AEROPOSTALE INC
Form 10-Q
December 05, 2011

<S>
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended October 29, 2011

OR

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

Commission file number: 001-31314

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

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

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

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

Indicate by check mark whether the registrant 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 R No ¨

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting

(Do not check if a smaller reporting company)	company o

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

The Registrant had 80,749,637 shares of common stock outstanding as of November 25, 2011.

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)

	October 29, 2011	January 29, 2011	October 30, 2010
ASSETS			
Current Assets:			
Cash and cash equivalents	$109,379	$265,553	$239,457
Merchandise inventory	265,133	156,596	239,391
Deferred income taxes	13,586	13,593	15,079
Prepaid taxes	10,010	—	13,839
Prepaid expenses and other current assets	43,904	33,823	39,180
Total current assets	442,012	469,565	546,946
Fixtures, equipment and improvements, net	313,483	299,242	293,409
Other assets	5,830	4,390	7,009
TOTAL ASSETS	$761,325	$773,197	$847,364
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	$171,592	$103,014	$142,572
Accrued expenses and other current liabilities	77,701	113,088	91,937
Total current liabilities	249,293	216,102	234,509
Deferred rent, tenant allowances and other long-term liabilities	112,326	109,331	102,540
Non-current retirement benefit plan liabilities	12,927	10,829	10,711
Uncertain tax contingency liabilities	4,581	4,298	2,986
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; 91,150; 90,692 and 90,661 shares issued	911	907	907
Additional paid-in capital	204,200	195,401	193,012
Accumulated other comprehensive income (loss)	15	(443)	(1,486)
Retained earnings	433,180	389,764	305,946
Treasury stock 10,400; 6,112 and 65 shares, at cost	(256,108)	(152,992)	(1,761)
Total stockholders' equity	382,198	432,637	496,618
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$761,325	$773,197	$847,364

See Notes to Unaudited Condensed Consolidated Financial Statements

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AÉROPOSTALE, INC.

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

	13 weeks ended		39 weeks ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
Net sales	$596,506	$602,756	$1,533,880	$1,561,103
Cost of sales (includes certain buying, occupancy and warehousing expenses)	434,985	382,169	1,121,666	973,067
Gross profit	161,521	220,587	412,214	588,036
Selling, general and administrative expenses	121,793	124,285	339,524	345,115
Income from operations	39,728	96,302	72,690	242,921
Interest expense, net	185	10	300	50
Income before income taxes	39,543	96,292	72,390	242,871
Income taxes	15,435	37,757	28,974	95,352
Net income	$24,108	$58,535	$43,416	$147,519
Basic earnings per share	$0.30	$0.64	$0.53	$1.58
Diluted earnings per share	$0.30	$0.63	$0.53	$1.57
Weighted average basic shares	80,741	91,954	81,358	93,113
Weighted average diluted shares	81,068	92,916	81,924	94,150

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See Notes to Unaudited Condensed Consolidated Financial Statements

AÉROPOSTALE, INC. AND SUBSIDIARIES

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

	39 weeks ended	
	October 29, 2011	October 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$43,416	$147,519
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	49,691	41,904
Stock-based compensation	7,322	10,766
Excess tax benefits from stock-based compensation	(414)	(3,880)
Other	(4,160)	11,356
Changes in operating assets and liabilities:		
Merchandise inventory	(108,478)	(106,061)
Prepaid taxes and other assets	(21,566)	(10,423)
Accounts payable	68,474	51,542
Accrued expenses and other liabilities	(28,079)	(75,211)
Net cash provided by operating activities	6,206	67,512
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(64,165)	(79,886)
Net cash used in investing activities	(64,165)	(79,886)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock	(100,039)	(106,255)
Proceeds from exercise of stock options	1,112	6,557
Excess tax benefits from stock-based compensation	414	3,880
Net cash used in financing activities	(98,513)	(95,818)
Effect of exchange rate changes	298	673

Net decrease in cash and cash equivalents	(156,174)	(107,519)
Cash and cash equivalents, beginning of year	265,553	346,976
Cash and cash equivalents, end of period	$109,379	$239,457
Supplemental Disclosure of Cash Flow Information:		
Accruals related to purchases of property and equipment	$4,724	$3,665

See Notes to Unaudited Condensed Consolidated Financial Statements

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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 October 29, 2011, we operated 985 Aéropostale stores, consisting of 918 stores in all 50 states and Puerto Rico, 67 stores in Canada, as well as 70 P.S. from Aéropostale stores in 20 states. In addition, pursuant to a licensing agreement, one of our international licensees operated 11 Aéropostale stores in the United Arab Emirates as of October 29, 2011. In March 2011, we announced that we had signed a second licensing agreement, pursuant to which the licensee is expected to open approximately 25 stores in Singapore, Malaysia and Indonesia over the next five years. On November 15, 2011, we announced that we had signed a third license agreement, pursuant to which the licensee is expected to open approximately 30 stores in Turkey 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 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 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 29, 2011.

References to “2011” or “fiscal 2011” mean the 52-week period ending January 28, 2012 and references to “2010” or “fiscal 2010” mean the 52-week period ended January 29, 2011. References to “the third quarter of 2011” mean the thirteen-week period ended October 29, 2011 and references to “the third quarter of 2010” mean the thirteen-week period ended October 30, 2010.

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. 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. We have 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 third quarter of 2011, we recorded $0.6 million in net sales related to gift card breakage income compared to $0.5 million in the third quarter of 2010. In the first thirty-nine weeks of 2011, we recorded $2.3 million in net sales related to gift card breakage income compared to $1.5 million in the first thirty-nine weeks of 2010.

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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 first thirty-nine weeks of 2011 includes 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 relates to fiscal years 2007 through 2010 and is 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, 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 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 third quarter of 2011, we did not repurchase shares of our common stock. During the third quarter of 2010, we repurchased 2.9 million shares for $66.8 million. During the first thirty-nine weeks of 2011, we repurchased 4.2 million shares for $100.0 million. During the first thirty-nine weeks of 2010, we repurchased 4.2 million shares for $106.3 million. Program to date we repurchased 57.1 million shares of our common stock for $1.0 billion, at an average price of $17.57 per share. As of October 29, 2011, we have approximately $145.2 million of repurchase authorization remaining under our $1.15 billion share repurchase program.

Comprehensive Income (Loss)

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

	13 weeks ended		39 weeks ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
	(In thousands)			
Net income	$24,108	$58,535	$43,416	$147,519
Other comprehensive income:				
Changes in pension liability, net of tax	(334)	3,628	(82)	3,898
Changes in foreign currency translation adjustment 1	(1,448)	340	540	1,609
Total comprehensive income	$22,326	$62,503	$43,874	$153,026

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

	October 29, 2011	January 29, 2011	October 30, 2010
		(In thousands)	
Pension liability, net of tax	$(2,905)	$(2,823)	$(3,144)
Cumulative foreign currency translation adjustment 1	2,920	2,380	1,658
Total accumulated other comprehensive income (loss)	$15	$(443)	$(1,486)

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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5. Earnings Per Share

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

	13 weeks ended		39 weeks ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
	(In thousands, except per share data)			
Net income	$24,108	$58,535	$43,416	$147,519
Weighted average basic shares	80,741	91,954	81,358	93,113
Impact of dilutive securities	327	962	566	1,037
Weighted average diluted shares	81,068	92,916	81,924	94,150
Earnings per basic share	$0.30	$0.64	$0.53	$1.58
Earnings per diluted share	$0.30	$0.63	$0.53	$1.57

Options to purchase 550,497 shares during the third quarter of 2011 and 205,380 shares during the first thirty-nine weeks of 2011 were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price of the common shares. All options to purchase shares were included in the computation of diluted earnings per share during the third quarter of 2010 and the first thirty-nine weeks of 2010.

6. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following (in thousands):

	October 29, 2011	January 29, 2011	October 30, 2010
Accrued gift cards	$16,873	$27,673	$15,806
Accrued compensation and retirement benefit plan liabilities	16,865	25,165	28,288
Accrued rent	12,097	16,225	16,153
Other	31,866	44,025	31,690
	$77,701	$113,088	$91,937

7. Revolving Credit Facility

On September 22, 2011, we entered into an amended and restated revolving credit facility with Bank of America, N.A., as agent for the lenders (the "Credit Facility"). The Credit Facility provides for a revolving credit line with up to $175 million in borrowing capacity. The Credit Facility is available for working capital and general corporate purposes, including the repurchase of our capital stock and for our capital expenditures. The Credit Facility is scheduled to expire on September 22, 2016 and is guaranteed by all of our domestic subsidiaries (the "Guarantors"). The Credit Facility replaces the existing facility that provided for up to $150.0 million revolving credit line and was scheduled to expire on November 13, 2012 (the "Prior Credit Facility").

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.

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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.

As of October 29, 2011, we are not aware of any instances of noncompliance with any covenants or any other event of default under the Credit Facility. During the first thirty-nine weeks of 2011 and as of October 29, 2011, we had no outstanding balances or stand-by or commercial letters of credit issued under the Prior Credit Facility or the Credit Facility.

8. Retirement Benefit Plans

Retirement benefit plan liabilities consisted of the following:

	October 29, 2011	January 29, 2011	October 30, 2010
		(In thousands)	
Supplemental Executive Retirement Plan ("SERP")	$10,293	$9,597	$10,641
Long-term incentive deferred compensation plan	1,841	1,405	1,341
Postretirement benefit plan	793	1,154	1,075
Total	12,927	12,156	13,057
Less amount classified in accrued expenses related to SERP	—	1,327	2,346
Long-term retirement benefit plan liabilities	$12,927	$10,829	$10,711

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 or to suspend the employer contribution at any time. Each matching contribution vests 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.

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		39 weeks ended	
	October 29, 2011	October 30, 2010	October 29, 2011	October 30, 2010
		(In thousands)		
Service cost	$146	$229	$426	$656
Interest cost	124	130	386	828

Amortization of prior experience cost	19	19	55	56
Amortization of net loss	52	58	156	500
Net periodic pension benefit cost	$341	$436	$1,023	$2,040

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During the third quarter of 2010, we made a payment from our SERP of approximately $16.7 million to our Chairman, who also previously served as our former Chief Executive Officer. In connection with this payment, during the third quarter of 2010, we recorded a charge of $6.4 million in selling, general and administrative expenses representing the settlement loss, with a corresponding amount recorded to relieve accumulated other comprehensive loss included in our stockholder's equity ($3.9 million, net of tax). This accounting treatment is in accordance with settlement accounting procedures under the provisions of ASC 715-30-35-79.

We had non-current liabilities of $10.3 million as of October 29, 2011, $8.3 million as of January 29, 2011 and $8.3 million as of October 30, 2010, in connection with this plan. We had no current liability as of October 29, 2011, and current liabilities of $1.3 million as of January 29, 2011 and $2.3 million as of October 30, 2010, in connection with this plan.

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 five years of service and attaining age 55. We had liabilities of $1.8 million as of October 29, 2011, $1.4 million as of January 29, 2011 and $1.3 million as of October 30, 2010, 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, or OPEB, and is not funded. We had non-current liabilities of $0.8 million as of October 29, 2011, $1.2 million as of January 29, 2011 and $1.1 million as of October 30, 2010, for the accumulated postretirement benefit obligations. Expense related to this plan was 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. 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 October 29, 2011:

	Shares	Weighted Average Grant-Date Fair Value
	(In thousands)	
Outstanding as of January 30, 2011	753	$22.22
Granted	397	23.77
Vested	(270)	21.59
Cancelled	(28)	23.85
Outstanding as of October 29, 2011	852	$23.09

Total compensation expense is being amortized over the vesting period. Compensation expense related to non-vested stock activity was $2.2 million for the third quarter of 2011 and $2.3 million for the third quarter of 2010. Compensation expense related to non-vested stock activity was $6.5 million for the first thirty-nine weeks of 2011 and $6.4 million for the first thirty-nine weeks of 2010. As of October 29, 2011, there was $7.9 million of unrecognized compensation cost related to non-vested stock awards that is expected to be recognized over the weighted average period of one year. The total fair value of shares vested was $0.2 million during the third quarter of fiscal 2011 and $0.2 million during the third quarter of fiscal 2010. The total fair value of shares vested was $5.7 million during the first thirty-nine weeks of fiscal 2011 and $7.4 million during the first thirty-nine weeks of fiscal 2010.

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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. 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.

The following table summarizes performance shares of stock outstanding as of October 29, 2011:

	Shares	Weighted Average Grant-Date Fair Value
	(In thousands)	
Outstanding as of January 30, 2011	422	$18.44
Granted	—	—
Vested	(114)	18.86
Cancelled	(86)	22.51
Outstanding as of October 29, 2011	222	$16.65

Total compensation expense is being amortized over the vesting period. Compensation expense related to performance shares was $0.6 million for the third quarter of 2011 and $0.2 million for the first thirty-nine weeks of 2011 based on our determination of the likelihood of achieving the performance conditions associated with the respective shares. This compares to an expense of $0.7 million for the third quarter of 2010 and an expense of $2.7 million for the first thirty-nine weeks of 2010. As of October 29, 2011, there was $0.5 million of unrecognized compensation cost related to performance shares that is expected to be recognized over the weighted average period of less than one year.

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. We did not grant any stock options during fiscal 2009, fiscal 2010 or the first thirty-nine weeks of fiscal 2011.

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 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.

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The following table summarizes stock option transactions for common stock during the first thirty-nine weeks of 2011:

	Number of Shares (In thousands)	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding as of January 30, 2011	746	$15.68		
Granted	—	—		
Exercised	(73)	15.04		
Cancelled1	(54)	18.40		
Outstanding as of October 29, 2011	619	$15.53	2.71	$ 471
Options vested as of October 29, 2011 and expected to vest	619	$15.53	2.71	$471
Exercisable as of October 29, 2011	596	$15.40	2.65	$ 471

1 The number of options cancelled includes approximately 52,000 expired shares.

We recognized $0.1 million in compensation expense related to stock options during the third quarter of 2011 and $0.4 million during the third quarter of 2010. We recognized $0.6 million in compensation expense related to stock options during the first thirty-nine weeks of 2011 and $1.6 million during the first thirty-nine weeks of 2010. For the first thirty-nine weeks of 2011, the intrinsic value of options exercised was $0.2 million as compared to $5.4 million for the first thirty-nine weeks of 2010.

The following table summarizes information regarding non-vested outstanding stock options as of October 29, 2011:

	Shares	Weighted Average Grant-Date Fair Value
	(In thousands)	
Non-vested as of January 30, 2011	187	$8.19
Granted	—	—
Vested	(163)	8.19
Cancelled	(1)	8.29
Non-vested as of October 29, 2011	23	$8.18

As of October 29, 2011, there was $0.1 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 less than one year.

10. Commitments and Contingent Liabilities

In October 2011, Aeropostale, Inc. and senior executive officers Thomas P. Johnson and Marc D. Miller were named as defendants in Arbuthnot v. Aeropostale, 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 Aeropostale securities between February 3, 2011 and August 3, 2011. The lawsuit alleges that the defendants violated the federal securities laws by issuing materially false and misleading statements regarding the company’s business and prospects.

The lawsuit alleges that defendants failed to adequately disclose that: (i) Aeropostale was experiencing declining demand for its women's fashion division; (ii) Aeropostale was facing increased inventory and higher clothing discounts that put pressure on its profit margins; and (iii) as a result, defendants lacked a reasonable basis for their positive statements about the company or its prospects during the class period. In the opinion of management, disposition of this matter is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows. We are vigorously defending this matter.

Also in October 2011, Aeropostale 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 lawsuit filed in New York state court seeking relief derivatively on behalf of Aeropostale. The action alleges that the defendants breached their fiduciary duties to Aeropostale 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. In the opinion of management, disposition of this matter is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows. We are vigorously defending this matter.

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We are also a 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.

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. During fiscal years 2009 and 2010 combined, we purchased approximately $640.0 million of merchandise from this sourcing agent. 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 they had incurred. We had not issued any other third party guarantees as of October 29, 2011.

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.

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 of $1.3 million, were $4.6 million as of October 29, 2011. Reversal of these liabilities, along with reversal of related deferred tax assets, would favorably impact our effective tax rate.

We file income tax returns in the U.S. and in various states, Canada and Puerto Rico. Our 2009 return is currently under audit by the Internal Revenue Service. Currently, no significant issues have been identified and we expect the audit to be completed by mid-year of 2012. All tax returns remain open for examination generally for our 2006 through 2010 tax years by various taxing authorities. However, certain states may keep their statute open for six to ten years.

12. Recent Accounting Developments

In June 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." ASU 2011-05 eliminates the option that permits the presentation of other comprehensive income in the statement of changes in equity and requires presenting components of net income and comprehensive income in either a one-statement approach with totals for both net income and comprehensive income, or a two-statement approach where a statement presenting the components of net income and total net income must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The guidance provided in ASU No. 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. We do not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," which amends ASC 820, "Fair Value Measurement." The amended guidance changes the wording used to describe many requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. The guidance provided in ASU No. 2011-04 is effective for interim and annual periods beginning after December 15, 2011 and is applied prospectively. We do not expect the adoption of these provisions to have a material impact on our consolidated financial statements.

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

Cautionary Note Regarding Forward-Looking Statements

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

Introduction

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. 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 October 29, 2011, we operated 985 Aéropostale stores, consisting of 918 stores in all 50 states and Puerto Rico, 67 stores in Canada, as well as 70 P.S. from Aéropostale stores in 20 states. In addition, pursuant to a licensing agreement, one of our international licensees operated 11 Aéropostale stores in the United Arab Emirates as of October 29, 2011. During March 2011, we announced that we had signed a second licensing agreement, pursuant to which the licensee is expected to open approximately 25 stores in Singapore, Malaysia and Indonesia over the next five years. On November 15, 2011, we announced that we had signed a third licensing agreement, pursuant to which the licensee is expected to open approximately 30 stores in Turkey over the next five years

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 29, 2011.

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

Results of Operations

Overview

The third quarter of 2011 continued to be challenging. We are still in the midst of a transition period with our merchandise, refining our assortment to resonate more with our customer. At the same time, the retail environment remains very promotional, with many teen retailers increasing both the depth and breadth of their promotions. Additionally, during the quarter, we continued to experience higher product costs compared to the same period in 2010. These factors reduced our overall profitability for the quarter, and we expect that these trends will continue through the balance of 2011.Our primary focus is to regain balance in our merchandise assortments and broaden our offering to meet the fashion needs of our core customer. Additionally, we continue to execute our other key strategic initiatives, including enhancing processes and technology, and developing our long-term growth drivers such as expanding our P.S. from Aéropostale business and pursuing additional international opportunities.

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We achieved net sales of $596.5 million for the third quarter of 2011, or a 1% decrease when compared to the third quarter of 2010. Gross profit, as a percentage of net sales, decreased by 9.5 percentage points. Gross profit for the first thirty-nine 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 relates to periods prior to fiscal 2011. SG&A, as a percentage of net sales decreased by 0.2 percentage points for the third quarter of 2011. The effective income tax rate was 39.0% for the third quarter of 2011 and 39.2% for the third quarter of 2010. Net income for the third quarter of 2011 was $24.1 million, or $0.30 per diluted share, compared to net income of $58.5 million, or $0.63 per diluted share, for the third quarter of 2010.

As of October 29, 2011, we had working capital of $192.7 million, cash and cash equivalents of $109.4 million, no short-term investments and no debt outstanding. Average square footage growth was 7% over the comparable prior year period. Consolidated merchandise inventories increased by 11% and was flat on a per retail square foot basis at October 29, 2011 compared to October 30, 2010.

In the third quarter of 2011, we opened 7 Aéropostale stores, 6 P.S. from Aéropostale stores, and remodeled 8 Aéropostale stores. We operated 1,055 stores at October 29, 2011, 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				39 weeks ended			
	October 29, 2011		October 30, 2010		October 29, 2011		October 30, 2010	
Net sales	100.0	%	100.0	%	100.0	%	100.0	%
Gross profit	27.1	%	36.6	%	26.9	%	37.7	%
Selling, general and administrative expenses	20.4	%	20.6	%	22.1	%	22.1	%
Income from operations	6.7	%	16.0	%	4.7	%	15.6	%
Interest expense	0.0	%	0.0	%	0.0	%	0.0	%
Income before income taxes	6.7	%	16.0	%	4.7	%	15.6	%
Income taxes	2.7	%	6.3	%	1.9	%	6.1	%
Net income	4.0	%	9.7	%	2.8	%	9.5	%

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				39 weeks ended			
	October 29, 2011		October 30, 2010		October 29, 2011		October 30, 2010	
Net sales (in millions)	$596.5		$602.8		$1,533.9		$1,561.1	
Total store count at end of period	1,055		1,002		1,055		1,002	
Comparable store count at end of period	935		884		935		884	
Net sales change	(1	)%	6	%	(2	)%	9	%
Comparable store sales change	(9	)%	0	%	(10	)%	3	%
Comparable average unit retail change	(7	)%	(6	)%	(11	)%	(3	)%

Comparable units per sales transaction change	7 %	4 %	7 %	3 %
Comparable sales transaction change	(8)%	3 %	(5)%	3 %
Net sales per average square foot	$142	$157	$375	$419
Gross profit (in millions)	$161.5	$220.6	$412.2	$588.0
Income from operations (in millions)	$39.7	$96.3	$72.7	$242.9
Diluted earnings per share	$0.30	$0.63	$0.53	$1.57
Average square footage growth over comparable period	7 %	6 %	8 %	6 %
Change in total inventory over comparable period	11 %	8 %	11 %	8 %
Change in inventory per square foot over comparable period	0 %	1 %	0 %	1 %
Percentages of net sales by category:				
Young Women’s	66 %	68 %	66 %	69 %
Young Men’s	34 %	32 %	34 %	31 %

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Comparison of the 13 weeks ended October 29, 2011 to the 13 weeks ended October 30, 2010

Net Sales

Net sales for the third quarter of 2011 decreased by $6.2 million, or by 1%, compared to the same period last year. The decrease in net sales was driven by a decrease of 9% in comparable store sales partially offset by increased sales from new and non-comparable store and e-commerce sales. Average store square footage growth was 7% primarily from new stores. Comparable store sales decreased in our young men's category by 4% and by 11% in our young women's category. The overall comparable store sales reflected decreases of 7% in average unit retail and 8% in the number of sales transactions, partially offset by an increase of 7% in units per sales transaction. Non-comparable store sales increased by $39.9 million due primarily to 53 more stores open at the end of the third quarter of 2011 compared to the end of the third quarter of 2010. Total non-comparable store sales includes net sales from our e-commerce business which increased by 20%, or $7.5 million, to $45.7 million during the third quarter of 2011 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 and maintenance, depreciation and amortization and impairment charges.

Gross profit, as a percentage of net sales, decreased by 9.5 percentage points for the third quarter of 2011 compared to the same period last year. The decrease was due to lower merchandise margin of 8.0 percentage points, primarily due to significantly higher product costs, in addition to significantly increased promotional activity during the quarter. The decrease in gross profit, as a percentage of sales, was also due to higher occupancy costs of 0.8 percentage points, and higher depreciation 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, as a percentage of net sales, was 20.4 percent for the third quarter of 2011 vs. 20.6 percent for the same period last year. SG&A for the third quarter of 2010 included a charge of 1.1 percentage points related to a retirement plan payment. (See note 8 of the notes to the unaudited condensed consolidated financial statements for further discussion) For the third quarter of 2011 incentive compensation increased by 0.6 percentage points. The increase in incentive compensation was due to an increase in non-senior executive level incentive compensation and the reversal during the third quarter of 2010 of a previously recorded liability that was no longer required. Additionally, e-commerce transaction costs increased by 0.3 percentage points.

SG&A decreased by $2.5 million for the third quarter of 2011 compared to the third quarter of 2010. SG&A for 2010 included the above mentioned retirement plan charge of $6.4 million. For the third quarter of 2011, incentive compensation increased by $3.3 million and e-commerce transaction expenses increased by $1.7 million. These increases were partially offset by a decrease in store-line expenses of $0.8 million and a decrease in marketing expenses of $0.6 million

Income taxes

The effective income tax rate was 39.0% for the third quarter of 2011 and 39.2% for the third quarter of 2010.

Net income

Net income was $24.1 million, or $0.30 per diluted share, for the third quarter of 2011, compared to net income of $58.5 million, or $0.63 per diluted share, for the third quarter of 2010.

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Comparison of the 39 weeks ended October 29, 2011 to the 39 weeks ended October 30, 2010

Net Sales

Net sales for the first thirty-nine weeks of 2011 decreased by $27.2 million, or by 2%, compared to the same period last year. The decrease in net sales was driven by a decrease of 10% in comparable store sales partially offset by increased sales from new and non-comparable store and e-commerce sales. Average store square footage growth was 8% primarily from new stores. Comparable store sales decreased in our young men's category by 3% and by 13% in our young women's category. The overall comparable store sales reflected decreases of 11% in average unit retail and 5% in the number of sales transactions, partially offset by an increase of 7% in units per sales transaction. Non-comparable store sales increased by $106.7 million due primarily to 53 more stores open at the end of the first thirty-nine weeks of 2011 compared to the end of the first thirty-nine weeks of 2010. Total non-comparable store sales includes net sales from our e-commerce business which increased by 19%, or $16.0 million, to $98.9 million during the first thirty-nine weeks of 2011 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 and maintenance, depreciation and amortization and impairment charges. Cost of sales for the first thirty-nine weeks of 2011 includes 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 periods prior to fiscal 2011.

Gross profit, as a percentage of net sales, decreased by 10.8 percentage points for the first thirty-nine weeks of 2011 compared to the same period last year. The decrease was due to lower merchandise margin of 8.2 percentage points, primarily due to significantly higher product costs, in addition to significantly increased promotional activity during the first thirty-nine weeks of 2011. This decrease was net of the above mentioned benefit of 0.6 percentage points from the resolution of a dispute with one of our sourcing agents. The decrease in gross profit, as a percentage of sales, was also due to higher occupancy costs of 1.5 percentage points, higher depreciation costs of 0.6 percentage points and higher distribution and transportation costs of 0.4 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, as a percentage of net sales, was flat for the first thirty-nine weeks of 2011 compared to the same period last year. SG&A for the first 39 weeks of 2010 included an above mentioned retirement plan charge of 0.4 percentage points. Higher store-line expenses of 0.6 percentage points and higher e-commerce transaction expenses of 0.2 percentage points were partially offset by a decrease in incentive compensation and other corporate expenses of 0.4 percentage points.

SG&A decreased by $5.6 million for the first thirty-nine weeks of 2011 compared to the first thirty-nine weeks of 2010. SG&A for 2010 included the above mentioned retirement plan charge of $6.4 million. Store-line expenses increased by $6.0 million and e-commerce transaction expenses increased by $3.7 million. These increases were partially offset by $8.4 million in lower incentive compensation and other corporate expenses.

Income taxes

The effective income tax rate was 40.0% for the first thirty-nine weeks of 2011 and 39.3% for the first thirty-nine weeks of 2010. The increase in the effective tax rate was due primarily to a change in the mix of domestic and Canadian earnings.

Net income

Net income was $43.4 million, or $0.53 per diluted share, for the first thirty-nine weeks of 2011, compared to net income of $147.5 million, or $1.57 per diluted share, for the first thirty-nine weeks of 2010. 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 first thirty-nine weeks of 2011.

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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 October 29, 2011, we had working capital of $192.7 million, cash and cash equivalents of $109.4 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:

	39 weeks ended	
	October 29, 2011	October 30, 2010
	(In thousands)	
Net cash provided by operating activities	$6,206	$67,512
Net cash used in investing activities	(64,165)	(79,886)
Net cash used in financing activities	(98,513)	(95,818)
Effect of exchange rate changes	298	673
Net decrease in cash and cash equivalents	$(156,174)	$(107,519)

Operating activities — Net cash provided by operating activities decreased by $61.3 million for the first thirty-nine weeks of 2011 compared to the same period in 2010. The decrease in cash flows from operating activities was primarily due to the decrease in net income of $104.1 million, and was partially offset by the timing of payment of income tax and other liabilities.

Consolidated merchandise inventories increased by 11% overall due to new store openings (see Investing Activities below) and the increase in average square footage. On a per retail square foot basis, consolidated merchandise inventories units decreased by 6%. In absolute dollars, consolidated merchandise inventories per retail square foot were flat , reflecting increased product costs.

Investing activities – Net cash used in investing activities related to capital expenditures was $64.2 million for the first thirty-nine weeks of 2011 compared to $79.9 million for the first thirty-nine weeks of 2010.

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 2011, we plan to invest a total of approximately $72.0 million in capital expenditures, of which we invested $64.2 million during the first thirty-nine weeks of fiscal 2011. During the first thirty-nine weeks of 2011, we opened 23 Aéropostale stores, 23 P.S. from Aéropostale stores and remodeled 46 Aéropostale stores. For the remainder of the fiscal year, we plan to open 1 Aéropostale store and approximately 3 P.S. from Aéropostale stores. In addition, we expect to complete approximately 5 store remodels.

Financing activities — 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 windows, and liquidity and capital resource requirements going forward.

During the third quarter of 2011, we did not repurchase shares of our common stock. During the first thirty-nine weeks of 2011, we repurchased 4.2 million shares for $100.0 million as compared to repurchases of 4.2 million shares for $106.3 million during the first thirty-nine weeks of 2010. Program to date, we repurchased 57.1 million shares of our common stock for $1.0 billion, at an average price of $17.57 per share. As of October 29, 2011, we have approximately $145.2 million of repurchase authorization remaining under our $1.15 billion 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 up to $175.0 million revolving credit line. The Credit Facility is available for working capital and general corporate purposes. The Credit Facility is scheduled to expire on September 22, 2016, and no amounts were outstanding during the first thirty-nine weeks of 2011 or as of October 29, 2011 under the current or prior credit facility (See Note 7 to the Notes to Unaudited Condensed Consolidated Financial Statements for a further discussion).

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Contractual Obligations

The following table summarizes our contractual obligations as of October 29, 2011:

		Payments Due			
	Total	Balance of 2011	In 2012 and 2013	In 2014 and 2015	After 2016
			(In thousands)		
Contractual Obligations					
Real estate operating leases	$956,085	$34,179	$257,467	$219,923	$444,516
Equipment operating leases	8,316	1,035	5,866	1,415	—
Employment agreements	4,522	586	3,936	—	—
Total contractual obligations	$968,923	$35,800	$267,269	$221,338	$444,516

The real estate operating leases included in the above table do not include contingent rent based upon sales volume, which amounted to approximately 20% of minimum lease obligations in fiscal 2010. In addition, the real estate operating leases above do not include variable costs paid to landlords such as maintenance, insurance and real estate taxes, which represented approximately 55% of minimum lease obligations in fiscal 2010.

On August 2, 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 an incremental commission on the shortfall from the guaranteed minimum. Additionally, if we were to cancel purchase orders with this sourcing agent, we may have to reimburse this sourcing agent for costs and expenses, if any, that they had incurred. All of our other open purchase orders are cancelable without penalty and are therefore not included in the above table.

There were no other financial guarantees or commercial commitments outstanding as of October 29, 2011.

As discussed in Note 8 to the Notes to Unaudited Condensed Consolidated Financial Statements, we have a SERP liability of $10.3 million at October 29, 2011; a Postretirement Benefit Plan liability of $0.8 million at October 29, 2011; and a Long-Term Incentive Deferred Compensation Plan liability of $1.8 million at October 29, 2011. Such liability amounts are not reflected in the table above.

Our total liabilities for unrecognized tax benefits were $4.6 million at October 29, 2011. We cannot reasonably estimate the amount and period of related future payments for these non-current liabilities of $4.6 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 October 29, 2011, we have not issued any letters of credit for the purchase of merchandise inventory or any capital expenditures.

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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 29, 2011. 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 October 29, 2011, 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 29, 2011.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of October 29, 2011, 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 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 balance of the unrealized gain included in accumulated other comprehensive income was approximately $2.9 million as of October 29, 2011. A 10% movement in quoted foreign currency exchange rates could result in a fair value translation fluctuation of approximately $3.6 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 third quarter ended October 29, 2011, our disclosure controls and procedures are effective.

(b) Changes in internal controls: During our third 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.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

In October 2011, Aeropostale, Inc. and senior executive officers Thomas P. Johnson and Marc D. Miller were named as defendants in Arbuthnot v. Aeropostale, 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 Aeropostale securities between February 3, 2011 and August 3, 2011. The lawsuit alleges that the defendants violated the federal securities laws by issuing materially false and misleading statements regarding the company's business and prospects. The lawsuit alleges that defendants failed to adequately disclose that: (i) Aeropostale was experiencing declining demand for its women's fashion division; (ii) Aeropostale was facing increased inventory and higher clothing discounts that put pressure on its profit margins; and (iii) as a result, defendants lacked a reasonable basis for their positive statements about the company or its prospects during the class period. In the opinion of management, disposition of this matter is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows. We are vigorously defending this matter.

Also in October 2011, Aeropostale 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 lawsuit filed in New York state court seeking relief derivatively on behalf of Aeropostale. The action alleges that the defendants breached their fiduciary duties to Aeropostale 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 lawsuitIn the opinion of management, disposition of this matter is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows. . We are vigorously defending 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:

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

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. 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.

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Industry conditions are increasingly competitive.

The child and teen 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 child or teen specialty retail industries will have a material adverse effect on our sales and results of operations.

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

The global economic crisis continues to cause a great deal of uncertainty. This market uncertainty continues to result in a lack of 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, 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 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 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. 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. Sales during this period cannot be used as an accurate indicator for our annual results. 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 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.

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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. 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;
- 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 2010, we sourced approximately 85% of our merchandise from our top five merchandise vendors. During fiscal 2009, we sourced approximately 81% 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.

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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 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.

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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”), 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. In addition, GSI was acquired by eBay Inc. in June 2011. There can be no assurance that certain aspects of our existing business relationship and e-commerce operations with GSI will not be affected as a result of its acquisition by eBay.

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 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.

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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.

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 November 11, 2010, our Board of Directors approved a $300.0 million increase in repurchase availability under the program, bringing total repurchase authorization, since inception of the program, to $1.15 billion. 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 third quarter of fiscal 2011 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)
July 31 to August 27, 2011	—	$—	—	$ 145,219
August 28 to October 1, 2011	—	—	—	$ 145,219
October 2 to October 29, 2011	—	—	—	$ 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. Reserved

Item 5. Other Information

Not applicable.

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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, Senior 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.

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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
Chief Executive Officer
(Principal Executive Officer)

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

Dated: December 5, 2011