

AMERICAN EAGLE OUTFITTERS INC

Form 10-Q

December 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 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	No. 13-2721761
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
77 Hot Metal Street, Pittsburgh, PA	15203-2329
(Address of principal executive offices)	(Zip Code)

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

Former name, former address and former fiscal year, if changed since last report:

N/A

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

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 such filing requirements for 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 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.

Large accelerated filer ☒

Accelerated filer ☐

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 194,635,687 Common Shares were outstanding at November 30, 2015.

AMERICAN EAGLE OUTFITTERS, INC.

TABLE OF CONTENTS

	Page Number
<u>PART I - FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	3
<u>Consolidated Balance Sheets: October 31, 2015, January 31, 2015 and November 1, 2014</u>	3
<u>Consolidated Statements of Operations and Retained Earnings: 13 weeks and 39 weeks ended October 31, 2015 and November 1, 2014</u>	4
<u>Consolidated Statements of Comprehensive Income: 13 weeks and 39 weeks ended October 31, 2015 and November 1, 2014</u>	5
<u>Consolidated Statements of Cash Flows: 39 weeks ended October 31, 2015 and November 1, 2014</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
<u>Report of Independent Registered Public Accounting Firm</u>	18
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	28
Item 4. <u>Controls and Procedures</u>	28
<u>PART II - OTHER INFORMATION</u>	
Item 1. Legal Proceedings	N/A
Item 1A. <u>Risk Factors</u>	28
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
Item 3. Defaults Upon Senior Securities	N/A
Item 4. Mine Safety Disclosures	N/A
Item 5. Other Information	N/A
Item 6. <u>Exhibits</u>	30

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.
AMERICAN EAGLE OUTFITTERS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amount)	October 31, 2015 (Unaudited)	January 31, 2015 (Unaudited)	November 1, 2014 (Unaudited)
Assets			
Current assets:			
Cash and cash equivalents	\$ 363,116	\$ 410,697	\$ 280,445
Merchandise inventory	479,729	278,972	468,628
Accounts receivable	63,775	67,894	55,875
Prepaid expenses and other	78,091	70,477	69,724
Deferred income taxes	65,636	59,102	53,445
Total current assets	1,050,347	887,142	928,117
Property and equipment, at cost, net of accumulated depreciation	709,261	698,227	717,537
Intangible assets, at cost, net of accumulated amortization	46,756	47,206	47,864
Goodwill	12,978	13,096	13,512
Non-current deferred income taxes	17,052	14,035	26,598
Other assets	51,442	37,202	38,444
Total assets	\$ 1,887,836	\$ 1,696,908	\$ 1,772,072
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable	\$ 304,989	\$ 191,146	\$ 309,348
Accrued compensation and payroll taxes	66,466	44,884	49,562
Accrued rent	77,892	78,567	77,102
Accrued income and other taxes	43,721	33,110	27,472
Unredeemed gift cards and gift certificates	28,259	47,888	27,712
Current portion of deferred lease credits	13,055	12,969	13,392
Other liabilities and accrued expenses	43,761	50,529	41,893
Total current liabilities	578,143	459,093	546,481
Non-current liabilities:			
Deferred lease credits	53,877	54,516	58,988
Non-current accrued income taxes	4,876	10,456	11,312
Other non-current liabilities	41,667	33,097	35,044
Total non-current liabilities	100,420	98,069	105,344
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; 194,438, 194,516 and 194,491 shares

outstanding, respectively	2,496	2,496	2,496
Contributed capital	588,293	569,675	566,449
Accumulated other comprehensive (loss) income	(19,797)	(9,944)	10,876
Retained earnings	1,602,550	1,543,085	1,506,519
Treasury stock, 55,128, 55,050 and 55,075 shares, respectively	(964,269)	(965,566)	(966,093)
Total stockholders' equity	1,209,273	1,139,746	1,120,247
Total liabilities and stockholders' equity	\$ 1,887,836	\$ 1,696,908	\$ 1,772,072

Refer to Notes to Consolidated Financial Statements

AMERICAN EAGLE OUTFITTERS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(Unaudited)

(In thousands, except per share amounts)	13 Weeks Ended		39 Weeks Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Total net revenue	\$919,072	\$ 854,290	\$2,416,020	\$ 2,211,014
Cost of sales, including certain buying, occupancy and warehousing expenses	551,540	538,818	1,501,237	1,432,150
Gross profit	367,532	315,472	914,783	778,864
Selling, general and administrative expenses	220,798	204,641	601,680	579,777
Loss on impairment of assets	—	33,468	—	33,468
Restructuring charges	—	17,752	—	17,752
Depreciation and amortization expense	37,623	36,528	108,861	104,312
Operating income	109,111	23,083	204,242	43,555
Other income, net	521	649	4,254	2,185
Income before income taxes	109,632	23,732	208,496	45,740
Provision for income taxes	40,367	14,697	76,915	27,027
Income from continuing operations	69,265	9,035	131,581	18,713
Gain from discontinued operations, net of tax	4,847	—	4,847	—
Net income	\$74,112	\$ 9,035	\$136,428	\$ 18,713
Basic income per common share:				
Income from continuing operations	\$0.35	\$ 0.05	\$0.67	\$ 0.10
Gain from discontinued operations	0.03	—	0.02	—
Net income per basic share	\$0.38	\$ 0.05	\$0.69	\$ 0.10
Diluted income per common share:				
Income from continuing operations	\$0.35	\$ 0.05	\$0.67	\$ 0.10
Gain from discontinued operations	0.03	—	0.02	—
Net income per diluted share	\$0.38	\$ 0.05	\$0.69	\$ 0.10
Cash dividends per common share	\$0.125	\$ 0.125	\$0.375	\$ 0.375
Weighted average common shares outstanding - basic	195,215	194,573	195,308	194,381
Weighted average common shares outstanding - diluted	197,478	195,221	197,017	194,934
Retained earnings, beginning	\$1,553,380	\$ 1,522,856	\$1,543,085	\$ 1,569,851
Net income	74,112	9,035	136,428	18,713
Cash dividends and dividend equivalents	(24,925)	(24,882)	(74,991)	(74,713)
Reissuance of treasury stock	(17)	(490)	(1,972)	(7,332)
Retained earnings, ending	\$1,602,550	\$ 1,506,519	\$1,602,550	\$ 1,506,519

Refer to Notes to Consolidated Financial Statements

AMERICAN EAGLE OUTFITTERS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	13 Weeks Ended		39 Weeks Ended	
	October	November	October	November
	31,	1,	31,	1,
(In thousands)	2015	2014	2015	2014
Net income	\$74,112	\$ 9,035	\$136,428	\$ 18,713
Other comprehensive loss:				
Foreign currency translation loss	(1,419)	(5,074)	(9,853)	(1,281)
Other comprehensive loss:	(1,419)	(5,074)	(9,853)	(1,281)
Comprehensive income	\$72,693	\$ 3,961	\$126,575	\$ 17,432

Refer to Notes to Consolidated Financial Statements

AMERICAN EAGLE OUTFITTERS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	39 Weeks Ended	
	October	November
	31,	1,
	2015	2014
(In thousands)		
Operating activities:		
Net income	\$ 136,428	\$ 18,713
Gain from discontinued operations, net of tax	4,847	—
Income from continuing operations	131,581	18,713
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	109,382	105,294
Share-based compensation	32,531	12,952
Deferred income taxes	(12,914)	(18,580)
Foreign currency transaction loss	(564)	75
Loss on impairment of assets	—	33,468
Changes in assets and liabilities:		
Merchandise inventory	(203,759)	(176,182)
Accounts receivable	2,528	16,687
Prepaid expenses and other	(4,515)	11,155
Other assets	(16,156)	6,980
Accounts payable	111,198	100,441
Unredeemed gift cards and gift certificates	(19,512)	(19,464)
Deferred lease credits	(328)	(389)
Accrued compensation and payroll taxes	21,975	24,925
Accrued income and other taxes	4,419	19,898
Accrued liabilities	7,016	(1,147)
Total adjustments	31,301	116,113
Net cash provided by operating activities from continuing operations	162,882	134,826
Investing activities:		
Capital expenditures for property and equipment	(108,680)	(210,534)
Acquisition of intangible assets	(2,158)	(1,084)
Sale of available-for-sale securities	—	10,002
Net cash used for investing activities from continuing operations	(110,838)	(201,616)
Financing activities:		
Payments on capital leases	(5,306)	(3,762)
Repurchase of common stock as part of publicly announced programs	(15,459)	—
Repurchase of common stock from employees	(5,164)	(7,464)
Net proceeds from stock options exercised	6,347	7,086
Excess tax benefit from share-based payments	653	742
Cash dividends paid	(73,113)	(72,912)
Net cash used for financing activities from continuing operations	(92,042)	(76,310)
Effect of exchange rates changes on cash	(777)	4,612
Cash flows of discontinued operations		
Net cash used for operating activities	(6,805)	—

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

Net cash used for investing activities	—	—
Net cash used for financing activities	—	—
Effect of exchange rates changes on cash	—	—
Net cash used for discontinued operations	(6,805)	—
Net decrease in cash and cash equivalents	(47,580)	(138,488)
Cash and cash equivalents - beginning of period	410,696	418,933
Cash and cash equivalents - end of period	\$363,116	\$280,445
Supplemental disclosure of cash flow information:		
Cash paid during the period for income taxes	\$81,797	\$7,623
Cash paid during the period for interest	\$892	\$448

Refer to Notes to Consolidated Financial Statements

AMERICAN EAGLE OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Interim Financial Statements

The accompanying Consolidated Financial Statements of American Eagle Outfitters, Inc. (the “Company”) at October 31, 2015 and November 1, 2014 and for the 13 and 39 week periods ended October 31, 2015 and November 1, 2014 have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Certain notes and other information have been condensed or omitted from the interim Consolidated Financial Statements presented in this Quarterly Report on Form 10-Q. Therefore, these Consolidated Financial Statements should be read in conjunction with the Company’s Fiscal 2014 Annual Report. In the opinion of the Company’s management, all adjustments (consisting of normal recurring adjustments and those described in the footnotes that follow) considered necessary for a fair presentation have been included. The existence of subsequent events has been evaluated through the filing date of this Quarterly Report on Form 10-Q.

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,” “American Eagle,” “AEO” and the “AE Brand” refer to our American Eagle Outfitters stores. “aerie” refers to our aerie[®] by American Eagle[®] stores. “AEO Direct” refers to our e-commerce operations, ae.com and aerie.com.

The Company’s business is affected by the pattern of seasonality common to most retail apparel businesses. The results for the current and prior periods are not necessarily indicative of future financial results.

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 October 31, 2015, the Company operated in one reportable segment.

Fiscal Year

The Company’s financial year is a 52/53 week year that ends on the Saturday nearest to January 31. As used herein, “Fiscal 2015” refers to the 52 week period ending January 30, 2016. “Fiscal 2014” refers to the 52 week period ended January 31, 2015.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of our 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 the Company's 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. Originally, ASU 2014-09 was effective for annual reporting periods beginning after December 15, 2016. In July 2015, the FASB voted to approve amendments deferring the effective date by one year to be effective for annual reporting periods beginning after December 15, 2017. Accordingly, the Company will adopt ASU 2014-09 on February 4, 2018. The Company does not expect a material impact of the adoption of this guidance on the Company's consolidated financial condition, results of operations or cash flows.

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.

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.

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.

Revenue is not recorded on the issuance of gift cards. A current liability is recorded upon issuance, 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 license agreements based on a percentage of merchandise sales by the licensee. 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 our 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 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. 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 our stores and corporate headquarters. Selling, general and

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

Other Income, Net

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

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. There was no net impairment loss for investment securities recognized in earnings during the 13 and 39 weeks ended October 31, 2015 or November 1, 2014.

Cash and Cash Equivalents and Short-term Investments

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

As of October 31, 2015 and November 1, 2014, the Company held no short-term investments.

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

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 when both title and risk of loss for the merchandise have transferred 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.

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.

Refer to Note 10 to the Consolidated Financial Statements for additional information regarding income taxes.

Property and Equipment

Property and equipment is recorded on the basis of cost, including costs to prepare the asset for use, 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 ("ASC 360"), the Company evaluates long-lived assets for impairment at the individual store level, which is the lowest level at which individual cash flows can be identified, for stores that have been open for a period of time sufficient to reach maturity. Impairment losses are recorded on long-lived assets used in operations when events and circumstances indicate that the assets are impaired and the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts. When events such as these occur, the impaired assets are adjusted to their estimated fair value and an impairment loss is recorded.

During the 13 weeks ended November 1, 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. Refer to Note 13 to the Consolidated Financial Statements for additional information regarding Restructuring Charges.

Refer to Note 6 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 businesses 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.

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 generally 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 the 13 or 39 weeks ended October 31, 2015 or November 1, 2014.

Refer to Note 7 to the Consolidated Financial Statements for additional information regarding intangible assets.

Gift Cards

The value of a gift card is recorded as a current liability upon issuance, 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 \$1.4 million and \$1.1 million of revenue related to gift card breakage during both the 13 weeks ended October 31, 2015 and November 1, 2014, respectively. During the 39 weeks ended October 31, 2015 and November 1, 2014, the Company recorded \$4.6 million and \$4.1 million, respectively, of revenue related to gift card breakage.

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.

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

Points earned under the credit card rewards program on purchases are accounted for by analogy to ASC 605-25, Revenue Recognition, Multiple Element Arrangements (“ASC 605-25”). The Company believes that points earned under its point and loyalty programs represent deliverables in a multiple element arrangement rather than a rebate or refund of cash. Accordingly, the portion of the sales revenue attributed to the award points is deferred and recognized when the award is redeemed or when the points expire. Additionally, credit card reward points earned on non-AE 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 AEREWARDSsm 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.

Segment Information

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

3. Cash and Cash Equivalents and Short-term Investments

The following table summarizes the fair market values for the Company’s cash and marketable securities, which are recorded on the Consolidated Balance Sheets:

(In thousands)

	October 31,	January 31,	November 1,
	2015	2015	2014
Cash and cash equivalents:			
Cash	\$283,035	\$370,692	\$185,212
Money-market	80,081	40,005	72,896
Treasury bills	—	—	22,337
Total cash and cash equivalents	\$363,116	\$410,697	\$280,445
Total	\$363,116	\$410,697	\$280,445

Proceeds from the sale of investments were \$10.0 million for the 39 weeks November 1, 2014. There were no sales or purchases of investments for the 39 weeks ended October 31, 2015.

There were no unrecognized gains or losses for the Company's available-for-sale securities for the 13 or 39 weeks ended October 31, 2015 or November 1, 2014.

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

In accordance with ASC 820, the following table represents the Company’s fair value hierarchy for its financial assets (cash equivalents) measured at fair value on a recurring basis at October 31, 2015 and November 1, 2014:

Fair Value Measurements at October 31, 2015				
	Quoted Market	Significant		
	Prices in Active	Other	Significant	
	Markets for	Observable	Unobservable	
	Carrying	Identical Assets	Inputs	Inputs
(In thousands)	Amount	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents:				
Cash	\$283,035	283,035	—	—
Money-market	80,081	80,081	—	—
Total cash and cash equivalents	\$363,116	\$ 363,116	—	—
Total	\$363,116	\$ 363,116	—	—

Fair Value Measurements at November 1, 2014				
(In thousands)	Carrying	Quoted Market	Significant	Significant
	Amount	Prices in Active	Other	Unobservable
		Markets for	Observable	Inputs

	Identical Assets		Inputs	(Level 3)
	(Level 1)		(Level 2)	
Cash and cash equivalents:				
Cash	\$ 185,212	\$ 185,212	—	—
Money-market	72,896	72,896	—	—
Treasury bills	22,337	22,337	—	—
Total cash and cash equivalents	\$ 280,445	\$ 280,445	—	—
Total	\$ 280,445	\$ 280,445	—	—

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 October 31, 2015 or November 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 recorded at the estimated fair value.

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

Certain long-lived assets were measured at fair value on a nonrecurring basis using Level 3 inputs as defined in ASC 820. During the 39 weeks ended November 1, 2014, certain long-lived assets related to the Company's retail stores were determined to be unable to recover their respective carrying values and were written down to their fair value, resulting in the loss on impairment of assets charge within the Consolidated Statements of Operations.

The fair value of these assets 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:

(In thousands)	13 Weeks Ended		39 Weeks Ended	
	October 31, 2015	November 1, 2014	October 31, 2015	November 1, 2014
Weighted average common shares outstanding:				
Basic number of common shares outstanding	195,215	194,573	195,308	194,381
Dilutive effect of stock options and non-vested restricted				
stock	2,263	648	1,709	553
Diluted number of common shares outstanding	197,478	195,221	197,017	194,934

Equity awards to purchase approximately 13,000 shares of common stock during the 13 and 39 weeks ended October 31, 2015, respectively, and approximately 2.4 million shares of common stock during both the 13 weeks and 39 weeks ended November 1, 2014, respectively, were outstanding, but were not included in the computation of weighted average diluted common share amounts as the effect of doing so would be anti-dilutive.

There were no shares for either the 13 and 39 weeks ended October 31, 2015, and no shares and 0.5 million shares for the 13 and 39 weeks ended November 1, 2014, respectively, of restricted stock units that were outstanding but not included in the computation of weighted average diluted common share amounts as the effect of doing so would be anti-dilutive. Additionally, approximately 0.6 million shares of restricted stock units for both the 13 and 39 weeks ended October 31, 2015 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 annual performance goals.

Refer to Note 9 to the Consolidated Financial Statements for additional information regarding share-based compensation.

6. Property and Equipment

Property and equipment consists of the following:

	October 31,	January 31,	November
(In thousands)	2015	2015	1, 2014
Property and equipment, at cost	\$1,784,862	\$1,690,175	\$1,700,269
Less: Accumulated depreciation	(1,075,601)	(991,948)	(982,732)
Property and equipment, net	\$709,261	\$698,227	\$717,537

7. Intangible Assets

Intangible assets consist of the following:

	October	January	November
(In thousands)	31, 2015	31, 2015	1, 2014
Trademarks and other intangibles, at cost	\$61,543	\$59,385	\$59,205
Less: Accumulated amortization	(14,787)	(12,179)	(11,341)
Intangible assets, net	\$46,756	\$47,206	\$47,864

8. Other Credit Arrangements

In Fiscal 2014, the Company entered into a 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 have been further secured by first-priority mortgages on certain real property.

As of October 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 as of October 31, 2015.

Additionally, the Company has borrowing agreements with two separate financial institutions under which it may borrow an aggregate of \$155 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 October 31, 2015, the Company had outstanding trade letters of credit of \$27.7 million

9. Share-Based Compensation

The Company accounts for share-based compensation under the provisions of ASC 718, Compensation - Stock Compensation (“ASC 718”), which requires companies 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 the 13 and 39 weeks ended October 31, 2015 was \$10.5 million (\$6.5 million, net of tax) and \$32.5 million (\$20.0 million, net of tax), respectively, and for the 13 and 39 weeks ended November 1, 2014 was \$6.5 million (\$4.0 million, net of tax) and \$13.0 million (\$8.0 million, net of tax), respectively.

Stock Option Grants

The Company grants both time-based and performance-based stock options. 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 one year and are earned if the Company meets pre-established performance goals.

A summary of the Company’s stock option activity for the 39 weeks ended October 31, 2015 follows:

Weighted-	Weighted-	Aggregate
Average	Average	

			Remaining	
			Contractual	
	Options	Exercise	Term	Intrinsic Value
	(In	Price		
	thousands)		(In years)	(In thousands)
Outstanding - January 31, 2015	2,390	\$ 16.28		
Exercised (1)	(403	) \$ 15.80		
Cancelled	(720	) \$ 19.38		
Outstanding - October 31, 2015	1,267	\$ 14.67	2.4	1,162
Vested and expected to vest - October 31, 2015	1,184	\$ 14.67	2.3	1,163
Exercisable - October 31, 2015 (2)	552	\$ 13.29	3.0	1,097

(1) Options exercised during the 39 weeks ended October 31, 2015 had exercise prices ranging from \$8.09 to \$16.49.

(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 October 31, 2015.

Cash received from the exercise of stock options was \$6.3 million for the 39 weeks ended October 31, 2015 and \$7.1 million for the 39 weeks ended November 1, 2014. The actual tax benefit realized from stock option exercises totaled \$0.0 million for the 39 weeks ended October 31, 2015 and \$3.1 million for the 39 weeks ended November 1, 2014.

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

There were no stock options granted during the 39 weeks ended October 31, 2015. The weighted-average grant date fair value of stock options granted during the 39 weeks ended November 1, 2014 was \$3.99. The aggregate intrinsic value of options exercised during the 39 weeks ended October 31, 2015 and November 1, 2014 was \$0.2 million and \$1.3 million, respectively.

The fair value of stock options was estimated based on the closing market price of the Company's common stock on the date of the grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

Black-Scholes Option Valuation Assumptions	39 Weeks Ended November 1, 2014	
Risk-free interest rate (1)	1.5	%
Dividend yield	3.1	%
Volatility factor (2)	41.2	%
Weighted-average expected term (3)	4.5 years	
Expected forfeiture rate (4)	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, based on historical experience.

(4) Based upon historical experience.

As of October 31, 2015, there was \$0.2 million of unrecognized compensation expense related to non-vested time-based stock option awards that is expected to be recognized over a weighted average period of 1.4 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 Company's restricted stock activity is presented in the following tables:

Time-Based Restricted	Performance-Based Restricted
Stock Units	Stock Units

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

	39 Weeks Ended October 31, 2015 Weighted-Average		39 Weeks Ended October 31, 2015 Weighted-Average	
	Grant Date		Grant Date	
(Shares in thousands)	Shares	Fair Value	Shares	Fair Value
Nonvested - January 31, 2015	1,596	\$ 15.95	2,435	\$ 16.02
Granted	1,101	\$ 14.91	1,241	\$ 15.00
Vested	(590)	\$ 16.97	(166)	\$ 14.77
Cancelled	(139)	\$ 15.25	(796)	\$ 14.80
Nonvested - October 31, 2015	1,968	\$ 15.11	2,714	\$ 15.99

As of October 31, 2015, there was \$20.2 million of unrecognized compensation expense related to non-vested, time-based restricted stock unit awards that is expected to be recognized over a weighted-average period of 1.8 years. Based on current probable performance, there is \$12.2 million of unrecognized compensation expense related to performance-based restricted stock unit awards which will be recognized as achievement of performance goals is probable over a one to three year period.

As of October 31, 2015, the Company had 6.8 million shares available for all equity grants.

10. Income Taxes

The provision for income taxes is based on the current estimate of the annual effective income tax rate and is adjusted as necessary for discrete quarterly events. The effective income tax rate based on actual operating results for the 13 weeks ended October 31, 2015 was 36.8% compared to 61.9% for the 13 weeks ended November 1, 2014. The effective income tax rate based on actual operating results for the 39 weeks ended October 31, 2015 was 36.9% compared to 59.1% for the 39 weeks ended November 1, 2014. The decrease in the effective income tax rate for the 13 weeks ended October 31, 2015 was primarily due to a decrease in the amount of valuation allowance recorded as a result of reduced foreign losses as well as increased worldwide earnings, in addition to income tax settlements and higher federal tax credits. The decrease in the effective income tax rate for the 39 weeks ended October 31, 2015 was primarily due to a decrease in the amount of valuation allowance recorded as a result of reduced foreign losses as well as increased worldwide earnings, in addition to income tax settlements, higher federal tax credits and other changes in income tax reserves.

The Company records accrued interest and penalties related to unrecognized tax benefits in income tax expense. The Company recognizes income tax liabilities related to unrecognized tax benefits in accordance with ASC 740 and adjusts these liabilities when its judgment changes as the result of the evaluation of new information not previously available. Unrecognized tax benefits did not change significantly during the 13 weeks ended October 31, 2015. Over the next twelve months, the Company believes that it is reasonably possible that unrecognized tax benefits may decrease by approximately \$4.3 million due to settlements, expiration of statute of limitations or other changes in unrecognized tax benefits.

11. Legal Proceedings

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"), management 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 or results of operations of the Company.

12. Discontinued Operations

In Fiscal 2012, the Company exited the 77kids business. 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 cash outflow for the remaining lease termination costs was paid in 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 estimated remaining amounts to terminate the lease agreements were accrued in our Consolidated Financial Statements related to these guarantees.

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

(In thousands)	
Accrued liability as of January 31, 2015	14,636
Add: Costs incurred	—
Less: Cash payments	(6,805)
Less: Adjustments (1)	(7,831)
Accrued liability as of October 31, 2015	—

(1) Adjustments resulting from favorably settling lease termination obligations during the 13 weeks ended October 31, 2015.

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

The table below presents the significant components of 77kids' results included in Gain from Discontinued Operations on the Consolidated Statements of Operations for the 13 and 39 weeks ended October 31, 2015. During the 13 and 39 weeks ended November 1, 2014, there were no costs associated with discontinued operations incurred on the Consolidated Statement of Operations.

	13 Weeks Ended October 31, 2015	39 Weeks Ended October 31, 2015
(In thousands)		
Total net revenue	\$—	\$—
Gain from discontinued operations, before income taxes	7,831	7,831
Income tax expense	(2,984)	(2,984)
Gain from discontinued operations, net of tax	\$4,847	\$4,847
Gain per common share from discontinued operations:		
Basic	\$0.03	\$0.02
Diluted	\$0.03	\$0.02

13. Restructuring Charges

During Fiscal 2014, the Company undertook restructuring aimed at strengthening the store portfolio and reducing corporate overhead, including severance and office space consolidation. These changes were 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 the 13 weeks ended November 1, 2014 are included in the table as follows. There were no costs associated with restructuring incurred during the 13 and 39 weeks ended October 31, 2015

A summary of costs recognized within Restructuring Charges on the Consolidated Income Statement for the 13 weeks ended November 1, 2014 are included in the table as follows.

	13 Weeks Ended November 1, 2014
(In thousands)	
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

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

(In thousands)

Accrued liability as of January 31, 2015	\$12,456
Add: Costs incurred	—
Less: Cash payments	(8,561)
Accrued liability as of October 31, 2015	\$3,895

14. Subsequent Events

Subsequent to October 31, 2015, the Company acquired Tailgate Clothing Company Corp., which owns and operates Tailgate, a vintage, sports-inspired apparel brand with a college town store concept, and Todd Snyder New York, a premium menswear brand. This acquisition closed in the fourth quarter of Fiscal 2015 and the purchase price was approximately \$11 million, paid in cash and stock.

Review by Independent Registered Public Accounting Firm

Ernst & Young LLP, our independent registered public accounting firm, has performed a limited review of the unaudited Consolidated Financial Statements for the thirteen and thirty-nine week periods ended October 31, 2015 and November 1, 2014, as indicated in their report on the limited review included below. Since they did not perform an audit, they express no opinion on the unaudited Consolidated Financial Statements referred to above.

Review Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

American Eagle Outfitters, Inc.

We have reviewed the consolidated balance sheets of American Eagle Outfitters, Inc. (the Company) as of October 31, 2015 and November 1, 2014, and the related consolidated statements of operations and retained earnings, and comprehensive income for the thirteen and thirty-nine week periods ended October 31, 2015 and November 1, 2014 and the consolidated statements of cash flows for the thirty-nine week periods ended October 31, 2015 and November 1, 2014. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of American Eagle Outfitters, Inc. as of January 31, 2015, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein), and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated March 11, 2015. In our opinion, the accompanying consolidated balance sheet of American Eagle Outfitters, Inc. as of January 31, 2015, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania

December 4, 2015

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of financial condition and results of operations should be read in conjunction with our Fiscal 2014 Management's Discussion and Analysis of Financial Condition and Results of Operations which can be found in our Fiscal 2014 Annual Report on Form 10-K.

In addition, 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 these 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 AEO stores primarily 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 to 30 American Eagle Outfitters stores in the United States and Canada for remodeling and refurbishing during Fiscal 2015;
- the potential closure of approximately 27 to 31 American Eagle Outfitters and 7 to 10 aerie stores in the United States and Canada during Fiscal 2015;
- the planned opening of approximately 50 new international third party operated American Eagle Outfitters stores during Fiscal 2015;
- the success of our continued omni-channel transformation and the success of our American Eagle Outfitters and aerie brands within North America and internationally;
- the expected payment of a dividend in future periods;
- the possibility that our credit facilities may not be available for future borrowings;
- the possibility that rising prices of raw materials, labor, energy and other inputs to our manufacturing process, if unmitigated, will have a significant impact to our profitability; and
- the possibility that we may be required to take additional store impairment charges related to underperforming stores.

We caution that these forward-looking statements, and those described elsewhere in this report, involve material risks and uncertainties and are subject to change based on factors beyond our control as discussed within Item 1A of this Quarterly Report on Form 10-Q and Item 1A of our Fiscal 2014 Annual Report on Form 10-K. Accordingly, our future performance and financial results may differ materially from those expressed or implied in any such forward-looking statements.

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 open at least one year over the comparable prior year period, as well as the AEO Direct business. In fiscal years following those with 53 weeks the prior year period is shifted by one week to compare similar calendar weeks. A store is included in comparable sales in the thirteenth month of operation. However, stores that have a gross square footage increase of 25% or greater due to a remodel are removed from the comparable sales base, but are included in total sales. These stores are returned to the comparable sales base in the thirteenth month following the remodel. Sales from American Eagle Outfitters and aerie stores, as well as sales from AEO Direct, are included in total comparable sales. Sales from franchise stores are not included in comparable sales. Individual American Eagle Outfitters and aerie brand comparable sales disclosures represent sales from stores and AEO Direct.

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 all customer needs. Management believes that presenting a brand level performance metric that includes all channels (i.e., stores and AEO Direct) to be the most appropriate, given customer behavior; 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 are related to our Design Center operations and include compensation, travel, supplies and samples for our design teams, as well as rent and depreciation for our Design Center. Buying, occupancy and warehousing costs consist of: compensation, employee benefit expenses and travel for our buyers and certain senior merchandising executives; rent and utilities related to our stores, corporate headquarters, distribution centers and other office space; freight from our distribution centers to the stores; compensation and supplies for our distribution centers, including purchasing, receiving and inspection costs; and shipping and handling costs related to our e-commerce operation. The inability to obtain acceptable levels of sales, initial markups or any significant increase in our use of markdowns could have an adverse effect on our gross profit and results of operations.

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

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

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

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

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

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

Results of Operations

Overview

In a challenging retail environment, the company delivered a strong third quarter, driven by comparable sales growth of 9% and healthy merchandise margins. A higher penetration of full-priced sales as a result of more compelling merchandise, and well-managed inventories contributed to the profit improvement. The Company also leveraged rent expense due to strong sales. All channels and brands performed well in the quarter. Both American Eagle and aerie delivered increases in sales and profitability. Cash flow was strong, with ending cash of \$363 million, an increase of \$83 million from the prior year.

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

Our third quarter total net revenue increased 8% to \$919.1 million and consolidated comparable sales, including AEO Direct, increased 9%, following a 5% decrease last year. By brand, American Eagle Outfitters comparable sales increased 8% while aerie increased 21%.

Gross profit rose 17% to \$367.5 million compared to \$315.5 million last year and increased 310 basis points to 40.0% as a rate to total net revenue. The increase was primarily the result of lower merchandise markdowns as we continued to successfully reduce promotional activity, as well as rent leverage.

Operating income for the third quarter was \$109.1 million compared to \$23.1 million last year, which included \$33.5 million of impairment and \$17.8 million of restructuring charges. Income from continuing operations this year was \$69.3 million, or \$0.35 per diluted share compared to net income of \$9.0 million, or \$0.05 per diluted share, last year. Excluding impairment and restructuring charges, adjusted net income per diluted share was \$0.22 last year.

The foregoing discussion and analysis of financial condition and results of operations 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. 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.

	13 Weeks Ended November 1, 2015
Net income per diluted share - GAAP Basis	\$ 0.05
Add back: Asset write-offs and corporate charges (1)	0.17
Adjusted net income per diluted share - Non-GAAP Basis	\$ 0.22

(1) Non-GAAP adjustments consist of \$33.5 million of corporate and store asset impairments and \$17.8 million of restructuring charges that include severance and related employee costs and corporate charges.

We had \$363.1 million in cash and cash equivalents as of October 31, 2015. Merchandise inventory at the end of the third quarter was \$479.7 million, compared to \$468.6 million last year, an increase of 2%.

Our business is affected by the pattern of seasonality common to most retail apparel businesses. The results for the current and prior periods are not necessarily indicative of future financial results.

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

13 Weeks Ended		39 Weeks Ended	
October	November	October	November
31,	1,	31,	1,
2015	2014	2015	2014

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

Total net revenue	100.0	%	100.0	%	100.0	%	100.0	%
Cost of sales, including certain buying, occupancy and								
warehousing expenses	60.0		63.1		62.1		64.8	
Gross profit	40.0		36.9		37.9		35.2	
Selling, general and administrative expenses	24.0		24.0		24.9		26.2	
Restructuring charges	—		2.1		—		0.8	
Loss on impairment of assets	—		3.9		—		1.5	
Depreciation and amortization expense	4.1		4.2		4.5		4.7	
Operating income	11.9		2.7		8.4		2.0	
Other income, net	—		0.1		0.2		0.1	
Income before income taxes	11.9		2.8		8.6		2.1	
Provision for income taxes	4.4		1.7		3.2		1.2	
Income from continuing operations	7.5		1.1		5.4		0.9	
Gain from discontinued operations, net of tax	0.5		—		0.2		—	
Net income	8.0	%	1.1	%	5.6	%	0.9	%

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

The following table shows our adjusted consolidated store data:

	13 Weeks Ended		39 Weeks Ended	
	October	November	October	November
	31,	1,	31,	1,
	2015	2014	2015	2014
Number of stores:				
Beginning of period	1,057	1,072	1,056	1,066
Opened	12	23	22	54
Closed	(1)	(3)	(10)	(28)
End of period	1,068	1,092	1,068	1,092
Total gross square feet at end of period	6,721,312	6,796,073	6,721,312	6,796,073
International licensed/franchise stores at end of period (1)	126	94	126	94

(1) International licensed/franchise stores are not included in the consolidated store data or the total gross square feet calculation.

Our operations are conducted in one reportable segment, which includes 970 American Eagle Outfitters retail stores, 98 aerie stand-alone retail stores and AEO Direct.

Comparison of the 13 weeks ended October 31, 2015 to the 13 weeks ended November 1, 2014

Total net revenue

Total net revenue increased 8% to \$919.1 million compared to \$854.3 million last year. The increase resulted primarily from a consolidated comparable sales increase of 9% for the period. By brand, including the respective AEO Direct sales, American Eagle Outfitters brand comparable sales increased 8%, or \$61.4 million, and aerie brand comparable sales increased 21%, or \$8.6 million.

Total comparable sales for AE women's and men's increased 11% and 2%, respectively. For the third quarter, the average transaction value increased 11%, driven by a 8% increase in our AUR. The strength in AUR was primarily driven by less promotional activity.

Gross Profit

Gross profit increased 17% to \$367.5 million compared to \$315.5 million last year. As a rate to total net revenue, gross profit was 40.0% compared to 36.9% in the same quarter last year. The increase was primarily the result of lower merchandise markdowns as we continued to successfully reduce promotional activity, as well as rent leverage. Reduced markdowns drove 250 basis points of margin expansion. Additionally, buying, occupancy, and warehousing costs leveraged 60 basis points, primarily due to strong sales, combined with our fleet rationalization.

There was \$6.8 million and \$3.9 million of share-based payment expense included in gross profit for the periods ended October 31, 2015 and November 1, 2014, respectively, comprised of both time and performance-based awards.

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 and others 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 (“SG&A”) expenses increased 8% to \$220.8 million from \$204.6 million last year. As a rate to total net revenue, SG&A expenses remained flat at 24.0%. Expense reduction initiatives partially offset increases in incentive and variable selling expense, driven by strong sales performance.

There was \$3.7 million and \$2.6 million of share-based payment expense included in SG&A expenses for the periods ended October 31, 2015 and November 1, 2014, respectively, comprised of both time and performance-based awards.

Restructuring Charges

Restructuring charges were \$17.8 million, or 2.1% as a rate to total net revenue, for the 13 weeks ended November 1, 2014. This amount consists of corporate overhead reductions, including severance and related items, and office space consolidation.

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

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

Loss on Impairment of Assets

Loss on impairment of assets was \$33.5 million last year and was a result of a store fleet and corporate location review and challenging performance. \$25.1 million of the total impairment was for 48 AE and 31 aerie stores and \$8.4 million related to corporate items.

Depreciation and Amortization Expense

Depreciation and amortization expense increased to \$37.6 million, compared to \$36.5 million last year. As a rate to total net revenue, depreciation and amortization expense was 4.1% this year as compared to 4.2% last year. The dollar increase was driven by omni-channel and technology investments and our new distribution center located in Hazelton, Pennsylvania.

Other (Expense) Income, Net

Other income was \$0.5 million, compared to \$0.6 million last year. The change resulted primarily from foreign currency fluctuations.

Provision for Income Taxes

The provision for income taxes is based on the current estimate of the annual effective income tax rate and is adjusted as necessary for quarterly events. The effective income tax rate based on actual operating results for the 13 weeks ended October 31, 2015 was 36.8% compared to 61.9% for the 13 weeks ended November 1, 2014. The decrease in the effective income tax rate this year was primarily due to a decrease in the amount of valuation allowance recorded as a result of reduced foreign losses as well as increased worldwide earnings, in addition to income tax settlements and higher federal tax credits.

Income from Continuing Operations

Income from continuing operations for the 13 weeks ended October 31, 2015 was \$69.3 million, or \$0.35 per diluted share. Income from continuing operations for the 13 weeks ended November 1, 2014 was \$9.0 million, or \$0.05 per diluted share. This includes \$51.2 million, or (\$0.17) per diluted share, impact from impairment charges and restructuring charges.

Gain from Discontinued Operations

In Fiscal 2012, we exited the 77kids business and sold the stores and related e-commerce operations to a third party purchaser. In Fiscal 2014, we became primarily liable for 21 store leases as the third party purchaser did not fulfill its obligations and incurred \$13.7 million in pre-tax expense to terminate store leases. During the 13 weeks ended October 31, 2015, we recorded a \$7.8 million pre-tax gain (\$4.8 million net of tax) as a result of favorably settling lease termination obligations.

Refer to Note 12 to the Consolidated Financial Statements for additional information regarding the discontinued operations of 77kids

Net Income

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

Net income increased to \$74.1 million, or 8.1% as a percent to total net revenue, from \$9.0 million, or 1.1% as a percent to total net revenue last year. Net income per diluted share increased to \$0.38 per diluted share from \$0.05 per diluted share in the prior year. The change in net income is attributable to the factors noted above.

Comparison of the 39 weeks ended October 31, 2015 to the 39 weeks ended November 1, 2014

Total net revenue

Total net revenue increased 9% to \$2.416 billion compared to \$2.211 billion last year. The change in total net revenue resulted primarily from a comparable sales increase of 9% for the period. By brand, including the respective AEO Direct sales, American Eagle Outfitters brand comparable sales increased 9%, or \$162.2 million, and aerie brand comparable sales increased 17%, or \$20.1 million.

AE women's and men's comparable sales increased 12% and 2%, respectively. For the 39 week period, both AUR and average transaction value increased in the low double-digits.

Gross Profit

Gross profit increased 17% to \$914.8 million compared to \$778.9 million last year. As a rate to total net revenue, gross profit was 37.9%, compared to 35.2% last year. The increase was primarily the result of lower merchandise markdowns as we continued to successfully reduce promotional activity, as well as rent leverage. The 270 basis point increase in gross margin was primarily due to reduced markdowns and promotional activity. Additionally, buying, occupancy and warehousing costs leveraged 70 basis points, primarily due to strong sales, combined with our fleet rationalization

There was \$19.8 million and \$6.8 million of share-based payment expense included in gross profit for the periods ended October 31, 2015 and November 1, 2014, respectively, comprised of both time and performance-based awards.

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 and others 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 expenses increased to \$601.7 million from \$579.8 million last year. As a rate to total net revenue, SG&A decreased to 24.9% from 26.2% last year. Expense reduction initiatives partially offset increases in incentive and variable selling expenses, driven by strong sales performance.

There was \$12.7 million and \$6.3 million of share-based payment expense included in selling, general and administrative expenses for the periods ended October 31, 2015 and November 1, 2014, respectively, comprised of both time and performance-based awards.

Restructuring Charges

Restructuring charges were \$17.8 million, or 0.8% as a rate to total net revenue, for the 39 weeks ended November 1, 2014. This amount consisted of corporate overhead reductions, including severance and related items, and office space consolidation.

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

Loss on Impairment of Assets

Loss on impairment of assets was \$33.5 million, or 1.5% as a rate to total net revenue last year and was a result of a store fleet and corporate location review and challenging performance. \$25.1 million of the total impairment was for 48 AE and 31 aerie stores and \$8.4 million related to corporate items.

Depreciation and Amortization Expense

Depreciation and amortization expense increased to \$108.9 million, compared to \$104.3 million last year. As a rate to total net revenue, depreciation and amortization expense was 4.5% this year as compared to 4.7% last year.

Other Income, Net

Other income was \$4.3 million this year, compared to \$2.2 million last year. The change resulted primarily from foreign currency fluctuations.

Provision for Income Taxes

The provision for income taxes is based on the current estimate of the annual effective income tax rate and is adjusted as necessary for quarterly events. The effective income tax rate based on actual operating results for the 39 weeks ended October 31, 2015 was 36.9% compared to 59.1% for the 39 weeks ended November 1, 2014. The decrease in the effective income tax rate this year was primarily due a decrease in the amount of valuation allowance recorded as a result of reduced foreign losses as well as increased worldwide earnings, in addition to income tax settlements, higher federal tax credits, and other changes in income tax reserves.

Income from Continuing Operations

Income from continuing operations for the 39 weeks ended October 31, 2015 was \$131.6 million, or \$0.67 per diluted share. Income from continuing operations for the 39 weeks ended November 1, 2014 was \$18.7 million, or \$0.10 per diluted share. This includes \$51.2 million, or (\$0.17) per diluted share, impact from impairment charges and restructuring charges.

Gain from Discontinued Operations

In Fiscal 2012, we exited the 77kids business and sold the stores and related e-commerce operations to a third party purchaser. In Fiscal 2014, we became primarily liable for 21 store leases as the third party purchaser did not fulfill its obligations and incurred \$13.7 million in pre-tax expense to terminate store leases. In the 39 weeks ended October 31, 2015, we recorded a \$7.8 million pre-tax gain (\$4.8 million net of tax) as a result of favorably settling lease termination obligations.

Refer to Note 12 to the Consolidated Financial Statements for additional information regarding the discontinued operations of 77kids.

Net Income

Net income increased to \$136.4 million, or 5.7% as a percent to total net revenue, from \$18.7 million, or 0.9% as a percent to total net revenue last year. Net income per diluted share increased to \$0.69 per diluted share from \$0.10 per diluted share in the prior year. The change in net income is attributable to the factors noted above.

International Operations

We have agreements with multiple third party operators to expand our brands internationally. Through these agreements, a series of franchised, licensed or other brand-dedicated American Eagle Outfitters stores have opened and will continue to open in areas including Eastern Europe, the Middle East, Central and South America, Northern Africa and parts of Asia. These agreements do not involve a significant capital investment or operational involvement from the Company. We continue to increase the number of countries in which we enter into these types of arrangements as part of our strategy to expand internationally. As of October 31, 2015, we had 126 stores operated by our third party operators in 20 countries. International third party operated stores are not included in the consolidated store data or the total gross square feet calculation.

As of October 31, 2015, we had 101 company-operated stores in Canada, 23 in Mexico, six in Hong Kong, nine in China, six in Puerto Rico, and three in the United Kingdom. We continue to evaluate further opportunities to expand internationally, which may include additional company-operated stores in Mexico, Asia and the United Kingdom as well as stores operated by third party operators under license, franchise and/or joint venture agreements.

Fair Value Measurements

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

Financial Instruments

Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. In addition, ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. 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 October 31, 2015, we held certain assets that are required to be measured at fair value on a recurring basis. These include cash and cash equivalents.

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

In accordance with ASC 820, the following table represents the fair value hierarchy of our financial assets (cash equivalents and investments) measured at fair value on a recurring basis as of October 31, 2015:

Fair Value Measurements at October 31, 2015				
		Quoted Market	Significant	
		Prices in Active	Other	Significant
		Markets for	Observable	Unobservable
	Carrying	Identical Assets	Inputs	Inputs
(In thousands)	Amount	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents:				
Cash	\$ 283,035	283,035	—	—
Money-market	80,081	80,081	—	—
Total cash and cash equivalents	\$ 363,116	\$ 363,116	—	—
Total	\$ 363,116	\$ 363,116	—	—

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

Liquidity and Capital Resources

Our uses of cash are generally for working capital, the construction of new stores and remodeling of existing stores, information technology upgrades, distribution center improvements and expansion, the purchase of short-term investments and the return of value to shareholders through the repurchase of common stock and the payment of dividends. Historically, these uses of cash have been funded with cash flow from operations and existing cash on hand. Additionally, our uses of cash include the development of the aerie brand and our international expansion efforts. We expect to be able to fund our future cash requirements in North America through current cash holdings as well as cash generated from operations. In the future, we expect that our uses of cash will also include further expansion of our brands internationally.

Our growth strategy includes fortifying our brands and 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:

	October 31, 2015	January 31, 2015	November 1, 2014
Working Capital (in thousands)	\$472,204	\$428,049	\$381,636
Current Ratio	1.82	1.93	1.70

Working capital increased \$44.2 million compared to January 31, 2015 and increased \$90.6 million compared to last year. Our operating cash flows have been sufficient to fund our use of cash for financing and investing activities including capital expenditures and the distribution of cash to shareholders through the payment of dividends.

Cash Flows from Operating Activities of Continuing Operations

Net cash provided by operating activities from continuing operations totaled \$162.9 million and \$134.8 million for the 39 weeks ended October 31, 2015 and November 1, 2014, respectively. For both periods, our major source of cash from operations was merchandise sales and our primary outflow of cash for operations was for the payment of operational costs. The year-over-year increase in cash flows from operations was primarily driven by increased earnings levels resulting from positive sales results and reduced promotional activity.

Cash Flows from Investing Activities of Continuing Operations

Investing activities from continuing operations for the 39 weeks ended October 31, 2015 primarily consisted of \$108.7 million of capital expenditures for property and equipment. Investing activities for the 39 weeks ended November 1, 2014 primarily included \$210.5 million of capital expenditures for property and equipment partially offset by \$10.0 million of proceeds from the sale of investments classified as available-for-sale.

Cash Flows from Financing Activities of Continuing Operations

Cash used for financing activities from continuing operations for the 39 weeks ended October 31, 2015 consisted primarily of \$73.1 million for cash dividends paid at a quarterly rate of \$0.125 per share, \$5.2 million for the repurchase of common stock from employees for the payment of taxes in connection with the vesting of share-based payment and \$5.3 million for the payments on capital leases, partially offset by \$6.3 million of net proceeds from stock option exercises. Additionally, there was \$15.5 million for the purchase of 1.0 million shares of common stock from publically announced programs this year.

Cash used for financing activities for the 39 weeks ended November 1, 2014 consisted primarily of \$72.9 million for cash dividends paid at a quarterly rate of \$0.125 per share, \$7.5 million for the repurchase of common stock from employees for the payment of taxes in connection with the vesting of share-based payment and \$3.8 million for the payments on capital leases, partially offset by \$7.1 million of net proceeds from stock option exercises. There were no purchases of common stock from publically announced programs last year.

Credit Facilities

In Fiscal 2014, we entered into a 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 have been further secured by first-priority mortgages on certain real property.

As of October 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 October 31, 2015.

Additionally, we had borrowing agreements with two separate financial institutions under which we may borrow an aggregate of \$155 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 October 31, 2015, we had outstanding trade letters of credit of \$27.7 million.

Capital Expenditures for Property and Equipment

Capital expenditures for the 39 weeks ended October 31, 2015 were \$108.7 million and included \$39.2 million related to investments in our stores, including 22 new AE stores and 20 remodels. Additionally, we continued to support our infrastructure growth by investing in information technology initiatives (\$23.7 million), other home office projects (\$15.9 million), the improvement and expansion of our distribution centers (\$13.4 million) and investments in e-commerce (\$16.5 million).

For Fiscal 2015, we continue to 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, and new wholly-owned international locations in Mexico, Asia and the United Kingdom. Additionally, we plan to remodel and refurbish approximately 25 to 30 AEO stores.

Stock Repurchases

During the 39 weeks ended October 31, 2015, as part of our publicly announced share repurchase program, we repurchased 1.0 million shares for approximately \$15.5 million, at a weighted average price of \$15.44 per share.

During the 39 weeks ended October 31, 2015 and November 1, 2014, we repurchased approximately 0.3 million and 1.1 million shares, respectively, from certain employees at market prices totaling \$5.2 million and \$7.5 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 Company's equity incentive plans. The aforementioned shares repurchased have been recorded as treasury stock.

Dividends

During the 13 weeks ended October 31, 2015, our Board declared a quarterly cash dividend of \$0.125 per share, which was paid on October 21, 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.

Critical Accounting Policies

Our critical accounting policies are described in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and in the notes to our Consolidated Financial Statements for the year ended January 31, 2015 contained in our Fiscal 2014 Annual Report on Form 10-K. Any new accounting policies or updates to existing accounting policies as a result of new accounting pronouncements have been discussed in the notes to our Consolidated Financial Statements in this Quarterly Report on Form 10-Q. The application of our critical accounting policies may require our management to make judgments and estimates about the amounts reflected in the Consolidated Financial Statements. Our management uses historical experience and all available information to make these estimates and judgments, and different amounts could be reported using different assumptions and estimates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There were no material changes in our exposure to market risk from January 31, 2015. Our market risk profile as of January 31, 2015 is disclosed in Item 7A, Quantitative and Qualitative Disclosures About Market Risk, of our Fiscal 2014 Annual Report on Form 10-K.

ITEM 4. 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 Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our 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 Quarterly Report on Form 10-Q, as of October 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 our 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 Quarterly Report on Form 10-Q.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the 13 weeks ended October 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1A. RISK FACTORS.

Risk factors that affect our business and financial results are discussed within Item 1A of our Fiscal 2014 Annual Report on Form 10-K. There have been no material changes to the disclosures relating to this item from those set forth in our Fiscal 2014 Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Issuer Purchases of Equity Securities

The following table provides information regarding our repurchases of our common stock during the 13 weeks ended October 31, 2015.

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)	Maximum Number of Shares that May Yet Be Purchased Under the Program (1) (3)
Month #1 (August 2, 2015 through August 29, 2015)	—	\$ —	—	18,400,000
Month #2 (August 30, 2015 through October 3, 2015)	1,000,877	\$ 15.44	1,000,000	17,400,000
Month #3 (October 4, 2015 through October 31, 2015)	—	\$ —	—	17,400,000
Total	1,000,877	\$ 15.44	1,000,000	17,400,000

(1) During the 13 weeks ended October 31, 2015 there were 1,000,000 shares repurchased as part of our publicly announced share repurchase program and there were 877 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 17.4 million shares that may yet be purchased expires on January 28, 2017.

ITEM 6.EXHIBITS.

- * Exhibit 15 Acknowledgement of Independent Registered Public Accounting Firm
 - * Exhibit 31.1 Certification by Jay L. Schottenstein pursuant to Rule 13a-14(a) or Rule 15d-14(a)
 - * Exhibit 31.2 Certification by Mary M. Boland pursuant to Rule 13a-14(a) or Rule 15d-14(a)
 - **Exhibit 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
 - **Exhibit 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
 - * Exhibit 101 Interactive Data File
- *Filed with this report.
**Furnished with this report.

SIGNATURES

Pursuant to the requirements 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.

Dated: December 4, 2015

American Eagle Outfitters, Inc.

(Registrant)

By: /s/ Jay L. Schottenstein
Jay L. Schottenstein
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Mary M. Boland
Mary M. Boland
Chief Financial Officer and Chief Administrative Officer
(Principal Financial Officer)