AEROPOSTALE INC
Form 10-Q
August 30, 2012
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

(Mark One)

| | |
|---|---|
| þ | QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 |
| | For the quarterly period ended July 28, 2012 |
| | 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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

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

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

The Registrant had 81,266,839 shares of common stock outstanding as of August 24, 2012.

AÉROPOSTALE, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

AÉROPOSTALE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)
(Unaudited)

| | July 28, 2012 | January 28, 2012 | July 30, 2011 |
|---|---|---|---|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | $169,640 | $223,712 | $73,077 |
| Merchandise inventory | 246,708 | 163,522 | 248,491 |
| Deferred income taxes | 7,405 | 7,406 | 13,593 |
| Prepaid taxes | 16,066 | 7,199 | 25,662 |
| Prepaid expenses and other current assets | 42,450 | 39,960 | 39,986 |
| Total current assets | 482,269 | 441,799 | 400,809 |
| Fixtures, equipment and improvements, net | 300,517 | 287,393 | 316,000 |
| Other assets | 4,161 | 6,041 | 5,186 |
| TOTAL ASSETS | $786,947 | $735,233 | $721,995 |
| | | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| Current Liabilities: | | | |
| Accounts payable | $141,031 | $103,476 | $159,805 |
| Accrued expenses and other current liabilities | 89,788 | 89,735 | 75,249 |
| Total current liabilities | 230,819 | 193,211 | 235,054 |
| Deferred rent, tenant allowances and other long-term liabilities | 116,477 | 114,979 | 114,013 |
| Non-current retirement benefit plan liabilities | 14,714 | 13,696 | 11,405 |
| Uncertain tax contingency liabilities | 2,821 | 3,913 | 4,436 |
| | | | |
| Commitments and contingent liabilities (See notes 8, 9 and 10) | | | |
| | | | |
| 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; 91,863; 91,259 and 91,136 shares issued | 919 | 913 | 911 |
| Additional paid-in capital | 212,153 | 206,670 | 201,478 |
| Accumulated other comprehensive (loss) income | (710) | (839) | 1,797 |
| Retained earnings | 469,926 | 459,279 | 409,071 |
| Treasury stock 10,596; 10,429 and 10,402 shares, at cost | (260,172) | (256,589) | (256,170) |
| Total stockholders' equity | 422,116 | 409,434 | 357,087 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $786,947 | $735,233 | $721,995 |

See Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents

AÉROPOSTALE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

| | 13 weeks ended | | 26 weeks ended | |
|---|---|---|---|---|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| Net sales | $485,337 | $468,191 | $982,551 | $937,374 |
| Cost of sales (includes certain buying, occupancy and warehousing expenses) | 362,567 | 354,156 | 720,769 | 686,681 |
| Gross profit | 122,770 | 114,035 | 261,782 | 250,693 |
| Selling, general and administrative expenses | 122,175 | 108,649 | 244,498 | 217,731 |
| Income from operations | 595 | 5,386 | 17,284 | 32,962 |
| Interest expense, net | 148 | 48 | 307 | 115 |
| Income before income taxes | 447 | 5,338 | 16,977 | 32,847 |
| Income taxes | 376 | 2,397 | 6,330 | 13,539 |
| Net income | $71 | $2,941 | $10,647 | $19,308 |
| Basic earnings per share | $0.00 | $0.04 | $0.13 | $0.24 |
| Diluted earnings per share | $0.00 | $0.04 | $0.13 | $0.23 |
| Weighted average basic shares | 81,266 | 80,729 | 81,155 | 81,667 |
| Weighted average diluted shares | 81,708 | 81,259 | 81,667 | 82,352 |

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(In thousands)
(Unaudited)

| | 13 weeks ended | | 26 weeks ended | |
|---|---|---|---|---|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| Net income | $71 | $2,941 | $10,647 | $19,308 |
| Other comprehensive (loss) income: | | | | |
| Pension liability, net of income taxes of $32, $82, $64 and $164, respectively | 50 | 126 | 99 | 252 |
| Foreign currency translation adjustment (See Note 4) | (713) | (458) | 30 | 1,988 |
| Other comprehensive (loss) income | (663) | (332) | 129 | 2,240 |
| Comprehensive (loss) income | $(592) | $2,609 | $10,776 | $21,548 |

See Notes to Unaudited Condensed Consolidated Financial Statements

Table of Contents

AÉROPOSTALE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

| | 26 weeks ended | |
|---|---|---|
| | July 28, 2012 | July 30, 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $10,647 | $19,308 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 30,698 | 32,067 |
| Stock-based compensation | 4,460 | 4,442 |
| Excess tax benefits from stock-based compensation | (299) | (527) |
| Other | (2,925) | (3,072) |
| Changes in operating assets and liabilities: | | |
| Merchandise inventory | (83,066) | (91,378) |
| Prepaid taxes and other assets | (10,550) | (32,370) |
| Accounts payable | 37,432 | 56,547 |
| Accrued expenses and other liabilities | (2,445) | (33,108) |
| Net cash used in operating activities | (16,048) | (48,091) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (39,083) | (46,543) |
| Net cash used in investing activities | (39,083) | (46,543) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Purchase of treasury stock | — | (100,118) |
| Proceeds from exercise of stock options | 729 | 1,111 |
| Excess tax benefits from stock-based compensation | 299 | 527 |
| Net cash provided by (used in) financing activities | 1,028 | (98,480) |
| Effect of exchange rate changes | 31 | 638 |
| Net decrease in cash and cash equivalents | (54,072) | (192,476) |
| Cash and cash equivalents, beginning of year | 223,712 | 265,553 |
| Cash and cash equivalents, end of period | $169,640 | $73,077 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Income taxes paid | $14,833 | $47,132 |
| Accruals related to purchases of property and equipment | $5,953 | $5,609 |

See Notes to Unaudited Condensed Consolidated Financial Statements

AÉROPOSTALE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Aéropostale, Inc. and its subsidiaries ("we", "us", "our", the "Company" or "Aéropostale") is a primarily mall-based, specialty retailer of casual apparel and accessories, principally targeting 14 to 17 year-old young women and men through its Aéropostale stores and 4 to 12 year-old kids through its P.S. from Aéropostale stores. We provide customers with a focused selection of high quality fashion and fashion basics at compelling values in an innovative and exciting store environment. Aéropostale maintains control over its proprietary brands by designing, sourcing, marketing and selling all of its own merchandise. Aéropostale products can be purchased in Aéropostale stores and online at www.aeropostale.com (this and any other references in this Quarterly Report on Form 10-Q to aeropostale.com or ps4u.com are solely references to a uniform resource locator, or URL, and are inactive textual references only, not intended to incorporate the websites into this Quarterly Report on Form 10-Q). P.S. from Aéropostale products can be purchased in P.S. from Aéropostale stores, certain Aéropostale stores and online at www.ps4u.com. As of July 28, 2012, we operated 989 Aéropostale stores, consisting of 914 stores in all 50 states and Puerto Rico, 75 stores in Canada, as well as 96 P.S. from Aéropostale stores in 22 states. In addition, pursuant to various licensing agreements, our licensees operated 20 Aéropostale and P.S. from Aéropostale stores in the Middle East, Asia and Europe. These licensees are expected to continue opening new stores in these regions. In May 2012, we signed a licensing agreement, pursuant to which the licensee is expected to open approximately 10 to 15 stores in the Philippines over the next five years. In July 2012, we signed another licensing agreement, pursuant to which the licensee is expected to open approximately 15 to 20 stores in Panama and Colombia over the next five years.

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 of America. However, in the opinion of our management, all 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 flows 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 unaudited condensed consolidated financial statements may 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 January 28, 2012 ("Fiscal 2011 10-K").

References to "2012" or "fiscal 2012" mean the 53-week period ending February 2, 2013 and references to "2011" or "fiscal 2011" mean the 52-week period ended January 28, 2012. References to "the second quarter of 2012" mean the thirteen-week period ended July 28, 2012 and references to "the second quarter of 2011" mean the thirteen-week period ended July 30, 2011.

On January 29, 2012, we adopted Accounting Standards Update 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." It requires entities to present net income (loss) and other comprehensive income (loss) in either a single continuous statement or in two separate, but consecutive, statements of net income (loss) and other comprehensive income (loss). The new standard eliminates the option to present items of other comprehensive income (loss) in the statement of changes in equity. As this standard relates only to the presentation of other comprehensive income (loss), our adoption of this new guidance did not have a material impact on our consolidated financial statements.

2. Revenue Recognition

Sales revenue is recognized at the "point of sale" in our stores and at the time our 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 tax collected from customers is excluded from revenue and is included in accrued expenses on our Condensed Consolidated Balance Sheets. Revenue from licensing arrangements is recognized when earned in accordance with the terms of the underlying agreement, generally based upon the greater of the contractually earned or guaranteed minimum royalty levels. During fiscal 2011, we launched a loyalty rewards program for our P.S. from Aéropostale stores. Accordingly, we have recorded a deferred sales liability within accrued expenses in connection with this program. The amount recorded was not material to the financial statements for any period presented. Revenue is not recorded on the purchase of gift cards or issuance of store credits. A current liability is recorded upon purchase and revenue is recognized when the gift card or store credits are redeemed for merchandise. We also recognize breakage income for the portion of gift cards estimated to be unredeemed. We have relieved our legal obligation to escheat the value of

Table of Contents

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 determined redemption to be remote, we reversed our liability and recorded gift card breakage income in net sales. We recorded gift card breakage income of $0.7 million during both the second quarter of 2012 and 2011. We recorded gift card breakage income of $1.3 million during the first twenty-six weeks of 2012, compared to $1.7 million in the first twenty-six weeks of 2011.

3. 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 to the stores, shipping and handling costs, 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 and maintenance, depreciation and amortization and impairment charges.

Cost of sales for the second quarter of 2011 and first twenty-six weeks of 2011 included a pre-tax benefit of $8.7 million resulting from the resolution of a dispute with one of our sourcing agents, related to prior period allowances. Of this benefit, $8.0 million related to fiscal years 2007 through 2010 and was not material to any individual prior period.

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, information technology maintenance costs and expenses, insurance and legal expenses, e-commerce transaction 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.

4. Stockholders' Equity

Stock Repurchase Program

We have the ability to repurchase our common stock 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.

We did not repurchase any common stock during the first twenty-six weeks of 2012. During the first twenty-six weeks of 2011, we repurchased 4.2 million shares for $100.1 million, all during the first quarter. Under the program to date, we have repurchased 57.1 million shares of our common stock for $1.0 billion, at an average price of $17.57 per share. As of July 28, 2012, we have approximately $145.2 million of repurchase authorization remaining under our $1.15 billion share repurchase program.

Accumulated Other Comprehensive (Loss) Income

The following table sets forth the components of accumulated other comprehensive (loss) income:

| | July 28, 2012 | January 28, 2012 | July 30, 2011 |
|---|---|---|---|
| | (In thousands) | | |
| Pension liability, net of tax | $(3,259) | $(3,358) | $(2,571) |

| | | | |
|---|---|---|---|
| Cumulative foreign currency translation adjustment [1] | 2,549 | 2,519 | 4,368 |
| Total accumulated other comprehensive (loss) income | $(710) | $(839) | $1,797 |

[1] Foreign currency translation adjustments are not adjusted for income taxes as they relate to a permanent investment in our subsidiary in Canada.

Table of Contents

5. Earnings Per Share

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

| | 13 weeks ended | | 26 weeks ended | |
|---|---|---|---|---|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| | (In thousands, except per share data) | | | |
| Net income | $71 | $2,941 | $10,647 | $19,308 |
| Weighted average basic shares | 81,266 | 80,729 | 81,155 | 81,667 |
| Impact of dilutive securities | 442 | 530 | 512 | 685 |
| Weighted average diluted shares | 81,708 | 81,259 | 81,667 | 82,352 |
| Basic earnings per share | $0.00 | $0.04 | $0.13 | $0.24 |
| Diluted earnings per share | $0.00 | $0.04 | $0.13 | $0.23 |

Options to purchase 44,290 shares during the second quarter of 2012 and 28,145 shares during the first twenty-six weeks of 2012 were excluded from 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, and therefore, the effect would be anti-dilutive. Similarly, options to purchase 65,642 shares were excluded from the computation of diluted earnings per share during the second quarter of 2011 and first twenty-six weeks of 2011.

6. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

| | July 28, 2012 | January 28, 2012 | July 30, 2011 |
|---|---|---|---|
| | (In thousands) | | |
| Accrued gift cards | $19,157 | $27,897 | $17,879 |
| Accrued compensation and retirement benefit plan liabilities | 18,637 | 14,107 | 11,712 |
| Accrued rent | 11,889 | 12,027 | 11,652 |
| Other | 40,105 | 35,704 | 34,006 |
| | $89,788 | $89,735 | $75,249 |

7. Revolving Credit Facility

In September 2011, we entered into an amended and restated revolving credit facility with Bank of America, N.A. (the “Credit Facility”). There have been no changes to our $175.0 million Credit Facility as disclosed in the notes to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended January 28, 2012.

During the second quarter of 2012 and as of July 28, 2012, we had no outstanding balances under the Credit Facility. In June 2012, Bank of America, N.A. issued a stand-by letter of credit. As of July 28, 2012, the outstanding letter of credit was $0.2 million and expires on June 30, 2013. We have not issued any other stand-by or commercial letters of credit as of July 28, 2012 under the Credit Facility.

As of July 28, 2012, we are not aware of any instances of noncompliance with any covenants or any other event of default under the Credit Facility.

Table of Contents

8. Retirement Benefit Plans

Retirement benefit plan liabilities consisted of the following:

| | July 28, 2012 | January 28, 2012 | July 30, 2011 |
|---|---|---|---|
| | (In thousands) | | |
| Supplemental Executive Retirement Plan (“SERP”) | $12,192 | $11,601 | $10,139 |
| Other retirement plan liabilities | 2,522 | 2,095 | 2,641 |
| Total | 14,714 | 13,696 | 12,780 |
| Less amount classified in accrued expenses related to SERP | — | — | 1,375 |
| Long-term retirement benefit plan liabilities | $14,714 | $13,696 | $11,405 |

401(k) Plan

We maintain a qualified, defined contribution retirement plan with a 401(k) salary deferral feature that covers substantially all of our employees who meet certain requirements. Under the terms of the plan, employees may contribute, subject to statutory limitations, up to 100% of gross earnings and we will provide a matching contribution of 50% of the first 5% of gross earnings contributed by the participants. We also have the option to make additional contributions or to suspend the employer contribution at any time. The employer's 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 five years of service. During fiscal 2011, we established separate defined contribution plans for eligible employees in both Canada and Puerto Rico who meet certain requirements. Contribution expense for all plans was not material to the financial statements for any period presented.

Supplemental Executive Retirement Plan

We maintain a Supplemental Executive Retirement Plan, or SERP, which is a non-qualified defined benefit plan for certain executives. The plan is non-contributory and not funded and provides benefits based on years of service and compensation during employment. Participants are fully vested upon entrance in the plan. Pension expense is determined using the projected unit credit cost method 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 | | 26 weeks ended | |
|---|---|---|---|---|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| | (In thousands) | | | |
| Service cost | $181 | $140 | $362 | $280 |
| Interest cost | 114 | 131 | 228 | 262 |
| Amortization of prior experience cost | 19 | 18 | 38 | 36 |
| Amortization of net loss | 70 | 52 | 140 | 104 |
| Net periodic pension benefit cost | $384 | $341 | $768 | $682 |

Other Retirement Plan Liabilities

We have a long-term incentive deferred compensation plan established for the purpose of providing long-term incentives to a select group of management. The plan is a non-qualified, non-contributory defined contribution plan and is not funded. Participants in this plan include all employees designated by us as Vice President, or other higher-ranking positions that are not participants in the SERP. We record annual monetary credits 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

Table of Contents

after completing five years of service and attaining age 55. Compensation expense and the liability related to this plan was not material to our unaudited condensed consolidated financial statements for any period presented.

We maintain a postretirement benefit plan for certain executives that provides retiree medical and dental benefits. The plan is an other post-employment benefit plan, or OPEB, and is not funded. Pension expense and the liability related to this plan were not material to our unaudited condensed consolidated financial statements for any period presented.

9. Stock-Based Compensation

Under the provisions of Accounting Standards Codification ("ASC") Topic 718, "Compensation – Stock Compensation" ("ASC 718"), all forms of share-based payment to employees and directors, including stock options, must be treated as compensation and recognized in the income statement.

Non-Vested Stock

Certain of our employees and all of our directors have been awarded non-vested stock, pursuant to non-vested stock agreements. The non-vested stock awarded to employees generally cliff vests after up to three years of continuous service with us. All non-vested stock immediately vests upon a change in control of the Company. Grants of non-vested stock awarded to directors vest in full after one year.

The following table summarizes non-vested shares of stock outstanding as of July 28, 2012:

| | Shares | Weighted Average Grant-Date Fair Value |
|---|---|---|
| | (In thousands) | |
| Outstanding as of January 29, 2012 | 1,136 | $20.66 |
| Granted | 171 | 21.38 |
| Vested | (354) | 19.55 |
| Cancelled | (2) | 22.91 |
| Outstanding as of July 28, 2012 | 951 | $21.18 |

Total compensation expense is being amortized over the vesting period. Compensation expense related to non-vested stock activity was $1.9 million for the second quarter of 2012 and $2.4 million for the second quarter of 2011. Compensation expense related to non-vested stock activity was $4.0 million for the first twenty-six weeks of 2012 and $4.3 million for the first twenty-six weeks of 2011. As of July 28, 2012, there was $10.4 million of unrecognized compensation cost related to non-vested stock awards that is expected to be recognized over the weighted average period of two years. No shares vested during the second quarter of fiscal 2012. The total fair value of shares vested was $0.2 million during the second quarter of fiscal 2011. The total fair value of shares vested was $6.9 million during the first twenty-six weeks of 2012 and $5.5 million during the first twenty-six weeks of 2011.

Performance Shares

Certain of our executives have been awarded performance shares, pursuant to performance shares agreements. The performance shares cliff vest at the end of three years of continuous service with us, and the number of shares ultimately awarded is contingent upon meeting various cumulative consolidated earnings targets. All performance shares immediately vest upon a change in control of the Company. Compensation cost for the performance shares is periodically reviewed and adjusted based upon the probability of achieving certain performance targets. If the probability of achieving targets changes, compensation cost will be adjusted in the period that the probability of achievement changes.

Table of Contents

The following table summarizes performance shares of stock outstanding as of July 28, 2012:

| | Shares | Weighted Average Grant-Date Fair Value |
|---|---|---|
| | (In thousands) | |
| Outstanding as of January 29, 2012 | 212 | $16.65 |
| Granted | 168 | 21.24 |
| Vested | (200) | 16.65 |
| Cancelled | — | — |
| Outstanding as of July 28, 2012 | 180 | $21.55 |

Total compensation expense is being amortized over the vesting period. Compensation expense related to performance shares was $0.3 million for the second quarter of 2012 and $0.4 million for the first twenty-six weeks of 2012 based on our determination of the likelihood of achieving the performance conditions associated with the respective shares. This compares to a benefit of $0.6 million for the second quarter of 2011 and a benefit of $0.4 million for the first twenty-six weeks of 2011. As of July 28, 2012, there was $3.2 million of unrecognized compensation cost related to performance shares that is expected to be recognized over the weighted average period of three years.

Stock Options

We have stock option plans under which we may grant qualified and non-qualified stock options to purchase shares of our common stock to executives, consultants, directors, or other key employees. Stock options may not be granted at less than the fair market value at the date of grant. Stock options generally vest over four years on a pro-rata basis and expire after eight years. All outstanding stock options immediately vest upon (i) a change in control of the company (as defined in the plan) and (ii) termination of the employee within one year of such change of control.

The fair value of options was 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 our common stock price over the expected term and the number of options that will ultimately not complete their vesting requirements (“forfeitures”). For the first twenty-six weeks of 2012, our expected volatility was 50%, expected term was 3.86 years, risk-free interest rate was 0.52% and expected forfeiture rate was 5%. 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.

We have 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 consolidated statements of cash flows of the tax effects of employee and director share-based awards that were outstanding.

The effects of applying the provisions of ASC 718 and the results obtained through the use of the Black-Scholes option-pricing model are not necessarily indicative of future values.

11

Table of Contents

The following table summarizes stock option transactions for common stock during the second quarter of 2012:

| | Number of Shares | Weighted Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| | (In thousands) | | (In years) | (In millions) |
| Outstanding as of January 29, 2012 | 593 | $15.86 | | |
| Granted | 10 | 16.77 | | |
| Exercised | (49) | 14.63 | | |
| Cancelled[1] | (9) | 16.40 | | |
| Outstanding as of July 28, 2012 | 545 | $15.98 | 2.36 | $2.4 |
| Options vested as of July 28, 2012 and expected to vest[2] | 544 | $15.98 | 2.36 | $2.4 |
| Exercisable as of July 28, 2012 | 525 | $15.95 | 2.16 | $2.3 |

[1] The number of options cancelled includes approximately 7,000 expired shares.
[2] The number of options expected to vest takes into consideration estimated expected forfeitures.

We recognized less than $0.1 million in compensation expense related to stock options during the second quarter of 2012 and $0.1 million during the second quarter of 2011. We recognized less than $0.1 million in compensation expense related to stock options during the first twenty-six weeks of 2012 and $0.5 million during the first twenty-six weeks of 2011. For the first twenty-six weeks of 2012, the intrinsic value of options exercised was $0.3 million as compared to $0.2 million for the first twenty-six weeks of 2011.

The following table summarizes information regarding non-vested outstanding stock options as of July 28, 2012:

| | Shares | Weighted Average Grant-Date Fair Value |
|---|---|---|
| | (In thousands) | |
| Non-vested as of January 29, 2012 | 31 | $7.60 |
| Granted | 10 | 6.39 |
| Vested | (19) | 8.21 |
| Cancelled | (2) | — |
| Non-vested as of July 28, 2012 | 20 | $6.41 |

As of July 28, 2012, there was $0.1 million of total unrecognized compensation cost related to non-vested options that we expect will be recognized over the remaining over the remaining weighted-average vesting period of three years.

10. Commitments and Contingent Liabilities

Legal Proceedings - In October 2011, Aéropostale, Inc. and senior executive officers Thomas P. Johnson and Marc D. Miller were named as defendants in an action amended in February 2012, City of Providence v. Aéropostale, Inc., et al., No. 11-7132, a class action lawsuit alleging violations of the federal securities laws. The lawsuit was filed in New York federal court on behalf of purchasers of Aéropostale securities between March 11, 2011 and August 18, 2011. The lawsuit alleges that the defendants made materially false and misleading statements regarding the Company's business and prospects and failed to disclose that Aéropostale was experiencing declining demand for its women's fashion division and increasing inventory. All defendants moved to dismiss this action on March 12, 2012. In the opinion of management, disposition of this matter is not expected to have a material effect on the Company's financial positions, results of operations or cash flows.  We are vigorously defending this matter.

Also in October 2011, Aéropostale directors and/or senior executive officers Julian R. Geiger, Ronald R. Beegle, Robert B. Chavez, Michael J. Cunningham, Evelyn Dilsaver, John Haugh, Karin Hirtler-Garvey, John D. Howard, Thomas P. Johnson, and David B. Vermylen were named as defendants in Bell v. Geiger, et al., No. 652931/2011, a shareholder derivative lawsuit filed in New York

Table of Contents

state court seeking relief derivatively on behalf of Aéropostale. The action alleges that the defendants breached their fiduciary duties to Aéropostale between February 3, 2011 and August 3, 2011 by failing to establish and maintain internal controls that would have prevented the Company from disseminating allegedly false and misleading and inaccurate statements and other information to shareholders, and to manage and oversee the Company. As a result, plaintiff alleges that the defendants exposed the Company to potential liability in the federal securities class action lawsuit described above.

In February 2012, current and former Aéropostale directors and/or senior executive officers Mindy Meads, Bodil Arlander, Julian Geiger, Karin Hirtler-Garvey, Ronald Beegle, Robert Chavez, Michael Cunningham, Evelyn Dilsaver, John Haugh, John Howard, Thomas Johnson, Arthur Rubinfeld, and David Vermylen were named as defendants in The Booth Family Trust v. Meads, et al., No. 650594/2012, a shareholder derivative lawsuit filed in New York state court, seeking relief derivatively on behalf of Aéropostale. As in Bell, this action alleges that the defendants breached their fiduciary duties to Aéropostale by failing to establish and maintain internal controls that would have prevented the Company from disseminating allegedly false and misleading and inaccurate statements and other information to shareholders, and to manage and oversee the Company. As a result, and as in Bell, plaintiff alleges that the defendants have exposed the Company to losses and damages, including civil liability from the securities class action suit described above.

On April 24, 2012, the New York Supreme Court, New York County, issued an Order consolidating and staying the Bell and Booth Actions pending a ruling on the motion to dismiss filed in the City of Providence federal securities class action.

In January 2012, Sajid Karsan, who identifies himself as a stockholder of Aéropostale, demanded that the Aéropostale Board of Directors conduct a thorough investigation concerning possible claims for breach of fiduciary duty, insider trading, abuse of control, gross mismanagement, and unjust enrichment against the following directors and officers: Thomas P. Johnson, Marc D. Miller, Julian R. Geiger, Ronald R. Beegle, Robert B. Chavez, Michael J. Cunningham, Evelyn Dilsaver, John Haugh, Karin Hirtler-Garvey, John D. Howard, David B. Vermylen, Ross Citta, Mindy Meads, Mary Pile, Barbara Pindar, and Edward Slezak, and that a lawsuit be filed on behalf of Aéropostale against each of the named individuals, if warranted. On May 2, 2012, the outside, non-management directors on Aéropostale's Board determined to refuse the demand that a lawsuit be filed against these individuals.

We are also 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 effect on our financial position, results of operations or cash flows.

Guarantees - In August 2011, we entered into a new three-year sourcing agreement with one of our sourcing agents. The sourcing agreement may be terminated at any time during the term by mutual agreement of the parties and provided that appropriate notice is given in accordance with the agreement. In connection with the sourcing agreement, we have a guaranteed minimum product purchase commitment of $350.0 million that is measured over any consecutive two-year period during the term of the agreement. If we purchase less than this amount over the two-year measurement period, then we will be obligated to pay the contracted commission on the shortfall from the guaranteed minimum. As of July 28, 2012, we expect to meet our minimum product purchase commitment. In addition, if we were to cancel purchase orders with this sourcing agent, we may have to reimburse the agent for costs and expenses, if any, that it had incurred. We have not issued any other third party guarantees or commercial commitments as of July 28, 2012.

In June 2012, Bank of America, N.A. issued a stand-by letter of credit. As of July 28, 2012, the outstanding letter of credit was $0.2 million and expires on June 30, 2013. We have not issued any other stand-by or commercial letters of credit as of July 28, 2012.

11. Income Taxes

We review the annual effective tax rate on a quarterly basis and make necessary changes if information or events merit.  The estimated annual effective tax rate is forecasted quarterly using actual historical information and forward-looking estimates.  The estimated annual effective tax rate may fluctuate due to changes in forecasted annual operating income; changes to the valuation allowance for deferred tax assets (such changes would be recorded discretely in the quarter in which they occur); changes to actual or forecasted permanent book to tax differences (non-deductible expenses); impacts from future tax settlements with state, federal or foreign tax authorities (such changes would be recorded discretely in the quarter in which they occur); or impacts from tax law changes.  To the extent such changes impact our deferred tax assets/liabilities, these changes would generally be recorded discretely in the quarter in which they occur.

Table of Contents

We follow the provisions of ASC Topic 740, “Income Taxes”, which includes the accounting and disclosure for uncertainty in income taxes. We recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense. Uncertain tax position liabilities, inclusive of interest and penalties were $2.8 million as of July 28, 2012, $3.9 million at January 28, 2012, and $4.4 million at July 30, 2011. Reversal of these liabilities, along with reversal of related deferred tax assets, would favorably impact our effective tax rate. During the first quarter of 2012, we decreased the balance of the liability for unrecognized tax benefits and related deferred tax assets by a net of approximately $0.8 million as a result of the settlement of a state audit and the lapse of the statute of limitations for such period. The liabilities for uncertain tax positions are subject to change based on future events, the timing of which is uncertain, however the Company does not anticipate that the balance of such liability will significantly decrease during the next twelve months.

We file income tax returns in the U.S. and in various states, Canada and Puerto Rico. Our 2009 and 2010 federal corporate income tax returns are currently under audit by the Internal Revenue Service. Currently, no issues have been identified and we expect the audits to be completed during 2012. All tax returns remain open for examination generally for our 2007 through 2010 tax years by various taxing authorities. However, certain states may keep their statute open for six to ten years.

Table of Contents

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

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 may not be indicative of our full-year results of operations, financial condition or cash flows. We recommend that you read this section along with the condensed consolidated financial statements and notes included in this report and along with our Annual Report on Form 10-K for the year ended January 28, 2012.

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

Results of Operations

Overview

During fiscal 2012, we are focused on improving our financial performance by executing certain key initiatives. We continue to refine our merchandise assortments and broaden our offering, in addition to increasing the projection of our fashion and lifestyle proposition. We continue to invest in our infrastructure, increasing efficiencies and supporting our long-term growth. In addition, we continue to develop our long-term growth drivers: P.S. from Aéropostale, e-commerce and international. The macroeconomic and competitive challenges we faced in 2011 have continued through 2012. However, product costs are expected to decline during the remainder of fiscal 2012 as compared to the same periods of fiscal 2011.

For the second quarter of 2012, we achieved net sales of $485.3 million, or a 4% increase when compared to the second quarter of 2011. Gross profit, as a percentage of net sales, increased by 0.9 percentage points. Gross profit for the second quarter and first twenty-six weeks of fiscal 2011 included a pre-tax benefit of $8.7 million from the resolution of a dispute with one of our sourcing agents. Of this benefit, $8.0 million related to periods prior to fiscal 2011. SG&A, as a percentage of net sales increased by 2.0 percentage points for the second quarter of 2012. Net income for the second quarter of 2012 was $0.1 million, or $0.00 per diluted share, compared to net income of $2.9 million, or $0.04 per diluted share, for the second quarter of 2011.

As of July 28, 2012, we had working capital of $251.5 million, cash and cash equivalents of $169.6 million, no short-term investments and no debt outstanding. Average square footage growth was 4% over the comparable prior year period. Consolidated merchandise inventories decreased by 1% and by 6% on a per retail square foot basis at

July 28, 2012 compared to July 30, 2011.

In the second quarter of 2012, we opened seven Aéropostale stores and closed four stores, opened 15 P.S. from Aéropostale stores, and remodeled one Aéropostale store. We operated 1,085 stores at July 28, 2012, an increase of 43 stores from the same period last year, attributable to new P.S. from Aéropostale stores in the U.S. and new Aéropostale stores in both the U.S. and Canada.

Table of Contents

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 | | 26 weeks ended | |
|---|---|---|---|---|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| Net sales | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Gross profit | 25.3 % | 24.4 % | 26.6 % | 26.7 % |
| Selling, general and administrative expenses | 25.2 % | 23.2 % | 24.9 % | 23.2 % |
| Income from operations | 0.1 % | 1.2 % | 1.7 % | 3.5 % |
| Interest expense | — % | — % | — % | — % |
| Income before income taxes | 0.1 % | 1.2 % | 1.7 % | 3.5 % |
| Income taxes | 0.1 % | 0.5 % | 0.6 % | 1.4 % |
| Net income | — % | 0.7 % | 1.1 % | 2.1 % |

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. In the first quarter of 2012, we began presenting certain key performance indicators such as comparable store sales change, on both the basis of excluding the e-commerce channel and including the e-commerce channel as further detailed below:

| | 13 weeks ended | | 26 weeks ended | |
|---|---|---|---|---|
| | July 28, 2012 | July 30, 2011 | July 28, 2012 | July 30, 2011 |
| Net sales (in millions) | $485.3 | $468.2 | $982.6 | $937.4 |
| Total store count at end of period | 1,085 | 1,042 | 1,085 | 1,042 |
| Comparable store count at end of period | 988 | 917 | 988 | 917 |
| Net sales change | 4 % | (5 )% | 5 % | (2 )% |
| Comparable sales change (including the e-commerce channel) | — % | (12 )% | 1 % | (9 )% |
| Comparable store sales change (excluding the e-commerce channel) | (1 )% | (14 )% | — % | (10 )% |
| Comparable average unit retail change (including the e-commerce channel) | (1 )% | (15 )% | — % | (13 )% |
| Comparable units per sales transaction change (including the e-commerce channel) | 5 % | 7 % | 4 % | 8 % |
| Comparable sales transaction change (including the e-commerce channel) | (4 )% | (3 )% | (3 )% | (3 )% |
| Net sales per average square foot | $113 | $115 | $229 | $233 |
| Gross profit (in millions) | $122.8 | $114.0 | $261.8 | $250.7 |
| Income from operations (in millions) | $0.6 | $5.4 | $17.3 | $33.0 |
| Diluted earnings per share | $0.00 | $0.04 | $0.13 | $0.23 |
| Average square footage growth over comparable period | 4 % | 9 % | 5 % | 9 % |
| Change in total inventory over comparable period | (1 )% | 15 % | (1 )% | 15 % |
| Change in inventory per retail square foot over comparable period | (6 )% | 5 % | (6 )% | 5 % |
| Percentages of net sales by category: | | | | |
| Young Women's | 63 % | 64 % | 64 % | 66 % |

| | | | | |
|---|---|---|---|---|
| Young Men’s | 37 % | 36 % | 36 % | 34 % |

16

Table of Contents

Comparison of the 13 weeks ended July 28, 2012 to the 13 weeks ended July 30, 2011

Net Sales

Net sales for the second quarter of 2012 increased by $17.1 million, or by 4%, compared to the same period last year. The increase in net sales was driven by average store square footage growth of 4% primarily from new stores. The net sales increase reflects:

- an increase of $14.9 million in non-comparable store sales due primarily to 43 more stores open at the end of the second quarter of 2012 compared to the end of the second quarter of 2011.
- an increase of $6.8 million in net sales from our e-commerce business which increased by 27% to $31.9 million during the second quarter of 2012 when compared to the same period last year.
- a decrease of $4.6 million in comparable store sales (excluding the e-commerce channel)

Comparable sales, including the e-commerce channel, were essentially flat when compared to the same period last year. Comparable store sales, excluding the e-commerce channel, decreased 1% when compared to the prior year. Comparable sales, including the e-commerce channel, were essentially flat in our young men's category and our young women's category. The overall comparable sales, including the e-commerce channel, reflected increases of 5% in units per sales transaction offset by decreases of 4% in the number of sales transactions and 1% in average unit retail.

Cost of Goods Sold and Gross Profit

Cost of sales includes costs related to merchandise sold, including inventory valuation adjustments, distribution and warehousing, freight from the distribution center to the stores, shipping and handling costs, 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 and maintenance, depreciation and amortization and impairment charges. Cost of sales for the second quarter of fiscal 2011 included the above mentioned benefit from the resolution of a dispute with one of our sourcing agents.

Gross profit, as a percentage of net sales, increased by 0.9 percentage points for the second quarter of 2012 compared to the same period last year. The second quarter of fiscal 2011 included a benefit of 1.7 percentage points from the above mentioned resolution of a dispute with one of our sourcing agents. Excluding this benefit, gross profit as a percentage of net sales, increased by 2.6 percentage points for the second quarter of 2012 compared to the same period last year, due primarily to higher merchandise margins.

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, information technology maintenance costs and expenses, insurance and legal expenses, e-commerce transaction 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, as a percentage of net sales, was 25.2 percent for the second quarter of 2012 compared to 23.2 percent for the same period last year. The increase was primarily due to higher corporate expenses of 1.1 percentage points (of which 0.7 percentage points was related to incentive compensation), higher store-line expenses of 0.5 percentage points, higher e-commerce transaction costs of 0.3 percentage points and higher marketing costs of 0.2 percentage points. These increases were partially offset by a decrease in transaction related expenses of 0.1 percentage points.

SG&A increased by $13.5 million for the second quarter of 2012 compared to the second quarter of 2011. For the second quarter of 2012, corporate expenses increased by $6.4 million, which consisted of incentive compensation of $3.4 million, benefits of $1.4 million and other expenses of $1.6 million. Additionally, store-line expenses increased by $4.8 million, e-commerce transaction expenses increased by $1.5 million and marketing expenses of $1.3 million. These increases were partially offset by a decrease in transaction related expenses of $0.5 million.

Income taxes

The increase in the effective tax rate for the quarter was primarily a result of an increase in the year to date rate to 37.3%, combined with a lower profit before tax for the second quarter of fiscal 2012.

Table of Contents

Net income

Net income was $0.1 million, or $0.00 per diluted share, for the second quarter of 2012, compared to net income of $2.9 million, or $0.04 per diluted share, for the second quarter of 2011. The above mentioned benefit from the resolution of a dispute with one of our sourcing agents increased net income by $4.7 million, or by $0.06 per diluted share, during the second quarter of 2011.

Comparison of the 26 weeks ended July 28, 2012 to the 26 weeks ended July 30, 2011

Net Sales

Net sales for the first twenty-six weeks of 2012 increased by $45.2 million, or by 5%, compared to the same period last year. The increase in net sales was driven by average store square footage growth of 5% primarily from new stores. The net sales increase reflects:

- an increase of $33.2 million in non-comparable store sales due primarily to 43 more stores open at the end of the first twenty-six weeks of 2012 compared to the end of the first twenty-six weeks of 2011.
- an increase of $15.8 million in net sales from our e-commerce business which increased by 30% to $69.0 million during the first twenty-six weeks of 2012 when compared to the same period last year.
- a decrease of $3.8 million in comparable store sales (excluding the e-commerce channel)

Comparable sales, including the e-commerce channel, increased 1% when compared to the same period last year. Comparable store sales, excluding the e-commerce channel, were essentially flat when compared to the prior year. Comparable sales, including the e-commerce channel, increased in our young men's category by 2% and our young women's category was essentially flat. The overall comparable sales, including the e-commerce channel, reflected increases of 4% in units per sales transaction, offset by a decrease of 3% in the number of sales transactions. Average unit retail was essentially flat.

Cost of Goods Sold and Gross Profit

Gross profit, as a percentage of net sales, decreased by 0.1 percentage points for the first twenty-six weeks of 2012 compared to the same period last year. Fiscal 2011 included a benefit of 0.9 percentage points from the above mentioned resolution of a dispute with one of our sourcing agents. Excluding this benefit, gross profit as a percentage of net sales, increased by 0.8 percentage points. The increase in gross profit was due primarily to 0.4 percentage points of higher merchandise margin and 0.3 percentage points of depreciation expense leverage.

SG&A

SG&A, as a percentage of net sales, was 24.9 percent for the first twenty-six weeks of 2012 compared to 23.2 percent for the same period last year. The increase was primarily due to higher corporate expenses of 1.1 percentage points (of which 0.7 percentage points was related to incentive compensation), higher e-commerce transaction costs of 0.3 percentage points, higher store-line expenses of 0.2 percentage points and higher marketing costs of 0.2 percentage points. These increases were partially offset by a decrease in transaction related expenses of 0.2 percentage points.

SG&A increased by $26.8 million for the first twenty-six weeks of 2012 compared to the first twenty-six weeks of 2011. For the first twenty-six weeks of 2012, corporate expenses increased by $13.5 million, which consisted of incentive compensation of $6.8 million, benefits of $3.5 million and other expenses of $3.2 million. Additionally, store-line expenses increased by $8.2 million, e-commerce transaction expenses increased by $3.5 million and marketing expenses of $2.7 million. These increases were partially offset by a decrease in transaction related expenses of $1.2 million.

Income taxes

The effective income tax rate was 37.3% for the first twenty-six weeks of 2012 and 41.2% for the first twenty-six weeks of 2011. The reduction in the effective tax rate was primarily due to a $0.8 million reduction in the net liability for unrecognized tax benefits during the first quarter of 2012 as a result of the favorable settlement of a tax audit and the lapse of the statute of limitations for such period.

Table of Contents

Net income

Net income was $10.6 million or $0.13 per diluted share, for the first twenty-six weeks of 2012, compared to net income of $19.3 million, or $0.23 per diluted share, for the first twenty-six weeks of 2011. The above mentioned benefit from the resolution of a dispute with one of our sourcing agents increased net income by $4.7 million, or by $0.05 per diluted share, during the first twenty-six weeks of 2011.

Liquidity and Capital Resources

Our cash requirements are primarily for working capital, construction of new stores, remodeling of existing stores, and the improvement or 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. Generally, 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 if necessary, our credit facility. At July 28, 2012, we had working capital of $251.5 million, cash and cash equivalents of $169.6 million and no debt outstanding under our $175.0 million credit facility. Additionally, we repurchase our common stock from time to time under a stock repurchase program (see Note 4 to the Notes to Unaudited Condensed Consolidated Financial Statements).

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

| | 26 weeks ended | |
|---|---|---|
| | July 28, 2012 | July 30, 2011 |
| | (In thousands) | |
| Net cash used in operating activities | $(16,048) | $(48,091) |
| Net cash used in investing activities | (39,083) | (46,543) |
| Net cash provided by (used in) financing activities | 1,028 | (98,480) |
| Effect of exchange rate changes | 31 | 638 |
| Net decrease in cash and cash equivalents | $(54,072) | $(192,476) |

Operating activities - Net cash used in operating activities decreased by $32.0 million for the first twenty-six weeks of 2012 compared to the same period in 2011. The improvement in net cash used in operating activities was primarily due to decreases in cash used for income taxes of $26.5 million, accrued compensation of $18.1 million and merchandise inventory of $8.3 million and was partially offset by less cash provided by accounts payable of $19.1 million and a decrease in net income of $8.7 million.

Consolidated merchandise inventories decreased by 1% in total, as compared to July 30, 2011, or by 6% on a per retail square foot basis.

Investing activities - Net cash used in investing activities related to capital expenditures was $39.1 million for the first twenty-six weeks of 2012 compared to $46.5 million for the first twenty-six weeks of 2011.

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. During fiscal 2012, we plan to invest a total of approximately $66.0 million in capital expenditures. During the first twenty-six weeks of 2012, we invested $45.0 million, which includes $6.0 million of accruals related to purchases of property and equipment. During the first twenty-six weeks of 2012, we opened 10 Aéropostale stores, 25 P.S. from Aéropostale stores and remodeled five Aéropostale stores. During the remainder of the fiscal year, we plan to open 8 Aéropostale stores and approximately 5 P.S. from Aéropostale stores. We plan to defer a number of store remodels until we develop and implement our new Aéropostale store prototype.

During fiscal 2011, we invested $73.3 million in capital expenditures, primarily to construct 24 new Aéropostale stores, 25 P.S. from Aéropostale stores, to remodel 50 existing stores and for a number of information technology investments.

Table of Contents

Financing activities - We have the ability to repurchase our common stock 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 windows, and liquidity and capital resource requirements going forward.

We did not repurchase any common stock during the first twenty-six weeks of 2012. During the first twenty-six weeks of 2011, we repurchased 4.2 million shares for $100.1 million, all during the first quarter. Under the program to date, we have repurchased 57.1 million shares of our common stock for $1.0 billion, at an average price of $17.57 per share. As of July 28, 2012, we have approximately $145.2 million of repurchase authorization remaining under our $1.15 billion share repurchase program.

Revolving Credit Facility

In September 2011, we entered into an amended and restated revolving credit facility with Bank of America, N.A. (the "Credit Facility"). The Credit Facility provides for a revolving credit line up to $175.0 million. The Credit Facility is available for working capital and general corporate purposes. The Credit Facility is scheduled to expire on September 22, 2016, and is guaranteed by all of our domestic subsidiaries (the "Guarantors"). No amounts were outstanding during the second quarter of 2012 or as of July 28, 2012 under the Credit Facility. Management has no reason at this time to believe that the participating institutions will be unable to fulfill their obligations to provide financing in accordance with the terms of the Credit Agreement in the event of our election to draw funds in the foreseeable future.

Loans under the Credit Facility are secured by all our assets and are guaranteed by the Guarantors. Upon the occurrence of a Cash Dominion Event (as defined in the Credit Facility and includes either any event of default or failure to maintain availability in an amount greater than 12.5% of the lesser of the borrowing base and facility commitment), our ability to borrow funds, make investments, pay dividends and repurchase shares of our common stock would be limited, among other limitations. Direct borrowings under the Credit Facility bear interest at a margin over either LIBOR or at the Prime Rate (as each such term is defined in the Credit Facility).

The Credit Facility also contains covenants that, subject to specified exceptions, restrict our 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 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 on 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 Credit Facility, the lender may cease making loans, terminate the Credit Facility and declare all amounts outstanding to be immediately due and payable.

Upon the occurrence of our loan availability under the Credit Facility decreasing below 10% of the lesser of the borrowing base and the dollar amount of commitments under the Credit Facility, we would be required to meet a financial covenant for a Minimum Consolidated Fixed Charge Coverage Ratio of not less than 1.0 to 1.0.

During the second quarter of 2012 and as of July 28, 2012, we had no outstanding balances under the Credit Facility. In June 2012, Bank of America, N.A. issued a stand-by letter of credit. As of July 28, 2012, the outstanding letter of credit was $0.2 million and expires on June 30, 2013. We have not issued any other stand-by or commercial letters of credit as of July 28, 2012 under the Credit Facility.

As of July 28, 2012, we are not aware of any instances of noncompliance with any covenants or any other event of default under the Credit Facility.

Table of Contents

Contractual Obligations

The following table summarizes our contractual obligations as of July 28, 2012:

| | | Payments Due | | | |
|---|---|---|---|---|---|
| | Total | Balance of 2012 | In 2013 and 2014 | In 2015 and 2016 | After 2017 |
| | (In thousands) | | | | |
| Contractual Obligations | | | | | |
| Real estate operating leases | $928,419 | $59,349 | $260,516 | $209,994 | $398,560 |
| Equipment operating leases | 8,097 | 2,087 | 5,659 | 351 | — |
| Employment agreements | 2,390 | 797 | 1,593 | — | — |
| Total contractual obligations | $938,906 | $62,233 | $267,768 | $210,345 | $398,560 |

The real estate operating leases included in the above table do not include contingent rent based upon sales volume, which amounted to approximately 14% of minimum lease obligations in fiscal 2011. In addition, the above table does not include variable costs paid to landlords such as maintenance, insurance and taxes, which represented approximately 55% of minimum lease obligations in fiscal 2011.

We have employment agreements with Thomas P. Johnson, our Chief Executive Officer and Michael J. Cunningham, our President. The total contractual commitment for these agreements combined is $2.4 million as of July 28, 2012 and is included in the above table.

As discussed in Note 8 to the Notes to Consolidated Financial Statements, we have a SERP liability of $12.2 million and other retirement plan liabilities of $2.5 million at July 28, 2012. Such liability amounts are not reflected in the table above.

Our total liabilities for unrecognized tax benefits were $2.8 million at July 28, 2012. We cannot make a reasonable estimate of the amount and timing of related future payments for these non-current liabilities of $2.8 million. Therefore these liabilities were not included in the above table.

In August 2011, we entered into a new three-year sourcing agreement with one of our sourcing agents. The sourcing agreement may be terminated at any time during the term by mutual agreement of the parties and provided that appropriate notice is given in accordance with the agreement. In connection with the sourcing agreement, we have a guaranteed minimum product purchase commitment of $350.0 million that is measured over any consecutive two-year period during the term of the agreement. If we purchase less than this amount over the two-year measurement period, then we will be obligated to pay the contracted commission on the shortfall from the guaranteed minimum. As of July 28, 2012, we expect to meet our minimum product purchase commitment. In addition, if we were to cancel purchase orders with this sourcing agent, we may have to reimburse the agent for costs and expenses, if any, that it had incurred. All other open purchase orders are cancellable without penalty and are therefore not included in the above table. We have not issued any other third party guarantees or commercial commitments as of July 28, 2012.

In June 2012, Bank of America, N.A. issued a stand-by letter of credit. As of July 28, 2012, the outstanding letter of credit was $0.2 million and expires on June 30, 2013. We have not issued any other stand-by or commercial letters of credit as of July 28, 2012.

The above table also does not include contingent bonus compensation agreements with certain of our employees. The bonuses become payable if the individual is employed by us on the future payment date. The amount of conditional bonuses that may be paid is $1.6 million during the remainder of fiscal 2012, $0.9 million during fiscal 2013 and $0.3

million during fiscal 2014.

Off-Balance Sheet Arrangements

Other than operating lease commitments set forth in the table above, we are not party to any material off-balance sheet financing 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 July 28, 2012, we have not issued any letters of credit for the purchase of merchandise inventory or any capital expenditures.

Table of Contents

## Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 our 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. Our most critical accounting policies have been discussed in our Annual Report on Form 10-K for the fiscal year ended January 28, 2012. 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.

As of July 28, 2012, there have been no material changes to any of the critical accounting policies as disclosed in our Annual Report on Form 10-K for the fiscal year ended January 28, 2012.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of July 28, 2012, we had no outstanding borrowings under our Credit Facility. In June 2012, Bank of America, N.A. issued a stand-by letter of credit. As of July 28, 2012, the outstanding letter of credit was $0.2 million and expires on June 30, 2013. We have not issued any other stand-by or commercial letters of credit as of July 28, 2012 under the Credit Facility. To the extent that we may borrow pursuant to the Credit Facility in the future, we may be exposed to market risk from interest rate fluctuations.

Unrealized foreign currency gains and losses, resulting from the translation of our Canadian subsidiary financial statements into our U.S. dollar reporting currency, are reflected in the equity section of our consolidated balance sheet in accumulated other comprehensive income (loss). The unrealized gain of approximately $2.5 million is included in accumulated other comprehensive loss as of July 28, 2012. A 10% movement in quoted foreign currency exchange rates could result in a fair value translation fluctuation of approximately $3.5 million, which would be recorded in other comprehensive income (loss) as an unrealized gain or loss.

We also face transactional currency exposures relating to merchandise that our Canadian subsidiary purchases using U.S. dollars. These foreign currency transaction gains and losses are charged or credited to earnings as incurred. We do not hedge our exposure to this currency exchange fluctuation and transaction gains and losses to date have not been significant.

## Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures: Pursuant to 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 Chief Executive Officer along with our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). Based upon that evaluation, our Chief Executive Officer along with our Chief Financial Officer concluded that as of the end of our second quarter ended July 28, 2012, our disclosure controls and procedures are effective.

(b) Changes in internal controls: During our second fiscal quarter, 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.

Table of Contents

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

In October 2011, Aéropostale, Inc. and senior executive officers Thomas P. Johnson and Marc D. Miller were named as defendants in an action amended in February 2012, City of Providence v. Aéropostale, Inc., et al., No. 11-7132, a class action lawsuit alleging violations of the federal securities laws. The lawsuit was filed in New York federal court on behalf of purchasers of Aéropostale securities between March 11, 2011 and August 18, 2011. The lawsuit alleges that the defendants made materially false and misleading statements regarding the Company's business and prospects and failed to disclose that Aéropostale was experiencing declining demand for its women's fashion division and increasing inventory. All defendants moved to dismiss this action on March 12, 2012. In the opinion of management, disposition of this matter is not expected to have a material effect on the Company's financial positions, results of operations or cash flows. We are vigorously defending this matter.

Also in October 2011, Aéropostale directors and/or senior executive officers Julian R. Geiger, Ronald R. Beegle, Robert B. Chavez, Michael J. Cunningham, Evelyn Dilsaver, John Haugh, Karin Hirtler-Garvey, John D. Howard, Thomas P. Johnson, and David B. Vermylen were named as defendants in Bell v. Geiger, et al., No. 652931/2011, a shareholder derivative lawsuit filed in New York state court seeking relief derivatively on behalf of Aéropostale. The action alleges that the defendants breached their fiduciary duties to Aéropostale between February 3, 2011 and August 3, 2011 by failing to establish and maintain internal controls that would have prevented the Company from disseminating allegedly false and misleading and inaccurate statements and other information to shareholders, and to manage and oversee the Company. As a result, plaintiff alleges that the defendants exposed the Company to potential liability in the federal securities class action lawsuit described above.

In February 2012, current and former Aéropostale directors and/or senior executive officers Mindy Meads, Bodil Arlander, Julian Geiger, Karin Hirtler-Garvey, Ronald Beegle, Robert Chavez, Michael Cunningham, Evelyn Dilsaver, John Haugh, John Howard, Thomas Johnson, Arthur Rubinfeld, and David Vermylen were named as defendants in The Booth Family Trust v. Meads, et al., No. 650594/2012, a shareholder derivative lawsuit filed in New York state court, seeking relief derivatively on behalf of Aéropostale. As in Bell, this action alleges that the defendants breached their fiduciary duties to Aéropostale by failing to establish and maintain internal controls that would have prevented the Company from disseminating allegedly false and misleading and inaccurate statements and other information to shareholders, and to manage and oversee the Company. As a result, and as in Bell, plaintiff alleges that the defendants have exposed the Company to losses and damages, including civil liability from the securities class action suit described above.

On April 24, 2012, the New York Supreme Court, New York County, issued an Order consolidating and staying the Bell and Booth Actions pending a ruling on the motion to dismiss filed in the City of Providence federal securities class action.

In January 2012, Sajid Karsan, who identifies himself as a stockholder of Aéropostale, demanded that the Aéropostale Board of Directors conduct a thorough investigation concerning possible claims for breach of fiduciary duty, insider trading, abuse of control, gross mismanagement, and unjust enrichment against the following directors and officers: Thomas P. Johnson, Marc D. Miller, Julian R. Geiger, Ronald R. Beegle, Robert B. Chavez, Michael J. Cunningham, Evelyn Dilsaver, John Haugh, Karin Hirtler-Garvey, John D. Howard, David B. Vermylen, Ross Citta, Mindy Meads, Mary Pile, Barbara Pindar, and Edward Slezak, and that a lawsuit be filed on behalf of Aéropostale against each of the named individuals, if warranted. On May 2, 2012, the outside, non-management directors on Aéropostale's Board determined to refuse the demand that a lawsuit be filed against these individuals.

We are also 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 effect on our financial position, results of operations or cash flows.

Table of Contents

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 are unable to identify and respond to consumers' fashion preferences, domestically and/or internationally, in a timely manner, our profitability will decline, as it did in 2011.

If we are not able to keep pace with the rapidly changing fashion trends, both domestically and/or internationally, and teen consumer apparel tastes, our profitability will decline, as it did in 2011. We produce casual, comfortable on trend apparel, a majority of which displays the “Aéropostale”, “Aéro” or “P.S. from Aéropostale” 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 has had and could continue to have a material adverse effect on our results of operations.

Industry conditions are increasingly competitive.

The teen and child specialty retail industries have historically been highly competitive. One of our competitive advantages throughout our history has been our promotional business model. A number of our competitors are now also operating a more promotional business, similar to our own. As a result we now face increased competition based upon price and promotion which we have not experienced previously. Greater or continued promotional activity in the teen or child specialty retail industries could have a material adverse effect on our sales and results of operations.

The effect of global, national, regional and local economic pressures and conditions may adversely affect our sales.

The global economic crisis continues to cause a great deal of uncertainty. This market uncertainty continues to result in reduced consumer confidence and spending. Our business is highly sensitive to consumer spending patterns and preferences. Various economic conditions affect the level of disposable income consumers have available to spend on the merchandise we offer, including unemployment rates, interest rates, taxation, energy costs, the availability of consumer credit, the price of gasoline, consumer confidence in future economic conditions and general business 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 changes in consumer spending patterns affect us unfavorably. In addition, any significant decreases in shopping mall traffic, as a result of, among other things, higher gasoline prices, could also have a material adverse effect on our results of operations. Therefore, our growth, sales and profitability may be adversely affected by economic conditions on a local, regional, national and/or global level.

Our ability to react to raw material cost increases, labor and energy prices could reduce our overall profitability.

Global inflationary economic conditions, as well as increases in our product costs, such as raw materials, labor and fuel, have reduced our overall profitability. Specifically, increases in the price of cotton, used in the manufacture of merchandise we purchase from our suppliers, negatively impacts our cost of goods. In addition, any reduction in merchandise available to us or any significant increase in the costs to produce that merchandise would have a material adverse effect on our results of operations. We have strategies in place to mitigate the rising cost of raw materials and our overall profitability depends on the success of those strategies. Additionally, increases in other costs, including labor and energy, could adversely impact our results of operations as well.

A significant decrease in sales could have an adverse effect on our financial condition and results of operations.

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. Our net sales and net income from February through July are typically lower due to, in part,

Table of Contents

the traditional retail slowdown immediately following the winter holiday season. Any significant decrease in sales during any season, but in particular the back-to-school and holiday shopping 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 would require us to sell excess inventory at a substantial markdown, which would 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.

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 would have a material adverse effect on our results of operations. Additionally, the loss of an anchor or other significant tenant in a shopping mall in which we have a store, or the closure of a significant number of shopping malls in which we have stores, either by a single landlord with a large portfolio of malls, or by a number of smaller individual landlords, may have a material adverse effect on our results of operations.

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. Our comparable store sales and quarterly results of operations are affected by a variety of factors, including:

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

If our comparable store sales and/or results of operations 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.

Our continued expansion plan is dependent on a number of considerations which, if not successfully addressed, could delay or prevent the opening of new stores and our entry 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;

Table of Contents

- 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;
- 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.

There are a finite number of suitable locations and malls within the United States and Canada in which to locate our stores. If we are unable to locate additional suitable locations to open new stores successfully and/or enter new markets, then there will be an adverse effect on the rate of our revenue and earnings growth.

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

During fiscal 2011 and 2010, we sourced approximately 87% and 85%, respectively, 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. In addition, we do not own or operate any of our own manufacturing facilities and therefore we depend upon independent third party vendors to manufacture all of the merchandise we sell in our stores. If any of our vendors, especially our primary vendors which manufacture the majority of our merchandise, ship orders to us late, do not meet our quality standards, or otherwise fail to deliver us product in accordance with our plans, then there would be a material adverse effect on our results of operations.

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 generally 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 foreign and 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 or labor unrest at United States ports. Any disruption to our vendors and our foreign sources of production due to any of the factors listed above or due to other unforeseeable events or circumstances 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, such as the launch in fiscal 2009 of our new store brand concept P.S. from Aéropostale, as well as other new business opportunities, such as international expansion, will play an important role in our overall growth strategy. Our ability to succeed with a new brand concept requires significant expenditures and management attention. Additionally, any new brand is subject to certain risks including customer acceptance, competition, product differentiation, the ability to attract and retain qualified personnel, including management and designers, diversion of management's attention from our core Aéropostale business and the ability to obtain suitable sites for new stores. Our experience with our Jimmy'Z brand, which we closed in fiscal 2009, demonstrates that there can be no assurance that new brands will grow or become profitable.

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

Table of Contents

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.

The unexpected 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 unexpectedly lose the services of Thomas P. Johnson, our Chief Executive Officer, or Michael J. Cunningham, our President, our business could be adversely affected. In addition, departures of any other senior executives or key performers in the Company could also adversely affect our operations.

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

We depend on the security and integrity of electronic data and our management information systems for many aspects of our business. We may be materially adversely affected if our management information systems are disrupted or compromised or we are unable to improve, upgrade, maintain, and expand our management information systems.

We rely on third parties to manage our distribution centers and transport our merchandise to our stores; a disruption of our distribution activities could have a material adverse effect on our business.

The efficient operation of our stores is dependent on our ability to distribute, in a timely manner, our merchandise to our store locations throughout the United States, Canada and Puerto Rico. We currently lease and maintain two third-party independently operated 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 virtually all of our merchandise. In addition, we also utilize a third distribution center, located in Canada, which is independently owned and operated.

These third parties employ personnel represented by labor unions. Although there have been no work stoppages or disruptions since the inception of our relationships with these third party providers, 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 distribution centers to our stores. Any failure by any of these third parties to respond adequately to our warehousing, distribution and transportation needs would have a material adverse effect on our results of operations.

Failure to comply with regulatory requirements could have a material adverse effect on our business.

As a public company, we are subject to numerous regulatory requirements. Our policies, procedures and internal controls are designed to comply with all applicable laws and regulations, including those imposed by the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission (“SEC”) and the NYSE. Failure to comply with such laws and regulations could have a material adverse effect on our reputation, financial condition and on the market price of our common stock.

We rely on a third party to manage the web-hosting, operation, warehousing and order fulfillment for our e-commerce business; any disruption of these activities could have a material adverse effect on our e-commerce business.

We rely on one third party, GSI Commerce, Inc. (“GSI”), a wholly-owned subsidiary of eBay Inc., 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. GSI also performs additional services for us supporting our e-commerce business. Any significant interruption in the operations of GSI, over which we have no control, could 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® and our new store concept brand, P.S. FROM AÉROPOSTALE™ and variations thereof, are integral to our logo-driven design strategy. We have obtained federal registrations of or have pending applications for these trademarks in the United States and have applied for or obtained registrations in most foreign countries in which our vendors and licensees are located, as well as elsewhere. We use these trademarks in many constantly

Table of Contents

changing designs and logos even though we have not applied to register every variation or combination thereof for adult clothing and related accessories. 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.

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 portions of our marks or may have registered similar or competing marks for apparel and accessories in foreign countries in which our vendors are located. There may also be other prior registrations in other foreign countries of which we are not aware. Accordingly, it may not be possible, in those few foreign countries where we were not able to register our marks, to enjoin the manufacture, sale or exportation of AÉROPOSTALE or P.S. FROM AÉROPOSTALE 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.

Changes in accounting standards and estimates could materially impact our results of operations.

Generally accepted accounting principles and the related authoritative guidance, for many aspects of our business, including revenue recognition, inventories, evaluation for long-lived asset impairment, leases, income taxes and stock-based compensation are complex and involve subjective judgments. Changes in these rules or changes in the underlying estimates, assumptions or judgments by our management could have a material impact on our results of operations. For example, proposed authoritative guidance for lease accounting, once finalized and enacted, may have a material impact on our results of operations and financial position.

The effects of war, acts of terrorism, natural disasters or other unforeseen wide-scale events 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, a future war or a widespread natural disaster 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 natural disaster that results in unforeseen interruptions of commerce, could negatively impact our business by interfering with our ability to obtain merchandise from our vendors.

Table of Contents

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

We repurchase our 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 our stock trading window, and liquidity and capital resource requirements going forward. Our purchases of treasury stock for the second quarter of fiscal 2012 and remaining availability pursuant to our share repurchase program were as follows:

| Period | Total Number of Shares (or Units) Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that may yet be Purchased Under the Plans or Programs (a) (In thousands) |
|---|---|---|---|---|
| April 29 to May 26, 2012 | — | $— | — | $145,219 |
| May 27 to June 30, 2012 | — | — | — | $145,219 |
| July 1 to July 28, 2012 | — | — | — | $145,219 |
| Total | — | $— | — | |

(a) 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.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Table of Contents

Item 6. Exhibits

| Exhibit No. | Description |
|---|---|
| 31.1 | Certification by Thomas P. Johnson, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 31.2 | Certification by Marc D. Miller, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 32.1 | Certification by Thomas P. Johnson 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 Marc D. Miller pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.** |
| 101.INS | XBRL Instance Document.* |
| 101. SCH | XBRL Taxonomy Extension Schema.* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase.* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase.* |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase.* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase.* |

* Filed herewith.
** Furnished herewith.

Table of Contents

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/ THOMAS P. JOHNSON
Thomas P. Johnson
Chief Executive Officer
(Principal Executive Officer)

/s/ MARC D. MILLER
Marc D. Miller
Executive Vice President — Chief Financial Officer
(Principal Financial Officer)

Dated: August 30, 2012

31