

AMERICAN EAGLE OUTFITTERS INC

Form 10-K

March 11, 2015

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-K**

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

**For the Fiscal Year Ended January 31, 2015  
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 2, 2014 was \$1,874,117,608.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 195,022,073 Common Shares were outstanding at March 9, 2015.

## DOCUMENTS INCORPORATED BY REFERENCE

Part III Proxy Statement for 2015 Annual Meeting of Stockholders, in part, as indicated.

**Table of Contents**

**AMERICAN EAGLE OUTFITTERS, INC.**

**TABLE OF CONTENTS**

	<b>Page Number</b>
<b>PART I</b>	
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	11
Item 1B. <u>Unresolved Staff Comments</u>	14
Item 2. <u>Properties</u>	15
Item 3. <u>Legal Proceedings</u>	15
Item 4. <u>Mine Safety Disclosures</u>	15
<b>PART II</b>	
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
<b>PART III</b>	
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
<b>PART IV</b>	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	72

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**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, American Eagle Outfitters is a leading apparel and accessories retailer that operates more than 1,000 retail stores in the U.S. and internationally, online at ae.com and aerie.com and international store locations managed by third-party operators. Through its 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.

We have company operated stores in the United States, Canada, Mexico, Hong Kong, China and the United Kingdom. American Eagle Outfitters® and aerie® merchandise is also available at international store locations managed by third party operators. As of January 31, 2015, we operated 955 American Eagle Outfitters stores and 101 aerie stand-alone stores. Our third party operated store base has grown to 99 stores in 16 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 2015 refers to the 52 week period ending January 30, 2016. Fiscal 2014 and Fiscal 2013 refer to the 52 week period ended January 31, 2015 and February 1, 2014, respectively.

Fiscal 2012 refers to the 53 week period ended February 2, 2013. Fiscal 2011 and Fiscal 2010 refer to the 52 week periods ended January 28, 2012 and January 29, 2011, 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**

***American Eagle Outfitters 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 pants, shorts, 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, product innovation, and having the right product, in the right size for every customer are the main focuses within the AEO Brand. Delivering value, variety and versatility to our customers remains a top priority. We strive to offer quality and value at all levels of the assortment, punctuated with promotions.

## **Table of Contents**

### ***aerie***

The aerie® brand is a collection of intimates and personal care products for women that want to feel good about who they are, inside and out. The collection is available in 101 stand-alone aerie stores throughout the United States and Canada, online at aerie.com and at select American Eagle Outfitters® stores. aerie, with bras and undies at the core, and offerings in sleep, swim and apparel is beautiful, feminine, soft, sensuous, yet comfortable and real.

### **Business Priorities & Strategy**

We are focused on delivering results through four near-term priorities: (1) pursuing revenue and profit improvement in both the American Eagle Outfitters and aerie brands through more compelling product assortments, product focused marketing messages and unique customer experiences digitally and in stores; (2) continued evolution of our omni-channel capabilities (flexible fulfilment, full utilization of our omni-channel distribution center and maximizing our investments in technologies and tools); (3) growing our digital business through further site enhancements, expanded product line, improved customer engagement and continued upgrades to our mobile site; and (4) improvement in profitability of our stores and repositioning the store fleet.

### ***AEO Direct & Omni-Channel Capabilities***

We sell merchandise via ae.com and aerie.com, which are the digital manifestation of the lifestyle that our brands represent. In addition to purchasing items directly from our digital channels, 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. Additionally, in Fiscal 2014, we began fulfilling online orders at stores through our Buy Online Ship-from-Store program and we plan to further enhance our websites, increase CRM capabilities through personalization, segmentation and customer lifecycle management.

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 as well as expanded product line offerings.

### ***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 underpenetrated markets, AEO Factory stores and aerie side-by-side locations. Also, we will selectively close stores and maintain flexibility within our real estate portfolio through short-term lease extensions.

At the end of Fiscal 2014, we operated in all 50 states, Puerto Rico, Canada, Mexico, Hong Kong, China and the United Kingdom. During Fiscal 2014, we opened 60 new stores, consisting largely of AEO Factory stores and international store openings. These store openings, offset by 70 store closings, brought our total store base to 1,056 stores at the end of Fiscal 2014.

Our stores average approximately 6,200 gross square feet and approximately 5,000 on a selling square foot basis. Our gross square footage increased by approximately 2% during Fiscal 2014.

During Fiscal 2014, we renovated a total of 44 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.

**Table of Contents**

In Fiscal 2015, we plan to open approximately 20 to 25 AEO stores primarily in the Factory store format and continue our international expansion. We also plan to remodel and refurbish approximately 25 existing AEO stores and close approximately 50 AEO stores and 20 aerie stores. Our square footage is expected to decline slightly in Fiscal 2015.

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

	Fiscal 2014	Fiscal 2013	Fiscal 2012	Fiscal 2011	Fiscal 2010
Consolidated stores at beginning of period	1,066	1,044	1,069	1,077	1,075
Consolidated stores opened during the period	60	64	16	21	25
Consolidated stores closed during the period	(70)	(42)	(41)	(29)	(23)
<b>Total consolidated stores at end of period</b>	<b>1,056</b>	<b>1,066</b>	<b>1,044</b>	<b>1,069</b>	<b>1,077</b>

	Fiscal 2014	Fiscal 2013	Fiscal 2012	Fiscal 2011	Fiscal 2010
AEO Brand stores at beginning of period	944	893	911	929	938
AEO Brand stores opened during the period	60	64	16	11	14
AEO Brand stores closed during the period	(49)	(13)	(34)	(29)	(23)
<b>Total AEO Brand stores at end of period</b>	<b>955</b>	<b>944</b>	<b>893</b>	<b>911</b>	<b>929</b>

	Fiscal 2014	Fiscal 2013	Fiscal 2012	Fiscal 2011	Fiscal 2010
aerie stores at beginning of period	122	151	158	148	137
aerie stores opened during the period				10	11
aerie stores closed during the period	(21)	(29)	(7)		
<b>Total aerie stores at end of period</b>	<b>101</b>	<b>122</b>	<b>151</b>	<b>158</b>	<b>148</b>

**Consolidated Store Locations**

As of January 31, 2015, we operated 1,056 wholly-owned stores under the American Eagle Outfitters and aerie brands as shown below:

***United States, including the Commonwealth of Puerto Rico* 920 stores**

Alabama	15	Indiana	22	Nebraska	6	Rhode Island	3
Alaska	5	Iowa	11	Nevada	5	South Carolina	15
Arizona	12	Kansas	9	New Hampshire	10	South Dakota	3
Arkansas	8	Kentucky	14	New Jersey	27	Tennessee	25
California	59	Louisiana	14	New Mexico	3	Texas	68
Colorado	11	Maine	6	New York	64	Utah	9
Connecticut	14	Maryland	19	North Carolina	27	Vermont	2
Delaware	5	Massachusetts	28	North Dakota	4	Virginia	27
Florida	57	Michigan	27	Ohio	37	Washington	20
Georgia	31	Minnesota	18	Oklahoma	11	West Virginia	8
Hawaii	4	Mississippi	9	Oregon	11	Wisconsin	20
Idaho	3	Missouri	16	Pennsylvania	59	Wyoming	1
Illinois	30	Montana	2	Puerto Rico	6		



**Table of Contents****Canada 101 stores**

Alberta	11	New Brunswick	3	Ontario	55
British Columbia	12	Newfoundland	1	Quebec	12
Manitoba	2	Nova Scotia	3	Saskatchewan	2

**International 35 stores**

China	9	Hong Kong	5	Mexico	18	United Kingdom	3
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**International Operations**

As of January 31, 2015, we had 101 company-operated stores in Canada, 18 in Mexico, nine in China, six in Puerto Rico, five in Hong Kong and three in the United Kingdom. We continue to evaluate further opportunities to expand internationally, which may include additional company-operated stores as well as stores operated by third party operators under license, franchise and/or joint venture agreements.

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 expect to 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 plan to continue to increase the number of countries in which we enter into these types of arrangements as part of our strategy for profitable international expansion. As of January 31, 2015, we had 99 stores operated by our third party operators in 16 countries. International third party operated stores are not included in the consolidated store data or the total gross square feet calculation.

**Purchasing**

We design our merchandise and source its manufacture from third-party factories. During Fiscal 2014, 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.

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.



## **Table of Contents**

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 Fiscal 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 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, and continue with this practice today. 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.

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.

## **Table of Contents**

### ***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, Ottawa, Kansas and most recently Hazelton, Pennsylvania, 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 2014, we opened a third-party distribution center in the Netherlands to support our European international store and e-commerce growth. We also operate third-party distribution centers in Mexico City, Hong Kong and Shanghai. Additionally, we opened a new 1,000,000 square foot omni-channel distribution center in Hazleton, Pennsylvania in July 2014, and will phase out our distribution center in Warrendale, Pennsylvania in Fiscal 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 co-branded credit cards (the AEO or aerie Visa Credit Card ) and private label credit cards (the AEO or aerie 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 a Visa Credit Card or private label 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 and aerie Visa Credit Card customers who make purchases at other retailers where the card is accepted earn additional reward points to be used at American Eagle Outfitters and aerie. AEO and aerie Credit Card holders will also receive advance notice of American Eagle Outfitters sales events offered throughout the year. The AEO and aerie Credit Cards are accepted at all of our U.S. stores and at ae.com and aerie.com. The AEO Visa and aerie Visa Cards are accepted in all of our stores and AEO Direct sites as well as merchants worldwide that accept Visa®.

### **Competition**

The retail apparel industry is highly competitive both in stores and on-line. 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.

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 January 31, 2015, we had approximately 38,000 employees in the United States, Canada, Mexico, Hong Kong, China and the United Kingdom of whom approximately 31,000 were part-time and seasonal hourly employees. We consider our relationship with our employees to be good.

### **Executive Officers of the Registrant**

**Mary M. Boland**, age 57, has served us as Executive Vice President, Chief Financial and Administrative Officer, and Principal Financial Officer since July 2012. Prior to joining the Company, Ms. Boland served Levi Strauss & Co. as Senior Vice President Finance of Global Levi's from 2011 to 2012 and as Senior Vice President Finance of the Americas from 2006 to 2011. Prior to that time, Ms. Boland held a variety of finance positions with General Motors Corporation from 1979 to 2006 including Vice President and Chief Financial Officer, North America from 2003 to 2006.

**Jennifer M. Foyle**, age 48, has served as our Global Brand President aerie since January 2015. Prior thereto, Ms. Foyle served as Executive Vice President, Chief Merchandising Officer aerie from February 2014 to January 2015 and Senior Vice President, Chief Merchandising Officer aerie from August 2010 to February 2014. Prior to joining the Company, Ms. Foyle was President of Calypso St. Barth from 2009 to 2010. In addition, she held various positions at J. Crew Group, Inc., including Chief Merchandising Officer, from 2003 to 2009.

**Charles F. Kessler**, age 42, has served as our Global Brand President American Eagle Outfitters since January 2015. Prior thereto, he served as our Executive Vice President, Chief Merchandising and Design Officer American Eagle Outfitters from February 2014 to January 2015. Prior to joining us, Mr. Kessler served as Chief Merchandising Officer at Urban Outfitters, Inc. from October 2011 to November 2013 and as Senior Vice President, Corporate Merchandising at Coach, Inc. from July 2010 to October 2011. Prior to that time, Mr. Kessler held various positions with Abercrombie & Fitch Co. from 1994 to 2010, including Executive Vice President, Female Merchandising from 2008 to 2010.

**Roger S. Markfield**, age 73, has served as Vice Chairman, Executive Creative Director since February 2009 and as a Director since March 1999. From February 2007 to February 2009, Mr. Markfield served as a non-executive officer employee of the Company. Prior to February 2007, he served us as Vice Chairman since

## **Table of Contents**

November 2003, as President from February 1995 to February 2006, and as Co-Chief Executive Officer of the Company from December 2002 to November 2003. Mr. Markfield also served the Company and its predecessors as Chief Merchandising Officer from February 1995 to December 2002. Mr. Markfield was formerly on the Board of Directors of DSW Inc. from 2008 to 2012.

**Simon R. Nankervis**, age 48, has served as our Executive Vice President, Global Commercial Operations since January 2015. Prior thereto, he served as our Executive Vice President, Americas and Global Country Licensing from February 2014 to January 2015, Senior Vice President, Americas and Global Country Licensing from April 2013 to February 2014 and as Vice President, International Franchising and Global Business Development from October 2011 to March 2013. Prior to joining us, Mr. Nankervis was Managing Director at Busbrand Pty Ltd, an Australian based international brand management company, from 2002 to 2011.

**Michael R. Rempell**, age 41, has served as our Executive Vice President and Chief Operations Officer since June 2012. Prior thereto, he served as our Executive Vice President and Chief Operating Officer, New York Design Center, from April 2009 to June 2012, as Senior Vice President and Chief Supply Chain Officer from May 2006 to April 2009, and in various other positions since joining us in February 2000.

**Jay L. Schottenstein**, age 60, has served as Interim Chief Executive Officer since January 2014. He has also served as Chairman of the Company and its predecessors since March 1992. He served the Company as Chief Executive Officer from March 1992 until December 2002 and prior to that time, he served as a Vice President and Director of the Company's predecessors since 1980. He has also served as Chairman of the Board and Chief Executive Officer of Schottenstein Stores Corporation (SSC) since March 1992 and as President since 2001. Prior thereto, Mr. Schottenstein served as Vice Chairman of SSC from 1986 to 1992. He has been a Director of SSC since 1982. Mr. Schottenstein also served as Chief Executive Officer from March 2005 to April 2009 and as Chairman of the Board since March 2005 of DSW Inc., a company traded on the New York Stock Exchange. He has also served as an officer and director of various other entities owned or controlled by members of his family since 1976. Mr. Schottenstein also serves as Executive Chairman and Director on the Board of Directors of DSW Inc.

## **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 under the "About AEO, Inc." section of our website at [www.ae.com](http://www.ae.com). These reports are available as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission (the "SEC").

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

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

## **Certifications**

As required by the New York Stock Exchange ("NYSE") Corporate Governance Standards Section 303A.12(a), on June 9, 2014 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.

## **Table of Contents**

### **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.

#### **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 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 drive improved performance through new store openings, selective closings and existing store remodels and expansions**

Our ability to drive improved performance 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 2015, we plan to open approximately 20 to 25 new American Eagle Outfitters stores primarily in the Factory store format in North

## **Table of Contents**

America and continue our international expansion. Additionally, we plan to remodel and refurbish 25 existing American Eagle Outfitters stores and close approximately 70 stores during Fiscal 2015. Accomplishing our 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 slow-down, strike or dispute including any such actions involving ports, transloaders, consolidators or shippers, could have an adverse effect on our

## **Table of Contents**

operations. 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. 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](http://www.ae.com), and is also included in our vendor manual in English and multiple other languages. We have a factory compliance program to audit for compliance with the Code. However, there can be no assurance that 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 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 operating, 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; however, there is a risk that information technology system disruptions and inaccurate system information, if not anticipated and/or promptly and appropriately mitigated, could have a material adverse effect on our results of operations.

### **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

## **Table of Contents**

relationships that result in the unauthorized release of personal or confidential information. Any compromise or breach could result in a violation of applicable privacy and other laws, significant 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. In addition, recent 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.

### **Fluctuations in foreign currency exchange rates could adversely impact our financial condition and results of operations**

We have foreign currency exchange rate risk with respect to revenues, expenses, assets and liabilities denominated in currencies other than the U.S. dollar. We currently do not utilize hedging instruments to mitigate foreign currency exchange risks. Specifically, fluctuations in the value of the Canadian Dollar, Mexican Peso, Chinese Yuan, Hong Kong Dollar, British Pound and Euro against the U.S. Dollar could have a material adverse effect on our results of operations, financial condition and cash flows.

### **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; extreme weather conditions or changes in climate conditions or 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.



## **Table of Contents**

### **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 2019.

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. In Fiscal 2013, we announced plans to close this facility in Fiscal 2015 and transfer operations our facility in Hazleton, Pennsylvania. 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 opened a new distribution facility in 2014 in Hazleton, Pennsylvania consisting of approximately 1,000,000 total square feet. This is designed to enable faster, more efficient product deliveries and to support our long-term expansion goals.

We lease a building in Mississauga, Ontario with approximately 294,000 square feet, which houses our Canadian distribution center. The lease expires in 2018.

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

All of our stores 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 9, 2015, there were 520 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 55,000. The following table sets forth the range of high and low closing prices of the common stock as reported on the NYSE during the periods indicated.

For the Quarters Ended	Market Price		Cash Dividends per Common Share
	High	Low	
January 31, 2015	\$ 14.63	\$ 11.91	\$ 0.125
November 1, 2014	\$ 14.81	\$ 10.42	\$ 0.125
August 2, 2014	\$ 11.97	\$ 10.28	\$ 0.125
May 3, 2014	\$ 14.85	\$ 10.95	\$ 0.125
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

During Fiscal 2014 and Fiscal 2013, 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 into the previous quarter. 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 30, 2010 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.

- \* \$100 invested on 1/30/10 in stock or 1/31/10 in index, including reinvestment of dividends.  
Indexes calculated on month-end basis.

	1/30/10	1/29/11	1/28/12	2/2/13	2/1/14	1/31/15
<b>American Eagle Outfitters, Inc.</b>	<b>100.00</b>	<b>97.35</b>	<b>96.68</b>	<b>153.44</b>	<b>105.38</b>	<b>113.69</b>
<b>S&amp;P Midcap 400</b>	<b>100.00</b>	<b>133.46</b>	<b>137.07</b>	<b>162.51</b>	<b>198.05</b>	<b>219.62</b>
<b>Dynamic Retail Intellidex</b>	<b>100.00</b>	<b>111.23</b>	<b>125.20</b>	<b>150.00</b>	<b>179.72</b>	<b>236.56</b>

**Table of Contents**

The following table provides information regarding our repurchases of common stock during the three months ended January 31, 2015.

**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 2, 2014 through November 29, 2014)		\$		18,400,000
Month #2 (November 30, 2014 through January 3, 2015)		\$		18,400,000
Month #3 (January 4, 2015 through January 31, 2015)		\$		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 January 31, 2015 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 2014, 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	2,390,469	\$ 16.28	8,895,719

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Equity compensation plans not approved  
by stockholders

Total	2,390,469	\$	16.28	8,895,719
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- (1) Equity compensation plans approved by stockholders include the 1999 Stock Incentive Plan, the 2005 Stock Award and Incentive Plan, as amended (the 2005 Plan ), and the 2014 Stock Award and Incentive Plan (the 2014 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 28, 2012 and January 29, 2011 and the selected Consolidated Balance Sheet data as of February 2, 2013, January 28, 2012, and January 29, 2011 are derived from audited Consolidated Financial Statements not included herein.

	January 31, 2015	February 1, 2014	For the Years Ended(1) February 2, 2013	January 28, 2012	January 29, 2011
<i>(In thousands, except per share amounts, ratios and other financial information)</i>					
<b>Summary of Operations(2)</b>					
Total net revenue	\$ 3,282,867	\$ 3,305,802	\$ 3,475,802	\$ 3,120,065	\$ 2,945,294
Comparable sales increase (decrease)(3)	(5)%	(6)%	9%	4%	(1)%
Gross profit	\$ 1,154,674	\$ 1,113,999	\$ 1,390,322	\$ 1,144,594	\$ 1,182,151
Gross profit as a percentage of net sales	35.2%	33.7%	40.0%	36.7%	40.1%
Operating income	\$ 155,765	\$ 141,055	\$ 394,606	\$ 269,335	\$ 339,552
Operating income as a percentage of net sales	4.7%	4.3%	11.4%	8.6%	11.5%
Income from continuing operations	\$ 88,787	\$ 82,983	\$ 264,098	\$ 175,279	\$ 195,731
Income from continuing operations as a percentage of net sales	2.6%	2.5%	7.6%	5.6%	6.7%
<b>Per Share Results</b>					
Income from continuing operations per common share-basic	\$ 0.46	\$ 0.43	\$ 1.35	\$ 0.90	\$ 0.98
Income from continuing operations per common share-diluted	\$ 0.46	\$ 0.43	\$ 1.32	\$ 0.89	\$ 0.97
Weighted average common shares outstanding basic	194,437	192,802	196,211	194,445	199,979
Weighted average common shares outstanding diluted	195,135	194,475	200,665	196,314	201,818
Cash dividends per common share	\$ 0.50	\$ 0.375	\$ 2.05	\$ 0.44	\$ 0.93
<b>Balance Sheet Information</b>					
Total cash and short-term investments	\$ 410,697	\$ 428,935	\$ 630,992	\$ 745,044	\$ 734,695
Long-term investments	\$	\$	\$	\$ 847	\$ 5,915
Total assets	\$ 1,696,908	\$ 1,694,164	\$ 1,756,053	\$ 1,950,802	\$ 1,879,998
Short-term debt	\$	\$	\$	\$	\$
Long-term debt	\$	\$	\$	\$	\$
Stockholders' equity	\$ 1,139,746	\$ 1,166,178	\$ 1,221,187	\$ 1,416,851	\$ 1,351,071
Working capital	\$ 431,420	\$ 512,513	\$ 705,898	\$ 882,087	\$ 786,573
Current ratio	1.94	2.23	2.62	3.18	3.03
Average return on stockholders' equity	7.7%	7.0%	17.6%	11.0%	9.6%
<b>Other Financial Information(2)</b>					
Total stores at year-end	1,056	1,066	1,044	1,069	1,077
Capital expenditures	\$ 245,002	\$ 278,499	\$ 93,939	\$ 89,466	\$ 75,904
Net sales per average selling square foot(4)	\$ 525	\$ 547	\$ 602	\$ 547	\$ 526
Total selling square feet at end of period	5,294,744	5,205,948	4,962,923	5,028,493	5,026,144
Net sales per average gross square foot(4)	\$ 420	\$ 444	\$ 489	\$ 438	\$ 422
Total gross square feet at end of period	6,613,100	6,503,486	6,023,278	6,290,284	6,288,425
Number of employees at end of period	38,000	40,400	40,100	39,600	39,900



**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 for all periods presented. 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 20 to 25 AEO stores in the Factory store format in North America and continued international expansion during Fiscal 2015;

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 25 American Eagle Outfitters stores in the United States and Canada for remodeling and refurbishing during Fiscal 2015;

the potential closure of approximately 50 American Eagle Outfitters and 20 aerie stores in the United States and Canada during Fiscal 2015;

the planned opening of approximately 30 new international third party operated American Eagle Outfitters stores during Fiscal 2015;

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;



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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.

### **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

## **Table of Contents**

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.

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.

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 recognize royalty revenue generated from our license or franchise agreements based upon a percentage of merchandise sales by the licensee/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 choose 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

## **Table of Contents**

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 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 licensed or 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.

AEO Direct sales are included in the individual American Eagle Outfitters and aerie brand comparable sales metric 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 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; and

We no longer present AEO Direct separately due to the continued evolution of omni-channel engagement and the reasons discussed above.

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 performance. 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 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



**Table of Contents**

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

**Results of Operations****Overview**

Fiscal 2014 performance was challenging with total sales declining 1% and adjusted earnings per share decreasing 15%. The retail landscape was volatile throughout the year, resulting in a difficult spring season with financial performance well below our targets and historical performance. Our improved merchandise assortment, reduced expenses and improved execution caused the business to stabilize by mid-year, with financial improvement in the third and fourth quarters. AUR and units per transaction in the fall season were both improved over last year.

Total net revenue for the year decreased 1% to \$3.283 billion, compared to \$3.306 billion last year. Total comparable sales decreased 5%. By brand, including the respective AEO Direct sales, AEO Brand comparable sales decreased 6% and aerie Brand increased 6%. Gross margin increased 150 basis points to 35.2%, compared to 33.7% last year.

Income from continuing operations was \$0.46 per diluted share this year, compared to \$0.43 per diluted share last year. On an adjusted basis, income from continuing operations this year was \$0.63 per diluted share, which excludes a (\$0.17) per diluted share impact from impairment and restructuring charges. This compares to adjusted income from continuing operations last year of \$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.

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.

		<b>Earnings per Share For the Fiscal Years Ended</b>	
		<b>January 31, 2015</b>	<b>February 1, 2014</b>
Income from continuing operations per diluted share	GAAP Basis	\$ 0.46	\$ 0.43
Add: Asset Impairments(1)		0.11	0.14
Add: Restructuring Charges(2)		0.06	
Add: Asset write-offs & corporate charges(3)			0.16
Add: Tax related items(4)			0.01
Income from continuing operations per diluted share	Non-GAAP Basis	\$ 0.63	\$ 0.74

(1) Asset impairment costs of \$0.11 per diluted share for Fiscal 2014 consist of:

\$25.1 million for the impairment of 48 AEO and 31 aerie stores

\$8.4 million for corporate items



## Table of Contents

Asset impairment costs of \$0.14 per diluted share for Fiscal 2013 consist of:

\$44.5 million of pre-tax asset impairments for 69 AEO and aerie brand retail stores and the Warrendale Distribution Center

(2) Restructuring charges of \$0.06 per diluted share include:

\$17.8 million of severance and related employee costs and corporate charges

(3) Asset write-offs and corporate charges of \$0.16 per diluted share consist of:

\$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

\$4.7 million of employee severance and related costs.

(4) Tax related items of \$0.01 per diluted share were:

\$2.8 million from recording an international valuation allowance, net of tax benefits from changes in tax reserves.

We ended Fiscal 2014 with \$410.7 million in cash and short-term investments, a decrease of \$18.2 million from last year. During the year, we generated \$338.4 million of cash from operations. The cash from operations was offset by \$245.0 million of capital expenditures and dividend payments of \$97.2 million. Merchandise inventory at the end of Fiscal 2014 was \$279.0 million, a decrease of 5% on a cost per square foot basis, reflecting improved inventory control and turns.

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		
	January 31, 2015	February 1, 2014	February 2, 2013
Total net revenue	100.0%	100.0%	100.0%
Cost of sales, including certain buying, occupancy and warehousing expenses	64.8	66.3	60.0
Gross profit	35.2	33.7	40.0
Selling, general and administrative expenses	24.6	24.1	24.0
Restructuring charges	0.6		
Loss on impairment of assets	1.0	1.3	1.0



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Depreciation and amortization expense	4.3	4.0	3.6
Operating income	4.7	4.3	11.4
Other income, net	0.1		0.2
Income before income taxes	4.8	4.3	11.6
Provision for income taxes	2.2	1.8	4.0
Income from continuing operations	2.6	2.5	7.6
Loss from discontinued operations, net of tax	(0.2)		(0.9)
Net income	2.4%	2.5%	6.7%

## **Table of Contents**

### **Comparison of Fiscal 2014 to Fiscal 2013**

#### ***Total Net Revenue***

Total net revenue for the 52 week year decreased 1% to \$3.283 billion compared to \$3.306 billion for the 52 week period last year. For Fiscal 2014, total comparable sales decreased 5% compared to a 6% decrease for Fiscal 2013. By brand, including the respective AEO Direct revenue, American Eagle Outfitters brand comparable sales decreased 6%, or \$161.8 million, and aerie brand increased 6%, or \$10.1 million. AEO men's comparable sales decreased in the high single-digits and AEO women's comparable sales decreased in the low single-digits.

For the year, store transactions decreased in the mid single-digits while units per transaction increased in the low single-digits and AUR remained flat.

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

Gross profit increased 4% to \$1.155 billion from \$1.114 billion in Fiscal 2013. On a consolidated basis, gross profit as a percent to total net revenue increased by 150 basis points to 35.2% from 33.7% last year. Included in gross profit last 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.

Reduced markdowns and favorable product costs provided a combined 280 basis points of improvement this year. Buying, occupancy and warehousing (BOW) costs deleveraged 130 basis points from higher delivery costs and leverage of rent on negative comparable sales.

There was \$8.2 million of share-based payment expense, consisting of both time and performance-based awards, included in gross profit this year. This is compared to a net benefit of \$6.9 million of share-based payment expense included in gross profit last year.

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

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

Selling, general and administrative expense increased 1% to \$806.5 million, compared to \$796.5 million last year. Last year, selling, general and administrative expense included \$7.8 million of pre-tax employee related costs. As a rate to total net revenue, selling, general and administrative expenses increased 50 basis points to 24.6%, compared to 24.1% last year. Higher incentive compensation and increased investment in advertising were partially offset by reduced overhead and variable expense.

There was \$7.9 million of share-based payment expense, consisting of time and performance-based awards, included in selling, general and administrative expenses this year compared to \$0.3 million last year.

#### ***Restructuring Charges***

Restructuring charges were \$17.8 million, or 0.6% as a rate to total net revenue, for Fiscal 2014. This amount consists of corporate overhead reductions, including severance and related items, and office space consolidation.

The restructuring charges are aimed at strengthening our corporate assets. Corporate overhead expenses eliminated redundancies at the home office. These changes are aimed at driving efficiencies and aligning investments in areas that help fuel the business.

## **Table of Contents**

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

Loss on impairment of assets this year was the result of a store fleet and corporate location review and challenging performance this year, and consisted of \$25.1 million for the impairment of 48 AE and 31 aerie stores and \$8.4 million for corporate items. In Fiscal 2013, the loss on impairment of assets was \$44.5 million relating to 69 retail stores and our Warrendale, Pennsylvania Distribution Center.

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

Depreciation and amortization expense increased to \$141.2 million from \$132.0 million last year, driven by omni-channel and IT investments, new factory and international stores, and the new fulfillment center. As a rate to total net revenue, depreciation and amortization increased to 4.3% from 4.0% 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.

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

Other income was \$3.7 million this year, compared to income of \$1.0 million last year, primarily as a result of foreign currency fluctuations.

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

The effective income tax rate from continuing operations increased to approximately 44% in Fiscal 2014 from 42% in Fiscal 2013. The higher effective income tax rate in Fiscal 2014 was primarily due to valuation allowances on foreign losses, offset by an overall increase in income levels.

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 2014 was \$88.8 million, or \$0.46 per diluted share. This includes \$51.2 million, or (\$0.17) per diluted share, diluted share impact from impairment charges and restructuring charges. 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.

### ***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.

In Fiscal 2014, we became primarily liable for 21 store leases as the third party purchaser did not fulfill its obligations. We incurred \$13.7 million in pre-tax expense to terminate store leases. Loss from Discontinued Operations, net of tax, was \$8.5 million for Fiscal 2014.

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

### ***Net Income***

Net income decreased to \$80.3 million in Fiscal 2014 from \$83.0 million in Fiscal 2013. As a percent to total net revenue, net income was 2.4% and 2.5% for both Fiscal 2014 and Fiscal 2013, respectively. Net income per diluted share was \$0.42, compared to \$0.43 last year. The change in net income was attributable to the factors noted above.

## **Table of Contents**

### **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 in Fiscal 2012. For Fiscal 2013, total comparable sales decreased 6% compared to a 9% increase for the corresponding 52 week period in 2012. 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% in Fiscal 2012. Included in gross profit in Fiscal 2013 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. 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. BOW costs 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 in Fiscal 2013 compared to \$34.5 million of share-based payment expense in Fiscal 2012. The net benefit in Fiscal 2013 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 in Fiscal 2012, 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. The retail store impairments were

## **Table of Contents**

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 in Fiscal 2012, 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

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

Other income was \$1.0 million in Fiscal 2013, compared to income of \$7.4 million in Fiscal 2012, primarily as a result of settlement recoveries received in Fiscal 2012 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 in Fiscal 2012. The change in net income was attributable to the factors noted above.

**Table of Contents****Fair Value Measurements**

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

**Financial Instruments**

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

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

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

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

As of January 31, 2015 and 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 tables represent the fair value hierarchy for our financial assets (cash equivalents and investments) measured at fair value on a recurring basis as of January 31, 2015:

		Fair Value Measurements at January 31, 2015		
		Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)	Carrying Amount			
Cash and cash equivalents				
Cash	\$ 370,692	\$ 370,692	\$	\$
Money-market	40,005	40,005		
Total cash and cash equivalents	\$ 410,697	\$ 410,697	\$	\$
Total short-term investments				
Total	\$ 410,697	\$ 410,697	\$	\$
Percent to total	100.0%	100.0%		

In the event we hold Level 3 investments, a discounted cash flow model is used to value those investments. There were no Level 3 investments at January 31, 2015.

**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

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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.

**Table of Contents**

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

The following sets forth certain measures of our liquidity:

	January 31, 2015	February 1, 2014
Working Capital (in 000 s)	\$ 431,420	\$ 512,513
Current Ratio	1.94	2.23

The \$80.1 million decrease in our working capital and corresponding decrease in the current ratio as of January 31, 2015 compared to February 1, 2014, 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 and the payment of dividends. In Fiscal 2014, we paid \$0.50 per share of dividends for a total of \$97.2 million.

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

Net cash provided by operating activities totaled \$338.4 million during Fiscal 2014, compared to \$229.9 million during Fiscal 2013 and \$499.7 million during Fiscal 2012. 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 increase in cash flows from operations this year was primarily driven by the increase in income from continuing operations, net of non-cash adjustments. Merchandise inventory at the end of Fiscal 2014 was \$279.0 million, a decrease of 5% on a cost per square foot basis. The decrease reflects a mid single-digit decrease in the number of units per square foot.

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

Investing activities for Fiscal 2014 included \$245.0 million in capital expenditures for property and equipment, partially offset by \$10.0 million of proceeds from the sale of investments classified as available-for-sale. 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 and \$111.1 million of investment purchases partially offset by \$15.5 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 2014, cash used for financing activities resulted primarily from \$97.2 million for the payment of dividends and \$7.5 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 2013, cash used for financing activities resulted primarily from \$72.3 million for the payment of dividends and \$33.1 million for the repurchase of 1.6 million shares as part of our publicly announced repurchase program. 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.

Cash returned to shareholders through dividends and share repurchases was \$97.2 million and \$105.3 million in Fiscal 2014 and Fiscal 2013, respectively.



## **Table of Contents**

ASC 718 requires that cash flows resulting from the benefits of tax deductions in excess of recognized compensation cost for share-based payments be classified as financing cash flows. Accordingly, for Fiscal 2014, Fiscal 2013 and Fiscal 2012, the excess tax benefits from share-based payments of \$0.7 million, \$8.8 million and \$13.3 million, respectively, are classified as financing cash flows.

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

Fiscal 2014 capital expenditures were \$245.0 million, compared to \$278.5 million in Fiscal 2013. Fiscal 2014 expenditures included \$98.6 million related to investments in our AEO stores, including 60 new AEO stores, 44 remodeled and refurbished stores, and fixtures and visual investments. Additionally, we continued to support our infrastructure growth by investing in information technology (\$33.8 million), the improvement of our distribution centers and construction of a new distribution center (\$76.2 million) and investments in e-commerce (\$19.5 million) and other home office projects (\$16.9 million).

For Fiscal 2015, we expect capital expenditures to be approximately \$150 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, underpenetrated markets and new wholly-owned international locations.

### ***Credit Facilities***

In December 2014, we entered into a new Credit Agreement ( "Credit Agreement" ) for five-year, syndicated, asset-based revolving credit facilities (the "Credit Facilities" ). The Credit Agreement provides senior secured revolving credit for loans and letters of credit up to \$400 million, subject to customary borrowing base limitations. The Credit Facilities provide increased financial flexibility and take advantage of a favorable credit environment.

All obligations under the Credit Facilities are unconditionally guaranteed by certain subsidiaries. The obligations under the Credit Agreement are secured by a first-priority security interest in certain working capital assets of the borrowers and guarantors, consisting primarily of cash, receivables, inventory and certain other assets, and will be further secured by first-priority mortgages on certain real property.

As of January 31, 2015, we were in compliance with the terms of the Credit Agreement and had \$8.1 million outstanding in stand-by letters of credit. No loans were outstanding under the Credit Agreement on January 31, 2015.

The Credit Facilities replace our syndicated, unsecured, revolving credit facility in the amount of \$150.0 million.

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 January 31, 2015, we had outstanding trade letters of credit of \$13.7 million.

### ***Stock Repurchases***

During Fiscal 2014, there were no share repurchases as a part of our publicly announced repurchase programs. 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. As of January 31, 2015, 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 2014, Fiscal 2013 and Fiscal 2012, we repurchased approximately 0.5 million, 1.1 million and 0.3 million shares, respectively, from certain employees at market prices totaling \$7.5 million, \$23.4 million and \$4.1 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**

A \$0.125 per share dividend was paid for each quarter of Fiscal 2014, resulting in a dividend yield of 3.6% for the trailing twelve months ended January 31, 2015. During Fiscal 2013, three quarterly dividends of \$0.125 per share were paid, as our Board accelerated the payment of the first quarter 2013 dividend into Fiscal 2012. Subsequent to the fourth quarter of Fiscal 2014, our Board declared a quarterly cash dividend of \$0.125 per share, payable on April 22, 2015 to stockholders of record at the close of business on April 8, 2015. The payment of future dividends is at the discretion of our Board and is based on future earnings, cash flow, financial condition, capital requirements, changes in U.S. taxation and other relevant factors. It is anticipated that any future dividends paid will be declared on a quarterly basis.

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

The following table summarizes our significant contractual obligations as of January 31, 2015:

<i>(In thousands)</i>	<b>Total</b>	<b>Payments Due by Period</b>			
		<b>Less than 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>More than 5 Years</b>
Operating Leases(1)	\$ 1,697,328	\$ 287,091	\$ 488,595	\$ 372,596	\$ 549,046
Unrecognized Tax Benefits(2)	14,176				14,176
Purchase Obligations(3)	684,649	672,312	8,540	2,505	1,292
Total Contractual Obligations	\$ 2,396,153	\$ 959,403	\$ 497,135	\$ 375,101	\$ 564,514

- (1) Operating lease obligations consist primarily of future minimum lease commitments related to store operating leases (Refer to Note 10 to the Consolidated Financial Statements). Operating lease obligations do not include common area maintenance, insurance or tax payments for which we are also obligated.
- (2) The amount of unrecognized tax benefits as of January 31, 2015 was \$14.2 million, including approximately \$1.6 million of accrued interest and penalties. Unrecognized tax benefits are positions taken or expected to be taken on an income tax return that may result in additional payments to tax authorities. The unrecognized tax benefits of \$14.2 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 January 31, 2015:

(In thousands)	Amount of Commitment Expiration Per Period				
	Total Amount Committed	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Trade Letters of Credit(1)	\$ 13,725	\$ 13,725			
Standby Letters of Credit(2)	8,108	8,108			
<b>Total Commercial Commitments</b>	<b>\$ 21,833</b>	<b>\$ 21,833</b>			

- (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 became secondarily liable for obligations under the lease agreements for 21 store leases assumed by the third party purchaser. In Fiscal 2014, the third party purchaser did not fulfill its obligations under the leases, resulting in our becoming primarily liable. We were required to make rental and lease termination payments and sought full reimbursement from the \$11.5 million stand-by letter of credit provided by the third party purchaser. We have incurred \$13.7 million in expense above the letter of credit proceeds to terminate store leases. The cash outflow for termination costs are expected to be paid in Fiscal 2015.

In accordance with ASC 460, *Guarantees* ( ASC 460 ), as we became primarily liable under the leases upon the third party purchaser's default, the amounts to exit the lease agreements have been accrued in our Consolidated Financial Statements related to these guarantees.

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

***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 2014 average yield rate decreases by 10% in Fiscal 2015, our income before taxes will decrease by approximately \$0.1 million. Comparatively, if our Fiscal 2013 average yield rate had decreased by 10% in Fiscal 2014, 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 primarily 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. A hypothetical 10% movement in the Canadian dollar exchange rate could result in a \$5.8 million foreign currency translation fluctuation, which would be recorded in accumulated other comprehensive income within the consolidated balance sheets. An unrealized loss of \$9.9 million is included in accumulated other comprehensive income as of January 31, 2015.

**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 January 31, 2015 and February 1, 2014, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended January 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Eagle Outfitters, Inc. at January 31, 2015 and February 1, 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), American Eagle Outfitters, Inc.'s internal control over financial reporting as of January 31, 2015, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 11, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania

March 11, 2015

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

	January 31, 2015	February 1, 2014
<i>(In thousands, except per share amounts)</i>		
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 410,697	\$ 418,933
Short-term investments		10,002
Merchandise inventory	278,972	291,541
Accounts receivable	67,894	73,882
Prepaid expenses and other	73,848	88,155
Deferred income taxes	59,102	45,478
Total current assets	890,513	927,991
Property and equipment, at cost, net of accumulated depreciation	694,856	632,986
Intangible assets, at cost, net of accumulated amortization	47,206	49,271
Goodwill	13,096	13,530
Non-current deferred income taxes	14,035	24,835
Other assets	37,202	45,551
Total assets	\$ 1,696,908	\$ 1,694,164
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 191,146	\$ 203,872
Accrued compensation and payroll taxes	44,884	23,560
Accrued rent	78,567	76,397
Accrued income and other taxes	33,110	5,778
Unredeemed gift cards and gift certificates	47,888	47,194
Current portion of deferred lease credits	12,969	13,293
Other liabilities and accrued expenses	50,529	45,384
Total current liabilities	459,093	415,478
Non-current liabilities:		
Deferred lease credits	54,516	59,510
Non-current accrued income taxes	10,456	16,543
Other non-current liabilities	33,097	36,455
Total non-current liabilities	98,069	112,508
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; 194,516 and 193,149 shares outstanding, respectively	2,496	2,496
Contributed capital	569,675	573,008
Accumulated other comprehensive income	(9,944)	12,157
Retained earnings	1,543,085	1,569,851

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Treasury stock, 55,050 and 56,417 shares, respectively, at cost	(965,566)	(991,334)
Total stockholders' equity	1,139,746	1,166,178
Total liabilities and stockholders' equity	\$ 1,696,908	\$ 1,694,164

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>	<b>For the Years Ended</b>		
	<b>January 31, 2015</b>	<b>February 1, 2014</b>	<b>February 2, 2013</b>
Total net revenue	\$ 3,282,867	\$ 3,305,802	\$ 3,475,802
Cost of sales, including certain buying, occupancy and warehousing expenses	2,128,193	2,191,803	2,085,480
Gross profit	1,154,674	1,113,999	1,390,322
Selling, general and administrative expenses	806,498	796,505	834,601
Restructuring charges	17,752		
Loss on impairment of assets	33,468	44,465	34,869
Depreciation and amortization expense	141,191	131,974	126,246
Operating income	155,765	141,055	394,606
Other income, net	3,737	1,022	7,432
Income before income taxes	159,502	142,077	402,038
Provision for income taxes	70,715	59,094	137,940
Income from continuing operations	88,787	82,983	264,098
Loss from discontinued operations, net of tax	(8,465)		(31,990)
Net income	\$ 80,322	\$ 82,983	\$ 232,108
Basic income per common share:			
Income from continuing operations	\$ 0.46	\$ 0.43	\$ 1.35
Loss from discontinued operations	(0.04)		(0.16)
Basic net income per common share	\$ 0.42	\$ 0.43	\$ 1.19
Diluted income per common share:			
Income from continuing operations	\$ 0.46	\$ 0.43	\$ 1.32
Loss from discontinued operations	(0.04)		(0.16)
Diluted net income per common share	\$ 0.42	\$ 0.43	\$ 1.16
Weighted average common shares outstanding basic	194,437	192,802	196,211
Weighted average common shares outstanding diluted	195,135	194,475	200,665

Refer to Notes to Consolidated Financial Statements

**Table of Contents**

**AMERICAN EAGLE OUTFITTERS, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

<i>(In thousands)</i>	For the Years Ended		
	January 31, 2015	February 1, 2014	February 2, 2013
Net income	\$ 80,322	\$ 82,983	\$ 232,108
Other comprehensive (loss) income:			
Foreign currency translation (loss) gain	(22,101)	(17,140)	638
Other comprehensive (loss) income	(22,101)	(17,140)	638
Comprehensive income	\$ 58,221	\$ 65,843	\$ 232,746

Refer to Notes to Consolidated Financial Statements

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

	Shares Outstanding (1)	Common Stock	Contributed Capital	Retained Earnings	Treasury Stock(2)	Accumulated Other Comprehensive Income (Loss)	Stockholders Equity
<i>(In thousands, except per share amounts)</i>							
<b>Balance at January 28, 2012</b>	<b>193,848</b>	<b>\$ 2,496</b>	<b>\$ 552,797</b>	<b>\$ 1,771,464</b>	<b>\$ (938,565)</b>	<b>\$ 28,659</b>	<b>\$ 1,416,851</b>
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						638	638
Cash dividends and dividend equivalents (\$2.05 per share)			9,214	(414,301)			(405,087)
<b>Balance at February 2, 2013</b>	<b>192,604</b>	<b>\$ 2,496</b>	<b>\$ 627,065</b>	<b>\$ 1,553,058</b>	<b>\$ (990,729)</b>	<b>\$ 29,297</b>	<b>\$ 1,221,187</b>
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						(17,140)	(17,140)
Cash dividends and dividend equivalents (\$0.375 per share)			1,465	(72,280)			(70,815)
<b>Balance at February 1, 2014</b>	<b>193,149</b>	<b>\$ 2,496</b>	<b>\$ 573,008</b>	<b>\$ 1,569,851</b>	<b>\$ (991,334)</b>	<b>\$ 12,157</b>	<b>\$ 1,166,178</b>
Stock awards			12,372				12,372
Repurchase of common stock from employees	(517)				(7,464)		(7,464)
Reissuance of treasury stock	1,884		(17,988)	(7,503)	33,232		7,741
Net income				80,322			80,322
Other comprehensive income						(22,101)	(22,101)
Cash dividends and dividend equivalents (\$0.50 per share)			2,283	(99,585)			(97,302)
<b>Balance at January 31, 2015</b>	<b>194,516</b>	<b>\$ 2,496</b>	<b>\$ 569,675</b>	<b>\$ 1,543,085</b>	<b>\$ (965,566)</b>	<b>\$ (9,944)</b>	<b>\$ 1,139,746</b>

(1) 600,000 authorized, 249,566 issued and 194,516 outstanding, \$0.01 par value common stock at January 31, 2015; 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. The Company has 5,000 authorized, with none issued or outstanding, \$0.01 par value preferred stock at January 31, 2015, February 1, 2014 and February 2, 2013.

- (2) 55,050 shares, 56,417 shares, and 56,962 shares at January 31, 2015, February 1, 2014 and February 2, 2013, respectively. During Fiscal 2014, Fiscal 2013, and Fiscal 2012, 1,884 shares, 3,204 shares, and 7,443 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**

	<b>For the Years Ended</b>		
	<b>January 31, 2015</b>	<b>February 1, 2014</b>	<b>February 2, 2013</b>
<i>(In thousands)</i>			
Operating activities:			
Net income	\$ 80,322	\$ 82,983	\$ 232,108
Loss from discontinued operations, net of tax	8,465		31,990
Income from continuing operations	\$ 88,787	\$ 82,983	\$ 264,098
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	142,351	134,047	128,397
Share-based compensation	16,070	(6,541)	66,349
Deferred income taxes	(2,279)	20,100	(30,647)
Foreign currency transaction loss (gain)	(495)	1,378	100
Loss on impairment of assets	33,468	44,465	34,869
Changes in assets and liabilities:			
Merchandise inventory	8,586	40,148	35,202
Accounts receivable	3,084	(29,511)	(6,664)
Prepaid expenses and other	14,282	(10,844)	404
Other assets	6,612	(36,089)	(8,165)
Accounts payable	(5,280)	28,568	(10,468)
Unredeemed gift cards and gift certificates	1,238	1,269	1,473
Deferred lease credits	(4,528)	583	(11,073)
Accrued compensation and payroll taxes	20,716	(42,465)	23,018
Accrued income and other taxes	24,826	(25,840)	(7,408)
Accrued liabilities	(9,012)	27,605	20,186
Total adjustments	249,639	146,873	235,573
<b>Net cash provided by operating activities from continuing operations</b>	<b>338,426</b>	<b>229,856</b>	<b>499,671</b>
Investing activities:			
Capital expenditures for property and equipment	(245,002)	(278,499)	(93,939)
Purchase of long-lived assets in a business combination		(20,751)	
Acquisition of intangible assets	(1,264)	(6,835)	(1,125)
Purchase of available-for-sale securities		(52,065)	(111,086)
Sale of available-for-sale securities	10,002	162,785	15,500
<b>Net cash (used for) provided by investing activities from continuing operations</b>	<b>(236,264)</b>	<b>(195,365)</b>	<b>(190,650)</b>
Financing activities:			
Payments on capital leases and other	(7,143)	(2,839)	(3,066)
Repurchase of common stock as part of publicly announced programs		(33,051)	(173,554)
Repurchase of common stock from employees	(7,464)	(23,386)	(4,125)
Net proceeds from stock options exercised	7,305	6,197	76,401
Excess tax benefit from share-based payments	742	8,833	13,279
Cash used to net settle equity awards			
Cash dividends paid	(97,224)	(72,280)	(403,490)
<b>Net cash used for financing activities from continuing operations</b>	<b>(103,784)</b>	<b>(116,526)</b>	<b>(494,555)</b>
Effect of exchange rates on cash	(7,578)	(8,151)	504
Cash flows of discontinued operations			
Net cash provided by (used for) operating activities	963		(24,616)

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Net cash used for investing activities			(780)
Net cash used for financing activities			
Effect of exchange rates on cash			
<b>Net cash provided by (used for) discontinued operations</b>	<b>963</b>		<b>(25,396)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(8,237)</b>	<b>(90,186)</b>	<b>(210,426)</b>
Cash and cash equivalents beginning of period	\$ 418,933	\$ 509,119	719,545
Cash and cash equivalents end of period	\$ 410,697	\$ 418,933	\$ 509,119

Refer to Notes to Consolidated Financial Statements

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED JANUARY 31, 2015****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, online at ae.com and aerie.com and international store locations managed by third-party operators. Through its 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:

	January 31, 2015	For the Years Ended February 1, 2014	February 2, 2013
Men's apparel and accessories	39%	40%	39%
Women's apparel and accessories (excluding aerie)	53%	52%	52%
aerie	8%	8%	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 January 31, 2015, 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 2015 refers to the 52 week period ending January 30, 2016. Fiscal 2014 and Fiscal 2013 refer to the 52 week period ended January 31, 2015 and February 1, 2014, respectively.

Fiscal 2012 refers to the 53 week period ended February 2, 2013. Fiscal 2011 and Fiscal 2010 refer to the 52 week periods ended January 28, 2012 and January 29, 2011, respectively.

***Estimates***

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



## **Table of Contents**

### **AMERICAN EAGLE OUTFITTERS, INC.**

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

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

#### ***Recent Accounting Pronouncements***

In May 2014, the Financial Accounting Standard Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-09, *Revenue from Contracts with Customers* ( ASU 2014-09 ). ASU 2014-09 is a comprehensive new revenue recognition model that expands disclosure requirements and requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. Accordingly, the Company will adopt ASU 2014-09 on January 29, 2017. The Company does not expect a material impact of the adoption of this guidance on the Company's consolidated financial condition, results of operations and cash flows.

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 Company adopted ASU 2013-11 on February 2, 2014 with no significant impact to its 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, short-term investments include treasury bills and term-deposits purchased with a maturity of greater than three months, but less than one year.

**Table of Contents**

**AMERICAN EAGLE OUTFITTERS, INC.**

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

Long-term investments are included within other assets on the Company's Consolidated Balance Sheets. As of January 31, 2015 and February 1, 2014, the Company held no long-term investments.

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

## **Table of Contents**

### **AMERICAN EAGLE OUTFITTERS, INC.**

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

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

During Fiscal 2014, the Company recorded pre-tax asset impairment charges of \$33.5 million that includes \$25.1 million for the impairment of 79 retail stores recorded as a loss on impairment of assets in the Consolidated Statements of Operations. Based on the Company's evaluation of current and future projected performance, it was 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 \$8.4 million of impairment charges related to corporate 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 included 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 January 31, 2015. As a result of the Company's annual goodwill impairment test, the Company concluded that its goodwill was not impaired.

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**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 2014, Fiscal 2013 or Fiscal 2012.

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) in accordance with a credit card agreement (the Agreement). The Company has no liability to the Bank for bad debt expense, provided that purchases are made in accordance with the Bank's procedures. We receive cash from the Bank in accordance with the Agreement and based on card activity. We recognize revenue for such cash receipts when the amounts are fixed or determinable and collectability is reasonably assured. The revenue is recorded in other revenue, which is a component of total net revenue in our Consolidated Statements of Operations.

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.

**Table of Contents**

**AMERICAN EAGLE OUTFITTERS, INC.**

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

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 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.

(In thousands)	For the Years Ended		
	January 31, 2015	February 1, 2014	February 2, 2013
Beginning balance	\$ 2,205	\$ 4,481	\$ 2,929
Returns	(79,813)	(85,871)	(86,895)
Provisions	80,857	83,595	88,447
Ending balance	\$ 3,249	\$ 2,205	\$ 4,481

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 our 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 our stores and home office, communication costs, travel and entertainment, leasing costs and services purchased. Selling, general and administrative expenses do not include compensation, employee benefit expenses and travel for 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 January 31, 2015 and February 1, 2014, the Company had prepaid advertising expense of \$6.6 million and \$9.0 million, respectively. All other advertising costs are expensed as incurred. The Company recognized \$94.2 million, \$87.0 million and \$90.0 million in advertising expense during Fiscal 2014, Fiscal 2013 and Fiscal 2012, 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 \$7.0 million, \$7.3 million and \$8.9 million during Fiscal 2014, Fiscal 2013 and Fiscal 2012, 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>	January 31, 2015	For the Years Ended February 1, 2014	February 2, 2013
Cash paid during the periods for:			
Income taxes	\$ 38,501	\$ 65,496	\$ 142,009
Interest	\$ 638	\$ 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>	<b>January 31, 2015</b>	<b>For the Years Ended February 1, 2014</b>	<b>February 2, 2013</b>
Total net revenue:			
United States	\$ 2,895,310	\$ 2,954,635	\$ 3,131,233
Foreign(1)	387,557	351,167	344,569
Total net revenue	\$ 3,282,867	\$ 3,305,802	\$ 3,475,802

- (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>	<b>January 31, 2015</b>	<b>February 1, 2014</b>
Long-lived assets, net:		
United States	\$ 664,734	\$ 614,284
Foreign	90,424	81,503
Total long-lived assets, net	\$ 755,158	\$ 695,787

***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>	<b>January 31, 2015</b>	<b>February 1, 2014</b>
Cash and cash equivalents:		
Cash	370,692	\$ 330,013
Money-market	40,005	25,696
Treasury bills		63,224
 Total cash and cash equivalents	 410,697	 \$ 418,933
Short-term investments:		
Treasury bills		\$ 10,002
 Total short-term investments		 \$ 10,002
 Total	 410,697	 \$ 428,935

Proceeds from the sale of available-for-sale securities were \$10.0 million, \$162.8 million and \$15.5 million for Fiscal 2014, Fiscal 2013 and Fiscal 2012, respectively. Purchases of available-for-sale securities for Fiscal 2013 and Fiscal 2012 were \$52.1 million and \$111.1 million, respectively. At January 31, 2015 and February 1, 2014, 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.

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

As of January 31, 2015 and February 1, 2014, the Company held certain assets that are required to be measured at fair value on a recurring basis. These include cash equivalents and investments.

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

In accordance with ASC 820, the following tables represent the fair value hierarchy for the Company's financial assets (cash equivalents and investments) measured at fair value on a recurring basis as of January 31, 2015 and February 1, 2014:

<b>Fair Value Measurements at January 31, 2015</b>				
		<b>Quoted Market Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<i>(In thousands)</i>	<b>Carrying Amount</b>			
Cash and cash equivalents				
Cash	\$ 370,692	\$ 370,692	\$	\$
Money-market	40,005	40,005		
Total cash and cash equivalents	\$ 410,697	\$ 410,697	\$	\$
Total short-term investments				
Total	\$ 410,697	\$ 410,697	\$	\$

<b>Fair Value Measurements at February 1, 2014</b>				
		<b>Quoted Market Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<i>(In thousands)</i>	<b>Carrying Amount</b>			
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	\$	\$

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 January 31, 2015 or February 1, 2014.

***Non-Financial Assets***

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

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recorded at the estimated fair value. As a result of the Company's annual goodwill impairment test performed as of January 31, 2015, 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 2014 and Fiscal 2013, certain long-lived assets related to the Company's retail stores and corporate assets were determined to be unable to recover their respective carrying values and were written

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

down to their fair value, resulting in a loss of \$33.5 million and \$44.5 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.

**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>	<b>January 31, 2015</b>	<b>For the Years Ended February 1, 2014</b>	<b>February 2, 2013</b>
Weighted average common shares outstanding:			
Basic number of common shares outstanding	194,437	192,802	196,211
Dilutive effect of stock options and non-vested restricted stock	698	1,673	4,454
Dilutive number of common shares outstanding	195,135	194,475	200,665

Equity awards to purchase approximately 2.3 million, 1.7 million and 1.5 million shares of common stock during the Fiscal 2014, Fiscal 2013 and Fiscal 2012, 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 2014, approximately 1.9 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 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.

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>	<b>January 31, 2015</b>	<b>February 1, 2014</b>
Franchise and license receivable	\$ 24,945	\$ 22,943
Merchandise sell-offs and vendor receivables	12,953	16,106
Credit card program receivable	9,637	15,000
Marketing cost reimbursements	4,640	6,063

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Gift card receivable	4,453	986
Landlord construction allowances	3,354	11,626
Other Items	7,912	1,158
Total	\$ 67,894	\$ 73,882

**Table of Contents****AMERICAN EAGLE OUTFITTERS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Property and Equipment**

Property and equipment consists of the following:

<i>(In thousands)</i>	<b>January 31, 2015</b>	<b>February 1, 2014</b>
Land	\$ 17,495	\$ 17,986
Buildings	201,024	140,600
Leasehold improvements	571,312	600,572
Fixtures and equipment	852,408	732,228
Construction in progress	42,470	102,974
Property and equipment, at cost	\$ 1,684,709	\$ 1,594,360
Less: Accumulated depreciation	(989,853)	(961,374)
Property and equipment, net	\$ 694,856	\$ 632,986

Depreciation expense is summarized as follows:

<i>(In thousands)</i>	<b>January 31, 2015</b>	<b>For the Years Ended February 1, 2014</b>	<b>February 2, 2013</b>
Depreciation expense	\$ 132,529	\$ 116,761	\$ 122,756

Additionally, during Fiscal 2014, Fiscal 2013 and Fiscal 2012, the Company recorded \$6.4 million, \$14.6 million and \$3.7 million, respectively, related to asset write-offs within depreciation and amortization expense.

**8. Intangible Assets**

Intangible assets include costs to acquire and register the Company's trademark assets. The following table represents intangible assets as of January 31, 2015 and February 1, 2014:

<i>(In thousands)</i>	<b>January 31, 2015</b>	<b>February 1, 2014</b>
Trademarks, at cost	\$ 59,385	\$ 58,121
Less: Accumulated amortization	(12,179)	(8,850)
Intangible assets, net	\$ 47,206	\$ 49,271

Amortization expense is summarized as follows:

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<i>(In thousands)</i>	For the Years Ended		
	January 31, 2015	February 1, 2014	February 2, 2013
Amortization expense	\$ 3,465	\$ 2,714	\$ 1,952



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

The table below summarizes the estimated future amortization expense for intangible assets existing as of January 31, 2015 for the next five Fiscal Years:

<i>(In thousands)</i>	<b>Future Amortization</b>
2015	3,404
2016	3,473
2017	3,472
2018	3,452
2019	3,433

**9. Other Credit Arrangements**

In December 2014, the Company entered into a new Credit Agreement ( Credit Agreement ) for five-year, syndicated, asset-based revolving credit facilities (the Credit Facilities ). The Credit Agreement provides senior secured revolving credit for loans and letters of credit up to \$400 million, subject to customary borrowing base limitations. The Credit Facilities provide increased financial flexibility and take advantage of a favorable credit environment.

All obligations under the Credit Facilities are unconditionally guaranteed by certain subsidiaries. The obligations under the Credit Agreement are secured by a first-priority security interest in certain working capital assets of the borrowers and guarantors, consisting primarily of cash, receivables, inventory and certain other assets, and will be further secured by first-priority mortgages on certain real property.

As of January 31, 2015, the Company was in compliance with the terms of the Credit Agreement and had \$8.1 million outstanding in stand-by letters of credit. No loans were outstanding under the Credit Agreement on January 31, 2015.

The Credit Facilities replace the Company's syndicated, unsecured, revolving credit facility in the amount of \$150.0 million.

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 January 31, 2015, the Company had outstanding trade letters of credit of \$13.7 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).

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

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

<i>(In thousands)</i>	January 31, 2015	For the Years Ended February 1, 2014	February 2, 2013
Store rent:			
Fixed minimum	\$ 279,640	\$ 260,668	\$ 250,844
Contingent	6,733	6,576	9,758
Total store rent, excluding common area maintenance charges, real estate taxes and certain other expenses	\$ 286,373	\$ 267,244	\$ 260,602
Offices, distribution facilities, equipment and other	15,449	17,153	14,960
Total rent expense	\$ 301,822	\$ 284,397	\$ 275,562

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

The table below summarizes future minimum lease obligations, consisting of fixed minimum rent, under operating leases in effect at January 31, 2015:

<i>(In thousands)</i>	Future Minimum Lease Obligations
Fiscal years:	
2015	287,091
2016	259,106
2017	229,489
2018	199,208
2019	173,388
Thereafter	549,046
Total	1,697,328

**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 28, 2012	\$ 28,659		\$ 28,659

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Foreign currency translation gain	638	638
<b>Balance at February 2, 2013</b>	<b>\$ 29,297</b>	<b>\$ 29,297</b>
Foreign currency translation loss	(17,140)	(17,140)
<b>Balance at February 1, 2014</b>	<b>\$ 12,157</b>	<b>\$ 12,157</b>
Foreign currency translation loss	(22,101)	(22,101)
<b>Balance at January 31, 2015</b>	<b>\$ (9,944)</b>	<b>\$ (9,944)</b>

**Table of Contents**

**AMERICAN EAGLE OUTFITTERS, INC.**

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

**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 2014 and Fiscal 2012 was \$16.1 million (\$9.9 million, net of tax) and \$66.3 million (\$40.9 million, net of tax), respectively. 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 of tax).

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

At January 31, 2015, the Company had awards outstanding under three share-based compensation plans, which are described below.

***Share-based compensation plans***

***2014 Stock Award and Incentive Plan***

The 2014 Plan was approved by the stockholders on May 29, 2014. The 2014 Plan authorized 11.5 million shares for issuance, in the form of options, stock appreciation rights ( SARS ), restricted stock, restricted stock units, bonus stock and awards, performance awards, dividend equivalents and other stock based awards. The 2014 Plan provides that the maximum number of shares awarded to any individual may not exceed 4.0 million shares per year for options and SARS and no more than 1.5 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 2014 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 2014 Plan. The 2014 Plan provides for grants to directors who are not officers or employees of the Company, which are not to exceed in value \$300,000 in any single calendar year (\$500,000 in the first year a person becomes a non-employee director). Through January 31, 2015, approximately 46,700 shares of restricted stock and approximately 23,400 shares of common stock had been granted under the 2014 Plan to employees and directors. Approximately 62% of the restricted stock awards are performance-based and are earned if the Company meets established performance goals. The remaining 38% of the restricted stock awards are time-based and vest over three years.

***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

**Table of Contents**

**AMERICAN EAGLE OUTFITTERS, INC.**

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

shares of stock and restricted stock units plus any unused carryover limit from the previous year. The 2005 Plan allows the Compensation Committee of the Board to determine which employees receive awards and the terms and conditions of the awards that are mandatory under the 2005 Plan. The 2005 Plan provides for grants to directors who are not officers or employees of the Company, which are not to exceed 20,000 shares per year (not to be adjusted for stock splits). Through January 31, 2015, 17.1 million non-qualified stock options, 10.4 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 13.1 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 62% of the restricted stock awards are performance-based and are earned if the Company meets established performance goals. The remaining 38% of the restricted stock awards are time-based and vest over three years. The 2005 Plan terminated on May 29, 2014 with all rights of the awardees and all unexpired awards continuing in force and operation after the termination.

*1999 Stock Incentive Plan*

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

*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.

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

A summary of the Company's stock option activity under all plans for Fiscal 2014 follows:

		For the Year Ended January 31, 2015		
		Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
		(In thousands)		(In years)
				Aggregate Intrinsic Value
				(In thousands)
Outstanding	February 1, 2014	3,925	\$ 17.65	
Granted		126	\$ 14.50	
Exercised(1)		(613)	\$ 12.07	
Cancelled		(1,048)	\$ 23.66	
Outstanding	January 31, 2015	2,390	\$ 16.28	1.8
Vested and expected to vest	January 31, 2015	2,380	\$ 16.29	1.8
Exercisable	January 31, 2015(2)	509	\$ 13.03	3.5

(1) Options exercised during Fiscal 2014 ranged in price from \$8.09 to \$14.05.

(2) Options exercisable represent in-the-money vested options based upon the weighted average exercise price of vested options compared to the Company's stock price at January 31, 2015.

The weighted-average grant date fair value of stock options granted during Fiscal 2014, Fiscal 2013 and Fiscal 2012 was \$3.99, \$4.17 and \$3.72, respectively. The aggregate intrinsic value of options exercised during Fiscal 2014, Fiscal 2013 and Fiscal 2012 was \$1.3 million, \$3.9 million and \$57.4 million, respectively. Cash received from the exercise of stock options and the actual tax benefit realized from share-based payments was \$7.3 million and (\$0.5) million, respectively, for Fiscal 2014. 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.

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

Black-Scholes Option Valuation Assumptions	For the Years Ended		
	January 31, 2015	February 1, 2014	February 2, 2013
Risk-free interest rates(1)	1.5%	0.3%	0.6%
Dividend yield	3.1%	2.0%	2.8%
Volatility factors of the expected market price of the Company's common stock(2)	41.2%	34.4%	41.2%
Weighted-average expected term(3)	4.5 years	2.5 years	4.0 years
Expected forfeiture rate(4)	8.0%	8.0%	8.0%

- (1) Based on the U.S. Treasury yield curve in effect at the time of grant with a term consistent with the expected life of our stock options.
- (2) Based on a combination of historical volatility of the Company's common stock and implied volatility.
- (3) Represents the period of time options are expected to be outstanding. The weighted average expected option terms were determined based on historical experience.

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

(4) Based on historical experience.

As of January 31, 2015, there was \$0.4 million of unrecognized compensation expense related to nonvested stock option awards that is expected to be recognized over a weighted average period of 2.1 years.

***Restricted Stock Grants***

Time-based restricted stock awards are comprised of time-based restricted stock units. These awards vest over three years. 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 For the year ended January 31, 2015		Performance-Based Restricted Stock Units For the year ended January 31, 2015	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
<i>(Shares in thousands)</i>				
Nonvested February 1, 2014	1,155	\$ 20.13	2,395	\$ 16.85
Granted	1,506	14.11	1,314	14.21
Vested	(648)	18.08	(604)	15.34
Cancelled/Forfeited	(417)	17.56	(670)	16.05
Nonvested January 31, 2015	1,596	15.95	2,435	16.02

As of January 31, 2015, there was \$16.2 million of unrecognized compensation expense related to nonvested time-based restricted stock unit awards that is expected to be recognized over a weighted average period of 1.9 years. Additionally, there was \$2.8 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.

As of January 31, 2015, the Company had 8.9 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





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

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 \$10.5 million, \$9.6 million and \$15.8 million in expense during Fiscal 2014, Fiscal 2013 and Fiscal 2012, respectively, in connection with the Retirement Plan. In Fiscal 2014, the Company announced a change to the Retirement Plan effective January 1, 2015. The Company will match 100% of the first 3% of pay plus an additional 25% of the next 3% of pay that is contributed to the 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>	<b>For the Years Ended</b>		
	<b>January 31, 2015</b>	<b>February 1, 2014</b>	<b>February 2, 2013</b>
U.S.	\$ 193,167	\$ 157,669	\$ 381,131
Foreign	(33,665)	(15,592)	20,907
<b>Total</b>	<b>\$ 159,502</b>	<b>\$ 142,077</b>	<b>\$ 402,038</b>

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

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

<i>(In thousands)</i>	<b>January 31, 2015</b>	<b>February 1, 2014</b>
Deferred tax assets:		
Rent	\$ 28,323	\$ 27,458
Deferred compensation	16,109	22,654
Foreign tax credits	15,546	13,436
Accruals not currently deductible	9,899	9,059
Employee compensation and benefits	9,609	2,799
Net Operating Loss	9,179	4,226
State tax credits	7,595	6,215
Inventories	6,939	11,234
Deferred Revenue	5,150	124
Foreign and state income taxes	3,774	3,255
Loyalty Reserve	2,908	3,196
Capital loss carryforward		16,207
Other	3,871	844
Gross deferred tax assets	118,902	120,707
Valuation allowance	(10,563)	(20,601)
Total deferred tax assets	\$ 108,339	\$ 100,106
Deferred tax liabilities:		
Property and equipment	\$ (30,054)	\$ (23,595)
Prepaid expenses	(3,227)	(4,544)
Other	(1,921)	(1,654)
Total deferred tax liabilities	\$ (35,202)	\$ (29,793)
Total deferred tax assets, net	\$ 73,137	\$ 70,313
Classification in the Consolidated Balance Sheet:		
Current deferred tax assets	\$ 59,102	\$ 45,478
Noncurrent deferred tax assets	14,035	24,835
Total deferred tax assets	\$ 73,137	\$ 70,313

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

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

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

<i>(In thousands)</i>	<b>January 31, 2015</b>	<b>For the Years Ended February 1, 2014</b>	<b>February 2, 2013</b>
<b>Current:</b>			
Federal	\$ 66,229	\$ 29,794	\$ 143,612
Foreign taxes	(792)	(50)	6,939
State	9,447	9,162	18,845
<b>Total current</b>	<b>74,884</b>	<b>38,906</b>	<b>169,396</b>
<b>Deferred:</b>			
Federal	\$ (1,178)	\$ 20,611	\$ (26,063)
Foreign taxes	(85)	695	(1,486)
State	(2,906)	(1,118)	(3,907)
<b>Total deferred</b>	<b>(4,169)</b>	<b>20,188</b>	<b>(31,456)</b>
<b>Provision for income taxes</b>	<b>\$ 70,715</b>	<b>\$ 59,094</b>	<b>\$ 137,940</b>

At February 1, 2014, the Company had a valuation allowance of \$16.2 million related to capital loss carryforwards. During the fiscal year ended January 31, 2015, the Company utilized all of its capital loss carryforwards and released the \$16.2 million valuation allowance associated with the capital loss carryforward.

As a result of additional tax deductions related to share-based payments, tax benefits have been recognized as contributed capital for Fiscal 2014, Fiscal 2013 and Fiscal 2012 in the amounts of (\$0.5 million), \$8.7 million and \$14.1 million, respectively.

The Company repatriated the earnings of its Canadian subsidiaries as of January 31, 2015. Upon distribution of the earnings, the Company was subject to income and withholding taxes offset by U.S. foreign tax credits resulting in no material impact on tax expense. It is Management's position to indefinitely reinvest accumulated earnings of our Canadian subsidiaries outside of the United States to the extent not repatriated in Fiscal 2014.

As of January 31, 2015, the Company had state and foreign net operating loss carryovers that could be utilized to reduce future years' tax liabilities, totaling \$10.3 million. A portion of these net operating loss carryovers begin expiring in the year 2018 and some have an indefinite carryforward period. Management believes it is more likely than not that the foreign net operating loss carryovers will not reduce future years' tax liabilities in certain foreign jurisdictions. As such a valuation allowance of \$7.2 million has been recorded on the deferred tax assets related to the cumulative foreign net operating loss carryovers.

As of January 31, 2015, the gross amount of unrecognized tax benefits was \$12.6 million, of which \$9.1 million would affect the effective income tax rate if recognized. The gross amount of unrecognized tax benefits as of February 1, 2014 was \$14.6 million, of which \$9.7 million would affect the effective income tax rate if recognized.

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

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

<i>(In thousands)</i>	<b>January 31, 2015</b>	<b>For the Years Ended February 1, 2014</b>	<b>February 2, 2013</b>
Unrecognized tax benefits, beginning of the year balance	\$ 14,601	\$ 17,250	\$ 31,578
Increases in current period tax positions	2,166	2,294	2,458
Increases in tax positions of prior periods		440	
Settlements	(73)		(4,809)
Lapse of statute of limitations	(471)	(453)	(1,592)
Decreases in tax positions of prior periods	(3,614)	(4,930)	(10,385)
Unrecognized tax benefits, end of the year balance	\$ 12,609	\$ 14,601	\$ 17,250

Unrecognized tax benefits decreased by \$2.0 million during Fiscal 2014, decreased \$2.6 million during Fiscal 2013 and decreased by \$14.3 million during Fiscal 2012. The unrecognized tax benefit changes were primarily related to federal and state income tax settlements and other changes in income tax reserves. Over the next twelve months the Company believes it is reasonably possible the unrecognized tax benefits could decrease by as much as \$5.6 million as the result of federal and state tax settlements, statute of limitations lapses, and other changes to the reserves.

The Company records accrued interest and penalties related to unrecognized tax benefits in income tax expense. Accrued interest and penalties related to unrecognized tax benefits included in the Consolidated Balance Sheet were \$1.6 million and \$1.9 million as of January 31, 2015 and February 1, 2014, respectively. During Fiscal 2012, the Company recognized a net benefit of \$4.8 million in the provision for income taxes related to the reversal of accrued interest and penalties primarily due to federal and state income tax settlements. An immaterial amount of interest and penalties were recognized in the provision for income taxes during Fiscal 2014 and Fiscal 2013.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Internal Revenue Service ( IRS ) examination of the Company's U.S. federal income tax return for the tax year ended January 2012 was completed in February 2014. Accordingly, all years prior to the tax year ended January 2013 are no longer subject to U.S. federal income tax examinations by tax authorities. Additionally, the Company is participating in the IRS's Compliance Assurance Process (CAP) for the years ended February 1, 2014 and January 31, 2015. The Company does not anticipate that any adjustments will result in a material change to its financial position, results of operations or cash flow. With respect to state and local jurisdictions and countries outside of the United States, with limited exceptions, generally, the Company and its subsidiaries are no longer subject to income tax audits for tax years before 2008. Although the outcome of tax audits is always uncertain, the Company believes that adequate amounts of tax, interest and penalties have been provided for any adjustments that are expected to result from these years.

The Company has foreign tax credit carryovers in the amount of \$19.3 million and \$13.4 million as of January 31, 2015 and February 1, 2014, respectively. The foreign tax credit carryovers begin to expire in Fiscal 2019 to the extent not utilized. No valuation allowance has been recorded on the foreign tax credit carryovers as the Company believes it is more likely than not that the foreign tax credits will be utilized prior to expiration.

The Company has state income tax credit carryforwards of \$11.7 million and \$10.7 million as of January 31, 2015 and February 1, 2014, respectively. These income tax credits can be utilized to offset future state income taxes and have a carryforward period of 10 to 16 years. They will begin to expire in Fiscal 2018.

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

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

	January 31, 2015	For the Years Ended February 1, 2014	February 2, 2013
Federal income tax rate	35%	35%	35%
State income taxes, net of federal income tax effect	4	4	3
Valuation allowance changes, net	6	4	(1)
Tax settlements	(1)	(2)	(3)
Other		1	
	44%	42%	34%

**15. Discontinued Operations**

In Fiscal 2012, the Company exited the 77kids business. These Consolidated Financial Statements reflect the results of 77kids as a discontinued operation for all periods presented.

In connection with the exit of the 77kids business, the Company became secondarily liable for obligations under lease agreements for 21 store leases assumed by the third party purchaser. In Fiscal 2014, the third party purchaser did not fulfill its obligations under the leases, resulting in the Company becoming primarily liable. The Company was required to make rental and lease termination payments and received reimbursement from the \$11.5 million stand-by letter of credit provided by the third party purchaser. The Company has incurred \$13.7 million in expense above the letter of credit proceeds to terminate store leases. The cash outflow for termination costs are expected to be paid in the first quarter of Fiscal 2015.

In accordance with ASC 460, *Guarantees* (ASC 460), as the Company became primarily liable under the leases upon the third party purchaser's default, the remaining amounts to exit the lease agreements have been accrued in our Consolidated Financial Statements related to these guarantees.

Costs associated with exit or disposal activities are recorded when incurred. A summary of the pre-tax exit and disposal costs recognized within Loss from Discontinued Operations on the Consolidated Income Statement for 77kids are as follows. There were no exit or disposal costs recognized in Fiscal 2013 related to 77kids.

(In thousands)	January 31, 2015	For the Years Ended February 1, 2014	February 2, 2013
Non-cash charges			
Asset impairments	\$	\$	\$ 16,623
Cash charges			
Lease-related charges	\$ 13,673	\$	\$ 7,768
Inventory charges			10,237
Severance charges			3,439
Total charges	\$ 13,673	\$	\$ 38,067



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

A rollforward of the liabilities for the exit of the 77kids brand recognized in the Consolidated Balance Sheets is as follows:

<i>(In thousands)</i>	<b>January 31, 2015</b>
Accrued liability as of February 1, 2014	\$
Add: Costs incurred	25,173
Less: Cash payments	(10,537)
Accrued liability as of January 31, 2015	\$ 14,636

The tables below present the significant components of 77kids results included in Loss from Discontinued Operations on the Consolidated Statements of Operations for the years ended January 31, 2015, February 1, 2014 and February 2, 2013.

	<b>January 31, 2015</b>	<b>For the Years Ended February 1, 2014</b>	<b>February 2, 2013</b>
Total net revenue	\$	\$	\$ 20,117
Loss from discontinued operations, before income taxes(1)	\$ (13,673)	\$	\$ (51,839)
Income tax benefit	5,208		19,849
Loss from discontinued operations, net of tax	\$ (8,465)	\$	\$ (31,990)
Loss per common share from discontinued operations:			
Basic	\$ (0.04)	\$	\$ (0.16)
Diluted	\$ (0.04)	\$	\$ (0.16)

(1) Loss from discontinued operations is presented net of the reversal of non-cash lease credits for Fiscal 2012

**16. Restructuring Charges**

During the 13 weeks ended November 1, 2014, the Company undertook restructuring aimed at strengthening the store portfolio and reducing corporate overhead, including severance and office space consolidation. These changes are aimed at driving efficiencies and aligning investments in areas that help fuel the business.

Costs associated with restructuring activities are recorded when incurred. A summary of costs recognized within Restructuring Charges on the Consolidated Income Statement for Fiscal 2014 are included in the table as follows.

<i>(In thousands)</i>	<b>For the year ended January 31, 2015</b>
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Cash restructuring charges		
Office space consolidation charges	\$	8,571
Severance and related employee costs		7,816
Other corporate items		1,365
Total restructuring charges	\$	17,752

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

The Company also incurred non-cash corporate office and other asset impairment charges of \$8.4 million. This charge is included within Loss on Impairment of Assets on the Consolidated Income Statement. Also included in Loss on Impairment of Assets is \$25.1 million of store asset impairments resulting from evaluation of current and future projected performance.

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

<i>(In thousands)</i>	<b>January 31, 2015</b>
Accrued liability as of February 1, 2014	\$
Add: Costs incurred, excluding non-cash charges	17,752
Less: Cash payments	(5,296)
Accrued liability as of January 31, 2015	\$ 12,456

**17. Quarterly Financial Information Unaudited**

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

<i>(In thousands, except per share amounts)</i>	<b>Fiscal 2014 Quarters Ended</b>			
	<b>May 3, 2014</b>	<b>August 2, 2014</b>	<b>November 1, 2014</b>	<b>January 31, 2015</b>
Total net revenue	\$ 646,129	\$ 710,595	\$ 854,290	\$ 1,071,853
Gross profit	\$ 225,845	\$ 237,547	\$ 315,472	\$ 375,810
Income from continuing operations	3,866	5,813	9,035	70,073
Loss from discontinued operations, net of tax				(8,465)
Net income	\$ 3,866	\$ 5,813	\$ 9,035	\$ 61,608
Basic per common share amounts:				
Income from continuing operations	\$ 0.02	\$ 0.03	\$ 0.05	\$ 0.36
Loss from discontinued operations, net of tax				(0.04)
Basic net income per common share	\$ 0.02	\$ 0.03	\$ 0.05	\$ 0.32
Diluted per common share amounts:				
Income from continuing operations	\$ 0.02	\$ 0.03	\$ 0.05	\$ 0.36
Loss from discontinued operations, net of tax				(0.04)
Diluted net income per common share	\$ 0.02	\$ 0.03	\$ 0.05	\$ 0.32



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

<i>(In thousands, except per share amounts)</i>	Fiscal 2013 Quarters Ended			
	May 4, 2013	August 3, 2013	November 2, 2013	February 1, 2014
Total net revenue	\$ 679,477	\$ 727,313	\$ 857,305	\$ 1,041,707
Gross profit	\$ 263,609	\$ 245,495	\$ 298,875	\$ 306,020
Income from continuing operations	27,976	19,594	24,903	10,510
Loss from discontinued operations, net of tax				
Net income	\$ 27,976	\$ 19,594	\$ 24,903	\$ 10,510
Basic per common share amounts:				
Income from continuing operations	\$ 0.14	\$ 0.10	\$ 0.13	\$ 0.05
Loss from discontinued operations, net of tax				
Basic net income per common share	\$ 0.14	\$ 0.10	\$ 0.13	\$ 0.05
Diluted per common share amounts:				
Income from continuing operations	\$ 0.14	\$ 0.10	\$ 0.13	\$ 0.05
Loss from discontinued operations, net of tax				
Diluted net income per common share	\$ 0.14	\$ 0.10	\$ 0.13	\$ 0.05

## **Table of Contents**

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

None.

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

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

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

In connection with the preparation of this Annual Report on Form 10-K as of January 31, 2015, an evaluation was performed under the supervision and with the participation of our Management, including the Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based upon that evaluation, our Principal Executive Officer and our Principal Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this Annual Report on Form 10-K.

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

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

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

Our Management assessed the effectiveness of our internal control over financial reporting as of January 31, 2015. In making this assessment, our Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework (2013). Based on this assessment, our Management concluded that we maintained effective internal control over financial reporting as of January 31, 2015.

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

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

There were no changes in our internal control over financial reporting during the three months ended January 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

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

We have audited American Eagle Outfitters, Inc.'s internal control over financial reporting as of January 31, 2015, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). American Eagle Outfitters, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, American Eagle Outfitters, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of American Eagle Outfitters, Inc. as of January 31, 2015 and February 1, 2014 and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended January 31, 2015 of American Eagle Outfitters, Inc. and our report dated March 11, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania

March 11, 2015

**Table of Contents**

**ITEM 9B. *OTHER INFORMATION.***

Not applicable.

**PART III**

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

The information appearing under the captions Proposal One: Election of Directors, Section 16(a) Beneficial Ownership Reporting Compliance, Corporate Governance Information, and Board Committees in our Proxy Statement relating to our 2015 Annual Meeting of Stockholders is incorporated herein by reference. See also Part I, Item 1 under the caption Executive Officers of the Registrant.

**ITEM 11. *EXECUTIVE COMPENSATION.***

The information appearing under the caption Compensation Discussion and Analysis, Executive Officer Compensation, Director Compensation, and Compensation Committee Interlocks and Insider Participation in our Proxy Statement relating to our 2015 Annual Meeting of Stockholders is incorporated herein by reference.

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

The information appearing under the captions Security Ownership of Principal Stockholders and Management in our Proxy Statement relating to our 2015 Annual Meeting of Stockholders is incorporated herein by reference.

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

The information appearing under the caption Certain Relationships and Related Transactions and Board Committees in our Proxy Statement relating to our 2015 Annual Meeting of Stockholders is incorporated herein by reference.

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

The information appearing under the caption Independent Registered Public Accounting Firm Fees and Services in our Proxy Statement relating to our 2015 Annual Meeting of Stockholders is incorporated herein by reference.

**PART IV**

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

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

Consolidated Balance Sheets as of January 31, 2015 and February 1, 2014  
Consolidated Statements of Operations for the fiscal years ended January 31, 2015, February 1, 2014 and February 2, 2013  
Consolidated Statements of Comprehensive Income for the fiscal years ended January 31, 2015, February 1, 2014 and February 2, 2013  
Consolidated Statements of Stockholders' Equity for the fiscal years ended January 31, 2015, February 1, 2014 and February 2, 2013  
Consolidated Statements of Cash Flows for the fiscal years ended January 31, 2015, January 1, 2014 and February 2, 2013  
Notes to Consolidated Financial Statements





## **Table of Contents**

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

(a)(3) Exhibits

### **Exhibit**

<b>Number</b>	<b>Description</b>
3.1	Amended and Restated Certificate of Incorporation, as amended(1)
3.2	Amended and Restated Bylaws(2)
4.1	See Amended and Restated Certificate of Incorporation, as amended, in Exhibit 3.1 hereof
4.2	See Amended and Restated Bylaws in Exhibit 3.2 hereof
10.1^	Form of the Registrant's 1994 Stock Option Plan(3)
10.2^	Form of Indemnification Agreement(4)
10.3^	Employee Stock Purchase Plan(5)
10.4^	Form of the Registrant's 1999 Stock Incentive Plan, as amended(6)
10.5^	Deferred Compensation Plan, as amended(7)
10.6^	Form of Director Deferred Compensation Agreement(8)
10.7^	Form of 409A Addendum(9)
10.8^	Form of Long Term Incentive Compensation Plan Confidentiality, non-solicitation, non-competition and Intellectual Property Agreement(10)
10.9^	Employment Agreement between the Registrant and Dennis Parodi, dated February 18, 2003(11)
10.10^	Amendment to the Employment Agreement between the Registrant and Dennis Parodi, dated February 6, 2006(12)
10.11^	2005 Stock Award and Incentive Plan, as amended(13)
10.12^	Form of Change in Control Agreement dated April 21, 2010(14)
10.13^	Form of RSU Confidentiality, Non-Solicitation, Non-Competition and Intellectual Property Agreement(15)
10.14^	Chief Executive Officer Employment Agreement between the Registrant and Robert L. Hanson, dated November 14, 2011(16)
10.15^	Employment Agreement between the Registrant and Mary M. Boland, dated May 30, 2012(17)
10.16^	Change in Control Agreement between the Registrant and Mary M. Boland, dated July 25, 2012(18)
10.17^	Employment Agreement between the Registrant and Chad Kessler, dated December 2, 2013(19)
10.18^	Employment Agreement between the Registrant and Marie Castellvi, dated January 29, 2014(20)
10.19^	Equity Agreement between the Registrant and Marie Castellvi, dated January 29, 2014(21)
10.20^	Employment Agreement between the Registrant and Jennifer Foyle, dated June 25, 2010(22)
10.21^	Employment Agreement between the Registrant and Simon Nankervis, dated September 7, 2011(23)
10.22^	2014 Stock Award and Incentive Plan(24)

## **Table of Contents**

### **Exhibit**

<b>Number</b>	<b>Description</b>
10.23	Credit Agreement, dated December 2, 2014, among American Eagle Outfitters Outfitters, Inc. and certain of its subsidiaries as borrowers, each lender from time to time party thereto, and HSBC Bank USA, N.A. as administrative agent for the lenders, and certain other parties and agents(25)
10.24^	Separation Agreement between the Registrant and Kitty Yung, dated December 3, 2014(26)
10.25^	Third Amended and Restated Employment Agreement between the Registrant and Roger S. Markfield, dated July 23, 2014(27)
10.26^	Form of Notice of Grant of Stock Options and Option Agreement(28)
10.27^	Form of Notice of Grant of Restricted Stock Units and Restricted Stock Units Awards Agreement(29)
10.28^	Form of Notice of Long Term Incentive Grant of Restricted Stock Units and Long Term Incentive Restricted Stock Units Award Agreement(30)
21*	Subsidiaries
23*	Consent of Independent Registered Public Accounting Firm
24*	Power of Attorney
31.1*	Certification by Jay L. Schottenstein pursuant to Rule 13a-14(a) or Rule 15d-14(a)
31.2*	Certification by Mary M. Boland pursuant to Rule 13a-14(a) or Rule 15d-14(a)
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	Interactive Data File

- (1) Previously filed as Exhibit 3.1 to the Form 10-Q dated August 4, 2007, filed September 6, 2007 and incorporated herein by reference.
- (2) Previously filed as Exhibit 3.1 to the Form 8-K dated November 20, 2007, filed November 26, 2007 and incorporated herein by reference.
- (3) Previously filed as Exhibit 4(a) to Registration Statement on Form S-8 (file no. 33-79358), filed May 25, 1994, as amended on Form S-8 (file no. 333-12643), filed September 25, 1996 and Form S-8 (file no. 333-44759), filed January 22, 1998 and incorporated herein by reference.
- (4) Previously filed as Exhibit 10.7 to Registration Statement on Form S-1 (file no. 33-75294), filed February 14, 1994, as amended, and incorporated herein by reference.
- (5) Previously filed as Exhibit 4(a) to Registration Statement on Form S-8 (file no. 33-33278), filed April 5, 1996 and incorporated herein by reference.
- (6) Previously files as Exhibit 10.5 to the Form 10-K dated February 3, 2007, filed April 4, 2007 and incorporated herein by reference.
- (7) Previously filed as Exhibit 10.2 to the Form 8-K dated December 17, 2008, filed December 23, 2008 and incorporated herein by reference.

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- (8) Previously filed as Exhibit 10.1 to the Form 8-K dated December 30, 2005, filed January 5, 2006 and incorporated herein by reference.
- (9) Previously filed as Exhibit 10.3 to the Form 8-K dated December 17, 2008, filed December 23, 2008 and incorporated herein by reference.

**Table of Contents**

- (10) Previously filed as Exhibit 10.1 to the Form 8-K dated May 20, 2008, filed May 23, 2008 and incorporated herein by reference.
- (11) Previously filed as Exhibit 10.1 to the Form 8-K dated February 28, 2006, filed March 7, 2006 and incorporated herein by reference.
- (12) Previously filed as Exhibit 10.2 to the Form 8-K dated February 28, 2006, filed March 7, 2006 and incorporated herein by reference.
- (13) Previously filed as Appendix A to the Definitive Proxy Statement for the 2009 Annual Meeting of Stockholders held on June 16, 2009, filed May 4, 2009 and incorporated herein by reference.
- (14) Previously filed as Exhibit 10.1 to the Form 8-K dated April 21, 2010, filed April 26, 2010 and incorporated herein by reference.
- (15) Previously filed as Exhibit 10.25 to the Form 10-K dated January 29, 2011, filed on March 11, 2011 and incorporated herein by reference.
- (16) Previously filed as Exhibit 10.1 to the Form 8-K dated November 14, 2011, filed November 18, 2011 and incorporated herein by reference.
- (17) Previously filed as Exhibit 10.1 to the Form 8-K dated May 24, 2012, filed June 1, 2012 and incorporated herein by reference.
- (18) Previously filed as Exhibit 10.1 to the Form 8-K dated July 25, 2012, filed July 27, 2012 and incorporated herein by reference.
- (19) Previously filed as Exhibit 10.23 to the Form 10-K dated February 1 2014, filed on March 13, 2014 and incorporated herein by reference.
- (20) Previously filed as Exhibit 10.24 to the Form 10-K dated February 1 2014, filed on March 13, 2014 and incorporated herein by reference.
- (21) Previously filed as Exhibit 10.25 to the Form 10-K dated February 1 2014, filed on March 13, 2014 and incorporated herein by reference.
- (22) Previously filed as Exhibit 10.26 to the Form 10-K dated February 1 2014, filed on March 13, 2014 and incorporated herein by reference.
- (23) Previously filed as Exhibit 10.27 to the Form 10-K dated February 1 2014, filed on March 13, 2014 and incorporated herein by reference.
- (24) Previously filed as Appendix A to the Definitive Proxy Statement for the 2014 Annual Meeting of Stockholders held on May 29, 2014, filed April 14, 2014 and incorporated herein by reference.
- (25) Previously filed as Exhibit 10.1 to the Form 8-K dated December 2, 2014, filed December 4, 2014 and incorporated herein by reference.
- (26) Previously filed as Exhibit 10.1 to the Form 8-K dated December 3, 2014, filed December 5, 2014 and incorporated herein by reference.

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- (27) Previously filed as Exhibit 10.1 to the Form 8-K dated July 23, 2014, filed July 25, 2014 and incorporated herein by reference.
- (28) Previously filed as Exhibit 10.24 to the Form 10-K dated January 28, 2012, filed on March 15, 2012 and incorporated herein by reference.
- (29) Previously filed as Exhibit 10.25 to the Form 10-K dated January 28, 2012, filed on March 15, 2012 and incorporated herein by reference.
- (30) Previously filed as Exhibit 10.26 to the Form 10-K dated January 28, 2012, filed on March 15, 2012 and incorporated herein by reference.

**Table of Contents**

^ Management contract or compensatory plan or arrangement.

\* Filed herewith.

\*\* Furnished herewith.

(b) Exhibits

The exhibits to this report have been filed herewith.

(c) Financial Statement Schedules

None.

**Table of Contents**

**SIGNATURES**

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

AMERICAN EAGLE OUTFITTERS, INC.

By: /s/ Jay L. Schottenstein  
Jay L. Schottenstein  
Interim Chief Executive Officer

Dated March 11, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities indicated on March 11, 2015.

Signature	Title
/s/ Jay L. Schottenstein	Interim Chief Executive Officer, Chairman of the Board of Directors and Director
Jay L. Schottenstein	(Principal Executive Officer)
/s/ Mary M. Boland	Chief Financial Officer and
Mary M. Boland	Chief Administrative Officer
	(Principal Financial Officer)
/s/ Scott M. Hurd	Vice President, Controller
Scott M. Hurd	(Principal Accounting Officer)
*	Director
Michael G. Jesselson	
*	Director
Thomas R. Ketteler	
*	Director
Roger S. Markfield	
*	Director
Cary D. McMillan	
*	Director

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\*

Director

David M. Sable

\*

Director

Noel J. Spiegel

\*By: /s/ Mary M. Boland

Mary M. Boland,

*Attorney-in-Fact*