

AEROPOSTALE INC
Form 10-Q
June 04, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-Q**

(Mark One)

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

For the quarterly period ended May 1, 2010

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

(State of incorporation)

31-1443880

(I.R.S. Employer Identification No.)

112 W. 34th Street, New York, NY

(Address of Principal Executive Offices)

10120

(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 No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a 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

The Registrant had 93,523,697 shares of common stock outstanding as of May 28, 2010.

AÉROPOSTALE, INC. AND SUBSIDIARIES
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PART I FINANCIAL INFORMATION
Item 1. Financial Statements (unaudited)
AÉROPOSTALE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)
(Unaudited)

	May 1, 2010	January 30, 2010	May 2, 2009
ASSETS			
<i>Current Assets:</i>			
Cash and cash equivalents	\$ 312,716	\$ 346,976	\$ 247,747
Merchandise inventory	122,686	132,915	128,929
Deferred income taxes	21,680	21,683	10,919
Prepaid expenses and other current assets	28,670	28,443	26,114
Total current assets	485,752	530,017	413,709
Fixtures, equipment and improvements, net	264,895	251,558	249,676
Deferred income taxes	2,879	6,383	10,773
Other assets	4,458	4,351	2,525
TOTAL ASSETS	\$ 757,984	\$ 792,309	\$ 676,683
LIABILITIES AND STOCKHOLDERS EQUITY			
<i>Current Liabilities:</i>			
Accounts payable	\$ 72,008	\$ 90,850	\$ 70,308
Accrued gift cards	17,842	24,559	14,199
Income taxes payable	10,352	26,867	8,638
Accrued expenses and other current liabilities	92,839	99,564	60,302
Total current liabilities	193,041	241,840	153,447
Deferred rent, tenant allowances and other	97,621	102,019	99,898
Non-current retirement benefit plan liabilities	10,447	10,060	23,469
Uncertain tax contingency liabilities	4,009	3,901	2,720
Commitments and contingent liabilities (See notes 8, 9 and 12)			
<i>Stockholders Equity:</i>			
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; 138,099; 137,090 and 136,614 shares issued	1,381	1,371	1,366
Additional paid-in capital	185,498	171,815	157,232
Accumulated other comprehensive loss	(5,254)	(6,993)	(8,518)
Retained earnings	968,174	922,790	725,008
Treasury stock, 44,575; 43,095 and 35,409 shares, at cost	(696,933)	(654,494)	(477,939)

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Total stockholders equity	452,866	434,489	397,149
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 757,984	\$ 792,309	\$ 676,683

See Notes to Unaudited Condensed Consolidated Financial Statements

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AÉROPOSTALE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	13 weeks ended	
	May 1, 2010	May 2, 2009
Net sales	\$ 463,641	\$ 408,024
Cost of sales (includes certain buying, occupancy and warehousing expenses)	280,822	260,134
Gross profit	182,819	147,890
Selling, general and administrative expenses	107,668	94,446
Income from operations	75,151	53,444
Interest expense, net	27	45
Income before income taxes	75,124	53,399
Income taxes	29,740	21,724
Net income	\$ 45,384	\$ 31,675
Basic earnings per share	\$ 0.48	\$ 0.31
Diluted earnings per share	\$ 0.48	\$ 0.31
Weighted average basic shares	93,912	100,649
Weighted average diluted shares	94,944	101,685

See Notes to Unaudited Condensed Consolidated Financial Statements

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AÉROPOSTALE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	13 weeks ended	
	May 1, 2010	May 2, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 45,384	\$ 31,675
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	13,366	11,752
Stock-based compensation	4,016	3,162
Excess tax benefits from stock-based compensation	(3,744)	(1,123)
Other	(1,974)	(1,937)
Changes in operating assets and liabilities:		
Merchandise inventory	10,594	(2,360)
Accounts payable	(18,992)	(7,018)
Other assets and liabilities	(41,842)	(14,501)
 <i>Net cash provided by operating activities</i>	 6,808	 19,650
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(14,737)	(9,120)
 <i>Net cash used in investing activities</i>	 (14,737)	 (9,120)
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	(36,692)	
Proceeds from exercise of stock options	5,929	7,457
Excess tax benefits from stock-based compensation	3,744	1,123
 <i>Net cash (used in) provided by financing activities</i>	 (27,019)	 8,580
 Effect of exchange rate changes	 688	 107
 Net (decrease) increase in cash and cash equivalents	 (34,260)	 19,217
 Cash and cash equivalents, beginning of year	 346,976	 228,530

Cash and cash equivalents, end of period	\$ 312,716	\$ 247,747
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Supplemental Disclosure of Cash Flow Information:

Accruals related to purchases of property and equipment	\$ 11,408	\$ 2,904
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See Notes to Unaudited Condensed Consolidated Financial Statements

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Aéropostale, Inc. 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 7 to 12 year-old kids through its P.S. from Aéropostale stores. The Company provides 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 only be purchased in its Aéropostale stores and online at www.aeropostale.com. P.S. from Aéropostale products can be purchased in P.S. from Aéropostale stores and online at www.ps4u.com. As of May 1, 2010, we operated 941 Aéropostale stores, consisting of 897 stores in 49 states and Puerto Rico and 44 stores in Canada and 21 P.S. from Aéropostale stores in eight states. In addition, pursuant to a Licensing Agreement, our international licensee operated eight Aéropostale stores in the United Arab Emirates as of May 1, 2010.

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

Our business is highly seasonal, and historically we have realized a significant portion of our sales, net income, and cash flow in the second half of the year, driven by the impact of the back-to-school selling season in the third quarter and the holiday selling season in the fourth quarter. Therefore, our interim period consolidated financial statements 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 30, 2010.

References to 2010 or fiscal 2010 mean the 52-week period ending January 29, 2011 and references to 2009 or fiscal 2009 mean the 52-week period ended January 30, 2010. References to the first quarter of 2010 mean the thirteen-week period ended May 1, 2010 and references to the first quarter of 2009 mean the thirteen-week period ended May 2, 2009.

2. Stock Split

On February 3, 2010, we announced a three-for-two stock split on all shares of our common stock. The stock split was consummated and distributed on March 5, 2010 in the form of a stock dividend to all shareholders of record on February 24, 2010. All share and per share amounts presented in this report were retroactively adjusted for the common stock split, as were all previously reported periods contained herein. This stock split resulted in the issuance of 31.3 million additional shares of common stock and was accounted for in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 260, Earnings Per Share (ASC 260) by a transfer of \$0.3 million from additional paid-in capital to common stock, which is the amount equal to the par value of the additional shares issued to effect the stock split on March 5, 2010.

3. Executive Transition

Effective February 2010, Julian R. Geiger, who had served as our Chairman and Chief Executive Officer since 1996, elected to end his service as Chief Executive Officer. Mr. Geiger continues to serve as Chairman of our Board of Directors and as a part-time advisor to the Company. Also effective February 2010, Mindy C. Meads and Thomas P. Johnson were each promoted to the position of Co-Chief Executive Officer. In addition, also effective February 12, 2010, Michael J. Cunningham was promoted to the position of President and Chief Financial Officer.

We expect to make a payment to Mr. Geiger from our Supplemental Executive Retirement Plan (SERP) of approximately \$16.5 million in August 2010. Accordingly, the SERP liability related to Mr. Geiger has been classified as a current liability in our consolidated balance sheet as of May 1, 2010 and January 30, 2010. Such amount will be paid from our cash flows from operations. At the date of payment to Mr. Geiger, we will record a charge of approximately \$5.7 million in selling, general and administrative expenses, with a corresponding amount recorded to

relieve accumulated other comprehensive loss included in our stockholder's equity. This accounting treatment is in accordance with settlement accounting procedures under the provisions of ASC 715-30-35-79.

Table of Contents**4. 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. Shipping revenue from our e-commerce customers is also included in sales revenue. 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. Revenue is not recorded on the purchase of gift cards or 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. In the fourth quarter of 2007, we relieved our legal obligation to escheat the value of unredeemed gift cards to the relevant jurisdiction. We therefore determined that the likelihood of certain gift cards being redeemed by the customer was remote, based upon historical redemption patterns of gift cards. For those gift cards that we determined redemption to be remote, we reversed our liability and recorded gift card breakage income in net sales. In the first quarter of 2010, we recorded \$0.8 million in net sales related to gift card breakage income compared to \$0.7 million in the first quarter of 2009.

5. 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, maintenance, depreciation and amortization and impairment charges.

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, 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.

6. Other Comprehensive Income

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

	13 weeks ended	
	May 1, 2010	May 2, 2009
	(In Thousands)	
Net income	\$ 45,384	\$ 31,675
Other comprehensive income:		
Changes in pension liability, net of tax	135	(89)
Changes in foreign currency translation adjustment ¹	1,604	569
Total comprehensive income	\$ 47,123	\$ 32,155

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

	May 1, 2010	January 30, 2010	May 2, 2009
	(In thousands)		
Pension liability, net of tax	\$ (6,907)	\$ (7,042)	\$ (6,419)
Cumulative foreign currency translation adjustment ¹	1,653	49	(2,099)
Total accumulated other comprehensive loss	\$ (5,254)	\$ (6,993)	\$ (8,518)

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

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

	13 weeks ended	
	May 1, 2010	May 2, 2009
	(In Thousands, Except Per Share Data)	
Net income	\$ 45,384	\$ 31,675
Weighted average basic shares	93,912	100,649
Impact of dilutive securities	1,032	1,036
Weighted average diluted shares	94,944	101,685
Earnings per basic share	\$ 0.48	\$ 0.31
Earnings per diluted share	\$ 0.48	\$ 0.31

All options to purchase shares were included in the computation of diluted earnings per share during the first quarter of 2010. Options to purchase 816,459 shares were not included in the computation of diluted earnings per share during the first quarter of 2009 because the exercise price of the options was greater than the average market price of the common shares.

8. Revolving Credit Facility

We have an amended and restated revolving credit facility with Bank of America, N.A. (the Credit Facility). The Credit Facility provides for a \$150.0 million revolving credit line. The Credit Facility is available for working capital and general corporate purposes, including the repurchase of the Company's capital stock and for its capital expenditures. The Credit Facility is scheduled to expire on November 13, 2012 and is guaranteed by all of our domestic subsidiaries (the Guarantors).

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) among other limitations, our ability to borrow funds, make investments, pay dividends and repurchase shares of our common stock would be limited. Direct borrowings under the Credit Facility bear interest at a margin over either LIBOR or a Base 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 lenders may cease making loans, terminate the Credit Facility, and declare all amounts outstanding to be immediately due and payable. As of May 1, 2010, we are not aware of any instances of noncompliance with any covenants or any other event of default under the Credit Facility. As of May 1, 2010, we had no outstanding balances or stand-by or commercial letters of credit issued under the Credit Facility.

Table of Contents**9. Retirement Benefit Plans**

Retirement benefit plan liabilities consisted of the following:

	May 1, 2010	January 30, 2010	May 2, 2009
		(In Thousands)	
SERP	\$ 25,844	\$ 25,282	\$ 22,074
Long-term incentive deferred compensation plan	1,086	935	688
Postretirement benefit plan	974	923	707
Total	27,904	27,140	23,469
Less amount classified in accrued expenses related to SERP	17,457	17,080	
Long-term retirement benefit plan liabilities	\$ 10,447	\$ 10,060	\$ 23,469

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 14% of their 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. Matching contributions vest over a five-year service period with 20% vesting after two years and 50% vesting after year three. Vesting increases thereafter at a rate of 25% per year so that participants will be fully vested after year five.

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 vested upon entrance in the plan. Pension expense is determined using various actuarial cost methods to estimate the total benefits ultimately payable to officers and this cost is allocated to service periods. The actuarial assumptions used to calculate pension costs are reviewed annually.

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

	13 weeks ended	
	May 1, 2010	May 2, 2009
	(In Thousands)	
Service cost	\$ 213	\$ 172
Interest cost	349	379
Amortization of prior experience cost	19	19
Amortization of net loss	221	157
Net periodic pension benefit cost	\$ 802	\$ 727

We had non-current liabilities of \$8.4 million as of May 1, 2010, \$8.2 million as of January 30, 2010 and \$22.1 million as of May 2, 2009, in connection with this plan. Additionally, the SERP liability related to our Chairman of the Board and former Chief Executive Officer and our former Senior Vice President of Design has been classified as a current liability included in our consolidated balance sheet as of May 1, 2010 and January 30, 2010 based upon the timing of expected payments (see note 3 for a further discussion).

Long-term Incentive Plan

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 after completing

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five years of service and attaining age 55. We had liabilities of \$1.1 million as of May 1, 2010, \$0.9 million as of January 30, 2010 and \$0.7 million as of May 2, 2009, in connection with this plan.

Postretirement Benefit Plan

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 and is not funded. We had recorded non-current liabilities of \$1.0 million as of May 1, 2010, \$0.9 million as of January 30, 2010 and \$0.7 million as of May 2, 2009, for the accumulated postretirement benefit obligations. Pension expense and the liability related to this plan was not material to our unaudited condensed consolidated financial statements for any period presented.

10. Stock Repurchase Program

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 the stock trading window, and liquidity and capital resource requirements going forward. During the first quarter of 2010, the Company repurchased 1.3 million shares of our common stock for \$36.7 million. We did not repurchase any shares of common stock during the first quarter of 2009.

Program to date, we have returned \$683.9 million to shareholders in the form of 44.0 million shares repurchased, at an average price of \$16 per share. As of May 1, 2010, we had approximately \$166.1 million of repurchase authorization remaining under our \$850.0 million share repurchase program.

11. Stock-Based Compensation

Under the provisions of 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.

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 and restricted stock immediately vest upon (i) a change in control of the Company and (ii) termination of the employee within one year of such change of control. We did not grant any stock options during the first quarter of 2010 or fiscal 2009.

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). 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 unaudited condensed 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 condensed 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.

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The following table summarizes stock option transactions for common stock during the first quarter of 2010:

	Number of Shares (In thousands)	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In millions)
Outstanding as of January 31, 2010	1,311	\$ 14.85		
Granted				
Exercised	(448)	13.24		
Cancelled	(4)	17.17		
Outstanding as of May 1, 2010	859	\$ 15.68	4.32	\$ 11.5
Options vested and expected to vest ¹ at May 1, 2010	813	\$ 15.56	4.32	\$ 11.0
Exercisable as of May 1, 2010	609	\$ 14.76	3.92	\$ 8.7

¹ The number of options expected to vest takes into consideration estimated expected forfeitures.

We recognized \$0.9 million in compensation expense related to stock options during the first quarter of 2010 and \$0.6 million during the first quarter of 2009. The intrinsic value of options exercised was \$7.1 million in the first quarter of fiscal 2010 and \$6.3 million in the first quarter of fiscal 2009.

The following table summarizes information regarding non-vested outstanding stock options as of May 1, 2010:

	Shares (In thousands)	Weighted Average Grant-Date Fair Value
Non-vested as of January 31, 2010	611	\$ 7.83
Granted		
Vested	(357)	7.64
Cancelled	(4)	8.29
Non-vested as of May 1, 2010	250	\$ 8.08

As of May 1, 2010, there was \$1.7 million of total unrecognized compensation cost related to non-vested options that we expect will be recognized over the remaining weighted-average vesting period of one year. We expect to recognize \$1.1 million of this cost in fiscal 2010, \$0.5 million in fiscal 2011 and \$0.1 million in fiscal 2012.

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 cliff vest after up to three years of continuous service with us. Initial grants of non-vested stock awarded to directors vest, pro-rata, over a three-year period, based upon continuous service. Subsequent grants of non-vested stock awarded to directors vest in full one year after the grant-date.

The following table summarizes non-vested shares of stock outstanding as of May 1, 2010:

	Shares (In thousands)	Weighted- Average Grant-Date Fair Value
Outstanding as of January 31, 2010	980	\$ 18.76
Granted	287	26.17
Vested	(410)	17.48
Cancelled	(9)	17.75
Outstanding as of May 1, 2010	848	\$ 21.90

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Total compensation expense is being amortized over the vesting period. Compensation expense related to non-vested stock activity was \$2.1 million for the first quarter of 2010 compared to \$2.0 million for the first quarter of 2009. As of May 1, 2010, there was \$12.1 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. The total fair value of shares vested was \$7.2 million during the first quarter of fiscal 2010 and \$3.9 million during the first quarter of fiscal 2009.

Performance Shares

Certain of our executives have been awarded performance shares, pursuant to performance shares agreements. The performance shares 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. Compensation cost for the performance shares is periodically reviewed and adjusted based upon the probability of achieving certain performance goals targets. If the probability of achieving targets changes, compensation cost will be adjusted in the period that the probability of achievement changes.

The following table summarizes performance shares of stock outstanding as of May 1, 2010:

	Shares (In thousands)	Weighted- Average Grant-Date Fair Value
Outstanding as of January 31, 2010	664	\$ 17.35
Granted	145	28.60
Vested	(152)	17.82
Cancelled		
Outstanding as of May 1, 2010	657	\$ 19.72

Total compensation expense is being amortized over the vesting period. Compensation expense related to performance shares was \$1.0 million for the first quarter of 2010 compared to \$0.6 million for the first quarter of 2009. As of May 1, 2010, there was \$8.7 million of unrecognized compensation cost related to performance shares that is expected to be recognized over the weighted average period of two years.

12. Commitments and Contingent Liabilities

We are party to various litigation matters and proceedings in the ordinary course of business. In the opinion of our management, dispositions of these matters are not expected to have a material adverse affect on our financial position, results from operations or cash flows. As of May 1, 2010, we had not issued any third party guarantees.

13. Income Taxes

The effective income tax rate was 39.6% for the first quarter of 2010 and 40.7% for the first quarter of 2009. We review the annual effective tax rate on a quarterly basis and make necessary changes if information or events merit. The 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.

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.

We had \$5.0 million of unrecognized tax benefit related to uncertain tax contingency liabilities remaining as of May 1, 2010, including accrued penalties and interest of \$1.7 million. Uncertain tax positions of \$3.6 million as of May 1, 2010, which is inclusive of interest and penalties, would favorably impact our effective tax rate if these net liabilities were reversed. As of May 1, 2010, \$1.0 million of uncertain tax positions were classified in current liabilities.

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We file income tax returns in the U.S. and in various states, Canada and Puerto Rico. Our 2006 and 2007 returns are currently under audit by the IRS. Currently, no significant issues have been identified and we expect the audit to be completed by the end of 2010. All tax returns remain open for examination generally for our 2005 through 2007 tax years by various taxing authorities. However, certain states may keep their statute open for six to ten years.

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

Aéropostale, Inc. and subsidiaries 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 7 to 12 year-old kids through its P.S. from Aéropostale stores. The Company provides 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 only be purchased in its Aéropostale stores and online at www.aeropostale.com. P.S. from Aéropostale products can be purchased in P.S. from Aéropostale stores and online at www.ps4u.com. As of May 1, 2010, we operated 941 Aéropostale stores consisting of 897 stores in 49 states and Puerto Rico and 44 stores in Canada and 21 P.S. from Aéropostale stores in eight states. In addition, pursuant to a Licensing Agreement, our international licensee operated eight Aéropostale stores in the United Arab Emirates as of May 1, 2010.

Effective February 2010, Julian R. Geiger, who had served as our Chairman and Chief Executive Officer since 1996, elected to end his service as Chief Executive Officer. Mr. Geiger continues to serve as Chairman of our Board of Directors and as a part-time advisor to the Company. Also effective February 2010, Mindy C. Meads and Thomas P. Johnson were each promoted to the position of Co-Chief Executive Officer. In addition, also effective February 12, 2010, Michael J. Cunningham was promoted to the position of President and Chief Financial Officer. (see Note 3 to the Notes to Unaudited Condensed Consolidated Financial Statements for a further discussion).

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 our condensed consolidated financial statements included in this report and along with our Annual Report on Form 10-K for the year ended January 30, 2010.

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

Results of Operations**Overview**

We achieved net sales of \$463.6 million for the first quarter of 2010, or a 14% increase when compared to the first quarter of 2009. Gross profit, as a percentage of net sales, increased by 3.2 percentage points and SG&A, as a percentage of net sales, increased by 0.1 percentage points for the first quarter of 2010. The effective income tax rate was 39.6% for the first quarter of 2010 and 40.7% for the first quarter of 2009. Net income for the first quarter of 2010 was \$45.4 million, or \$0.48 per diluted share, compared to net income of \$31.7 million, or \$0.31 per diluted share, for the first quarter of 2009.

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As of May 1, 2010, we had working capital of \$292.7 million, cash and cash equivalents of \$312.7 million, no short-term investments and no debt outstanding. Consolidated merchandise inventories decreased by 5% and by 11% on a per retail square foot basis at May 1, 2010 compared to May 2, 2009.

We operated 962 stores at May 1, 2010, an increase of 5% 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.

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

	13 weeks ended	
	May 1, 2010	May 2, 2009
Net sales	100.0%	100.0%
Gross profit	39.4%	36.2%
Selling, general and administrative expenses	23.2%	23.1%
Income from operations	16.2%	13.1%
Interest income	0.0%	0.0%
Income before income taxes	16.2%	13.1%
Income taxes	6.4%	5.3%
Net income	9.8%	7.8%

Key Performance Indicators

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

	13 weeks ended	
	May 1, 2010	May 2, 2009
Net sales (in millions)	\$463.6	\$ 408.0
Total store count at end of period	962	920
Comparable store count at end of period	882	812
Net sales growth	14%	21%
Comparable store sales change	8%	11%
Comparable average unit retail change	(2)%	6%
Comparable units per sales transaction change	3%	3%
Comparable sales transaction growth	6%	1%
Net store sales per average square foot	\$ 125	\$ 118
Average net sales per store (in thousands)	\$ 452	\$ 425
Gross profit (in millions)	\$182.8	\$ 147.9
Income from operations (in millions)	\$ 75.2	\$ 53.4
Diluted earnings per share	\$ 0.48	\$ 0.31
Average store square footage growth over comparable period	5%	11%
Change in total inventory at end of period	(5)%	(4)%
Change in inventory per store square foot at end of period	(11)%	(13)%
Percentages of net sales by category:		
Women s	71%	72%
Men s	29%	28%

Table of Contents**Comparison of the 13 weeks ended May 1, 2010 to the 13 weeks ended May 2, 2009***Net Sales*

Net sales for the first quarter of 2010 increased by \$55.6 million, or by 14% compared to the same period last year. The increase in net sales was driven by an increase in comparable store sales of 8% or \$28.4 million, average store square footage growth of 5% (primarily from new stores) and from a 42% increase in our e-commerce business. Comparable store sales increased in both our young women's and young men's categories. The overall comparable store sales increase reflected increases of 6% in the number of sales transactions and 3% in units per sales transaction partially offset by a decrease of 2% in average unit retail. Non-comparable store sales increased by \$27.2 million due primarily to 42 more stores open at the end of the first quarter of 2010 compared to the end of the first quarter of 2009. Total non-comparable sales includes net sales from our e-commerce business which increased by \$7.1 million during the first quarter of 2010 when compared to the same period last year.

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, maintenance, depreciation and amortization and impairment charges.

Gross profit, as a percentage of net sales, increased by 3.2 percentage points for the first quarter of 2010 compared to the same period last year. The increase was due to an increase in merchandise margin of 2.7 percentage points due primarily to improved merchandise sell-through and less markdowns and the leveraging impact of distribution, transportation and buying costs of 0.5 percentage points.

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, store pre-opening costs and other corporate level expenses. Store pre-opening costs include store level payroll, grand opening event marketing, travel, supplies and other store pre-opening expenses.

SG&A increased by 0.1 percentage points, as a percentage of net sales, for the first quarter of 2010 compared to the first quarter of 2009. The slight increase was driven by 0.4 percentage points of higher marketing investments and 0.2 percentage points of e-commerce transaction related expenses due to growth in that business, which was partially offset by 0.4 percentage points of lower corporate related expenses and 0.2 percentage points of lower store-line expenses.

SG&A increased by \$13.2 million for the first quarter of 2010 compared to the first quarter of 2009. The increase in SG&A was largely due to increases of \$5.8 million in store-line expenses and \$2.7 million in store and e-commerce transaction costs resulting primarily from new store growth and increased sales. Additional increases were higher marketing expenses of \$2.5 million and \$2.2 million in corporate expenses, which included higher benefits and other corporate expenses.

Income taxes

The effective income tax rate was 39.6% for the first quarter of 2010 and 40.7% for the first quarter of 2009. The decrease in the effective tax rate was due to less nondeductible officer's compensation this year.

Net income

Net income was \$45.4 million, or \$0.48 per diluted share, for the first quarter of 2010, compared to net income of \$31.7 million, or \$0.31 per diluted share, for the first quarter of 2009. Earnings per share increased by 55% for the first quarter of 2010, due to both the increase in net income of 43% and fewer weighted average shares outstanding resulting from our repurchase of our stock.

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 our credit facility, if necessary. At May 1, 2010, we had working capital of \$292.7 million, cash and cash equivalents of \$312.7 million and no debt outstanding under our \$150.0 million credit facility.

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

	13 weeks ended	
	May 1, 2010	May 2, 2009
	(In thousands)	
Net cash provided by operating activities	\$ 6,808	\$ 19,650
Net cash used in investing activities	(14,737)	(9,120)
Net cash (used in) provided by financing activities	(27,019)	8,580
Effect of exchange rate changes	688	107
Net (decrease) increase in cash and cash equivalents	\$ (34,260)	\$ 19,217

Operating activities Net cash provided by operating activities decreased by \$12.8 million for the first quarter of 2010 compared to the same period in 2009. This decrease was attributable primarily to the timing of payment of liabilities and was partially offset by the increase in cash generated through operations.

Consolidated merchandise inventories decreased by 5%, and by 11% on a per store square foot basis, as of May 1, 2010 as compared to May 2, 2009. Improved sell-through of merchandise this year resulted in less markdown inventory compared to last year.

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

Investing activities Net cash used in investing activities related to capital expenditures was \$14.7 million for the first quarter of 2010 compared to \$9.1 million for the first quarter of 2009.

Capital requirements Investments in capital expenditures are principally for the construction of new stores, remodeling of existing stores and investments in information technology. Our future capital requirements will depend primarily on the number of new stores we open, the number of existing stores we remodel and the timing of these expenditures. During fiscal 2010, we now plan to invest approximately \$90.0 million in capital expenditures to open approximately 25 Aéropostale stores, including a street level store in Times Square in New York City, approximately 30 P.S. from Aéropostale stores and approximately 40 store remodels, in addition to certain information technology investments. In the first quarter of 2010, we opened 7 Aéropostale stores, 7 P.S. from Aéropostale stores and remodeled five Aéropostale stores.

Financing activities and capital resources 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 the stock trading window, and liquidity and capital resource requirements going forward.

During the first quarter of 2010, we repurchased 1.3 million shares of our common stock for \$36.7 million. We did not repurchase any shares of common stock during the first quarter of 2009. Program to date, we have returned \$683.9 million to shareholders in the form of 44.0 million shares repurchased, at an average price of \$16 per share. We have approximately \$166.1 million of repurchase authorization remaining as of May 1, 2010 under the \$850.0 million share repurchase program.

We have an amended and restated revolving credit facility with Bank of America, N.A. (the Credit Facility). The Credit Facility provides for a \$150.0 million revolving credit line. The Credit Facility is available for working capital and general corporate purposes. The Credit Facility is scheduled to mature on November 13, 2012, and no amounts were outstanding as of May 1, 2010.

Table of Contents*Contractual Obligations*

The following table summarizes our contractual obligations as of May 1, 2010:

	Total	Balance of 2010	Payments Due In 2011 and 2012 (In thousands)	In 2013 and 2014	After 2014
Contractual Obligations					
Real estate operating leases	\$ 757,961	\$ 108,662	\$ 208,332	\$ 179,382	\$ 261,585
Equipment operating leases	11,842	2,892	6,593	2,357	
Employment agreements	6,347	2,970	3,377		
Total contractual obligations	\$ 776,150	\$ 114,524	\$ 218,302	\$ 181,739	\$ 261,585

The real estate operating leases included in the above table do not include contingent rent based upon sales volume, which amounted to approximately 23% of minimum lease obligations in fiscal 2009. In addition, the above table does not include variable costs paid to landlords such as maintenance, insurance and real estate taxes, which represented approximately 60% of minimum lease obligations in fiscal 2009.

Our open purchase orders are cancelable without penalty and are therefore not included in the above table.

As discussed in Note 9 to the Notes to Unaudited Condensed Consolidated Financial Statements, we have a Supplemental Executive Retirement Plan (SERP) liability of \$25.8 million at May 1, 2010; a Postretirement Benefit Plan liability of \$1.0 million at May 1, 2010; and a Long-Term Incentive Deferred Compensation Plan liability of \$1.1 million at May 1, 2010. Such liability amounts are not reflected in the table above. As a result of the Chairman of the Board and former Chief Executive Officer's election to end his service as Chief Executive Officer, and as a result of our former Senior Vice President of Design's retirement, we expect to make payments in the next nine months of approximately \$17.5 million from our SERP, which amount is included in the total SERP liability of \$25.8 million (see Notes 3 and 9 to the Notes to Unaudited Condensed Consolidated Financial Statements).

There were no financial guarantees and no commercial commitments outstanding as of May 1, 2010.

Our total liabilities for unrecognized tax benefits were \$5.0 million at May 1, 2010, of which \$1.0 million is classified in accrued expenses. We cannot make a reasonable estimate of the amount and period of related future payments for these non-current liabilities of \$4.0 million. Therefore these liabilities were not included in the above table.

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 May 1, 2010, we have not issued any letters of credit for the purchase of merchandise inventory or any capital expenditures.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. These estimates and assumptions also affect the reported amounts of revenues and expenses. Estimates by their nature are based on judgments and available information. Therefore, actual results could materially differ from those estimates under different assumptions and conditions.

Critical accounting policies are those that are most important to the portrayal of 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

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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 30, 2010. 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 May 1, 2010, 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 30, 2010.

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

As of May 1, 2010, we had no outstanding borrowings under our Credit Facility. In addition, we had no stand-by or commercial letters of credit issued 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 related to 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 loss. The balance of the unrealized gain included in accumulated other comprehensive loss was approximately \$1.7 million as of May 1, 2010. A 10% movement in quoted foreign currency exchange rates could result in a fair value translation fluctuation of approximately \$3.3 million, which would be recorded in other comprehensive 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 Exchange Act Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the Exchange Act), our management carried out an evaluation, under the supervision and with the participation of our Co-Chief Executive Officers along with our President and 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 Co-Chief Executive Officers along with our President and Chief Financial Officer concluded that as of the end of our first quarter ended May 1, 2010, our disclosure controls and procedures are effective.

(b) *Changes in internal controls:* During our first 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 January 2008, we learned that the Securities and Exchange Commission (the "SEC") had issued a formal order of investigation with respect to matters arising from the activities of Christopher L. Finazzo, our former Executive Vice President and Chief Merchandising Officer. The SEC's investigation is a non-public, fact-finding inquiry to determine whether any violations of law have occurred. We are cooperating fully with the investigation into this matter.

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.

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:

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

Our business is sensitive to consumer spending patterns and preferences. Various economic conditions affect the level of disposable income consumers have available to spend on the merchandise we offer including employment, interest rates, taxation, energy costs, the availability of consumer credit, 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. Therefore, our growth, sales and profitability may be adversely affected by economic conditions on a local, regional and/or national level. In addition, any significant decreases in shopping mall traffic could also have a material adverse effect on our results of operations.

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

We may not be able to keep pace with the rapidly changing fashion trends, both domestically and/or internationally, and consumer tastes inherent in the teen apparel industry. We produce casual, comfortable 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 could have a material adverse effect on our sales, financial condition and results of operations.

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

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

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

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

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

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

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

- identify suitable markets and sites for new store locations;
- negotiate acceptable lease terms;
- hire, train and retain competent store personnel;
- foster current relationships and develop new relationships with vendors that are capable of supplying a greater volume of merchandise;
- manage inventory and distribution effectively to meet the needs of new and existing stores on a timely basis;
- 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 Aéropostale stores. Our inability to open new stores successfully and/or penetrate new markets would have a material adverse effect on our revenue and earnings growth. Additionally, as we reach that maximum number of Aéropostale locations in North America, there can be no assurance we will continue to locate additional suitable locations for our Aéropostale stores, and as such, the future store growth of Aéropostale in the United States and Canada will be adversely affected.

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

Trade restrictions such as increased tariffs or quotas, or both, could affect the importation of apparel in general and increase the cost and reduce the supply of merchandise available to us. Much of our merchandise is sourced directly from foreign vendors in Asia, the Far East and Central America. In addition, many of our domestic vendors represent production facilities overseas. Global inflationary economic conditions would likely increase the costs of manufacturing the goods we sell in our stores. Any reduction in merchandise available to us or any increase in its cost due to inflationary economic conditions or tariffs, quotas or local political issues could have a material adverse effect on our results of operations. If manufacturing costs were to rise significantly, our business may be adversely affected.

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

During fiscal 2009, we sourced approximately 81% of our merchandise from our top five merchandise vendors. During fiscal 2008, we sourced approximately 76% of our merchandise from our top five merchandise vendors. Our relationships with our suppliers generally are not on a long-term contractual basis and do not provide assurances on a long-term basis as to adequate supply, quality or acceptable pricing. Most of our suppliers could discontinue selling to us at any time. If one or more of our significant suppliers were to sever their relationship with us, we may not be able to obtain replacement products in a timely manner, which would have a material adverse effect on our sales, financial condition and results of operations.

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

Our growth will largely depend on our ability to open and operate new stores successfully. In fiscal 2009, we opened 24 Aéropostale stores in the U.S. including Puerto Rico, 15 Aéropostale stores in Canada and 14 P.S. from Aéropostale stores in the U.S. In fiscal 2008, we opened 72 Aéropostale stores in the U.S. and 17 Aéropostale stores in Canada. We expect to continue to open new stores in the future. We also anticipate remodeling a portion of our existing Aéropostale store base at the appropriate times. To the extent that our new store openings are in existing markets, we may experience reduced net sales volumes in previously existing stores in those same markets. There are however a finite number of suitable locations and malls within the United States and Canada in which to locate our Aéropostale stores. As we reach that maximum number of locations, there can be no assurance we will continue to find additional locations which are suitable for our Aéropostale stores, and as such, the future store growth of Aéropostale in the United States and Canada will be adversely affected.

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 in 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 have now closed, demonstrates that there can be no assurance that new brands will grow or become profitable.

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

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

Table of Contents***Our business could suffer if a manufacturer fails to use acceptable labor practices.***

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

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

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

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 Mindy C. Meads, our Co-Chief Executive Officer; Thomas P. Johnson, our Co-Chief Executive Officer, or Michael J. Cunningham, our President and Chief Financial Officer, 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.

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

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

Table of Contents***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 and Canada. 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 business, financial condition and results of operations.

We rely on a third party to manage the 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, to host our e-commerce website, warehouse all of the inventory sold through our e-commerce website, and fulfill all of our e-commerce sales to our customers. Any significant interruption in the operations of GSI Commerce, over which we have no control, 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 are located, as well as elsewhere. We use these trademarks in many constantly changing designs and logos even though we have not applied to register every variation or combination thereof for adult clothing 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.

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

The continued threat of terrorism and the associated heightened security measures and military actions in response to acts of terrorism has disrupted commerce and has intensified uncertainties in the U.S. economy. Any further acts of terrorism or a future war may disrupt commerce and undermine consumer confidence, which could negatively impact our sales revenue by causing consumer spending and/or mall traffic to decline. Furthermore, an act of terrorism or war, or the threat thereof, or any other unforeseen interruption of commerce, could negatively impact our business by

interfering with our ability to obtain merchandise from foreign vendors. Inability to obtain merchandise from our foreign vendors or substitute other vendors, at similar costs and in a timely manner, could adversely affect our operating results and financial condition.

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. On December 7, 2009, our Board of Directors approved a \$250.0 million increase in repurchase availability under the program, bringing total repurchase authorization, since inception of the program, to \$850.0 million. The repurchase program may be modified or terminated by the Board of Directors at any time, and there is no expiration date for the program. The extent and timing of repurchases will depend upon general business and market conditions, stock prices, opening and closing of our stock trading window, and liquidity and capital resource requirements going forward. Our purchases of treasury stock for the first quarter of fiscal 2010 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) (b) (In thousands)
January 31 to February 27, 2010		\$		\$ 202,823
February 28 to April 3, 2010	1,267,297	28.95	1,267,297	\$ 166,131
April 4 to May 1, 2010				\$ 166,131
Total	1,267,297	\$ 28.95	1,267,297	

(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.

(b) Includes additional \$250.0 million of repurchase availability that was approved on December 7, 2009.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Reserved

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit No.	Description
10.7	Second Amended and Restated Loan and Security Agreement, dated November 13, 2007, by and between Bank of America, N.A. and Aéropostale, Inc.*
10.8	Second Amended and Restated Equity Interest Pledge Agreement, dated November 13, 2007, by and between Bank of America, N.A. and Aéropostale, Inc.*
10.9	Second Amended and Restated Guaranty , dated November 13, 2007, by and between Bank of America, N.A. and Aéropostale, Inc.*
10.10	Second Amended and Restated Security Agreement, dated November 13, 2007, by and between Bank of America, N.A. and Aéropostale, Inc.*
31.1	Certification by Thomas P. Johnson, Co-Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.1	Certification by Mindy C. Meads, Co-Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

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Exhibit No.	Description
31.2	Certification by Michael J. Cunningham, 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.**
32.1	Certification by Mindy C. Meads pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
32.2	Certification by Michael J. Cunningham pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**

* Filed herewith.

** Furnished
herewith.

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SIGNATURES

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

Aéropostale, Inc.

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

/s/ MINDY C. MEADS
Mindy C. Meads
Co-Chief Executive Officer
(Co-Principal Executive Officer)

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

Dated: June 4, 2010