AMERICAN EAGLE OUTFITTERS INC

FORM 8-K
(Current report filing)

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Address	77 HOT METAL STREET PITTSBURGH, PA 15203
Telephone	4124323300
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Symbol	AEO
SIC Code	5651 - Family Clothing Stores
Industry	Retail (Apparel)
Sector	Services
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report
(Date of earliest event reported)

March 11, 2009

AMERICAN EAGLE OUTFITTERS, INC.
(Exact name of registrant as specified in its charter)

Delaware	1-33338	13-2721761
(State of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

77 Hot Metal Street Pittsburgh, Pennsylvania	15203-2329
(Address of principal executive offices)	(Zip Code)

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

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 2.02. **Results of Operations and Financial Condition**

The information in this Item 2.02 of Form 8-K, including the accompanying exhibits, shall not be deemed to be "filed" for the purposes of Section 18 of the Securities and Exchange Act of 1934 (the "Exchange Act"), or otherwise subject to the liability of such section, nor shall such information be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, regardless of the general incorporation language of such filing, except as shall be expressly set forth by specific reference in such filing.

On March 11, 2009, the Company issued a press release announcing, among other things, the Company's financial results for the fourth quarter ended January 31, 2009. A copy of this press release is attached hereto as Exhibit 99.1. The Company's Management team held a conference call on March 11, 2009 at 9:00 a.m. Eastern Time to review the aforementioned financial results. A replay of the conference call will be available through March 25, 2009. To listen to the replay, dial 1-877-660-6853, or internationally dial 1-201-612-7415, and reference account 3055 and confirmation code 311680. An audio replay of the conference call will also be available at www.ae.com. A copy of the conference call transcript is attached hereto as Exhibit 99.2.

ITEM 9.01. **Financial Statements and Exhibits**

(c) Exhibits

Exhibit No.	Description
99.1*	Press Release dated March 11, 2009 announcing fourth quarter 2008 financial results
99.2*	Conference Call Transcript dated March 11, 2009

* Such Exhibit is being "furnished" (not filed) pursuant to Item 2.02 of the Current Report on Form 8-K.

SIGNATURE

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 hereunto duly authorized.

AMERICAN EAGLE OUTFITTERS, INC.
(Registrant)

Date: March 16, 2009

By: /s/ J oan Holstein Hilson
J oan Holstein Hilson
Executive Vice President and
Chief Financial Officer, AE Brand

EXHIBIT INDEX

Exhibit Number	Description
99.1*	Press Release dated March 11 , 2009 announcing fourth quarter 2008 financial results
99.2*	Conference Call Transcript dated M arch 11, 2009

* Such Exhibit is being "furnished" (not filed) pursuant to Item 2.02 of the Current Report on Form 8-K.

American Eagle Outfitters
Reports Fourth Quarter 2008 Results

Pittsburgh, March 11, 2009 - American Eagle Outfitters, Inc. (NYSE:AEO) today announced that adjusted earnings for the fourth quarter ended January 31, 2009 were $0.19 per diluted share, excluding non-cash other-than-temporary investment security and store impairment charges totaling $0.03 per diluted share. This compares to $0.66 per diluted share for the quarter ended February 2, 2008.

The company also that announced adjusted earnings for the fiscal year ended January 31, 2009 were $0.99, excluding non-cash other-than-temporary investment security and store impairment charges totaling $0.13 per diluted share. This compares to $1.82 per diluted share for the year ended February 2, 2008.

"The fourth quarter proved to be a disappointing conclusion to an extremely challenging year," said Jim O'Donnell, Chief Executive Officer. "In response to sharply lower demand in the fourth quarter, we increased unplanned promotions, enabling us to successfully clear through inventory. While our earnings were clearly not up to our standards or our potential, our business remains profitable and financially healthy."

O'Donnell continued, "Looking ahead, we cannot accept this kind of performance, recession or not. We know that our customer responds when we have the right fashion at the right price. As such, we are vigorously pursuing major improvements within all of our brands, while maintaining a conservative approach toward inventory investments, capital spending and operating expense. We expect to capitalize on opportunities within our business, and be well-positioned for a rebound."

Fourth Quarter Results

Total sales for the quarter ended January 31, 2009 decreased 9% to $905.7 million compared to $995.4 million for the quarter ended February 2, 2008. Fourth quarter comparable store sales decreased 16%, compared to a 2% decline last year.

Gross profit for the fourth quarter was $311.6 million, or 34.4% as a rate to sales, compared to $455.3 million, or 45.7% as a rate to sales last year. The merchandise margin declined by 990 basis points, primarily due to higher markdowns, as a result of lower-than-expected sales. Additionally, the initial mark-up declined as a result of increased merchandise cost. As a rate to sales, buying, occupancy and warehousing costs increased by 140 basis points, due primarily to de-leveraging of rent related to the fourth quarter comparable store sales decline.

Selling, general and administrative expense of $221.5 million includes a $6.7 million charge related to the impairment of certain underperforming stores. Excluding this charge, SG&A expense decreased 1% to $214.8 million from $217.6 million last year. Reduced incentive compensation and expense controls drove the decline over last year. As a rate to sales, SG&A increased to 24.4% from 21.9% last year, primarily due to the store impairment charge and the fourth quarter comparable store sales decline.

Operating income for the quarter was $53.4 million, compared to $209.2 million last year. The operating margin was 5.9%, compared to 21.0% last year.

Other income, net was $2.9 million versus $10.7 million last year. The decline was primarily due to lower interest income, which resulted from an overall decrease in interest rates and lower investment balances compared to last year.

Additionally, we recognized a $3.0 million other-than-temporary impairment charge in connection with the valuation of our investment securities. (See paragraph titled Investment Securities.)

The company generated net income during the fourth quarter of $32.7 million, compared to $140.5 million last year.

Fiscal 2008 Results

Total sales for the year ended January 31, 2009 decreased 2% to $2.989 billion, compared to $3.055 billion for year ended February 2, 2008. Comparable store sales decreased 10% for the year compared to the same period last year.

Gross profit for the year was $1.174 billion, or 39.3% as a rate to sales, compared to $1.423 billion, or 46.6% as a rate to sales last year. The merchandise margin declined by 560 basis points, primarily due to higher markdowns. Buying, occupancy and warehousing costs increased by 170 basis points, due to new stores as well as the comparable store sales decline.

Selling, general and administrative expenses of $740.7 million includes a $6.7 million charge related to store impairment. Excluding this charge, SG&A expense increased 3% to $734.0 million from $715.2 million last year. As a rate to sales, SG&A increased to 24.8% from 23.4% last year, primarily due to the comparable store sales decline, as well as the impairment charge.

Operating income for the year was $302.1 million, compared to $598.8 million last year. The operating margin was 10.1%, compared to 19.6% last year.

Other income, net was $17.8 million versus $37.6 million last year. The decline was primarily due to lower interest income, which resulted from an overall decrease in interest rates and lower investment balances compared to last year.

Additionally, we recognized a $22.9 million other-than-temporary impairment charge in connection with the valuation of our investment securities. (See paragraph titled Investment Securities.)

The company generated net income during the fiscal year of $179.1 million, compared to $400.0 million last year.

Inventory

Total merchandise inventories at the end of the fourth quarter were $294.9 million, an increase of $8.4 million compared $286.5 million last year. The increase was primarily a result of 122 new stores and represented a decrease of 8% on a cost per square foot basis. Looking ahead, the company expects first quarter average weekly inventory to be down in the mid single-digits on a cost per square foot basis..

AEO Direct

The company's direct business, which includes ae.com, aerie.com, 77kids.com and martinandosa.com, is an important area of growth. In fiscal 2008, sales increased 26% to $307.0 million compared to $243.5 million in fiscal 2007.

Capital Expenditures

For the fourth quarter, capital expenditures were $39 million compared to $60 million last year. For fiscal 2008, capital expenditures totaled $265 million compared to $250 million last year. Of the 2008 capital expenditures, approximately one half related to new and remodeled stores. The balance of the 2008 capital spend related to investments in the company's home office, distribution centers and IT initiatives to support AEO Direct and brand growth.

The company continues to expect 2009 capital expenditures to be in the range of $110 to $135 million. Of this amount, approximately one half relates to new and remodeled stores, including a flagship store in Times Square. The remaining half relates to the completion of the current distribution center and headquarters projects, as well as IT initiatives.

Real Estate

In the fourth quarter, the company opened three AE stores, five aerie stores and one MARTIN + OSA store and closed seven AE stores. In fiscal 2008, the company opened a total of 35 AE stores, 77 aerie stores and 10 MARTIN + OSA stores. Together with 30 AE store remodels, and 11 store closings, gross square footage increased 11%. In 2009, the company is planning approximately 11 new and 25 to 35 remodeled AE stores and 17 new aerie stores, for total square footage growth of approximately 3%.

Cash and Cash Equivalents, Short-term Investments and Long-term Investments

The company ended the fourth quarter with total cash and cash equivalents, short-term investments and long-term investments of $735 million. This includes $262 million of investments in auction rate and preferred securities, net of impairment.

Investment Securities

During the fourth quarter, the company incurred an other-than-temporary impairment charge of $3.0 million recognized in earnings, and a net temporary impairment charge of $5.3 million recognized through other comprehensive income, in connection with the valuation of its investment portfolio. For the fiscal year 2008, the company incurred an other-than-temporary impairment charge of $22.9 million recognized in earnings, and a net temporary impairment charge of $35.3 million recognized through other comprehensive income.

2009 Outlook

"Looking ahead, protecting our profitability, while thoughtfully investing in our future are the principles behind our 2009 plan," said Chief Financial Officer, Joan Hilson. "With economic uncertainties prevailing, our plan reflects prudence across all financial aspects, including inventory investments, expense reductions and lowered capital spending. Last year, we proactively began lowering our cost structure, with a number of expense initiatives, which included the elimination of open positions, the consolidation of non-merchandise supply procurement and across the board budget reductions. These initiatives totaled savings of approximately $50 million. This year, we will continue to pursue expense reductions across all areas of our organization."

First Quarter 2009 Guidance

Based on our current view of sales trends, we expect first quarter earnings to be in a range of $0.04 to $0.07 per share, compared to earnings of $0.21 per share last year. This guidance excludes the possibility of additional losses related to investment securities.

Conference Call Information

At 9:00 a.m. Eastern Time on March 11, 2009, the company's management team will host a conference call to review the financial results. To listen to the call, dial 1-877-407-0789 or internationally dial 1-201-689-8562 five to seven minutes prior to the scheduled start time. The conference call will also be simultaneously broadcast over the Internet at www.ae.com or www.streetevents.com. Anyone unable to listen to the call can access a replay beginning March 11, 2009 at 12:00 p.m. Eastern Time through March 25, 2009. To listen to the replay, dial 1-877-660-6853, or internationally dial 1-201-612-7415, and reference account 3055 and confirmation code 311680. An audio replay of the conference call will also be available at www.ae.com.

Non-GAAP Measures

This press release includes information on non-GAAP earnings per share information. This measure is not based on any standardized methodology prescribed by U.S. generally accepted accounting principles ("GAAP") and is not necessarily comparable to similar measures presented by other companies. The Company believes that this non-GAAP information is useful as an additional means for investors to evaluate the Company's operating performance, when reviewed in conjunction with the Company's GAAP financial statements. This amount is not determined in accordance with GAAP and therefore, should not be used exclusively in evaluating the Company's business and operations.

* * * *

American Eagle Outfitters, Inc., through its subsidiaries, ("AEO, Inc.") offers high-quality, on-trend clothing, accessories and personal care products at affordable prices. The American Eagle Outfitters brand targets 15 to 25 year old girls and guys, with 954 stores in the U.S. and Canada and online at www.ae.com. aerie by american eagle offers Dormwear and intimates collections for the AE girl, with 116 standalone stores in the U.S. and Canada and online at www.aerie.com. MARTIN + OSA provides Refined Casual fashions for 28 to 40 year old men and women at its 28 stores and online at www.martinandosa.com. The latest brand, 77kids by american eagle, is available online only at www.77kids.com. 77kids offers "kid cool," durable clothing and accessories for kids ages two to 10. AE.COM, the online home of the brands of AEO, Inc. ships to more than 60 countries worldwide.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: This release contains forward-looking statements, which represent our expectations or beliefs concerning future events, specifically regarding first quarter earnings. All forward-looking statements made by the company involve material risks and uncertainties and are subject to change based on factors beyond the company's control. Such factors include, but are not limited to the risk that the Company's operating, financial and capital plans may not be achieved and the risks described in the Risk Factor Section of the company's Form 10-K and Form 10-Q filed with the Securities and Exchange Commission. Accordingly, the company's future performance and financial results may differ materially from those expressed or implied in any such forward-looking statements. The company does not undertake to publicly update or revise its forward-looking statements even if future changes make it clear that projected results expressed or implied will not be realized.

AMERICAN EAGLE OUTFITTERS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	January 31, 2009 (Unaudited)	February 2, 2008
Assets		
Cash and cash equivalents	$473,342	$116,061
Short-term investments	10,510	503,878
Merchandise inventory	294,928	286,485
Accounts and note receivable	41,471	31,920
Prepaid expenses and other	59,660	35,486
Deferred income taxes	45,447	47,004
Total current assets	925,358	1,020,834
Property and equipment, net	740,240	625,568
Goodwill, net	10,706	11,479
Long-term investments	251,008	165,810
Non-current deferred income taxes	15,001	24,238
Other assets, net	21,363	19,751
Total Assets	$1,963,676	$1,867,680
Liabilities and Stockholders' Equity		
Accounts payable	$152,068	$157,928
Notes payable	75,000	-
Accrued compensation and payroll taxes	29,417	49,494
Accrued rent	64,695	62,161
Accrued income and other taxes	6,259	22,803
Unredeemed gift cards and gift certificates	42,299	54,554
Current portion of deferred lease credits	13,726	12,953
Other current liabilities	18,299	16,285
Total current liabilities	401,763	376,178
Deferred lease credits	88,314	70,355
Non-current accrued income taxes	39,898	44,837
Other non-current liabilities	24,670	35,846
Total non-current liabilities	152,882	151,038
Commitments and contingencies	-	-
Preferred stock	-	-
Common stock	2,485	2,481
Contributed capital	513,574	493,395
Accumulated other comprehensive (loss) income	(14,389)	35,485
Retained earnings	1,694,161	1,601,784
Treasury stock	(786,800)	(792,681)
Total stockholders' equity	1,409,031	1,340,464
Total liabilities and stockholders' equity	$1,963,676	$1,867,680
Current ratio	2.30	2.71

AMERICAN EAGLE OUTFITTERS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars and shares in thousands, except per share amounts)

	13 Weeks Ended			
	January 31, 2009 (Unaudited)	% of sales	February 2, 2008 (Unaudited)	% of sales
Net sales	$905,713	100.0%	$995,401	100.0%
Cost of sales, including certain buying, occupancy and warehousing expenses	594,076	65.6%	540,086	54.3%
Gross profit	311,637	34.4%	455,315	45.7%
Selling, general and administrative expenses	221,490	24.4%	217,644	21.9%
Depreciation and amortization expense	36,794	4.1%	28,479	2.8%
Operating income	53,353	5.9%	209,192	21.0%
Other income, net	2,905	0.3%	10,654	1.1%
Other-than-temporary impairment charge	3,005	0.3%	-	0.0%
Income before income taxes	53,253	5.9%	219,846	22.1%
Provision for income taxes	20,522	2.3%	79,367	8.0%
Net income	$32,731	3.6%	$140,479	14.1%
Net income per basic common share:	$0.16		$0.67	
Net income per diluted common share:	$0.16		$0.66	
Weighted average common shares outstanding - basic	205,280		210,227	
Weighted average common shares outstanding - diluted	206,565		214,059	

	52 Weeks Ended			
	January 31, 2009 (Unaudited)	% of sales	February 2, 2008	% of sales
Net sales	$2,988,866	100.0%	$3,055,419	100.0%
Cost of sales, including certain buying, occupancy and warehousing expenses	1,814,765	60.7%	1,632,281	53.4%
Gross profit	1,174,101	39.3%	1,423,138	46.6%
Selling, general and administrative expenses	740,742	24.8%	715,180	23.4%
Depreciation and amortization expense	131,219	4.4%	109,203	3.6%
Operating income	302,140	10.1%	598,755	19.6%
Other income, net	17,790	0.6%	37,626	1.2%
Other-than-temporary impairment charge	22,889	0.8%	-	0.0%
Income before income taxes	297,041	9.9%	636,381	20.8%
Provision for income taxes	117,980	3.9%	236,362	7.7%
Net income	$179,061	6.0%	$400,019	13.1%
Net income per basic common share:	$0.87		$1.85	
Net income per diluted common share:	$0.86		$1.82	
Weighted average common shares outstanding - basic	205,169		216,119	
Weighted average common shares outstanding - diluted	207,582		220,280	
Total gross square footage at end of period:	6,328,167		5,709,932	
Store count at end of period:	1,098		987	

AMERICAN EAGLE OUTFITTERS, INC.
GAAP to Non-GAAP reconciliation
(unaudited)

	13 Weeks Ended	
	January 31, 2009	February 2, 2008
Diluted EPS on a GAAP basis (as reported)	$0.16	$0.66
Add back: Impact of other-than-temporary investment security impairment	0.01	-
Add back: Impact of store impairment	0.02	-
Non-GAAP Diluted EPS	$0.19	$0.66

	52 Weeks Ended	
	January 31, 2009	February 2, 2008
Diluted EPS on a GAAP basis (as reported)	$0.86	$1.82
Add back: Impact of other-than-temporary investment security impairment	0.11	-
Add back: Impact of store impairment	0.02	-
Non-GAAP Diluted EPS	$0.99	$1.82

AMERICAN EAGLE OUTFITTERS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	52 Weeks Ended		
	January 31, 2009 (Unaudited)	February 2, 2008	February 3, 2007
Operating activities:			
Net income	$179,061	$400,019	$387,359
Adjustments to reconcile income to net cash provided by operating activities:			
Depreciation and amortization	133,141	110,753	89,698
Share-based compensation	20,296	33,670	36,556
Provision for deferred income taxes	24,473	(8,147)	(27,615)
Tax benefit from share-based payments	1,121	7,260	25,465
Excess tax benefit from share-based payments	(693)	(6,156)	(19,541)
Foreign currency transaction (gain) loss	(1,141)	1,221	687
Loss on impairment of assets	6,713	592	-
Other-than-temporary impairment charges	22,889	-	-
Proceeds from sale of trading securities	-	-	183,968
Changes in assets and liabilities:			
Merchandise inventory	(13,735)	(19,074)	(53,527)
Accounts and note receivable	(10,094)	(5,660)	7,448
Prepaid expenses and other	(24,781)	(1,334)	(4,204)
Other assets, net	390	(3,242)	(5,357)
Accounts payable	(3,053)	(15,559)	32,345
Unredeemed gift cards and gift certificates	(11,392)	(699)	11,623
Deferred lease credits	18,887	4,640	7,791
Accrued income and other taxes	(20,697)	(31,416)	43,482
Accrued liabilities	(19,192)	(2,598)	33,090
Total adjustments	123,132	64,251	361,909
Net cash provided by operating activities	$302,193	$464,270	$749,268
Investing activities:			
Capital expenditures	(265,335)	(250,407)	(225,939)
Proceeds from sale of assets	-	-	12,345
Purchase of investments	(48,655)	(1,772,653)	(1,353,339)
Sale of investments	393,559	2,126,891	915,952
Other investing activities	(1,180)	(1,170)	(140)
Net cash provided by investing activities	$78,389	$102,661	$(651,121)
Financing activities:			
Payments on capital leases	(2,177)	(1,912)	(3,020)
Net proceeds from note payable	75,000	-	2,025
Repurchase of common stock as part of publicly announced programs	-	(438,291)	(146,485)
Repurchase of common stock from employees	(3,432)	(12,310)	(7,635)
Cash paid for fractional shares in connection with three-for-two stock split	-	-	(113)
Net proceeds from stock options exercised	3,799	13,183	28,447
Excess tax benefit from share-based payment	693	6,156	19,541
Cash dividends paid	(82,394)	(80,796)	(61,521)
Net cash provided by (used for) financing activities	$(8,511)	$(513,970)	$(168,761)
Effect of exchange rates on cash	(14,790)	3,363	(178)
Net increase in cash and cash equivalents	$357,281	$56,324	$(70,792)

Cash and cash equivalents - beginning of period	116,061	59,737	130,529
Cash and cash equivalents - end of period	$473,342	$116,061	$59,737

CONTACT: *American Eagle Outfitters Inc.*
Judy Meehan, 412-432-3300

EXHIBIT 99.2

American Eagle Outfitters, Inc.
Fourth Quarter 2008
Conference Call Transcript dated March 11, 2009

Operator

Greetings. Welcome to American Eagle Outfitters, Incorporated fourth quarter 2008 earnings conference call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. (Operator Instructions). As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host Judy Meehan, Vice President of Investor Relations. You may begin.

Judy Meehan - *American Eagle Outfitters Inc - VP, IR*

Good morning, everyone. Joining me today are Jim O'Donnell, Chief Executive Officer, and Joan Hilson, Executive Vice President, Chief Financial Officer. If you need a copy of our fourth quarter press release, it is available on our website, AE.com.

Before we begin, I need to remind everyone that during this conference call, members of management will make certain forward-looking statements, based upon information which represents the Company's current expectations or beliefs. The results actually realized may differ materially from those expectations or beliefs, based on risk factors included in our quarterly and annual reports filed with the SEC.

Now I will turn the call over to Jim.

Jim O'Donnell - *American Eagle Outfitters Inc - CEO*

Thank you, Judy. Good morning, everyone. The fourth quarter proved to be an extremely difficult conclusion to an already challenging year. We faced particular softness in our women's business, and a severe drop in consumer spending. The change in demand during the largest sales period of the year drove unplanned reactive promotions. This put significant pressure on profit margins.

As a result, our fourth quarter earnings per share declined 71%, with a 16% comp store decline. While this performance was clearly not up to our standards, we remained profitable and we completed the year in excellent financial condition. In 2008 we posted a 10.1% operating margin and generated a net income of approximately $180 million. With continuing strong cash flow, we ended the year with over $470 million in cash and liquid treasury funds.

As we look ahead, we will protect earnings by, one, improving sales through stronger assortments across all brands, with a clear priority on AE womens. Two, aligning inventories more closely with sales trends to reduce markdowns. Three, driving opportunities in sourcing and production to achieve IMU improvement. Four, we will continue to control SG&A expense.

First let me address top line sales. Make no mistake, our first priority is delivering trend right assortments with a strong value proposition in the AE brand, particularly in womens. It is absolutely imperative that we instill a dose of innovation into our product, and do so quickly.

Roger Markfield, as you know, is here to challenge and reinvigorate the design, merchandising and trend teams, while helping us to hone the AE brand vision overall. He has already begun to implement changes, which will become evident as the year progresses. With Roger's successful history, combined with our experienced and talented design and merchant teams, we will re-establish our competitive edge.

The AE women's business has some bright spots this spring. Although still negative, February showed an improvement in critical areas. For example, women's spring denim assortment comped positively as new styles combined with a powerful promotional event was very well received by our customers. In addition to being an important volume driving category, a positive response in denim speaks to the strength of our customer's connection, and drives related selling. Our efforts in delivering fashion and versatility are beginning to take hold, demonstrated by our strengths in dresses, accessories, and certain fashion knit tops.

New concepts continue to be important in 2009. aerie continues to demonstrate progress, with standalone stores comping slightly positive last year. We will build upon our success in bras and undies, which are critical categories in this business. In fact, our February bra promotion had the strongest customer response we have seen to date. Expanding bra offerings, particularly in sizes, fits, colors, patterns, is a major focus in 2009. Winning in bras is vital to winning in the intimate apparels overall. Additionally, we are continuing to redefine dorm wear, fitness, and personal care categories, to complete the aerie lifestyle.

In 2009, we expect ongoing productivity and profit improvements. MARTIN + OSA demonstrated a positive response to new merchandise assortments in 2008, with a 30% comp store sales increase. However, these results were partially driven by promotions. This year we must continue to strengthen this business, with further progress in merchandising, customer awareness, and most importantly, financial performance.

Our direct business was highly successful in 2008, with sales reaching $307 million, which was a 26% increase. Initiatives including expanded sizes, store to door, innovative marketing, and an easier shopping experience, are driving sales and profit increases.

Next, sourcing and production. We have opportunities that are targeted at IMU improvements. We are moving productions to countries with lower cost structures, such as Cambodia and Vietnam. Let me emphasize, that we are doing this without compromising value. Our value equation of price to quality is still a key differentiator in the marketplace.

Inventories. Consumer behavior has changed, therefore, so has our buying process. Beginning this second quarter, initial inventory investments are targeted to be in-line with the current negative comp sales trends. In 2008, we responded to steep decline in sales trends with aggressive expense reduction initiatives. In 2009, we will continue to pursue cost savings across the organization.

In closing, let me say this; as a company we cannot accept the substandard performance, recession or not. We know what is necessary to succeed, which is first and foremost strengthening the AE women's business. We know that our customer responds when we have the right fashion at the right price. Now more than ever we are laser focused on that customer. Her lifestyle, her mind set, and most importantly what she wants to buy. We are both operationally and financially sound, and we are thoughtfully planning our business for profitable performance. We will capitalize on the opportunities within our business, and continue to position the Company for long-term success.

Now I will turn the call over to Joan.

Joan Hilson - *American Eagle Outfitters Inc - EVP, CFO*

Thanks, Jim.

Overall, fourth quarter sales and earnings were below plan. Fourth quarter EPS was $0.19 excluding the noncash investment and store impairment charges. This compares to $0.66 per share last year.

In response to weak demand, we were highly promotional throughout most of November and December. In addition to product specific markdowns, we offered a buy one, get one 50% off for most of the holiday season. We were successful at achieving our year end inventory targets, however, the effect on our merchandise margin was severe, causing a 71% earnings decline.

Now let's take a look at the quarter in detail. The 16% comp store sales decline was due to both weak traffic and conversion at the AE brand. Higher promotional activity drove an increase in units per transaction, yet caused a lower average unit retail price. The gross margin decline was caused by a lower merchandise margin, which was markdown related, along with IMU pressure. Within the gross margin, we also deleveraged rent, primarily due to the comp decline.

In early 2008, we began proactively reducing our cost structure with a number of expense initiatives, which included the ongoing evaluation of open positions, the consolidation of our supplies procurement, and across the board budget reductions. These initiatives totaled savings of approximately $50 million, and held SG&A growth to 3%. For the quarter, SG&A declined $3 million, excluding an asset impairment charge of $6.7 million, related to underperforming stores. SG&A per square foot declined 11% over last year, and was our most efficient rate since 2004. In the quarter, we recorded an additional other than temporary impairment charge of $3 million, related to investment securities.

Now turning to the balance sheet. Inventory, excluding the direct business, decreased 8% at cost per foot at the end of the fourth quarter. Our average weekly and year end inventory per square foot was on target and consistent with our expectations. For the first quarter, our average weekly inventory per square foot is planned down in the mid-single digits. Capital expenditures in the fourth quarter totaled $39 million, and were $265 million for the year. This was related to store growth and renovations, headquarters, and distribution centers.

Now looking forward, protecting our profitability while thoughtfully investing in our future are the basic principals behind our 2009 plan. We recognize the economic uncertainly and the difficulty in projecting the year. With that in mind, I would like to emphasize that our plan reflects prudence across all financial aspects of our business, including inventory plans, expense structure, and capital spending.

As we reflect back on 2008, we have real opportunities, even against economic headwinds. We are targeting lower markdowns which were unacceptably high in 2008. Our #1 opportunity, as Jim emphasized, is stronger merchandise assortment. Also, with the exception of the first quarter, which we bought back in July, inventory buys are more conservative and in-line with current trends. This provides greater flexibility to buy into category strengths, closer to the time of selling.

Next, we plan to avoid reactionary promotional activity by incorporating value pricing into our initial plans. For example, we will highlight key items with strong value promotions throughout the spring and summer season. And finally, we must balance our in-store value promotions with other offerings, such as direct mail strategies.

We are aggressively pursuing improved product costs in 2009, and expect IMU improvements beginning in the third quarter. This year we will continue to pursue expense reductions across all areas of our organization. We are identifying operating efficiencies in our product development process and our supply chain.

We are streamlining CapEx in our stores and distribution centers. In addition, we are leveraging new tools, such as workforce management, which will enable a more precise and productive use of payroll hours. At this time, we are planning SG&A costs to be flat in 2009, yet we are working towards a further reduction in the second half of the year.

In addition to strengthening our operating performance in 2009, we are focused on protecting our cash flow and financial health overall. As we announced during the third quarter, capital spending will be significantly lower in 2009. We continue to expect a range of $110 million to $135 million, which is about half of our 2008 CapEx. Store growth and renovations will be approximately $60 million, with the balance related to headquarters, information technology, and distribution centers.

Now regarding the first quarter. Based on our current view of sales we expect first quarter EPS to be in the range of $0.04 to $0.07. This assumes higher markdowns as we clear through inventory, and enter the second quarter better positioned, and more in-line with sales trends. Keep in mind that first quarter receipts were bought in July, consistent with our business trends at the time. The guidance excludes the potential of additional losses related to investment securities.

In summary, our plans for 2009 reflect a conservative posture. However, we are taking a number of steps to improve our sales, strengthen our competitive position, and leverage opportunities within all of our brands. Our goal is to gain consistency and build momentum with each new assortment.

Now we would like to open the call for questions.

Operator

Thank you. (Operator Instructions).

Our first question comes from Janet Kloppenburg with JJK Research, please state your question.

Janet Kloppenburg - *JJK Research - Analyst*

Good morning, everyone.

Joan Hilson - *American Eagle Outfitters Inc - EVP, CFO*

Hi, Janet.

Janet Kloppenburg - *JJK Research - Analyst*

I have a couple of questions. I am a little bit confused about, you said that inventory was purchased in-line with comp trends. February's comp trend was much better than it has been recently, minus 7%, fourth quarter it was down 16. Maybe you could give us some guidance there about what we should be thinking about.

And I know you said that SG&A would be flat, Joan, on a dollar basis. If you could talk a little bit about your leverage point there, and if you have been able to minimize the deleverage on let's say a minus 10% comp? Thank you.

Joan Hilson - *American Eagle Outfitters Inc - EVP, CFO*

Thanks for the question, Janet. The point on inventory is that when we initially bought inventory back in July of 2008, we were buying it at a trend that we saw at that time, and the issue is that to deliver the minus 7 trend in February, we had to get into some deeper promotions, and markdown some of the inventory that we had purchased. The data set that we saw in February, as Jim mentioned, is that the denim styling was very strong, and the response to the assortment was very good.

The individual styles, particularly on the girl's side, we saw a significant lift in the business. So we were able to get through that inventory in February, and we believe that we are on plan to achieve our target.

Janet Kloppenburg - *JJK Research - Analyst*

Did you buy inventory down 7%, or did you buy it down something higher? That is the question.

Joan Hilson - *American Eagle Outfitters Inc - EVP, CFO*

We brought it down something less.

Janet Kloppenburg - ***JJK Research - Analyst***

Something less than down 7?

Joan Hilson - ***American Eagle Outfitters Inc - EVP, CFO***

Yes.

Janet Kloppenburg - ***JJK Research - Analyst***

Okay. I am confused, but we will do it offline.

Joan Hilson - ***American Eagle Outfitters Inc - EVP, CFO***

Okay.

Janet Kloppenburg - ***JJK Research - Analyst***

And on the denim sales, Jim, if you could comment. I know you saw improvement in the business, but you did run a pretty significant promotion. So how do we evaluate whether or not the denim business is actually improving on the womens' side?

Jim O'Donnell - ***American Eagle Outfitters Inc - CEO***

As I stated, we were pleased with the response to our denim sales. Sales were driven by a very strong promotion, all jeans under 30. It is the way the jeans sold, and what styles sold, that we were very pleased with. There wasn't one style in the entire assortment that was weak, and it was the first time that women's denim had comped in 18 months. So even though it was promoted, if you don't have the correct jeans, it doesn't matter what price you have a jean at, it wouldn't sell.

So both men's and women's jeans comped for that February time period, and it is a strong connect point for us with our consumer, and it drove some other businesses, as I mentioned, in accessories and some of the women's knit tops. So one month doesn't make a year, and we will watch and see. We are off promotion now, and we still see our denim business, both men's and women's, to be good. I wouldn't say it is great, but it is good.

For the first time we don't have a jean or two that is just not working. So I think right now we are in a very good place, and we have to learn from this. I think as our assortments begin to, as we make some modifications going back to school, we are going to be even stronger. But right now we have all of the silhouettes that this young man and young woman want. I can say that.

Janet Kloppenburg - ***JJK Research - Analyst***

I want to wish you all a lot of luck for this season.

Jim O'Donnell - ***American Eagle Outfitters Inc - CEO***

Thanks, Janet.

Joan Hilson - ***American Eagle Outfitters Inc - EVP, CFO***

Janet, with respect to your SG&A question, I stated that we expect SG&A for 2009 to be flat. In terms of deeper cost reductions, we expect to be able to talk more about that for the back half of the year, to drive that number down. What we have stated previously, in previous conversations and presentations, is that we expect to leverage our SG&A costs more towards down low-single digits negative comp. So we believe that that is where we can work ahead.

Janet Kloppenburg - ***JJK Research - Analyst***

On a quarterly basis should we be planning the dollars flat?

Joan Hilson - ***American Eagle Outfitters Inc - EVP, CFO***

We expect to see that for the first half of the year. Yes, that is true, Janet.

Janet Kloppenburg - ***JJK Research - Analyst***

Great. Thanks so much.

Operator

Thank you. Our next question comes from Jeff Van Sinderen with B. Riley & Company. Please state your question.

Jeff Van Sinderen - *B. Riley & Co. - Analyst*

Good morning. Just a follow-up to Janet's question. I know you made some recent changes in the girl's merchandise content, and parts of that are starting to look better, but I think the consolidated comp there was still down pretty significantly in February, despite the promotions in denim.

Just, I guess, wondering what you think it will take for the girl's comp to improve on a consolidated basis, what timeframe we should be thinking about, and just maybe you can talk a little bit more about your latest initiatives and plans, to get the girls business turned around since Roger returned?

Joan Hilson - *American Eagle Outfitters Inc - EVP, CFO*

With respect to the women's performance in February, we were very pleased as we said with the denim, and we were able to continue to drive denim. We have a new assortment landing, Jeff, in the back-to-school timeframe. We feel very good about the washes and the fits and the styles in that assortment for the girl.

We are entering new fashion in the tops business, and as we proceed through the spring season, but also feel much better about tops for the back-to-school floor set as well. So in the store what you will see is a more frequent fashion flow of tops. Attached with that is a value offering that we believe we didn't have previously.

We have also focused on dresses, which have had a very strong response for our girls, which really speaks to the fashion trend and relevance of the women's business, and we believe that we have really positioned and targeted that category, and feel that is an opportunity in spring as well. Accessories also is, particularly jewelry, is an area that we have seen a strong response from our girl, and we continue to grow that category as we move through fiscal 2009.

Jeff Van Sinderen - *B. Riley & Co. - Analyst*

Okay. Fair enough. Thanks very much and good luck.

Joan Hilson - *American Eagle Outfitters Inc - EVP, CFO*

Thank you.

Operator

Thank you. Our next question comes from Jennifer Black with Jennifer Black and Associates. Please state your question.

Jennifer Black - *Jennifer Black & Assoc. - Analyst*

Good morning.

Joan Hilson - *American Eagle Outfitters Inc - EVP, CFO*

Good morning, Jennifer.

Jennifer Black - *Jennifer Black & Assoc. - Analyst*

Just a follow-up to Jeff's question on dresses. I wondered if we could see the same amount of dresses for back-to-school? I mean the dresses look fantastic. Then I have one other question.

Jim O'Donnell - *American Eagle Outfitters Inc - CEO*

I will put the merchant hat on. We made a major commitment as you can tell in dresses. We went from approximately six to eight customer choices, up to over 40 customer choices for spring of '09. It proved to be a very good decision, and the results have been very gratifying. Very gratifying.

As we move forward, dresses will continue to play an important role, but there is also some trend information that is leading us into other categories, that will compliment dresses, that I would rather not elaborate on right now. But one thing I failed to mention, and I think it is important for everyone to hear, is that even prior to Roger joining, or reconnecting with us, we have made major investments in our trend teams, with heavy emphasis on identifying new styles that are American Eagle, especially for women, relevant. That is what we are seeing now.

And dresses, by the way, the print dresses, are one of the indicators that came from the trend teams call out. Even on the solids. But some of the silhouettes that are in the current assortment, initially weren't in until we really developed some new trend information. We are continuing along those lines, especially for women's, with a very heavy emphasis on identifying trends, nuances in product.

The big challenge that I put out for the design and merchant teams, and which Roger is leading, is that is to differentiate ourselves away from the competition. We need to be different and be American Eagle different, and you will be seeing more of that as we land our new assortments, whether it is in summer, and whether it is the up and coming back-to-school, and we are working on some of the holiday lines now.

Jennifer Black - *Jennifer Black & Assoc. - Analyst*

Okay. Great. And then, Jim, I wonder if you can talk about your denim fits. I know they are way improved, and I know you are using stretch denim. Do you want to improve them further? I mean, are you where you want to be? Can you just talk a little bit about that?

Jim O'Donnell - *American Eagle Outfitters Inc - CEO*

Sure. Without getting into too much detail, Jennifer, the fits as far as the fit of the garment, we are where we want to be. We really think we made dramatic inroads, and it is very astute of you. We actually added some stretch Lycra into the jean, that clearly has the jean being more complimentary for the women, and it is rather noticeable in the results. We are very pleased.

You can see we made critical investments in the skinny jean, which is performing very well. Our bread and butter jean is our boyfriend jean, which continues to be our best jean. It is the more universal jean. But the fashion jeans of the skinny and the boy jean, we are very, very pleased with. We think going forward there are a couple new silhouettes and washes that you will see for back-to-school that will enhance our assortment, which will make it even more comprehensive but we are pretty pleased where we landed for spring.

Jennifer Black - *Jennifer Black & Assoc. - Analyst*

Okay. Great. Thank you very much and good luck.

Jim O'Donnell - *American Eagle Outfitters Inc - CEO*

Thank you.

Joan Hilson - *American Eagle Outfitters Inc - EVP, CFO*

Thank you.

Operator

Thank you. Our next question comes from Adrienne Tennant with Friedman, Billings, Ramsey. Please state your question.

Adrienne Tennant - *Friedman, Billings, Ramsey Group - Analyst*

Can you talk about the IMU? You said there were some cost pressures last year. What was that due to? And when you said we should start to see IMU improve do you mean stabilize in the second quarter, or actually the cost pressure will be alleviated? Then I have a second follow-up. Thanks.

Jim O'Donnell - *American Eagle Outfitters Inc - CEO*

Sure. First of all, on IMU pressure of last year, much of that revolved around raw materials, the price of cotton was up. We also incurred additional expense in transportation due to fuel surcharges. The fuel surcharges have been eliminated.

The competitive costs of raw material is much more competitive now, but also it is our repositioning in our factory base, that is going to be an enabler for us to not stabilize, but improve our overall IMUs. But you won't see that probably until the second half of the year, because we started making these improvements in the fourth quarter of '08, and they will take hold from back-to-school through the balance of the year.

But we are taking key categories whether it is denim, whether it is knits. And we are negotiating some favorable costs from our suppliers, and we should be able to pass those, we should have higher IMUs and hopefully can pass some of it onto our consumers with some quality value pricing.

Adrienne Tennant - *Friedman, Billings, Ramsey Group - Analyst*

Will your price points remain relatively the same, or will you give half of it back to consumers?

Jim O'Donnell - *American Eagle Outfitters Inc - CEO*

Price points will remain the same, but you will see it probably more in what Joan mentioned is in these targeted promotions we are going to run, which will be very competitive, but we will be able to mitigate our profit erosion that we encountered in '08.

Adrienne Tennant - *Friedman, Billings, Ramsey Group - Analyst*

Great. And then on the merchandise margin. Are you willing to actually give us the rate for the fourth quarter and the year, just so we have a point of reference go forward?

Joan Hilson - *American Eagle Outfitters Inc - EVP, CFO*

We don't typically do that, but largely the drop in the fourth quarter merch margin was related to markdowns.

Adrienne Tennant - *Friedman, Billings, Ramsey Group - Analyst*

Fair enough. Then my final question is on EPS impact of aerie and MARTIN + OSA on the full year?

Jim O'Donnell - *American Eagle Outfitters Inc - CEO*

Sure. Let me answer this in two parts. First of all, up and through September of 2008, we had established a benchmark for MARTIN + OSA to produce on a rolling 12-months a $340 to $350 a square foot. And that was the target we had assigned to the brand, and which we felt that if we moved towards reaching that objective, that we would be headed in the right direction. Through September we were on trend.

From September, October on we experienced tremendous difficulty and profit erosion in MARTIN + OSA. Most of it due to promotions and liquidation of inventories. That is where some of the 30% comp came from. So in order to answer your question, we originally had it targeted at around $0.15, and it came in at $0.21 loss.

Adrienne Tennant - *Friedman, Billings, Ramsey Group - Analyst*

Okay. And then for aerie?

Joan Hilson - *American Eagle Outfitters Inc - EVP, CFO*

aerie is a brand which is the way we manage aerie is accretive, and we don't disclose the EPS related to aerie specifically. But aerie as a brand is accretive, Adrienne.

Adrienne Tennant - *Friedman, Billings, Ramsey Group - Analyst*

Great. Thanks so much. Best of luck this spring.

Joan Hilson - *American Eagle Outfitters Inc - EVP, CFO*

Thank you.

Operator

Thank you, our next question comes from Jeff Black with Barclays Capital. Please state your question.

Jeff Black - *Barclays Capital - Analyst*

Thanks a lot. Just following on that question on aerie. I mean, Jim what is your assessment of this, we built it out really fast over the past couple of years, but how are sales per square foot trending versus where you want them to be, and what about margins versus the chain, and any color on four wall profit you could give us would be helpful? Thanks.

Jim O'Donnell - *American Eagle Outfitters Inc - CEO*

Sure. On the standalones, I assume that is what we want to address, we will have approximately 132 by year's end. From all indications of how we closed this past year and early trends, we are moving in a very positive direction, both in top line sales, as well as conversion into bottom line profitability. We expect the standalone stores to reduce the losses dramatically from '08, and we should have a major contribution to the overall corporation EPS.

We are pleased. I think we are on to a brand that has a strong connection with the consumer. All of our feedback that we have gotten from our customers, either informally or formally, has all been very positive and really, we had limited ourselves by a narrower assortment than we would have liked to have.

We are now taking and building on this assortment, so there will be more of a selection for this young lady to choose from, and there will also be more newness coming in more often. So I prefer not to talk about the margin at this particular point, because it is still evolving but right now, we expect to have a major improvement both in top line and bottom line sales.

Jeff Black - *Barclays Capital - Analyst*

And MARTIN + OSA, you are moving ahead with this, what looks like bigger losses? When do we draw the line on that one?

Jim O'Donnell - *American Eagle Outfitters Inc - CEO*

Well, MARTIN + OSA has a very definitive, very realistic goal for loss reduction in 2009. Failure to meet that objective, which I will be monitoring very closely throughout this year, I would say, Jeff, that we should have a clear view by third quarter of '09, and if dramatic improvement doesn't take place at that time, then I will have to make a decision.

Jeff Black - *Barclays Capital - Analyst*

Great. Good luck.

Jim O'Donnell - *American Eagle Outfitters Inc - CEO*

Thank you.

Operator

Thank you. Our next question comes from Michelle Clark with Morgan Stanley. Please state your question.

Michelle Clark - *Morgan Stanley - Analyst*

Good morning. Thank you. First question. The MARTIN + OSA EPS impact expected for 2009? Second question, I was wondering if you can update us on sales trends thus far in March? Has the February momentum continued? Lastly, if you could discuss rents? You delevered on rent expense in Q4, any opportunity to take that down and lever that in 2009? Thank you.

Joan Hilson - *American Eagle Outfitters Inc - EVP, CFO*

So the first question, Michelle, for M+O for 2009, as Jim said we are expecting major reduction in the losses for M+O in 2009. And at this point, given it is so early in the year, we are not going to comment on a specific EPS target. With respect to the sales trends in March, we are going to hold comment on that at this time as well. Here is why.

We just came off a very strong promotion related to denim. We only really have a full week under our belt, and we have moved to a new promotion so we will hold comment on that. And also keep in mind, as I am sure you are aware, the shift of Easter from March to April also affects the March trends, so we actually prefer to think of our business, it is a combination of those two months, which is the most reflective of a trend.

With respect to rents in 2009, as we look forward we really see that we need a minimum of a mid-single digit comp to leverage our rent. So given the comments that we have made forecasting a negative comp trend at this time, I would not expect to see rent leverage in 2009.

Michelle Clark - *Morgan Stanley - Analyst*

Okay. But is there an opportunity to reduce your rent expense? Are you renegotiating with the landlords?

Jim O'Donnell - ***American Eagle Outfitters Inc - CEO***

Well, you don't renegotiate. Once you have a binding agreement, you have to stick to that agreement. What we are doing as we have done on an ongoing basis, as our renewals come up normally our renewal rent period is ten years, and we average anywhere between 25 to 40 renewals a year, based on our calendar of how we opened up new stores throughout a given period of time. We have always negotiated very competitive rents.

Are we negotiating harder than we did in the past? I don't know what harder means. But, yes, I think we are, the deals that we have been negotiating on for 2009 on our remodels, renewal and remodeled stores are very, very competitive. And the few new stores that we are opening, we have 100% of those stores have some sort of an allowance, either in rent abatement or in tenant allowance, and they are rather substantial.

So we are getting it from two sides. From both the allowance side, and it was also we are getting more competitive dollar per square foot rates. And I would expect that to continue.

Michelle Clark - ***Morgan Stanley - Analyst***

Great. Thanks. And good luck.

Jim O'Donnell - ***American Eagle Outfitters Inc - CEO***

Thank you.

Joan Hilson - ***American Eagle Outfitters Inc - EVP, CFO***

Thank you.

Operator

Our next question comes from Christine Chen with Needham & Company. Please state your question.

Christine Chen - ***Needham & Co. - Analyst***

Thank you. I wanted to ask if you could help us quantify the impact of the shift of Easter out of March into April, and how the shift is affecting the timing of your floor sets and planned promotions, and then wondering if your guidance for Q1 assumes the continuation of February same-store sales trends? Thank you.

Joan Hilson - ***American Eagle Outfitters Inc - EVP, CFO***

Thanks, Christine. I will take that. The shift of Easter from March to April, we have been commenting that that is roughly a 500 basis point shift, and the thing to remember when you think about that is that the April month is a smaller month than March, so it doesn't necessarily translate comp for comp, if you will. As we think about the Q1 guidance that we gave, we keep in mind that February, and this speaks a little bit earlier to Janet's question. February was about a very strong denim promotion, and grabbing market share with a denim assortment that we are very proud of, at an under-$30 price point. So that in large part drove a big piece of that comp, although we see trends improving overall. So I would not assume that a minus 7 comp for March and April is what is our thinking for the quarter guidance.

Christine Chen - ***Needham & Co. - Analyst***

And the timing of floor sets and planned promotions as a result of Easter?

Joan Hilson - ***American Eagle Outfitters Inc - EVP, CFO***

We are very pleased with the timing of Easter, and it really speaks to the strength of our assortments of shorts, and our offering of dresses that Jim spoke to earlier. So we think that is positive.

Jim O'Donnell - ***American Eagle Outfitters Inc - CEO***

One of the things that we are doing, Christine, is besides our traditional floor set cadence, we are flowing more newness ongoing. So every two weeks we have new product flowing into our stores. So combined with the cadence of our traditional floor set calendar, we have added a new wrinkle, a new element in there, that early signs are very positive. So I think the floor set cadence is important, but this ability to have new product that is deemed to be more versatile, is really a key element to what we think driving our top line, and hopefully translates into bottom line profitability.

Christine Chen - ***Needham & Co. - Analyst***

Great. Thank you. And good luck.

Jim O'Donnell - ***American Eagle Outfitters Inc - CEO***

Thank you.

Operator

Thank you. Our next question comes from Michelle Tan with Goldman Sachs. Please state your question.

Michelle Tan - ***Goldman Sachs - Analyst***

I had a few questions. Question one was on depreciation why it was up so much in the fourth quarter? Another one on the auction rate securities, just any further color on kind of timeline for the chunk that you still have outstanding? And then the last is on product. On the denim promotion it seemed like you really struck a nice chord by running that event at a time, when maybe people weren't quite as focused on that particular category. Is that more of a strategy going forward as well, or was that a unique opportunity in denim? Thank you.

Joan Hilson - ***American Eagle Outfitters Inc - EVP, CFO***

Okay, I will start with the depreciation. Michelle, that is really about timing, and it relates to our DCs, it is the timing of our new store openings, and essentially that is the lion's share of it. As we look forward to 2009, we would expect depreciation to increase roughly 5 to 10% is the way to think about that, and that will move a little bit based on timing, if one store is actually open, and so forth.

With respect to auction rate securities. We have seen some small clearings in the fourth quarter, and as you can see in our release we have written down primarily our investment security type holdings, which are preferred shares, and we have marked those to market essentially.

In terms of timing we don't have any further information at this time, as to when things will actually clear, but we feel very good about the fact that we ended the year with $470 million in liquid cash, and feel that we are in a good financial position, and in good health with respect to our cash position.

Jim O'Donnell - ***American Eagle Outfitters Inc - CEO***

As it relates to your denim question, the timing was two-fold. One is that we wanted to take a category we felt very good about, and get it out there with a promotional incentive, to see what the consumer response would be. What would come from that is #1, we would be able to naturally gauge selling, but now we can react to some of what we know to be the likes of the consumer, as we look at our purchases for back-to-school which are very critical to that season.

This whole strategy that we have not just with denim but with key categories that are central to the American Eagle brand, is a strategy that we are going to pursue throughout the year. The timing is very proprietary. I can only tell you that we will have these promotions out there, that are going to be very timely. It is when the young person wants to not only buy it, but wants to wear it. So it will be very time sensitive. But also it is very product sensitive and price sensitive.

Michelle Tan - ***Goldman Sachs - Analyst***

Great. Joan, just to clarify. The D&A increase, is that separate from the SG&A being flat?

Joan Hilson - ***American Eagle Outfitters Inc - EVP, CFO***

Yes.

Michelle Tan - ***Goldman Sachs - Analyst***

Great. Thank you very much.

Joan Hilson - ***American Eagle Outfitters Inc - EVP, CFO***

You are welcome.

Operator

Our next question comes from Paul Lejuez with Credit Suisse. Please state your question.

Paul Lejuez - *Credit Suisse - Analyst*

Thanks. Can you guys share with us the number of American Eagle stores you have located in A, B, C centers, and how we should think about sales productivity levels at each, and I am wondering where in 2008 did you see the largest decreases in the As, Bs, or Cs?

Jim O'Donnell - *American Eagle Outfitters Inc - CEO*

Right now we have, the percentage of Bs outweigh the other two categories, but between the Bs and the As they are very close. It is Cs we have very, very few. The most productive in dollars per square foot are As, and naturally the Cs are the least productive. For profitability, the Bs are the most profitable.

Paul Lejuez - *Credit Suisse - Analyst*

What do you have on the productivity, between the As and Bs, and the Bs and Cs?

Jim O'Donnell - *American Eagle Outfitters Inc - CEO*

No. The Bs actually are the most productive from a profitability standpoint. The As, as you can well imagine, the rent runs a little bit higher, and that is the delta between the two.

Paul Lejuez - *Credit Suisse - Analyst*

I mean the sales productivity though, the gap between them?

Jim O'Donnell - *American Eagle Outfitters Inc - CEO*

In dollars per square foot?

Paul Lejuez - *Credit Suisse - Analyst*

Yes.

Jim O'Donnell - *American Eagle Outfitters Inc - CEO*

No. They are not that great. They are pretty close.

Joan Hilson - *American Eagle Outfitters Inc - EVP, CFO*

Yes, they are pretty close, Paul. To Jim's point, the As are, there are very few Cs. Under 10% of our chain is in C models. And the Bs run closer to 50%, and the As are just shy of that. So it is a very strong sweep from the types of malls we are in, and the productivity gap isn't that wide. However, the Bs in terms of the economic equation with rents, actually drive higher profitability.

Paul Lejuez - *Credit Suisse - Analyst*

Where did you see the big fall-off in '08? Did you see a larger fall-off in the A centers?

Jim O'Donnell - *American Eagle Outfitters Inc - CEO*

No, it was pretty consistent across the board unfortunately.

Paul Lejuez - *Credit Suisse - Analyst*

Got you. Thanks, guys.

Operator

Our next question comes from Kimberly Greenberger with Citigroup. Please state your question.

Kimberly Greenberger - ***Citigroup - Analyst***

Great. Thank you. I wanted to know if you could talk about Roger's impact on design and merchandising. When do you expect to have his impact on the merchandising effort reflected in the assortment in store? I presume it will take a little longer to have his impact reflected in the design effort. But if you could just give us some idea on timing?

And then secondarily, if you could help quantify some of the transaction metric you cited earlier Joan? The decline in AUR, for example, the increase in UPT, et cetera. That would be helpful. Thanks.

Jim O'Donnell - ***American Eagle Outfitters Inc - CEO***

Well, on Roger, Kimberly. Roger has been and continues to work on back-to-school, which we pretty much put to bed, and he was very much involved in the overall back-to-school assortment that you will see launched in July. And so his input will be seen then.

And naturally for holiday and going forward. He has questions, and we have made some small tweaks, but nothing really significant for summer, but some of the call-outs that he has, where we have been able to implement, we have. But Roger Markfield impremater will be starting with back-to-school.

Joan Hilson - ***American Eagle Outfitters Inc - EVP, CFO***

Kimberly, to the quantification of some of the metrics. Our AUR was down low double, our UPTs were up low double. And the way to think about that is that the transactions essentially, the drop in transactions is what essentially drove the comp decline.

Kimberly Greenberger - ***Citigroup - Analyst***

Thanks, Joan.

Operator

Our next question comes from Stacy Pak with SP Research. Please state your question.

Stacy Pak - ***SP Research - Analyst***

Great. Thanks. Couple of questions. First question. Did you buy the denim for the under 30 promotion so that you could make a same margin that you had been during good times, or will you be able to do that with the improvement you expect in sourcing in the back half? That is Number 1.

Number 2, could you comment on your experience or your success you have seen with the most recent e-mail campaigns across the businesses, and then third, you said you see things improving overall. You were commenting about denim, et cetera. Can you just comment on exactly what categories comped positively in February? Thanks.

Jim O'Donnell - ***American Eagle Outfitters Inc - CEO***

In regards to denim pricing, when we decided to run the under-30 promotion, we bought the inventory with that in mind, that we were going to have a major promotion in all jeans under 30. The costing, we did have some cost benefits. Not as dramatic as the cost benefits we hope to see for back-to-school and holiday.

So we had slight margin improvements over how we promoted it from a year ago '08, but they are not to the level where I feel they should be, which will be in the back half of the year. But they were purchased with the promotion in mind, and we were able to mitigate some of the erosion, and maintain margin.

Stacy Pak - ***SP Research - Analyst***

Okay.

Joan Hilson - ***American Eagle Outfitters Inc - EVP, CFO***

Stacy, with respect to the e-mail campaigns, there are a couple of things that we have done. One is our loyalty program, which is our AE All Access Pass, and that continues to be a very successful campaign for us, and very profitable. Some of the other promotions and this is what I was speaking to in my prepared remarks, are things that we are evaluating in terms of profitability, and in conjunction with the strong value promotions that we have in the store. So we would seek to eliminate some of those less profitable campaigns, and leverage the store promotion, to really drive the top line and profits for the business.

Then your question was, I believe, what positively comped in February other than denim, and what I would tell you is that in the men's business we saw a very strong comp in our knits, as well as in women's and outerwear for men, and in women's we saw that clearly skirts, dresses, and our accessory business to be very strong for us. And we feel that that is a good turn in trend during the month of February.

Stacy Pak - *SP Research - Analyst*

So dresses and accessories also comped positively?

Joan Hilson - *American Eagle Outfitters Inc - EVP, CFO*

That is correct. Yes.

Stacy Pak - *SP Research - Analyst*

Okay. Thanks.

Judy Meehan - *American Eagle Outfitters Inc - VP, IR*

Diego, we are going to take one more question.

Operator

Thank you. Our final question comes from Richard Jaffe with Stifel Nicolaus. Please state your question.

Richard Jaffe - *Stifel Nicolaus - Analyst*

Thank you very much, guys. I guess looking forward, the real estate discussion has been in depth, but I am wondering how you see the portfolio of stores today, and how much larger can they be? Are you thinking of aerie as a different concept, that is more of a side by side store or freestanding? And longer term, how much bigger can aerie and American Eagle be?

Jim O'Donnell - *American Eagle Outfitters Inc - CEO*

Well, we have a very strong portfolio, Richard, and we continue to evaluate it. I would say that as far as the American Eagle brand, there are very few new store opportunities in North America for American Eagle. I think what we would be seeing now is any new stores would probably be offset by store closings in certain markets.

So we are looking at the American Eagle brand portfolio, as it relates to where our stores are positioned. Where is our market strength, and we will continue to maintain that, and if we have had some market erosion change for whatever reason, a change in demographic, a change in economic conditions, and so forth, we have to take a look at it and say, how many locations did we really want to have in those particular markets.

And then there will still be some new opportunities that will arise, probably more in a lifestyle type of environment. But I don't see a tremendous amount of new store net growth in the American Eagle brand in North America.

As it relates to aerie, though, aerie right now is positioned not to be side by side, but to be standalone. They are going to run in the range of 4,000 to 4,500 square feet. We think that is the optimal size for the assortments that are being developed. And that chain probably is going to look like a 500-store chain in North America.

Richard Jaffe - *Stifel Nicolaus - Analyst*

And the full blown development for aerie? When should we expect to see that in stores?

Jim O'Donnell - *American Eagle Outfitters Inc - CEO*

You mean in assortment?

Richard Jaffe - *Stifel Nicolaus - Analyst*

Yes, the assortment that will fill the 4,500 square feet that you just mentioned?

Jim O'Donnell - *American Eagle Outfitters Inc - CEO*

You are actually seeing it now, but for summer you will see some expanded collections in both knit tops. You will see it lesser in dorm wear, but you also see an expansion in our f.i.t., which is an athletic line. We will see it in expanded assortments in our core, which I have mentioned earlier, which was in the basics and underwear piece, we continue to look at that, because it has been extremely productive for us for, those two categories are the big drivers, and the other categories are more the support.

But you will be able to see a major change in assortment for summer, and then for back-to-school, fall, will be a full blown assortment in these 4,000 to 4,500 square foot stores, and holiday you will see an expanded assortment, because we will get into gift giving at that time, gift packaging, and so forth. And we have a couple of lines we only carry at holiday, that are strictly for gift giving, that are very appropriate in an intimate apparel store.

Richard Jaffe - *Stifel Nicolaus - Analyst*

Got it. Thanks very much.

Judy Meehan - *American Eagle Outfitters Inc - VP, IR*

Okay, everyone. Thanks for joining us today. Our next announcement will be March sales on Thursday, April 9th. Have a great day.

Operator

Ladies and gentlemen, this concludes today's teleconference. All parties may disconnect now. Thank you.