

ALIVE

AE Annual Report 2000

AMERICAN EAGLE
OUTFITTERS

www.ae.com

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SELECTED CONSOLIDATED FINANCIAL DATA

For the years ended Feb 3, 2001 (1)(2) Jan 29, 2000 Jan 30, 1999 Jan 31, 1998 Feb 1, 1997

In thousands, except per share amounts and square foot data

Summary of Operations

Net sales	\$1,093,477	\$832,104	\$587,600	\$405,713	\$326,404
Comparable store sales increase (decrease) (3)	5.8%	20.9%	32.1%	15.1%	(1.8%)
Gross profit	\$436,225	\$356,508	\$234,511	\$136,967	\$98,756
Gross profit as a percentage of net sales	39.9%	42.8%	39.9%	33.8%	30.3%
Operating income	\$146,551	\$149,514	\$87,053	\$31,120	\$8,859
Net income	\$93,758	\$90,660	\$54,118	\$19,537	\$5,925
Net income as a percentage of net sales	8.6%	10.9%	9.2%	4.8%	1.8%

Per Share Results

Basic earnings per common share (4)	\$1.35	\$1.30	\$0.80	\$0.29	\$0.09
Diluted earnings per common share (4)	\$1.30	\$1.24	\$0.75	\$0.29	\$0.09
Weighted average common shares outstanding—basic (4)	69,652	69,555	67,921	66,272	65,849
Weighted average common shares outstanding—diluted (4)	72,132	73,113	71,928	68,449	68,082

(Financial data continued on next page)

(1) Represents the 53-week period ended February 3, 2001.

(2) Includes the results of operations, beginning October 29, 2000, for the divisions of Dylex Limited purchased by the Company as discussed in Note 3 of the Consolidated Financial Statements.

(3) The comparable store sales increase for the period ended February 3, 2001 is compared to the corresponding 53-week period last year.

(4) Earnings per common share and weighted average common shares outstanding amounts have been restated to reflect the February 2001 three-for-two stock split.

(5) Net sales per average square foot is calculated using retail sales for the year divided by the straight average of the beginning and ending square footage for the year.

For the years ended	Feb 3, 2001 (1)(2)	Jan 29, 2000	Jan 30, 1999	Jan 31, 1998	Feb 1, 1997
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In thousands, except per share amounts and square foot data

Balance Sheet Information

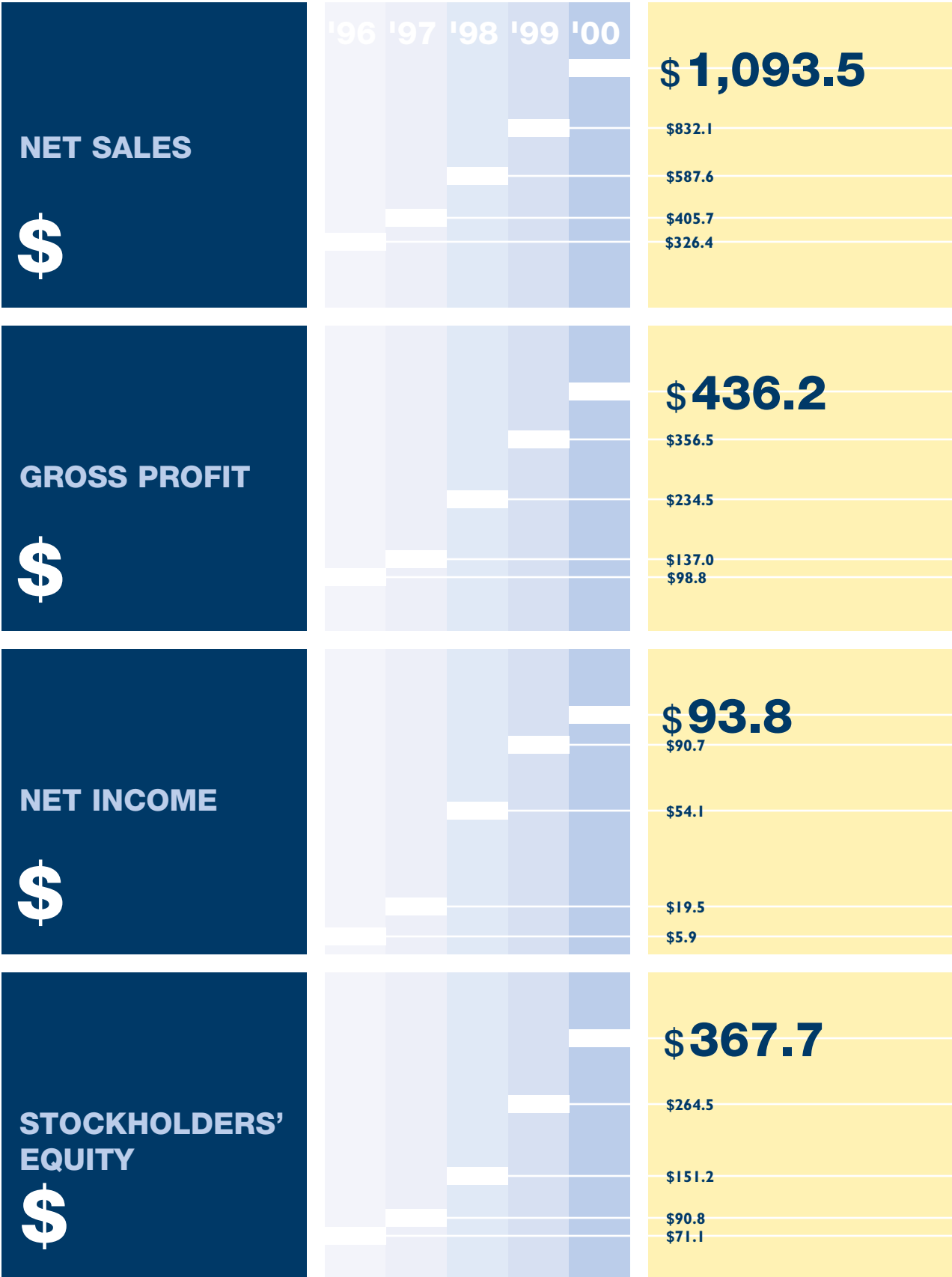
Total assets	\$543,046	\$354,628	\$210,948	\$144,795	\$110,438
Total cash and short-term investments	\$161,373	\$168,492	\$85,300	\$48,359	\$34,326
Working capital	\$169,514	\$174,137	\$94,753	\$48,486	\$34,378
Stockholders' equity	\$367,695	\$264,501	\$151,197	\$90,808	\$71,056
Long-term debt	\$24,889	-	-	-	-
Current ratio	2.14	2.97	2.59	1.90	1.87
Average return on stockholders' equity	29.7%	43.6%	44.7%	24.1%	8.8%

Other Financial Information

Total stores at year-end—United States	554	466	386	332	303
Total stores at year-end—Canada	109	-	-	-	-
Net sales per average selling square foot (5)	\$549	\$569	\$497	\$391	\$340
Total selling square feet at end of period	2,354,245	1,625,731	1,276,889	1,080,657	990,980
Net sales per average gross square foot (5)	\$441	\$451	\$388	\$303	\$261
Total gross square feet at end of period	2,919,556	2,039,380	1,624,933	1,393,361	1,285,598

AE FINANCIAL DATA

In millions



AE 2000 IN REVIEW

A clear focus on the AE brand strategy helped develop AE into a true 360° lifestyle brand.



Jason Biggs image provided by Dimension Films.



Sales exceeded one billion dollars for the first time in AE history.

\$1 billion

Naturally, when you're living and breathing your customer's lifestyle, you watch what they watch. Because of this, we wardrobe Columbia Tristar's Dawson's Creek on the WB. We partnered with Dimension Films, a division of Miramax Films, to wardrobe four of their youth-oriented movies. In 2001, we began wardrobing MTV's Road Rules.

During back-to-school, we launched a unisex fragrance called ALIVE. Simply put the name ALIVE perfectly describes our brand and culture.



We estimate our combined advertising efforts consisting of national magazine advertising, direct mail, email, radio, and the AE Magazine made 142 million impressions on the AE target customer in 2000.



GROOVING IS ALIVE

AMERICAN EAGLE
OUTFITTERS

AE Swimwear is available at ae.com
or call 1-888-232-4535

We opened our 500th store in Springfield, OH, on May 30, 2000, one of 90 stores opened in the U.S.

AMERICAN EAGLE OUTFITTERS



Our strong back-to-school and holiday selling seasons resulted in an increase in EPS of 30% over the prior fall season. During the back-to-school season, we became the new destination store for denim. Holiday 2000 was all about sweaters and we had them in the right colors and styles and at the right price.



Canada

AE Magazine

Fiscal 2000 sales at ae.com increased 600% over 1999. A strong focus on the customer experience and integrating ae.com with our existing operation will set the stage for future success.

ae.com

In November 2000, we entered the Canadian market by acquiring the 109 store Thriftys/Bluenotes chain and prime mall real estate. We plan to expand AE into Canada with 46 locations by back-to-school 2001.



TO OUR STOCKHOLDERS

Fiscal 2000 was another record year for American Eagle Outfitters. We are especially pleased with our performance because of the challenges we faced in 2000. We met those challenges head on, increased our sales and profitability, invested wisely in talent and new opportunities, and continued the growth of the American Eagle Outfitters brand. Our net sales rose 31%, exceeding a billion dollars for the first time in our history. Same store sales grew 5.8% and net income reached a record \$93.8 million or \$1.30 per diluted share.

Our clear focus on the AE brand strategy is working. American Eagle Outfitters is a true 360° lifestyle brand. In 2000, customers shopped in our 554 stores, on our thriving website, *ae.com*, and from our magalog, the AE Magazine. At American Eagle Outfitters the customer experience is paramount. We listen to our customers 24/7/365, and give them what they want—value priced, fashion right, high quality, lifestyle merchandise. Our unwavering, disciplined process has served us well over the past few years, and it served us well again in 2000.

In 2000, we made a number of strategic investments in our future. We bought a second U.S. distribution center in Ottawa, Kansas to service our West Coast stores. We bought an import services company, Blue Star Imports, and we entered Canada with our first major acquisition. Enviably, after all of these strategic investments and stock repurchases of 1.8 million shares, our cash and investments totaled \$161 million, and our debt to total capital ratio was just 8%. Working capital was strong, with current assets covering current liabilities 2.1 times at year-end. Our Fiscal 2000 average return on equity reached almost 30%.

We were challenged early in 2000. A rapid fashion shift made our spring and summer seasons difficult. We responded quickly, bringing our inventory position in-line with demand. Unfortunately, these markdowns hurt our bottom line in the second quarter.

Listening to our customers and living and breathing their lifestyle paid off again in the back-to-school season. They wanted denim in the coolest and newest washes and fits. We had it. American Eagle Outfitters became the new destination store for denim. We also launched a signature fragrance during back-to-school called *Alive*. Simply put, the name perfectly describes our brand and culture.

We followed back-to-school with an even more successful holiday season. We had the right sweaters in the right colors at the right price. As a result, 2000 was the strongest sales year we've ever had for sweaters. Our financial performance improved significantly during the fall and winter seasons. Comparable store sales rose an average of 9% during the second half of the year. Profits rose as well, increasing 28% over the second half of 1999.

Because we are a vertically-integrated retailer, controlling our product from the design stage all the way through to the store level, we can react rapidly and we did just that in 2000. Our process begins with a very talented team of merchants, designers, and marketers who constantly seek inspiration from our target customer. The center of our merchandising process is our New York City design office. When you enter our design office you can feel the energy. We are committed to continually seeking out, rewarding, and growing the best and brightest merchandising, design,

and marketing talent in the world. To be a world class brand you must have world class talent. Period. In 2001, we look forward to moving our design headquarters to a new location on Fifth Avenue in New York City. Our new facility is bigger, brighter, and there's room to grow our business.

Our core customers, men and women in the 16–34 age-range, are a powerful demographic group. They care a lot about how they look. They spend more on clothes than other age groups. And, they go to the mall and surf the net frequently. Importantly, this group is one of the fastest growing segments of the U.S. population. Over the next 10 years, 6 million people will be added to this group. We are ready for them.

Naturally, when you're living and breathing your customers' lifestyle, you watch what they watch. We continued to wardrobe the TV series, *Dawson's Creek*, one of the highest rated dramas among teens and twenty-somethings in both the U.S. and Canada. In 2000, we also partnered with Dimension Films, a division of Miramax Films, to wardrobe four of their youth-oriented movies. And, in March 2001, we began wardrobing the cast of MTV's *Road Rules 10*. *Road Rules* is a very popular MTV show with viewership averaging 4.5 million people per episode. Additionally, we continue to advertise in publications that are important to our customers, including: *Maxim*, *In-Style*, *Seventeen*, *Teen People*, *Jane*, and *Rolling Stone*.

In 2000, we opened 90 new U.S. stores and closed 2 stores, ending the year with 554 total locations. Additionally, we remodeled 47 stores, many of which were store expansions. We remain very pleased with

our new store design. The stores are open and inviting. Our customers have found our new store design to be as much a hangout as a destination for fashion. New and expanded stores average 5,500 square feet, a little bigger than our overall store base, which averages 4,700 square feet. The slightly larger format will better accommodate new merchandise categories like underwear, dormwear, swimwear, gymwear, and personal care.

In 2001, we expect to open in new regions of the U.S., such as Southern California, and we will noticeably strengthen our presence in existing markets. In the U.S. alone, we have identified enough locations to sustain our growth over the next several years.

AE.com, our e-commerce business, strengthened in 2000 and far exceeded our expectations. Sales rose over 600% and traffic to the site increased dramatically. We invested in talent and have begun to build a business process that is integrated into our core stores business so that we can better serve our customers in 2001 and beyond.

The customer experience is also paramount at *ae.com*. In fact, we recently added new features like express checkout, outfit selling, and the ability to email friends and family a picture of a favorite item. We added these features because our customers asked for them.

In November 2000, we entered Canada with our first major acquisition. We acquired three businesses—the Thriftys/Bluenotes chain, an established Canadian brand and a profitable retail business; 57 Braemar stores, with excellent real estate in prime mall locations, of which 46 will be converted to American Eagle stores

in 2001; and National Logistics Services, a 420,000 square foot distribution center near Toronto, which will handle all of the distribution needs for our Canadian operations.

Entering Canada makes strategic sense for American Eagle Outfitters. It's geographically close to our existing store base. It's predominately English speaking and the fashion is much like the U.S. We believe it is a market where the AE brand will translate well. Our brand offers tremendous value and fashionable, high-quality merchandise, all of which are important to Canadian customers. By back-to-school 2001, we plan to operate 46 American Eagle stores in Canada. By 2003, we could have as many as 90 American Eagle stores throughout Canada.

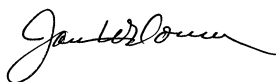
The Thriftys/Bluenotes chain is located throughout Canada. The brand targets a younger, slightly more urban inspired teen demographic than American Eagle Outfitters. The Bluenotes brand is well established, and ranks as the number one selling women's jean and the number three selling men's jean brand in Canada. In 2001, we will continue the process of converting Thriftys stores to the Bluenotes name. By year-end, nearly half of the stores will operate under the Bluenotes name. We are very excited about adding the Bluenotes brand to our Company and believe that it offers a number of future growth opportunities.

We are committed to increasing stockholder value. To that end, we announced our fourth stock split on January 22, 2001. This three-for-two stock split was distributed on February 23, 2001, to shareholders of record on February 2, 2001.

We entered 2001 energized with excitement for the year ahead. We've positioned ourselves well for future success. We are enthusiastic about the opening of 46 American Eagle stores in Canada. And to top it off, Thriftys/Bluenotes presents an awesome new prospect for growth. The American Eagle Outfitters brand continues to grow in momentum, scope, and reach, due in large part to the limitless energy of our associates, and our focus on our brand strategy and the customer experience. For all these reasons and more, we are looking forward to another successful year in 2001. We thank you for your continued support.



Jay L. Schottenstein
Chairman of the Board and Chief Executive Officer



James V. O'Donnell
Chief Operating Officer



Roger S. Markfield
President and Chief Merchandising Officer



We are...





confident



passionate



A close-up photograph of a person's hands and clothing. The person is wearing a light blue button-down shirt and red pants. Their hands are holding a thin, yellowish plant stem. The background is a bright, overexposed sky. The word "focused" is written in a bold, dark blue font across the center of the image.

focused







energized



vivacious





A high-resolution photograph of a vibrant green lawn. The grass is dense and slightly uneven, with some blades standing taller than others. Scattered across the lawn are several bright yellow dandelions in various stages of bloom. The lighting is bright, suggesting a sunny day, which makes the green of the grass and the yellow of the flowers appear very vivid. The overall texture of the image is soft but detailed.

free spirited



ALIVE



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

For the fourth straight year, we achieved record sales and earnings. For the year ended February 3, 2001 ("Fiscal 2000"), we reached one billion dollars in sales for the first time in our history.

This performance was achieved primarily through the growth of our AE brand. We opened 90 new stores and closed 2 stores during the year, increasing our total store count in the United States to 554.

In November 2000, we expanded into the Canadian retail marketplace by acquiring the Thriftys/Bluenotes retail chain and 57 Braemar stores, of which 46 will be converted to American Eagle stores in 2001 (See Note 3 of the Consolidated Financial Statements). We continued to expand the non-store distribution of our merchandise through sales on our

Internet web site, *ae.com*. In Fiscal 2000, sales from our site increased over 600%. We promoted our brand through print media by increasing magazine advertising circulation by 33% and increasing catalog and direct mail distribution by 29%.

As a result of this growth, our sales for Fiscal 2000 increased to \$1,093.5 million from \$832.1 million for the year ended January 29, 2000 (the "prior year" or "Fiscal 1999"), an increase of 31.4%. Comparable store sales increased 5.8% compared to the corresponding fifty-three week period last year. This was achieved on top of a 20.9% comparable store increase in Fiscal 1999. Our strong sales performance was driven primarily by a 35% increase in units sold. On an average store basis, units sold increased almost 9%.

Gross profit increased in Fiscal 2000 to \$436.2 million from \$356.5 million, but declined as a percent of sales to 39.9% from 42.8% of sales for the prior year.

Net income for Fiscal 2000 was \$93.8 million, or \$1.30 per diluted share, compared to \$90.7 million, or \$1.24 per diluted share, in the prior year.

Our balance sheet remained strong at the end of Fiscal 2000. As of February 3, 2001, working capital was \$169.5 million. Inventory was \$84.1 million compared to \$60.4 million at the end of the prior year, and decreased approximately 1% on a per store basis for our U.S. stores. Stockholders' equity increased approximately 39% to \$367.7 million, or \$5.10 per diluted share, at the end of Fiscal 2000 compared to \$264.5 million, or \$3.62 per diluted share, at the end of the prior year. Average return on stockholders' equity was 29.7% for Fiscal 2000, compared to 43.6% for Fiscal 1999.

Results of Operations

This table shows, for the periods indicated, the percentage relationship to net sales of the listed items included in the Company's Consolidated Statements of Operations.

For the years ended	Feb 3, 2001	Jan 29, 2000	Jan 30, 1999
Net sales	100.0%	100.0%	100.0%
Cost of sales, including certain buying, occupancy and warehousing expenses	60.1	57.2	60.1
Gross profit	39.9	42.8	39.9
Selling, general and administrative expenses	24.4	23.4	23.6
Depreciation and amortization expense	2.1	1.4	1.5
Operating income	13.4	18.0	14.8
Other income (expense), net	0.6	—	0.4
Income before income taxes	14.0	18.0	15.2
Provision for income taxes	5.4	7.1	6.0
Net income	8.6%	10.9%	9.2%

Comparison of Fiscal 2000 to Fiscal 1999

Net sales increased 31.4% to \$1,093.5 million from \$832.1 million. The increase includes:

- \$52.3 million from comparable store sales,
- \$174.1 million from new and noncomparable store sales and non-store sales, and
- \$35.0 million from the Thriftys/Bluenotes stores in Canada.

These amounts include \$13.6 million in sales from the fifty-third week. Comparable store sales increased 5.8% compared to the corresponding fifty-three week period last year.

The sales increase resulted primarily from an increase of 35.1% in units sold. We operated 554 U.S. stores and 109 Thriftys/Bluenotes stores at the end of the current year, compared to 466 total stores at the end of the prior year.

Gross profit increased 22.4% to \$436.2 million from \$356.5 million. Gross profit as a percent of net sales decreased to 39.9%

from 42.8%. The decrease in gross profit as a percent of net sales, was primarily attributable to a 2.8% decrease in merchandise margins. The decrease in merchandise margins resulted primarily from increased markdowns as a percent of sales during the second quarter.

Selling, general and administrative expenses increased to \$266.5 million from \$194.8 million. As a percent of net sales, these expenses increased to 24.4% from 23.4%. The \$71.7 million increase includes:

- \$40.3 million in operating expenses for our new stores in the United States and Canada,
- \$13.2 million in compensation and benefit costs to support growth,
- \$7.0 million in services purchased to support the non-store business, and additional outside service costs to support the growing business,
- \$4.5 million related to equipment leases, primarily to improve in-store processing,
- \$4.2 million in increased advertising costs, related to signage, direct mail, and catalog and non-store advertising costs, and
- \$2.5 million for other selling, general and administrative expenses.

Depreciation and amortization expense increased to \$23.2 million from \$12.2 million. As a percent of net sales, these expenses increased to 2.1% from 1.4%. The increase includes \$5.4 million related to new stores in the United States and Canada. The remaining increase is due primarily to depreciation expense related to technological improvements and investments in our distribution center infrastructure.

For Fiscal 2000, we had net other income of \$6.2 million. This compared to net other expense of \$0.2 million in the prior year. During the fourth quarter of Fiscal 1999, a valuation adjustment was recorded related to a marketable equity security. This investment was sold during Fiscal 2000. Investment income increased by \$1.8 million as a result of higher cash reserves available for investment and higher average rates of return.

Income before income taxes increased to \$152.8 million from \$149.4 million. As a percent of net sales, income before income taxes decreased to 14.0% from 18.0%. The decrease in income before income taxes as a percent of sales was attributable to the factors noted above.

Comparison of Fiscal 1999 to Fiscal 1998

Net sales increased 41.6% to \$832.1 million from \$587.6 million. The increase includes:

- \$118.8 million from comparable store sales, representing a 20.9% increase over the prior year, and
- \$125.7 million from new and noncomparable store sales, and non-store sales.

The increase resulted primarily from an increase of 42.0% in units sold. We operated 466 stores at the end of Fiscal 1999, compared to 386 stores at the end of Fiscal 1998.

Gross profit increased 52.0% to \$356.5 million from \$234.5 million. Gross profit as a percent of net sales increased to 42.8% from 39.9%. The increase in gross profit as a percent of net sales was attributable to a 2.1% increase in merchandise margins as well as a 0.8% improvement in buying, occupancy, and warehousing costs. The increase in merchandise margins resulted from improved mark-ons and a decrease in

markdowns as a percent of sales. The improvement in buying, occupancy, and warehousing costs reflects improved leveraging achieved through comparable store sales growth.

Selling, general and administrative expenses increased to \$194.8 million from \$138.8 million. As a percent of net sales, these expenses decreased to 23.4% from 23.6%. The \$56.0 million increase includes:

- \$15.4 million in operating expenses for our new stores,
- \$15.0 million in compensation and benefit costs related to additional personnel to support the increased sales volume and incentive programs that reward employees for the achievement of key performance indicators,
- \$8.2 million for direct mail, signage, promotional advertising, and catalog and non-store advertising,
- \$7.2 million in additional outside service costs to support the growing business, including the non-store business,
- \$2.6 million related to equipment costs, primarily for leasing store registers and other hardware, and
- \$7.6 million for other selling, general and administrative expenses.

Depreciation and amortization expense increased to \$12.2 million from \$8.6 million. As a percent of net sales, these expenses decreased to 1.4% from 1.5%.

For Fiscal 1999, we had interest income of \$4.4 million, which was offset by investment expense of \$4.6 million. Investment expense was a result of a valuation adjustment recorded during the fourth quarter of Fiscal 1999 related to a marketable equity security. Interest income increased from \$2.4 million as a result of higher cash reserves available for investment.

Income before income taxes increased to \$149.4 million from \$89.5 million. As a percent of net sales, income before income taxes increased to 18.0% from 15.2%. The increase in income before income taxes as a percent of sales was attributable to the factors noted above.

Liquidity and Capital Resources

The increase in cash and cash equivalents during Fiscal 2000 resulted primarily from an increase of \$150.6 million in cash provided by operating activities, that was primarily derived from net income, adjusted for changes in working capital. Working capital at year-end was \$169.5 million for Fiscal 2000, \$174.1 million for Fiscal 1999, and \$94.8 million for Fiscal 1998.

Sources of cash included \$112.9 million resulting from the maturity of our short-term investments, \$29.1 million in proceeds from debt used to partially finance the Canadian acquisition, and \$10.2 million in proceeds from stock option exercises.

Our primary uses of cash included \$87.8 million in capital expenditures, \$78.2 million for the Canadian acquisition, \$46.4 million to purchase short-term investments, \$22.3 million to repurchase common stock, and \$8.5 million to purchase an import services company, Blue Star Imports.

The remainder of the cash flow provided by operating activities is being retained for new store growth, store remodels, system enhancements, and other capital expenditures. We fund merchandise purchases through operating cash flow.

At February 3, 2001, the Company had an unsecured demand lending arrangement (the "facility") with a bank to provide a \$125.0 million line of credit at either the lender's prime lending rate (8.50% at February 3, 2001) or a negotiated rate such as LIBOR. The facility has a limit of \$40.0 million that can be used for direct borrowing. No borrowings were required

against the line for the current or prior year. At February 3, 2001, letters of credit in the amount of \$66.8 million were outstanding leaving a remaining available balance on the line of \$58.2 million.

The Company entered into a \$29.1 million non-revolving term facility (the "term facility") and a \$4.9 million revolving operating facility (the "operating facility") in November 2000 to finance the Canadian acquisition. The term facility matures in December 2007 and bears interest at the one-month Bankers' Acceptance Rate (5.50% at February 3, 2001) plus 140 basis points. The operating facility is due in November 2001, has six additional one year extensions, and bears interest at either the lender's prime lending rate (7.50% at February 3, 2001) or the Bankers' Acceptance Rate (5.50% at February 3, 2001) plus 120 basis points. There were no borrowings under the operating facility for the year ended February 3, 2001.

Capital expenditures, net of construction allowances, totaled \$87.8 million for Fiscal 2000. These expenditures included:

- \$32.2 million related to the addition of 90 new stores,
- \$21.3 million for 47 remodeled locations,
- \$13.3 million related to our second distribution facility,
- \$5.0 million in fixtures and improvements to existing stores,
- \$4.0 million in warehousing systems costs,
- \$3.5 million in systems improvements,
- \$3.1 million in improvements to our existing distribution center,
- \$3.1 million in office renovations, and
- \$2.3 million in other capital expenditures.

We expect capital expenditures for Fiscal 2001 to total approximately \$153.0 million including the following:

- \$35.0 million related to the addition of 86 new stores in the United States and Canada,
- \$23.0 million for 53 remodeled locations in the United States and Canada,
- \$25.0 million to convert certain Canadian store locations to American Eagle and Thriftys/Bluenotes stores,
- \$21.0 million to complete construction on a second distribution facility,
- \$19.0 million to install new systems, including hardware and software for our stores,
- \$11.0 million to retrofit our stores, and
- \$19.0 million in other capital expenditures.

Additionally, in Fiscal 2001, we plan to make \$4.3 million in scheduled principal payments on the term facility. We plan to fund these capital expenditures and debt repayments primarily through available cash. These forward-looking statements will be influenced by our financial position, consumer spending, availability of financing, and the number of acceptable mall leases that may become available.

Our growth strategy includes the possibility of growth through acquisitions. We periodically consider and evaluate acquisitions and opportunities to support future growth, and may undertake acquisitions in 2001 and beyond. At this time, we have not committed to any material future acquisition. In the event we do pursue material future acquisitions, such actions could require additional equity or debt financing. There can be no assurance that we would be successful in closing any potential acquisition transaction, or that any acquisition we undertake would increase our profitability.

Income Taxes

We had deferred tax assets of \$35.0 million at February 3, 2001 which resulted primarily from financial and tax accounting differences. We have had taxable income during each of the past three tax years and anticipate that future taxable income will be able to recover the full amount of

the deferred tax assets. A portion of the deferred tax assets has resulted from a capital loss. We anticipate that we will have sufficient capital gain income to recognize the benefit recorded from the loss. Assuming a 39% effective tax rate, we will need to recognize pretax net income of approximately \$90.0 million in future periods to recover existing deferred tax amounts. See Note 10 of the Consolidated Financial Statements.

Impact of Inflation

We do not believe that the relatively modest levels of inflation experienced in the United States in recent years have had a significant effect on our net sales or our profitability. Substantial increases in cost, however, could have a significant impact on our business and the industry in the future.

Safe Harbor Statement, Business Risks, and Seasonality

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 86 stores in the United States and Canada in Fiscal 2001,
- the selection of approximately 53 stores in the United States and Canada for remodeling,
- the plan to spend approximately \$21.0 million to complete construction on our second distribution facility,
- the plan to convert certain Canadian store locations to American Eagle and Thrifys/Bluenotes stores,
- the sufficiency of existing cash and investment balances, cash flows and line of credit facilities to meet Fiscal 2001 cash requirements, and
- the possibility of growth through acquisitions.

We caution that these statements are further qualified by factors that could cause our actual results to differ materially from those in the forward-looking statements, including without limitation, the following:

- our ability to anticipate and respond to changing consumer preferences and fashion trends in a timely manner,
- decline in demand for our merchandise,
- the ability to obtain suitable sites for new stores at acceptable costs,
- the integration of new stores into existing operations,
- the acceptance of our AE brand in Canada,
- customer acceptance of our new store design,
- our ability to successfully acquire and integrate other businesses,
- the integration of our additional distribution facility into existing operations,
- the expansion of buying and inventory capabilities,
- the hiring and training of qualified personnel,
- the availability of capital,
- the effect of overall economic conditions and consumer spending patterns,
- the effect of changes in weather patterns,
- the change in currency and exchange rates, interest rates, duties, tariffs, or quotas, and
- the effect of competitive pressures from other retailers.

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

Historically, our operations have been seasonal, with a significant amount of net sales and net income occurring in the fourth fiscal quarter, reflecting increased demand during the year-end holiday selling season and, to a lesser extent, the third quarter, reflecting increased demand during the back-to-school selling season. During Fiscal 2000, these periods accounted for approximately 65% of our sales. As a result of this seasonality, any factors negatively affecting us during the third and fourth fiscal quarters of any year, including adverse weather or unfavorable economic conditions, could have a material adverse effect on our financial condition and results of operations for the entire year. Our quarterly results of operations also may fluctuate based upon such factors as the timing of certain holiday seasons, the number and timing of new store openings, the amount of net sales contributed by new and existing stores, the timing and level of markdowns, store closings, refurbishments and relocations, competitive factors, weather and general economic conditions.







CONSOLIDATED FINANCIAL STATEMENTS

American Eagle Outfitters, Inc.
AE Annual Report 2000

FY 2000

American Eagle Outfitters, Inc. Consolidated Balance Sheets

Feb 3, 2001 Jan 29, 2000 Jan 30, 1999

In thousands

Assets

Current assets:

Cash and cash equivalents	\$133,446	\$76,581	\$71,940
Short-term investments	27,927	91,911	13,360
Merchandise inventory	84,064	60,375	49,688
Accounts and note receivable, including related party	29,466	13,471	8,560
Prepaid expenses and other	18,864	6,640	2,757
Deferred income taxes	24,894	13,584	8,199
Total current assets	318,661	262,562	154,504

Property and equipment, at cost, net of accumulated depreciation and amortization	183,373	84,926	53,370
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Goodwill, net of accumulated amortization	23,780	—	—
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Deferred income taxes	10,129	4,029	2,200
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Other assets, net of accumulated amortization	7,103	3,111	874
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Total assets	\$543,046	\$354,628	\$210,948
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Liabilities and Stockholders' Equity

Current liabilities:

Accounts payable	\$42,038	\$30,700	\$18,551
Current portion of note payable	4,300	—	—
Accrued compensation and payroll taxes	25,549	21,307	17,739
Accrued rent	22,577	17,755	13,042
Accrued income and other taxes	29,719	7,927	4,773
Unredeemed stored value cards and gift certificates	13,085	7,703	3,372
Other liabilities and accrued expenses	11,879	3,033	2,274
Total current liabilities	149,147	88,425	59,751

Non-current liabilities:

Commitments and contingencies	—	—	—
Note payable	24,889	—	—
Other non-current liabilities	1,315	1,702	—
Total non-current liabilities	26,204	1,702	—

Stockholders' equity	367,695	264,501	151,197
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Total liabilities and stockholders' equity	\$543,046	\$354,628	\$210,948
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See Notes to Consolidated Financial Statements

American Eagle Outfitters, Inc. Consolidated Statements of Operations

For the years ended Feb 3, 2001 Jan 29, 2000 Jan 30, 1999

In thousands, except per share amounts

Net sales	\$1,093,477	\$832,104	\$587,600
Cost of sales, including certain buying, occupancy and warehousing expenses	657,252	475,596	353,089
Gross profit	436,225	356,508	234,511
Selling, general and administrative expenses	266,474	194,795	138,847
Depreciation and amortization expense	23,200	12,199	8,611
Operating income	146,551	149,514	87,053
Other income (expense), net	6,249	(160)	2,436
Income before income taxes	152,800	149,354	89,489
Provision for income taxes	59,042	58,694	35,371
Net income	\$93,758	\$90,660	\$54,118
Basic earnings per common share	\$1.35	\$1.30	\$0.80
Diluted earnings per common share	\$1.30	\$1.24	\$0.75
Weighted average common shares outstanding—basic	69,652	69,555	67,921
Weighted average common shares outstanding—diluted	72,132	73,113	71,928

See Notes to Consolidated Financial Statements

American Eagle Outfitters, Inc. Consolidated Statements of Stockholders' Equity

For the years ended February 3, 2001, January 29, 2000, and January 30, 1999

In thousands

	Shares (1)	Common Stock	Contributed Capital	Retained Earnings	Treasury Stock	Deferred Compensation Expense	Other Comprehensive Income/(Loss)	Stockholders' Equity
Balance at January 31, 1998	15,011	\$150	\$58,519	\$35,756	(\$1,625)	(\$1,992)	\$ —	\$90,808
Net income and comprehensive income	—	—	—	54,118	—	—	—	54,118
Stock options and restricted stock	490	5	5,448	—	345	(427)	—	5,371
Merger costs incurred by Natco	—	—	900	—	—	—	—	900
Stock splits— May 8, 1998 and May 3, 1999	30,609	306	(306)	—	—	—	—	—
Balance at January 30, 1999	46,110	461	64,561	89,874	(1,280)	(2,419)	—	151,197
Stock options and restricted stock	630	6	25,909	—	—	(985)	—	24,930
Retirement of treasury stock	—	—	(1,280)	—	1,280	—	—	—
Comprehensive income:								
Net income	—	—	—	90,660	—	—	—	90,660
Unrealized loss on investments, net of tax	—	—	—	—	—	—	(2,286)	(2,286)
Total comprehensive income	—	—	—	—	—	—	—	88,374
Balance at January 29, 2000	46,740	467	89,190	180,534	—	(3,404)	(2,286)	264,501
Stock options and restricted stock	1,413	14	29,742	—	—	(621)	—	29,135
Repurchase of common stock	(1,207)	(12)	12	—	(22,339)	—	—	(22,339)
Three-for-two stock split—February 23, 2001	23,473	235	(235)	—	—	—	—	—
Comprehensive income:								
Net income	—	—	—	93,758	—	—	—	93,758
Other comprehensive income, net of tax:								
Unrealized gain on investments and reclassification adjustment	—	—	—	—	—	—	2,286	2,286
Foreign currency translation adjustment	—	—	—	—	—	—	354	354
Other comprehensive income	—	—	—	—	—	—	—	2,640
Total comprehensive income	—	—	—	—	—	—	—	96,398
Balance at February 3, 2001	70,419	\$704	\$118,709	\$274,292	(\$22,339)	(\$4,025)	\$354	\$367,695

(1) 125 million authorized, 72 million issued and 70 million outstanding, \$.01 par value common stock at February 3, 2001. Issued and outstanding were 70 million and 69 million (adjusted for stock splits) at January 29, 2000 and January 30, 1999, respectively. The Company has 5 million authorized, with none issued or outstanding, \$.01 par value preferred stock at February 3, 2001.

See Notes to Consolidated Financial Statements

American Eagle Outfitters, Inc. Consolidated Statements of Cash Flows

For the years ended Feb 3, 2001 Jan 29, 2000 Jan 30, 1999

In thousands

Operating activities

Net income	\$93,758	\$90,660	\$54,118
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	23,200	12,199	8,611
Loss on impairment and write-off of fixed assets	2,902	1,907	1,467
Stock compensation	6,952	5,809	1,336
Deferred income taxes	(6,572)	(7,214)	(2,753)
Investment expense	—	4,554	—
Merger costs incurred by Natco	—	—	900
Changes in assets and liabilities:			
Merchandise inventory	(5,606)	(10,687)	(13,410)
Accounts and note receivable	(13,388)	(4,911)	(913)
Prepaid expenses and other	(12,185)	(6,205)	2,445
Accounts payable	12,175	12,121	(5,400)
Unredeemed stored value cards	5,373	4,331	1,669
Accrued liabilities	43,982	30,348	11,751
Total adjustments	56,833	42,252	5,703
Net cash provided by operating activities	150,591	132,912	59,821

Investing activities

Capital expenditures	(87,825)	(45,556)	(24,913)
Purchase of an import services company, Blue Star Imports	(8,500)	—	—
Purchase of Dylex divisions, net of cash	(78,184)	—	—
Purchase of short-term investments	(46,421)	(124,166)	(54,559)
Sale of short-term investments	112,878	38,775	41,199
Other investing activities	(1,397)	—	—
Net cash used for investing activities	(109,449)	(130,947)	(38,273)

Financing activities

Proceeds from issuance of note payable	29,101	—	—
Principal payments on note payable	(1,651)	—	—
Repurchase of common stock	(22,339)	—	—
Net proceeds from stock options exercised	10,191	2,676	2,033
Net cash provided by financing activities	15,302	2,676	2,033
Effect of exchange rates on cash	421	—	—
Net increase in cash and cash equivalents	56,865	4,641	23,581
Cash and cash equivalents—beginning of period	76,581	71,940	48,359
Cash and cash equivalents—end of period	\$133,446	\$76,581	\$71,940

See Notes to Consolidated Financial Statements

American Eagle Outfitters, Inc.
Notes to Consolidated Financial Statements

For the year ended February 3, 2001

I. Business Operations

American Eagle Outfitters, Inc. (the "Company") designs, markets, and sells its AE brand of relaxed, clean, and versatile clothing for 16 to 34 year olds in its United States retail stores. We also operate via the Internet at *ae.com*. The AE brand provides high-quality

merchandise at affordable prices. AE's lifestyle collection offers casual basics like cargos complemented by fashion looks in stretch, denim, and other modern fabrications.

The Thriftys/Bluenotes brand targets a slightly younger demographic, offering a more urban/suburban, denim-driven collection for 12 to 22 year olds.

The Company operates retail stores located primarily in regional enclosed shopping malls in the United States and Canada.

The following table sets forth the approximate consolidated percentage of net sales attributable to each merchandise group for each of the periods indicated:

For the years ended	Feb 3, 2001	Jan 29, 2000	Jan 30, 1999
Men's apparel	40%	39%	40%
Women's apparel	52%	53%	52%
Footwear and accessories— men's and women's	8%	8%	8%
Total	100%	100%	100%

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries. The results of operations of the acquired Canadian businesses discussed in Note 3 are included in the Consolidated Financial Statements beginning October 29, 2000. All intercompany transactions and balances have been eliminated in consolidation.

Fiscal Year

The Company's financial year is a 52/53 week year that ends on the Saturday nearest to January 31. For tax purposes, the Company reports on a July year-end. As used herein, "Fiscal 2000" refers to the fifty-three week period ended February 3, 2001. "Fiscal 1999" and "Fiscal 1998" refer to the fifty-two week periods ended January 29, 2000 and January 30, 1999, respectively. "Fiscal 2001" refers to the fifty-two week period ending February 2, 2002.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, management reviews its estimates based on currently available information. Changes in facts and circumstances may result in revised estimates.

Recent Financial Accounting Standards Board Pronouncements

FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*

In March 2000, the FASB issued FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation* which interprets APB Opinion No. 25, *Accounting for Stock Issued to Employees*. The Company adopted the Interpretation on July 1, 2000, as required. Adoption of the Interpretation has resulted in no significant changes to the Company's accounting for stock option grants.

Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements*

The Securities and Exchange Commission (SEC) issued and subsequently amended guidance related to revenue recognition during December 1999 and in the first half of the calendar year 2000. These interpretations were implemented in Fiscal 2000. Adoption of this guidance has resulted in no material impact on the Company's financial statements.

SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*

In 1998, the FASB issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* as amended by SFAS 137 and 138 (collectively SFAS 133), which establishes standards for the recognition and measurement of derivative and hedging activities. This standard is effective for the Company's Fiscal 2001 financial statements. In November 2000, the Company entered into an effective interest rate swap in connection with the Canadian acquisition. The Company will adopt SFAS 133 in the first quarter of Fiscal 2001. The Company believes that the interest rate swap will be an effective hedge and any changes in the fair market value will be included in other comprehensive income, subsequent to the adoption of SFAS 133.

Foreign Currency Translation

The Canadian dollar is the functional currency for the Canadian businesses. In accordance with SFAS Statement No. 52, *Foreign Currency Translation*, assets and liabilities denominated in foreign currencies were translated into U.S. dollars at the exchange rate prevailing at February 3, 2001. Revenues and expenses denominated in foreign currencies were translated into U.S. dollars (the reporting currency) at the monthly average exchange rate for the period from acquisition through February 3, 2001. 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, net of income taxes, in accordance with SFAS Statement No. 130, *Reporting Comprehensive Income* (See Note 8 of the Consolidated Financial Statements).

Cash and Cash Equivalents

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

Short-term Investments

Cash in excess of operating requirements is invested in marketable equity or government debt obligations. As of February 3, 2001, short-term investments included investments with an original maturity of greater than three months (averaging approximately 8 months) and consisted primarily of tax-exempt municipal bonds, taxable federal agency notes, and commercial paper classified as available for sale.

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 reviews its inventory levels in order to identify slow-moving merchandise and generally uses markdowns to clear merchandise. 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 an adverse impact on earnings, depending on the extent and amount of inventory affected.

Property and Equipment

Property and equipment is recorded on the basis of cost with depreciation computed utilizing the straight-line method over the estimated useful lives as follows:

Buildings—25 to 40 years
Leasehold improvements—5 to 10 years
Fixtures and equipment—3 to 8 years

In accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, management evaluates the ongoing value of leasehold improvements and store fixtures associated with retail stores which have been open longer than one year. Impairment losses are recorded on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. When events such as these occur, the impaired assets are adjusted to estimated fair value. The impairment loss, included in selling, general and administrative expenses for Fiscal 2000 was \$0.5 million. There were no impairment losses for Fiscal 1999. The impairment loss for Fiscal 1998 was \$0.2 million.

Goodwill

Goodwill amounts of \$16.3 million in connection with the Canadian acquisition and \$8.5 million in connection with the purchase of importing operations from Schottenstein Stores Corporation are being amortized over 15 years using the straight-line method. The Company's policy is to periodically review the carrying value assigned to goodwill to determine if events have occurred which would require an adjustment to fair value. Management reviews the performance of the underlying operations including reviewing discounted cash flows from operations. There were no impairment losses relating to goodwill recognized for Fiscal 2000.

Other Assets

Other assets consist primarily of lease buyout costs, trademark costs, and organization costs. The lease buyout costs are amortized over the remaining life of the leases, generally for no greater than ten years. The trademark costs are amortized over five to fifteen years. Organization costs are amortized over five years. These assets, net of amortization, are presented as other assets (long-term) on the Consolidated Balance Sheets.

Interest Rate Swap

The Company's interest rate swap agreement is used to manage interest rate risk. Net settlement amounts under the interest rate swap agreement are recorded as adjustments to interest expense during the period incurred. The Company does not currently hold or issue derivative financial instruments for trading purposes.

Stock Split

On January 22, 2001, the Company's Board of Directors announced a three-for-two stock split which was distributed on February 23, 2001, to shareholders of record on February 2, 2001. Accordingly, all share amounts and per share data have been restated to reflect the stock split.

Stock Repurchases

On February 24, 2000, the Company's Board of Directors authorized the repurchase of up to 3,750,000 shares (adjusted for the February 2001 stock split) of its stock. For the year ended February 3, 2001, the Company purchased 1,809,750 shares (adjusted for the February 2001 stock split) of common stock on the open market for approximately \$22.3 million. These repurchases have been recorded as treasury stock.

Stock Option Plan

In October 1995, the FASB issued SFAS No. 123, *Accounting for Stock-Based Compensation*, which establishes financial accounting and reporting standards for stock-based employee compensation plans. The Company continues to account for its stock-based employee compensation plan using the intrinsic value method under Accounting Principles Board Opinion No. 25. See pro forma disclosures required under SFAS 123 in Note 12 of the Consolidated Financial Statements.

Revenue Recognition

Revenue is recorded upon purchase of merchandise by customers. In connection with stored value cards and gift certificates, a deferred revenue amount is established upon purchase of the card by the customer and revenue is recognized upon redemption and purchase of the merchandise.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense is summarized as follows:

For the years ended	Feb 3, 2001	Jan 29, 2000	Jan 30, 1999
In thousands			
Advertising expense	\$36,262	\$27,243	\$16,431

Supplemental Disclosures of Cash Flow Information

For the years ended	Feb 3, 2001	Jan 29, 2000	Jan 30, 1999
In thousands			
Cash paid during the periods for:			
Income taxes	\$37,362	\$45,741	\$41,706
Interest	\$ 607	\$ —	\$ —

Earnings Per Share

The following table shows the amounts used in computing earnings per share and the effect on income and the weighted average number of shares of dilutive potential common stock (stock options and restricted stock).

For the years ended	Feb 3, 2001	Jan 29, 2000	Jan 30, 1999
In thousands			
Net income	\$93,758	\$90,660	\$54,118
Weighted average common shares outstanding:			
Basic shares	69,652	69,555	67,921
Dilutive effect of stock options and non-vested restricted stock	2,480	3,558	4,007
Diluted shares	72,132	73,113	71,928

Reclassification

Certain reclassifications have been made to the Consolidated Financial Statements for prior periods in order to conform to the Fiscal 2000 presentation.

3. Business Acquisitions

Effective October 29, 2000, the Company purchased certain assets associated with three Canadian businesses of Dylex Limited. The total purchase price, including fees and expenses, was \$78.2 million. The results of operations of the acquired businesses are included in the Consolidated Financial Statements beginning October 29, 2000. The acquisition was accounted for using the purchase method and the resulting goodwill of approximately \$16.3 million is being amortized over fifteen years.

In connection with the acquisition, the Company announced its intention to convert certain retail locations to American Eagle retail stores. Management has finalized and approved the plan related to this conversion. Accordingly, the Company accrued approximately \$7.3 million in exit costs consisting primarily of operating losses of the discontinued businesses, lease costs, and severance costs. Substantially all of the costs accrued will be paid during Fiscal 2001. The conversion plan is expected to be completed by the end of July 2001.

The purchase price allocation is preliminary and may be adjusted as new facts become

apparent. However, management does not believe that any potential change will be material.

The following unaudited pro forma consolidated results of operations of the Company assume that the purchase occurred on January 31, 1999.

These amounts are based upon certain assumptions and estimates, which the Company believes are reasonable. The pro forma results do not necessarily represent results which would have occurred if the business combination had taken place at the date and on the basis assumed above.

For the years ended Feb 3, 2001 Jan 29, 2000

In thousands, except per share amounts

Net sales	\$1,209,878	\$1,002,063
Net income	\$82,596	\$84,399
Basic earnings per common share	\$1.19	\$1.21
Diluted earnings per common share	\$1.15	\$1.15

Effective January 31, 2000, the Company acquired importing operations from Schottenstein Stores Corporation, a related party. The purpose of the acquisition was to integrate the expertise of the importing operation into the Company's supply chain process, and to streamline and improve the efficiency of the process.

The terms of the acquisition required a payment of \$8.5 million to Schottenstein Stores Corporation, which was made on March 6, 2000. The majority of the acquisition price was recorded as goodwill which is being amortized over fifteen years.

4. Related Party Transactions

The Company has various transactions with related parties. The nature of the relationship with each party is primarily through common ownership. In September 1999, our distribution center facility, which is owned by a related party, was expanded to add 120,000 square feet which increased our capacity to handle distribution needs for future growth. As a result, the Company entered into an amended operating lease for its corporate headquarters and distribution center with a related party. The lease, which commenced on September 1, 1999, and expires on December 31, 2020 provides for annual rental payments of

approximately \$2.0 million through 2000, \$2.4 million through 2005, \$2.6 million through 2015, and \$2.7 million through the end of the lease.

In addition, through Fiscal 1999, the Company and its subsidiaries used the services of a related importing company. Effective January 31, 2000, the Company acquired this importing operation from Schottenstein Stores Corporation, a related party. As a result, there were no related party merchandise purchases or an accounts payable balance for Fiscal 2000.

The Company has engaged the services of a related party consultant to assist with the liquidation of the Braemar inventory. The agreement is in effect until the Braemar

stores are closed and the store locations are turned over to the Company for conversion to American Eagle stores. Compensation is determined by several factors, including proceeds from the sale of inventory and store performance versus plan. During Fiscal 2000, the Company paid \$0.1 million to the consultant, excluding reimbursement of direct expenses. The amount included as exit costs at February 3, 2001 was \$0.6 million.

Related party amounts follow:

For the years ended	Feb 3, 2001	Jan 29, 2000	Jan 30, 1999
In thousands			
Merchandise purchases through a related party importer	\$ —	\$ 63,763	\$ 46,885
Accounts payable	\$ —	\$ 682	\$ —
Accounts receivable	\$ 2,149	\$ 2,436	\$ 2,829
Rent expense	\$ 2,541	\$ 1,896	\$ 1,548
Merchandise sales	\$ 11,540	\$ 7,388	\$ 3,289

5. Accounts and Note Receivable

Accounts and note receivable is comprised of the following:

	Feb 3, 2001	Jan 29, 2000	Jan 30, 1999
In thousands			
Accounts receivable—construction allowances	\$7,346	\$3,846	\$4,008
Related party accounts receivable	2,149	2,436	2,829
Note receivable	5,904	3,417	—
Accounts receivable—other	14,067	3,772	1,723
Total	\$29,466	\$13,471	\$8,560

6. Property and Equipment

Property and equipment consists of the following:

	Feb 3, 2001	Jan 29, 2000	Jan 30, 1999
In thousands			
Land	\$ 1,855	\$ —	\$ —
Buildings	10,266	—	—
Leasehold improvements	134,930	70,403	46,996
Fixtures and equipment	93,186	52,336	36,307
Subtotal	240,237	122,739	83,303
Less: Accumulated depreciation and amortization	(56,864)	(37,813)	(29,933)
Net property and equipment	\$183,373	\$84,926	\$53,370

Depreciation expense is summarized as follows:

For the years ended	Feb 3, 2001	Jan 29, 2000	Jan 30, 1999
In thousands			
Depreciation expense	\$21,472	\$11,782	\$8,215

7. Note Payable

Unsecured Demand Lending Arrangement

The Company has an unsecured demand lending arrangement (the "facility") with a bank to provide a \$125 million line of credit at either the lender's prime lending rate (8.50% at February 3, 2001) or a negotiated rate such as LIBOR. Because there were no borrowings during any of the past three years, there were no amounts paid for interest on this facility. The facility has a limit of \$40 million to be used for direct borrowing. At February 3, 2001, letters of credit in the amount of \$66.8 million were outstanding, leaving a remaining available balance on the line of \$58.2 million.

Non-revolving Term Facility and Revolving Operating Facility

In November 2000, in connection with the Canadian acquisition, the Company entered into a \$29.1 million non-revolving term facility (the "term facility") and a \$4.9 million revolving operating facility (the "operating facility"). The term facility was

used to partially fund the purchase price of the acquisition and the operating facility will be used to support the working capital and capital expenditures of the acquired businesses. The term facility has an outstanding balance, including foreign currency translation adjustments, of \$29.2 million as of February 3, 2001. The facility requires annual payments of \$4.3 million and matures in December 2007. The term facility bears interest at the one-month Bankers' Acceptance Rate (5.50% at February 3, 2001) plus 140 basis points. Interest paid under the term facility was \$0.3 million for the year ended February 3, 2001. The operating facility is due in November 2001 and has six additional one year extensions. There have been no borrowings under the operating facility for the year ended February 3, 2001. The operating facility bears interest at either the lender's prime lending rate (7.50% at February 3, 2001) or the Bankers' Acceptance Rate (5.50% at February 3, 2001) plus 120 basis points.

Both the term facility and the operating facility contain restrictive covenants related to financial ratios. As of February 3, 2001, the Company was in compliance with these covenants.

Interest Rate Swap Agreement

On November 30, 2000, the Company entered into an interest rate swap agreement totaling \$29.2 million in connection with the term facility. The swap amount decreases on a monthly basis beginning January 1, 2001 until the termination of the agreement in December 2007. The Company pays a fixed rate of 5.97% and receives a variable rate based on the one month Bankers' Acceptance Rate. This agreement effectively changes the interest rate on the borrowings under the term facility from a variable rate to a fixed rate of 5.97% plus 140 basis points. The Company does not believe there is any significant exposure to credit risk due to the creditworthiness of the bank. In the event of non-performance by the bank, the Company's loss would be limited to any unfavorable interest rate differential.

8. Other Comprehensive Income

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

In thousands

	Before Tax Amount	Tax Benefit (Expense)	Other Comprehensive Income (Loss), Net
Balance at January 30, 1999	\$ —	\$ —	\$ —
Unrealized loss on investments	(3,766)	1,480	(2,286)
Balance at January 29, 2000	(3,766)	1,480	(2,286)
Unrealized gain on investments and reclassification adjustment	3,766	(1,480)	2,286
Foreign currency translation adjustment	770	(416)	354
Balance at February 3, 2001	\$ 770	(\$416)	\$ 354

9. Leases

All store operations are conducted from leased premises. These leases generally provide for base rentals and the payment of a percentage of sales as additional rent when sales exceed specified levels. Minimum rentals relating to these leases are

recorded on a straight-line basis. In addition, the Company is typically responsible under its leases for common area maintenance charges, real estate taxes and certain other expenses. These leases are classified as operating leases.

Rent expense charged to operations, including amounts paid under short-term cancelable leases, was as follows:

For the years ended	Feb 3, 2001	Jan 29, 2000	Jan 30, 1999
In thousands			
Minimum rentals	\$90,467	\$66,437	\$53,482
Contingent rentals	13,113	10,736	6,177
Total	\$103,580	\$77,173	\$59,659

The table below summarizes future minimum lease obligations under operating leases in effect at February 3, 2001:

Fiscal Years	
In thousands	
2001	\$84,586
2002	82,315
2003	78,597
2004	74,708
2005	67,000
Thereafter	286,323
Total	\$673,529

The Company may be contingently liable for the remaining rental payments that could total as much as \$6.2 million for the outlet stores which were sold in October 1995. In January 2000, the company which owns the outlet stores sought protection under Chapter 11 of the Bankruptcy Act. Currently, there is insufficient information available to determine the amount of loss the Company may incur, if any, related to this potential contingent liability.

10. Income Taxes

The significant components of the Company's deferred tax assets (there are no deferred tax liabilities) were as follows:

	Feb 3, 2001	Jan 29, 2000	Jan 30, 1999
In thousands			
Current			
Inventories	\$4,940	\$4,048	\$2,826
Accrued rent	5,434	4,055	3,375
Salaries and compensation	8,624	3,565	1,274
Marketable equity securities and capital loss	1,749	1,530	—
Purchase accounting basis differences	3,869	—	—
Other	278	386	724
	24,894	13,584	8,199
Long Term			
Purchase accounting basis differences	6,969	—	—
Basis differences in fixed assets	2,771	2,410	2,200
Other comprehensive loss	—	1,472	—
Other	389	147	—
	10,129	4,029	2,200
Total	\$35,023	\$17,613	\$10,399

Significant components of the provision for income taxes are as follows:

For the years ended	Feb 3, 2001	Jan 29, 2000	Jan 30, 1999
In thousands			
Current			
Federal	\$57,675	\$55,033	\$31,819
State	7,939	10,875	6,305
Total current	65,614	65,908	38,124
Deferred			
Federal	(5,776)	(6,024)	(2,298)
State	(796)	(1,190)	(455)
Total deferred	(6,572)	(7,214)	(2,753)
Provision for income taxes	\$59,042	\$58,694	\$35,371

A tax benefit has been recognized as contributed capital, in the amount of \$12.0 million for the year ended February 3, 2001, \$16.4 million for the year ended January 29, 2000, and \$2.3 million for the year ended

January 30, 1999, resulting from additional tax deductions related to vested restricted stock grants and stock options exercised.

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

For the years ended	Feb 3, 2001	Jan 29, 2000	Jan 30, 1999
Federal income tax rate	35%	35%	35%
State income taxes, net of federal income tax effect	4	4	4
Other items, net	—	—	1
	39%	39%	40%

11. Profit Sharing Plan and Employee Stock Purchase Plan

The Company maintains a 401(k) retirement plan and contributory profit sharing plan. Full-time employees and part-time employees are automatically enrolled to contribute 1% of their salary if they have attained twenty and one-half years of age, have completed sixty days of service, and work at least 1,000 hours each year. Individuals can decline enrollment or can contribute up to 20% of their salary to the 401(k) plan on a pretax basis, subject to IRS limitations. After one year of service, the

Company will fully match up to 3% of participants' eligible compensation. In January 2001, the plan was amended to change the 1,000 hour requirement to an average work week of twenty hours and to increase the automatic enrollment contribution from 1% to 3%. In addition, after one year of service, the Company will fully match up to 3% of participants' eligible compensation and partially match the next 3% of eligible compensation, with a total match of 4.5%.

Contributions to the profit sharing plan, as determined by the Board of Directors, are discretionary. The Company recognized

\$1.0 million, \$2.0 million, and \$2.9 million in expense during Fiscal 2000, Fiscal 1999, and Fiscal 1998, respectively, in connection with these plans.

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

12. Stock Incentive Plan, Stock Option Plan, and Restricted Stock Grants

Stock Incentive Plan

The 1999 Stock Incentive Plan (the "Plan") was approved by the shareholders on June 8, 1999. The Board of Directors authorized 6,000,000 shares for issuance under the Plan in the form of stock options, stock appreciation rights, restricted stock awards, performance units, or performance shares. Additionally, the Plan provides that the maximum number of shares awarded to one individual may not exceed 3,000,000 shares. The Plan allows the Compensation and Stock Option Committee to determine which employees and consultants will receive awards and the terms and conditions of these awards. The Plan provides for a grant of 15,000 stock options annually to each director who is not an officer or employee of the Company. These options are granted in quarterly increments, vest one year from date of grant, and are exercisable for a ten-year period from the date of grant. To date, 5,119,200 non-qualified stock options and 370,906 shares of restricted stock were

granted under the Plan to employees and certain non-employees. Approximately half of the options granted vest eight years after the date of grant but can be accelerated to vest over three years if the Company meets annual performance goals. The remaining options granted under the Plan vest primarily over five years. All options expire after ten years. Restricted stock is earned if the Company meets annual performance goals for the year. For Fiscal 2000 and Fiscal 1999, the Company recorded approximately \$7.0 and \$5.8 million, respectively, in compensation expense related to stock options and restricted stock in connection with the Plan.

During Fiscal 2000, a senior executive assumed a new position within the Company. As a result of this change, the Company accelerated the vesting on grants covering 780,000 shares of stock for this individual. This acceleration does not result in additional compensation expense unless this executive ceases employment with the Company prior to the original vesting dates. If this had occurred at February 3, 2001, the compensation expense would have reduced net income by \$12.7 million.

Stock Option Plan

On February 10, 1994, the Company's Board of Directors adopted the American Eagle Outfitters, Inc. 1994 Stock Option Plan (the "Plan"). The Plan provides for the grant of 4,050,000 incentive or non-qualified options to purchase common stock. The Plan was subsequently amended to increase the shares available for grant to 8,100,000 shares. Additionally, the amendment provided that the maximum number of options which may be granted to one individual may not exceed 2,700,000 shares. The options granted under the Plan are approved by the Compensation and Stock Option Committee of the Board of Directors, primarily vest over five years, and are exercisable for a ten-year period from the date of grant.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123, which also requires that the information be determined as if the Company has accounted for its employee stock options granted beginning in the fiscal

year subsequent to December 31, 1994 under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

For the years ended	Feb 3, 2001	Jan 29, 2000	Jan 30, 1999
Risk-free interest rates	5.8 %	5.5%	5.0%
Dividend yield	None	None	None
Volatility factors of the expected market price of the Company's common stock	.933	.600	.678
Weighted-average expected life	5 years	5 years	6 years
Expected forfeiture rate	9.3%	10.0%	12.0%

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions

can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

For the years ended	Feb 3, 2001	Jan 29, 2000	Jan 30, 1999
In thousands, except earnings per share			
Pro forma net income	\$85,028	\$83,014	\$52,467
Pro forma net income per share			
Basic	\$1.22	\$1.19	\$0.77
Diluted	\$1.18	\$1.14	\$0.73

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

For the years ended	Feb 3, 2001 (2)		Jan 29, 2000 (2)		Jan 30, 1999 (2)	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding—beginning of year	7,281,045	\$11.21	5,289,645	\$3.47	5,034,357	\$1.41
Granted (Exercise price equal to fair value)	2,539,950	\$20.49	3,043,350	\$22.23	1,854,228	\$7.44
Exercised (1)	(1,865,837)	\$5.46	(941,580)	\$2.84	(1,425,909)	\$1.25
Cancelled	(179,820)	\$14.80	(110,370)	\$15.21	(173,031)	\$4.13
Outstanding—end of year (3)	7,775,338	\$15.52	7,281,045	\$11.21	5,289,645	\$3.47
Exercisable—end of year (4)	1,772,151	\$13.25	1,515,820	\$3.37	829,836	\$1.58
Weighted-average fair value of options granted during the year		\$16.62		\$13.79		\$4.61

(1) Options exercised during Fiscal 2000 ranged in price from \$0.93- \$31.04 with an average of \$5.46.

(2) As of February 3, 2001, January 29, 2000, and January 30, 1999, the Company had 845,195 shares, 3,498,558 shares and 431,208 shares available for grant, respectively.

(3) As of February 3, 2001, the exercise price of 2,396,418 options outstanding ranged between \$0.93 and \$5.94 with weighted-average remaining contractual lives between approximately 5 and 7 years. The exercise price of 1,435,415 options outstanding ranged between \$9.35 and \$17.98 with weighted-average remaining contractual lives between approximately 7 and 9 years. The exercise price of 2,786,881 options outstanding ranged between \$21.67 and \$25.50 with weighted-average remaining contractual lives between 8 and 9 years. The exercise price of 1,156,624 options outstanding ranged between \$26.29 and \$36.56 with weighted-average remaining contractual lives approximating 10 years.

(4) As of February 3, 2001, the exercise price of 774,212 options exercisable ranged between \$0.93 and \$5.94. The exercise price of 725,285 options ranged between \$11.79 and \$21.79.

Restricted Stock Grants

The Company maintains a restricted stock plan for compensating certain employees and selected related party consultants. At February 3, 2001, 2,347,317 shares of restricted stock were granted at prices ranging from \$0.93 to \$28.25, with 1,981,212 shares vested.

For Fiscal 2000, Fiscal 1999, and Fiscal 1998, the Company recorded \$6.2 million, \$4.8 million, and \$1.3 million in compensation expense, respectively, on restricted stock and certain stock options granted during Fiscal 1996 where the exercise price is less than fair value of the underlying stock, and certain options granted to non-employees.

13. Quarterly Financial Information—Unaudited

For the quarters ended (2)	Apr 29, 2000	Jul 29, 2000	Oct 28, 2000	Feb 3, 2001
In thousands, except earnings per share				
Net sales	\$ 177,999	\$ 208,977	\$ 282,767	\$ 423,734
Gross profit	\$ 70,056	\$ 63,590	\$ 120,079	\$ 182,500
Income before income taxes	\$ 20,771	\$ 4,570	\$ 47,912	\$ 79,547
Net income	\$ 12,608	\$ 2,777	\$ 29,226	\$ 49,147
Basic earnings per common share (1)	\$ 0.18	\$ 0.04	\$ 0.42	\$ 0.71
Diluted earnings per common share (1)	\$ 0.17	\$ 0.04	\$ 0.41	\$ 0.68
	May 1, 1999	Jul 31, 1999	Oct 30, 1999	Jan 29, 2000
Net sales	\$ 145,404	\$ 178,582	\$ 222,693	\$ 285,425
Gross profit	\$ 59,027	\$ 72,589	\$ 95,844	\$ 129,048
Income before income taxes	\$ 20,169	\$ 27,928	\$ 40,096	\$ 61,161
Net income	\$ 12,243	\$ 16,949	\$ 24,337	\$ 37,131
Basic earnings per common share (1)	\$ 0.18	\$ 0.24	\$ 0.35	\$ 0.53
Diluted earnings per common share (1)	\$ 0.17	\$ 0.23	\$ 0.33	\$ 0.51

(1) Net income per share amounts have been restated to reflect the two-for-one stock split from May 1999 and the three-for-two stock split from February 2001.

(2) Quarters are presented in 13-week periods consistent with the Company's fiscal year discussed in Note 2 of the Consolidated Financial Statements, except for the fourth quarter ended February 3, 2001, which is presented as a 14-week period.





MARKET PRICE INFORMATION

Our stock is traded on The Nasdaq National Market under the symbol "AEOS". The following table sets forth the range of high and low sales prices of the common stock as reported on The Nasdaq National Market during the periods indicated. As of March 20, 2001, there were 186 stockholders of record. However, when including associates who own shares

through the Company's 401(k) retirement plan and employee stock purchase plan and others holding shares in broker accounts under street name, the Company estimates the shareholder base at approximately 31,700. The following information reflects the May 1999 and February 2001 stock splits.

Market price For the quarters ended	High	Low
January 2001	\$38.58	\$22.33
October 2000	\$23.92	\$9.92
July 2000	\$13.83	\$7.92
April 2000	\$25.29	\$11.33
January 2000	\$33.09	\$23.04
October 1999	\$38.42	\$21.79
July 1999	\$34.46	\$25.25
April 1999	\$29.25	\$20.87

We have never paid cash dividends and presently anticipate that all of our future earnings will be retained for the development of our business and the stock repurchase program (See Note 2 of the Consolidated Financial Statements). We do not anticipate paying cash dividends

in the foreseeable future. The payment of any future dividends will be at the discretion of our Board of Directors and will be based on future earnings, financial condition, capital requirements and other relevant factors.

MANAGEMENT AND INDEPENDENT AUDITORS' REPORTS

Management Responsibility for Financial Reporting

The integrity and objectivity of the financial statements and related financial information in this report are the responsibility of the management of the Company. The financial statements have been prepared in conformity with generally accepted accounting principles and include, when necessary, the best estimates and judgements of management.

We maintain a system of internal accounting controls designed to provide

reasonable assurance, at appropriate cost, that assets are safeguarded, transactions are executed in accordance with our authorization, and the accounting records provide a reliable basis for the preparation of the financial statements. The system of internal accounting controls is continually reviewed by management and improved and modified as necessary in response to changing business conditions and recommendations of the Company's independent auditors.

The Audit Committee of the Board of Directors, consisting of independent directors, meets periodically with

management and independent auditors to review matters relating to our financial reporting, the adequacy of internal accounting controls and the scope and results of audit work.

Ernst & Young LLP, Certified Public Accountants, are engaged to audit our consolidated financial statements. Their Independent Auditors' Report, which is based on an audit made in accordance with generally accepted auditing standards, expresses an opinion as to the fair presentation of these financial statements.

Report of Independent Auditors

To the Board of Directors and Stockholders of American Eagle Outfitters, Inc.

We have audited the accompanying consolidated balance sheets of American Eagle Outfitters, Inc. as of February 3, 2001, January 29, 2000, and January 30, 1999 and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated

financial position of American Eagle Outfitters, Inc. at February 3, 2001, January 29, 2000, and January 30, 1999 and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Pittsburgh, Pennsylvania
March 9, 2001

DIRECTORS AND OFFICERS

Directors

Jay L. Schottenstein
Chairman of the Board and
Chief Executive Officer

Saul Schottenstein
Vice Chairman

George Kolber
Vice Chairman of the Company and CEO
of Value City Department Stores, Inc.

Roger S. Markfield
President and Chief Merchandising Officer

James V. O'Donnell
Chief Operating Officer

Ari Deshe
Chairman and Chief Executive
Officer of Safe Auto Insurance Company

Jon P. Diamond
President and Chief Operating
Officer of Safe Auto Insurance Company

Martin P. Doolan
President of Multitech
Enterprises, Inc.

Gilbert W. Harrison
Chairman of Financo, Inc.

Michael G. Jesselson
President of Jesselson Capital Corporation

Thomas R. Ketteler
Executive Vice President of Finance,
Treasurer, and Chief Operating Officer
of Schottenstein Stores Corporation

John L. Marakas
Retired President of Nationwide
Corporation

David W. Thompson
President of Value City Furniture

Gerald E. Wedren
President of Craig Capital Co.

Executive Officers

Jay L. Schottenstein
Chairman of the Board and
Chief Executive Officer

Roger S. Markfield
President and Chief Merchandising Officer

James V. O'Donnell
Chief Operating Officer

Laura A. Weil
Executive Vice President
and Chief Financial Officer

Joseph E. Kerin
Executive Vice President and
Director of Store Operations

Michael James Leedy
Executive Vice President,
Marketing and E-Commerce

Dale E. Clifton
Vice President, Controller,
and Chief Accounting Officer

Sheila C. Reinken
Vice President of Finance and Treasurer

Corporate Officers

Steven L. Baum
Vice President,
Director of Design

Neil Bulman, Jr.
Vice President,
General Counsel and
Secretary

Andrew M. Calogero
President, Prophecy Company

Joseph C. D'Aversa
Vice President, Men's Design

Michael J. Fostyk
Vice President, Distribution

Robin Gray
Vice President, Planning and Allocation

Frederick W. Grover
Vice President,
General Merchandising Manager

Howard Landon
Vice President, Production and Sourcing

Susan P. Miller
Vice President,
General Merchandising Manager

Jeffrey D. Skoglund
Vice President,
Human Resources

Jeffrey G. Smith
Vice President,
Real Estate

Ken Watts
Vice President,
Information Services

STOCKHOLDER INFORMATION

We will supply to any stockholder, upon written request to Laura A. Weil, at our address, and without charge, a copy of the Report on Form 10-K for the period ended February 3, 2001, which has been filed with the Securities and Exchange Commission.

Independent Auditors

Ernst & Young LLP
One Oxford Centre
Pittsburgh, PA 15219-6403

Common Shares Listed

NASDAQ Symbol

AEOS

Legal Counsel

Porter, Wright, Morris & Arthur
41 South High Street
Columbus, OH 43215-6194

Registrar and Transfer Agent

National City Bank
Stock Transfer Department
P.O. Box 92301
Cleveland, OH 44193-0900
(800) 622-6757

Investor Contact

Laura A. Weil
Executive Vice President and
Chief Financial Officer
(724) 776-4857

Headquarters of the Company

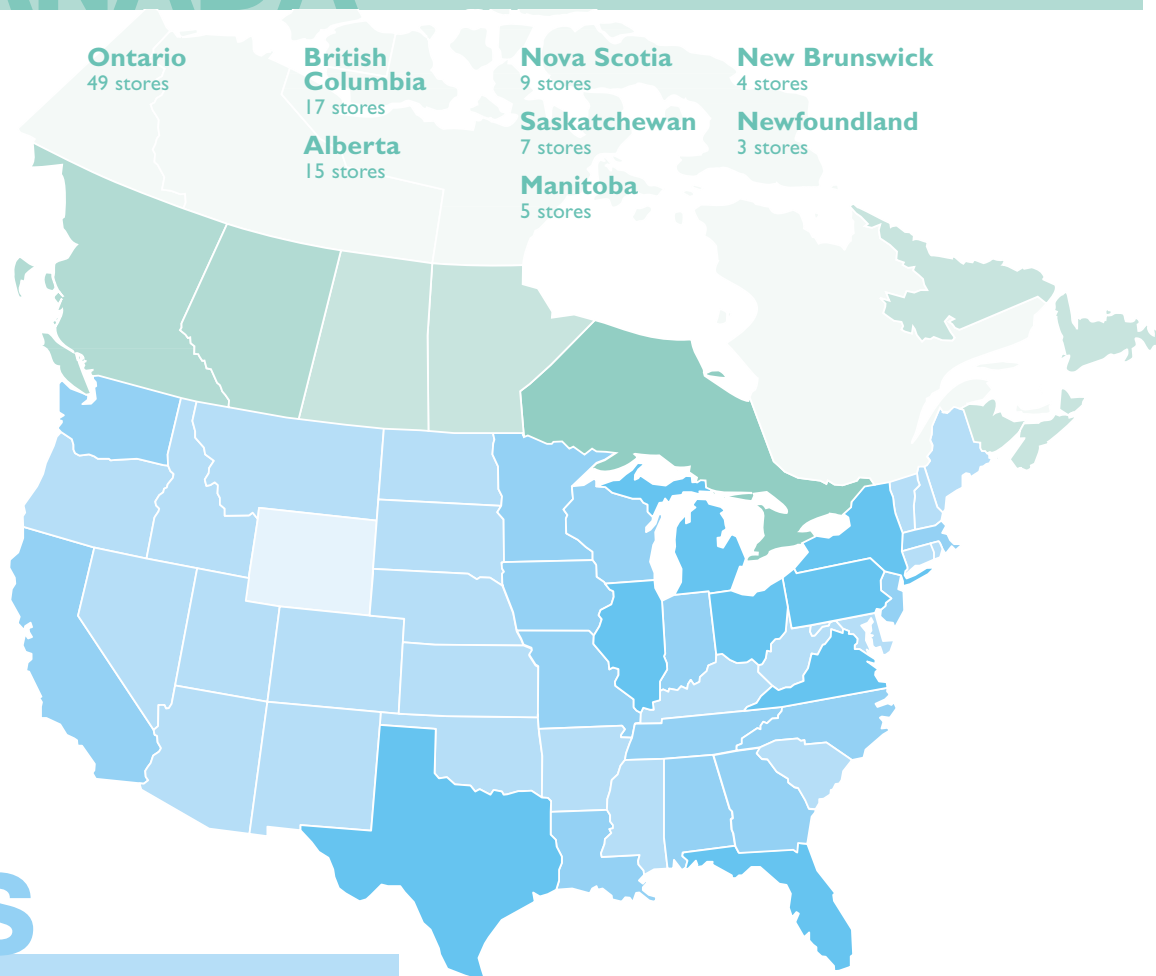
American Eagle Outfitters
150 Thorn Hill Drive
Warrendale, PA 15086-7528
(724) 776-4857



109 CANADA

THRIFTYS/BLUENOTES STORES

AMERICAN EAGLE STORES



554 US

21-40 STORES

11-20 STORES

1-10 STORES

PA
39 stores
NY
34 stores
OH
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TX
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FL
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IL
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As of February 3, 2001

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