by third parties in select international markets. 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, licensee or other operator does not operate its stores in a manner consistent with our requirements regarding our brand and customer experience standards, our business results and the value of our brand could be negatively impacted.

A failure to properly implement our expansion initiatives, or the adverse impact of political or economic risks in these international markets, could have a material adverse effect on our results of operations and financial condition. We have limited prior experience operating internationally, where we face established competitors. In many of these locations, the real estate, labor and employment, transportation and logistics and other operating requirements differ dramatically from those in the locations where we have more experience. Consumer demand and behavior, as well as tastes and purchasing trends, may differ substantially, and as a result, sales of our products may not be successful, or the margins on those sales may not be in line with those we currently anticipate. Any differences that we encounter as we expand internationally may divert financial, operational and managerial resources from our existing operations, which could adversely impact our financial condition and results of operations. In addition, we are increasingly exposed to foreign currency exchange rate risk with respect to our revenue, profits, assets, and liabilities denominated in currencies other than the U.S. dollar. We may in the future use instruments to hedge certain foreign currency risks; however, these measures may not succeed in offsetting all of the negative impact of foreign currency rate movements on our business and results of operations.

As we pursue our international expansion initiatives, we are subject to certain laws, including the Foreign Corrupt Practices Act, as well as the laws of the foreign countries in which we operate. Violations of these laws could subject us to sanctions or other penalties that could have an adverse effect on our reputation, operating results and financial condition.

Our ability to achieve planned store financial performance

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

Our international merchandise sourcing strategy

Our merchandise is manufactured by suppliers worldwide. Although we purchase a significant portion of our merchandise through a single international buying agent, we do not maintain any exclusive commitments to purchase from any one vendor. Because we have a global supply chain, any event causing the disruption of imports, including the insolvency of a significant supplier or a major labor dispute, could have an adverse effect

Table of Contents

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 United States Customs and Border Protection (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 all violations can be eliminated in our supply chain. Publicity regarding violation of our Code or other social responsibility standards by any of our vendor factories could adversely affect our reputation, sales and financial performance.

We believe that there is a risk of terrorist activity on a global basis. 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. Examples include, but are 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, CBP has recognized us as a validated participant of the Customs Trade Partnership Against Terrorism program, a voluntary program in which an importer agrees to work with customs to strengthen overall supply chain security. However, there can be no assurance that terrorist activity can be prevented entirely and we cannot predict the likelihood of any such activities or the extent of their adverse impact on our operations.

Our reliance on external vendors

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

Seasonality

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

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

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

Table of Contents

Our ability to safeguard against security breaches with respect to our information technology systems

Our business employs systems and websites that allow for the storage and transmission of proprietary or confidential information regarding our business, customers and employees including credit card information. Security breaches could expose us to a risk of loss or misuse of this information and potential liability. We may not be able to anticipate or prevent rapidly evolving types of cyber-attacks. Actual or anticipated attacks may cause us to incur increasing costs including costs to deploy additional personnel and protection technologies, train employees and engage third party experts and consultants. Advances in computer capabilities, new technological discoveries or other developments may result in the technology used by us to protect transaction or other data being breached or compromised. Data and security breaches can also occur as a result of non-technical issues including intentional or inadvertent breach by employees or persons with whom we have commercial relationships that result in the unauthorized release of personal or confidential information. Any compromise or breach of our security could result in a violation of applicable privacy and other laws, significant legal and financial exposure and a loss of confidence in our security measures, which could have an adverse effect on our results of operations and our reputation.

Our reliance on key personnel

Our success depends to a significant extent upon our ability to attract and retain qualified key personnel, including senior management. Collective or individual changes in our senior management and other key personnel could have an adverse effect on our ability to determine and execute our strategies, which could adversely affect our business and results of operations. There is a high level of competition for senior management and other key personnel, and we cannot be assured we will be able to attract, retain and develop a sufficient number of qualified senior managers and other key personnel.

Failure to comply with regulatory requirements

As a public company, we are subject to numerous regulatory requirements, including those imposed by the Sarbanes-Oxley Act of 2002, the SEC and the NYSE. In addition, we are subject to numerous domestic and foreign laws and regulations affecting our business, including those related to labor, employment, worker health and safety, competition, privacy, consumer protection, import/export and anti-corruption, including the Foreign Corrupt Practices Act. Although we have put into place policies and procedures aimed at ensuring legal and regulatory compliance, our employees, subcontractors, vendors and suppliers could take actions that violate these requirements, which could have a material adverse effect on our reputation, financial condition and on the market price of our common stock. Regulatory developments regarding the use of conflict minerals, certain minerals originating from the Democratic Republic of Congo and adjoining countries, could affect the sourcing and availability of raw materials used by suppliers and subject us to costs associated with the regulations, including for the diligence pertaining to the presence of any conflict minerals used in our products, possible changes to products, processes or sources of our inputs, and reporting requirements.

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. On March 2, 2012, we entered into a five-year, \$150.0 million syndicated, unsecured, revolving credit agreement (Credit Agreement). Our Credit Agreement, as amended, contains financial covenants that require us to maintain certain coverage and leverage ratios. To the extent we do not comply with the required covenants and are unable to obtain a waiver or amendment, our access to the Credit Agreement may be limited. 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

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, including exceeding capacity in our distribution centers; any disaster or casualty resulting in the interruption of service from our distribution centers or in a large number of our stores; any interruption of our business related to an outbreak of a pandemic disease in a country where we source or market our merchandise; changes in weather patterns; the effects of changes in current exchange rates and interest rates; and international and domestic acts of terror.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

We own two buildings in urban Pittsburgh, Pennsylvania which house our corporate headquarters. These buildings total 186,000 square feet and 150,000 square feet, respectively. We lease one location near our headquarters, which is used primarily for store and corporate support services, totaling approximately 51,000 square feet. This lease expires in 2022.

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 35,000 square feet of office space in New York, New York, with various terms expiring through 2018.

We lease 9,200 square feet of office space in San Francisco, California that functions as a technology center for our engineers and digital marketing team focused on our omni-channel strategy. The lease for this space expires in 2018.

We also lease offices in international locations including 5,800 square feet in Mexico City expiring in 2020, 15,400 square feet in Hong Kong expiring in 2017 and 11,300 square feet in Shanghai, China expiring in 2017.

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

We own a 423,000 square foot building located in a suburban area near Pittsburgh, Pennsylvania, which houses a distribution center and contains approximately 120,000 square feet of office space. On September 5, 2013 we announced plans to close this facility and transfer operations to a new facility that is being constructed in Hazleton, Pennsylvania. Please refer to Note 17 to the Consolidated Financial Statements for additional information. In the same suburban area near Pittsburgh, Pennsylvania, we own a 45,000 square foot building, which houses our data center and additional office space and lease an additional location of approximately 18,000 square feet, which is used for storage space. This lease expires in 2015.

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

ITEM 3. *LEGAL PROCEEDINGS.*

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

ITEM 4. *MINE SAFETY DISCLOSURES.*

Not Applicable

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

Our common stock is traded on the NYSE under the symbol AEO. As of March 10, 2014, there were 537 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	
February 1, 2014	\$ 16.52	\$ 12.77	\$ 0.125
November 2, 2013	\$ 19.97	\$ 13.24	\$ 0.125
August 3, 2013	\$ 20.48	\$ 17.62	\$ 0.125
May 4, 2013	\$ 22.55	\$ 18.38	\$ 0.00
February 2, 2013	\$ 21.45	\$ 18.49	\$ 0.22
October 27, 2012	\$ 23.80	\$ 19.89	\$ 1.61
July 28, 2012	\$ 20.92	\$ 17.89	\$ 0.11
April 28, 2012	\$ 18.43	\$ 13.58	\$ 0.11

During Fiscal 2013 and Fiscal 2012, we paid quarterly dividends as shown in the table above. No cash dividends per common share were paid for the quarter ended May 4, 2013 as the dividend payment was accelerated and included in the cash dividends for the quarter ended February 2, 2013. Cash dividends per common share for the quarter ended October 27, 2012 included a special cash dividend of \$1.50 per common share. The payment of future dividends is at the discretion of our Board of Directors (the 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 31, 2009 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.

	1/31/09	1/30/10	1/29/11	1/28/12	2/2/13	2/1/14
American Eagle Outfitters, Inc.	100.00	181.15	176.36	175.13	277.97	190.90
S&P Midcap 400	100.00	143.36	191.33	196.51	232.98	283.92
Dynamic Retail Intellidex	100.00	121.74	136.45	156.71	188.02	225.21

Table of Contents

The following table provides information regarding our repurchases of common stock during the three months ended February 1, 2014.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Programs (1)(3)	Maximum Number of Shares that May Yet be Purchased Under the Program (3)
Month #1 (November 3, 2013 through November 30, 2013)		\$		18,400,000
Month #2 (December 1, 2013 through January 4, 2014)		\$		18,400,000
Month #3 (January 5, 2014 through February 1, 2014)		\$		18,400,000
Total		\$		18,400,000

(1) There were no shares repurchased as part of our publicly announced share repurchase program during the three months ended February 1, 2014 and there were no shares repurchased for the payment of taxes in connection with the vesting of share-based payments.

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

(3) In January 2013, our Board authorized the repurchase of 20.0 million shares of our common stock. The authorization of the remaining 18.4 million shares that may yet be purchased expires on January 28, 2017.

The following table sets forth additional information as of the end of Fiscal 2013, about shares of our common stock that may be issued upon the exercise of options and other rights under our existing equity compensation plans and arrangements, divided between plans approved by our stockholders and plans or arrangements not submitted to our stockholders for approval. The information includes the number of shares covered by and the weighted average exercise price of, outstanding options and other rights and the number of shares remaining available for future grants excluding the shares to be issued upon exercise of outstanding options, warrants and other rights.

Equity Compensation Plan Table

	Column (a) Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	Column (b) Weighted-average exercise price of outstanding options, warrants and rights(1)	Column (c) Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a))(1)
Equity compensation plans approved by stockholders	3,925,333	\$ 17.65	18,186,587
Equity compensation plans not approved by stockholders			

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

Total	3,925,333	\$	17.65	18,186,587
-------	-----------	----	-------	------------

- (1) Equity compensation plans approved by stockholders include 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 Consolidated Financial Statements data presented below is derived from our Consolidated Financial Statements, if applicable, which are filed in response to Item 8 below. The selected Consolidated Statement of Operations data for the years ended January 29, 2011 and January 30, 2010 and the selected Consolidated Balance Sheet data as of January 28, 2012, January 29, 2011, and January 30, 2010 are derived from audited Consolidated Financial Statements not included herein.

<i>(In thousands, except per share amounts, ratios and other financial information)</i>	For the Years Ended(1)				
	February 1, 2014	February 2, 2013	January 28, 2012	January 29, 2011	January 30, 2010
Summary of Operations(2)					
Total net revenue	\$ 3,305,802	\$ 3,475,802	\$ 3,120,065	\$ 2,945,294	\$ 2,927,730
Comparable sales increase (decrease)(3)	(6)%	9%	4%	(1)%	(3)%
Gross profit	\$ 1,113,999	\$ 1,390,322	\$ 1,144,594	\$ 1,182,151	\$ 1,182,139
Gross profit as a percentage of net sales	33.7%	40.0%	36.7%	40.1%	40.4%
Operating income	\$ 141,055	\$ 394,606	\$ 269,335	\$ 339,552	\$ 325,713
Operating income as a percentage of net sales	4.3%	11.4%	8.6%	11.5%	11.1%
Income from continuing operations	\$ 82,983	\$ 264,098	\$ 175,279	\$ 195,731	\$ 228,298
Income from continuing operations as a percentage of net sales	2.5%	7.6%	5.6%	6.7%	7.8%
Per Share Results					
Income from continuing operations per common share-basic	\$ 0.43	\$ 1.35	\$ 0.90	\$ 0.98	\$ 1.11
Income from continuing operations per common share-diluted	\$ 0.43	\$ 1.32	\$ 0.89	\$ 0.97	\$ 1.09
Weighted average common shares outstanding basic	192,802	196,211	194,445	199,979	206,171
Weighted average common shares outstanding diluted	194,475	200,665	196,314	201,818	209,512
Cash dividends per common share	\$ 0.375	\$ 2.05	\$ 0.44	\$ 0.93	\$ 0.40
Balance Sheet Information					
Total cash and short-term investments	\$ 428,935	\$ 630,992	\$ 745,044	\$ 734,695	\$ 698,635
Long-term investments	\$	\$	\$ 847	\$ 5,915	\$ 197,773
Total assets	\$ 1,694,164	\$ 1,756,053	\$ 1,950,802	\$ 1,879,998	\$ 2,138,148
Short-term debt	\$	\$	\$	\$	\$ 30,000
Long-term debt	\$	\$	\$	\$	\$
Stockholders' equity	\$ 1,166,178	\$ 1,221,187	\$ 1,416,851	\$ 1,351,071	\$ 1,578,517
Working capital	\$ 508,082	\$ 705,898	\$ 882,087	\$ 786,573	\$ 758,075
Current ratio	2.22	2.62	3.18	3.03	2.85
Average return on stockholders' equity	7.0%	17.6%	11.0%	9.6%	11.3%
Other Financial Information(2)					
Total stores at year-end	1,066	1,044	1,069	1,077	1,075
Capital expenditures	\$ 278,499	\$ 93,939	\$ 89,466	\$ 75,904	\$ 126,598
Net sales per average selling square foot(4)	\$ 547	\$ 602	\$ 547	\$ 526	\$ 526
Total selling square feet at end of period	5,205,948	4,962,923	5,028,493	5,026,144	4,981,595
Net sales per average gross square foot(4)	\$ 444	\$ 489	\$ 438	\$ 422	\$ 422
Total gross square feet at end of period	6,503,486	6,023,278	6,290,284	6,288,425	6,215,355
Number of employees at end of period	40,400	40,100	39,600	39,900	38,800

Table of Contents

- (1) Except for the fiscal year ended February 2, 2013, which includes 53 weeks, all fiscal years presented include 52 weeks.
- (2) All amounts presented are from continuing operations and exclude 77kids and MARTIN+OSA's results of operations for all periods. Refer to Note 15 to the accompanying Consolidated Financial Statements for additional information regarding the discontinued operations of 77kids.
- (3) The comparable sales increase for the period ended February 2, 2013 is compared to the corresponding 53 week period in Fiscal 2011. Additionally, comparable sales for all periods include AEO Direct sales.
- (4) Total net revenue per average square foot is calculated using retail store sales for the year divided by the straight average of the beginning and ending square footage for the year.

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

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

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

the planned opening of approximately 25 AEO stores in the Factory store format in North America and continued international expansion in Mexico, Asia and the United Kingdom during Fiscal 2014;

the success of our efforts to expand internationally, engage in future franchise/license agreements, and/or growth through acquisitions or joint ventures;

the selection of approximately 45 American Eagle Outfitters stores in the United States and Canada for remodeling and refurbishing during Fiscal 2014;

the potential closure of approximately 15 to 20 American Eagle Outfitters and 25 to 30 aerie stores in the United States and Canada during Fiscal 2014;

the planned opening of approximately 40 new international third party operated American Eagle Outfitters stores during Fiscal 2014;

the success of our core American Eagle Outfitters and aerie brands through our omni-channel outlets within North America and internationally;

the expected payment of a dividend in future periods;

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 additional store impairment charges related to underperforming stores.

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

Table of Contents

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 total net revenue. We determine an estimated gift card breakage rate by continuously evaluating historical redemption data and the time when there is a remote likelihood that a gift card will be redeemed.

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

Merchandise Inventory. Merchandise inventory is valued at the lower of average cost or market, utilizing the retail method. Average cost includes merchandise design and sourcing costs and related expenses. We record merchandise receipts at the time which both title and risk of loss for the merchandise transfers to us.

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

We estimate an inventory shrinkage reserve for anticipated losses for the period between the last physical count and the balance sheet date. The estimate for the shrinkage reserve is calculated based on historical percentages and can be affected by changes in merchandise mix and changes in actual shrinkage trends. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to calculate our inventory shrinkage reserve. However, if actual physical inventory losses differ significantly from our estimate, our operating results could be adversely affected.

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

Table of Contents

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.

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 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 sales Comparable sales provide a measure of sales growth for stores and channels open at least one year over the comparable prior year period. In fiscal years following those with 53 weeks, including Fiscal 2013, the prior year period is shifted by one week to compare similar calendar weeks. A store is included in comparable 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 sales base, but are included in total sales. These stores are returned to the comparable sales base in the thirteenth month

Table of Contents

following the remodel. Sales from American Eagle Outfitters and aerie stores, as well as sales from AEO Direct, are included in total comparable sales. Sales from franchise stores are not included in comparable sales. Individual American Eagle Outfitters and aerie brand comparable sales disclosures represent sales from stores and AEO Direct.

We began to include AEO Direct sales in the individual American Eagle Outfitters and aerie brand comparable sales metric in Fiscal 2013 for the following reasons:

our approach to customer engagement is omni-channel, which provides a seamless customer experience through both traditional and non-traditional channels, including four wall store locations, web, mobile/tablet devices, social networks, email, in-store displays and kiosks;

shopping behavior has continued to evolve across multiple channels that work in tandem to meet all customer needs. Management believes that presenting a brand level performance metric that includes all channels (i.e., stores and AEO Direct) to be the most appropriate, given customer behavior.

Our management considers comparable sales to be an important indicator of our current performance. Comparable sales results are important to achieve leveraging of our costs, including store payroll, store supplies, rent, etc. Comparable sales also have a direct impact on our total net revenue, 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 total net revenue 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. Design costs consist of: compensation, rent, depreciation, travel, supplies and samples. 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.

Operating income Our management views operating income as a key indicator of our success. The key drivers of operating income are comparable sales, gross profit, our ability to control selling, general and administrative expenses, and our level of capital expenditures. Management also uses earnings before interest and taxes as an indicator of successful operating results.

Return on invested capital Our management uses return on invested capital as a key measure to assess our efficiency at allocating capital to profitable investments. This measure is critical in determining which strategic alternatives to pursue.

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

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

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

Our management's goals are to drive improvements to our gross profit performance, bring greater consistency to our results and to deliver profitable growth over the long term.

Table of Contents

Results of Operations

Overview

Our Fiscal 2013 results reflected weak store traffic in North America and a high level of promotional activity, which negatively impacted both comparable sales and margins.

Total net revenue for the 52 week year decreased 5% to \$3.306 billion, compared to \$3.476 billion for the 53 week period last year. Total comparable sales for the 52 week year decreased 6% over the corresponding 52 week period last year, with negative comparable sales in all quarters. By brand, including the respective AEO Direct sales, AEO Brand comparable sales decreased 7% and aerie Brand decreased 2%.

Continued competitive pressures and a challenging macroeconomic environment led to increased markdown rates, resulting in a lower gross margin in Fiscal 2013. Gross margin decreased 630 basis points to 33.7%, compared to 40.0% last year.

Operating income for the year was \$141.1 million, which includes \$92.6 million in pre-tax impairment charges, asset write-offs and corporate charges. Income from continuing operations was \$0.43 per diluted share this year, compared to income from continuing operations of \$1.32 per diluted share last year. On an adjusted basis, income from continuing operations this year was \$0.74 per diluted share, which excludes a (\$0.31) per diluted share impact from impairment charges, fabric charges, corporate and store asset write-offs, employee costs and tax related items. This compares to adjusted income from continuing operations last year of \$1.39 per diluted share, which excludes a (\$0.13) per diluted share impact from impairment charges, asset write-offs and employee costs and a \$0.06 per diluted share tax benefit from audit settlements.

The preceding paragraph contains non-GAAP financial measures (non-GAAP or adjusted), comprised of earnings per share information excluding non-GAAP items. This financial measure is not based on any standardized methodology prescribed by U.S. generally accepted accounting principles (GAAP) and is not necessarily comparable to similar measures presented by other companies. We believe that this non-GAAP information is useful as an additional means for investors to evaluate our operating performance, when reviewed in conjunction with our GAAP financial statements. These amounts are not determined in accordance with GAAP and therefore, should not be used exclusively in evaluating our business and operations. The table below reconciles the GAAP financial measure to the non-GAAP financial measure discussed above.

		For the Fiscal Years Ended	
		February 1, 2014	February 2, 2013
Income from continuing operations per diluted share	GAAP Basis	\$ 0.43	\$ 1.32
Add: Asset Impairments(1)		0.14	0.11
Add: Asset write-offs and corporate charges(2)		0.16	0.02
Add: Tax related items(3)		0.01	(0.06)
Income from continuing operations per diluted share	Non-GAAP Basis	\$ 0.74	\$ 1.39

- (1)- Asset impairment costs for the 52 weeks ended February 1, 2014 consist of \$44.5 million of pre-tax asset impairments for AEO and aerie brand retail stores and the Warrendale Distribution Center. Assets impairment costs for the 53 weeks ended February 2, 2013 consist of \$34.9 million of pre-tax asset impairments for AEO and aerie brand retail stores.
- (2)- Asset write-offs and corporate charges for the 52 weeks ended February 1, 2014 consist of \$49.4 million of pre-tax charges. Comprising this amount are \$24.1 million of charges relating to fabric and product liabilities and the discontinuation of the AE Performance line, \$14.3 million of corporate and store asset write-offs, \$6.3 million for the write down in value of the Company's corporate jet and \$4.7 million of employee severance and related costs. Asset write-offs and corporate charges for the 53 weeks ended February 2, 2013 consist of \$7.6 million of pre-tax employee severance and related costs and asset write-offs.

Table of Contents

(3)- Tax related items for the 52 weeks ended February 1, 2014 were \$2.8 million from recording an international valuation allowance, net of tax benefits from changes in tax reserves, compared to \$11.8 million of tax benefits from audit settlements last year.

We ended Fiscal 2013 with \$428.9 million in cash and short-term investments, a decrease of \$202.1 million from last year. During the year, we generated \$229.9 million of cash from operations. The cash from operations was offset by \$278.5 million of capital expenditures, dividend payments of \$72.3 million and share repurchases of \$33.1 million. Merchandise inventory at the end of Fiscal 2013 was \$291.5 million, a decrease of 16% on a cost per square foot basis, reflecting improved inventory turns and the impact of a change in ownership terms.

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

	For the Fiscal Years Ended		
	February 1, 2014	February 2, 2013	January 28, 2012
Total net revenue	100.0%	100.0%	100.0%
Cost of sales, including certain buying, occupancy and warehousing expenses	66.3	60.0	63.3
Gross profit	33.7	40.0	36.7
Selling, general and administrative expenses	24.1	24.0	23.0
Loss on impairment of assets	1.3	1.0	0.6
Depreciation and amortization expense	4.0	3.6	4.5
Operating income	4.3	11.4	8.6
Other income, net		0.2	0.2
Income before income taxes	4.3	11.6	8.8
Provision for income taxes	1.8	4.0	3.2
Income from continuing operations	2.5	7.6	5.6
Loss from discontinued operations, net of tax		(0.9)	(0.7)
Net income	2.5%	6.7%	4.9%

Comparison of Fiscal 2013 to Fiscal 2012**Total Net Revenue**

Total net revenue for the 52 week year decreased 5% to \$3.306 billion compared to \$3.476 billion for the 53 week period last year. For Fiscal 2013, total comparable sales decreased 6% compared to a 9% increase for the corresponding 52 week period last year. By brand, including the respective AEO Direct revenue, American Eagle Outfitters brand comparable sales decreased 7%, or \$199.7 million, and aerie brand decreased 2%, or \$3.5 million. AEO men's comparable sales decreased in the mid single-digits and AEO women's comparable sales decreased in the high single-digits.

For the year, store transactions and AUR decreased in the mid single-digits. Units per transaction decreased in the low-single digits, leading to the overall 6% comparable sales decrease.

Gross Profit

Gross profit decreased 20% to \$1.114 billion from \$1.390 billion in Fiscal 2012. On a consolidated basis, gross profit as a percent to total net revenue decreased by 630 basis points to 33.7% from 40.0% last year. Included in gross profit this year were \$24.1 million of pre-tax charges related to fabric and product liabilities and the discontinuation of the AE Performance line and \$4.5 million of corporate and store asset write-offs.

Table of Contents

Favorable product costs provided 120 basis points of improvement, offset by 510 basis points of decline due to higher markdowns and 70 basis points from the previously discussed pre-tax charges related to fabric and product liabilities and corporate and store asset write-offs. Buying, occupancy and warehousing costs (BOW) deleveraged as a rate to total net revenue as a result of higher delivery costs and the deleveraging of rent costs on the comparable sales decrease.

There was net benefit of \$6.9 million of share-based payment expense included in gross profit this year compared to \$34.5 million of share-based payment expense last year. The net benefit this year is due to a reversal of previously recorded performance-based expense resulting from current business performance compared to targets.

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

Selling, General and Administrative Expenses

Selling, general and administrative expense decreased 5% to \$796.5 million, compared to \$834.6 million last year, and includes \$7.8 million of pre-tax asset write-offs and employee related costs. Last year, selling, general and administrative expense included \$6.0 million of pre-tax employee related costs. As a rate to total net revenue, selling, general and administrative expenses increased 10 basis points to 24.1%, compared to 24.0% last year. Lower incentives costs, including a benefit from the reversal of previously recorded performance-based equity compensation expense, were partially offset by incremental costs related to filling open positions at the corporate office and expenses related to the opening of factory stores and our omni-channel initiatives.

There was \$0.3 million of share-based payment expense, consisting of time and performance-based awards, included in selling, general and administrative expenses this year compared to \$31.9 million last year.

Loss on Impairment of Assets

The loss on impairment of assets of \$44.5 million consists of \$25.2 million for the impairment of 69 retail stores and \$19.3 million for our Warrendale, Pennsylvania Distribution Center. Please refer to Note 17 to the Consolidated Financial Statements for additional information pertaining to the Warrendale Distribution Center. The retail store impairments were recorded based on the results of our evaluation of stores that considered performance during the holiday selling season and a significant portfolio review in the fourth quarter of Fiscal 2013 that took into account current and future performance projections and strategic real estate initiatives. We determined that these stores would not be able to generate sufficient cash flow over the expected remaining lease term to recover the carrying value of the respective stores assets. In Fiscal 2012, the loss on impairment of assets was \$34.9 million relating to 52 retail stores.

Depreciation and Amortization Expense

Depreciation and amortization expense increased to \$132.0 million from \$126.2 million last year, driven by corporate and store asset write-offs. As a rate to total net revenue, depreciation and amortization increased to 4.0% from 3.6% last year as a result of the lower total net revenue and an increase in depreciation and amortization expense this year. Depreciation and amortization includes \$11.7 million of asset write-offs in Fiscal 2013 and \$0.7 million of asset write-offs in Fiscal 2012.

Table of Contents

Other Income, Net

Other income was \$1.0 million this year, compared to income of \$7.4 million last year, primarily as a result of settlement recoveries received last year from auction rate securities that were previously held.

Provision for Income Taxes

The effective income tax rate from continuing operations increased to approximately 42% in Fiscal 2013 from 34% in Fiscal 2012. The higher effective income tax rate in Fiscal 2013 was primarily due to valuation allowances on foreign losses, an overall decrease in income levels, and a greater benefit for federal and state income tax settlements in 2012.

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

Income from Continuing Operations

Income from continuing operations for Fiscal 2013 was \$83.0 million, or \$0.43 per diluted share. This includes \$60.9 million, or (\$0.31) per diluted share, of after-tax impairment charges, asset write-offs, corporate charges and tax related items. Income from continuing operations for Fiscal 2012 was \$264.1 million, or \$1.32 per diluted share, and includes \$11.8 million, or \$0.06 per diluted share, of tax benefits and \$26.4 million, or (\$0.13) per diluted share, of after-tax impairment charges, asset write-offs and employee costs.

Loss from Discontinued Operations

We completed the sale of the 77kids stores and related e-commerce operations during Fiscal 2012. Accordingly, the after-tax operating results appear in Loss from Discontinued Operations on the Consolidated Statements of Operations for all periods presented. Loss from Discontinued Operations, net of tax, was \$32.0 million for Fiscal 2012, which included both operating losses and closure charges.

Refer to Note 15 to the Consolidated Financial Statements for additional information regarding the discontinued operations of 77kids.

Net Income

Net income decreased to \$83.0 million in Fiscal 2013 from \$232.1 million in Fiscal 2012. As a percent to total net revenue, net income was 2.5% and 6.7% for Fiscal 2013 and Fiscal 2012, respectively. Net income per diluted share was \$0.43, compared to \$1.16 last year. The change in net income was attributable to the factors noted above.

Comparison of Fiscal 2012 to Fiscal 2011

Total Net Revenue

Total net revenue for the 53 week year increased 11% to \$3.476 billion compared to \$3.120 billion for the 52 week year in Fiscal 2011. For Fiscal 2012, total comparable sales increased 9% compared to a 4% increase for the corresponding 53 week period in Fiscal 2011. By brand, including the respective AEO Direct revenue, American Eagle Outfitters brand comparable sales increased 9%, or \$254.2 million, and aerie brand increased 11%, or \$22.6 million. AEO men's comparable sales increased in the high single-digits and AEO women's comparable sales increased in the low double-digits.

For Fiscal 2012, store transactions and AUR increased in the low single-digits. Units per transaction increased in the mid-single digits, leading to the overall 9% comparable sales increase.

Table of Contents

Gross Profit

Gross profit increased 21% to \$1.390 billion from \$1.145 billion in Fiscal 2011. On a consolidated basis, gross profit as a percent to total net revenue increased by 330 basis points to 40.0% from 36.7% in Fiscal 2011. The percentage increase was attributed to a 130 basis point improvement in merchandise costs, a 120 basis point improvement in overall markdowns and an 80 basis point decrease in BOW costs, as a percent to total net revenue. The decrease in merchandise costs was primarily the result of average unit cost decreases, driven by improved cotton economics and improved inventory management principles. Less promotional activity led to overall improvement in markdowns. BOW costs improved as a rate to total net revenue as a result of the leveraging of our rent costs on the 9% increase in comparable sales for the year.

There was \$34.5 million of share-based payment expense, consisting of both time and performance-based awards, included in gross profit in Fiscal 2012 compared to \$5.3 million in Fiscal 2011.

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

Selling, General and Administrative Expenses

Selling, general and administrative expense increased 16% to \$834.6 million, compared to \$718.1 million in Fiscal 2011, and includes \$6.0 million of pre-tax severance and related employee costs. In Fiscal 2011, selling, general and administrative expense included \$5.5 million of executive transition costs. As a rate to total net revenue, selling, general and administrative expenses increased 100 basis points to 24.0%, compared to 23.0% in Fiscal 2011. The increase in the rate was driven primarily by incremental incentive costs and variable selling expenses related to our strong top-line results, and advertising investments in the AEO Brand.

There was \$31.9 million of share-based payment expense, consisting of time and performance-based awards, included in selling, general and administrative expenses in Fiscal 2012 compared to \$6.5 million in Fiscal 2011.

Loss on Impairment of Assets

The loss on impairment of assets of \$34.9 million, of which \$34.4 million was recorded in the fourth quarter of Fiscal 2012, resulted from our evaluation of stores and considered performance during the important holiday selling season as well as strategic decisions made in the fourth quarter of Fiscal 2012 regarding the rebalancing of our store fleet. This impairment consisted of 52 retail stores. In Fiscal 2011, the loss on impairment of assets was \$19.2 million.

Depreciation and Amortization Expense

Depreciation and amortization expense decreased to \$126.2 million from \$138.0 million in Fiscal 2011, due primarily to the maturing of assets. As a rate to total net revenue, depreciation and amortization decreased to 3.6% from 4.5% in Fiscal 2011 as a result of the higher total net revenue and an \$11.8 million reduction in depreciation and amortization expense in Fiscal 2012. Depreciation and amortization includes \$0.7 million of asset write-offs in the second quarter of Fiscal 2012.

Other Income, Net

Other income was \$7.4 million in Fiscal 2012, compared to income of \$5.9 million in Fiscal 2011, primarily as a result settlement recoveries in both years received from auction rate securities that were previously held.

Table of Contents

Provision for Income Taxes

The effective income tax rate from continuing operations decreased to approximately 34% in Fiscal 2012 from 36% in Fiscal 2011. The lower effective income tax rate in Fiscal 2012 was primarily due to federal and state income tax settlements and other changes in income tax reserves.

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

Income from Continuing Operations

Income from continuing operations for Fiscal 2012 was \$264.1 million, or \$1.32 per diluted share. This includes \$11.8 million, or \$0.06 per diluted share, of tax benefits and \$26.4 million, or (\$0.13) per diluted share, of after-tax asset impairments, asset write-offs and corporate charges. Income from continuing operations for Fiscal 2011 was \$175.3 million, or \$0.89 per diluted share, and included \$15.7 million, or (\$0.08) per diluted share, of after-tax store impairment and executive transition costs.

Loss from Discontinued Operations

We completed the sale of the 77kids stores and related e-commerce operations during Fiscal 2012. Accordingly, the after-tax operating results appear in Loss from Discontinued Operations on the Consolidated Statements of Operations for all periods presented. Loss from Discontinued Operations, net of tax, was \$32.0 million for Fiscal 2012, which included both operating losses and closure charges, and \$23.6 million for Fiscal 2011, which includes operating losses only.

Refer to Note 15 to the Consolidated Financial Statements for additional information regarding the discontinued operations of 77kids.

Net Income

Net income increased to \$232.1 million in Fiscal 2012 from \$151.7 million in Fiscal 2011. As a percent to total net revenue, net income was 6.7% and 4.9% for Fiscal 2012 and Fiscal 2011, respectively. Net income per diluted share was \$1.16, compared to \$0.77 last year. The change in net income was attributable to the factors noted above, including the impact of the discontinued operations of 77kids.

Fair Value Measurements

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

Financial Instruments

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

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

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

Table of Contents

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 February 1, 2014, we held certain assets that are required to be measured at fair value on a recurring basis. These include cash equivalents and investments.

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 February 1, 2014:

<i>(In thousands)</i>	Carrying Amount	Fair Value Measurements at February 1, 2014		
		Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents				
Cash	\$ 330,013	\$ 330,013	\$	\$
Treasury bills	63,224	63,224		
Money-market	25,696	25,696		
Total cash and cash equivalents	\$ 418,933	\$ 418,933	\$	\$
Short-term investments				
Treasury bills	\$ 10,002	\$ 10,002	\$	\$
Total short-term investments	\$ 10,002	\$ 10,002	\$	\$
Total	\$ 428,935	\$ 428,935	\$	\$
Percent to total	100.0%	100.0%	%	%

In the event we hold Level 3 investments, we would use a discounted cash flow (DCF) model to assess fair value.

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

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 short-term investments and the return of value to shareholders through the repurchase of common stock and the payment of dividends. Historically, these uses of cash have been funded with cash flow from operations and existing cash on hand. Additionally, our uses of cash include the development of the aerie brand and our international expansion efforts. We expect to be able to fund our future cash requirements in North America 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 expansion of our brands internationally.

Our growth strategy includes fortifying our brands and the 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:

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

	February 1, 2014	February 2, 2013
Working Capital (in 000 s)	\$ 508,082	\$ 705,898
Current Ratio	2.22	2.62

Table of Contents

The \$197.8 million decrease in our working capital and corresponding decrease in the current ratio as of February 1, 2014 compared to February 2, 2013, related primarily to our use of cash for investing and financing activities, offset by net income, net of non-cash adjustments. Investing and financing activities primarily include capital expenditures, sale of available-for-sale securities, the payment of dividends and the repurchase of common stock. In Fiscal 2013, we paid \$0.375 per share of dividends for a total of \$72.3 million, which does not include a first quarter dividend as it was accelerated and paid in Fiscal 2012, and repurchased 1.6 million shares of our common stock for \$33.1 million.

Cash Flows from Operating Activities of Continuing Operations

Net cash provided by operating activities totaled \$229.9 million during Fiscal 2013, compared to \$499.7 million during Fiscal 2012 and \$278.1 million during Fiscal 2011. Our major source of cash from operations was merchandise sales and a reduction in our overall inventory balance. Our primary outflows of cash from operations were for the payment of operational costs. The year-over-year decrease in cash flows from operations this year was primarily driven by the decrease in income from continuing operations, net of non-cash adjustments, as a result of the 5% decrease in total net revenue and decline in gross margin resulting from increased promotional activity. Merchandise inventory at the end of Fiscal 2013 was \$291.5 million, a decrease of 16% on a cost per square foot basis. The decrease reflects a high single-digit decrease in the number of units per square foot.

Cash Flows from Investing Activities of Continuing Operations

Investing activities for Fiscal 2013 included \$278.5 million in capital expenditures for property and equipment, \$20.8 million for the purchase of assets related to our international expansion strategy, \$52.1 million of investment purchases, partially offset by \$162.8 million of proceeds from the sale of investments classified as available-for-sale. Investing activities for Fiscal 2012 included \$93.9 million in capital expenditures for property and equipment, \$111.1 million of investment purchases, partially offset by \$15.5 million of proceeds from the sale of investments classified as available-for-sale. Investing activities for Fiscal 2011 included \$89.5 million in capital expenditures for property and equipment, \$34.2 million for the acquisition of intangible assets primarily related to our international expansion strategy and \$193.9 million of investment purchases fully offset by \$240.8 million of proceeds from the sale of investments classified as available-for-sale. For further information on capital expenditures, refer to the Capital Expenditures for Property and Equipment caption below.

Cash Flows from Financing Activities of Continuing Operations

During Fiscal 2013, cash used for financing activities resulted primarily from \$72.3 million for the payment of dividends, \$33.1 million for the repurchase of 1.6 million shares as part of our publicly announced repurchase program and \$23.4 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 2012, cash used for financing activities resulted primarily from \$403.5 million for the payment of dividends and \$173.6 million for the repurchase of 8.4 million shares as part of our publicly announced repurchase program. During Fiscal 2011, cash used for financing activities resulted primarily from \$85.6 million for the payment of dividends and \$15.2 million for the repurchase of 1.4 million shares as part of our publicly announced repurchase program.

Cash returned to shareholders through dividends and share repurchases was \$105.3 million and \$577.0 million in Fiscal 2013 and Fiscal 2012, respectively.

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 2013, Fiscal 2012 and Fiscal 2011, the excess tax benefits from share-based payments of \$8.8 million, \$13.3 million and \$0.4 million, respectively, are classified as financing cash flows.

Table of Contents

Capital Expenditures for Property and Equipment

Fiscal 2013 capital expenditures were \$278.5 million, compared to \$93.9 million in Fiscal 2012. Fiscal 2013 expenditures included \$98.4 million related to investments in our AEO stores, including 58 new AEO stores, 56 remodeled and refurbished stores, and fixtures and visual investments. Additionally, we continued to support our infrastructure growth by investing in information technology (\$69.7 million), the improvement of our distribution centers and construction of a new distribution center (\$83.2 million) and investments in e-commerce (\$11.9 million) and other home office projects (\$15.3 million).

For Fiscal 2014, we expect capital expenditures to be approximately \$230 million related to the continued construction of our new distribution center to support our expansion efforts, stores, information technology upgrades to support growth and investments in e-commerce. New store growth is primarily related to AEO Factory stores, which are among our most productive format, and new wholly-owned international locations in Mexico, Asia and the United Kingdom. Additionally, we plan to remodel and refurbish approximately 45 AEO stores.

Credit Facilities

On March 2, 2012, we entered into a five-year, \$150.0 million syndicated, unsecured, revolving credit agreement (the *Credit Agreement*). The primary purpose of the *Credit Agreement* is to provide additional access to capital for general corporate purposes, growth initiatives and the issuance of letters of credit.

The *Credit Agreement*, as amended, contains financial covenants that require us to maintain certain coverage and leverage ratios, and various customary affirmative and negative covenants such as the ability to incur additional debt not otherwise permitted under the *Credit Agreement*.

The *Credit Agreement* has various borrowing options, including rates of interest that are based on (i) an Adjusted London Interbank Offered Rate (*LIBOR* as defined in the *Credit Agreement*) plus a margin ranging from 1.00% to 1.75% based on a defined leverage ratio, payable at the end of the applicable interest period; and (ii) a Base Rate (as defined in the *Credit Agreement*), plus a margin ranging from 0.00% to 0.75% based on a defined leverage ratio, payable quarterly.

Under the *Credit Agreement*, we are also required to pay a commitment fee ranging from 0.175% to 0.30%, based on the defined leverage ratio, on the unused portion of the total lender commitments.

As of February 1, 2014, we were in compliance with the *Credit Agreement* had \$8.2 million outstanding in letters of credit and no borrowings.

The *Credit Agreement* replaced uncommitted demand lines in the aggregate amount of \$110.0 million United States dollars (*USD*) and \$25.0 million Canadian dollars (*CAD*).

Additionally, we have borrowing agreements with two separate financial institutions under which we may borrow an aggregate of \$155.0 million USD for the purposes of trade letter of credit issuances. The availability of any future borrowings under the trade letter of credit facilities is subject to acceptance by the respective financial institutions. As of February 1, 2014, we had outstanding trade letters of credit of \$27.5 million.

Stock Repurchases

During Fiscal 2013, as part of our publicly announced share repurchase program, we repurchased 1.6 million shares for approximately \$33.1 million, at a weighted average price of \$20.66 per share. During Fiscal 2012, as part of our publicly announced share repurchase program, we repurchased 8.4 million shares for approximately \$173.6 million, at a weighted average price of \$20.65 per share. As of February 1, 2014, we had 18.4 million shares remaining authorized for repurchase under the program authorized by our Board in January 2013. The program authorized 20.0 million shares under a share repurchase program which expires on January 28, 2017.

Table of Contents

During Fiscal 2013, Fiscal 2012 and Fiscal 2011, we repurchased approximately 1.1 million, 0.3 million and 0.1 million shares, respectively, from certain employees at market prices totaling \$23.4 million, \$4.1 million and \$2.2 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

On December 4, 2012, our Board accelerated the payment of the first quarter 2013 dividend. This dividend was paid on December 28, 2012. In March 2013, our Board raised our quarterly dividend to \$0.125 per share, a 14% increase. Due to the early payment of our Fiscal 2013 first quarter dividend, the increased dividend distribution began in the second quarter of Fiscal 2013. During Fiscal 2013, three quarterly dividends of \$0.125 per share were paid. An \$0.11 per share dividend was paid for each quarter of Fiscal 2012. Additionally, during the third quarter of Fiscal 2012, our Board declared and paid a \$1.50 per share special cash dividend. 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 February 1, 2014:

<i>(In thousands)</i>	Total	Payments Due by Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating Leases(1)	\$ 1,755,562	\$ 273,827	\$ 495,638	\$ 384,163	\$ 601,934
Unrecognized Tax Benefits(2)	16,543				16,543
Purchase Obligations(3)	488,008	466,603	16,581	2,613	2,211
Total Contractual Obligations	\$ 2,260,113	\$ 740,430	\$ 512,219	\$ 386,776	\$ 620,688

- (1) Operating lease obligations consist primarily of future minimum lease commitments related to store operating leases (Refer to Note 10 to the Consolidated Financial Statements). Operating lease obligations do not include common area maintenance, insurance or tax payments for which we are also obligated.
- (2) The amount of unrecognized tax benefits as of February 1, 2014 was \$16.5 million, including approximately \$1.9 million of accrued interest and penalties. Unrecognized tax benefits are positions taken or expected to be taken on an income tax return that may result in additional payments to tax authorities. The unrecognized tax benefits of \$16.5 million 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.

Table of Contents**Disclosure about Commercial Commitments**

The following table summarizes our significant commercial commitments as of February 1, 2014:

<i>(In thousands)</i>	Total Amount Committed	Amount of Commitment Expiration Per Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Trade Letters of Credit(1)	\$ 27,461	\$ 27,461			
Standby Letters of Credit(2)	8,172	8,172			
Total Commercial Commitments	\$ 35,633	\$ 35,633			

- (1) Trade letters of credit represent commitments, guaranteed by a bank, to pay vendors for merchandise, as well as other commitments, upon presentation of documents demonstrating that the merchandise has shipped.
- (2) Standby letters of credit represent commitments, guaranteed by a bank, to pay landlords or vendors to the extent previously agreed criteria are not met.

Guarantees

In connection with the exit of the 77kids business, we are secondarily liable for obligations under the lease agreements for 21 store leases assumed by the third party purchaser. These obligations will remain in effect until the leases expire through 2022, unless we are otherwise released by the applicable landlord. In the event that the third party purchaser does not fulfill its obligations under any of the leases and we are required to make any such payments, we would seek full reimbursement from the third party purchaser in accordance with the asset purchase agreement. The third party purchaser has provided a stand-by letter of credit to us in order to secure payment of obligations under the leases.

In accordance with ASC 460, *Guarantees* (ASC 460), as we became secondarily liable under the leases at the time that we transferred them to the third party, no amounts have been accrued in our Consolidated Financial Statements related to these guarantees.

Off-Balance Sheet Arrangements

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

Recent Accounting Pronouncements

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

Impact of Inflation

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

Table of Contents

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 not materially affected by changes in market interest rates as a result of our short-term investments. If our Fiscal 2013 average yield rate decreases by 10% in Fiscal 2014, our income before taxes will decrease by approximately \$0.1 million. Comparatively, if our Fiscal 2012 average yield rate had decreased by 10% in Fiscal 2013, our income before taxes would have decreased by approximately \$0.1 million. These amounts are determined by considering the impact of the hypothetical yield rates on our cash and 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. The impact of all other foreign currencies is currently immaterial to our financial results. 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>	37
<u>Consolidated Balance Sheets</u>	38
<u>Consolidated Statements of Operations</u>	39
<u>Consolidated Statements of Comprehensive Income</u>	40
<u>Consolidated Statements of Stockholders' Equity</u>	41
<u>Consolidated Statements of Cash Flows</u>	42
<u>Notes to Consolidated Financial Statements</u>	43

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. as of February 1, 2014 and February 2, 2013, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended February 1, 2014. 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 February 1, 2014 and February 2, 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended February 1, 2014, 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 February 1, 2014, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated March 13, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

March 13, 2014

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

	February 1, 2014	February 2, 2013
<i>(In thousands, except per share amounts)</i>		
Assets		
Current assets:		
Cash and cash equivalents	\$ 418,933	\$ 509,119
Short-term investments	10,002	121,873
Merchandise inventory	291,541	332,452
Accounts receivable	73,882	46,321
Prepaid expenses and other	83,724	73,805
Deferred income taxes	45,478	58,230
Total current assets	923,560	1,141,800
Property and equipment, at cost, net of accumulated depreciation	637,417	509,633
Intangible assets, at cost, net of accumulated amortization	49,271	38,136
Goodwill	13,530	11,484
Non-current deferred income taxes	24,835	31,282
Other assets	45,551	23,718
Total assets	\$ 1,694,164	\$ 1,756,053
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 203,872	\$ 176,874
Accrued compensation and payroll taxes	23,560	65,533
Accrued rent	76,397	77,873
Accrued income and other taxes	5,778	29,155
Unredeemed gift cards and gift certificates	47,194	46,458
Current portion of deferred lease credits	13,293	13,381
Other liabilities and accrued expenses	45,384	26,628
Total current liabilities	415,478	435,902
Non-current liabilities:		
Deferred lease credits	59,510	59,571
Non-current accrued income taxes	16,543	19,011
Other non-current liabilities	36,455	20,382
Total non-current liabilities	112,508	98,964
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 shares issued; 193,149 and 192,604 shares outstanding, respectively	2,496	2,496
Contributed capital	573,008	627,065
Accumulated other comprehensive income	12,157	29,297
Retained earnings	1,569,851	1,553,058

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

Treasury stock, 56,417 and 56,962 shares, respectively, at cost	(991,334)	(990,729)
Total stockholders' equity	1,166,178	1,221,187
Total liabilities and stockholders' equity	\$ 1,694,164	\$ 1,756,053

Refer to Notes to Consolidated Financial Statements

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

<i>(In thousands, except per share amounts)</i>	February 1, 2014	For the Years Ended February 2, 2013	January 28, 2012
Total net revenue	\$ 3,305,802	\$ 3,475,802	\$ 3,120,065
Cost of sales, including certain buying, occupancy and warehousing expenses	2,191,803	2,085,480	1,975,471
Gross profit	1,113,999	1,390,322	1,144,594
Selling, general and administrative expenses	796,505	834,601	718,123
Loss on impairment of assets	44,465	34,869	19,178
Depreciation and amortization expense	131,974	126,246	137,958
Operating income	141,055	394,606	269,335
Other income, net	1,022	7,432	5,874
Income before income taxes	142,077	402,038	275,209
Provision for income taxes	59,094	137,940	99,930
Income from continuing operations	82,983	264,098	175,279
Loss from discontinued operations, net of tax		(31,990)	(23,574)
Net income	\$ 82,983	\$ 232,108	\$ 151,705
Basic income per common share:			
Income from continuing operations	\$ 0.43	\$ 1.35	\$ 0.90
Loss from discontinued operations		(\$ 0.16)	(\$ 0.12)
Basic net income per common share	\$ 0.43	\$ 1.19	\$ 0.78
Diluted income per common share:			
Income from continuing operations	\$ 0.43	\$ 1.32	\$ 0.89
Loss from discontinued operations		(0.16)	(0.12)
Diluted net income per common share	\$ 0.43	\$ 1.16	\$ 0.77
Weighted average common shares outstanding basic	192,802	196,211	194,445
Weighted average common shares outstanding diluted	194,475	200,665	196,314

Refer to Notes to Consolidated Financial Statements

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

<i>(In thousands)</i>	February 1, 2014	For the Years Ended February 2, 2013	January 28, 2012
Net income	\$ 82,983	\$ 232,108	\$ 151,705
Other comprehensive (loss) income:			
Foreign currency translation (loss) gain	(17,140)	638	587
Other comprehensive (loss) income	(17,140)	638	587
Comprehensive income	\$ 65,843	\$ 232,746	\$ 152,292

Refer to Notes to Consolidated Financial Statements

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

<i>(In thousands, except per share amounts)</i>	Shares Outstanding (1)	Common Stock	Contributed Capital	Retained Earnings	Treasury Stock(2)	Accumulated Other Comprehensive Income (Loss)	Stockholders Equity
Balance at January 29, 2011	194,366	\$ 2,496	\$ 546,597	\$ 1,711,929	\$ (938,023)	\$ 28,072	\$ 1,351,071
Stock awards			10,532				10,532
Repurchase of common stock as part of publicly announced programs	(1,365)				(15,160)		(15,160)
Repurchase of common stock from employees	(145)				(2,189)		(2,189)
Reissuance of treasury stock	992		(5,997)	(4,261)	16,807		6,549
Net income				151,705			151,705
Other comprehensive income, net of tax						587	587
Cash dividends and dividend equivalents (\$0.44 per share)			1,665	(87,909)			(86,244)
Balance at January 28, 2012	193,848	\$ 2,496	\$ 552,797	\$ 1,771,464	\$ (938,565)	\$ 28,659	\$ 1,416,851
Stock awards			76,108				76,108
Repurchase of common stock as part of publicly announced programs	(8,407)				(173,554)		(173,554)
Repurchase of common stock from employees	(280)				(4,125)		(4,125)
Reissuance of treasury stock	7,443		(11,054)	(36,213)	125,515		78,248
Net income				232,108			232,108
Other comprehensive income, net of tax						638	638
Cash dividends and dividend equivalents (\$2.05 per share)			9,214	(414,301)			(405,087)
Balance at February 2, 2013	192,604	\$ 2,496	\$ 627,065	\$ 1,553,058	\$ (990,729)	\$ 29,297	\$ 1,221,187
Stock awards			1,184				1,184
Repurchase of common stock as part of publicly announced programs	(1,600)				(33,051)		(33,051)
Repurchase of common stock from employees	(1,059)				(23,385)		(23,385)
Reissuance of treasury stock	3,204		(56,706)	6,090	55,831		5,215
Net income				82,983			82,983
Other comprehensive income, net of tax						(17,140)	(17,140)
Cash dividends and dividend equivalents (\$0.375 per share)			1,465	(72,280)			(70,815)
Balance at February 1, 2014	193,149	\$ 2,496	\$ 573,008	\$ 1,569,851	\$ (991,334)	\$ 12,157	\$ 1,166,178

(1) 600,000 authorized, 249,566 issued and 193,149 outstanding, \$0.01 par value common stock at February 1, 2014; 600,000 authorized, 249,566 issued and 192,604 outstanding, \$0.01 par value common stock at February 2, 2013; 600,000 authorized, 249,566 issued and 193,848 outstanding, \$0.01 par value common stock at January 28, 2012. The Company has 5,000 authorized, with none issued or

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

outstanding, \$0.01 par value preferred stock at February 1, 2014, February 2, 2013 and January 28, 2012.

- (2) 56,417 shares, 56,962 shares, and 55,718 shares at February 1, 2014, February 2, 2013 and January 28, 2012, respectively. During Fiscal 2013, Fiscal 2012, and Fiscal 2011, 3,204 shares, 7,443 shares, and 992 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**

<i>(In thousands)</i>	February 1, 2014	For the Years Ended February 2, 2013	January 28, 2012
Operating activities:			
Net income	\$ 82,983	\$ 232,108	\$ 151,705
Loss from discontinued operations, net of tax		31,990	23,574
Income from continuing operations	\$ 82,983	\$ 264,098	\$ 175,279
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	134,047	128,397	140,502
Share-based compensation	(6,541)	66,349	11,724
Provision for deferred income taxes	20,187	(31,418)	4,207
Tax benefit from share-based payments	8,746	14,050	356
Excess tax benefit from share-based payments	(8,833)	(13,279)	(373)
Foreign currency transaction loss (gain)	1,378	100	(325)
Loss on impairment of assets	44,465	34,869	19,718
Changes in assets and liabilities:			
Merchandise inventory	40,148	35,202	(73,850)
Accounts receivable	(29,511)	(6,664)	(3,226)
Prepaid expenses and other	(10,844)	404	(21,051)
Other assets	(36,089)	(8,165)	2,445
Accounts payable	28,568	(10,468)	16,636
Unredeemed gift cards and gift certificates	1,269	1,473	3,981
Deferred lease credits	583	(11,073)	(9,111)
Accrued compensation and payroll taxes	(42,465)	23,018	7,576
Accrued income and other taxes	(25,840)	(7,408)	(14,566)
Accrued liabilities	27,605	20,186	18,215
Total adjustments	146,873	235,573	102,858
Net cash provided by operating activities from continuing operations	229,856	499,671	278,137
Investing activities:			
Capital expenditures for property and equipment	(278,499)	(93,939)	(89,466)
Purchase of long-lived assets in a business combination	(20,751)		
Acquisition of intangible assets	(6,835)	(1,125)	(34,181)
Purchase of available-for-sale securities	(52,065)	(111,086)	(193,851)
Sale of available-for-sale securities	162,785	15,500	240,797
Net cash (used for) provided by investing activities from continuing operations	(195,365)	(190,650)	(76,701)
Financing activities:			
Payments on capital leases	(2,839)	(3,066)	(3,256)
Repurchase of common stock as part of publicly announced programs	(33,051)	(173,554)	(15,160)
Repurchase of common stock from employees	(23,386)	(4,125)	(2,189)
Net proceeds from stock options exercised	6,197	76,401	5,098
Excess tax benefit from share-based payments	8,833	13,279	373
Cash used to net settle equity awards			
Cash dividends paid	(72,280)	(403,490)	(85,592)
Net cash used for financing activities from continuing operations	(116,526)	(494,555)	(100,726)
Effect of exchange rates on cash	(8,151)	504	798

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

Cash flows of discontinued operations			
Net cash used for operating activities		(24,616)	(38,881)
Net cash used for investing activities		(780)	(10,675)
Net cash used for financing activities			
Effect of exchange rates on cash			
Net cash used for discontinued operations		(25,396)	(49,556)
Net (decrease) increase in cash and cash equivalents			
		(90,186)	(210,426)
Cash and cash equivalents beginning of period	\$ 509,119	719,545	667,593
Cash and cash equivalents end of period	\$ 418,933	\$ 509,119	\$ 719,545

Refer to Notes to Consolidated Financial Statements

Table of Contents**AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED FEBRUARY 1, 2014****1. Business Operations**

American Eagle Outfitters, Inc. (the Company), a Delaware corporation, operates under the American Eagle Outfitters® (AEO) and aerie® by American Eagle Outfitters® (aerie) brands. The Company operated 77kids by American Eagle Outfitters® (77kids) until its exit in Fiscal 2012.

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 internationally, 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 81 countries worldwide.

Merchandise Mix

The following table sets forth the approximate consolidated percentage of total net revenue from continuing operations attributable to each merchandise group for each of the periods indicated:

	February 1, 2014	For the Years Ended February 2, 2013	January 28, 2012
Men's apparel and accessories	40%	39%	40%
Women's apparel and accessories (excluding aerie)	52%	52%	51%
aerie	8%	9%	9%
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 February 1, 2014, the Company operated in one reportable segment.

The Company exited its 77kids brand in Fiscal 2012. These Consolidated Financial Statements reflect the results of 77kids as discontinued operations for all periods presented.

Fiscal Year

Our financial year is a 52/53 week year that ends on the Saturday nearest to January 31. As used herein, Fiscal 2014 refers to the 52 week period ending January 31, 2015. Fiscal 2013 refers to the 52 week period ended February 1, 2014. Fiscal 2012 refers to the 53 week period ended February 2, 2013. Fiscal 2011, Fiscal 2010 and Fiscal 2009 refer to the 52 week periods ended January 28, 2012, January 29, 2011 and January 30, 2010, respectively.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure

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

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.

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

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* (ASU 2013-02). ASU 2013-02 requires an entity to provide additional information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. ASU 2013-02 is effective prospectively for reporting periods beginning after December 15, 2012. ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income. Because the standard only affects the presentation of comprehensive income and does not impact what is included in comprehensive income, ASU 2013-02 did not have a significant impact on the Company's Consolidated Financial Statements.

In July 2013, the FASB issued ASU No. 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (ASU 2013-11). ASU 2013-11 requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU No. 2013-11 is effective for financial statements issued for annual reporting periods beginning after December 15, 2013 and interim periods within those years. The adoption of ASU 2013-11 will not have a significant impact on Company's Consolidated Financial Statements.

Foreign Currency Translation

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

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

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

As of February 1, 2014 and February 2, 2013, short-term investments include treasury bills and term-deposits purchased with a maturity of greater than three months, but less than one year.

Long-term investments are included within other assets on the Company's Consolidated Balance Sheets. As of February 1, 2014 and February 2, 2013, the Company held no long-term investments.

Unrealized gains and losses on the Company's available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders' equity, within accumulated other comprehensive income, until realized. The components of other-than-temporary impairment (OTTI) losses related to credit losses are

Table of Contents

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

considered by the Company to be realized and are recorded in earnings. When available-for-sale securities are sold, the cost of the securities is specifically identified and is used to determine any realized gain or loss.

Refer to Note 3 to the Consolidated Financial Statements for information regarding cash and cash equivalents and investments.

Other-than-Temporary Impairment

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

There was no net impairment loss recognized in earnings for all years presented.

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 which both title and risk of loss for the merchandise transfers 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

Table of Contents

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

losses are recorded on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of the assets. When events such as these occur, the impaired assets are adjusted to their estimated fair value and an impairment loss is recorded separately as a component of operating income under loss on impairment of assets.

During Fiscal 2013, the Company recorded asset impairment charges of \$44.5 million consisting of \$25.2 million for the impairment of 69 retail stores and \$19.3 million for the Company's Warrendale, Pennsylvania Distribution Center, recorded as a loss on impairment of assets in the Consolidated Statements of Operations. The retail store impairments were recorded based on the results of the Company's evaluation of stores that considered performance during the holiday selling season and a significant portfolio review in the fourth quarter of Fiscal 2013 that considered current and future performance projections and strategic real estate initiatives. The Company determined that these stores would not be able to generate sufficient cash flow over the expected remaining lease term to recover the carrying value of the respective stores assets.

During Fiscal 2012, the Company recorded asset impairment charges of \$34.9 million consisting of the impairment of 52 retail stores, which is recorded as a loss on impairment of assets in the Consolidated Statements of Operations. This impairment was recorded based on the results of the Company's evaluation of stores that considered performance during the holiday selling season and strategic decisions made in the fourth quarter of Fiscal 2012 regarding the rebalancing of our store fleet. The Company determined that these stores would not be able to generate sufficient cash flow over the expected remaining lease term to recover the carrying value of the respective stores assets. Additionally, the Company recorded \$16.6 million of store asset impairment charges related to 77kids stores, which is recorded in Discontinued Operations.

During Fiscal 2011, the Company recorded asset impairment charges of \$19.2 million consisting of the impairment of 57 retail stores, largely related to the aerie brand, which is recorded as a loss on impairment of assets in the Consolidated Statements of Operations. Based on the Company's review of the operating performance and projections of future performance of these stores, the Company determined that they would not be able to generate sufficient cash flow over the life of the related leases to recover the Company's initial investment in them. Additionally, the Company recorded \$1.6 million of store asset impairment charges related to two underperforming 77kids stores which is recorded in Discontinued Operations.

Refer to Note 15 to the Consolidated Financial Statements for additional information regarding the discontinued operations for 77kids.

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

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

Goodwill

The Company's goodwill is primarily related to the acquisition of its importing operations, Canadian business and recently acquired operations in Hong Kong and China. In accordance with ASC 350, *Intangibles- Goodwill and Other* (ASC 350), the Company evaluates goodwill for possible impairment on at least an annual basis and last performed an annual impairment test as of February 1, 2014. As a result of the Company's annual goodwill impairment test, the Company concluded that its goodwill was not impaired.

Table of Contents

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Intangible Assets

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

The Company evaluates intangible assets for impairment in accordance with ASC 350 when events or circumstances indicate that the carrying value of the asset may not be recoverable. Such an evaluation includes the estimation of undiscounted future cash flows to be generated by those assets. If the sum of the estimated future undiscounted cash flows are less than the carrying amounts of the assets, then the assets are impaired and are adjusted to their estimated fair value. No intangible asset impairment charges were recorded during Fiscal 2013, Fiscal 2012 or Fiscal 2011.

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

Deferred Lease Credits

Deferred lease credits represent the unamortized portion of construction allowances received from landlords related to the Company's retail stores. Construction allowances are generally comprised of cash amounts received by the Company from its landlords as part of the negotiated lease terms. The Company records a receivable and a deferred lease credit liability at the lease commencement date (date of initial possession of the store). The deferred lease credit is amortized on a straight-line basis as a reduction of rent expense over the term of the original lease (including the pre-opening build-out period). 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 AEO and aerie brands. These credit cards are issued by a third-party bank (the Bank), and the Company has no liability to the Bank for bad debt expense, provided that purchases are made in accordance with the Bank's procedures. Once a customer is approved to receive the AEO Visa Card or the AEO Credit Card and the card is activated, the customer is eligible to participate in the credit card rewards program. Customers who make purchases at AEO and aerie 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 AEO and aerie are accounted for by analogy to ASC 605-25, Revenue Recognition, *Multiple Element Arrangements* (ASC 605-25). The Company believes that points earned under its point and loyalty programs represent deliverables in a multiple element arrangement rather than a rebate or refund of cash. Accordingly, the portion of the sales revenue attributed to the award points is deferred and

Table of Contents

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

recognized when the award is redeemed or when the points expire. Additionally, credit card reward points earned on non-AEO or aerie purchases are accounted for in accordance with ASC 605-25. As the points are earned, a current liability is recorded for the estimated cost of the award, and the impact of adjustments is recorded in cost of sales.

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

Income Taxes

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

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

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

Revenue Recognition

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

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

Revenue is recorded net of estimated and actual sales returns and deductions for coupon redemptions and other promotions. The Company records the impact of adjustments to its sales return reserve quarterly within total net revenue 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.

<i>(In thousands)</i>	February 1, 2014	For the Years Ended February 2, 2013	January 28, 2012
Beginning balance	\$ 4,481	\$ 2,929	\$ 3,663
Returns	(85,871)	(86,895)	(76,423)
Provisions	83,595	88,447	75,689
Ending balance	\$ 2,205	\$ 4,481	\$ 2,929

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 total net revenue. For further information on the Company's gift card program, refer to the Gift Cards caption below.

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

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.

Design costs are related to the Company's Design Center operations and include compensation, travel, supplies and samples for our design teams, as well as rent and depreciation for the Company's Design Center. These costs are included in cost of sales as the respective inventory is sold.

Buying, occupancy and warehousing costs consist of compensation, employee benefit expenses and travel for the Company's buyers and certain senior merchandising executives; rent and utilities related to the Company's stores, corporate headquarters, distribution centers and other office space; freight from the Company's distribution centers to the stores; compensation and supplies for the Company's distribution centers, including purchasing, receiving and inspection costs; and shipping and handling costs related to the Company's e-commerce operation. Gross profit is the difference between total net revenue 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 the Company's stores and corporate headquarters. Selling, general and administrative expenses also include advertising costs, supplies for the Company's 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 the Company's design, sourcing and importing teams, the Company's buyers and the Company's distribution centers as these amounts are recorded in cost of sales.

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

Certain advertising costs, including direct mail, in-store photographs and other promotional costs are expensed when the marketing campaign commences. As of February 1, 2014 and February 2, 2013, the Company had prepaid advertising expense of \$9.0 million and \$8.4 million, respectively. All other advertising costs are expensed as incurred. The Company recognized \$87.0 million, \$90.0 million and \$66.5 million in advertising expense during Fiscal 2013, Fiscal 2012 and Fiscal 2011, respectively.

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, Net

Other income, net consists primarily of interest income/expense, foreign currency transaction gain/loss and realized investment gains/losses.

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 total net revenue. 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 \$7.3 million, \$8.9 million and \$6.5 million during Fiscal 2013, Fiscal 2012 and Fiscal 2011, 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:

<i>(In thousands)</i>	For the Years Ended		
	February 1, 2014	February 2, 2013	January 28, 2012
Cash paid during the periods for:			
Income taxes	\$ 65,496	\$ 142,009	\$ 99,756
Interest	\$ 387	\$ 348	\$

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

In accordance with ASC 280, *Segment Reporting* (ASC 280), the Company has identified three operating segments (American Eagle Outfitters® Brand retail stores, aerie® by American Eagle Outfitters® retail stores and AEO Direct) that reflect the Company's operational structure as well as the business's internal view of analyzing results and allocating 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:

<i>(In thousands)</i>	For the Years Ended		
	February 1, 2014	February 2, 2013	January 28, 2012
Total net revenue:			
United States	\$ 2,954,636	\$ 3,131,233	\$ 2,810,560
Foreign(1)	351,166	344,569	309,506
Total net revenue	\$ 3,305,802	\$ 3,475,802	\$ 3,120,065

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

<i>(In thousands)</i>	February 1, 2014	February 2, 2013
	Long-lived assets, net:	
United States	\$ 618,715	\$ 483,706
Foreign	81,503	75,547
Total long-lived assets, net	\$ 700,218	\$ 559,253

Reclassifications

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

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

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

<i>(In thousands)</i>	February 1, 2014	February 2, 2013
Cash and cash equivalents:		
Cash	\$ 330,013	\$ 257,191
Treasury bills	63,224	
Money-market	25,696	221,929
Commercial paper		29,999
Total cash and cash equivalents	\$ 418,933	\$ 509,119
Short-term investments:		
Treasury bills	\$ 10,002	\$ 109,305
Term-deposits		12,568
Total short-term investments	\$ 10,002	\$ 121,873
Total	\$ 428,935	\$ 630,992

Proceeds from the sale of available-for-sale securities were \$162.8 million, \$15.5 million and \$240.8 million for Fiscal 2013, Fiscal 2012 and Fiscal 2011, respectively. The purchases of available-for-sale securities for Fiscal 2013, Fiscal 2012 and Fiscal 2011 were \$52.1 million, \$111.1 million and \$193.9 million, respectively. At February 1, 2014 and February 2, 2013, the fair value of all available for sale securities approximated par, with no gross unrealized holding gains or losses.

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.

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

As of February 1, 2014 and February 2, 2013, the Company held certain assets that are required to be measured at fair value on a recurring basis. These include cash equivalents and investments.

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 February 1, 2014 and February 2, 2013:

<i>(In thousands)</i>	Carrying Amount	Fair Value Measurements at February 1, 2014		
		Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents				
Cash	\$ 330,013	\$ 330,013	\$	\$
Treasury bills	63,224	63,224		
Money-market	25,696	25,696		
Total cash and cash equivalents	\$ 418,933	\$ 418,933	\$	\$
Short-term investments				
Treasury bills	\$ 10,002	\$ 10,002	\$	\$
Total short-term investments	\$ 10,002	\$ 10,002	\$	\$
Total	\$ 428,935	\$ 428,935	\$	\$

<i>(In thousands)</i>	Carrying Amount	Fair Value Measurements at February 2, 2013		
		Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents				
Cash	\$ 257,191	\$ 257,191	\$	\$
Money-market	221,929	221,929		
Commercial paper	29,999	29,999		
Total cash and cash equivalents	\$ 509,119	\$ 509,119	\$	\$
Short-term investments				
Treasury bills	\$ 109,305	\$ 109,305	\$	\$
Term-deposits	12,568	12,568		
Total short-term investments	\$ 121,873	\$ 121,873	\$	\$
Total	\$ 630,992	\$ 630,992	\$	\$

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

In the event the Company holds Level 3 investments, a discounted cash flow model is used to value those investments. There were no Level 3 investments at February 1, 2014 or February 2, 2013.

Non-Financial Assets

The Company's non-financial assets, which include goodwill, intangible assets and property and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required and the Company is required to evaluate the non-financial instrument for

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

impairment, a resulting asset impairment would require that the non-financial asset be recorded at the estimated fair value. As a result of the Company's annual goodwill impairment test performed as of February 1, 2014, the Company concluded that its goodwill was not impaired.

Certain long-lived assets were measured at fair value on a nonrecurring basis using Level 3 inputs as defined in ASC 820. During Fiscal 2013 and Fiscal 2012, certain long-lived assets related to the Company's retail stores and Warrendale Distribution Center were determined to be unable to recover their respective carrying values and were written down to their fair value, resulting in a loss of \$44.5 million and \$34.9 million, respectively, which is recorded as a loss on impairment of assets within the Consolidated Statements of Operations. The fair value of the impaired assets after the recorded loss is an immaterial amount.

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

During Fiscal 2013, the Company announced plans to close its Warrendale Distribution Center. Certain long-lived assets, including the Warrendale, Pennsylvania distribution center, were measured at fair value on a nonrecurring basis using Level 3 inputs as defined in ASC 820. Certain long-lived assets related to this distribution center were determined to be unable to recover their respective carrying values over their remaining useful life and were written down to fair value. Refer to Note 16 to the Consolidated Financial Statements for additional information regarding exit and disposal costs.

5. Earnings per Share

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

<i>(In thousands, except per share amounts)</i>	For the Years Ended		
	February 1, 2014	February 2, 2013	January 28, 2012
Weighted average common shares outstanding:			
Basic number of common shares outstanding	192,802	196,211	194,445
Dilutive effect of stock options and non-vested restricted stock	1,673	4,454	1,869
Dilutive number of common shares outstanding	194,475	200,665	196,314

Equity awards to purchase approximately 1.7 million, 1.5 million and 7.2 million shares of common stock during the Fiscal 2013, Fiscal 2012 and Fiscal 2011, 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 2013, approximately 1.8 million 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. For Fiscal 2012, there were no performance-based restricted stock awards excluded in the computation of weighted average diluted common share amounts as they were probable of vesting.

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

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

6. Accounts Receivable

Accounts receivable are comprised of the following:

<i>(In thousands)</i>	February 1, 2014	February 2, 2013
Franchise receivable	\$ 20,567	\$ 24,521
Merchandise sell-offs	16,106	6,880
Credit card program receivable	15,000	
Landlord construction allowances	11,626	3,047
Marketing cost reimbursements	6,063	6,172
Other Items	4,520	5,701
Total	\$ 73,882	\$ 46,321

7. Property and Equipment

Property and equipment consists of the following:

<i>(In thousands)</i>	February 1, 2014	February 2, 2013
Land	\$ 20,196	\$ 6,364
Buildings	143,856	153,729
Leasehold improvements	600,572	591,736
Fixtures and equipment	732,228	671,075
Construction in progress	102,974	8,725
Property and equipment, at cost	\$ 1,599,826	\$ 1,431,630
Less: Accumulated depreciation	(962,409)	(921,997)
Property and equipment, net	\$ 637,417	\$ 509,633

Depreciation expense is summarized as follows:

<i>(In thousands)</i>	For the Years Ended		
	February 1, 2014	February 2, 2013	January 28, 2012

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

Depreciation expense	\$ 116,761	\$ 122,756	\$ 135,244
----------------------	------------	------------	------------

Additionally, during Fiscal 2013, Fiscal 2012 and Fiscal 2011, the Company recorded \$14.6 million, \$3.7 million and \$3.4 million, respectively, related to asset write-offs within depreciation and amortization expense.

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

Intangible assets include costs to acquire and register the Company's trademark assets. The following table represents intangible assets as of February 1, 2014 and February 2, 2013:

<i>(In thousands)</i>	February 1, 2014	February 2, 2013
Trademarks, at cost	\$ 58,121	\$ 44,272
Less: Accumulated amortization	(8,850)	(6,136)
Intangible assets, net	\$ 49,271	\$ 38,136

Amortization expense is summarized as follows:

<i>(In thousands)</i>	For the Years Ended		
	February 1, 2014	February 2, 2013	January 28, 2012
Amortization expense	\$ 2,714	\$ 1,952	\$ 1,828

The table below summarizes the estimated future amortization expense for intangible assets existing as of February 1, 2014 for the next five Fiscal Years:

<i>(In thousands)</i>	Future Amortization
2014	\$ 3,471
2015	3,465
2016	3,462
2017	3,416
2018	3,414

9. Other Credit Arrangements

On March 2, 2012, the Company entered into a five-year, \$150.0 million syndicated, unsecured, revolving credit agreement (the Credit Agreement). The primary purpose of the Credit Agreement is to provide additional access to capital for general corporate purposes, growth initiatives and the issuance of letters of credit.

The Credit Agreement, as amended, contains financial covenants that require the Company to maintain certain coverage and leverage ratios, and various customary affirmative and negative covenants such as the ability to incur additional debt not otherwise permitted under the Credit Agreement.

The Credit Agreement has various borrowing options, including rates of interest that are based on (i) an Adjusted London Interbank Offered Rate (LIBOR as defined in the Credit Agreement) plus a margin ranging from 1.00% to 1.75% based on a defined leverage ratio, payable at the end of the applicable interest period; and (ii) a Base Rate (as defined in the Credit Agreement), plus a margin ranging from 0.00% to 0.75%

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

based on a defined leverage ratio, payable quarterly.

Under the Credit Agreement, the Company is also required to pay a commitment fee ranging from 0.175% to 0.30%, based on the defined leverage ratio, on the unused portion of the total lender commitments.

As of February 1, 2014, the Company was in compliance with the terms of the Credit Agreement had \$8.2 million outstanding in letters of credit and no borrowings.

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

The Credit Agreement replaced uncommitted demand lines in the aggregate amount of \$110.0 million United States dollars (USD) and \$25.0 million Canadian dollars (CAD).

Additionally, the Company has borrowing agreements with two separate financial institutions under which it may borrow an aggregate of \$155.0 million USD for the purposes of trade letter of credit issuances. The availability of any future borrowings under the trade letter of credit facilities is subject to acceptance by the respective financial institutions.

As of February 1, 2014, the Company had outstanding trade letters of credit of \$27.5 million.

10. Leases

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

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

<i>(In thousands)</i>	For the Years Ended		
	February 1, 2014	February 2, 2013	January 28, 2012
Store rent:			
Fixed minimum	\$ 260,668	\$ 250,844	\$ 246,096
Contingent	6,576	9,758	7,618
Total store rent, excluding common area maintenance charges, real estate taxes and certain other expenses	\$ 267,244	\$ 260,602	\$ 253,714
Offices, distribution facilities, equipment and other	17,153	14,960	15,989
Total rent expense	\$ 284,397	\$ 275,562	\$ 269,703

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.

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

The table below summarizes future minimum lease obligations, consisting of fixed minimum rent, under operating leases in effect at February 2, 2013:

<i>(In thousands)</i>	Future Minimum Lease Obligations
Fiscal years:	
2014	\$ 273,827
2015	261,828
2016	233,810
2017	206,934
2018	177,229
Thereafter	601,934
Total	\$ 1,755,562

11. Other Comprehensive Income

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

<i>(In thousands)</i>	Before Tax Amount	Tax Benefit (Expense)	Accumulated Other Comprehensive Income
Balance at January 29, 2011	\$ 28,072	\$	\$ 28,072
Foreign currency translation gain	587		587
Balance at January 28, 2012	\$ 28,659	\$	\$ 28,659
Foreign currency translation gain	638		638
Balance at February 2, 2013	\$ 29,297	\$	\$ 29,297
Foreign currency translation loss	(17,140)		(17,140)
Balance at February 1, 2014	\$ 12,157	\$	\$ 12,157

12. Share-Based Payments

The Company accounts for share-based compensation under the provisions of ASC 718, *Compensation - Stock Compensation* (ASC 718), which requires the Company to measure and recognize compensation expense for all share-based payments at fair value. Total share-based compensation expense included in the Consolidated Statements of Operations for Fiscal 2013 was a net benefit of \$6.5 million (\$4.1 million, net

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

of tax). The net benefit is due to a reversal of previously recorded performance-based expense resulting from current business performance compared to targets. Total share-based compensation expense included in the Consolidated Statements of Operations for Fiscal 2012 and Fiscal 2011 was \$66.3 million (\$40.9 million, net of tax) and \$11.7 million (\$7.2 million, net of tax), respectively.

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

Table of Contents

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At February 1, 2014, the Company had awards outstanding under two share-based compensation plans, which are described below.

Share-based compensation plans

2005 Stock Award and Incentive Plan

The 2005 Plan was approved by the stockholders on June 15, 2005. The 2005 Plan authorized 18.4 million shares for issuance, of which 6.4 million shares are available for full value awards in the form of restricted stock awards, restricted stock units or other full value stock awards and 12.0 million shares are available for stock options, SAR, dividend equivalents, performance awards or other non-full value stock awards. The 2005 Plan was subsequently amended in Fiscal 2009 to increase the shares available for grant to 31.9 million without taking into consideration 9.1 million non-qualified stock options, 2.9 million shares of restricted stock and 0.2 million shares of common stock that had been previously granted under the 2005 plan to employees and directors (without considering cancellations as of January 31, 2009 of awards for 2.9 million shares). The 2005 Plan provides that the maximum number of shares awarded to any individual may not exceed 6.0 million shares per year for options and SAR and no more than 4.0 million shares may be granted with respect to each of restricted shares of stock and restricted stock units plus any unused carryover limit from the previous year. The 2005 Plan allows the Compensation Committee of the Board to determine which employees receive awards and the terms and conditions of the awards that are mandatory under the 2005 Plan. The 2005 Plan provides for grants to directors who are not officers or employees of the Company, which are not to exceed 20,000 shares per year (not to be adjusted for stock splits). Through February 1, 2014, 16.9 million non-qualified stock options, 9.2 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 11.4 million shares). Approximately 95% of the options granted under the 2005 Plan vest over three years, 4% vest over one year and 1% vest over five years. Options were granted for ten and seven year terms. Approximately 63% of the restricted stock awards are performance-based and are earned if the Company meets established performance goals. The remaining 37% of the restricted stock awards are time-based and vest over three years.

1999 Stock Incentive Plan

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

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

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

A summary of the Company's stock option activity under all plans for Fiscal 2013 follows:

		For the Year Ended February 1, 2014			
		Options (In thousands)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding	January 28, 2012	4,629	\$ 16.29		
Granted		376	\$ 22.55		
Exercised(1)		(605)	\$ 10.27		
Cancelled		(475)	\$ 17.68		
Outstanding	February 2, 2013	3,925	\$ 17.65	2.6	\$ 1,255
Vested and expected to vest	February 2, 2013	3,876	\$ 17.59	2.6	\$ 1,255
Exercisable	February 2, 2013(2)	701	\$ 11.74	3.8	\$ 1,255

(1) Options exercised during Fiscal 2013 ranged in price from \$4.24 to \$19.28.

(2) Options exercisable represent in-the-money vested options based upon the weighted average exercise price of vested options compared to the Company's stock price at February 1, 2014.

The weighted-average grant date fair value of stock options granted during Fiscal 2013, Fiscal 2012 and Fiscal 2011 was \$4.17, \$3.72 and \$4.73, respectively. The aggregate intrinsic value of options exercised during Fiscal 2013, Fiscal 2012 and Fiscal 2011 was \$3.9 million, \$57.4 million and \$2.8 million, respectively. Cash received from the exercise of stock options and the actual tax benefit realized from share-based payments was \$6.2 million and \$8.7 million, respectively, for Fiscal 2013. Cash received from the exercise of stock options and the actual tax benefit realized from share-based payments was \$76.4 million and \$14.1 million, respectively, for Fiscal 2012. Cash received from the exercise of stock options and the actual tax benefit realized from share-based payments was \$5.1 million and \$0.4 million, respectively, for Fiscal 2011.

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	February 1, 2014	For the Years Ended February 2, 2013	January 28, 2012
--	---------------------	--	---------------------

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

Risk-free interest rates(1)	0.3%	0.6%	2.1%
Dividend yield	2.0%	2.8%	2.6%
Volatility factors of the expected market price of the Company's common stock(2)	34.4%	41.2%	42.7%
Weighted-average expected term(3)	2.5 years	4.0 years	5.0 years
Expected forfeiture rate(4)	8.0%	8.0%	8.0%

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

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

(2) Based on a combination of historical volatility of the Company's common stock and implied volatility.

(3) Represents the period of time options are expected to be outstanding. The weighted average expected option term for the years ended February 1, 2014, February 2, 2013 and January 28, 2012 were determined based on historical experience.

(4) Based on historical experience.

As of February 1, 2014, there was \$1.3 million of unrecognized compensation expense related to nonvested stock option awards that is expected to be recognized over a weighted average period of 1.2 years.

Restricted Stock Grants

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

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

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

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

	Time-Based Restricted Stock Units		Performance-Based Restricted Stock Units	
	For the year ended February 1, 2014		For the year ended February 1, 2014	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
<i>(Shares in thousands)</i>				
Nonvested February 2, 2013	1,386	\$ 13.91	2,086	\$ 14.91
Granted	943	22.00	912	21.75
Vested	(1,057)	14.06	(566)	17.39
Cancelled/Forfeited	(117)	16.35	(37)	19.89
Nonvested February 1, 2014	1,155	\$ 20.13	2,395	\$ 16.85

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

As of February 1, 2014, there was \$12.8 million of unrecognized compensation expense related to nonvested time-based restricted stock unit awards that is expected to be recognized over a weighted average period of 2.0 years. Additionally, there was \$0.7 million of unrecognized compensation expense related to performance-based restricted stock unit awards which will be recognized as achievement performance goals are probable over a one to three year period.

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

As of February 1, 2014, the Company had 18.2 million shares available for all equity grants.

13. Retirement Plan and Employee Stock Purchase Plan

The Company maintains a profit sharing and 401(k) plan (the Retirement Plan). Under the provisions of the Retirement Plan, full-time employees and part-time employees are automatically enrolled to contribute 3% of their salary if they have attained 20 1/2 years of age. In addition, full-time employees need to have completed 60 days of service and part-time employees must complete 1,000 hours worked to be eligible. Individuals can decline enrollment or can contribute up to 50% of their salary to the 401(k) plan on a pretax basis, subject to IRS limitations. After one year of service, the Company will match 100% of the first 3% of pay plus an additional 50% of the next 3% of pay that is contributed to the plan. Contributions to the profit sharing plan, as determined by the Board, are discretionary. The Company recognized \$9.6 million, \$15.8 million and \$8.7 million in expense during Fiscal 2013, Fiscal 2012 and Fiscal 2011, respectively, in connection with the Retirement Plan.

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

14. Income Taxes

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

<i>(In thousands)</i>	February 1, 2014	For the Years Ended	
		February 2, 2013	January 28, 2012
U.S.	\$ 157,669	\$ 381,131	\$ 256,352
Foreign	(15,592)	20,907	18,857
Total	\$ 142,077	\$ 402,038	\$ 275,209

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

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

<i>(In thousands)</i>	February 1, 2014	February 2, 2013
Deferred tax assets:		
Rent	\$ 27,458	\$ 27,208
Deferred compensation	22,654	38,770
Capital loss carryforward	16,207	15,986
Foreign tax credits	13,436	16,874
Inventories	11,234	8,575
Accruals not currently deductible	9,059	3,098
State tax credits	6,215	5,770
Net operating loss	4,226	985
Foreign and state income taxes	3,255	3,959
Loyalty reserve	3,196	2,253
Employee compensation and benefits	2,799	18,738
Other	968	3,901
Gross deferred tax assets	120,707	146,117
Valuation allowance	(20,601)	(15,986)
Total deferred tax assets	\$ 100,106	\$ 130,131
Deferred tax liabilities:		
Property and equipment	\$ (23,595)	\$ (35,130)
Prepaid expenses	(4,544)	(3,068)
Other	(1,654)	(2,421)
Total deferred tax liabilities	\$ (29,793)	\$ (40,619)
Total deferred tax assets, net	\$ 70,313	\$ 89,512
Classification in the Consolidated Balance Sheet:		
Current deferred tax assets	\$ 45,478	\$ 58,230
Noncurrent deferred tax assets	24,835	31,282
Total deferred tax assets	\$ 70,313	\$ 89,512

Table of Contents

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

&