American Eagle Outfitters, Inc., 2022 Annual Report

Appendix A

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended January 28, 2023

OR

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

Commission file number: **1-33338**

AMERICAN EAGLE OUTFITTERS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	**AEO**	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). YES ☒ NO ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of July 30, 2022 was $2,067,276,031.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 195,556,065 Common Shares were outstanding at March 8, 2023.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the 2023 Annual Meeting of Stockholders are incorporated into Part III herein.

For the complete annual report, go online to http://investors.ae.com/financials-and-filings/annual-reports-and-proxy/default.aspx.

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of American Eagle Outfitters, Inc. (the Company) as of January 28, 2023 and January 29, 2022, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended January 28, 2023, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at January 28, 2023 and January 29, 2022, and the results of its operations and its cash flows for each of the three years in the period ended January 28, 2023, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 28, 2023, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 13, 2023 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

	Retail Store Long-Lived Asset Impairment
Description of the Matter	As more fully described in Notes 2 and 17 to the consolidated financial statements, the Company evaluates if there are indicators of impairment for long-lived assets in accordance with ASC 360, *Property, Plant, and Equipment*. The Company's first step is to determine whether indicators of impairment exist in its long-lived assets (store fixtures, leasehold improvements, and operating lease right-of-use assets) at the individual retail store level, which is the lowest level at which individual cash flows can be identified. If indicators of impairment are identified for any retail stores, the Company evaluates if the projected undiscounted cash flows to be generated by those store assets are less than their carrying amounts. When this is the case, the Company compares the estimated fair value of the respective retail store assets to its carrying value. If fair value is less than carrying value, an impairment loss is recorded for the difference. The significant assumption used in the Company's estimated fair value of certain retail stores is forecasted revenue. For the year ended January 28, 2023, the Company recorded retail store impairment charges of $17.1 million. Of the total, $13.1 million related to the impairment of operating lease right-of-use assets and $4.0 million related to the impairment of store property and equipment (store fixtures and leasehold improvements). Auditing the Company's retail store impairment analyses was complex and subjective, as it involved evaluating the significant assumption related to forecasted revenue which is used to estimate the fair value of those retail stores to calculate any impairment charge.

How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's processes over the identification of indicators of impairment, the assessment of the projected undiscounted cash flows to be generated by retail stores with indicators of impairment, the determination of the fair value of the retail stores and the measurement of any resulting impairment. These controls include, among others, management's review of the assumptions utilized to determine fair value estimates, and management's testing of the completeness and accuracy of the underlying data utilized to estimate the fair value of the retail stores. Our testing of the Company's retail store impairment analyses included, among other procedures, inspecting the Company's analysis of historical results to determine if contrary evidence existed as to the completeness of the population of potentially impaired retail stores. Additionally, we evaluated the assumptions used by management in the analyses, including the significant assumption discussed above used to estimate fair value. For example, we compared the significant assumption used by management to historical results, current industry and economic trends, and other relevant factors. We performed sensitivity analyses of the significant assumption to evaluate the changes in the fair value of the individual retail stores that would result from changes in the underlying assumption. We involved our valuation specialists to assist in our evaluation of the fair value estimate specific to evaluating market participant data.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1993.

Pittsburgh, Pennsylvania
March 13, 2023

AMERICAN EAGLE OUTFITTERS, INC.
Consolidated Balance Sheets

(In thousands, except per share amounts)	January 28, 2023	January 29, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 170,209	$ 434,770
Merchandise inventory	585,083	553,458
Accounts receivable, net	242,386	286,683
Prepaid expenses and other	102,563	122,013
Total current assets	1,100,241	1,396,924
Operating lease right-of-use assets	1,086,999	1,193,021
Property and equipment, at cost, net of accumulated depreciation	781,514	728,272
Goodwill	264,945	271,416
Intangible assets, net	94,536	102,701
Non-current deferred income taxes	36,483	44,167
Other assets	56,238	50,142
Total assets	$ 3,420,956	$ 3,786,643
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 234,340	$ 231,782
Current portion of operating lease liabilities	337,258	311,005
Unredeemed gift cards and gift certificates	67,618	71,365
Accrued compensation and payroll taxes	51,912	141,817
Accrued income and other taxes	10,919	16,274
Other current liabilities and accrued expenses	66,901	70,628
Total current liabilities	768,948	842,871
Non-current liabilities:		
Non-current operating lease liabilities	1,021,200	1,154,481
Long-term debt, net	8,911	341,002
Other non-current liabilities	22,734	24,617
Total non-current liabilities	1,052,845	1,520,100
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; 195,064 and 168,699 shares outstanding, respectively	2,496	2,496
Contributed capital	341,775	636,355
Accumulated other comprehensive loss, net of tax	(32,630)	(40,845)
Retained earnings	2,137,126	2,203,772
Treasury stock, 54,502 and 80,867 shares, respectively, at cost	(849,604)	(1,378,106)
Total stockholders' equity	1,599,163	1,423,672
Total liabilities and stockholders' equity	$ 3,420,956	$ 3,786,643

Refer to Notes to Consolidated Financial Statements

AMERICAN EAGLE OUTFITTERS, INC.
Consolidated Statements of Operations

(In thousands, except per share amounts)	For the Years Ended January 28, 2023	January 29, 2022	January 30, 2021
Total net revenue	$ 4,989,833	$ 5,010,785	$ 3,759,113
Cost of sales, including certain buying, occupancy and warehousing expenses	3,244,585	3,018,995	2,610,966
Gross profit	1,745,248	1,991,790	1,148,147
Selling, general and administrative expenses	1,269,095	1,222,000	977,264
Impairment, restructuring and COVID-19 – related charges	22,209	11,944	279,826
Depreciation and amortization expense	206,897	166,781	162,402
Operating income (loss)	247,047	591,065	(271,345)
Debt-related charges	64,721	—	—
Interest expense, net	14,297	34,632	24,610
Other income, net	(10,465)	(2,489)	(3,682)
Income (loss) before income taxes	178,494	558,922	(292,273)
Provision (benefit) for income taxes	53,358	139,293	(82,999)
Net income (loss)	$ 125,136	$ 419,629	$ (209,274)
Basic net income (loss) per common share	$ 0.69	$ 2.50	$ (1.26)
Diluted net income (loss) per common share	$ 0.64	$ 2.03	$ (1.26)
Weighted average common shares outstanding - basic	181,778	168,156	166,455
Weighted average common shares outstanding - diluted	205,226	206,529	166,455

Refer to Notes to Consolidated Financial Statements

AMERICAN EAGLE OUTFITTERS, INC.
Consolidated Statements of Comprehensive Income (Loss)

(In thousands)	For the Years Ended January 28, 2023	January 29, 2022	January 30, 2021
Net income (loss)	$ 125,136	$ 419,629	$ (209,274)
Other comprehensive gain (loss):			
Foreign currency translation gain (loss)	8,215	(97)	(7,580)
Other comprehensive gain (loss)	8,215	(97)	(7,580)
Comprehensive inco e (loss)	$ 133,351	$ 419,532	$ (216,854)

Refer to Notes to Consolidated Financial Statements

AMERICAN EAGLE OUTFITTERS, INC.
Consolidated Statements of Stockholders' Equity

(In thousands, except per share amounts)	Shares Outstanding [1]	Common Stock	Contributed Capital	Retained Earnings	Treasury Stock [2]	Accumulated Other Comprehensive (Loss)	Stockholders' Equity
Balance at February 1, 2020	**166,993**	**$ 2,496**	**$ 577,856**	**$ 2,108,292**	**$ (1,407,623)**	**$ (33,168)**	**$ 1,247,853**
Stock awards	—	—	32,298	—	—	—	32,298
Repurchase of common stock as part of publicly announced programs	(1,720)	—	—	—	(20,000)	—	(20,000)
Repurchase of common stock from employees	(449)	—	—	—	(5,413)	—	(5,413)
Convertible Notes - Equity portion, net of tax	—	—	68,330	—	—	—	68,330
Reissuance of treasury stock	1,511	—	(15,522)	(7,551)	25,622	—	2,549
Net loss	—	—	—	(209,274)	—	—	(209,274)
Other comprehensive loss	—	—	—	—	—	(7,580)	(7,580)
Cash dividends and dividend equivalents ($0.1375 per share)	—	—	756	(22,854)	—	—	(22,098)
Balance at January 30, 2021	**166,335**	**$ 2,496**	**$ 663,718**	**$ 1,868,613**	**$ (1,407,414)**	**$ (40,748)**	**$ 1,086,665**
Stock awards	—	—	37,887	—	—	—	37,887
Repurchase of common stock from employees	(781)	—	—	—	(24,018)	—	(24,018)
Reissuance of treasury stock	2,798	—	(59,384)	26,490	47,427	—	14,533
Equity portion of partial extinguishment of Convertible Senior Notes, net of tax	347	—	(9,876)	6,995	5,899	—	3,018
Net income	—	—	—	419,629	—	—	419,629
Other comprehensive loss	—	—	—	—	—	(97)	(97)
Cash dividends and dividend equivalents ($0.6775 per share)	—	—	4,010	(117,955)	—	—	(113,945)
Balance at January 29, 2022	**168,699**	**$ 2,496**	**$ 636,355**	**$ 2,203,772**	**$ (1,378,106)**	**$ (40,845)**	**$ 1,423,672**
Stock awards	—	—	38,148	—	—	—	38,148
Repurchase of common stock from employees	(584)	—	—	—	(9,780)	—	(9,780)
Reissuance of treasury stock	1,643	—	(24,642)	(1,624)	27,865	—	1,599
Adoption of Accounting Standards Update 2020-06, net of tax	—	—	(67,686)	18,830	—	—	(48,856)
Accelerated share repurchase	(17,023)	—	—	—	(200,000)	—	(200,000)
Exchange of Convertible Senior Notes	42,329	—	(244,198)	(142,737)	710,417	—	323,482
Net income	—	—	—	125,136	—	—	125,136
Other comprehensive income	—	—	—	—	—	8,215	8,215
Cash dividends and dividend equivalents ($0.3600 per share)	—	—	1,484	(66,251)	—	—	(64,767)
Contributions from non-controlling interests	—	—	2,314	—	—	—	2,314
Balance at January 28, 2023	**195,064**	**$ 2,496**	**$ 341,775**	**$ 2,137,126**	**$ (849,604)**	**$ (32,630)**	**$ 1,599,163**

(1) 600,000 authorized, 249,566 issued and 195,064 outstanding, $0.01 par value common stock at January 28, 2023; 600,000 authorized, 249,566 issued and 168,699 outstanding, $0.01 par value common stock at January 29, 2022; 600,000 authorized, 249,566 issued and 166,335 outstanding, $0.01 par value common stock at January 30, 2021; 600,000 authorized, 249,566 issued and 166,993 outstanding, $0.01 par value common stock at February 1, 2020. The Company has 5,000 authorized, with none issued or outstanding, $0.01 par value preferred stock for all periods presented.

(2) 54,502 shares, 80,867 shares, and 83,231 shares at January 28, 2023, January 29, 2022, and January 30, 2021, respectively. During Fiscal 2022, Fiscal 2021, and Fiscal 2020, 1,643 shares, 2,798 shares, and 1,511 shares, respectively, were reissued from treasury stock for the issuance of share-based payments.

Refer to Notes to Consolidated Financial Statements

AMERICAN EAGLE OUTFITTERS, INC.
Consolidated Statements of Cash Flows

(In thousands)	For the Years Ended January 28, 2023	January 29, 2022	January 30, 2021
Operating activities:			
Net income (loss)	$ 125,136	$ 419,629	$ (209,274)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	212,499	171,151	165,580
Share-based compensation	38,986	38,153	32,778
Deferred income taxes	31,049	(12,850)	(34,890)
Loss on impairment of assets	20,633	11,944	249,163
Loss on exchange of convertible senior notes	60,341	—	—
Changes in assets and liabilities:			
Merchandise inventory	(38,364)	(147,140)	42,156
Operating lease assets	345,798	296,652	226,376
Operating lease liabilities	(361,142)	(352,547)	(238,810)
Other assets	70,131	(134,152)	(107,317)
Accounts payable	2,019	(36,192)	(30,909)
Accrued compensation and payroll taxes	(90,114)	(1,412)	95,116
Accrued and other liabilities	(10,676)	50,435	12,529
Net cash provided by operating activities	**406,296**	**303,671**	**202,498**
Investing activities:			
Acquisitions of businesses, net of cash acquired	—	(358,151)	—
Capital expenditures for property and equipment	(260,378)	(233,847)	(127,975)
Purchase of available-for-sale investments	—	(75,000)	(14,956)
Sale of available-for-sale investments	—	75,000	69,956
Other investing activities	(997)	(2,603)	(970)
Net cash used for investing activities	**(261,375)**	**(594,601)**	**(73,945)**
Financing activities:			
Accelerated share repurchase	(200,000)	—	—
Principal paid in connection with exchange of convertible senior notes due 2025	(136,419)	—	—
Cash dividends paid	(64,767)	(113,945)	(22,854)
Repurchase of common stock from employees	(9,780)	(24,018)	(5,413)
Other financing activities	984	(299)	(1,199)
Net proceeds from stock options exercised	2,089	13,065	3,265
Repurchase of common stock as part of publicly announced programs	—	—	(20,000)
Proceeds from revolving line of credit and convertible senior notes, net	—	—	406,108
Net cash (used for) provided by financing activities	**(407,893)**	**(125,197)**	**359,907**
Effect of exchange rates on cash	(1,589)	420	87
Net change in cash and cash equivalents	**(264,561)**	**(415,707)**	**488,547**
Cash and cash equivalents - beginning of period	$ 434,770	$ 850,477	$ 361,930
Cash and cash equivalents - end of period	170,209	434,770	850,477

Refer to Notes to Consolidated Financial Statements

AMERICAN EAGLE OUTFITTERS, INC.

Notes to Consolidated Financial Statements
For the Year Ended January 28, 2023

1. Business Operations

American Eagle Outfitters, Inc. (the “Company,” “we” and “our”), a Delaware corporation, operates under the American Eagle® (“AE”) and Aerie® brands. We also operate Todd Snyder New York, a premium menswear brand, and Unsubscribed, which focuses on consciously-made slow fashion.

Founded in 1977, the Company is a leading multi-brand specialty retailer that operates more than 1,100 retail stores in the United States and internationally, online through our digital channels at www.ae.com and www.aerie.com, www.toddsnyder.com, www.unsubscribed.com and more than 200 international store locations managed by third-party operators. Through its portfolio of brands, the Company offers high quality, on-trend clothing, accessories, and personal care products at affordable prices. The Company’s online business, AEO Direct, ships to approximately 80 countries worldwide.

AEO Direct reinforces each particular brand platform and is designed to complement the in-store experience. We offer the ability for customers to return products seamlessly via any channel regardless of where products were originally purchased. We also offer a variety of channels to fulfill customer orders. These include “ship to home,” - which can be fulfilled either through our distribution centers or our store sites (buy online, ship from stores) when purchased online or through our app; “store pick-up,” - which consists of online orders being fulfilled eith er in store or curbside, and we offer “store-to-door” capability where customers order within our store, and the goods are shipped directly to their home.

In Fiscal 2021, we acquired AirTerra, Inc. ("AirTerra") and Quiet Logistics, Inc. ("Quiet Logistics"), creating a new supply chain platform ("Quiet Platforms”). Quiet Logistics is a leading logistics company that operates a network of in-market fulfillment centers, locating products closer to need, creating inventory efficiencies, cost benefits and affordable same-day and next-day delivery options for customers and stores. AirTerra is a logistics service and platform that solves e-commerce fulfillment and shipping challenges in a unique and innovative way for retailers and brands of all sizes. Both acquisitions represent an important step in building our supply chain platform, as part of our ongoing supply chain transformation strategy of leveraging scale and innovation to help us mange costs and improve service.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries and consolidated entities where the Company's ownership percentage is less than 100%. Non-controlling interests are included as a component of contributed capital within the Consolidated Balance Sheets and Consolidated Statements of Stockholders' Equity and was not material for any period presented. All intercompany transactions and balances have been eliminated in consolidation. At January 28, 2023, the Company operated in two reportable segments, American Eagle and Aerie.

Fiscal Year

Our fiscal year is a 52- or 53-week year that ends on the Saturday nearest to January 31. As used herein, “Fiscal 2023” refers to the 53-week period that will end on February 3, 2024. “Fiscal 2022” refers to the 52-week period ended January 28, 2023. “Fiscal 2021” refers to the 52-week period ended January 29, 2022. “Fiscal 2020” refers to the 52-week period ended January 30, 2021.

Estimates

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

Cash and Cash Equivalents

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

Refer to Note 4 to the Consolidated Financial Statements for information regarding cash and cash equivalents.

Accounts Receivable

The Company maintains an allowance for doubtful accounts for estimated losses from the failure of certain of our customers to make required payments for products or services delivered. The Company estimates this allowance based on the age of the related receivable, knowledge of the financial condition of customers, review of historical and expected future receivables, reserve trends and other pertinent information. If the financial condition of customers deteriorates or an unfavorable trend in receivable collections is experienced in the future, additional allowances may be required. Historically, the Company’s reserves have approximated actual experience.

Merchandise Inventory

Merchandise inventory is valued at the lower of average cost or net realizable value, utilizing the retail method. Average cost includes merchandise design and sourcing costs and related expenses. The Company records merchandise receipts when control of the merchandise has 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, or competition, or if it is determined that the inventory in stock will not sell at its currently ticketed price. Such markdowns may have a material adverse impact on earnings, depending on the extent and amount of inventory affected.

The Company also estimates a shrinkage reserve for the period between the last physical count and the balance sheet date. The estimate for the shrinkage reserve, based on historical results, can be affected by changes in merchandise mix and changes in actual shrinkage trends.

Property and Equipment

Property and equipment are recorded on the basis of cost with depreciation computed utilizing the straight-line method over the assets' estimated useful lives. The useful lives of our major classes of assets are as follows:

Buildings	25 years
Leasehold improvements	Lesser of 10 years or the term of the lease
Fixtures and equipment	Five years
Information technology	Three to five years

As of January 28, 2023, the weighted average remaining useful life of our assets was approximately six years.

In accordance with ASC 360, *Property, Plant, and Equipment* ("ASC 360"), the Company's management evaluates the value of leasehold improvements, store fixtures, and operating lease right-of-use ("ROU") assets associated with retail stores. The Company evaluates long-lived assets for impairment at the individual store level, which is the lowest level at which individual cash flows can be identified. Impairment losses are recorded on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the projected undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts. When events such as these occur, the impaired assets are adjusted to their estimated fair value and an impairment loss is recorded separately as a component of operating income (loss) within impairment, restructuring and COVID-19 - related charges in the Consolidated Statements of Operations.

Our impairment loss calculations require management to make assumptions and to apply judgment to estimate future cash flows and asset fair values. The significant assumption used in our fair value analysis is forecasted revenue. We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate long-lived asset impairment losses. However, if actual results are not consistent with our estimates and assumptions, our consolidated operating results could be adversely affected.

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

Refer to Note 8 to the Consolidated Financial Statements for additional information regarding property and equipment, and refer to Note 17 to the Consolidated Financial Statements for additional information regarding impairment charges for Fiscal 2022, Fiscal 2021 and Fiscal 2020.

Goodwill and Intangible Assets

The Company's goodwill is primarily related to the acquisitions of Quiet Logistics and AirTerra, in Fiscal 2021, as well as its importing operations and Canadian business, and represents the excess of cost over fair value of net assets of businesses acquired. In accordance with ASC 350, *Intangibles – Goodwill and Other*, the Company evaluates goodwill for possible impairment at least annually as of the last day of the fiscal year and upon occurrence of certain triggering events or substantive changes in circumstances that indicate that the fair value of a reporting unit may be below its carrying value. If the carrying value of the reporting unit exceeds the fair value, an impairment charge is recorded in the period of the evaluation based on that difference. The Company last performed an annual goodwill impairment test as of January 28, 2023. There was no goodwill impairment charge recorded during Fiscal 2022, Fiscal 2021, or Fiscal 2020.

Definite-lived intangible assets are initially recorded at fair value, with amortization computed utilizing the straight-line method over the assets' estimated useful lives. The Company's definite-lived intangible assets, which consist primarily of trademark assets, are generally amortized over 10 to 15 years.

The Company evaluates definite-lived intangible assets for impairment in accordance with ASC 360 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 is less than the carrying amounts of the assets, then the assets are impaired and are adjusted to their estimated fair value. No definite-lived intangible asset impairment charges were recorded for all periods presented.

Refer to Note 9 to the Consolidated Financial Statements for additional information regarding goodwill and intangible assets.

Leases

The Company leases all store premises, the Canadian distribution center in Mississauga, Ontario, regional distribution facilities, some of its office space and certain information technology and office equipment. These leases are generally classified as operating leases.

Store leases generally provide for a combination of base rentals and contingent rent based on store sales. Additionally, most leases include lessor incentives such as construction allowances and rent holidays. The Company is typically responsible for tenant occupancy costs including maintenance costs, common area charges, real estate taxes and certain other expenses. When measuring operating lease ROU assets and operating lease liabilities, the Company only includes cash flows related to options to extend or terminate leases once those options are executed.

Some leases have variable payments. However, because they are not based on an index or rate, they are not included in the measurement of operating lease ROU assets and operating lease liabilities.

When determining the present value of future payments for an operating lease that does not have a readily determinable implicit rate, the Company uses its incremental borrowing rate as of the date of initial possession of the leased asset.

For leases that qualify for the short-term lease exemption, the Company does not record an operating lease liability or operating lease ROU asset. Short-term lease payments are recognized on a straight-line basis over the lease term of 12 months or less.

Refer to Note 11 to the Consolidated Financial Statements for additional information.

Co-Branded and Private Label Credit Cards

The Company offers a co-branded credit card and a private-label credit card under the AE and Aerie brands. These credit cards are issued by a third-party bank (the "Bank") in accordance with a credit card agreement (the "Agreement"). The Company has no liability to the Bank for bad debt expense, provided that purchases are made in accordance with the Bank's procedures. We receive funding from the Bank based on the Agreement and card activity, which includes payments for new account activations and usage of the credit cards. We recognize revenue for this funding as we fulfill our performance obligations under the Agreement. This revenue is recorded in other revenue, which is a component of total net revenue in our Consolidated Statements of Operations.

Customer Loyalty Program

The Company offers a highly digitized loyalty program called Real Rewards by American Eagle and Aerie™ (the "Program"). The Program features both shared and unique benefits for loyalty members and credit card holders. Under the Program, members accumulate points based on purchase activity and earn rewards by reaching certain point thresholds. Members earn rewards in the form of discount savings certificates. Rewards earned are valid through the stated expiration date, which is 60 days from the issuance date of the reward. Rewards not redeemed during the 60-day redemption period are forfeited.

Points earned under the Program on purchases at AE and Aerie are accounted for in accordance with ASC 606, *Revenue from Contracts with Customers* ("ASC 606"). The portion of the sales revenue attributed to the reward points is deferred and recognized when the reward is redeemed or when the points expire, using the relative stand-alone selling price method. Additionally, reward points earned using the co-branded credit card on non-AE or Aerie purchases are accounted for in accordance with ASC 606. As the points are earned, a current liability is recorded for the estimated cost of the reward, and the impact of adjustments is recorded in revenue.

The Company defers a portion of the sales revenue attributed to the loyalty points and recognizes revenue when the points are redeemed or expire, consistent with the requirements of ASC 606.

Sales Return Reserve

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 using historical average return percentages.

	For the Years Ended		
(In thousands)	January 28, 2023	January 29, 2022	January 30, 2021
Beginning balance	$ 9,168	$ 8,377	$ 5,825
Returns	(150,987)	(149,988)	(107,700)
Provisions	152,188	150,779	110,252
Ending balance	$ 10,369	$ 9,168	$ 8,377

The presentation on a gross basis consists of a separate right of return asset and liability. These amounts are recorded within (i) prepaid expenses and other and (ii) other current liabilities and accrued expenses, respectively, on the Consolidated Balance Sheets.

Long-Term Debt

In April 2020, the Company issued $415 million aggregate principal amount of convertible senior notes due 2025 (the "2025 Notes"). Prior to the adoption of ASU 2020-06 in Fiscal 2022, the 2025 Notes were accounted for under the cash conversion model, which is one of the models eliminated by ASU 2020-06. The adoption of ASU 2020-06 resulted in the 2025 Notes being accounted for as a single balance in long-term debt, rather than being accounted for as separate debt and equity components.

In June 2022, the Company entered into an amended and restated credit agreement (the "Credit Agreement"). The Credit Agreement provides senior secured asset-based revolving credit for loans and letters of credit up to $700 million, subject to customary borrowing base limitations (the "Credit Facility"). The Credit Facility expires on June 24, 2027.

Refer to Note 10 to the Consolidated Financial Statements for additional information regarding Long-Term Debt.

Income Taxes

The Company calculates income taxes in accordance with ASC 740, *Income Taxes* ("ASC 740"), which requires the use of the liability method. Under this method, deferred tax assets and liabilities are recognized based on the difference between the Consolidated Financial Statements 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 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 requires management to make estimates and assumptions. The Company believes that its estimates and assumptions 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 (loss).

Refer to Note 15 to the Consolidated Financial Statements for additional information.

Accelerated Share Repurchase Agreement

On June 3, 2022, the Company entered into an accelerated share repurchase agreement (the "ASR Agreement") with JPMorgan Chase Bank ("JPM"). Pursuant to the terms of the ASR Agreement, on June 3, 2022 the Company paid $200.0 million in cash and received an initial delivery of 13.4 million shares of its common stock on June 3, 2022. At final settlement, on July 28, 2022, an additional 3.7 million shares were received. The cumulative repurchase under the ASR Agreement was 17.0 million shares repurchased at an average price per share of $11.75. The aforementioned shares have been recorded as treasury stock.

Revenue Recognition

The Company recognizes revenue pursuant to ASC 606. Revenue is recorded for store sales upon the purchase of merchandise by customers. The Company's e-commerce operation records revenue upon the 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 promotional price reductions. 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 using historical average return percentages. The presentation on a gross basis of the sales return reserve consists of a separate right of return asset and liability. These amounts are recorded within (i) prepaid expenses and other and (ii) other current liabilities and accrued expenses, respectively, on the Consolidated Balance Sheets.

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 gift card breakage, determined through historical redemption trends. Revenue on unredeemed gift cards, based on an estimate of the amounts that will not be redeemed ("gift card breakage"), is recognized 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 approximately $10.3 million, $10.3 million, and $8.8 million during Fiscal 2022, Fiscal 2021, and Fiscal 2020, respectively, of revenue related to gift card breakage.

The Company recognizes royalty revenue generated from its license or franchise agreements based on a percentage of merchandise sales by the licensee/franchisee. This revenue is recorded as a component of total net revenue when earned and collection is probable.

The Company defers a portion of the sales revenue attributed to loyalty points and recognizes revenue when the points are redeemed or expire, consistent with the requirements of ASC 606. Refer to Customer Loyalty Program above for additional information.

Revenue associated with Quiet Platforms is recognized as the services are performed.

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"), Quiet Platforms, costs to service its customers and buying, occupancy and warehousing costs and services.

Design costs are related to the Company's Design Center operations and include compensation, travel and entertainment, 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 and services consist of compensation, employee benefit expenses and travel and entertainment 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. Additionally, selling, general and administrative expenses do not include rent and utilities related to our stores, operating costs of our distribution centers, and shipping and handling costs related to our e-commerce operations, all of which are included in cost of sales.

Advertising Costs

Certain advertising costs, including direct mail, in-store photographs, and other promotional costs are expensed when the marketing campaign commences. As of January 28, 2023 and January 29, 2022, the Company had prepaid advertising expense of $6.1 million for both periods. All other advertising costs are expensed as incurred. The Company recognized $175.2 million, $173.6 million, and $150.0 million in advertising expense during Fiscal 2022, Fiscal 2021, and Fiscal 2020, respectively.

Store Pre-Opening Costs

Store pre-opening costs consist primarily of rent, advertising, supplies, and payroll expenses. These costs are expensed as incurred.

Debt-Related Charges

Debt-related charges consists primarily of a $60.4 million induced conversion expense on the exchanges of the 2025 Notes, along with certain other costs related to actions we took to strengthen our capital structure during Fiscal 2022. Refer to Note 10 to the Consolidated Financial Statements for additional information regarding the 2025 Notes.

Interest Expense, Net

Interest expense, net primarily consists of interest expense related to the Company's 2025 Notes and borrowings under our Credit Facility, partially offset by interest income from cash and cash equivalents.

Other Income, Net

Other income, net consists primarily of allowances for uncollectible receivables, foreign currency fluctuations and changes in other non-operating items. Non-controlling interest was not material for any period presented and is included within other income, net.

Legal Proceedings and Claims

The Company is subject to certain legal proceedings and claims arising out of the conduct of its business. In accordance with ASC 450, *Contingencies* (“ASC 450”), the Company records a reserve for estimated losses when the loss is probable and the amount can be reasonably estimated. If a range of possible loss exists and no anticipated loss within the range is more likely than any other anticipated loss, the Company records the accrual at the low end of the range, in accordance with ASC 450. As the Company believes that it has provided adequate reserves, it anticipates that the ultimate outcome of any matter currently pending against the Company will not materially affect the consolidated financial position, results of operations or cash flows of the Company. However, our assessment of any litigation or other legal claims could potentially change in light of the discovery of facts not presently known or determinations by judges, juries, or other finders of fact that are not in accord with management’s evaluation of the possible liability or outcome of such litigation or claims.

Supplemental Disclosures of Cash Flow Information

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

	For the Years Ended		
(In thousands)	January 28, 2023	January 29, 2022	January 30, 2021
Cash (received) paid during the periods for:			
Income taxes	$ (22,109)	$ 182,656	$ 4,191
Interest	$ 15,435	$ 8,729	$ 10,316

Segment Information

The Company has identified two operating segments (American Eagle and Aerie brand) that also represent our reportable segments and reflect the Chief Operating Decision Maker's (defined as our CEO) internal view of analyzing results and allocating resources. Additionally, our Todd Snyder and Unsubscribed brands and Quiet Platforms have been identified as separate operating segments; however, as they do not meet the quantitative thresholds for separate disclosures they have been included in the Corporate and Other category. For additional information, regarding the Company’s segment and geographic information, refer to Note 16 to the Consolidated Financial Statements.

3. Acquisitions

On December 29, 2021, the Company completed the acquisition of Quiet Logistics, Inc. and certain other strategic investments pursuant to a Stock Purchase Agreement, dated as of November 1, 2021. Quiet Logistics is a leading logistics company that operates a network of in-market fulfillment centers, locating products closer to need, creating inventory efficiencies, cost benefits and affordable same-day and next-day delivery options to customers and stores.

At the closing of the transaction, the Company acquired from the sellers all of the issued and outstanding shares of capital stock of Quiet Logistics and certain equity interests in two related strategic investments.

The aggregate purchase price paid at the closing, after giving effect to estimated adjustments in respect of working capital and other customary matters, was approximately $360.6 million in cash.

In accordance with *ASC 805, Business Combinations* ("ASC 805"), the total purchase price was allocated to the net tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the date of the acquisition. Such estimated fair values require management to make estimates and judgments, especially with respect to intangible assets. Goodwill was calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized.

The following table summarizes the final fair values of the Quiet Logistics assets acquired and liabilities assumed at the acquisition date:

Current assets:	
Cash and cash equivalents	$ 3,857
Accounts Receivable	23,207
Prepaid expenses	3,210
Total current assets	$ 30,274
Property and equipment	$ 28,728
Intangible assets	51,500
Goodwill	248,798
Other long-term assets	118,550
Total Assets	$ 477,850
Current liabilities	$ 29,819
Total long-term liabilities	87,415
Total Liabilities	$ 117,234
Total purchase price	$ 360,616

The purchase price allocation included $51.5 million of acquired intangible assets, of which $39.0 million was assigned to customer relationships and $12.5 million was assigned to trade names, which were both recognized at fair value on the acquisition date. The fair value of the identifiable intangible assets was estimated using the income approach through a discounted cash flow analysis. The cash flows were based on estimates used to price the Quiet Logistics acquisition, and the discount rates applied were benchmarked with reference to the implied rate of return to the Company's pricing model and the weighted-average cost of capital of 14.5%. Additionally, the significant assumption used to determine the fair value of the customer relationships intangible asset was revenue growth. This significant assumption is forward-looking and could be affected by future economic and market conditions. The customer relationships and trade name intangible assets are subject to useful lives of 10 and 15 years, respectively. Deferred tax assets were increased by $6.3 million in Fiscal 2022 related to the finalization of the net operating loss ("NOL") benefit.

In accordance with ASC 350, the $248.8 million of goodwill that was associated with the Quiet Logistics acquisition was assigned to the reporting units that benefited from the acquisition, namely the AE, Aerie and Quiet Platforms reporting units in the amounts of $101.6 million, $110.6 million and $36.6 million, respectively. The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of Quiet Logistics. None of the goodwill is expected to be deductible for income tax purposes.

On May 3, 2021, the Company completed the acquisition of AirTerra, Inc. AirTerra is a logistics and supply chain platform that solves e-commerce fulfillment and shipping challenges in a unique and innovative way for retailers and brands of all sizes. The aggregate purchase price paid at closing was $3.0 million.

Together, the Quiet Logistics and AirTerra acquisitions represent an important step in building Quiet Platforms, as part of our ongoing supply chain transformation strategy of leveraging scale and innovation to help us manage costs and improve service.

Pro forma results from acquisitions completed during the year ended January 29, 2022 were determined not to be material.

4. Cash and Cash Equivalents

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

(In thousands)	January 28, 2023	January 29, 2022
Cash and cash equivalents:		
Cash	$ 84,960	$ 138,758
Interest-bearing deposits	85,249	296,012
Total cash and cash equivalents	$ 170,209	$ 434,770

5. 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.
- *Level 2* — Inputs other than Level 1 that are observable, either directly or indirectly.
- *Level 3* — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company's cash equivalents are Level 1 financial assets and are measured at fair value on a recurring basis, for all periods presented. Refer to Note 4 to the Consolidated Financial Statements for additional information regarding cash equivalents.

The Company had no other financial instruments that required fair value measurement for any of the periods presented.

	Fair Value Measurements at January 28, 2023			
(In thousands)	Carrying Amount	Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents				
Cash	$ 84,960	$ 84,960	—	—
Interest-bearing deposits	85,249	85,249	—	—
Total cash and cash equivalents	$ 170,209	$ 170,209	—	—

Long-Term Debt

As of January 28, 2023, the Company had no outstanding borrowings under its Credit Facilities.

The Company had approximately $8.8 million aggregate principal of the 2025 Notes outstanding at January 28, 2023. The fair value of the Company's 2025 Notes is not required to be measured at fair value on a recurring basis. Upon issuance, the fair value of the 2025 Notes was measured using two approaches that consider market-related conditions, including market benchmark rates and a secondary market quoted price, and is therefore within Level 2 of the fair value hierarchy.

Refer to Note 10 to the Consolidated Financial Statements for additional information regarding long-term debt and other credit arrangements.

Non-Financial Assets

The Company's non-financial assets, which include 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 and the Company is required to evaluate the non-financial asset for impairment, a resulting impairment would require that the non-financial asset be recorded at the estimated fair value.

Certain long-lived assets were measured at fair value on a nonrecurring basis using Level 3 inputs as defined in ASC 820. During Fiscal 2022, the Company recorded asset impairment charges of $20.6 million, primarily related to retail store property and equipment, and operating lease ROU assets. These assets were adjusted to their fair value and the loss on impairment was recorded within impairment, restructuring and COVID-19 related charges in the Consolidated Statements of Operations.

During Fiscal 2021, the Company recorded asset impairment charges of $11.9 million, primarily related to retail store property and equipment, and operating lease ROU assets. The assets were adjusted to their fair value and the loss on impairment was recorded within impairment, restructuring and COVID-19 related charges in the Consolidated Statements of Operations.

The fair value of the Company's store assets in Fiscal 2022 and Fiscal 2021 was 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.

The fair value of the Company's ROU assets was based upon market rent assumptions.

6. Earnings per Share

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

	For the Years Ended		
(In thousands)	January 28, 2023	January 29, 2022	January 30, 2021
Numerator:			
Net income (loss) and numerator for basic EPS	$ 125,136	$ 419,629	$ (209,274)
Add: Interest expense, net of tax, related to the 2025 Notes (1)	5,474	—	—
Numerator for diluted EPS	$ 130,610	$ 419,629	$ (209,274)
Denominator:			
Denominator for basic EPS - weighted average shares	181,778	168,156	166,455
Add: Dilutive effect of the 2025 Notes (1)	21,507	34,003	—
Add: Dilutive effect of stock options and non-vested restricted stock	1,941	4,370	—
Denominator for diluted EPS - adjusted weighted average shares	205,226	206,529	166,455
Anti-dilutive shares (2)	2,182	202	14,259

7. Accounts Receivable, net

Accounts receivable, net is comprised of the following:

(In thousands)	January 28, 2023	January 29, 2022
Merchandise sell-offs and vendor receivables	66,193	$ 37,707
AE & Aerie international license receivables	59,837	71,371
Tax and other government refunds	47,201	75,137
Landlord construction allowances	25,235	24,285
Quiet Platforms' customer receivables	23,031	16,095
Gift card receivable	7,728	12,771
Credit card program receivable	3,189	39,507
Other items	9,972	9,810
Total	$ 242,386	$ 286,683

8. Property and Equipment, net

Property and equipment, net consists of the following:

(In thousands)	January 28, 2023	January 29, 2022
Land	$ 17,910	$ 17,910
Buildings	222,857	219,194
Leasehold improvements	822,292	739,245
Fixtures and equipment	1,635,897	1,496,972
Construction in progress	8,105	7,117
Property and equipment, at cost	$ 2,707,061	$ 2,480,438
Less: Accumulated depreciation	(1,925,547)	(1,752,166)
Property and equipment, net	$ 781,514	$ 728,272

Depreciation expense is as follows:

	For the Years Ended		
(In thousands)	January 28, 2023	January 29, 2022	January 30, 2021
Depreciation expense	$ 208,014	$ 161,492	$ 159,413

Additionally, during Fiscal 2022, Fiscal 2021, and Fiscal 2020, the Company recorded $4.4 million, $4.4 million and $2.2 million, respectively, related to asset write-offs within depreciation and amortization expense.

9. Goodwill and Intangible Assets, net

Goodwill and definite-lived intangible assets, net consist of the following:

	January 28, 2023				January 29, 2022			
(In thousands)	American Eagle	Aerie	Corporate and Other [(2)]	Total	American Eagle	Aerie	Corporate and Other [(2)]	Total
Goodwill, beginning balance[(1)]	$ 114,883	$ 110,600	$ 45,933	$ 271,416	$ 13,267	$ —	$ —	$ 13,267
Additions	—	—	—	—	101,600	110,600	45,933	258,133
Purchase accounting adjustment	—	—	(6,335)	(6,335)	—	—	—	—
Foreign currency fluctuation	(136)	—	—	(136)	16	—	—	16
Goodwill, ending balance	$ 114,747	$ 110,600	$ 39,598	$ 264,945	$ 114,883	$ 110,600	$ 45,933	$ 271,416

(1) Beginning balances for both periods include accumulated impairment of $4.2 million.
(2) Corporate and Other includes goodwill allocated to the Quiet Platforms reporting unit, which has been identified as a separate operating segment, but is not material to disclose as a separate reportable segment.

(In thousands)	January 28 2023	January 29, 2022
Intangible assets, beginning balance, at cost	$ 102,701	$ 57,065
Additions	985	52,580
Amortization	(9,150)	(6,944)
Intangible assets, net [(1)]	$ 94,536	$ 102,701

(1) The ending balance includes accumulated amortization of $51.7 million and $42.1 million as of January 28, 2023 and January 29, 2022, respectively.

Amortization expense is as follows:

(In thousands)	January 28, 2023	January 29, 2022	January 30, 2021
Amortization expense	$ 9,162	$ 6,468	$ 3,752

The table below summarizes the estimated future amortization expense for intangible assets existing as of January 28, 2023 for the next five fiscal years:

(In thousands)		Future Amortization
2023	$	8,912
2024	$	8,789
2025	$	8,653
2026	$	8,531
2027	$	8,459

10. Long-Term Debt, Net

The Company's long-term debt consisted of the following:

(In thousands)		January 28, 2023		January 29, 2022
2025 Notes principal	$	8,791	$	412,025
Less: unamortized discount		105		71,023
2025 Notes, net	$	8,686	$	341,002
2025 Notes - equity portion, net of tax		—		58,454

2025 Notes

In April 2020, the Company issued $415 million aggregate principal amount of 2025 Notes in a private placement to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933. The 2025 Notes have a stated interest rate of 3.75%, payable semi-annually. The Company may redeem the 2025 Notes, in whole or in part, at any time beginning April 17, 2023. The Company used the net proceeds from the issuance for general corporate purposes.

The Company does not have the right to redeem the 2025 Notes prior to April 17, 2023. On or after April 17, 2023 and prior to the fortieth scheduled trading day immediately preceding the maturity date, the Company may redeem all or any portion of the 2025 Notes, at its option, for cash, if the last reported sale price of AEO's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period. Beginning January 2025, noteholders may convert their notes for approximately 120.9 shares of common stock per $1,000 principal amount of the Notes, equivalent to a conversion price of approximately $8.27 per share.

Subsequent to January 28, 2023, on February 10, 2023, the Company issued a notice of optional redemption for all of its outstanding 2025 Notes, notifying holders that, among other things, it has elected to exercise its right to redeem any and all of the outstanding 2025 Notes on April 17. 2023.

11. Leases

The Company leases all store premises, regional distribution facilities, some of its office space and certain information technology and office equipment. These leases are generally classified as operating leases.

Store leases generally provide for a combination of base rentals and contingent rent based on store sales. Additionally, most leases include lessor incentives such as construction allowances and rent holidays. The Company is typically responsible for tenant occupancy costs including maintenance costs, common area charges, real estate taxes, and certain other expenses.

Most leases include one or more options to renew. The exercise of lease renewal options is at the Company's discretion and is not reasonably certain at lease commencement. When measuring operating lease ROU assets and operating lease liabilities after the date of adoption of ASC 842, the Company only includes cash flows related to options to extend or terminate leases when those options are executed.

Some leases have variable payments. However, because they are not based on an index or rate, they are not included in the measurement of operating lease ROU assets and operating lease liabilities.

When determining the present value of future payments for an operating lease that does not have a readily determinable implicit rate, the Company uses its incremental borrowing rate as of the date of initial possession of the leased asset.

For leases that qualify for the short-term lease exemption, the Company does not record an operating lease liability or operating lease ROU asset. Short-term lease payments are recognized on a straight-line basis over the lease term of 12 months or less.

The following table summarizes expense categories and cash payments for operating leases during the period. It also includes the total non-cash transaction activity for new operating lease ROU assets and related operating lease liabilities entered into during the period.

	For the Year Ended	
(In thousands)	January 28, 2023	January 29, 2022
Lease costs		
Operating lease costs	$ 368,483	$ 328,868
Variable lease costs	121,604	121,118
Short-term leases and other lease costs	5,357	11,927
Total lease costs	$ 495,444	$ 461,913
Other information		
Cash paid for operating lease liability	$ (397,059)	$ (363,468)
New operating lease ROU assets entered into during the period	$ 254,290	$ 336,546

The following table contains the average remaining lease term and discount rate, weighted by outstanding operating lease liability as of the end of the period:

Lease term and discount rate	January 28, 2023
Weighted-average remaining lease term - operating leases	4.75 years
Weighted-average discount rate - operating leases	3.9%

The table below is a maturity analysis of the operating leases in effect as of the end of the period. Undiscounted cash flows for finance leases and short-term leases are not material for the periods reported and are excluded from the table below:

(In thousands)	Undiscounted cash flows January 28, 2023
Fiscal years:	
2023	$ 321,240
2024	294,514
2025	245,899
2026	203,187
2027	155,015
Thereafter	264,715
Total undiscounted cash flows	$ 1,484,570
Less: discount on lease liability	(126,112)
Total lease liability	$ 1,358,458

15. Income Taxes

On December 22, 2017, the United States government enacted comprehensive tax legislation in the form of the Tax Cuts and Jobs Act ("the Tax Act"). The Tax Act significantly changed United States international tax laws for tax years beginning after December 31, 2017 and included a provision designed to currently tax global intangible low-taxed income ("GILTI") earned by non-United States corporate subsidiaries of large United States shareholders. The Company has elected to treat GILTI as a period expense, and the effect of the GILTI inclusion for Fiscal 2022 is not material.

In addition, on March 27, 2020, the United States government enacted the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") to address the COVID-19 pandemic. The CARES Act allows net operating losses ("NOL") generated within tax years 2018 through 2020 to be carried back up to five years, including years in which the United States federal corporate income tax rate was 35%, as opposed to the current U.S federal corporate income tax rate of 21%. The CARES Act contains other key income and payroll tax provisions, including the immediate write-off of qualified improvement property.

The components of income (loss) before income taxes are:

	For the Years Ended		
(In thousands)	January 28, 2023	January 29, 2022	January 30, 2021
U.S.	$ 138,023	$ 520,952	$ (294,208)
Foreign	40,471	37,970	1,935
Total	$ 178,494	$ 558,922	$ (292,273)

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

(in thousands)	January 28, 2023	January 29, 2022
Deferred tax assets:		
Operating lease ROU assets	$ 353,277	$ 380,117
Net Operating Loss	27,604	27,643
Accruals not currently deductible	11,442	11,645
Deferred compensation	9,498	8,429
Disallowed business interest expense	8,353	—
Other long-term assets	8,201	8,208
State tax credits	7,968	7,546
Inventories	7,082	5,220
Gift card liability	4,871	3,974
Capital Loss	4,210	4,213
Capitalized research and development expenses	4,120	—
Employee compensation and benefits	2,896	20,521
Foreign tax credits	2,761	2,982
General Business Credits	1,586	751
Allowance for Doubtful Accounts	911	3,201
Other	744	1,032
Gross deferred tax assets	455,524	485,482
Valuation allowance	(25,902)	(25,628)
Total deferred tax assets	429,622	459,854
Deferred tax liabilities:		
Operating lease liabilities	$ (287,061)	$ (308,299)
Property and equipment	(100,958)	(87,192)
Prepaid expenses	(2,988)	(2,215)
Goodwill	(1,996)	(2,045)
Other	(136)	(552)
2025 Notes	—	(15,384)
Total deferred tax liabilities	$ (393,139)	$ (415,687)
Total deferred tax assets, net	$ 36,483	$ 44,167

The change in net deferred tax assets was primarily due to a decrease in the net deferred tax asset of Operating lease ROU assets, Operating lease liabilities and Employee compensation and benefits, partially offset by a decrease in the deferred tax liability of the 2025 Notes.

As of January 28, 2023, the Company had deferred tax assets related to federal, state and foreign net operating loss carryovers of $15.0 million, $5.9 million and $6.7 million, respectively, that could be utilized to reduce future years' tax liabilities. A portion of these net operating loss carryovers expire in future years and some have an indefinite carryforward period. Management believes it is more likely than not that a portion of state net operating loss and the foreign net operating loss carryovers will not reduce future years' tax liabilities in certain jurisdictions. As such, valuation allowances of $2.7 have been recorded on the deferred tax assets related to a portion of the state net operating loss carryovers as of both January 28, 2023 and January 29, 2022. Further, valuation allowances of $6.7 million and $6.1 million have been recorded on the deferred tax assets related to the cumulative foreign net operating loss carryovers as of January 28, 2023 and January 29, 2022, respectively. We also provided for valuation allowances of approximately $1.6 million related to other foreign deferred tax assets as of both January 28, 2023 and January 29, 2022.

The Company had foreign tax credit carryovers in the amount of $2.8 million and $3.0 million as of January 28, 2023 and January 29, 2022, respectively. The foreign tax credit carryovers begin to expire in Fiscal 2032 to the extent not utilized. Management believes it is more likely than not that a certain category of foreign tax credit carryover will not reduce future years' tax liabilities. As such, valuation allowances of $1.0 million have been recorded on the deferred tax assets related to the foreign tax credit carryovers as of both January 28, 2023 and January 29, 2022.

17. Impairment, Restructuring and COVID-19 – Related Charges

The following table represents impairment, restructuring and COVID-19 – related charges. All amounts were recorded within impairment, restructuring and COVID-19 – related charges on the Consolidated Statements of Operations, unless otherwise noted.

	For the years ended		
(In thousands)	January 28, 2023	January 29, 2022	January 30, 2021
Long-lived asset impairment charges [(1) (2) (3)]	$ 20,633	$ 11,944	$ 249,163
Incremental COVID-19 – related expenses [(4)]	—	—	26,930
Severance and related employee costs	1,576	—	3,733
Total impairment, restructuring, and COVID-19 – related charges	$ 22,209	$ 11,944	$ 279,826

(1) The Company recorded impairment charges of $20.6 million in Fiscal 2022, of which $13.1 million relates to operating lease store ROU assets and $4.0 million relates to store property and equipment (store fixtures and leasehold improvements), and $3.5 million of other assets.
(2) The Company recorded impairment charges of $11.9 million in Fiscal 2021, of which $4.1 million relates to operating lease store ROU assets and $5.2 million relates to store property and equipment (store fixtures and leasehold improvements), and $2.6 million of other assets.
(3) In Fiscal 2020, the Company recorded impairment charges of $249.2 million. Included in this amount are retail store impairment charges of $203.2 million, of which $154.8 million relates to operating lease ROU assets and $48.4 million relates to store property and equipment (fixtures and equipment and leasehold improvements). We also recorded $28.0 million related to the impairment of certain corporate property and equipment, as well as $18.0 million of certain cost and equity method investments.
(4) Incremental COVID-19 – related expenses consisting of personal protective equipment and supplies for our associates and customers.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

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

As of the end of the period covered by this Annual Report on Form 10-K, the Company performed an evaluation under the supervision and with the participation of Management, including our principal executive officer and principal financial officer, of the design and effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act). Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures were effective in the timely and accurate recording, processing, summarizing, and reporting of material financial and non-financial information within the periods specified within the SEC's rules and forms. Our principal executive officer and principal financial officer also concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our Management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Our Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) or Rule 15(d)-15(f) under the Exchange Act). Our internal control over financial reporting is designed to provide a reasonable assurance to our Management and our Board that the reported financial information is presented fairly, that disclosures are adequate, and that the judgments inherent in the preparation of financial statements are reasonable.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the overriding of controls. Therefore, even those systems determined to be effective can provide only reasonable, not absolute, assurance with respect to financial statement preparation and presentation.

Our Management assessed the effectiveness of our internal control over financial reporting as of January 28, 2023. In making this assessment, our Management used the framework and criteria set forth in *Internal Control – Integrated Framework (2013),* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our Management concluded that the Company's internal control over financial reporting was effective as of January 28, 2023.

Our independent registered public accounting firm, Ernst & Young LLP, was retained to audit the Company's consolidated financial statements included in this Annual Report on Form 10-K and the effectiveness of the Company's internal control over financial reporting. Ernst & Young LLP has issued an attestation report on our internal control over financial reporting as of January 28, 2023, which is included herein.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control Over Financial Reporting

We have audited American Eagle Outfitters, Inc.'s internal control over financial reporting as of January 28, 2023, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, American Eagle Outfitters, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of January 28, 2023, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of January 28, 2023 and January 29, 2022, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended January 28, 2023, and the related notes and our report dated March 13, 2023 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP

Pittsburgh, Pennsylvania

March 13, 2023