AEROPOSTALE INC
Form 10-Q
June 09, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended May 3, 2008

OR

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

Commission file number: 001-31314

Aéropostale, Inc.
(Exact name of registrant as specified in its charter)

Delaware	31-1443880
(State of incorporation)	(I.R.S. Employer Identification No.)
112 W. 34th Street, New York, NY	10120
(Address of Principal Executive Offices)	(Zip Code)

(646) 485-5410
(Registrant's Telephone Number, Including Area Code)

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

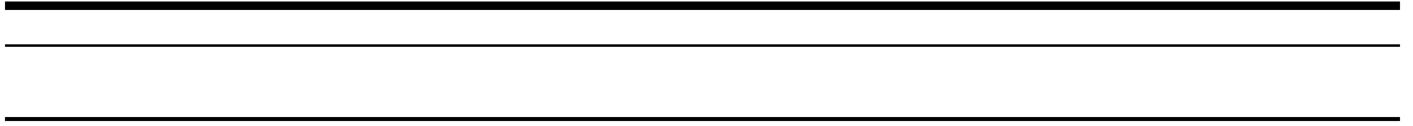
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

SEC 1296 (02-08) Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

The Registrant had 66,926,511 shares of common stock issued and outstanding as of May 30, 2008.



AÉROPOSTALE, INC.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

AÉROPOSTALE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	May 3, 2008 (Unaudited)	February 2, 2008	May 5, 2007 (Unaudited)
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 64,469	$ 111,927	$ 154,119
Short-term investments	—	—	56,565
Merchandise inventory	134,976	136,488	107,575
Tenant allowances receivable	4,904	5,147	6,792
Prepaid expenses	13,643	13,604	11,636
Deferred income taxes	12,961	12,961	8,039
Other current assets	3,366	4,560	2,659
Total current assets	234,319	284,687	347,385
Fixtures, equipment and improvements, net	230,996	213,831	193,832
Intangible assets	—	—	1,400
Deferred income taxes	13,818	13,073	4,949
Other assets	2,567	2,578	1,608
TOTAL ASSETS	$ 481,700	$ 514,169	$ 549,174
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	$ 67,817	$ 99,369	$ 43,416
Accrued compensation	14,349	23,076	11,259
Income taxes payable	10,701	27,401	12,608
Accrued expenses	46,341	47,541	46,208
Total current liabilities	139,208	197,387	113,491
Deferred rent and tenant allowances	98,544	96,888	90,949
Retirement benefit plan liabilities	19,975	18,919	16,332
Uncertain tax contingency liabilities	3,799	3,699	3,323
Commitments and contingent liabilities (See note 11)			
Stockholders' Equity:			
Preferred stock, $0.01 par value; 5,000 shares authorized, no shares issued or outstanding	—	—	—
Common stock, $0.01 par value; 200,000 shares authorized; 90,137; 89,908 and 89,292 shares issued and outstanding, respectively	901	899	893
Additional paid-in capital	130,880	124,052	106,838

Accumulated other comprehensive loss	(5,277)	(4,650)	(5,199)
Retained earnings	561,409	543,911	428,465
Treasury stock, 23,254; 23,224 and 11,769 shares, respectively at cost	(467,739)	(466,936)	(205,918)
Total stockholders' equity	220,174	197,276	325,079
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 481,700	$ 514,169	$ 549,174

See Notes to Unaudited Condensed Consolidated Financial Statements

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AÉROPOSTALE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Data)

	13 weeks ended	
	May 3, 2008	May 5, 2007
	(Unaudited)	
Net sales	$ 336,332	$ 275,782
Cost of sales (includes certain buying, occupancy and warehousing expenses)	225,054	187,079
Gross profit	111,278	88,703
Selling, general and administrative expenses	82,090	68,219
Income from operations	29,188	20,484
Interest income	240	2,135
Income before income taxes	29,428	22,619
Income taxes	11,930	8,867
Net income	$ 17,498	$ 13,752
Basic earnings per share	$ 0.26	$ 0.18
Diluted earnings per share	$ 0.26	$ 0.18
Weighted average basic shares	66,749	77,483
Weighted average diluted shares	67,305	78,204

See Notes to Unaudited Condensed Consolidated Financial Statements

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AÉROPOSTALE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	13 weeks ended	
	May 3, 2008	May 5, 2007
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 17,498	$ 13,752
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	9,873	8,224
Stock-based compensation	3,981	1,954
Excess tax benefits from stock-based compensation	(863)	(1,232)
Other	(1,175)	(2,138)
Changes in operating assets and liabilities:		
Merchandise inventory	1,433	(6,099)
Accounts payable	(31,529)	(20,502)
Other assets and liabilities	(29,294)	(38,537)
Net cash used in operating activities	(30,076)	(44,578)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(20,045)	(19,104)
Purchase of short-term investments	—	(173,436)
Proceeds from sale of short-term investments	—	193,094
Net cash (used in) provided by investing activities	(20,045)	554
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	—	(5,674)
Proceeds from exercise of stock options	1,986	2,521
Excess tax benefits from stock-based compensation	863	1,232
Net cash provided by (used in) financing activities	2,849	(1,921)
Effect of exchange rate changes	(186)	—
Net decrease in cash and cash equivalents	(47,458)	(45,945)
Cash and cash equivalents, beginning of year	111,927	200,064
Cash and cash equivalents, end of period	$ 64,469	$ 154,119

Supplemental Disclosure of Cash Flow Information:

Non-cash operating and investing activities	$ 7,218	$ 7,362

See Notes to Unaudited Condensed Consolidated Financial Statements

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AÉROPOSTALE, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

References to the "Company," "we," "us," or "our" means Aéropostale, Inc. and its subsidiaries, except as expressly indicated to the contrary or unless the context otherwise requires. We are a mall-based, specialty retailer of casual apparel and accessories for young women and men. We design, market and sell our own brand of merchandise principally targeting 14 to 17 year-old young women and men. Jimmy'Z Surf Co., Inc., a wholly owned subsidiary of Aéropostale, Inc., is a California lifestyle-oriented brand targeting trend-aware young women and men aged 18 to 25. As of May 3, 2008, we operated 848 stores, consisting of 819 Aéropostale stores in 47 states and Puerto Rico, 15 Aéropostale stores in Canada and 14 Jimmy'Z stores in 11 states, in addition to our Aéropostale e-commerce website, www.aeropostale.com (this and any other references in this Quarterly Report on Form 10-Q to aeropostale.com is solely a reference to a uniform resource locator, or URL, and is an inactive textual reference only, not intended to incorporate the website into this Quarterly Report on Form 10-Q).

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X and do not include all of the information and footnotes required by accounting principles generally accepted in the United States. However, in the opinion of our management, all known adjustments necessary for a fair presentation of the results of the interim periods have been made. These adjustments consist primarily of normal recurring accruals and estimates that impact the carrying value of assets and liabilities. Actual results may materially differ from these estimates.

Our business is highly seasonal, and historically we have realized a significant portion of our sales, net income, and cash flow in the second half of the year, driven by the impact of the back-to-school selling season in the third quarter and the holiday selling season in the fourth quarter. Therefore, our interim period consolidated financial statements will not be indicative of our full-year results of operations, financial condition or cash flows. These financial statements should be read in conjunction with our Annual Report on Form 10-K for our fiscal year ended February 2, 2008.

References to "2008" mean the 52-week period ending January 31, 2009, and references to "2007" mean the 52-week period ended February 2, 2008. References to "the first quarter of 2008" mean the thirteen-week period ended May 3, 2008, and references to "the first quarter of 2007" mean the thirteen-week period ended May 5, 2007.

2. Common Stock Split

On July 11, 2007, the Company announced a three-for-two stock split on all shares of its common stock. The stock split was distributed on August 21, 2007 in the form of a stock dividend to all shareholders of record on August 6, 2007. All share and per share amounts presented in this report were retroactively adjusted for the common stock split, and all previously reported periods were restated for such.

3. Revenue Recognition

Sales revenue is recognized at the "point of sale" in the Company's stores and at the time its e-commerce customers take possession of merchandise. Allowances for sales returns are recorded as a reduction of net sales in the periods in which the related sales are recognized. Also included in sales revenue is shipping revenue from our e-commerce customers. Sales revenue related to gift cards and the issuance of store credits are recognized when they are

redeemed, along with a portion estimated to be unredeemed. In the fourth quarter of fiscal 2007, we relieved our legal obligation to escheat the value of unredeemed gift cards to the relevant jurisdiction. We therefore determined that the likelihood of certain gift cards being redeemed by the customer was remote, based upon historical redemption patterns of gift cards. For those gift cards that we determine redemption to be remote, we reverse the liability, and record gift card breakage income in net sales. Gift card breakage recorded during the first quarter of 2008 was not material.

4. Cost of Sales and Selling, General and Administrative Expenses

Cost of sales includes costs related to merchandise sold, including inventory valuation adjustments, distribution and warehousing, freight from the distribution center and warehouse to the stores. It also includes payroll for the Company's design, buying and merchandising departments and occupancy costs. Occupancy costs include rent, contingent rents, common area maintenance, real estate taxes, utilities, repairs, maintenance and all depreciation.

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Selling, general and administrative expenses, or "SG&A", include costs related to selling expenses, store management and corporate expenses such as payroll and employee benefits, marketing expenses, employment taxes, maintenance costs and expenses, insurance and legal expenses, store pre-opening costs and other corporate level expenses. Store pre-opening costs include store level payroll, grand opening event marketing, travel, supplies and other store pre-opening expenses.

5. Other Comprehensive Income

The following table sets forth the components of other comprehensive income:

	13 weeks ended	
	May 3, 2008	May 5, 2007
	(In Thousands)	
Net income	$ 17,498	$ 13,752
Minimum pension liability, net of tax of $137 and $49, respectively	(205)	75
Foreign currency translation adjustment 1	(422)	—
Other comprehensive income	$ 16,871	$ 13,827

1 Foreign currency translation adjustments are not adjusted for income taxes as they relate to a permanent investment in the Company's subsidiary in Canada.

6. Earnings Per Share

The following table sets forth the computations of basic and diluted earnings per share:

	13 weeks ended	
	May 3, 2008	May 5, 2007
	(In Thousands, Except Per Share Data)	
Net income	$ 17,498	$ 13,752
Weighted average basic shares	66,749	77,483
Impact of dilutive securities	556	721
Weighted average diluted shares	67,305	78,204
Earnings per basic share	$ 0.26	$ 0.18
Earnings per diluted share	$ 0.26	$ 0.18

Options to purchase 59,220 shares during the first quarter of 2008 and 229,500 shares during the first quarter of 2007 were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price of the common shares.

7. Revolving Credit Facility

On November 13, 2007, the Company entered into an amended and restated revolving credit facility with Bank of America, N.A., as Lender which expanded availability from a maximum of $75.0 million to $150.0 million (the "New Credit Facility"). The New Credit Facility provides for a $150.0 million revolving credit line. The New Credit Facility is available for working capital and general corporate purposes, including the repurchase of the Company's capital stock and for its capital expenditures. A portion of the availability under the New Credit Facility was used to fund the Company's accelerated share repurchase program ("ASR") to repurchase $125.0 million of its common shares in fiscal 2007. The New Credit Facility is scheduled to expire on November 13, 2012 and is guaranteed by all of the Company's domestic subsidiaries (the "Guarantors").

Loans under the New Credit Facility are secured by all of the Company's assets and are guaranteed by the Guarantors. Upon the occurrence of a Cash Dominion Event (as defined in the New Credit Facility) among other limitations, the Company's ability to borrow funds, make investments, pay dividends and repurchase shares of its common stock would be limited.

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Except for the use of a portion of the credit under the New Loan Facility to fund the Company's repurchase of shares as described below, the Company has had no direct borrowings outstanding under the New Credit Facility. Direct borrowings under the New Credit Facility bear interest at a margin over either LIBOR or a Base Rate (as each such term is defined in the New Credit Facility).

The New Credit Facility also contains covenants that, subject to specified exceptions, restrict the Company's ability to, among other things:

- incur additional debt or encumber assets of the Company;
- merge with or acquire other companies, liquidate or dissolve;
- sell, transfer, lease or dispose of assets; and
- make loans or guarantees.

Events of default under the New Credit Facility include, subject to grace periods and notice provisions in certain circumstances, failure to pay principal amounts when due, breaches of covenants, misrepresentation, default of leases or other indebtedness, excess uninsured casualty loss, excess uninsured judgment or restraint of business, business failure or application for bankruptcy, institution of legal process or proceedings under federal, state or civil statutes, legal challenges to loan documents, and a change in control. If an event of default occurs, the Lender will be entitled to take various actions, including the acceleration of amounts due thereunder and requiring that all such amounts be immediately paid in full as well as possession and sale of all assets that have been used as collateral. Upon the occurrence of an event of default under the New Credit Facility, the lenders may cease making loans, terminate the New Credit Facility, and declare all amounts outstanding to be immediately due and payable. As of May 3, 2008, the Company is not aware of any events of default under the New Credit Facility. Also as of May 3, 2008, the Company is not aware of any instances of noncompliance of financial covenants and had no outstanding balances or stand-by or commercial letters of credit issued under the New Credit Facility.

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8. Retirement Benefit Plans

The Company maintains a qualified, defined contribution retirement plan with a 401(k) salary deferral feature that covers substantially all of its employees who meet certain requirements. Under the terms of the plan, employees may contribute up to 14% of gross earnings and the Company will provide a matching contribution of 50% of the first 5% of gross earnings contributed by the participants. The Company also has the option to make additional contributions. Matching contributions vest over a five-year service period with 20% vesting after two years and 50% vesting after year three. Vesting increases thereafter at a rate of 25% per year so that participants will be fully vested after year five.

The Company maintains a supplemental executive retirement plan, or SERP, which is a non-qualified defined benefit plan for certain officers. The plan is non-contributory and not funded and provides benefits based on years of service and compensation during employment. Participants are vested upon entrance in the plan. Pension expense is determined using various actuarial cost methods to estimate the total benefits ultimately payable to officers and this cost is allocated to service periods. The actuarial assumptions used to calculate pension costs are reviewed annually.

The components of net periodic pension benefit cost are as follows:

	13 weeks ended

	May 3, 2008	May 5, 2007
	(In Thousands)	
Service cost	$ 164	$ 134
Interest cost	287	225
Amortization of prior experience cost	19	19
Amortization of net loss	149	105
Net periodic pension benefit cost	$ 619	$ 483

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The Company maintains a long-term incentive deferred compensation plan for the purpose of providing long-term incentive to a select group of management. The plan is a non-qualified, defined contribution plan and is not funded. Participants in this plan include all employees designated by the Company as Vice President, or other higher-ranking positions, who are not participants in the SERP. Annual monetary credits are recorded to each participant's account based on compensation levels and years as a participant in the plan. Annual interest credits are applied to the balance of each participant's account based upon established benchmarks. Each annual credit is subject to a three-year cliff-vesting schedule, and participants' accounts will be fully vested upon retirement after completing five years of service and attaining age 55.

The Company maintains a postretirement benefit plan for certain officers. The Company had liabilities of $0.7 million as of May 3, 2008 and $0.6 million at May 5, 2007 in connection with this plan.

9. Stock Repurchase Program

The Company repurchases its common stock from time to time under a stock repurchase program. The repurchase program may be modified or terminated by the Board of Directors at any time, and there is no expiration date for the program. The extent and timing of repurchases will depend upon general business and market conditions, stock prices, opening and closing of the stock trading window, and liquidity and capital resource requirements going forward. During the first quarter of 2008, the Company repurchased no shares of our common stock, as compared to repurchases of 210,000 shares for $5.7 million during the first quarter of 2007.

As of May 3, 2008, the Company has approximately $133.8 million of repurchase authorization remaining under its $600.0 million share repurchase program.

10. Stock-Based Compensation

The Company follows the provisions of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, a revision of SFAS No. 123, Accounting for Stock-Based Compensation, or SFAS No. 123(R), as interpreted by SEC Staff Accounting Bulletin No. 107, or SAB 107. Under SFAS No. 123(R), all forms of share-based payment to employees and directors, including stock options, must be treated as compensation and recognized in the income statement.

The fair value of options is estimated on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes model requires certain assumptions, including estimating the length of time employees will retain their vested stock options before exercising them ("expected term"), the estimated volatility of the Company's common stock price over the expected term and the number of options that will ultimately not complete their vesting requirements ("forfeitures"). Changes in the subjective assumptions can materially affect the estimate of fair value of stock-based compensation and consequently, the related amount recognized in the consolidated statements of income.

The Company determined expected volatilities based on the Company's past four years of historical volatilities. The Company has elected to use the simplified method for estimating its expected term as allowed by SAB 107, and extended by SAB 110, to determine expected life. The risk-free rate is indexed to the five-year Treasury note interest at the date of grant and expected forfeiture rate is based on the Company's historical forfeiture information.

In accordance with SFAS No. 123(R), the fair value of each option grant is estimated on the date of grant based on the following assumptions for grants in the respective periods:

	2008	2007

Expected volatility	43%	45%
Expected term	5.25 years	5.25 years
Risk-free interest rate	2.61%	4.50%
Expected dividend yield	0%	0%
Expected forfeiture rate	25%	20%

The Company has elected to adopt the simplified method to establish the beginning balance of the additional paid-in capital pool ("APIC Pool") related to the tax effects of employee share-based compensation, and to determine the subsequent impact on the APIC Pool and condensed consolidated statements of cash flows of the tax effects of employee and director share-based awards that were outstanding upon adoption of SFAS No. 123(R).

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The effects of applying SFAS No. 123(R) and the results obtained through the use of the Black-Scholes option-pricing model are not necessarily indicative of future values.

During the first quarter of 2008, the Company granted 100,600 stock options at a weighted-average grant-date fair value of $12.80.

A summary of stock option activity during the first quarter of 2008 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	(In thousands)		(In years)	(In millions)
Outstanding as of February 2, 2008	1,659	$ 19.58		
Granted	101	$ 28.29		
Exercised	(123)	$ 16.17		
Cancelled	(16)	$ 24.58		
Outstanding as of May 3, 2008	1,621	$ 20.33	5.52	$ 19.6
Exercisable as of May 3, 2008	539	$ 13.09	3.86	$ 10.4

During the first quarter of 2008, the Company granted 155,275 shares of non-vested stock at a weighted-average grant-date fair value of $28.43.

A summary of non-vested stock activity during the first quarter of 2008 is as follows:

	Number of Shares (In Thousands)
Non-vested stock as of February 2, 2008	907
Granted	155
Vested	(108)
Cancelled	(7)
Non-vested stock as of May 3, 2008	947

11. Commitments and Contingent Liabilities

The Company is party to various litigation matters and proceedings in the ordinary course of business. In the opinion of the Company's management, dispositions of these matters are not expected to have a material adverse affect on its financial position, results from operations or cash flows. As of May 3, 2008, the Company has not issued any third party guarantees.

12. Income Taxes

In determining the Company's quarterly provision for income taxes, the Company used an estimated annual effective tax rate which is based on its expected annual income, statutory tax rates and tax planning opportunities available to it in the various jurisdictions in which it operates. Subsequent recognition, de-recognition and measurement of a tax position taken in a previous period are separately recognized in the quarter in which they occur.

Effective at the beginning of the first quarter of 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), which clarifies the accounting and disclosure for uncertainty in income taxes. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense.

For the first quarter of 2008, the Company's unrecognized tax benefits decreased by $7.6 million, due to the settlement of an IRS examination as described below. As a result, the Company had $3.8 million of unrecognized tax benefit liabilities as of May 3, 2008, including accrued penalties and interest of $0.9 million. Net uncertain tax positions of $2.7 million as of May 3, 2008, which is inclusive of interest and penalties, would favorably impact our effective tax rate if these net liabilities were reversed.

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The Company files income tax returns in the U.S. federal jurisdiction and in various states. The Company's U.S. federal filings for the years 2002 through 2005 were examined and the Company reached a settlement with the IRS in the fourth quarter of fiscal 2007. In the first quarter of 2008, the Company paid approximately $7.7 million related to this examination. The examination liability related to the timing of taxable revenue from non-redeemed gift cards. For state tax purposes, the Company's 2003 through 2006 tax years remain open for examination by the tax authorities under a four-year statute of limitations. However, certain states may keep their statute open for six to ten years.

13. Recent Accounting Developments

In May 2008, the Financial Accounting Standards Board ("FASB") issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. The Company expects that the adoption of SFAS No. 162 will not have a material impact on its consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115 ("SFAS No. 159"). This statement permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective at the beginning of an entity's first fiscal year that begins after November 15, 2007. While SFAS No. 159 became effective for the Company's 2008 fiscal year, the Company did not elect the fair value measurement option for any of its financial assets or liabilities.

b
In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS No. 157"). This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having concluded in those other accounting pronouncements that fair value is the relevant measurement attribute. Beginning in the first quarter of fiscal 2008, the Company adopted SFAS No. 157 for its recorded financial assets and financial liabilities. The adoption of SFAS No. 157 did not have a material impact on the disclosures in the Company's consolidated financial statements as the Company currently does not have any financial assets or liabilities subject to these disclosure requirements. In February 2008, the FASB issued FASB Staff Position ("FSP") 157-2, "Effective Date of FASB Statement No. 157", which defines the effective date of SFAS No. 157 as it applies to nonfinancial assets and liabilities. The Company will adopt the provisions of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities in the first quarter of fiscal 2009 and expects that the adoption will not have a material impact on the Company's consolidated financial statements.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements involve certain risks and uncertainties, including statements regarding our strategic direction, prospects and future results. Certain factors, including factors outside of our control, may cause actual results to differ materially from those contained in the forward-looking statements. The risk factors included in Part II, Item 1A should be read in connection with evaluating our business and future prospects. All forward looking statements included in this report are based on information available to us as of the date hereof, and we assume no obligation to update or revise such forward-looking statements to reflect events or circumstances that occur after such statements are made.

Introduction

References to the "Company," "we," "us," or "our" mean Aéropostale, Inc. and its subsidiaries, except as expressly indicated to the contrary or unless the context otherwise requires. We are a mall-based, specialty retailer of casual apparel and accessories for young women and men. We design, market and sell our own brand of merchandise principally targeting 14 to 17 year-old young women and men. Jimmy'Z Surf Co., Inc., a wholly owned subsidiary of Aéropostale, Inc., is a California lifestyle-oriented brand targeting trend-aware young women and men aged 18 to 25. As of May 3, 2008, we operated 848 stores, consisting of 819 Aéropostale stores in 47 states and Puerto Rico, 15 Aéropostale stores in Canada and 14 Jimmy'Z stores in 11 states, in addition to our Aéropostale e-commerce website, www.aeropostale.com (this and any other references in this Quarterly Report on Form 10-Q to aeropostale.com is solely a reference to a uniform resource locator, or URL, and is an inactive textual reference only, not intended to incorporate the website into this Quarterly Report on Form 10-Q).

Management's Discussion and Analysis of Financial Condition and Results of Operations, or "MD&A," is intended to provide information to help you better understand our financial condition and results of operations. Our business is highly seasonal, and historically we realize a significant portion of our sales, net income, and cash flow in the second half of the year, driven by the impact of the back-to-school selling season in our third quarter and the holiday selling season in our fourth quarter. Therefore, our interim period consolidated financial statements will not be indicative of our full-year results of operations, financial condition or cash flows. We recommend that you read this section along with our condensed consolidated financial statements included in this report and along with our Annual Report on Form 10-K for the year ended February 2, 2008.

On July 11, 2007, the Company announced a three-for-two stock split on all shares of its common stock. The stock split was distributed on August 21, 2007 in the form of a stock dividend to all shareholders of record on August 6, 2007. All share and per share amounts presented in this report were retroactively adjusted for the common stock split, and all previously reported periods were restated for such.

The discussion in the following section is on a consolidated basis, unless indicated otherwise.

Results of Operations

Overview

We achieved net sales of $336.3 million for the first quarter of 2008, or a 22% increase when compared to the first quarter of 2007. The increase in net sales for the first quarter of 2008 was driven primarily by average square footage

growth of 11% and an increase in comparable store sales of 10%. Gross profit, as a percentage of net sales, increased by 0.9 percentage points for the first quarter of 2008 primarily due to increased merchandise margin. SG&A, as a percentage of net sales, decreased by 0.3 percentage points for the first quarter of 2008. Interest income decreased by $1.9 million for the first quarter of 2008 compared to the same period in 2007. The effective income tax rate was 40.5% for the first quarter of 2008 compared to 39.2% for the first quarter of 2007. Net income for the first quarter of 2008 was $17.5 million, or $0.26 per diluted share, compared to net income of $13.8 million, or $0.18 per diluted share, for the first quarter of 2007.

As of May 3, 2008, we had working capital of $95.1 million, cash and cash equivalents of $64.5 million and no short-term investments. Consolidated merchandise inventories increased by 25% and by 13% on a per square foot basis, at May 3, 2008, compared to the first quarter of 2007.

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We operated 848 stores at May 3, 2008, an increase of 11% from the same period last year.

The following table sets forth our results of operations as a percentage of net sales. We also use this information to evaluate the performance of our business:

	13 weeks ended	
	May 3, 2008	May 5, 2007
Net sales	100.0%	100.0%
Gross profit	33.1%	32.2%
Selling, general and administrative expenses	24.4%	24.7%
Income from operations	8.7%	7.5%
Interest income	0.1%	0.7%
Income before income taxes	8.8%	8.2%
Income taxes	3.5%	3.2%
Net income	5.3%	5.0%

Key Performance Indicators

We use a number of key indicators of financial condition and operating performance to evaluate the performance of our business, some of which are set forth in the following table:

	13 weeks ended			
	May 3, 2008		May 5, 2007	
Net sales (in millions)	$	336.3	$	275.8
Total store count at end of period		848		765
Comparable store count at end of period		735		665
Net sales growth		22%		12%
Comparable store sales change		10%		3%
Comparable average unit retail change		0%		(2)%
Comparable units per sales transaction change		3%		(1)%
Comparable sales transaction change		7%		5%
Net sales per average square foot	$	110	$	102
Gross profit (in millions)	$	111.3	$	88.7
Income from operations (in millions)	$	29.2	$	20.5
Diluted earnings per share	$	0.26	$	0.18
Average square footage growth over comparable period		11%		9%
Change in total inventory over comparable period		25%		(1)%
Change in inventory per square foot over comparable period		13%		(9)%
Percentages of net sales by category:				
Young Women’s		73%		76%
Young Men’s		27%		24%

Comparison of the 13 weeks ended May 3, 2008 to the 13 weeks ended May 5, 2007

Net Sales

Net sales for the first quarter of 2008 increased by $60.6 million, or by 22% compared to the same period last year. The increase in net sales was driven primarily by average square footage growth of 11% and an increase in comparable store sales of 10%. Comparable store sales increased in both our young women's and young men's categories. The overall comparable store sales increase reflected a 7% increase in the number of sales transactions and a 3% increase in units per sales transaction. Average unit retail for the first quarter of 2008 remained consistent compared to the prior year. Non-comparable store sales increased by $34.2 million, or by 12%, primarily due to 83 more stores open at the end of the first quarter of 2008 compared to the end of the first quarter of 2007.

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Gross Profit

Cost of sales include costs related to merchandise sold, including inventory valuation adjustments, distribution and warehousing, freight from the distribution center and warehouse to the stores. It also includes payroll for our design, buying and merchandising departments, and occupancy costs. Occupancy costs include rent, contingent rents, common area maintenance, real estate taxes, utilities, repairs, maintenance and all depreciation.

Gross profit, as a percentage of net sales, increased by 0.9 percentage points for the first quarter of 2008 compared to the same period last year. The increase was due to an increase in merchandise margin by 1.1 percentage points and lower occupancy costs, partially offset by higher distribution and transportation costs. The increase in merchandise margin is primarily due to improved assortment of key merchandise classifications, primarily women's graphic tee shirt merchandise.

SG&A

SG&A includes costs related to selling expenses, store management and corporate expenses such as payroll and employee benefits, marketing expenses, employment taxes, maintenance costs and expenses, insurance and legal expenses, store pre-opening costs and other corporate level expenses. Store pre-opening costs include store level payroll, grand opening event marketing, travel, supplies and other store pre-opening expenses.

SG&A increased by $13.9 million for the first quarter of 2008 compared to the first quarter of 2007. The increase in SG&A was primarily attributable to a $6.8 million increase in store-line expenses; a $3.8 million increase in corporate expenses, consisting of incentive, stock-based compensation and other corporate expenses; $1.5 million of higher store transaction costs, including e-commerce costs and store operations costs resulting primarily from new store growth and higher sales; a $1.0 million increase in benefits, and higher marketing costs of $0.8 million.

SG&A decreased by 0.3 percentage points, as a percentage of net sales, for the first quarter of 2008 compared to the first quarter of 2007. The 0.3 percentage point improvement was primarily due to the leveraging of store-line expenses, which was partially offset by higher stock-based compensation and increased e-commerce transaction costs, in line with the growth of that business.

Interest income and income taxes

Interest income decreased by $1.9 million for the first quarter of 2008 compared to the same period in 2007. The decrease was primarily due to cash used for share repurchases of $266.7 million during fiscal 2007, including the accelerated share repurchase program (“ASR”) to repurchase $125.0 million of our common shares in the fourth quarter of 2007.

The effective income tax rate was 40.5% for the first quarter of 2008 and 39.2% for 2007. The increase in the effective tax rate was primarily due to nondeductible officers’ compensation and a reduction in tax exempt interest income.

Net income

Net income was $17.5 million, or $0.26 per diluted share, for the first quarter of 2008, compared to net income of $13.8 million, or $0.18 per diluted share, for the first quarter of 2007. Earnings per share increased by 44% for the first quarter of 2008 due to both an increase in net income and less weighted average shares outstanding, resulting from the Company’s repurchase of its common stock.

Consolidated net income included net losses from the Company's Jimmy'Z subsidiary of $1.3 million, or $0.02 per diluted share, for the first quarter of 2008 compared to losses of $1.9 million, or $0.02 per diluted share for the first quarter of 2007.

Liquidity and Capital Resources

Our cash requirements are primarily for working capital, construction of new stores, remodeling of existing stores, and the improvement and enhancement of our information technology systems. Due to the seasonality of our business, we have historically realized a significant portion of our cash flows from operations during the second half of the year. Most recently, our cash requirements have been met primarily through cash and cash equivalents on hand during the first half of the year, and through cash flows from operations during the second half of the year. We expect to continue to meet our cash requirements for the next twelve months primarily through cash flows from operations, existing cash and cash equivalents and through periodic use of our credit facility. At May 3, 2008, we had working capital of $95.1 million and cash and cash equivalents of $64.5 million.

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The following table sets forth our cash flows for the period indicated:

	13 weeks ended May 3, 2008	May 5, 2007
	(In Thousands)	
Net cash used in operating activities	$ (30,076)	$ (44,578)
Net cash (used in) provided by investing activities	(20,045)	554
Net cash provided by (used in) financing activities	2,849	(1,921)
Effect of exchange rate changes	(186)	—
Net decrease in cash and cash equivalents	$ (47,458)	$ (45,945)

Operating activities — Net cash used in operating activities, our primary form of liquidity on a full-year basis, decreased by $14.5 million for the first quarter of 2008 compared to the same period in 2007. Cash generated through net income, as adjusted for depreciation and amortization and other non-cash items, increased by $8.8 million. In addition, cash used for accrued expenses decreased by $6.6 million due primarily to the timing of income tax payments. Consolidated merchandise inventories increased by 25%, and by 13% on a per square foot basis, as of May 3, 2008 as compared to May 5, 2007, primarily due to an acceleration in the timing of our floor-sets this year.

Due to the seasonality of our business, we have historically generated a significant portion of our cash flows from operating activities in the second half of the year, and we expect this trend to continue through the balance of this year.

Capital requirements — Investments in capital expenditures are principally for the construction of new stores, remodeling of existing stores, and investments in information technology. Our future capital requirements will depend primarily on the number of new stores we open, the number of existing stores we remodel and the timing of these expenditures. We opened 21 Aéropostale stores in our new store format during the first quarter of 2008, which included three stores in Canada and one store in Puerto Rico. We plan to open approximately 65 additional Aéropostale stores during the remainder of fiscal 2008, which will include approximately 12 additional stores in Canada and two additional stores in Puerto Rico. In addition, during the first quarter of 2008, we remodeled and renovated two existing Aéropostale stores. Capital expenditures for the full year of 2008 are expected to approximate $80.0 million for new and remodeled stores as well as for other initiatives.

We had no short-term investments at either May 3, 2008 or February 2, 2008. We had $56.6 million in short-term investments as of May 5, 2007, consisting of auction rate debt and preferred stock securities. These securities were all sold during fiscal 2007.

Financing activities and capital resources — The Company repurchases its common stock from time to time under a stock repurchase program. On November 12, 2007, our Board of Directors approved a $250.0 million increase in repurchase availability under the program, bringing total repurchase authorization, since inception of the program, to $600.0 million.

The repurchase program may be modified or terminated by the Board of Directors at any time, and there is no expiration date for the program. The extent and timing of repurchases will depend upon general business and market conditions, stock prices, opening and closing of the stock trading window, and liquidity and capital resource requirements going forward.

The Company has approximately $133.8 million of repurchase authorization remaining under its $600.0 million share repurchase program as of May 3, 2008.

On November 13, 2007, the Company entered into an amended and restated revolving credit facility with Bank of America, N.A., as Lender which expanded its availability from a maximum of $75.0 million to $150.0 million (the "New Credit Facility"). The New Credit Facility provides for a $150.0 million revolving credit line. The New Credit Facility is available for working capital and general corporate purposes. A portion of the availability under the New Credit Facility was used to fund the Company's ASR to repurchase $125.0 million of its common shares in fiscal 2007. The New Credit Facility is scheduled to mature on November 13, 2012. At November 13, 2007, the Company had $31.3 million outstanding under the New Credit Facility that was repaid in full on November 27, 2007 (see Note 7 to the Notes to Unaudited Condensed Consolidated Financial Statements).

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Contractual Obligations

The following table summarizes our contractual obligations as of May 3, 2008:

	Payments Due				
	Total	Balance of 2008	In 2009 And 2010	In 2011 and 2012	After 2012
	(In Thousands)				
Contractual Obligations					
Operating leases	$ 628,875	$ 76,228	$ 178,668	$ 158,208	$ 215,771
Employment agreements	21,803	2,419	19,384	—	—
Sponsorship and advertising contracts	725	725	—	—	—
Total contractual obligations	$ 651,403	$ 79,372	$ 198,052	$ 158,208	$ 215,771

The operating leases included in the above table do not include contingent rent based upon sales volume, which represents approximately 15% of minimum lease obligations, or variable costs such as maintenance, insurance and taxes, which represents approximately 60% of minimum lease obligations.

Our open purchase orders are cancelable at any time prior to our receipt of the applicable goods without penalty to us, and were therefore not included in the above table.

In addition to the above table, we project making a benefit payment of approximately $14.6 million from our supplementary executive retirement plan in 2010, which reflects expected future service of our Chairman and Chief Executive Officer through an assumed retirement age of 65.

There were no financial guarantees outstanding as of May 3, 2008. We had no commercial commitments outstanding as of May 3, 2008.

Effective at the beginning of the first quarter of 2007, we adopted FIN No. 48 as described in Note 12 to the Notes to Unaudited Condensed Financial Statements. Our total liabilities for unrecognized tax benefits were $3.8 million at May 3, 2008. We cannot reasonably estimate the period of future payments for these liabilities. Therefore these liabilities were not included in the above table.

Off-Balance Sheet Arrangements

We have not created, and are not party to, any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating our business. We do not have any arrangements or relationships with entities that are not consolidated into the financial statements that are reasonably likely to materially affect our liquidity or the availability of capital resources. As of May 3, 2008, we have not issued any letters of credit.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 consolidated financial statements. These estimates and assumptions also affect the reported amounts of revenues and expenses. Estimates by their nature are based on judgments and available information. Therefore, actual results could materially differ from those estimates

under different assumptions and conditions.

Critical accounting policies are those that are most important to the portrayal of the Company's financial condition and the results of operations and require management's most difficult, subjective and complex judgments as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company's most critical accounting policies have been discussed in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2008. In applying such policies, management must use significant estimates that are based on its informed judgment. Because of the uncertainty inherent in these estimates, actual results could differ from estimates used in applying the critical accounting policies. Changes in such estimates, based on more accurate future information, may affect amounts reported in future periods.

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As of May 3, 2008, there have been no material changes to any of the critical accounting policies as disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2008.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of May 3, 2008, the Company had no outstanding borrowings under its Credit Facility. In addition, the Company had no stand-by or commercial letters of credit issued under the Credit Facility. To the extent that the Company may borrow pursuant to the Credit Facility in the future, it may be exposed to market risk related to interest rate fluctuations.

The Company is exposed to foreign currency risk as a result of entering the Canadian market in July 2007. The Company is subject to changes in the foreign currency exchange rates in the Canadian dollar, which could impact its financial condition. Foreign exchange risk arises from the Company's exposure to fluctuation in foreign currency exchange rates because its reporting currency is the U.S. dollar. The Company also faces transactional currency exposures relating to merchandise that its Canadian subsidiary purchases using U.S. dollars. The Company does not hedge its exposure to this currency exchange fluctuation. A 10 percent movement in quoted foreign currency exchange rates could result in a fair value translation fluctuation of approximately $1.8 million in the Company's net investment, which would be recorded in other comprehensive income as an unrealized gain or loss.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures: Pursuant to Exchange Act Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our management carried out an evaluation, under the supervision and with the participation of our Chairman and Chief Executive Officer along with our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls (as defined in Rule 13a-15(e) of the Exchange Act) and procedures. Based upon that evaluation, our Chief Executive Officer along with our Chief Financial Officer concluded that as of the end of our first quarter ended May 3, 2008, our disclosure controls and procedures are effective.

(b) Changes in internal controls: During the period covered by this quarterly report, there have been no changes in our internal controls over our financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over our financial reporting.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

On January 15, 2008, we learned that the Securities and Exchange Commission (the "SEC") had issued a formal order of investigation with respect to matters arising from those events disclosed in our Form 8-K, dated November 8, 2006, which resulted from the activities of Christopher L. Finazzo, our former Executive Vice President and Chief Merchandising Officer. The SEC's investigation is an on-going non-public, fact-finding inquiry to determine whether any violations of law have occurred. We are cooperating fully with the SEC in its investigation.

We are party to various litigation matters and proceedings in the ordinary course of business. In the opinion of our management, dispositions of these matters are not expected to have a material adverse affect on our financial position, results of operations or cash flows.

Item 1A. Risk factors

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements involve certain risks and uncertainties, including statements regarding our strategic direction, prospects and future results. Certain factors, including factors outside of our control, may cause actual results to differ materially from those contained in the forward-looking statements. The following risk factors should be read in connection with evaluating our business and future prospects. All forward looking statements included in this report are based on information available to us as of the date hereof, and we assume no obligation to update or revise such forward-looking statements to reflect events or circumstances that occur after such statements are made. Such uncertainties include, among others, the following factors:

If we were unable to identify and respond to consumers' fashion preferences in a timely manner, our profitability would decline.

We may not be able to keep pace with the rapidly changing fashion trends and consumer tastes inherent in the teen apparel industry. We produce casual, comfortable apparel, a majority of which displays either the "Aéropostale" or "Aéro" logo. There can be no assurance that fashion trends will not move away from casual clothing or that we will not have to alter our design strategy to reflect changes in consumer preferences. Failure to anticipate, identify or react appropriately to changes in styles, trends, desired images or brand preferences, could have a material adverse effect on our sales, financial condition and results of operations.

Our retail store operations may be adversely affected by unfavorable local, regional or national economic conditions.

Our business is sensitive to consumer spending patterns and preferences. Various economic conditions affect the level of spending on the merchandise we offer, including general business conditions, interest rates, taxation, fuel costs, the availability of consumer credit and consumer confidence in future economic conditions. Accordingly, consumer purchases of discretionary items and retail products, including our products, may decline during recessionary periods and also may decline at other times when disposable income is lower. Therefore, our growth, sales and profitability may be adversely affected by unfavorable economic conditions on a local, regional or national level.

Fluctuations in comparable store sales and quarterly results of operations may cause the price of our common stock to decline substantially.

Our comparable store sales and quarterly results of operations have fluctuated in the past and are likely to continue to fluctuate in the future. In addition, there can be no assurance that we will be able to maintain our historic levels of comparable store sales. Our comparable store sales and quarterly results of operations are affected by a variety of factors, including:

- fashion trends;
- changes in our merchandise mix;

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- the effectiveness of our inventory management;
- actions of competitors or mall anchor tenants;
- calendar shifts of holiday or seasonal periods;
- changes in general economic conditions and consumer spending patterns;
- the timing of promotional events; and
- weather conditions.

If our future comparable store sales fail to meet the expectations of investors, then the market price of our common stock could decline substantially. You should refer to the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" for more information.

Foreign suppliers manufacture most of our merchandise and the availability and costs of these products may be negatively affected by risks associated with international trade.

Trade restrictions such as increased tariffs or quotas, or both, could affect the importation of apparel generally and increase the cost and reduce the supply of merchandise available to us. Much of our merchandise is sourced directly from foreign vendors in Europe, Asia and Central America. In addition, many of our domestic vendors maintain production facilities overseas. Some of these facilities are also located in regions that may be affected by political instability that could cause a disruption in trade. Any reduction in merchandise available to us or any increase in its cost due to tariffs, quotas or local political issues could have a material adverse effect on our results of operations. If manufacturing costs were to rise significantly, our business may be adversely affected.

We rely on a small number of vendors to supply a significant amount of our merchandise.

During fiscal 2007, we sourced approximately 69% of our merchandise from our top five merchandise vendors. During fiscal 2006, we sourced approximately 66% of our merchandise from our top five merchandise vendors. Our relationships with our suppliers generally are not on a long-term contractual basis and do not provide assurances on a long-term basis as to adequate supply, quality or acceptable pricing. Most of our suppliers could discontinue selling to us at any time. If one or more of our significant suppliers were to sever their relationship with us, we may not be able to obtain replacement products in a timely manner, which would have a material adverse effect on our sales, financial condition and results of operations.

Our growth strategy relies on the continued addition of a significant number of new stores each year, which could strain our resources and cause the performance of our existing stores to suffer.

Our growth will largely depend on our ability to open and operate new stores successfully. We opened 88 Aéropostale stores in fiscal 2007, 74 Aéropostale stores in fiscal 2006 and 105 Aéropostale and 14 Jimmy'Z stores in fiscal 2005. We plan to open approximately 85 new Aéropostale stores in fiscal 2008, including approximately 15 stores in Canada and three stores in Puerto Rico. We expect to continue to open new stores in the future. We also anticipate remodeling a portion of our existing Aéropostale store base at the appropriate times. To the extent that our new store openings are in existing markets, we may experience reduced net sales volumes in previously existing stores in those same markets.

Our business could suffer as a result of a manufacturer's inability to produce merchandise on time and to our specifications.

We do not own or operate any manufacturing facilities and therefore we depend upon independent third parties to manufacture all of our merchandise. We utilize both domestic and international manufacturers to produce our merchandise. The inability of a manufacturer to ship orders in a timely manner or meet our quality standards could cause delivery date requirements to be missed, which could result in lost sales. In addition, if manufacturing costs were to rise significantly, our business may be adversely affected.

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Our ability to attract customers to our stores depends heavily on the success of the shopping malls in which we are located.

In order to generate customer traffic, we must locate our stores in prominent locations within successful shopping malls. We cannot control the development of new shopping malls, the availability or cost of appropriate locations within existing or new shopping malls, or the success of individual shopping malls. A significant decrease in shopping mall traffic could have a material adverse effect on our results of operations.

Failure of new business concepts would have a negative effect on our results of operations.

We expect that the introduction of new brand concepts and other business opportunities will play an important role in our overall growth strategy. The operation of any new retail concept, including our Jimmy'Z concept, is subject to numerous risks, including unanticipated operating problems, lack of prior experience, lack of customer acceptance, new vendor relationships, competition from existing and new retailers, and could also be a diversion of management's attention from our core Aéropostale business.

Our business could suffer if a manufacturer fails to use acceptable labor practices.

Our sourcing agents and independent manufacturers are required to operate in compliance with all applicable foreign and domestic laws and regulations. While our vendor operating guidelines promote ethical business practices for our vendors and suppliers, we do not control these manufacturers or their labor practices. The violation of labor or other laws by an independent manufacturer, or by one of the sourcing agents, or the divergence of an independent manufacturer's or sourcing agent's labor practices from those generally accepted as ethical in the United States, could interrupt, or otherwise disrupt the shipment of finished products or damage our reputation. Any of these, in turn, could have a material adverse effect on our financial condition and results of operations. To help mitigate this risk, we engage a third party independent contractor to visit the production facilities from which we receive our products. This independent contractor assesses the compliance of the facility with, among other things, local and United States labor laws and regulations as well as foreign and domestic fair trade and business practices.

Our foreign sources of production may not always be reliable, which may result in a disruption in the flow of new merchandise to our stores.

The large majority of the merchandise we purchase is manufactured overseas. We do not have any long-term merchandise supply contracts with our vendors and the imports of our merchandise by our vendors are subject to existing or potential duties, tariffs and quotas. We also face a variety of other risks generally associated with doing business in foreign markets and importing merchandise from abroad, such as: (i) political instability; (ii) enhanced security measures at United States ports, which could delay delivery of goods; (iii) imposition of new legislation relating to import quotas that may limit the quantity of goods which may be imported into the United States from countries in a region within which we do business; (iv) imposition of additional or greater duties, taxes, and other charges on imports; (v) delayed receipt or non-delivery of goods due to the failure of our vendors to comply with applicable import regulations; and (vi) delayed receipt or non-delivery of goods due to unexpected or significant port congestion at United States ports. Any inability on our part to rely on our vendors and our foreign sources of production due to any of the factors listed above could have a material adverse effect on our business, financial condition and results of operations.

Our continued expansion plan is dependent on a number of factors which, if not implemented, could delay or prevent the successful opening of new stores and penetration into new markets.

Unless we continue to do the following, we may be unable to open new stores successfully and, in turn, our continued growth would be impaired:

- identify suitable markets and sites for new store locations;
- negotiate acceptable lease terms;
- hire, train and retain competent store personnel;
- foster current relationships and develop new relationships with vendors that are capable of supplying a greater volume of merchandise;
- manage inventory and distribution effectively to meet the needs of new and existing stores on a timely basis;

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- expand our infrastructure to accommodate growth; and

- generate sufficient operating cash flows or secure adequate capital on commercially reasonable terms to fund our expansion plans.

In addition, we will open new stores in markets in which we currently have few or no stores. Our experience in these markets is limited and there can be no assurance that we will be able to develop our brand in these markets or adapt to competitive, merchandising and distribution challenges that may be different from those in our existing markets. Our inability to open new stores successfully and/or penetrate new markets would have a material adverse effect on our revenue and earnings growth.

The loss of the services of key personnel could have a material adverse effect on our business.

Our key executive officers have substantial experience and expertise in the retail industry and have made significant contributions to the growth and success of our brands. The unexpected loss of the services of one or more of these individuals could adversely affect us. Specifically, if we were to lose the services of Julian R. Geiger, our Chairman and Chief Executive Officer or Mindy C. Meads, our President and Chief Merchandising Officer, our business could be adversely affected. In addition, any significant departures by senior executives or other key performers in the Company could adversely affect our operations.

A substantial interruption in our information systems could have a material adverse effect on our business.

We depend on our management information systems for many aspects of our business. We will be materially adversely affected if our management information systems are disrupted or we are unable to improve, upgrade, maintain, and expand our management information systems.

There is an increased risk in operating stores in foreign countries.

During fiscal 2007, we opened 12 Aéropostale stores in Canada, and we plan to open approximately 15 additional new Canadian stores during fiscal 2008. There can be no assurance that we will be able to address in a timely fashion the risks of operating stores in foreign countries, such as governmental requirements over merchandise importation, employment, taxation and multi-lingual requirements. Additionally, since entering Canada, we will have to continue to obtain suitable store locations, hire personnel, establish distribution methods, and advertise our brand and its distinguishing characteristics to consumers who may not be familiar with them. There can be no assurance that we will be able to open and operate new stores in Canada on a timely and profitable basis. The costs associated with opening these new stores in Canada may negatively affect our profitability.

Our net sales and inventory levels fluctuate on a seasonal basis.

Our net sales and net income are disproportionately higher from August through January each year due to increased sales from back-to-school and holiday shopping. Sales during this period cannot be used as an accurate indicator for our annual results. Our net sales and net income from February through July are typically lower due to, in part, the traditional retail slowdown immediately following the winter holiday season. Any significant decrease in sales during the back-to-school and winter holiday seasons would have a material adverse effect on our financial condition and results of operations. In addition, in order to prepare for the back-to-school and holiday shopping seasons, we must order and keep in stock significantly more merchandise than we would carry during other parts of the year. Any unanticipated decrease in demand for our products during these peak shopping seasons could require us to sell excess inventory at a substantial markdown, which could reduce our net sales and gross margins and negatively impact our

profitability. Additionally, our business is also subject, at certain times, to calendar shifts which may occur during key selling times such as school holidays, Easter and regional fluctuations in the calendar during the back-to-school selling season.

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We rely on a third party to manage our distribution centers.

The efficient operation of our stores is dependent on our ability to distribute, in a timely manner, merchandise to our store locations throughout the United States. An independent third party operates our two distribution and warehouse facilities. We depend on this third party to receive, sort, pack and distribute substantially all of our merchandise. This third party employs personnel represented by a labor union. Although there have been no work stoppages or disruptions since the inception of our relationship with this third party provider beginning in 1991, there can be no assurance that work stoppages or disruptions will not occur in the future. We also use separate third party transportation companies to deliver our merchandise from our warehouse to our stores. Any failure by any of these third parties to respond adequately to our warehousing and distribution needs would disrupt our operations and negatively impact our profitability.

We rely on a third party to manage the warehousing and order fulfillment for our E-Commerce business.

We rely on one third party, GSI Commerce, pursuant to an e-commerce agreement, to host our e-commerce website, warehouse all of the inventory sold through our e-commerce website, and fulfill all of our e-commerce sales to our customers. Any significant interruption in the operations of GSI Commerce, over which we have no control, would have a material adverse effect on our e-commerce business.

Failure to protect our trademarks adequately could negatively impact our brand image and limit our ability to penetrate new markets.

We believe that our key trademarks AÉROPOSTALE®, AERO® and 87® are integral to our logo-driven design strategy. We have obtained federal registrations of these trademarks in the United States and have applied for or obtained registrations in most foreign countries in which our vendors are located, as well as elsewhere. We use these trademarks in many constantly changing designs and logos even though we have not applied to register every variation or combination thereof for adult clothing. We also believe that the JIMMY’Z and Woody Car Design marks may become a part of our future growth strategy. We have acquired federal registrations in the United States and in Canada and have expanded the scope of our filings in the United States Patent and Trademark Office for a greater number of apparel and accessory categories. There can be no assurance that the registrations we own and have obtained will prevent the imitation of our products or infringement of our intellectual property rights by others. If any third party imitates our products in a manner that projects lesser quality or carries a negative connotation, our brand image could be materially adversely affected. Because we have not registered the AERO mark in all forms and categories and have not registered the “AÉROPOSTALE”, “JIMMY’Z” and Woody Car Design marks in all categories or in all foreign countries in which we now or may in the future source or offer our merchandise, international expansion and our merchandising of non-apparel products using these marks could be limited.

In addition, there can be no assurance that others will not try to block the manufacture, export or sale of our products as a violation of their trademarks or other proprietary rights. Other entities may have rights to trademarks that contain the word “AERO” or may have registered similar or competing marks for apparel and accessories in foreign countries in which our vendors are located. Our applications for international registration of the AÉROPOSTALE® mark have been rejected in several countries in which our products are manufactured because third parties have already registered the mark for clothing in those countries. There may also be other prior registrations in other foreign countries of which we are not aware. In addition, we do not own the Jimmy’Z brand outside of the United States and Canada. Accordingly, it may be possible, in those few foreign countries where we were not been able to register the AÉROPOSTALE® mark, or in the countries where the Jimmy’Z brand is owned by a third party, for a third party owner of the national trademark registration for “AÉROPOSTALE”, “JIMMY’Z” or the Woody Car Design to enjoin the manufacture, sale or exportation of Aéropostale or Jimmy’Z branded goods to the United States. If we were unable to reach a licensing arrangement with these parties, our vendors may be unable to manufacture our products in those

countries. Our inability to register our trademarks or purchase or license the right to use our trademarks or logos in these jurisdictions could limit our ability to obtain supplies from or manufacture in less costly markets or penetrate new markets should our business plan change to include selling our merchandise in those jurisdictions outside the United States.

Any disruption of our distribution activities could have a material adverse impact on our business.

We operate two distribution facilities, one in South River, New Jersey, and the other in Ontario, California. These distribution centers manage collectively the receipt, storage, sortation, packaging and distribution of our merchandise to all of our stores. Any significant interruption in the operation of either of our distribution centers due to natural disasters, accidents, system failures, economic and weather conditions, demographic and population changes or other unforeseen events and circumstances could have a material adverse effect on our business, financial condition and results of operations.

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The effects of war or acts of terrorism could have a material adverse effect on our operating results and financial condition.

The continued threat of terrorism and the associated heightened security measures and military actions in response to acts of terrorism has disrupted commerce and has intensified uncertainties in the U.S. economy. Any further acts of terrorism or a future war may disrupt commerce and undermine consumer confidence, which could negatively impact our sales revenue by causing consumer spending and/or mall traffic to decline. Furthermore, an act of terrorism or war, or the threat thereof, or any other unforeseen interruption of commerce, could negatively impact our business by interfering with our ability to obtain merchandise from foreign vendors. Inability to obtain merchandise from our foreign vendors or substitute other vendors, at similar costs and in a timely manner, could adversely affect our operating results and financial condition.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

We repurchase our common stock from time to time under a $600.0 million stock repurchase program. The repurchase program may be modified or terminated by the Board of Directors at any time, and there is no expiration date for the program. The extent and timing of repurchases will depend upon general business and market conditions, stock prices, opening and closing of our stock trading window, and liquidity and capital resource requirements going forward. We had no repurchases during the first quarter of 2008 and had $133.8 million remaining availability pursuant to our share repurchase program as of May 3, 2008.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification by Julian R. Geiger, Chairman and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification by Michael J. Cunningham, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification by Julian R. Geiger pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
32.2	Certification by Michael J. Cunningham pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

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* Filed herewith.
** Furnished herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Aéropostale, Inc.

/s/ JULIAN R. GEIGER
Julian R. Geiger
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

/s/ MICHAEL J. CUNNINGHAM
Michael J. Cunningham
Executive Vice President — Chief Financial Officer
(Principal Financial Officer)

Dated: June 9, 2008