AMERICAN EAGLE OUTFITTERS INC
Form DEF 14A
May 12, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

American Eagle Outfitters, Inc.

(Name of Registrant as specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

AMERICAN EAGLE OUTFITTERS, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

to be held

June 22, 2004

and

PROXY STATEMENT

IMPORTANT

Please mark, sign and date the enclosed proxy and promptly return it in the envelope provided.

No postage is necessary if mailed in the United States.

American Eagle Outfitters, Inc.

150 Thorn Hill Drive

Warrendale, Pennsylvania 15086-7528

724-776-4857

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD JUNE 22, 2004

May 3, 2004

To the Stockholders of
American Eagle Outfitters, Inc.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of American Eagle Outfitters, Inc., a Delaware corporation (the Company), will be held at the Loews Regency Hotel, 540 Park Avenue, New York, New York, on June 22, 2004, at 11:00 a.m., local time, for the following purposes:

1. To elect three class III directors, each for a term of three years or until their successors are duly elected and qualified;
2. If presented at the Annual Meeting, to vote on a stockholder proposal regarding expensing stock options;
3. If presented at the Annual Meeting, to vote on a stockholder proposal regarding adoption of human rights standards based on international labor organization conventions; and
4. To transact such other business as may properly come before the meeting or any adjournment thereof.

Whether or not you plan to attend the meeting, please sign, date, and mail the enclosed proxy in the envelope provided. If you attend the meeting, you may vote in person and your proxy will not be used.

By Order of the Board of Directors

Neil Bulman, Jr.

Secretary

AMERICAN EAGLE OUTFITTERS, INC.

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

JUNE 22, 2004

This Proxy Statement is furnished to the stockholders of American Eagle Outfitters, Inc., a Delaware corporation (the Company), in connection with the solicitation by the Board of Directors of the Company of proxies to be used at the Annual Meeting of Stockholders to be held on June 22, 2004, at 11:00 a.m., local time, at the Loews Regency Hotel, 540 Park Avenue, New York, New York, and at any adjournment thereof. It is being mailed to the stockholders on or about May 12, 2004.

All shares represented by properly executed proxies received by the Company prior to the meeting will be voted in accordance with the stockholders directions. A proxy may be revoked, without affecting any vote previously taken, by written notice mailed to the Company (Attention: Neil Bulman Jr., Secretary) or delivered in person at the meeting, by filing a duly executed, later dated proxy or by attending the meeting and voting in person.

Stockholders of record at the close of business on April 30, 2004 are entitled to notice of and to vote at the Annual Meeting and any adjournment or adjournments thereof. At April 30, 2004, the Company had outstanding 71,705,141 shares of Common Stock, with $.01 par value, entitled to vote at the Annual Meeting. Each share of Common Stock entitles the holder thereof to one vote upon each matter to be voted upon by stockholders at the Annual Meeting.

The presence, in person or by proxy, of a majority of the outstanding shares of Common Stock of the Company is necessary to constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum. Broker non-votes occur when brokers, who hold their customers shares in street name, sign and submit proxies for such shares and vote such shares on some matters but not others. This would occur when brokers have not received any instructions from their customers, in which case the brokers, as the holders of record, are permitted to vote on routine matters, which include the election of directors, but not on non-routine matters.

The election of each director nominee requires the favorable vote of a plurality of all votes cast by the holders of Common Stock at a meeting at which a quorum is present. Proxies that are marked Withhold Authority and broker non-votes will not be counted toward such nominee s achievement of a plurality and thus will have no effect. Each other matter to be submitted to the stockholders for approval at the Annual Meeting requires the affirmative vote of the holders of a majority of the Common Stock voting on the matter. For purposes of determining the number of shares of Common Stock voting on the matter, abstentions will be counted and will have the effect of a negative vote; broker non-votes will not be counted and thus will have no effect.

SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT

Ownership of Common Stock

The following table shows, as of March 31, 2004, certain information with regard to the beneficial ownership of the Company s Common Stock by: (i) each person known by the Company to own beneficially more than 5% of the outstanding shares of Common Stock; (ii) each of the Company s directors; (iii) each nominee for director; (iv) each executive officer named in the summary compensation table below; and (v) all directors, nominees and executive officers as a group.

	Shares Beneficially Owned (1)	
	Number	Percent
5% Beneficial Owners		
The TCW Group, Inc. (2)	4,633,357	6.1%
SEI, Inc. (3)	4,798,819	6.4%
Ari Deshe (3) (4)	5,662,844	7.5%
FMR Corp. (5)	8,539,410	11.3%
Geraldine Schottenstein (3)	10,065,355	13.3%
Jay L. Schottenstein (3) (4)	10,168,016	13.5%
Directors, Nominees and Executive Officers		
Ari Deshe (3) (4)	5,662,844	7.5%
Jon P. Diamond (3) (4)	2,564,952	3.4%
Martin P. Doolan (4)	132,750	*
Gilbert W. Harrison (4)	79,425	*
Michael G. Jesselson (4)	113,250	*
George Kolber (4)	100,884	*
Howard Landon (4)	56,908	*
Michael J. Leedy (4)	61,001	*
John L. Marakas (4)	96,000	*
Roger S. Markfield (4)	1,243,189	1.6%
Susan P. McGalla (4)	53,702	*
Robert R. McMaster		*
James V. O Donnell (4)	659,457	*
Janice E. Page		*
Jay L. Schottenstein (3) (4)	10,168,016	13.5%
Gerald E. Wedren (4)	74,250	*
Laura A. Weil (4)	282,502	*
Larry M. Wolf	500	*
All directors, nominees and executive officers as a group (21 in group)	19,045,585	25.2%

* Represents less than 1% of the Company s shares of Common Stock.

(1) Unless otherwise indicated, each of the stockholders has sole voting power and power to sell with respect to the shares of Common Stock beneficially owned. The percent is based upon the 71,653,001 shares outstanding at March 31, 2004, and 3,809,313 as to which the Directors and Executive Officers have the right to acquire upon options exercisable within 60 days of March 31, 2004.

(2) Based on a Schedule 13G/A filed on February 10, 2004 by The TCW Group, Inc., parent of the TCW Business Unit, includes 4,259,957 shares with shared power to vote and 4,633,357 shares with shared power to dispose or direct the disposition of. The address of The TCW Group, Inc. is 865 South Figueroa Street, Los Angeles, CA 90017.

(3) Members of the Schottenstein-Deshe-Diamond families beneficially own a total of 19,172,314 shares of the Company, or 25.4% as of March 31, 2004. Family members include Geraldine Schottenstein, Jay Schottenstein, Ann Deshe, Susan Diamond, Lori Schottenstein, Saul Schottenstein, and each of their spouses if married. Geraldine Schottenstein is the mother and Saul Schottenstein is the uncle of Jay Schottenstein, Ann Deshe, Susan Diamond and Lori Schottenstein. The families own all of the stock of SEI, Inc. Jay Schottenstein serves as Chairman and Chief Executive Officer of SEI, Inc. and has or shares voting power for 69.9% of SEI, Inc. Accordingly, he may be deemed to be the beneficial owner of the 4,798,819 shares of the Company held by SEI, Inc., and they are included under his name in the table. Jay Schottenstein has shared voting power as trust advisor of trusts that own 4,144,062 shares and has sole voting power and power to sell as trustee of a trust that owns 199,302 shares, which are also included under his name in the table. Geraldine Schottenstein has sole voting power and power to sell as trustee of a trust that owns 2,840,716 shares and shares voting power and has sole power to sell as trustee of trusts that own 7,224,639 shares, and in each case all of the shares are included under her name in the table. Ann Deshe has shared voting power as trust advisor of trusts that own 4,780,354 shares and has sole power to sell as trustee of a trust that owns 1,699,777 shares. Susan Diamond has shared voting power as trustee of a trust that owns 1,699,777 shares and has sole voting power and power to sell as trustee or trust advisor of trusts that own 756,490 shares. The business address for each of SEI, Inc. and the members of the Schottenstein-Deshe-Diamond families is 1800 Moler Road, Columbus, Ohio 43207-1698.

(4) Includes the following shares for options exercisable within 60 days of March 31, 2004: Mr. Deshe 126,000; Mr. Diamond 107,000; Mr. Doolan 132,750; Mr. Harrison 78,750; Mr. Jesselson 61,875; Mr. Kolber 24,000; Mr. Landon 48,243; Mr. Leedy 40,001; Mr. Marakas 76,500; Mr. Markfield 973,683; Ms. McGalla 42,422; Mr. O Donnell 627,600; Mr. J. Schottenstein 1,019,934; Mr. Wedren 70,500; and Ms. Weil 250,029; and directors and officers as a group 3,809,313.

(5) Based on a Schedule 13G/A filed on February 10, 2004 by FMR Corp., parent of Fidelity Management & Research Company, includes 56,400 shares with sole power to vote and 8,539,410 shares with sole power to dispose or direct the disposition of. The address of FMR Corp. is 82 Devonshire Street, Boston, MA 02109.

PROPOSAL ONE: ELECTION OF DIRECTORS

General

The Board of Directors is divided into three classes. Each class of directors is elected for a three-year term. The Board of Directors has nominated three candidates to be elected at the Annual Meeting to serve as Class III Directors for three-year terms ending at the 2007 annual meeting or when their successors are duly elected and qualified. Of the nominees, Messrs. Diamond and O Donnell are currently directors of the Company and Ms. Page is a first time nominee, who is independent. The terms of the remaining nine Class I and Class II Directors expire at the annual meetings to be held in 2005 and 2006.

The enclosed proxy, if returned duly executed and not revoked, will be voted as specified in the proxy, or if no instructions are given will be voted FOR each of the nominees listed below. If any nominee should become unavailable to serve, the Board of Directors may decrease the number of directors pursuant to the Bylaws or may designate a substitute nominee, in which event the proxy will be voted FOR such substitute nominee. The Board has no reason to believe that any nominee will be unavailable or, if elected, unable to serve.

Certain information regarding each nominee and each incumbent director is set forth below as of March 31, 2004, including age, principal occupation, a brief description of business experience during at least the last five years, and other directorships.

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Information Regarding Nominees for Class III Directors With Terms Expiring in 2007

Jon P. Diamond, age 46, has been a Director of the Company since November 1997. Since 1996, Mr. Diamond has served as President and Chief Operating Officer of Safe Auto Insurance Company, a property and casualty insurance company and as Executive Vice President and Chief Operating Officer from 1993 to 1996. Mr. Diamond served as Vice President of Schottenstein Stores Corporation, a private company owned by the Schotttenstien-Deshe-Diamond families (SSC), from March 1987 to March 1993 and served in various management positions with SSC since 1983. He also serves on the Board of Directors of Retail Ventures, Inc. (RVI), formerly Value City Department Stores, Inc., a company that operates a chain of off-price department stores which is 66.7% owned by SSC, with the remaining shares publicly-held and traded on the New York Stock Exchange.

James V. O Donnell, age 63, has served as Chief Executive Officer of the Company since November 2003 and prior thereto as Co-Chief Executive Officer of the Company since December 2002 and as Chief Operating Officer for the Company since December 2000. Mr. O Donnell became a member of the Board in December 2000. Prior to joining the Company, since December 1999, he served as President and Chief Operating Officer of Lyte, Inc., a retail technology services company. From 1997 to 2000, Mr. O Donnell served as Director of Merchant Banking for Colmen Capital Advisors, Inc., and as a Project Consultant for the C. Everett Koop Foundation. From 1992 to 1997, Mr. O Donnell was an owner and Chief Executive Officer of Computer Aided Systems, Inc. From 1980 to 1992, Mr. O Donnell held various executive positions at The Gap Inc., and from 1987 to 1992, he was a member of the Board of Directors and was Executive Vice President. From 1989 to 1992, he served as Chief Operating Officer of The Gap Inc. Mr. O Donnell is currently a member of the Advisory Board to the Villanova University College of Commerce and Finance, and a member of the Board of Directors of North America Media Engines, Inc. in Toronto, Canada.

Janice E. Page, age 55, is a private investor. Prior to her retirement in 1997, Ms. Page spent twenty-seven years in retailing holding numerous merchandising, marketing and operating positions with Sears Roebuck & Company, including Group Vice President from 1992 to 1997. She serves on the Board of Directors of Kellwood Company and R.G. Barry Corporation and is a Trustee of Glimcher Realty Trust.

Information Regarding Class I Directors With Terms Expiring in 2005

Ari Deshe, age 53, has been a Director of the Company since November 1997. Since 1996, Mr. Deshe has served as Chairman and Chief Executive Officer of Safe Auto Insurance Company, a property and casualty insurance company, and he served as President and Chief Executive Officer from 1993 to 1996. Prior to that, Mr. Deshe served as President of Safe Auto Insurance Agency from 1992 to 1993 and President of Employee Benefit Systems, Inc. from 1982 to 1992. He also serves on the Board of Directors of RVI.

Michael G. Jesselson, age 52, has served as a Director of the Company since November 1997. Mr. Jesselson is President of Jesselson Capital Corporation, a private investment corporation headquartered in New York City. He also serves on the Board of Directors of a number of nonprofit institutions.

George Kolber, age 53, has served as Vice Chairman of the Company s Board of Directors since December 1995. He served as Vice Chairman and Chief Executive Officer of RVI from December 2000 to March 2002. From December 1995 to December 2000, he served as Chief Operating Officer of the Company. Prior to joining the Company, he served as Vice President of SSC since 1979 and as Vice President of Administration of RVI from 1990 until 1993. Prior to that time, Mr. Kolber served as Vice President and Chief Financial Officer of Strauss Stores and R&S Strauss Associates. He has also served as Chairman of the Board of Directors of Penn Jersey Auto Stores and on the Board of Directors of Wieboldts Department Stores.

Roger S. Markfield, age 62, has served as Vice-Chairman and President since November 2003. Prior thereto, he served as Co-Chief Executive Officer of the Company since December 2002 and as President of the

Company since February 1995. Mr. Markfield served the Company and its predecessors as Chief Merchandising Officer from February 1995 to December 2002 and as Executive Vice President of Merchandising from May 1993 to February 1995. He became a member of the Board in March 1999. Prior to joining the Company, he served as Executive Vice President-General Merchandising Manager for the Limited Division of The Limited, Incorporated, a large national specialty retailer from May 1992 to April 1993. From 1969 to 1976 and from 1979 to 1992, he was employed by R.H. Macy & Co., a national retailer operating department and specialty stores, as a Buyer in Boys Wear rising to the office of President of Corporate Buying-Mens. From 1976 to 1979, Mr. Markfield served as Senior Vice President of Merchandising and Marketing for the Gap Stores, Inc.

Jay L. Schottenstein, age 49, has served as Chairman of the Company and its predecessors since March 1992. He served the Company as Chief Executive Officer from March 1992 until December 2002 and prior to that time, he served as a Vice President and Director of the Company s predecessors since 1980. He has also served since March 1992 as Chairman and Chief Executive Officer of SSC. He has also served as Chairman since March 1992 and as Chief Executive Officer from April 1991 through July 1997, of RVI. Mr. Schottenstein served as Vice Chairman of SSC since 1986 and as a director of SSC since 1982. He has also served as an officer and director of various other corporations owned or controlled by members of his family since 1976. Jay L. Schottenstein is the brother-in-law of Ari Deshe and Jon P. Diamond.

Information Regarding Nominees For Class II Directors With Terms Expiring in 2006

John L. Marakas, age 77, has been retired since April 1991. Prior to his retirement, Mr. Marakas served as President and a Director of Nationwide Corporation, an insurance and financial services holding company, from March 1972 to April 1990, and as President and a Director of Nationwide Life Insurance Company, from September 1981 to April 1991. Mr. Marakas has been a Director of the Company since April 1994.

Robert R. McMaster, age 55, has served as President and Chief Executive Officer of ASP Westward, LLC and ASP Westward L.P., companies that own over fifty-five community newspapers in Texas and Colorado, since December 2002. Prior to that time, he served as Chairman and Chief Executive Officer of the companies predecessors, Westward Communications Holdings, LLC and Westward Communications, LP from June 1997 to December 2002. Mr. McMaster held various positions at KPMG in Columbus, Ohio from May 1970 to June 1997, including Audit Department Partner-In-Charge, Office Managing Partner and Ohio Valley Area Managing Partner. He also served as a member of KPMG s Management Committee from 1992 to 1997. Mr. McMaster has been a Director of the Company since May 2003.

Gerald E. Wedren, age 67, has been a Director of the Company since November 1997. Mr. Wedren has served as President of Craig Capital Co., a Washington D.C. based merger and acquisition firm since 1973. Mr. Wedren has been Managing Partner of Tavern Real Estate Limited Partnership and Wedren Associates, which owns and leases properties in the Washington and Baltimore area, since 1988. Mr. Wedren was President of G.E.W. Inc., an owner of fast food restaurants, from 1981 to 1988. Mr. Wedren is also a Director of Tavern Realty Co.

Larry M. Wolf, age 68, has been retired since 1997 after serving with The Rouse Company for thirty-five years. Mr. Wolf held various positions at The Rouse Company including Director of Merchandising and Creative Services from 1993 to 1997 and Director of Retail Leasing for twenty-one years from 1972 to 1993. He was also promoted to Senior Vice President in 1978. Since his retirement, Mr. Wolf has been providing consulting services to retailers, restaurants and community organizations. Mr. Wolf has been a Director of the Company since May 2003.

Information Concerning Board of Directors

During the fiscal year ended January 31, 2004 (Fiscal 2003), the Board of Directors met six times. Beginning with the third quarter of Fiscal 2003, the Board changed director compensation based on the recommendation of the compensation committee, so that directors who are not employees are paid an annual retainer of $45,000 per year, payable quarterly. Non-employee directors who participate on one of the Company s three committees receive an annual retainer of $15,000 per year, payable quarterly, for each committee, not to exceed $30,000 per year. Non-employee directors who serve as committee chairs receive an additional annual retainer of $10,000 per year, payable quarterly, for each committee chaired. Directors who are employees of the Company do not receive separate compensation for serving as directors. In addition, the Company reimburses travel expenses to attend Board and committee meetings.

The Company s 1999 Stock Incentive Plan, provides for the automatic grant of options to purchase 1,875 shares of common stock to each non-employee Director on the first trading day of each fiscal quarter. The exercise price for each option is the fair market value of the common stock on the date of grant. The exercise price must be paid either in cash or its equivalent. The Compensation Committee may permit exercise by tendering previously acquired shares or by other means approved by the committee. All of the options become exercisable one year after the date of grant and remain exercisable for a period of ten years from the date of grant, subject to earlier termination after termination of the option holder s service as a Director of the Company. The options are transferable by the option holders either (i) if transferred without consideration to immediate family members or the entities they control or (ii) if such transfer is approved by the Compensation Committee.

Board Committees

The Board has a standing Audit Committee, a standing Compensation Committee and a standing Nominating and Corporate Governance Committee (Nominating Committee). These committees are governed by written charters, which were approved by the Board of Directors on March 10, 2004, and are available on the Company s website at www.ae.com under the About AE, AE Investment Info, Corporate Governance section. A copy of the Audit Committee charter is also included as Appendix A to this document. The members of each standing committee are the same five directors. They are Michael G. Jesselson, John L. Marakas, Robert R. McMaster, Gerald E. Wedren and Larry M. Wolf. The Board has determined that each of these directors are independent as defined in the applicable rules for NASDAQ-traded issuers.

Audit Committee

The primary function of the Audit Committee is to assist the Board in monitoring (1) the integrity of the financial statements of the Company, (2) the qualifications, performance and independence of the independent auditor, (3) the performance of the internal auditors, and (4) the Company s compliance with regulatory and legal requirements. The Audit Committee also reviews and approves the terms of any new related party agreements. The Audit Committee met six times in Fiscal 2003.

The Board has determined that Mr. McMaster qualifies as an audit committee financial expert as defined by the Securities and Exchange Commission (the SEC) rules adopted pursuant to the Sarbanes-Oxley Act of 2002. Mr. McMaster serves as the Chairperson of the Audit Committee.

Compensation Committee

The function of the Compensation Committee is to aid the Board in meeting its responsibilities with regard to oversight and determination of executive compensation. The Compensation Committee reviews, recommends and approves salaries and other compensation of executive officers, administers the Company s 1994 Stock Option Plan and 1999 Stock Incentive Plan and administers the Company s Management Incentive Plan. Mr. Marakas serves as the Chairperson of the Compensation Committee. The Compensation Committee met nine times in Fiscal 2003.

Nominating Committee

The function of the Nominating Committee is to aid the Board in meeting its responsibilities with regard to the organization and operation of the Board, selection of nominees for election to the Board and other corporate governance matters. Mr. Wedren serves as the Chairperson of the Nominating Committee. The Nominating

Committee met once in Fiscal 2003. The Nominating Committee developed and will review each year the Company s Corporate Governance Guidelines, which were adopted by the Board and are available on the Company s website at www.ae.com under the About AE, AE Investment Info, Corporate Governance section.

The Nominating Committee periodically reviews the appropriate size of the Board, whether any vacancies are expected due to retirement or otherwise, and the need for particular expertise on the Board. In evaluating and determining whether to recommend a candidate to the Board, the Committee reviews the appropriate skills and characteristics required of Board members in the context of the background of existing members and in light of the perceived needs for the future development of the Company s business, including issues of diversity and experience in different substantive areas such as retail operations, marketing, technology, distribution, real estate and finance. Candidates may come to the attention of the Committee from a variety of sources, including current Board members, stockholders, and management. To date, the Committee has not used the services of a search firm. The Committee will consider stockholder recommendations of candidates. All candidates are reviewed in the same manner regardless of the source of the recommendation. Stockholder recommendations should be submitted to the Nominating Committee in care of: Corporate Secretary, American Eagle Outfitters, Inc., 150 Thorn Hill Drive, Warrendale, PA 15086-4857. The submission should include the candidate s name, qualifications and the other information specified in Article Tenth, (b) of the Company s Certificate of Incorporation, which is available on the Company s website at www.ae.com under the About AE, AE Investment Info, Corporate Governance, Other Governance Documents section. For purpose of the 2005 Annual Meeting, the Corporate Secretary must receive this information not later than January 3, 2005. Ms. Janice E. Page, the first time nominee for election at the Annual Meeting, was recommended to the Nominating Committee by a member of the Committee.

Report of the Audit Committee

The Audit Committee oversees the Company s financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls. In fulfilling its oversight responsibilities, the Committee reviewed the audited financial statements in the Annual Report for the year ended January 31, 2004 with management including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.

The Audit Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just acceptability, of the Company s accounting principles and such other matters as are required to be discussed with the Audit Committee by *Statement on Auditing Standards No. 61, as amended by Statement on Auditing Standards No. 90 (Communications with Audit Committees).* In addition, the Audit Committee has discussed with the independent auditors the auditors independence from management and the Company, including the matters in the written disclosures required by Independence Standards Board Standard No. 1, and considered the compatibility of nonaudit services with the auditors independence.

The Audit Committee discussed with the Company s internal and independent auditors the overall scope and plans for their respective audits. The Audit Committee meets with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company s internal controls, and the overall quality of the Company s financial reporting.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board, and the Board has approved, that the audited financial statements be included in the Annual Report on Form 10-K for the year ended January 31, 2004 for filing with the Securities and Exchange Commission.

Robert R. McMaster, Audit Committee Chair

Michael G. Jesselson, Audit Committee Member

John L. Marakas, Audit Committee Member

Gerald E. Wedren, Audit Committee Member

Larry M. Wolf, Audit Committee Member

Compensation Committee Interlocks and Insider Participation

The Compensation Committee administers and grants awards under the Company s 1994 Stock Option Plan and 1999 Stock Incentive Plan. The Compensation Committee consists of Michael G. Jesselson, John L. Marakas, Robert R. McMaster, Gerald E. Wedren, and Larry M. Wolf. None of the members are present or former officers of the Company or have affiliates that are parties to agreements with the Company.

Communications with the Board

The Board provides a process for stockholders to send communications to the non-management members of the Board. That process is described on the Company s website at www.ae.com under the About AE, AE Investment Info, Corporate Governance, Board of Directors section.

Code of Ethics

The Company has adopted a Code of Ethics that applies to all of its directors, officers (including the Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer) and employees. The Company has made the Code of Ethics available on the Company s website at www.ae.com under the About AE, AE Investment Info, Corporate Governance section.

Executive Officers

The following persons are executive officers of the Company. For information regarding officers who are also Directors, see Election of Directors. The officers of the Company are elected annually by the Board and serve at the pleasure of the Board.

Laura A. Weil, age 47, has served as Chief Financial Officer of the Company since December 1995. Prior to joining the Company, she was a consultant to companies including SSC, from March 1995 to December 1995. From 1992 to 1995, she was Senior Vice President and the head of the retailing investment banking practice at Oppenheimer & Co., Inc. Prior to joining Oppenheimer, Ms. Weil held various executive positions at R.H. Macy & Co., Inc. from 1989 to 1992, including Vice President-Finance and Chief Financial Officer-Credit Operations. From 1988 to 1989 she was an executive with L Herbier de Provence, a Paris-based cosmetics and toiletries retailer. From 1979 to 1981 and 1983 to 1988, Ms. Weil held various investment banking positions with Lehman Brothers and its predecessor Lehman Brothers Kuhn Loeb. Inc., including Vice President of the firm s Merchandising group. She also serves on the Board of Directors of Ultra Stores, Inc., a leading privately-held off-price retailer of fine jewelry with 110 stores nationwide.

Joseph E. Kerin, age 58, has served as Executive Vice President of Store Operations of the Company and its predecessors since January 1991. Prior to that time, he held various positions with the Company s predecessors, including Senior Vice President-Store Operations from October 1987 to October 1988, Vice President-General Manager Store Operations from February 1979 to October 1987, General Manager Store Operations from November 1975 to February 1979, and Regional/District Manager of the Silverman s Division from October 1972 to November 1975.

Howard Landon, age 58, has served as Executive Vice President of Production and Sourcing since April 2002. From February 1997 to April 2002, he served as Senior Vice President of Production and Sourcing and from January 1995 to February 1997 he served as Vice President of Production and Sourcing. Prior to joining the Company, Mr. Landon was Vice President of Cygne Design, a division of Ann Taylor, from May 1993 to January 1995. From September 1990 to May 1993, he was a Senior Vice President at Mast Industries, a division of The Limited, Inc. From January 1980 to May 1990, Mr. Landon was Chief Executive Officer of Strategy Fashions, Inc., a privately held sportswear company.

Michael J. Leedy, age 35, has served as Executive Vice President, Strategic Planning and E-Commerce since November 2003 and as Chief Marketing Officer since June 1999. From February 1995 to May 1999, he served as Vice President of Marketing. Prior to joining the Company, Mr. Leedy served as President of Method, Inc., a brand strategy firm providing consulting services to the Company and other leading retailers. Prior to leading Method, Inc., he held various positions with The Limited, Inc. in Columbus, Ohio.

Susan P. McGalla, age 39, has served the Company as Executive Vice President and Chief Merchandising Officer since November 2003 and prior thereto as Executive Vice President, Merchandising since August 2002. From November 1997 to August 2002, she served as Vice President, General Merchandise Manager-Women s. Prior to that time, Ms. McGalla held various other positions with the Company, including Divisional Merchandise Manager-Women s from June 1996 to November 1997 and Buyer-Women s from June 1994 to June 1996. Prior to joining the Company, she held various merchandising/management positions at Joseph Horne Company in Pittsburgh, Pennsylvania from June 1986 to June 1994. Ms. McGalla also serves as Chairman of the American Eagle Foundation.

Dale E. Clifton, age 50, has served the Company and its predecessors as Controller since June 1986, as Chief Accounting Officer since October 1988, and as Vice President since October 1994. He served the Company and its predecessors as Assistant Controller from 1984 to June 1986. Prior to joining the Company, he worked as a Certified Public Accountant from 1975 to 1984 at Alpern, Rosenthal & Company.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s officers, directors and persons who are beneficial owners of more than ten percent of the Company s Common Stock (reporting persons) to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Reporting persons are required by Securities and Exchange Commission regulations to furnish the Company with copies of all Section 16(a) forms filed by them. Based on its review of the copies of Section 16(a) forms received by it, the Company believes that, during Fiscal 2003, with the exception of one late Form 3 and Form 4 filing by each of Mr. McMaster and Mr. Wolf, all reporting persons complied with the applicable filing requirements.

Executive Officer Compensation

The following table shows certain information regarding compensation earned during each of the last three fiscal years by the Company s Chief Executive Officers and each of the Company s four most highly compensated executive officers.

Summary Compensation Table

		Annual Compensation(2)		Long Term Compensation		
Name and Principal Position	**Fiscal Year**	**Salary**	**Bonus**	**Restricted Stock Awards**	**Options/ SARs(#)**	**All Other Compensation**
	(1)			**(3)**		**(4)**
James V. O Donnell (5) Chief Executive Officer	2003	$840,000	$ 190,807	None	900,000	$12,600
	2002	$800,000	None	None	None	$15,200
	2001	$712,500	$ 613,400	$ 1,736,800	None	$ 3,800
Roger S. Markfield (6) Vice Chairman and President	2003	$945,000	None	None	300,000	$12,600
	2002	$900,000	None	None	300,000	$14,600
	2001	$800,000	$ 688,800	$ 1,736,800	None	$12,100
Susan P. McGalla (7) Executive Vice President and Chief Merchandising Officer	2003	$535,000	None	None	58,300	$ 9,600
	2002	$460,000	None	None	58,334	$11,700
	2001	$351,000	$ 180,800	$ 260,500	None	$11,300
Laura A. Weil Executive Vice President and Chief Financial Officer	2003	$445,000	None	None	30,000	$ 9,700
	2002	$430,000	None	None	None	$11,600
	2001	$400,000	$ 241,000	$ 354,300	100,000	$11,000
Howard Landon Executive Vice President, Production and Sourcing	2003	$440,000	None	None	35,000	$11,000
	2002	$425,000	None	None	35,000	$12,400
	2001	$326,400	$ 111,900	$ 173,700	None	$10,600
Michael J. Leedy (8) Executive Vice President Strategic Planning and E-Commerce	2003	$430,000	None	None	40,000	$ 9,600
	2002	$410,000	None	None	40,000	$11,200
	2001	$350,000	$ 150,700	$ 260,500	None	$11,800

(1) 2003, 2002 and 2001 refer to the fifty-two week periods ended January 31, 2004, February 1, 2003 and February 2, 2002, respectively.

(2) While the named executive officers enjoy certain perquisites, for Fiscal 2003, Fiscal 2002 and Fiscal 2001, these did not exceed the lesser of $50,000 or 10% of each executive officer s salary and bonus.

(3) The value of the restricted stock included in the Summary Compensation Table is based on the fair market value at the date of grant. A portion of the shares granted on April 25, 2001 vested on March 11, 2002.

(4) Includes the amount of employer matching and supplemental contributions allocated to each executive s account under the Company s qualified defined contribution plan as well as term life insurance premiums paid on behalf of the executive during Fiscal 2003, Fiscal 2002 and Fiscal 2001.

(5) Mr. O Donnell is employed pursuant to an employment agreement dated December 30, 2003. His agreement has a term of three years, subject to earlier termination by either party. It provides for an annual base salary of at least $950,000 effective February 1, 2004, a cash signing bonus of $200,000, to be grossed-up for income taxes, payable over three years, eligibility for an annual cash bonus under the Company s Management Incentive Plan, recommended grants of 100,000 restricted shares for each full fiscal year term

during the agreement, and other fringe benefits. It provides for a retirement benefit upon the expiration of the contract s term equal to the Executive s total cash compensation for the highest compensated fiscal year of the three year contract. Additionally, it provides for severance payments equal to one year of base salary in the event of a non-cause termination by the Company. The Compensation Committee may increase Mr. O Donnell s base salary at their discretion.

(6) Mr. Markfield is employed pursuant to an employment agreement dated September 8, 1999. His agreement has an initial term of three years and continues from year to year thereafter, subject to earlier termination by either party. It provides for an annual base salary of at least $600,000, eligibility for an annual cash bonus under the Company s Management Incentive Plan, recommended grants during the initial term of up to 300,000 restricted shares and options for 900,000 shares under the Company s 1999 Stock Incentive Plan, and other fringe benefits. It provides for severance payments equal to one year of base salary and continued medical coverage in the event of a non-cause termination by the Company. The Compensation Committee may increase Mr. Markfield s base salary at their discretion and make additional grants of restricted stock and options following the initial term.

(7) Ms. McGalla is employed pursuant to an employment agreement dated September 4, 2002. The agreement has an initial term of two and one-half years and continues from year to year thereafter, subject to earlier termination by either party. It provides for an annual base salary of at least $500,000, eligibility for an annual cash bonus under the Company s Management Incentive Plan, recommended grants during each year of the initial term of up to 16,667 restricted shares and options for 58,334 shares under the Company s 1999 Stock Incentive Plan, and other fringe benefits. The Compensation Committee may increase Ms. McGalla s base salary at their discretion and make additional grants of restricted stock and options.

(8) Mr. Leedy is employed pursuant to an employment agreement dated July 30, 2003. The agreement has an initial term of three and one-half years and continues from year to year thereafter, subject to earlier termination by either party. It provides for an annual base salary of at least $465,000, $500,000 and $540,000 during Fiscal 2004, Fiscal 2005 and Fiscal 2006, respectively, eligibility for an annual cash bonus under the Company s Management Incentive Plan, recommended grants during the initial term of up to 45,000 restricted shares and options for 150,000 shares under the Company s 1999 Stock Incentive Plan, and other fringe benefits. The Compensation Committee may increase Mr. Leedy s base salary at their discretion and make additional grants of restricted stock and options during the initial term.

Option/SAR Grants In Last Fiscal Year

The following table sets forth certain information regarding individual grants of stock options in Fiscal 2003 to each of the Company s most highly compensated executive officers disclosed in the Summary Compensation Table.

Name	Options/ SARs Granted (#)	% of Total Options/SARs Granted to Employees In Fiscal Year	Exercise or Base Price ($/Sh)	Expiration Date	Grant Date Present Value $ (1)
James V. O Donnell	900,000	34.2%	$ 14.05	March 4, 2013	$ 6,582,150
Roger S. Markfield	300,000	11.4%	$ 14.05	March 4, 2013	$ 2,194,050
Susan P. McGalla	58,300	2.2%	$ 14.05	March 4, 2013	$ 426,377
Laura A. Weil	30,000	1.1%	$ 14.05	March 4, 2013	$ 219,405
Howard Landon	35,000	1.3%	$ 14.05	March 4, 2013	$ 255,973
Michael J. Leedy	40,000	1.5%	$ 14.05	March 4, 2013	$ 292,540

(1) The grant date present value was determined using the Black-Scholes option pricing model with the following assumptions: risk-free interest rates of 2.62%; no dividend yield; volatility factor of the expected market price of the Company s common stock of 0.503; weighted-average expected life of the options of five years; and an expected forfeiture rate of approximately 11.45%.

Aggregated Option Exercises In Last Fiscal Year And Fiscal Year-End Option Values

The following table provides certain information on the exercise of options during Fiscal 2003 and the number and value of stock options held by the executive officers named in the Summary Compensation Table at January 31, 2004.

Name	Shares Acquired on Exercise (#)	Value Realized $	Number of Unexercised Options at January 31, 2004 (#)	Value of Unexercised In-The-Money Options at January 31, 2004 ($) (1)

In Which Term

Name	Age	Since	Will Expire
Marshall S. Geller (2)(3)	67	2006	Class I, 2008
Christopher C. Dewey (2)	62	2006	Class I, 2008
Robert J. Rosan (1)(2)(3)	75	2001	Class II, 2009
Norman J. Kurlan (1)(3)	54	2003	Class II, 2009

(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Governance Committee

Set forth below is the principal occupations of each director during the past five (5) years.

Mark Goldwasser has served as a director of the Company since December 28, 2001. Mr. Goldwasser joined the Company in June 2000. Mr. Goldwasser was named President in August 2000, Chief Executive Officer in December 2001 and Chairman in April 2005. Prior to joining the Company, Mr. Goldwasser was the Global High Yield Sales Manager at ING Barings from 1997 to 2000. From 1995 to 1997, Mr. Goldwasser was the Managing Director of High Yield Sales at Schroders & Co., and from 1991 to 1995, the Vice President of Institutional High Yield Sales at Lazard Freres & Co. From 1984 to 1991, Mr. Goldwasser served as the Associate Director of Institutional Convertible Sales and Institutional High Yield Sales at Bear Stearns & Co., Inc. From 1982 to 1984, Mr. Goldwasser was a Floor member of the New York Mercantile Exchange (NYMEX) and the Commodity Center (COMEX). Mr. Goldwasser received his BA with Honors from the University of Capetown in 1979.

Gary A. Rosenberg has served as a director of the Company since its inception in February 1997 and served as its President from August 1997 until April 1998. Mr. Rosenberg was Chairman and CEO of UDC Homes, Inc. (and its predecessors) from 1968 to 1994, and the Chairman (non-management) from 1994 to 1996. Presently, Mr. Rosenberg is President and Chief Executive Officer of Urban R2 Development Company LLC. In February 2004, Mr. Rosenberg filed for bankruptcy protection under Chapter 7 in the U.S. Bankruptcy Court for the Northern District of Illinois. Mr. Rosenberg is also Chairman and Director of the Rosenberg Foundation; Founder and Chairman of the Real Estate Research Center and a member of the Board at The Kellogg Graduate School of Management at Northwestern University; and a Trustee of St. Norbert College. Mr. Rosenberg received his BS and MBA from Northwestern University and his JD from the University of Wisconsin.

Robert J. Rosan has served as a director of the Company since December 28, 2001. He has been a partner in the law firm of Rosan & Rosan P.C. for 34 years, specializing in real estate, banking and contract law. Mr. Rosan received his LLB from Columbia Law School, and is an active real estate investor and developer.

Norman J. Kurlan has served as a director of the Company since July 28, 2003. Mr. Kurlan is currently an independent commissioned representative with the broker dealer American Portfolios, and has held similar position with Nathan and Lewis Securities. Mr. Kurlan was employed by Bear Stearns & Co. in Private Client Services in New York City from 1981 to 1996. Mr. Kurlan received his BS in business administration from Boston University, an MBA in accounting from St. Johns University and an advanced profession post graduate degree in investment management and finance from New York University.

Marshall S. Geller has served as a director of the Company since January 11, 2006. Mr. Geller is the Co-Founder and Senior Managing Partner of St. Cloud Capital Partners, L.P., a Los Angeles based private investment fund formed in December 2001. He is also Chairman, CEO and Founding Partner of Geller & Friend Capital Partners, Inc., a private merchant bank formed in November 1995. Mr. Geller has spent more than 35 years in corporate finance and investment banking, including 21 years as Senior Managing Director for Bear, Stearns and Company, with oversight of all operations in Los Angeles, San Francisco, Chicago, Hong Kong and the Far East. Mr. Geller currently serves as Non-Executive Chairman of the Board of Directors of ShopNBC-Value Vision Media, Inc. (Nasdaq:VVTV) and as director on the Boards of GP Strategies Corporation (NYSE:GPX), 1st Century Bank N.A., (Nasdaq:FCNA), SCPIE Holdings (NYSE.SKP) and Blue Holdings, Inc. (Nasdaq:BLUE) and is on the Board of Governors of Cedars-Sinai Medical Center, Los Angeles. Mr. Geller graduated from California State University, Los Angeles, with a BS in Business Administration, where he currently serves on the Dean's Advisory Council for the College of Business & Economics.

Christopher C. Dewy has served as a director of the Company since December 27, 2006. From 1993 to prior to joining the Company, Mr. Dewey served as Executive Vice President of Jefferies & Company, Inc. Prior to joining Jefferies & Company, Inc., Mr. Dewey was a partner of Merrion Group (1990-1993) and Bear Stearns (1979-1990). Mr. Dewey earned an MBA from the Wharton School in 1987.

CORPORATE GOVERNANCE

The Company’s business affairs are conducted under the direction of the Board of Directors in accordance with the Delaware Business Corporation Act and the Company’s Certificate of Incorporation and Bylaws. Members of the Board of Directors are informed of the Company’s business through discussions with management, by reviewing materials provided to them and by participating in meetings of the Board of Directors and its committees. Certain corporate governance practices that the Company follows are summarized below.

Code of Ethics and Business Conduct

We have adopted the National Holdings Corporation Code of Ethics and Business Conduct (the "Code of Conduct"), a code of conduct that applies to our directors, officers and employees. The Code of Conduct was filed as an exhibit to our Annual Report on Form 10-K for the fiscal year ended September 30, 2003 and is publicly available on the SEC's website at *www.sec.gov*. If we make any substantive amendments to the Code of Conduct or grant any waiver, including any implicit waiver from a provision of the Code of Conduct to our directors or executive officers, we will disclose the nature of such amendment or waiver in a report on Form 8-K.

Meetings and Committees of the Board of Directors and Corporate Governance Matters

During the fiscal year ended September 30, 2006, the Company's Board of Directors met or acted by unanimous written consent a total of 13 times. Each director attended or participated in 75% or more of the aggregate of the total number of meetings of the Board of Directors.

Committees of the Board of Directors

The Board of Directors has an Audit Committee, a Compensation Committee and a Governance Committee, all the members of which, with the exception of Mr. Dewey, are independent, as defined by Securities and Exchange Commission (the "SEC") rules. Each director attended or participated in 75% or more of the aggregate of the total number of meetings held by all committees of the Board of Directors on which such director served during fiscal year 2006.

Director Qualifications. The Board of Directors does not currently have a nominating committee, as the Company believes that having the full Board deliberate the nomination process is in the Company's best interest. Board of Director nominations are recommended by the directors, which has recommended the nominees named above for election at the 2007 Annual Meeting, other than Mr. Dewey who joined the Board after such recommendation was made. In making its nominations, the Board of Director identifies candidates who meet the current challenges and needs of the Board of Directors. In determining whether it is appropriate to add or remove individuals, the Board of Directors will consider issues of judgment, diversity, age, skills, background and experience. In making such decisions, the Board of Directors considers, among other things, an individual's business experience, industry experience, financial background and experiences. The Board of Directors also considers the independence, financial literacy and financial expertise standards required by our Board of Directors committees' charters and applicable laws, rules and regulations, and the ability of the candidate to devote the time and attention necessary to serve as a director and a committee member.

Identifying and Evaluating Nominees for Director. In the event that vacancies are anticipated or otherwise arise, the Board of Directors considers various potential candidates for director. Candidates may come to the attention of the Board through current directors, professional search firms engaged by us, shareholders or other persons. Candidates are evaluated at regular or special meetings of the Board of Directors and may be considered at any point during the year.

Shareholder Nominees. Candidates for director recommended by shareholders will be considered by the Board of Directors. Such recommendations should include the candidate's name, home and business contact information, detailed biographical data, relevant qualifications for membership on our Board of Directors, information regarding any relationships between the candidate and us within the last three years, including stockholdings in us, and a written indication by the recommended candidate of the candidate's willingness to serve, and should be sent to the Board of Directors at the address listed on page 10 of this proxy statement.

The Board of Directors will evaluate recommendations for director nominees submitted by directors, management or qualifying shareholders in the same manner, using the criteria stated above. All directors and director nominees will submit a completed form of directors' and officers' questionnaire as part of the nominating process. The process may also include interviews and additional background and reference checks for non-incumbent nominees, at the discretion of the Board of Directors.

Audit Committee

The Audit Committee for fiscal year 2006 consisted of Gary A. Rosenberg, Robert J. Rosan and Norman J. Kurlan. The members are “independent” as defined in SEC Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and Rule 4200 of the Nasdaq Market Place Rules.

On January 22, 2003, the Board adopted a charter for the Audit Committee, as amended and restated on January 12, 2004. The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. Management is responsible for the Company's internal controls, financial reporting process and compliance with laws and regulations and ethical business standards. The independent public accountants are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards and to issue a report thereon. The Audit Committee has the power and authority to engage the independent public accountants, reviews the preparations for and the scope of the audit of the Company’s annual financial statements, reviews drafts of the statements and monitors the functioning of the Company’s accounting and internal control systems by through discussions with representatives of management, the independent public accountants and the internal auditors.

Under SEC rules, companies are required to disclose whether their audit committees have an “audit committee financial expert” as defined in Item 401(h) of Regulation S-K under the Securities Exchange Act of 1934 and whether that expert is “independent” as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act. The Board of Directors has determined that Mr. Rosenberg is a “financial expert” and is also “independent.” The Audit Committee meets quarterly and on an on-needed basis. The Committee met four times during the year ended September 30, 2006.

Compensation Committee

The Company’s Compensation Committee for fiscal year 2006 consisted of Robert J. Rosan, Gary A. Rosenberg and Marshall S. Geller, all of whom are considered to be “independent.” On December 27, 2006, Christopher C. Dewey was appointed to the Compensation Committee. Mr. Dewey is not considered to be “independent” under SEC rules. On January 12, 2004, the Compensation Committee adopted a formal Compensation Committee Charter, which contains a detailed description of the committee's duties and responsibilities. The Compensation Committee meets annually and on an on-needed basis. The Committee met one time during the year ended September 30, 2006.

Governance Committee

The Governance Committee for fiscal year 2006 consisted of Marshall S. Geller, Gary A. Rosenberg, Robert J. Rosan and Norman J. Kurlan. The members are “independent” as defined in SEC Rule 10A-3 under the Exchange Act and Rule 4200 of the Nasdaq Market Place rules.

The Governance Committee was created with certain duties and responsibilities including setting the Company’s trading policy, monitoring Sarbanes-Oxley matters, resolving Board conflicts and/or such other duties and responsibilities as set forth in the Corporate Governance Committee charter. The Governance Committee meets on an on-needed basis. The Committee met one time during the year ended September 30, 2006.

Compensation Committee Interlocks and Insider Participation

No interlocking relationships existed between any members of the Company’s Board of Directors or Compensation Committee and the board of directors or compensation committee of any other company during the fiscal year ended September 30, 2006, nor has any such interlocking relationship existed in the past.

Procedures for Shareholder Communications to Directors

Shareholders may communicate directly with the Board of Directors. All communications should be directed to our Corporate Secretary at the address below and should prominently indicate on the outside of the envelope that it is intended for the Board of Directors or for non-management directors. If no director is specified, the communication will be forwarded to the entire Board. Shareholder communications to the Board should be sent to:

Corporate Secretary
Attention: Board of Directors
National Holdings Corporation
875 North Michigan Avenue, Suite 1560
Chicago, IL 60611

Director Attendance Policy

Attendance of directors at our annual meetings of shareholders can provide our shareholders with an opportunity to communicate with directors about issues affecting the Company. Accordingly, all directors are encouraged to attend annual meetings of shareholders; however, attendance is not mandatory. All of the Company's directors attended the last annual meeting of shareholders, which was held in March 2006.

Directors Compensation

Effective January 1, 2004, each outside director is paid a directors fee of $15,000 per annum, payable quarterly. Outside directors are also granted options to purchase 10,000 shares of the Company's Common Stock each year of their tenure on the day after the date of the Company's Annual Meeting of Shareholders, which fully vest six (6) months after the date of issuance. The exercise price of such options equal or exceed fair market value of the Common Stock on the date of grant. The Company reimburses all directors for expenses incurred traveling to and from Board meetings. The Company does not pay inside directors any compensation as a director. The compensation for directors was approved by the disinterested members of the Board of Directors.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE NOMINEES AS A DIRECTOR OF THE COMPANY.

PROPOSAL 2

RATIFICATION OF APPOINTMENT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Board of Directors, acting on the recommendation of the Audit Committee, has appointed Marcum & Kliegman LLP, as the independent public accountants for the Company for the fiscal year ending September 30, 2007. The Board of Directors requests that the shareholders ratify the appointment. If the shareholders do not ratify the appointment, the Board of Directors will consider the selection of another public accounting firm for fiscal year 2007 and future years. One or more representatives of Marcum & Kliegman LLP may attend the Annual Meeting and, if so, will have an opportunity to make a statement if they so desire, and would be available to answer questions.

Audit Fees. Fees for services performed by Marcum & Kliegman LLP during fiscal years 2006 and 2005 relating to the audit of our consolidated annual financial statements, the review of our consolidated quarterly financial statements included in our Forms 10-Q and preparation of Federal and state income tax returns were $225,000 and $219,000, respectively.

Audit-Related Fees. “Audit-related fees” include fees billed for assurance and related services that are reasonably related to the performance of the audit and not included in the “audit fees” mentioned above. There were no such fees paid in fiscal years 2006 or 2005.

Tax Fees. The fees billed in fiscal years 2006 or 2005 for tax compliance, tax advice or tax planning are included in Audit Fees above.

*All Other Fees***.** Fees for services performed by Marcum & Kliegman LLP during fiscal year 2006 relating to the Company’s registration statement were $15,000. There were no fees for other audit related services in fiscal year 2005.

Pre-Approval Policies

Pursuant to the rules and regulations of the SEC, before the Company’s independent public accountant is engaged to render audit or non-audit services, the engagement must be approved by the Company’s audit committee or entered into pursuant to the committee’s pre-approval policies and procedures. The policy granting pre-approval to certain specific audit and audit-related services and specifying the procedures for pre-approving other services is set forth in the Amended and Restated Charter of the Audit Committee.

Required Vote

The affirmative vote of the holders of a majority of the shares present, or represented, and entitled to vote at the Annual Meeting is needed to ratify the appointment of Marcum & Kliegman LLP as the Company's independent public accountants.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF MARCUM & KLIEGMAN LLP AS INDEPENDENT PUBLIC ACCOUNTANTS FOR THE COMPANY IN FISCAL YEAR 2007.

EXECUTIVE OFFICERS

The following sets forth information as to persons who serve as our executive officers as of December 31, 2006:

Mark Goldwasser, 48 years old. Chief Executive Officer, President and Chairman of the Board. For information regarding Mr. Goldwasser, see “Proposal 1 - Election of Directors.”

Christopher C. Dewey, 62 years old. Vice Chairman of the Board. For information regarding Mr. Dewey, see “Proposal 1 - Election of Directors.”

Robert H. Daskal , 65 years old, has served as Chief Financial Officer and Secretary of the Company since March 2006. Mr. Daskal served as Acting Chief Financial Officer and Acting Secretary of the Company from January 2002 to March 2006, and served as Senior Vice President, Chief Financial Officer, Secretary and Treasurer of the Company from February 1997 through December 2001. From 1994 to 1997, Mr. Daskal was a director, Executive Vice President and Chief Financial Officer of Inco Homes Corporation, and from 1985 to 1994, Mr. Daskal was a director, Executive Vice President-Finance and Chief Financial Officer of UDC Homes, Inc. (and its predecessors). Mr. Daskal, a former Tax Partner with Arthur Andersen & Co., became a CPA in Illinois in 1967. He received his BBA and JD from the University of Michigan in Ann Arbor.

David McCoy, 44 years old, has served as Chief Operating Officer since March 2006. Mr. McCoy joined National Securities in November 2005 as Chief Operating Officer. Prior to joining the Company, Mr. McCoy was the Chief Operating Officer of GunnAllen Financial from 2002 to 2005. From 2000 to 2002, Mr. McCoy was the Director of Retail Sales at Montauk Financial. Prior to 2000, Mr. McCoy was a producing registered representative and affiliate owner for various firms dating back to 1985. Mr. McCoy received his bachelor’s degree in both Economics and Business Administration from Rollins College and attended the Crummer School of Business.

Brian Friedman, 35 years old, has served as Executive Vice President since March 2006. Mr. Friedman joined National Securities in 1997 as an associate in the investment banking department. During his tenure with the company, Mr. Friedman has served as a vice-president of corporate finance and as the managing director of corporate finance. Prior to joining the Company Mr. Friedman served as an Associate at Liberty Hampshire, where he helped structure, raise capital and operate a special purpose finance company that grew to over $1.0 billion under management. Mr. Friedman earned his B.A. from the University of Iowa and his JD/MBA from IIT.

Executive Compensation

The following table sets forth the cash compensation paid by the Company to each of its executive officers whose total annual salary and bonus exceeded $100,000 for fiscal year 2006 (the “Named Executive Officers”) during the fiscal years ended 2006, 2005 and 2004:

ANNUAL COMPENSATION

Name and Capacity		Year Ended	Salary (1)	Bonus	Compensation Securities Underlying Options
Mark Goldwasser		2006	$ 311,033	$ 105,300	-
Chairman, President and Chief		2005	$ 316,712	$ -	367,000 (2)
Executive Officer		2004	$ 250,000	$ 149,000	250,000
Robert H. Daskal		2006	$ 160,000	$ 32,500	-
Chief Financial Officer and Secretary		2005	$ 160,000	$ -	110,000 (2)
		2004	$ 109,167	$ 39,500	75,000
David McCoy, Chief Operating Officer	(3)	2006	$ 168,974	$ 20,500	100,000
Brian Friedman, Executive Vice President	(4)	2006	$ 147,500	$ 52,000	-

(1) Amounts include, if any, commissions earned in the normal course of business, fees received for corporate finance services and profit from the sale during the year of the Company's Common Stock obtained through the exercise of options

(2) Amounts include options that were repriced on February 14, 2005.

(3) Mr. McCoy joined the Company in November 2005, and became an executive officer in March 2006.

(4) Mr. Friedman became an executive officer in March 2006.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information as of September 30, 2006 with respect to compensation plans under which equity securities of the Company are authorized for issuance.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	932,000 (1)	$1.30	1,500,000 (2)

(1) Includes options issued and outstanding under the 2001 Stock Option Plan.

(2) Includes options available for issuance under the 2006 Stock Option Plan.

Option Grants in Last Fiscal Year

The Company granted options to certain officers and directors. The options granted to the Named Executive Officers during the fiscal year ended September 30, 2006 are as follows:

Option Grants in Last Fiscal Year

Name	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise Price	Expiration Date	Potential Realized Value at Assumed Annual Rates of Stock Price Appreciation for Option Term 5%	10%
David McCoy	100,000	100.00%	$ 1.00	11/28/10	$ 28,000	$ 61,000

No options were exercised by the Named Executive Officers in the fiscal year ended September 30, 2006. The values of unexercised options at September 30, 2006 are as follows:

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year End Option Values

Name	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-the-Money Options at Fiscal Year End	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Mark Goldwasser	367,000	-	$ -	$ -
Robert H. Daskal	110,000	-	$ -	$ -
David McCoy	50,000	50,000	$ 12,500	$ 12,500
Brian Friedman	125,000	-	$ -	$ -

Employment Agreements

Mr. Goldwasser entered into an Employment Agreement with the Company dated March 15, 2006. The Agreement is for a three-year term with annual one-year renewal periods unless notice of non-renewal is given by either party. The initial base salary is $350,000 per annum, subject to annual increases. Mr. Goldwasser will also participate in any senior management bonus pools, and receives normal employee benefits.

Mr. Dewey entered into a Compensation Agreement with the Company dated December 27, 2006. The Agreement is at will. The initial base salary is $120,000 per annum, subject to annual increases, and Mr. Dewey was granted an option to purchase 150,000 shares of Common Stock at $1.30 per share, of which half is currently exercisable and half becomes exercisable on December 27, 2007. Mr. Dewey will also participate in any senior management bonus pools, and receives normal employee benefits.

Other Compensation.

The Company's senior officers and members of its corporate finance department are entitled to a portion of underwriter or placement agent warrants received in the course of the Company's corporate finance activities. Placement agent warrants are allocated in part based upon the individual's contribution to both the Company's overall business activities and the particular corporate finance transaction in which they are issued. Such warrants typically have no value at the time of allocation.

Report of the Compensation Committee

This report of the Compensation Committee shall not be deemed incorporated by reference by any general statement incorporating the Proxy Statement by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934 (the “Acts”), except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

The Committee is responsible for reviewing and approving the compensation of the Company's Chief Executive Officer and recommending to the Board of Directors the compensation of the Company's other officers and the Company's chairman, consistent with employment contracts, where appropriate. The Committee believes the compensation paid to the Company's Executive Officers is competitive with companies within its industry that are comparable in size and by companies outside the industry with which the Company competes for executive talent.

The Company has a compensation program that consists of salary and performance bonus (that are generally reviewed annually) and stock options. For the fiscal year ended September 30, 2006, the Compensation Committee approved a bonus pool, whereby 20% of the Company's net income was paid as a bonus to certain members of the Company's senior management. A similar bonus pool plan was approved by the Company's Board of Directors, with the recommendation of the Compensation Committee, for the fiscal year ending September 30, 2007. The overall executive compensation philosophy is based upon the premise that compensation should be aligned with and support the Company's business strategy and long-term goals. The Company believes it is essential to maintain an executive compensation program that provides overall compensation competitive with that paid executives with comparable qualifications and experience. This is critical to attract and retain competent executives.

Annual cash bonuses are determined by the Compensation Committee. Stock options may be granted to key employees of the Company pursuant to the Company's stock option plan that provides additional incentive to maximize shareholder value. The plans may also utilize vesting periods to encourage option recipients to continue in the employ of the Company. The Company grants stock options to its officers, directors, employees, investment executives and consultants.

The Compensation Committee regularly evaluates its policies with respect to executive compensation. The Compensation Committee believes that a combination of salary, bonus, and stock options provides a mix of short and long-term rewards necessary to attract motivate and retain an excellent management team.

The Company intends to comply with the requirements of Section 162 (m) of the Internal Revenue Code of 1986 for the fiscal year 2007.

Compensation of the Chief Executive Officer. In March 2006, the Company and Mr. Goldwasser entered into an Employment Agreement for a three-year term with annual one-year renewal periods unless notice of non-renewal is given by either party. The Compensation Committee performed its review of Mr. Goldwasser's compensation package in accordance with the principles of our compensation philosophy described above. Information considered by the compensation committee included competitive compensation data and Mr. Goldwasser's record as the chief executive officer of the Company. The compensation committee determined that the total compensation package offered to Mr. Goldwasser was appropriate under prevailing market conditions and that a package of materially lesser value would have been insufficient to secure Mr. Goldwasser's services. The initial base salary is $350,000 per annum, subject to annual increases. Mr. Goldwasser will also participate in any senior management bonus pools, and receives normal employee benefits.

Compensation Committee:
Robert J. Rosan
Gary A. Rosenberg
Marshall S. Geller
Christopher C. Dewey

Audit Committee Report

On December 6, 2006, the Audit Committee met to review the results of the fiscal year 2006 audit. The Audit Committee reviewed the Company's audited financial statements as of and for the fiscal year ended September 30, 2006 with management and the Company's independent public accountants, Marcum & Kliegman LLP. This review included the matters required to be discussed by Statement on Auditing Standards No. 61, “Communication with Audit Committees,” as issued and amended by the Auditing Standards Board of the American Institute of Certified Public Accountants. The Audit Committee discussed with Marcum & Kliegman LLP their independence from management and from the Company, and received a letter from Marcum & Kliegman LLP confirming their independence.

Based on the above review and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements as of and for the fiscal year ended September 30, 2006 be included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

Audit Committee:
Gary A. Rosenberg
Robert J. Rosan
Norman J. Kurlan

Section 16(a) Beneficial Ownership Reporting Compliance

Pursuant to Section 16 of the Exchange Act, the Company's directors and executive officers and beneficial owners of more than 10% of the Common Stock are required to file certain reports, within specified time periods, indicating their holdings of and transactions in the Common Stock. Based solely on the Company’s review of the copies of such forms received by it, or written representations from certain reporting persons, the Company believes that during fiscal year 2006, the Company’s insiders have complied with all Section 16(a) filing requirements applicable to them.

Comparison of Five-Year Cumulative Total Return

On November 1, 2004 the Company’s Common Stock was delisted from The American Stock Exchange (AMEX) and commenced trading on the Over-the-Counter Bulletin Board under the symbol “OLYD”. In March 2006 the Company changed its name to “National Holdings Corporation” and changed its symbol to “NHLD”.

The following chart and graph compares cumulative total stockholder return on the Company’s Common Stock with the cumulative total stockholder return on the common equity of the companies in the AMEX U.S. Index and the AMEX U.S. Financial Index (the “Peer Group”) for the period from October 1, 2001 to September 30, 2006. We assume a $100 investment on October 1, 2001, in each of National Holdings Common Stock, AMEX U.S. Index and the AMEX U.S. Financial Index (the “Peer Group”), and further assume the reinvestment of all dividends.

Measurement Period (Fiscal Year Covered)	National Holdings Corporation	AMEX U.S. Index	AMEX U.S. Financial Index
2001	100.00	100.00	100.00
2002	25.00	88.86	108.90
2003	70.75	111.12	125.04
2004	30.66	125.22	135.77
2005	37.74	140.45	139.10
2006	66.04	157.56	156.32

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Certain Relationships and Related Transactions

Messrs. Goldwasser, Rettman, McCoy and Friedman have brokerage margin accounts with National Securities. The transactions, borrowings and interest charges in these accounts are handled in the ordinary course of business and are consistent with similar third party customer accounts.

In February 2001, National Securities entered into a secured demand note collateral agreement valued at $1.0 million with Peter Rettman, a member of the Board of Directors of the Company, to borrow securities that can be used by the Company for collateral agreements. In February 2006, upon the maturity of the previously issued secured demand note, National Securities and the holder entered into a new $1.0 million secured demand note collateral agreement with a maturity date of March 1, 2007. The holder also entered into a warrant agreement to purchase 150,000 shares of common stock at a price of $1.25 per share, with an expiration date of July 31, 2007. National Securities and Mr. Rettman have agreed that the note will not be extended beyond its maturity date of March 1, 2007.

Mr. Daskal entered into a Termination and Consulting Agreement with the Company dated December 14, 2001. The agreement with Mr. Daskal provided for the termination of all provisions and obligations pursuant to his Employment Agreement dated January 1, 1997, as amended on July 1, 1999, and payment by the Company of a monthly consulting fee of $10,000 for a period of 27 months which was to commence April 1, 2002. The effective date of the payment of his monthly consulting fee has been deferred until such time as Mr. Daskal’s employment with the Company is terminated. Mr. Daskal subsequently agreed to serve as the Company’s Chief Financial Officer and Secretary.

In January 2006, the Company completed a transaction whereby certain new investors made a $2,000,000 investment in the Company by purchasing an aggregate of (i) $1,000,000 of the Company’s newly created Series B Preferred Stock, which is convertible into Common Stock at a price of $.75 per share, (ii) 11% convertible promissory notes in the principal amount of $1,000,000, which is convertible into Common Stock at a price of $1.00 per share and (iii) warrants to purchase an aggregate of 300,000 shares of Common Stock at an exercise price of $1.00 per share. The investment included $1,700,000 by St. Cloud Capital Partners, L.P., whose managing partner is Marshall S. Geller, who became a member of the Board of Directors of the Company simultaneous with the closing of the transaction, and $300,000 by two unrelated investors.

Mr. Dewey has previously served as an advisor to Robotic Ventures Fund I, L.P. (the “Fund”), a venture capital fund dedicated to investing in companies engaged in the business of robotics and artificial intelligence. The Company serves as the managing member of Robotic Ventures Group LLC, the general partner of the Fund (the “Fund General Partner”), and owns 24.5% of the Fund General Partner. Mr. Dewey is a 9.6% limited partner in the Fund. Mr. Dewey also serves on the Board of Directors of both Z-Kat, Inc, and Mako Surgical Corp., which are investee companies of the Fund.

OTHER BUSINESS

Management knows of no business to be brought before the Annual Meeting of Shareholders other than that set forth herein. However, if any other matters properly come before the meeting, it is the intention of the persons named in the proxy to vote such proxy in accordance with their judgment on such matters. Even if you plan to attend the meeting in person, please execute, date and return the enclosed proxy promptly. Should you attend the meeting, you may revoke the proxy by voting in person. A postage-paid, return-addressed envelope in enclosed for your convenience. Your cooperation in giving this your prompt attention will be appreciated.

By Order of the Board of Directors

/s/ Robert H. Daskal
Robert H. Daskal
Secretary

PROXY CARD

NATIONAL HOLDINGS CORPORATION

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF
NATIONAL HOLDINGS CORPORATION

The undersigned shareholder of National Holdings Corporation, a Delaware corporation (the "Company"), hereby constitutes and appoints Mark Goldwasser and Robert H. Daskal, and each of them, attorneys and proxies of the undersigned, with full power of substitution, to attend, vote and act for and in the name, place and stead of the undersigned at the Annual Meeting of Shareholders of the Company, to be held on March 13, 2007 at 12:00 P.M. at 120 Broadway, 27th Floor, New York, New York 10271, and at any adjournments thereof, with respect to the following:

Proposals:

1. Election of Directors:

The Board of Directors recommends a vote **FOR** the listed nominees.

Mark Goldwasser	o For	o Withhold
Gary A. Rosenberg	o For	o Withhold

2. The Board of Directors recommends a vote to ratify the appointment of Marcum & Kliegman LLP as independent public accountants of the Company for the fiscal year ending September 30, 2007.

o For	o Against	o Abstain

This proxy will be voted as directed, but if no direction is indicated, it will be voted **FOR** the election of the nominees named in proposal 1 and **FOR** proposal 2 as described herein.

The Board of Directors recommends voting in favor of both of the two (2) proposals.

Signature ___________________________

Date _______________________________

Signature ___________________________
(if held jointly)

Note: Please sign exactly as your name appears hereon. If signing as attorney, executor, administrator, trustee, guardian or the like, please give your full title as such. If signing for a corporation, please give your title.

PLEASE DATE, SIGN AND MAIL AT ONCE IN THE ENCLOSED POSTAGE PAID ENVELOPE.